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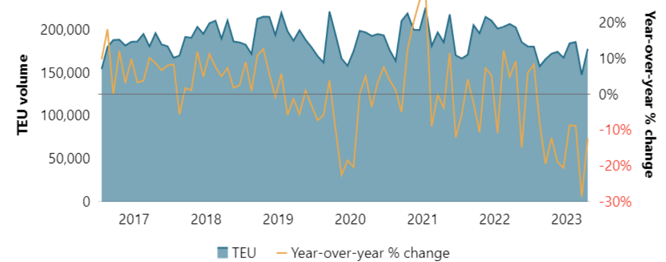
OCEAN MARKET UPDATE

NOVEMBER 2023

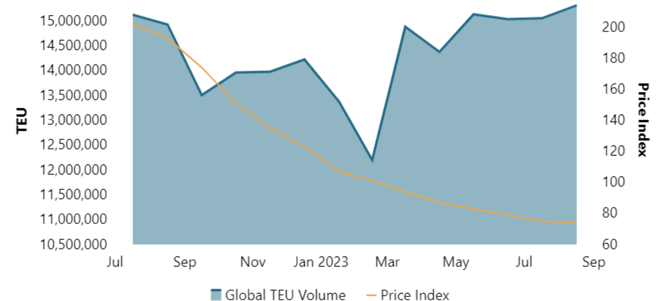
CURRENT STATE

- The number of ships waiting to transit the Panama Canal has surged by 13% due to severe transit reductions in the drought-affected canal, which contributes to 3% of global maritime trade. The Panama Canal Authority (ACP) has been implementing both daily transit cuts and draft restrictions amid the driest year on record. The canal, requiring an average of 52 million gallons of freshwater per vessel transit, announced significant cuts last week, aiming to reduce daily voyages to 18 by February from the normal maximum of 40. In August, the canal witnessed over 160 ships waiting. Some shippers and shipowners are opting for alternative routes, considering the likelihood of containerships occupying most available slots in the coming months. Dry bulk operator Sagitta Marine, based in Panama, warned that the ACP's slot booking process favoring large shipowners could lead to inflationary pressures, with smaller ships, crucial for local economies, being sidelined. Experts highlighted there will be potential inflationary effects on food and commodity prices in neighboring countries.
- Robust freight demand in Q3 was reported, particularly on its China to US West Coast route. Despite a somewhat subdued peak season, preliminary results show only a marginal 1.3% decline in volumes from China to Los Angeles compared to the previous year's Q3. The Port of Los Angeles experienced a 14% increase in loaded import containers in September, hinting at inventory replenishment due to consumer demand. The Port of Long Beach saw a 19.3% rise in imports, this demand recovery is attributed to the resilience of US consumers who continue to spend despite inflation. While imports from China have slightly decreased (53% compared to 57% in 2022), exports surged by 55% in September, empty container exports decreased by 18.5% to 235,197 TEU. However, the nine-month period indicated an 18.6% decrease compared to the exceptional first three quarters of 2022.
- The decline in trans-Atlantic westbound spot rates has led some shippers to postpone signing long-term contracts, raising speculation that the spot market may be reaching its bottom. Industry experts suggest that waiting for further significant rate drops might not be realistic, and there is a noticeable trend of contracts being signed for the upcoming year. Data from Platts and Xeneta indicates record lows in average spot rates, with a significant drop compared to pre-pandemic 2019 levels. Despite the uncertainty in the spot market, stakeholders, believe that the sharp downward trend in rates has slowed, signaling proximity to stability. However, the dynamics of ocean contracting for the trans-Atlantic trade remain fluid, with constant communication between shippers and carriers to make adjustments based on market trends. While there's uncertainty about whether the trans-Atlantic spot market has hit its lowest point, it's acknowledged that the trade lane is operating at an unsustainable level, as highlighted by industry experts.



MARKET FORECAST

- The Transpacific rates faced increased pressure as liner operators introduced more capacity. According to the Shanghai Containerized Freight Index (SCFI), rates from Shanghai to the US West Coast experienced a 12% decline while rates to the US East Coast dipped by 3%. This is in response to more stringent Panama Canal transit restrictions starting in January 2024 and potential disruptions from upcoming International Longshoremen Association contract negotiations, replacing the current contract expiring in September 2024. Although Panama Canal transit restrictions have caused minor delays for southbound and northbound traffic, containerships still receive priority passage, with delays typically limited to less than two days. However, the situation may worsen in the coming months as transit limits extend further in January and February 2024. Meanwhile, rates from Shanghai to North Europe were 5% lower. Carriers, after pulling back from their November FAK rate hikes, are now aiming to increase rates in December. Despite carriers capitalizing on the 30% drop-in charter rates since June 2023 to enhance their fleets, idle fleet continues to shrink.
- In a statement, President Harold Daggett of the International Longshoremen's Association (ILA) advised the union's members on the US East and Gulf coasts to prepare for a potential strike in October 2024. This raises the possibility of the first significant labor disruption in these regions since 1977. He mentioned that an update on wage negotiations with ocean carriers and waterfront employers would be presented at an ILA meeting in Nashville. The union leader emphasized the challenging nature of the upcoming wage scale negotiations and noted that the union would adhere to its pledge not to extend the contract beyond its expiration date in September 2024. The negotiations with the ILA and the United States Maritime Alliance (USMX) will be influenced by the wage increase levels in the West Coast dockworkers' agreement. This agreement, influenced by carriers' record profits in 2021 and 2022, includes a 32% salary increase over six years, retroactively paid from July 1, 2022, and a one-time $70 million bonus for ILWU's 20,000-strong membership for their work during the COVID-19 pandemic.
- The prospect of a market recovery appears bleak based on projected supply and demand figures. A 3% decline in container volumes this year with a simultaneous 7% to 8% capacity increase is expected. In 2024, volume is expected to rise by 4%, matched with a capacity growth of 6% to 9%, contingent on scrapping or order slippage. Drewry estimates a 60% drop in combined spot and contract rates for this year and an additional 33% decrease in 2024, resulting in an anticipated $15 billion EBIT loss for the container shipping industry next year. Given the oversupply of capacity and tepid demand on major trade lanes in the coming quarters, Hapag-Lloyd emphasizes the need to further reduce unit costs. While capacity management efforts will persist, the high operational costs in the container shipping sector will eventually drive rate increases, considering a 25% to 30% average rise in costs since 2019, attributed to factors like fuel prices and inflation. The impact on rates may not be immediate but is deemed inevitable over the longer term.



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