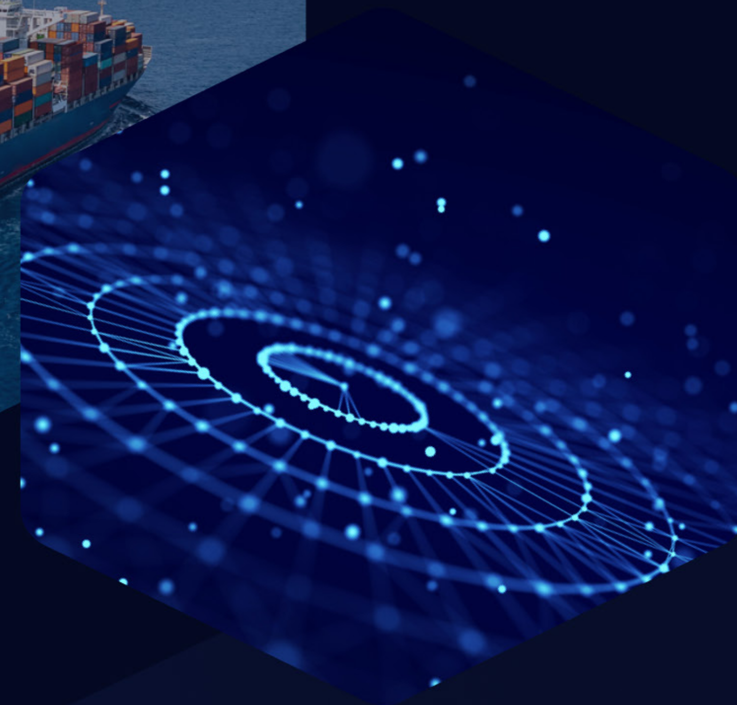
XENETA

2024 OUTLOOK

OCEAN FREIGHT SHIPPING



Rates will bounce back, it’s just a matter of when...

Xeneta CEO Patrik Berglund shares some thoughts on the year ahead for Ocean Freight Shipping Outlook 2024.

Rates have been volatile again during 2023, so should we expect more of the same?

“What we can say is that the current rates are unsustainable. So the question is when they will go up, not if they will go up.

“From what we know, there’s little room to go further down. What’s most likely is they stay a little longer around this level, maybe go a little bit down, but they will, for sure, go back up.”

What will be on carriers’ minds as we look towards the coming year?

“New environmental regulations being introduced in 2024 are an additional complication for carriers in what is an already challenging market..

“These regulations will prohibit some carriers from utilizing all of their capacity because their vessels are not environmentally-friendly enough and will go out of the market.

“As a result, we will continue to see slow-steaming and blank sailing.”

What could this mean for shippers?

“If rates go up too much relative to what has been contracted at the end of 2023 and beginning of 2024, those shippers will be exposed to the real risk of not keeping their supply chains intact.

“Shipping lines will jack up the market and look at those contracts, and in many cases, deem them non-profitable.

“They are going to be inclined at every chance they get to not pick up those boxes.”

“It’s not realistic to expect shipping lines to keep losing money. They are effectively subsiding shippers to move their cargo around the world.”

How much certainty can we really have?

“Think about underlying weak macro-economics; inflation rates, cost of living, interest rates and reduced global consumption.

“On top of that you have wider political turmoil and wars.

“There are still some heavy dark skies on the horizon and that could change the equation.

“But I still believe shipping lines will adjust to whatever demand is out there because anything else does not make sense.”

Let's recap 2023... a troubled year for shipping liner companies.

Declining demand for ocean freight and increasing capacity is the story of the year so far.

To know where you're headed, you must first understand where you've come from.

That's certainly true of the shipping markets which have been on a tumultuous journey of late.

Xeneta's data has cut through this chaos and provided much-needed clarity for customers around the world.

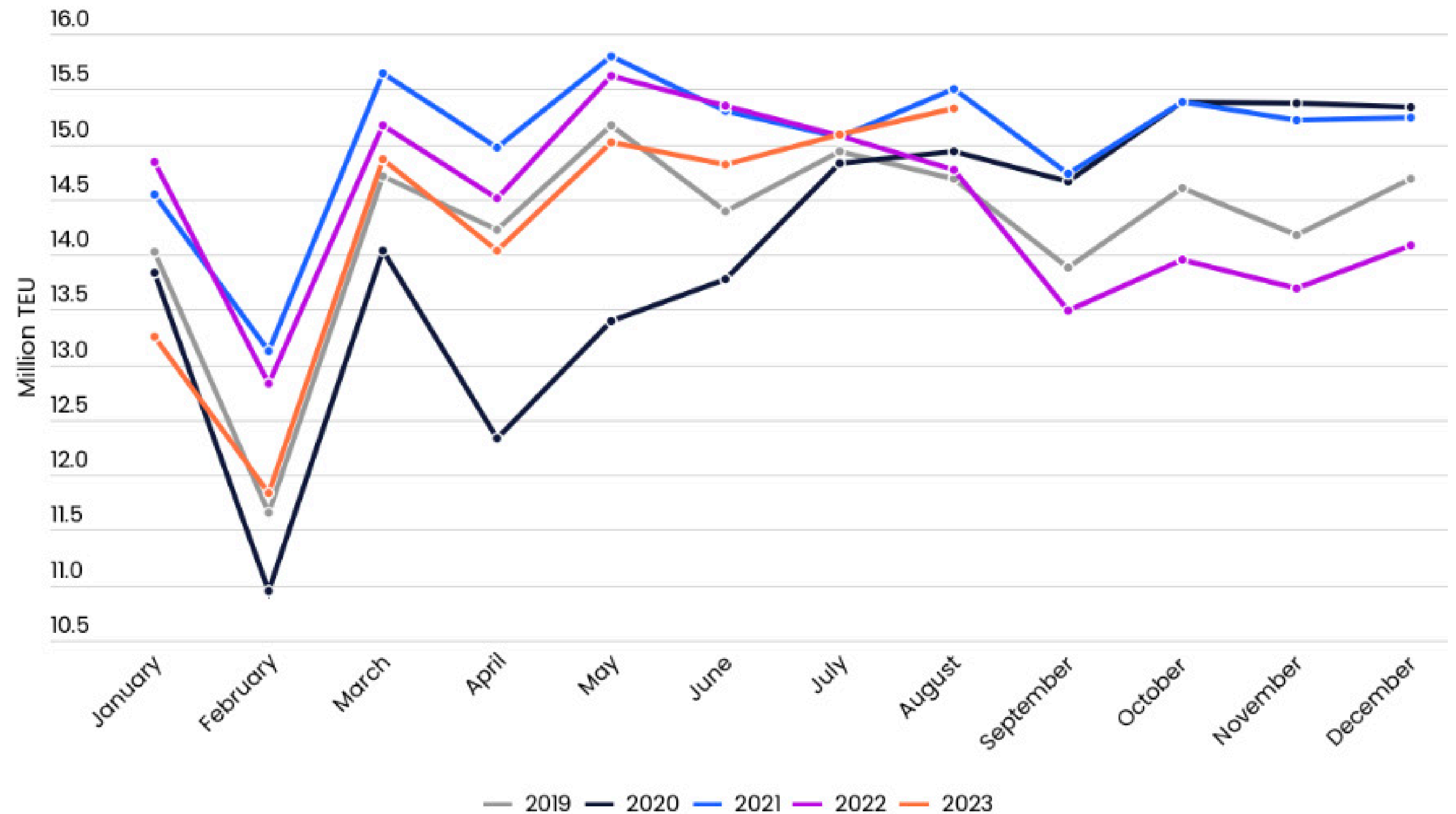
In last year's Ocean Freight Shipping Outlook we predicted 2023 would see volumes drop amid a cost-of-living crisis.

And so it turned out to be, with Xeneta data also illustrating to our customers the impact this falling demand has had on freight rates over the course of this year to date.

Will this trend continue or will we see an upturn in 2024?

Allied to decreasing volumes, last year's Ocean Outlook also suggested an increase in fleet capacity of 5.9%.

Global container shipping demand source: Xeneta, Container Trades Statistics



Again, this is how 2023 played out with record levels of freight container capacity on the market, albeit not being utilised fully.

If 2024 sees further records being set how will carriers manage to balance capacity and demand while remaining profitable?

The carnage of 2023 - a case in point.

Let's provide a little context around some 2023 data to help us understand the market drivers.

If we need an example of the impact carriers removing capacity has on increasing spot rates, look no further than the Far East to US West Coast.

Over the eight weeks of July and August a total of 2.2m TEU was transported on this trade – which is 115 000 TEU down from the same period in 2022. It is also a 3.3% fall on the previous eight-week period.

It is important to note this is how many TEU of container shipping capacity was transported rather than the absolute amount of capacity on all ships deployed on this trade.

Meanwhile, the average spot rate on this trade increased from USD 1 260 per FEU in early April to a peak of USD 2 180 at the start of September before falling back to USD 1 860 by the end of the month.

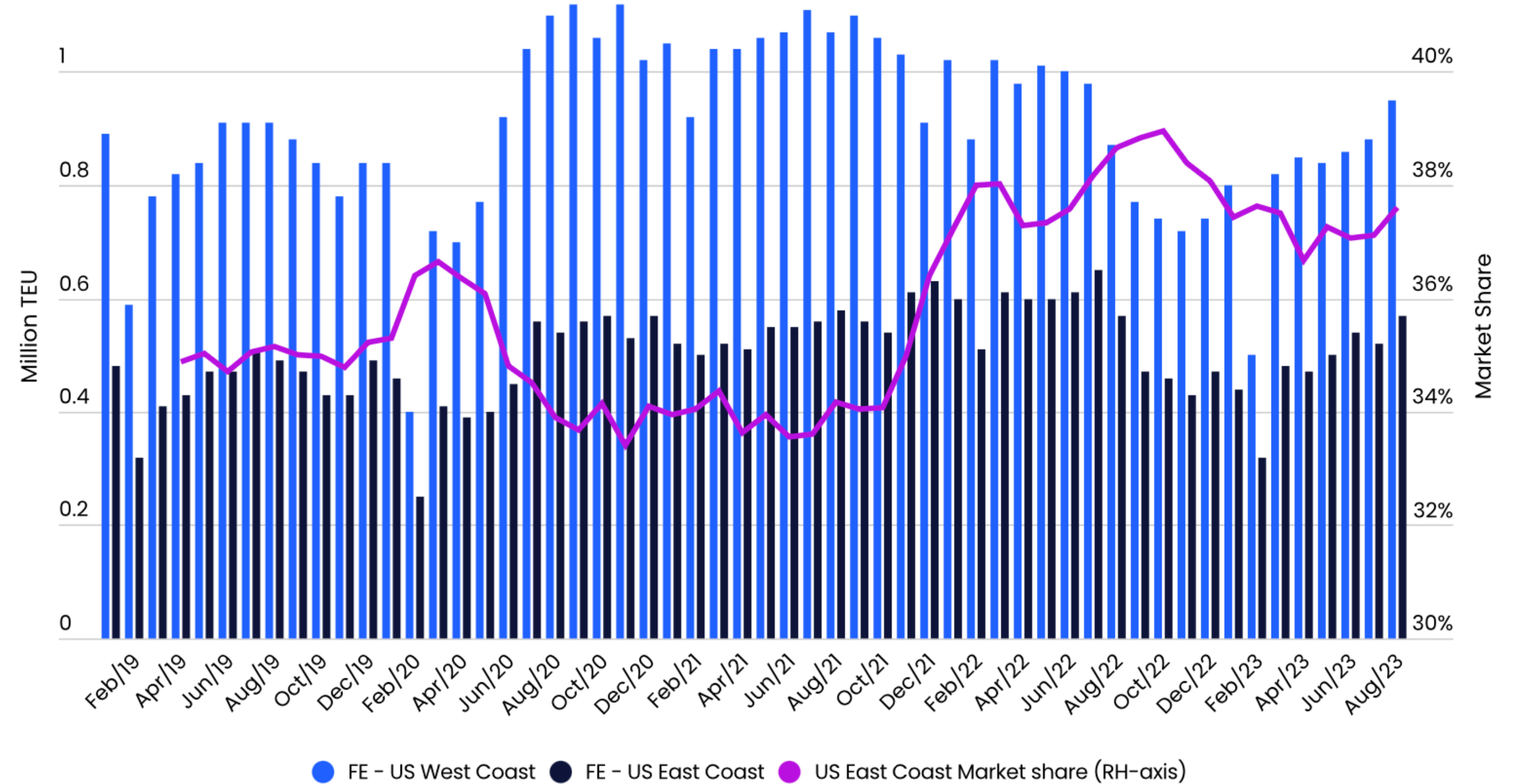
Only in the first weeks of September has capacity risen above last year's level, which coincided with spot rates starting to fall.

Year-to-date capacity offered from the Far East to the US West Coast has decreased by 7.3% from last year, despite volumes on this trade having fallen by 16.2% in the first eight months of the year.

Around 25% of earlier announced capacity ended up being blanked because of weak demand and opti-mistic carrier schedules.

Capacity is just one of a myriad of factors impacting ocean freight prices in 2023.

With carriers having a number of options to combat over capacity; such as idling, demolition, redeploying ships off larger trades and slow-steaming, we begin to see making predictions for 2024 requires careful consideration of data and upcoming market forces.



How is 2024 shaping up?

Xeneta sets out the six key issues you need to look for in the next 12 months.

The Ocean and Freight Shipping Outlook 2024 is split into the top six themes we believe will impact the market.

Peter Sand, Xeneta Chief Analyst, will guide you through these themes and pick out some key factors to be aware of as we head into 2024.

We will rank these six themes in order of their potential impact on the ocean shipping market and freight rates over the course of next year.

And for those of us who are perhaps a little longer in the tooth, we know every year in the shipping industry brings its own unique – and sometimes unexpected – market movements.

Let's dive in and take a look at our first theme in this year's Xeneta Ocean Outlook...

Peter Sand
Chief Analyst,
Xeneta

2024 Ocean Freight Insight at a Glance

Demand to grow by 2.5%.

Supply to grow by 6.5%.

Spot rates to remain volatile throughout the year.

Carriers will aim to increase spot rates through smart capacity management and General Rate Increases (GRI).

Steadier long-term rates than seen during 2023.

Spot will hover just below or above long-term rates throughout 2024.

1. Consumer spending

High inflation may mean lower spending on non-essential goods.

It should come as no surprise consumer spending tops the charts in our outlook for the year ahead.

2024 may herald the return of some level of seasonality to ocean shipping but underlying consumer demand will still hold sway over the market.

Container shipping is inextricably linked to consumer spending, which in turn is directly impacted by global and regional financial outlooks.

While inflation is easing in most western countries, it will still remain high in 2024.

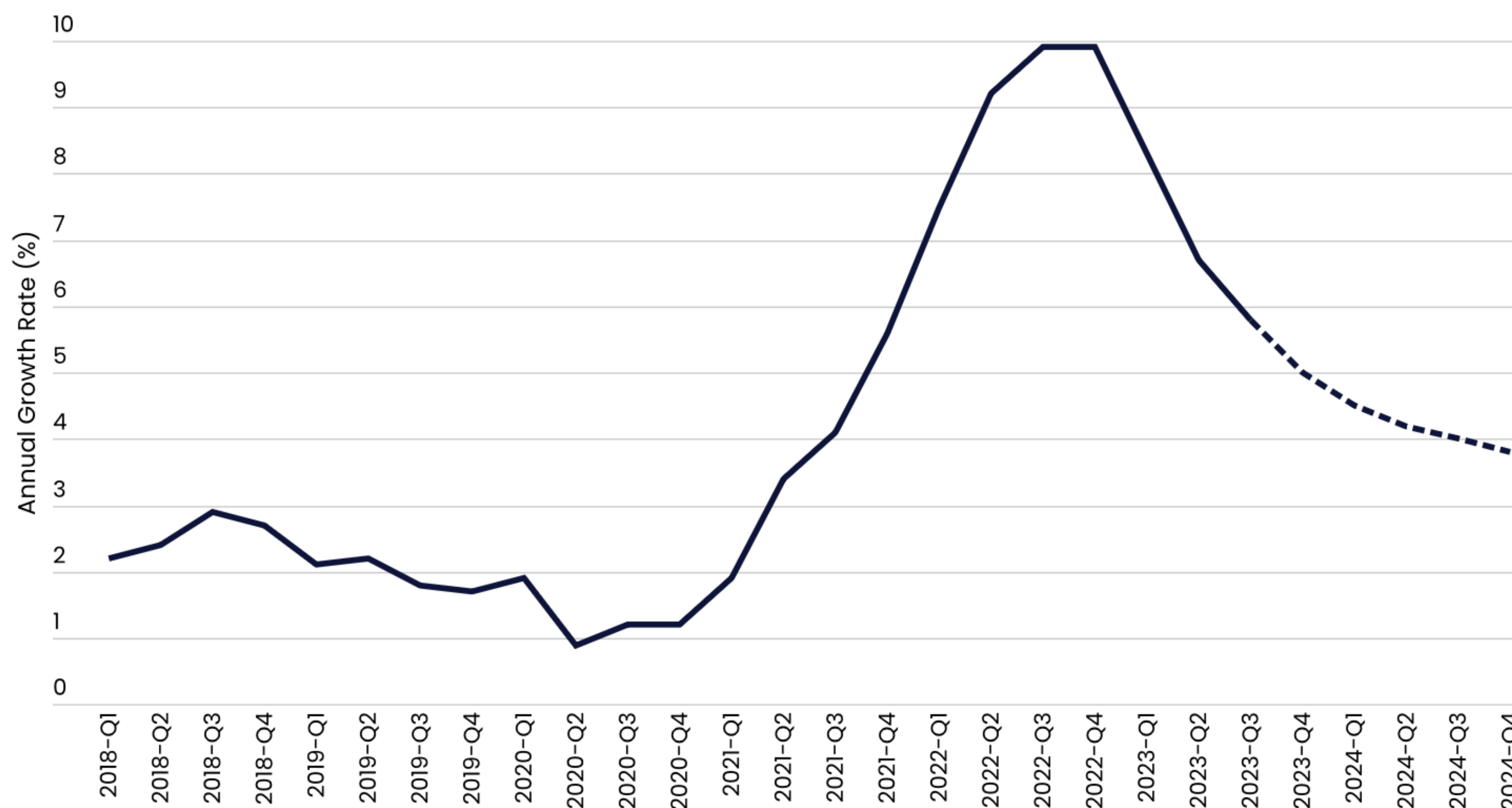
Spending will therefore be negatively impacted as a greater share of people's income is spent on paying interest on debt and essential goods/services.

This reduction in purchasing power and appetite for spending has an inevitable impact on levels of imported goods.

The International Monetary Fund (IMF) projects global GDP growth to fall from 3.5% in 2022 to 3% across both 2023 and 2024.

OECD inflation forecast

source: Xeneta, OECD



This growth trajectory is weak by historical standards. The trade-to-GDP multiplier acts as a measure of the relative importance of trade to the economy, at both a global and regional level.

Back in the 2000s, this multiplier was around 2:1, but since the global financial crash in 2008/09, the multiplier has trended downwards.

For 2024, the multiplier will be below par, leading to container shipping demand growth of 2-3% in terms of TEU volumes.

Is the tide starting to turn in global demand?

Container volumes posted their best month in August with 15.3m TEU transported globally.

This was the second month in a row in which volumes increased.

While it still leaves global volumes down by 3.3% year to date, we should expect more improvements in year-on-year growth owing to the fact demand fell fast and furiously in the final four months of 2022.

It is important to not solely focus on global trends and remember there are varying anomalies within regions.

For example, Far East to North America has seen volumes decrease year-on-year by 14.3% while Far East to Europe has seen volumes increase by 3.3%.

In absolute terms the biggest drop comes in exports out of Greater China which have fallen by 1.4m TEU from last year, highlighting the weakness in demand for Chinese goods.

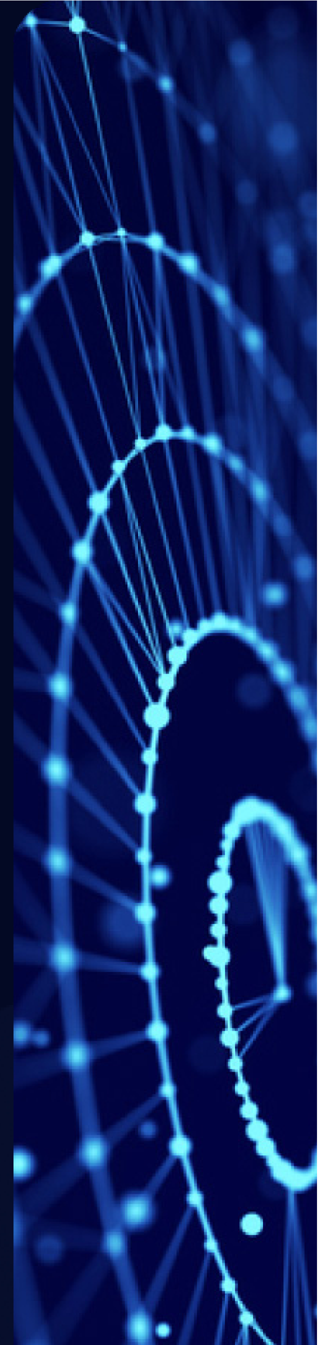
The "invest-your-way-to-growth" strategy which has driven much of China's non-export related growth is now also revealing its flaws with the central and local governments facing huge debt burdens.

One of the countries feeling the knock-on effects from a weaker Chinese economy is Germany which is expected to see its GDP fall by 0.3% and be the only major economy in the world to shrink this year.

Peter Sand's insight:

"No two trades are alike - so you must understand the data across all the lanes in which you operate.

"If you track only the top trades you miss opportunities. For instance, while demand from China into North America and North Europe is down, Chinese products are finding new customers in Middle East, ISC and South America - with volumes growing quickly on those routes."



2. Capacity & fleet growth

Record levels of capacity will continue to cause a headache for carriers.

The simple truth of freight rates is that they are predominantly governed by the balance between the total available capacity aboard vessels and the demand for the transportation of containers by sea.

During 2023 we have seen an easing of congestion caused by the pandemic which reached its peak in 2022. At the same time, we have seen ocean liner fleet grow faster than demand in terms of nominal TEU.

To illustrate the rate of growth, 2023 will see an all-time high level of container shipping capacity enter to the market.

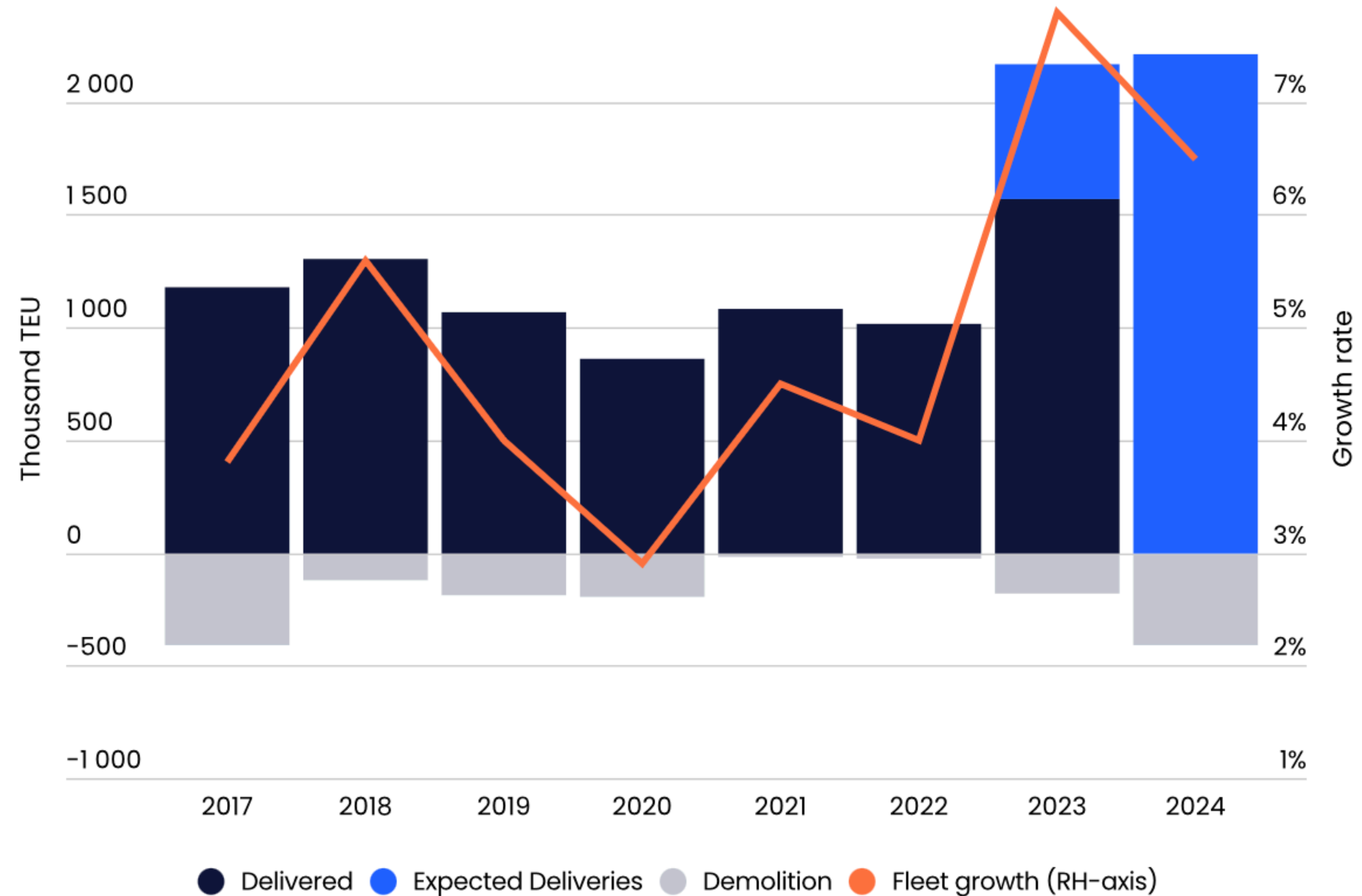
Xeneta expects 2024 to be at least on par with 2023, meaning demand must increase dramatically if the market (im)balance is to be maintained without carriers taking action themselves.

Carriers have a number of options at their disposal to manage capacity in the face of high levels of fleet growth, such as the demolition of sub-standard ships.

Xeneta therefore expects the amount of capacity being removed from active service to increase in 2024 from previous years while still being shy of the all-time record of 657 000 TEU set in 2016.

Another option which carriers have pursued has been slowing their ships down and adding extra loaders to compensate for the extra sailing time.

This means the weekly capacity on any given service doesn't change but the total capacity deployed by the carrier on this route does increase.



Carriers may look to sacrifice profit to protect their most important trades.

Carriers will also wrestle with the capacity versus demand imbalance through cascading larger ships onto smaller trades.

This could be seen as a desperate measure to sacrifice profitability on a smaller trade in order to protect their major trades.

We have seen MSC move the MSC Victoria to an Asia to Africa service. Capable of transporting 15 900 TEU, this is the largest ship seen on this trade.

In 2019, the average ship deployed between the Far East and Africa was 4 000 TEU, whereas the average ship leaving the Far East on MSC's Africa Express service in October and November this year has a capacity of 12 850 TEU.

We should be mindful there are numerous factors influencing carriers' thinking.

For example, 10 new 12 000+ TEU ships have been deployed between Asia and the South American West Coast which reflects solid growth in trade between these continents.

It may also signify a shift towards a 'hub and spoke' model which sees carriers operate behemoth vessels on major trades and smaller vessels for intra-regional shipping.

This is a trend which started around a decade ago and should not be seen as a legacy symptom of the pandemic.

As we look towards 2024, carriers will continue to do everything they can to reduce the overall cost of providing services to shippers.

As the market will remain heavily stacked against them, they may look to measures that negatively impact their customers, such as blanked sailings.

To illustrate the point, throughout 2023 we have seen around 25% of announced capacity removed on Far East to North America trades.

Peter Sand's insight:

"Shippers should expect carriers to optimize the trades deemed most important to profitability. Knowing this gives shippers an advantage when negotiating long term service contracts.

"Lessons learned from 2023 are to expect capacity management. This will probably be executed more stringently if carriers stay in any form of alliances, rather than if all liners have to optimize their own business needs."

3. The much-needed return of “classic seasonality”

The familiar ebb and flow of container shipping demand may return in 2024 - but it it won’t all be plane sailing...

The flow of shipping was always in harmony with the seasonality of demand around the globe, giving carriers and shippers a degree of visibility and predictability throughout the year.

Then along came Covid-19 and seasonality went out of the window, replaced by a volatile landscape which saw a meltdown in freight rates and demand.

The Covid years caused a build-up of stock around the world which created a buffer between consumer demand and goods being imported.

This stock inventory buffer then numbed the usual seasonality because goods were already in place during periods of heightened demand.

But 2023 has shown the green shoots of seasonality as inventories appear to be at the right level.

There is no doubt we are now transitioning out of the crazy Covid years and into something a little more recognizable.

We expect these green shoots of recovery to flourish further in 2024, re-aligning the lost connection between importing containers and real underlying demand from consumers and businesses.

This means carriers and shippers can expect the return of a semblance of “classic seasonality” during 2024.

Direct correlation between consumer demand and imports should be seen as early as January and February when celebrations around the Chinese Lunar New Year impact the flow of containerized goods.

Peter Sand’s insight:

“This will reintroduce normal volatility of spot rates. Shippers who have forgotten all about what that means will quickly remember if their timing of tendering collides with a classic spot rate lift which sees spot as well as long term rates go up.

“You need to stay on top of this because not all trades may react in the same way. When overcapacity reigns - as it will in 2024 - some trades may resist what we would traditionally consider ‘normal’.”

4. Industrial action on the US East and Gulf Coasts

Industrial action on the US East Coast could see shippers head back West - but rates could be at a premium.

West Coast woes could head east as unions issue battle cry against automation in the ocean freight industry.

The shipping world has witnessed the carnage caused by industrial action on the US West Coast with carriers and shippers enduring 18 months of obstructions in the flow of containers.

The International Longshore and Warehouse Union (ILWU) and Pacific Maritime Association (PMC) finally signed a six-year deal for ports, terminals and longshoremen on the Pacific coastline – but the disruption we have seen on the West Coast may be a sign of things to come on the US East and Gulf coasts in 2024.

That’s why industrial action makes it into fourth place on our 2024 Outlook.

The existing contract between the International Longshoremen’s Association (ILA) and United States Maritime Alliance (USMA) expires on 30 September 2024.

Efforts to fast track the negotiation process and avoid a repetition of the pain endured on the West Coast broke down in March over pay and increasing automation.

Historically, the East and Gulf coast ports suffer less disruption through industrial action compared to the West Coast, but the battle lines have been drawn and rhetoric from the union suggests negotiations will be hard-fought.

ILA President Harold Dagget stated: “Workers around the world are under assault from the threat of automation by greedy companies only interested in making money and eliminating workers who helped them build their success and companies.

“It’s got to stop and my ILA will do what it needs to do to save our jobs and the jobs of maritime workers around the world.”

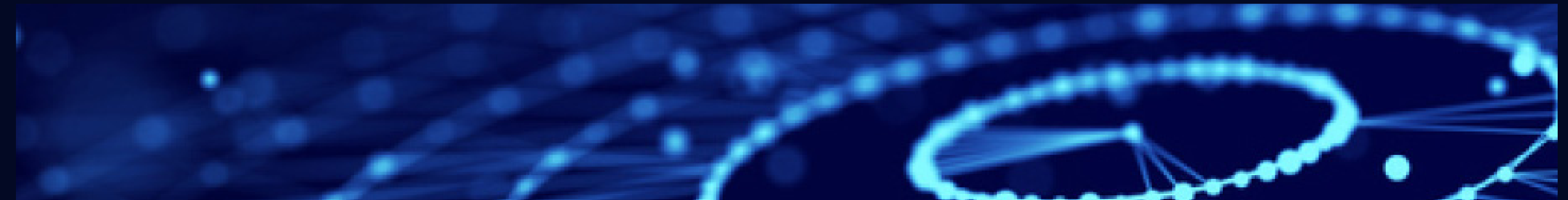
Peter Sand’s insight:

“Any disruption due to industrial actions will impact cargo entering North America via US Gulf Coast and East Coast ports from early in 2024.

“It could be painful as many shippers who changed supply chains during the unrest on the West Coast may find themselves with little other choice than to go back.

“Rates into the US West Coast will command a premium rate if this happens.

“That means the spread in pricing between East Coast and West Coast spot rates will fall below its ‘parity’ of USD 1,000 per FEU. Shippers need to consider reliability and predictability of transit times and cargo movements, not just pricing.”



5. Break-up of alliances

MSC and Maersk steal a march on the market with disbandment of 2M.

On 10 October the European Commission (EC) announced it is scrapping the antitrust block exemption for liner shipping consortia at the end of its existing term on 25 April 2024.

This was done on the grounds the exemption no longer promoted competition in the shipping industry.

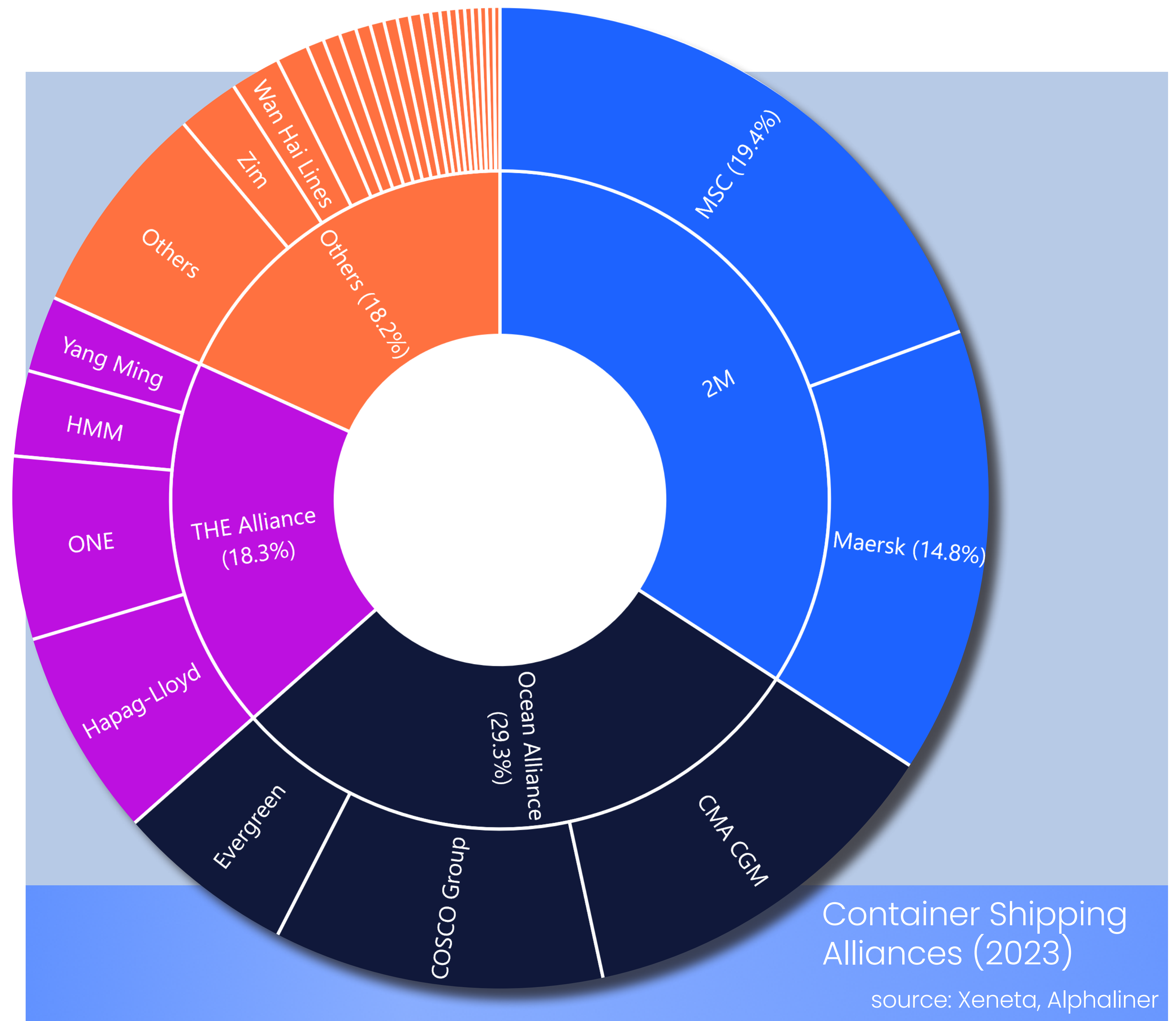
Perhaps the direction of travel for alliances was already clear before this ruling following the break-up of 2M.

Alliances were already considering their options but this latest development may speed those deliberations up dramatically.

Carriers will need to comply with a different set of rules post April next year so we can expect bigger changes to the current alliance constellations.

Even those alliances with a considerable amount of time left to run on their agreements must now make a decision on their future perhaps sooner than they originally envisaged.

If addressing this issue of alliances didn't already feature prominently on carriers' to-do lists for 2024, it most certainly will do now.



Container Shipping Alliances (2023)

source: Xeneta, Alphaliner

Opinion is split over EC's scrapping the antitrust block exemption.

If you turn to the Global Shippers Forum to test the water temperature on this issue you will find they applaud the decision by the EC, labelling it a move towards 'normalization of competition rules for liner shipping'.

Other industry voices have argued that the block exemption had become a highly-concentrated oligopoly.

Meanwhile John Butler, President and CEO of the World Shipping Council, disagreed with the decision, stating: "The shift to general EU antitrust rules will create a period of uncertainty as carriers adjust to the new legal structure.

"Nevertheless, vessel sharing agreements will remain a fully legal and supported way for carriers to ensure efficient and sustainable transport for Europe."

Time will only tell what kind of tangible difference it will make, but as we look ahead to 2024, we are witnessing scenarios that point towards increased competition on main hauls but less so off the beaten track.

MSC and Maersk got a jumpstart on this new reality when they decided to break-up the 2M alliance on 25 January this year.

If a big question going into 2024 is how carriers will manage capacity if demand fails to keep pace with record levels of fleet growth, then we must also consider the role disbanded alliances play in this.

The break-up of the 2M alliance coupled with MSC's aggressiveness in growing its fleet is a wild card for 2024.

The uncertainty caused by the enforced break-up of alliances in 2024 means it fully warrants its place at five on our list.

We will now also see how the other top carriers adjust to the new landscape.

They may not all follow the same course, however, depending on whether the carrier adopts an 'integrator' or 'classic ocean liner' strategy.

The share of capacity offered by alliances varies considerably by trade. Typically, we see more non-alliance capacity from the Far East to US West Coast and North Europe to US East Coast, while the Far East to Europe trade is dominated by alliances.

In the past few years, the Far East to Mediterranean has seen 95% or more of capacity provided through alliances. However, we are starting to see a changing of the guard with alliance capacity falling to 83.3% on this trade in Q3 this year.

The extent to which the break-up of alliances impacts freight rates in 2024 is yet to be fully realized, but it is clear the sands are starting to shift and the market could look very different in 12 months' time.

Peter Sand's insight:

"Shippers need to find out what strategy their logistics service supplier is adopting, as one may fully redeploy its fleet while another may concentrate on fewer services and less on global coverage.

"You can use this revealed position of your carriers to your advantage to get the better deal - in terms of both service and price."

6. Carbon emissions.

New regulations could force change in carrier behavior.

Climate pressures on shipping are growing ever stronger and 2024 will see this ratchet up another level with the introduction of the EU Emissions Trading Scheme (EU ETS).

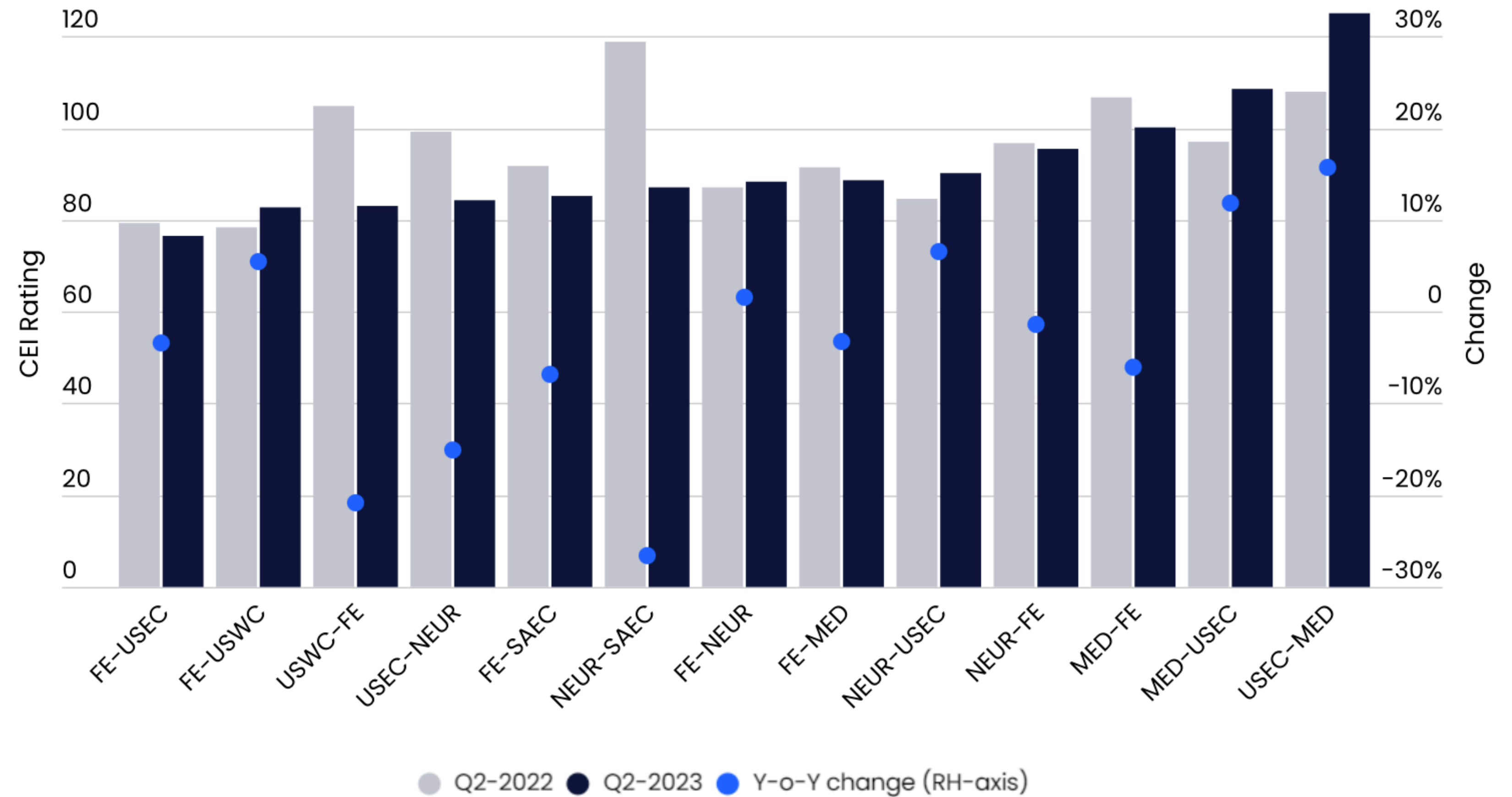
In principle this scheme will see carriers applying another surcharge which they hope will cover the cost of the allowances they need to buy for the carbon emitted on sailings within and to/from the EU.

From a shipper perspective, these additional costs will be even more complex than bunker surcharges.

We have already seen big differences in surcharges several carriers have published ahead of their implementation next year.

Variations in the way surcharges are applied across carriers will have a substantial impact on overall cost for a shipper and should be a key consideration going into 2024.

Could these new carbon emissions considerations bring about other changes in behaviour in carriers and shippers as they respond to additional financial and operational pressures?



Firstly, we may see more carriers and shippers choosing hinterland transport rather than feeder services around the EU.

We may also see carriers choosing to deploy their most efficient ships onto the EU trades and moving less efficient ships to regions where they don't have to pay for emissions.

Xeneta and Marine Benchmark's Carbon Emissions Index (CEI) explores the green credentials of carriers across the world's major trades.

The CEI will continue to provide much-needed clarity and visibility on carriers' emissions throughout 2024, allowing shippers to put environmental sustainability at the heart of their decision making.

New regulations could force change in carrier behavior.

New climate-friendly requirements may also see an adjustment of services and port calls as carriers seek to lower the share of emissions they must pay for.

All of these changes could have a material impact on the freight rates as well as carriers' operational model.

Of course, carbon emissions regulations in shipping are nothing new after the introduction of the IMO's Carbon Intensity Indicator (CII) earlier this year.

But 2024 will see a step change in the consequences of these regulations for carriers and shippers.

For example, 2024 will be the first year where vessels must have an official CII rating.

This could lead to a split charter market where ships with a non-compliant ranking or at-risk ships become less attractive to carriers.

2024 will also be the first year where ships which score an E grade must have an action plan to improve their score.

While environmental factors may not be anything new, 2024 will see the regulatory gloves come off and be the first time carriers are forced to change their behaviours.

Some observers may point to the slow steaming we have witnessed during 2023 as an impact of the CII regulations.

However, it is clear from data that this change in behaviour is a result of poor market conditions rather than any carbon reduction demands.

The average speed of container fleet has fallen to its lowest level on record at 13.9 knots, but this appears to be a uniform approach across both compliant and non-compliant vessels.

This suggests carriers are simply trying to absorb as much capacity as they can in a challenging market, with any emissions benefits serving as an unintended bonus.

The impact of the CII will be seen more clearly in a stronger market when operators of ships must choose between maintaining lower sailing speeds to remain compliant with the regulations or speeding up to reap financial benefits but risk falling foul of the new standards.

2024 looks set to be the year carbon emissions standards get real for carriers and shippers alike.

Peter Sand's insight:

"Shippers should expect a lot of different initiatives from carriers and freight forwarders.

"Based on legislation, they will introduce a plethora of new surcharges for shippers to negotiate.

"These will be muddy waters as we have seen in the range of surcharges already announced by carriers."

And finally... who knows?

If we have learned anything it is the importance of reliable data in a volatile ocean freight market.

Given the events of the past few years it would be remiss to not acknowledge the potential for shipping markets to be impacted by as yet unknown factors.

That's why these lurking unknowns must make an entrance into the 2024 Outlook.

The geopolitical wild card could come into play. Political turmoil and wars are ongoing and we are now seeing conflict and heightened tension across the Middle East.

Further conflicts in other parts of the world, for example Taiwan, cannot be ruled out and may yield significant and lasting impacts on shipping.

We also have environmental factors, such as the drought, which has caused restrictions in the Panama Canal.

We simply don't know what impact climate change or major weather events could have on the market.

Global pandemics on the scale witnessed during Covid-19 were once placed lower down the list of likely scenarios. But if we have learned any lessons, it is that nothing can be discounted.

And what of issues specific to shipping?

How will the differing strategies adopted by carriers' fare during 2024? Will MSC's aggressive fleet expansion pay dividends?

Will ZIM have a brighter 2024 or will concerns remain over its financial performance? And what about a potential future sale of HMM?

Xeneta's power is in our crowdsourced data.

During 2023 this has grown even stronger as we now call upon 400+ million data points to provide unrivalled market insight and benchmarking services.

Learn more at https://www.xeneta.com/demo