Seatrade Maritime
NEWS

Container shipping market outlook for H2 2024

Spot container freight rates have surged to unexpected highs in the first half of 2024 due the Red Sea crisis, what will happen in the remaining months of the year.

Marcus Hand | Jul 18, 2024

In a five-part series mid-year we take stock of shipping markets in the first six months of the year and look ahead to the remainder of the 2024 with experts Maritime Strategies International (MSI).

In this second part the Seatrade Maritime Podcast talked to Daniel Richards from MSI, about the developments in the container shipping market and the outlook for the remainder of the year.

You can listen to the full interview as a podcast in the player above

Why have spot container rates risen much higher than expected?

“There's no doubt that the scale, in particular, of the spot market increases, has been stronger than the consensus, and certainly we expected,” Richards explains.

The delayed and secondary impacts of Red Sea diversions via the Cape of Good Hope have been a lot greater than expected for which MSI sees a mix of drivers, and these include:

- Trade data has been better than expected.

- Demand growth at 6% in the first five months is not much better than MSI had been expecting but he notes, “there is some possibility that volumes have been brought forward as container shippers are trying to anticipate and avoid delays and supply chain problems”.
- The need for additional vessels for African Cape diversions has prevented the addition of extra capacity on unaffected trades.
- Port congestion initially in certain Mediterranean has seen containers piling up in storage yards and congestion spreading to Southeast Asian hubs such as Singapore and Port Klang.

So, it's all combining to take effective supply out of the system. And I think this really points to the final driver, though, which is simply that freight markets now just seem to be far more volatile than they were in the period before the pandemic,” Richards says.

“It does seem that for a select number of shippers, they are willing to pay the premium rates to get their stuff loaded, and that's leading to far more explosive responses in the market.”

Will freight rates hit the levels seen at the height of the pandemic?

Richards says much depends on how long the crisis lasts. “You need to see really sustained strength in the spot markets in order for that to filter through to the new contract negotiations when they come up, generally towards the end of the year and towards the end of Q1 and Q2 on certain trades.”

He explains, “So assuming that there is some normalisation, some softening in the spot markets in the second half of the year, as you move beyond peak season, as new capacity continues to come into the market, then we would expect that lines won't be in quite as strong a position going into doing the next round of contract negotiations with shippers.

“But really in the very near term, certainly further increases are plausible, and for the moment, the market seems fairly unconstrained in terms of how high or how much shippers have seemed to be willing to spend.”

What happens if there is a ceasefire in Gaza and the Houthis stop attacking vessels in the Red Sea?

“We would expect the market to weaken, and generally speaking, the prevailing rate levels you've saw towards the end of 2023 are what we'd expect if you were to see the sailings to resume through the Red Sea, and for that to remain the case,” Richards says.

However, there are questions as to whether the Houthi would stop attacks if there were a ceasefire in Gaza and could be relied to do so on a ongoing basis. There is also a question as to how different lines would react and whether all would decide to return to the Red Sea immediately or adopt a wait and see approach. But a much weaker market would be expected.