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Home > Ocean freight rates may slide to pre-pandemic levels by end of year: HSBC

Greg Knowler, Senior Europe Editor | Oct 12, 2022 2:21PM EDT

Spot rates on the trans-Pacific and Asia-Europe trade lanes are being pushed below long-term contract levels as volume slows. Photo credit: Shutterstock.com

Container shipping spot rates could hit 2019 levels by the end of the year as vessel demand weakens faster than expected and port congestion eases, according to the latest research note by HSBC.

The global bank Wednesday lowered its 2023 demand estimate and increased its supply expectation for 2022 to 2024 to reflect the unwinding port congestion that is releasing capacity into the market. No actual demand or supply percentages for the trade lanes were provided.

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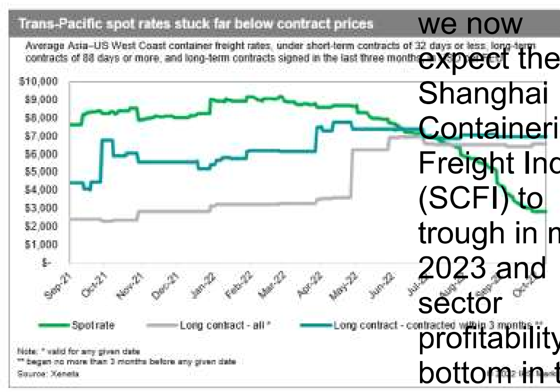

"As a result, we now expect the Shanghai Containerized Freight Index (SCFI) to trough in mid-2023 and sector profitability to bottom in the second half of 2023," HSBC Global Research analyst Parash Jain wrote in the Global Container Shipping report.

SCFI rates have fallen 7.5 percent a week since July and are down a total of 51 percent over that period, well below contract rates, Jain noted.

"We argue (that) weaker-than-expected demand, faster easing of congestion, and price competition to get marginal cargoes led to this decline," he said.

The container shipping orderbook was just shy of 7 million TEU at the beginning of October; 2.6 million TEU of those new ships will be delivered next year and 2.8 million TEU in 2024, according to data from IHS Markit, now part of S&P Global, parent company of JOC.com.

That tonnage, combined with the latent capacity being injected back into the market by improving port congestion, will see the effective net increase in container shipping capacity in 2023 as high as 11.3 percent, according to Drewry. At the same time, Drewry expects demand to grow at just 1.9 percent.

With such a supply-demand imbalance, rates will continue to tumble, Jain noted.

“At this pace of a 7.5 percent week-on-week decline, spot rates may hit the average spot rates of 2019 by the end of 2022, a level where we expect capacity discipline to meaningfully emerge, especially when rates go below cash costs,” he wrote.

Spot rates are already significantly below the contract rates on both the major trade lanes out of Asia.

Average long-term rates on the Asia-US West Coast trade lane valid for 90 days or longer were at $6,591/FEU Wednesday, almost three times higher than the spot rate, according to rate benchmarking platform Xeneta. The spot rate is down 66 percent since the beginning of July with the long-term rate remaining flat as most trans-Pacific contracts were signed in May.

On Asia-North Europe, the spot market is down 46 percent since early July at $3,117/TEU, while the long-term rate is $4,654/TEU.

“Spot rates on the major global trades have fallen to levels not seen since the spring/summer of 2021 and have continued to fall in August and September, despite this traditionally being the height of the peak season,” Xeneta noted in a third-quarter market report released Wednesday.

The drop in spot rates on the trans-Pacific has been much faster than the increase, Xeneta noted. It took 146 days to get from $5,000/FEU to $9,000, whereas on the way down, it took 119 days for the spot rate to fall past the $5,000/FEU mark.

Downside risk

With such a precipitous decline in rate levels, the HSBC report noted that there was “significant downside risk” for carrier profit levels through the next two years. The bank expects carrier third-quarter profits to “remain resilient,” but has predicted a drop in profits beginning in the fourth quarter and extending through 2023.

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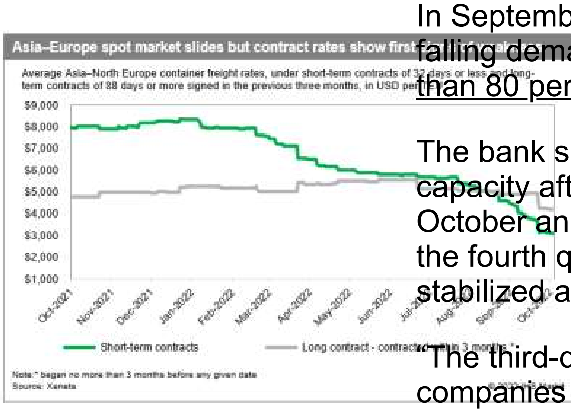

In September, HSBC estimated that overcapacity and falling demand would drive carrier profits down by more than 80 percent over the next two years.

The bank said in Wednesday’s report the reactivation of capacity after the Golden Week period in the first week of October and extended blanked sailings by carriers through the fourth quarter would determine whether rates stabilized any time soon.

“The third-quarter results of shipping and logistics companies (announced from mid-October to mid-November) and potential changes to 2022 guidance may provide (evidence) of whether shipping lines were able to defend their contracts,” Jain wrote.

"Renegotiations of Asia-Europe contract rates in November-December at or above operating costs will signal whether the worst is behind us for container shipping freight rates,” he added.

Christian Roeloffs, co-founder and CEO of visibility provider Container xChange, said the slowing of demand and the excess capacity were the result of disruptions caused by the outbreak and aftermath of the pandemic.

“There is a relatively low orders-to-inventory ratio,” Roeloffs said in a report released Wednesday. “The retailers and the bigger buyers or shippers are more cautious about the outlook on demand and are ordering less. On the other hand, the congestion is easing with vessel waiting times reducing, ports operating at less capacity, and the container turnaround times decreasing, which ultimately frees up the capacity in the market.”

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