

HARDERS Quarterly



Carriers, Capacity & Rates



In recent months, shipping lines have implemented bolder capacity management controls to prevent rate erosion as supply continues to outpace demand.

Failed attempts to implement rate restorations on Northeast Asia to Australia and New Zealand routes last Quarter have caused carriers to react, leading to a raft of cancelled sailings. Some carriers have repositioned vessels from the Australian and New Zealand trades to higher-yielding routes, while others have reduced their weekly space by downgrading larger vessels to smaller ones.

The gap between supply and demand needs to close to ensure smaller shipping lines survival in the trade. With the recent rolling of bookings and space shortages, confidence has intensified, and an artificial peak is currently being experienced. Shipping Lines have therefore announced **three** rate restorations to apply from Northeast Asia to Australia and New Zealand for sailings departing on August 1st, August 15th and September 1st, 2023, at a quantum of USD 150 per TEU on top of spot FAK rates respectively. The shipment booking forecasts indicate a significant increase, and due to reduced weekly capacity on the berth, these new rate increase announcements are expected to have a greater impact.

The ever-changing market will continue to challenge carriers to stabilize freight rates by reducing capacity. Be mindful of sailing schedules as they will play a pivotal role in determining competitive options for shippers as we do believe disruptions will continue to impact supply chains.



In Focus

China

China

This quarter cancelled sailings have become prevalent as shipping lines adjust their capacity to meet the reduced demand. Some have even boldly removed vessels from Northeast Asia to and from the Australian and New Zealand trades, deploying them on other routes. As Quarter 1 financial results depict a shocking picture with news that shipping line profits continue to plunge, it is no surprise that shipping lines will take any necessary measures to ease the burden of high operational costs affecting their bottom line.

After two failed attempts to restore freight levels via Rate Restoration announcements in May and June, we have witnessed a more aggressive stance being taken by the shipping lines to combat the oversupply. This has led to space shortages due to the continued cancellation of voyages also known as “blank sailings” plus other factors including, adverse weather, port omissions, changes to rotation and terminal calls, creating a backlog resulting in a cascading effect as bookings roll onto subsequent vessels.

With confidence mounting carriers have embraced the opportunity to announce **three** Rate Restorations to apply ex-Northeast Asia to Australia and New Zealand on sailings departing August 1st, August 15th and September 1st, 2023. This Rate Restoration will be at a quantum of USD 150 per TEU respectively on top of the spot market FAK rates.

Major carriers are confident that this time, the increases will gain more momentum as more blank sailings are being implemented with the A3C services run by (COSCO / ANL / OOCL) which will blank sail in week 31. This news comes after the OOCL Canada went into dry dock and will not be replaced, hence estimating space to be tight in the coming months, as a more positive outlook on increased shipments is being forecasted.

In Focus

South East Asia

South East Asia

There is a concerning trend in freight rates as demand remains low and carriers are becoming increasingly worried. Rates have dropped to historic lows, falling even lower than pre-pandemic levels. Unless shipping lines take action to review their capacity or make structural changes to their services, this trade will continue to be under pressure. ANL has recently downsized some of the vessels on their Australia Asia Express (AAX) services and reduced capacity on one service from three vessels to two. This re-engineering of vessels and reduction of capacity may help slow down the rapid decline in freight rates seen in Quarter 2. The unique service introducing direct calls in Mundra and Nhava Sheva seen in Quarter 2 has been short-lived with no signs of this service coming back until they see an improvement in demand.

“There is a concerning trend in freight rates as demand remains low and carriers are becoming increasingly worried.”

In Focus

Europe United States

Europe

This month, customers are showing more support for direct services to Australia as they experience longer transit times with Asian carriers due to numerous blank sailings. On the Trans-Tasman, all services are transhipped and have been experiencing delays due to inclement weather. Delays have been inevitable on the Trans-Tasman routes with services omitting key New Zealand ports as carriers make last-minute changes to routings to improve their schedule integrity. Forecasts for Quarter 3 suggest a more positive outlook after a bleak performance in recent months. As we approach European summer vacations from mid-August, bookings are expected to surge over the next few weeks. Traditionally, the trade slows down for a summer holiday break, with some origins in the Mediterranean closing. Quarter 4 is expected to see a strong return in bookings as the trade resumes more normal ordering patterns. Freight rates will remain under pressure until the trade shows signs of consistent full vessels week in and week out. Prioritising price over urgency is leading to strong competition among all transshipment carriers on the Australian and Trans-Tasman routes putting pressure on freight rates. The weak demand in Asia is also contributing to this pressure.

USA

CMA's PANAMA service is still experiencing delays but is committed to maintaining its weekly call. Port omissions will be necessary to reduce ongoing delays on this route. Shippers looking for an alternative to direct service carriers from the USA may wish to consider transshipment carrier alternatives that operate via Taiwan or Korea as a good option. While USA W/C congestion has eased, labour shortages remain a challenge and delays will continue. Rates have remained stable on this trade, and there are now more options available as Asian carriers open space via transshipment hubs from these origins.

In Focus

Trans Tasman

Trans Tasman

Due to inclement weather, services on this trade have been disrupted. Carriers have had no choice but to change the rotation of their port calls and omit certain ports to maintain schedule integrity.

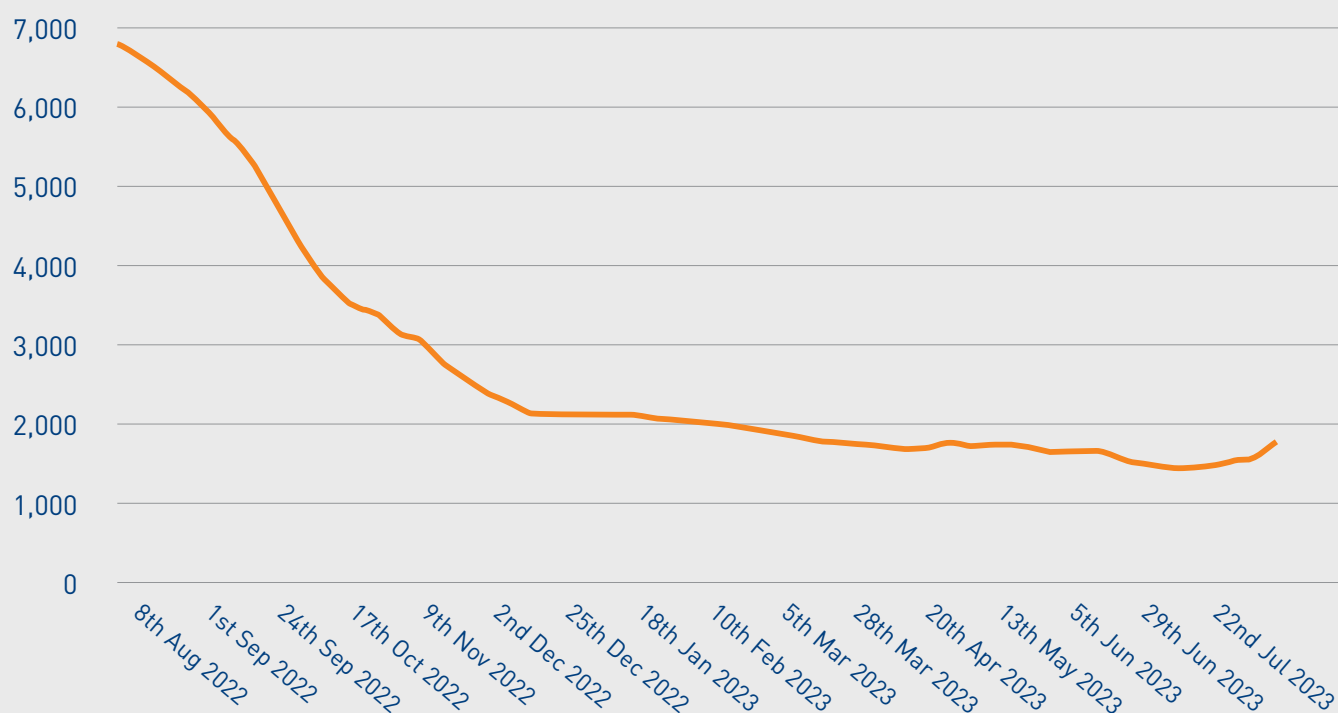
Most services are experiencing delays due to berthing congestion because of the above factors. Reporting shipping industry updates is key to keeping shippers informed of any schedule changes that may occur more often due to these delays.

COSCO's fortnightly service is currently 70% full and the Bell Bay call is proving to be a success, with many clients utilising it as a hub to service other areas like SEASIA. There is a discussion on introducing a second vessel as a backup due to delays encountered as congestion in Auckland seems to be a constant issue with the vessel being off the berthing window.

As New Zealand's export reefer peak season comes to an end, demand from New Zealand to Asia is expected to ease during August. Carriers will be open to negotiating further if cargo is readily available to book.

Drewry World Container Index [WCI]

03 Aug 23 (US\$/40ft)



Source: Drewry World Container Index, Drewry Supply Chain Advisors

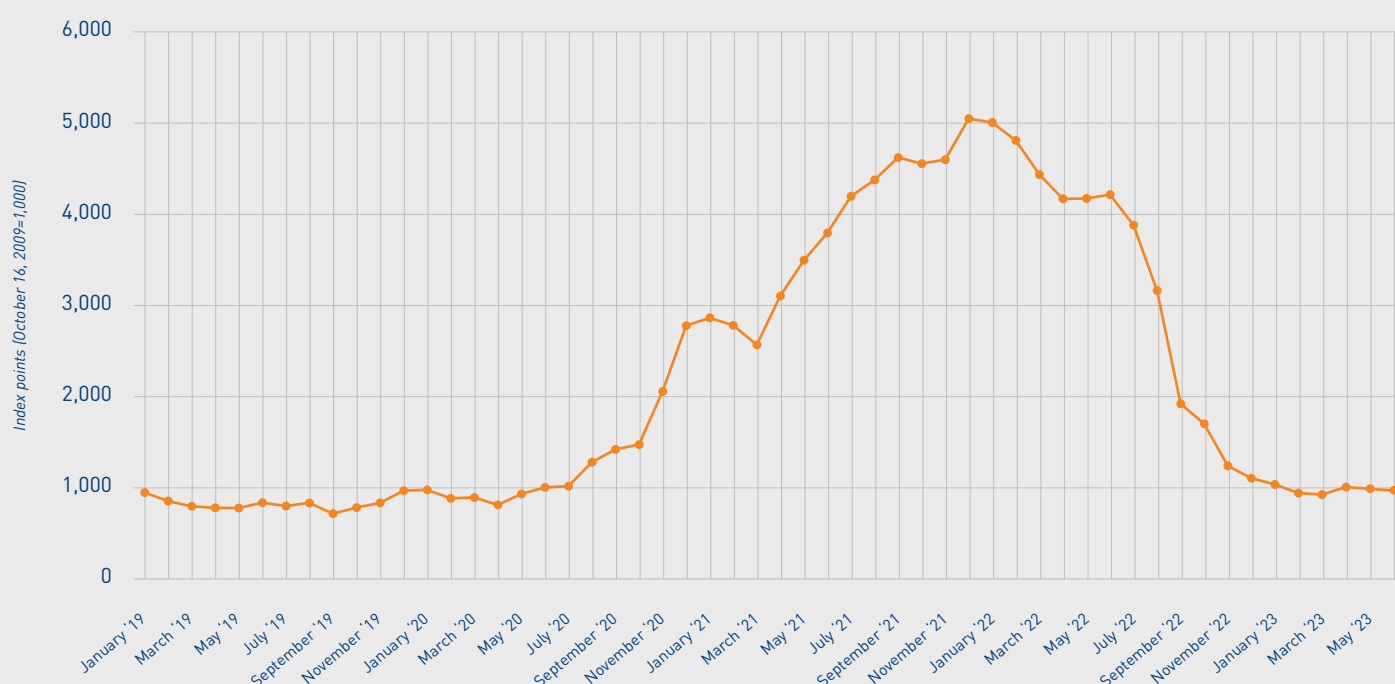
Findings

This week, there has been an 11.8% increase in the World Container Index. However, when compared to the same time in 2021, rates overall have dropped by 73.4%. The latest index shows a rate of USD 1,761.33 per FEU, which is 83% lower than the peak rate of over USD 10,377 per FEU that was reached in September 2021. Although this rate is 34% lower than the 10-year average

of USD 2,684, it remains 24% higher than the average rate in 2019 (before the COVID-19 pandemic) which was USD 1,420. These figures suggest that the prices are returning to normal, and the market is stabilising. We can expect that the East-West spot rates will remain stable in the next few weeks.

Shanghai Containerized Freight Index

Shanghai containerized freight rate index
from January 2019 to June 2023



Source Statista 2023

Findings

Between January 2019 (before the COVID-19 pandemic) and June 2023, the cost of shipping goods from Shanghai per TEU fluctuated. In 2021, it reached a record high of USD 5,000 per TEU. The current graph above shows that freight rates are returning to pre-pandemic levels, suggesting a return to traditional off-peak periods after Chinese New Year in February, and possibly a peak season in Quarter 4 2023. Market demand, available supply, and how quickly shipping lines can control their capacity will all influence the spot market freight rates.

Currently, there is evidence of shipping lines implementing more cancelled sailings from China to stabilise freight rates. This is being achieved by cutting back on weekly space through blank sailings and pushing multiple rate increases this Quarter.

In Quarters 3 and 4 we will start to see a similar pattern emerge to 2019 as we say goodbye to the extraordinary years of 2021 and 2022 where historical highs sent shockwaves across all supply chains.

Major Routes – Spot Rates

Assessment across eight major East-West trades

Route	Route code	20-Jul-23	27-Jul-23	03-Aug-23	Weekly change (%)	Annual change (%)
Composite Index	WCI-COMPOSITE	\$1,537	\$1,576	\$1,761	12% ▲	-73% ▼
Shanghai - Rotterdam	WCI-SHA-RTM	\$1,292	\$1,292	\$1,620	25% ▲	-82% ▼
Rotterdam - Shanghai	WCI-RTM-SHA	\$528	\$527	\$520	-1% ▼	-57% ▼
Shanghai - Genoa	WCI-SHA-GOA	\$1,902	\$1,893	\$2,070	9% ▲	-79% ▼
Shanghai - Los Angeles	WCI-SHA-LAX	\$1,965	\$2,087	\$2,322	11% ▲	-67% ▼
Los Angeles - Shanghai	WCI-LAX-SHA	\$839	\$839	\$838	0%	-34% ▼
Shanghai - New York	WCI-SHA-NYC	\$2,906	\$3,049	\$3,330	9% ▲	-66% ▼
New York - Rotterdam	WCI-NYC-RTM	\$736	\$735	\$737	0%	-43% ▼
Rotterdam - New York	WCI-RTM-NYC	\$1,640	\$1,590	\$1,587	0%	-77% ▼

Source: Drewry Supply Chain Advisors

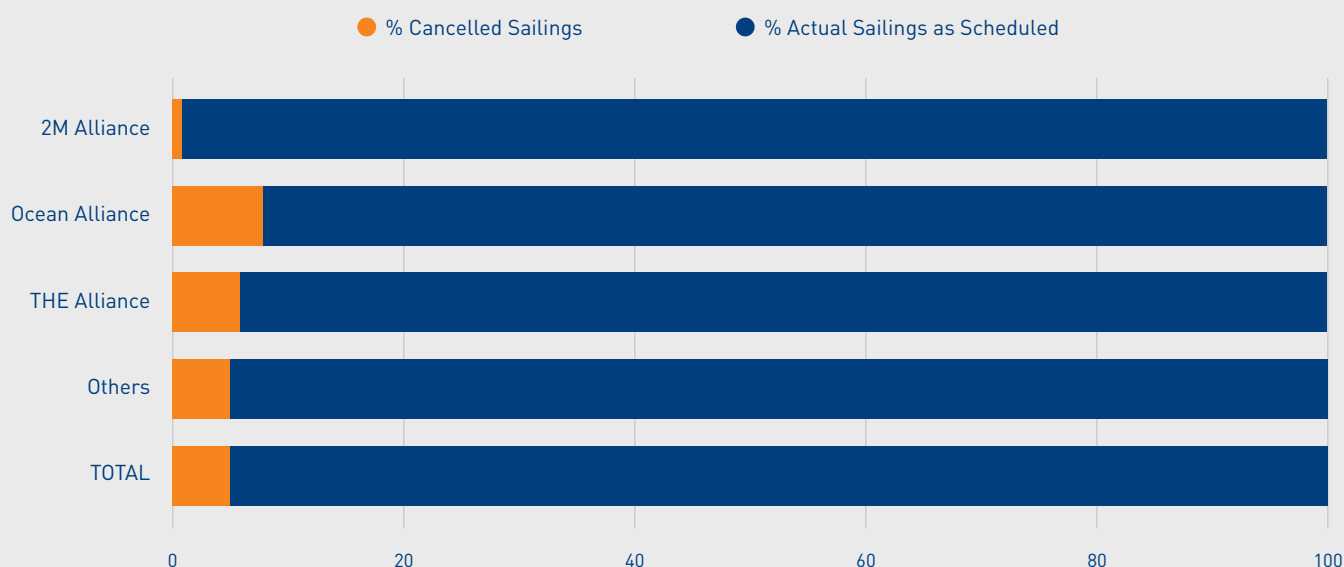
Findings

There has been a notable increase in freight rates on various routes, particularly on the Shanghai – Rotterdam route, which has experienced an impressive surge of 25%. On the other hand, rates on the Rotterdam – Shanghai route have slightly decreased. Meanwhile, spot rates from Los Angeles

– Shanghai, New York – Rotterdam, and Rotterdam – New York have remained stable. Based on Drewry's analysis, it is predicted that East-West spot rates will remain steady in the upcoming weeks.

Cancelled vs. Scheduled Sailings

Drewry cancelled vs scheduled sailings (Week 32 to 36)



Source: Drewry Supply Chain Advisors

Findings

Between August 7th and September 10th, a total of 35 sailings have been cancelled in the major East-West head haul trades, including Transpacific, Transatlantic, and Asia-North Europe & Med. This represents a 5% cancellation rate out of the 665 scheduled sailings. During this period, the Transpacific Eastbound trade will experience 46% of blank sailings, while the Asia-North Europe & Med and the Transatlantic Westbound trades will see 26% and 28% of blank sailings, respectively.

Over the next five weeks, OCEAN Alliance has announced 13 cancellations, followed by THE Alliance and 2M with 8 and 1 cancellations, respectively. Non-Alliance services have also implemented 13 blank sailings during this same period.

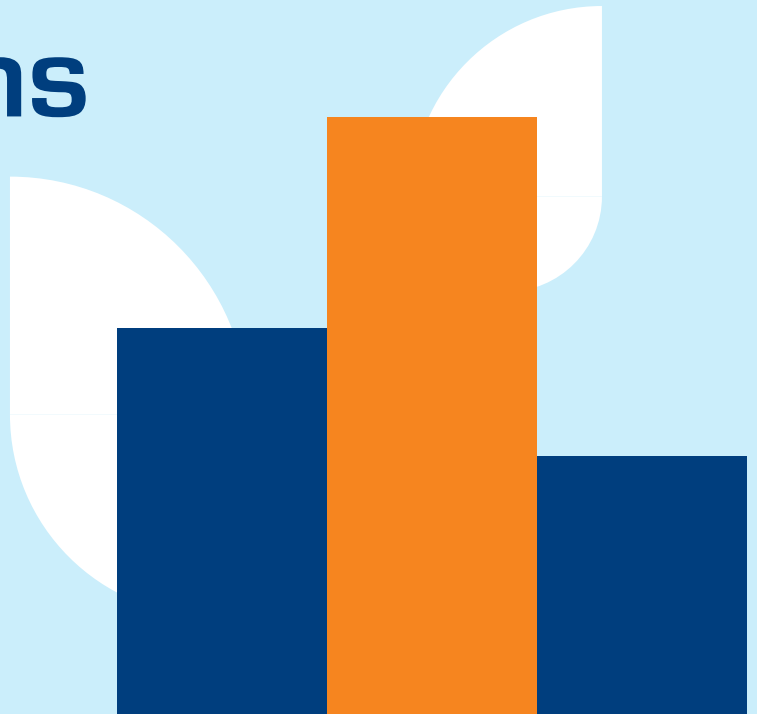
Despite these cancellations, we expect a moderate change in carrier service reliability, with 95% of

ships expected to sail as scheduled over the next five weeks, except for the 2M Alliance with a 99% expected rate over the same period.

The rates for shipping goods by ocean freight from Asia to North Europe have gone up by 25% in just one week on the Shanghai-Rotterdam route. This increase is due to the higher Freight All Kinds (FAK) rates set by ocean carriers like Maersk and CMA CGM. As a result, the current spot rates for this route are now 5% higher than before the pandemic, despite a 4% decline in spot rates during weeks 23-26.

Ocean carriers might implement additional blank sailings to maintain rates due to the subdued demand outlook. This could result in cancellations for shippers and Beneficial Cargo Owners (BCOs) with little notice or delays.

Expectations



As carriers battle to stabilise freight rates by reducing their capacity, we will continue to experience an ever-changing market.

Sailing schedules will continue to play a pivotal role in determining the most competitive options available to suit specific supply chain needs. It is important to note that carriers will be opportunistic and seize any opportunity to cancel more voyages if rates continue to be at loss-making levels.

Quarter 4 will continue to be marred with service disruptions as the battle to strive for 4-digit freight rates will once again be on all shipping lines' agenda.

This will be a challenge for all supply chains, as the market will be influenced by a “yo-yo” cycle in pricing and services. We, therefore, believe delays will be inevitable on some trade lanes, and two-to-three-week lead times for bookings will once again be detrimental for time-sensitive cargo.



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