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Asia-Europe ocean rates soar as shipper ‘panic’ brings orders forward

The 24,188-TEU OOCL Sweden called at Shanghai on its maiden voyage last week, the 10th of a 12-ship order for the megaships. Photo credit: OOCL.

Greg Knowler, Senior Editor Europe | Jun 11, 2024, 10:24 AM EDT

Shippers on the Asia-Europe trade have no escape from rapidly rising spot rate levels as increasing demand in the capacity- and equipment-constrained market is only serving to further boost the spot market.

While cargo owners made an early start to Asia-Europe’s peak season to avoid disruption on the Red Sea-impacted trade lane, shippers bringing forward more orders to beat rapidly rising rate levels is causing disruption nonetheless. Average spot rates are approaching $7,000 per FEU on some indices this week, more than triple the price in the same week last year.

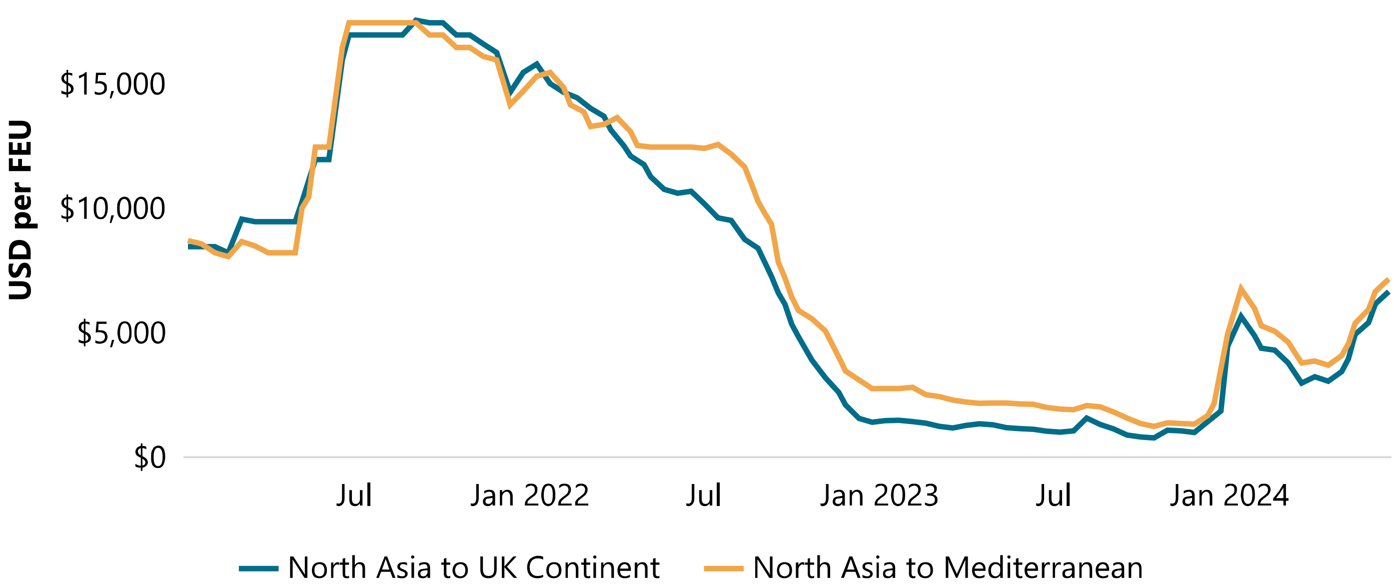
"We are seeing panic out there where shippers are trying to advance all their cargo, even for Christmas products, before rates go up further, but of course this is pushing rates up even more," the supply chain director for a large European retailer told the *Journal of Commerce*.

It was a point made by Maersk CEO Vincent Clerc last week, who warned in an interview with the *Financial Times* that cargo owners shipping a greater volume of goods earlier than normal would be counterproductive and lead to even more delays.

The tight capacity, strong demand and port delays drove average spot rates on Asia-Mediterranean close to $7,000 per FEU early this week, with Asia-North Europe rates near $6,200 per FEU, according to various rate indices. Shippers are reporting rates on some port-to-port routes above $10,000 per FEU.

No sign of slowdown as Asia-Europe rates close in on $7,000 per FEU

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



Source: Platts, S&P Global

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While more than half the containerized cargo on Asia-Europe routes historically moves under fixed-rate agreements, contracted weekly volume allocations are being slashed as demand outstrips available supply.

"Carriers have told us our allocation is now cut by 80%, and if we agree to pay double, we get a small amount back, and if we pay four times more than the agreed rate, we can get the full allocation back," the European retail source noted.

Advancing cargo shipments under current conditions will add to shippers' transportation costs, but it means orders that were planned for later in the peak season will also have been brought forward, the import logistics manager for a German retailer explained.

"This will make the traditional peak season a bit weaker as new capacity continues to enter the market, so I am working on the assumption there will be a kind of cooling down after August," he said.

'Normalized' rates in Q4

Exactly when spot rates will peak remains unclear and is largely dependent on when the Red Sea and Suez Canal will be safe enough for carriers to resume regular transits, a move that will see the excess capacity in container shipping reassert itself on the market.

The executive for a Germany-based forwarder predicted average spot rates would rise past $10,000 per FEU in July and August before stabilizing and then declining to "more sustainable levels."

"The current rate levels are not sustainable, and my bet is that we will see normalized rates again in Q4," the source told the *Journal of Commerce*.

That, however, is not a view shared by Sea-Intelligence Maritime Analysis. With the longer sailing distances around southern Africa factored in, the analyst warned in its latest Sunday Spotlight newsletter that maximum rate levels could be substantially higher than the pandemic spike, even rising past $20,000 per FEU.

Sea-Intelligence noted that the current rate spike resembled the pandemic surge on Asia-Europe and described the market mechanism that dealt with demand exceeding available capacity "as efficient as it is ruthless."

"Simply put, prices will increase until sufficiently many shippers cannot afford to ship their goods," the analyst noted. "This will lower container demand, to the point where it matches the available vessel capacity."

Less weekly capacity available

Despite being heavily criticized by shippers for not honoring agreed allocations, carriers say they are throwing as much capacity as is available into Asia-Europe to better match supply with demand.

Hapag-Lloyd CEO Rolf Habben Jansen told a customer briefing last week that operating weekly services on Asia-Europe typically needed 12 ships, but now 14 to 15 vessels are moving the same amount of cargo.

"But in reality, we have less weekly capacity available," he said, and with Hapag-Lloyd structurally overbooked on all Asia-Europe services there was simply not enough space to move all the cargo.

With so much extra traffic on the trade lane and as ship strings are extended with longer voyages around Africa, congestion developed in Singapore and the Mediterranean with vessels having to wait for berthing windows.

Also injecting capacity into the westbound trade lane is CMA CGM, which will add 25% to its deployed capacity on Asia to North Europe and the Mediterranean. An additional seven vessels of 7,000-TEU capacity will be deployed from June 30 to early September with bi-weekly departures from China to destinations alternating between Le Havre and Antwerp in Northern Europe and between Fos-sur-Mer and Malta in the Mediterranean.

"CMA CGM Group announces the launch of the French Peak Service, an exceptional seasonal service to meet the sudden increase in maritime transport demand between Asia, Northern Europe and the Mediterranean," the carrier said in a statement Tuesday, adding that the first departure of the service will be on June 30 from the port of Yantian by APL Oregon.

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