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Carriers quoting trans-Pac rates of $5,000/FEU on Suez-linked equipment imbalances

Some industry sources say demand in the eastbound trans-Pacific may not be strong enough to support $5,000 spot rates. Photo caption: Daniel Wright98 / Shutterstock.com.

Bill Mongelluzzo, Senior Editor | Jan 5, 2024, 3:43 PM EST

Container lines are now quoting spot rates of $5,000 per FEU from Asia to the US West Coast effective Jan. 15 — almost twice the current rate — as container lines try to reclaim costs from widening equipment imbalances caused by Red Sea disruptions.

Carriers have already successfully pushed up spot container rates and freight-all-kinds (FAK) rates charged to forwarders from about $1,750 per FEU on Dec. 15 to $2,750 per FEU on Jan. 1.

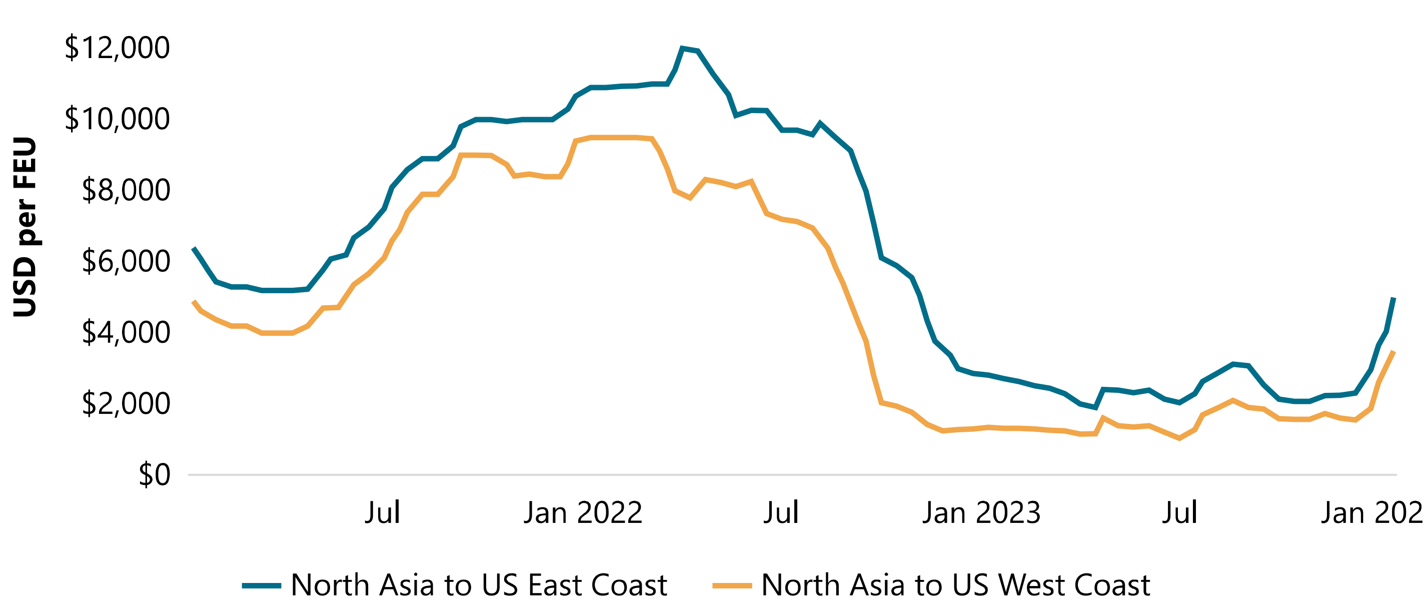
The new rate move by carriers in the eastbound trans-Pacific comes as the security situation in the Red Sea shows no signs of improving, forcing ship diversions around southern Africa, and amid retail restocking in the US ahead of an early Lunar New Year on Feb. 10. Still, a forwarder and an industry consultant told the *Journal of Commerce* they are not convinced that trans-Pacific volumes are strong enough to enable the $5,000 quote to stick.

Nevertheless, at least in the short term, spot and FAK rates are increasing. “This will go on for a while,” a carrier executive who did not want to be identified told the *Journal of Commerce* Friday.

Spot rates for Asia to the US West Coast were pegged at $2,733 per FEU as of Jan. 4, up 45% in the past two weeks, according to Platts, sister company of the *Journal of Commerce* within S&P Global.

North Asia-US spot rates on the rise as 2024 begins

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



Source: Platts, S&P Global

3M 6M 2Y YTD MAX

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The carrier source said even if the Suez security situation were to be resolved immediately, it would take three to four months for the trans-Pacific trade to return to normal as existing equipment imbalances dissipate. If the attacks by Houthi militants against commercial shipping continue for some time, high rates will likely continue "for most of the year," he said.

The Suez Canal diversions are also causing a spike in Asia to East Coast spot rates, with some carriers quoting rates of $7,000 per FEU, said Kurt McElroy, executive vice president at the non-vessel-operating common carrier (NVO) Kerry Apex. That means the East Coast-West Coast differential, normally about $1,000, would be $2,000 if the quoted rates hold.

"All of the old paradigms of a $1,000 differential are gone because of the canals," McElroy said, referring to the Suez diversions as well as drought restrictions in place at the Panama Canal. With the Suez route particularly shrouded in uncertainty, a wider differential between the US East and West coasts is likely to continue, he said.

The Asia-East Coast rate this week is $3,900 per FEU, according to Platts.

Christian Sur, executive vice president for ocean freight contract logistics at Unique Logistics International, noted that most of the vessels diverted from the Suez Canal around the southern tip of Africa are the larger container ships, so more boxes are tied up on the major east-west lanes. "It takes those boxes longer to get back to Asia," he said.

The equipment imbalance is the primary factor pushing rates higher, he said.

"It's not like demand is so strong," Sur said. "Carriers are getting good utilization, but they're not overbooked. It's the equipment imbalance."

Will Jan. 15 rate increase stick?

An industry consultant who was formerly the logistics manager at two national retailers said that while some carriers are quoting $5,000 rates to the West Coast from Jan. 15, it is not yet certain if those rates will stick. "The demand has to be there," he said.

An NVO who did not want to be identified said there's increased demand now on account of the pre-Chinese New Year rush, but "normal seasonal flow" will return after that.

"[While] $5,000 is the number that is being quoted in the market, I'm not confident it will hold," the source told the *Journal of Commerce.*

Some carriers, including CMA CGM, Maersk and Hapag-Lloyd, are also quoting surcharges, such as "war-risk" surcharges ranging from $400 to $2,700 per FEU, as well as peak-season surcharges. The NVO said those charges will be on top of the spot or FAK rates.

Larger retailers tend not to have peak season surcharges (PSSs) in their contracts with carriers, so they will not pay the PSS. However, a war-risk surcharge is usually applicable to all customers, the NVO source said.

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Senior Editor Ari Ashe contributed to this story.