

Shipping perspectives in an uncertain macroeconomic and geopolitical environment

October 2023

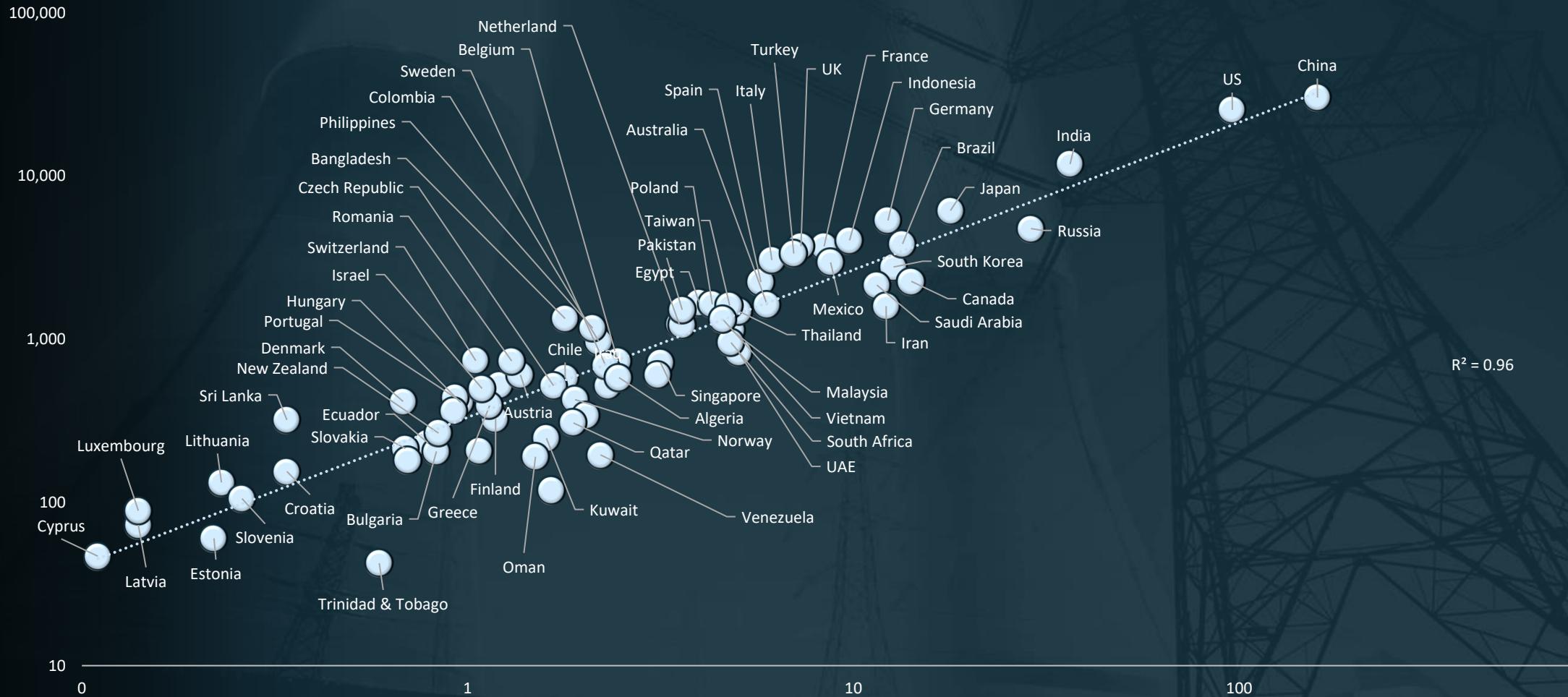
Jonathan Staubo
Advisor
j.staubo@fearnleys.com



Energy market

Energy is the economy – and vice versa

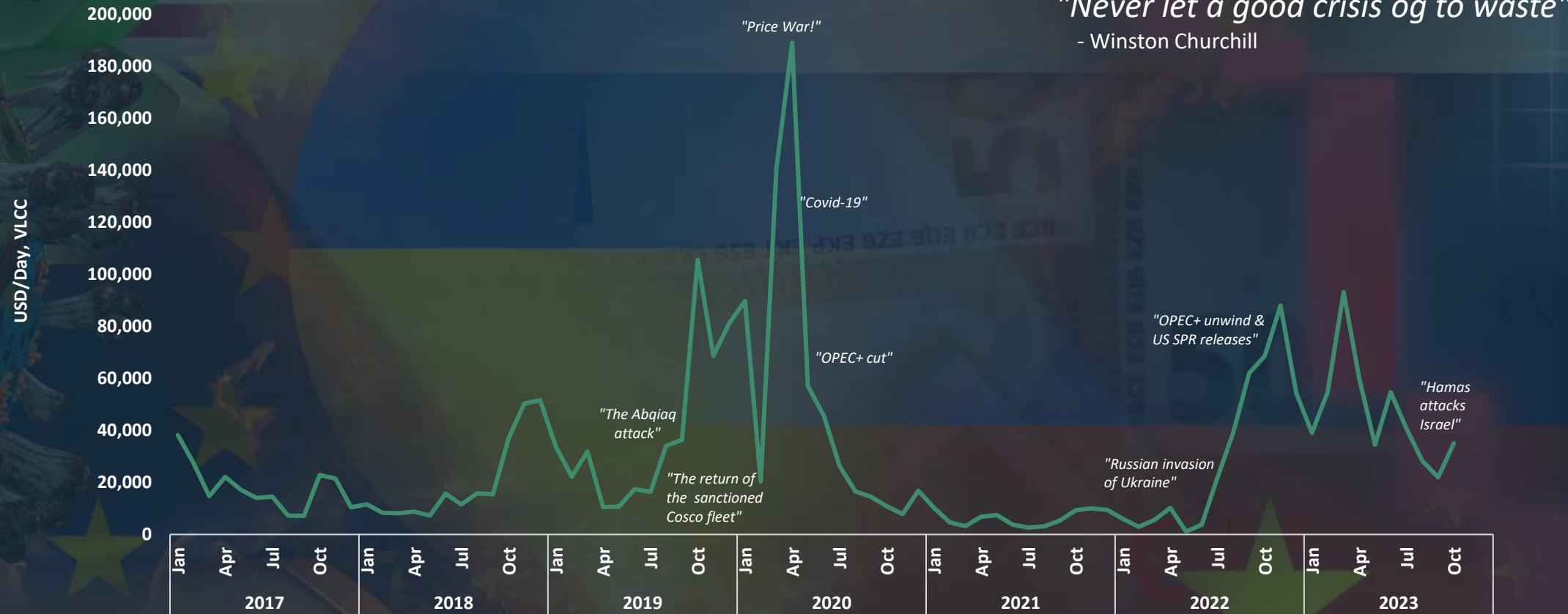
GDP powered by energy



Macroeconomics and Geopolitics

Ever present risks and opportunities for shipping markets

Tanker rates amid events and crises

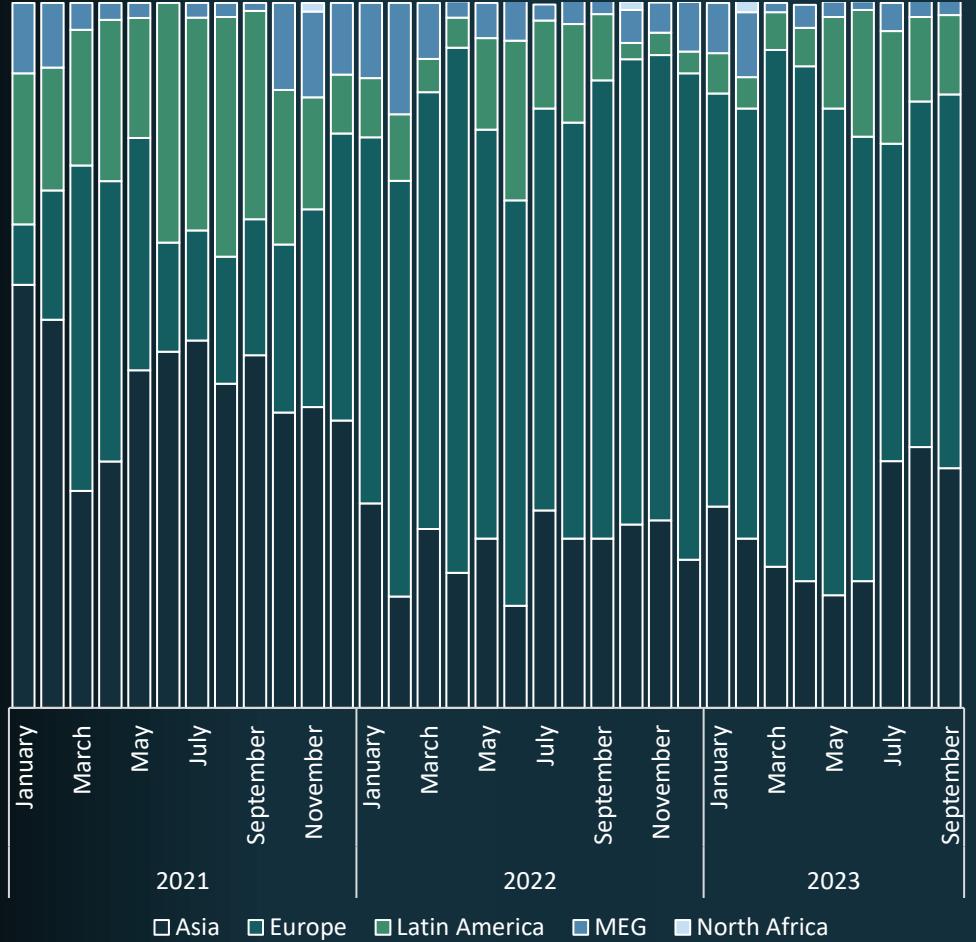


"Never let a good crisis go to waste"

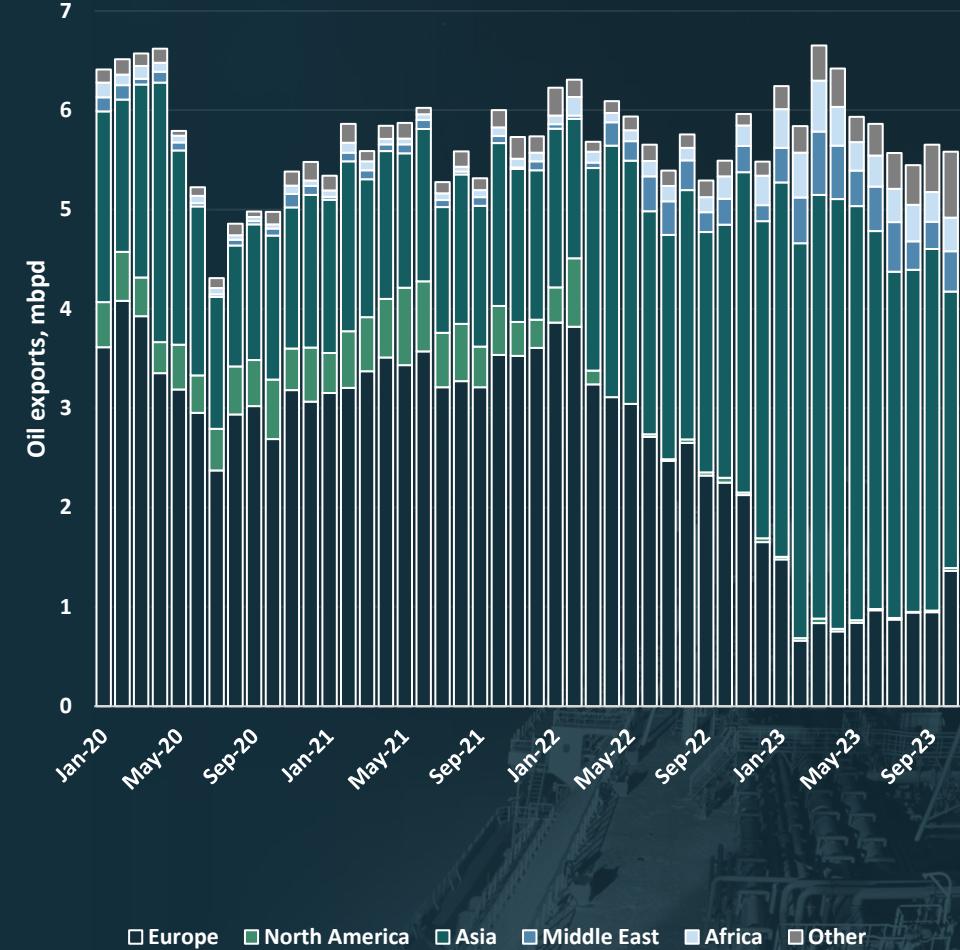
- Winston Churchill

Significant LNG and oil trade flow shifts – reversal is a risk...

Destination of US LNG



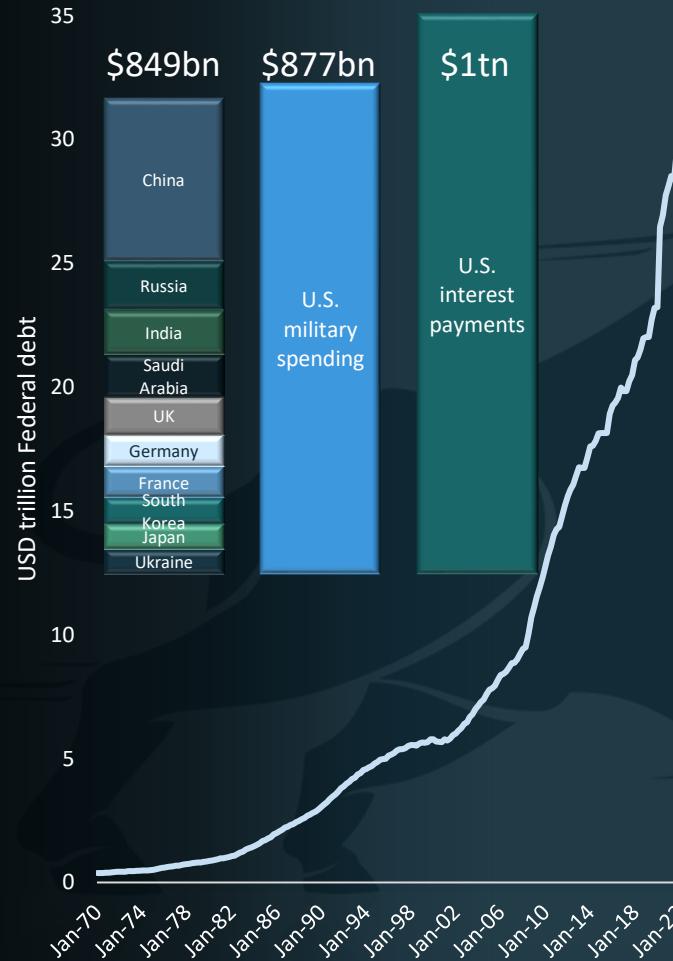
Destination of Russian oil



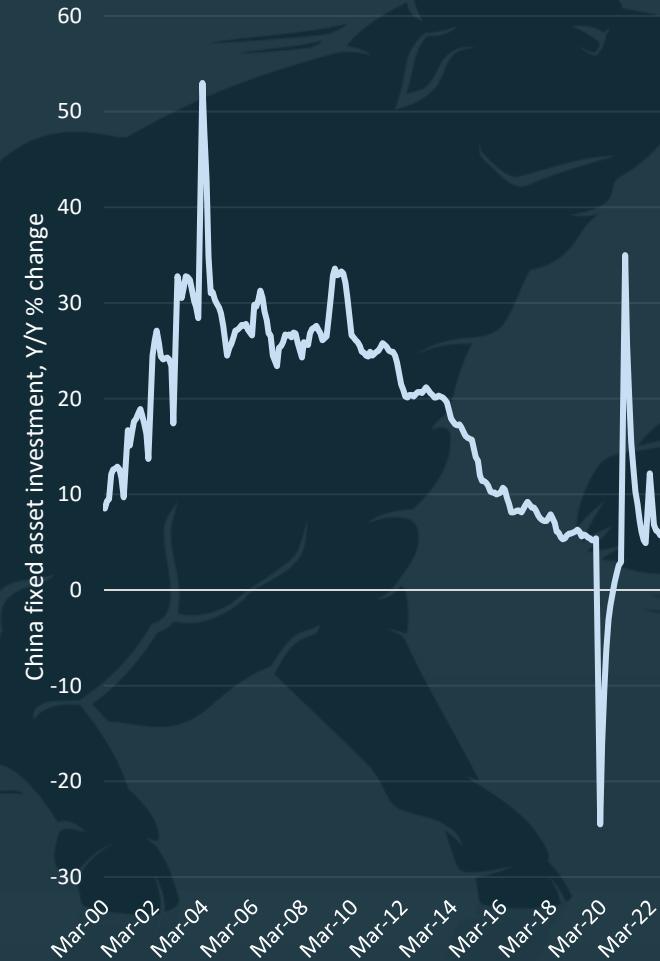
Macroeconomics, geopolitics, energy and shipping

It all ties together – risks are clearly there...

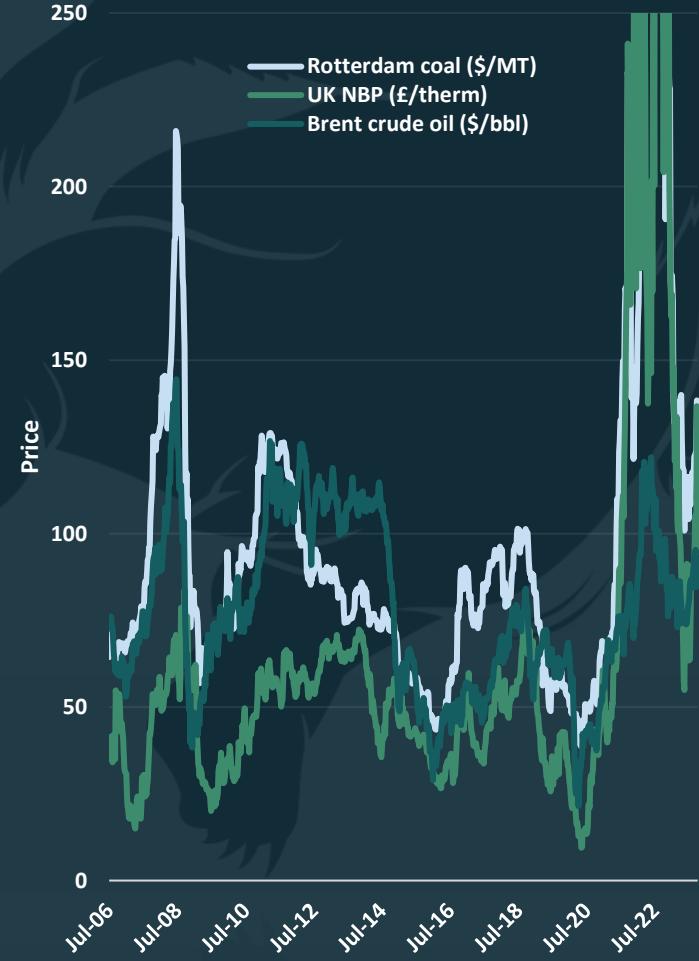
Soaring U.S. debt and interest cost



Underwhelming Chinese growth



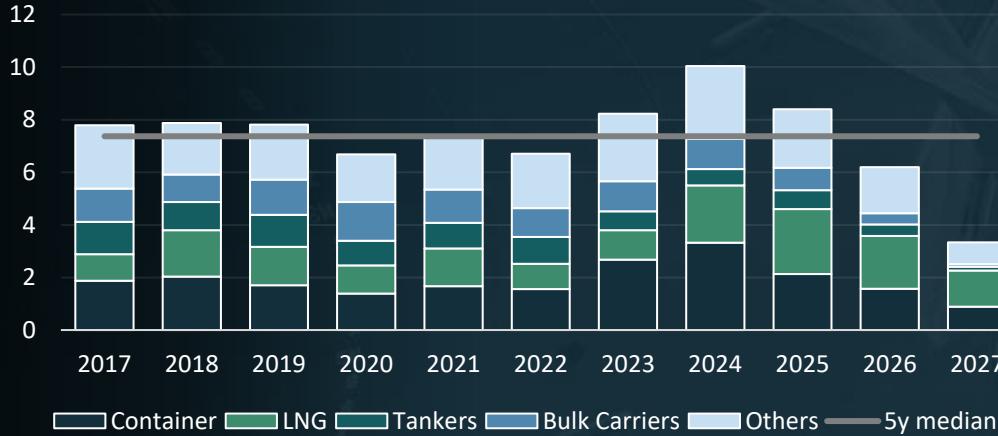
Elevated energy prices – a final push?



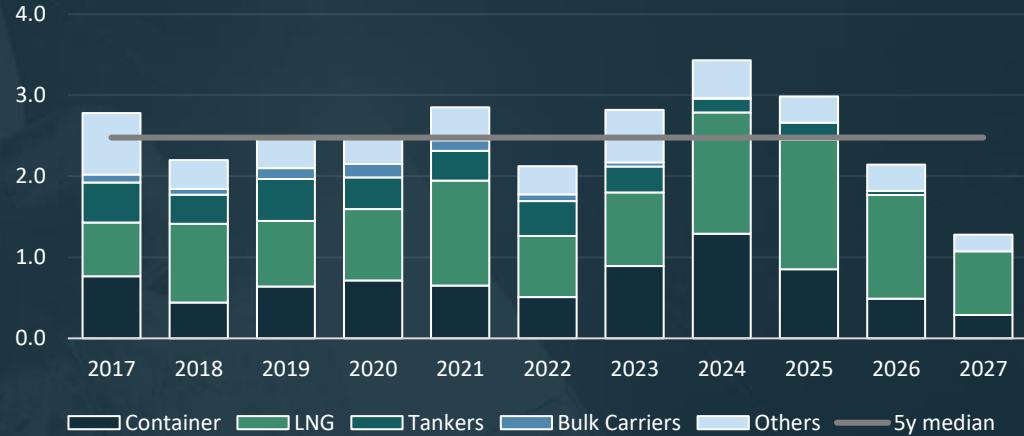
Shipping supply

Elevated deliveries next year – a concern? Limited yard capacity until 2027

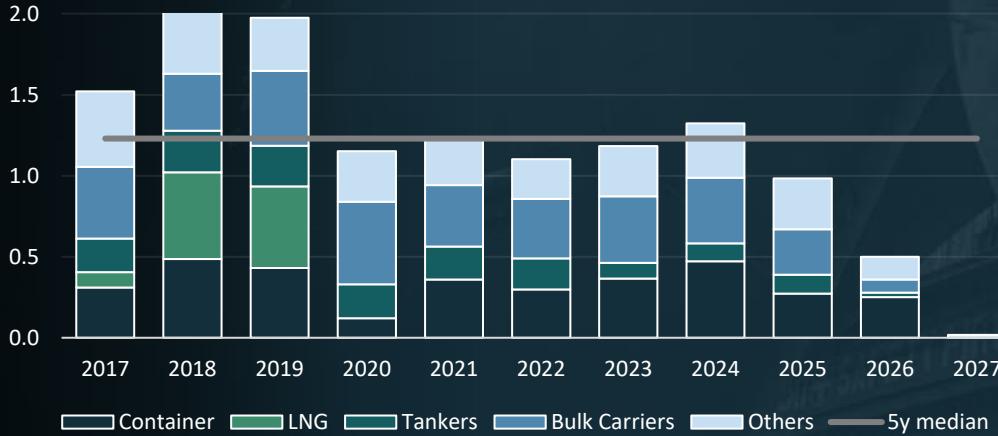
World Deliveries & Orderbook, CGT by segment



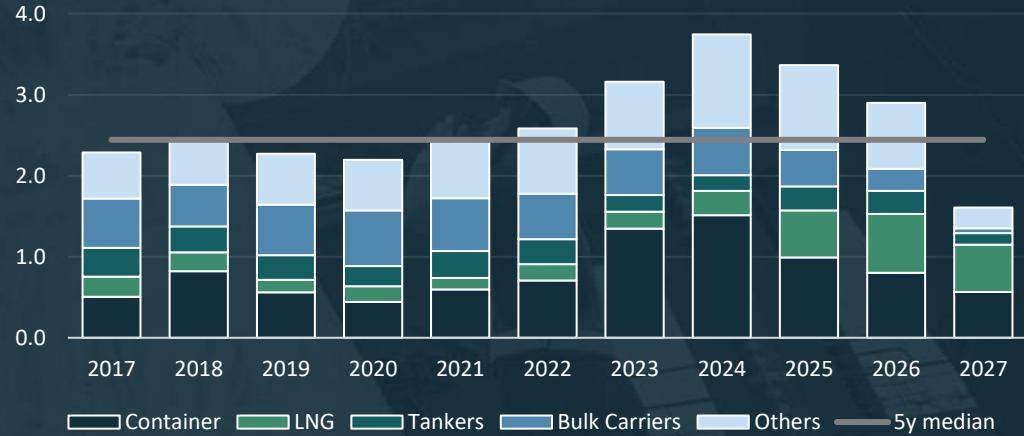
Korea Deliveries & Orderbook, CGT by segment



Japan Deliveries & Orderbook, CGT by segment



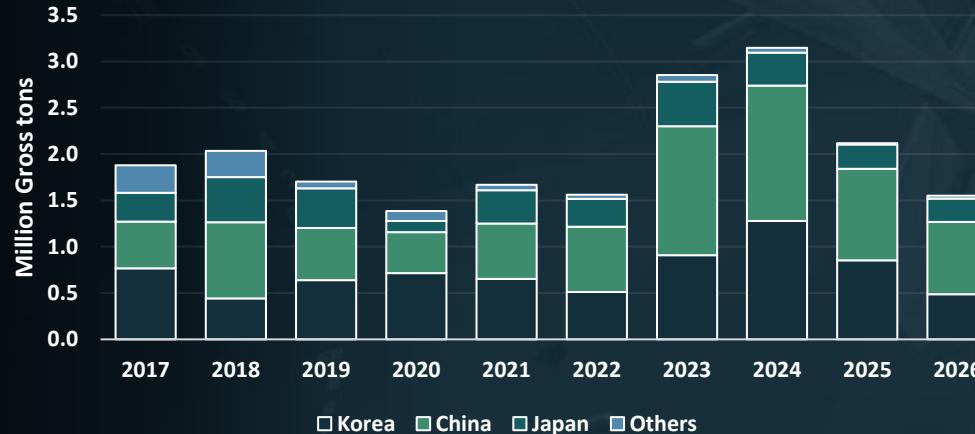
China Deliveries & Orderbook, CGT by segment



Shipping supply

High deliveries concentrated to key sectors

Container deliveries & orderbook, CGT



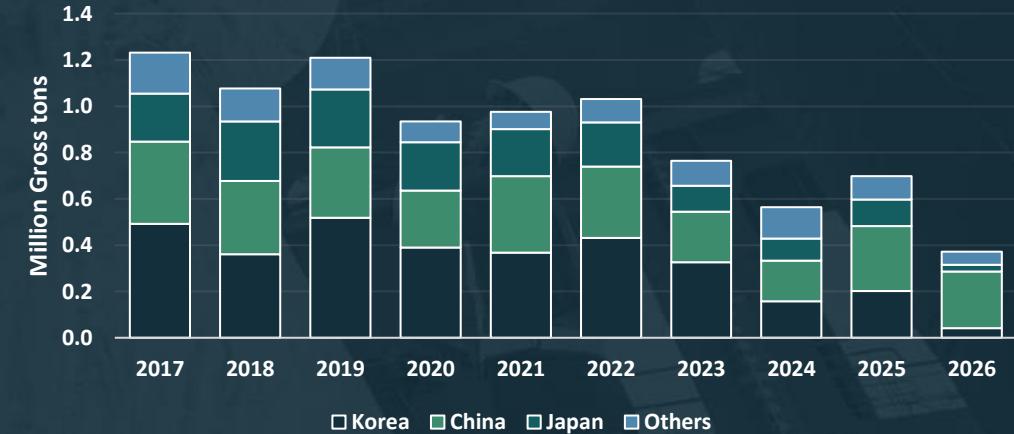
LNGc deliveries & orderbook, CGT



Dry bulk deliveries & orderbook, CGT



Tanker deliveries & orderbook, CGT



Some downside risks into 2024

Conclusion – Shipping – What if recession?



- LNG shipping market already expected to be underutilized in 2024 due to high fleet supply combined with lack of meaningful new volumes before 2025/26
- Expect industry focus on further projects well beyond any potential 2024 recession



- Surprisingly strong 2023 LPG market on newbuilding delays, which could mean further downside risk if recession is timed with pick-up in deliveries into 2024
- A U.S. recession could be positive for arbitrage East and tonne-miles, should China recover



- The tanker market will not need demand growth even close to trend to do well, as fleet supply is negligible. Do not underestimate negative psychology
- A U.S. recession but growth in Asia could secure the arbitrage East and tonne-miles

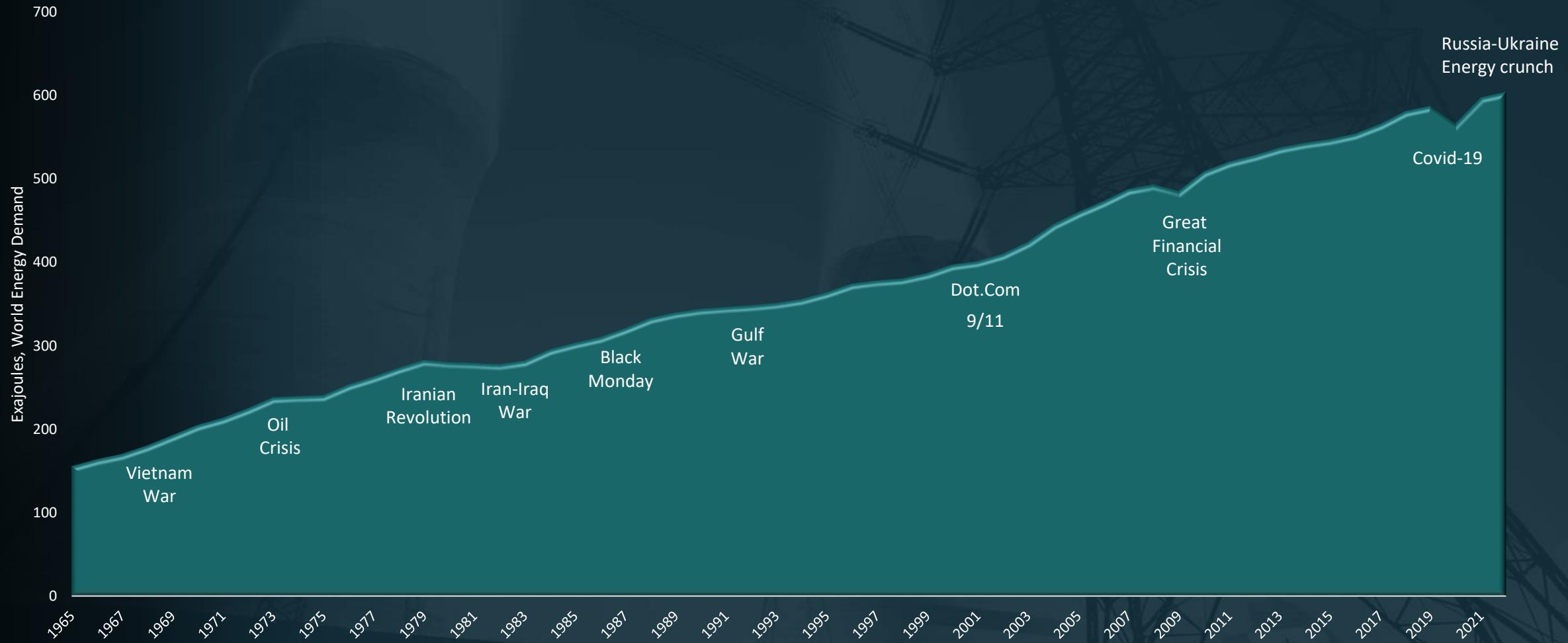


- Dry bulk needs the Chinese recovery to speed up as low fleet supply/ high phase-out potential like tankers may be insufficient for a good market

Energy market

Short-term macroeconomic risks are trivial vs. the long-term trend

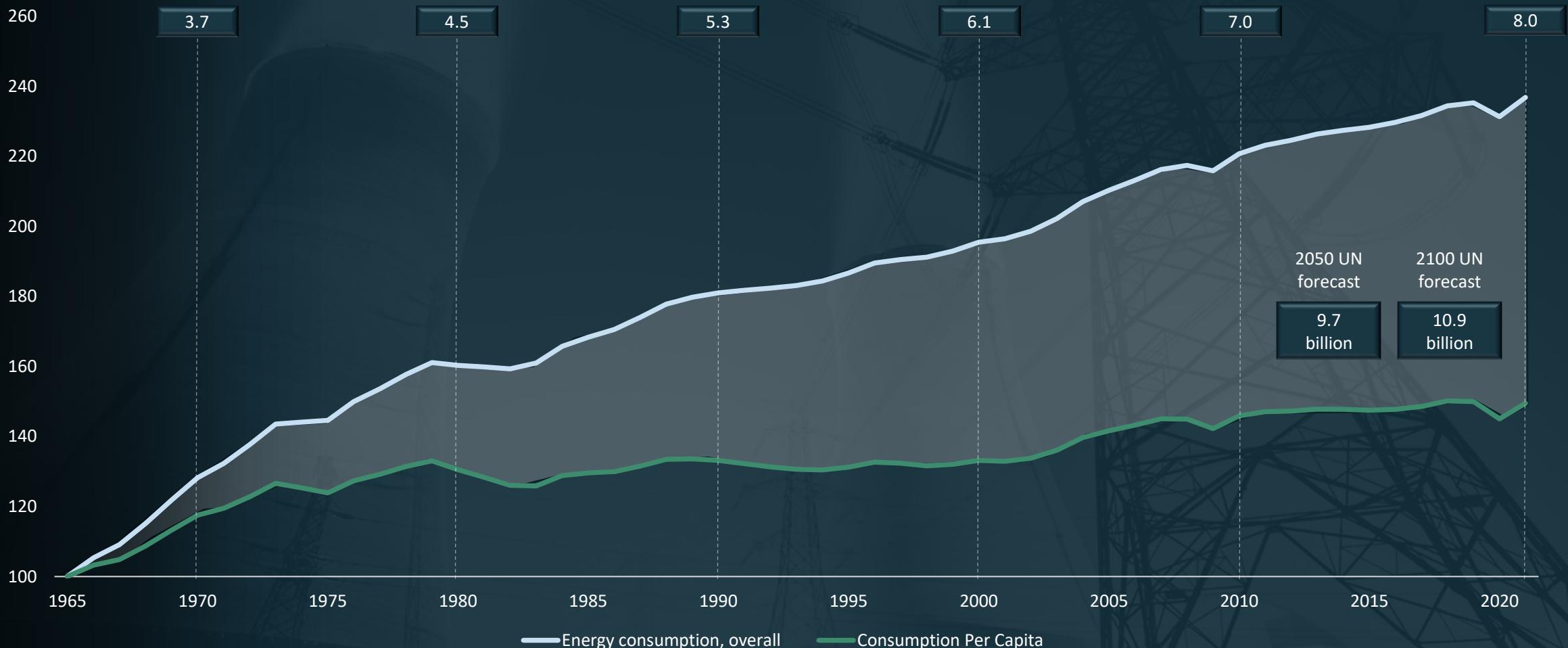
In the case of a recession in 2024, remember that these tend to look like a small glitches for energy demand in the long run....



Energy market

Longer-term energy demand supported by continued population growth

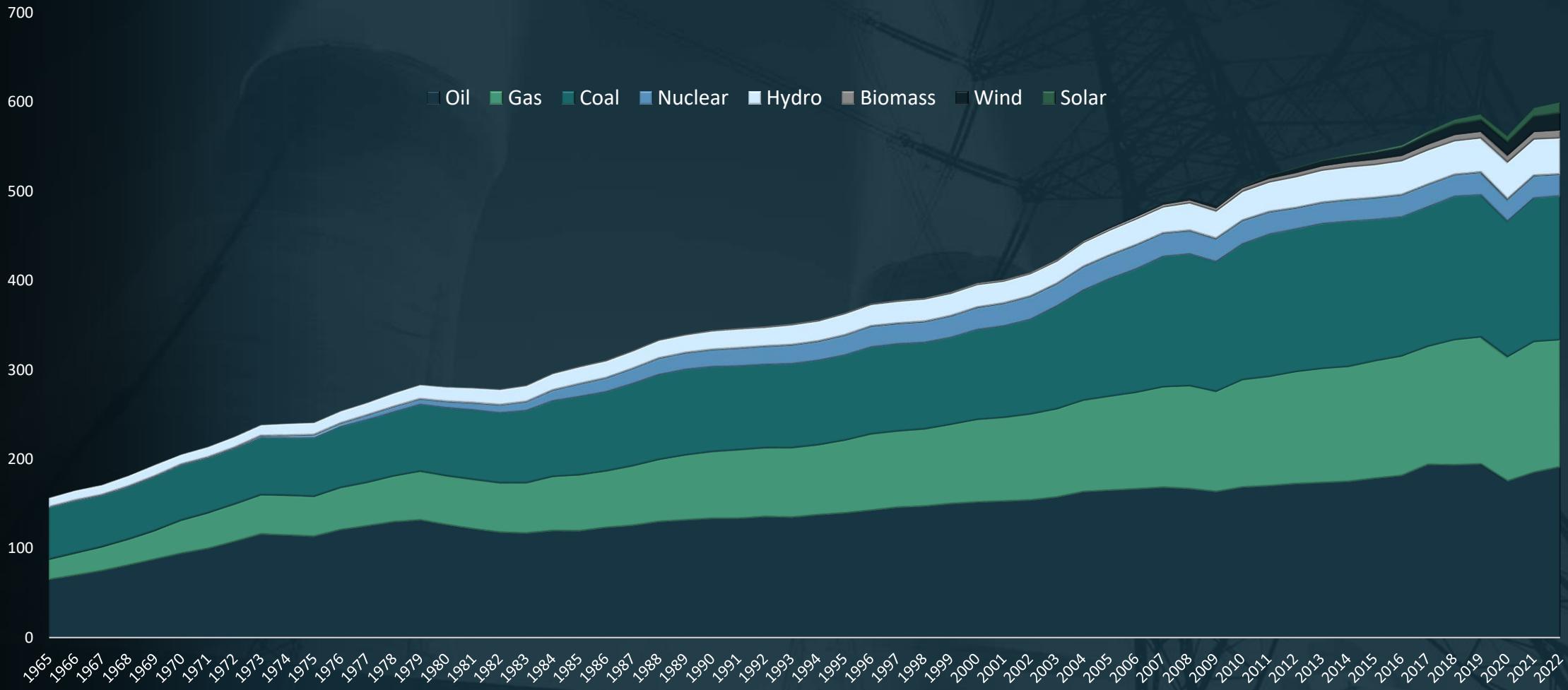
Wealth vs Population growth effect....index 100 = 1965



Energy market

Alternative energy sources have had little impact on hydrocarbon demand

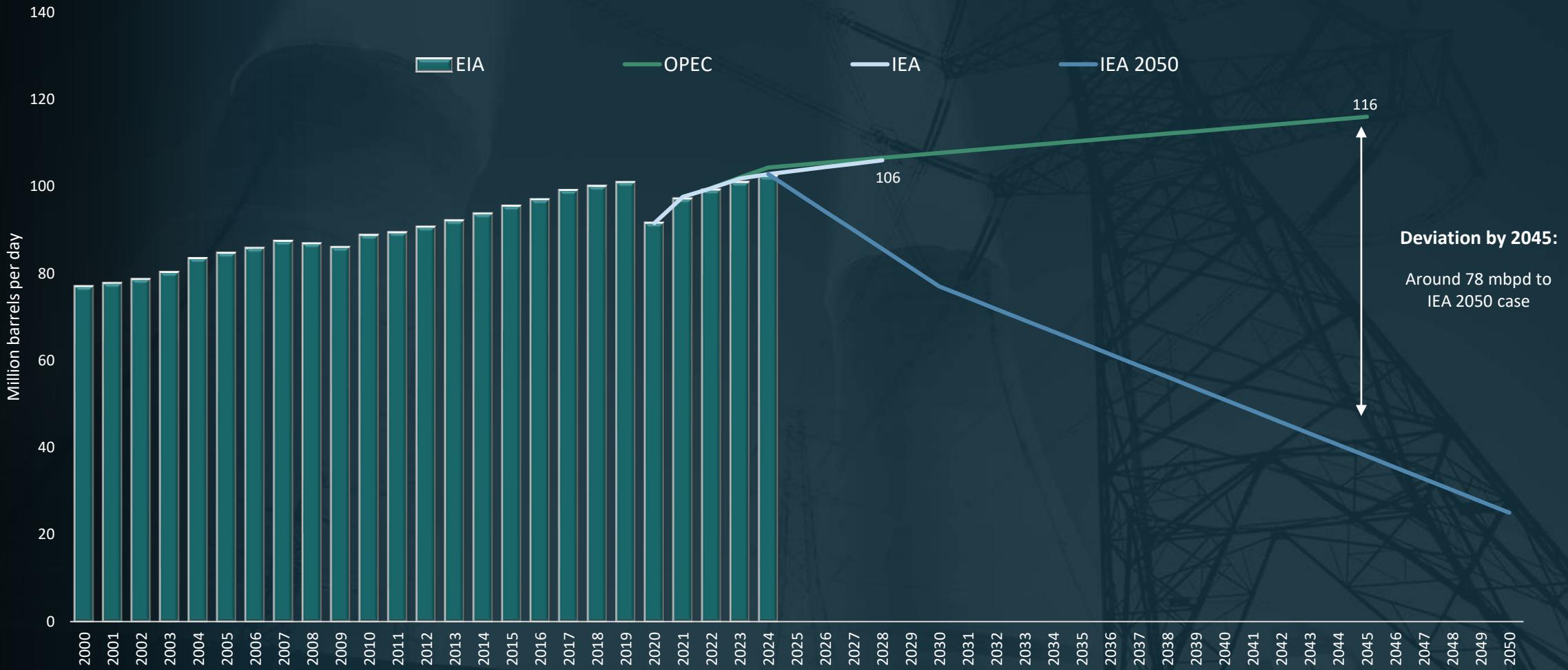
So, what energy transition? Alternative energy sources so far hardly cover energy demand growth...



Energy market

Realistic oil demand forecasts show growth for the foreseeable future

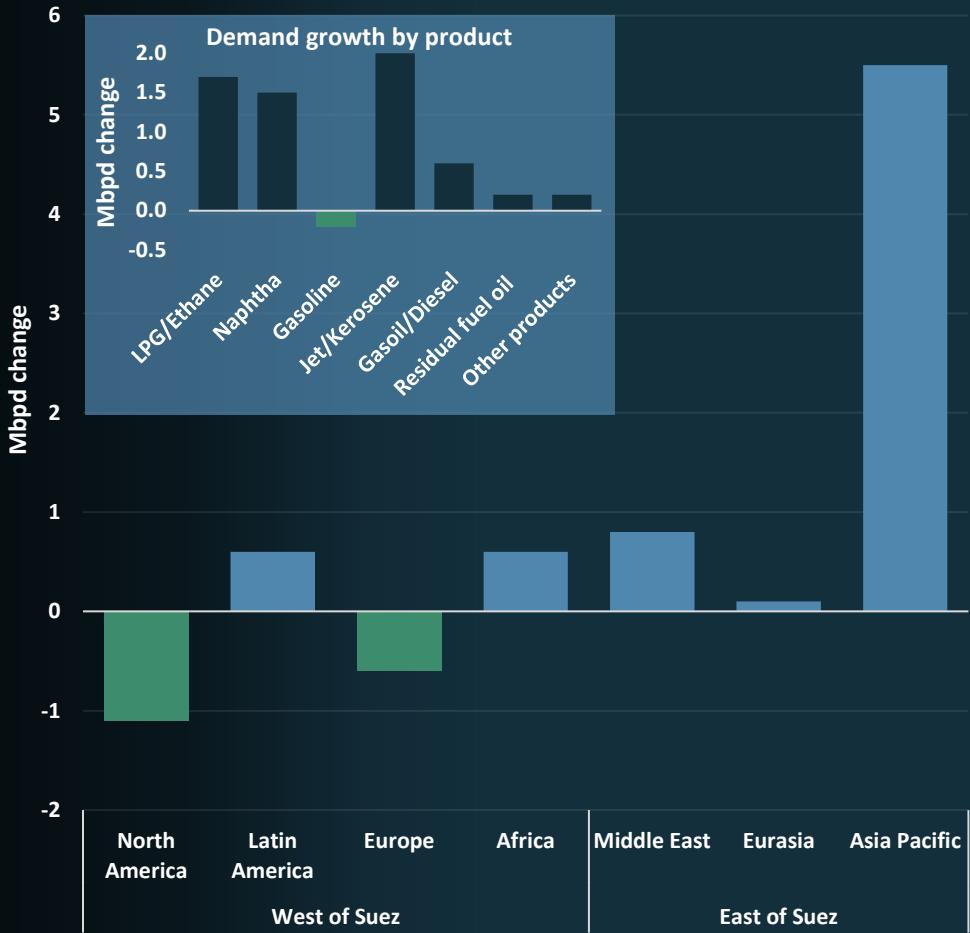
IEA 2050 versus forecast – two different world's.....



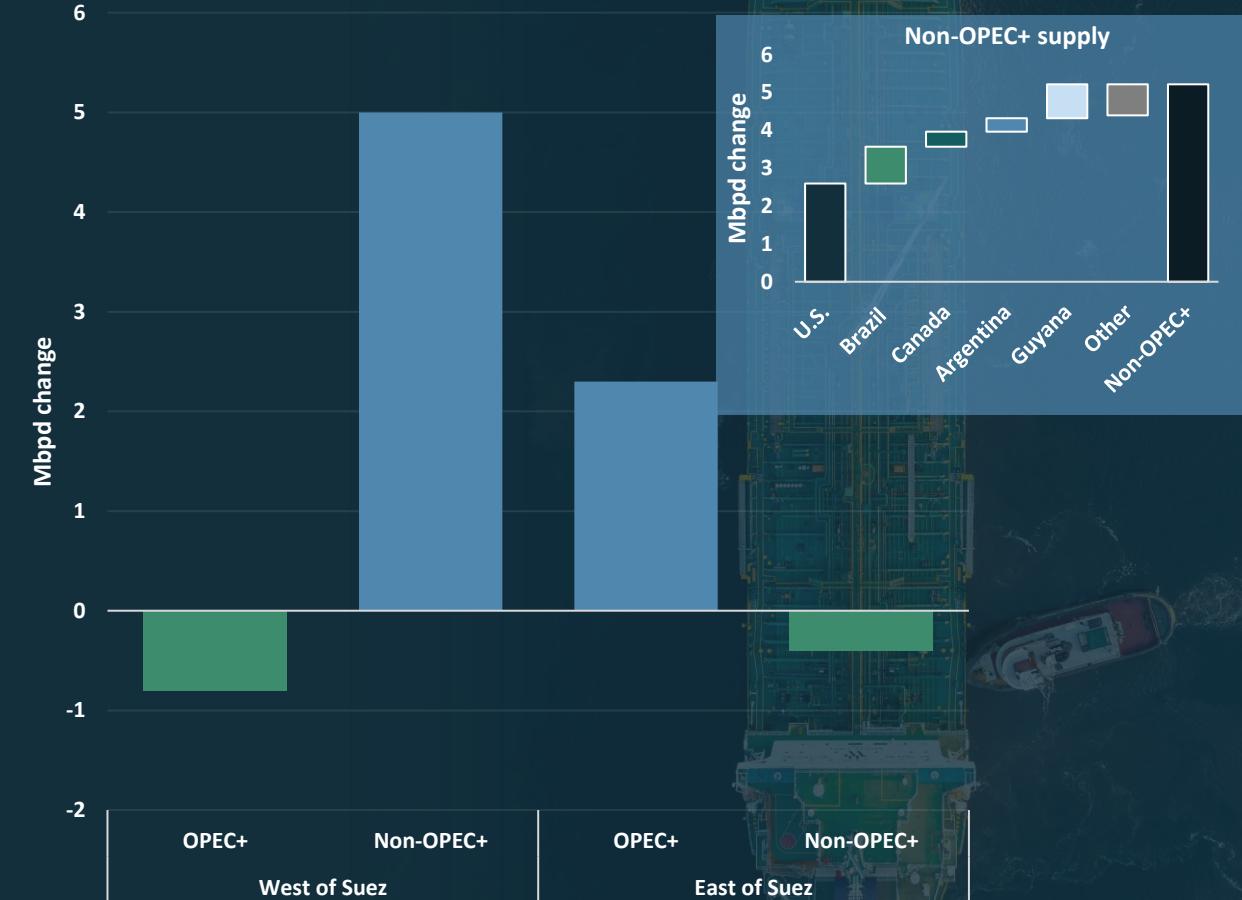
Oil market balance vs. tanker demand

Geographical oil demand/supply imbalance implies continued long-haul trade growth

Oil demand growth 2022-28 by region



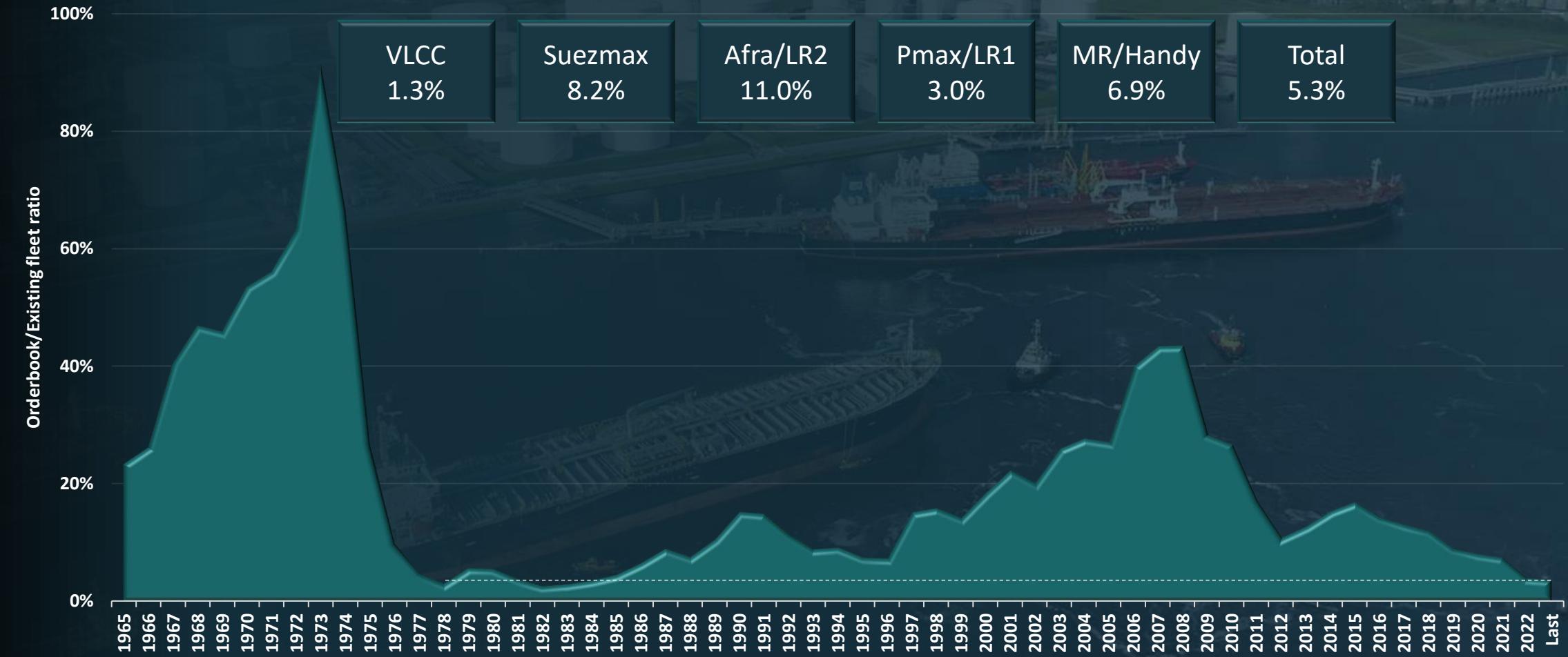
Oil supply growth 2022-28 by region



Tanker supply

Orderbook to fleet at historically low levels

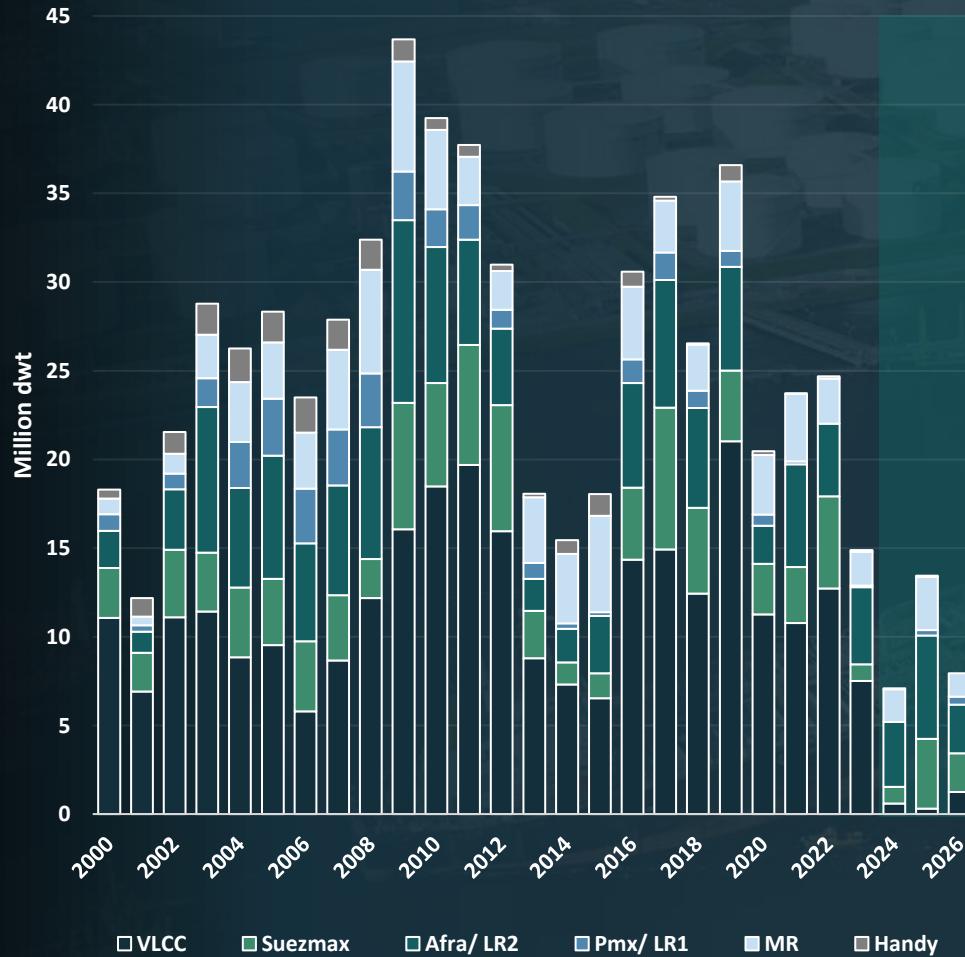
Historic tanker orderbook to fleet ratio %



Tanker supply

Very little fleet growth until at least 2026 – Massive phase-out potential

+25,000 dwt tanker deliveries & orderbook



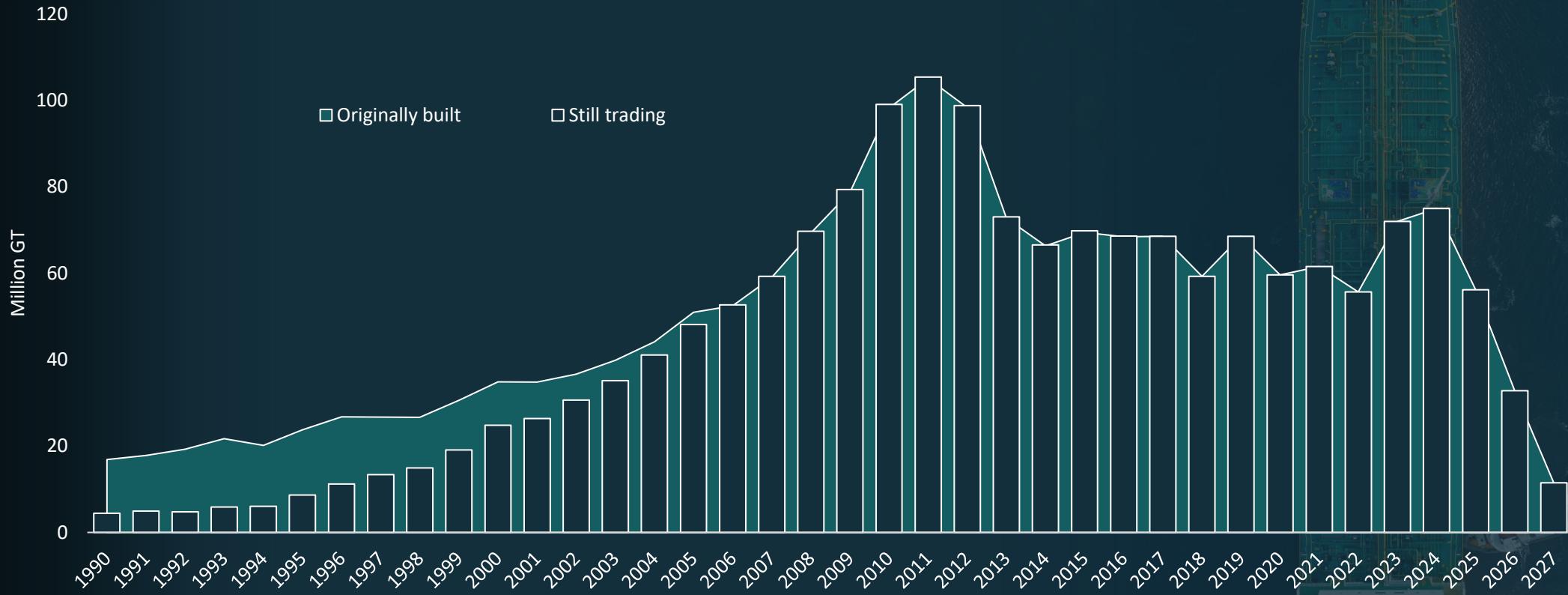
+25,000 dwt orderbook vs. phase-out candidates



Shipping supply

Like for energy, there needs to be more investment for fleet growth and replacement

Total merchant fleet: Tsunami of phase-outs in remainder of the decade



- 65m GT has been built on average per year over the last 10 years
- 116m GT is already older than 25 years
- An additional 192m GT tons will get older than 25 years by 2030
- Replacing the +25 year old tonnage alone will take up nearly 5 of the next 7 years' yard capacity

Macroeconomics, geopolitics and shipping

Some near-term risks – longer term trends may not be affected

Conclusion



- First and foremost: keep track of the fundamentals. Orderbook to fleet at historically low levels for some segments – others more elevated



- Near-term macroeconomic risks could build on or be triggered by geopolitical events – energy security has been taken for granted



- Unless a severe economic event takes place, downside may be relatively limited as near-term risks are likely to give way to fundamentals



- Long-term energy demand likely to keep track with population growth – This is a transition, not a switch! Solid medium-to-long-term shipping demand outlook

Local presence – Global reach

-  Investment Banking | Direct Investments
-  Renewable Energy & Cleantech
-  Aquaculture
-  Shipping
-  Offshore Rig
-  Offshore Supply
-  Energy Broking



The Astrup Fearnley Global Network

Disclaimer

Research

1. Introduction

The statistical and graphic information set forth in the analysis is compiled by Fearnresearch and based on the databases and time series supplied by Fearnresearch, the research division of Fearnleys AS, and other external sources of information. Fearnresearch compiles, processes and publishes data for the benefit of the brokering departments of Fearnleys AS and its clients. Its methodologies for collecting data, and therefore the data collected, may differ from those of other sources, and its data do not reflect all or even necessarily a comprehensive set of actual transactions occurring in the market. Certain estimates may be based on prevailing market conditions. There can be no assurance that such data reflect actual market conditions.

Data compilation, especially for earlier historical periods, is subject to limited audit and validation procedures. Both closed and open sources, interviews and market intelligence to gain information on different topics may be used. Accordingly, there can be no assurance as to the accuracy or completeness of the estimates, advice, statements and any other information contained in the analysis.

2. Risks

This sector is cyclical by nature and will over time presumably experience higher volatility than the overall market.

3. Confidentiality

Pursuant to Fearnleys' Code of Conduct, all employees of Fearnleys AS are subject to duty of confidentiality towards clients and with respect to handling inside information. All employees shall follow strict information handling procedures and other organizational procedures to minimize conflicts of interest within Fearnleys and between clients.

4. General Disclaimer of Liability

The analyses, estimates, advice, statement and any other information contained in the analysis are prepared and presented in good faith. However, neither Fearnresearch, Fearnleys AS nor any of their subsidiaries, associated companies, organizations, management personnel, employees, agents or independent contractors (collectively the "Fearnley Interests") shall under any circumstances be under any liability for any losses, damages or costs caused to any person, company or other legal entity arising or resulting directly or indirectly from reliance on any inaccurate, incorrect, incomplete or misleading analyses, estimate, advice, statement or any other information contained in the analysis resulting directly or indirectly from any negligent or gross negligent act(s) or omission (s), or wilful misconduct, committed by any of the Fearnley Interests.

In the event that a court or tribunal, notwithstanding the above liability exemptions, should hold any, some or all of the Fearnley Interests liable in damages for any inaccurate, incorrect, incomplete or misleading analyses, estimate, advice, statement or any other information, the liability shall not under any circumstances whatsoever exceed in total ten (10) times the fees payable for the analysis in question, or US\$ 100,000 (United States Dollar Hundred Thousand), whichever is the higher.

Under no circumstances whatsoever shall the individual or individuals who have caused the losses, damage or costs be held personally responsible or liable in any way. The Fearnley Interests shall under no circumstances whatsoever be liable for punitive damages.

The analysis is prepared to the benefit of the named addressee only. No other third party may rely on the analysis or any of its content without prior written approval of Fearnley Consultants AS. Should any part of this clause be held unenforceable, non-operative or invalid by a court or tribunal, the remaining parts shall remain in full force.

5. Processing of Personal Data

The processing of personal data within Fearnleys AS is subject to strict rules and regulations. Our Privacy Policy describes the procedures for processing personal data according to the General Data Protection Regulation (GDPR). Please see our homepage for more information on this.