

Rising costs and less capacity: Shipping's extraordinary global predicament

The vessels delayed by the Ever Given incident are on the move but problems aren't over. Ocean freight has already been disrupted by the pandemic, leading to spiking container tariffs and 7 out of 10 vessels arriving late. The Suez incident will keep the market off balance for longer, fuelling ongoing capacity constraints and elevated rates



The Ever Given container ship was refloated in the Suez Canal at the end of March

Reliability container shipping further down

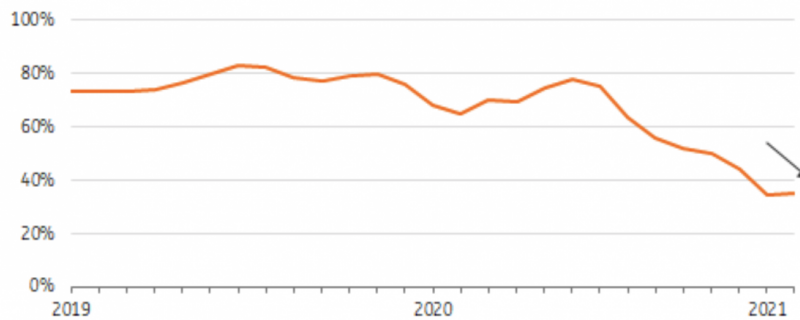
After successfully refloating the container carrier Ever Given, the impact on already stretched supply chains is yet to follow. The last of the 350 vessels delayed by the blockage resumed their journeys over Easter, which will lead to an expected wave of calls at Europe's largest port, Rotterdam, from the second half of this week. The port will adapt where possible but longer waiting times to enter the terminals seems inevitable. The port handling bottleneck and transport capacity constraints further down the line will push deteriorating delivery times up further for shippers of electronic products, clothes and manufacturing components; and they will last longer than the Suez blockage itself.

Normally 75% of container vessels arrive on time globally but in the last two months, this reliability measure sank to only a third, as you can see in the chart below. The Suez blockage will drag vessel

reliability further down in April, leading to inefficiency and extra costs.

Share of containers arriving on time expected to further drop due to the Suez blockage

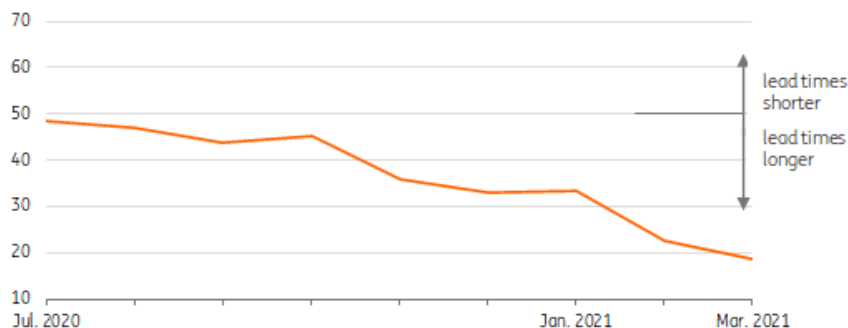
The reliability of container vessels worldwide (share of vessels arriving on time)



Source: Sea Intelligence, ING Research

Lead times for manufacturers in the Netherlands further deteriorate

Index development of delivery times per month



Source: NEVI

Stretching of supply chains will keep tariffs higher for longer

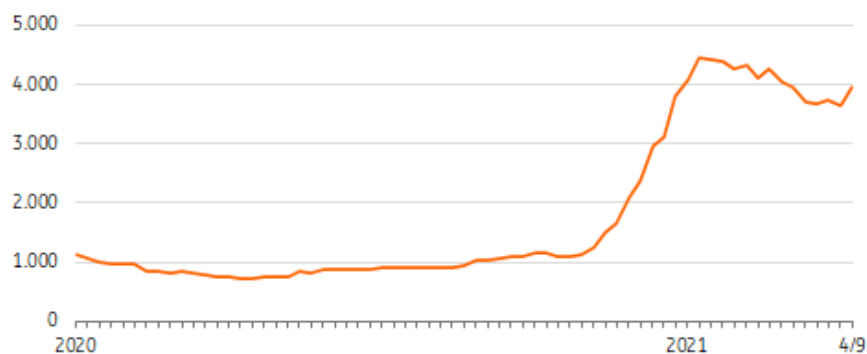
The grounding of the Ever Given came at a critical moment for global supply chains and the container shipping market. Following the mix of an unexpected swift return of volumes, delayed vessels, capacity constraints in ports and container shortages, tariffs spiked in the fourth quarter of last year, as you can see below.

The cost of shipping a 20ft container from Shanghai to Europe peaked at \$4,400 in mid-January, roughly four times the 10-year average. While elevated tariffs on the East-West trade had started to slide after the Chinese New Year, spot rates stopped decreasing. In order to rebalance capacity, the container network liner Maersk even temporarily suspended short term bookings early April. The Suez-delays consequently resulted in additional capacity constraints, while spare capacity is

already scarce, putting renewed upward pressure on container rates which had just started to decline.

Suez blockage leads to new upward pressure on container rates

Development of containerised freight rates (spot) Shanghai-Europe trade \$ per TEU (20ft) (40ft=*2)



Source: Clarksons, ING research

Author

Rico Luman

Senior Sector Economist

Rico.Luman@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.