MONTHLY CONTAINER SHIPPING BAROMETER

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Demand for container transport falls

The shipping companies have been able to maintain an average price increase despite a fall in cargo volumes. But the wartime economic mentality which is taking hold could put an end to the ongoing euphoria.

THE MAIN DEVELOPMENTS

Fall in demand

Inflation in the West, Covid-19 restrictions in China and the war in Europe. **This unhappy combination had quite a strong impact on demand for shipping in April.** The impact, which started to make itself felt in mid-March, was little or not at all visible in the first quarter results of the major shipping companies but some of them nevertheless warned that **a great deal of uncertainty lay ahead.** "Global container demand declined by 1.2% compared to +8% in 2021, Maersk said in its first quarter results presentation. "Trade flow growth flattened from Far East to both North America and Europe. Russia's invasion of Ukraine is having a negative impact on trade flows and consumer confidence in Europe. Given this background, **global container demand is now expected to grow -1/+1%**, compared to an earlier expectation of 2-4%."

Continuing difficulties in China

Since early April, the whole of the container shipping sector has had **its eyes fixed on China.** Taking account of the realities experienced on the ground and the expected economic slowdown, given that the official growth forecast for 2022 stands at 5.5%, its lowest level for decades, several factors are causing concern:

- The effect of the Zero Covid policy, which is causing a self-inflicted blockage of production capacity.
- The increasing cost of production inputs and the difficulties in obtaining them.
- Drinking water and food supplies in the big locked-down urban centres.
- The resilience of the people living in them.

In the first quarter, Chinese growth continued to show some vigour, finishing at 4.8%. **The slowdown should make itself felt rather in the second quarter and the growth lost will be difficult to make up.** To minimalize the impact of lockdown measures on trade, China is trying to use alternative solutions. The port of Shanghai, which is operating at reduced levels, saw its container traffic fall 17.5% in April to 3.07 million TEU. Over the same period, Ningbo-Zhoushan set a new monthly record with a traffic throughput of more than 3 million TEU. That represents an increase of 10% year-on-year and 12% month-on-month. We should nevertheless recall that, over the first quarter overall, Shanghai's throughput increased 8.14% over the same period in 2021.

Wartime economic mentality

Between China's self-generated problems and a Western world which has begun to keep a serious eye on its outgoings, at a time when the geopolitical situation is particularly dangerous, **the world economy has started to seize up - slowly but, sadly, quite surely.** On the electronic components and semi-conductor market, which is so necessary to the Western automobile and other industries, no attempt is being made to pretend that an improvement in the situation is on the way. Any expectation of a return to normal in the short or medium term is seen by decision-makers as illusory. They take the view that the current year is virtually beyond recovery.

In short, **the idea that the supply chains could smoothly recover has been ruled out.** A wartime economic mentality is taking hold, with particular attention being paid to basic necessities, starting with food and energy products.

In 2021, the spring and summer period, when lockdowns came to an end, was marked by frenetic buying of products for household and lifestyle renovation and improvement. In 2022, however, the autumn and winter period will be devoted to less amusing preoccupations like providing heating and food. Those with **economic responsibilities will need to redirect their spending towards basic needs.** Another symptom of the wartime mentality is **preventive stocking.** The shortage of certain food oils is a clear demonstration of this.

In this situation, to return to shipping, Lidl's decision to found its own shipping company is particularly interesting. It is betting that the growth of sales of low-cost products will be based on an integrated model. It is in the spirit of the moment and the group's strategy seems to be relevant, not to say visionary, at a time when its retail competitors are taking a more static approach.

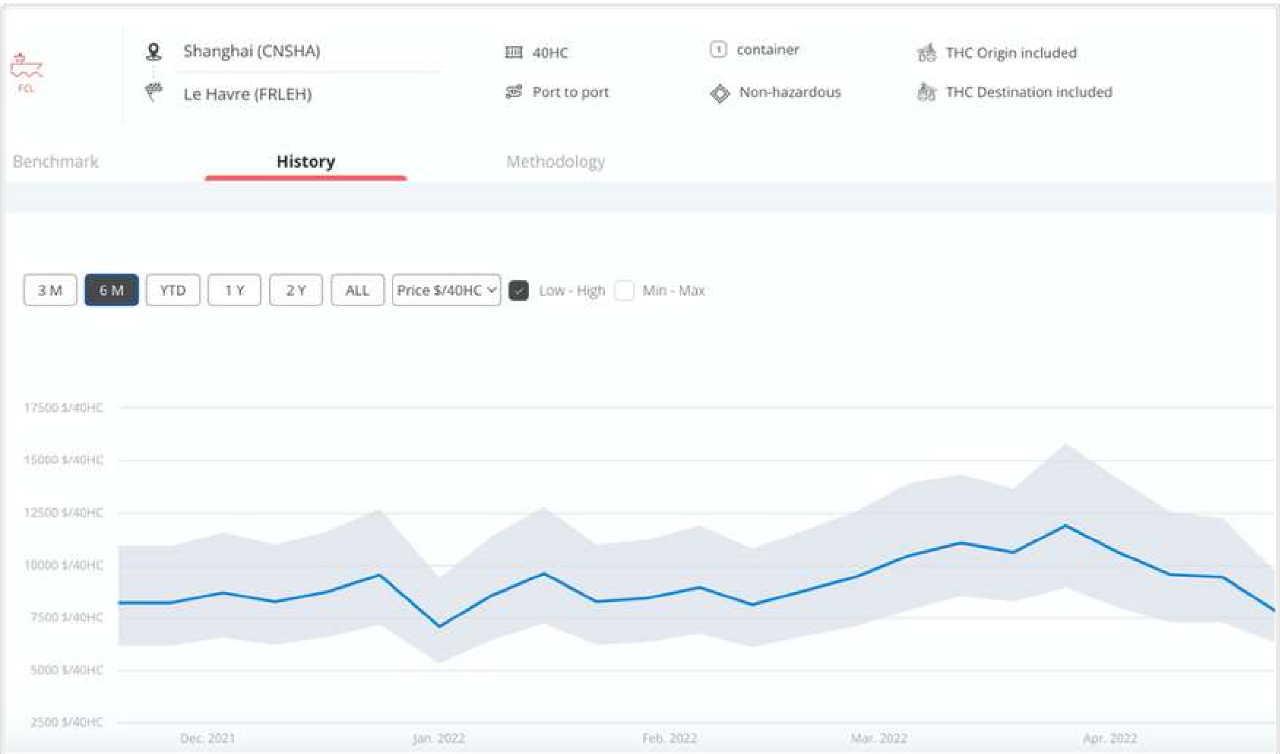
The future will tell us whether or not they were not right too early but this policy of **deploying small ships shuttling at a fast rate between Asia and Europe** is so different from the solutions offered by traditional shipping lines that it might succeed. In the transpacific trades, we drew attention at one point to US shipping company Matson, which took a similar approach. In 2021, the company outperformed the market proportionately to its size.

1. PRICES

- ***Asia - Europe***

FAK rates are currently on a clear, downward trend. **For imports from Asia, rates have fallen from USD12,000 for a 40' dry container to USD10,000 in just two months.** It is a major reduction, but we are still a long way from the rates offered for long-term contracts, which ranged from USD6,000 to USD8,000. There is no major risk at this stage that FAK rates will come down to contract rates, but it is something which needs to be watched.

The more the gap between them shrinks, **the greater the risk that certain market segments will be cannibalised.** Theoretically, FAK rates give the right to a departure on the first ship to leave, given that clients agree to pay the highest price at the time of booking to ensure their goods were dispatched.



The freight rate trend between Shanghai and Le Havre, using a mix of spot and contract rates, THC included, for a 40' HC DRY container carrying dry, non-dangerous merchandise from port to port.

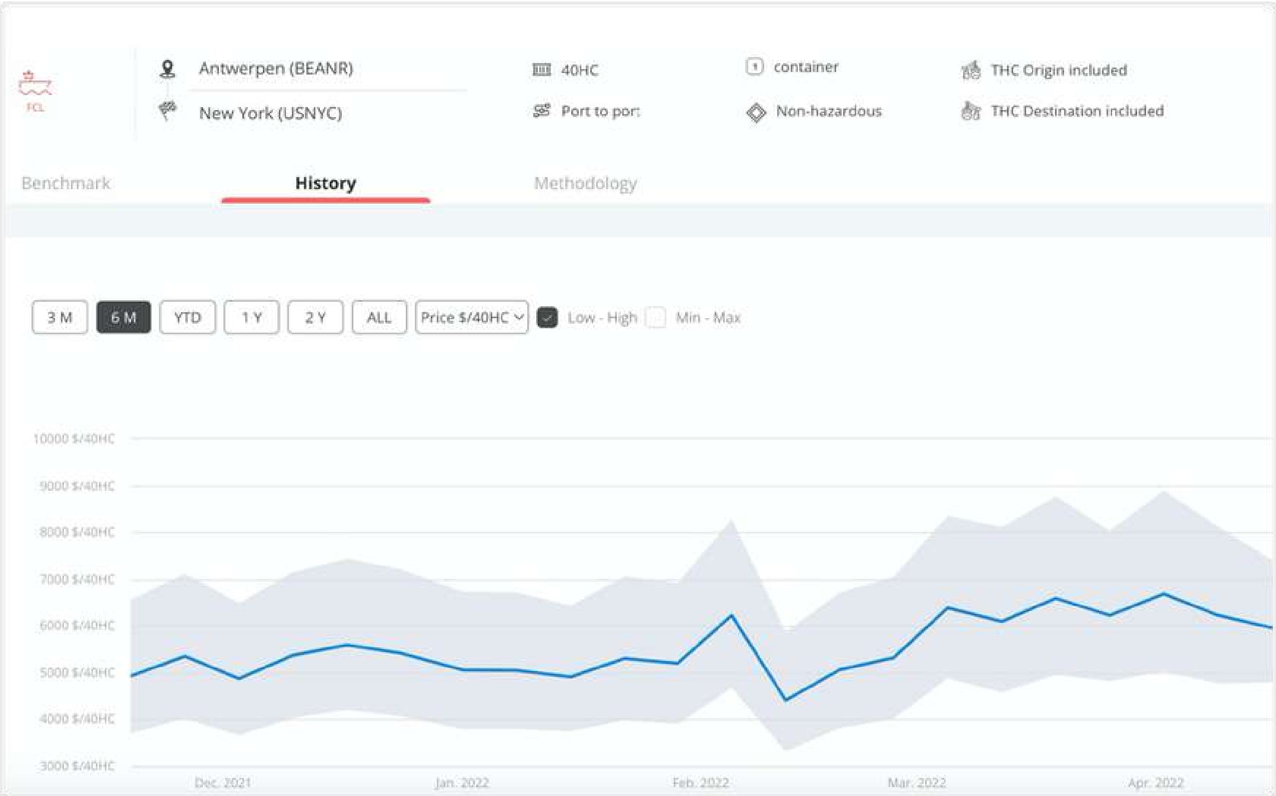
The fall in FAK rates for goods leaving China is not for the moment endangering the new-found profitability of the shipping companies. The new long-term contracts signed with direct shippers are having the expected "cash machine" effect. This combination is continuing, therefore, to **increase the average rates practised by the shipping companies'**, compensating for the time being the fall in available cargo volumes.

At the same time, "deadfreight" clauses, which apply when shippers fail to provide the amount of freight they committed to in return for preferential rates over a given period, have been activated, enabling the shipping companies to charge significant sums for freight which has not, in fact, been carried.

The shipping companies are clearly betting that, even if Western demand suffers a structural decline, the revival of Chinese port and industrial activity, combined with an early drive to import Christmas toys in an attempt to ensure that they are delivered in time, will lead to **an increase in demand which will drive spot rates up rate from the second half of May on.**

- ***Calm in the transatlantic trades***

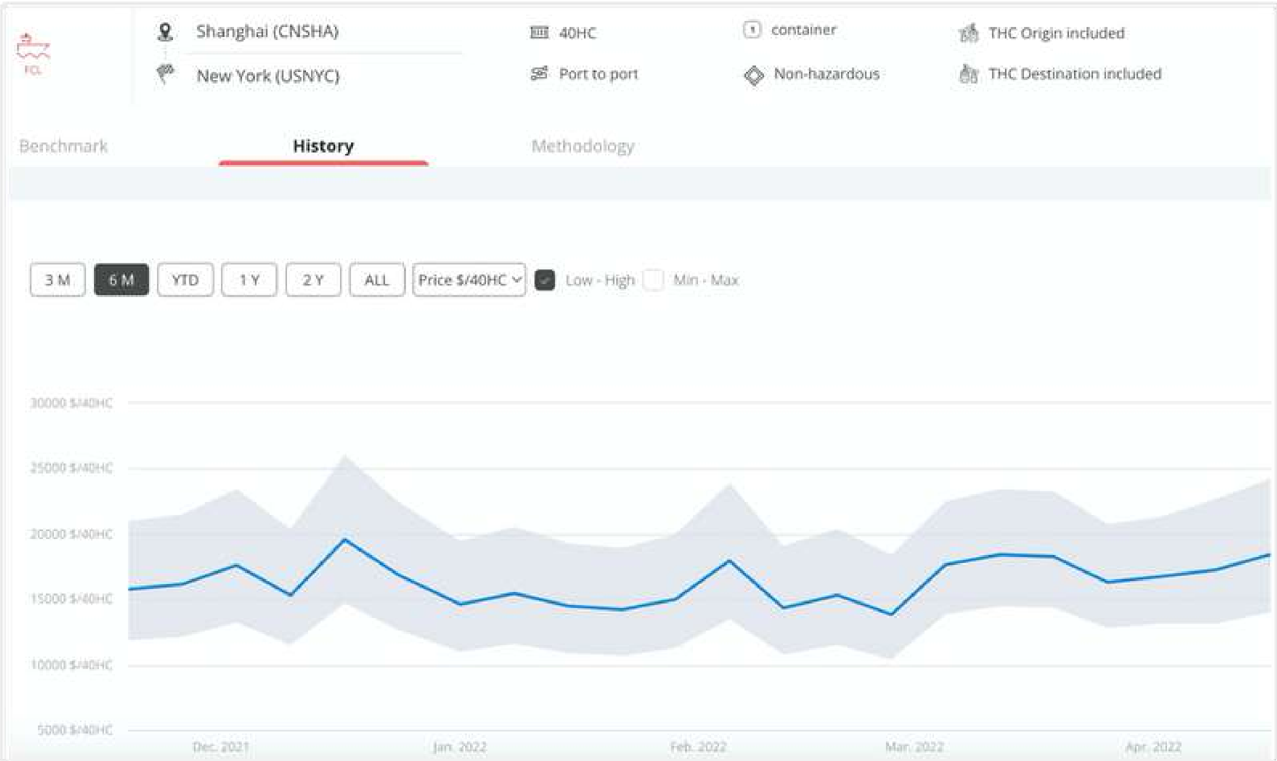
Although there was nothing to justify a major increase in freight rates, the westbound transatlantic market saw an unbelievable upward rate movement after freight rates were restored on the Asia-Europe and Asia-US markets. This trend seems to have run out of steam at the moment, however, after having reached close to record levels. The impact of the euro-dollar exchange rate is also playing a role in the USD8,000 limit reached recently for a 40' dry container. At a certain level, business is simply not done.



The freight rate trend between Antwerp and New York, using a mix of spot and contract rates, THC included, for a 40' HC DRY container carrying dry, non-dangerous merchandise from port to port.

- ***Asia - US East Cost***

European shippers sending goods to the east coast of the United States are finding it hard to accept that they are having to compete with cargo from China which is being redirected on a massive scale to east coast ports to avoid the congestion on the west coast. On these routes, shippers are ready to pay even more than the record levels reached in the transatlantic westbound trade. Decisions are being made on the basis of the limited capacity available at east coast ports.



The freight rate trend between Shanghai and New York, using a mix of spot and contract rates, THC included, for a 40' HC DRY container carrying dry, non-dangerous merchandise from port to port.

2. SERVICES

Sea Intelligence indicates that there is a slight improvement in the overall quality of shipping company services but points out that there was **a significant increase in blank sailings on Asia-Europe routes in April** and early May on the part of all three major alliances.

Demand is weak, as is Chinese production capacity. The main objective of the shipping companies, therefore, remains to **give priority to revenue per container** by restricting capacity as much as possible, even if this means further hampering demand by additional constraints. In following this bridging strategy, the shipping companies are counting on a complete production revival at the end of May. This strategy is risky, given that the latest news from Shanghai does not suggest that there will be a rapid return to normal operating and production levels.

The large number of blank sailings out of Asia at the moment will have **a boomerang effect which will be particularly prejudicial to European exporters**, who will find themselves short of departures at the end of June and in July, when European exports are particularly strong in advance of annual production plant closures.

Another undesirable effect of the blank sailings is that **they will automatically limit the ability of the shipping companies to reposition empty container in Asia** during the summer, with the risk that this will cause a new container shortage there at the start of the second half of the year.

3. OPERATIONS

In Europe, the fall in cargo volume is enabling the terminals to have a clear-out even if, here and there, containers bound for Russia are being kept on stand-by and taking up space. Stock levels in the warehouses are at very high levels and **the situation has virtually returned to normal** except for the fact that there is still very high demand for quayside reefer plugs.

Some suggest that European terminals will once again find themselves under pressure once China returns to full production, with a large amount of cargo to handle over a short period in the early summer. We consider this risk to be minimal, however. Many blocked orders have been cancelled and, for the time being, European retailers can draw heavily on the stocks they have already constituted in Europe.

In the United States, there has been a slight improvement on the west coast, where the San Pedro Bay has finally begun to empty of ships. **East coast ports**, on the other hand, **are under pressure** from the massive flow of goods which are arriving via the Panama and Suez canals.

This policy of diverting cargo from the west coast as a means of avoiding bottlenecks in Los Angeles and Long Beach, which has the backing of business and the US authorities, is working. The capacity of the east coast to absorb big variations in cargo volumes is limited, however. It should be noted, too, that American dockers are starting salary negotiations just now, which promise to be quite tough, particularly on the west coast.

I**n China, the situation varies** according to whether ports are situated in cities currently undergoing lockdowns or not. Shanghai has been suffering serious disruption for a month and a half and the crisis is still in progress. The strategy of continuing to try to keep production going while, at the same time, following a Zero Covid policy is showing its limits increasingly from one day to the next. This is happening at a time when Western demand is weak. In other words, the operational collapse could have been much worse...

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