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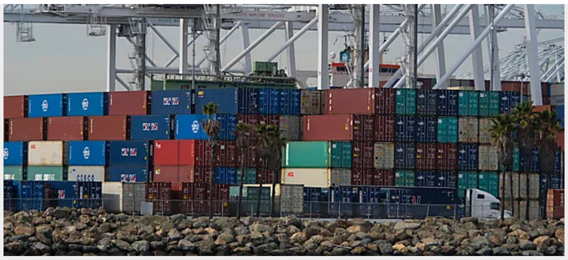
Drewry: 'Beginning of the End' for Container Market Bull Run

By Arthur Friedman

The container-laden freighter Marstal Maersk lies at anchor in the North Sea. CREDIT: Jonas Walzberg/picture-alliance/dpa/AP Images



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Both Sides Confirm Port Labor Contract Talk Likely to Run Past July 1

The container market has definitely turned, but don't expect a swift return to yesteryear, Drewry's latest "Container Forecaster" report published Thursday concluded.

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"It certainly feels like we are at the beginning of the end of the container market bull run," the maritime research consulting firm said. "The slide in spot rates has become entrenched, rolling on for four months now with dips getting bigger by the week. Shipments along most trade routes are also down on the same point a year ago with high inflation eroding confidence that volumes will stage much of a comeback."

The report noted that carriers have shown they can still make "astonishing profits" even when moving fewer containers, posting record earnings in the first quarter despite lower volumes.

Drewry believes it will take some time to wind down high container rates and carrier profits. For the week ended Thursday, Drewry's composite World Container Index decreased 3 percent to $7,066.03 per 40-foot container or equivalent unit (FEU) and 16 percent below the year-ago rate.

The report noted that carriers "still hold the ace card: supply chain congestion." Take that away and Drewry expects to see normal market conditions quickly return.

"However, there is no sign yet that the port bottlenecks are going away," the Container Forecaster said. "Ship tracking data reveals that the number of containerships waiting outside of major ports is growing, while the views of our customers from surveys is little changed from the previous edition–no expectation of a fix this side of 2023."

When asked when port congestion issues would clear in North America, 48 percent of respondents said in the first half of 2023, with another 40 percent even more pessimistic, stating it would take until the second half of next year or later. A lack of improvement in U.S. logistics infrastructure was cited as one reason why this region is expected to be the last to emerge from the operational chokehold, Drewry noted.

"With no changes to our expected supply chain recovery timeline, the market will continue to be denied capacity that it otherwise would have had access to," Drewy said. "We estimate that effective container ship capacity will be about 15 percent below potential this year, following a 17 percent reduction last year."

Things that might extend the supply chain recovery include China's refusal to budge from its Zero Covid policy that has created disruption, and the port labor contract negotiations going on for the United States West Coast dockworkers.

"Life in a high-inflation world increases the risk of labor shortages arising from industrial action, as new wage demands pile up," the report said. "Already, the logistics sector has endured strike action or threats at German ports, railways in the U.K and by Korean truckers."

While congestion issues remain challenging across the world, they are clearly not having quite the same influence on pricing as they did previously, as evidenced by falling spot rates over the past few months, Drewry noted.

"The situation is still bad enough to prevent a precipitous collapse in short-term rates, but it seems that sentiment for the global economy and container demand is reasserting itself as a pricing driver," Container Forecaster said. "As things stand, we still expect the market to grow, but that is certainly not a given, especially with the speed at which economists are downgrading GDP projections. A harsher-than-expected slowdown in volumes, or a contraction, would both hasten the spot rate decline and reduce the time it would take to clear port bottlenecks."

"The end of the containers boom cycle will require a paradigm shift from all stakeholders," Drewry added. "Ocean carriers need to address the looming environmental and over-capacity risks by scrapping older, less green ships, while shippers might be wise to wait for the market to come back to them before committing to lengthy contracts."

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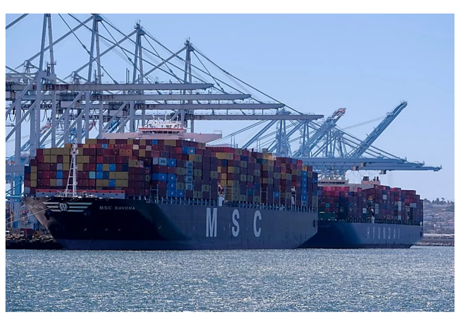

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