

Low freight rates to hit Maersk revenue

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A European bank has delivered a sobering assessment of Maersk Line's prospects for early 2009. The Icelandic bank Kaupthing issued a report that said the decline in consumer spending will propel freight rates down, significantly hurting revenue for the world's biggest container line.

"We believe (first quarter 2009) will be a disastrous quarter for Maersk Line, with negative demand growth and a collapse in all-in freight rates of at least 20 per cent (year-on-year), and possibly 25 per cent," the report said. "We see dismal trade growth figures ahead, with a clear negative impact on contract negotiation, and we see no immediate positive triggers in sight."

The report warned of negative Chinese and Japanese export growth in the first quarter, prospects that will hurt Maersk as it enters into contract negotiations in spring. "We believe [first half 2009] will mark the absolute low point in terms of cargo volume contraction and freight rates, the report said. Both on the export side of the container trade and on the import side of the container trade, leading indicators for trade activity show that a massive deceleration in trade growth lies ahead of us. Unfortunately for container liners, deceleration in trade growth culminates just at a point in time when negotiations for next year's container freight rates are at the most crucial stages."

The report said three factors will prevent a quick rebound for Maersk in 2009.

"There is no new China waiting to boost global outsourcing trend as in 2002-2007 following China's WTO membership," the report said.

"There will not likely be a quick recovery for the US and Europe housing sectors despite lower interest rates as a large supply of houses and excessive borrowing in 2003-2007 will have to be corrected before any rebound in imports is seen. There is a clear risk the US consumer will begin to save instead of borrowing as falling house prices and stock markets reduce the US consumer's net wealth and savings for pensions." The report also said the impact of lower oil prices will be felt less by Maersk since it has significant oil activities, a business that acted as a hedge for the group when oil prices were high. Maersk will rein in spending due to the global economic slowdown.

In a letter to employees earlier this month in the company's in-house magazine, Maersk Post, Chief Executive Officer Nils S Andersen said the company must adapt to the lack of capital. "So, we have decided we will run our business the next couple of years in a way where we do not need additional funds from banks."

Despite the bank's prediction that freight rates will fall, the Transpacific Stabilisation Agreement also suggested last week that no one must expect the low rates to be extended during the 2009-2010 season.

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