All that liner shipping should be worried about going into 2024

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In an exclusive extract from the November issue of Splash Extra, readers today can get an insight into the unique sectoral analysis carried in our sister title.

As the US economy continues to defy the doomsayers, teu throughput at US ports finally broke above the 2022 level for October, rising 4.7% month-on-month and

11.4% year-on-year to 2.31m teu. In truth this is really because US containerised imports peaked in September 2022 and then fell from about 2.51m to 2.16m teu in a month. Still, the import figures have steadily trended upwards this year from a low of 1.73m teu in February. Containerised imports from China rose 2.3% month-on-month in October to 0.89m teu, though this is 11.6% down from their August 2022 peak.

Both the short and long term trends in China-US containerised trade are hard to predict for several reasons.

The US retail peak season started with Black Friday after Thanksgiving but retailers are sitting on 5.5% more inventory than at the beginning of 2023 even as retail sails have risen by nearly 3% so far this year. The retailers have crossed fingers but no certainty about how the peak sales month they are not entering will go, so they are not rushing to fill the shelves with Chinese-made goods. Crucially, the recent increase in mortgage rates in the US means that buyers on average incomes are handing over more than half their post-tax income in mortgage payments, leaving little for discretionary spending.

Retailers in the US are sitting on 5.5% more inventory than at the beginning of 2023

Chinese manufacturers are slashing prices to shore up demand overseas and at home, with little success. This policy has also caused China to fall into deflation with producer prices and the values of real assets, financial assets and wages all falling in October, with producer prices falling for the thirteenth consecutive month. Chinese economic policy might alter to try to shore up growth at home with less emphasis on exports, but predicting Xi Jinping thought is a fool's errand.

The Panama Canal bottleneck might perhaps induce some liners to sail from Asia to the US east coast via Suez. This would have the advantage of soaking up plenty of container shipping capacity. At 16 knots average speed, a boxship takes 27.5 days to sail from Shanghai via Panama (with no delays) to New York – a 10,600 mile route. Going via Suez would add 4.5 days and 1,800 miles to the voyage but crucially would avoid the delays and cost of buying Panama slots at auction. Sailing via Cape Horn to avoid Panama is a non-starter. It makes the journey 16,746 miles and 43.5 days long, as well as adding the danger presented by Southern ocean storms. No doubt the lines will have their voyage calculators to hand for use if the rain in Panama continues to fail beyond the current El Nino weather effect.

In the US, Donald Trump’s economic team still includes the anti-trade guru Robert Lighthizer. Trump has said that he will put a 10% tariff on all imports into the US regardless of origin. His tariffs on Chinese goods failed last time around as Chinese exports to the US rose 25% during his presidency. This might only serve to redouble his sense of purpose in regard to trade with China. Predicting the effects of US trade policy on container shipping after November 2024 is as foolish as trying to read Xi Jinping’s tea leaves.

In Europe, the Carbon Border Adjustment Mechanism (CBAM) began its so-called transitional phase on October 1. The EU says that the CBAM will initially apply to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. The scheme will eventually – when fully phased in – capture more than 50% of the emissions in sectors currently covered by the EU’s own emission trading system. The objective of the transitional period is to serve as a pilot and learning period for all stakeholders (importers, producers and authorities) and to collect useful information on embedded emissions to refine the methodology for the definitive period.

None of the cargoes included so far is usually containerised. Nonetheless, Chinese companies, keen to avoid higher tariffs, are investing billions of dollars in industrial zones across North Africa, particularly in Morocco and Egypt. Morocco has a free trade deal with the EU and the US and is a prime site for Chinese auto, battery, textile, computing and white goods manufacturers to site factories closer to key markets. How will such investments, should they continue, affect long haul Asia-Europe container shipping demand? Readers can draw their own conclusions.

None of this is of any comfort to the liner companies who are suffering from buyer’s remorse having gorged on newbuilding orders. But they can take solace in gently improving transpacific freight rates this month. The Freightos Baltic average freight rate for a 40 foot container shipped from China to the US west coast stood at $1,613 on November 24, up 3% week-on-week and coincidentally up 3% over 28 days. Rates from China to the US east coast fell 1% week-on-week on November 24 but were up 7% over 28 days, sitting at $2,362.

European manufacturing Purchasing Managers Indices went up slightly in November to 43.8 after 43.1 in October and September coming in at 43.4. But having started 2023 at 48.4, there is a long way back to par – the latest data show only a slower rate of decline. The eurozone contracted 0.1% in Q3 according to the latest data and is on track to repeat this performance in Q4. Liners are struggling to fill ships in Asia with goods for Europe – another reason to consider routing exports to the US via Suez.

In line with this weak data, containerised freight rates from Asia to Europe continue to bobble along the lower limits. They fell 6% in the week to November 24, landing at $1,124 per feu, but this is still up 15% on the four-week-earlier number of only $1,056 and around a third higher than the market low of $917 recorded on October 6. Rates from China to the Mediterranean were flat week on week on November 24 at $1,492 but were down 4% compared to 28 days earlier.

On the transatlantic trades, rates from North Europe to the US were up 13% on the week and 20% on the month at $1,228 on November 24. On the reverse route, rates rose 5% week-on-week but were down 30% over four weeks at $238 per feu.

The Freightos Baltic Global Average containerised freight rate stood at 1,156 points on November 24, which was one point down on a week earlier but 6% higher than 28 days earlier when it stood at 1,095. Most of the liners would take that sort of performance quite happily.

Baltic Freightos Container Shipping Freight Indices