Container spot rates rocket even higher as Red Sea crisis drags on

Excluding COVID era, container spot rates now highest on record

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No sign of security in the Red Sea: A Houthi suicide drone hit the bulk carrier Genco Picardy on Wednesday. (Photo: Indian Navy)

It's now crystal clear that container ships will not return to the Red Sea anytime soon. Lengthy detours around the Cape of Good Hope have already pushed spot container rates far above pre-COVID levels, and rates continue to climb.

Yet another commercial ship was hit by Houthi rebels on Wednesday, the bulk carrier Genco Picardy, owned by New York-based Genco Shipping & Trading (NYSE: GNK). This was followed by another barrage of coalition airstrikes in Yemen, then more Houthi attacks on shipping on Thursday.

The Drewry World Container Index (WCI) Global Composite jumped to $3,777 per forty-foot equivalent unit for the week ended Thursday. It's now up 173% year to date.

With the exception of the COVID boom period in December 2020 through October 2022, this week's global spot-rate reading is the highest on record since the WCI debuted in June 2011.

This was supposed to be a terrible year for container lines, courtesy of a tidal wave of newbuilding deliveries. According to Alphaliner, 2.3 million TEUs of new capacity were delivered last year, with an additional 3.2 million TEUs set to arrive in 2024.

But ocean shipping rates are acutely exposed to geopolitical events. The Houthi attacks, which have forced container ships to reroute en masse around Africa's Cape of Good Hope, changed the supply-demand equation. Linerlytica now predicts "windfall earnings for carriers in Q1 2024."

Connor Helm, Flexport's manager of ocean procurement, said during a Flexport presentation on Thursday: "Carriers are committed to going around the Cape of Good Hope. They're no longer waiting to see if this situation is going to be mitigated. It's very clear that this is going to be a kind of long-term situation and carriers are reacting that way."

'A global-network-impacting event'

The majority of the world’s containers move under contract rates, not spot rates. However, rising spot rates will boost contract rates negotiated this year.

And even though legacy contract rates are currently much lower than spot rates, shipping lines are jacking up contract revenues with emergency fees that bring contract rates closer to spot.

All of the indexes are showing a spike in spot rates this month — not just in the lanes directly affected by Red Sea diversions, but also in trades that are not, such as the Asia-West Coast trade.

“The Red Sea impact is most disruptive on the Far East westbound, India and Middle East trades, but have no doubt, it is a global-network-impacting event and it has brought instability to the TPEB [trans-Pacific eastbound] trade as well,” said Kyle Beaulieu, Flexport’s head of trans-Pacific, during Thursday’s presentation.

According to Nathan Strang, Flexport’s director of ocean freight for the U.S. Southwest, shipping lines “really have to support those Cape of Good Hope transits. They’re not able to shift more service [to the West Coast]. So, if you are going to look to the West Coast, you have to start booking that capacity as soon as possible.”

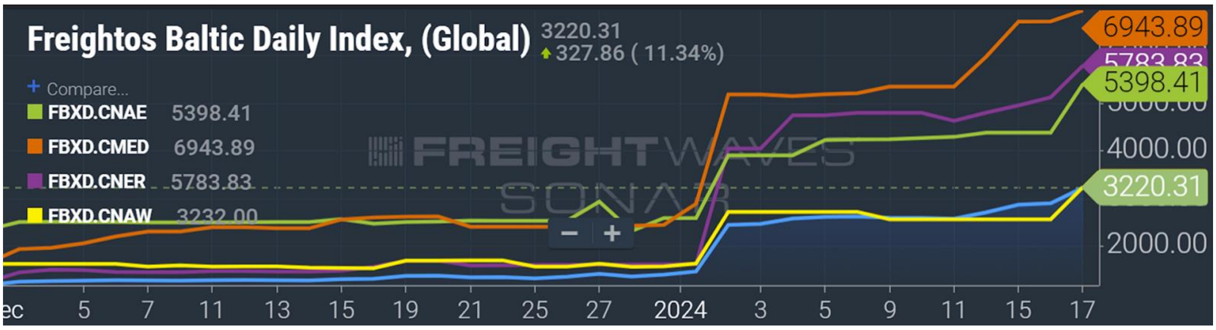
FBX global index up 131% year to date

The Freightos Baltic Daily Index (FBX) posted yet another jump on Wednesday, on top of soaring gains since the end of last year.

The FBX global average hit $3,220 per FEU on Wednesday, up 131% year to date.

The Asia-Europe trade is most exposed to the Red Sea crisis. The FBX Asia-Mediterranean index, at $6,944 per FEU, was 2.4 times its Dec. 31 reading.

The FBX Asia-Northern Europe index was 3.6 times higher than at the end of last year, at $5,784 per FEU.



Spot rate in USD per FEU. Blue line: global average. Orange line: China-Mediterranean. Purple line: China-North Europe. Green line: China-East Coast. Yellow line: China-West Coast. (Chart: FreightWaves SONAR)

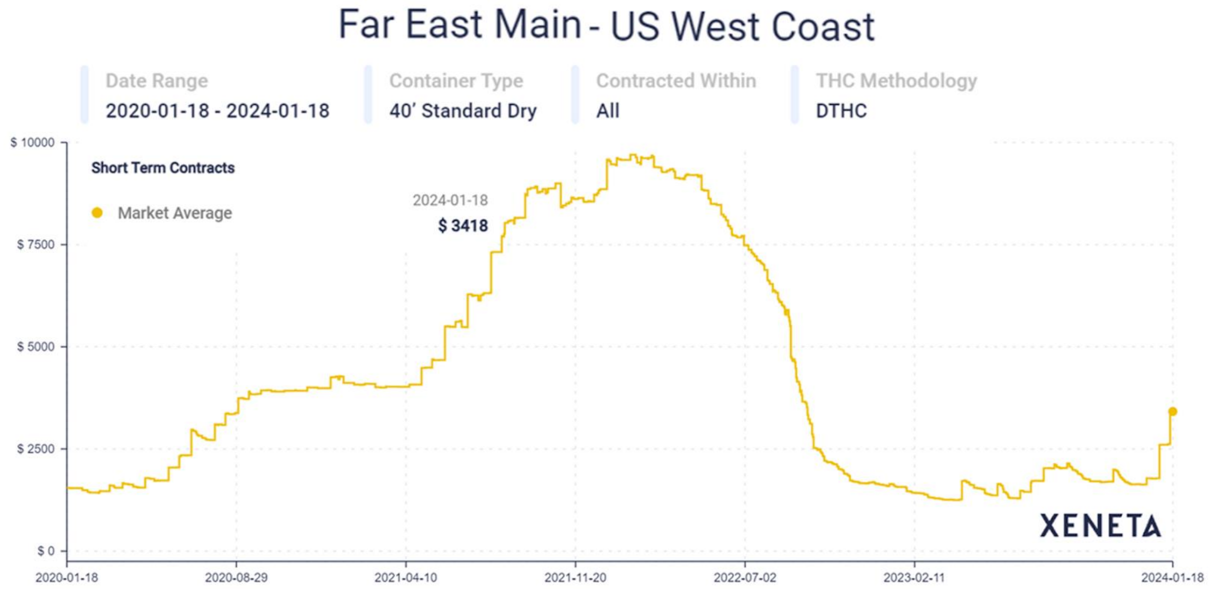
FBX Asia-U.S. rates have doubled year to date.

Asia-East Coast rates are directly exposed to Red Sea diversions because many services had previously rerouted from the drought-stricken Panama Canal to the Suez Canal. The FBX China-East Coast assessment had risen to $5,398 per FEU on Wednesday. The FBX China-West Coast rate had risen to $3,232 per FEU.

West Coast rates more than double pre-COVID levels

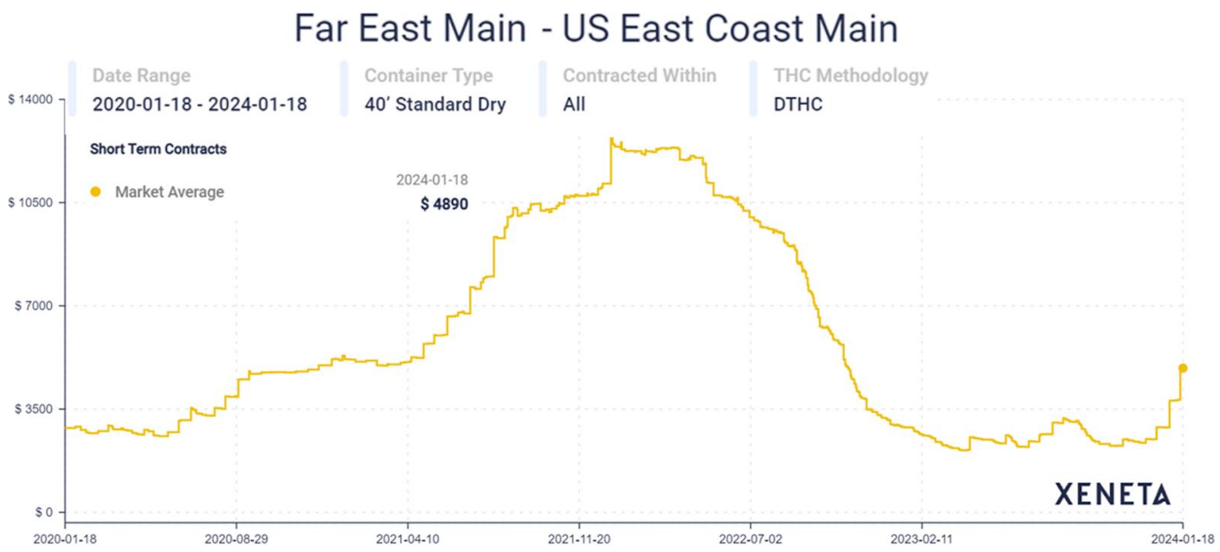
Rate data from Xeneta highlights how the Red Sea crisis is having a major knock-on effect on services that are not detouring around the Cape of Good Hope.

Xeneta assessed average Far East-West Coast short-term rates at $3,418 per FEU on Thursday, 2.2 times the average on the same day in 2020, pre-COVID.



Average short-term rate in USD per FEU. (Chart: Xeneta)

Xeneta put average short-term rates in the Far East-East Coast trade at $4,890 per FEU, up 71% from the same time in January 2020.



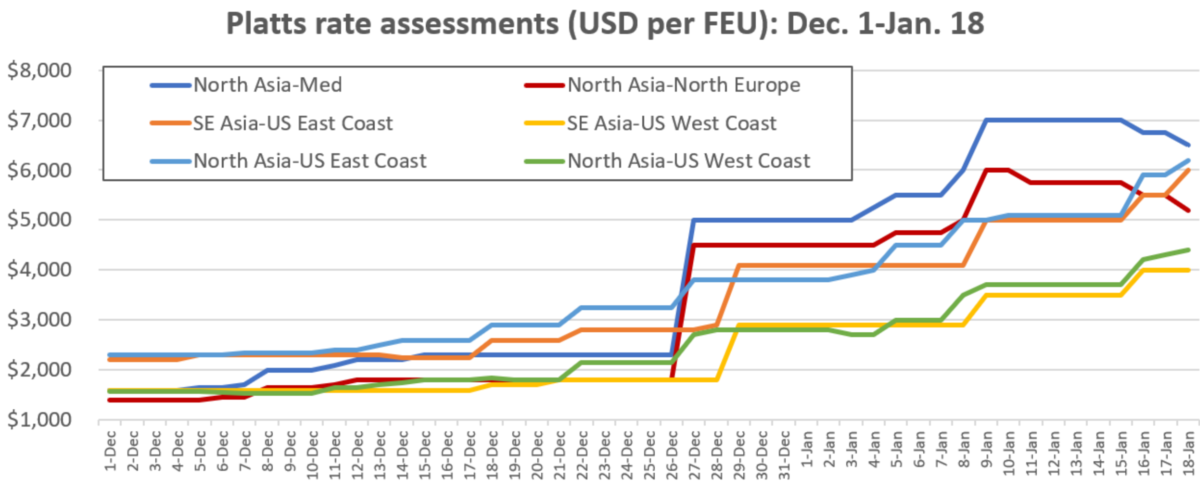
Average short-term rate in USD per FEU. (Chart: Xeneta)

Asia-Europe rates quadrupled since Dec. 1

Data from Platts, a division of S&P Global (NYSE: SPGI), shows the same escalating rate trend.

Platts put Thursday's North Asia-Mediterranean rate at $6,500 per FEU, and the North Asia-North Europe rate at $5,200 per TEU. In both cases, rates have roughly quadrupled since Dec. 1.

Asia-U.S. rates are now around 2.7 times Dec. 1 levels, according to Platts data. Its latest assessment is $6,000 per FEU for Southeast Asia-U.S. East Coast, $6,200 per FEU for North Asia-U.S. East Coast, $4,000 per FEU for Southeast Asia-West Coast and $4,400 per FEU for North Asia-U.S. West Coast.



(Chart: FreightWaves based on Platts data)