FORTUNA THE FINANCIAL EXPRESS CIRRUS

Mon, 08 Aug-22; Financial Express - Delhi; Size : 463 sq.cm.;
Circulation:85000; Page : 2

Shipping lines face margin pressure as freight rates fall

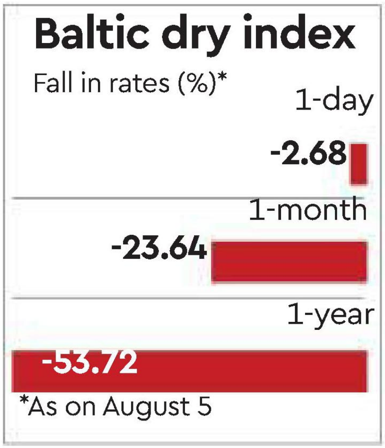
SURYA SARATHI RAY
New Delhi, August 7

AS FREIGHT RATES continue to fall, profitability of the bulk cargo shipping carriers such as Great Eastern Shipping and state-run Shipping Corporation of India (SCI) may take a dip in the current quarter.

The Baltic Dry index, which provides a benchmark for sea freight of moving major raw materials stood at 1,560 points on Friday, its lowest point since February as demand remained weak across all vessel categories amid the uncertainty around global economic growth. The index, which takes into account 23 different shipping routes, has declined by 23% in last one month and 53% in a year.

GE Shipping's CFO G Shivakumar said rates are falling as congestion in Chinese ports eased while cargo demand ebbed as a fallout of the recessionary trends across economies.

"The moderation in rates in recent times has been due to factors like slowdown in global iron ore and agriculture trades and subdued demand from China. The Russia-Ukraine conflict has also impacted the trade as grain transportation from Ukraine has been impacted," said Sai Krishna, VP, Icra. China is the major driver of dry bulk trade.



Krishna, however, said despite the fall, the current sea freight rates are still higher than in 2018 to 2020. In 2021, rates had increased significantly due to various issues, including disruptions caused by Covid-19 pandemic, including congestion and changes in global supply chain and trade patterns.

While the moderation will result in reduction in freight cost for dry bulk customers, sources said since freight forms a small part overall, it is not going to create much competitive advantage.

The movement of the rates is highly linked to demand in China, since it consumes and exports bulk of the dry material.

"It all depends on what happens in China. If China recovers from Covid quickly and economic activities gather pace, then it can drive up the rates," Shivakumar said. Krishna said several factors, including developments on Russia-Ukraine conflict and recovery in demand from China will have a bearing on the rates in the short-term.

Due to sanctions imposed on Russia in the wake of conflict, there will be changes in trade patterns as Europe and Japan, among others, try to substitute the Russian commodities like coal etc from other regions, which will also have an impact on the rates, Krishna said.