



POTEN TANKER OPINION



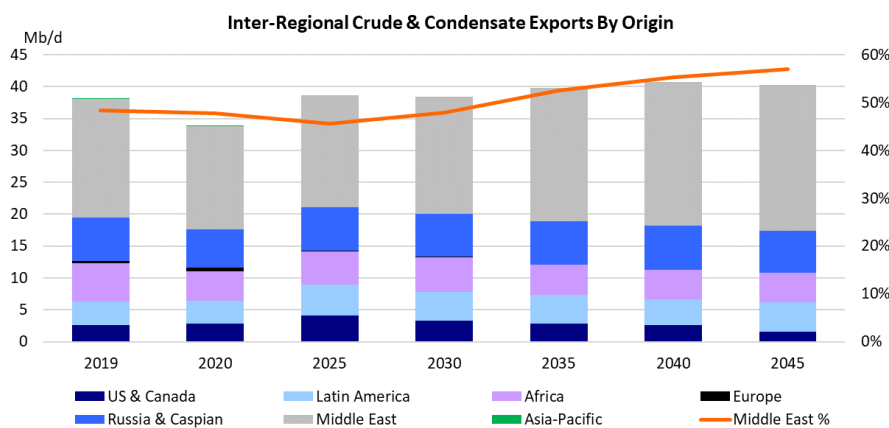
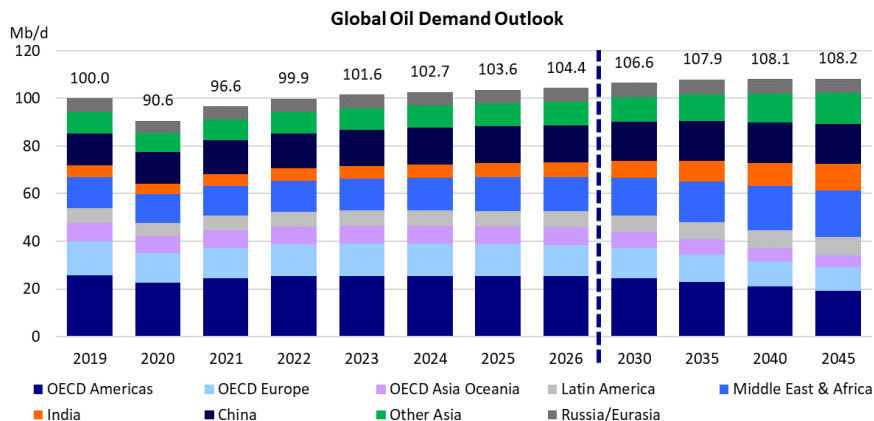
Oil Is Here To Stay – For A While

OPEC's new outlook is bullish for oil and tanker markets

Earlier this week, the Organization of the Oil Exporting Countries (OPEC) published its long-term forecast, called "World Oil Outlook 2045." The report has projections for the global economy, oil and energy demand, liquids supply and oil refining, as well as related policy and technology matters. The OPEC economists expect a strong global recovery in the short-to medium term (up to 2026), while the pace of GDP growth will slow in the long-term. Compared to other forecasters, such as the International Energy Agency (IEA), they are more bullish about oil demand and its role in the energy mix, especially in the next 5 years. Over the medium to long-term, OPEC sees the market share of solar and wind in primary energy demand grow dramatically, primarily to the detriment of coal. Solar and wind will be at 10.4% in 2045 (up from 2.5% in 2020). However, by 2045, oil and gas will still have the largest market share with 28.1% and 24.4% respectively. If the OPEC projections prove to be on the mark, the staying power of oil, in particular over the next 5 years, will provide a needed boost to the tanker market.

Global oil demand is expected to grow from 90.6 million barrels per day (Mb/d) in 2020, beaten down by the pandemic, to 104.4 Mb/d in 2026. Some 80% of the demand growth will materialize in the early years (2021-2023) of the period when both OECD and non-OECD demand recover from the pandemic. After 2025, oil demand in OECD countries will start to decline. In contrast, oil demand will continue to expand in the non-OECD countries, driven by population growth, an expanding middle class and stronger economic growth potential. China, India, the Middle East, and Africa will be the leading regions. Global oil demand will stabilize at around 108 Mb/d. In terms of end products, the main growth will come from road transportation and aviation, the sectors that were most hit by the pandemic. If we adjust for the impact of Covid-19, the petrochemical sector remains the largest source of incremental oil demand up to 2045. While OPEC anticipates that the internal combustion engine (ICE) will retain its dominance in the global vehicle fleet over the next 25 years, they do acknowledge the rapid growth trajectory of the electric vehicles (EVs). OPEC expect EVs to approach 500 million, or about 20% of the global vehicle fleet.

On the supply side of the equation, OPEC's analysts expect non-OPEC oil production to rebound in the medium-term. Non-OPEC production will increase from 62.9 Mb/d in 2020 to 69.8 Mb/d in 2025 (+6.9 Mb/d), recovering well above 2019 levels. Almost 40% (2.7 Mb/d) of the non-OPEC increase is forecast to come from the United States, where tight oil production is expected to rise from 11.5 Mb/d to 14.5 Mb/d (other U.S. output will decline slightly). OPEC expects much of the additional U.S. production to be exported, mostly to long-haul



Source: OPEC (World Oil Outlook 2045)

destinations in Asia. U.S. crude oil exports are forecast to reach 4.0 Mb/d in 2025. This would generate significant additional VLCC demand. At the same time as the U.S. is exporting more light (tight oil) crudes, OPEC expects higher imports of heavier grades (below 25 API) from Latin America and the Middle East. This will further boost ton-mile demand, especially the long-haul imports from the Middle East.

Beyond 2025, exports from non-OPEC countries (the U.S. in particular) are forecast to decline. At this time, OPEC production will make a comeback and increase its overall market share. From 2020 to 2025 OPEC output is expected to increase from 30.7 Mb/d to 34 Mb/d, but it remains below the 2019 number of 34.6 Mb/d. However, after 2025 the OPEC countries capture most of the additional output. From 2025 to 2045, OPEC liquids output increases from 34 Mb/d to 42.7 Mb/d. OPEC's global market share rises from 33% in 2020, to 39% in 2045. Even more important for the tanker market, the market share of OPEC in the inter-regional crude and condensate exports (chart 2) increases from 48% in 2020 to 57% in 2045.

If the OPEC projections come to fruition, the tanker market could have a few more good years left as more U.S. imports and exports as well as a higher OPEC market share are typically good for ton-mile demand.