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Ocean freight container shipping market set to surpass Red Sea crisis peak and hit levels not seen since Covid-19 pandemic

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Ocean freight container shipping spot rates are set to exceed the level seen at the height of the Red Sea crisis when the latest round of increases hit the market on 1 June, according to the latest data released by Xeneta today, Thursday.

Peter Sand, Xeneta Chief Analyst, said: "The ocean freight container shipping market has seen rapid and dramatic increases during May and that is set to continue with further growth in spot rates.

"On 1 June, spot rates will reach a level we haven't seen since 2022 when the Covid-19 pandemic was still wreaking chaos across ocean freight supply chains.

"There is a cocktail of uncertainty and disruption across global ocean freight supply chains at present and this is fuelling the spot rate increases. However, it is the speed and magnitude of this recent spike that has taken the market by surprise – including the CEOs of the world's biggest ocean freight liner companies."

Market increases in numbers:

From the Far East to US West Coast, market average spot rates are expected to reach USD 5 170 per FEU on June 1, which would surpass the Red Sea crisis peak of USD 4820 seen on 1 February. This is an increase of 57% during May and the highest spot rates have been on this trade for 640 days.

From the Far East to US East Coast, spot rates are expected to reach USD 6 250 per FEU on 1 June, only slightly shy of the Red Sea crisis peak of USD 6 260 and an increase of 50% since 29 April.

Spot rates are also set to exceed the Red Sea crisis peak on the Far East to North Europe trade, reaching USD 5280 per FEU on 1 June compared to USD 4 839 on 16 February. This will be the highest rates have been on this trade for 596 days and an increase of 63% since 29 April.

It is a similar story on the Far East to Mediterranean trade where spot rates are expected to edge past the Red Sea crisis peak of USD 5985 per FEU on 16 January to reach USD 6175 on 1 June. This would be an increase of 46% during May and the highest rates have been on the trade for 610 days.

Factors behind the recent spike in ocean freight container spot rates

The latest data released by Xeneta – the ocean and freight rate benchmarking and intelligence platform – indicates the market is heavily impacted by a cocktail of factors including ongoing conflict in the Red Sea, port congestion and shippers deciding to frontload imports ahead of the traditional peak season in Q3.

Sand said: "Importers have learned lessons from the pandemic and the most straightforward way to protect supply chains is to ship as many of your goods as you can as quickly as possible. That is what we are seeing with some businesses telling us they are already shipping cargo for the Christmas period in May.

'The early arrival of peak season is adding to the cocktail of uncertainty in the market. Back at the start of 2024 you could point to the Red Sea crisis as the root cause of spot rate increases, this time around it is far more nuanced.

"Ocean freight carriers have tried to remedy the diversions in the Red Sea by increasing transshipments in the Western Mediterranean as well as in Asia, but this has led to severe port congestion in several hubs.

"Carriers have tried to re-align capacity from other major trades to cope with longer sailing distances around the Cape of Good Hope on services from the Far East to Europe and US East Coast, but this has contributed to rates increasing on trades such as the Transpacific, which do not transit the Suez Canal.

"Everywhere you look there are knock-on impacts and unintended consequences which only serves to fan the flames of uncertainty across the ocean freight container shipping industry."

While the latest spot rate increases on 1 June is further bad news for shippers, Sand believes there is some cause for optimism.

He said: "While average spot rates will increase again on 1 June, the growth is not as rapid as it was during May, which may hint towards a slight easing in the situation.

"This cannot come soon enough for shippers who are already having their cargo rolled, even for containers being moved on long term contracts signed only a matter of weeks ago.

"Carriers will prioritize shippers paying the highest rates. That means cargo belonging to shippers paying lower rates on long term contracts is at risk of being left at the port. It happened during the Covid-19 pandemic and it is happening again now.

"We are also seeing freight forwarders being hit with new surcharges and being pushed onto premium services to have space guaranteed onboard ships. In such cases they have no other option than to pass these costs on directly to their shipper customers.

"Carriers will continue to push for higher and higher freight rates so the situation may get worse for shippers before it gets better."

Source: Xeneta