

## Shipping

## Takeaways from Red Sea disruption – implications for container shipping call

Industry Overview

## Key takeaways from expert call

We hosted Mr. Lars Jensen, CEO of Vespucci-Maritime to discuss the impact of Red Sea disruptions on container shipping. Currently most major liners are re-routing around Africa. Around 30% of total containership capacity transits through Suez Canal and Mr. Jensen believes that rerouting of ships around Africa could add c6% to global vessel demand, effectively neutralising the extra capacity additions that were planned for 2024 and putting supply-demand in a better balance. The disruption has led to a significant increase in spot freight rates as well as additional surcharges, though they remain significantly below Covid peaks. Despite January being the contracting season, shippers are not willing to engage in negotiations and it's not currently clear how widely accepted the new rates are. Near term visibility on outcome of disruption is limited, with the best case scenario being a sustained reduction in attacks and resumption of vessels passage with reassurance of military presence. Mr. Jensen believes the earliest point of normalisation can be post Chinese New Year (CNY) at end of February, with rates abating somewhat from there.

## Higher freight rates offset extra costs

The Red Sea crisis started with first attacks in mid-November and came to head in mid-December when three different vessels were attacked. Carriers subsequently decided to start rerouting their vessels around Cape of Good Hope. The longer route adds on average 7-9 days to an Asia – Europe service and sees extra cost of c\$2-3m per journey. However, these higher costs are well offset by sharp increase in freight rates seen since the onset of the crisis, with new Asia-Europe rates announced by carriers indicating \$6,000/FFE, plus peak surcharge of \$1,000-2,000/FFE. These rates are still significantly lower than peak rates seen during Covid, when Asia – Europe rates reached \$15,600 /FFE and average transportation time increased to 30-50 days.

## Further potential ripple effects

Apart from direct impact of disruption, Mr Jensen sees a number of ripple effects that could affect the industry. Longer travel times for vessels mean that port schedules could be disrupted, leading to potential congestions. The seasonal mini-peak ahead of Chinese New Year (CNY) will be affected by vessels arriving late to Asian ports leading to capacity shortages of vessels as well as containers. There is potential for congestions at USWC ports as carriers that earlier rerouted the Asia to USEC services towards Red Sea due to Panama Canal restrictions, could now consider changing back towards USWC and using the inland US rail/truck infrastructure for their USEC destinations.

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## Definitions:

USEC: US East Coast

USWC: US West Coast

TEU: Twenty-foot equivalent unit

FFE: Forty-foot equivalent unit

SCFI: Shanghai Containerized Freight Index

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