Coronavirus and Global Shipping

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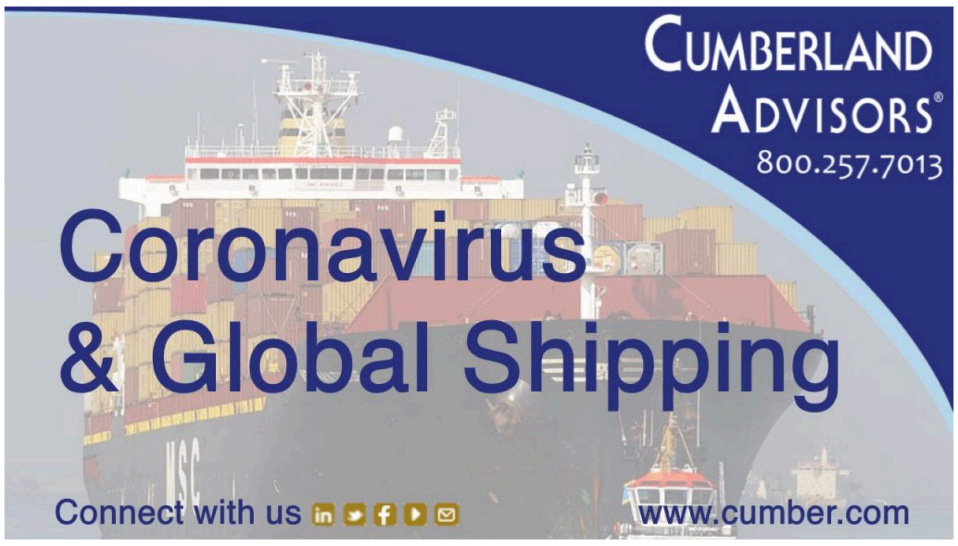
Coronavirus Impact on Shipping

It did not take long for the coronavirus outbreak to seriously impact global shipping. In late January, industry leader FreightWaves, in an *American Shipper* interview with economist Paul Bingham, director of transportation consulting at IHS Markit, expressed concern about virus effects of Chinese manufacturing cutbacks on world supply chains and container shipping in particular.



Bingham noted that shipping was already taking a hit because of the annual Chinese New Year shutdown, but he added,

“What’s happening is that the gap you managed against is now extended. If these factories don’t restart or if they restart and then they run out of parts [due to issues with first-tier suppliers], how quickly that trickles down will depend on how tightly supply chains are being managed in terms of lead times and buffer stocks. But I think that it will be less than a month before you’d start to see evidence of disruptions.”

(“Q&A: How coronavirus threatens container supply chains,” *American Shipper,* Jan. 28, 2020, https://www.freightwaves.com/news/qa-how-coronavirus-threatens-container-supply-chains)

About 80% of world trade goods by volume is carried by sea, and seven of the world's ten busiest container ports are in China. Everything from autos and machinery to fresh food, clothing, high-tech products, and other consumer goods is shipped in containers.

Guy Platten, secretary general of the International Chamber of Shipping (ICS), summarized the situation on the Chinese end in a Feb. 5 interview with CNN:

“The shutdowns mean that some ships can't get into Chinese ports, as the loading and discharging of goods slows. Others are stuck in dock, waiting for workers to return to ports so that construction and repairs can be completed. Still more vessels are idling in ‘floating quarantined zones,’ as countries such as Australia and Singapore refuse to allow ships that have called at Chinese ports to enter their own until the crew has been declared virus-free.”

(“Global shipping has been hit by the coronavirus. Now goods are getting stranded,” CNN, Feb. 5, 2020, https://www.cnn.com/2020/02/05/business/shipping-coronavirus-impact/index.html)

All major ports around the world have adopted a 14-day quarantine period for vessels arriving from or transiting through China. Vessels arriving from China are required to file a report regarding the health of the crew members and passengers prior to berthing.

Non-passenger vessels are allowed to operate in the US if they have been to China or taken on passengers from China in the last 14 days, as long as there are no sick crew members. Any vessels with sick crew members are required to notify the Coast Guard at their port of call.

("Coronavirus outbreak: Measures and preventive actions by ports," *Ship Technology,* Feb. 11, 2020, https://www.ship-technology.com/features/coronavirus-outbreak-measures-and-preventive-actions-by-ports/)

The coronavirus is throwing the global shipping trade out of sync, with shipping lines having to reroute cargoes and reduce calls to Chinese ports, setting the scene for months of delivery delays ahead, industry sources have said.

Some ships have been diverted from China to ports in South Korea. South Korea's Busan port, one of the world's largest container terminals, has already been affected by the spillover. The port's container capacity stands at 78% and could rise further from the usual level of 70%, a Busan port official said.

("China's coronavirus disrupts global container shipping trade," Reuters, Feb. 6, 2020, https://www.reuters.com/article/us-china-health-shipping/chinas-coronavirus-disrupts-global-container-shipping-trade-idUSKBN2002K1)

At least 44 sailings between China and the Americas had been canceled as of Feb. 14, according to Sea-Intelligence, along with 17 cancellations in the Asia-Europe trade loop. The cancellations amount to nearly 600,000 containers.

("Ships Are Skipping China and It's Causing Turmoil for Trade," Bloomberg, Feb. 14, 2020, https://www.bloomberg.com/news/articles/2020-02-15/ships-are-skipping-china-and-it-s-causing-turmoil-for-trade)

Reduced trade as a result of the coronavirus outbreak is costing container shipping lines $350 million a week in lost volumes, a new report says. More than 350,000 containers have been removed from global trade networks since the pandemic gathered steam last month, according to Denmark-based maritime data provider Sea-Intelligence.

Officials in Shanghai and Hong Kong, two of the world's busiest container shipping ports, said only about half of dock workers had returned to work by Monday, Feb. 10.

According to the *Wall Street Journal,* "US retailers depend on those imports to replenish inventories heading into the spring, but the nation's largest retail group is predicting sharply diminished shipping volumes over the next few months." The *WSJ* reports that the National Retail Federation (NRF) and Hackett Associates project that inbound container volumes at US seaports will be down 12.9% in February and off 9.5% in March from a year earlier. The forecast for container imports into the US in February and March is projected to fall short by some 370,000 containers from estimates made before the coronavirus outbreak.

"US retailers were already beginning to shift some sourcing to other countries because of the trade war, but if shutdowns continue, we could see an impact on supply chains," said Jonathan Gold, NRF's vice president for supply chain and customs policy. ("Coronavirus Toll on Shipping Reaches $350 Million a Week," *Wall Street Journal,* Feb. 10, 2020, https://www.wsj.com/articles/coronavirus-toll-on-shipping-reaches-350-million-a-week-11581366671)

A Shanghai broker said that at least one container ship with a capacity of more than 20,000 containers left Shanghai for Northern Europe with only 2,000 full containers. "It will pick up more at ports on its way, but loading data show it will reach Europe around 35% full," the broker said. "That's unprecedented, and a lot of money is being lost because it doesn't even cover the fuel cost."

("China's Shipping Nears a Standstill Amid Coronavirus Disruption, *Wall Street Journal,* Feb. 14, 2020, https://www.wsj.com/articles/chinas-shipping-nears-a-standstill-amid-coronavirus-disruption-11581699854)

With the volume of containerized cargo flowing on the two main headhaul routes (—China-US and China-Europe) now sharply reduced —and the canceling of sailings of vessels that had been scheduled to serve these routes, there will be fewer ships available for backhaul runs from the US to Asia and from Europe to Asia. Sea-Intelligence CEO Alan Murphy has warned shippers to "brace for the backhaul rate spike." He predicts that "The raft of new blank sailings is likely to cause capacity issues for backhaul shippers in Europe and North America~~n~~ in March and April. They need to start preparing for this situation as well as for a possible spike in freight rates."

("Will coronavirus hike rates for backhaul US-to-Asia cargoes?" *American Shipper,* Feb. 12, 2020, https://www.freightwaves.com/news/will-coronavirus-hike-rates-for-backhaul-us-to-asia-cargoes)

According to Bloomberg, "The disruptions to sea cargo flows have compounded an already pressured situation for shipping lines as they struggle with weaker markets and higher costs from new International Maritime Organization (IMO) regulations on low-sulfur fuel." From Jan. 1, vessels had to cut emissions of sulfur oxides. As a result, the cost of the bunker fuel that ships were using collapsed, because it contained too much sulfur. At the same time, the new fuel surged in price.

Many ship owners needed urgently to have their vessels retrofitted at shipyards in China with equipment called scrubbers. The scrubbers would allow ships to keep legally burning high-sulfur fuel, saving the owners millions of dollars a year. Supertankers that have the scrubbers fitted earn about $15,000 a day more than those that don't have them. Over a year, that means scrubber-fitted ships earn about $5 million more. Peter Sand, chief shipping analyst at industry group BIMCO, explained, "Coronavirus is closing down retrofit yards in China – naturally extending the waiting time for ships with a slot time for a retrofit. The uncertainty of how long this is going to take is massive."

("Shipping Gets Smashed by Coronavirus in More Ways Than One," Bloomberg, Feb. 10, 2020, https://www.bloomberg.com/news/articles/2020-02-10/shipping-is-getting-smashed-by-coronavirus-in-more-ways-than-one)

A Scandinavia-based tanker owner complained, "We got two ships in Southern China that need to be retrofitted. They were supposed to be back in the water over the next couple of weeks, but we were told the yard has issued force majeure certificates for eight vessels they are working on, saying the virus will push back deliveries by a minimum three weeks." (By declaring force majeure, companies can legally seek to avoid penalties that may result from not fulfilling contracts.)

According to the *Wall Street Journal,* ship broker Clarksons PLC has said that deliveries of new tankers, bulk ships, and container ships will also probably be delayed in coming months because of coronavirus. The *WSJ* reports that "Chinese shipyards have 960 vessels in their order books worth a combined $27 billion, according to VesselsValue Ltd., a London-based maritime service. "We are working at around a quarter of our capacity," said an executive at China State Shipbuilding Corp., which employs more than 300,0000 workers. "The supply chain for some yards has been seriously impacted. Spares aren't being delivered and engineers are still at home."

("Coronavirus Toll on Shipping Reaches $350 Million a Week," *Wall Street Journal,* Feb. 10, 2020, https://www.wsj.com/articles/coronavirus-toll-on-shipping-reaches-350-million-a-week-11581366671)

The shipping industry naturally does badly when Chinese demand slackens, but the coronavirus outbreak has not only reduced the amount of cargo that needs to be shipped and disrupted shipping routes, it has also prevented many owners from making their ships commercially viable. Bloomberg reports that "The huge capesize carriers that take iron ore and coal to China are now earning less than $2,600 a day, according to the Baltic Exchange in London. That's just a fraction of what they need even to pay their crew, and 93% below a 2019 peak. Supertankers transporting 2 million-barrel cargoes of crude have collapsed about 95% from their high point last year."

("Shipping Gets Smashed by Coronavirus in More Ways Than One," Bloomberg, Feb. 10, 2020, https://www.bloomberg.com/news/articles/2020-02-10/shipping-is-getting-smashed-by-coronavirus-in-more-ways-than-one)

To put ship owners' losses into perspective, the breakeven rate for a capesize carrier is over $10,000 per day.

American Shipper notes, "Coronavirus has come at an extremely inopportune time for the sector. The LNG commodity price in Asia is now at a historically low level, making it uneconomical to ship U.S. LNG to the Pacific Basin. Clarksons Platou Securities estimated that LNG spot shipping rates were $49,500 per day on Friday, down 42% month-on-month."

Shipping firm equities are suffering, too. According to Frode Mørkedal, managing director of research at Clarksons Platou Securities, "Shipping equities finished last week down materially again, bringing the US and European-listed equities to year-to-date losses of 22% on average." The Jefferies Shipping Index is down 30% year-to-date, and the Capital Link Maritime Index is down 24% year-to-date.

Randy Giveans, Jefferies shipping analyst, said, "Last week, many shipyards in China declared force majeure related to the coronavirus outbreak." J. Mintzmyer, shipping analyst at Seeking Alpha's Value Investor's Edge, noted, "Thus far, the average tanker stock decline has wiped out between 2-3 years of implied average profits.… The market is saying that the current conditions have essentially destroyed the entire bull cycle. Does this make sense? I think we've already massively overshot any rational fundamental impact, but if the coronavirus does inspire an economic collapse in China, which triggers a global recession, then obviously things will come down far faster."

("Coronavirus fallout for ocean shipping intensifies," *American Shipper,* Feb. 10, 2020, https://www.freightwaves.com/news/coronavirus-fallout-for-ocean-shipping-intensifies)

There has been considerable uncertainty in markets the past few days over the question of whether the coronavirus pandemic is still accelerating, or plateauing and maybe even subsiding. However that question is resolved, the economic effects will certainly be profound, and shipping executives speaking at the Tradewinds Shipowners Forum New York event on Thursday, Feb. 13, cautioned against market optimism: "I think the markets and many people are still underestimating the knock-on effects that the coronavirus will have," warned Angela Chao, CEO of the Foremost Group, a dry bulk shipping owner that does business with China.

"...the U.S. [stock markets] were still up," she said. "There's still not a full realization of the interruptions to the workforce, of people trying to get back to work in China, to our supply chains. All of that is going to have a tremendous effect.…"People are still likening the coronavirus to SARS. The viruses are very different, and more importantly, China's position in the global economy, both in terms of its connectedness as well as its impact, is completely different."

("Some shipping execs fear markets underestimate virus," *American Shipper,* Feb. 12, 2020, https://www.freightwaves.com/news/some-shipping-execs-fear-markets-underestimate-virus)

Cumberland portfolios have minimal exposure to shipping and no direct stock exposure. Shipping is a small part of the broad based ETFs.

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Wuhan Coronavirus Series by David R. Kotok

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