RED SEA DISRUPTIONS AND THE FUTURE OF CONTAINER SHIPPING


Dom Magli, Staff Reporter, Port Technology International, interviewing **Simon Heaney**, Senior Manager, Container Research, Drewry

*In this interview, **Simon Heaney**, a senior analyst at Drewry, delves into the profound impact of the Red Sea crisis on the container shipping market. He discusses how the crisis has surpassed initial expectations, leading to significant spikes in spot rates since mid-January. Simon attributes these increases to heightened demand, disrupted scheduling, and a shortage of container ships. His insights provide a nuanced view of the challenges facing industry stakeholders as they navigate towards stabilisation and recovery in the container shipping sector.*

In your 'Container Market Outlook' webinar in January, you touched on the impact on the Red Sea and its likeness to continue through the second quarter. How bad has the Red Sea crisis affected the container shipping market?

The severity of it has exceeded our expectations. We did some very quick analysis in terms of what the response might be. If you're diverting via the Cape of Good Hope, you've got to include extra time, distance, and cost. We knew those things were coming, but we also had the sort of knowledge that the shipping market was heavily oversupplied with ships.

For a long while, that sort of prognosis seemed to be fair. We saw a spike in rates from mid-January onwards, and then it really peaked out. Initially, the impact seemed to be minimal, and then everything blew up really from the beginning of May. Spot rates spiked and they have really been going up very steeply week on week ever since.

It has thrown our sort of expectation awry, and we have put the severity worsening down to a few factors. There's been an increase in demand, a catch-up in terms of the impact of scheduling being like clockwork as possible with chips arriving on the same day of the week as they're scheduled to.

But we know that there's been lots of gaps in the markets as liner services have been pocked marked with blank sailings. This is because they're not able to access the ships that they need, especially on the Asia-Europe service trade where they tend to be of the bigger size, you know, upwards of 20,000 TEU, plus those ships aren't readily available on the market in the charter market. You've had a real patchwork of liner of services and that seems to have caught up with ports and terminals.

It's been multiple factors that have sort of colluded to cause this situation where we're getting a sort of light version of the pandemic where the circulation of container equipment is just taking that much longer. Therefore there are shortages of empty containers in Asia to be reloaded for export, causing those export prices out of Asia to spike.

In your opinion, when do you believe the intensity of the crisis will begin to slow down?

I think we are nearing the peak, but again, this is a bit of a sort of guesstimate on my part, I think we saw last week.

Drewry releases the World Container Index every Thursday. Last week we saw the composite index went up $84 per 40-foot container. The previous week they'd gone up roughly $490 per 40 foot. The magnitude has come down a bit. As of 13 June, the composite index was at $4,800; that's the highest since September 2022. The reason I think we're possibly at the peak is because there's a huge tidal wave of new ship capacity coming. Now, what's been delivered so far this year has largely gone into just plugging

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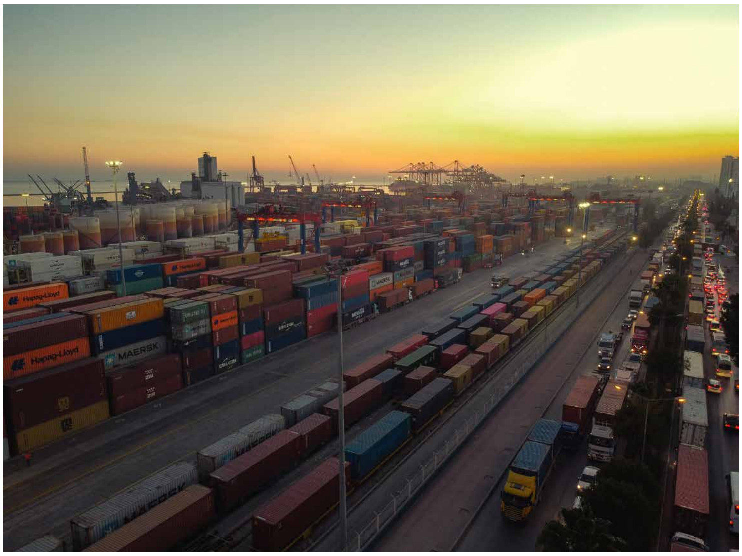

“WE SURVEYED OUR CUSTOMER BASE ABOUT WHEN THEY EXPECT THE RED SEA DIVERSIONS TO END: ABOUT 17 PER CENT SAID BEFORE THE END OF THIS YEAR, AND ABOUT 60 PER CENT SAID THE FIRST HALF OF 2025.”

those gaps in the network caused by the Red Sea diversions.

But from now on, there is still another 2 million TEU worth of capacity coming. As those ships arrive, they will come in and help to improve the quality, reliability and integrity of the services. This should start to take the pressure and ease some of the pressure off the ports and the terminals, relaxing the congestion, and therefore improving the circulation of equipment and sea rates start to suffer. I don't think we're anywhere near seeing the end of the Red Sea diversion.

During the pandemic, the competent index went up to about $10,377 per 40-foot container. Even at 4,800 currently you can see they're less than half that way there, and I don't think they'll get that high. That's my prediction, but as I've already made clear, I got it wrong before. Take it with a pinch of salt.

How long do you predict it will take for the container market to recover from the crisis?

It depends on whose perspective you're looking at it from. From an ocean carrier point of view, this is great news. They were losing money in the fourth quarter of last year and we were expecting them to lose money quite heavily this year.

As a result of the diversions, carriers are making money. Carriers probably want this situation to go on for as long as they can, and they don't really necessarily want ships to go back through sewers immediately because it would expose the fact that the market is oversupplied.

If you're talking about from a cargo owner's perspective when they might expect to see freight rates go back to sort of the same level they were before they started spiking, it depends on many factors.

We have surveyed our customer base, again, and we asked them a bold question: “When do you think the Red Sea diversions will end?”.

About 17 per cent said before the end of this year, and about 60 per cent said the first half of 2025. We are looking at that period and even then, you've probably got a three-to-four-month period after that, even when the Suez Canal is reopened for operations to normalise because it takes a while for ships to manoeuvre back into the right positions and where they need to be.

That's a bit of a long-winded way of saying we don't know. But it could be that you're looking at next year potentially for this. Keep in mind that events happen very quickly, and I wouldn't rule out something happening before that.

When the 'Gemini Cooperation' goes into effect in early 2025, how will other shipping lines be affected?

The new cooperation states that they are doing a different model. They're going for this sort of hub and spoke with very few mainline calls and a lot of shuttle calls. That would throw down a challenge to the other carriers in terms of losing customers who are desperate for reliable services that they can predict.

I think that's the gauntlet that they'll be throwing down there hoping to sort of create a marketing edge for themselves in Gemini. The other challenge is the startup of any new alliance, which historically has created a bit of a bun fight for customers.

I think it could potentially be disruptive now. The Gemini preliminary network is predicated on the Suez Canal being reopened. They may have to change all that up if that's not the case looking increasingly likely it won't be. I think people have over-egged it. Yes, there'll be a bit of disruption, but alliances tend to evolve.

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In February 2024, Drewry launched the online version of the Container Capacity Insight. Can you explain its purpose?

The primary objective of our Container Capacity Insight is to give our clients a holistic view of the container shipping operational metrics with the aim to empower clients to make data-driven decisions that enhance their operational efficiency and align with their sustainable sustainability goals.

Each week, we conduct a detailed assessment of blank sailings and effective capacity deployed on major East-West routes. This is broken down by trade lane and by Alliance, covering the upcoming five weeks.

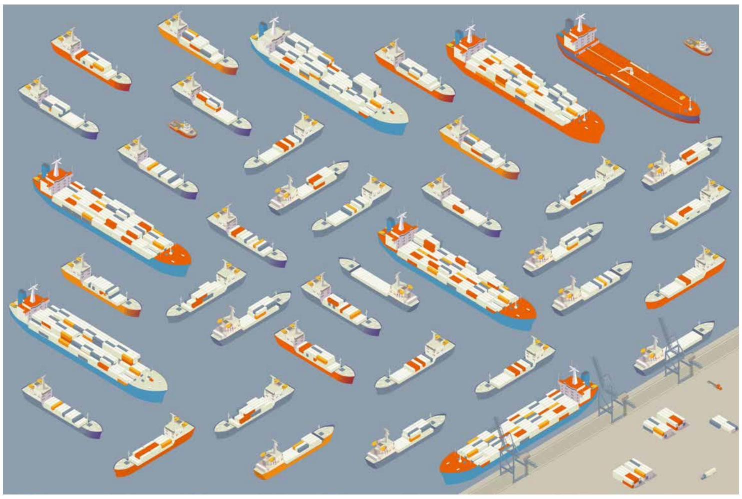
Additionally, we analyse the past trends year-over-year (YoY) and month-over-month (MoM) to give our clients a historical perspective, supported by a view on the utilisation by trade lane. This helps in understanding the market dynamics and to plan accordingly.

We also provide weekly insights on port congestion and transit times, using data extracted from Drewry's AIS. This real-time data is used to monitor and identify any significant changes in port operations and transit times.

Recognising the growing importance of sustainability in the shipping industry, we have recently included metrics on average CO_2 emissions on major East-West trade lanes (head haul). This assists our clients not only track operational efficiency but also make environmentally conscious decisions.

Overall, our clients benefit in several ways. The weekly updates ensure they are always informed about the latest market shipping operational conditions and trends, enabling them to adjust their operations and strategies promptly.

The detailed breakdown of metrics helps them understand the nuances of different trade lanes and Alliances, while the sustainability data supports their efforts to minimise environmental impact.



What are some of the main highlights from this month's World Container Index?

We've had two readings in June 2024, one on 6 June and one on 13 June. On 6 June, it went up to 90, and then on 13 June it went up to 85. There's just a continuation of that. Rates are increasing pretty much everywhere, but they're going up most steeply on the Asia-Europe route and the Asia-North America route, which is the trade that's growing strongest now.

How does Drewry predict the state of the container shipping market to be in 2025?

If our customers are all-knowing and their prediction for the first half of 2025 end to Red Sea diversions is correct, then we add in a three-month taper for things to normalise. I think the market will be a bit softer in terms of freight rates. I think we've got this situation to last for a little while, but the congestion issues should get easier because of the arrival of the new ships. It takes time for ports and terminals to get used to the new routine. I feel that demand won't be so strong. I think it will be a slightly less painful version of what we're currently seeing now that could last through to the third quarter of next year. But frankly, the market has currently never been any more unpredictable. You get a change in the geopolitical situation and things will flip overnight.

Predicting even a month ahead is difficult, let alone a year. But we must try to stick to the fundamentals. We know there are lots of ships coming. We know that there is demand growth, but it's not stellar. You're going to exceed probably 2 to 3 per cent volume growth next year. Fleet growth will be bigger, poor congestion should ease, and the trigger points for why freight rates stay high will start to lessen.

ABOUT THE AUTHOR:
Simon has nearly two decades of experience covering the container shipping market and works within Drewry's Container Research division as lead analyst for Drewry's flagship Container Forecaster service.

After graduating in the mid-1990s Simon had a brief career in banking before joining liner shipping database ComPairData as a researcher. He then progressed to become a reporter and finally associate editor of sister-company American Shipper. He won The Seahorse Club Journalist of the Year in 2006.

Since joining Drewry in 2008, Simon has worked on a number of shipper-oriented reports and has been an active contributor to consultancy projects in the sector. Simon is also Editor of Drewry's long-standing Container Insight publication, regularly commenting on box market developments and trends.

ABOUT THE COMPANY:
Drewry is a leading international provider of research and consulting services to the maritime and shipping industry. From its origins in 1970 London to a 21st-century maritime and shipping consultancy, Drewry has established itself as one of the most widely used and respected sources of impartial market insight, industry analysis and advice.

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