

Is the Red Sea effect on container shipping being overblown?

Drewry: 'Ample spare capacity' for liners to handle diversions

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Drewry is optimistic that liners can adjust to the disruptions. (Photo: Shutterstock/GreenOak)

No one disputes that the Red Sea crisis is massively diverting containerized goods around the Cape of Good Hope. But opinions widely diverge on how serious this is for global supply chains, consumers and economies.

On one end of the spectrum, there's the view that the Houthi attacks will stoke inflation, cause major goods shortages and have a material effect on Western economies, while container lines, previously expected to sink under the weight of excessive newbuilding deliveries, will turn into cash machines.

On the other end of the spectrum, there's the view of respected shipping consultancy Drewry, which laid out a far more sober scenario during a presentation on Tuesday.

"The market globally is so heavily oversupplied that it has ample cover for disruptions such as this," maintained Simon Heaney, Drewry's senior manager of container research.

"Yes, more ships are needed to maintain weekly service [due to longer voyages around the Cape]. But there is ample spare capacity from the idle fleet, from the newbuilds that are coming in thick and fast, and from existing tonnage in other oversupplied trades that can be transferred across.

"While having too many ships is generally a bad thing for container lines, in this case, it is providing quite a lot more resilience to cope with disruptive events," he said.

"Clearly, you can't just pick up ships and move them where you want to. It will take time to reposition ships, so the pinch is going to be the worst in this initial stage. But we think things will ease once Red Sea diversions become part of the longer-term planning by carriers."

Spot rate jump partially due to timing

"Rates in affected trades will remain elevated for the duration of the crisis, but they won't go so high as to stoke inflation," predicted Heaney.

Referring to the Middle East conflict in general, he said, "The impact on the world economy, if any, is going to come from higher energy costs rather than higher freight rates. We've not yet seen this materialize, but this could change, obviously, if the situation in the region escalates and oil prices increase dramatically."

According to Philip Damas, head of Drewry Supply Chain Advisors, [the huge jump in spot rates following the Houthi attacks](#) was partly related to timing. Red Sea diversions happened to coincide with a period of high demand as importers sought to load cargoes prior to the February Chinese New Year holiday break.

“The initial shock was due to ships being in the wrong place or out of schedule. But the second point is that the timing was really unfortunate. Ship capacity was tight because many companies were trying to import from China before the Chinese New Year closure. This timing made the bottleneck worse. There was frankly a bit of a panic in China, with everybody trying to get their containers out, and with a shortage of box equipment for exports.

“The short-term dislocation was painful and worrying, but [we can already see a softening of spot markets](#) and the situation sort of normalizing,” said Damas. “There will not be a capacity crunch after March or April because the ships will be back in operation where they are needed,” he maintained.

Supply will still outpace demand

Drewry estimates that diversions around the Cape affect around 30% of global container ship capacity, with those diversions increasing transit times by an average of 30%. This equates to a 9% reduction in global capacity.

That, in turn, lowers the year-on-year growth rate in effective capacity.

The consultancy previously estimated that effective capacity would surge 9.3% in 2024 versus 2023 due to newbuilding arrivals, with port throughput (demand) rising 2.3% — a major imbalance.

Taking diversions into account, it now estimates effective capacity will grow by 5.3% and demand will rise 2.4% — still a big imbalance.

Drewry publishes a supply-demand index, with 100 points equating to supply-demand balance. Prior to the Red Sea crisis, its index outlook for 2024 was at around 75. Running the numbers again to account for the diversion effect, the index rises to 77 if diversions last for the first six months of this year and 81 if they last all year.

Thus, the Red Sea effect on capacity “barely moves the needle,” said Heaney. “It’s not going to flip the overall overcapacity story.”

Comparing Red Sea crisis to supply chain crisis

Current container trade dislocations come at a time when memories of the supply chain crisis are still fresh. Some media reports have started to compare the impact of the Houthi attacks to the COVID-era disruptions.

But according to Heaney, “The current situation is only partially comparable to the pandemic. During lockdowns, we saw a huge surge in demand for containerized goods, which, when coupled with disruptions across every link of the supply chain, sent shipping costs into orbit.

“These days, demand is much more pedestrian. You don’t have the government stimulus. Spending patterns have reverted back to services.”

As opposed to the case in 2021-2022, “there is now a surplus of ship capacity and you don’t have the widespread supply chain snarl-up we had back then.”

That said, port congestion is an important bellwether to watch.

“The deterioration of port productivity was a major reason why rates went into orbit during peak COVID. There is a definite risk that these off-schedule ship diversions will cause ships to cluster upon their arrival, which could lead to port congestion and more equipment shortages.

"It's our view that liner networks will recalibrate to account for diversions, but clearly, we need to keep a close watch on that."