

## Shipping - Global

## Key takeaways from container shipping expert call with Linerlytica

Industry Overview

## Key takeaways from Linerlytica expert call

We hosted Mr Huajoo Tan of Linerlytica to discuss the outlook for container shipping yesterday. Mr Tan sees transpacific spot rates as a near term bright spot with more upside expected into August on high utilization levels. But he believes the downturn remains in the early stages, and he sees another -20-30% downside to average rates and sees EBIT slipping into losses as early as 2H23. Mr Tan sees signs of improving demand, but new deliveries and a lack of discipline remain a problem.

## Transpacific looks a near term bright spot

Transpacific utilization has surged in the past few weeks and is now back to 2021-22 peak levels with ships sailing full to the US west coast. The high utilization has been driven by: (1) a mild improvement in demand; and (2) -14% MoM capacity in July 2023 led by service cancellation and blank sailings. But capacity is already being restored in August, and the slack season will be a real test for carriers given limited scope to cut capacity further. And proposed Asia-Europe rate hikes appear more uncertain with utilization still relatively low there given new deliveries.

## But freight rates &amp; profits are still far from the bottom

Mr Tan believes we are still at the beginning of the downturn with quite some time until we hit the bottom. He sees transpacific rate hikes as more a temporary bump rather than an inflection point. The China Containerized Freight Index is expected to fall another 20-30% to 650-700 in the next twelve months. Also, industry profitability continues to slide in 2Q23 and negative EBIT could come as early as 2H23 with negative EBITDA also possible depending on how rational the industry acts into the downcycle.

## Demand is improving, but supply remains a problem

Linerlytica high frequency data shows that world trade has shown signs of improvement in recent months driven by seasonality and the start of some restocking. But oversupply remains a problem for the coming 12-18 months, which is driving broadly weaker utilization on a global level and putting pressure on freight rates beyond the transpacific. Mr Tan sees no real signs of new vessel delivery slippage beyond some Korean yard delays, while new order cancellation looks unlikely given strong balance sheets.

## Carriers are not showing much discipline for now

Carriers have shown little signs of discipline, ordering an additional 1.5mn TEU over the past six months, while pushing charter rates up by 25% and cutting back on vessel idling despite the poor market outlook. The high orderbook limits carriers' options to scale down and this has led to price wars due to oversupply with capacity being added on all trades apart from the transpacific over the past twelve months.

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Equity  
Global  
Shipping**Nathan Gee, CFA** >>Research Analyst  
Merrill Lynch (Singapore)  
+65 6678 0418  
[nathan.gee@bofa.com](mailto:nathan.gee@bofa.com)**Muneeba Kayani** >>Research Analyst  
MLI (UK)  
+44 20 7996 5208  
[muneeba.kayani@bofa.com](mailto:muneeba.kayani@bofa.com)**Ken Hoexter**Research Analyst  
BofAS  
+1 646 855 1498  
[ken.hoexter@bofa.com](mailto:ken.hoexter@bofa.com)**Hiro Nakakura, CFA** >>Research Analyst  
Merrill Lynch (Singapore)  
[hiro.nakakura@bofa.com](mailto:hiro.nakakura@bofa.com)**Isabella Zeng** >>Research Analyst  
Merrill Lynch (Singapore)  
[isabella.zeng@bofa.com](mailto:isabella.zeng@bofa.com)

TEU: twenty-foot equivalent unit

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