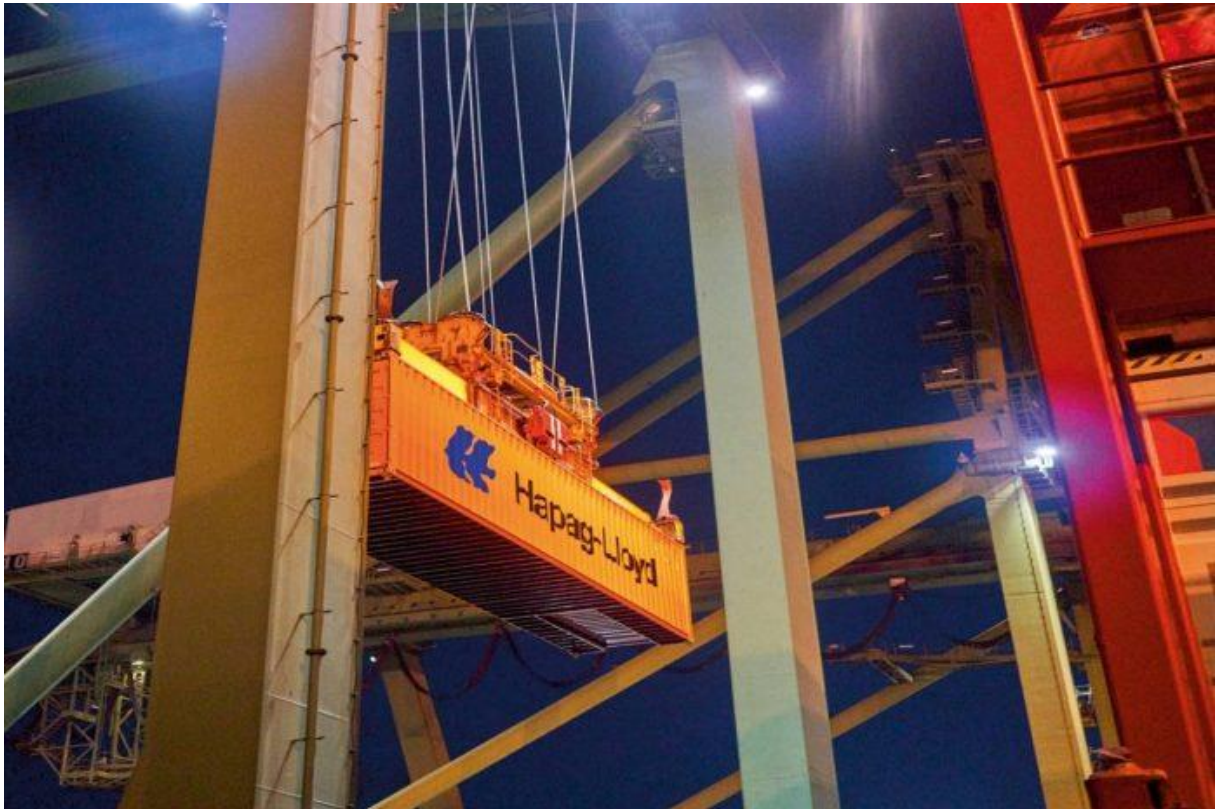


## European ocean carriers navigating through uncertain waters

September 18, 2024



Major European shipping companies, like Hapag-Lloyd, Maersk and CMA CGM, are facing significant challenges in 2024, driven by declining freight rates, geopolitical instability, and rising operational costs.

### Financial Performance

CMA CGM reported a significant drop in net income by over 50%, totaling US\$661 million, despite a 6.8% increase in revenue to US\$13.1 billion. The company experienced a decrease in EBITDA by 4.3% to US\$2.48 billion. Despite these challenges, CMA CGM demonstrated adaptive strategies in response to disruptions in key shipping routes and its investments in decarbonization and digital transformation. Container volume for the French carrier grew by 6.8%, driven by robust global trade demands.

Hapag-Lloyd saw its half-year EBITDA and EBIT drop to approximately US\$2 billion and US\$900 million, respectively, from higher figures in 2023. However, due to unexpectedly strong demand and increased short-term freight rates, the German ocean carrier revised its earnings outlook upwards, projecting an EBITDA of US\$3.5 to US\$4.6 billion and an EBIT of US\$1.3 to US\$2.4 billion for 2024. The company remained cautious, noting the unpredictability of freight rates and geopolitical tensions affecting forecasts.

A.P. Moller – Maersk also experienced a downturn, with Q2 revenue decreasing to US\$13 billion from US\$21.7 billion the previous year, influenced by lower freight rates and volumes, especially in the Ocean sector. Despite these conditions, the Danish shipping giant adjusted its financial expectations upwards, reflecting effective cost management strategies and a focus on integrated logistics solutions. The company goes through an ongoing transformation efforts aimed at enhancing supply chain resilience amidst market normalization and subdued growth post-pandemic.

### **Global disruptions challenge container lines**

Geopolitical disruptions, particularly the ongoing Houthi attacks in the Red Sea, have forced many shipping companies to reroute their vessels around the Cape of Good Hope, significantly increasing sailing distances and operating costs.

Despite these challenges, BIMCO's June 2024 report noted that this rerouting inflated global demand by 15%, especially for larger container vessels trading between the Far East and Europe, exacerbating capacity constraints. These longer routes have boosted rates from US\$1,800 to US\$3,400 per 40-foot container. It also highlighted that rerouting via Cape of Good Hope could impact all of 2024 as ship demand will falls 5% in 2025 if ships return to the Suez Canal.

This strain is evident in both container and freight markets. Container freight rates, represented by the SCFI, surged 76% in the past six months to an 85th percentile level of performance. The ClarkSea Index remains at relatively high levels, but the forecast for freight rates in 2025 shows potential volatility, particularly as new vessels are delivered, increasing the fleet size by 23% over the next four years.

Moreover, fleet supply will grow 9.6% by the end of 2024 due to elevated sailing speeds, as vessels race to meet demand despite rising fuel costs.

Danish Ship Finance also highlighted how geopolitical tensions and infrastructural inefficiencies have driven up demand, though they mask underlying issues such as surplus capacity in the market. BIMCO and Danish Ship Finance's May 2024 review indicate that global container volumes are expected to grow by 4.1% in 2024, with intra-Asian trade contributing one-third of this growth.

### **Volatile market leads to uncertain forecasts**

Overall, European shipping companies are navigating a turbulent market environment in 2024. The long-term outlook for the container shipping industry is uncertain, with freight rates likely to face pressure from excess capacity and new environmental regulations driving up costs.

The resilience of these European companies will ultimately depend on their ability to adapt to changing geopolitical landscapes, market volatility, and the growing demand for sustainability.