

## Shipping - Global

## Key takeaways from Red Sea disruption call with Linerlytica

Industry Overview

## Key takeaways from Red Sea call with Linerlytica

We hosted the world's leading container shipping expert Huajoo Tan of Linerlytica to discuss Red Sea disruptions and the impact to container shipping and supply chains. Mr Tan believes this crisis could last for longer than a few months with no easy solution. Asian exports have been unimpacted so far and Linerlytica doesn't expect any major disruptions ahead. But spot freight rates are expected to continue to rise and peak in February 2024 before gradually declining, and container liners could see windfall gains with 1Q24 EBIT margins above 10%.

## Red Sea Crisis could last for longer than a few months

Linerlytica sees a high likelihood that the crisis lasts longer than a few months with unclear political and military solutions. European liners are under pressure to resume sailings – but most liners are happy to continue to sail the long way as long as others are doing so. The security situation is unpredictable, and even after an extended period of improved security – one attack could send liners back to the cape. And liners do not appear interested in doing a deal with the Houthis for now.

## Peak supply chain disruption in the coming weeks

Asian export volumes have not been impacted to date but Linerlytica expects capacity and box equipment shortages to peak in weeks 4 to 6 resulting in elevated rates leading into the Chinese New Year. 4.7mn TEU are currently diverted to the Cape, and Linerlytica expects the figure to reach 6mn if the Red Sea crisis persists resulting in a shortage of 7% of the global fleet. The longer transit times have been partly mitigated by increased speeds, but inefficiencies in routing revisions have caused additional delays. All the main liners apart from CMA CGM have shifted to the Cape route and Linerlytica does not see evidence that any large carrier is preparing to return to the Suez.

## Freight costs peaking in Feb 2024, then a gradual fade

2024 freight contract negotiations are currently suspended, while contracts concluded earlier before the crisis are still being fulfilled with limits on space or with added surcharges. Spot rates have risen by over 300% on the affected routes and although rates are expected to correct after the Chinese New Year, Linerlytica does not expect rates to fall back sharply if supply side disruptions persist. Liners have sufficient short term buffers to manage excess capacity by reducing speeds and short term idling, while new deliveries will not be sufficient to fully address the Cape route gap until 2H24.

## Container liner windfall profit gains in 1Q24

Linerlytica expects liners to enjoy 1Q24 windfall gains, with the CCFI rebounding by 10% from 4Q23 with further rate hikes still to come that would lift EBIT margins above 10%. However elevated margins are not expected to match 2021-22 levels with supply side constraints less severe with peak disruption expected in next four weeks.

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