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OCEAN MARKET UPDATE

JULY 2024

CURRENT STATE

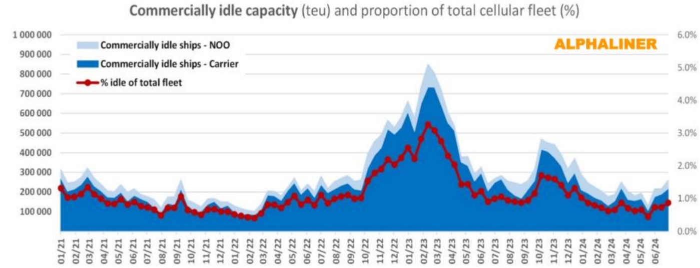
- Spot ocean rates for shipping from Asia to the US West Coast, which had been steadily climbing since May 1 due to repeated general rate increases (GRIs), have peaked and are now showing signs of decline, according to industry experts. This shift follows recent capacity increases on the route, aimed at managing higher-than-usual volumes reported by US retailers, the strongest in two years. Carriers have responded by launching or reinstating 10 services in the eastbound trans-Pacific, significantly altering market dynamics as of early July. As of the latest report, the spot rate stands at a slight decrease from the previous week. Despite the recent dip, rates remain double what they were at the beginning of May. Conversely, vessel space from Asia to the US East Coast remains constrained, driven by early shipments for the fall and year-end holidays. The situation is expected to persist as negotiations between the ILA and maritime employers on the East and Gulf coasts have stalled, prompting importers to consider shifting more cargo to the West Coast to mitigate potential disruptions.

- "Warning strikes" conducted at major German ports from July 9-12th have significantly disrupted operations, leading to delays in ocean shipments and increased dwell times (Up 9% during strike period). The Central Association of German Seaport Operators (ZDS) has responded by presenting a final offer to port workers represented by ver.di who has initiated a member survey to assess the offer's acceptability. Despite ZDS meeting some demands like fixed social benefits and increased shift work bonuses, ver.di considers the offer below expectations. If agreement isn't reached, further strikes during peak season could severely disrupt supply chains, affecting German exports and potentially forcing companies to use more expensive alternatives. The ver.di commission will decide on next steps in late August based on member feedback.

- On July 1st, Singapore's Tuas mega-port has opened one berth and plans to bring two more this fall as congestion begins to lessen at the world's second busiest global container port. This opening combined with carriers redirecting and calling other ports as alternatives, has seen vessel wait time at Singapore lower to 2-3 days down from over 1 week in late May. In other parts of Asia, we now see the Port of Shanghai with a wait time of 1-2 days, the Port of Ningbo wait times have fallen to less than 2 days while the Port of Qingdao wait times have fallen to 12 hours or less.

- In recent months, the global idle container fleet, saw a slight increase over the last three fortnights but remained below 1% of the total fleet. As of early July 2024, carriers have maximized deployment of all available vessels to meet service demands, resulting in effectively full employment across the industry. Factors contributing to ongoing demand include extended voyages via the Cape of Good Hope due to congestion at key ports and higher-than-anticipated cargo volumes during the early peak season. Despite the increase in newbuilding capacity this year, the market has managed to absorb these additions thus far. Alphaliner's latest survey on July 1 counted 85 vessels with a combined capacity of 259,610 TEU without revenue-generating activity, amounting to 0.9% of the global liner fleet.

Commercially idle capacity (teu) and proportion of total cellular fleet (%)



MARKET FORECAST

- Global ocean freight container shipping demand has reached unprecedented levels, surpassing previous highs recorded during the Covid-19 pandemic peak, as highlighted by recent data from Xeneta and Container Trade Statistics. In May 2024, a record-breaking 15.94 million TEU were transported by sea, exceeding the previous peak of 15.72 million TEU set in May 2021. A senior shipping analyst at Xeneta emphasized that this surge in demand has been driven significantly by China, which alone accounted for 39% of global container trade that month, shipping a record 6.2 million TEU. The analyst noted that this surge comes amid operational challenges such as vessel diversions around Africa due to regional conflicts and severe congestion at ports in Asia and Europe, creating a "perfect storm" of pressure on global supply chains. Despite efforts by carriers to respond to the increased demand, including a notable increase in vessel sale and purchase deals uncertainties remain about how sustained this high demand will be heading into the traditional peak shipping season in Q3.

- Ongoing tensions in talks between the International Longshoremen's Association (ILA) and port employers represented by the US Maritime Alliance (USMX) are keeping the threat of Autumn disruption at US East Coast ports on top of shippers' agendas. Both the union and employers are keen to reach an agreement before the expiration of the master contract on Sept. 30, but there is likely to be considerable saber rattling by the ILA during the third quarter. That could cause already spooked shippers to begin frontloading US imports, which in turn could see trans-Atlantic capacity tighten and rate levels rise. For now, the spot market is declining despite rising demand. North Europe to US East Coast is down from the 2024 high on April 19 and slightly lower than the same time last year. US imports from the Mediterranean have increased in each of the first five months of the year compared to the same month in 2023. Given that importers of European goods have few alternatives, any labor action by the ILA that shuts down or even slows the East Coast port operations would have dramatic impact on those supply chains.

- Recent data suggests that the steep rise in container spot rates may be stabilizing, with early indications this week showing a leveling off in pricing dynamics. According to Xeneta, average spot rates from the Far East to the US East Coast increased by 3.7% on July 15, while rates into the US West Coast rose by 2% per feu. Although these rates have surged nearly 150% since late April, the latest increases are notably smaller compared to the significant jumps seen on July 1, which were 22% and 12%, respectively. Rate hikes have typically coincided with carrier rate adjustments, often occurring at the beginning or middle of each month. An analyst from AFS Global noted a reduction in the size of rate increases between fortnightly filings, suggesting a potential moderation in rate escalations for August. Despite these signs, industry sources caution that rates remain elevated, indicating that while a peak in spot rates may be approaching, challenges persist due to ongoing supply side constraints and high demand levels. Shippers are also cautiously optimistic as booking lead times have reduced slightly, possibly due to increased capacity entering the market. Xeneta's senior shipping analyst highlighted that a peak in spot rates could signal a shift towards a more balanced negotiating power between shippers and carriers, potentially leading to rate reductions in the future

- Water levels at the Panama Canal are now close to normal, allowing more ships to pass through daily. Starting in August, the canal will now be handling 35 ships per day, up from 24 in May. The drought, which began in mid-2023, was Panama's worst drought conditions in 70 years. Due to concerns that reduced transits would last through the first quarter of 2024, carriers rerouted their Asia-North America East Coast sailings away from the canal. The disruption caused by the water shortage also significantly impacted scheduling reliability and spot rates. With the increasing water levels in Gatun Lake, carriers have started bringing back Panama Canal services which had been suspended.

Sources: Alphaliner, Journal of Commerce (JOC), The Loadstar, Freightos Terminal, Sea-Intelligence