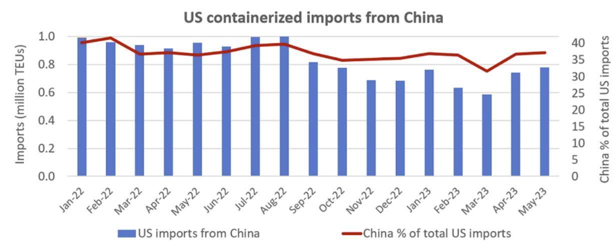
CRANE WORLDWIDE LOGISTICS

OCEAN MARKET UPDATE

JULY 2023

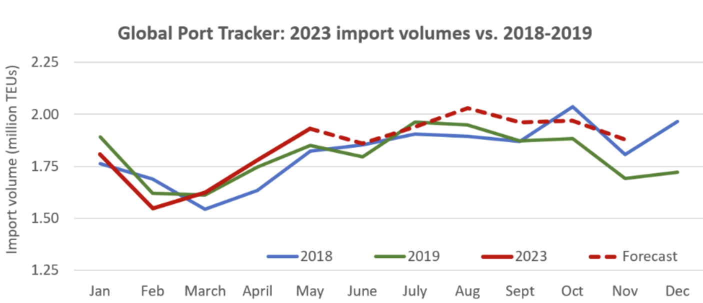
CURRENT STATE

- Following a 13-day strike, the ILWU Canada and waterfront employers have reached a tentative four-year contract, leading to the end of the strike. Delays are expected since the strike resulted in several ships diverting to Seattle and Tacoma, and it caused a backlog of vessels at the ports of Vancouver and Prince Rupert. It may take until September for the ports to fully recover. The BCMEA expressed regret for the significant impact of the strike on workers, customers, and the Canadian economy, with an estimated disruption of approximately C$800 million of cargo daily. As of Friday, July 14th, CPKC removed some restrictions for the Port of Vancouver. CPKC is updating the system to allow for in-gate and is currently reviewing its plans for re-opening inland terminals and acceptances, as well as the vessel schedule updates.
- The peak season for container volumes from Asia to the US has arrived and may decline. The Ocean TEU Volume Index shows a new year-to-date high for US-bound container volumes, suggesting the peak has likely been reached. The Booking Index also reveals a decrease in booking new volumes, further supporting the notion of a downward trend in container demand. The Ocean TEU Rejection Index, which measures the rejection of container volumes heading to US ports, is expected to peak alongside container volumes, potentially leading to lower spot rates. These observations indicate a weakening container market and the possibility of rates reaching a new bottom in 2023. As a result, ocean carriers may resort to strategies like blanked sailings or capacity control to mitigate the imbalance. This situation could intensify competition among carriers, potentially leading to price wars and disruptions within the current alliance structures in the container market.
- China experienced a rebound in goods exports in March due to catch-up with back orders accumulated during the zero-COVID policy. However, this temporary boost has faded as we enter June and the second half of the year. Global demand is slowing, as seen in other Asian countries like Korea, where exports have declined significantly. While China has diversified its exports to nontraditional markets such as Belt and Road partner countries and Russia, it will only partially offset the anticipated pronounced slowdown in exports during the year's second half. Data from Descartes indicates that U.S. containerized imports from China have followed a similar trend, declining from the COVID-era peaks. U.S. imports from China were down 26% from January to May compared to the same period last year.



MARKET FORECAST

- In May, U.S. ports experienced an 8.5% increase in container imports compared to April, but a 19.3% decrease compared to the previous year, with a total of 1.93M TEUs handled. The Global Port Tracker report forecasts June imports to be around 1.86M TEUs, representing a 17.5% year-on-year decline and a 3.6% decrease from May. For the first half of 2023, import volume is expected to reach 10.6M TEUs, down 22% from the same period in 2022. July is projected to reach 1.94M TEUs, an 11% decline compared to the previous year. The NRF anticipates that U.S. import cargo volume will peak in August at 2.03M TEUs, the highest monthly volume since October 2022, but still a 10.1% decrease year-on-year. September is forecasted at 1.96M TEUs, representing a 3.4% decline; October at 1.97M TEUs, a 1.8% decrease; and November at 1.88M TEUs, a 5.9% increase, marking the first year-on-year increase since June 2022. While the NRF has yet to issue its full-year forecast, it expects imports in Q3 to total 5.9M TEUs, representing an 8.3% decrease compared to the previous year. For the first nine months of the year, imports are projected to reach 16.5M TEUs, reflecting a 17.6% decline year-on-year.



- The maritime industry will face a cost of compliance with Europe's Emissions Trading System (ETS), amounting to $3.2B in 2024, which will rise to $9.1B in 2026. While the IMO discussions are ongoing, the maritime industry engaged in trade with Europe must prepare for the substantial cost burden imposed by the ETS starting next year. The analysis found that the total emissions applicable to the ETS in the maritime industry amounted to 83.4M metric tons of CO2 equivalent in 2022, remaining relatively unchanged compared to 2021. With the current market value of €90 per EU emission allowance (EUA), shipping emissions totaled €7.5B for the year. The ETS phase-in period encompasses 40% of emissions in 2024, 70% in 2025, and 100% in 2026, along with the forward curve in EUAs. The estimates suggest that the shipping industry could be held liable for €3.1 billion in 2024, €5.7B in 2025, and €8.4B in 2026.
- The global fleet of telematics-enabled container equipment is expected to grow six-fold in the next five years, reaching 30% of global container inventories by 2027. This growth will be driven by the increasing adoption of smart containers in the dry container fleet. The pandemic and subsequent supply chain disruptions have highlighted the need for better cargo visibility and led to the accelerated adoption of smart containers. A "smart" container has a telematics device that provides real-time tracking and monitoring. This technology enables operators to optimize container turnaround time and improve equipment availability. The disruptions and congestion experienced during the pandemic underscored the importance of visibility and container fleet management. The penetration of innovative technology is already significant in reefer and intermodal containers, with over half of both fleets being smart-enabled. The penetration rate is lower in the dry container sector but is expected to increase in the coming years.

Sources: Alphaliner, Container-News, Decartes, Freightwaves, Global Port Tracker, Journal of Commerce (JOC), Sea-Intelligence