Red Sea-Suez crisis quadruples Asia-Europe & Med rates

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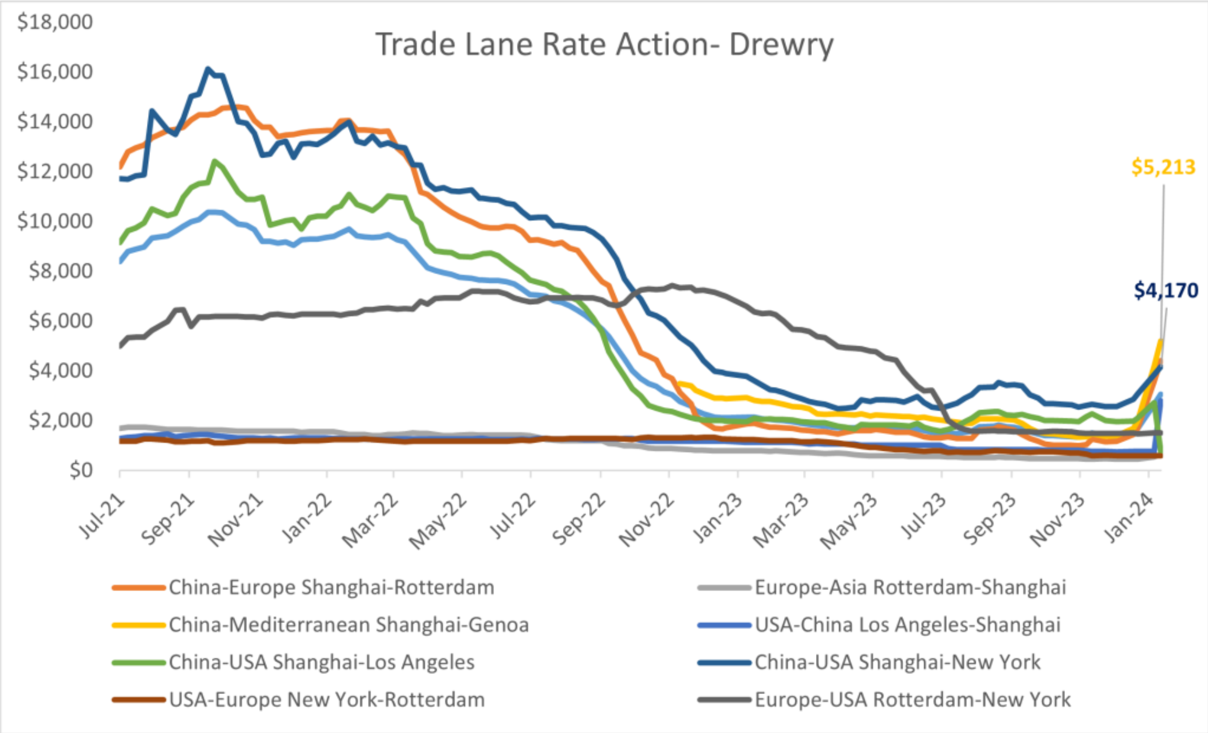
About 90% of all the containerized fleet that would have ideally taken the Suez Canal have now re-routed via the Cape of Good Hope. And the impact? Rates quadrupling on the Asia- Europe and Asia-Mediterranean trade. The latter just topped the US$5,000 mark to end at USD 5,213 while the Asia-Europe rates rounded off around the US$4,500 mark.

Interestingly both the trade lane quotes have beaten the Asia- America East Coast rates which ended at US$4,170, nearly doubling since the Panama Canal passage restrictions. The combined effect of these has pulled the Drewry World Composite Index up by 85% in a fortnight to end at US$3,072 which was last seen around the end of October 2021. This indicates staving off the entire fall of 2023.



The market expects the supply chain disruptions to continue soon and Drewry aligns their commentary on similar lines with the rates expected to inch higher. With the Chinese New Year in February seen as a key point in time to monitor and recalibrate and see where the rate actions would head, some of the other features that need to be looked into, include how the introduction of EU-ETS and associated surcharges on shipping would come into play.

The re-routing has affected the port handling scenarios too with the key South African Ports of Durban and Cape Town running into double-digit days, in terms of waiting time. On the carrier front, the likes of CMA CGM and MSC have joined the other biggies in suspending transit via the Red Sea.

While the head-haul rates continue to dictate the market, the back-haul rates have appreciated by a fair margin too. The Europe-Asia rates have appreciated by 40% over a quarter while the Asia- US West Coast, the head-haul trade route with the least possible impact has still appreciated by 33% in a fortnight. Should the situation continue, it remains to be seen if the American Rail system would be tapped into, to effectively reduce the end-to-end supply chain cycle time.

A key point to ponder is the effect the rate action can have on the contract market as it readjusts next quarter. And while the rates are forecasted to have double-digit percentage gains in the coming weeks, the one thing that will see all heads talk about is global macroeconomics and inflationary shocks in the near term. The World Bank has officially put in a word of caution on the ongoing geopolitical volatility by also adding the possibility of energy supplies being disrupted.

A well-defined lookahead in terms of critical orders, demands and needs should be sketched to tackle this situation and this should involve all possible stakeholders in the fray.

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