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Trans-Pacific rates settling at a shifting bottom: sources

A return to normal seasonal cargo volumes and freight rates will depend upon how quickly and strongly the US economy recovers in 2023. Photo credit: Andrey Sharpilo / Shutterstock.com.

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Bill Mongelluzzo, Senior Editor | Dec 16, 2022, 3:01 PM EST

Freefalling spot rates that dominated the eastbound trans-Pacific trade in October and November appear to have bottomed out in December, and carrier and shipper sources expect rates to move in a narrow range for the next several months.

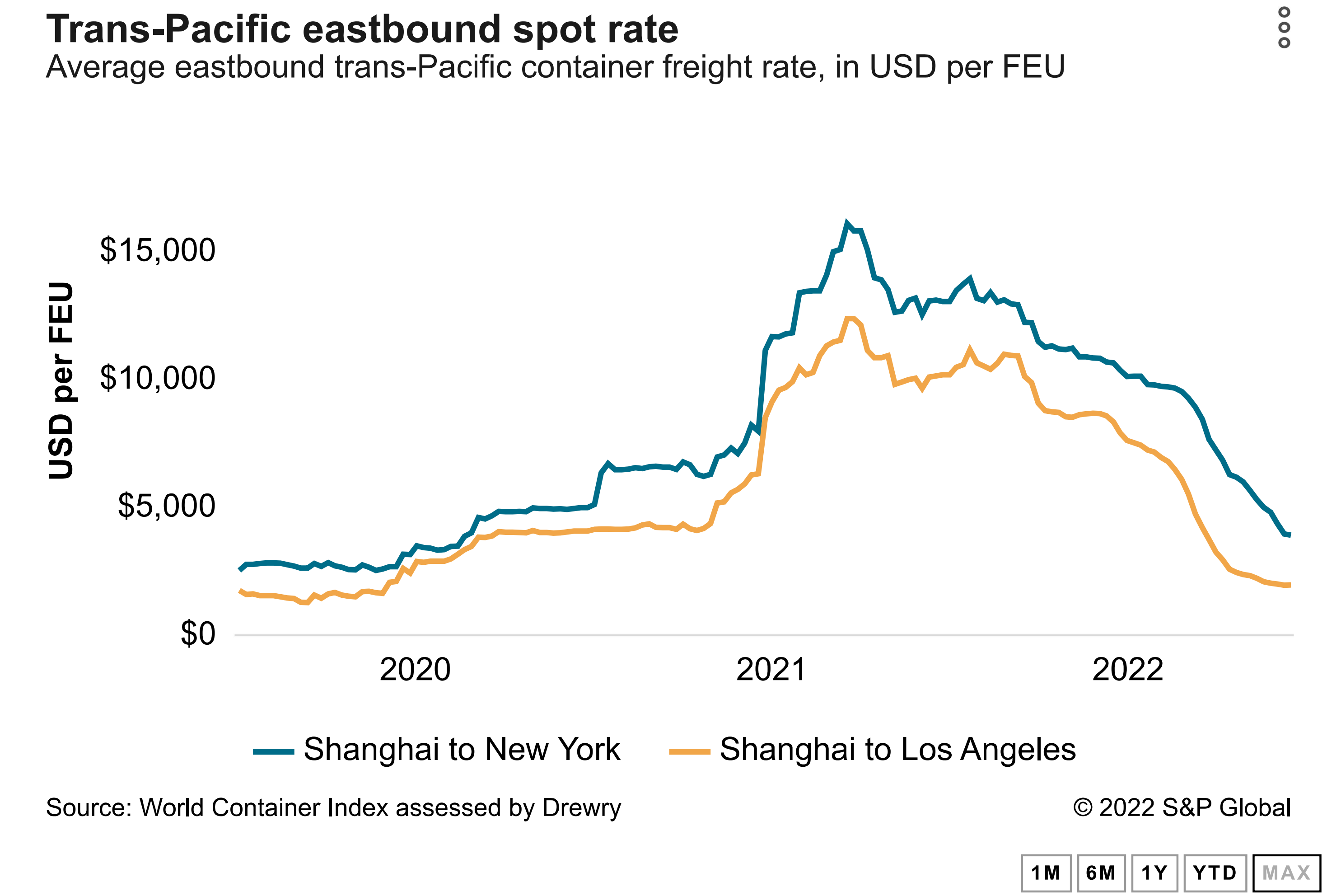
Carrier, forwarder, and shipper executives told the *Journal of Commerce* this week there will be no pre-Lunar Year bump in rates in January because they expect US demand to remain weak while exports from China decline further as factories close early next month for an extended holiday break.

“I would say in the last two to three weeks, we have seen a bottoming out now on those rates and on those rate indexes, and I would expect that to continue for a while into 2023,” Jeremy Nixon, CEO of Ocean Network Express (ONE), told a virtual press conference Wednesday sponsored by the Port of Los Angeles.

Depending on the index, spot rates to the West Coast this week ranged from about $1,700 to $2,000 per FEU, with East Coast spot rates in the range of $3,000 to $4,000 per FEU. Shippers and carriers expect rates will fluctuate in a narrow band over the next several months until normal trade flows return in April or May.

Michael Braun, vice president of customer solutions at rate benchmarking platform Xeneta, said West Coast spot rates this week are averaging about $1,700 per FEU. “I don’t expect a Chinese New Year bump — just flat,” Braun said.

Consultancy Drewry said the Shanghai to Los Angeles rate on Friday was $2,000 per FEU to the West Coast, flat compared with last week, and $3,952 per FEU to the East Coast, down 1 percent week over week. “Drewry expects smaller week-on-week reductions in rates in the next few weeks,” it said.



Even lower spot rates are available on the open market to shippers and non-vessel-operating common carriers (NVOs). Jon Monroe, who serves as a consultant to NVOs, said spot rates as low as $1,200 per FEU to the West Coast and $3,000 per FEU to the East Coast can be found.

"I'm also seeing NVO spot rates at $1,200, and with no Chinese New Year surge, they won't go up anytime soon," said another source, a consultant and former logistics executive for national retailers.

Still, industry sources are confident rates won't collapse from current levels, either. "I don't expect a complete deterioration of the market," Braun said.

Blank sailings didn't come fast enough

Alan Murphy, CEO of Sea-Intelligence Maritime Analysis, told a *Journal of Commerce* webcast Thursday that carriers have been and will continue to cancel sailings in the trans-Pacific, but they have not been able to blank sailings fast enough to keep up with declining cargo volumes. US imports over the past few months have dropped

According to Sea-Intelligence, carriers in the eastbound trans-Pacific blanked 28 percent of total capacity deployed in September, 29.1 percent in October, and 24.3 percent in November. That compares with carriers blanking only 2.1 percent of capacity in September 2019, 12.2 percent in October 2019 and 6.6 percent in November of that year.

Carriers are blanking 21.3 percent of capacity in December, according to Sea-Intelligence. Liners have so far announced blanks totaling 10.1 percent of capacity for January, but that number is likely to increase significantly in the coming weeks. In the current volatile trans-Pacific environment, some carriers have not been giving as much advance notice of intended blankings as they typically do, analysts say.

H2 '23 outlook cloudy

Carriers and industry analysts say the outlook for the rate environment in the second half of 2023 is still quite uncertain. One school of thought calls for a "soft landing" marked by a rebound in consumer demand, inventory corrections by retailers, and a stabilization of inflation and interest rates. In the pessimistic scenario, the US economy experiences a longer, deeper recession, with demand remaining weak until 2024.

ONE's Nixon said if demand picks up in the April-May time frame as some anticipate and continues to increase in the summer-fall peak shipping season, "it will be back to business as usual." But it's still too early to make that call, he added.

However, because cargo volumes fell so dramatically in recent months, past experience shows the rebound could be strong. "If we have a very long period of low cargo volume, that generally means that [recovery] will come later on in higher cargo volumes," Nixon said.

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