OCEAN FREIGHT MARKET UPDATE

NOVEMBER 2023 –
PUBLICATION DATE OCTOBER 31ST, 2023

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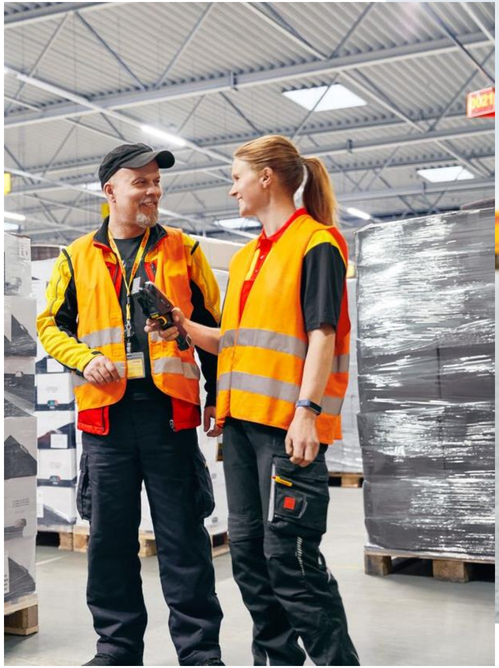
Ocean Freight Market update – November 2023



Ocean Freight Market Outlook November 2023

Economic & Demand Outlook

- Moderate demand increase following Chinese Golden Week October holidays.
- Global inflation expected to ease via tighter monetary policy and lower commodity prices.
- PMI Index remains below the 50 mark indicating a cooling demand environment.
- Elevated inventories and stagnant purchasing power contributes to a weak demand.

Capacity Outlook

- 1.6 mTEU new capacity delivered Sep23 YTD, a 7.1% increase YoY
- Massive blank sailing program implemented following Golden Week, resulting in space constraints on several Asia outbound lanes
- Inactive container fleet growing considerably to 1.18 mTEU, i.e. 4.3% of global container vessel capacity

Freight Rates

- GRIs for November announced on Asia-South America West Coast & MX, Asia-South America East Coast, Asia-East Med, Asia-Africa, intra Asia, and Asia- SPAC

Regulations/News

- EU’s ETS will come into effect for the shipping sector as of 1 Jan 2024
- Stricter environmental regulations will prompt more scrapping of elderly tonnage and slow-steaming, potentially impacting schedule reliability

Topic of the month
European Union's Emissions Trading System

- The European Union's Emission Trading System (ETS) will come into effect for the shipping sectors as of 1 January 2024, covering large vessels above 5000 gross tonnages. The ETS caps the total amount of GHG that can be emitted by installations, aircraft and vessel operators inside the European Union (EU) each year. Based on the amount of GHG that a company emits (1 ton of COS = 1 ETS allowance) allowances then either have to be bought on the EU carbon market or can be traded between other companies. Failure to account for all emissions by allowances will lead to heavy fines.

- The cap goes down each year in accordance with the EU's climate target, making sure that emissions reduce overtime. Since 2005, the EU ETS has helped decreasing emissions from power and industry plants by 37%.

- The ETS for the shipping sector will cover all greenhouse gas (GHG) emissions for intra-European voyages and 50% of those voyages that start or finish in Europe. There will be a staggered introduction, covering 40 % of qualifying voyages in 2024, 70% for 2025 and 100% for 2026. Therefore, carriers are set to increase surcharges progressively.

- The cost implications for the entire shipping industry can only be estimated at the moment and are in the in the region of USD 9-10 bn.

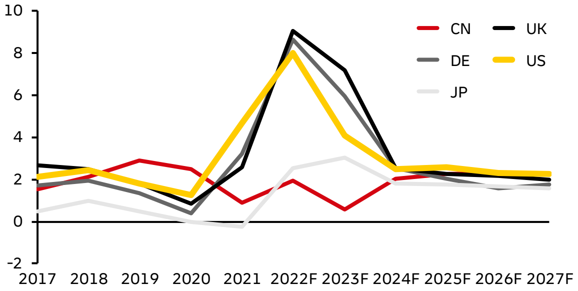
Source: DHL, Alphaliner

High level market development

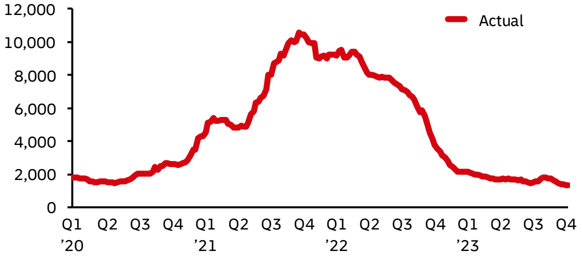
ECONOMIC OUTLOOK GDP GROWTH BY REGION[1)]

	2023F	2024F	2025F	2026F	2027F	CAGR (2024-27)
AMER	2.1%	1.5%	1.6%	1.9%	2.0%	1.8%
ASPA	4.2%	4.1%	4.3%	4.3%	4.2%	4.2%
EURO	0.8%	1.0%	1.7%	1.8%	1.7%	1.8%
MEA	2.4%	3.4%	3.8%	3.3%	3.3%	3.5%
DGF World	**2.5%**	**2.4%**	**2.7%**	**2.8%**	**2.8%**	**2.8%**

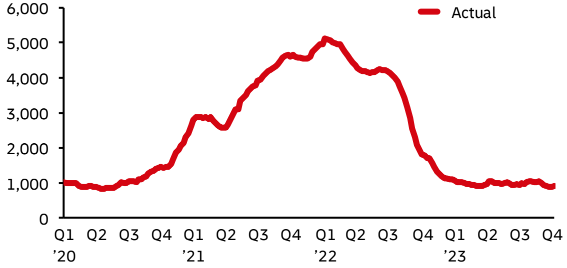
INFLATION, YOY in %[2)]



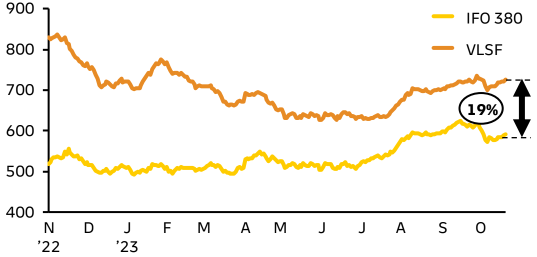
WORLD CONTAINER INDEX (WCI)[3)]



SHANGHAI CONTAINERIZED FREIGHT INDEX (SCFI)[4)]



BUNKER PRICES [5)]



1) Real GDP, Copyright © IHS Markit, now part of S&P Global, Q3 2023 Update Sep '23. All rights reserved; 2) IHS Markit, now part of S&P Global, Q3 2023 Update Sep '23. All rights reserved; 3 & 4) Surcharges related to e.g., equipment & space availability are not reflected in WCI & SCFI; 3) Drewry, in USD/40ft container, including BAF & THC both ends, 8 individual routes, excluding intra-Asia routes; 4) Shanghai Shipping Exchange, in USD/20ft ctnr & USD/40ft ctnr for US routes, including BAF, EBAF, CAF, PSS, WRS, PCS & SCS/SCF/PTF/PCC, excl. THC, 15 routes from Shanghai; 5) Source: DHL, in US$

Major trades – Market outlook November 2023 month-on-month development

EUROPE

Import region	Capacity	Rate
AMNO	=	=/-
AMLA & MX	=	=/-
ASPA	=	=/-
MENAT	=	=/-
SSA	=	=/-

NORTH AMERICA

Import region	Capacity	Rate
EURO	=	=
AMLA	=	=
ASPA	=	=
MENAT	=	=
SSA	=	=

ASIA PACIFIC

Import region	Capacity	Rate
EURO	-	+
AMNO	-	+
AMLA	- EC / + WC	+ EC / ++ WC
ASPA	-	+
MENAT	-	+
OCEANIA	-	+

LATIN AMERICA*

Import region	Capacity	Rates
EURO	+	=/-
AMNO	=	+
ASPA	-	=
MENAT	=	-
SSA	=	=/-

Source: DHL
*incl Mexico and Central America/Cenac

KEY										
KEY	Strong Increase	++	Moderate Increase	+	No Change	=	Moderate Decline	-	Strong Decline	--

Economic outlook & demand evolution – Rising uncertainty, rising risks.

Growth forecasts for Western Europe remained stable in October. S&P Global Market Intelligence analysts still expect eurozone real GDP to expand by just 0.4% and 0.5% in 2023 and 2024, respectively. The estimates for the block's largest economies (Germany, France and Italy) were also unchanged in October. Outside the eurozone, the real GDP growth forecast for the UK was slightly revised upward for 2023 (from 0.3% to 0.4%), but they still expect a decline of 0.1% in 2024. Among the non-eurozone Nordics, the 2023 projection for Denmark was revised downward in line with weaker figures for the second quarter of the year. Eurozone consumer price inflation forecasts have been revised modestly upward due to higher projected oil prices.

S&P Global Market Intelligence analysts have revised up its forecast of US real GDP growth for 2023 from 2.3% to 2.5% and for 2024 from 1.5% to 1.6%. The upward revision for 2024 reflects unexpected strength over the second half of 2023. Measured fourth quarter to fourth quarter, the forecast of growth for 2024 has been revised down by 0.1 percentage point to a below-potential 1.0%. For 2023, the upward revision reflects unexpected strength in consumer spending through August and a surge in net exports that have encouraged a higher estimate of third-quarter growth by over a percentage point to a stunning 5%-plus annualized rate — well above the current consensus forecast of 3.5% and more than twice the estimate of the economy's long-term growth potential.

In October's forecast update, S&P Global Market Intelligence analysts project mainland China's real GDP will grow 5.0% in 2023 and 4.6% in 2024, unchanged from September's forecast. Recent economic data, including official third-quarter GDP data released after the October update, are consistent with the outlook of stabilizing but subdued growth. Real GDP rose 4.9% year over year in the third quarter and 5.2% in the first three quarters, confirming our expectation that the economic downturn has stabilized. Topline monthly supply-side indicators also signal stabilization. After a pickup in August, industrial production growth remained at 4.5% year over year in September. Service output rose 6.9% year over year, up marginally from August.

S&P Global Market Intelligence's forecast of real GDP growth in Latin America was unchanged in October, at 2.2% and 1.8% for 2023 and 2024, respectively. High-frequency data and sentiment indicators suggest growth in the region is slowing. Higher oil prices have prompted S&P to revise upward their inflation forecasts for the region, albeit moderately. The latest forecast is for consumer price increases to average 0.4% in the final quarter of 2023, yielding a year-end inflation rate of 4.8%.

Global PMI data continue to signal subdued growth. The J.P.Morgan Global Composite PMI by S&P Global has fallen for four straight months, although September's decline (to 50.5) was marginal. The global manufacturing output index (49.7) was sub-50 for the fourth month in a row, with services barely in expansion territory (50.8). While the rate of contraction in manufacturing output and orders has been moderating, October's flash PMI data, could well show an adverse reaction to recent developments in the Middle East.

Source: S&P Global, a PMI at 50 is considered neutral, expanding above 50, and business shrinking below 50

Capacity

THE Alliance suspends Transpacific Northwest loop as a result of low cargo demand. With immediate effect the China – Korea – West Coast of North America 'PN3' loop will be The geographical coverage of this Transpacific Northwest loop is fully taken over by the Southeast Asia & South China WCNA 'PN2' service. The last 'PN3' sailing was on 23 September ex Kaohsiung.

The European fleet of feeder vessels of 300-1,500 TEU is ageing fast with little newbuilding replacement on order. The average age of the fleet currently stands at 20 years. Especially in the sub-1,000 TEU sizes the number of new orders is next to zero, apart from a handful of contracts placed for some specific niche routes. Currently, the European feeder fleet consists of 465 vessels.

A total of 187 container ships were ordered in the first nine months of this year, representing a total capacity of 1.75 mTEU. **Methanol-powered newbuildings** are the favorite option, representing 52% of the new capacity ordered this year, while **LNG-powered vessels** accounted for 31% of the 2023 orders, bringing the total share of 'green' ships to 83%. These 'green' orders underline carriers' efforts to **decarbonize liner shipping**.

MSC and Maersk have published a winter capacity management program for the Asia – North Europe trade. Following the blanking of 5 joint 2M Asia - North Europe voyages in the weeks during and after the Golden Week holiday in China, the 2M alliance partners will continue to skip one of their five weekly sailings on the trade from the end of October (week 43) until the first half of December (week 49). The extra blanked sailings are meant to address the continued erosion of freight rates, fueled by a growing mismatch between an insufficient demand and rising capacities.

Inactive fleet rises above one million TEU again. The raising number of commercially idled vessels as well as vessels entering repair yards has pushed up the inactive fleet significantly that stands at 315 vessels of a total of 1.18 mTEU on 9 October. This represents an inactive capacity of 4.3% of the total container vessel fleet, up from 3.4% two weeks earlier.

THE Alliance suspends two East - West loops. One of these is the Asia – Europe loop 'FE5' and the other is the transpacific service 'EC4'. Both services will be shut down until further notice in mid-November. The suspensions are an effort to stop the further erosion of freight rate which are bending under the pressure from increase oversupply in the deep-sea liner market. After eleven consecutive months of decline, spot freight rates from Shanghai to Northern Europe finally stopped falling last week.

Source: Alphaliner, Dynaliners, Carriers

Carriers

COSCO warns nine-month profits slashed by 75%. COSCO Shipholding, parent group of COSCO SHIPPING and OOCL, warned net profits for the first nine months of the year would be down 77% year-on-year due to 'multiple challenges' facing the sector. COSCO is predicting net income of RMB 26.0 bn (USD 3.6 bn) for the January-September period, compared to a surplus of RMB 115.4 bn in the same period in 2022. Operating profits for the nine-month period are expected to come in at RMB 33.2 bn, a drop of 77% compared to the RMB 143.6 bn recorded a year earlier. COSCO said the industry had faced a range of challenges since the start of 2023, including a weakening in transportation demand and an increase in supply of shipping capacity.

Italian media tags MSC profit at USD 38 bn in 2022. Annual net profit for the privately-held Mediterranean Shipping Company (MSC) reached a EUR 36.3 bn (USD 38.2 bn) in 2022, according to a report by Italian newspaper Il Messagero, which published the figures in the wake of MSC's successful bid for a 50% stake in Italian railway Italo - Nuovo Trasporto Viaggiatori (or 'Italo' for short). MSC, the largest container carrier and a family-owned company, reportedly generated revenues of EUR 86.4bn ($91.1bn) for the year, in turn yielding operating profits (EBIT) of EUR 35.7 bn. If correct, the figures put MSC firmly ahead of nearest competitor Maersk Group, which reported USD 81.5 bn in revenue in 2022 and USD 29.3 bn in net profit. Maersk's operating profit came in at USD 30.9 bn.

Hapag-Lloyd establishes Brazilian cabotage carrier. Hapag-Lloyd and Brazilian shipping and waterway logistics company Norsul have established a 50/50 joint venture, named Norcoast, to operate in the Brazilian coastal and cabotage trade. The company is expected to start operations in Q1 2024, and has already been approved as a 'Brazilian Shipping Company', known as EBNs, qualified to carry out cabotage business. Until now, there were three companies allowed to carry Brazilian domestic containers, Maersk-controlled Aliança, MSC's Login-Logistica and CMA CGM's Mercosul.

Evergreen signs MOU to explore green shipping fuels. Taiwanese carrier Evergreen Marine has signed a Memorandum of Understanding (MOU) with fund manager Copenhagen Infrastructure Partners (CIP) to jointly explore the production and use of hydrogen-based marine fuels. The cooperation will cover a range of aspects including production of e-fuels in Taiwan based on offshore wind, and other green fuels such as e-ammonia and e-methanol. Taiwan is believed to have good conditions for developing offshore wind energy, and possibly other e-fuel types, backed by growing government support for decarbonization.

Source: Alphaliner, Dynaliners, Carriers

Rules & Regulations

EU abolishes block exemption for liner companies. After a review process that started in August 2022 the European Commission has decided not to extend the Consortia Block Exemption Regulation (CEBR). This regulation allowed such arrangements to be exempt from standard European Union competition rules. The CEBR was originally granted in 2009 under Commission Regulation (EC) No 906/2009, a year after the now disappeared freight ‘conferences’ were banned in Europe. It was extended twice up to 25 April 2024, after which, it will cease to be. The decision only affects what are formally considered consortia and their exemption. They will still be allowed but will instead fall under the same general regulations as many other sectors. The structured Alliances (2M, Ocean and THE) will not be affected because they are covered by other regulations. The European Commission stated as reason for not extending the regulation that “the CBER brought limited compliance cost savings to carriers and was no longer fulfilling its goal of promoting competition by enabling smaller carriers to cooperate between themselves and offer alternative services.”

NCTS 5.0 Customs Compliance Fee. European Authorities are introducing a series of customs reforms, which are related to the availability of data during the whole customs process. The implementation of NCTS 5.0 is ongoing and Germany has already implemented the changes related to additional mandatory data and changes in the structure of the transit declarations. Other countries from the Common Transit Convention (EU27, UK, NO, IS, CH, MK, RS, TR, UA) will follow. Increased data and reporting requirements are to be handled. Therefore, substantial investments are required to ensure full compliance with NCTS 5.0 requirements and to maintain a state-of-the-art digital infrastructure. As a result of the increased demands, DHL Global Forwarding Europe will implement a Customs Compliance Fee in the amount of EUR 8.25, applicable to overseas shipments into EU, European shipments to overseas and intra-EU shipments with exception of goods moving under free circulation. The fee will be implemented as of 01 November 2023 for all shipments being transited via Germany and according to the NCTS local go-live timeline for shipments being transited via the respective countries, and its application will be reviewed on a regular basis.

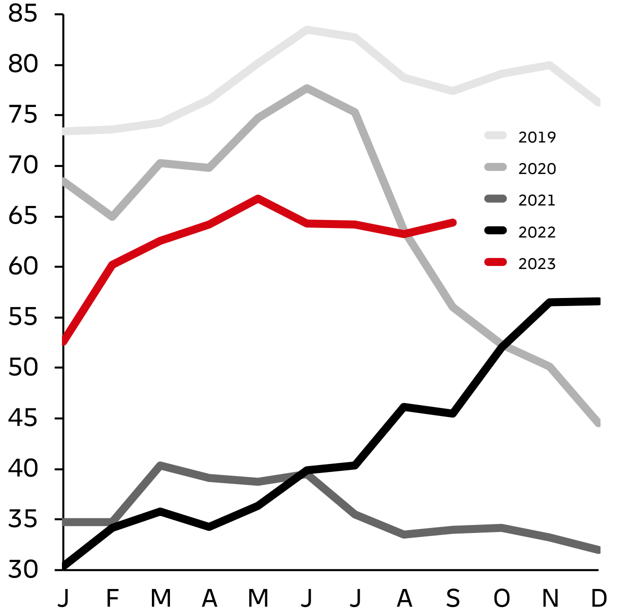
Source: DHL, Alphaliner, Dynaliners

Ocean Schedule Reliability

Reliability remains below historical global averages

- Global schedule reliability improved by 1.2 ptp to **64.4% in September** compared to August. Compared to the reliability level a year ago the reliability is still 19.0 percentage points higher.
- The **Europe to Oceania** trade was again the best performing trade in September with a reliability of 94.4%, a rise of 3.1 ptp compared to August. On the other end of the list is the **Asia to East Coast South America** with a meagre reliability of just 37.6% (-8.4% compared to August), directly followed by **Asia to North America East Coast** with 38.7%.
- **Asia to North Europe** declined to 65.3% (-1.6 ptp MoM) and **Asia to the Mediterranean** improved to 60.4% (+4.3 ptp MoM).
- On the **Transatlantic Eastbound** reliability decreased slightly by -1.0 percentage points to 73.8% and decreased considerably by -4.0 ptp to 67.6% on the **Westbound** trade.

SCHEDULE RELIABILITY (%)



Source: Sea-Intelligence, DHL

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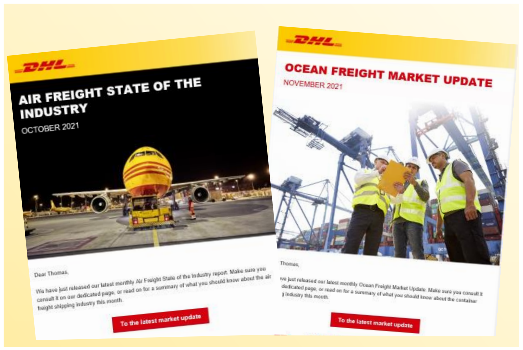

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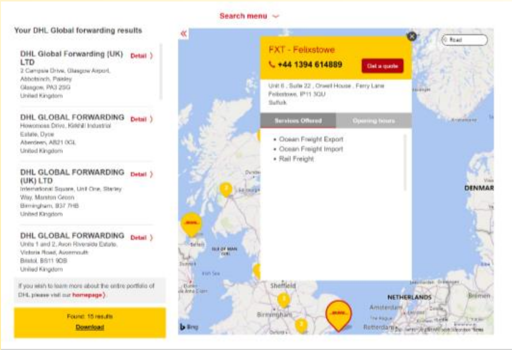

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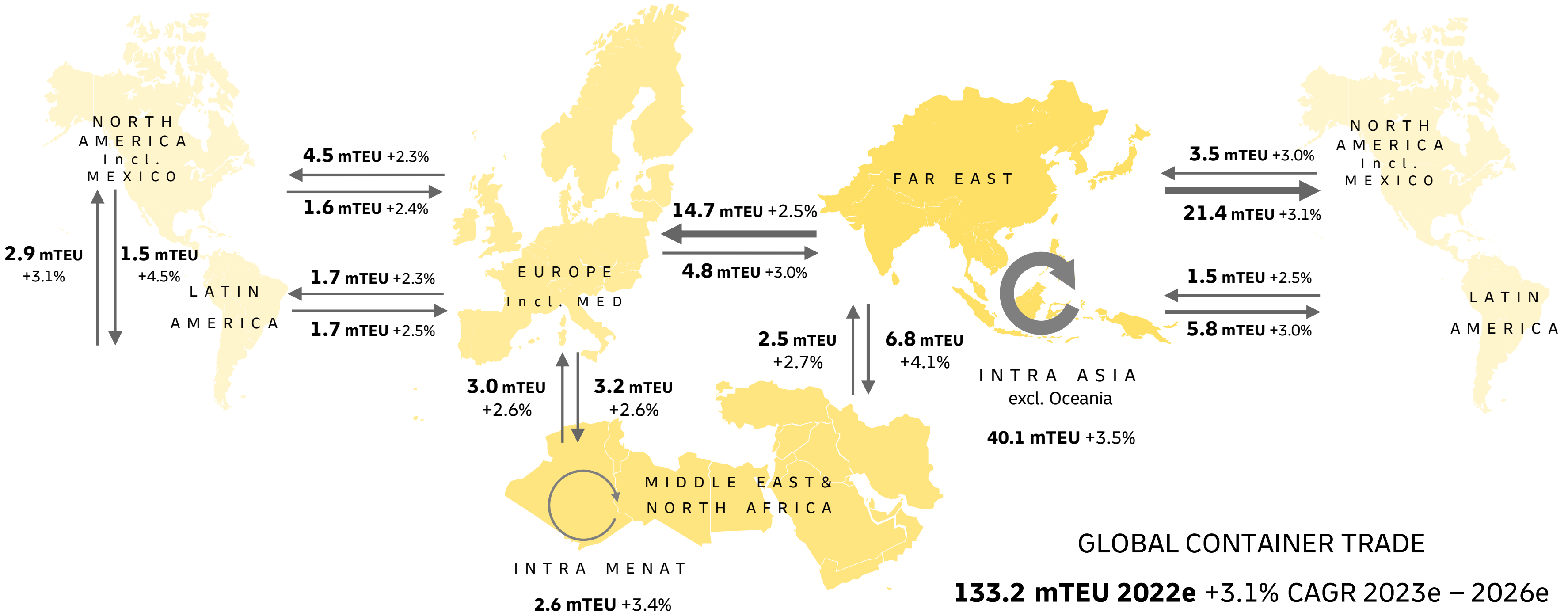
BACK-UP

Market volume 2023 – 2027



GLOBAL CONTAINER TRADE

133.2 mTEU 2022e +3.1% CAGR 2023e – 2026e

Source: Seabury Jun23 update

State of the industry – Ocean Carrier alliances

THE ALLIANCE

HAPAG-LLOYD
ONE
YANG MING
HMM

OCEAN ALLIANCE

OOCL
CMA CGM
CHINA COSCO SHIPPING
EVERGREEN

2M
(to discontinue in 2025)

MAERSK LINE
MSC

Source: Carriers

Acronyms and Explanations – Ocean Freight glossary

AMLA – Latin America
AMNO – North America
AR – Argentina
ASPA – AsiaPacific
BR – Brazil
CAGR – Compound Annual Growth Rate
CENAC – Central Amercia and Caribbean
CNC – CNC Line (Cheng Lie Navigation Co. Ltd.)
DG – Dangerous Goods
DWT – Dead Weight Tonnage
EB – Eastbound
ECSA – East Coast South America (synonym for SAEC)
ECRS - Emergency Cost Recovery Surcharge
EGLV – Evergreen Marine Corp
EURO – Europe
GRI – General Rate Increase
HMM – Hyundai
HL – Hapag-Lloyd
HSFO – High-Sulphur Fuel Oil (< 3.5% Sulphur)
HSUD – Hamburg Süd
HWS – Heavy Weight Surcharge
IA – Intra Asia
IPBC – India Pakistan Bangladesh Ceylon (= Sri Lanka)
IPI – Inland Point Intermodal
ISC – Indian Sub Continent (synonym for IPBC)
MEA - Middle East and Africa
MENAT – Middle East and North Africa
ML – Maersk Line
mn – Millions
MoM – Month-on-Month
NOO – Non-operating (vessel) owners
NOR - Non-operating reefer
OCRS – Operational Cost Recovery surcharge
OOCL – Orient Overseas Container Line
OWS – Overweight Surcharge
PH – Philippines
PMA - Pacific Maritime Association
PNW – Pacific North West
Ppt. – Percentage points
PSW – Pacific South West
QoQ – Quarter on quarter
SAEC – South America East Coast
SAWC – South America West Coast
SOC - Shipper Owned Container
SOLAS – Safety of Life at Sea
SPRC – South People’s Republic of China – South China
SSA – Sub-Saharan Africa
SSL – Steam Ship Line
T – Thousands
TA - Trans Atlantic
TEU – Twenty foot equivalent unit (20‘ container)
TSA – Trans Pacific Stabilization Agreement
USGC – US Gulf Coast
US FMC – US Federal Maritime Commission
USEC – US East Coast
USWC – US West Coast
VGM – Verified Gross Mass
VLCS – Very Large Container Ship
VLSFO – Very Low-Sulphur Fuel Oil
VSA – Vessel Sharing Agreement
WB – Westbound
WCSA – West Coast South America (synonym for SAWC)
WHL – Wan Hai
WRS – War Risk Surcharge
YML – Yang Ming Line
YoY – Year-on-Year
YTD – Year-to-Date
THEA – The Alliance

Source: DHL