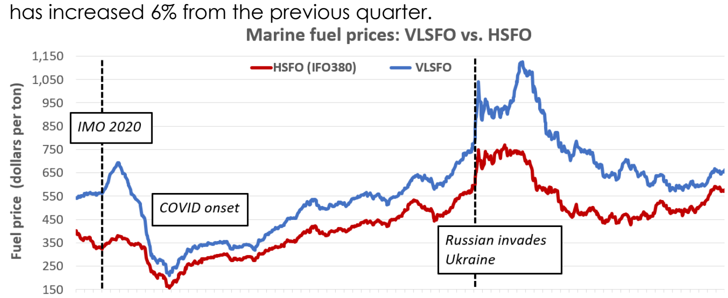
# OCEAN MARKET UPDATE

**SEPTEMBER 2023**

## CURRENT STATE

- Ship fuel prices have been higher than recent levels on four previous occasions: during the lead-up to and following the Ukraine invasion, for a brief period in January 2020 after the IMO 2020 regulation was implemented, from 2011 to 2013 when crude oil exceeded $100 per barrel, and briefly in 2008 when oil surpassed $150 per barrel. Prior to 2020, price spikes were associated with dirtier high sulfur fuel oil (HSFO) with a sulfur content of 3.5%. The resurgence in VLSFO prices is resulting in an increase in Bunker Adjustment Factors (BAFs). Multiple ocean carriers publicly disclose their BAFs through Distribution Publications Inc (DPI), which released BAFs for the fourth quarter. BAFs had been consistently decreasing from the fourth quarter of 2022 through the third quarter of 2023 as VLSFO prices retreated from wartime highs. However, they are now on an upward trend. For the fourth quarter of 2023, the average BAFs announced by major carriers such as CMA CGM, Cosco, Evergreen, OOCL, and Zim in the Asia-West Coast and Asia-East Coast trade per FEU has increased 6% from the previous quarter.




- On August 31st the International Longshore and Warehouse Union (ILWU) members have voted in favor of ratifying the new six-year coastwide contract with the Pacific Maritime Association (PMA). The union reported that 75% of the ILWU members who voted have agreed to accept the agreement. This contract was negotiated after 13 months of challenging discussions and was finalized in June. The newly ratified contract is set to expire on July 1, 2028, and the voting results have been officially certified by the ILWU's coast balloting committee. The ratification of this agreement should encourage the return of discretionary cargo to West Coast ports. As part of the new contract, there will be a 32% salary increase over six years. Additionally, a one-time $70 million bonus will be distributed across the ILWU's 20,000-strong membership in recognition of their efforts during the COVID-19 pandemic.

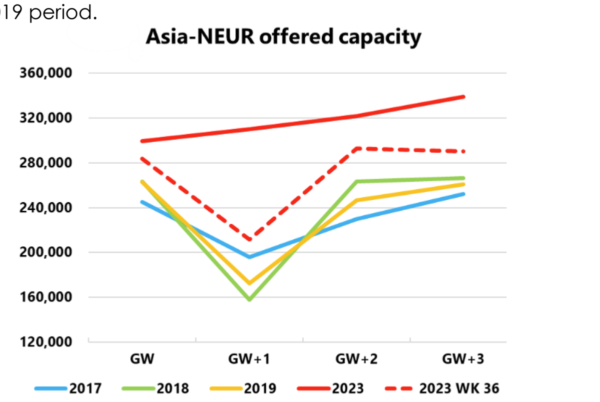
- Container spot rates from Asia to both North Europe and the Mediterranean have experienced significant declines, leading carriers to implement last-minute cancellations of sailings, in addition to their existing aggressive blanking programs. Furthermore, there have been reports of newly constructed ultra-large vessels, with a capacity of 24,000 twenty-foot equivalent units (TEUs), going directly from the shipyard to anchorage. This is occurring as European consumer demand dwindles in anticipation of China's Golden Week holiday, which falls in the first week of October. Drewry's World Container Index (WCI) for the Asia-North Europe route witnessed a 10% drop this week. Although spot rates on this trade have returned to pre-pandemic levels, costs have not followed suit. Additionally, the previously resilient Asia-Mediterranean trade is now facing a decline in short-term rates, with the WCI reading down by 7%. This represents a 76% decrease compared to the rates from 12 months ago.

## MARKET FORECAST

- Global demand in the shipping industry has dropped significantly this year, with capacity growing faster than demand. Drewry Shipping Consultant John Fossey highlighted that capacity is expected to increase by 5% this year, while demand growth is projected to be a mere 0.3%, continuing to exert pressure on rates in the coming years. Drewry's forecasts show demand recovery to 2.6% and 2.9% in 2024 and 2025, respectively. However, between 2021 and 2025, only 2021 is expected to have seen demand outstrip capacity growth, with a 7% demand increase compared to a 4.7% capacity growth. Fossey also noted that the "effective capacity" would be hard to predict due to new IMO regulations, such as the carbon intensity indicator (CII). Between 2020 and 2022, congestion in ports and landside infrastructure led to ships slowing down, effectively reducing capacity by 7%. It's estimated that around 30% of the existing fleet will eventually need to slow steam as CII regulations become more stringent towards 2030. Despite these challenges, Drewry's calculations suggest global container demand will reach 935 million TEUs by 2025, a figure that would have exceeded 1 billion TEUs if calculated a few years ago.

- The container shipping industry's expectations for a substantial boost in US imports have shifted from the current slight and short-lived peak season to late December and early January. However, forwarders, shippers, and carrier executives remain uncertain about whether a rebound will materialize during that period. Historically, retailers stock up for the spring season and replenish inventories following winter holiday depletion, all before the Chinese New Year. There was a modest volume increase during this peak season, but it falls short of what is traditionally considered a peak season. About 15% of capacity was canceled in the second half of August, contributing to space constraints in LA/Long Beach. US imports from Asia in July reached their peak for the year, although they were down 10% from July 2022. Global Port Tracker anticipates modest year-over-year increases in November (8%) and December (10.7%). The anticipation of a significant rebound in import volumes keeps getting delayed, and experts suggest that the trans-Pacific may not return to traditional seasonality until the lead-up to Chinese New Year.

- As the upcoming Golden Week holiday approaches in Asia, resulting in factory closures and decreased container demand to and from Asia, shipping lines are taking measures to align supply with the reduced demand by canceling sailings. However, when assessing the blanked capacity for the 2023 Golden Week two weeks ago, carriers had not initially planned to match the necessary blanked percentages seen in pre-pandemic years. Now, there are an additional 29 canceled sailings scheduled on the Transpacific route and 18 more on the Asia-Europe route. the planned capacity reductions on the Asia-North America West Coast route have increased from 3.7% to 14.1%, from 2.2% to 16.1% on the Asia-North America East Coast route, from 6.8% to 19.9% on the Asia-North Europe route, and from 7.7% to 21% on the Asia-Mediterranean route. There were effectively no Golden Week capacity reductions, as the scheduled capacity exceeded what was observed in the pre-pandemic period. As a result, the percentage of blanked capacity on the Asia-North Europe route, across the four-week period, now stands at 19.9%, which is higher than the levels seen during the 2017-2019 period.




*Sources: Alphaliner, Decartes, Freightwaves, Journal of Commerce (JOC), Sea-Intelligence, The Loadstar*