Baltic Tanker Investor Indices 1Q25

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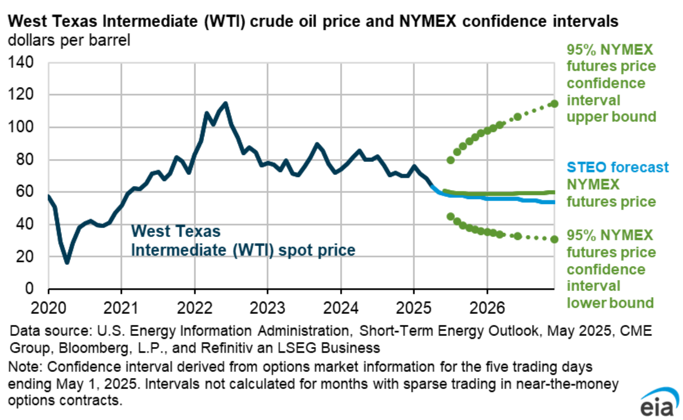
Uncertainty has fostered...almost nothing, so far.

The world is often an uncertain place; there are always two sides to any trade. This year seems to be more uncertain than most, with many factors driving in macro-economic and geopolitical uncertainty making trading more difficult. For crude tankers, there are good supply and demand elements, yet asset values are stagnant, and we think they may stay that way over 2025.

Demand is supportive of freight rates, on balance

Demand is supportive of freight rates: OPEC appears poised to increase production substantially, shifting away from its price control strategy; US tariffs appear they may be transitory (that too is uncertain); and the US Energy Information Administration (EIA) anticipates 1 mbpd increases in global crude demand growth. Also, the EIA indicates crude production appears to be in surplus for the next two years, and last week lowered their 2025 and 2026 price forecasts for West Texas Intermediate and Brent, lowering 2025 Brent to $62/bbl from $68 and 2026 to $59/bbl from $61.[1]Surplus production can cause contango in crude pricing which can be supportive of crude tanker freight rates. Further, lower oil prices can support macro-economic growth, helping to stave off or soften a recession, thereby supporting tanker demand.



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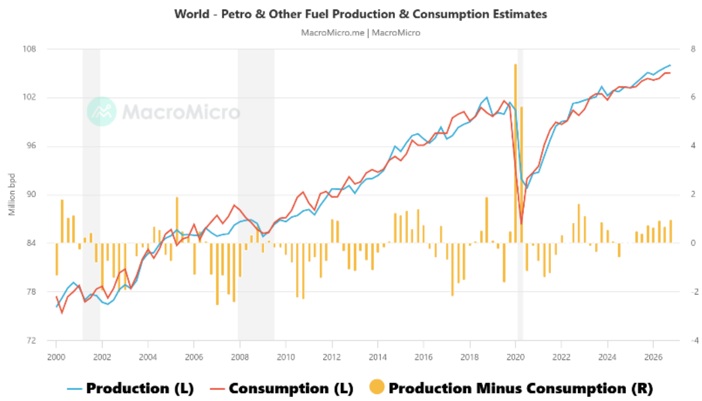
[1] Oil and Gas Journal, 6 May 2025
[2] USEIA Short-Term Energy Outlook, 6 May 2025

There are demand/supply "wild cards". 22% of the VLCC fleet is operating in the "dark" fleet[3] carrying sanctioned cargos. President Trump has hardened his tone on sanctioned cargos of late, increasing uncertainty in an already opaque sanctioned dark fleet operating regime. Separately, the energy transition should not be discounted and the move to alternative fuel and power appears well underway, likely slowing per capita crude oil demand growth over time.



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Supply appears relatively attractive

While the orderbook has been growing, the fleet is aging faster than crude tankers are being ordered, despite forecast demand growth.[5]

Further, decisions over propulsion technology are impacting ordering decisions: While the Baltic VLCC Tanker Newbuild Assessment is at $117 million, Idemitsu just ordered two methanol-rotor sail powered VLCCs for $135 million apiece[6]. LNG too is a competing propulsion option for a similar $20 million dollar premium. This makes the cash breakeven/day math more difficult digest, particularly to order on speculation rather than against long-term charters, which are harder to find in the days of the energy transition. While freight rates of recent years have been supportive of these values, the Baltic Exchange VLCC Time Charter Equivalent has averaged $32,500/day since the summer of 2022 which is below the needed first year cash breakeven/day that a newbuild dual fuel VLCC would need.

VLCC Newbuild 1st Yr Breakeven Sensitivity Leverage/Price

		LEVERAGE			
		50%	60%	70%	80%
Price $M	117	28,342	32,207	***36,073***	39,939
	125	29,663	33,793	***37,923***	42,053
	135	31,315	35,776	***40,236***	44,696
	145	32,967	37,758	***42,549***	47,339

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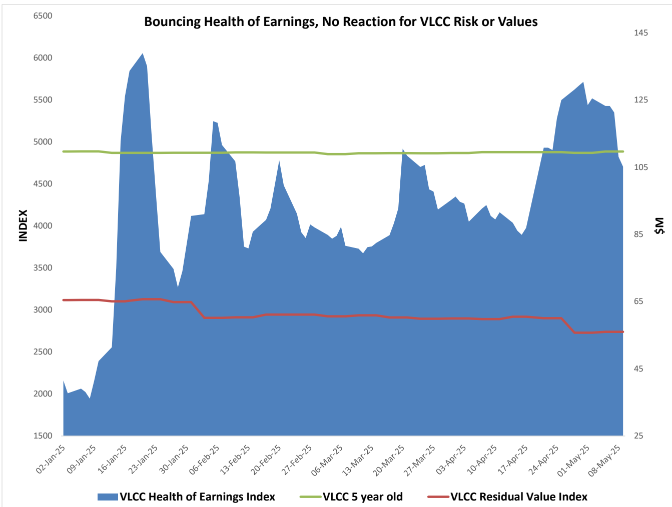
[3] Double Hull Tankers 4Q24 investor presentation, slide 10
[4] US EIA - MacroMicroMe
[5] Frontline Q324 Investor Presentation, slide 8
[6] Splash 24/7: "Idemitsu Tanker orders methanol dual-fuel VLCC pair", May 8th 2025
[7] We calculate cash breakeven/day as the sum OPEX, G&A, interest, and amortization. In this model we use SOFR of 4.33% and a margin of 2.5% and a 20 year amortization profile.

Crude Tanker Asset Values May Be Stable over 2025

The above conditions and volatile freight rates have created decidedly inconclusive data for VLCC asset value trends over 2025. Similar conditions exist for other crude tanker types. Over the last 90 days, the Baltic Exchange VLCC Health of Earnings Index[8] has a 143% range between high and low, Suezmax a 211% range, and Aframax 160%. However, over the same period 5-year-old asset values have had a price range fluctuation of 0.74% for VLCCs, 3.48% for Suezmax and 10% for Aframaxes.



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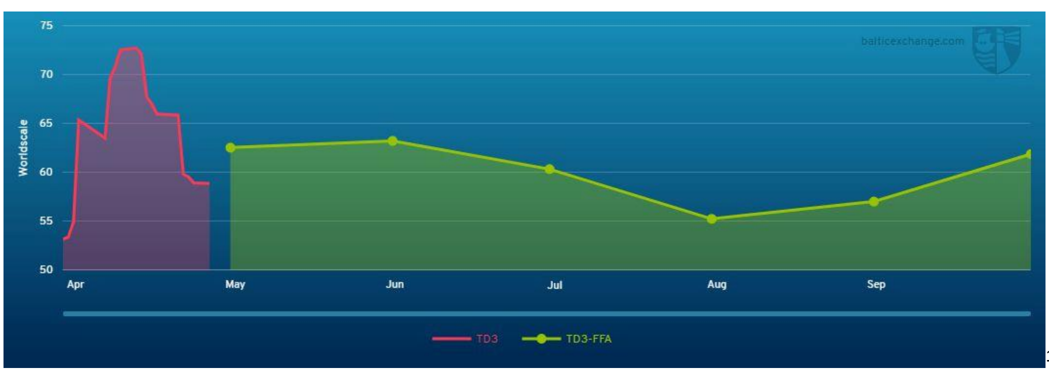
In last quarter's Baltic Tanker Investor Indices quarterly, we warned with *caveat emptor.* Despite some attractive supply/demand factors, geopolitical tumult, macro-economic outlook, trends in oil demand, the energy transition, changes in ship technology and historical freight rates not supporting newbuild values have all made it almost treacherous to order crude tankers today. Thus, we expect crude tanker values to remain fairly stable over the next quarter and the remainder of 2025.



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[8] The Baltic Exchange publishes the Baltic Health of Earnings index on every trading day for each major cargo vessel type. It shows the ratio of earnings against cost with a negative number indicating that earnings are below operating costs. The Health of Earnings Index is highly correlated to freight rates, however takes in to account increases in OPEX over time.
[9] The residual value is calculated by taking the written down cost of a 5-year-old vessel and deducting the net earnings from a five-year timecharter. The net earnings are calculated by taking the earnings from a five-year timecharter with 5% brokerage commission paid and deducting the operating costs over the 5-year period adjusted for 5% inflation year on year. A year of earnings is assumed to be 360 days whereas a year of operating costs is assumed to be a full calendar year (365 days)..
[10] www.balticexchange.com