Container freight rate plunge set to continue

Container spot freight rates remain significantly higher than last year, but they are still falling fast from this year's highs as threats of disruption and port congestion reduce.

Nick Savvides, Europe correspondent

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File shot of Maersk container shipCredit: Freddy - Pixabay

Drewry's composite World Container Index (WCI) declined by 4% for global rates, but the Asia to Europe and China to US West Coast rates fell by 8% and 5% respectively with only the Atlantic trades showing a meagre 1% rate increase in both directions.

Fears of renewed supply chain disruption have dissipated after the US East Coast port strike at the beginning of October only lasted three days.

"With the USEC uncertainty now out of the way, freight rates are poised to resume their decline after the Chinese Golden Week holidays as excess capacity continues to build up as blanked sailings are reduced this year," reported Linerlytica.

On the supply side of the trade equation the flow of new tonnage from shipyards is continuing unabated with shipbroker Braemar estimating a total of 1,435 container ships having been ordered since 1 January 2021, and "58% of those vessels ordered are classed as post-Panamax or 5,100 teu plus. When looking at the same calculation for the teu capacity ordered, the percentage of post-Panamax capacity ordered since 2021 is 89%," said the broker.

Braemar is forecasting a cascading of vessels as the majority of vessels ordered are larger ships of the neo-panamax types, while the smaller regional ship ordering has not kept up with their larger cousins.

"The supply and demand curve highlights a divergence between the big and small ship sectors. With the majority of the newbuilding investment strongly focussed on larger ships, especially neo-Panamax types, and less buying activity in regional ships, we can only assume that significant cascading of displaced post- Panamax ships to regional trades deploying smaller vessel sizes is in the pipeline," said Braemar in its latest market briefing.

Given the increase in the supply of capacity has outstripped demand, and that the deployment into the Asia to Europe trade via the Cape has now settled, the outlook seems to be turning in favour of shippers again.

Port congestion has in the past been a significant curb on capacity, with vessels queueing for berths, and container dwell times rising and clogging supply chains. However, even this route to rate restoration appears to be fading, with Linerlytica reporting that even the backlog at USEC ports is clearing fast after the three-day stoppage.

Supply chain visibility company Beacon's latest monthly congestion report shows few bottlenecks in the major trade lanes and at major ports, those with volumes of more than 10 million teu.

Beacon said that the weather-related disruption in Bangladesh during September had a limited effect on both Shanghai and Ningbo ports.

"XL ports (those with an annual throughput greater than 10 million teu) have proven their resilience and ability to absorb much of the impact of such events. Despite the weather-related disruptions, both Ningbo and Shanghai ports recorded lower average vessel anchor and container dwell times in September compared to August," said the Beacon report.

Beacon analyses vessel times at anchorage, time spent at the berth and container dwell times to assess the levels of congestion at ports, and that analysis, can be used to assess the propensity for congestion to cause delays and capacity issues, leading to rate hikes.

According to Beacon medium sized ports are the most likely to "feel the effects of the endless series of supply chain crises".

Average anchor times at ports with volumes of between 500,000 and 4 million teu saw average vessel anchor times that were less efficient than their larger counterparts.

"In September, seven of the ten most congested ports (by anchor time) fall into this category. These ports also see more volatility in congestion levels. Looking at the difference between the min and max monthly average anchor times over the past six months, medium sized ports occupy the top three spots: Charleston (3.5 days), Chittagong (3.0 days) and Durban (2.8 days)," said Beacon.