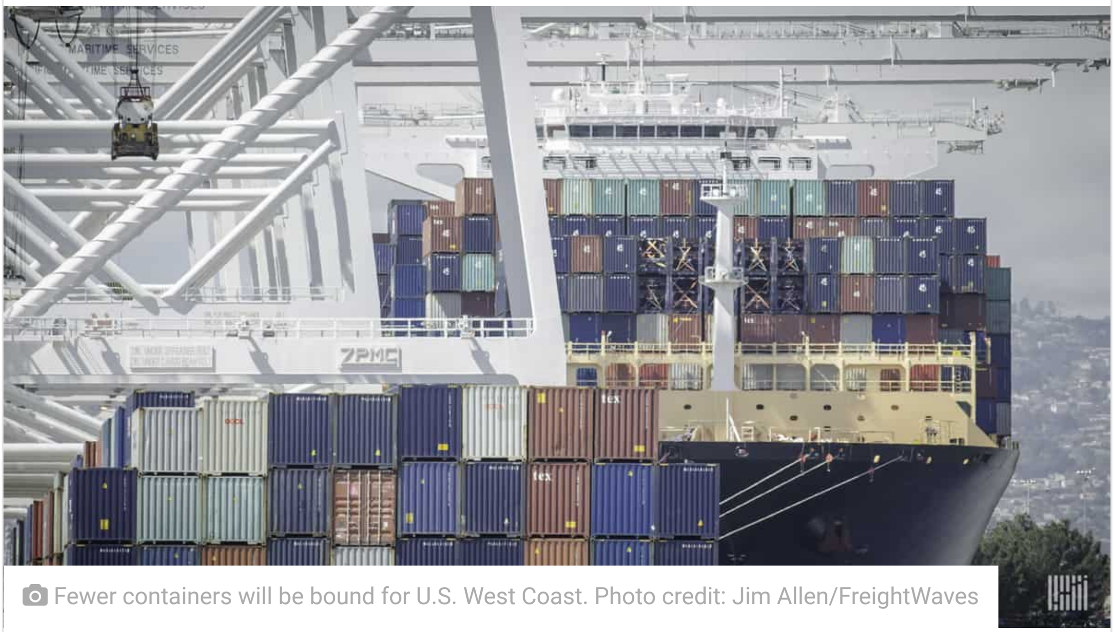
American Shipper Container Maritime News Shipping

Ocean container volumes are about to fall off a cliff

Greg Miller, Senior Editor • Thursday, March 26, 2020 0 1,019 3 minutes read



Fewer containers will be bound for U.S. West Coast. Photo credit: Jim Allen/FreightWaves

Listen to this article

5:22

The new market outlook of U.K.-based consultancy Maritime Strategies International (MSI) reads like a Stephen King novel geared toward container-line executives. It's not exactly feel-good reading for cargo shippers either. Cheap freight rates are only attractive if they don't trigger another Hanjin Shipping-style bankruptcy.

"The near-term outlook for the container-ship industry has deteriorated rapidly following the spread of COVID-19 cases worldwide and subsequent efforts to limit the number of deaths and cases," warned MSI in its monthly outlook released Thursday.

"There seems little doubt that containerized trade will shrink in 2020, with near-term rates of decline potentially approximating — or even exceeding — those seen during the financial crisis," it said.

Mainline trades

In the mainline east-west trades (trans-Pacific, Asia-Europe), MSI sees "extraordinary downward pressure given a looming collapse in consumer spending in Europe and increasingly, North America." It cited "near-unprecedented headwinds" for European imports, with the trans-Pacific to face the same shock as the Asia-Europe lane, but with a lag.

"While liftings data from March should remain reasonably positive, thereafter it will become a question of 'how bad can it get?'" said MSI, which believes the full-year 2020 slump won't be as severe as 2009's but that the second quarter of 2020 could match financial-crisis-era lows.

The consultancy projects that the total volume in March-May will fall 17.8% year-on-year on the Asia-Europe route, 15% on the trans-Pacific (U.S. West Coast) route and 13% on the trans-Pacific (U.S. East Coast) route.

Non-mainline trades

"There is no trade that will escape the impact of the COVID 19 global recession," stressed MSI, which noted that non-mainline trades are highly exposed due to capital flight from emerging markets, the surge in the value of the U.S. dollar and sliding commodity prices.

"Regional trades will come under severe pressure, owing to economic contraction, disrupted supply chains and reduced transshipment cargoes," it added.

MSI projects that total volume in March-May will fall 12% year-on-year on the Asia-Middle East-India route, 10% on the Asia-Latin America and trans-Atlantic westbound lanes, 8% intra-Europe and 5% intra-Asia.

Spot freight rates

As previously reported by FreightWaves, escalating cancellations by U.S. cargo buyers will force container lines to resume "blanked" (canceled) sailings from Asia. April should bring a repeat of blankings seen in February, when the coronavirus shutdown blocked Chinese exports. In February, spot rates held up. This time, they won't, according to MSI.

What's different, it said, "is that the shock to demand will come from the importers' side and not the exporters' side, which will change the incentives facing carriers when negotiating rates. When cargoes were simply not being produced [in China], dropping rates to capture market share made less sense. In the coming months, this may not be the case and the prospect of a renewed price war becomes more likely."

What MSI does not expect is a price war between carriers on the same scale as in 2016. Over the past four years, commercial alliance relationships among major carriers have strengthened and the EU antitrust exemption has been extended.

Carrier alliances "facilitate more target effective capacity withdrawals," said MSI, adding that "the confirmed extension of the [EU] Consortia Block Exemption may give carriers greater license to do things shippers will dislike," all of which should avert "a 2016-style crash."

Nevertheless, rates will fall. The consultancy estimates that May spot rates in the Asia-Europe trade will decline 36% versus February and trans-Pacific rates will fall 17%.

Carrier financial stability

For cargo shippers, lower spot rates help margins, but there is such a thing as rates that are too low. When ocean carriers cannot earn enough to service their debt and do not have a government sponsor to rescue them, the consequence is extremely disruptive to shippers, as was seen in the 2016 insolvency of South Korea's Hanjin Shipping.

While insolvency risk was not addressed in the new MSI report, it has been cited by others, including Alix Partners and Stifel shipping analyst Ben Nolan.

In a report published on Monday, Nolan warned, "If the coronavirus drives the global economy into serious recession or depression … companies at risk could potentially include privately held MSC [Mediterranean Shipping Co.], which is the second largest liner company with 16% market share and also a very large cruise operation — which you imagine has seen better days.

"Similarly, number-four [carrier] CMA CGM with 11% market share has debt trading at 72 cents on the dollar and is rated Caa1 by Moody's," said Nolan, adding that "another name on the risk list is number-eight Yang Ming, which has seen its market capitalization deteriorate to just $375 million.

"Ultimately, this could end up blowing over without serious consequence, but on the other hand, when Hanjin became insolvent several years ago, it was chaos for the industry," Nolan said. ***More FreightWaves/American Shipper articles by Greg Miller***

Tags: bankruptcies | Bankruptcy | CMA CGM | container shipping | Coronavirus | Coronavirus Freight Industry | Corporate bankruptcy | FreightWaves Ocean | Greg Miller | Mediterranean Shipping Company | ocean container shipping | Ocean shipping | Shipping | Yang Ming