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Drewry: Beginning of the End for Container Shipping's Bull Run

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June 30, 2022

Container shipping's pandemic-fueled boom cycle has undoubtedly taken a turn in recent months, but lingering congestion is likely to prevent a swift return to normal, says Drewry in its latest *Container Forecaster* report published Thursday.

Falling demand has driven container spot freight rates lower on a weekly basis over the last four months and high inflation is eroding confidence that volumes will stage much of a comeback. "It certainly feels like we are at the beginning of the end of the container market bull run," says Drewry.

Although carriers have proven that they can deploy strategies to uphold profits despite lower volumes, as evident from Q1 results, container shipping stocks have certainly taken a hit. Drewry's report notes that while the container market has definitely turned, the winding down of high rates and carrier profits will likely take some time—with no significant loosening likely until the second half of 2023.

Carriers Still Hold the Ace Card

It comes as no surprise that container freight rates had reached unsustainable levels, but timing the market's return to normal has remained uncertain amid ongoing issues in the supply chain.

Drewry's World Container Index shows rates declined 3% this week to $7,066 per 40-foot container—16% lower than a year ago and down significantly from the September 2021's $10,377 peak, even though still about double the five-year average. Despite this dip, Drewry says ocean carriers are still holding the ace card.

AIS ship tracking data actually reveals that the number of containerships waiting outside of major ports is growing, and there is little expectation of a fix any time soon. "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," says Drewry.

China's zero-tolerance COVID-19 policy, U.S. West Coast port labor negotiations, and high risk of inflation-induced labor shortages remain to be wildcards, adding to uncertainty in the market.

While congestion issues remain challenging across the world, Drewry notes that they are "clearly not having quite the same influence on pricing" as they did earlier in the pandemic.

"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," says Drewry.

All things considered, Drewry still expects the container shipping market to grow 2.3% in 2022, although it admits that the projection 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.

"Looking further ahead, we do foresee a significant loosening of the container market from 2H23, when the supply chain congestion is expected to have cleared. It will also coincide with a significant influx of newbuild containerships," Drewry says.

Bottom line… Drewry says the end of the container boom cycle will require a paradigm shift from all stakeholders.

"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," it says.

Drewry's Container Forecaster can be found here.

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