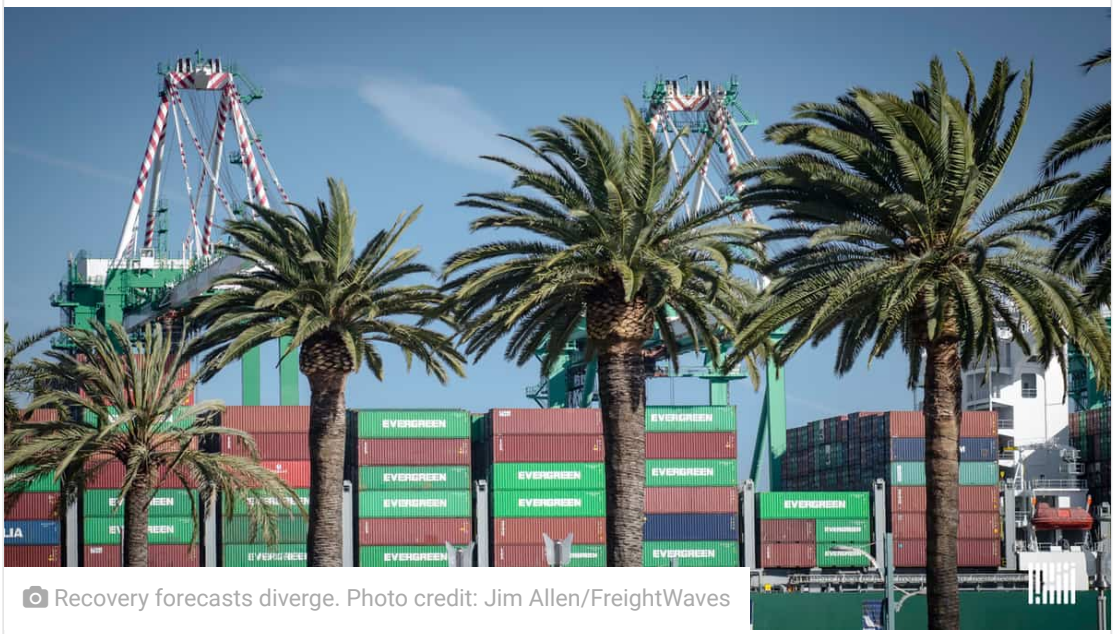
American Shipper Container Maritime News Shipping

Second-half container relief after second-quarter disaster?

Greg Miller, Senior Editor • Thursday, April 30, 2020 0 627 3 minutes read



Recovery forecasts diverge. Photo credit: Jim Allen/FreightWaves

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The coronavirus is a tough nut to crack for economic forecasters, and by extension, container-shipping forecasters. The rebound hinges on at least two

colossal unknowns: the future rate of infections and how consumer behavior evolves.

The consensus, which may turn out to be wishful thinking, is that infections will slow and consumers will tentatively get back to their consumption in the second half. If so, container volumes would climb off their lows.

The new container-shipping forecast of U.K.-based consultancy Maritime Strategies International (MSI) follows this script.

“The container shipping industry has spent the past month in the eye of the storm [and will] now face the full impact of the international spread of COVID-19,” said MSI in its latest monthly outlook, released on Thursday.

Then, after a “disastrous” second quarter, MSI expects “an uneven recovery in mainline volumes in the third quarter.”

Mainline trades

In the mainline east-west trades — Asia-Europe and Asia-U.S. — MSI predicts a 19% year-on-year volume drop in headhaul cargo volume in the second quarter of this year (2Q20), followed by a 1% gain in 3Q20. Certain periods of 2Q20 could be particularly painful, featuring year-on-year declines of up to 30%.

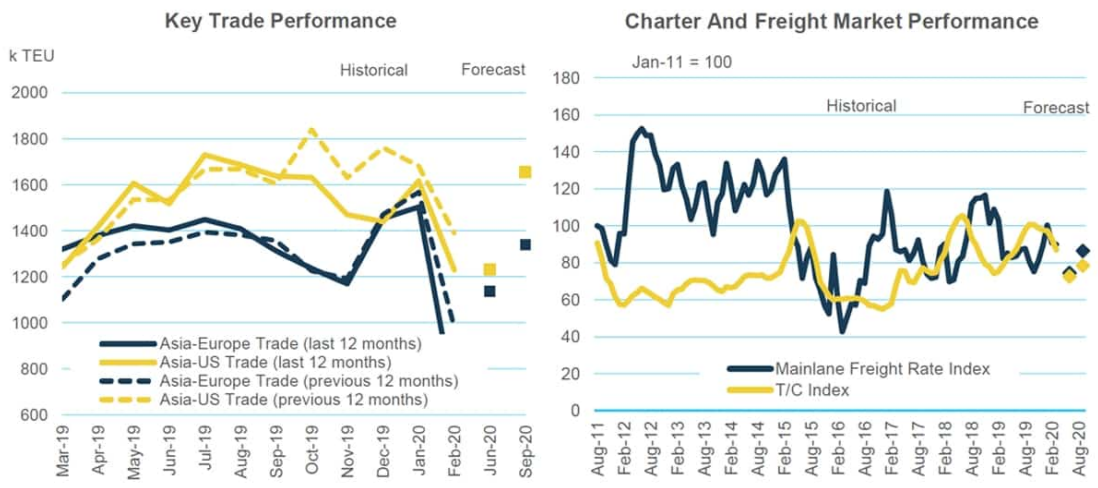

Chart credit: Maritime Strategies International

"Over the second half, assuming some continued social distancing and unemployment above pre-COVID-19 levels, volumes will generally remain below 2019 levels," but "an initial strong uptick in volumes is certainly possible," MSI noted.

"Attention is turning to how soon container trade will get back to normal," the company explained. "In reality, there will be a high degree of differentiation by region and by industry.

"Consumer retail goods are of course a huge driver of containerized trade, but their share of overall volume is sometimes overstated.

"Machinery, parts, semi-finished materials and chemicals all hold a significant share of the volume. Industrial production will likely be an early sector to return to normal output, but again, there will be differences: Goods tied to the construction industry may return relatively soon, but auto parts — hugely important on certain trades — could well see a prolonged period of subdued demand."

Non-mainline trades

MSI's volume forecast for non-mainline trades is moderately better than for mainline trades, but still highly negative in the near term.

The worst performer is expected to be Asia-Latin America (-18% 2Q20, +1% 3Q20), followed by Asia-Middle East/India (-15% 2Q20, +3% 3Q20), Europe-U.S. (-14% 2Q20, +3% 3Q20), intra-Europe (-12% 2Q20, +3% 3Q20) and intra-Asia (-6% 2Q20, +3% 3Q20).

"There is a growing likelihood that the coming months will prove devastating for import demand in key non-mainline regions," warned MSI. "Lockdowns are generally in earlier stages and a combination of sparser safety nets, weaker exchange rates, costlier trade finance and commodity-market turmoil will place severe pressure on inbound trade volumes."

MSI voiced particular concern about container imports to Brazil, Mexico, South Africa, West Africa and the Caribbean, where "the sharp slowdown experienced by tourism-focused economies will harm volumes."

Spot rates and carrier stability

When the world's economies began enforcing social distancing and quarantines, a plunge in container bookings was inevitable. The broader systemic risk to the liner industry is that falling volumes will be accompanied by collapsing freight rates.

So far, this disaster has been averted. By "blanking" (canceling) an unprecedented number of sailings — over 20% of Asia-U.S. voyages have been canceled in May and June — carriers have kept rates remarkably stable.

According to data from the Freightos Baltic Daily Index, the global average price to ship containers (SONAR: FBXD.GLBL) is up 2% year-on-year, with China-West Coast rates (SONAR: FBXD.CNAW) down just 3% and China-East Coast rates (SONAR: FBXD.CNAE) down 9%. In all three cases, rates are up month-on-month. These are not the pricing patterns one would expect in the thick of an unprecedented global crisis.

"While freight rates are likely to fall as demand pressure intensifies, we do not expect a collapse given evidence of the effectiveness of blanked sailings so far," said MSI.

"Later in 2020 the picture is less clear," the consultancy cautioned. "Increased volumes will be set against more normal capacity, although deployed capacity on the major trades is likely to remain lower than in 2019 for the remainder of the year.

"Given the unpredictability over when and to what extent volumes return, it is possible that a surge in volumes could coincide with still-restricted deployed capacity by liners and drive an upswing in headhaul spot rates.

"On the other hand," noted MSI, "the coming months will be a major test of liner company pricing discipline." In other words, the allure of greater share at the expense of lower price could become too tempting to ignore. ***Click for more FreightWaves/American Shipper articles by Greg Miller***

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