



Container market update

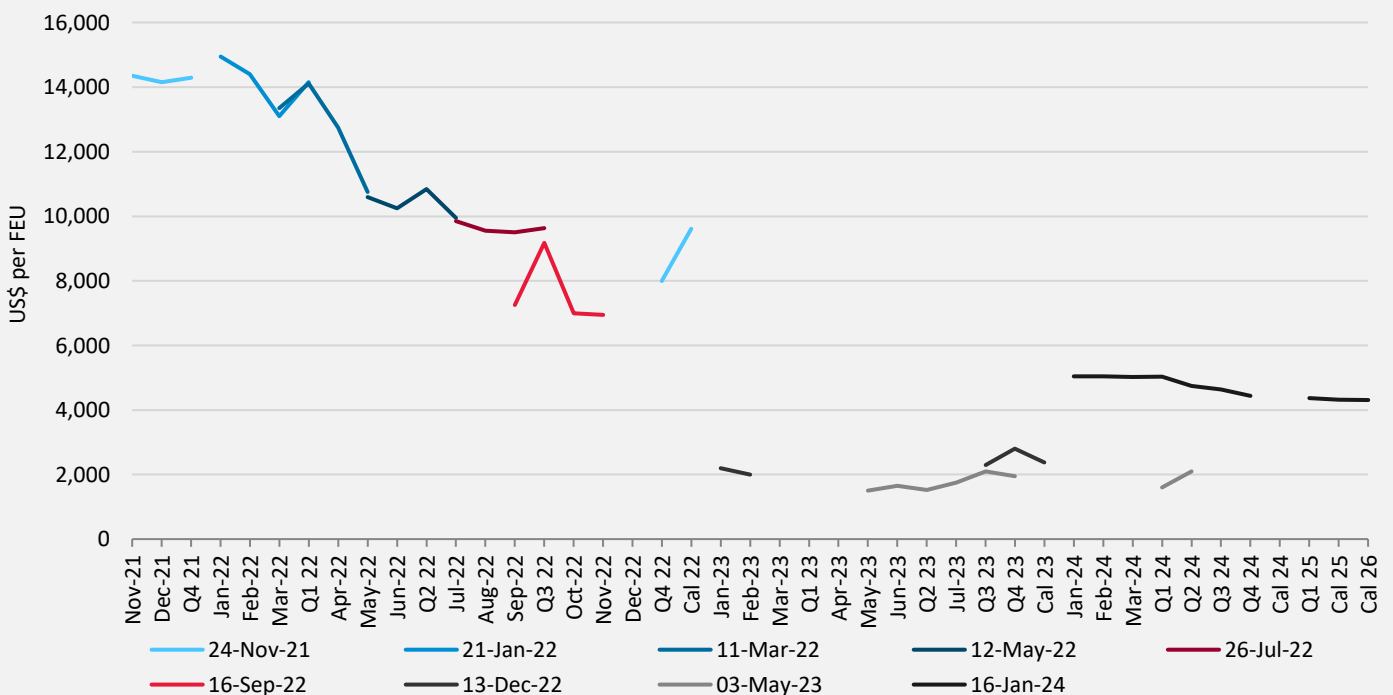
January 2024

A return to higher container shipping costs, but for how long?

Since our last report in May 2023, costs for shipping containers stabilised for almost a whole 12 months comfortably falling back to sub \$2,000/FEU pre-pandemic levels. Since the end of December 2023 FBX11 rates have risen even more sharply than in November 2020, rising from \$1,590/FEU on 22 December 2023 to \$4,042/FEU on 2 January 2024. At the time of writing rates are at \$5,117/FEU and are not showing signs of slowing down. The reason behind this is predominantly caused by ships diverting from the Red Sea (Suez Canal) to the Cape of Good Hope when sailing from China to Europe, as a result of the activity in the Red Sea by the Houthis. The additional seven to ten days sailing each way (14-20 days for a return voyage) will be having a drastic effect on supply, and even if container ships were to speed up (the average speed last year was 14.9kts) to their designed speed of 22kts-24kts to ease the pressure on supply, the impact on fuel cost will be significant, but there is no motivation for container lines to do so.

As to the question of how long this will last, the forward curve which we know from previous reports has poor sight beyond a couple of quarters, is relatively flat going out to Cal26 implying that the market unable to formulate anything longer than a short-term view. There will be significant pressure from Western and Middle Eastern countries to resolve the situation as quickly as possible as the potential economic fallout to all, could be significant, just as most economies are getting inflation under control.

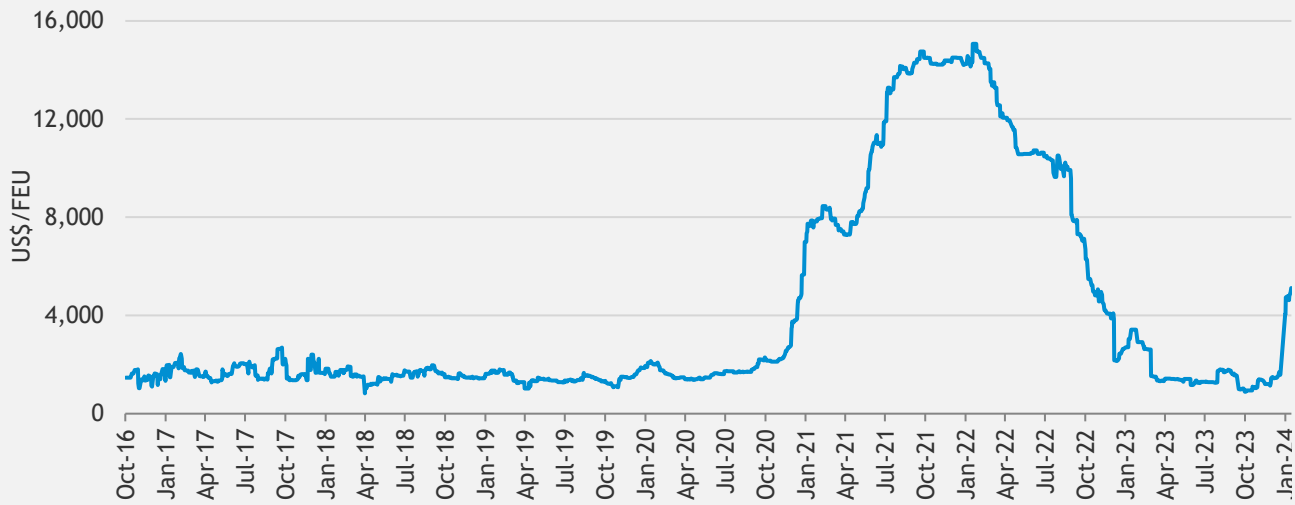
FBX11 - China/East Asia to North Europe



Source: The Baltic Exchange

We said in our May 2023 report that FBX11 was at pre-pandemic levels and was likely to remain at those levels for at least the next 18 to 24 months, subject to any black swan events that could disrupt the supply chain again. The current situation in the Red Sea is that black swan event.

China/South-East Asia to North Europe - FBX11

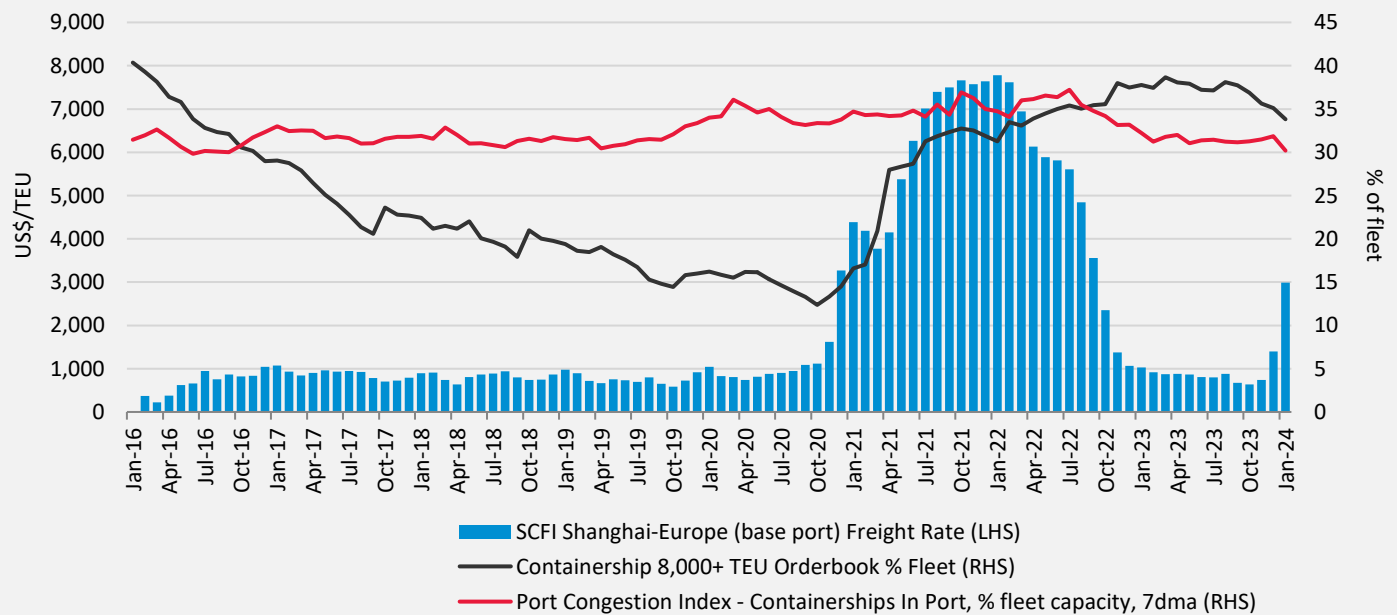


Source: The Baltic Exchange

Container market drivers

Port congestion continues to fall but this is now likely to be mostly driven by the container fleet experiencing longer voyages. The orderbook has been falling since September 2023 as new vessels have delivered into the fleet, if the current market conditions continue it is likely that ship owners will return to order as they seek to fill the supply gap.

Container market drivers

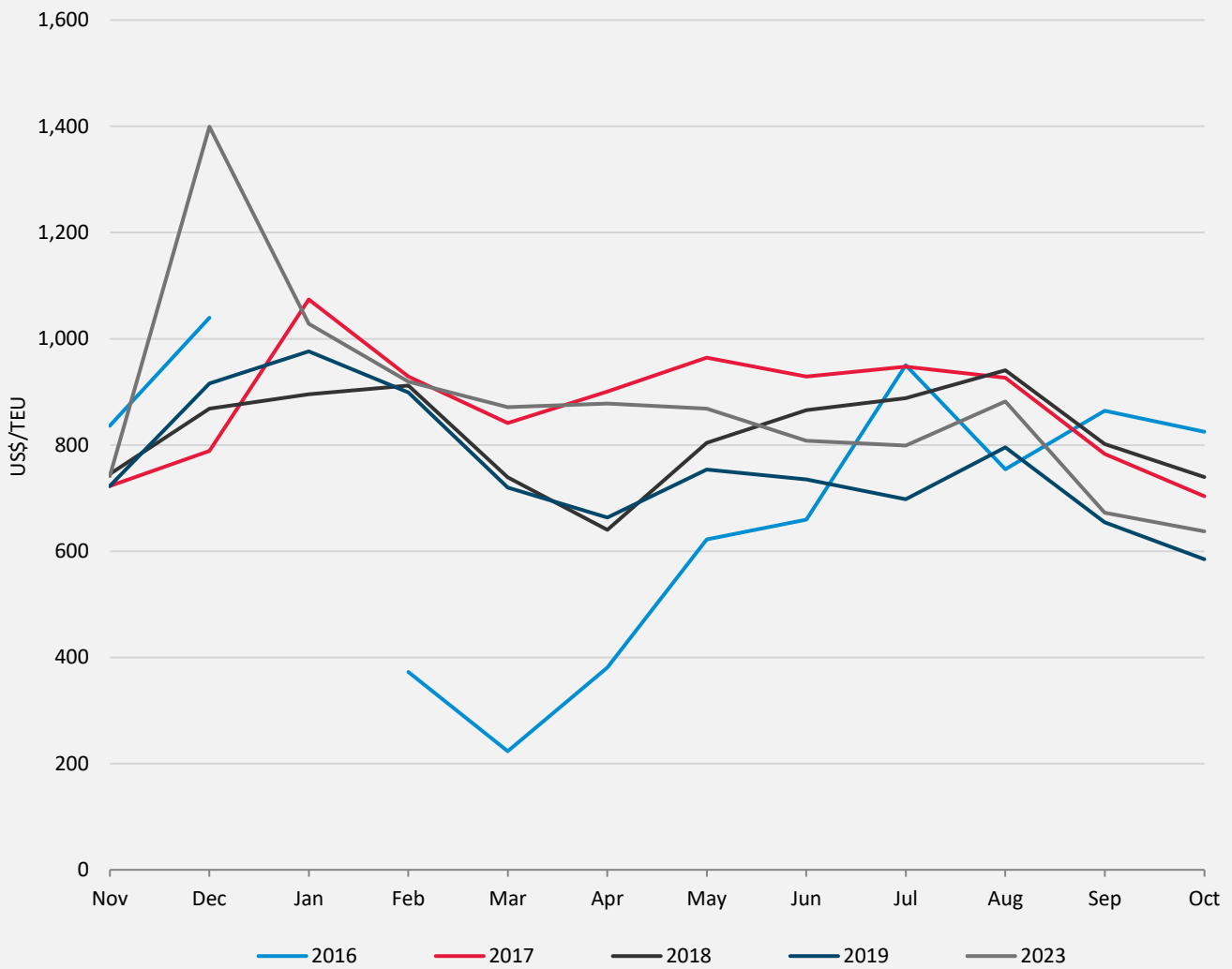


Source: Clarkson Research Services

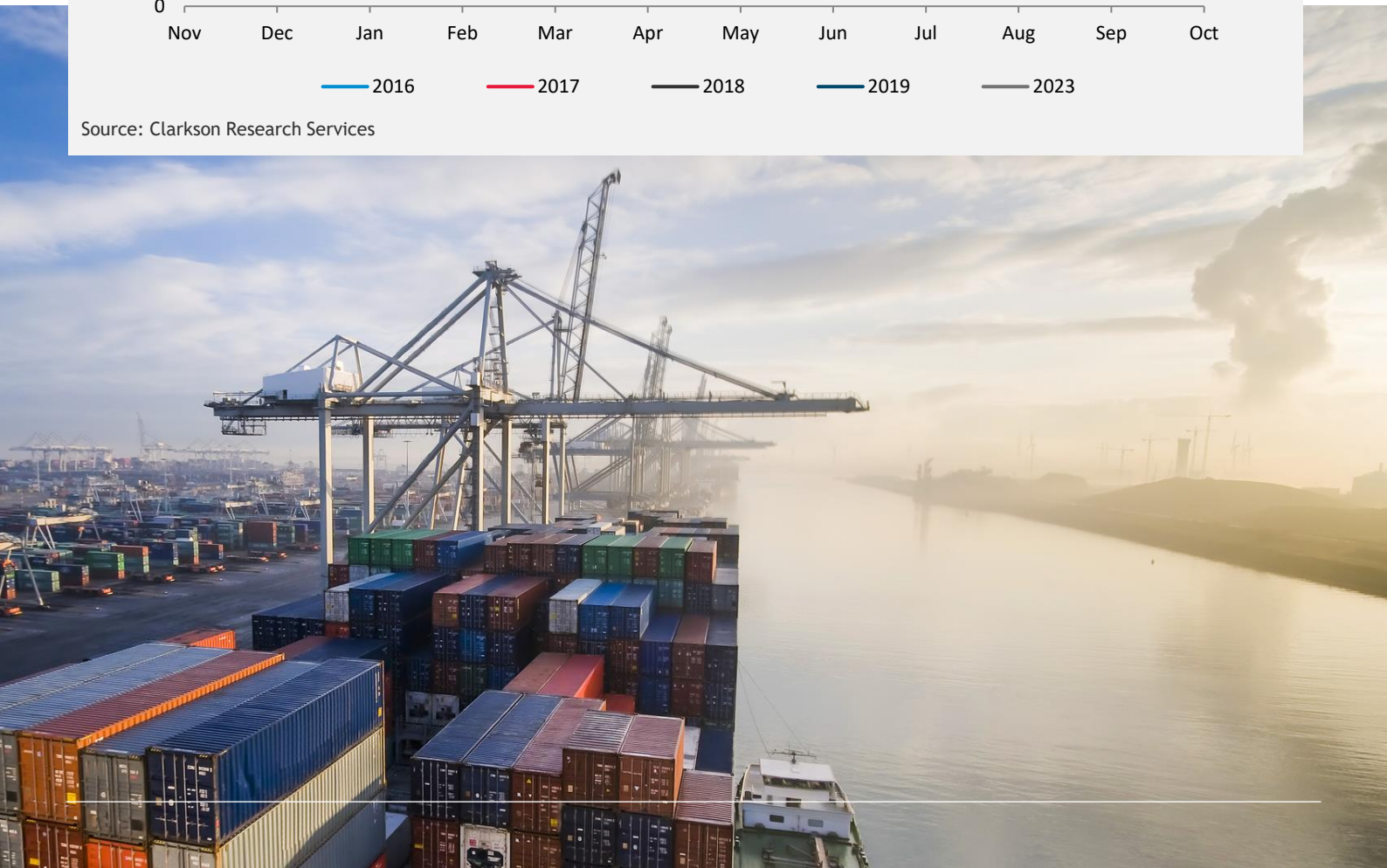


The container shipping market is quite seasonal particularly in the two-month run up to Chinese New Year, this year is no exception, but it has been distorted by the current conflict in the Red Sea.

SCFI Shanghai-Europe - normal years (excl. 2020-2022)

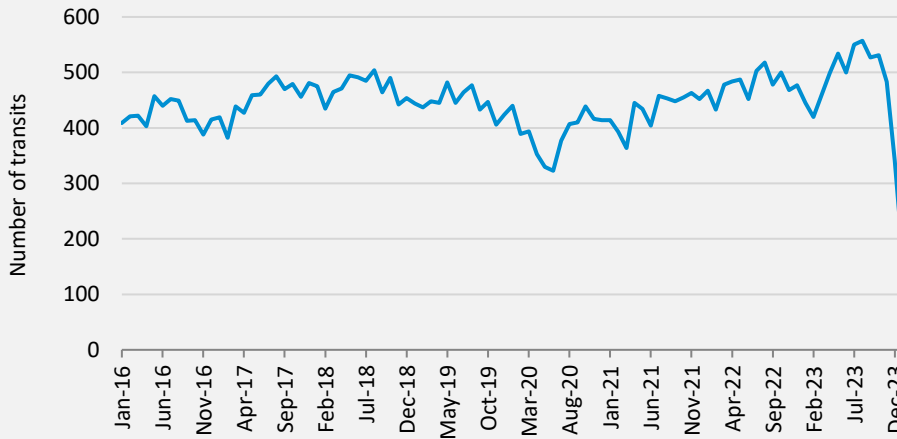


Source: Clarkson Research Services



There are normally 400-500 Suez Canal transits per month by container ships alone. In January 2024 this is forecast to fall by 67%. At the time of writing only 85 transits were made, assuming an average of five transits per day (which could be seen as optimistic), we could see as little as 160 transits in January 2024 against a five-year average of 442 for the month of January.

Total container ship Suez Canal transits
(16 January 2024 to 31 January 24 estimated at five transits/day, based on 24 January YTD data)



Source: Clarkson Research Services

For further help, guidance and advice please contact:



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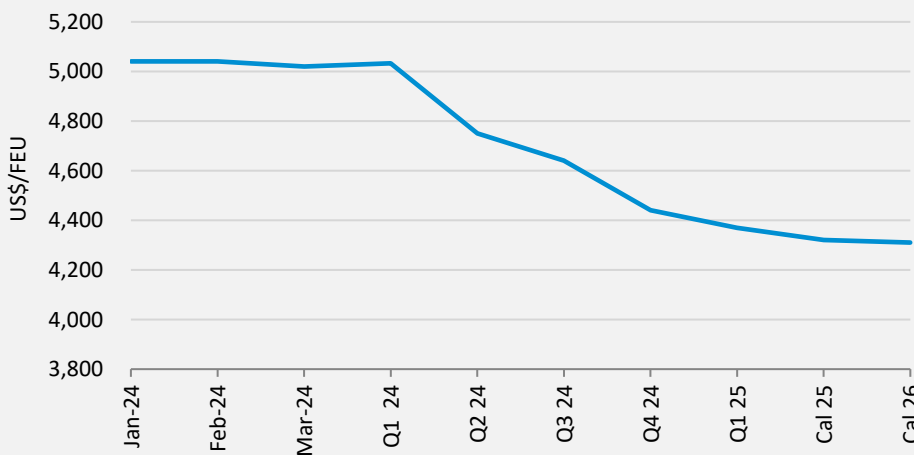
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In conclusion, until the situation in the Red Sea is resolved it is unlikely that we will see a return to sub \$2,000/FEU shipping costs from China to Europe. The current forward curve for FBX11 is not pricing in any change for Q1 24 and only a moderate softening in Q2 24. It is important to note it is also not currently pricing in any further increases either. Only time will tell at the moment, but we will be keeping a close eye on the market and providing regular updates.

FBX11 forward curve (16 January 2024)



Source: The Baltic Exchange



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