OCEAN MARKET UPDATE

NOVEMBER 2022

CURRENT STATE

- U.S imports have significantly fallen in September, and volumes dropped by 12% in total versus August. According to Descartes' data, U.S containerized imports in October were flat compared to September imports. U.S. ports handled 2,220,331 twenty-foot equivalent units of imports in October, only 0.2% higher than last month. Volume was down 13% year on year yet still up 7.2% versus October 2019, pre-pandemic.

- The dwell fee implementation date by the Port of Houston was initially scheduled to begin December 1st. Still, the fee implementation date will be postponed due to software enhancement delays. The Port of Houston will provide a 30-day notice before the new effective date. According to the Port of Houston, this new fee structure will help mitigate the issue of long-dwelling loaded import containers by incentivizing cargo movement, as the port is experiencing record container volumes in the latest months. This fee is in addition to the demurrage charges for loaded import containers as provided in Tariff No. 15 Subrule 095 and Tariff No. 14 Subrule 093 and would not replace those charges.
- Carriers are struggling to match their capacity with declining demand and consequently dropping their rate levels which cause the Asia-Europe Ocean trade to weaken. Carriers have blanked 30 percent more capacity from September through November than during the same months last year, canceling 1.18 million TEU. Average spot rates from Asia to North Europe are now more than three times lower than during the same week the previous year and half the average long-term rate per TEU.
- Rail Union pushes back the date for the potential Brotherhood of Maintenance of Way – Employees Division (BMWED) strike too early December enabling the railroads to come up with their best offer without any threats of a looming employees' walkout. BMWED and three other unions (BLET, SMART, and BRS) have yet to vote or revote on whether to ratify their tentative labor contracts. The current situation is in a cooling-off period where neither the unions nor the railroads can engage in any work stoppages or self-help measures, per federal law.
- After Tropical Storm Nicole, all Gulf Ports have reopened. However, port congestion is expected due to delays caused by the storm.

MARKET FORECAST

- Additional blank sailings have been announced for the week 42-52 period. The number of Transpacific void sailings has increased drastically compared to Asia-Europe. However, for weeks 51 and 52, carriers have scheduled no blank sailings on Asia-North America West Coast. This reflects carriers' indecision on approaching the potential pre-Chinese New Year rush since the seasonal demand spike is still being determined.

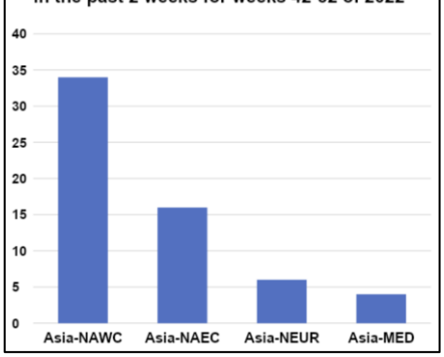

Fig. 1: Additional blank sailings announced in the past 2 weeks for weeks 42-52 of 2022

- TPEB ex Southeast Asia spot rates rebounded, for China main ports to US main ports, despite continuing weak demand, suggesting recent capacity cuts have begun to reverse months of pricing decline but yet seeing it in Southeast Asia outbound market. The idled containership fleet has breached the 1 million TEU capacity milestone and is set to jump significantly higher as carriers temporarily prepare to suspend services rather than blank sailings. According to carriers and shippers, November-December volumes are projected to drop 5-10% to the lowest level since February 2021.

The urge to decarbonize and reduce emissions of greenhouse gases (GHG) is growing in all sectors. The International Maritime Organization's target is to reduce GHG emissions by 50% by 2050, which will complement regional and national regulations. The forthcoming emissions regulations implicate billions of dollars that will be added to freight costs. Moreover, technological changes in ships' design, including their propulsion system, are expected along with the transition to engines powered by low-carbon fuels. An industry-wide costing of both the European carbon taxes and for transitioning all European container shipments to a greener fuel type was released. The cost for 2024 is expected to range between $3.5 and USD 14.5 billion. This will depend on how much the industry switches to Liquified Natural Gas (LNG) and other greener ships instead of conventional fuel oil.

	US$/TEU	US$ billion for entire industry (Europe region)
2022 cost base line *(VLSFO fuel cost, no carbon taxes)*	**$187**	**$10.8**
2024 VLSFO fuel cost (without carbon taxes)	$147	$8.8
2024 VLSFO fuel carbon taxes	$90	$5.4
2024 Total Cost (VLSFO)	$237	$14.3
2024 Cost Impact (VLSFO)	**+ $50**	**+ $3.5**
2024 LNG fuel cost (without carbon taxes)	$354	$21.3
2024 LNG fuel carbon taxes	$66	$4.0
2024 Total Cost (LNG)	$421	$25.3
2024 Cost Impact (LNG)	**+ $234**	**+ $14.5**

Sources: Alphaliner, Container-News, Drewy, Freightwaves, JOC, Sea-Intelligence