

Shipping

Takeaways from Linerlytica container shipping expert call

Industry Overview

Too early to call the bottom

We hosted world's leading container shipping expert Huajoo Tan of Linerlytica to discuss the current trends and outlook for the industry. Although a seasonal rebound could benefit rates in the near-term, Mr Tan expects spot rates to continue to decline given low capacity utilisation on most key routes and carriers continuing to chase market share. In Mr Tan's view, the mid-April GRI increase is not an inflection point but rather postpones an eventual fall in the CCFI index from 935 currently to 2019 levels (825 average) and worse case of 2016 levels (712 average).

Contract rates at risk

In Asia-Europe, the market has shifted predominantly towards spot, contract volumes dropping from 30-40% to less than 10% given lower spot rates. In the Transpacific, last year's contract rates have been renegotiated to the \$3,000-4,000/FEU, which is still well above spot. Early TP contracts for this year are around \$1,200/FEU, which is near spot rates and below breakeven for the liners. Therefore, Mr. Tan believes liners are pushing for a GRI increase of +\$600/FEU in mid-April to bring spot rates above \$1,500/FEU.

Orderbook continues to rise

The orderbook is at 30% of the global fleet from a low of 10% during the pandemic. In Mr Tan's view, the orderbook could increase a few more percentage points. In addition, scrapping rates have remained low, with minimal delivery delays and order cancellations – all indicating that capacity growth of 8% p.a. in 2023-24 will continue to outstrip demand. Port congestion has declined from a peak of 15% to 7%, adding c8% to available capacity. The increase in available capacity is partially offset by slower vessel speeds, which have a 5% impact of effective supply. Although the Russian market is still growing, the additional demand is only c1% of global containership capacity.

Utilisation unlikely to provide support

Higher capacity utilization on the Transpacific in the last two weeks has provided support for a mid-April GRI increase. Mr Tan believes sustainability of rates could come from higher vessel utilisation and large-scale vessel idling but this is unlikely. He notes that on the Asia-Europe trade lane rates did not rebound despite high utilisation. Mr. Tan sees increasing supply as a downside risk for utilization and expects no capacity discipline from shipping liners until they have big losses. Although industry EBIT margins have dropped in 1Q, it's still profitable at ~5-10%.

ILWU still unresolved

Negotiations between PMA and the ILWU remain unresolved and Mr Tan believes there is little incentive for either side to come to a settlement. Labour tensions were seen over Easter at the LA/LB port without a strike being called. Mr Tan sees this driving more volumes to USEC.

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Definitions:**USEC:** US East Coast**USWC:** US West Coast**PMA:** Pacific Maritime Association**ILWU:** International Longshore and Warehouse Union**GRI:** General rate increase

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