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Bullish fundamentals portend solid peak season for air, ocean markets

More than 70% of air cargo space controlled by Kuehne + Nagel subsidiary Apex has been presold for the third and fourth quarters. Photo credit: K+N.

Greg Knowler, Senior Editor Europe | Jul 25, 2024, 1:00 PM EDT

Air and ocean trades out of Asia are heading for strong peak seasons as the Red Sea disruption keeps shipping capacity in short supply and strong demand for e-commerce and a modal shift fills all available air freight space.

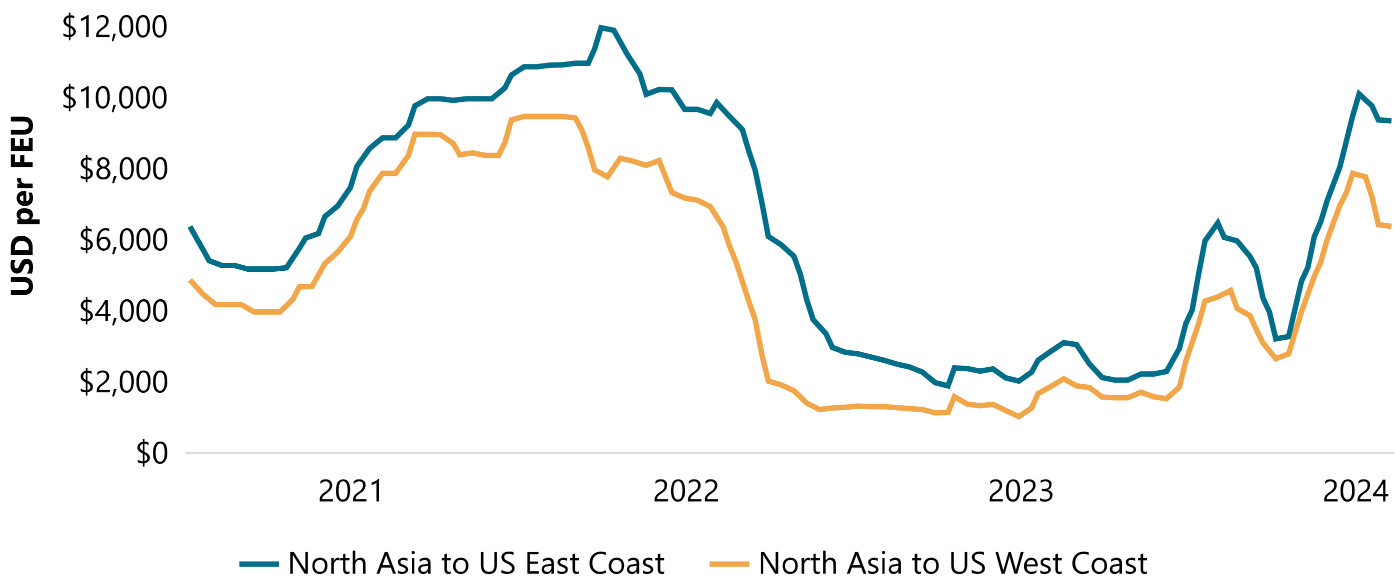
The tight supply-demand balance is holding rates at elevated levels in both transportation modes, although there are signs ocean rates may have peaked on the trans-Pacific and Asia-Europe/Mediterranean routes.

Platts, a sister company of the *Journal of Commerce* within S&P Global, pegged the North Asia-US West Coast spot rate at $6,500 per FEU as of July 24, down 10% on the week but almost four times the price during the same week last year.

Asia-North Europe rates stood at $8,300 per FEU this week, unchanged on the week but five times higher than the same week last year. Asia-Mediterranean rates were three times higher than the same week last year at $7,200 per FEU, although down $300 over last week.

Spot rates from Asia to the US fall off highly elevated levels

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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Capacity on the east-west trade lanes has remained exceptionally tight despite a huge influx of new vessels over the past seven months.

“Since the beginning of the year, the capacity of the container ship fleet has increased by 1.6 million TEUs,” Niels Rasmussen, chief shipping analyst at BIMCO, noted in a market update this week. “Compared to one year ago, the capacity has risen 11% to 29.5 million TEUs, the fastest fleet growth in 15 years.”

Rasmussen said the global fleet capacity was expected to exceed 30 million TEUs for the first time ever at the end of the third quarter and hit 30.5 million by the end of

2024.

Capacity absorbed by longer voyages, congestion

A significant amount of that capacity is being absorbed by the longer route around southern Africa to avoid Houthi militant attacks in the Red Sea and Gulf of Aden that adds more than 10 days to voyages from Asia to Europe and the US. Another capacity-absorber is congestion in Asian ports that disrupts weekly services on east-west routes and results in blanked sailings.

Blank sailings data from Sea-Intelligence Maritime Analysis through the end of September indicates that carriers are expecting demand to fill all available space during peak season on the trans-Pacific and Asia-Europe lanes.

For the 2024 peak season, carriers have so far planned to blank 3.9% of total capacity on the Asia-North America routes, even though capacity deployed in July through September is set to grow 24.6% compared with the 2023 period, according to Sea-Intelligence.

Carriers on Asia-Europe will blank 5.9% of capacity this peak season, while capacity will grow 13.1% year over year.

Alan Murphy, CEO of Sea-Intelligence Maritime Analysis, said the fact that carriers were willing to maintain the level of elevated capacity with relatively low levels of canceled sailings indicated a confident outlook for the current peak season on both major ocean trades.

Air freight demand underpinned by e-commerce

In the air cargo markets, average rates from China to North Europe and North America also softened slightly this week. Shanghai-North Europe spot rates of $4.14 per kilogram were down 5% from last week but are still up 40% year over year, according to the Baltic Air Index (BAI). The average Shanghai-North America rate this week of $5.41/kg was down 2% on the week and up 26% compared with the same week last year.

Sustained demand keeps air cargo rates elevated out of Shanghai
Shanghai outbound air freight index with year over year change

Source: Baltic Air Freight Indices powered by TAC

1M 6M 1Y YTD MAX

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Imports of e-commerce from China are expected to continue underpinning demand in the air freight markets. However, not all forwarders are able to benefit from the online shopping boom, with Chinese e-commerce marketplaces such as Temu and Shein typically contracting space directly with airlines.

One forwarder benefiting from e-commerce demand is Kuehne + Nagel, through its Apex subsidiary. Apex is based in Asia Pacific and operates with a large part of its capacity contracted on a long-term fixed-rate basis. Although e-commerce is only part of that business, CEO Stefan Paul said 70% of the capacity offered by Apex has already been presold for the third and fourth quarters. The air cargo peak season traditionally begins deep in the fourth quarter.

“That’s good news for us, because we see a good peak coming towards us during the fourth quarter this year,” Paul told analysts during a first-half earnings call this week.

“We will keep a bit of a gap to give us the opportunity to adjust the selling rates on a weekly basis for the remainder, but two-thirds of our volume that we have secured is a very good indicator.”

DSV, by contrast, is not very active in the e-commerce markets, instead producing volume in industrial sectors such as pharmaceuticals or high tech.

“Many of the e-commerce companies have a direct relationship with some of the air carriers because they produce fixed volumes in certain areas and charter full planes,” CEO Jens Lund told analysts on DSV’s interim results call this week.

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