Analysis

Covid-19: Shipping Market Impact Assessment

Even for an industry used to disruption, shipping has been struggling with the scale and dynamic nature of the Covid-19 outbreak. Starting in its largest market (China: 22% of seaborne imports), the initial shipping impact was felt quickly and severely. And while there are signs that the Chinese impact may be starting to stabilise (see graph), the focus has shifted to broader global impacts, and investor sentiment.

Outbreak...

With the virus outbreak starting in shipping's largest market (22% of imports, 33% of shipbuilding, 77% of retrofits) it quickly became clear that the economic, trade and shipping impact from travel restrictions and business closures would create major short-term disruption. Despite the added complexity of Chinese New Year, it was felt that the depth and extent of impact would be greater than the 2003 SARS epidemic, not least due to China's more prominent role (2003: 7% of imports). In our Covid-19 shipping impact briefings (available on *Shipping Intelligence Network*) we have set up a framework for monitoring developments, including surveying economists' views of GDP downgrades. Our port call tracking (see graph) showed an extended and deepening slowdown post-holiday but also a more recent uptick: despite corroborating anecdotal reports, further data is needed to see if this trend is sustainable.

Earnings Impact...

Our cross-sector earnings index, the ClarkSea, is down 32% since start year. Not as dramatic as some single segment shipping indices and actually remaining up y-o-y and increasing marginally in each of the past two weeks. Significant pre-virus trends (e.g. seasonality, sanction lifting etc.) and underlying supply/demand fundamentals have been factors, while the fuel mix change (scrubbers are reflected in the ClarkSea) and bunker pricing (virus related) are also important.

Segment Review...

Our briefings also monitor the variation in impact, and recovery potential, across individual shipping segments. The profile for the tanker market differs from the containership and the dry bulk markets. The cruise industry is grappling with very specific challenges while Hubei province itself is a hub for car component manufacturing. Our analysis has also profiled shipyard disruption, including a survey of Chinese yards to understand issues such as differences in share of work force from Hubei. Latest reports suggest major efforts, particularly at state yards, to resume normal productivity. Combined holiday and virus disruption has reduced the share of the world fleet off-hire for scrubber retrofit from 1.8% to 1.2%: the trend may now helpfully reverse.

Shifting Focus...

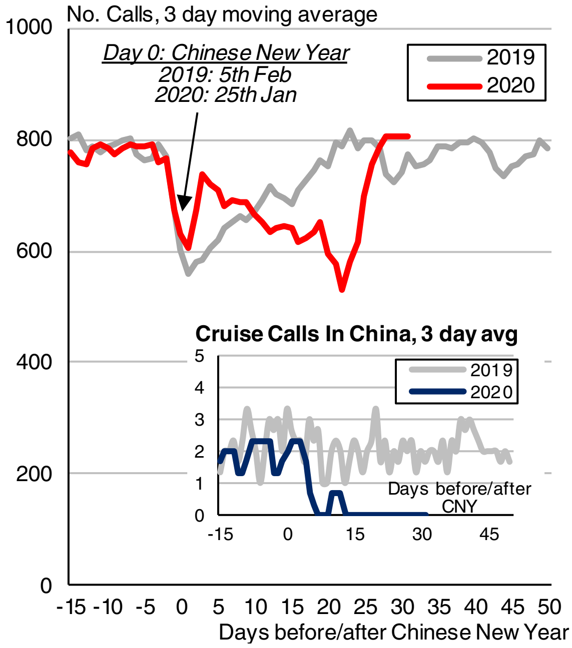
An uptick in reported cases around the world has clearly now "spooked" the global stock markets, and the regional risk profile for shipping may well be now refocusing away from China. Aside from day to day operational challenges, investment decisions also have a greater risk of being postponed for the moment. With such a fluid situation, we will be continuing to issue regular updates and insights into how shipping deals with the latest in its long history of disruption events. Our very best wishes to everyone in dealing with the disruption and challenges that the virus has brought.

Graph of the Week

Tracking Activity: Chinese Port Calls

The graph shows trends in total Chinese port calls (see inset for calls by cruise ships), aligned to reflect the usual Chinese New Year slowdown. Coastal ports have remained open and while the trend suggests activity is stabilising, a second dip is possible once initial backlogs are cleared. Operational challenges are also impacting, e.g. crew changes, acceptance of ships at ports, deliveries and activation of contractual clauses. Port calls as defined by Clarksons Research: see *Sea/net* & *Port & Infrastructure Intelligence Monthly*.

The author of this feature article is Stephen Gordon. Any views or opinions presented are solely those of the author and do not necessarily represent those of the Clarksons group.



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