
# MARKET UPDATE SEA FREIGHT OCTOBER 2022

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# Contents



# Recovery of the global freight market continues & port congestion declines - Potential burdens remain

1. Topic of the month

## Easing in sight, uncertainty remains: Freight rates and congestion levels at ports in Europe and the USA decline

- Macroeconomic environment: headwinds on the freight market from increasingly pessimistic economic outlook of Western economies due to inflationary pressure and high energy costs

- Between May and July, container trade of most major regions decreased: Export volumes from Asia down 1.1% and import volumes down 8.3%, at the same time container import volumes to Europe fell by 4.5

- Port congestion in Europe and the U.S. is improving, but port strikes such as the recent ones at Felixstowe and Liverpool in the UK are putting a strain on supply chain reliability

- Geopolitical uncertainty and pandemic progress remain latent negative factors with high disruptive potential for supply chains and costs despite current positive development on the freight market

# China / East Asia - Northern Europe Freight rate corrected from highs by around 50% - current level still significantly higher than before pandemic

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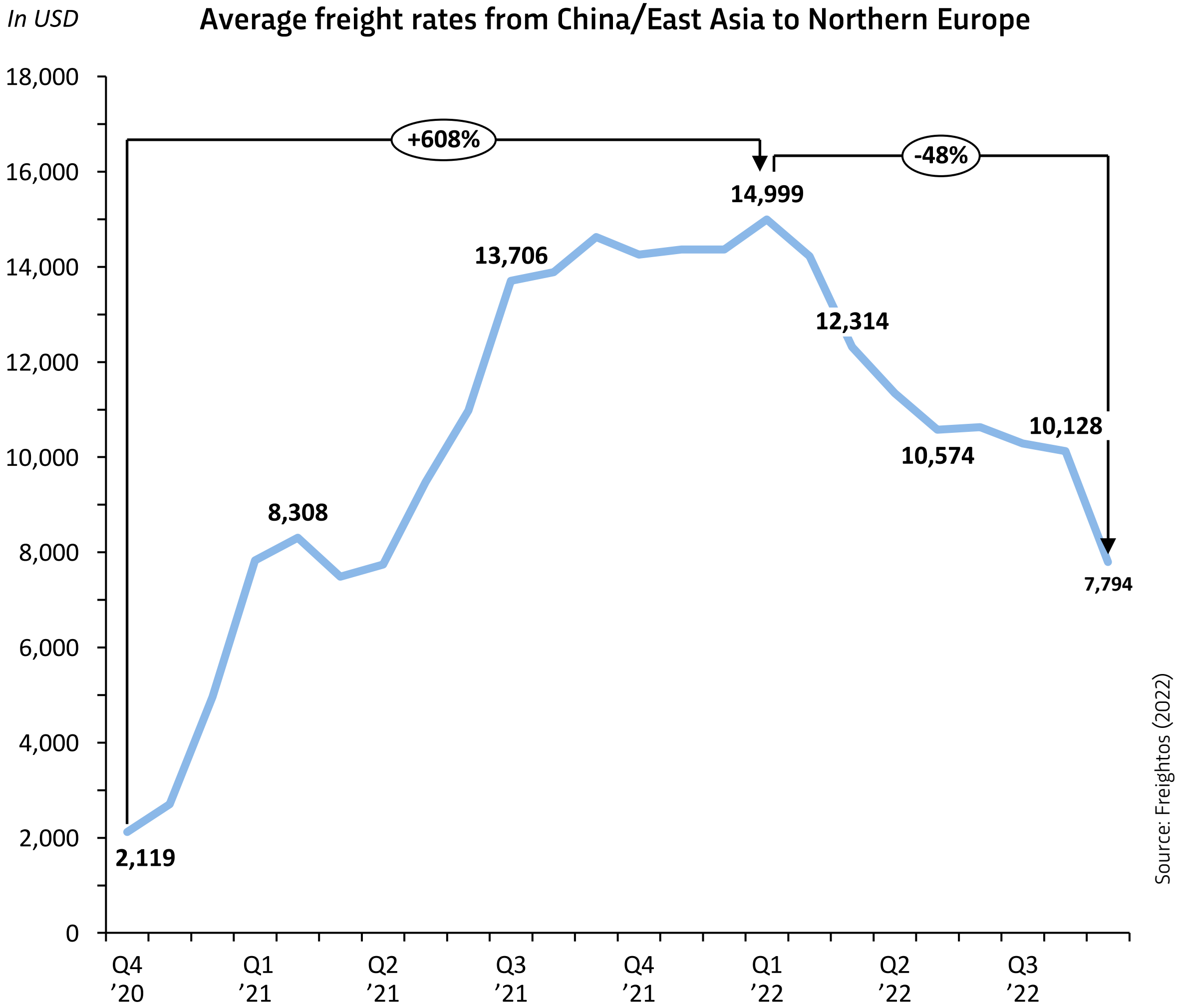
2. Recent development of sea freight rates

## Ocean freight rate halved since March due to decline in demand, level remains exceptionally high

- Following the pandemic-related increase of more than 600% to a multi-year high of USD 15,000 in some cases, the correction of the freight rate from Asia to Northern Europe continues
- The decline from the March 2022 high is about 50% with an average freight rate of $7,800 in September 2022
- Declining freight rates are attributed to falling demand coupled with increased operational efficiency of container shipping due to load normalizations at ports
- Uncertainty factors & latent cost driver potentials:
  COVID lockdown risk (esp. in China), positive economic developments counter sentiment, increasing escalation of geopolitical conflicts, port strikes, fuel prices



# The speed of normalization differs on the various trade routes: Costs for Asian imports in particular down sharply

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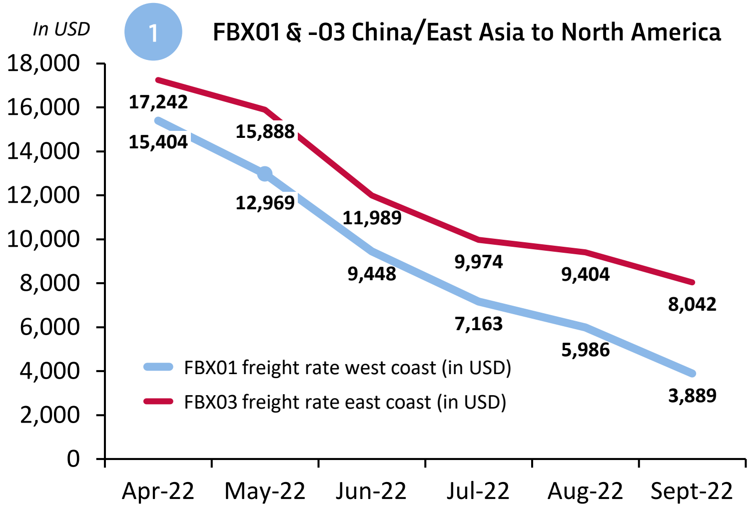
## 2. Recent development of sea freight rates

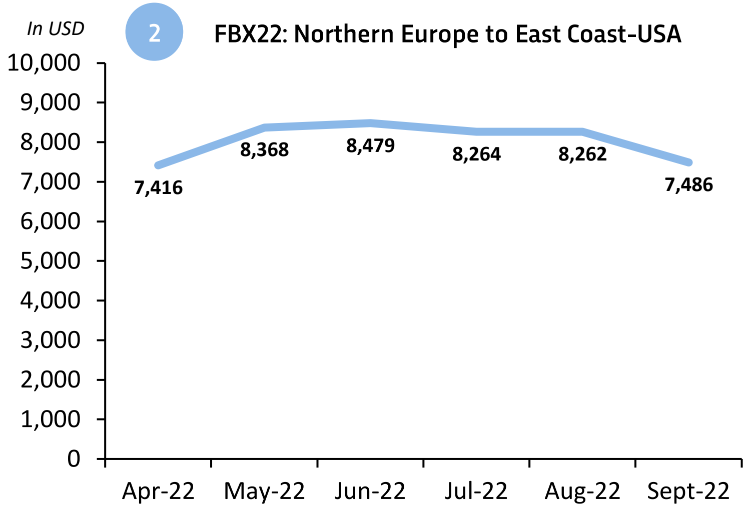
1
- Freight costs from China/East Asia to the U.S. West Coast have tripled since April
- Freight costs from China/East Asia to the East Coast have halved over the same period

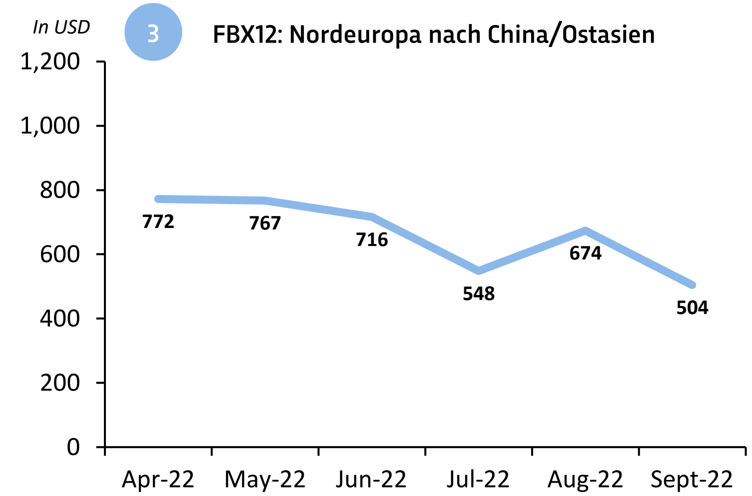
2
- Freight costs from Northern Europe to the East Coast of the U.S. declined to an average of $7,486USD in September, just above the April level

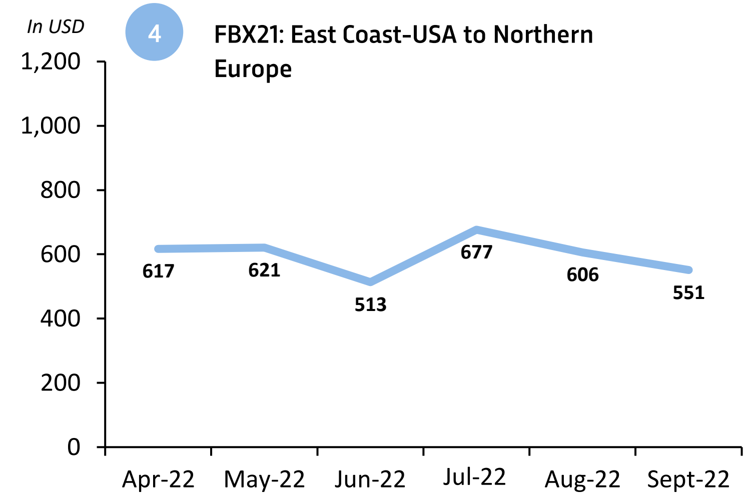
3
- The decrease in the freight rate from Northern Europe to China/East Asia since April is 35%

4
- Freight rates on the trade route from the east coast of the USA to northern Europe record the smallest cost decrease of 10%




Source: Freightos (2022)

# Reliability of the schedule affects ship capacity

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## 3. Vessel capacities & shipping routes


### Reliability of the schedule affects ship capacity

- Space is available, but schedule reliability continues to be impacted by a large number of empty runs, vessel postponements, and port omissions
- Congestion at ports in Europe, especially Hamburg and Rotterdam, has reached critical levels
    - This may lead to further delays and a delayed return of the ships to Asia
- 11 announced empty runs for Asia-Europe: decrease of 8.6% compared to normal capacity

### Elimination of bottlenecks

- Key factor in shipping companies' efforts to increase reliability is reducing bottlenecks
- Europe: Increased labor availability and lower imports reduce port bottlenecks
- Decreasing container ship queues lead to increased global capacity, says Jensen (CEO, Vespucci Maritime)
- In January, 13.8% of global fleet capacity was still unavailable due to delays → In July, the figure was only 9.3%

# Average global bunker prices down by around 30%; pre-Corona level not yet reached

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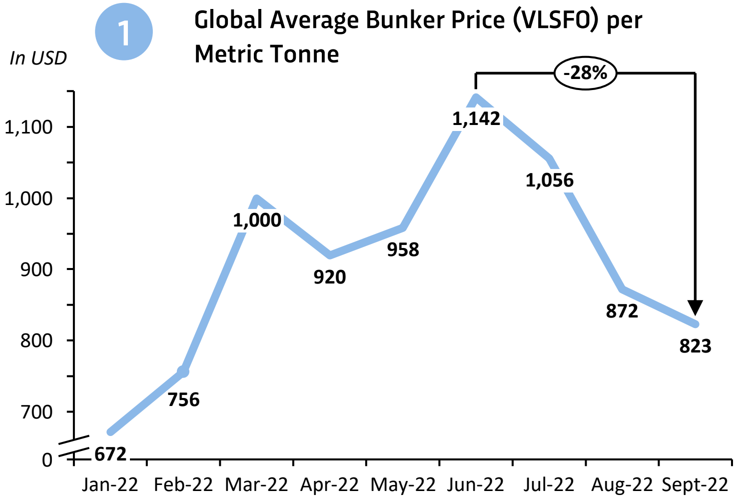
## 4. Bunker prices

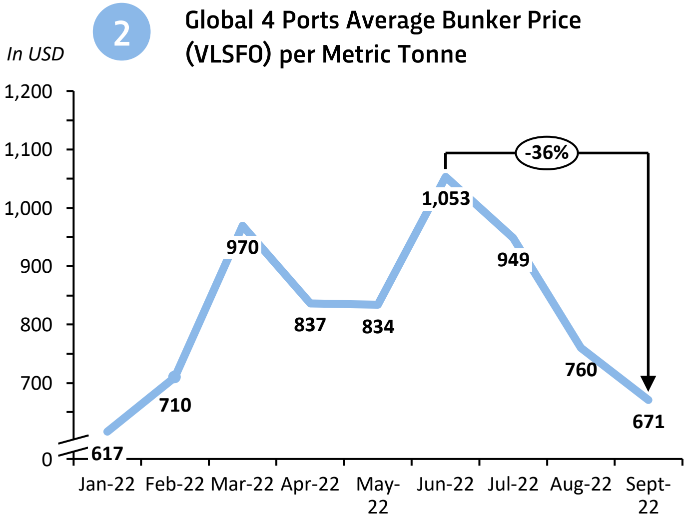
1
- Average global bunker price down 28% since June 2022
- Current bunker price 30% above January average

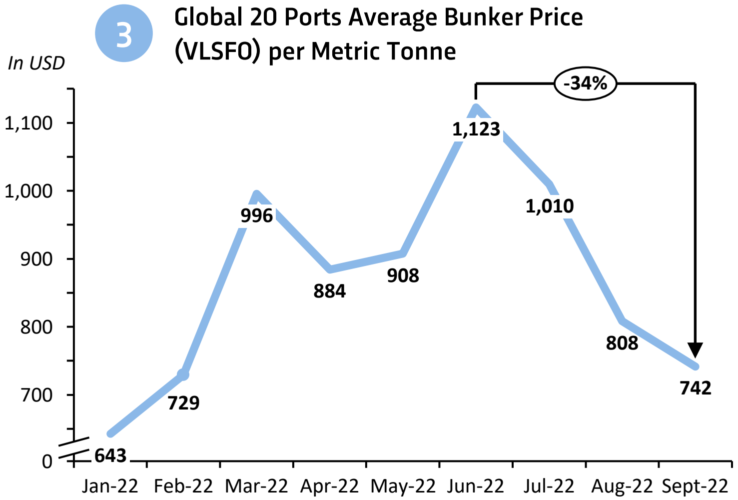
2
- 4 Ports Average bunker price is almost 150 USD below the global average bunker price
- Ports considered: Singapore, Rotterdam, Fujairah, Houston

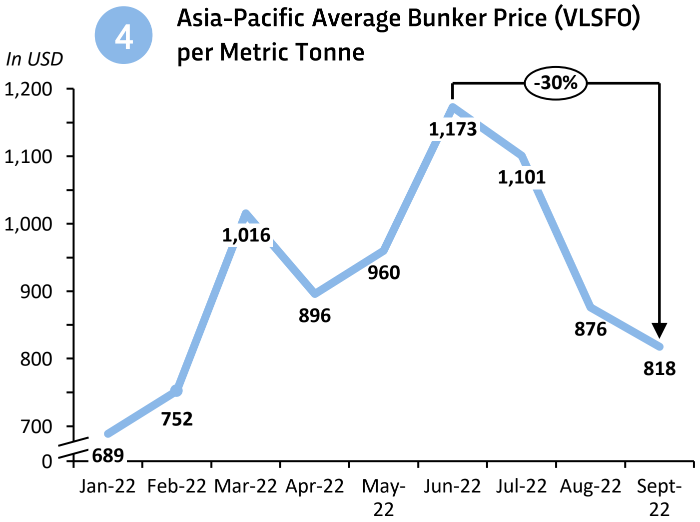
3
- Average of the bunker price at 20 ports worldwide
- Down 34% since June 2022
- Is 80 USD below the global bunker price

4
- Bunker price at ports in Asia and Pacific down 30% since June high
- September average was $818, June high of $1,173 per metric ton



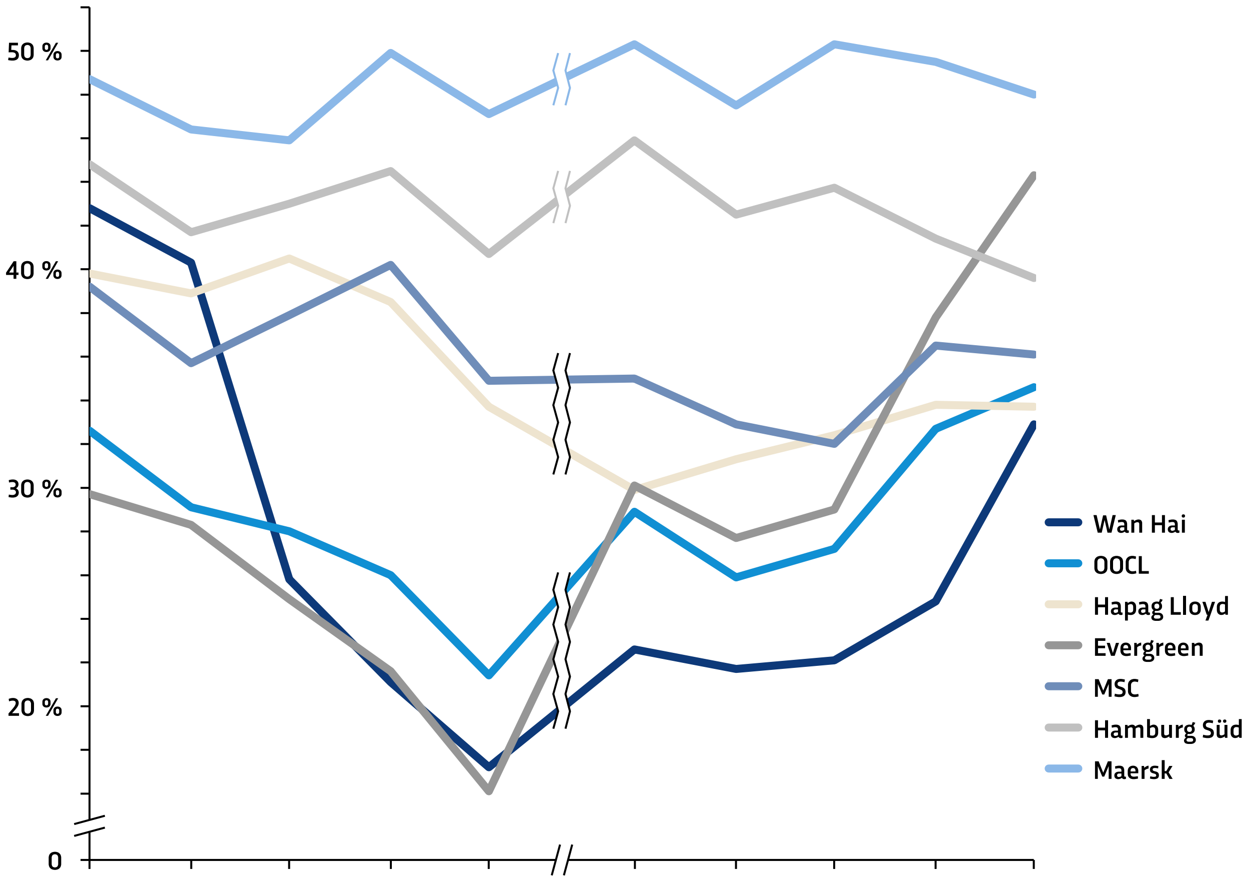




Source: Ship & Bunker (2022)

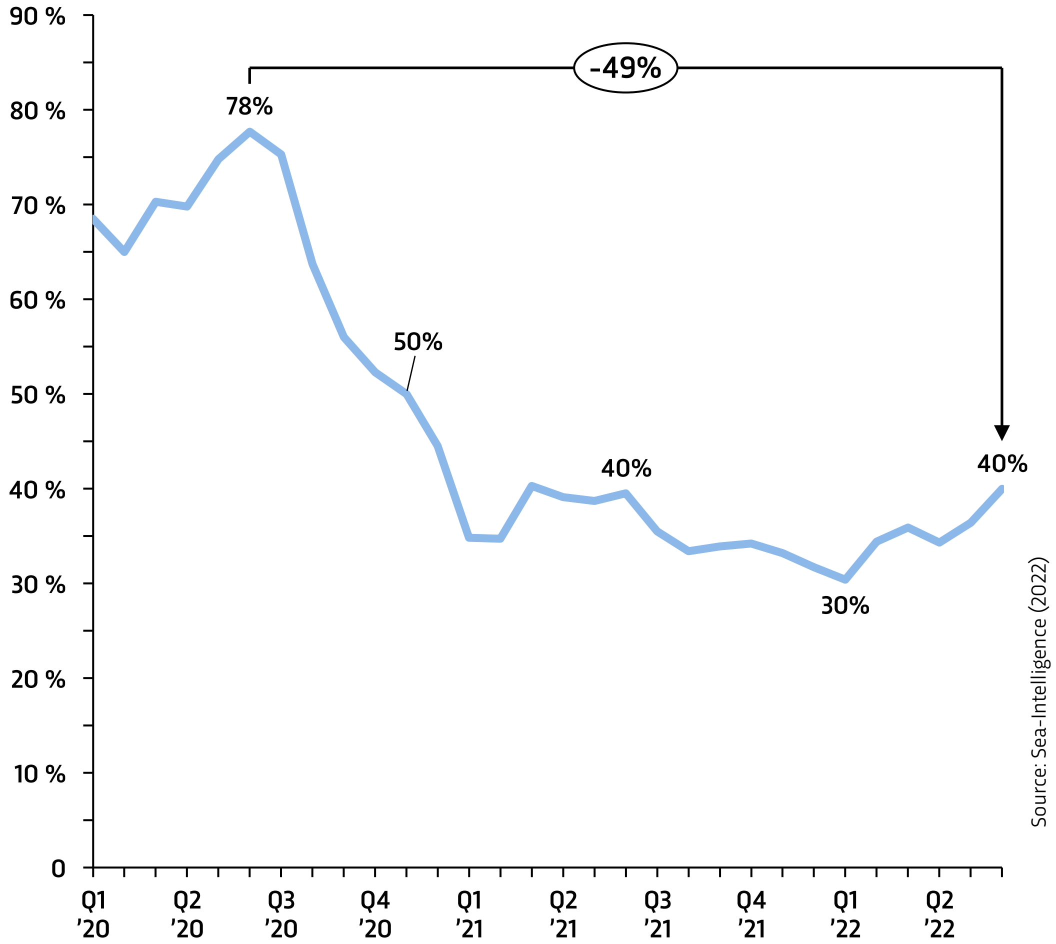
# Average schedule reliability of large container ships increased slightly in Q2; pre-Corona level still far from reached



Average schedule reliability of major shipping companies (%) 2022 compared to 2021




Global average schedule reliability of large container ships (%)




Source: Sea-Intelligence (2022)

# Increased inventories and drop in demand put pressure on freight rates after Corona rally; typhoon affects port operations in China

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## 6. Newsroom

### Supply side difficult to assess, demand declining

- Empty runs due to congestion occupy 20-30% of capacity
- Total TEU volumes deployed stable in the last two quarters, however
- In view of the threat of recession and rising inflation rates, consumers are expected to be reluctant to spend; initial declines in freight traffic reinforce this assumption:
- Freight rates under pressure, container prices in downward trend after Corona rally
  - European countries more affected than U.S. due to high dependence on Russian energy exports
  - Interaction of increased inventories due to previous supply problems and lower consumer demand reinforce effect
- Asian container exports to Europe down 9.7% year-on-year in second quarter
- Export volumes to North America up 2.5% year-on-year in June, driven in part by a strong US dollar


### Typhoon "Muifa" affects port operations and shipping on China's northern east coast

- The ports in Shanghai and Ningbo, two of the largest container ports in the world, were temporarily closed due to typhoon "Muifa".

# Annual investment of $40 billion needed for "zero emissions"; Disrupted supply chains due to strikes at GB ports.

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6. Newsroom

## Annual investment of $40 billion needed to achieve "zero-emission fuels by 2030".

- By 2030, SZEFs (scalable, zero-emission fuels) would need to account for 5% of total marine fuels
  - One goal a necessary milestone for the industry to achieve "zero emissions" by 2050
- According to a study by UMAS and the UN, the shipping industry must commit to investing $40 billion annually by 2030 in the development of scalable, zero-emission fuels
  - Some of the measures are on track, the report says, pointing to more than 200 SZEF pilots and demonstration plants under development

## Renewed strikes in Great Britain

- Felixstowe and Liverpool port staff on strike again
- Delays caused by the ongoing wage strikes at the ports of Liverpool and Felixstowe at least until October 5.
- Problems in upstream and downstream logistics due to supply chain disruptions in the UK also affect other routes
- Empty containers from Europe to China delayed due to closures and capacity constraints, supply chains disrupted elsewhere as a result

# Complexity of external influences makes valid prediction of freight market difficult; current freight rates offer countercyclical potential

## 7. TvK Outlook

The decline in freight rates may continue, but countermovements or a trend reversal may be triggered at any time by macroeconomic developments and shocks.

Risk factors:

- China still adheres to extremely strict corona policy; renewed port closures due to lockdowns cannot be ruled out
- A further escalation of the Ukraine war could place a heavy burden on global supply chains
- Economic sentiment currently extremely negative, a positive turnaround in global economic development could result in a surge in demand
- Risk of congestion and disruption at European ports due to ongoing strikes, such as the recent ones at Felixstowe and Liverpool in the United Kingdom

**The negotiating position on the demand side has improved significantly due to the downward trend in freight rates and the negative economic sentiment. Currently, the market offers countercyclical opportunities for long-term freight contracts.**

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