Baltic Exchange

Baltic Tanker Investor Indices

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Tanker Bulls Appear To Only Be Resting

Executive Summary

- The Baltic Exchange publishes its Baltic Tanker Investor Indices daily.
- The tanker residual value indices remain firm relative to the health of earnings indices.
- This appears justified with a low orderbook and firm demand outlook.

The Baltic Exchange has recently begun to publish the Baltic Tanker Investor Indices (BTII) to complement their dry bulk Baltic Investor Indices.

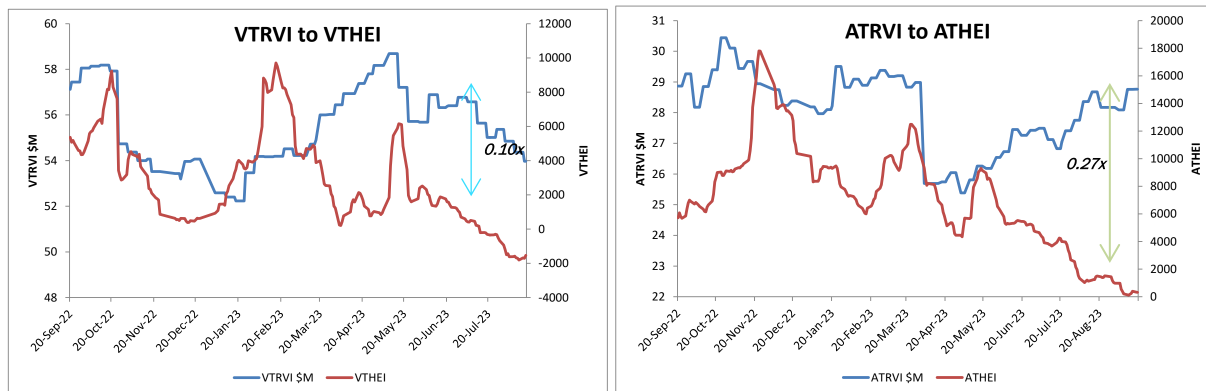
The BTII include four core tanker sizes: MRs (BIIMT), VLCCs (BIIVT), Suezmaxes (BIIST) and Aframaxes (BIIAT). Similar to the dry bulk indices, these tanker indices are an easy-to-use online analytical dashboard displaying data relevant to vessel investment decisions, residual value, health of earnings, spot and five-year timecharter earnings, purchase & recycling values, and running costs. They offer a high level of clarity and transparency for tanker investors in the MR, VLCC, Suezmax and Aframax vessel types. In this quarterly update, we take a look at health of earnings indices (HEI) to residual value (RVI) in the vessel types covered by the BTII.

The Baltic HEI calculations represent the ratio of earnings against running cost. A negative number indicates that earnings are below operating costs as estimated by the Baltic Exchange.

The Baltic RVI are calculated by taking the purchase price for a five-year-old vessel, and deducting the net earnings over a five-year period. In these instances, net earnings are calculated as a five-year timecharter minus the daily operating costs.

Divergent indications across the major sectors

Of the four sizes observed by the BTII, the correlations between the residual value and health of earnings indices vary greatly. Over the last year, the VLCC (VTRVI to VTHEI) and Aframax (ATRVI to ATHEI) sectors have almost no correlation at 0.10x and 0.27x, indicating that the residual value and the health of earnings, at least over the last 12 months, have no relationship.



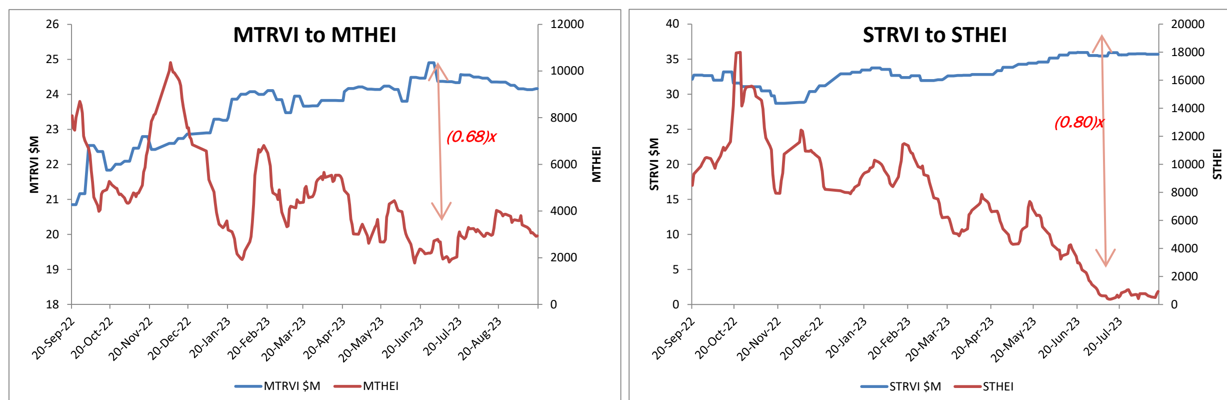
On the surface, this statement would appear to be ridiculous. However, there are some caveats as to why this is the case. The first disclaimer to consider is that there is only one year of data to observe. The other is that freight rates are still fairly healthy, have had a prolonged period of strength over the last few years, and asset values typically lag behind freight rate declines.

However, more importantly in our view, the orderbook for VLCCs and Aframaxes are at or near the historic lows in terms of percentage of fleet at 2.01% and 5.44%, respectively. This trend looks set to continue, at least in the short term. Newbuilding prices are rising as a result of increased input costs (partly driven by technical demands, but also by raw material costs). In addition, EEXI and CII compliance for vessels will further restrict available tanker supply over 2023–24 with slow steaming and retrofit times for ever-changing propulsion and fuel technology now to be considered.

A low orderbook, combined with other supply constraints and a relatively strong balance sheets built from firm rates over recent years and with a positive demand outlook (Clarksons forecasts demand for crude and product tankers expanding faster than fleet expansion over 2023–24), indicates that residual/asset values will likely stay firm despite a period of softer freight rates. In other words, the correlations noted above are, in our view, likely to become negative in the coming months.

MR and Suezmax RVIs ignoring freight rates

Our above hypotheses for VLCCs and Aframax tankers are borne out by the results in the MR and Suezmax sectors. The MTRVI (residual value index) to MTHEI (health of earnings) and the STRVI to STHEI are negative (0.68)x and negative (0.80)x, respectively over the last year.



Notably, despite the MR and Suezmax orderbooks reaching historic lows, both orderbooks have been increasing over 2023. Despite earnings being softer of late for Suezmaxes and MRs, rates are still soundly above operating costs. With the low orderbook and the firm demand outlook, this condition could persist unless real oil demand dramatically falls, which appears to be far off.

Tanker bulls take a breather

Even the most vibrant bulls need to rest once in a while. On the macro-economic front there remains much to make one nervous. Oil prices are high and rising, the US and Europe do not appear to be lowering interest rates anytime soon and recession fears loom, the tragic war in Ukraine rages on, and the Chinese economy appears to be faltering despite their exit from Covid lockdowns over the first quarter. However, we anticipate real monetary loosening/liquidity measures to build in China over the next 12 months and the Federal Reserve and European Central Bank may need to stabilise interest rates over the next 24 months, while we all hope that the war in Ukraine winds down.

It is clear that petroleum products and crude oil are fundamental to the world economy. While we all understand that attaining net zero is the goal, alternative fuels that incorporate fossil fuels will be fundamental to getting to reaching that target in our view. There will most likely not be just one route to net zero, but a whole fabric of approaches that get us there. The global economy, therefore, fundamentally needs tankers to get to net zero.

Those who have modern tankers today should fare well and those with the means to order will, commencing another cycle. For now, it would seem the tanker bulls are simply grazing in the pasture at the moment.