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Are container freight rates on a year long slide?

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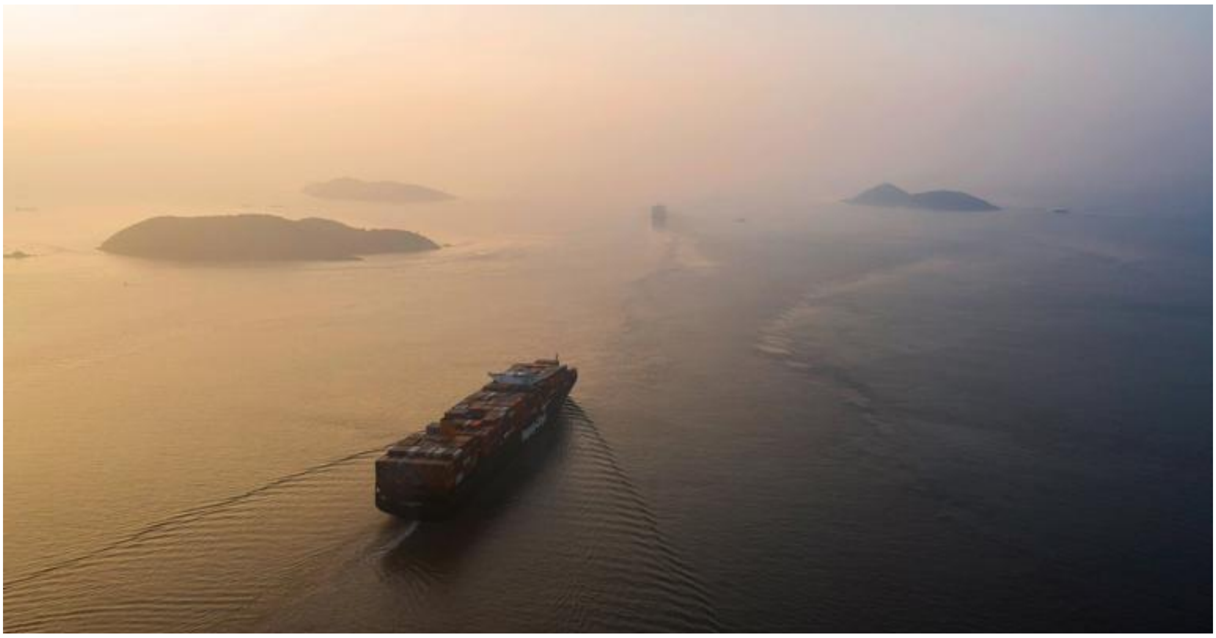

Consultancy Linerlytica says it expects container freight rates to fall by 70% over the next 12 months.

Nick Savvides | Aug 27, 2024

The analyst commented in its latest report that lines had failed to check a 5.6% fall in the Shanghai Container Freight Index (SCFI) last week led by sharp drops on Transpacific and Middle East rates.

Xeneta, however, suggest that the Red Sea crisis would need to end for rates to hit these low levels.

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After hitting a July high, carriers have struggled to arrest the rate deterioration that has followed what appeared to be an early peak season, with demand on the wane and another 36 ships, of just under 205,000 teu, having been delivered in the last month.

According to Linerlytica, "Freight futures continue to weaken, with North Europe rates trading at a discount of over 70% to current spot rates."

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However, it is the long-term contract rates that could have the biggest impact on the global container shipping market."

"Container freight rates are poised to fall by over 70% by June next year, based on the latest CoFIF EC contracts traded on the Shanghai International Energy Exchange (INE). Although the drop is not as severe as the freight rate collapse seen at the end of 2022, current freight futures prices anticipate continuous declines over the coming 12 months, with no rebound expected at the end of this year and no repeat of this year's post Chinese New Year rate rally in 2025," reported Linerlytica.

According to the consultant shipping lines have failed to maintain spot rate levels with the SCFIS falling 12% on the North European trades from July, which has seen a steady 1-3% weekly decline until last week's 7.3% drop.

"The SCFIS, which is a better measure of actual market spot rates, have been dropping continuously since its July peak to the US West Coast in contrast to the SCFI false signal of a rate rebound a week ago, with cumulative losses reaching 38% since July," said Linerlytica.

SCFIS measures rates for exports from Shanghai and four major European ports and three US West Coast ports whereas the SCFI covers a much wider global range of trades from Shanghai.

Another disruptive event, such as the US East Coast dockers' strike set to begin on 1 October if no contract is agreed before then, could boost freight rates again

"The short-lived Canadian rail strike at the end of last week did not result in any material increase in port congestion," although US Pacific northwest ports are struggling to cope with increased inbound rail volumes while the Pacific southwest ports are largely congestion free.

Xeneta's chief analyst Peter Sand believes that a prerequisite for a 70% fall in contract rates will be a resolution to the Red Sea crisis and a return of vessels trading via the Suez Canal.

"It is probable that rates will find a different level," conceded Sand, who qualified that by adding, "But the Red Sea is the one thing that is different from a year ago, when rates were coming down and lines were reporting losses."

Volumes are up, said Sand, but they are on a par with volumes in 2021 and 2022, "this is not a demand driven market," he said.

According to Xeneta, CTS data total volumes, dry and reefer, have increased 6.5% in the first half of 2024 compared to 2019 volumes, from 84.1 million teu in H1-2019 to 89.6 million teu.

In the same period the fleet has increased "a whopping 30.8%" said Sand, quoting Xeneta, Clarksons data, to 29.569 million teu, by the end of H1-2024 from 22.603 million teu in mid-2019.

"As of today: the longer sailing distances due to the Red Sea disruption makes all the difference. From massive overcapacity to a tight market. Xeneta estimates that teu-miles in the first four months of 2024 are up by 18.3% year-on-year, virtually closing the gap between demand and supply - as is clear from the current high contract and spot freight rate levels," concluded Sand.
