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Asia-USWC spot rates edge lower as new capacity takes edge off overheated market

Vessel space from Asia to the US East Coast remains tight as retailers continue to front-load fall and year-end holiday shipments. Photo credit: Kirk Wester / Shutterstock.com.

Bill Mongelluzzo, Senior Editor | Jul 11, 2024, 2:55 PM EDT

Spot ocean rates for Asia to the US West Coast appear to have peaked after edging lower over the past week, forwarders and carriers say, reflecting the capacity recently injected on the trade to handle what US retailers are calling their strongest volumes in two years.

After climbing steadily since May 1 amid twice-monthly general rate increases (GRIs), forwarders expect the rate decline to accelerate in the coming weeks after carriers launched or reinstated 10 services into the eastbound trans-Pacific.

"It was almost a change overnight in the market dynamics," a carrier executive told the *Journal of Commerce.* "The turning point was the first week in July."

The *Journal of Commerce* spoke to six non-vessel-operating common carriers (NVOs), two carriers, two importers and an industry consultant for this story.

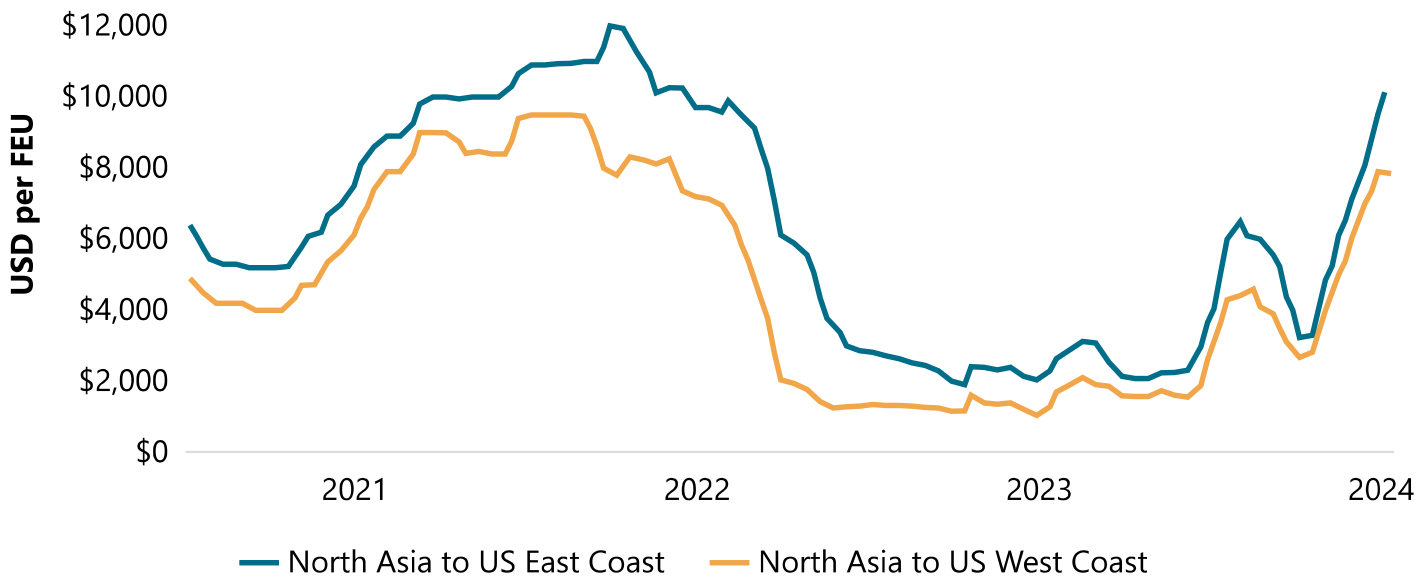
The West Coast spot rate as of Tuesday was $8,000 per FEU, down 2% from $8,133 per FEU last week, according to Platts, a sister company of the *Journal of Commerce* within S&P Global.

“We’re getting notifications of [rate] reductions from some carriers,” said Kurt McElroy, executive vice president of the NVO Kerry Apex.

Still, the current rate is double the $4,000 per FEU level from May 1.

Asia-USWC spot rate dips after two-month bull run

Container rate from North Asia to US East and West coasts in USD per FEU



Source: Platts, S&P Global

3M 6M 2Y YTD MAX

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East Coast capacity still tight

While capacity appears to be easing to the West Coast, vessel space from Asia to the US East Coast remains tight as retailers continue to front-load fall and year-end holiday shipments.

"The peak season and Christmas cargo has moved way early this year," said James Caradonna, executive vice president of forwarder Spedag Americas Inc.

The carrier executive said he believes the front-loading to the East Coast will "peak" in August. That's because with negotiations over a new contract between the International Longshoremen's Association (ILA) and maritime employers on the East and Gulf coasts now stalled, importers will look to shift more cargo to the West Coast to avoid potential labor-related disruptions, the source said. The existing coastwide contract expires Sept. 30.

The East Coast spot rate as of Tuesday was $10,100 per FEU, unchanged from last week, according to Platts.

Capacity to West Coast up from last year

Total capacity from Asia to the West Coast this month is 1.68 million TEUs, almost 12% higher than July 2023, according to Sea-Intelligence Maritime Analysis. Carriers and carrier alliances have begun phasing in seven weekly services from China to Los Angeles-Long Beach. They also launched or reinstated three services to the Pacific Northwest (Seattle-Tacoma and Vancouver).

"It seems like the added capacity is having an impact on rates," said Rachel Shames, vice president of pricing and procurement at the forwarder CV International.

A few carriers have begun quoting rates to the West Coast in the "mid-$7,000s on select services," Shames said.

A second carrier executive noted that the so-called bullet rates and extra-loader rates target specific routes or larger importers, so they will most likely not drag the entire trans-Pacific market lower.

"The bullet and extra-loader rates tend to be localized," the source said. "They're not putting downward pressure on the FAK [freight-all-kinds] rates," which follow the larger spot market.

Although most carriers last month filed for GRIs of $1,000 that, if successful, would have gone into effect July 15, it now looks almost certain that there will be no rate increase next week, said Christian Sur, executive vice president of ocean freight contract logistics at the forwarder Unique Logistics International.

"We've gotten some slight reductions for the first time since May 1," Sur said. Carriers now have enough capacity to absorb peak season volumes thanks to reduced congestion at Asian ports, deployment of extra-loader vessels and the new weekly services, he said.

With the easing of capacity constraints to the West Coast, importers no longer have to make bookings quite as early — three to four weeks in advance — as they had been. "It's not as difficult as it was getting space," Shames acknowledged.

Some carriers are still charging, or attempting to impose, peak season surcharges (PSSs), which are applied to fixed-rate service contracts and NVO named-account rates. But they are now starting to experience customer pushback to the surcharges, especially from the larger importers and retailers, McElroy said.

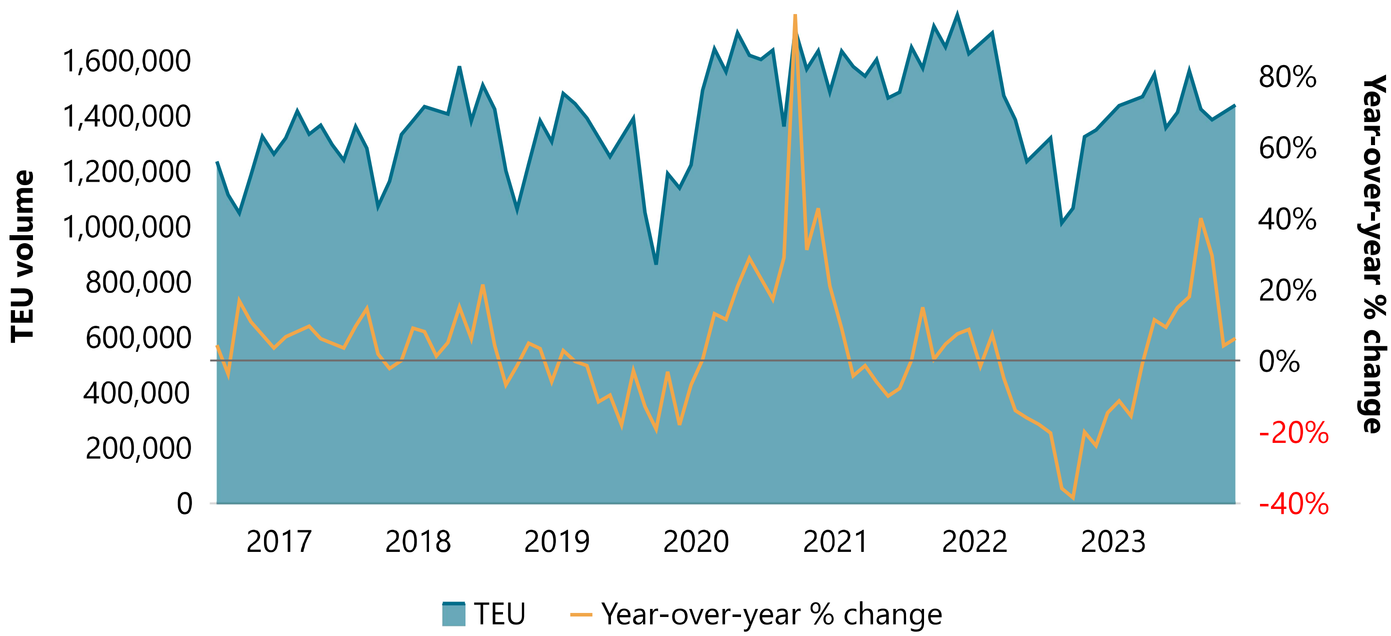
"We've had only one carrier who approached us about a PSS," said an importer of home furnishings that ships with multiple carriers.

The National Retail Federation (NRF) on Monday upgraded its forecast for containerized imports to the US for the sixth straight month as the frontloading of cargo and strong sales during an early peak shipping season have driven freight volumes to their strongest in two years. The revised forecast from the NRF comes as US consumer spending remains strong despite higher prices for merchandise and various supply chain challenges that have increased shipping costs.

US imports from Asia increased 6.7% in May from May 2023, according to PIERS, a sister product of the *Journal of Commerce* within S&P Global.

US imports from Asia up year on year since October

Total monthly TEU volume of US containerized imports from Asia, with year-over-year change



Source: S&P Global

3M 6M 1Y 2Y YTD MAX

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Suez routing still out, Panama routing improving

Meanwhile, NVOs and carriers say it is almost certain now that a return to the normal Suez Canal routing for Europe, Mediterranean and US East Coast loops from Asia will not occur this peak season as the militant attacks on shipping in the Red Sea show no signs of abating. In fact, June was the heaviest month for attacks on shipping by Houthi militants operating in Yemen, Jon Monroe, who serves as an adviser to NVOs, said in his July 5 newsletter.

While that means all-water services from Asia to the East Coast will be forced to take the longer, more costly route around the southern tip of Africa, there is good news for East Coast shippers in that water levels in the Panama Canal are returning to normal.

That will allow carriers to load their ships more heavily on trans-Pacific all-water services from Asia to the East Coast.

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