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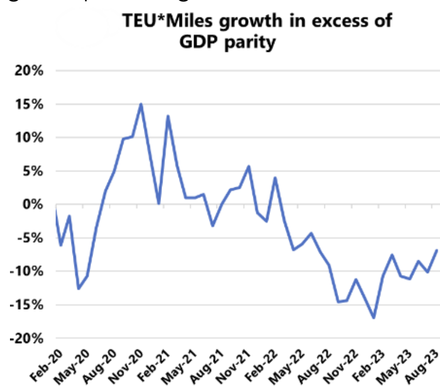
OCEAN MARKET UPDATE

OCTOBER 2023

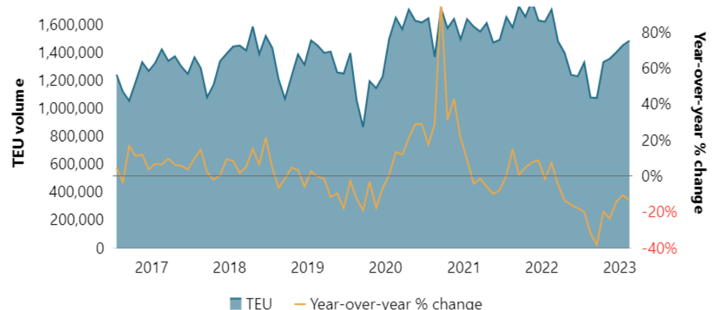
CURRENT STATE

- Growing numbers of ships are accumulating at Israeli ports while most terminals remain operational despite preparations for a potential ground assault in the Gaza Strip controlled by Hamas. This situation arises as Israel has vowed to retaliate against Hamas for a violent incursion that resulted in the worst attack on Israeli civilians, including shooting civilians and taking hostages. Amid ongoing rocket attacks in the south of Israel, the nearby Ashkelon port has been closed. Ashdod port, on the other hand, has imposed restrictions on transporting hazardous materials, causing slower transits. Haifa port, a crucial terminal for multiple cargo segments, including dry bulk goods, has reinforced its activity to the maximum possible extent, including receiving cargo diverted from Ashdod. Marine war insurance rates have spiked by more than tenfold since the recent attacks, with some underwriters reviewing coverage provisions for Ashdod while Haifa remains unaffected. While Ashdod and Haifa ports account for just 0.4% of global container throughput, the expansion of hostilities beyond Israel's borders could pose risks to crucial shipping chokepoints, including the Suez Canal and the Strait of Hormuz.
- Before the pandemic, there was a general understanding that global container demand typically increased in alignment with global GDP. In the past, there used to be a multiplier applied to this relationship, but that had disappeared in the period before the pandemic. Now that data on global GDP growth from 2020 to 2023 is available, it is possible to calculate how much global TEUs should have increased compared to 2019 if they had followed the GDP trend. By comparing this theoretical TEU growth with the actual TEU growth from 2019, it becomes feasible to calculate the excess growth in global TEUs beyond what the global GDP would suggest. What the analysis reveals is that the container markets are currently performing at a -5.9% level. As of August 2023, there is a deficit of -6.8% in global demand compared to what would have been expected if it followed the growth pattern dictated by global GDP. This situation is challenging for carriers, especially considering their ongoing receipt of a significant orderbook.



MARKET FORECAST

- Rates for shipments on the primary routes to Europe and the United States continue to decline, despite Chinese workers gradually returning to factories after the Golden Week holidays. The Shanghai Container Freight Index (SCFI) suspended its rate publications during last week's production shutdown in China but is set to resume this week. initial projections for November show capacity increases on the Transpacific and Asia-Europe routes, ranging from 7% to 17% month-on-month. This essentially reverses the capacity reductions in October. Despite about 0.9% of the fleet being idled, consisting of 65 ships totaling 243,097 TEU, the influx of new ships, including 23 vessels with a total capacity of 151,916 TEU delivered in the last 30 days, has effectively offset the non-operating fleet. The scrapping of 10 vessels with a total capacity of 16,200 TEU has not been enough to make a significant impact on the market. A decline in demand has led to an increase in available spot vessels for charter, as reported by shipbroker Braemar. The shipbroker believes there will be a need for substantial increases in demolitions to sustain freight markets from now until 2025.
- US imports reached their peak in August, and forecasts indicate a gradual decline into the new year. This is attributed to retailers having ample stock of holiday merchandise and steady but not rapidly growing consumer spending. Strong cargo volumes for the remainder of the year is expected, although not as robust as initially expected. Concerns related to inflation and high interest rates have led to a slowdown in discretionary spending, resulting in a projected decrease in retail merchandise imports. Retail sales for 2023 might fall at the lower end of the NRF's forecasted growth range of 4 to 6% year-over-year. containerized imports from Asia have declined by 21.2% year-on-year during the first eight months of 2023. Carriers are reacting by reducing effective capacity in the trans-Pacific trade, making operational decisions such as slowing down ships to cut capacity. Despite these measures, ships are not running at full capacity, and freight rates are decreasing. GPT's latest forecast anticipates a 3.1% year-on-year decline in imports for October, in contrast to a 0.1% gain predicted in the previous month's report. November imports are expected to rise by 7.5% compared to November 2022, down from last month's forecast of a 10.4% increase. Imports for December are projected to increase by 8.9%, compared to the earlier estimate of a 12% rise. In January, imports are expected to increase by 4.2% year-on-year, down from last month's GPT estimate of 5.4%.



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