AMERICAN SHIPPING COMPANY

"News Flash"

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Slack Season Brings Temporary Relief While Rate Negotiations and Potential Disruptions Remain in Focus

The market has begun to shift after the Chinese New Year run up of volume, combined with the impact of the Red Sea disruption and ongoing missile attacks by the Houti Rebels, as well as the continued Panama Canal constraints. The timing left shippers having to route cargo through the Transpacific Eastbound strings that are discharged at the West Coast ports of the U.S. and Canada, adding to the traditional surge prior to the holiday. Combined with carrier void sailings, periods of tight space, container rolling, and increased transshipment routings, the ocean freight rates significantly increased while delays and congestion mounted.

After the Chinese New Year holiday, space out of Asia to the U.S. appears to be less challenging on the Transpacific Eastbound trades and rates have started dropping from the peak volumes of early February. The measurement of rate reductions will be of focus in the coming week. With only two months left in the current Transpacific Eastbound contract season, when the majority of annual contract rates expire on April 30th, the market vs. carrier strategies leading into the contract negotiation period will be a key factor, especially as ocean carriers try to maintain higher levels as long as possible.

Focus remains on the continued impact of the longer transits around the Cape of Good Hope in South Africa to reach Europe and U.S. East Coast ports, which continues to impact the carriers on a global cost basis and where increases have been distributed amongst many trade lanes worldwide to compensate. Ocean rates remain on the higher side compared to Q4 of 2023, as ocean carriers continue to subsidize the longer transit with more capacity and are having to pay more per vessel as a result, such as fuel. Ocean carriers appear stalled at the moment trying to determine future schedules and cost models. Some are building models that represent a minimum six-month window of continued transit around the Cape of Good Hope vs. the Suez Canal routing, in anticipation that current events will continue for quite some time and before there is little to no risk transiting back through the Suez Canal. The previous overflow of capacity as well as nonperforming capacity in various trade lanes were quickly absorbed in the Asia to Europe trade due to the Red Sea situation and it is said that new ship deliveries, in particular the Ultra Large vessel types of 14,500 TEU or larger, will likely be commissioned to this trade. An ocean carrier we interviewed noted that an additional 30% of space is still needed to accommodate the longer transit and increased frequency of sailings around Cape of Good Hope routing, in order to keep service performance at optimal levels. While the impact has been minimal thus far, there is some concern by analysts that as long as the Red Sea conflicts continue, equipment imbalances will increase over time and container shortages could become problematic in the future.

A potential disruption is on the horizon that could have direct impact to U.S. supply chains later this year. The International Longshoreman's Association (ILA) contract with the United States Maritime Alliance (USMX), will expire on September 30, 2024. At the moment, ILA chapters have been given a deadline of mid-May to negotiate on local port matters before the focus is then put on the larger contract issues, such as wages, which is said to be the catalyst in trying to agree to a new six-year contract, and where both sides remain far apart. Should the negotiations take a similar course as the International Longshore and Warehouse Union (ILWU) and Pacific Maritime Association (PMA) contract dispute, which took over 15 months before ratification last August, it is very possible that major disruptions could take place and at a very critical time of the shipping season. Shippers will have no choice but to plan well ahead and potentially divert cargo through West Coast ports as a precaution to ensure reliable and timely delivery of goods. The impact could be significant, as the throughput of volume will pressure West Coast ports in the U.S. and Canada, in order to accommodate the increase in volumes. Furthermore, added volume through the West Coast could strain the U.S. railroad system with more cargo moving to U.S. East and Gulf Coast final destinations, in addition to the normal flow of cargo that moves into the interior, predominantly the Midwest region. Everything from port and rail ramp congestion, rail car shortages, and overall delays, could be experienced. Ocean freight rates would very likely be driven up, impacted by supply and demand scenarios and unforeseen challenges.

A current development that is being monitored involves the Teamsters Canada Rail Conference (TCRC), which represents railroad workers of Canadian Pacific Kansas City (CKPC) and the Canadian National Railway (CN). Wage increases and working conditions have been cited as primary issues for this negotiation between TCRC and the two Canadian railroads. The TCRC has taken official measures on February 16th, filing a formal dispute and requesting Federal Mediation. The dispute notice triggers an 81-day timeline that can allow a work stoppage in May, after talks have stalled since the December 31, 2023 collective bargaining agreement expired. Canadian ports are critical to ocean container traffic that move to inland points in the U.S., such as the Midwest region and transported by these two railroads. A work stoppage in the form of a lockout or strike would put more pressure on U.S. West Coast ports and the U.S. rail system.

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