

# Asia-Europe shippers sail into contract talks with Red Sea top of agenda



*HSBC predicts excess vessel capacity in the market will cause the Shanghai Container Freight Index to decline 40% year over year in 2025 if carriers return to the Suez routing via the Red Sea and Gulf of Aden. Photo credit: MSC.*

**Greg Knowler, Senior Editor Europe | Oct 31, 2024, 11:43 AM EDT**

The Red Sea will be top of the talking points list for Asia-Europe shippers as they prepare to enter 2025 contract talks with ocean carriers anxious to avoid a repeat of the chronic space constraints and soaring rates experienced through this year's peak season.

While the diversions around the Cape of Good Hope are now firmly established within container shipping supply chains, a hoped-for return to Red Sea/Suez Canal transits at some point next year is likely to cause rates to fall fast as vessel capacity outstrips demand.

Asia-Europe shippers are factoring this eventuality into their 2025 contracts, Antonios Rigalos, managing partner at beneficial cargo owner (BCO) network CrossStaff, told the *Journal of Commerce* this week.

“It can be assumed that the situation in the Red Sea will not be solved soon, and it is anticipated carriers will avoid Suez Canal transits for at least the next six months, or even longer next year,” Rigalos said.

“This is an unknown for the industry, and the uncertainty we faced this year continues and will be carried over also to 2025,” he added.

CrossStaff negotiates contracts with carriers on behalf of its network of BCOs. Rigalos said members want stability in their supply chains through 2025 that they could plan around.

“We will apply the same logic as we did at the end of last year in our current agreements that have flexible terms,” he said. “In that way we will be prepared in case the Red Sea reopens and rates fall, while at the same time making sure our terms and conditions are good enough to secure the required space and equipment.”

Many European importers begin their annual contract talks with carriers in the fourth quarter of each year, with the fixed-rate deals typically running from January through December.

## **Avoiding ‘all-baked-in’ rates**

Peter Sand, chief analyst at rate benchmarking platform Xeneta, said the Red Sea would be the center of attention for shippers wanting to avoid an all-baked-in rate next year that would need to be renegotiated time and again should rates fall as carriers make a partial or complete return to the shorter route via the Suez Canal.

“Every shipper now looking to negotiate long-term rates for 2025 will seek to separate the effect of Red Sea transits resuming from the base rate because that way it will be easier for them to get rid of any surcharges that have been related to the Red Sea,” Sand told the *Journal of Commerce*.

When the Red Sea will be safe for commercial shipping remains anyone’s guess, but Parash Jain, global head of transport and logistics research at HSBC, said the bank’s base case had Red Sea disruptions unwinding in the second half of next year, leading to shipping capacity being released back into the market. Attacks on commercial shipping by Houthi militants operating from southern Yemen have essentially made the Red Sea and Gulf of Aden a no-go zone for vessels since late last year.

“Effective capacity growth should exceed 10% in 2025 compared to nominal fleet growth of about 7.6%, while we expect demand growth to moderate to 2.7%,” Jain said in a market update this week.

HSBC has forecast that should there be a return to the Red Sea, excess capacity in the market will see the Shanghai Container Freight Index (SCFI) decline 40% year over year in 2025 and fall a further 33% in 2026, although cost inflation will keep rates higher than pre-pandemic levels.

## Sharp increase in spot market

As shippers prepare to sit down with carriers and negotiate their long-term rates, they will have noticed a sharp increase in average spot prices on the Asia to North Europe and Mediterranean trade lanes.

The rates are rising ahead of carriers rolling out freight-all-kinds (FAK) increases on Nov. 1 that may stick as the market heads for a “mini peak season” ahead of an early Lunar New Year holiday in late January.

North Asia to North Europe rates reached \$4,100 per FEU this week, up 21% from last week and 230% higher than the same week last year, according to Platts, a sister company of the *Journal of Commerce* within S&P Global.

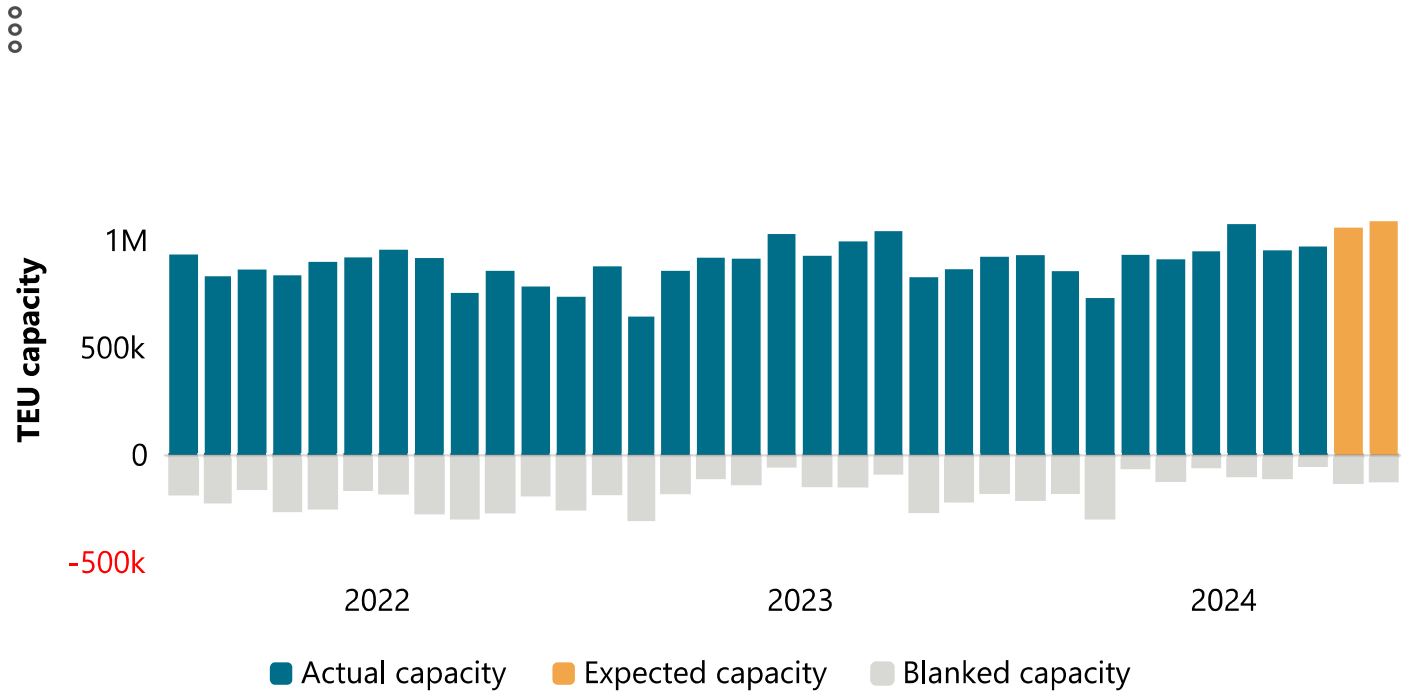
Asia-Mediterranean average rates this week were also at \$4,100/FEU, up 15% over last week and 166% year over year.

With longer voyages extending transit times for European goods imported from Asia combining with a Lunar New Year almost two weeks earlier than last year, the recent rally in rates may continue through the fourth quarter.

Blank sailings are another factor influencing rate levels as carriers pull capacity management levers to keep prices elevated.

Asia-North Europe carriers pull capacity levers to balance supply-demand

Container ship capacity deployed from Asia to N.Europe, with historical blanked capacity, capacity estimates and blank sailings already announced.



Notes: As of Sept. 20, 2024

Source: eeSea

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Data from visibility provider eeSea shows carriers are so far expected to blank 118,545 TEUs in November on Asia-Europe, representing 10% of available capacity on the trade. That’s about the same as October but a significant jump from 4.5% blanked in September.

Total Asia-North Europe capacity — comprising both available and blanked capacity — is expected to be 1.21 million TEUs in November compared with just over 1 million TEUs during the same month last year, according to eeSea.

“Some carriers have announced blanked sailings in November as demand lags, but the usual Lunar New Year volume and rate rebound may start earlier than usual as the holiday begins in late January instead of early February this year,” Judah Levine, head of research at Freightos, noted in a market update this week, adding that shippers may start increasing orders early to accommodate longer sailing times.

*Contact Greg Knowler at [greg.knowler@spglobal.com](mailto:greg.knowler@spglobal.com).*

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