

## Red Sea rerouting to raise ocean rates, absorb capacity: analysts



*Almost three years after the Ever Given blocked the Suez Canal for six days, carriers on the Asia-Europe trade lane are once again taking the longer transit route around the Cape of Good Hope. Photo credit: Hapag-Lloyd.*

Greg Knowler, Senior Editor Europe | Dec 18, 2023, 11:16 AM EST

Rising rate levels and the absorption of surplus capacity are two of the likely outcomes for ocean carriers from the wide-scale rerouting of container ships around southern Africa to avoid accelerating Red Sea attacks.

The alternative route around the Cape of Good Hope will add about 10 days to a container ship voyage. And even after offsetting current Suez Canal toll fees of between \$400,000 and \$700,000 per ship per transit — which will be rising 15% in January — the longer route will still increase shipping costs by 15 to 20%, according to analysts.

While several carriers have already begun to send their vessels around Africa, other ships are waiting in anticipation of a joint naval response aimed at restoring security to commercial shipping in the Red Sea area.

“Should this lead to a longer closure of the Suez routing, it can be managed — however it will require quite a bit of speeding up and will indeed cause elevated rate levels,” Alan Murphy, CEO of Sea-Intelligence Maritime Analysis, wrote in his latest Sunday Spotlight newsletter.

Murphy noted that when Evergreen’s *Ever Given* blocked the Suez Canal for six days in March 2021, there was not an immediate impact on spot rates, which only began to rise a month later.

“If this repeats itself, it will mean shippers need to prepare for rapidly escalating rates leading up to Chinese New Year, which in 2024 falls on Feb. 10,” he said.

Hapag-Lloyd and Yang Ming on Monday joined Mediterranean Shipping Co. in saying it would divert services around southern Africa. CMA CGM and Maersk have paused sailings through the Red Sea.

“The situation around the Suez Canal and the Red Sea is unsafe and the risks for our crews onboard are unacceptable,” the carrier said in a statement. “This is why we have had to take the decision to avoid the Suez Canal and the Red Sea with immediate effect, and instead route our ships around the Cape of Good Hope.

“We will reassess the situation in the Red Sea regularly and reinstate our services through the Suez Canal when the situation in the area is deemed safe and secure for our ships and crews and your cargo onboard,” it added.

Yang Ming said it would immediately begin diverting cargo around the Cape of Good Hope for the next two weeks or have vessels wait in a “safe location.”

“We will continue to closely monitor the situation in the high-risk region and will make real-time, adaptive adjustments to our vessels and routes in response to changes in the situation, ensuring the safety of the transportation,” the carrier said in a statement.

Evergreen announced Monday it would suspend handling cargoes heading to or from Israel, citing the “rising risk and safety considerations.”

Missile attacks on commercial shipping launched by Iran-backed Houthi rebels in Yemen have accelerated amid the Israel-Hamas war.

With almost 20 weekly container shipping services on the Asia-Europe trade calling at multiple ports across Europe and Asia, it is difficult for carriers to recover lost schedules and limit disruption for shippers.

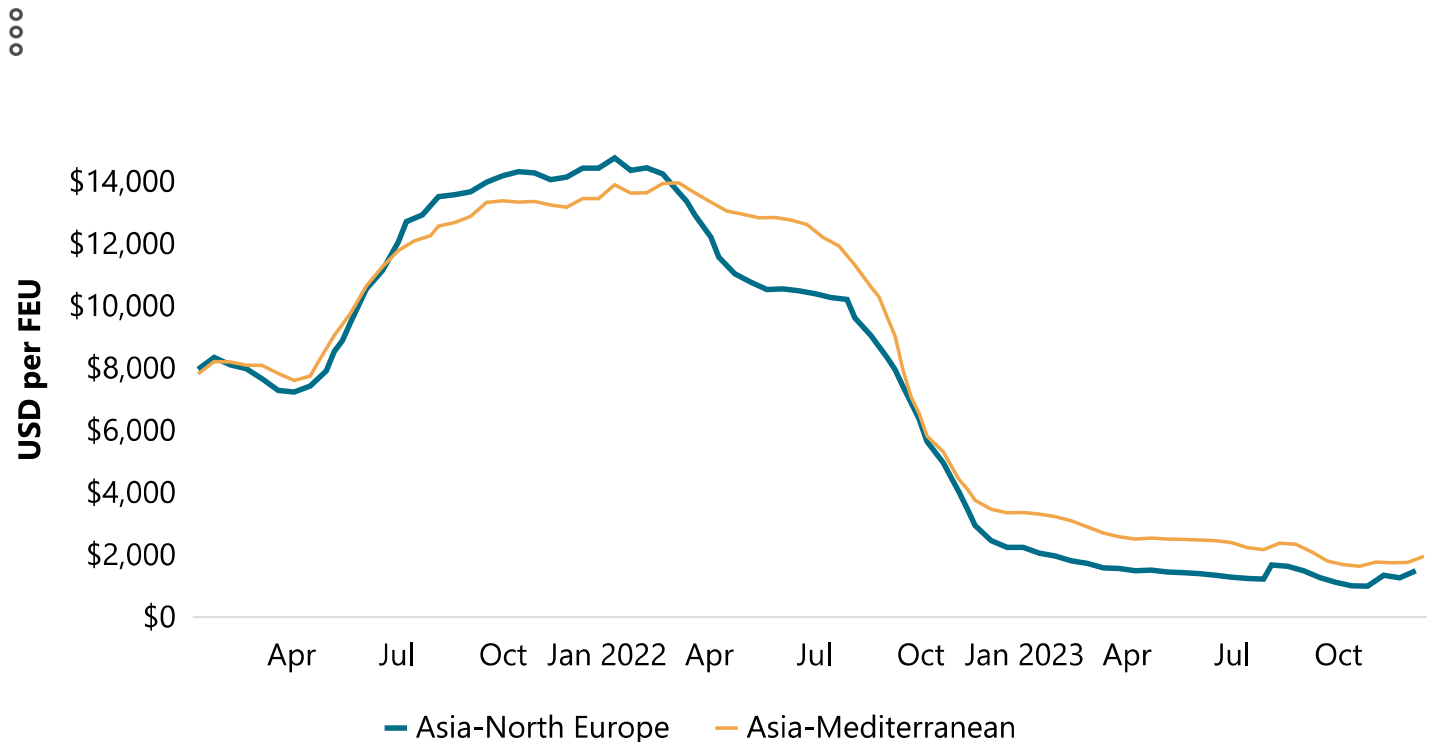
History provides an insight into the coming disruption. It was estimated that more than 1.9 million TEUs of capacity were delayed during the six-day Ever Given blockage in 2021, and carrier schedules were heavily disrupted for months at ports in North Europe and along the US East Coast.

## Rates already on the rise

While cargo owners will need to manage disrupted schedules, carriers will find rate levels improving. Two freight-all-kinds (FAK) rate increases in December on both the Asia-North Europe and Asia-Mediterranean corridors have already caused the spot market to spike on Dec. 1 and again on Dec. 15 as carriers withdrew 25% of the available capacity during the month to better match import volume.

### Red Sea attacks focus attention on Asia-Europe spot rate levels

Asia to Europe and Mediterranean container short-term rates in USD per FEU



Source: Xeneta

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Average Asia-North Europe rates on some indices are almost at \$1,800 per FEU, rising \$300 to \$400 since the beginning of December, according to rate benchmarking platform Xeneta. Asia-Mediterranean spot rates were at \$2,200 per FEU this weekend, rising \$300 on the Dec. 15 rate increase, according to Platts, a sister company of the *Journal of Commerce* within S&P Global.

Another hefty rate increase is scheduled for Jan. 1, 2024, and although only 12% of available capacity is scheduled to be blanked in January, the Red Sea disruption will increase the stickiness of the rate.

On Asia-North Europe, Hapag-Lloyd, CMA CGM and Mediterranean Shipping Co. will set their FAK levels at \$3,000 per FEU from Jan. 1.

For Asia-West Mediterranean voyages, aspirational FAK rate levels as of Jan. 1 have been set at \$3,200 per FEU by CMA CGM, \$2,900 per FEU by MSC and \$3,200 per FEU by Hapag-Lloyd. Rate levels for East Mediterranean calls have been set at \$3,200 per FEU by CMA CGM, \$3,100 per FEU by MSC and \$3,600 per FEU by Hapag-Lloyd.

## Record order book

The longer route around Africa will absorb additional vessel capacity from an industry that is going into next year heavily oversupplied. Sea-Intelligence estimates that a switch to the around-Africa route will require 1.45 million to 1.7 million TEUs of additional vessel capacity, or 5.1% to 6% of total global container vessel capacity.

Considering the current container shipping order book of 7.4 million TEUs equates to nearly 30% of the active fleet, a 14-year high, there is sufficient capacity available to add vessels to Asia-Europe strings, unlike during the *Ever Given* blockage, according to Judah Levine, head of research at Freightos.

“In 2021 there were no extra available ships to take the place of delayed vessels at origin ports — this time there is a record level of excess capacity,” Levine noted in a market update Monday.

“Shippers could expect longer lead times due to longer voyages, but operations should continue reasonably well,” he added. “Freight rates will likely increase on these longer voyages too, but due to carriers looking for ways to utilize excess capacity, it is unlikely that rates will spike to levels experienced during the pandemic.”

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