MONTHLY CONTAINER SHIPPING BAROMETER

MAY 2022

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Shipping companies' gambit pays off

Despite weakening demand, the shipping companies kept control of the market in May. The gambit was a risky, one but it worked.

THE MAIN DEVELOPMENTS IN MAY

Navigating without instruments

Even the most experience supply chain managers must be succumbing to a form of fatalism at the moment, so little meaning **has the term management in the international logistics business** at the moment. It essentially involves coming to terms with the sea of uncertainties which characterise the current period and one can only recognise that the return to a more coherent operating mode is becoming an increasingly distant prospect.

"Importers are now **bringing cargo just in case, not just in time**, and it makes up for more boxes sitting at the port," said the ever astute Gene Seroka, executive director of the Port of Los Angeles, recently. He is nothing if not lucid! Smart observations apart, however, uncertainties of all kinds are pushing importers to reconstitute their stocks in a way which would have got a supply chain manager sacked three years ago! The world has changed very quickly.

Solid rate equation

The shipping companies seem to have won the battle for the foreseeable future. **Long-term contract rates are getting dangerously close to FAK spot rates**, and this is levering rates up to even higher levels in the average rates basket. Capacity is being kept under particularly tight control and the risk of external rate regulation is looking increasingly unlikely.

Barring the unforeseen, the shipping companies can count on solid fundamentals to make an attempt **to triple their 2021 results in 2022 despite a slight fall-off in cargo volumes**. This should enable them to find the resources to satisfy Brussels' "greening" expectations for the industry.

Shipping companies call the shots

At a time when shipping is more than ever an adventure in the strictest sense of the term, the increase in the profitability of the container shipping industry has put the shipping companies more than ever in the role of arbiter.

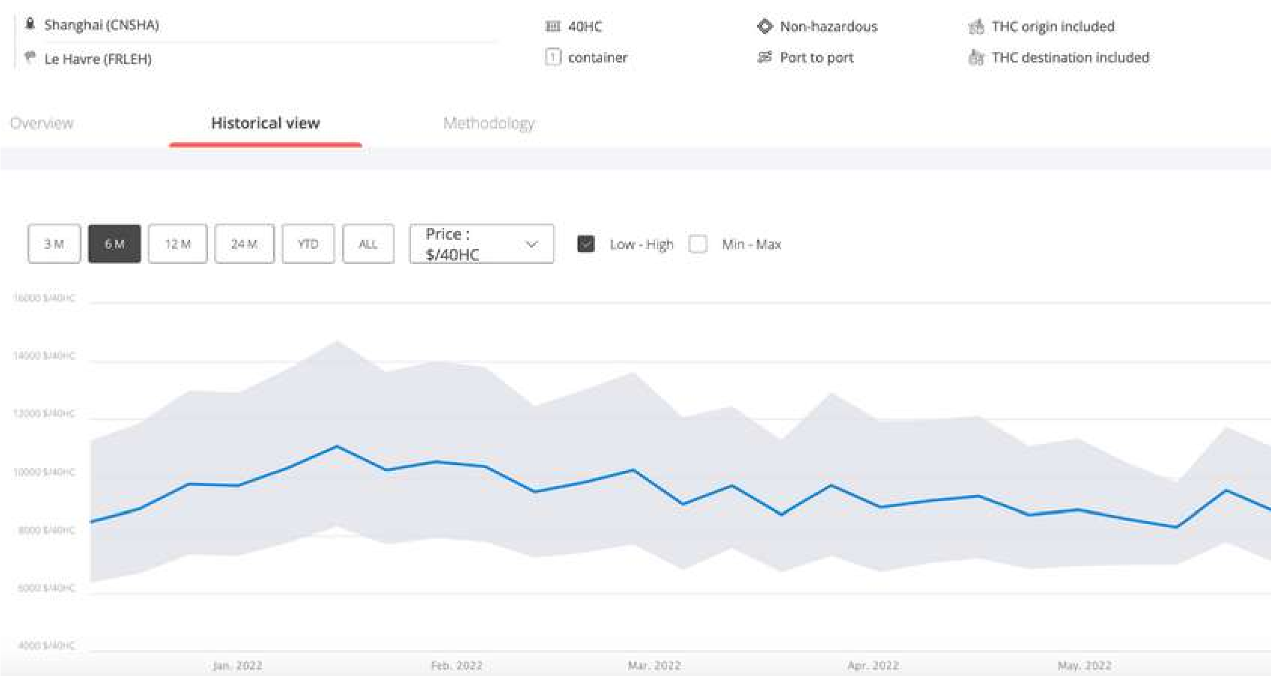
This amounts to a fundamental change of the sector's operating model. Until now, container shipping was seen as a secondary, low-cost market which served to enable the major industrial and distributions groups to implement their globalisation policies. Now, **shipping needs to be taken into account as a means of evaluating the feasibility of worldwide trade and, what is more, in a climate**, which enables the shipping companies to get by with limited contractual obligations. The notion of "clarity in confusion" works like a charm here, so disorientated is the market, which does not know what or who to follow.

1. PRICES

- ***Asia-Europe***

We saw moderate FAK rates for goods leaving China in May, but they are expected **to increase again in June**. The latest contract rates, which have been agreed directly with shippers as part of end-of-season annual or pluri-annual negotiations, have increased, however, bringing them close to spot rates.

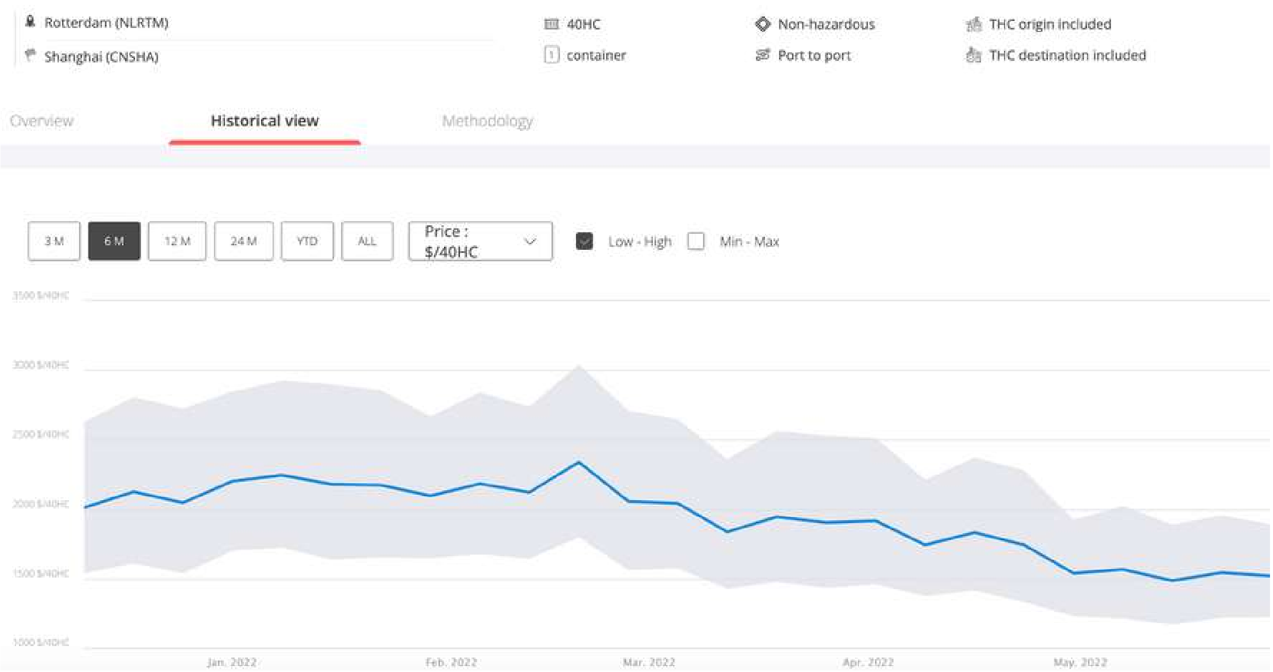
The contract **negotiation season in the Asia-Europe import trade** began in December and January at around USD7,000/40'. Shippers got their best deals in March and April, when certain contracts were concluded at around USD5,000 /40’. Now, for the late settlers, **May-June rates are around USD7,000-7,500.**



Source: Upply

- ***Europe-Asia***

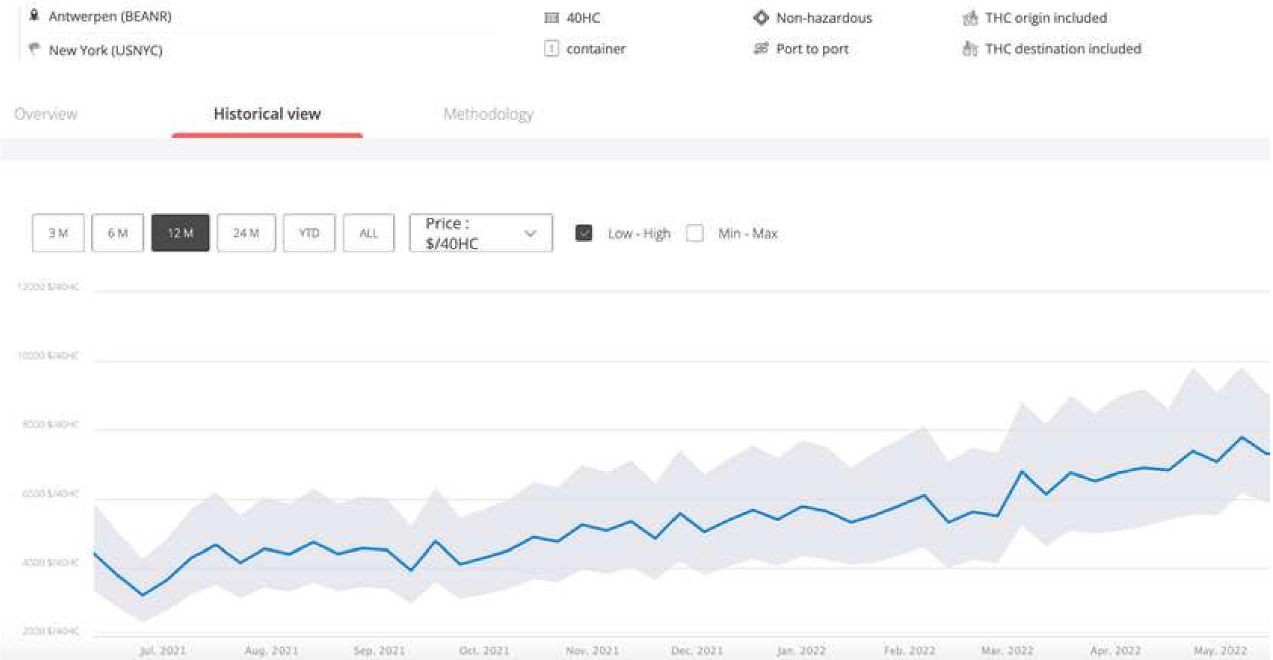
Freight rates for European exports to Asia stayed relatively stable in May. The market is going to get tighter, however, **with regard to rates and available space**. The boomerang effect of lockdowns in China and the blank sailings decided by the shipping companies is soon going to make itself felt in Europe.



Source: Upply

- ***Europe - US***

The east-west transatlantic trade **is continuing to benefit from demand for high-value goods**, which, theoretically, can absorb a certain increase in rate. This is doubtless true for wines and spirits, luxury goods and pharmaceutical products but, even for these products, there are limits! The same does not apply, however, to chemicals in general, timber and paper, where tensions are extreme and shippers in real difficulty.



Source: Upply

2. SERVICES

"Small is beautiful and big is ugly". This is not quite true where container ships are concerned but, even so, higher freight rates have enabled the shipping companies **to break out of the trend towards ever-increasing size**.

From the port operations point of view, given the current, widespread deregulation of service frequency, it makes better sense to turn round a 10,000 TEU and a 14,000 TEU vessel rather just one 24,000 TEU vessel. This point of view is shared by most port cargo-handlers, who, before the pandemic, **tended to complain about the monopolisation of their plant over long periods** by the giant container carriers.

It is interesting, moreover, to note that Japanese company ONE, which has just placed an order for new container ships, has opted for thirteen 13,700 TEU vessels. Its financial position clearly enabled it to order bigger ships. The fact that it did not do so is clear proof that its choice of vessel was **a strategic one**.

Some years ago, NYK Line brought into service Blue Jay Class vessels of a similar capacity, even though, at the time, much bigger vessels were being built. The Japanese companies are clearly taking a cautious approach to the trend towards "gigantism", **preferring to stay with a size which enables it to switch quickly** between the Asia-Europe and transpacific trades, something which they cannot do with the 24,000 teu vessels.

Overall service quality is today at record low levels. According to Sea Intelligence, reliability was down 1.3% in April on the previous month and 4.7% by comparison with April 2021, despite the current stagnation of cargo volumes.

The use of smaller ships should, normally, result in more departures and more connections, resulting in greater service frequency. The market is reasonably entitled to expect this. **The shipping companies are in control of service frequency**, however, and, for the time being, they are still in slow mode!

3. OPÉRATIONS

The word of the month in relation to ship and terminal operations is "dwell", a word which has a particular connotation in the current context, suggesting a temporary but not necessarily wanted state for cargo to be in.

In the field of containerisation, full container "dwell" time conveys the notion of time spent on the quayside by goods which are not supposed to stay there. Malcolm Mac Lean invented containerisation and multimodal transport with the idea that goods should be in perpetual movement, thus optimising logistics operations. Full containers which spend a long time in terminals are the exact opposite of what is required for port efficiency.

In practical terms, **the fighting congestion means removing import containers from terminals rapidly**. Does that mean using the carrot and stick? The Port of Los Angeles has been considering charging a "dwell fee", which is to say a charge on containers which stay too long in terminals. But, so far, real application of this measure has been regularly put off. It would add to existing demurrage and detention costs, which have already aroused a lot of discontent. On a more incitative note, CMA CGM has attracted attention with its offer of a USD300 credit for each full 40' import container returned empty within four days of reception.

What the shipping companies do not say, however, is that, if their ships began to operate again on reliable weekly schedules, customers would be able to organise their removal with much more accuracy and efficiency. Sadly, port cargo-handlers are obliged to cope with weeks of virtual inactivity, followed by short periods of heavy demand, during which they find themselves submerged by a flood of full containers. This stop-go mode of operation does not allow them to spread out and plan their work correctly, even with the latest digital tools.

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