

New ships coming to trans-Pacific expected to overwhelm rate gains



Available capacity for trans-Pacific ocean freight is expected to see a nearly 22% increase over 2022 in the coming weeks. Photo credit: Angel DiBilio / Shutterstock.com.

Michael Angell, Associate Editor | Aug 15, 2023, 3:26 PM EDT

The recent gains in freight rates on the trans-Pacific are a sign that ocean carriers have been better able to match vessel supply with demand through schedule changes and canceled sailings. But the pending delivery of new vessels threatens to upset that balance, according to ocean freight experts.

The Asia-West Coast spot rate as of Aug. 14 was \$2,150 per FEU, its highest since October and double the rate of \$1,050 in late June, according to Platts, which, similar to the *Journal of Commerce*, is owned by S&P Global. The Drewry World Container Index for the Shanghai-to-Los Angeles freight rate last week was at \$2,362 per FEU, up 49% since the end of June.

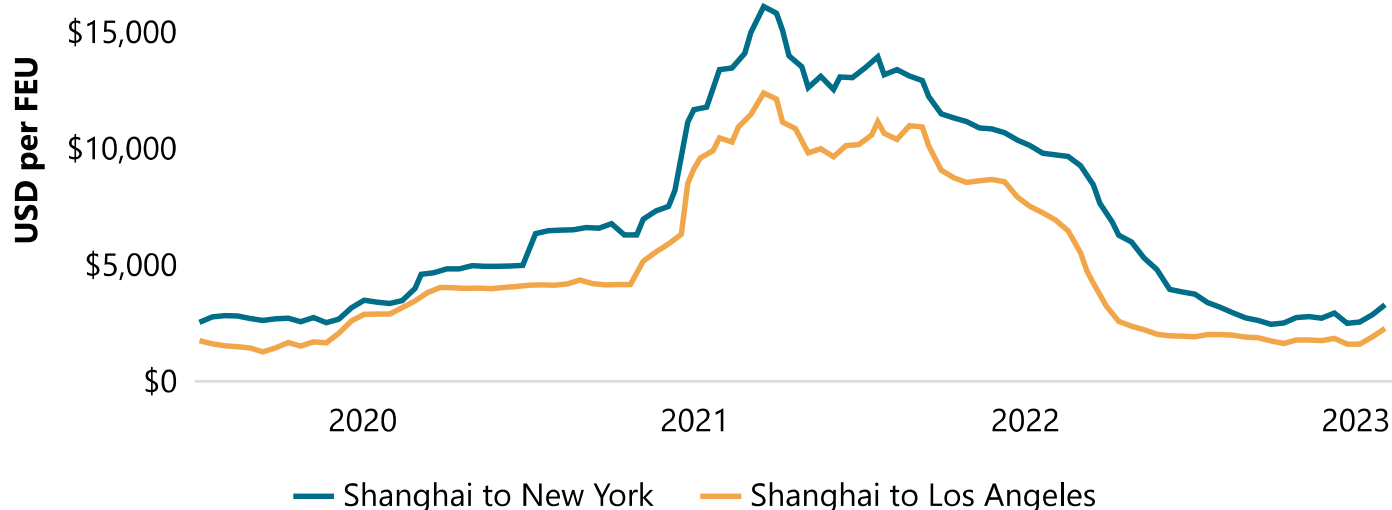
Alan Murphy, CEO of Sea-Intelligence Maritime Analysis, said in his most recent weekly update that the gains are “most likely linked to the increase in blank sailings activity that carriers began from late June.”

After easing up on the number of canceled sailings during June, ocean carriers have since stepped up the pace of blank sailings. Sea-Intelligence said 21.7% of capacity on the trans-Pacific to US West Coast trade was blanked in July, up from 14.7% in June.

While down two-thirds from last year, container spot rates have moved higher in the last month

Drewry spot rates from Shanghai to Los Angeles and New York

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Source: World Container Index assessed by Drewry

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Ocean carriers have only blanked 8.5% of capacity in August to date, Sea-Intelligence said, but some ocean freight customers are seeing a seasonal uptick in volumes.

Joe Monaghan, chief executive officer of New Jersey-based Worldwide Logistics Group, told the *Journal of Commerce* that his company is currently seeing a 20% increase in customer freight volumes over the second quarter.

The gain is lapping a weak second quarter, and Worldwide's customers also include industrial and building materials shippers. Even so, Monaghan said he's been telling shippers since the end of June that they need to book their freight at least two weeks in advance of sailing, compared with having container slots available for immediate sailings.

“Space control has been reasonably successful, and I think it will continue,” Monaghan said. However, he said that further efforts to raise rates either through peak season surcharges or general rate increases may prove harder.

“Two weeks ago, the carriers were really bullish on increasing the rates but now have tempered that a bit,” Monaghan said. “Now all of the sudden they’re saying maybe it’s not going to be quite as robust between now to the end of October as we expected.”

‘Massive’ fleet growth

Moreover, Monaghan said that the coming months will start seeing new vessels being delivered to ocean carriers, a wave of new supply that will continue into 2024. He said that ocean freight rates face more risk of weakening throughout the rest of the year.

Ocean carriers “will be able to maintain these sorts of rates and tweak them up between now and the end of October,” Monaghan said.

“After that, all bets are off because they are going to be dealing with seasonality and new tonnage coming,” he said. “There are deliveries being taken now of new vessels, but the big increase in net tonnage is the later part of this year and going into next.”

In a statement to the *Journal of Commerce*, Sea-Intelligence’s Murphy said trans-Pacific vessel supply will see a “massive” gain in the next 10 weeks, averaging almost 22% growth over 2022 on a weekly basis.

Some of the gain stems from earlier comparable figures from a more aggressive blanking program last year, Murphy said, but they are also “partly due to a planned capacity injection.”

“Far, far too much capacity is scheduled for the coming three months, and the carriers will have to start a furious blanking program in the coming weeks in a desperate bid to prevent rates from crashing,” he said.

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