Stymied lines face several years of pain, says Drewry

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“Snookered” shipping lines face up to four years of losses as weak demand, ordering and a lack of demolitions have led to overcapacity, low rates and will ultimately see returns crash.

New capacity will hit the water at a rate of around 2 million TEU a year with substantial numbers of ships confirmed on order for delivery between 2024-2026 with Drewry Shipping Consultants’ Simon Heaney warning that “every new delivery adds a to the challenge [of returning to a supply/demand balance]”.

“The mid-term future for container shipping is pretty bleak,” added Heaney, “Carriers need to substantially upscale the demolition levels and double the idle fleet, [currently at 4%] even then they won’t get market balance, the lines are snookered.”

According to Drewry, the lines will turn a collective profit of US$20 billion this year, made in the first half, to a collective loss in 2024 of US$15 billion, a swing of US$35 billion, with subsequent years seeing similar losses.

In a situation that is partly of their own making, with low demand outside of carriers' control as is the new regulatory regime, which has seen carriers order new more environmentally friendly vessels, and as Heaney points out, ships are being built for the long term, but he said with the lines being "so gung-ho, ordering a record number of ships it has had obvious consequences with rates falling."

"I am surprised [about the level of ordering], most people had seen the direction of travel from way off -and I thought the lines had learned their lesson- but it seems no lessons have been learned," lamented Heaney.

Carriers are now in a far healthier financial position than in past cyclical downturns in the shipping market, the massive collective profits from the pandemic years allowed the carriers to "repair" their balance sheets and deliver major dividends to shareholders as well as investing in equipment, but as the market imbalance continues, it will "affect lines' resilience," added Heaney.

A further mitigating circumstance for the lines is the continued influence of the pandemic years on the market.

Container shipping is "in a strange position," explained Heaney, "Global laden volumes are decreasing at the same time as that world economic activity is expanding and this disconnect between the economy and container growth has never happened before."

That disconnect first occurred last year and Drewry forecasts that it will be repeated this year, as the declining pandemic aftershocks persist.

Drewry's Supply and Demand Index is now at its lowest point since the economic crash in the noughties, having fallen to 79, one point above the 2009 level, however, Drewry expects its index to hit an all-time low in 2024 slumping to 74.3. A reading of 100 on the index indicates a market that is in balance.

If fuel surcharges are omitted freight rates are now 16% lower than the most recent cyclical low in 2016. But if you apply bunker charges then rates would be 9% higher.

"Market forces and environmental legislation are driving BAFs [bunker adjustment factors] higher, we anticipate they will reach US$230/TEU in 2024, about 55% higher than in 2016," said Heaney.