May 2017 Newsletter

The Container Shipping Market

BridgeNet Solutions

A growing dichotomy between the expectations of shippers and carriers on the outlook for ocean freight rates this year may set the stage for difficult contract negotiations for the 2017-2018 shipping season.

Shippers think they can nail down contracts with little or no rate increases over last year while container lines are more bullish about getting much higher rates this year than they have been in years.

At the same time, shippers are approaching this year's ocean contract negotiations with more wariness than usual because the outlook for shipping to and from the US is being impacted by far more than the usual governing factors of consumer demand, freight rates, and vessel capacity supply and demand. They don't know yet how these new factors will play out.

The wild card is that the global container industry is in the midst of a massive wave of consolidation that will eliminate seven of the top 20 container lines. The consolidation was touched off by record losses that forced some carriers to merge in order to survive and led to the collapse of one major line, South Korea's Hanjin Shipping. On top of that, carriers are playing a game of musical chairs that is realigning existing alliances and creating new ones, which may cause some disruption of service and erode supply chain reliability. All of this is making beneficial cargo owners increasingly picky about which carriers are the most reliable partners to meet their transportation needs.

Global container shipping lines collectively lost an estimated $13 billion in 2016 because of a rate war in the first half of the year that drove freight rates on all the major trade lanes to record lows. Rates began to firm up toward the end of the year following Hanjin's August bankruptcy, which tightened capacity as Hanjin ships were removed from the market. Although shippers expect rates to stay about the same as last year on most trade lanes except the trans-Pacific, container lines are growing increasingly optimistic about boosting rates.

Since early December, as shippers started gearing up for new annual contract negotiations, vessel capacity tightened in anticipation of the Chinese New Year and spot rates on the trans-Pacific climbed more than 50 percent. This has led industry observers to predict that carriers will try to keep capacity tighter in order to negotiate higher freight rates than last year, when some trans-Pacific contract rates settled out at $750 per 40-foot-equivalent unit to the US West Coast and $1,400 per FEU to the East Coast. Rates from Shanghai to the US West Coast last year were down 15 percent from 2015, and down 33 percent to the East Coast.

With higher spot rates so far this year and tighter capacity this winter, container lines are seeking new contract rates of twice that level, of at least $1,500 per FEU from Asia to the US West Coast and $2,800 per FEU to the East Coast. Shippers, however, aren't biting. They are taking a wait-and-see attitude, because, even after all the pending mergers and alliance realignments, the same amount of vessel capacity will still be out there unless carriers increase scrapping.

One of the only major consistencies in the container shipping market is its very difficult to predict. 2017 and 2018 will continue that trend. Alliances, capacity, the US economy, consolidation and countless other factors will all play significant roles in the market moving forward.

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Alliances

2M Alliance between Maersk and MSC will cooperate with Hyundai Merchant Marine. The 2M Alliance stands to expand further after Maersk completes its acquisition of Hamburg Süd.

Two existing alliances, the G6 Alliance (APL, Hapag-Lloyd, Hyundai, MOL, NYK Line and OOCL) and the CKYHE Alliance (Cosco, "K" Line, Yang Ming, Hanjin, and Evergreen) dissolved because many of their members are involved in mergers or acquisitions by other carriers and because Hanjin collapsed.

A third, the Ocean Three Alliance among CMA CGM, China Shipping, and United Arab Shipping Co., reformed as the Ocean Alliance with the addition of Cosco, Evergreen and OOCL, which were previously members of the two dissolved alliances.

Previous shipping alliances:

- 2M Alliance: Maersk and MSC
- Ocean Three Alliance: CMA CGM, UASC, China Shipping
- G6 Alliance: NYK Line, OOCL, APL, MOL, Hapag-Lloyd, HMM
- CKYHE Alliance: K Line, COSCO, Hanjin Shipping, Evergreen, Yang Ming

New shipping alliances:

- 2M Alliance: Maersk, MSC
- THE Alliance: NYK, MOL, K Line, Yang Ming, Hapag-Lloyd (with UASC)
- Ocean Alliance: CMA CGM, Evergreen, OOCL, COSCO Shipping