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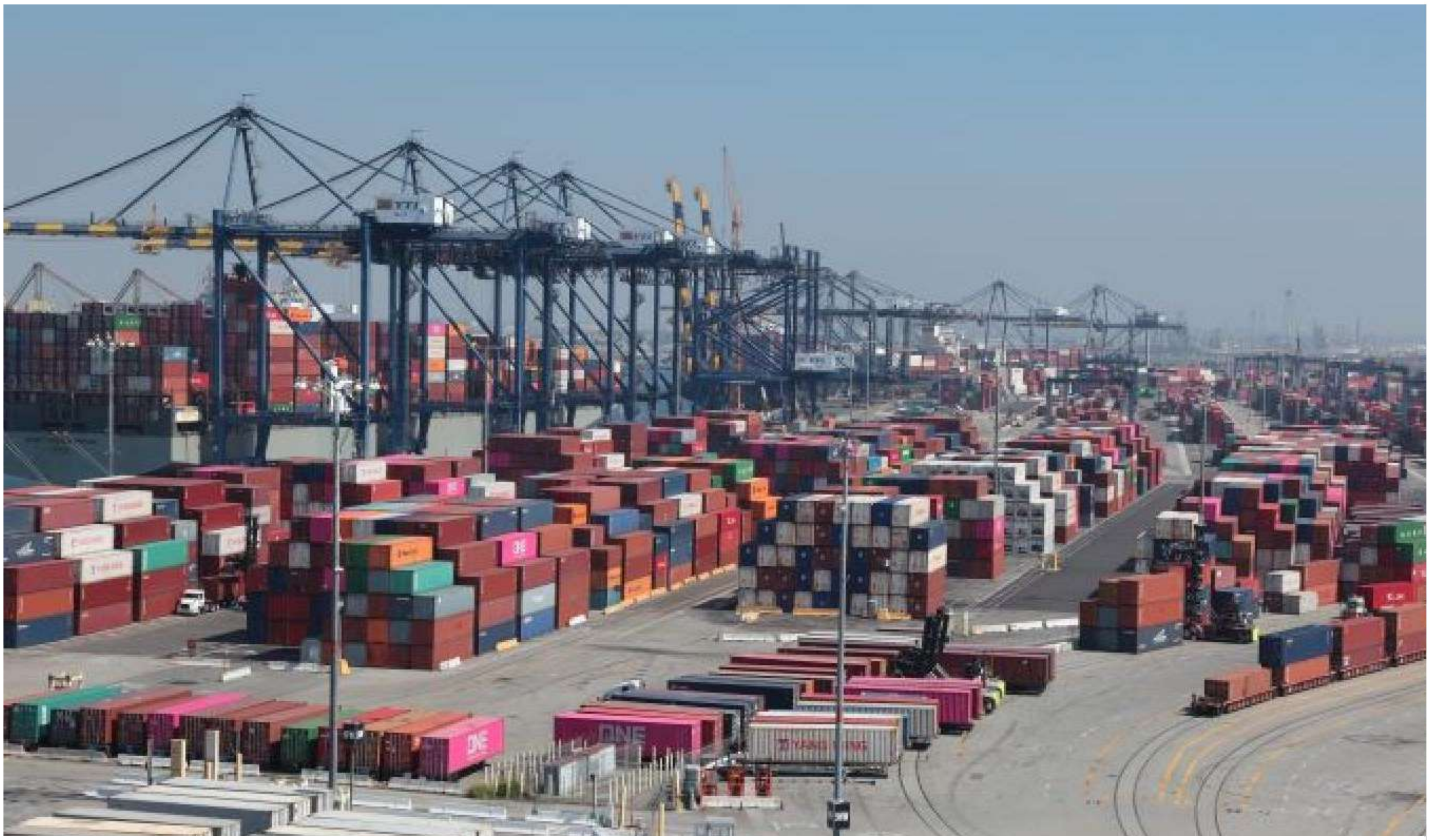
GRI success, rising imports drive spot rates higher as trans-Pac peak season nears



Forwarders say incidents of cargo rolling are occurring at Asian load ports as blank sailings reduce capacity in the trans-Pacific. Photo credit: CYSUN / Shutterstock.com.

Bill Mongelluzzo, Senior Editor | Jul 20, 2023, 2:42 PM EDT

After three general rate increases (GRIs) and four consecutive months of rising imports from Asia, trans-Pacific carriers are achieving their goal of pushing spot rates higher than contract rates as they enter what is expected to be a peak shipping season that is muted compared with last year but on par with pre-pandemic 2019.

Still, retailers and non-vessel-operating common carriers (NVOs) aren't sure if spot rates will continue to increase steadily through the peak season or whether new capacity expected to enter the trans-Pacific in the coming months will cause rates to drop again. Right now, they believe carriers will do whatever is necessary to prop up rates, including blanking more sailings.

“The intention of carriers is that spot rates remain higher than fixed rates,” Kurt McElroy, executive vice president of NVO KerryApex, told the *Journal of Commerce* this week. That enables carriers to cover their costs with a base of cargo from their steady customers, and then attempt to fill the remaining slots with cargo paying higher spot rates, McElroy said.

Spot rates from Asia to the West Coast declined during the first quarter, falling below $1,200 per FEU to the West Coast as imports from Asia softened. At the same time, mid-size shippers were signing service contracts at rates of $1,200 to $1,400 per FEU, so customers continued to book their shipments under the lower spot rates, McElroy said.

But carriers on April 15, June 1 and July 1 implemented GRIs that raised spot rates to the current level of about $1,600 to $1,700 per FEU to the West Coast and $2,600 to $2,700 per FEU to the East Coast, he said. If vessel space tightens, as expected, during the August to October peak season, shippers and NVOs who can’t book all their imports under the contract rate will have to ship the remaining containers at the spot rates that are in effect at the time. Depending on how strong peak season is, spot rates could increase further, according to NVOs and carriers.

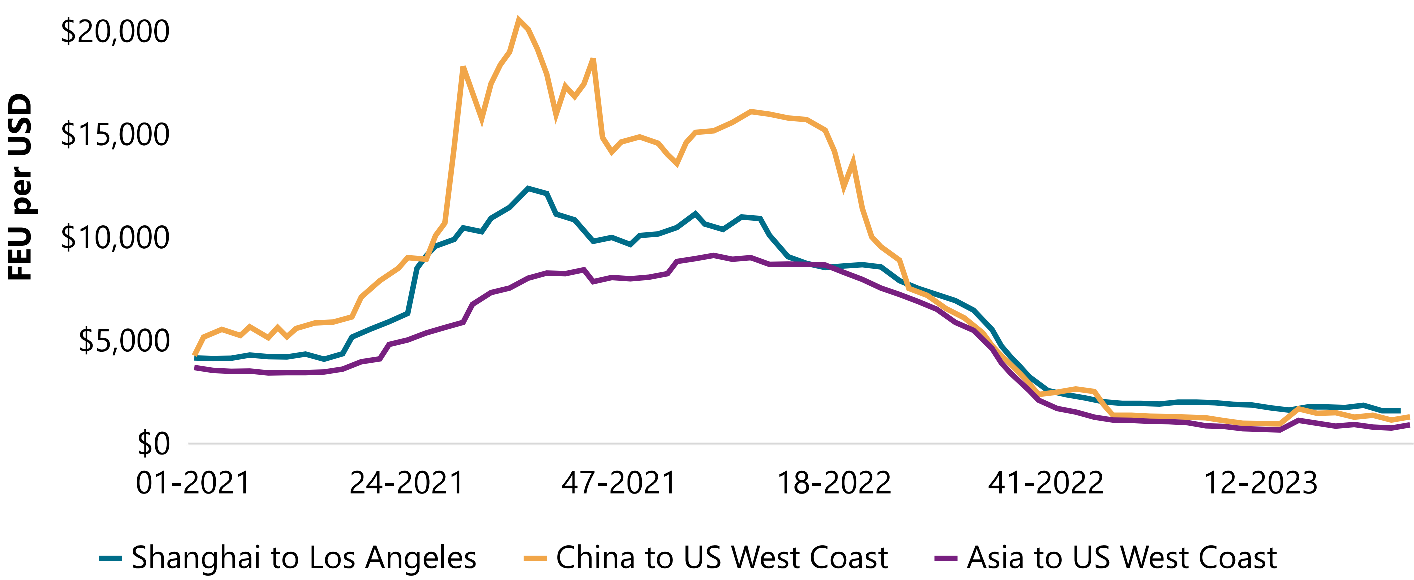
NVOs say it is starting to look like spot rates will stay above contract rates as import volumes increase this peak season.

“It certainly looks like it to me,” Jon Monroe, who serves as an advisor to NVOs, told the *Journal of Commerce.*

Still, Monroe said current spot rates were “reasonable,” adding, “These rates need to be above $1,500.”

Asia–USWC spot rates tick higher in July

Average eastbound trans-Pacific container freight rate, in USD per FEU, per Drewry, Xeneta, and Freightos



Source: Drewry; Xeneta; Freightos

“[Our] cargo is being rolled, even though we were supposed to have an allocation,” said David Bennett, chief commercial officer of the forwarder Farrow.

Christian Sur, executive vice president of the NVO Unique Logistics International, said customers report some of their shipments were rolled, but not because there is insufficient capacity in the trans-Pacific. “Obviously there is still space available,” Sur said. “What’s happening is carriers are saying the vessel is full at [the lower] rate.”

US imports from Asia continue to increase each month. Imports totaled 1.42 million TEUs in June, up from 1.08 million TEUs in March, 1.34 million TEUs in April and 1.37 million TEUs in May, according to PIERS, a sister product of the *Journal of Commerce* within S&P Global. Although imports are forecasted to be lower year over year through October, according to the National Retail Federation, NVOs and carriers are suggesting that the trans-Pacific is returning to a more normal cadence.

Blank sailings increasing in July

Meanwhile, carriers continue to blank individual sailings in the trans-Pacific, with McElroy saying the blanks are occurring at most origin ports in Asia. Carriers thus far have blanked 15.5% of Asia to North America capacity for July after blanking 10.6% in June. Those cancellations came after carriers blanked 14.4% of total capacity in May, 21.5% in April and 21.5% in March, according to Sea-Intelligence Maritime Analysis.

Although carriers blanked more capacity last year in March through June, the cumulative impact this summer of blank sailings, draft restrictions at the Panama Canal and steadily increasing import volumes have helped raise spot rates, McElroy said.

What carriers, shippers and NVOs definitely want to avoid this year is a repeat of the wild swings in freight rates that took place over the past three years, a carrier executive said. Spot rates in 2021 and 2022 spiked above $10,000 per FEU to the West Coast amid supply chain chaos unleashed by the pandemic that reduced effective vessel capacity. But freight rates dropped precipitously in late 2022 into early 2023, in some cases approaching $1,000 per FEU to the West Coast, as imports softened and the transportation bottlenecks were corrected, freeing up vessel capacity.

"The market went from stupid high rates to absurd low rates," the carrier executive said.

After speaking with a number of retail customers this summer, the executive said he is confident that imports will increase through the peak season — not in a crazy way as they did in 2021 and 2022, but gradually each month as they did before the pandemic. That, in turn, should result in spot rates moving higher at about the same pace they did in pre-pandemic peak seasons.

"The market will always find its balance," the carrier source said.

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