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SHIPPING INDUSTRY IN BOUNCE BACK AFTER PANDEMIC, WITH CONTAINERSHIP SECTOR LEADING THE WAY

The Covid-19 pandemic outbreak negatively affected the entire world economy, however, the reaction on the shock was uneven across the industries and even inside them. In the shipping, while the tanker segment remains sluggish after almost 2 years, the dry sector demonstrated not only rapid recovery after disruptions but also surprisingly surpassed pre-covid levels. All four shipping markets defined by M. Stopford [1] enjoy growth of activity, namely the freight market, the sale and purchase market, the newbuilding market and the demolition market. On the demolition market scrapping prices increased, although due to known inverse relation between demolition activity and freight rates, tankers are the prevailing ship type being scrapped while dry ships are scrapped at low volumes due to freight market speedy recovery.

On the newbuilding market, the new units orderbook has grown and the containership sector accounted for 39% of all investment in newbuildings made in 2021. Boxship newbuilding prices have increased by more than 20% since the pandemic outbreak. The first quarter of 2021 saw the highest level of containership contracting since the first quarter of 2007 [2].

On the sale and purchase shipping market Q2 of 2020 saw the lowest number of sales (254, totaling 17m deadweight) for 8 years. Later in 2020 and 2021, S&P market picked up firmly –

Q3 (429 vessels, 23m deadweight) and Q4 (572 vessels, 49m deadweight), Q1 2021(590 vessels, 40m deadweight) [3].

The secondhand asset prices dynamics also illustrates the industry's direction. The price of a 10-year-old 6,600 TEU container vessel increased by 138% (USD 29m) to USD 50m within September 2020 – April 2021 period, whilst the price of a 10-year-old 4,500 TEU ship rose by 268% (USD 25.5m) to USD 35m. In the bulk carrier sector, the price of a 10-year-old capesize increased by 40% (USD 7.75m) to USD 27.25m and a price of a 10-year-old supramax increased by 35% (USD 3.75m) to USD 14.5m. Tanker markets haven't managed to recover from the slowdown yet. After a short-lived storage-driven spike, activity on the tanker market declined, making the secondhand assets cheaper. For instance, average 10-year-old VLCC lost 12% in value within the studied period [4].

The freight market has always been in focus as far as the freight rate is the main variable of interest for all players of shipping markets. Among rather diverse dry shipping sector, the containership segment experienced the most remarkable metamorphosis, accompanied by several paradoxical observations. The first and foremost is that the secondhand container vessel prices surpassed the newbuilding ones. Based on the time lag between the newbuilding order placement and factual vessel's delivery, purchasing the secondhand tonnage remains the solo option for shipowners looking for absorbing new capacity available for trade without delay.

Another paradox noted when considering container vessels of 2750 TEU capacity [5], is that within 2020–2021 the containership charter rate growth was swift and even record, while the volumes of containerized shipping trade remained steady. This leads to a conclusion that the nature of 2021 charter rates growth had no relation to the derived-demand nature of the shipping industry – the finding was reconfirmed by investigating the correlation between charter rates and container throughputs of the leading world ports. Neither Singapore nor Hong Kong nor Los Angeles container handling indicators appeared to affect charter rate. Next, by pitching several shipping, financial and industrial indicators in play, the paper [5] ascertains that 2750 TEU containership charter rate is determined by both newbuilding and 10-year-old secondhand prices of vessels, US and Chinese industrial production growth, steel prices and Maersk market capitalization.

Shipping is the industry where all segments are inter-related and spillover effects play an important role. Clarksons Research report considered how containership boom affected adjacent dry bulk, ro-ro and multi-purpose markets, marking ‘unboxing’ of cargoes as the trend caused by limited containership capacity offered by the supply side. Representatives of multi-purpose sector enjoyed the shortage of reliable and cost-effective boxship capacity which shippers decided to substitute by chartering MPPs and ‘unboxing’ cargoes to be shipped as breakbulk (e.g., steel and forest products, machinery). The bulk carrier sector has also seen additional spillover demand from the ‘unboxing’ of container cargoes, and there have even been reports of bulkers transporting containers. This has added further impetus to already firmly improving markets. Ro-ro freight volumes have picked up firmly following the downturn of demand in 2020 but ‘spillover’ has again had an impact, with ro-ro operators reporting increased shipments of ‘unboxed’ cargoes. The reefer market has also behaved similarly. The researchers conclude that despite container markets and supply chain disruption have hit the headlines, the ‘knock-on’ effects across other shipping sectors have been notable too [6].

Bearing in mind the inherent cyclicality of the world economy in general and the shipping in particular, the question for how long the industry would be able to sustain the fast-paced growth remains open. As some market players suggest [7], the dry bulk boom can last several years more with the main factors influencing this view being US infrastructure package and strong demand for electricity in India, along with low stockpiles of coal in both India and China. The road to decarbonization and renewables are also expected to be infrastructure intensive.

While the shipyards are occupied by containership orders, there is an obvious limit of options to increase dry bulk tonnage. Coupled with forecasted surge of iron ore production (one of the major dry bulk commodities), this can lift dry bulk freights even higher despite 2021 rates are already on average three times higher than 2020 across the main dry bulk vessel sizes.

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