CONTAINER NEWS

Spot rates bottoming out, but contract rates to rise in tandem with costs

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Lars Jensen, CEO of Vespucci Maritime / Credit: Vespucci Maritime

While spot container freight rates appear to have peaked, contract rates are expected to go up to reflect the increased costs of sailing round the Cape of Good Hope, according to Vespucci Maritime's CEO Lars Jensen in the Baltic Exchange's latest report.

On 2 February, the Shanghai Containerised Freight Index (SCFI) showed that for the third consecutive week, there were rate corrections for the Shanghai-North Europe and Shanghai-Mediterranean trades, which were most affected by the Red Sea crisis.

Shanghai-North Europe rates declined by 5% from the previous week to US$2,723 per TEU, while Shanghai-Mediterranean rates corrected by 4%, to US$3,753 per TEU.

Jensen suggested that European importers might have learnt from the logistical bottlenecks that pushed rates up during the Covid-19 pandemic, as back then, many underestimated the pressure we would see on capacity due to service disruptions.

He wrote: "This time around, it might be a little different. We have already hit the peak of disruptive impact. Vessels that needed extra-long detours to go around Africa have now completed those journeys. The empty container shortfall that could be expected in China likely reached an apex in terms of magnitude already in mid-January. As such, the momentum for rates to spike even further on account of fear of worse to come has waned.

"The other element to keep in mind is that we are in the last week of usual peak run-up to Chinese New Year. Seasonally, rates are supposed to go up and hence the positive momentum on the Pacific comes to some degree from this. In that context it is more remarkable that the Asia-Europe rates are already flatlining – in itself another indication that the disruption of capacity is not as severe as feared."

Jensen said that rates would not plunge to the lows seen prior to the Red Sea crisis that diverted 90% of Asia-Europe tonnage to the Cape of Good Hope. Liner operators are thus likely to capitalise by hiking contract rates.

He said: "There will be an upwards momentum on new contract rates as these now also need to reflect both the added cost of round-Africa services as well as the sudden strengthening of the supply/demand balance in favour of the carriers."

Transpacific rates, however, are still holding up. On 2 February, Shanghai-US West Coast gained 13% to US$5,005 per FEU, while Shanghai-US East Coast rose 4% to US$6,652 per FEU.

Jensen explained: “The disruptions hit a much smaller amount of the total US imports, and an obvious way to circumvent the problem is to re-route cargo to US West Coast (the faster route) – in turn acting as a push upwards for rates there.”

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