Ever Given a Thought to the Suez Canal?

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Hayfin's Maritime team discusses how the blockage of the Suez Canal has impacted global shipping markets and may affect future fleet capacity, freight rates and asset pricing

On Saturday 27 February, the mega-container ship *Ever Given* set sail from Qindao, China, on her regular run from the Far East to Europe, with scheduled stops to be made at Zouchan, Taipei, Shenzen and Singapore, before transiting via the Suez Canal into the Mediterranean Sea for final discharge at Rotterdam, The Netherlands.

The vessel was built in 2018 at a leading Japanese shipyard, Imabari, and is 400 metres long, 60 metres wide and capable of transporting 20,000 containers.

The Suez Canal is a 120-mile waterway in Egypt that connects the Mediterranean Sea to the Red Sea via the Isthmus of Suez. The Canal is the dividing line between Asia and Africa and consists of two single-lane waterways that meet at the Great Bitter Lake, providing a passing area for ships travelling north and south. It is a vital artery for global trade with approximately 50 ships per day transiting the canal (with an estimated $9 billion daily value passing via the Canal).

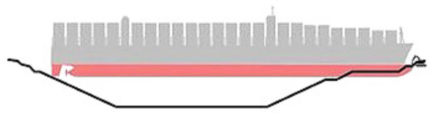
Caught in a Storm

Since becoming the subject of global media coverage, nearly one month after leaving Qindao, in the early morning of Tuesday 23 March, the *Ever Given* entered the southern entrance to the Canal at Suez, travelling north at a speed of circa 12 knots (14 mph).

Reports from the vessel's Japanese owners suggest the ship became caught in a sandstorm with violent winds, whilst media reports suggest the ship may have suffered a failure of its steering gear. Whatever the cause, the end result is the same. The 400m long ship is firmly wedged, broadside between the banks of the Canal, blocking further transits. She is beached, near fully laden with 20,000 containers, with the bow firmly embedded in the Canal bank.

Source: Clarkson Seanet

The cross section of the Canal (as illustrated below) shows that only a limited part is navigable for larger vessels. Egypt's Suez Canal Authority said on Friday that tugging operations to free the stranded container ship will resume after completing dredging operations to remove up to 20,000 cubic meters of sand (approximately 30,000 tonnes). Access is difficult and the salvor, Boskalis, has had to bring in specialist dredging ships to undertake this.



In just 48 hours since the incident, an estimated 250 ships have become stranded at each entrance to the Canal and on the Great Bitter Lake (see image below). Removal of the *Ever Given* may take days if the dredging efforts and the high spring tides expected this weekend enable the ship to lift sufficiently for assisting tugs to pull her clear. If not, and it becomes necessary to unload fuel and containers from the vessel to raise the level at which she sits in the water, then salvage may take weeks.

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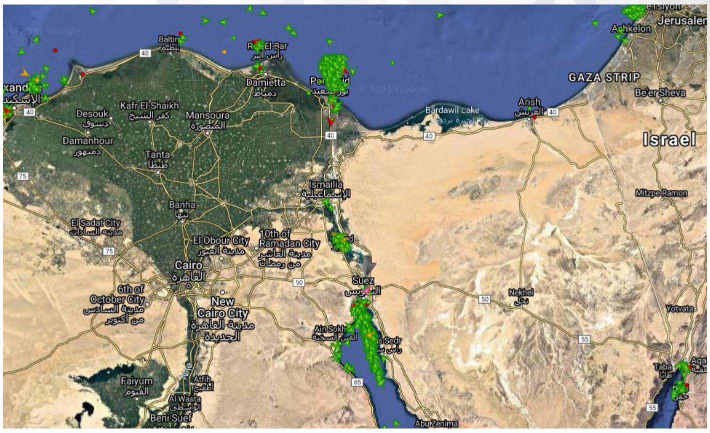


Source: Clarkson Seanet

Impact on Shipping Markets

The impact on shipping markets will depend upon the length of time taken to salvage the vessel, but overstretched supply chains are once again being put under pressure as vessels are delayed in the Canal area. Some owners have already taken the decision to reroute ships around the Cape of Good Hope, adding 21 days' sailing time to the Far East – Europe voyage.

Traffic passing through the Suez Canal mainly comprises container ships, oil tankers and dry bulk carriers and rerouting ships around the Cape of Good Hope will absorb vessel supply and should lead to increases in freight and charter rates.

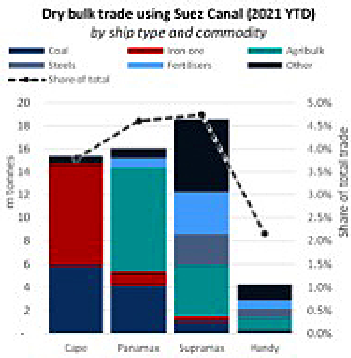
In the liner industry, over 1% of the global container fleet passes through the Suez Canal each week and it is estimated this could lead to an effective contraction of 2-4% in fleet capacity. (Containers accounted for 53% of the Suez Canal traffic by tonnes of cargo and 29% by the number of ships in 2019.) Earnings in this sector are already at multi-year highs and could well now be held higher for longer.

Tankers represent the second largest segment in terms of Suez Canal traffic, accounting for about 22% of the total crossings in 2019 (split between crude and products essentially 50/50). Seaborne crude and product flows through the Canal are estimated to be around 3m barrels per day. The current dynamic will further accelerate destocking of inventories in the Mediterranean and Northern Europe which, over the medium term, is expected to be supportive for tanker rates and ultimately asset pricing.

Vessel satellite tracking information suggests there are 1 Very Large Crude Carrier (VLCC), 11 Suezmaxes, 11 AFRAs/Long Range 2s (LR2s), 6 Long Range 1s (LR1s) and 23 Medium Range (MR) tankers at anchorage around the Canal. The SUMED pipeline provides an alternative route for Middle Eastern crude to be delivered to the Mediterranean, but that is not available for volumes in the products sector, meaning that earnings may rise more sharply there. The impact upon freight rates has been immediate. By way of example, freight futures have risen sharply: the TD20 (based upon the Baltic Exchange Index to TD20 West Africa – UK Continent) rose 8% on 25 March in anticipation of crude sourced in Nigeria displacing volumes from the Middle East.

Dry bulk carriers accounted for about 13% of the total traffic in terms of volume of cargo, but 22% in terms of the number of ships transiting the Canal. The largest dry bulk commodity shipped via the Suez Canal is the cereal/grain category. Other major dry bulk cargoes that transit the canal are ores, coal, steel products and fertilisers.

Many bulkers are serving markets in the Black Sea: Capes taking Ukrainian Iron ore, Panamax vessels hauling grains, both heading east of Suez. Grain and coal shipped from US east coast ports are also frequently routed through the Suez Canal. 4.7% of total Panamax trade has transited the Suez Canal year to date (see diagram below).



Source: Source Braemar ACM report

The Near- and Longer-Term Outlook

Based upon booking data for the Suez Canal, at the end of 26 March there will be 289 ships waiting for transit. This will rise to 549 ships at the end of the month. Assuming transits recommence on 1 April – and there is no certainty around this at the time of writing – at the previous rate of 50 ships per day (which discounts the likelihood of transits being made at slower sailing speeds for safety reasons), it will take 12 days to clear the backlog.

The *Ever Given* is not the first ship to block the Suez Canal and she probably will not be the last. Without understanding the precise duration of the blockage, it is impossible to estimate its precise impact on the freight market accurately. However, the longer the closure, the deeper the impact will be. A prolonged closure would not only restrict tonnage supply due to vessels being stuck at or near the canal, but also due to the rerouting of many vessels around Africa spiking tonne miles, constraining global vessel capacity supply, increasing fleet utilization and ultimately supporting freight rates.

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Additional Research Sources: Fearnley Securities, Arrow Shipbroking Group, Arctic Securities, DnB Markets