

Excess capacity hangs over recovering container market: Maersk CEO



The container shipping orderbook is over 7 million TEUs, representing 25% of the existing fleet. Photo credit: OOCL.

Greg Knowler, Senior Editor Europe | May 3, 2024, 10:08 AM EDT

No matter how long the Red Sea disruption lasts, the fundamentals of increasing overcapacity in container shipping will “eventually” prevail and could start hitting the market as early as the third quarter, according to Maersk’s chief executive.

Rate levels are rising on several trade lanes with strong market demand tightening vessel supply as most of the slack global capacity is absorbed by the longer sailing routes around southern Africa, CEO Vincent Clerc told analysts on the carrier’s first-quarter earnings call Thursday.

But Clerc warned that the capacity overhang is such that the excess supply will reassert itself on the market at some point.

“The significant new capacity coming online will eventually put downward pressure on rates,” he said. “Our concerns about eventually running into an overcapacity situation are still there, and even if this has been delayed for two or three or four quarters, we still see the orderbook as a big concern.”

He noted that although rates will continue to be propped up by the ship diversions prompted by ongoing attacks on commercial shipping in the Red Sea, there was no indication how long the disruptions would last and to what extent it would impact Maersk.

“Even if the situation on the Red Sea was to endure for two years, three years or four years, the current orderbook would eventually be bigger than what we expect market growth to be,” Clerc said.

Looming supply-demand imbalance

The container shipping orderbook is currently just over 7 million TEUs, representing 25% of the existing fleet, with the supply-demand imbalance expected to be particularly acute over the next two years.

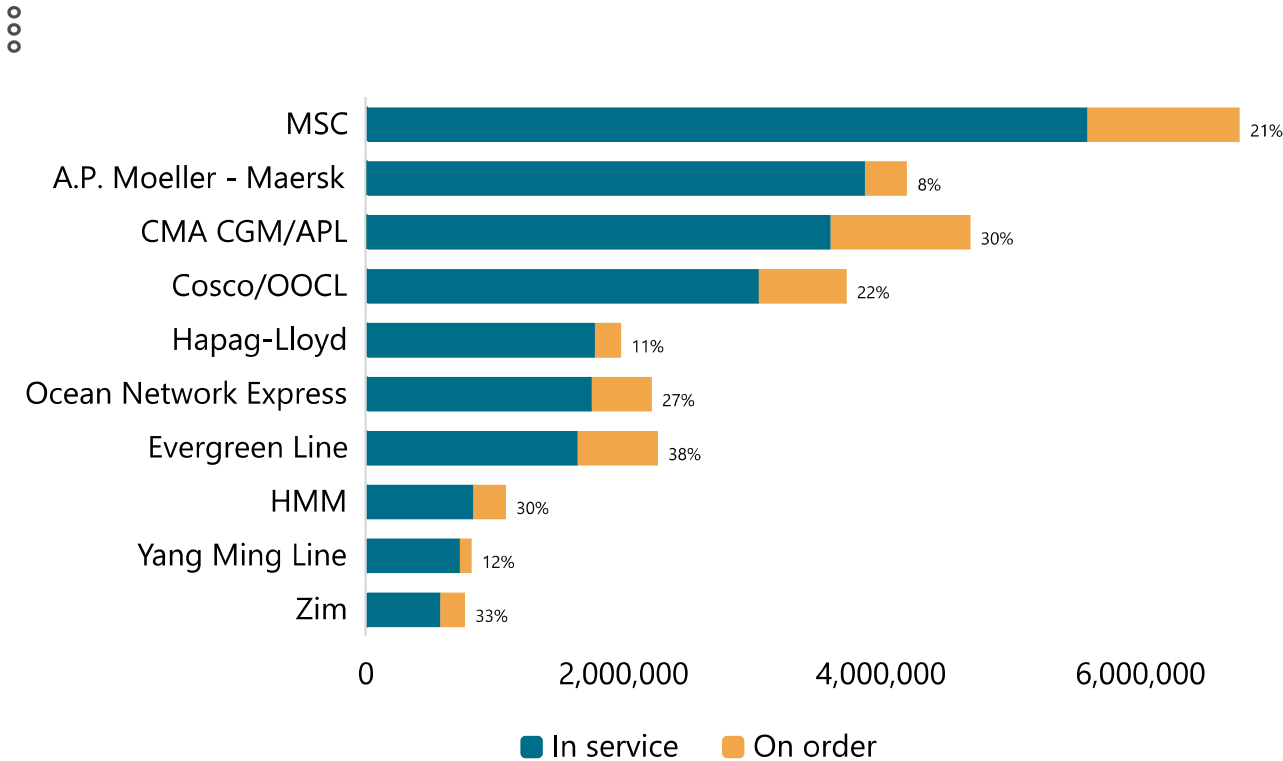
Niels Rasmussen, chief shipping analyst at shipping association BIMCO, has forecast cargo volume growth at 3% to 4% in both 2024 and 2025, which will be easily outstripped by fleet growth due to top 9.5% in 2024 and 4.9% in 2025.

“In 2024, 478 container ships with a capacity of 3.1 million TEUs are scheduled for delivery, beating the 2023 record by 41%,” Rasmussen told a *Journal of Commerce* webinar this week, adding that the global fleet will reach 32.1 million TEUs in 2025.

While Clerc said 6% to 7% of global capacity was being absorbed by the diversions around southern Africa, Rasmussen put that figure closer to 9.5%.

Orderbook extends to almost 30 percent of in-service fleet

Top 10 carriers' global existing fleet and capacity on order



Source: Sea-Web, S&P Global

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Alphaliner wrote in its newsletter this week that 41 new vessels with a capacity of 260,000 TEUs were delivered in March, while 50 new ships added 333,000 TEUs of capacity to the global fleet in April. But even though 1 million TEUs of capacity has been delivered since the start of the year, the supply of tonnage remained “fairly tight,” said Alphaliner.

The exact scale of the overcapacity challenge is not yet clear, as there is a significant amount of capacity that can be scrapped — about 7% of the world fleet is aged 25 years or more — and idle levels are still below 1%.

“Currently, the liner fleet can be considered fully employed and there is no structural idling,” Alphaliner noted, adding that in late April, only 0.6% of the global fleet was idle.

“The unsafe situation in parts of the Red Sea and the subsequent vessel diversions via the Cape of Good Hope still force carriers to inject extra tonnage into their networks,”

Alphaliner added. “This additional demand continues to keep idle container ship capacity low.”

Rates expected to bottom when Suez transits resume

Average spot rates on the Asia-North Europe trade rose 13% this week as price increases were levied by carriers. The current rate of \$3,671 per FEU is up 143% year over year, according to rate benchmarking platform Xeneta. Asia-Mediterranean rates of \$4,532 per FEU are up 9% on the week and up 144% year over year.

However, rates will tumble as soon as ships resume Suez Canal voyages, Emily Stausbøll, senior shipping analyst at Xeneta, said in a market update this week.

“There have been record-high deliveries of new container ships in every quarter since Q2 2023, but conflict in the Red Sea has largely protected carriers from overcapacity so far in 2024 because diversions around the Cape of Good Hope require more ships to maintain service schedules,” she said.

“If the situation changes and we see a large-scale return of container ships to the Red Sea in the next 12 months, it will leave carriers severely exposed to the impact of overcapacity and spot market rates are likely to plummet,” Stausbøll added.

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