We are not through the storm yet

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A large chain of toppling dominoes

- Inland bottlenecks
- Rising TC rates
- Rising freight rates
- Schedule unreliability
- Port congestion
- Capacity shortage
- Blank sailings
- Equipment flow disruption
- Pandemic

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Understanding the driving force: We do not have a global demand boom

Global demand growth 2020-2021 (year-on-year)

Source: Container Trade Statistics, calculated by Vespucci Maritime

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Understanding the driving force: We do not have a global demand boom

Global demand growth
Annual average growth (2021 vs 2019 and 2020 vs 2018)

Source: Container Trade Statistics, calculated by Vespucci Maritime
Understanding the driving force: We have a capacity shortage due to delays

Even worse for some carriers/trades. Example: Unifeeder estimates 25% of their capacity tied up in delays

Source: Analysis by Vespucci Maritime based on data from Sea-Intelligence
Small disturbance -> large effect

Normal operational disruptions:

• Engine malfunction or other vessel breakdown
• Vessel fires or collisions
• Short-term port closure (port strike, weather etc)
• Containers lost overboard

Every disturbance creates a growing “pile” of cargo pushed ahead
Port has resumed normal operations, but normality will not resume quickly

A series of ripple-effects will be seen (some already being seen):

- Inbound reefer cargo discharged in alternate ports
- Lack of inbound empty containers makes equipment shortage worse
- Diversion of cargo to Nansha and Shekou resulting in congestion problems in those ports
- Likely impact: 765,000 TEU of handling (i.e. inbound+outbound, full+empty+transhipment)
- ~300 vessel schedules altered
- Will take months to sort out from a port perspective
- Insufficient vessel capacity available – likely leading to reduction of capacity out of all other Asian ports to help clear the Yantian pile
- Not full labor availability yet
Vessel shortage

As mentioned – the shortage is due to delays, not a lack in the number of vessels in the world.

Leads to cascading effect: Injection of small vessels in major trades at very high freight rates → vessels being pulled out of regional trades → increasing rates and/or capacity shortage in regional trades.

Recent high-end examples for short-term charters:
- 5000 TEU @ 135,000 $/day
- 4500 TEU @ 125,000 $/day
- 2800 TEU @ 100,000 $/day

Source: Maersk Broker
Gives rise to a price explosion

Source: FBX spot index

Over the past two weeks there has been examples of actual deals >20,000 USD/FFE on Asia-Europe as well as quotes on Transpac at 25,000 USD/FFE
But also extremes in spot versus contract

Container shipping freight rates Far East to Northern Europe
2017-2021

However, the contracting approach from carriers also appear somewhat in disarray across carriers

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How high can this go?

Ocean freight rate as share of cargo value
Including estimated add-ons
Asia-North Europe

In essence, price increases can continue until enough demand has been pressured out of the market – this impacts importers very differently

Source: Analysis by Vespucci Maritime
Backhaul: Careful not to interpret incorrectly

On the surface this appears to be a sharp increase in freight rates…. 
Backhaul: Careful not to interpret incorrectly

From the perspective of prioritizing scarce capacity, the backhaul rates are lower than ever before

Source: Analysis by Vespucci Maritime
Atlantic: Driven upwards by consumer commodities

North Atlantic spot rates (WCI)

Upwards pressure on extending to multi-year contracts as well

Source: World Container Index and Freightos FBX index

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Will governments step in to help?

- What can they realistically do?
- What would be the likely impact if they make regulations on pricing and/or capacity?
- The higher the market goes, the more likely there will be an intervention – but most stakeholders might not end up being happy about the consequences....
- Already happening in South Korea
When will this end? What should customers do?

- Sorting out all the current operational problems and ripples: earliest timeframe would be 2nd half of Q4 2021.

- Major risk elements:
  - More Covid-related shut-downs/slow-downs of major port facilities
  - The ripples of Yantian
  - Strong peak season demand
  - Backhaul trades not getting enough equipment unless rates increased sharply

- Significant risk that the problems will not be resolved until we are into 2022

- Added risk element in 2022: Potential US West Coast labor dispute

- Calculate your options:
  - What is resilience worth to you?
  - What are your alternatives?
  - How much volume can you accurately plan/forecast?