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Skou confident carriers can maintain capacity discipline

MAERSK CHIEF EXECUTIVE Søren Skou says he expects carriers to continue with a newfound approach to capacity discipline that has ensured freight rates have remained high during the coronavirus health crisis.

Although demand has fallen sharply at the expense of the coronavirus backdrop, carriers have ensured the market fundamentals have stayed balanced during the downtown, with an unprecedented blanked sailings programme. Maersk alone cancelled more than 90 scheduled sailings in the first quarter, and is on course to pull more than 130 in the second.

In the fallout of the global financial crisis and subsequent market downturns, carriers have been accused of sparking price wars by sacrificing rates for market share, much to the outrage of shippers.

However, Mr Skou, speaking in an earnings call shortly after Maersk's first-quarter result, suggested the war is over and that the agility shown by carriers so far this year will likely to be sustained.

Indeed, he said this capacity agility is a must if Maersk is to manage an anticipated 20%-25% drop in volumes it earlier revealed for the second quarter.

"There are a number of competitive dynamics that are different this time round certainly after the global financial crisis, but also during 2011 and 2015 when carriers had quite brutal price wars," he said.

One crucial factor he explained is the structure of the three large east-west alliances make it much simpler to adjust capacity.

"In our case, where we operate between Asia and northern Europe and Asia and the Mediterranean with 13 or 4 strings per week it is a lot easier to take one service out compared with a small vessel sharing agreement that operates one or two strings."

"Another thing is that the way the alliances are constructed today, or at least how 2M is, that they generally use the best ship for the best position. This means that it is not us operating a string and MSC another and swapping capacity, we are operating one network."

Mr Skou also pointed to how the current low orderbook geared towards a low growth scenario.

"This was not the case in 2009-09 when the orderbook was massive and a lot of carriers had big blocks of capacity coming which they had to fill."

Lastly, he also highlighted the development of digital products and the transparency of freight indices.

"This means we are less reliant on customer feedback and more reliant on our utilisation when we are setting prices."

In the case of Maersk, we are not pursuing market share, we are planning to grow in line with or slightly below the market… and it seems other carriers are doing the same."

Maersk warns of looming sharp drop in container volumes

MAERSK, the world's largest ocean box carrier, said global container volumes could drop by as much as a quarter due to the coronavirus pandemic.

"As global demand continues to be significantly affected, we expect volumes in the second quarter to decrease across all businesses, possibly by as much as 20%-25%," said chief executive Søren Skou in the carrier's interim report.

His comment came as the company improved its financial performance in the first quarter of despite the impact of the health crisis.

The Danish group reported an underlying profit of £197m for the three-month period compared with a loss of $69m in the year-earlier period. Revenue was little changed at $9.6bn, despite lower volumes across all segments.

Earnings before interest, tax, depreciation and amortisation improved by 23% to $1.5bn, and cash return on invested capital increased by 3.5 percentage points to 10.5%.

Mr Skou warned that "visibility remains low" for the second quarter, but added that the company was "strongly positioned to weather the storm".

Maersk, with a fleet capacity of just over 4m teu, is in the process of converting its business from that of a shipping and energy conglomerate to that of an integrated provider of container logistics.

Mr Skou said that this transformation continued to be validated in the first quarter, and will help steer the company through what promises to be a "challenging year".

The container shipping industry has looked to balance the demand downturn too, with an unprecedented blanked sailings programme. In the first quarter, more than 90 sailings, predominantly on the east-west trades, were cancelled by Maersk Line alone.

Maersk said it expects this total to rise to more than 130 sailings in the second quarter, with continued and consequent capacity adaption in the coming quarters to match supply and expected demand.

In March, Maersk suspended its guidance for the year due to the uncertainty about world trade and the impact of efforts to reduce the spread of the virus.

Maersk said that as high levels of uncertainty related to the outlook and impact from the coronavirus still persist, this suspension on its operating earnings remains.

WHAT TO WATCH

Record-high inactive fleet weighs down charter rates

THE container shipping sector has seen laid-up fleet hit record high level as a result of the coronavirus outbreak, putting pressure on an already weakened charter markets.

This comes amid decimated trade demand at present, while geopolitical uncertainties triggered by the health crisis is posing a threat to a longer-run recovery.

Total inactive vessel capacity amounted to 2.4m teu as of end-April, of which about 30% were pulled out of service for scrubber installations, according to the latest statistics from Alplaliner.

However, even the other 70% in absolute volume terms were still higher than the previous peaks of 1.59m teu and 1.52m teu, respectively, seen in 2016 and 2009, when charter rates reached their nadir, said the consultancy in a report on Wednesday.

"With operators continuing to redeliver chartered tonnage at a rapid rate, and new charter enquiries largely limited to short term requirements to cover empty repositioning needs and sporadic sweeper demand, there is insufficient demand for vessels to keep charter rates at their current levels.

"A key factor keeping rates from falling more rapidly is also the lack of demand, as owners offering lower rates will still be hard-pressed to find any takers in the current depressed environment." said Alphaliner.

Charter rates of all vessel sizes in April dropped almost across-the-board from their March level, which had already fallen to nine months lows, shipbroker reports have indicated.

One large European broker put the daily rate for vessels of 8,000-9,000 teu at $23,000 last month, down 8% from March, while rate for ships of 6,300-7,000 teu declined 9.1% to $20,000. Other segments ranging from 1,100 teu to 6,000 teu were reported to have dropped between 1.6% and 5.6%. Only small vessels in the 700 teu class managed to hold their charter earnings steady.

A Similar trend was also noted by Braemar in its latest quarterly market briefing published earlier this week.

"As we enter the second quarter, container line companies are reducing and reorganising container line services, which will increase redeliveries and the supply of available charter tonnage is likely noticeably increase during the next quarter or two." the company said. "We expect charter rates to remain under pressure during this period."

Maritime Strategies International regional director of Asia David Jordan, nevertheless, offered some optimism during a webinar organised by The Baltic Exchange and Institute of Chartered Shipbrokers.

He said the charter rates while on the decline, were not expected to plunge below the trough in 2015-16, mainly due to reduced cascading pressure and overall healthier conditions on the vessel supply side.

"The near-term outlook to time charter rates is negative, but we are expecting a gradual recovery with the potential for a more significant rebound in 2021." said Mr Jordan.

MSI also forecast a 10% rebound next year in global container trade demand, which underpins the vessel earnings, following a possible 7-8% contraction for 2020.

The prediction comes as the world's largest liner shipping carrier Maersk, also an integrated logistics giant, in its first quarter results estimated that "volumes in the second quarter to decrease across all businesses, possibly by as much as 20%-25%,"

Kepler Cheuvreux, which downgraded its recommendation to Maersk's stock from buy to hold, pained a more pessimistic picture for the sector.

The Norway-based equity brokerage house expected a 20% loss in container volume in a Tuesday note as a result of the pandemic-induced freeze in economic activities, adding that the rally in 2021 will likely to be too weak to restore the balance, despite massive stimulus from governments across the world, because "global production capacity will simply be lower."

It also shared the rising fears that the temporary truce reached between US and China on their

trade war could be abolished with the two sides mired in wrangling over the origin of the deadly virus.

"The worst part would be if the 'the Chinese virus' narrative catalyses a permanent state of 'trade war' which tears the West and the East further apart by increasing red tape, tariffs, and, in general, increases xenophobia.

"While the latter is not our base case, we still need to continue our hard reset, as our expectations of a phase 1 trade deal now are just a distant, rosy memory," said the broker.

PD Ports on investors' radar as owner reviews options

PD PORTS, the owner of about a dozen UK freight operations, has attracted the attention of potential buyers following unconfirmed reports that it may soon be up for sale.

A financial institution has expressed provisional interest in the logistics group, which is owned by Canadian fund manager Brookfield, while an industrial group has said it may take a look, but would not necessarily follow up with a formal bid.

Media speculation earlier this year claimed Brookfield was in talks to appoint a financial adviser to run a strategic review of PD Ports for a potential £1.6bn ($2bn) sale.

Lloyd's List now understands that at least one potential buyer is studying the figures in preparation for a formal tender process that could start later this year or in early 2021.

Industry experts say PD Ports, which owns Teesport, in north east England, could fetch between £1bn and £1.2bn, based on recent port valuations and given the scarcity of port assets on the market right now.

Royal Bank of Canada is advising Brookfield, according to two people with direct knowledge of the situation.

Brookfield and PD Ports declined to comment when contacted by Lloyd's List.

Toronto-headquartered Brookfield, which acquired the UK terminals, transport services, and logistics group in 2009 and which has some $81bn of infrastructure assets under management, has been considering the future of PD Ports for some time, according to industry sources.

The UK ports group has a presence in 13 sites, mostly located in the east of the country, offering a range of services from freight forwarding, stevedoring, and warehousing, to customs clearance and ship agency work.

It operates Teesport, a deepsea port that handles containers, dry bulk cargo, and ro-ro traffic. The latest throughput data on its website put container volumes at around 500,000 teu a year.

Teesport promotes itself as the UK's northern gateway. It aims to provide an alternative to the country's big container ports such as Felixstowe, London Gateway and Southampton in the southeast. That could make it a good fit with some existing UK port groups, several of which are already owned by private equity.

In the past, some container terminals have fetched huge multiples of earnings before interest, taxes, depreciation, and amortisation, because of their long-term earnings potential.

Sources say PD Ports' net assets are worth about £200m, but its sale price would be determined by numerous factors, including revenue and customer contracts. Sums of up to 25 times ebitda have been paid for port investments in the recent past.

Brookfield was reported at the time of the acquisition to have paid a nominal $1 for PD Ports. It also took on board on about $150m of debt.

David Robinson, who joined PD Ports in 2002, and was chief executive for 10 years from 2006, was appointed chairman in 2016 and also director of operations within Brookfield's European infrastructure team.

Brookfield Infrastructure Partners, whose investments include 13 ports, made no mention of PD Ports or any possible sale of the company in a conference call last week.

However, the firm did address a delay in the sale of

assets with chief executive Sam Pollock, saying those activities were expected to resume “in the fall or early next year”.

Brookfield’s port assets are predominantly container terminals, which saw total throughput sink 15% in the first quarter.

OPINION

Are box lines finally becoming price setters?

IN the most unlikely of circumstances, container lines finally seem to have gained control over their prices, *writes Janet Porter.*

For decades, container shipping has been grappling with volatile freight rates which were largely driven by supply and demand in a fiercely competitive industry where full ships and market share invariably took precedence over profitability.

How to shift from this commoditised marketplace to one where customers were prepared to pay for service quality has baffled the best brains in the business for years.

And yet, at a time when container volumes could plunge by as much as 25% in the current quarter, ocean carriers appear to have achieved just that, if Maersk’s results are anything to go by.

For despite this unprecedented collapse in cargo liftings, Maersk is managing to keep rates relatively firm.

Even as market conditions started to worsen in the early weeks of the year, Maersk reported average freight rates for the first quarter of $1,999 per 40 ft unit, an increase of 5.7% over the same period of 2019, despite a 3.2% decline in volumes. In the east-west trades, rates were 7.5% higher while liftings dropped almost 6%.

In the past, a decline of that scale would have sparked a price war, leaving everyone out of pocket and probably in the red.

That is why container shipping has rarely managed to make decent money.

But maybe driven by fear about the dreadful consequences of a cutting rates against such a dire backdrop, a remarkable level of market discipline is emerging.

That has been helped by the creation of three large global alliances dominating the east-west trades.

Where in the past, 20 or more lines would each be trying to retain a diminishing amount of cargo, using the only weapon they had at their disposal, prices, this trio is able to manage capacity in a way that was never possible before.

As Maersk chief executive Søren Skou explained shortly after the company had released its first quarter results, the alliances are able to behave in a way that was never possible in a more fragmented market.

He cited the 2M partnership of Maersk and Mediterranean Shipping Co, which was able to remove a whole loop from the Asia-Europe trades in the first quarter, and had the scale to ensure it deployed the ships best suited to each route, and was still able to meet customer needs.

He also noted that in contrast to the last major industry downturn in 2008 and 2009, container lines’ orderbook is now relatively low. Back then, it topped 60% of the existing fleet at one stage. Now, the figure is down to around 10%.

But what is really making a difference is the development of digital products and also much greater transparency on underlying market conditions through products such as freight indices that were not available until fairly recently.

That, said Mr Skou, makes carriers less reliant on customer and anecdotal feedback, when negotiating prices.

Neither is Maersk pursuing market share on the ocean side, and he believes that other lines are following the same restrained approach.

Some of Maersk’s competitors also have relatively weak balance sheets, which may be another reason why lines are behaving with much more caution than previously,

The goal, he noted was to match capacity with demand on the ocean side. After blanking 93 sailings in the first quarter, he expects 130

cancellations in the April-June period, in order to remove surplus slot availability.

Cargo interests, too, are behaving differently, with Maersk noting that customers are now far less concerned about price and much more concerned about service quality.

That was apparent during annual contract negotiations covering the transpacific and Asia-Europe trades where, typically, prices have been the key theme whatever each side might like to claim.

This year, though, Maersk achieved higher rates on both trades, enabling it to fully cover the impact of higher fuel prices resulting from the new IMO 2020 low sulphur rules.

Customers are focusing more than usual on reliability and trusted partnerships, according to Mr Skou.

As he noted, these are extraordinary times, but perhaps one of the more surprising outcomes of this crisis could be the emergence of an industry that finally becomes a price-setter, not a price-taker, and is no longer at the mercy of markets that have frequently swung from boom to bust in rapid succession.

But, of course, this all assumes that carriers will continue to exert self-control as some semblance of normality returns to the container shipping trades after what looks certain to be by far the worst slump the industry has ever endured.

Banks can do more to mitigate exposure to oil cycles

THE recent financial insolvencies of two oil traders in Singapore have highlighted the issues of trust and security in the industry as a credit crunch looms in Asia's oil trading hub, *writes Hwee Hwee Tan*.

Both top dog Hin Leong and relatively smaller and newer trading firm ZenRock have reportedly been caught out by the collapse in oil prices on the back of broad-based coronavirus-led economic disruptions, which also allegedly exposed malfeasance in their business practices.

The entire oil sector is now reeling from the fallout of these most recent insolvencies as bank lenders, in their time-tested, knee-jerk reactions, are seen pulling back credit.

The situation facing banks active in the energy and commodity sector, however, is hardly new — lenders were previously badly hit by the demise of OW Bunker and the Enron scandal, to name just a few.

But what has resurfaced is the age-old debate over how credit risks can be better mitigated in a highly cyclical industry, especially in light of the emergence of new technologies such as blockchain and other forms of hyperledgers, that were not previously available.

One blockchain proponent suggested that such shared hyperledger technology allows for smart contracts with "if and when conditions" to be created, facilitating validation before any contracts can be completed.

Others in the global supply chain have started adopting these systems to streamline processes in their respective segments but the uptake of this promising technology has been slow in the oil trading sector.

A lack of scale and backing from major players along with entrenched business practices has held back uptake of this technology.

In the container shipping segment, Singapore-based boxship player Pacific International Lines has run trials of electronic bills of lading, while key industry mover Maersk has come forward to promote the use of blockchain in the container trade.

By contrast, one trader highlighted a lack of apparent interest among heavylifters such as the oil supermajors, as stifling blockchain adoption in the oil sector.

Independent consultant Simon Neo considered a prevalent "old-fashioned mindset" as a factor holding back the sector from embracing such breakthrough technologies.

Mr Neo gave the anecdotal example of a recent blockchain presentation held in China, which drew a lot of questions but ended up attracting "zero reception".

He also cited concerns about the perceived high fees linked to blockchain membership as hindering adoption of this hyperledger technology.

Cost is apparently one of several hurdles.

But perhaps the bigger impediment is that banks, as key enablers of international oil trade, may stand as among those most resistant to change.

The use of blockchain is also not seen as completely eradicating the risks linked to financing the oil trade.

Deals can fall apart when counterparties choose not to honour their obligations, especially when the market turns against them.

Zenrock, for instance, was embroiled in at least one legal tussle during the months leading up to bank lender HSBC's court filing to put the oil trader under judicial management.

One Chinese client is said to have chosen to default on a trade in which Zenrock served as a middle-man between the supplier and the end-buyer.

Traders such as Zenrock rely heavily on back-to-back credit lines to deliver their part of the bargain in any such deals, which are subject to such persistent counter-party risks.

Business tycoon Warren Buffett once famously pointed out that it is when the tide goes out that observers really discover who has been swimming naked.

Expending resources on the necessary due diligence and investment in supporting technology would arguably help banks — and investors alike — better manage their risk exposure to oil and other cyclical industries even before the tide does recede.

Now, if everyone could just agree that this is a good idea.

ANALYSIS

Supply chain risk mitigation shows shipping's future direction

THE future of shipping is being decided not in the boardrooms of the major liner operators or in space-age remote control centres but on sofas and at dining tables around the world.

The health crisis facing the world, unimagined six months ago outside catastrophe planning scenarios, has accelerated economic change.

While some of the outcomes will prove short-term, others will endure. Understanding which will be long-lasting and which will prove temporary is the key to understanding shipping's future.

Globalisation, which has dominated trade patterns since China joined the World Trade Organization in 2001, has been brought to a shuddering halt.

The Chinese economy has been so influential that its share in global trade in some industries exceeds 50%. Multinationals benefited from a single source of supply, which also became a significant source of demand.

Shipping has provided the ocean transport for China's trade expansion, so it is probable that any interruption of trade will hit shipping hard. Numerous Lloyd's List news items show that is the case.

But it's worse than that. According to a new report from the Economist Intelligence Unit (EIU), globalisation has not only been brought to a halt, it will be reversed.

In recent year, the US-China trade war and rising wages in China has been enough for some multinationals to relocate their supply chains to other parts of Asia: the textile sector was an early example of this trend. The coronavirus outbreak will push more companies to do the same.

This will have significant implications for container shipping, as the supply chain becomes less China-focused and more diversified. It will be reflected in other regions too, as multinationals become cautious about putting all their eggs into a single basket.

Companies that have already diversified production and warehousing have been able to maintain their supply chains as the coronavirus unfolded. That experience will be a powerful incentive to diversify in advance of future shocks.

Investment in regionalised supply chains will have implications not only for container ship design but also for terminals, storage, and in-country distribution.

"For the sake of efficiency, multinationals tend to optimise the logistics process of their supply chains to minimise storage costs," the EIU report says. ``However, in a world of increasing uncertainty and risk, a sole focus on the efficiency of transportation and production will leave firms vulnerable to shocks."

This note of caution was underscored by Prof Don Ratliff, of Georgia Institute of Technology, during a Hull University Business School webinar this week.

He said the global supply chain "had to figure out how to be more flexible." The same remedies have been attempted over and over but to little effect.

"We have tried to squeeze all the inefficiency out of the supply chain, and to do that we have pushed [supply chain companies] very hard. They are at the edge of what they can do to be efficient." At this point, disruption is very difficult to handle.

Focusing on the American experience, Prof Ratliff pointed out that last-mile delivery companies have struggled to get the best from data-driven technology during the coronavirus outbreak.

"It has been chaotic. They were trying to go from an environment at one level to a dramatically different level," he said, adding that the supply chain should concentrate on technology that can react to the immediate need, not just on pushing for greater efficiency.

The coronavirus crisis has shown that it would be better to store inventory in strategic locations from where it can be easily accessed and delivered to customers. This approach applies to final goods but also to strategically important components, such as those that can be only sourced from one market.

Although it is human nature to wind down strategic stockpiles as the epidemic fades away, and return to pre-existing storage solutions, the EIU advises: "the need to monitor supply chain resilience in respect to stocks and to maintain the flexibility of storage is an area of supply chain management that will endure."

It is far too early to assess the full impact on global trade of coronavirus. Analysts' predictions are still too vague to enable long-term decisions.

The EIU foresees a steeper decline in output than followed the global financial crisis of 2007-08, with a slower recovery. Scenario planning is high on the agenda of company directors as they seek to limit the impact on their supply chains. Some will factor in an increase in protectionist policies, or an escalating trade war between the two largest economies or, more optimistically, a rapid bounce back to the old normal.

These scenarios will need to reflect on the coronavirus experience of consumer goods companies having to supply customers through online activity because shops are closed.

Similarly, restaurants have evolved their offer of delivery services while social distancing has been imposed. Such consumer habits formed during 2020 are likely to endure, the EIU believes. This will drive an increasing digitalisation of the supply chain — although to be successful there will have to be progress on security, privacy, and competition issues.

However, supply chain companies will need to do more than think regionally while building their online connections with customers at home. They will also need to think strategically about pricing models.

Both the regionalisation of supply chains and the build-up of strategic inventories will increase final goods prices, denting a product's competitiveness, says the EIU. "A more regionalised supply chain will offer opportunities for companies to focus more on local tastes amid a greater capacity for product differentiation."

Pricing is a significant concern. Globalisation has ensured prices of goods are kept to a minimum, regionalisation will weaken this.

Professor Amar Ramudhin, director of the Logistics Institute at Hull University, suggested on the webinar that pricing is the Achilles' heel for advocates of near-shoring.

"Buyers only want what's cheapest," he said, arguing that mitigating risk in the supply chain has become much more serious. "There has to be a balance between risk and product cost... There should be a change in philosophy from the just-in-time nature of the supply chain to risk mitigation."

The EIU agrees. Over time, the arguments in favour of investing in regionalisation the supply chain and recruiting a chief risk officer will dwindle.

"But reverting back to a sole focus on growth with little regard for risk would be a mistake, as the global economy was already being buffeted by uncertainty before the current pandemic," it says.

Both EIU and this week's webinar panellists believe there are immediate practical decisions to be taken, as well as more strategic decisions for the longer term.

The academics recommended ditching all their existing forecasts and models on the grounds that the solutions needed by supply chain companies are engineering, planning, and execution rather than mathematical.

Asked about how panic buying might be avoided, Prof Ratliff shared that reports in Florida of the approach of a hurricane – which happens several times a year, every year — are followed by a wave of panic buying.

"People buy stuff because they think there will be a problem," he said. "We have tried for years to change this pattern of behaviour but it's ingrained. It's unlikely much will change next time."

Human nature being what it is, the immediate solutions put in place to protect the supply chain from the worst effects of coronavirus will likely be deconstructed when the threat passes. But that would be a mistake.

"For many reasons, managing risks with the aim of avoiding severe threats to operations will remain a central requirement for multinationals," concludes the EIU report.

Shipping should expect businesses up and down the supply chain to hold on to at least some of the risk-mitigation lessons learned during the epidemic.

Opec forecasts deeper drop in demand ahead of rebalancing

THE Organisation of the Petroleum Exporting Countries has forecast oil demand to contract by a record 17% over the second quarter as the coronavirus backdrop hits economies.

According to the latest Opec monthly report, demand will fall to 81.3m barrels per day, although record supply cuts would help rebalance the market.

The oil cartel's assessment paints a volatile outlook for seaborne volumes for crude exports. Prices are the lowest since 2001 as the coronavirus backdrop slashed demand by as much as a third over March and April.

Over the past four weeks, some 3.6m bpd of production cuts have been announced separate to the cartel's own declaration in April to reduce production by 9.7m bpd in May and June, Opec said. A further 10 countries also participated in the accord.

"Global crude and product trade flows continue to be affected by the twin impacts of the collapse in demand due to the coronavirus pandemic and the resulting overhang of crude and product supplies," Opec's monthly report said.

US crude imports fell to the lowest level since 1992 in the past month at 5.4m bpd, while exports were 500,000 bpd lower than the February peak of 3.7m bpd, according to Opec. US producers have now cut production by 1.5m bpd, based on Opec assessments.

It estimates global demand at 90.6m bpd in 2020, with the recovery picking up speed in the second half, with demand averaging 96.3m bpd by the fourth quarter. That compares with 101m bpd for the same period in 2019.

Saudi Arabia, Kuwait and the United Arab Emirates are also cutting production collectively by 1.18m bpd from June to help further reduce supply and balance the market.

"The speedy supply adjustments in addressing the current acute imbalance in the global oil market have already started showing positive response, with rebalancing expected to pick up faster in the coming quarters," the report added.

The deepest non-Opec supply cuts were forecast to be in the US, Russia and Canada, citing lack of demand, low oil prices, excess supply, limited storage capacity and falling refinery utilisation.

US tight crude oil production was forecast to drop 810,000 bpd, year on year, with most of this seen primarily in the Permian Basin. US refinery throughput dropped 3.4m bpd over April, to register a utilisation rate of 69.9%, while Europe's rate for the largest 16 countries averaged 67%. That compared with 85% for Asian-based complexes.

Short-term prospects for refinery operations and the product market were assessed as negative, with low crude prices driving refiners to process every barrel possible in the first quarter. “This will maintain the product oversupply while floating storage will need to be cleared first due to high costs,” the report said.

Some 1,198 voyages for aframax-sized tankers or larger were tracked in April according to Lloyd’s List Intelligence data, down from 1,887 a month earlier.

Falling numbers reflected not only fewer export loadings, but vessels sailing at slower speeds and widespread discharge delays as the global oversupply of crude and refined products reduced land-based storage availability.

Commercial Organisation for Economic Co-operation and Development crude stocks gained by 57.7m barrels to exceed 3bn in March, the report said, 125.8m barrels higher than the same period last year.

Blank sailings batter Californian ports’ throughput

BLANK sailings continue to be the central concern of California’s main container ports, with Oakland, Long Beach and Los Angeles all showing reduced throughput due to fewer ship arrivals.

There have been two waves of blank sailings affecting the ports: those caused by falling production in China’s factories as the government extended the annual lunar new year holiday and kept workers at home due to the coronavirus outbreak.

The second wave struck as the pandemic reached the US, with federal, state and local governments mandating stay-at-home orders — a collective decision that has seen consumer spending plummet.

Ben Hackett, founder of consultants Hackett Associates, said in his firm’s latest Global Port Tracker report that the success of the lockdowns can be measured by the reduction in the rate of new infections and deaths.

But he also said that “the economic impact is also measurable but depressingly so, and industrial production and demand for goods have both dropped to levels beyond what is acceptable”.

With lower factory production and consumer demand, ocean carriers have had less cargo to carry and little choice but to cancel sailings on the transpacific route, creating reduced throughput at the leading US west coast ports.

The port of Long Beach had one cancelled sailing in April, and more are in the offing, according to port officials who expect a total of 16 between April 1 and June 30. Last year, Long Beach and neighbouring Los Angeles reported just 10 blank sailings between them.

The current figures follow 61 cancelled sailings for the two San Pedro Bay ports during the first quarter of 2020 caused by the manufacturing slowdown during the height of the coronavirus crisis in China, nearly double the 31 blank sailings recorded a year earlier.

Port of Long Beach executive director Mario Cordero underlined the importance of increased consumer demand as the key to improved numbers for his facility, but he also sees that as a slow development.

“We look forward to a recovery stage and rebounding cargo shipments as the nation contemplates relaxing shelter-in-place orders, people return to work and consumer demand rises — however it will not be in the short term,” he said.

Meanwhile, the port moved 519,730 teu in April, down 17.3% from April 2019. Imports plummeted 20.2% to 253,540 teu, while exports declined 17.2% to 102,502 teu. Empties heading abroad fell 12.2% to 163,688 teu.

Overall, the port moved 2.20m teu during the first four months of 2020, down 9.5% from the same period in 2019.

In northern California, the port of Oakland experienced a slight rise in loaded container volume for April, but expects a downturn ahead as 11% of its scheduled vessel calls have been cancelled for May and June.

Port officials said their April performance was “better than expected, but it was most likely a blip resulting from the release of pent-up demand when factories re-opened in China after being quarantined”.

They said their April loaded container volume increased 1.4% compared with April 2019. Export loads rose 3.6%, while imports fell 0.9%.

"We are faring better than some other ports, but our forecast in the coming months is overall volume throughput decline of 5% to 10%," port officials said.

The officials said total cargo volume — imports, exports and empty container shipments — declined 6.5% in April, largely due to a 29% drop in the return of empty containers to destinations of origin.

Oakland's exports have been something of a "bright spot" for the port, with volumes increasing year over year in three of the past four months.

Officials said a growth in exports to markets in Southeast Asia has offset the port's shrinking trade with China, with demand strongest for US farm goods.

The port of Los Angeles last week reported a 15.5% decline in its cargo throughput so far this year, with April volume down 6.5% as a result of the coronavirus outbreak.

Port executive director Gene Seroka acknowledged that blank sailings have been costly to his port, with some 10,000 teu affected with each cancellation, and he anticipates a further 28 blank sailings in May and June.

Quite when the cancellations will come to an end cannot be predicted with any certainty. But most forecasts see reduced consumer demand persisting for months to come.

"Some economists have stated that we may not see better economic activity until the first quarter of year 2021 and therefore a possible uptick in international freight moving inbound through the port of Los Angeles in the fourth quarter," Mr Seroka said.

Mr Hackett said much will depend on consumers' willingness to return to spending, assuming that businesses can be opened quickly enough to soak up the huge levels of unemployed individuals.

"Our view is that second-quarter economic growth will be significantly worse than the previous quarter, but we continue to expect recovery to come in the second half of the year, especially the fourth quarter and into 2021," he said.

MARKETS

Capesize market plunges to lowest in four years

THE capesize market has continued its downward spiral, with expectations of further erosion in the coming days.

The average weighted time-charter on the Baltic Exchange closed Wednesday at $2,082 per day, the lowest level since March 2016. It has been on a decline since April 20 when it was at the year's high of $10,081 per day.

The Baltic Capesize Index flipped back into negative territory, quoted at -17 points. The last time it was negative was on March 30 this year, when it was at -69 points. It had moved below zero for the first time in January, provoked by virtually no backhaul shipments due to the coronavirus backdrop.

"The lethargic iron ore activity out of Brazil finally took a toll on capesize rates," US-based Breakwave Advisors said in a report. "The anticipated seasonal increase in exports has so far failed to materialise."

The C3 Brazil to China route sank to $6.77 per tonne, while the C5 Australia to China voyage softened to $3.57 per tonne.

According to the Baltic Exchange, it was "another dreadful day" for capesize owners, who were apparently shaking their heads in disbelief as the plunging rates were "uncharacteristic" for this time of year.

"The trade winds have disappeared just as a large ballaster fleet heads towards Brazil," it said, adding that many were questioning how long this new downturn could last as the "green shoots of recovery are nowhere to be seen".

Fearnleys said it sees levels "stabilising" as there are simply no margins to speak of. However, there is still a lot of available tonnage so there is no chance of any significant increase in rates within the next week, or weeks, the brokerage said in a note.

"The forward curve looks more optimistic for a rate recovery, although the values are lower day-on-day, with June priced at $5,300 as of Tuesday from $5,900 on Monday," according to GFI brokers. The third quarter was meanwhile assessed at $9,550 from $9,700, and the fourth quarter was at $11,750, unchanged from Monday.

"With the index retreating in excess of 25%, and considering how low we already are, it is hard to find any safe harbour to shelter oneself from the tempest of negativity that continues to swirl," the brokerage said in a note. "The rates on the front are too low to offer any real temptation to short the state of the spot market."

Gard postpones final P&I instalment due to challenging time

GARD has said it will postpone the due day for the final instalment of 2019 P&I premiums due to uncertainty created by the coronavirus.

The International Group affiliate disclosed the decision to move the deadline back until at least November in it annual results.

The move — made possible by a turnaround of the bottom line from red to black last year — should ease cashflow for members, chief executive Rolf Thore Roppestad told Lloyd's List.

Profit after tax came in at $93m on an estimated total call basis, compared with a loss of about $90m in the year-earlier period.

Most of the turnaround is explained by differing investment returns, a $40m impairment on an IT system in 2018-19 and a decision last year to defer the final call.

Actual insurance performance was broadly steady, with a combined ratio of 102%. Mr Roppestad said this is in line with targets, as Gard has deliberately chosen to subsidise mutual activities through its commercial products.

"We had a really strong year ending February 20, but that was before coronavirus really struck the global economy," he said. "The capital situation would normally trigger full release of the last instalment. But we like to stretch to do whatever we can for our members at a challenging time."

With many shipping segments struggling, it was thus decided to put off the instalment until the back end of this year, when an assessment of the situation can be made. But the call will not be made unless absolutely necessary.

"Given the uncertainty surrounding the economy, it is better to pause and give our members some liquidity and not call any premium unless we have to do it."

The club's underlying insurance performance was similar from one year to the next, said Mr Roppestad. The combined ratio is even down five percentage points from the previous level of 107%, despite some large pool claims. The combined ratio for commercial marine and energy was just 93%.

The direction of next year's premiums is uncertain, but Mr Roppestad hinted that increases may not be necessary.

"As we speak, there are good reasons to believe our portfolio is more or less correctly priced," he said.

But the wild card is the impact of coronavirus on claims, which include passengers on cruiseships, crew members on merchant vessels, cargo delays, and the increased cost related to casualties when coronavirus makes it more expensive to get salvors and other service providers to the spot in time.

That might be offset by a reduction in claims resulting from fewer voyages in the likely event of a sharp fall in world trade.

"I think it's very open which way claims development goes,"' said Mr Roppestad. "Whether that leads to any adjustment in premiums, we will have to come back to in November."

IN OTHER NEWS

Precious Shipping's Hashim sees bumpy ride to recovery in the dry bulk market

AS supply and demand balance remain very close, the secular recovery in the dry bulk market will be characterised by extreme volatility, according to Precious Shipping managing director Khalid Hashim.

"Any small change in demand or supply would have a disproportionate impact on the Baltic Dry Index and profitability," he said, as the market will have the same macro issues of supply and demand balance dominating the narrative.

He noted that "the mother of all black swans, the novel coronavirus, came hurtling across the dry bulk markets, pulverising everything in its path".

CMA CGM secures $1.1bn state-backed loan

CMA CGM has secured a €1.05bn ($1.1bn) state-backed loan to help the French carrier ride out the coronavirus storm.

The French state will guarantee 70% of the syndicated loan provided by a consortium of three banks — BNP Paribas, HSBC and Société Générale — which will have an initial one-year maturity and extension option for up to five years.

The loan is part of a state-guaranteed loan scheme that was established at the end of March in response to the coronavirus pandemic.

Epic Gas warns LPG market recovery will be shortlived

THE liquefied petroleum gas market should brace for a short-lived recovery as coronavirus and low oil prices complicate the future, LPG carrier Epic Gas has warned.

The Oslo-listed firm that specialises in smaller LPG vessels, with 44 ships ranging from 3,500 cu m to 11,000 cu m in its fleet, cautioned that the impact of the coronavirus and the disagreement of oil producing nations in early March that led to an oil price war will have both negative and positive disruptions to the LPG market.

Epic Gas chief executive Chris Maltby said the sector must be alert to its market recovery hitting the brakes sooner than expected.

CSIC's former chairman detained as part of corruption probe

THE former chairman of the China Shipbuilding Industry Corp is being investigated by the state anti-corruption agency, according to an official statement.

Hu Wenming, 63, is suspected of a serious breach of the country's laws as well as the Chinese Communist Party's disciplines, a common charge used by the Central Commission for Discipline Inspection to launch a probe against officials from government or state-owned enterprises.

No further details were given by the CCDI anti-graft agency in a statement.

SembMarine warns of further losses on coronavirus effects

SINGAPORE shipyard player Sembcorp Marine has revealed its yard workforce had plunged to just 4% of normal capacity due to coronavirus shutdown measures imposed by the city-state, while also warning that overall business volumes for all segments are expected to further weaken for the rest of the year.

The revelation in its first quarter business update that SembMarine's operating yard workforce of about 20,000 personnel was substantially reduced to 850 was unsurprising given that compatriot yard Keppel Offshore & Marine had said in its first quarter results release that it had cut its workforce as well.

The staff who stay in work comprise mainly the essential staff needed to the maintain safety and security at the yard and for essential repair and maintenance services. SembMarine was open about declaring that there would be delays in executing existing orders and admitting adverse effects on its repairs and upgrades business. The company is being transparent about this by listing its ongoing projects.

Star Bulk shareholders approve Oslo delisting

STAR Bulk shareholders have voted to delist the company from the Oslo Bors after the Greece-based owner cited "limited benefits" from being on the Norwegian exchange.

With a fleet of 116 bulkers making it the largest publicly-listed pure dry bulk shipping company, Star Bulk has been traded on Nasdaq, its primary trading market, since 2007.

It listed in Oslo in July 2018 after the company acquired the Songa Bulk fleet, for reasons that included the hope that the market would bring additional liquidity to the stock.

West brings down combined ratio to 107%

WEST of England P&I Club has reduced its combined ratio to 107% from 114% in the previous year, according to a statement. The International Group affiliate's

statement for its 2019-20 financial results highlighted what it described as an exceptional investment return of 6.5%, and added that it has "continued to strengthen its financial position".

It recorded a surplus of $31.7m for 2019-20.

Claims performance in previous year has developed more favourably than expected and claims for the current policy year were said to be substantially lower than in the preceding two years.

Classified notices

THE ENERGY ACT 2004

NOTICE OF APPLICATION FOR SAFETY ZONE SCHEME DURING CONSTRUCTION AND MAJOR MAINTENANCE OF THE HORNSEA PROJECT TWO OFFSHORE WIND FARM

THE ELECTRICITY (OFFSHORE GENERATING STATIONS) (SAFETY ZONES) (APPLICATION PROCEDURES AND CONTROL OF ACCESS) REGULATIONS 2007 – STATUTORY INSTRUMENT 2007 NO 1948

Notice is hereby given that Optimus Wind Limited, Breesea Limited, Soundmark Wind Limited and Sonningmay Wind Limited ("the Project Two Undertakers") (company numbers 07883284, 07883217, 10721881, 10722635, respectively), with its registered offices at 5 Howick Place, Westminster, London, SW1P 1WG) have applied for consent from the Secretary of State for Business, Energy, and Industrial Strategy (BEIS) as set out in the Energy Act 2004 and the Electricity (Offshore Generating Stations) (Safety Zones) (Application Procedures and Control of Access) Regulations 2007 (SI No 2007/1948) for safety zones as detailed below, for the consented Hornsea Project Two Offshore Wind Farm, during construction and periods of major maintenance.

The following safety zones will be applied for:

- 500 metre (m) "rolling" safety zones around any wind turbine or offshore substation (including any associated or partially constructed infrastructure, e.g., foundations) whilst work is underway at that structure, as indicated by the presence of construction vessels.
- 50m pre-commissioning zones around any wind turbine or offshore substation where construction work is not ongoing prior to final commissioning.
- 500m safety zones around any wind turbine, offshore substation or reactive compensation substation where major maintenance is being undertaken during the operational phase (where major maintenance is as defined under the Electricity Regulations 2007 (SI No 2007/1948)).

Details of the safety zones will be provided via Notice to Mariners prior to the commencement of any construction and major maintenance operations. Further details are provided in the safety zone scheme, which may be downloaded at https://hornseaprojects.co.uk/hornsea-project-two/application-for-consents, or alternately a request can be made for a copy by email to NATLO@orsted.co.uk (referencing 'Hornsea Two Safety Zone Application' in the subject line).

Any person wishing to make representations to the Secretary of State about the application should do so by email to the Secretary of State, Energy Infrastructure Planning Team, Department for Business, Energy and Industrial Strategy at beiseip@beis.gov.uk stating the name of the proposal and nature of their representations, not later than 28 days from the date or latest date of publication of the notice.

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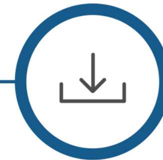

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Downloadable reports ensure you have the necessary documentation to prove compliance, including specific end-to-end transhipment reports and more.

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