

Transportation - Shipping

15th Annual Capital Link Maritime Forum Takeaways: IMO 2030 to tighten capacity

Industry Overview

We attended the 15th Annual Capital Link New York Maritime Forum in New York, NY on October 10, 2023 with 100+ shipping carriers, charters, financiers, and experts.

Emission targets may force capacity overhaul by 2050

The International Maritime Organization (IMO) targets to reduce greenhouse gas emissions (GHG) by 20%-30% by 2030, 70% by 2040, and net zero by 2050, could have a significant impact to the current fleet, constraining available capacity over the next few years as older vessels are retired to meet targets. These rules further tightened the IMO's 2020 SOx (sulphur oxide) rules, which launched fuel and scrubber standards. Operators expect an overhaul of the 27,000 vessel global shipping fleet is necessary to achieve the 2050 target. The global fleet has 2% of vessels running on alternative fuels (1.7% LNG, 0.3% methanol, no indications for ammonia yet), and the availability of renewable fuels remains a key uncertainty. Based on shipping industry's annual bunker consumption of 280 mil tons, we estimate ~20 mil tons of carbon-neutral fuel are required to achieve IMO's 2030 target (or 30%-40% est renewable fuel capacity in '30).

Product tankers may see lift into winter peak season

Product tanker carriers anticipate an uptick in rates into winter peak season as heating demand ramps. Global diesel inventories are entering winter at the same as exit levels from 2022 winter due to record draws on refined products, as increased restocking may drive demand. Scorpio Tankers highlighted tightness around certain lanes, as it fixed some MR routes at \$66k/day (from \$20-30k average). New vessel orderbook is below historical average (~9% vs avg of 25%) as yard backlog remains extended. Navios noted that refined product charterers are looking to raise contract freight mix to 20%-25% from 5% given a decreasing availability of shipping capacity.

Crude tankers capacity tight, OPEC cuts a near-term risk

Crude tanker carriers continue to see strong long-term market fundamentals, as well as increased consolidation, leading to higher returns and a more rational competitive backdrop. The newbuild orderbook is at ~5% of active fleet for 2026 delivery, implying flat to negative supply growth, with a 4% annual fleet replacement rate. Despite the International Energy Agency's view of peak crude demand by 2030, industry experts view the lack of renewable infrastructure investment as a bottleneck for fuel transition and expects 1%-2% long-term growth demand. While OPEC production cuts weighed on VLCC ton-miles, tanker TEN noted non-OPEC trade are partly offsetting the shortfall.

Dry bulk rates expected to inflect on macro turnaround

Dry bulk carriers highlighted the favorable capacity backdrop, yet a muted demand view. The new vessel orderbook is at multiyear lows (~7% of fleet), as carriers see 30% of the active fleet as scrapping candidates given rising emission reduction standards. Eagle Bulk noted demolitions are low, with 7 mid-sized bulkers scrapped last month vs 9 total in 2022. Genco noted that 2023 China activity (which has a 70% correlation with dry-bulk demand) was in-line with expectations, led by major bulk trade (iron ore, coal), yet minor bulk volumes lagged in the rest of the world. As global GDP growth moves higher, carriers expect rates to increase given the historically tight vessel supply.

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