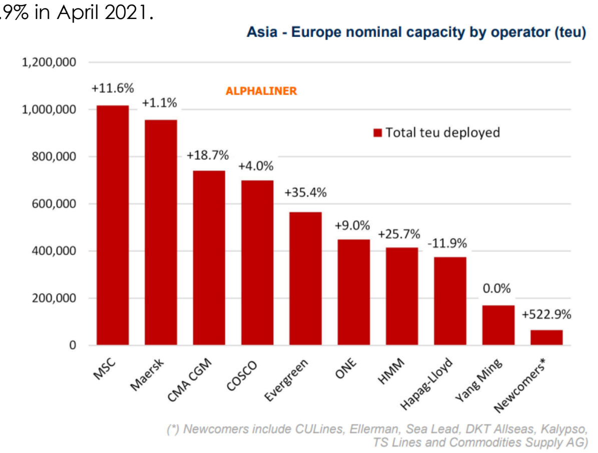
OCEAN MARKET UPDATE
MAY 2022

CURRENT STATE

- China's firm policy on the COVID-19 pandemic has created a climate of port closure and operational restrictions, as seen in both Ningbo and Shanghai, according to the latest Sea-Intelligence report.
- Available capacity on ships plying the eastbound trans-Pacific has loosened slightly in recent weeks, reflected by forwarders pulling back on premiums for guaranteed loadings and even carriers offering a handful of more slots to importers. The easing is simply a dip in trade lane volume before an expected uptick in the coming weeks.
- There has been a slight easing of demand due to the shutdown of some factories during the two weeks of Chinese New Year celebrations in early February, followed by the COVID lockdowns.
- The number of Asian order transactions of US and Canadian imports has fluctuated month to month. The number of transactions last month is up 10.6% compared with the same period in April 2021. However, within the first four months of this year, the number of China transactions were down 18%.
- Asia imports to the US this year through April 23 were up 7.6% compared with a year ago.
- Vietnam has been the biggest beneficiary of orders shifting from China, with India, Bangladesh, Indonesia, and Cambodia also benefitting to a lesser degree.
- The divergence between the two congested Chinese ports is partly due to how electronics exporters clustered outside Shanghai are unable to secure critical components, dampening production and exports through the port. Apparel exporters, which use Ningbo as a gateway for more than Shanghai, have had fewer input issues that would slow production.
- 348 container ships deployed between Asia and Europe last month, according to Alphaliner. This fleet represents a total capacity of 5.45 MTEU, which is an increase of 10.4% compared to April 2021.
- Evergreen and CMA-CGM have led the capacity growth over the past 12 months, adding 147,500 and 118,700 TEU slots to their fleets operated on dedicated Far East-Europe Services.
- The OCEAN Alliance is now the largest grouping on the trade with a market share of 36.8%, up from 34.7% in April 2021. It has overtaken 2M, which currently deploys 35.6% of all capacity, down from its market share of 36.9% in April 2021.



MARKET FORECAST

- Automation is expected to be a significant topic of discussion during ILWU (International Longshore & Warehouse Union) contract negotiations.
- PMA (Pacific Maritime Association) released a study earlier this month stating terminal automation at the ports of Los Angeles and Long Beach has contributed to an increase in dockworker jobs since 2015 by expanding terminal capacity and improving cargo velocity,
- The ILWU strongly opposes automation of cargo-handling equipment, claiming it has resulted in the loss of hundreds of cargo-handling jobs at the TraPac terminal in Los Angeles and Long Beach Container Terminal.
- The ILWU represents more than 15,500 port workers in California, Oregon, and Washington, with more than 40% of U.S. incoming container traffic moving through West Coast ports at the Ports of Los Angeles and Long Beach, according to industry estimates.
- The PMA represents shipping lines and terminal operators at 29 West Coast ports. These ports support nearly $2 trillion of economic value in the U.S. for the fiscal year 2021, which equates to roughly 9% of U.S. GDP while supporting more than 12 million U.S. jobs.
- In 2002, negotiations went past its expiration date and into October, followed by a 10-day lockdown, with things opening back up after the Taft-Hartley Act was invoked, and it took three months to recover. In 2008 there was an automation agreement, whereas that contract was settled three weeks after it expired, with little to no disruption. In 2014, the settlement took until eight months after expiration with some slowdowns to get to an agreement.
- Between 2015, the last year before the transition to automated operations, and 2021 paid ILWU hours at the two automated terminals rose 31.5%, more than twice the 13.9% growth rate at the non-automated terminals.
- There is a possibility that the negotiations go past July 1, which is when the contract is due to expire.
- Carriers report significant financial results as container spot rates continue to wane and close in on contract rates.
- According to NRF (U.S. National Retail Federation), retailers are importing record amounts of merchandise to meet consumer demand. Still, they also have an incentive to stock up before inflation can drive costs higher. Whether it is freight costs or the wholesale cost of merchandise, the money retailers save can be used to hold down prices for their customers during a time of inflation. In addition, retailers are preparing for any potential disruptions because of the west coast port labor negotiations.
- Most importers are trying to replenish their inventories. Doing so will protect them against potentially rising freight costs, further delays in the supply chain, and complications in upcoming labor negotiations at U.S. West Coast ports. June is forecast at 2.29 million TEU, up 6.6% from last year; July at 2.31 million TEU, up 5.3%; August at 2.29 million TEU, up 0.9%, and September at 2.15 million TEU, up 0.3%.
- As Shanghai prepares to lift lockdown by 20 May, liner operators have said they will resume reefer bookings into the world's busiest container port. Since mid-April, Shanghai has allowed about 2,000 key manufacturers to continue production under a whitelist. These manufacturers have to enforce a so-called "closed-loop" system involving workers sleeping on-site to avoid contact with outsiders. However, the whitelist has not alleviated the damage caused by disrupted productions. The American Chamber of Commerce said that as of 5 May, only 15% of the whitelisted U.S. companies had resumed operations in Shanghai, citing the limited cross-city trucking availability as a hindrance.
- According to Drewery, spot rates will remain stable in the near future.

Sources: Sea-Intelligence, JOC, The Loadstar, gCaptain, Alphaliner, Logisticmgmt