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MONTHLY CONTAINER SHIPPING BAROMETER

MAY 2023

Container shipping returns to its old habits

BAROMETER. Shipping companies are slowing down their ships to reduce overcapacity, while the fall in freight rates is now affecting virtually all major trade lanes.

Latest developments

- ***Freight rates have stabilised, but the profitability of the shipping companies is under threat***

As in April, **the freight rate market remained stable in May,** but rates on the major east-west routes were at barely viable levels for the shipping companies.

The economic slowdown and the drop in rates are reflected in shipping companies' quarterly results, as can be seen in the results of the three European market leaders. Maersk, CMA CGM and Hapag Lloyd all recorded a marked fall in revenues and EBITDA in the first quarter of 2023, as compared with the first three months of 2022. And, as CMA CGM pointed out in its Q1 results announcement, the arrival of new capacity is likely to continue to hold down freight rates over the next few months.

TOP 3 EUROPEAN CONTAINER SHIPPING LINES
Q1 2023 VS Q1 2022 (1)

	MAERSK "Ocean" Segment	CMA CGM "Container Shipping" Segment	HAPAG LLOYD
REVENUE	9,873 M USD - 38.6 %	8,870 M USD - 40.3 %	6,125 M USD - 29.6 %
EBITDA	3,352 M USD - 59.2 %	3,048 M USD - 64.3 %	2,417 M USD - 53.1 %
VOLUME	5,448,000 EVP - 9.4%	5,020,000 EVP - 5.3%	2,842,000 EVP - 4.9 %
AVERAGE REVENUE / TEU	436 USD - 37.0 %	1,766 USD - 37.0 %	1,999 USD - 27.2 %

(1) MSC is not included in the table since it does not publish financial results.
Data source: financial publications of shipping companies © UPPLY

- **The return of super slow steaming**

In this depressed climate, **super slow steaming has returned as an artificial means of absorbing excess capacity,** with environmental protection providing a helpful alibi. Since 1 January, in line with new IMO rules, ships must collect the data necessary to calculate the energy efficiency existing ship index (EEXI) and the carbon intensity indicator (CII).

Some, however, are starting to question the pertinence of slow and hyper-slow speeds (under 10 knots), pointing out that they result in consumption patterns which are the reverse of those intended. As with motor vehicles, fuel consumption increases when speed is becomes too low.

The difficulty of the exercise for the shipping sector is to reduce emissions in greater proportions and more quickly than market growth. This will not be an easy task in the years to come.

- **Faster greening**

After having reduced sulphur emissions on a massive scale thanks to the virtuous and generally successful introduction of IMO 2020 regulations (even if there are some doubts about the use of scrubbers), **the shipping companies now need to decarbonise quickly and on a grand scale**. The good news for them is that the technology which will enable them to do this is progressing fast.

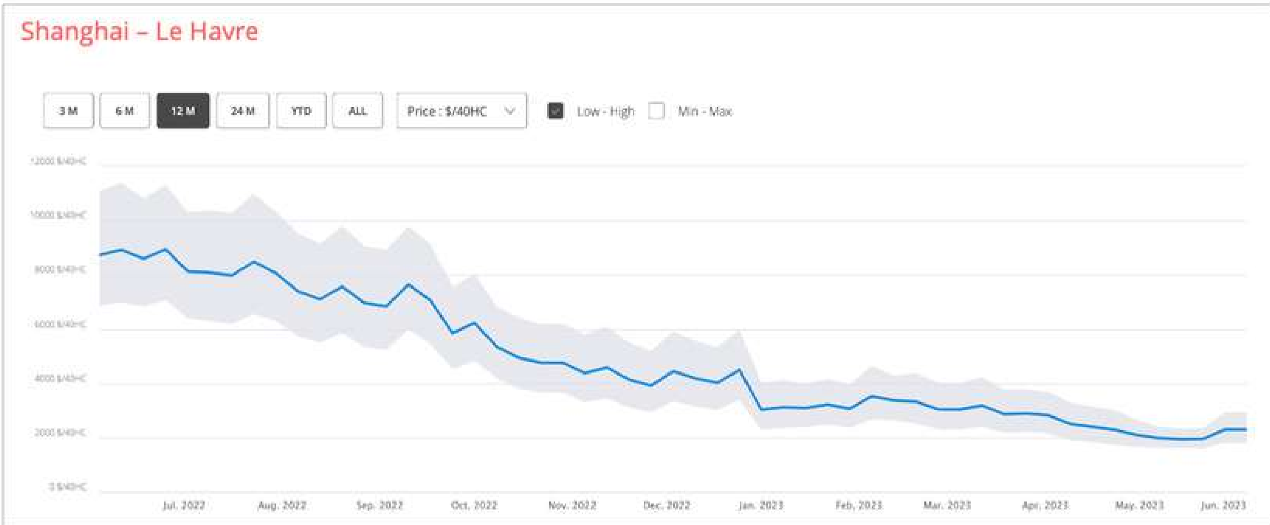
A Japanese consortium has just announced that it has carried out successful tests using fuel with a 70-80% ammonia content with both four and two-stroke engines. We have already highlighted the technical interest of this type of fuel for energy transition purposes on inter-continental voyages.

The progress made has been rapid and promising. Once the problem of ammonia's toxicity has been resolved, the market will have a real industrial solution, which will go beyond simple greenwashing, particularly if the ammonia used is produced using a green production process.

We are also seeing a lot of projects based on sail propulsion, with different solutions offered for different types of ship (bulk, ro-ro and container). The gain in consumption is estimated to be around 15-20% on inter-continental sailings and the first new generation "clippers" will soon be coming into operation on the Atlantic.

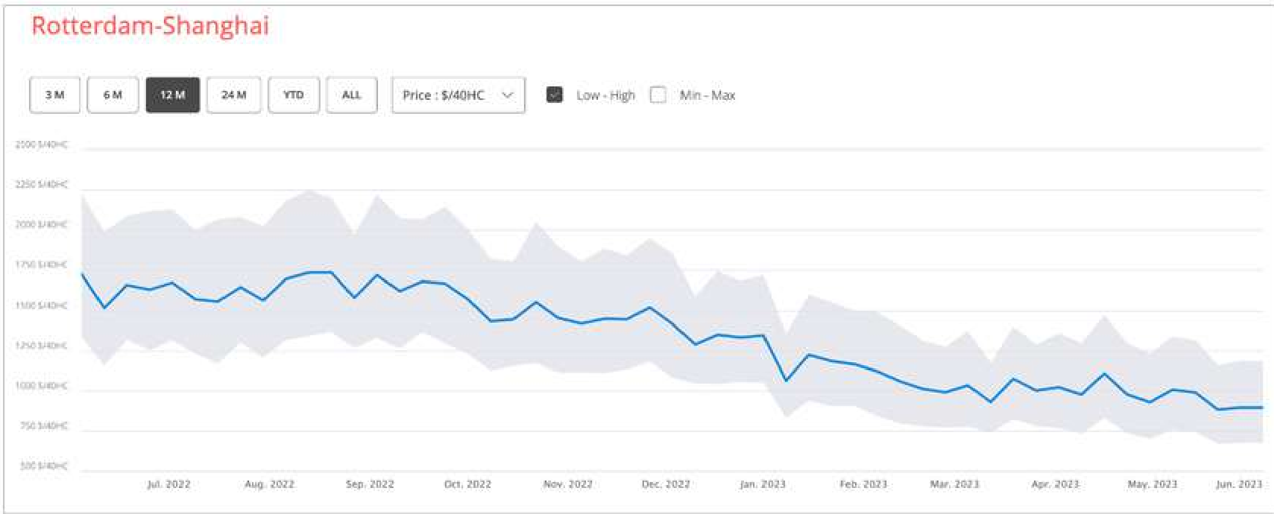
1. PRICES

• Asia - Europe



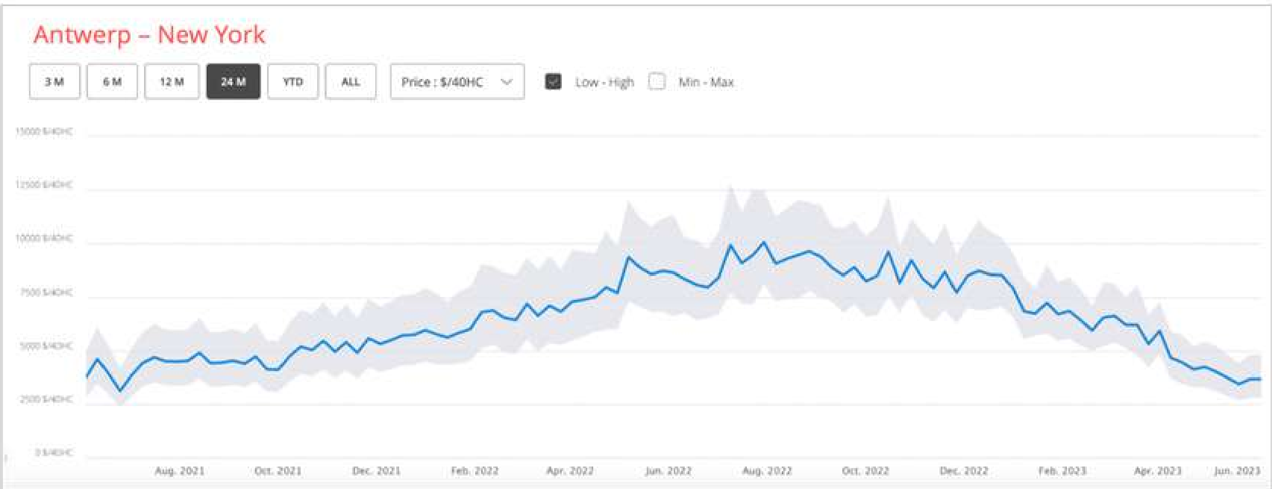
Port-to-port rates (spot and contract) billed for sailings from Shanghai to Le Havre, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods.
Source: Upply.

• 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.

- **Europe - USA**



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.

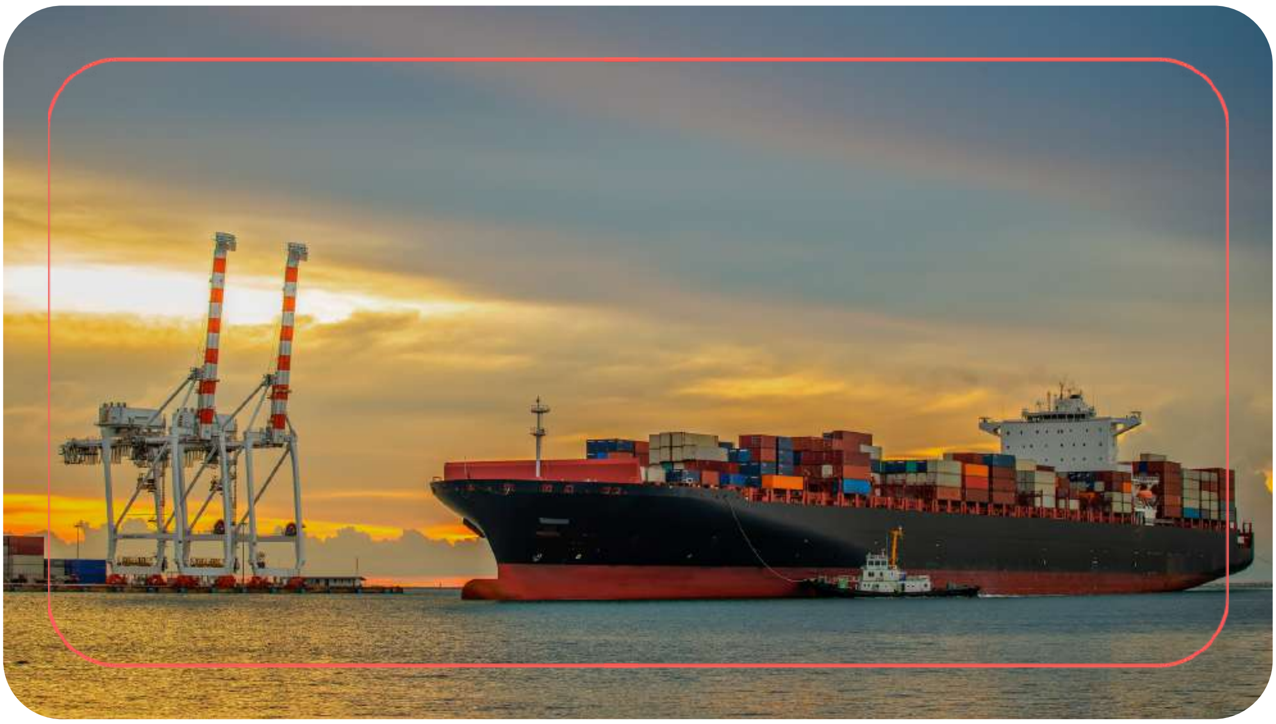
The east-west transatlantic trade has now registered a drop in freight rates, following the example of the eastbound transpacific and Asia-Europe trades. It succeeded in resisting the downward trend for a long time, with the latest recorded rates still twice as high as those pertaining prior to the pandemic. But it now seems to be marking time, sliding gently towards rates of around $2,500 per 40' container. It is still a little higher than before the pandemic but is certainly not enough to soften the general fall in companies' operating results.

Rates on north-south routes are holding up for the time being but, given that these routes only represent 1/6 to 1/8 of the cargo handled by the leading shipping companies, they will not have a significant impact on the general slump in results.

For the big shipping companies with a strong east-west bent, like Hyundai, Yang Ming and Evergreen, times are already hard and the days when they were able to pay spectacular bonuses are already far behind them.

What good news there is to be found rather in the Mediterranean and the Middle East, where the generally shorter voyages remain very profitable and cargo volumes are satisfactory. At this wider regional level, Turkey can fairly be said to be playing a locomotive role, offering surprisingly good, long-term cargo growth prospects. India, too, offers good potential, as shippers look to diversify their supply sources away from China. It is still not easy, however, to set up robust supply chains there.

Further away from us, the Indo-Pacific economy is developing. It is organising itself rapidly and becoming increasingly self-reliant, which should cause us to have second thoughts about the supposedly dominant role played in shipping by the Western retail sector. We are moving into an era of constant change in world trade and the shipping companies are going to have to adapt to this.



2. SERVICES

The regularity of the east-west services is getting better from month to month. Data for the month of April from operators shows that punctuality is improving. According to Sea Intelligence, **the reliability of container services improved by 1.7% from March to April to an overall rate of 64.2%**, which means that 62.4% of ships arrived in port on time.

The improvement is even more marked on a year-on-year basis. **Reliability improved by 29.9% year-on-year in April 2023.** Sea Intelligence found that ships were running an average 4.34 days late in April 2023, 0.72% less than in March. This compares with an average 6.56 days late In April 2022.

More detailed analysis shows that Maersk topped the table with an overall punctuality rate of 70.3% in April, followed by MSC with 67%. Seven shipping companies - Evergreen, PIL, Wan Hai, Hamburg Sud, CMA CGM, Cosco and OOCL - had a rate of 60-70%. Yang Ming and Zim recorded the lowest rates among the 15 top ten companies, with punctuality rates of around 50%. That means one in every two ships was late. Before the pandemic, however, ZIM was among the most punctual companies.

The overall improvement in punctuality could nevertheless be eroded in the next few weeks. The arrival in service of big new ships is encouraging shipowners to take a new approach in a market which is deteriorating. To avoid increasing available capacity, they prefer to reduce the speed of their ships and/or introduce additional port calls. This enables them to avoid increasing service capacity but can have a negative effect on punctuality. MSC is ready to accept this. It announced that its Europe-Asia services would take three days longer in both directions, with Asia-Mediterranean services taking two days longer and Mediterranean-Asia three days. As a result, a return voyage from Asia to North Europe take six days longer than previously.

This strategy is a response to a morose trading climate. European container trade figures with Europe published by Container Trade Statistics (CTS) show that trade fell in the first quarter, with a further fall expected in the weeks to come. **In the first quarter, CTS indicated that container traffic fell 6.7% to 39.9 MTEU.** Intercontinental trade was down 7.1% to 26.2 MTEU, while regional traffic was 6.1% down at 13.6 MTEU. **European exports fell 9.3% to 4.7 MTEU, while imports were 3.9% down at 6.06 MTEU.**

- **Transpacific**

Among the changes made in this market, we can note the withdrawal of Tokyo from the itinerary of **2M's TP8 service** between Asia and US West Coast ports. Vessels in the service now call at ports in China and South Korea before going on directly to Oakland and Los Angeles. For its part, **Wan Hai** has decided to reorganise its AA7 service between Asia and North American east coast ports by withdrawing Xiamen and adding Colombo.

MSC has announced that it is changing its Sentosa service between the Indian sub-continent and US west coast ports by splitting it into two. The Sentosa service will call in Laem Chabang, Ho Chi Minh, Hai Phong, Long Beach and Oakland and then return to Busan, while the newly created Shikra service will depart from Qingdao, calling in Shanghai, Ningbo, Kaoshiung, Shenzhen, Singapore, Nhava Sheva, Mindra, Colombo, Port Klang, Singapore, and Tanjung Pelepas before returning to Qingdao via Ho Chi Minh City.

- **Transatlantic**

The Alliance, which comprises Hapag-Lloyd, HMM, ONE and Yang Ming, has cut back its North Europe-US West Coast service. The AL5 service left Europe and called in Port Everglade in Florida, Cartagena in Colombia, Balboa in Panama and the North American West Coast ports of Los Angeles, Oakland, Tacoma and Vancouver. From August on, the ships will turn round in Oakland and the calls in Vancouver and Tacoma will be dropped.

In this segment of the transatlantic market, the end of high freight rates has persuaded some shipowners to drop their services altogether. **Kalypso Compagnia di Navigazione**, which operated a service between Italy and the US West Coast, has thrown in the towel. It offered a weekly service in November, made it fortnightly at the start of this year but will now close the line, which called in Tarento, Salerno, Civitavecchia, La Spezia, Sagunto and New York, in June.

- **Europe - Asia**

As new ships come into service, the shipping companies are looking for solutions by reducing speed, justifying their strategy by environmental considerations. 2M's AE5, AE7, AE10 and AE55 services will all get an extra ship. The AE6 will get two. In general, the companies add port calls when new ships come into service but 2M is not doing this.

MSC has announced that it will start calling in the Baltic ports with its Swan service. The service, which it is now operating alone, will call in Qingdao, Ningbo, Yantian, Tanjung Pelepas, Antwerp-Bruges, Gdynia, Gdansk and Klaipeda before returning to Qingdao via King Abdullah Port and Singapore. In a message to its clients, MSC said that the service is the first direct service between the main Chinese ports and the Baltic ports. Traditionally, the Baltic ports have been served by transhipment from Hamburg or Rotterdam, according to the company.

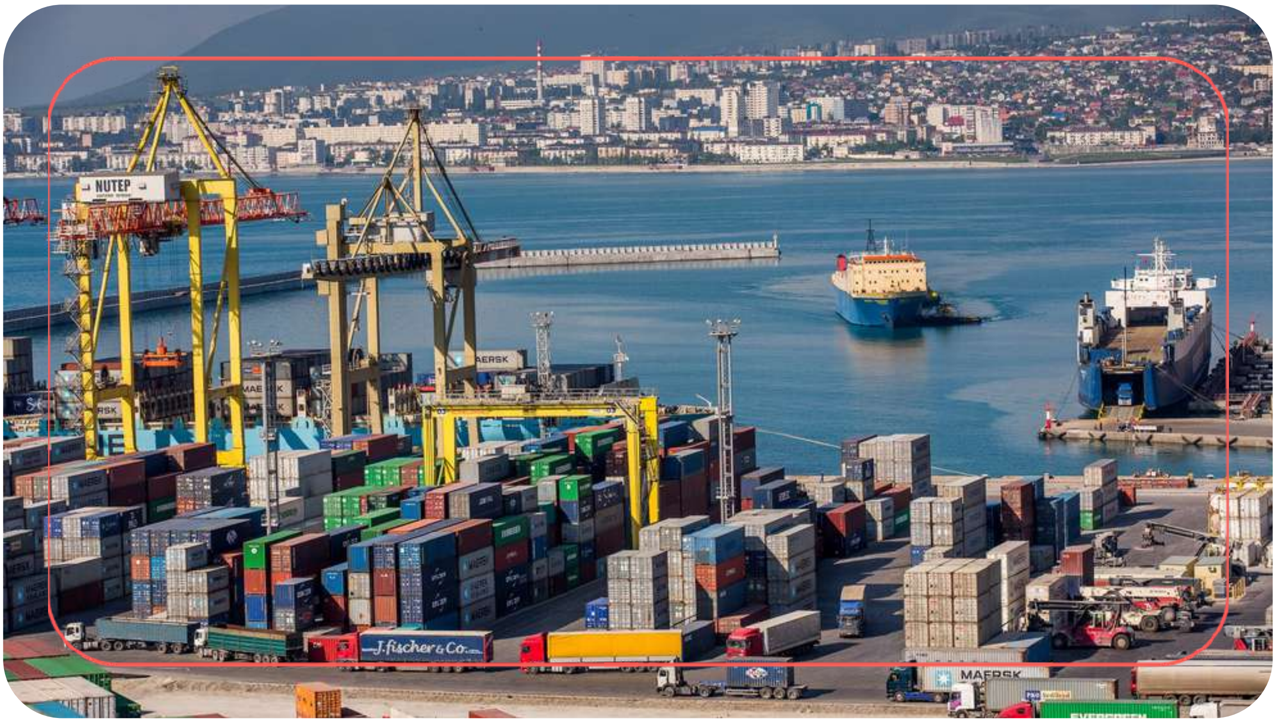
- **Europe - Indian sub-continent**

Good news for French ports. The Epic service operated by CMA CGM and COSCO/OOCL has decided to include a call in Dunkirk from the end of June on. The service, which links the Indian sub-continent to North Europe, will call in Southampton, Rotterdam, Antwerp, Dunkirk, Le Havre and Algeciras before going on to Jeddah, Abu Dhabi, Karachi, Nhava Sheva and Mundra.

3. OPERATIONS

The global port congestion problem is now clearly behind us, with only a few chronic, local exceptions remaining. With shipping companies' profit margins under pressure again, it is very tempting for them to try to raise additional revenue through demurrage and detention charges. The substantial fines imposed recently on two shipping companies in the United States should make them think again, however.

The expenses incurred in this area are real. Port terminals bill the shipping companies left with full containers on their hands by their clients. Passing on these costs to the cargo side in the form of excessively high rates is open to question, however. In Europe, where this area is less tightly regulated than in the United States, the issue is a time bomb waiting to go off in a market in which shippers are now back in control.



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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.