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Asia-Europe ocean shippers go to tender in a freight buyers' market

Asia-Europe contracts that run from January to December are currently being negotiated with carriers. Photo credit: ONE.

Greg Knowler, Senior Editor Europe | Oct 30, 2023, 11:34 AM EDT

Cargo owners on Asia-Europe are putting out their tenders for 2024 shipments in an environment where average rates continue to be undermined by a steady stream of capacity being delivered into an already oversupplied westbound trade lane.

It is a particularly acute problem for Asia-Europe because at least 65% of the more than 7 million-TEU order book consists of vessels with a capacity greater than 15,000 TEUs that will mostly be deployed on that trade lane.

Asia-Europe contracts that run from January to December are currently being negotiated with carriers. Despite the significant supply-demand imbalance, rising carrier costs could limit any exploitation of the buyers' market, according to Stanley Smulders, director of marketing and commercial at Ocean Network Express (ONE).

"Nowadays, we have a pretty good system for knowing what financial value we'll get out of any business we control," Smulders told the Xeneta Summit in Amsterdam last week.

"A lot of shipping lines will agree to some business, but not everything if the rate is too low," he added. "This is going to be the real test in the coming months, especially on the Asia-Europe trade where a lot of tenders are going out, and it is going to be interesting to see where rates settle."

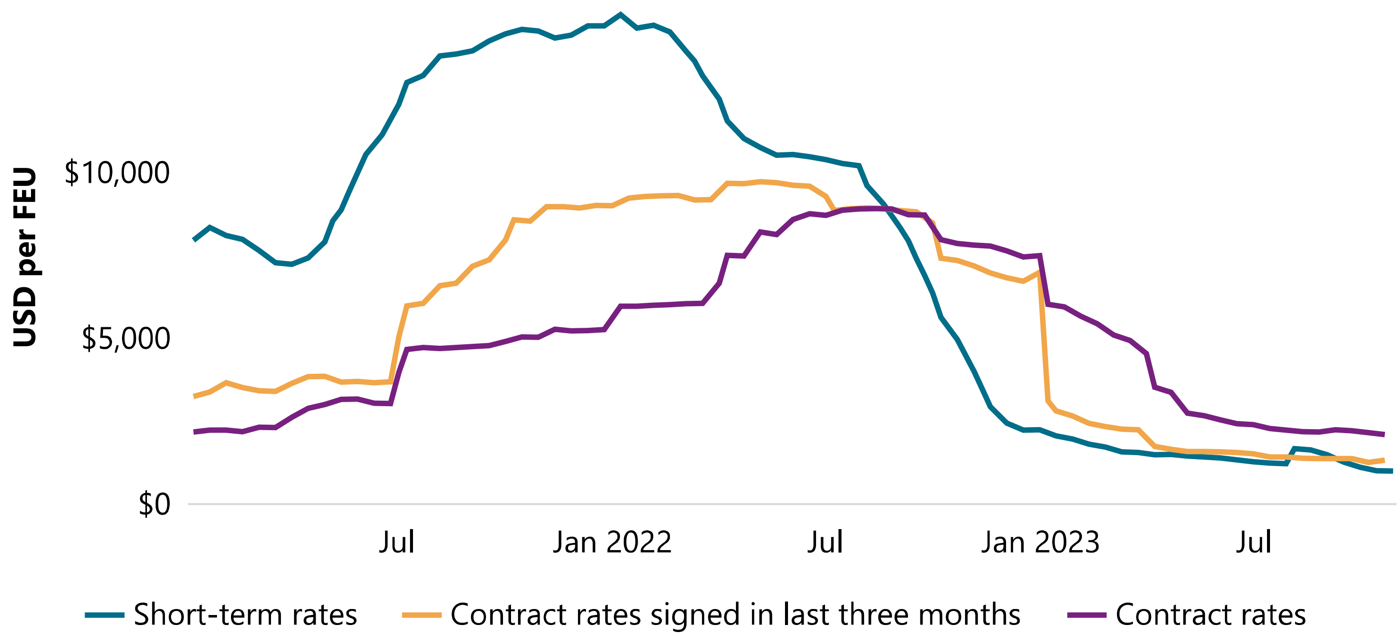
It was a point also made by Hapag-Lloyd CEO Rolf Habben Jansen, who told the Xeneta event that on the main east-west trades, short-term rates were at or below the levels of 2019, and in many cases were below the unit costs of transporting a container. That is not sustainable for a carrier, especially with the pressures of decarbonization further adding to the cost per unit.

"When you look at costs in 2024 and beyond, you will have to assume that costs are going to be 25 to 30% higher compared to 2019 ... and at some point, they will need to be earned back," he said.

"We will all be exposed to the EU ETS cost [emissions trading system], which to give you an idea for a company like Hapag-Lloyd will be around $100 million next year, and then tripling in 2025 and 2026," Habben Jansen added, saying rates would settle "somewhere above unit costs."

Asia-North Europe short- and long-term rates flatten out through October

Asia to North Europe short-term rates vs long-term rates



"We look at many other factors like capacity and reliability and are not going for the cheapest price, but it must be competitive and in line with the market," she told the conference.

Source: Xeneta © 2023 S&P Global

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The supply chain director for a Europe-based importer, who declined to be identified, agreed that price was not the only factor when negotiating fixed rates with carriers, but with average rates so low, he told the *Journal of Commerce* he was expecting a significant drop in annual contract levels.

Late October brings rate spike

The various indices show average spot rates falling on both the Asia to North Europe and the Mediterranean through most of October, before rising in the past week.

North Asia to North Europe rates of $1,200 per FEU on Oct. 27 were an increase of $400 on the previous week, while North Asia to Mediterranean rates were up $225 to $1,500 per FEU, according to Platts, a sister company of the *Journal of Commerce* within S&P Global. Despite the improvement, prices remain far below the carriers' freight all kinds (FAK) rate targets to be implemented on Nov. 1.

The spike in rates last week may be related to carriers blanking 21.5% of available Asia-North Europe/Mediterranean capacity in October, removing 481,992 TEUs from service during the month, according to Sea-Intelligence Maritime Analysis.

Although right now just 7.1% of available capacity is scheduled to be blanked in November, THE Alliance will suspend an entire 10-ship loop from mid-November until further notice. The Southeast Asia-North Europe FE5 service uses 10 ships of 14,000 TEUs supplied by ONE and Yang Ming.

The overall low rate levels are a result of the capacity overhang rather than weakening demand, if the volume through the first eight months of 2023 is any indication. The latest available data shows headhaul Asia-North Europe volume from January through August was down a marginal 0.5% year over year at 10.6 million TEUs, according to Container Trades Statistics (CTS).

“If the intention underlying the blank sailings program was to reduce capacity, then it has not been successful,” Sea-Intelligence noted in its latest Sunday Spotlight newsletter. “Despite the blank sailings, there is still a significant year-on-year growth in the capacity offered in the market.”

The capacity glut is being supported by a global order book that is close to 30% of the active fleet at more than 7 million TEUs, according to Sea-web, a sister company of the *Journal of Commerce* within S&P Global. Maritime consultancy Drewry estimates that 2.5 million TEUs of capacity will be delivered by the end of this year and 3 million TEUs in 2024.

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