Red Sea Greens to Chinese New Year Blues: Where are container spot prices headed?

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As the Chinese New Year Blues unfold, with the "Year of the Dragon" being celebrated from the 10th to the 15th of February, 2024, the container spot rates finally seem to have given up their green sprints that commenced on account of the Red Sea disruption. Or have they? What could be in store going forward, for the rates?

The 45-day period from 15 December 2023 to 31 January 2024 saw the World Composite Index logging over 138% in terms of gains. The Red-Sea supply chain disruption leading to the re-routings away from Suez Canal splurged rates across the board, especially in the Asia-Europe and Asia-Mediterranean trade sectors, While Asia-Mediterranean rates surpassed USD 6,300 and appreciated by 275% since 15 December 2023, the Asia-Europe rates hit the US$5,000 mark and appreciated by 245% in the same time frame. The Aisa- US East Coast Trade appreciated by 115% as well, over the 45 days.

However, there were murmurs and voices in the market on how lopsided the increase was over the past 45 days despite the re-routing which would add about 3,500 nautical miles, with many services pared down and about 14 days added to transit, with many key ports across the breadth of the African continent logging in waiting times running into double digits in terms of number of days. The analyses and commentary talked about the creation of artificial demand too while also exploring alternatives such as the Sea + Air modes. While the global composite rise in air prices hasn't been much, the Africa- North America unit air freight prices have soared by 42% over the past month (Based on data from Freightos). The backhaul rates too witnessed a surge with Europe-Asia rates testing the four digits after a record 16 months.

With the Chinese New Year impasse long expected, there could have been an imminent rush to stock in on arrivals from Asia in the event of the situation getting worse/ a status quo being imposed, but as the holidays are upon us, the sprint has appeared to cool off, with all key indices registering a dip for their first quote of February 2024. The Drewry World Composite Index reversed 4% last week to end at USD 3,824. The downside charge was led by the very same trade lanes that fueled the upside with Asia-Europe, Asia-Mediterranean and the Europe-Asia (backhaul) trades registering 6-8% worth of weekly losses. The Asia- North America trade though maintained its footing with the West Coast bound trade prices appreciating 2% while those to the East Coast rose nearly 0.5%. The spot quotes from Freightos and Xeneta too mimicked the movements. Drewry commented the 'plateauing' scenario to last with the factory shut-downs going forward. Interestingly though the Chinse Manufacturing data has been mildly stable with the PMI indicating a flattish 52.7 for January 2024.

There could be a possible erosion of gains over this 45-day cycle from 1 February 2024, as an attempt to right-size the surge of the last 45 days, though, not an exact reversal, considering that the demand dynamics haven't exactly boomed. This should be followed by rate activities from the carriers, which will see the induction of General Rate Increases (GRI). However, as the Suez re-routings continue the impact of added costs in the form of surcharges and insurance premiums will keep playing a role in the pricing as will the added transit times. The easiest and recommended way would be to have a look-ahead horizon of critical items to be shipped and factor the supply chain(s) for all sorts of contingencies.

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