Warning From The World's Biggest Shipping Line On Outlook for World Trade

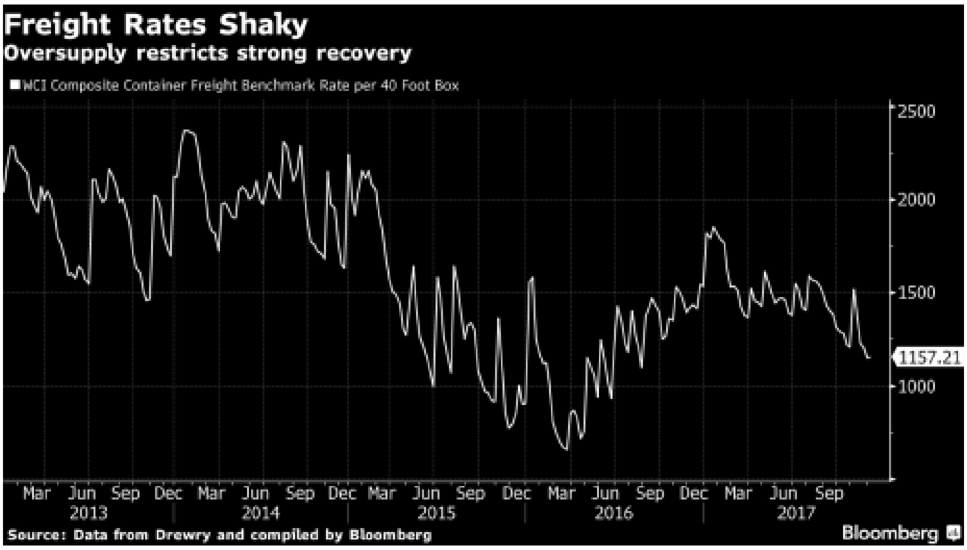
By Tyler Durden – Zero Hedge

The optimism on world trade didn't last very long.

It was only late September when the WTO issued a "strong upward revision" to their estimate for 2017 world trade. WTO economists raised their forecast to 3.6% from 2.4%, which was at the top end of the previous 1.8-3.6% range. This marked a sharp acceleration from the 1.3% growth in 2016. The IMF's forecast for 2017 world trade, also made in September, was even higher at 4.2%. Now the Copenhagen-based Maersk, the world's number one container shipping company, is sounding a warning about softer demand and downward pressure on freight rates. According to Bloomberg.

The world's largest container shipping line says international freight rates are reversing after climbing for most of this year, raising questions about the sustainability of the global trade recovery. Decade-old oversupply issues swamped demand for containerized sea trade in the third quarter, a senior official at Maersk Line Ltd. said in an interview last week. Over 90 percent of trade is routed through ships, making the industry a bellwether for the worldwide economy.

"We have started to see some pockets of downward pressure," said Steve Felder, Mumbai-based managing director of Maersk's South Asian unit. The global trade order book at around 13.5 percent of capacity isn't high, **"however, given that freight rates are largely determined on the basis of supply-demand balance, they remain fragile,"** he said.



Last week, we highlighted the collapse in the share price of Samsung Heavy, the world's third largest shipbuilder, after unexpectedly forecasting losses for this year and 2018 and announcing a capital raise. The company stated that new order demand is falling which suggested that the revival seen across the industry in 2017 is already fading. Samsung Heavy said it didn't see a recovery until 2019.

Maersk's downbeat assessment of the outlook mirrors the view of a number of shipping consultants, banks, other container shipping companies and rating agencies, as Bloomberg notes.

Maersk isn't alone. Drewry Shipping Consultants expects the container-shipping freight growth rate to drop to less than 10 percent in 2018 from around 15 percent in 2017 as a supply glut hits home. CMA CGM, the No. 3 container shipping company, recently signaled slightly lower rates for 2018 in early negotiations of Asia-Europe contracts, analysts at Credit Suisse Group AG wrote in a Nov. 29 note.

"It remains very early in the negotiation period, but this uncertainty is plainly unhelpful to investor confidence," they said.

Fitch Ratings expects supply of shipping containers to grow more than 5.5 percent in 2018, outpacing an over 4.5 percent expansion in demand.
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The one positive note in the overall world trade outlook right now is air freight, where IATA's projected growth of 7.5% for 2017 is widely believed to have significant upside potential. However, air freight is a small part of the overall market. The world air freight sector accounts for about $100 billion compared with aggregate world trade of about $15.5 trillion – about 0.6%.

Drewry Shipping Consultants latest data on spot freight routes points to significant weakness on several routes between Shanghai and developed economies. For example, rates for Shanghai-Rotterdam, Shanghai-Genoa, Shanghai-Los Angeles and shanghai-New York are all down more than 20% versus the first week in December 2016.

Route	23-Nov-17	30-Nov-17	07-Dec-17	Weekly change (%)	Annual change (%)
Composite Index	$1,208	$1,147	$1,157	1% ▲	-20% ▼
Shanghai - Rotterdam	$1,314	$1,304	$1,407	8% ▲	-22% ▼
Rotterdam - Shanghai	$991	$993	$847	-15% ▼	34% ▲
Shanghai - Genoa	$1,093	$1,085	$1,086	0%	-32% ▼
Shanghai - Los Angeles	$1,376	$1,145	$1,097	-4% ▼	-26% ▼
Los Angeles - Shanghai	$479	$481	$481	0%	-5% ▼
Shanghai - New York	$1,843	$1,820	$1,880	3% ▲	-23% ▼
New York - Rotterdam	$503	$509	$510	0%	8% ▲
Rotterdam - New York	$1,859	$1,853	$2,063	11% ▲	16% ▲

Currently, both the WTO and the IMF are expecting growth in world trade to remain buoyant in 2018. The former is projecting growth of 4.0% and the latter 3.6% with a range of 3.2-3.6%. 2017 will be the first year since 2014 when trade growth has exceeded global GDP growth. Based on the current IMF forecasts, the two will be approximately equal next year. However, the weakness flagged by Maersk, Drewry and others suggests that trade could, once again, act as a drag on global growth as we move into 2018.