S&P Journal of Commerce

Rate spread between US East-West coasts erodes amid shifts in volume, sourcing

The US East Coast will likely see more capacity added on services from Southeast Asia through the Suez Canal as the Panama Canal limits ship transits. Photo credit: Mariusz Bugno / Shutterstock.com.

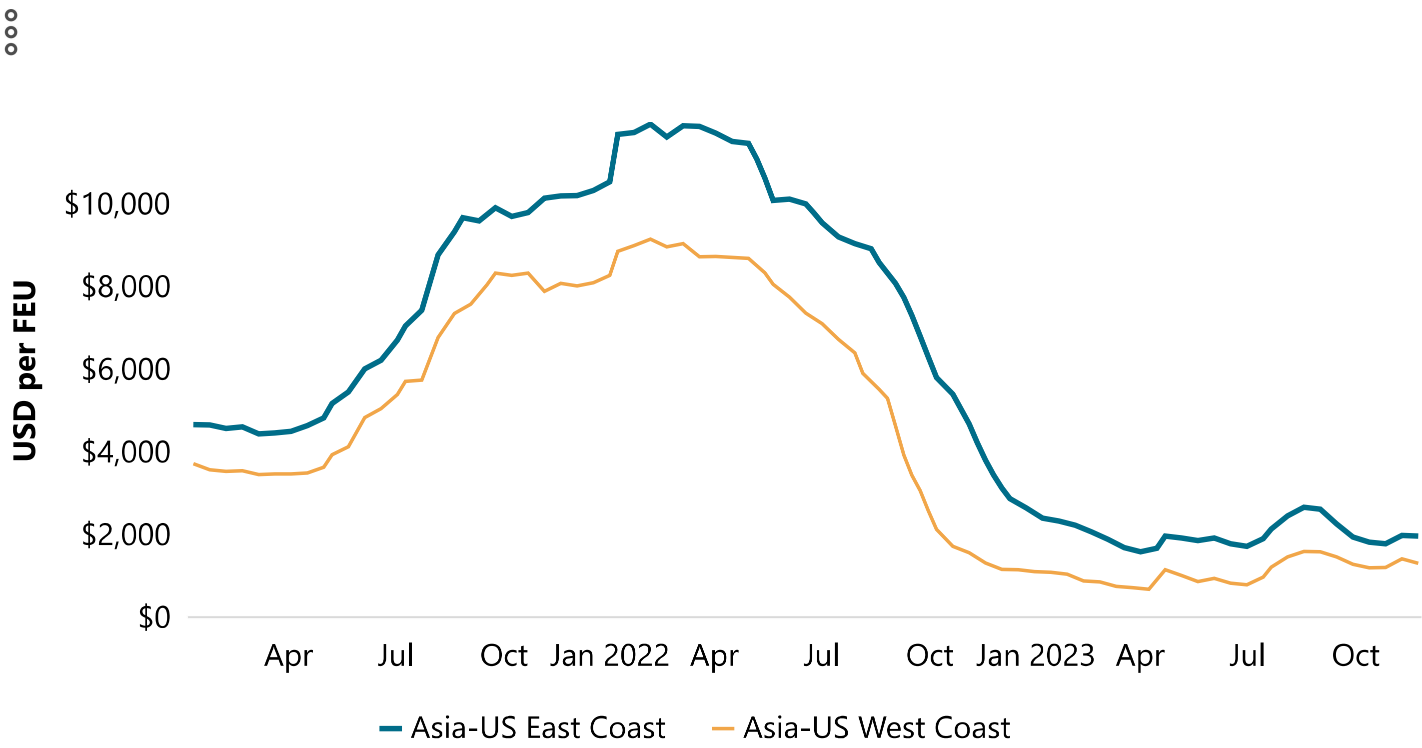
Michael Angell, Associate Editor | Nov 14, 2023, 4:24 PM EST

A shrinking spread between ocean freight rates from China to the US West and East coasts reflects the return of import volumes to West Coast ports, as well as the switch in US import sourcing that favors ocean services from Southeast Asia through the Suez Canal, market experts say.

The short-term rate for shipping a standard dry ocean container from Shanghai to the US East Coast as of Nov. 1 was just $412 higher than it was to the West Coast, according to data from rate benchmarking firm Xeneta, a four-year low. And while the spread has since rebounded to $504 as of Nov.13, it's still half what it was at the end of August.

Spread between ocean freight rates to US West and East Coasts narrows to new lows

Average Asia-to-US container freight rates, under short-term contracts of 32 days or less



Source: Xeneta

Related data for this chart

Click here to explore related data on Gateway

A sharper drop in freight rates from China to the East Coast compared with the West Coast is the primary reason for the tighter spread. From Sept. 1 to Nov. 1, the short-term rate to the East Coast dropped $691 per FEU, while the rate to the West Coast was only down $131 per FEU.

The shrinking spread also coincides with stronger volume gains for Asian imports at West Coast ports relative to the East Coast. Asian imports into the West Coast in October climbed to 843,000 TEUs, up 15% from the year-earlier period, according to PIERS, a sister product of the *Journal of Commerce* within S&P Global. East Coast ports saw a 6.6% gain in Asian imports for the month, to 578,000 TEUs.

Freight forwarder M+R Spedag Group noted the tightening spread in an October market update, pointing out it was closing in on $394, a level last seen in January 2018.

While the spread is volatile, it has typically been between $800 and $1,200 since 2013, M+R Spedag said.

James Caradonna, vice president at MCL-Container Line, the ocean shipping arm of M+R Spedag, told the *Journal of Commerce* that the East-West rate spread was "a force of habit" that developed over the years during the negotiations over ocean rate contracts.

When he was with CMA CGM a decade ago, Caradonna said it was the common understanding between ocean carriers and their customers that East Coast rates should be $1,000 higher than West Coast rates, with the idea that only small volumes of containers would be routed to the East Coast.

But as more volumes and new trade routes from Southeast Asia develop, that rationale is being tested, Caradonna said.

"It was the easiest way for [carriers and shippers] to manage contract negotiations. Whatever the number was to the West Coast, add $1,000 to it for an East Coast routing," he said. "Shipper volumes were disproportionately weighted to the West Coast, but more incidental to the East Coast."

Old formula 'gone'

Patrick Fay, chief executive of third-party logistics provider BOC International, told the *Journal of Commerce* that "the old formula is gone" regarding the spread between East and West coast rates due to more services coming to the East Coast and, more recently, the issues facing the drought-stricken Panama Canal.

"All the norms have changed with more capacity coming to hit and more headaches in the Panama Canal," Fay said.

Caradonna said the disconnect between East and West coast rates will only continue to grow due to more restrictions on shipping through the Panama Canal. As of November, the Panama Canal Authority is only allowing 25 ship transits per day, down from 31 in October. By February, only 18 daily transits will be permitted.

Ocean services from Far East Asia through the Panama Canal still predominate as only about 25% of the weekly container capacity coming into East Coast ports moves through the Suez Canal, according to Caradonna's analysis, which translates to about 50,000 TEUs. The figure does not include services from the Indian subcontinent.

Suez services primarily serve South China and Southeast Asian ports, while Panama Canal services range all along China's coastal ports and cover Taiwan and South Korea.

But as more imports get sourced from Southeast Asia, ocean carriers can easily add more capacity and services to those routes, Caradonna said.

“There is a lot of room to rebalance the capacity between the two canals, particularly with the market share gains in Southeast Asian manufacturing,” he said.

Contact Michael Angell at michael.angell@spglobal.com and follow him on X: @michael_angell.