MONTHLY CONTAINER SHIPPING BAROMETER

uppply

DECEMBER 2022

Container shipping market prepares for the next storm

Upply's data for the month of December confirms that the median rates charged by the container shipping industry have dropped sharply.

Latest developments

- ### Numerous port calls cancelled

With demand for goods from China still very weak, the shipping companies have cancelled a large number of port calls. **Blank sailings are expected to be widespread, moreover, until the Chinese New Year**, which is due to start this year on 22 January. North-South markets are generally holding up better, however.

The shipping companies are starting to reveal the details of their 2023 operating programmes, which will see them following the example of The Alliance by deploying 24,000 TEU vessels in large numbers on Asia-Europe routes. This means that we can predict that port call cancellations can be expected to continue. These big new ships will only leave Asia when they have been fully loaded, since that is the logic on which they were built to operate.

- ### Contract rates set to take a tumble

On the East-West spot market, the shipping companies are selling space at FAK rates which do not cover their operating costs. This silent rate collapse can be expected to attract greater attention when, inevitably, it starts to affect the contract market. This parallel movement is quite logical, whether it be for rate increases or reductions. **What is astonishing is the speed at which it is taking place.** It is causing surprise even among the most experienced negotiators, whether they are working for the shipping companies, the shippers or the forwarders. In this situation, trying to read the future and agree contracts does not make much sense.

This is a particularly bitter pill to swallow for forwarders. Budget forecasts now need to take account of **the drastic and rapid reduction in revenues and profit margins on individual contracts.** Some of the sector's assets are having to be quickly devalued after having gained value, no doubt excessively, during the first two years of the pandemic.

- **Shipping companies return to austerity mode**

For the shipping companies, the time had come to bring the year to an end. They made exceptional profits in 2022 - double 2021 levels for the best performers - and have been able to pay their employees exceptional bonuses, ranging from four to 10 weeks of additional salary, depending on the company.

But the party is now over. In early 2023, **the expiry of contracts signed when rates were at their highest levels will further reduce operating results**, which have already been damaged by the collapse of spot rates out of Asia, from one week to another. The sudden turnaround in market trends can be expected to result in restructurings, moreover.

- **Retail prices trends**

The recent, rapid fall in transport and fuel costs should in theory lead to an equally rapid reduction in retail prices but it would seem that **the big retailers are not in a hurry to pass on these price reductions to consumers** and this for several reasons. They want to:

→ Improve their operating results.
→ Take account of the fact that any merchandise they sell now was transported during a time when they were paying top rates for fuel and transport.
→ Pass on the extra cost resulting from the use of new supply sources, which are closer but more expensive.
→ Prepare themselves for the extra cost of greening their logistics chains

Recently, Michel-Edouard Leclerc, head of the French Leclerc hypermarket chain, announced somewhat dramatically that an inflation "tsunami" could be expected in 2023 and that its effect would be devastating. Was this message destined for consumers or was it a subliminal message to other retailers not to start a price war? We will soon find out but, after having heard the Leclerc group, attacking the shipping companies a year ago, it will be interesting to see who will benefit from the crisis over the months to come.

- **Chinese production**

Generally, Western companies have considerably reduced the number of orders they plan to place with their Chinese suppliers in 2023. This may be partly a ploy to enable themselves to negotiate lower prices for the goods they want but it cannot be denied that **Western companies, without wishing to cut themselves off from China, are looking to promote alternative sources of supply.** These will supply a smaller proportion of their needs at greater cost but will enable them to have greater control over transit times.

When demand recovered sharply in 2021, transit times became a secondary consideration, since the top priority was to place large-scale orders, even if they led to increases in stock levels. Some observers referred at the time to a "just in case" approach rather than the "just in time" approach on which supply chains have been built over the last three decades. **Now that demand is weakening, the need to regain control over transit times is back on the agenda,** as companies struggle with exorbitant storage costs.

Chinese suppliers are starting to be seriously penalised by the deterioration, slow speeds and unpredictability of long-distance shipping services and the situation can be expected to get worse as bigger news ships come gradually into service at a time when demand is weak.

In this early part of the New Year, China is starting to learn the painful lesson that, despite having made a superhuman effort to maintain production during the pandemic, the market is distancing itself from it. This is difficult to accept for Chinese industrialists who consider that they did all they could to meet their clients' requirements. Ignoring or pretending to ignore the frustrations of our long-standing Chinese partners is not good for the business climate in a New Year which promises to be difficult one for all the world's leading economies.

And, since misfortune never comes alone...**Chinese production is going to be badly affected in this early part of the year by the relaxation of China's Zero Covid policy.** We are already starting to see big slowdowns in the transportation and production of goods as a result of the huge number of people falling ill.

- **Mediterranean comeback**

It would be premature to claim that the Mediterranean is in the process of becoming the centre of the global maritime economy, but it has to be said that **it has never had so many opportunities as it has now to play a role in the globalisation process.**

Although Algeria has yet to start playing a role on the international market, Turkish and Moroccan manufacturers are working at full capacity and benefiting from substantial additional growth potential. **The Mediterranean has a dense and efficient logistics network**, whether it be in in terms of container shipping capacity or road trailer services, which puts it in an ideal position to take advantage of new traffic flows.

The new world order could revive the 1995 Euro-Mediterranean Partnership which, so far, has failed to live up to expectations. The political, migratory and religious obstacles remain but it would seem that the return to favour of intra-Mediterranean trade can provide solutions to many of the problems being encountered by the leading importers.

The recovery in activity seen in 2022 will be one of the markers to follow in 2023. There is great potential in both the East and West Med sectors.

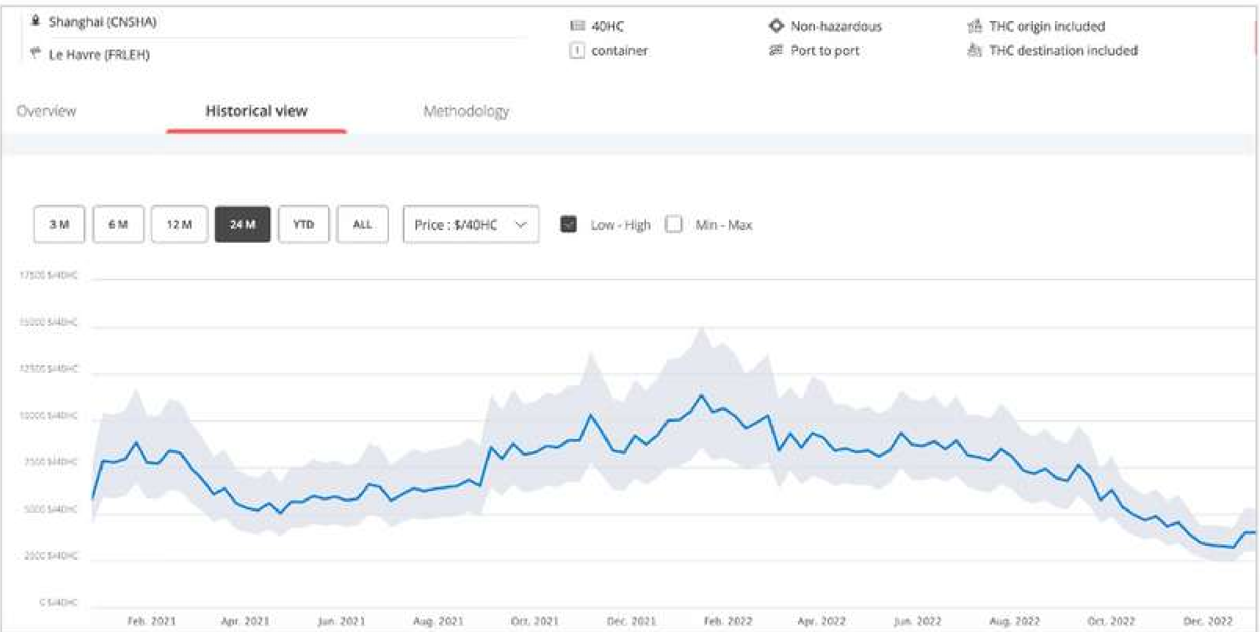
Let us be clear. The Mediterranean countries are not going to replace China and the other south east Asian countries but they do represent an alternative. Their expansion should nevertheless be followed, with highly preferential customs regimes and a potential to be made use of if geopolitical developments lead to the constitution of new power blocs.

From the point of view of the maritime economy, **these developments could see short sea shipping playing a much more important role** in relation to the deep sea sector.

1. PRICES

Upply's data for the month of December confirmed the fall in median spot and contract rates which got under way in previous months.

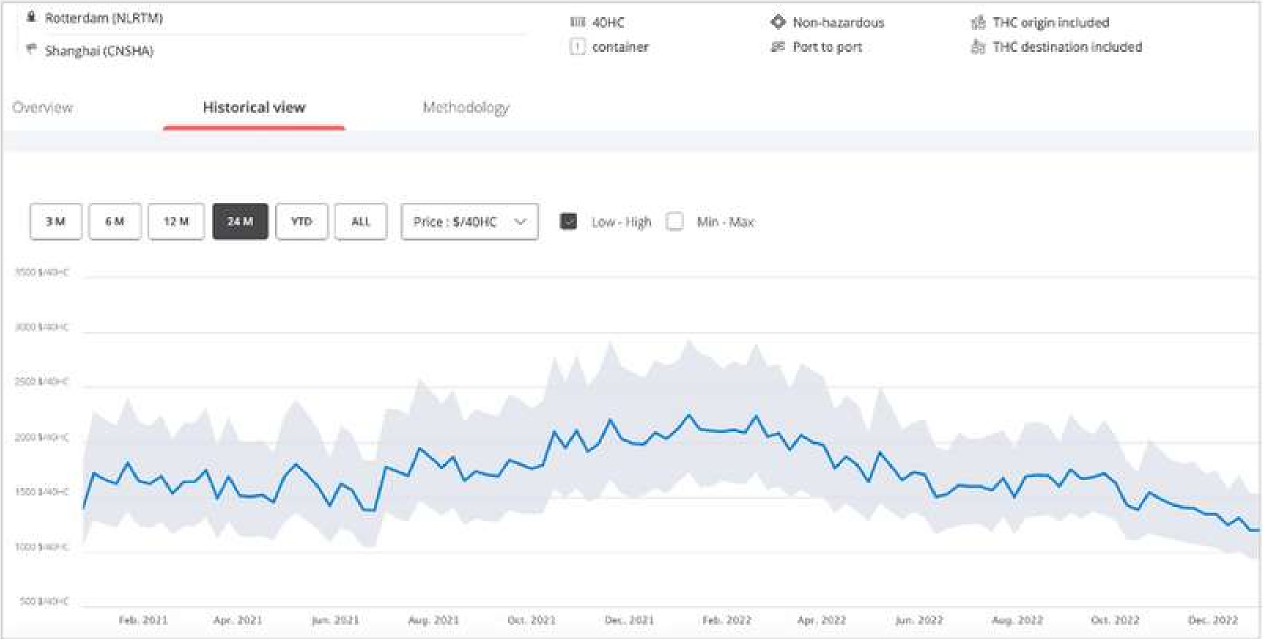
- **Asia-Europe**



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.

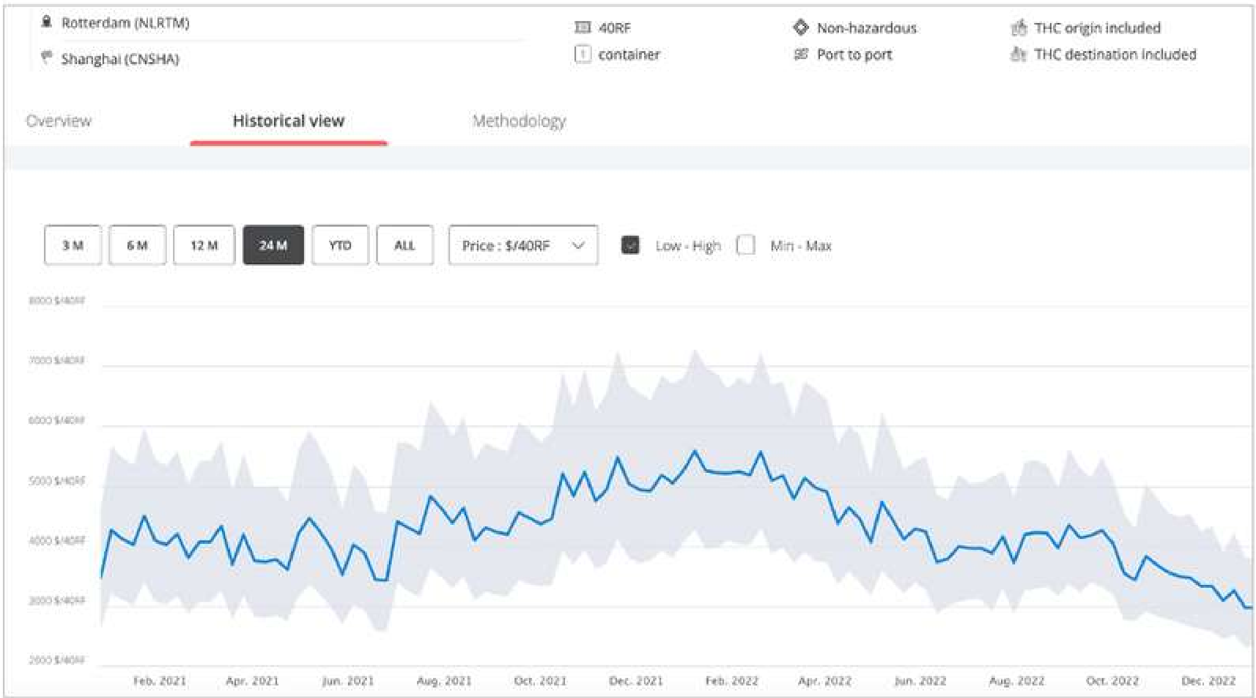
On these routes, prices fell to below their December 2020 level and came close to their pre-pandemic level.

- ## Europe-Asia



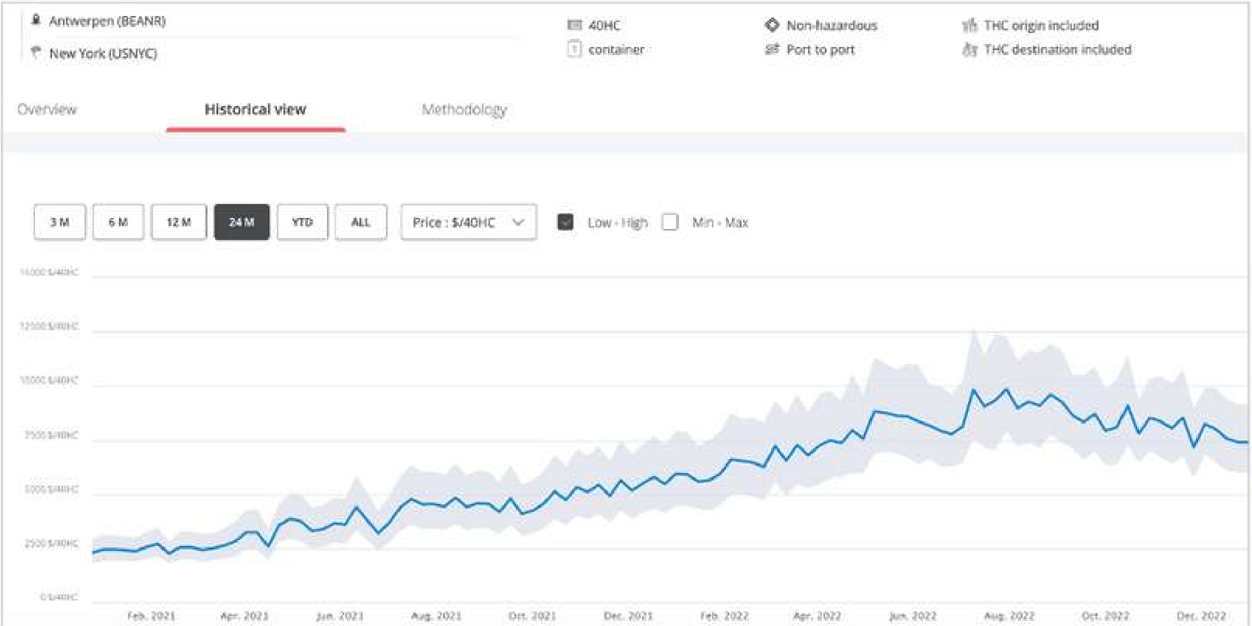
Port-to-port rates (spot and contract) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply.

Rates on Europe-Asia routes remained at what we can call minimal levels, since demand is still low. Even the reefer market, which offers good European export prospects, has started to mark time.



Port-to-port rates (spot and contract) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' RF. Source: Upply.

- ## North Europe-US East Coast



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.

Rates on Europe-US East Coast routes are also starting to fall under the double impact of reduced congestion at east coast ports and falling demand. The trend is unlikely to go into reverse in the short term, since shipping capacity is expected to increase in this trade, particularly at MSC, and the market is very sensitive to changes in capacity levels.

Even if Atlanticism is currently making a strong comeback, the shipping companies would be wrong to overestimate the capacity required to meet the needs of the smallest of the big East-West markets. To be quite clear, there is no hidden source of additional cargo volume in the transatlantic trade to make up for the fall in demand for goods from China. Worldwide trade flows are in the process of being reorganised but, for now, the additional freight this will generate is not available.

2. SERVICES

- **New developments**

M2 (MSC, Maersk)

MSC is reorganising the West Africa service network, which it operates on its own account and which is, therefore, not fall within the scope of the 2M alliance. A few days before it took effective control of Bolloré Africa Logistics, MSC announced that it wanted to make Pointe Noire, where the terminal container is operated under concession by Bollore, a regional hub. The aim is to reduce transit times between Asia and West Africa through the use of a feeder service from Pointe Noire to Angola, the DRC (Matadi), the Angolan province of Namibe and Walvis Bay in Namibia. This offers an 11-day reduction in transit time but, most importantly, enables MSC to diversify its hubs in the region.

Ocean Alliance (CMA CGM, Cosco, OOCL, Evergreen)

Originally due to be introduced last April, the East-West services operated as part of the Ocean Alliance Day 7 Product will start in early January. Ocean Alliance will offer 40 rather than 42 services in 2022. There will be 27 in the transpacific trades, seven between Europe and Asia, four between Asia and the Mediterranean, two in the transatlantic trades, four between Asia and the Middle East and two between Asia and the Red Sea.

Altogether, Ocean Alliance will operate 363 ships, a few more than last year, to provide a total capacity which will increase from 4.4 million TEU in 2022 to 4.6 million TEU in 2023.

The Alliance (Hapag Lloyd, ONE, Yang Ming, HMM)

The companies in The Alliance have announced they will reorganise their services between Asia, Europe and North America in April 2023. The changes in the services themselves will be minimal. The main changes concern the capacity of the ships operating them.

Member companies will introduce vessels of 23,500 TEU or more in the transpacific and Asia-North Europe trades. These big new ships should be more environmentally friendly and more economical in terms of fuel consumption. Services between Asia and the Mediterranean and in the transatlantic trade will use 14-15,000 TEU ships.

→ *Asia-North Europe*

The Alliance will offer five services. The FP1 will mainly serve Japan, the FE2, FE3 and FE4 will sail from South Korea and China and the FE5 will serve Thailand and Vietnam. In Europe, all these services will call in Rotterdam, Hamburg and Antwerp, while Le Havre will be served by the FP1 and FE2 and Southampton by the FE2 and FE3 (one call each). Wilhelmshaven will be called at by the FE2 and London Gateway by the FE5.

→ *Asia-Mediterranean*

The Alliance will offer three services - the MD1, MD2 and MD3, which will sail from Pusan, Qingdao and Shanghai to Valencia and Barcelona in Spain, Genoa and La Spezia in Italy and Fos in France.

→ *Transpacific*

Between Asia and West Coast America, The Alliance will offer 10 services. Two - the FP1 and PS3 - will be pendular. The first will link Europe, Asia and the west coast of North America, while the second will concentrate on services between India and Asia and the east coast of North America. The eight other services - the PS4, PS5, PS6, PS7, PN1, PN2, PN3 and PN4 - will sail from the Chinese ports of Shanghai, Ningbo and Xiamen mainly to Los Angeles, Long Beach and Oakland in the United States and Vancouver and Prince Rupert in Canada. From Asia to the east coast of North America, The Alliance will offer five services, three of them through the Panama Canal to New York, Norfolk, Charleston and Wilmington. Two services will use the Suez Canal to link China and South Korea to Norfolk, Charleston, Savannah and New-York, while just one service will use the route to serve the port of Halifax on the east coast of Canada.

→ *Transatlantic*

The Alliance will offer four services from Antwerp, Rotterdam, Hamburg, Le Havre (one service only) and London Gateway (two services) to the US east coast ports of New York, Norfolk, Philadelphia, Houston et Altamira. The AL5 service will link Europe, the east coast of the United States, the west coast before returning to northern Europe via the Canadian port of Halixfax.

- **Port call cancellations**

Maersk cancelled its calls at Rotterdam's Delta II terminal because of a go-slow by Hutchison employees as part of annual wage negotiations. Maersk's ships were rerouted to Antwerp and Zeebrugge from 7 December to 3 January.

ONE, AL5 Atlantic service from Europe to the west coast of North America: Calls at Vancouver and Seattle have been cancelled. Vessels will call in Los Angeles and Oakland and then return to Rodman in Panama without going up to Canada. These changes will be applied from week 6 to week 14 in 2023.

ONE, Med USA service: Calls at Algeciras and Charleston have been cancelled from January 2023 on to take account of the fall in demand and adjust sailing schedules.

Hapag Lloyd: the AT3 service between North Europe and Canada will become fortnightly rather than weekly. It links Hamburg and Antwerp to Saint John.

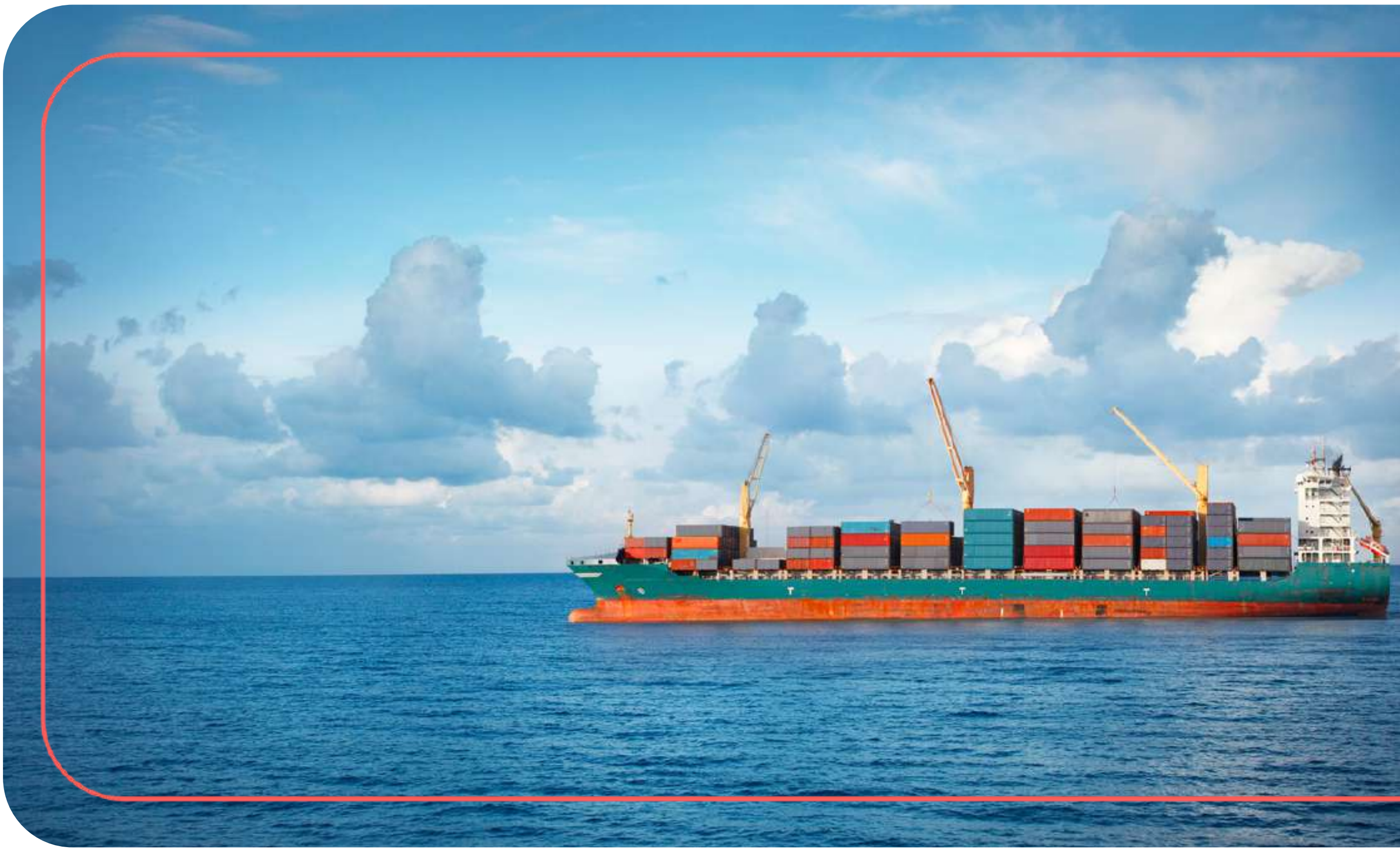
CU Lines: The fortnightly service between Asia and Europe (AEX) was stopped in early December. One of the reasons given was the sharp fall in freight rates on the route. CU Lines is nevertheless continuing to offer sailings between the Mediterranean and the United States and across the Pacific but on demand rather than as a regular service.

MSC: cancellation of the week 2 Shogun service, generally assured by the *MSC Istanbul.*

3. OPERATIONS

Congestion is no longer a problem in most of the world's major container ports. With port calls more spaced out and lower monthly cargo volumes per terminal, **terminal operators are seeing a fall in activity now that a major clear-out has been carried out on the quaysides.**

The Los Angeles port of Long Beach is now waiting for freight to arrive, and North European ports are in a similar position. **Asian ports are doing better, thanks to the high level of short-sea traffic**, which is making up for the relative lacklustre state of the long-haul traffic sector. The India/ Pakistan/ Bangladesh/ Sri Lanka bloc is still showing growth, although infrastructure problems in India are slowing up the bloc's take-off as an exporting force, able to provide an alternative or additional solutions to those offered by the China / Vietnam / Thailand / Indonesia bloc.



AUTHOR

Jérôme De Ricqlès
Ocean Shipping Expert at Upply