

# Container market turn could keep capacity tight until October



*Vessel capacity is at a premium, as reflected by container ship charter rates jumping 10% week to week in late May. Photo credit: GreenOak / Shutterstock.com.*

**Mark Szakonyi, Executive Editor | Jun 4, 2024, 11:25 AM EDT**

HAMBURG — Well, that escalated quickly. In just several weeks, the container shipping market has turned dramatically, sending spot rates surging as demand exceeds capacity on major ocean trades.

In late April, container spot rates on the trans-Pacific and Asia-Europe were dipping as the shipping system better adjusted to the longer transits around southern Africa that were forced by fears of Houthi militant attacks in the Red Sea.

Then the worm turned. Fog slowing ship loadings at North Asia ports in late April coupled with rising demand for Asia imports to North America, Europe and

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Brazil pushed ship capacity and container equipment availability to the brink.

The increase in bookings in recent weeks has surprised container line executives who spoke to the Journal of Commerce.

“We’re all a little bit surprised by the surge in demand over the last four or five weeks,” Rolf Habben Jansen, the CEO of Hapag-Lloyd, said in a May 30 interview at the carrier’s Hamburg headquarters. “My personal hypothesis is that probably there’s still a bit of a mix between an early peak season and people trying to get stuff in early because of all the uncertainty that’s out there. I would be surprised if this lasts until the end of the year.”

Another Europe-based carrier source noted there seems to be a psychological factor, where shippers see and hear others rush cargo and then join the herd.

After many lost their jobs during the pandemic, US logistics managers are “traumatized” and taking no chances of being out of stock after many whittled down inventories, argues another Europe-based ocean carrier executive. Logistics managers globally “are panicking,” said the source, with the anxiety being ratcheted up by the uncertainty that comes from elections being held in more than 60 countries this year, including the European Union later this month.

Additionally, the executive says China is flooding the market with goods after losing market share to the likes of Vietnam and Mexico in recent years. And with President Joe Biden and presumptive Republican presidential nominee Donald Trump both taking cracks at Chinese trade, albeit to different degrees, US importers have an additional incentive to move goods before possible higher tariffs take hold.

Economists are also surprised by the health of container demand. US GDP growth and the scale of the US inventory drawdown “doesn’t support the [container] growth we’ve seen,” said Chris Rogers, head of supply chain research at S&P Global Market Intelligence. Nor does Rogers think the increased activity can be explained solely by front-loading.

“It’s hard to see anyone in a high interest rate environment trying to bring Christmas trees in June,” he said.

## Stretched out

The signs of the global shipping system being maxed out, barring the trans-Atlantic

and India-US trades, are plentiful. Singapore, the largest transshipment hub, is working through a backlog that has been delaying cargo by three to five days. Even before Asian port congestion worsened last month, delays in April had already soaked up 5.7% of global capacity, according to Sea-Intelligence Maritime Analysis' recent "Sunday Spotlight" newsletter. Another 6% of capacity is being absorbed by the longer transits around Africa.

Vessel capacity is at a premium, as reflected by container ship charter rates jumping 10% week to week in late May, the largest on-week increase since August 2021, according to Andrew Lee, an equity analyst at investment bank Jefferies. Idled global capacity is less than 1%, according to maritime analyst Alphaliner. Equipment is also scarce, with container leasing rates for 40-foot high-cube containers in China, as tracked by Container Xchange, up 45% between April and May.

Container spot rates are nearing pandemic levels, with Asia to North America rates for the week ending May 31 hitting levels not seen since early fall of 2022, according to Platts, a sister company of the Journal of Commerce within S&P Global. A rush to beat impending Brazilian tariffs on electric vehicles began pushing up spot rates out of China in April. Rates in May jumped 59% on average, to \$6,882 per FEU, from the prior month, according to Platts.

Intra-Asia container rates out of some trades from China hit a 30-month high in May, although the gains still pale in comparison with the doubling of rates on some Middle East trades, Nelson Sequeira, senior director at Singapore-headquartered X-Press Feeders, told the Journal of Commerce.

Barring the resumption of regular Suez Canal transits, carrier executives and forwarders expect capacity to remain tight until at least Golden Week in October. That's despite another 1.8 million TEUs set to be delivered in the second half of the year, according to Alphaliner. So far this year, 1.3 million TEUs of capacity has come out of shipyards.

The criticism of carriers' aggressive tonnage ordering over the last year now seems particularly short-sighted.

"I would still argue that it's good to have a little bit of extra capacity compared to a situation where everything is imbalanced," said Hapag-Lloyd's Jansen. "Because just look at what happened over the last three, four or five years. There is always some kind of disruption."

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