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Asia-US container spot rates keep rising amid more blank sailings

The aggressive use of blank sailings since June has allowed trans-Pacific carriers to increase spot rates by about 50% over the past two months. Photo credit: David Harpe / Shutterstock.com.

Bill Mongelluzzo, Senior Editor | Aug 14, 2023, 6:04 PM EDT

Container spot rates from Asia to the US West Coast continued to move higher last week, though forwarders caution that despite a ramp-up in blank sailings that began last month to thin capacity, the rally that began in June may still be short-lived

Retailers and forwarders are bracing themselves for another general rate increase (GRI) this week in the eastbound trans-Pacific, although they say spot rates will likely then hit a ceiling of about $2,000 per FEU to the West Coast that will carry the Asia-US trade into October.

Spot rates have increased about 50% since June owing to a seasonal increase in import demand and labor-related supply chain disruptions, but mostly because carriers have managed capacity by aggressively canceling — or blanking — sailings, according to industry analysts.

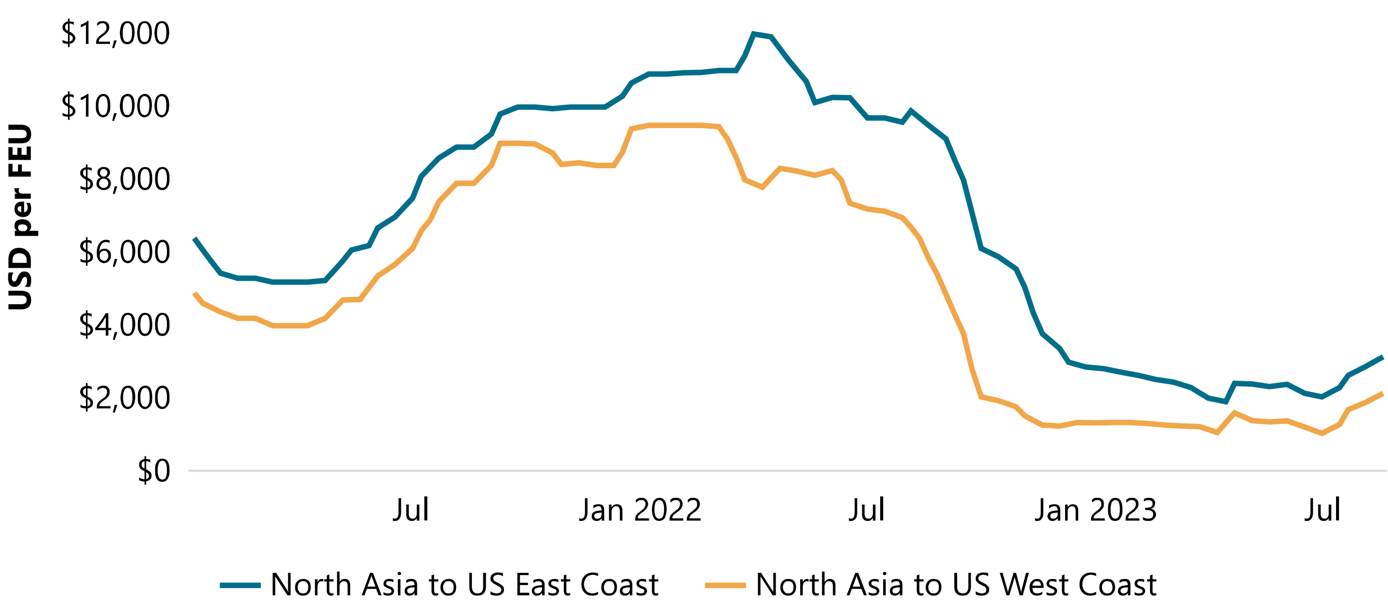
According to Sea-Intelligence Maritime Analysis, in July, carriers blanked nearly 20% of total capacity to the West and East coasts of North America. That is the highest level of blanking since February through April when import volumes hit their lows for the year thus far.

The Asia-West Coast rate this past week was $1,950 per FEU, highest since October, according to a weekly commentary published Sunday by Platts, which, like the *Journal of Commerce,* is owned by S&P Global. Spot rates have been pushed higher by seasonal demand for merchandise, draft restrictions on the Panama Canal, cargo-handling disruptions in Vancouver and Prince Rupert during recent labor contract negotiations, and most importantly, blank sailings.

“Spot rates are getting pretty high,” David Bennett, chief commercial officer at the forwarder Farrow, told the *Journal of Commerce* Monday. Carriers “across the board” have announced another round of GRIs effective this week, Bennett said, filing for increases of $1,000 per FEU. Although that is the maximum they intend to charge, the increases generally end up being several hundred dollars.

Spot rates from North Asia to US rise sharply into August

Container spot rate movements from North Asia to US West and East coasts in USD per FEU



Source: Platts, S&P Global

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A good indication that carriers feel confident about their ability to get another GRI to stick is that they are strictly holding customers to their cargo allocation limits, Bennett said. A shipper's or forwarder's allocation is its total annual minimum quantity commitment (MQC) divided by 52.

This spring, when import volumes were weak, carriers provided as many container slots as customers sought, even if the number exceeded a customer's weekly allocation, Bennett said. However, beginning about two or three weeks ago, carriers began enforcing allocation limits contained in service contracts. Any shipments above the allocation have either been rolled to subsequent voyages or the customer had to pay spot rates, or in the case of forwarders, freight all kinds (FAK) rates, which are higher than service contract rates, Bennett said.

"It's tough getting on vessels," Rachel Shames, vice president of pricing and procurement at the forwarder CVI International, told the *Journal of Commerce*. "You really do have to book three to four weeks out — even the beneficial cargo owners [BCOs]."

Spot rates hitting "ceiling"

However, Christian Sur, executive vice president for ocean freight contract logistics at Unique Logistics International, said that with most of the purchase orders for holiday merchandise having been placed with Asian factories by now, import volumes, and therefore rate hikes, are topping out.

"I think the (spot) rates are hitting their ceiling," Sur said.

Bennett, likewise, sees this as the last GRI for a while.

"This will probably be the (rate) ceiling," he said. "This will hold through September-early October."

According to Global Port Tracker (GPT), which is published monthly by the National Retail Federation and Hackett Associates, US imports will peak in August. "August is forecast at 2.03 million TEUs, down 10.2% year over year, but the first month since last October to reach 2 million TEUs," the Aug. 7 GPT said.

Carriers, forwarders and industry analysts say that after experiencing almost two consecutive years of record or near-record import volumes in late 2020 through mid-2022, followed by double-digit declines in import volumes late last year and earlier this year, the trans-Pacific is returning to the normal seasonal ups and downs of the pre-pandemic years. That means import volumes should peak in August through October and fall off in November and December, which would put a lid on spot rates.

In his Aug. 1 earnings call, Matson Navigation Co. chairman and CEO Matthew Cox said that compared to peak season 2022, the trans-Pacific trade will experience a "muted peak season" this fall.

"We further expect the trade lane to experience a more normalized level of consumer demand and retail inventory stocking levels," Cox said.

The return to normalized consumer demand and retail inventory stocking levels will take place as carriers begin to introduce record capacity into their fleets beginning late this year and continuing through 2024. The global order book capacity is close to 30% of the active fleet at more than 7 million TEUs, according to maritime consultancy Drewry. About 2.5 million TEUs of capacity is scheduled for delivery by the end of this year, with 3 million additional TEUs scheduled for delivery in 2024, Drewry says.

The influx of large new container ships, mostly on the Asia-Europe trade, will have a cascading effect as somewhat smaller vessels serving that trade will move to the trans-Pacific and other trade lanes. That is why forwarders and industry analysts expect the latest increase in spot rates will likely be the last increase for some time, with spot rates expected to move lower beginning in November.

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