Shippers’ 90-day inventory chase: the race is on

US-imposed structural changes to container trades loom, but forecasting is difficult as confidence in policy longevity remains low.

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Image: The White House

Shippers and carriers have until early July to decide how to respond to the imposition of US tariffs and until October to prepare for the introduction of Section 301 ship fees; the market will be changing, unless of course Washington changes course.

We can’t say we weren’t warned, said Drewry analyst Simon Heaney, Donald Trump is doing precisely what he said he would during the election campaign.

“The new US administration is enthusiastically carrying through on its America first election campaign rhetoric, taking a chainsaw to the rule books on governance, foreign diplomacy and international trade,” said Heaney.

According to Heaney, the “zone flooding onslaught” means that the impacts of the administration’s trade policies are uncertain, not to mention the fact that the policy themselves could be altered or dismissed before they become a reality.

“None of Trump's policy decisions or executive orders relating to trade have any quality of permanence,” claimed Heaney, who added, “In the absence of any sort of coherent master plan, we're left trying to decide for the end game strategy for ourselves, wondering whether there are any conditions, a looming economic recession or negative public opinion, under which this US administration might hesitate.”

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As these questions remain unanswered, Heaney is aware that any forecasting could have an "extremely short shelf-life".

That said both the International Monetary Fund and World Trade Organization are forecasting severe falls in trade as a consequence of the Trump administration's policies.

Drewry's own forecasting relies on these macro-economic outlooks, with the IMF expecting a 0.5% decline from its January forecast for global GDP and 0.9% decline in US GDP, while the WTO forecasts a 0.2% fall in world merchandise trade.

As a result of these downgrades in economic activity, Drewry is now also forecasting a 1% decline in container moves, including loaded, empty and transhipment boxes.

"That's roughly the same level of contraction that the market saw in 2020 with COVID, and it would only the third year, with any annual decline since Drewry's records started back in 1979," according to Heaney.

North America is expected to see volume declines of 5.5% and 4.6% in 2025 and 2026 respectively, with China taking a 4.8% hit, but recovering faster than the US, returning to growth next year, of around 1.6%, after finding new markets.

Heaney concluded there would be "few upsides for container shipping from this trade war".

Maritime consultancy MDS Transmodal has viewed the possible effects on container shipping should tariffs and port fees enter into force as currently proposed, but warned that its data does not allow for Chinese counter-measures.

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One consideration could be the expansion of slot agreements and vessel-sharing arrangements to shift volumes onto partner-operated vessels that fall outside the scope of the USTR measures, said the consultant.

Other potential remedies would be potential hub and spoke reconfigurations, effectively using ports such as Kingston, Jamaica, Cartagena in Columbia and Freeport in the Bahamas to unload Chinese vessels, with non-Chinese built feeders delivering to the US.

A third possibility is to use ports in Mexico and Canada delivering into the US by road and rail, which MDS Transmodal points out would add cost and complexity to supply chains.

Charter market options for compliant vessels will likely remain tight, but shifting non-Chinese built vessels into US trades will be a possibility for carriers and their alliance partners.

"Charter rates for non-Chinese-built ships could spike, affecting all carriers with spot charters (especially ZIM and smaller operators). If tariffs are also introduced, the impact would deepen above all due to acceleration in sourcing shifts away from China," explained MDS Transmodal analyst Antonella Teodoro.

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According to MDS Transmodal data, both the Premier Alliance and Gemini Cooperation have a low exposure to Chinese-built vessels operating in US trades, making them best placed to adjust services with the least disruption.

China's state-owned carrier Cosco's fleet is 53% Chinese built, and Teodoro said that its Ocean Alliance partners OOCL, a Cosco subsidiary, and CMA CGM may offer some flexibility for Cosco, but this will, "not be enough to shield Cosco from major impacts."

Moreover, smaller independents, without the protection of a larger alliance including Zim, Swire and Seaboard are more exposed to the policy shifts.

MSC, the world's largest carrier only has 12% of its fleet built in China, but has operated as an independent since February.

"With no alliance to share costs or adjust rotations, MSC must absorb impacts and respond with its own resources - feasible given its scale, but still strategically rigid," said Teodoro.

In her analysis of the possible effects, Teodoro argues that shipping lines may reduce US calls and/or slot space on other shipping lines' vessels to reduce port fees. This will disrupt existing trades and can affect schedules, capacity, and transit times.

"Shipping lines with a larger percentage of non-Chinese ships may benefit by picking up cargo - but this could strain capacity and impact deployment of ships on other routes. While not immediate, such combined measures would cause more structural, long-term shifts in global supply chain configurations," explained Teodoro.

Overall, Drewry Shipping Consultants expect North American container traffic to decline by 4m teu this year, although after a pause in orders during April, and early May, Drewry expects there to be frenetic frontloading ahead of the July deadline to impose tariffs.