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Greg Knowler, Senior Europe Editor | Oct 07, 2022 10:59AM EDT



Congestion is easing in many ports around the world, releasing capacity back into the market even as demand slows. Photo credit: Shutterstock.com.

just 1.9 percent.

“Lines face an enormous challenge taming the one thing they have control over – supply,” Drewry wrote in its latest Container Insight report. “The problem is, there is a lot of it, and they are being attacked on multiple fronts.

“By over-ordering in the boom years, carriers have set themselves an enormous challenge to shuffle and make capacity magically disappear,” Drewry added. “If they succeed next year, they will need to rinse and repeat for 2024.”

A capacity-absorbing measure that may help carriers with their excess supply is the International Maritime Organization’s (IMO’s) 2023 environmental regulations that aim to reduce shipping’s carbon intensity with penalties for less-efficient container ships.

However, Jan Tiedemann, senior analyst at Alphaliner, said the actual impact of IMO 2023 was “still a mystery” and the industry was in a wait-and-see mode.

“The IMO will mandate ships that are not energy efficient to burn less fuel per ton mile by sailing slower,” Tiedemann told a CrossStaff shipper conference in Barcelona last week. “If ships are sailing 10 percent slower, you will need 10 percent more ships. But ships are already not sailing at their top speeds, so even if you mandate lower speeds, the effect on capacity of the IMO regulations could be zero.”

Ocean carriers on the major east-west trade lanes will be confronted by a wave of new capacity flooding into service over the next two years even as economists downgrade their outlook for trade growth and warn of increased risks of recession in Europe and North America.

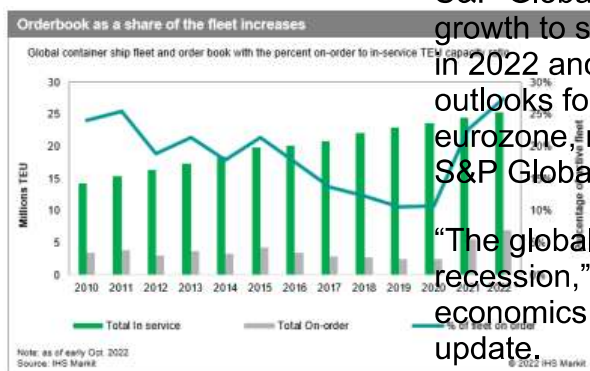
The container shipping orderbook was just shy of 7 million TEU at the beginning of October; 2.6 million TEU of those new ships will be delivered next year and 2.8 million TEU in 2024, according to data from IHS Markit, now part of S&P Global.

On top of the new construction, latent capacity lost due to supply chain and port congestion is also being released as port bottlenecks ease. Drewry estimates the effective net increase in container shipping capacity in 2023 will be 11.3 percent, with demand growing at

Demand growth slowing

The new tonnage is hitting the market as global trade momentum slows and some regions move into recession. World Trade Organization (WTO) economists predict global merchandise trade volumes will grow by 1 percent in 2023, down sharply from the previous estimate of 3.4 percent.

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S&P Global's economic desk projects global GDP growth to slow from 5.8 percent in 2021 to 2.8 percent in 2022 and 2 percent in 2023, reflecting weaker outlooks for the world's largest economies — the eurozone, mainland China, Japan, and United States. S&P Global is the parent company of JOC.com.

"The global situation can be characterized as a growth recession," Sara Johnson, executive director of global economics at S&P Global, wrote in a recent economic update.

"The period of weakest growth and highest vulnerability will be in late 2022 and early 2023, when a new major shock could tip the world economy into recession," she added. "While our forecast does not anticipate a global recession, parts of the world will experience recessions, including Western Europe and parts of Latin America."

Alphaliner noted in its latest weekly newsletter that liner shipping's traditional peak season barely materialized in 2022 and that many industry observers felt the slump was structural, rather than seasonal, and expressed fears of a global recession.

The downward revision of economic indicators comes with carriers already unable to cut capacity fast enough to match declining demand and stem plunging spot rate levels. Rates on the Asia-US West Coast reached a peak of \$9,150/FEU on March 1 this year and have since fallen more than 70 percent to \$2,440/FEU. Asia-North Europe spot rates reached their record high on Jan. 1 at \$8,367/TEU and are down 60 percent at \$3,315/TEU, according to rate benchmarking platform Xeneta.

While carriers accepted that extreme rate levels reached over the past year would not be sustainable, the rapid decline of the spot market appears to have taken container lines by surprise.

"The normalization of the operational and demand situation was needed to correct the extraordinary implications it brought with it," a spokesperson for Hapag-Lloyd told JOC.com Thursday. "However, the normalization was very rapid already during the Q3 peak season, which was not expected to this extent."

Hapag-Lloyd and Maersk have pointed out that only 30 percent of their total volume is on the spot market, so the falling rate levels will have little impact on this year's profitability that will set a new annual earnings record.

Maersk, for example, by the end of the second quarter had already locked in all contracts for the rest of 2022 at an average rate that was \$1,900/FEU higher than last year, CEO Søren Skou told analysts during a second-quarter earnings call in August.

Shippers delaying contracts

Peter Sand, chief analyst for Xeneta, said carriers will "no doubt" see lower profits in 2023 — an HSBC report predicts industry profits will fall 80 percent in the next two years — but the earnings

would be coming down from this year's all-time high.

Sand said falling rates were prompting shippers to delay the signing of new contracts with carriers for as long as possible or adjust the duration of their cargo agreements.

"Shippers are signing shorter volume contracts to avoid being locked into 12-month or multi-year deals when the contracts market will soon follow the spot market down," he told JOC.com, adding that the downward trend in rates would continue in October "and in coming months."

Hapag-Lloyd said its long-term customers were not making substantial changes from long- to short-term pricing, but some had delayed starting contract talks "due to high volatility in the market."

That volatility has seen carriers withdrawing capacity to match slowing demand. Data from Sea-Intelligence Maritime Analysis shows ocean carriers on the Asia-US West Coast blanked 153 sailings in the traditional peak season from July through September versus 119 canceled sailings during the same period last year. On Asia-Europe, 38 sailings were canceled over those three months compared with 29 last year.

"Are carriers panicking and blanking sailings left, right, and center? No, not really," Sand said. "On the trans-Pacific they have done it very late in the market downturn for some reason, but would it be much different if they did not do it?"

"On Asia to Europe, rates have been on a non-dramatic decline since mid-January 2022 without carriers cutting capacity at large, but the trans-Pacific proved to be a different animal," he added.

From a shipper's perspective, after the disruption of the past two years, risk management and reliability were "the name of the game," Sand noted, with shippers seeing rates coming down and accompanied by improved schedule reliability, lower congestion, fewer rolled cargoes, and better service levels.

"It costs considerably more in the long-term contract market nowadays, that's very clear from Xeneta data, but shippers are also enjoying that fact that supply chain strains are finally being lifted on most trades," Sand said.

Contact Greg Knowler at greg.knowler@ihsmarkit.com and follow him on Twitter: [@greg_knowler](https://twitter.com/greg_knowler).

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