Demand slide with ballooning capacity a recipe for rate crash

An increasingly volatile container shipping market is becoming harder to predict according to Drewry Shipping Consultants.

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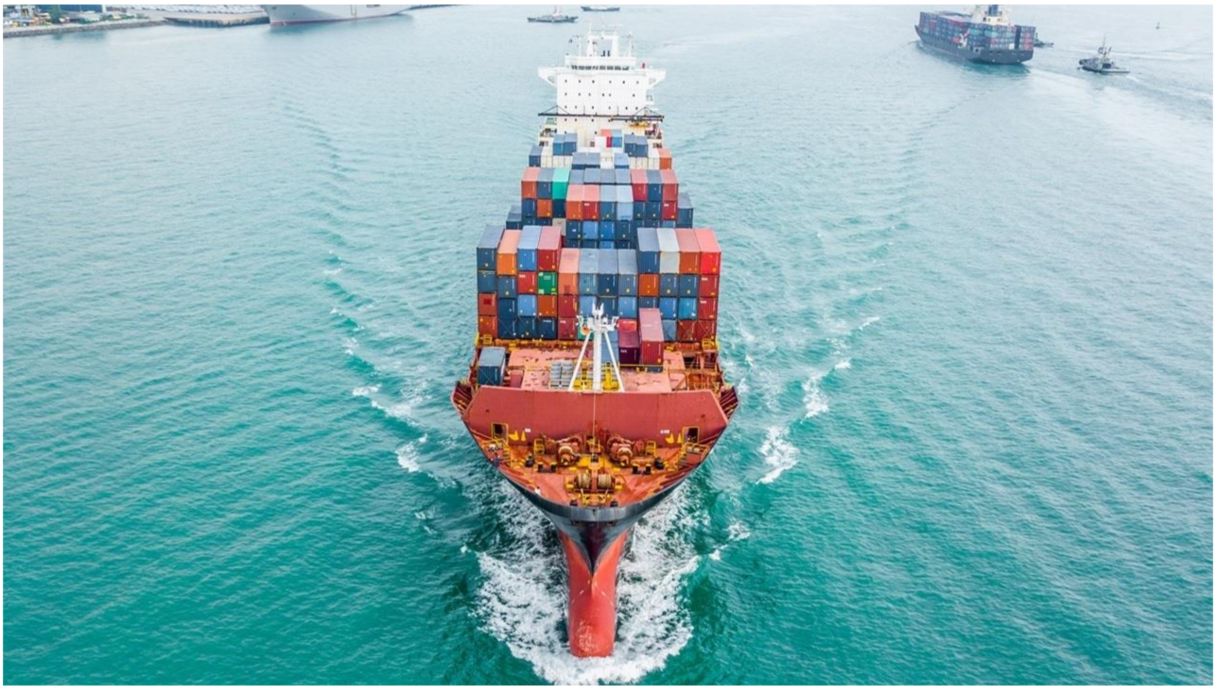

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At a Glance

- Drewry World Container Index lost 13% last week
- US East Coast port strike now increasingly likely
- Peak season could have ended

The influx of container ship newbuildings continues apace and the propensity for further unexpected or foreseeable events remains high making the market hard to call.

In the latest Drewry rate assessment, the composite World Container Index (WCI) lost a further 13%, while the key trades out of Shanghai to the US and Europe saw declines of 7% and 17% respectively.

Drewry analyst Simon Heaney said: “The market is so volatile and unpredictable at the moment, but the underlying fundamentals would see rates continue to slide.”

According to Heaney there is no shortage of capacity, with owners “undertaking a new ordering frenzy,” with around 300,000 teu of new capacity being delivered, not all deployed on the major trades.

Linerlytica’s latest count reported a total of 35 ships delivered, with an aggregate of 268,088 teu. This influx of new tonnage is expected to continue through to 2027, as owners look to replace older vessels with cleaner ships.

US East Coast industrial action is very likely now, said Heaney, with no ongoing talks and union officials rejecting government intervention, in the form of arbitration as was the case on the West Coast.

“Alternative terminals can be found in Canada and the USWC, but they will not be able to absorb all of the EC cargo, and there is a possibility that unions at these terminals will handle diverted cargo,” added Heaney.

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Some of those diversions have already taken place as shippers looked to ship cargo ahead of any disruption, however, Drewry believes there will be another spike in Pacific rates and Atlantic rates if, dockers strike.

Heaney, said he could not comment on the reports from the National Retail Federation/Hackett Associates Global Port Tracker forecasting an import surge of 14% this month to 2.3 million teu, which could turn the rate slide into another spike.

East coast disruption could spill over into other key trades, but for the moment the Asia to Europe trades have settled, with the influx of tonnage and a decline in demand.

Drewry believes that the peak season has ended, though Heaney says it is “difficult to read,” but new capacity has improved schedules and eased congestion.

Dynamar analyst Darron Wadey, confirmed the rise in capacity with 10.2 ships per service in 2023, on the Asia to Europe and the Mediterranean trades, that increased to 12 9 vessels a year later.

“A good chunk of that extra tonnage would be taken up by the extra sailing distance required for going around the Cape; one or two vessels per service, for the most part. In addition, the average capacity of the vessels has reduced by 500 teu to 16,400 teu, so this mitigates the positive impact of extra ships, making the situation weaker in capacity terms,” explained Wadey.

This year’s demand drive means that it would still be difficult to consider the Asia to Europe trades as having an overcapacity.

“Carriers did cope with the rush, helped by the incoming wave of new vessels, but even now they appear to be struggling with schedule integrity,” said Wadey.

He added: “A straw-poll of six services showed that only two ran at a weekly frequency for the June-September period. Four were slower, ranging from departures every 7.4 to 10.2 days. For all loops, departures were ‘lumpy’ i.e. never at nicely timed weekly intervals, but irregular with sailings gaps closer or further apart than seven days.”

With more tonnage still to come this year and next year the diversions could continue, and Heaney confirmed that in conversations with key stakeholders, there is an expectation that the Suez disruption will continue well into next year, and even if the war in Palestine ends there is no guarantee that the Houthi Movement will end their action.