No short-term overcapacity for container lines

In its final report on the container shipping trades of 2024 consultancy Alphaliner has forecast that there will be no overcapacity challenges in the near-term as carriers seek to plug gaps in their services.

Nick Savvides, Europe correspondent

File Photo: OOCL Portugal naming in 2024Credit: OOCL

According to Alphaliner's analysis the container fleet increased by nearly 3 million teu last year, or by 10.6%, with some 59% of this new capacity deployed on the Asia to Europe trade which had diverted around the Cape of Good Hope.

Capacity on the European trades increased by 31% overall by the end of the year, but according to Alphaliner more tonnage is needed to plug the remaining gaps in the Asia to Europe trades.

“Weekly capacity offered on the route has risen by a much smaller percentage. On 1 December 2023, a weekly average of 434,940 slots was offered on the Asia - Europe trade. A year later, on 1 December 2024, this had risen by only 38,360 teu, or 8.8%, as re-routing gobbled up capacity,” said the report.

Last year ended with almost no idle tonnage, and just 0.6% of the active fleet was considered inactive.

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Stefan Verberckmoes, Senior Shipping Analyst at Alphaliner said: “Some Far East - Europe services are still in need for extra ships. The same goes for India to Europe and USEC loops. With almost no idle fleet and an 'empty' charter market, there will not be overcapacity in the short-term.”

Verberckmoes added that, “Some major trades [such] as the transpacific did not get big capacity injections in 2024 and will probably welcome some of the 2025 newbuildings.”

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MDS Transmodal Analyst, Antonella Teodoro, said that overcapacity issues will depend on whether the Red Sea diversions continue.

"The capacity shortages experienced during the pandemic, followed by the need to avoid Houthi attacks by re-routing services from the Suez Canal to the Cape of Good Hope, have resulted in minimal scrapping activity in recent years," Teodoro added.

According to MDS Transmodal data an intensification of vessel demolition could mean the "annual change in fleet capacity could range from a 4% decline, if vessels aged 20+ years are scrapped, to a 6% increase, if vessels aged 25+ years are scrapped. Thus, in 2025, the liner shipping industry may oscillate between vessel shortages and overcapacity, depending on the scrapping decisions made by shipping lines."

However, Senior Analyst at Xeneta Peter Sand argues that the most that can be scrapped this year is 2 million teu in capacity.

"If you look at the age profile of the fleet then no level of scrapping will seriously dent the economics of container shipping," claimed Sand.

Xenata believes that the frontloading by shippers has already taken place with freight levels significantly exceeding GDP, "we are not expecting more front loading to take place," said Sand.

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With capacity seemingly scarce it would follow that rates should be driven upwards, but while Alphaliner talks up rate levels, "An overall shortage of ships has kept spot ocean freight rates high and 2024 should turn out to be the third most lucrative year for the container carriers, despite the extra capital costs of ships and higher bunker expenses related to the re-routings," Xeneta offers an alternative view.

Sand agrees that some trades could absorb some capacity, including Indian connections but Sand argues that some capacity has been "parked" in the North Atlantic services.

"There was a 20-25% increase in capacity on the Atlantic in the first eight months of 2023," explained Sand, "Today capacity is 15% below that level."

Xeneta said there is no absolute scarcity of capacity, and a lack of port congestion has not boosted rates to Covid levels, although Sand concedes that spot and contract rates are elevated to higher than pre-Covid levels.

Supply chain visibility company Beacon monitors close to 90 global ports with vessel anchor times extended in 60% of these facilities, however, founder and CEO Fraser Robinson said: "Last year saw a clear worsening in port congestion, as evidenced by year-on-year average anchor times increasing at nearly 70% of analysed ports. While 30% of ports saw increases of 2 hours or more, only 15% saw reductions of the same magnitude."

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He added: "Port congestion and supply chain reliability go hand in hand, and confidence in lead times has been materially compromised for both shippers and logistics providers."

To some extent this view is supported by Drewry Shipping Consultant's WCI index, which recorded a 3% increase in global rates, with Shanghai to LA charges up 7%, and a 6% increase to New York from Asia.

Conversely, rates from Shanghai to Rotterdam decreased 1% while rates from Shanghai to Genoa, Los Angeles to Shanghai and Rotterdam to New York all remained stable.

Alphaliner, meanwhile, argues that the reshuffle of alliances, could see even more tonnage absorbed and create more demand for capacity, particularly with Hapag-Lloyd and Maersk joining forces in the Gemini Cooperation, which is promoting itself as a fast and very reliable shipping alliance.

Verberckmoes believes that the reorganisation of alliances will make it, “nearly impossible to predict when we will have overcapacity again, but certainly not in the short-term.”

Again, this is not a view shared by all experts in the field, with Sand emphasising that the risk of disruption this year should not increase substantially over its current level.

“After the 15 January with the expected port strike on the US East Coast, we should not see any greater disruptions,” said Sand, while also conceding that the Red Sea disruptions will likely continue beyond the first half of the year.

Geopolitical disruptions may decline after several years of extreme disturbances, including the pandemic, and conflicts in Ukraine and the Middle East, but the economic situation will remain critical.

Inflationary measures such as the imposition of tariffs by the new US administration and the cost of energy are expected to slow the global economy, with growth at 3% according to Xeneta forecasts, while capacity growth will slow to 4.5%, but that comes after capacity expanded by 10% in 2024, with economic growth at under 3%.