The Bottom Line

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SKY-HIGH FREIGHT RATES POSSIBLY SHOWING SIGNS OF NORMALIZATION

Summary

After over a year of constant gains, skyrocketing freight rates on routes between China and the US have eased in the past month.

Background

The transportation industry has moved from one crisis to the next for the last twenty months. Congestion at ports started to push up costs with shipping lines charging extra "to compensate for longer waiting times". In December 2020, spot freight rates were 264% higher for the Asia to North Europe route, compared with December 2019. To mitigate equipment imbalances, ocean carriers adopted an aggressive strategy for European and US exports - temporarily suspending bookings, preferring to fill backhaul ships with as much empty equipment as possible. Exacerbating pressure on ocean freight, in January of 2021 the amount of available airlift for cargo was 19.5% less than 2019. That's the result of a 49% plunge in international belly hold cargo capacity combined with a 29% hike in freighter capacity.

Delays and container repositioning challenges have led to spot rates at multi-year highs and space on ships at a premium. COVID-related shutdowns in several Chinese ports and increasing infections in manufacturing centers around Asia have exacerbated the problem, in spite of hopes that as vaccinations increased, pressures on transportation and supply would decrease.

Current Status

On the busy Shanghai-to-Los Angeles trade route, the rate for a 40-foot container sank by almost $1,000 the first week of October to $11,173, an 8.2% drop from the last week of September. This was the steepest weekly fall since March 2020, according to Drewry. Another gauge from Freightos, which includes premiums and surcharges, showed a nearly 11% plunge for East Coast rates, to $16,004, the fourth consecutive decline.

"It's possible some reduction in available supply is curbing container demand and freeing up some of the additional capacity that carriers have added during peak season," Judah Levine, group head of research at Hong Kong-based Freightos said. "It is also possible that — with ocean delays making it increasingly unlikely that shipments not already moving will make it in time for the holidays — the price drop also shows that the peak of peak season is behind us."

The news isn't all consistent and good, however. Drewry's composite World Container Index (WCI), across eight major East-West trades, inched down by 2.2% this week reaching $10,129.72 per 40ft container, but is 289% higher than the same week in 2020. Drewry's also shows Asia-US West Coast prices increasing 4% to $16,749/FEU and Asia-US East Coast prices climbing 4% to $19,429/FEU.

Impact

"The question is, what is (the rate) going to be in a month from now, or two months, three months?" said Shabsie Levy, founder and CEO of New York-based freight forwarder Shifl. "Who knows? I highly doubt we're going to see $20,000 again; I think this is somewhat of a trajectory towards stabilization and eventually getting back into normalization in the industry." As China returns from Golden Week, market sources anticipate a rush of cargo with bookings leading up to the Chinese New Year on Feb. 1. "Golden Week has just given ports a bit of time to recover – all eyes on new year for further downside, Chinese New Year is when we should see the wheels come off," said a freight forwarder. "Demand is falling slightly, everyone has already booked their Christmas goods so no reason to see further strength from here."

RESOURCES

Container Shipping Rates Drift Lower After a Record-Setting Climb (Bloomberg)

Transpacific Ocean Rates at Tw-Month Low (Lloyd's Loading List)

Container Rates Slip but Conditions Remain Challenging for Exporters (The Packer)

North Asia to USWC Rates Lower as Short-Term Capacity Relieves Supply Shortfalls (Hellenic Shipping News)

China-US Cargo Rates Drop from Record Highs in Boost for Bilateral Trade (Global Times)