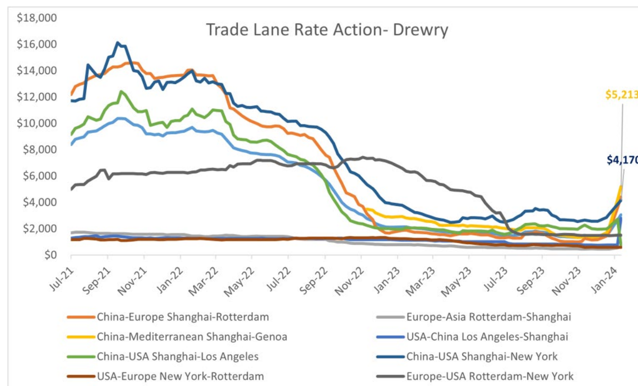
CRANE
WORLDWIDE LOGISTICS

OCEAN MARKET UPDATE

JANUARY 2024

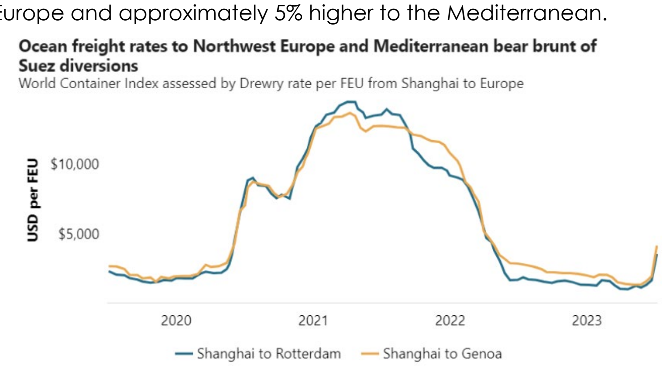
CURRENT STATE

- U.S. West Coast ports are preparing for a surge in imports, driven by a convergence of supply chain and geopolitical challenges. Factors contributing to this scenario include the resumption of inventory build-up, the return of flows redirected during last year's labor contract negotiations, disruptions in the Panama and Suez canals, and concerns about potential disruptions during labor talks on the U.S. East Coast. Recent months have witnessed significant increases in throughput at West Coast ports, surpassing the performance of East and Gulf Coast ports, and this trend is expected to persist. Shipping rates from Asia to the U.S. West Coast have outpaced those to the East Coast, indicating confidence among ocean carriers. While concerns about congestion exist, there is a belief that ports are equipped to manage the increased volume. Recent infrastructure projects have enhanced port capabilities, and terminals have implemented measures like restricting empty container intake to ensure adequate space for imports.
- Approximately 90% of the containerized fleet that traditionally transits through the Suez Canal has opted for rerouting via the Cape of Good Hope. This rerouting has led to a substantial impact, with rates quadrupling in the Asia-Europe and Asia-Mediterranean trade routes. The Drewry World Composite Index has surged by 85% in two weeks, indicating a recovery from the decline observed in 2023. Anticipating ongoing disruptions in the supply chain, market experts expect rates to continue rising. The Chinese New Year in February is seen as a pivotal moment to assess and recalibrate rate actions. Additionally, factors like the introduction of EU-ETS and associated surcharges on shipping are expected to play a role. The rerouting has impacted port handling, leading to significant waiting times at key South African ports. Moreover, major carriers have suspended transit via the Red Sea. While head-haul rates dominate the market, back-haul rates have also appreciated, with Europe-Asia rates rising by 40% over a quarter, and Asia-US West Coast rates, considered the least impacted head-haul trade route, increasing by 33% in two weeks. If the situation persists, there's speculation about the potential utilization of the American Rail system to reduce end-to-end supply chain cycle time. The evolving rate action is expected to influence the contract market's readjustment in the next quarter. Amid forecasts of double-digit percentage gains in rates in the coming weeks, global macroeconomics and concerns about inflationary shocks are becoming central points of discussion.



MARKET FORECAST

- The re-routing of container ships due to issues like the Suez Canal diversions and Panama Canal restrictions is causing a temporary capacity shortage and delays in shipments. This is especially prominent as demand surges in anticipation of China's Lunar New Year holiday. According to analysts, schedules are expected to stabilize in the weeks following the holiday as demand decreases. The attacks on shipping in the Red Sea have resulted in container ships being redirected around Africa's Cape of Good Hope. The extended travel times to Europe and the US from Asia due to Cape routings pose risks of off-schedule ships and potential container imbalances. Congestion in ports, equipment shortages, and canceled sailings due to delays caused by the Red Sea situation are expected in the following weeks. Moreover, the Cape routings are expected to add extra days to voyages, affecting the Mediterranean, North Europe, and the US. Sea-Intelligence Maritime Analysis notes that the impact on weekly container capacity will potentially drops by 30%, 12%, and 50% on the trade lanes to North Europe, Asia-Mediterranean, and the US East Coast, respectively. However, the capacity is projected to recover as Lunar New Year approaches, with at least a 10% higher weekly capacity to North Europe and approximately 5% higher to the Mediterranean.



- The National Retail Federation (NRF) is expressing concern over a potential strike impacting US east coast terminals in October, urging the International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) to resume contract negotiations promptly. The current labor contract between USMX and the ILA, covering 36 ports on the east and Gulf coasts and representing around 70,000 dockworkers, is set to expire on September 30. Pay is one of three major hurdles for the negotiators. Last year, the negotiations on the west coast produced a 32% pay raise for members of the International Longshore and Warehouse Union, plus a one-time bonus for their work during the pandemic. Talks, initiated in February, stalled due to significant differences on worker compensation, one of the key negotiation points. The ILA remains steadfast in securing work for its members, particularly in disputes related to the Leatherman container terminal, work allocation for offshore wind components, and opposition to automation. The NRF is emphasizing the need for both parties to avert potential disruptions and resume negotiations, especially with the contract end coinciding with the peak season. While cargo owners currently appear less concerned, alternative routings through Canadian and Mexican ports are being considered in anticipation of possible strikes on the US east coast. Ocean carriers may increase sailings to Canadian gateways in the event of a strike, but the exact capacity and impact on supply chains remain uncertain. The looming contract expiration heightens the urgency for cargo owners to address potential disruptions.

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