Maritime 2023 Review and Future Predictions

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Preface

We stated at the beginning of last year that the world's crises, conflicts, and pandemics might be more threatening to global life and trade. Since the first days of 2024 the events that have occurred and now expanded beyond the dimensions of the forecast; the control of the seas and maritime transport routes, as well as the global and environmental maritime trade, resulted in more apparent and significant increasing risk to ships, cargo, and freight rates.

While the war between Russia and Ukraine is going on, the Israeli-Hamas conflict has sparked pressure and even despair around the global world in the political, economic, and military spheres—particularly in the humanitarian one. With profound astonishment, the entire world observes the events shattering the level of international law and civilization.

The possibility that the Israeli-Hamas conflict will spread regionally is growing day by day. The senseless and unconscious attacks carried out by the Iranian-backed Houthi group in Yemen on commercial ships of different countries at the Bab-al-Mandeb crossing and Israel's threats against Lebanon further complicate the issue.

Within this context, as NAVIS Academy, we are attempting to monitor the management of the seas and maritime transportation routes, as well as the global and environmental maritime trade, ships, cargo, and freight rates, for you, our followers, due to the occasion which is created by this chaotic order.

Since its founding, NAVIS Academy has been successful in growing into a significant and well-respected national and international source of open knowledge.

In conclusion, our 2023 Maritime Report briefly summarizes this year's maritime commerce and strategic developments and provides perspectives for 2024. This tradition will go on in the upcoming years as long as you show us your interest and continue to maintain your confidence in us.

Dr. Özkan Poyraz

Author

Anaysis of Freight Rates for 2023 and 2024 Years

I wish all dear Navis Academy readers a healthy, peaceful, and prosperous 2024.

In addition to our articles published weekly on this platform, if you remember from previous years, we have New Year's articles with commentary about the year in general and predictions for the next year. In this article, without boring you, I would like to analyze briefly the prospects in the maritime shipping market in 2024.

First, if we summarize the last year, the Baltic Dry Cargo Index (BDI) closed the year at 2,094 points. The opening of 2023 was at 1,650 points, and in February 2023, with the impact of the Chinese New Year, the bottom was visible with 530 points, and then the BDI, which remained in the 1,000-1,600 points range until the last quarter, went up to 3,346 points sometime in the last quarter.

The Baltic Supramax Index (BSI) closed at 1,369 points. Heading into 2023, BSI stood at 968. Like BDI, it bottomed out in February and reached 625 points. Then, in March, it reached its first peak of the year at 1,335 points and fell over in the summer, but it began to rise again at the end of the third quarter and finally reached 1,565 points in the last quarter.

The Baltic Handysize Index (BHSI) closed at 879 points. BHSI started the year at 663 points and, like other indices, bottomed out at 431 points in February. But unlike other indices, BHSI reached the year's low of 389 points in August before rebounding to 700 points by the end of the third quarter. In the last quarter, it was up to 908 points.

In coaster tonnage, according to the opinions of commodity traders, there might be mobility in the Black Sea trade that might be accelerated by Turkey's corn demand after the middle of the year. On the other hand, if there is a sign of an "ending" to the Russia-Ukraine crisis, this situation will likely result in a trade boom that will significantly boost freight rates for a “considerable” while.

The European Central Bank's decision to tighten will also have an impact on the small tonnage of Northwest Europe. These fiscal policies are currently having a negative impact on both industry and consumption. When and if the pressure subsides, we can discuss other topics.

If we examine tankers based on an index, we see that the tension between Russia and Ukraine caused the white goods (clean) indices to open the year with a sharp decline, losing altitude from 2,130 points at the end of December 2022 to 620 points at the end of the year. Then, in March of the year, it peaked at 1,248 points. It remained in the range of 600–1000 points till the year's end. MR and LR prices in this segment have increased by 10 percent and 20 percent, respectively, according to different reports since the beginning of the year.

A similar situation occurred in the black goods index (dirty). The index, which saw a historical level of 2,500 in the last quarter of 2022, went down to 1,200 points as soon as 2023 started. Then, like the beginning of the last quarter of the year, it bottomed out at around 710 points. The last quarter saw increases again, and the entry into 2024 is on the upside so far. As of the day this article was written, there were three major concerns on the table: the demand from China, the tension in the Strait of Hormuz, and the challenges in passing the Panama Canal.

Here, VLCC, Suezmax, and Aframax prices have increased by 8 percent for VLCC and 20 percent for the other two segments since the beginning of the year. Of course, congestion was a major factor due to the low water level in the Panama Canal. In older tankers, the opposite is true. Earlier, according to a sale report, a 2004 Korean-built VLCC was sold for 29 million dollars. Sales of the same Korean-built vessels reached the level of 50 million dollars in early 2023.

Due to the influence of the Chinese New Year holiday, it is probable that at the beginning of 2024, in February, dry-cargo and liquid-tanker shipments will experience declines. In dry cargo, it seemed as if handysize was entering the new year horizontally this year. We were expecting that there would be declines towards the Chinese new year, and these are evident now, but they are also better than the previous year. In this case, we see that 2024 is at a better point than 2023 in terms of "entry point to the year" and "momentum" based on handysize and supra. This could act as a base effect for the natural fluctuations of the year.

In tankers, the outlook is positive since small chemical tanker orders are around 8 percent of the present fleet, MR tankers in the region have gone to other regions due to the Russia-Ukraine conflict, by the way, alternative tonnage has disappeared. The prospects for MR and LR tankers are also promising since, once again, due to the Russian tension, the trade in petroleum products has expanded its range, which means additional tonne-miles.

In stock market jargon, we can take the above comments as "technical". According to the "fundamental analysis" of the work, cyclical changes will have a significant impact in 2024. First of all, the use of interest rates to combat high inflation is now being replaced by expansionary policies. The effects of this situation on trade, commodities, and freight rates can also support the above analysis. This could mean that seasonal declines will be soft. Therefore, the market can transform sudden increases in freight rates into long-term rallies. After the pandemic, this was evident.

There are very important elections this year. For example, the first important election was in Taiwan. American elections are approaching. This will have a profound impact on the complex political climate that is now multi-headed for individuals and countries.

In terms of tonnage supply and demand, we see that most of the dry cargo tonnage segments do not face a significant order book, unlike tonnages like container carriers. In addition, there are carbon taxes, ETS etc. New obstructing issues will arise. We will start taking these into account as well.

A note on tankers: current prices for almost all tonnages are almost 50 percent above the 5-year average. Although the current situation is that this trend might not weaken, this statistic is a bit frightening, because it is not that exaggerated in the dry cargo segment.

In summary…

Our primary consideration for 2024 is that all types of vessels that are somehow advantageous in terms of fuel will start to come to the fore. After these issues are resolved, how would shipowners and charterers share ETS payments? Additionally, the freight rates of vessels that benefit from ETS are likely to be different from those of conventional vessels.

Although the thick(ening) cream on the tanker market is clearly visible, it appears that it will not go away.

We had predicted that the dry cargo segment would eventually surrender to seasonality, as a matter of fact, it did. However, the starting point is good. But it is useful to observe and analyze the Chinese new year. The evolution of the Russia-Ukraine tensions, the Suez crisis, the state of the Chinese economy, etc. There are numerous factors. Surprises might occur... but such surprises could predictably have a positive impact on maritime trade. Unpredictable ones are…well…simply unpredictable.

Engin Koçak

Author

The Index of Freight Rates and Excpectations for 2024

We have been experiencing three wars in succession since the year 2020. First, we fought the infection (Covid), then the Russia-Ukraine war, and the the present turmoil in the Middle East. The impact of regional trends on the Global Container Freight Index must be examined using three different components.

Covid, the Russia-Ukraine conflict, and now the Middle East tensions. The third installment of the crisis series has already arrived. So, are the shipowners or charterers who shape the freight index ready for this circumstance? Will they be able to apply the first two crisis series experiences? We must assess the developments in three categories. Other variables such as the slowdown in Israel Ports, the Suez Canal and the Strait of Hormuz, and the price of oil.

Despite the last two crises of the series are similar, their effects will be different.

Obviously, the first two crises of the series were different from each other. One was the global fight against infection, and the other was the war between the two countries. On the other hand, what is happening between Israel and Hamas, cannot be compared to the Russia-Ukraine war.

If the conflict between Israel and Hamas extends beyond the region's borders, many maritime scenarios will come to the fore for shipping. Because the region has two significant waterways: the Suez Canal and the Strait of Hormuz. Another issue is the impact of the war on Israel ports.

The impact of events at Israel ports will be limited.

Of course, what is going on between Israel and Hamas is going to have a negative influence on the Israel ports of Haifa and Ashdod, and the impact has already begun. However, the congestion in Israel ports will have little impact on the global container freight rate index. Because Israel ports only handle 0.4-0.5 percent of world trade.

Nowadays, there is a line of vessels in Israel ports due to heightened security procedures. This results in waiting. One of the lessons from the Covid period was that the freight rate index was adversely impacted by supply chain issues.

Congestion, on the other hand, was experienced at the time in the world's largest ports. We're only talking about port wait times in Israel right now. The scale is not the same, in short, it is clear from the global share of ports that this effect will be quite limited.

But what if the tension spreads?

If the tension begins to affect a wider region, then the freight rate index may be adversely affected. If the Suez Canal closes, vessels may face a lengthy voyage. A significant part of the container fleet capacity will lose its effectiveness (due to the ton-mile balance). This, in turn, will have a negative impact on the Container Freight Rate Index, causing freight rates to go up.

Let's make a brief reminder. In 2021, the Suez Canal was closed for 6 days when the vessel named "Ever Given" ran aground. Even though it was only temporary, the closure had a 10 percent effect on spot freight rate. At this point, I would like to give a brief additional information; Although some analysts argue that this effect is higher than 10 percent, it should not be forgotten that the Covid effect continued at that time, and even the emergence of Delta-Omicron variants-and some of the effect was due to the pandemic.

And then there is oil and similar effects.

According to rumors, Israel civilians are being called up for military duty. This step, which may result in manpower shortages, may have a negative impact on the performance of Israel container carriers. If the efficiency of these companies' container fleets declines or certain vessels go out of service, this may adversely affect the container freight rate index.

Another important issue is oil prices. At the time of writing this article, that is, 5 days after the start of the war, oil prices increased by close to 6 percent in one day. This is another factor that can push the Container Freight Rate Index up. The increase in oil prices will automatically raise freight rates as well.

According to some, "Oil prices also climbed during the Russia-Ukraine war, and despite this, the freight rate index started to decline in the weeks following the war."

However, at the time, US reserve oil sales and Middle East supply intervention caused oil prices to decline. It could be different this time. First of all, US reserves have decreased, moreover, as we mentioned, if the war extends beyond the borders of the region, it will have a negative impact on global oil production.

To sum up, the danger in terms of the freight rate index – and therefore global inflation – will increase if the war crosses the border of the region. On the other hand, I think that the impact of the war on freight rates will be limited if only Israel ports and Israel transportation are considered.

Will profitability continue in 2024?

The Global Container Freight Rate Composite Index ("Freight Rate Index") has been in decline since September 2021. Despite this, shippers are announcing profits! Data from shippers for the last quarter of 2023 was also collected last month. Similar to the freight rate index, shippers' EBIT margins are moving toward south.

This is normal because their income has been rasped. What could be why the EBIT margin has not yet reached pre-pandemic levels, even though the freight rate index has been declining for a long time?

During the period when the freight rate index was high, cash assets also increased.

It should be noted that, before going into the details of the EBIT-Income balance; during the period when freight rates were at high levels, we assume that shippers had a lot of cash in their coffers, due to the positive effect of high EBIT margins achieved.

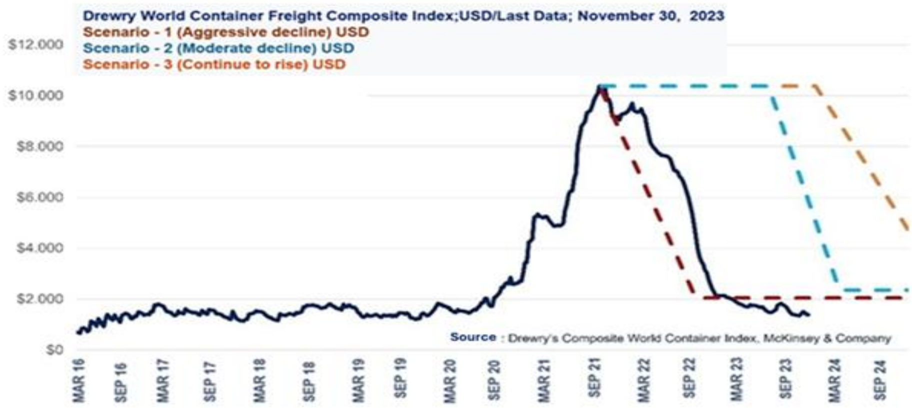
Let's not forget that high cash creates the financial conditions suitable for restrictive measures in fleet capacity. Take a note of history right away; Favorable financial conditions make it easier to tow ships to anchor!

High liquidity alters the game.

In fact, we are not the only ones who think so. In its October 2023 report, Deutsche Bank recommends stocks such as Maersk and Hapag Lloyd from a "hold" position to "sell". The reason is that they believe that the container shipping sector will not be able to manage the excess supply created by the new capacity (that is, with the new ships in its fleet) effectively.

The main data for them to reach this opinion is the freight rate index, which keeps declining. Profitability rates will decrease as long as the index keeps declining. In this case, costs require better management.

Actually, this comment should not be restricted solely to container giant companies. This situation also applies to the maritime shipping sector of our country. Since 2014, the EBITDA margin has been consistently increasing. So, until 2022, the costs were relatively well managed. So what will the 2023 year-end figures be like? It will most likely fall. Because we cannot keep our country's maritime shipping independent of global conditions.



We predicted that the graph would move by scenario 1, at the beginning of 2023.

Let us return to the fundamental dynamics of global shipping without deviating too much from the subject at hand. At the beginning of 2023, by publishing the chart above, we predicted that the Freight Rate Index would continue in accordance with scenario 1.

As a matter of fact, it did, and it even started to push the lower limits of the script. We forecast that the index will progress by scenario 1 in 2024. If the Freight Rate Index remains at 2,000 US dollars, as we expect, the decline in EBIT margins may continue.

Let's give an example; Before the pandemic, the Freight Rate Index was moving at 1,500 US dollars.

During this period, the EBIT margin of the shippers was roughly 1.5 percent. In the second quarter of 2023, the EBIT margin was 8.9 percent, and the freight rate average was 1,679 US dollars. So there is still some froth in the second quarter profitability rate. One of the reasons for this is the slow movement of the index to the south.

The other is that cost increases are in slow pace behind. In short, we shouldn't be surprised if we see a move towards 5 percent in shippers' EBIT margins by 2024.

Wishing you a healthy, happy, and peaceful 2024...

Gökhan Esin

Author

Conclusion

In our final report from last year, we strongly predicted that the probability opening of Armageddon doors in the case of a disagreement or conflict related to Bab-El Mandeb, Hormuz and Malacca Passes or the Pacific, which are other high-risk areas while the Russia-Ukraine war is ongoing.

In addition to the Israeli-Hamas conflict, Bab-al-Mandeb and Hormuz security have become more prominent due to Iran's alleged support for the Houthis and their involvement in Yemen. The prolongation of the issue also brings the security of maritime trade routes to the agenda on a global scale.

On the other hand, while the search for alternatives to marine trade routes continues, the preferences for northern routes originating from Russia and routes related to the Cape of Good Hope in South Africa open the door to new competition.

As a response to this circumstance, the maritime industry has concentrated on the costs of shipping and their effects on freight rates. Longer sailing periods result in increased fuel consumption, vessel usage, depreciation, equipment, spare part use, etc., which are the additional costs. The cost-increasing consequences of the issues will be reflected in the freight rates.

In the conclusion of our report previous year, we stated that the forecasts are also an impediment to the establishment of a new and permanent international order. This has become even more apparent since the beginning of the new year. It is important to note that new trade routes may result in the formation of new and distinct commercial cartels. It is also a matter of curiosity to what extent the countries and/or companies that will dominate these possible cartels will be able to influence global politics.

On the other hand, although some positive estimates are made for maritime trade, the spread of conflicts to different vital passages and sea routes makes it necessary to be much more cautious. Because the situation may become unsustainable.

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