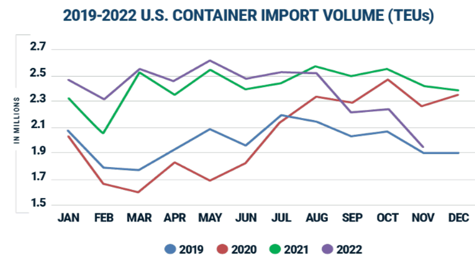
OCEAN MARKET UPDATE

DECEMBER 2022

CURRENT STATE

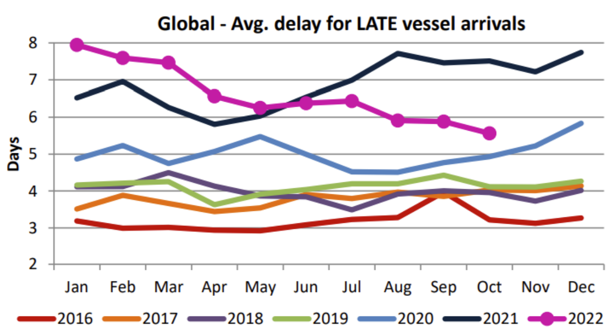
- Ocean carriers struggle to match capacity with plummeting demand and their capacity remains far above average sport market levels on both major east-west trade lanes out of Asia. Carriers are even withdrawing significant amounts of capacity through blank sailings and still they have not been able to match the demand drop. Carriers have announced blank sailings on Asia-North Europe and both the Asia-US West Coast and East Coast trade lanes in January 2023, traditionally a peak shipping period ahead of factory closures for Chinese New Year. But the amount of capacity to be withdrawn compared with the total capacity is down from previous months.
- Container volumes fell nearly 5% Y/Y in the first nine months of 2022. Among the individual carriers, most lines saw a significant fall in volumes. Other carriers moved a total of 71.08 MTEU in the first 9 months of the year, a drop of 4.6% compared to the same period in 2021. Comparison with past years shows carriers' volumes are now 3.7% below the equivalent period in 2019, although still above 2020 levels, which were severely penalized by the outbreak of COVID.
- Cargo volume decline, especially in Asia-Europe trade lane, has become more noticeable in recent weeks. Container ships that arrive in Europe straight from the Far East ships show that load factors on some head-haul voyages have dropped to less than 70%. Consequently, many carriers were prompted to implement void sailings and quite several big container ships have skipped their planned departures from Asia to Europe.
- U.S. container imports fell 19.4% in November compared to the same month last year. U.S. container imports from China continued to drop in November, falling 11.1% year over year, and down 31.5% from 2022's high in August.
- Even with port delays decreasing nationally, major East and Gulf Coast ports still have extended wait times versus major West Coast ports. Descartes states that key economic indicators during this period combined with COVID, the Russia/Ukraine conflict and the West Coast labor situation, continue to disrupt and challenge the global supply chain performance globally.



- Ports of Los Angeles and Long Beach will not implement a dwell fee. On December 16th, 2022, San Pedro Bay ports announced they will now phase out the option to collect the fee starting on January 24, 2023, when the temporary program was set to expire. Additionally, the Long Beach and Los Angeles Boards of Harbor Commissioners have no plans on extending. Moreover, cargo volumes have softened in recent months as peak shipping season came early and importers, fearing disruption from West Coast labor talks, shifted cargo to East and Gulf ports.

MARKET FORECAST

- Schedule reliability continues to trend upwards. In October there was a 17.8% Y/Y increase, and it is the largest increase in 2022 so far. Moreover, the average delay for late vessel arrivals has been dropping consistently since the turn of the year. In October 2022, average delay dropped by another -0.31 days M/M and reached 5.56 days. The October 2022 figure is now closer to 2020 than to the extraordinarily high delay of October 2021.



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- The global container fleet is predicted to reach 26.07 MTEU by the end of 2022, which means a 4.4% growth since 2021. Container fleet is expected to grow 7.8% in 2023, and to 8.4% in 2024, pushing the world fleet to above 30 MTEU. However, if carriers begin scrapping older tonnage en masse this growth won't be feasible. Before that, carriers are holding out some hope for a rebound in the US economy, which is considered more robust than in Europe. Large inventories in the US have contributed to the recent downturn in demand, and there are hopes underlying American demand may pick up in spring 2023 when current inventories are cleared.
- Most of containerized cargo is being moved on long-term contacts instead of being moved through spot rates. Record rates on existing long-term contracts are being renegotiated to mid-contract. Many shippers are not meeting the previously agreed contract volumes. Consequently, next round of annual contract negotiations is looming, and promising a big step down in rates and volumes for 2023. Ocean carriers could face a significant drop in Asia-U.S. contract rates in 2023 if spot rates continue to decline during the first half of next year. Spot rates falling would put ocean carriers in a complicated position when negotiating next year's agreements.
- Chinese New Year will have a significant impact on international shipping, many factories and businesses will shut down up to 10 days or longer and consequently the global supply chain is disrupted during this period. There will be temporary restrictions in place for hazardous cargo for South China lanes connecting to the main lanes in Hong Kong from late December 2022 to mid-February 2023.

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