MONTHLY CONTAINER SHIPPING BAROMETER

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upply

SHIPPING COMPANIES
STRUGGLE TO STOP FREIGHT RATE DECLINE

The shipping companies are trying to stop the downward slide in container shipping freight rates but with little success, particularly on Asia-Europe routes. At the same time, preparations are under way for the recomposition of the shipping alliances.

At the end of the summer in 2023, the "Big Five" international consulting groups, whose forecasts are followed closely by the big companies as they prepare their budgets for the following year, announced that hard times were on their way for the shipping companies. Overcapacity seemed unavoidable, while, at the same time, freight rates were down and profitability under threat. At the time, worried observers saw Asia-Europe freight rates via the Suez Canal fall to below four figures per 40' container on the spot market.

These forecasts were completely overturned by the resurgence of the Middle East conflict after the events of 7 October and the consequences which followed. Houthi attacks on shipping in the Red Sea led to the market opting for the route round the Cape of Good Hope, a change in the organisation of the market which led to an increase in freight rates and, as a result, unexpected profitability levels for the shipping companies.

The prevailing feeling in October 2024, however, is that the forecasts of the Big Five could now be realised a year later. The fundamentals they pointed to last year have re-emerged, perhaps with greater force than before.

> **"Overcapacity seemed unavoidable, while, at the same time, freight rates were down and profitability under threat"**

Main developments

- The first major factor is clearly demand. Not only has it remained generally weak, it would seem that we are also seeing changes in its structure which are benefiting other regions. It is possible that we have come to a long-term high point in terms of container volumes between Asia and Europe. This makes sense today and not only among proponents of "degrowth".

- From the capacity point of view, the route round the Cape of Good Hope has allowed additional capacity to be absorbed initially, restoring the balance between supply and demand. This argument no longer holds today, however. Even though the route round the cape has become normal, capacity is once again surplus to demand. The recomposition of the shipping alliances at the start of 2025 will stimulate competition among the shipping companies, each of them looking for top performance from the model it has adopted. MSC, the market leader, will have to fill the enormous additional capacity set to come into the market at whatever price it can get.

In the months to come, the question of whether or not it will be possible to return to the Suez Canal is creating deep concern on the market. Uncertainty about the response to this question is making it difficult for shippers and shipping companies to decide on the positions they should adopt as 2025 approaches.

- From the shippers' point of view, it is clearly difficult to operate a supply chain using different transit times. The primordial question is, therefore, to know if the hope of a return to normal transit times via the Suez Canal should be completely abandoned in terms of budgeting and service forecasting purposes or not.

- For the shipping companies, the challenge is to juggle with excess capacity, knowing that the situation will worsen if there is a major return of traffic to the canal. We see, moreover, that the shipping companies are not pressing the international bodies very energetically to restore freedom of navigation around the canal. The de facto "privatisation" of the Red Sea by the Houthis is quietly becoming a structural feature in a Near East which is constantly at boiling point.

Prices

The month of October will not go down in the annals, whether in terms of cargo volumes or revenues.

On Asia-Europe routes, shipping companies' FAK rates were dangerously close to operating costs at around USD3,000/40'. We see, however, that, since the end of October, the shipping companies have been looking to correct the situation by trying to restore FAK rates to USD4,000/40' on Asia-Europe routes in November.

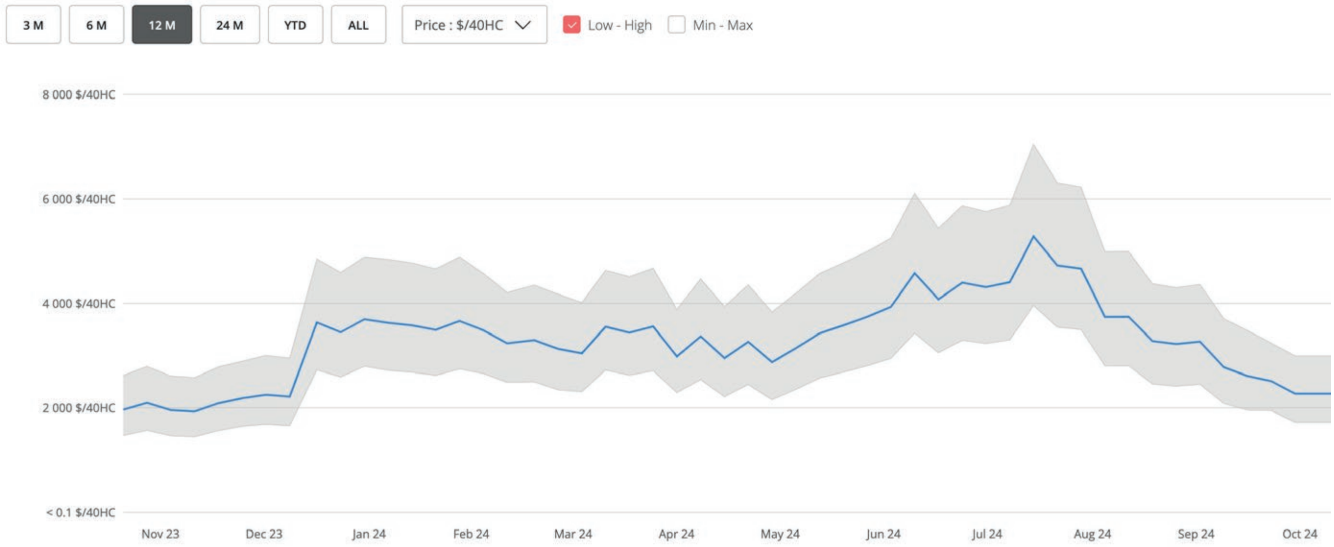
This effort to boost the November spot market is relying on the following factors:

- Widespread service cancellations, leading to a reduction of the onboard space available.
- Pressure to conclude contract negotiations rapidly, if possible around USD3,000/40' on Asia-Europe routes. As part of the annual contract negotiations, which are currently in full swing, it is essential that the shipping companies separate the contract market from the spot market if they intend to sign solid cargo volume agreements with the leading shippers at more than operating cost.
- The shipping companies want to halt the downward spiral of freight rates by additional messaging about their operating costs round the Cape of Good Hope, given that an early return to the Suez Canal looks increasingly unlikely. Even warships are starting to avoid the Red Sea for fear of being targeted.

It is not certain that this attempt to restore spot rates in November will work on Asia-Europe routes. As always during periods of market febrility, the validity of spot market rates tends to be reduced from one month to a fortnight to enable owners to reposition during the month if market conditions require.

Asia-Europe

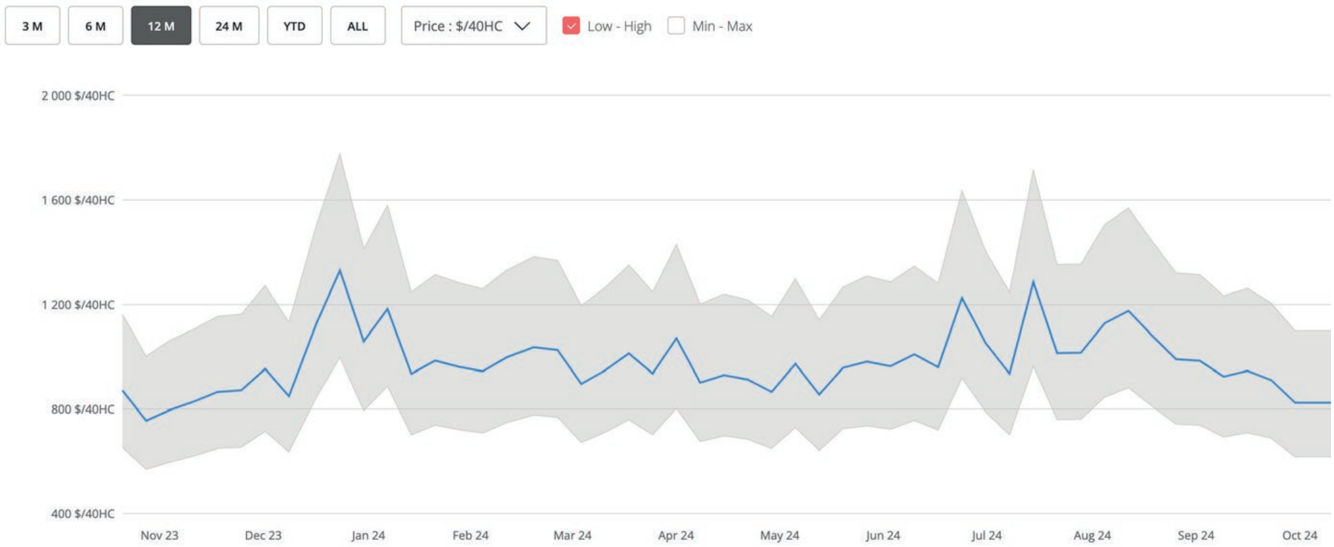
Shanghai - Le Havre



Port-to-port rates (spot and contract combined) billed for direct sailings from Shanghai to Le Havre, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. NB: diagram shows median not average rates. Source | Upply

Europe-Asia

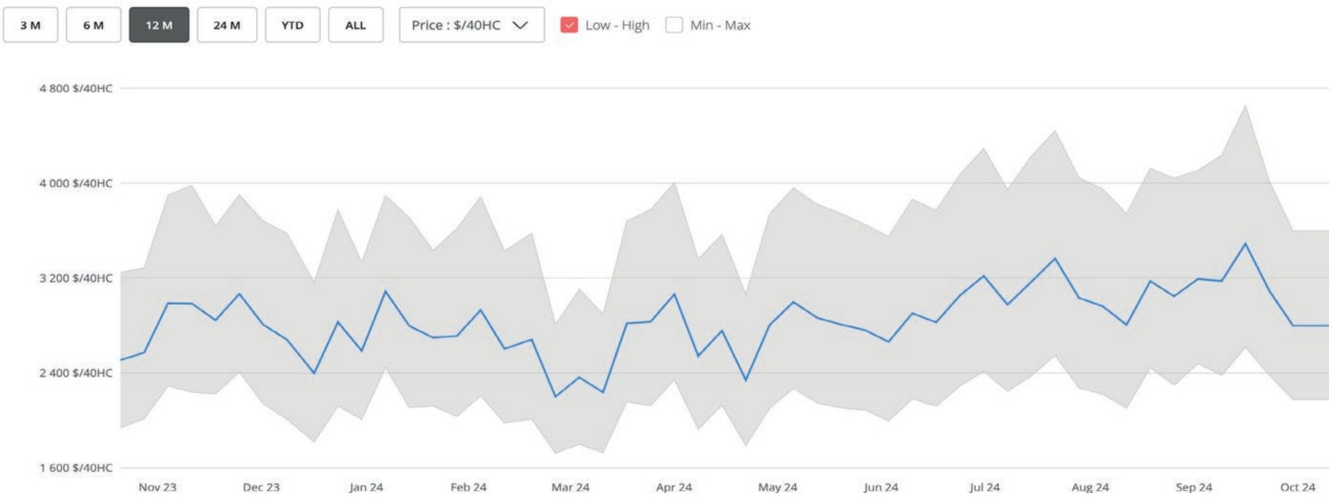
Rotterdam - Shanghai



Port-to-port rates (spot and contract combined) billed for direct sailings from Rotterdam to Shanghai, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. NB: diagram shows median not average rates. Source | Upply

Europe-USA

Antwerp - New York

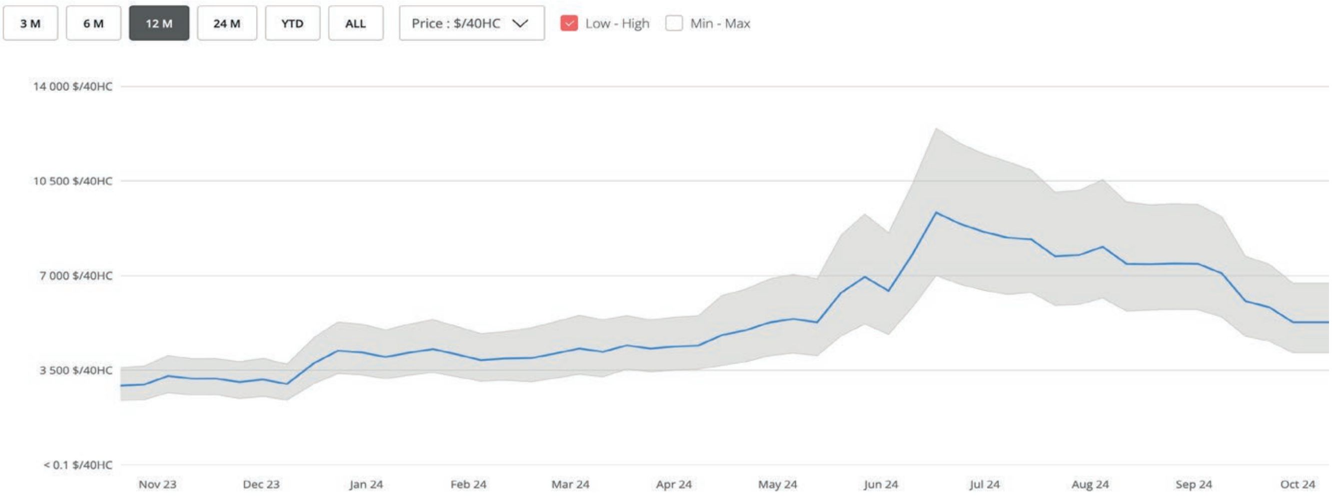


Port-to-port rates (spot and contract combined) billed for direct sailings from Antwerp to New York, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. NB: diagram shows median not average rates. Source | Upply

On transatlantic routes, the decline in rates has come to a halt because the risk of east coast US ports being blocked has faded, even if the differences between the two sides have not been entirely resolved (p.8). At this time, demand has been stimulated by the upcoming Christmas festivities and shippers, who had been biding their time, are now in a hurry to load. This cargo consists mainly of agri-food products, luxury wines and spirits and other high added-value products and the shipping companies know that these goods can bear increases in rates. The improvement in shipping companies' prospects in the transatlantic trades is likely to be short-lived, however. As they well know, demand is likely to plummet from early December on.

Transpacific

Shanghai - Long Beach



Port-to-port rates (spot and contract combined) billed for direct sailings from Shanghai to Long Beach, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. NB: diagram shows median not average rates. Source | Upply

Rates are continuing to be eroded in the transpacific trades but slowly. In the meantime, US west coast ports are setting new records for the movement of empty and full containers. Eastbound routes registered good results, which were boosted by the risk of strike action at east coast ports and the threat of increases in customs duties on goods coming into the United States.

Services

In its weekly analysis on 25 October, British shipping consultancy Drewry returned to the current state of regular lines. It estimated that there would be 64 cancellations in November (from 28 October to 30 November) out of a total 693 east-west sailings (transpacific, transatlantic and Asia-Europe). This represents a cancellation rate of 9.2%. This figure is an improvement on the 14% cancellation rate in the preceding month. Nevertheless, the fact is that a lack of regularity is the new norm. Before the pandemic, service reliability came close to 100%. The situation was clearly better then but economic and geopolitical conditions were very different.

Eastbound transpacific traffic is expected to account for 61% of cancellations of sailings from Asia to the United States, compared to 27% for Asia-Europe lines and 12% for transatlantic services, particularly westbound services from Europe to North America. These percentages tend to remain stable from one month to another.

The shipping alliances account for 42 cancellations, of which 16 for Ocean Alliance, 15 for THE Alliance and 11 for 2M. The remaining 22 cancellations concern companies not in an alliance.

The lack of service regularity is confirmed by the figures contained in Sea Intelligence's monthly report. In September, service reliability was 1.2 points down at 51.4%. It is true that this figure is within the monthly average registered since the month of May, but the trend is still downward, according to Sea Intelligence CEO Alan Murphy. As for ship delays, they increased by 0.21 to an average 5.67 days.

Mærsk and CMA CGM showed a reliability rate of more than 50% but they are the only two companies over the 50 mark in September. The others scored between 40% and 50%. Compared to September 2023, all shipping companies saw their reliability levels fall. It should be remembered that last year, Maersk had a reliability level of over 70%. MSC, meanwhile, registered the biggest reduction in reliability, with a 21 point fall over the 12-month period.

Transpacific

The Alliance is to include the Mexican port of Manzanillo in its EC2 service from Asia to the east coast of the United States from the end of November. The service will call in Busan, Qingdao, Shenzhen, Ningbo, Shanghai, Busan, Manzanillo, Lazaro Cardenas, Cartagena, Savannah, Charleston, Wilmington, Norfolk, Cartagena before returning to Busan.

ZIM has moved the Caribbean hub of its ZXB service from Freeport to Kingston. The service will now call in Cai Mep, Hai Phong, Shenzhen, Kaoshiung, Shanghai, Lazaro Cardenas, Cartagena, Kingston, Baltimore, Norfolk, New York and Boston.

2M is making changes to its TP16 service. It is dropping the port of Colon from the service's Asia-US leg, while Jacksonville port will be placed prior to Savannah port call. The service will now be calling in Xiamen, Shenzhen, Shanghai, Busan, Jacksonville, Savannah, Wilmington, Newark and Singapore.

Asia-Europe

Hapag Lloyd has added a call in Ningbo to its GTX service, according to Alphaliner. It will now take in Ningbo, Shenzhen, Singapore, Tema, Wilhelmshaven and Antwerp-Bruges before returning to Shenzhen.

MSC has extended its Chinook service - operated outside the 2M network - since the end of October. The itinerary now takes in Hai Phong, Shenzhen, Shanghai, Qingdao, Busan, Vancouver, Seattle and Portland.

Mediterranean-Red Sea

SeaLead announced that it would be starting a service between the Mediterranean, the Red Sea and the Persian Gulf from 24 October. The service starts in the Turkish port of Aliaga before going on to call in Damietta, Djibouti and Jebel Ali. The map of the service indicates that it will go through the Bab-el-Mandeb Strait despite the threat of Houthi attack.

Asia-Indian sub-continent

Following in the footsteps of Ningbo Ocean Shipping, **CU Lines** is to take space aboard the service operated by Heung A, Sinokor, TS Lines and X-Press between Asia and the Indian sub-continent. Unlike Ningbo, however, CU Lines will be taking slots on the entire service, which calls in Qingdao, Shanghai, Ningbo, Shenzhen, Port Klang, Jebel Ali and Colombo.

Premier Alliance

The partners in the new **Premier Alliance** - HMM, ONE and Yang Ming - have announced the first changes to the services they will operate from February 2025. In the Pacific, the PN3 will be split into two, the PN3 and PN4. The PN3 will call in Qingdao, Busan, Vancouver, Tacoma and Busan, while the PN4 will take in Ningbo, Shanghai, Vancouver and Tacoma. The alliance is also adding Jacksonville to the itinerary of its EC2 service, which will call in Xiamen, Shenzhen, Ningbo, Shanghai, Busan, Colon, Savannah, Charleston and Jacksonville before returning to Xiamen via Colon and Busan.

The companies have also announced that they will starting a service between the Mediterranean and Asia called the MD5, which will call in Barcelona, Singapore and Shanghai. They do not say, however, if the service will go through the Suez Canal or round the Cape of Good Hope. According to Dynamar, the small number of port calls in the service suggests that it will involve space-sharing with other companies, “probably MSC”.

Operations

Durban Container Terminal 2 concession suspended

A South African court has suspended the concession agreement at Durban Container Terminal 2, which was awarded to a joint venture between Transnet and Filipino company ICTSI in 2023. The ruling follows legal action by APM Terminals, which was the losing bidder in the tender call for the concession. The court ruled that South African terminal operator Transnet was not allowed to be part of the joint venture. APM Terminals has called for the whole tender procedure to be declared invalid and for a new tender call to be issued.

Industrial relations situation at US east coast ports

The threat of industrial action at US east coast ports from Canada to the Gulf of Mexico finally resulted in three days of strike at the start of October. This action caused serious disruption to logistics chains in the United States for several days. On 5 October, the International Longshoremen's Association, which represents port workers, and the United States Maritime Alliance, which represents the employers, signed a provisional agreement which ended the strike. The agreement provided for 61.5% salary increase over six years. A number of difficult subjects still have to be dealt with, however, notably the introduction of automation, which the dockers' union does not want to discuss. Negotiations are due to resume in November with a view to reaching a definitive agreement. In the meantime, the provisional agreement between the two parties extends the existing master agreement covering industrial relations at east coast ports until 15 January 2025. It would seem that they wanted to avoid making the strike an issue during the presidential election campaign. It is clear, however, that major differences remain and that fresh strike action from 16 January cannot be excluded.

In the meantime, out of solidarity and in the hope that they could get comparable salary increases, dockers at the port of Montreal staged three days of strike in October. This action disrupted the movement of goods in an out of the Canadian port. The union there has announced that there wil be further action on 31 October. The strike may have been suspended in the United States, but this is not the case in Canada.

Low river water levels

The problem of low water levels is regularly raised with reference to the Rhine, particularly during the summer. According to the World Meteorological Association, however, the rivers of the Americas are also concerned. The Brazilian authorities have decided to restrict navigation on the Amazon. The restrictions will remain in force in 2025, according to initial announcements. Goods will be unloaded at Vila do Conde or Itacoatiara and transferred on to barges or other craft better able to comply with the restrictions.

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

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