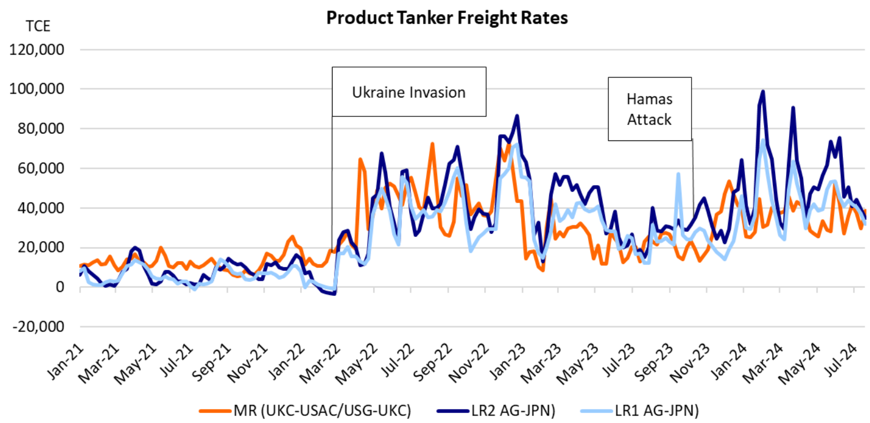
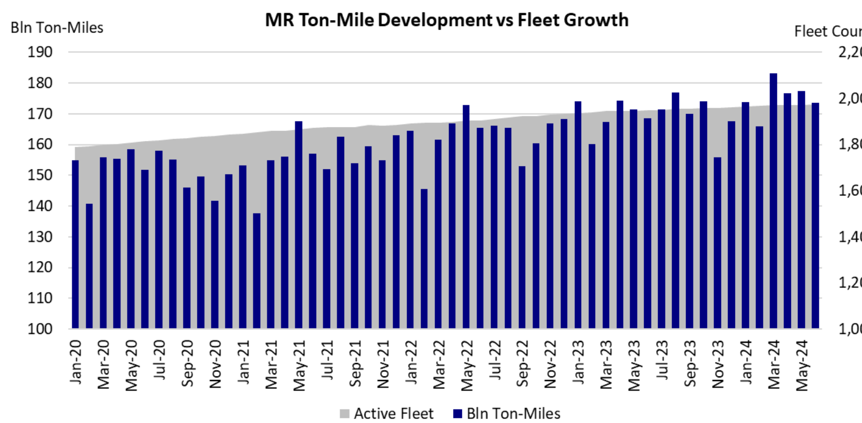
# POTEN TANKER OPINION

## The Workhorse Powering The Oil Trades




Source: Poten & Partners; Vortexa

**Tanker owners are bullish on Medium Range product carriers**

The Medium Range (MR) product tanker typically has around 50,000 dwt capacity and is considered one the most versatile tanker types, capable of moving a wide range of refined products to many of the world's ports. MRs (in our definition, product tankers between 42,000 and 60,000 dwt) are big enough to provide economies of scale, while remaining versatile enough so that they can access most petroleum terminals in the world. That is the reason that MR product tankers are widely considered to be the "workhorses" of the product tanker industry. In recent weeks and months, there has been significant activity in the secondhand market for MRs with several en-bloc deals hitting the headlines. As a result, secondhand prices have continued to increase (up 20-25% from a year ago), while newbuilding prices seems to have stabilized somewhat. What explains this strong interest in MRs and does this market still have room to run? We will try to address these questions in today's Tanker Opinion.

First, let's take a look at MR earnings. Since MR tankers are very flexible and generally have a much higher utilization rate than typical crude oil tankers, Poten uses a triangulated route (UKC-USAC followed by USG – UKC) as a representative benchmark for this sector. From 2014 until 2024, the average Time Charter Equivalent (TCE) for an MR on this route has been $19,600 per day. However, earnings have been quite volatile during this time period. In Q4 2020, during the depths of the pandemic, rates were $6,900/day. At these levels, earnings did not cover operating expenses for most vessels. Two years later, in Q4 2022, MR earnings exceeded $48,000/day, boosted by the turbulence and dislocations brought about by the Russian invasion of Ukraine. Since the conflict started, MR earnings on the benchmark route have averaged $34,000/day. The conflict between Hamas and Israel has also been supportive to tanker rates, but the larger LR1 and LR2 tankers have benefited more from the additional ton-miles required to avoid the Red Sea.

Ton-mile demand for MRs has increased since 2020. First, the Covid recovery boosted demand for refined products. The geopolitical turmoil in the Ukraine and the Middle East that followed in 2022 and 2023 reduced vessel efficiencies and further increased ton-mile demand. Global oil demand is expected to continue to increase for at least another 10 years. Demand growth will be driven by the fast-growing economies in Asia as well as from the aviation and petrochemicals sectors. Rising electric car sales and fuel efficiency improvements in conventional vehicles will offset some of these gains.

The longer-term outlook for the MR sector is driven as much by vessel supply as it is by tonnage demand. Vessel additions have been subdued in recent years for a variety of reasons. The pandemic reduced tanker earnings, while an ordering boom for LNG carriers and container vessels in particular kept newbuilding prices elevated. In addition, we have increased environmental scrutiny of the sector leading to more regulatory uncertainty, keeping shipowners on the fence.

According to Lloyd's List Intelligence, as of July 1st 2024, there are 1,783 MRs in the world fleet. MR ordering has picked up in 2023 and so far in 2024 and the orderbook consists of 242 vessels or 13.6% of the fleet. The average age of this tanker segment is now 12.3 years. In January 2020, the orderbook was 115 vessels (7.5% of the fleet) and the average age was 10.3 years. While the orderbook has grown recently, most of these vessels will not deliver until 2026. The average age of the fleet has also increased because very few ships are being recycled in this market.

Going forward, we remain optimistic about the relative strength of the MR segment. Medium Range product carriers are the most versatile tankers in the market, and they will remain in demand as growth in refinery capacity continues and product dislocations increase. MRs also have the trading flexibility that allows them to boost utilization and earnings. Larger owners (including traders that control substantial fleets) do have a benefit due to the triangulation opportunities that are afforded to them. Smaller owners can join them (in pools) or cover their downside by taking on charter cover for part of their fleet.