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Early birds hit by spot rate boom

Christmas has come early for the shipping lines with peak season arriving ahead of its usual scheduled slot in August to September. Rate levels tell their own story as demand and congestion have seen rates leap to over 350% higher in some trades, and the rates, far from stalling, are continuing to rise.

Nick Savvides | Jun 14, 2024

Red Sea diversions have caused congestion and capacity shortages in Europe, similar to those seen on the US West Coast during the pandemic. With no solution to the effective blockade of the Suez route, shippers have attempted to ship what freight they can early to avoid the disappointments seen in the US trades two years ago.

Even so, Hong Kong consultant Linerlytica reports: “The strong cargo volumes this year have caught the market by surprise, but the peak season cargo surge could bring further pain to the market already over-stretched by a shortage of vessel capacity and box equipment."

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Some 51 ships of 101,000 teu, 0.3% of the global fleet, are idle, according to the consultant's statistics, and another 46 ships of over 276,000 teu were delivered in the last 30 days, but still a shortage of capacity persists.

"The tight container market is expected to last for at least three more months, as monthly container cargo volumes could rise by another 5% to 10% due to seasonal demand which historically peaks in August based on the analysis of cargo volumes at US ports over the last 15 years," said Linerlytica.

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A quick glance at Drewry Shipping Consultants' latest rate reports reveals where the epicentre of this rate-quake is, with the cost of shipping a 40ft from Shanghai to Rotterdam, 358% higher today than it was last year.

The ripple effect has seen freight levels to Genoa up year-on-year by 222%, China to LA up 245%, but the Atlantic trades are down both east and westbound, 18% and 34% respectively.
Drewrys' composite index is continuing to increase too, 2% to $4,801/feu this week alone, while the average composite index for the year-to-date is $3,443/feu, $707 higher than the 10-year average rate of $2,736, which was inflated by the exceptional 2020-22 Covid period.

Peter Sand, Xeneta's chief analyst pointed to the charter market, which reflects the spot rate situation, saying that charter rates for container vessels had increased "by 100% since mid-December," when the Red Sea crisis began.

Supply chains are experiencing congestion as diverted ships, travelling around the African Cape, were knocked off their schedules, with bunched arrivals, European ports were unable to cope with sudden influx of mega-vessels, backing up ships, delaying empty returns, and forcing west Med terminals, not designed for transhipment, to handle freight destined for the eastern Mediterranean, normally delivered by traffic passing through Suez en route to North Europe.

“Carriers have brought in bigger feeders to relieve some of the pressure on European terminals,” said Sand.

With no solution in the Middle East conflict imminent, there is no indication that these measures will move the dial on rates until late September at the earliest, when demand is expected to ease.
