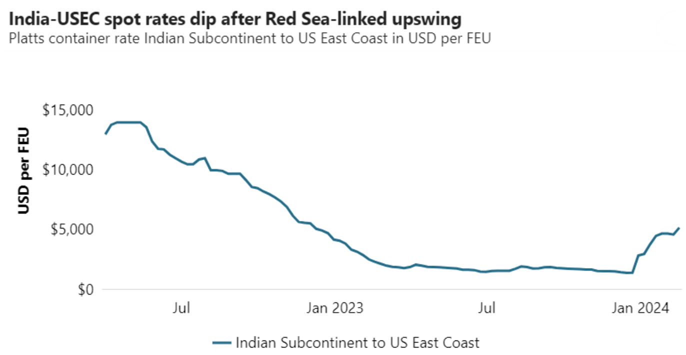
OCEAN MARKET UPDATE

FEBRUARY 2024

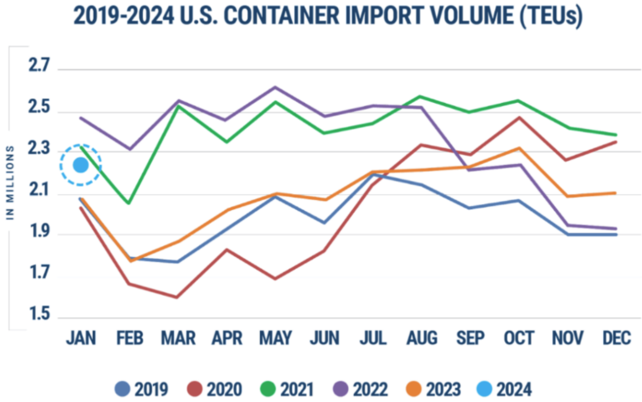
CURRENT STATE

- The Port of Los Angeles and the Port of Long Beach are experiencing robust import activity in 2024, driven by a thriving U.S. economy and retailers restocking ahead of the Lunar New Year shutdown in Asia. In January, the Port of Los Angeles handled 855,652 TEUs, making it the second busiest start to a year in its history. Loaded imports and exports increased by 19% and 23%, respectively, compared to January 2023. The port's Executive Director, Gene Seroka, attributes this growth to inventory replenishment and strong consumer spending in the U.S. Similarly, the Port of Long Beach recorded strong volumes, handling 674,015 TEUs in January, a 17.5% rise from the previous year. Despite a decline in exports, imports and empty containers surged by 23.5% and 28%, respectively. Mario Cordero, the Port of Long Beach CEO, credits retailers' warehouse stocking in anticipation of reduced import activity during the Lunar New Year. Both ports anticipate continued growth throughout 2024, following consecutive months of year-over-year increases. This marks a significant turnaround after experiencing declining volumes for over a year.
- Container carriers operating in the India-US trade route have significantly reduced their pricing structure this week, reversing the upward trend driven by the Red Sea crisis observed over the past couple of months. Recent data collected by the Journal of Commerce from local freight forwarder sources indicates that most leading carriers are now offering average short-term contract rates for bookings from West India (Nhava Sheva/Mundra) to the US East Coast (New York). Meanwhile, rates for 40-foot container bookings to the East Coast have remained steady into February, albeit with variations in quotes among carriers. Spot rates have also experienced a decline. Forwarders attribute the week-on-week decrease in rates to several factors, including reduced booking inquiries from regular customers, a return to normal trade flows following the traditional pre-Chinese New Year rush, and ongoing demand pressures. Despite this correction, carrier sources anticipate a potential rate increase next month, driven by the fiscal year-end shipping rush, as India's fiscal year runs from April to March.



MARKET FORECAST

- Despite rising tensions at the Suez Canal and dropping water levels at the Panama Canal, U.S. imports in January defied expectations and showed robust growth, according to Descartes. Import volumes reached 2,273,125 TEUs, up 7.9% from December and 9.9% year over year, marking the largest January month-over-month growth since 2017. This surprising growth is attributed to the rush to import goods from China ahead of the Lunar New Year shutdown. Chinese imports saw a 14.9% month-over-month increase, indicating the typical seasonal trend, unlike the weak performance observed in 2023. While West Coast ports benefited the most from the surge in Chinese imports, East and Gulf Coast ports also saw increased volumes. However, ongoing disruptions at the Suez and Panama canals pose risks to growth in 2024. Potential risk factors are expected, including the upcoming expiration of the labor agreement between the ILA and USMX in September, which could lead to a coast-wide strike. Other considerations include the health of the U.S. economy, rising port transit wait times, and the potential impact of new COVID subvariants, particularly in China.



- Smaller shippers are bracing for higher rates in their trans-Pacific service contracts for the 2024-25 period, primarily due to escalating carrier costs. However, negotiations on pricing are being delayed due to a significant disagreement regarding supply-demand dynamics, compounded by the considerable uncertainty stemming from the volatile security situation in the Red Sea. this year is one to delay negotiations for as long as possible. While major national retailers, who typically establish the pricing floor for eastbound trans-Pacific shipments, are actively engaged in negotiations with carriers, there are indications that they are aiming to maintain rates at a similar level to the previous year, according to non-vessel-operating common carriers (NVOs). Carriers argue that they need to implement higher rates due to increased costs resulting from the Red Sea crisis, particularly affecting all-water services from Asia to the East and Gulf coasts. However, NVOs claim that carriers are struggling to justify these increases to their largest clients. According to an anonymous NVO, carriers' pricing decisions appear to be driven more by market dynamics than actual cost considerations. Historically, carriers aim to secure adequate import volumes from their largest clients at fixed rates and then seek more lucrative rates from mid-size customers importing between 20,000 to 50,000 TEUs.

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