MONTHLY **CONTAINER SHIPPING** BAROMETER

APRIL 2023

A pause in the fall in ocean freight rates

BAROMETER. The fall in ocean freight marked time in April and supply chain reliability started to recover.

Latest developments

- ***Stabilisation of freight rates***

In April 2023, the container shipping market held its breath. **The deterioration in Asia-Europe and Asia-United States came to a halt.** The worst looks to have been avoided, at least for the time being, as annual Asia/North Europe contracts were signed for $1,600-2,000 per 40' container. These rates should enable the shipping companies to keep their heads above water in terms of profitability but will not give them much room for manoeuvre to deal with unexpected developments.

- ***Transit times get priority***

The other thing we will remember from the month of April, as calm returned to the market, was a certain return to fundamentals. For supply chain managers at Western importing and exporting companies, reliable transit times are clearly the basis for a successful, logistics system. After the ups and downs of the last three years, **it is now time to reconfigure logistics systems through the introduction of lead times which take account of *nearshoring* options**, even if these remain marginal for the time being. This will allow stock levels to be reduced and confidence in global supply times to be increased, sometimes at a lower cost. This is what we are seeing, for example, in the textile industry.

After creating a shock which lasted two years, the pandemic has brought feedback, which has resulted in its turn in practical solutions for dealing with the unexpected. **This reconfiguration is also proving to be an opportunity to "green" logistics chains**, as regulatory constraints become increasingly tight.

- ***Recovery more modest than expected***

Little by little, cautiously, stock levels are returning to normal, which suggests that **demand will be stronger in the second half.** At the same time, however, the recovery will probably be less strong and less rapid than the shipping companies had expected in their initial 2023 business plans.

As the price of energy and basic foodstuffs move back towards their pre-pandemic levels, **the distribution networks are proving to be slow to pass on these reductions.** In France, consumer prices overall rose 5.7% year on year in March 2023, while food prices alone increased 15.9%. We can see a similar trend in the euro zone and in the United States. Worse still, the major retailers say that this trend is likely to continue for some months yet.

This delay in passing on the cost reductions is obviously intended to enable retailers to reconstitute their profit margins, which were affected as soon as energy and raw materials prices began to climb and ocean freight rates began to soar. By failing to pass on these reductions more quickly, however, **the distributors risk weakening the strength of the economic recovery in Western countries.** Some recall that they had to accept prices increases of 15-20% in their annual negotiations with certain brands and, as a result, now find themselves trapped. In France, the head of the Système U retail group, Dominique Schelcher, called for a change in the legal framework in this respect. The prices of food products are negotiated annually between producers and distributors between 1 December and 1 March. "A new context calls for a new method," Schelcher said. "We should be allowed to negotiate throughout the year, so that selling prices follow market trends as closely as possible."

- ***A world subject to long-term instability***

Another paradox seen again in April was **the arrival of a certain form of normalisation on the markets despite palpable growth in global geopolitical tensions.**

The Russian-Ukrainian conflict is turning into a long-term phenomenon in which the positions of the two camps seem to be virtually fixed, while tensions between the Western bloc and China have increased. China's relations with the United States were already in a poor state but Europe, too, is tending to adopt firmer positions towards the Asian giant...even if it is struggling to speak with a single voice, as was demonstrated by the semi-joint trip to China made by French president Emmanuel Macron and European commission president Ursula Ven der Leyen in early April. Germany looks to be taking concrete steps to distance itself from China, moreover, after a long period of flirting with the Asian powerhouse. The German government finally backpedalled on COSCO's plans to take a capital stake in the port of Hamburg's Tollerort terminal.

At the same time, China has started to be increasingly open about its intention to reconquer Taiwan. Supposing it does, answers need to be found to three questions:

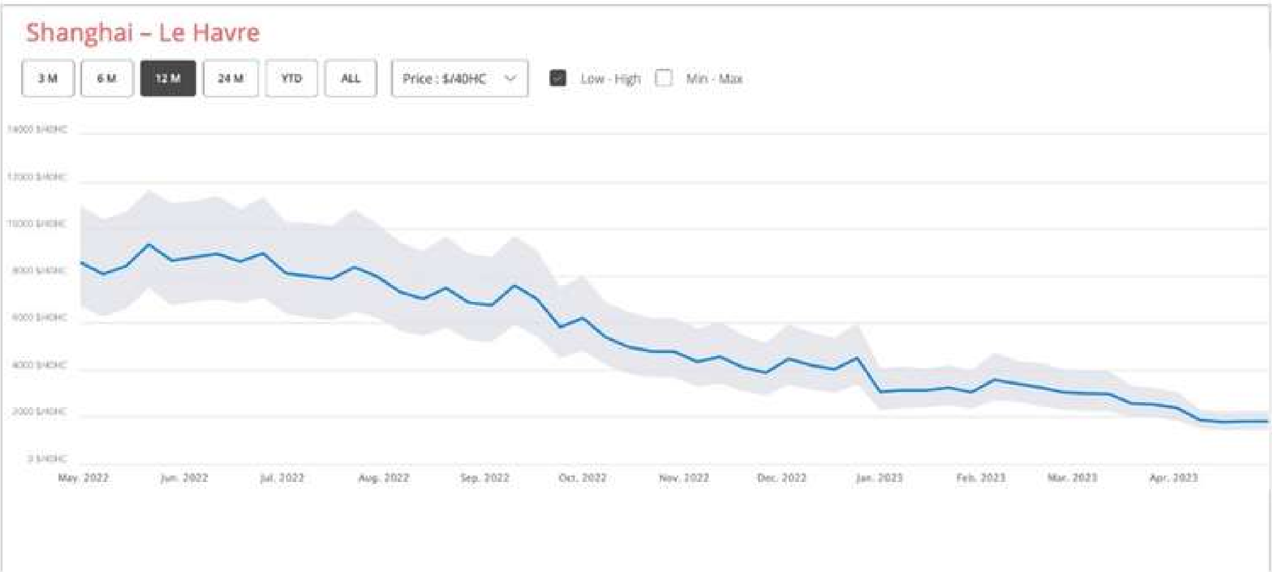
- Will Europe follow the United States if China does annex Taiwan?
- What will be the commercial impact on trade between the Western countries and Asia?
- What replacement shipping routes will be used to allow trade to continue if there is a conflict?

Away from the state of the market and day-to-day freight rate variations, these questions are hanging over shipping sector operators like a sword of Damocles. **A Chinese invasion of Taiwan would be a game-changer, which could have a more devastating effect on world trade than the pandemic.** If it happened, the need to diversify supply sources and resort at least partially to nearshoring would be more pertinent than ever.

1. PRICES

- ## Asia - Europe

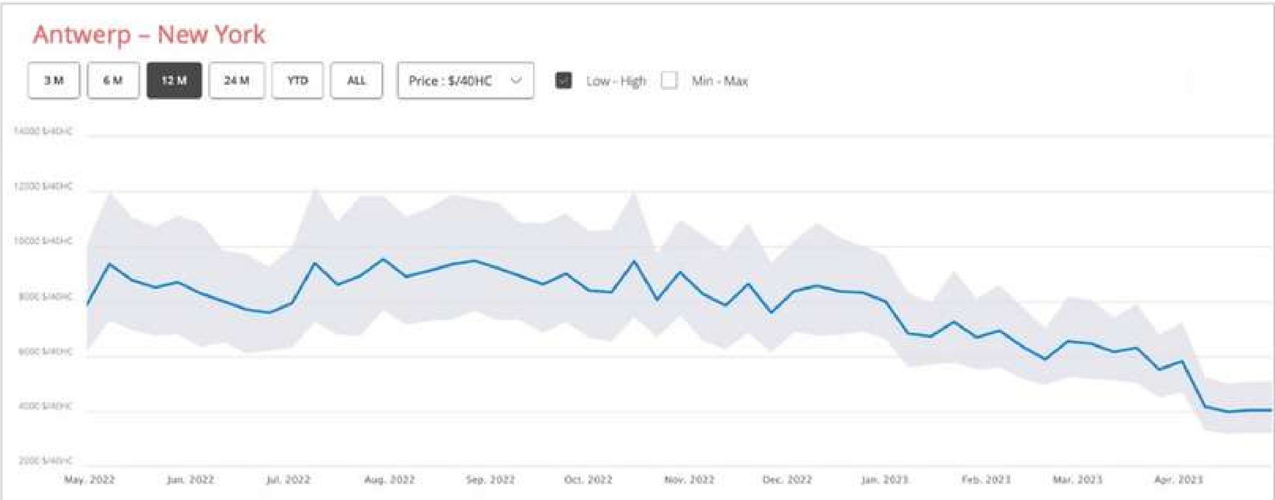
Supply and demand seemed at last to be back in harness in April on Asia-Europe routes. **A certain balance looks to have been achieved** between the merchandise to be loaded and cancelled sailings. We even saw a slight recovery in freight rates at the end of the month. The situation was similar in the transpacific trades.



Port-to-port rates (spot and contract) billed for sailings from Shanghai to Le Havre, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source : Upply.

• Europe - USA

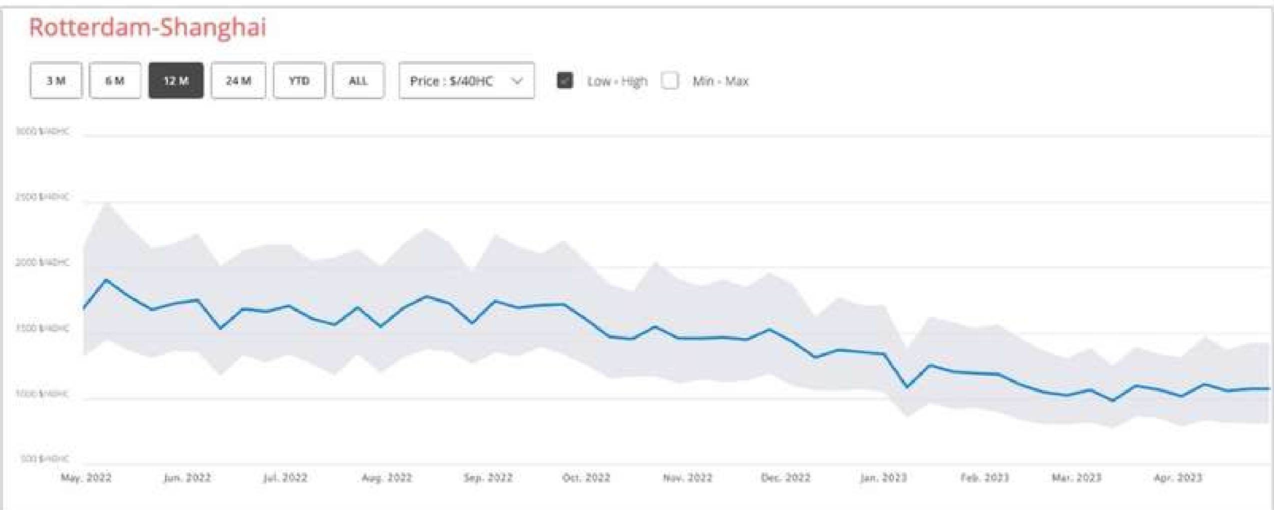
In the transatlantic trades, rates also stabilised after a steady reduction. In index terms, what was worth 200 prior to the pandemic and 800 at its height has now fallen to 400.



Port-to-port rates (spot and contract) billed for sailings from Antwerp to New-York, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source : Upply

• Europe - Asia

Freight rates for goods leaving Europe for Asia are today undervalued and remained relatively stable during the period under study in relation to other major trade lanes.



Port-to-port rates (spot and contract) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source : Upply

2. SERVICES

The fall in demand since the start of the year has induced the shipping companies to review the routes of their east-west services. **Blank sailings are continuing but are less numerous than in previous months.** According to the latest information from Sea Intelligence, **service reliability improved by 7% in February over January**. The improvement is more spectacular on a year-on-year basis, which shows reliability up 26 points over February 2022. Ship arrivals are now running an average 5.29 days late, and reliability has returned virtually to its pre-pandemic 2019 level. All shipping companies have shown greater respect for their sailing schedules, with a special mention for Wan Hai, which improved its reliability by 36.2%.

The better conditions in February have not prevented the shipping companies from continuing to modify their services and cancel sailings. The two 2M companies, Maersk and MSC, said they cancelled several sailings between Asia and the United States in April. MSC's Pearl and Jaguar services each cancelled two sailings and Maersk's TP2, TP6 and TP11 services did the same.

These cancellations apart, **the shipping companies are adapting their services to demand.** The Alliance, which includes Hapag Lloyd, HMM, ONE and Yang Ming, decided to drop the call in Ningbo made by their FE4 and FE3 services in favour of a call in Tianjin. In addition, they added a call in Wilhelmshaven to the FE2 service and one in Singapore to their F3 service. These modifications have enabled the alliance to reorganise its activities in the Shanghai area via the FE2 and FE4 services. Its F3 service continues to serve Ningbo. Shanghai and Ningbo are 230 km away from each other by road. A call in one port avoids the need to make a call in the other. In this way, the shipping companies are able to make more calls in central China without having to add new services.

Although reliability is improving, **ONE noted that there was disruption in some ports.** Six services were delayed in April because of delays in Asian ports. ONE indicated that there was congestion in Japanese ports and Singapore, but the Japanese company said that there were also difficulties in north European ports, particularly Rotterdam. On average, ships are running between three and five days late depending on the service concerned.

A new factor could cause problems in the weeks to come. On 17 April, **the Panama Canal Authority announced that it was introducing navigational restrictions because of drought.** In a letter to clients, canal administrator Ricaurte Vasquez said that maximum drafts would be limited to 14.3 m from 5 May and to 14.02 m from 12 May. There is no question of closing the canal, which is vital for east-west traffic, but low water levels could result in further restrictions. For the shipping companies, these restrictions involve a reduction in transport capacity.

Finally, **given the increase in freight rates between Asia and Saint Petersburg, the shipping companies are showing an increasing appetite for a share in this market.** Hainan Yangpu Newnew Shipping, a subsidiary of Torgmoll, has opened a service between China and Saint Petersburg using five 2,500 TEU vessels. The Chinese company already operates between Chinese ports and the Russian Far East. The ships in the new service will call in Qingdao, Shanghai, Guangzhou and Saint Petersburg. FESCO, the Russian shipping company in which CMA CGM has a stake, has launched a new monthly service (FESCO Baltorient), serving Rizhao, Lianyungang, Shanghai, Ningbo, Shenzhen and Saint-Petersburg. Finally, Transit LLC, which operates services between China, South Korea and the Baltic, has also moved into this market segment with a service calling in Shanghai, Ningbo, Xiamen, Guangzhou and Saint-Petersburg. These different services have a particularity. They are all calling in Chinese ports before sailing directly to Saint Petersburg, without calls at other ports. Some might regard this as part of the development of relations between China and Russia.

3. OPERATIONS

Operations in the ports of Los Angeles and Long Beach, both key cargo-handling centres on the US West Coast, were disrupted in April, as **tense negotiations took place between the Pacific Maritime Association (PMA) and the ILWU trade union** on a new collective agreement covering more than 22,000 west coast port workers. This industrial action came at a time when the economic environment was still relatively unfavourable. The number of containers handled by the Port of Los Angeles fell by 31.5% year on year during the first quarter of 2023 to 1.8 million TEU. The trend was the same at the Port of Long Beach, where traffic fell 30% year on year in the first quarter to 1.7 million TEU.

In Europe, after France, it is Germany's turn to go through a period of industrial relations unrest, which led to several bouts of disruption in different transport sectors. The Port of Hamburg, in particular, was hit by strike action at the end of March. The fall in cargo volumes, which is now palpable at all Europe's major container terminals, is at least allowing work on the quays to be rationalised, even though there is still a glaring shortage of hauliers. If cargo volumes had increased, this shortage would have been difficult to manage from an operational point of view.

At technical level, the electrification of work on the quays is proceeding, with all the planet's major ports agreeing to carry out large-scale investment in this area. The thinking now is to take a stricter approach to commercial ships by obliging them to plug into quayside electricity supplies as soon as they dock.

As for the European towage sector, the alliance currently under way between Boluda and MSC is causing concern because of the risk that it will result in a virtual monopoly in certain ports. It raises the possibility that an MSC ship could be brought into port with assistance from MSC tugs before docking at a private MSC terminal.

This demonstrates that **the integration process in which some leading shipping groups are engaged concerns not only the forwarding and logistics sectors** but, also, much less obviously, the port operations chain.

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The "Services" section of this barometer is produced in collaboration with Hervé Deiss, who is a journalist specialized in maritime transport and port issues.