Container Shipping Market Overview & Outlook

Continued fleet expansion darkens outlook

December 2024

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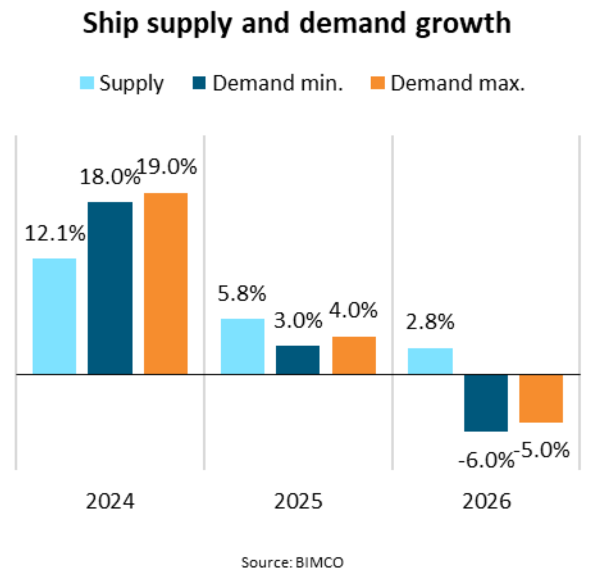
Supply/demand balance



Despite the fastest growth in supply and the fleet since 2010, the **supply/demand balance tightened in 2024**. Ship demand has increased as 90% of the capacity that normally transits the Suez Canal has instead been sailing via the Cape of Good Hope, significantly increasing both average sailing distance and ship demand.

However, **fleet expansion remains a concern** once ships can return to normal routings. We estimate that fleet growth will increase supply in 2026 by 46% compared to 2019 before the contracting boom began. Cargo volumes are forecast to increase ship demand by 22% between 2019 and 2026.

Even though we expect that average sailing speeds will continue to decline and reduce supply, growth forecasts still point to the **supply/demand balance being weaker than in 2019 once ships can return to normal Suez Canal routings**. 2019 was a year when freight rates were much lower than have been the case in recent years.

We have changed our **assumption for when ships will be able return to normal Suez Canal routings**. We now assume that reroutings will continue to impact all of 2025, and that ships will be able to return to normal routings throughout 2026.

Our forecast therefore indicates a **slight weakening of the supply/demand balance in 2025 followed by a significant weakening in 2026** as ship demand is expected to fall.

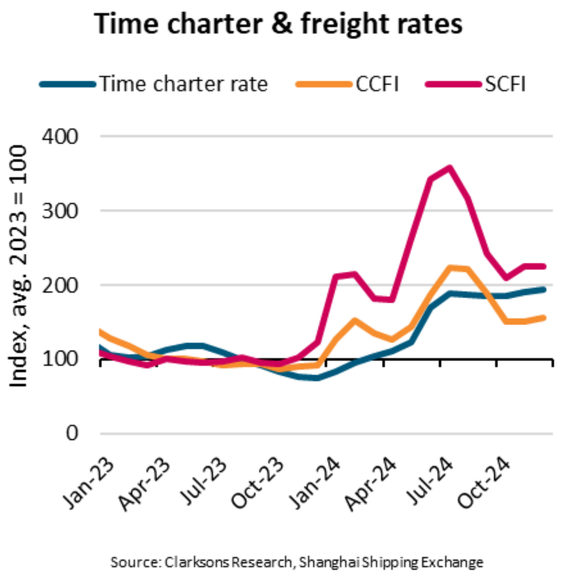
On the other hand, if ships are able to return to the Suez Canal throughout 2025, we expect a significant weaking of market conditions followed by a slight improvement in 2026.

If ships will still not be able to return to normal routings in 2026, the slight weaking of the supply/demand balance in 2025 is expected to be followed by a slight tightening of the balance in 2026.

Following very weak growth in 2023, we estimate that **cargo volumes will grow 5.5-6.5% in 2024 and forecast growth of 3-4% in 2025 and 3.5-4.5% in 2026**.

We forecast that import volumes into South & West Asia and South & Central America will grow the fastest.

The International Monetary Fund (IMF) forecasts faster economic growth for many of the oil exporting countries in West Asia, which should help lift volumes into the area. In South America, Argentina is expected to emerge from recession which we expect will drive volumes to the area higher.



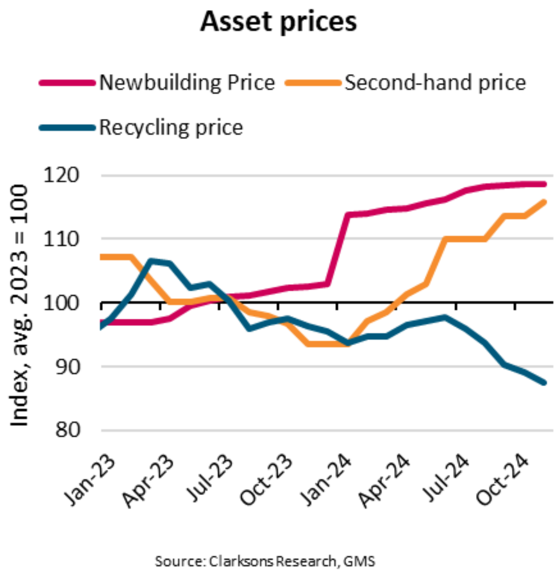
Spot freight rates for Shanghai exports (SCFI) and average freight rates for Chinese exports (CCFI) have so far on average been respectively 148% and 64% higher than last year. The rates increased from April to July but then fell from July to October as supply grew and markets exited the peak season. Since October, the averages have been mostly stable as rates to Europe & Mediterranean have climbed while rates to North America have fallen.

Our forecasted supply/demand development indicate that **freight rates could fall slightly from current levels in 2025 but fall quite significantly in 2026**.

On average, year-to-date time charter rates have been 52% higher than in 2023. Surprisingly, time charter rates have meantime remained stable as freight rates have fallen. Average fixture periods have at the same time climbed from eight months in the beginning of the year to 24 months.

The longer fixture periods will **reduce availability of time charter tonnage in 2025.** This will support time charter rates throughout 2025. During 2026, we meantime expect that the forecast **weakening of supply/demand will also impact time charter rates**.

Whereas **price increases for newbuilding appear to finally be running out of steam**, prices for five-year-old ships have climbed alongside time charter rates. Consequently, prices are again nearing 80% of newbuilding prices after having fallen below 70% at the beginning of 2024.



Recycling prices have been under pressure from cheap crude steel from China and have fallen 6% since the beginning of 2024.

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We have previously predicted that newbuilding prices would peak, only to see them continue to climb. Shipowners' desire to continue to order new container ships has surprised us, which along with increased contracting activity for tankers, has helped lift the order book and prices. We could of course be surprised again but must **believe that this time, we are getting very close to the peak of prices**, although continued container contracting and a sudden surge in contracting of bulkers could again prove us wrong.

We expect **second-hand prices to continue to follow the developments in the time charter market** and therefore remain mostly stable 2025 but fall in 2026.

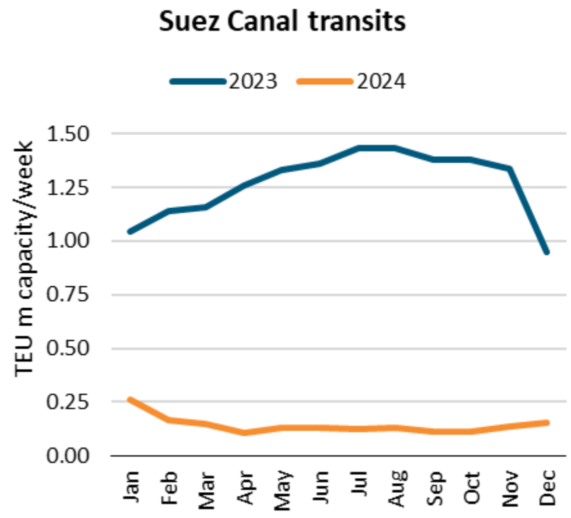
As always, our forecast naturally includes some uncertainties. The largest we have identified relate to the European Union (EU) and the US.

President-elect Trump has continued to threaten increased import tariffs once he takes office in January 2025. Significant tariff increases could raise the cost of living for consumers and hurt import volumes. At the same time, retaliation by trading partners could hurt global trade and economic growth.

In the **EU, households have continued to amass savings** at a faster rate than they did before COVID. Unlike US consumers, the savings have not yet resulted in increased consumption. If the falling inflation and interest rates encourages increased household spending it could drive import volumes higher than we have included in our forecast.

Macro environment

Houthi attacks on ships in the Red Sea continue to severely impact trade lanes that normally transit the Red Sea and the Suez Canal. **Transits of the Suez Canal remain approximately 90% lower** than at the same time last year.



Source: Clarksons Research

As no resolution is in sight, we have **assumed that ships will continue to sail around the Cape of Good Hope throughout 2025 and that**

conditions could allow ships to return to normal routings throughout 2026.

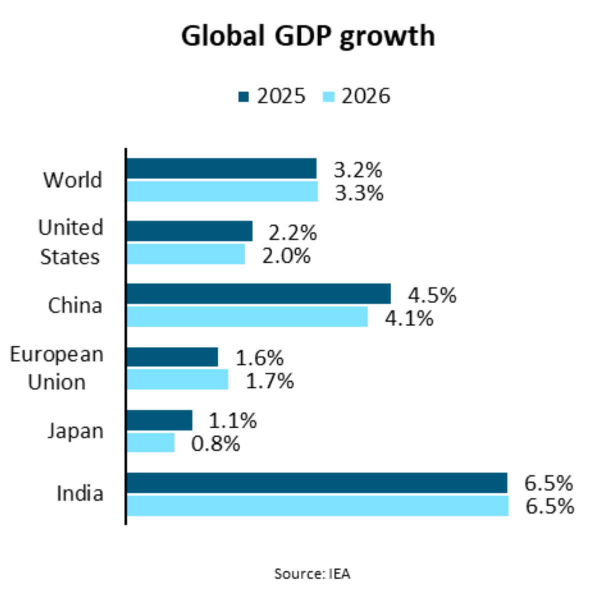
However, we also offer an indication of the impact should ships continue to avoid the Red Sea.

The **International Longshoremen's Association (ILA) went on strike on 1 October** as no new contract had been agreed with the US Maritime Alliance (USMX). The strike ended after three days when the ILA secured a 62% wage increase over six years.

Other issues, however, remain outstanding and the parties have agreed a 15 January 2025 deadline to complete the contract. Discussions regarding automation of terminals appear to be particularly difficult. If the new deadline is not met, **the ILA could go back on strike and cause congestion in US East and Gulf coast ports**.

In its World Economic Outlook Update from October, the International Monetary Fund forecasts that the **world economy will grow by 3.2% in 2025 and 3.3% in 2026**, in line with the 3.2% estimated for 2024.

The **European Union and Japan are forecast to grow faster during 2025-2026 than during 2024**. However, US, China and India are expected to grow more slowly.



On a regional basis it is meantime only the East & Southeast Asia and North America regions that are forecast to grow slower during 2025-2026 than in 2024.

Growth in the Chinese economy is forecast to slow despite the government's efforts to stimulate increased growth. If these efforts are more successful than the IMF currently estimates, growth in China could end higher than forecast.

In the **US, 2025-2026 is forecast to show weaker growth** as the labour market is expected to cool and consumption moderate, which will drive growth in the North America region lower. A so-called "soft landing" is still forecast, and interest rate reductions should contribute to this.

Following two years of near-zero growth, economic growth in **Germany is forecast to recover in 2025 and 2026** but remain very low. Along with faster growth in Egypt and the UK this should help the Europe & Mediterranean region grow slightly faster than in 2024.

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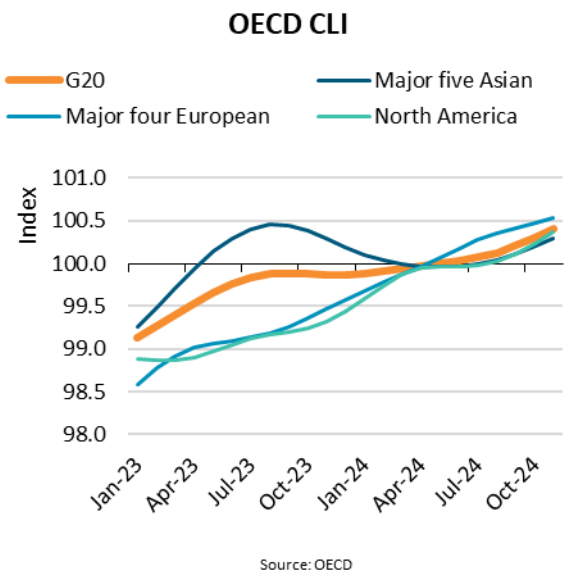
Lower inflation in the US and the eurozone has allowed both the Federal Reserve Bank and the European Central Bank (ECB) to **lower interest rates** during 2024. In total, the Federal Reserve Bank has lowered interest rates by 0.75 percentage points while the ECB has lowered by 1.25 percentage points. Currently, the expectations are that the reduction of interest rates will continue in 2025 which should support growth.

In the Oceania, South & Central America and Sub-Saharan Africa regions, economic growth during 2025-2026 is forecast to be respectively 90%, 29% and 42% higher than in 2024. It is particularly noteworthy that **Argentina is forecast to drive the increased growth in South & Central America** as it is forecast to finally return to growth after three years of negative growth.

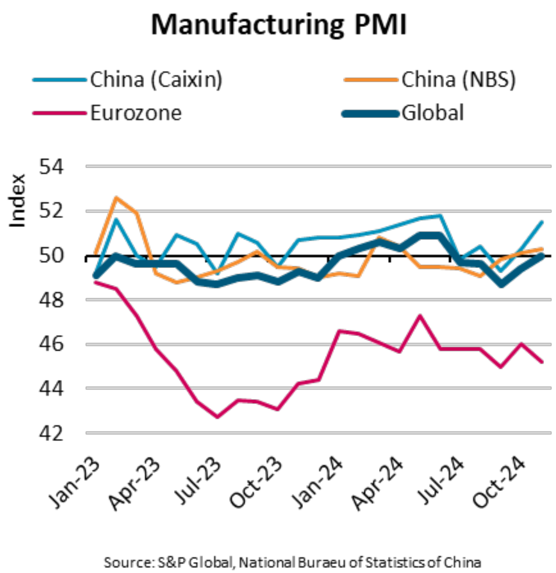
The **OECD's Composite Leading Indicator (CLI) meantime points to growth being in line with or slightly faster than trend** during the next 6-9 months in most countries and areas measured. In fact, the reading is above 100 for all areas and countries expect France and Türkiye. For the G20 (group of the world's largest economies), the CLI hit 100.4 in November 2024, indicating mostly stable growth conditions.



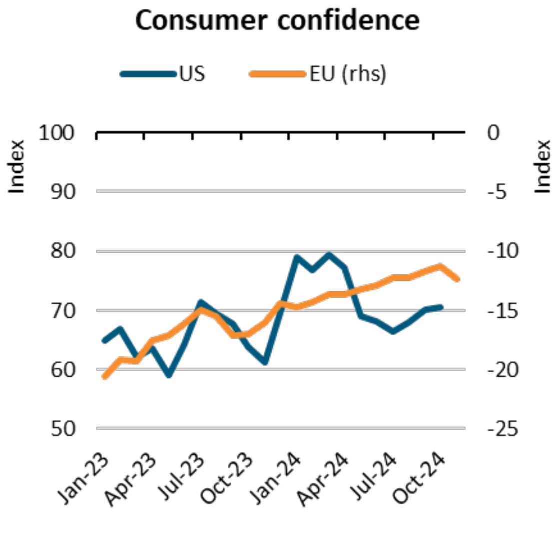
The **global Manufacturing Purchasing Managers' Index (PMI) has climbed back to 50** after four months in contraction territory and now indicates stable manufacturing activity.

In **China**, both the Caixin and NBS Manufacturing **PMI have been above 50** in October and November 2024. It is the first time since April 2024 that both indicators are above 50.

In the **eurozone, the manufacturing sector meantime continues to struggle**, with the Manufacturing PMI remaining below 50, indicating lower activity, for 29 months in a row.



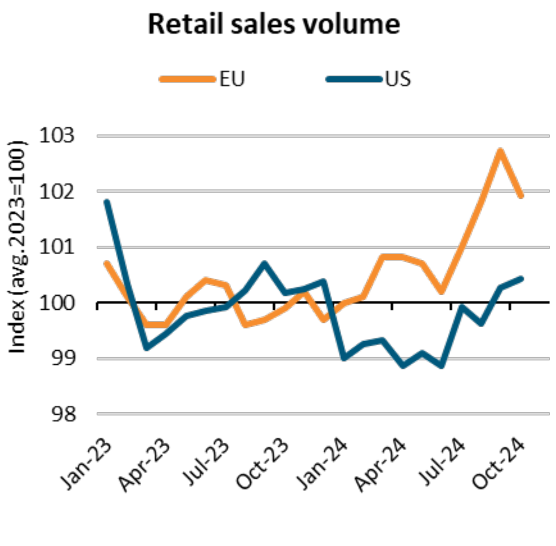
On the other hand, **consumer confidence in the European Union (EU) has continued to improve** and in October 2024 it hit its highest level since February 2022, although it remains weaker than before COVID.



Source: Eurostat, Federal Reserve Bank of St. Louis

In the **US, the direction of consumer confidence has been more uncertain**. After an improvement in the beginning of 2024, confidence weakened in the second half of the year.

The slightly diverging developments in consumer confidence can also be noticed in the development of retail sales.



Source: Eurostat, Federal Reserve Bank of St. Louis

In the **EU, retail sales volumes have year-to-date grown 1% YoY**. Growth was, however, stronger in recent months with September-November posting growth of 2.4% YoY. Despite the return to growth, retail sales within the bloc meantime remain 9.0% lower than in 2019 before COVID.

Year-to-date, **retail sales volumes in the US have fallen 0.7% YoY** with sales being particularly weak during the first few months of the year. Sales, however, remain 12.4% ahead of the pre-COVID levels in 2019.

In China, retail sales have continued to disappoint with year-to-date growth at 3.5% YoY, highlighting need for the Chinese government to take action to stimulate domestic demand.

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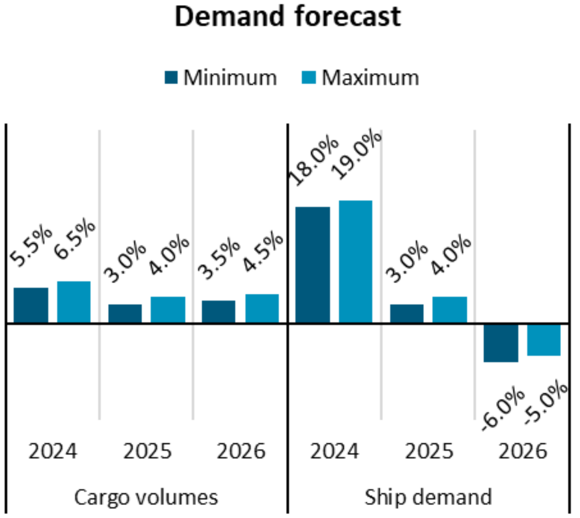
Demand

We expect that **ship demand growth will end at 18-19% in 2024 and forecast growth of 3-4% in 2025 followed by a fall of 5-6% in 2026.**



Source: BIMCO

Compared to our previous forecast, the **increased forecast for 2024 is due to stronger than expected volumes** into North America and Europe & Mediterranean.

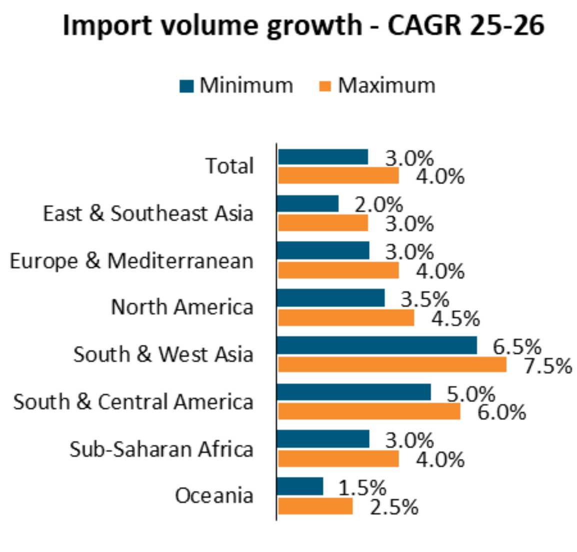
This has also lifted **our cargo volume growth forecast to 5.5-6.5% in 2024 followed by growth of 3-4% in 2025 and 3.5-4.5% in 2026.**

In 2024, the main driver of ship demand has been the shift from Suez Canal routings to routings via the Cape of Good Hope. As earlier mentioned, we now **assume that these reroutings will impact all of 2025**.

We have assumed that ships will be able to **return to normal routings throughout 2026** and drive ship demand growth negative, even though we forecast that cargo volume will expand by 3.5-4.5%.

Should ships already be able to return to normal routings throughout 2025, we forecast that ship demand will fall 5-6% in 2025 and grow 3.5-4.5% in 2026.

If ships cannot return to Suez Canal routings in 2026, we forecast that ship demand growth will be in line with cargo volume growth during both 2025 and 2026.



Source: BIMCO

Even though import volume growth in **South & West Asia** disappointed in 2024, we forecast that the area **will see the fastest import volume growth during 2025-2026**. We forecast average annual growth of 6.5-7.5% which would be a return to the growth levels seen in 2021 and 2023.

Even though economic growth in Brazil is expected to slow compared to 2024, we forecast **average annual growth of 5-6% in**

import volumes to the South & Central America region during 2025-2026 as the Argentinian economy is expected to return to growth and growth in Colombia should increase.

If interest rates continue to fall and consumer confidence continues to improve, we believe there is an **opportunity that volumes into Europe & Mediterranean could grow faster** than we have included in the forecast. Like US consumers, EU consumers amassed more savings than normal.

Unlike in the US, the **savings rate in the EU remains high** and consumers have not yet started spending the money. If these savings are converted to increased spending on goods, it could eventually lift import volumes beyond our forecast.

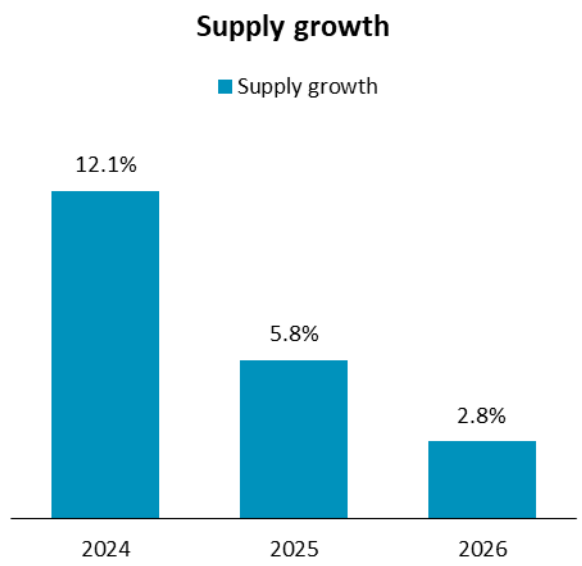
On the other hand, **President-elect Trump's apparent plan to raise import tariffs** and deport illegal immigrants could hurt consumers and economic growth.

Should US tariff increases cause trading partners to retaliate in kind, **global trade and economic growth could suffer**, leading to lower container volumes than we have forecast.

Ship demand growth may end higher than average during late 2024 and early 2025. MSC and members of Gemini Alliance and the Premier Alliance may temporarily require additional ships to transition to new service patterns.

If the ILA and USMX cannot agree terms before 15 January, extensive strikes in ports on the US East and Gulf Coast could cause significant disruptions. A short-term strike could temporarily lift ship demand to cover for the ships being delayed in the US. On the other hand, a long-term strike could lower ship demand as trade to and from the US would grind to a halt.

Supply



Supply is forecast to grow by 12.1% in 2024, 5.8% in 2025 and 2.8% in 2026. Due to the rerouting around the Cape of Good Hope, average sailing speed has increased 2.6% YoY in 2024. Overall supply growth is therefore higher than fleet growth in 2024.

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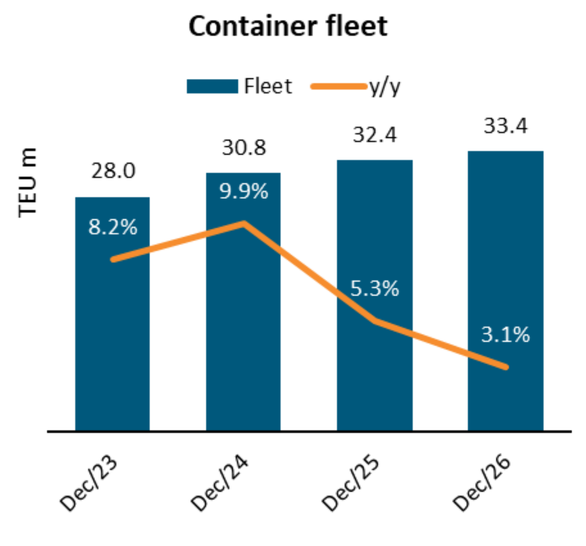
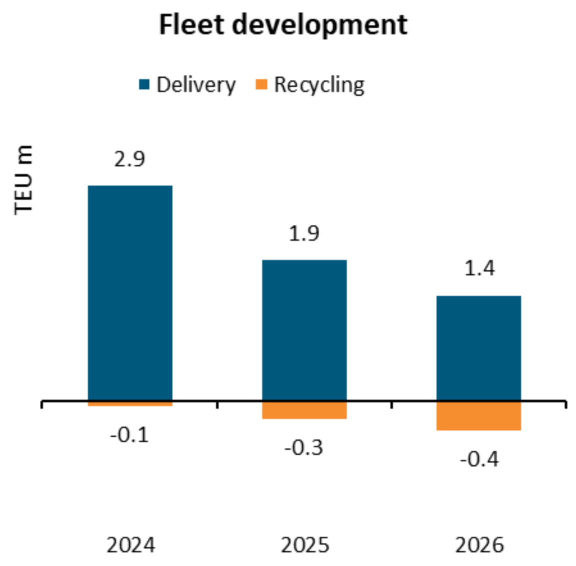
We assume no change to Red Sea rerouting for 2025 but that ships will be able to return to normal routings throughout 2026.



Source: Clarksons Research, BIMCO

As supply growth is expected to outpace demand growth in 2025, we expect that **sailing speeds will reduce**. Furthermore, as we assume a return to normal routings in 2026, we expect a further decrease in sailing speeds. We therefore expect that supply will grow more slowly than the fleet during 2025 and 2026.

During 2024, we expect that the fleet will grow by 2.8m TEU to end the year 9.9% higher than at the end of 2023. By **the end of 2026, another 2.6m TEU are forecast to be added, equal to an 8.5% expansion during 2025 and 2026**.



Source: Clarksons Research, BIMCO

In 2024, delivery of new ships is expected to add 2.9m TEU to the fleet, a new record high. Despite the rapid fleet expansion, shipowners have **year-to-date in 2024 already added more than 3.5m TEU in new orders, the second highest number ever**.

The **order book has therefore increased and currently stands at 8.0m TEU** and the order book to fleet ratio is 26%. Orders have already been made for delivery in 2029 and currently deliveries in 2027-2028 are scheduled to end higher than deliveries in 2025-2026.

Ships capable of using alternative fuels upon delivery make up 78% of the order book and another 10% are being readied for later conversion. Two thirds of the ships that will be capable of using an alternative fuel upon delivery will use LNG and one third will use methanol.

Recycling activity this year was lower than we forecast in our previous market report. We therefore lowered our recycling forecast by 0.1 m TEU.

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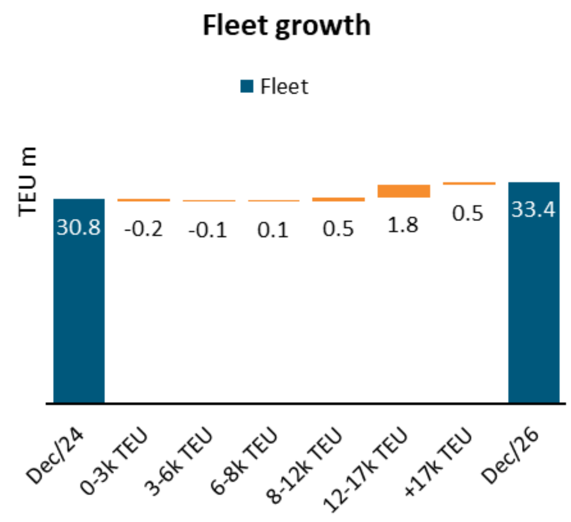
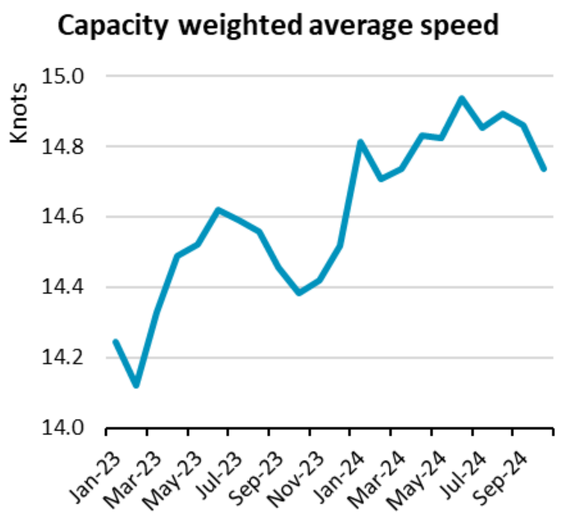


Sources: Clarksons Research, BIMCO

As we have assumed continued Red Sea rerouting throughout **2025, recycling is forecast to remain low** at 0.3m TEU. However, as we assume ships returning to their usual shorter routes in 2026, the supply/demand balance is expected to weaken, and we expect recycling will start to increase. We forecast that recycling will hit 0.4m TEU.

Ships with capacity of **12-17k TEU** have dominated contracting since 2021 and this segment will therefore also be **the main driver of fleet growth during 2025-2026**.



Source: Clarksons Research

On the other hand, we expect that **recycling will outpace deliveries in the smallest segments** and the segments will therefore see negative growth. Ships smaller than 6,000 TEU only make up 5% of the order book capacity but nearly 75% of the capacity for ships that are 20 years old or older, the prime candidates for recycling.

Sailing speed slightly decreased in the past couple of months, but overall, they remain elevated due to rerouting. Average sailing speed was 14.4 knots in 2023 and is forecast to be 14.8 knots this year. Ships larger than 6k TEU have on average all been sailing faster than 15 knots.

We forecast that **sailing speed will decrease** by 2% decrease in 2025, and as we assume a return to shorter routings, we have included another 2% reduction in 2026.

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