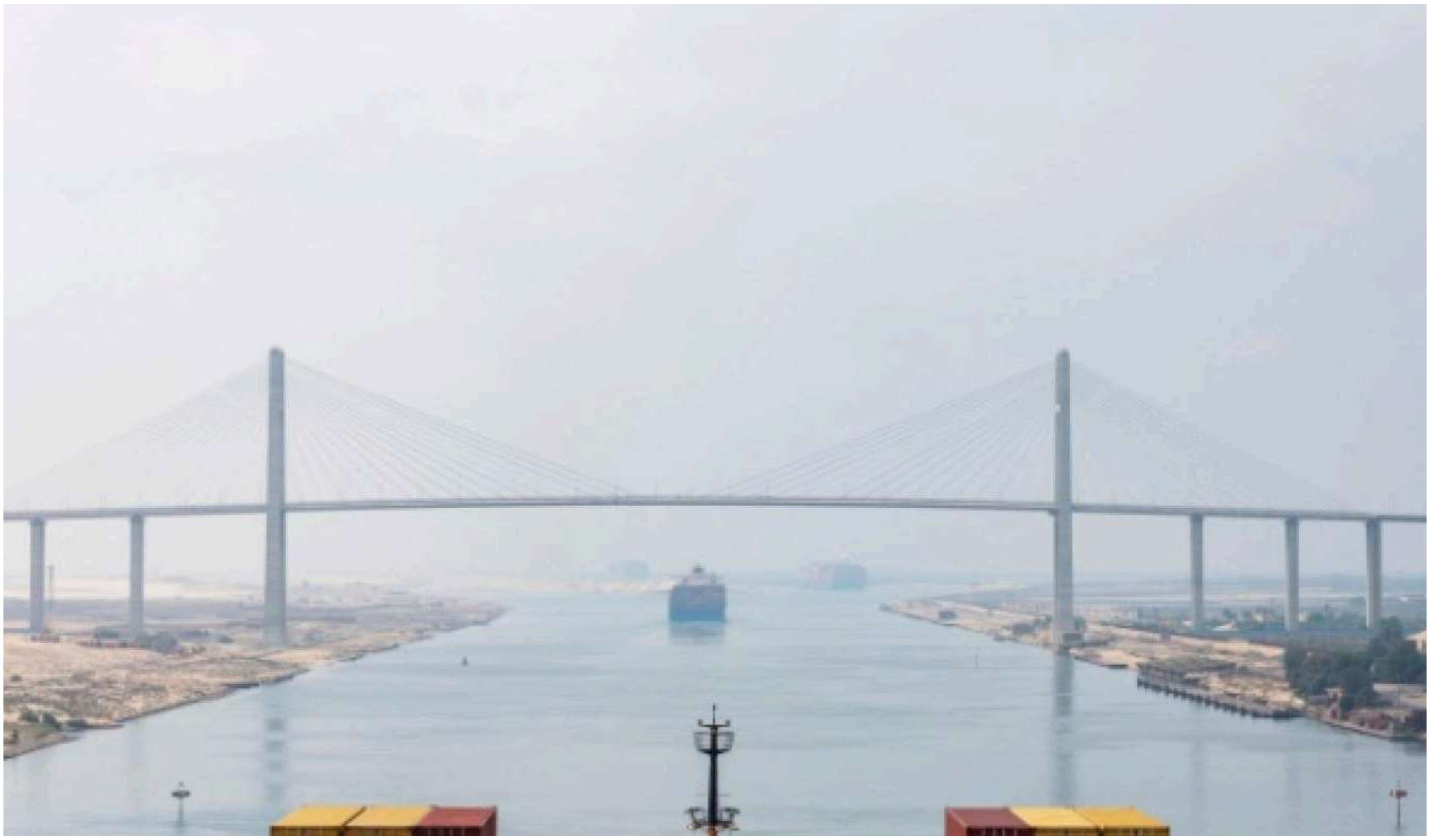
S&P Journal of Commerce

No industry consensus on duration of Asia-Europe ocean disruption



Carriers have been forced to avoid transit via the Suez Canal for the past six months, adding up to two weeks to Asia-Europe voyages. Photo credit: Mariusz Bugno / Shutterstock.com.

Greg Knowler, Senior Editor Europe | Jun 5, 2024, 2:15 PM EDT

Stakeholders hold divergent views on how long the unexpected demand surge will continue to fill all available capacity on the Asia-Europe ocean trade, with predictions ranging from the end of peak season all the way to Lunar New Year at the end of next January.

Hapag-Lloyd expects a return to normal later this year, while some forwarders and shippers believe the high demand and trade lane disruption will last longer.

"The spike in demand is a combination of various factors but I think it is a temporary thing and will not last until the end of the year," Hapag-Lloyd CEO Rolf Habben Jansen told a customer briefing Wednesday.

Markus Panhauser, senior vice president for European ocean freight at DHL Global Forwarding, sees a longer run.

"We expect the situation to last until Chinese New Year 2025 as the restocking will seamlessly go into the peak season, possibly with just a little dip after Golden Week [in October]," Panhauser told the *Journal of Commerce*.

Volatility is here to stay, he added.

"After Chinese New Year 2025 the cargo boom might be over, but we will see the alliance reshuffling which means again void sailings, port omissions, schedule changes and as a result less available capacity," Panhauser said.

Alberto Rivola, head of global ocean procurement at Italy-based forwarder Savino Del Bene, said the Asia-Europe container trade could see a weak fourth quarter, but that would depend on the resumption of Red Sea transits.

"If there is no solution, then the short supply may last longer, but if there is a solution to the Red Sea crisis, with access to the Suez Canal, the situation will change," he said.

The logistics director for a European retailer was also not expecting any improvement this year in the tight space, soaring rate levels and an ongoing struggle to load agreed volume allocations on ships out of Asia.

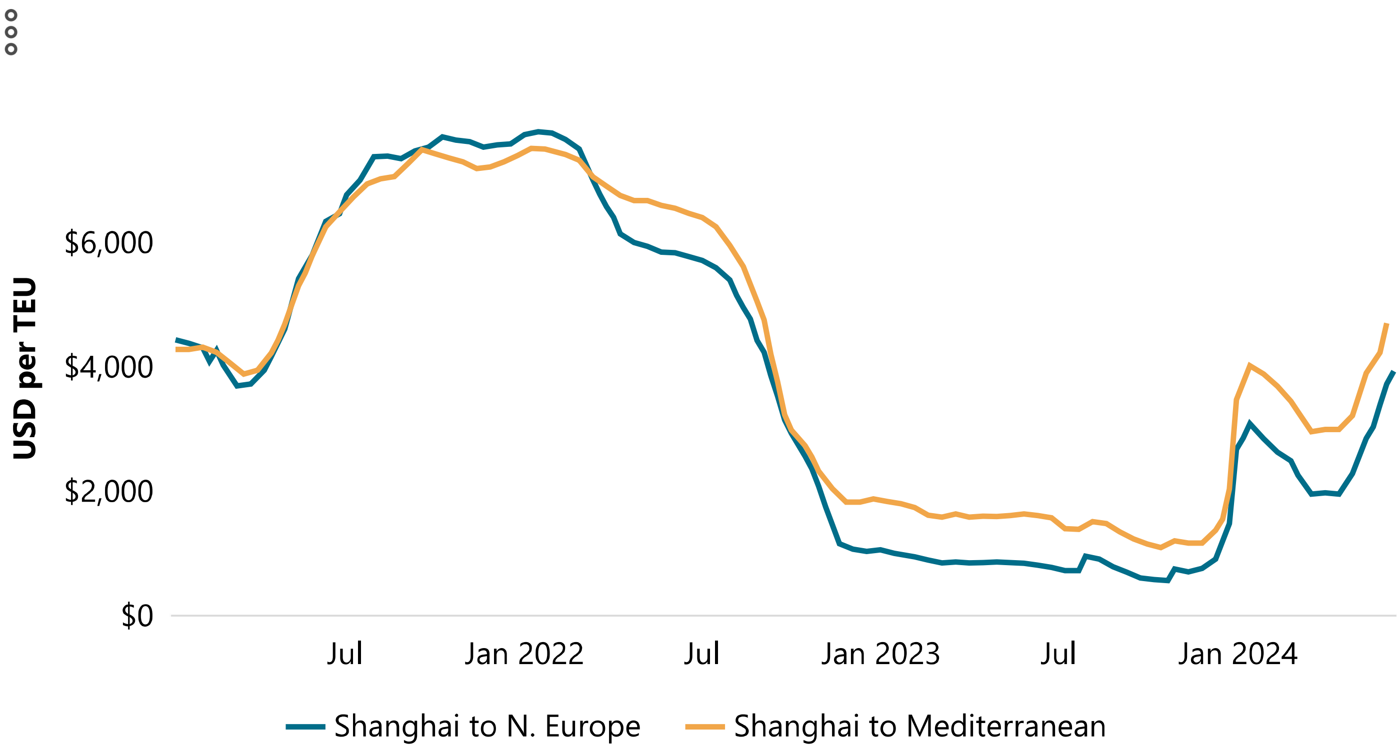
"I hope this situation will be over soon, but I doubt that we will have a dip before Chinese New Year," he said.

Rate rise continues

There is certainly no sign of rate levels coming down yet, with port congestion in Asia and the Mediterranean delaying ships, disrupting schedules and creating growing shortages in equipment for Asian exporters.

Average spot market prices are now well over $6,000 per FEU on some rate indices, with the Shanghai Containerized Freight Index showing a 12.6% increase in spot ocean rates ex-Shanghai last week, the 10th consecutive week of rising rate levels.

China-Europe spot rate surges on strong demand, congestion
Shanghai to North Europe and Mediterranean container spot rates (SCFI)



Source: Shanghai Shipping Exchange

6M 1Y YTD MAX

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Alphaliner noted in its latest newsletter that although the rate index is still far below the historical peak reached during the height of the pandemic period in January 2022, strong cargo demand has pushed average spot rates to levels that are almost three times higher than a year ago.

"Many importers have learned their lesson from the supply chain chaos during the COVID pandemic and are refilling their stocks early ... rates are expected to remain firm until the end of the peak season," the analyst noted.

However, underlying the highly positive market for the carriers — Maersk this week added $3 billion to its expected 2024 profitability expectations — is the knowledge that as soon as regular Red Sea voyages resume, container shipping's overcapacity issue will reassert itself and rates will plunge.

"With over 2 million TEUs of new slots to be delivered before the end of this year, the shortage of ships will no longer remain an issue," Alphaliner noted. "Any solution of the Gaza conflict, and a return of the main Asia-Europe loops to the Suez route, would immediately lead to an oversupply of tonnage with a very predictable [negative] effect on spot freight rates."

That was a view shared by the ocean freight head at a global forwarder.

"For now, carriers are in the driving seat and all their spare capacity is being used and they will take what they can before the Red Sea reopens, because then they will immediately start to lose money again," the source, who did not want to be identified, told the *Journal of Commerce*.

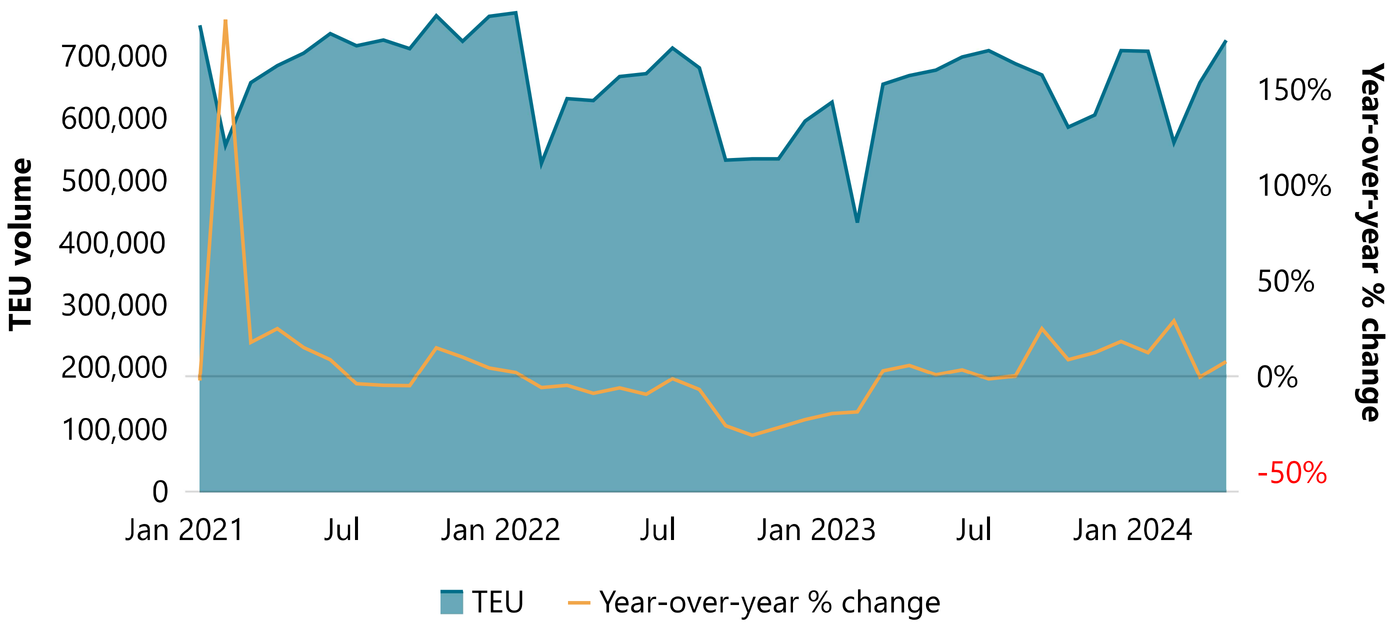
'Structurally overbooked'

For now, carriers are struggling to handle the high demand. Habben Jansen said Hapag-Lloyd was "structurally overbooked" on Asia services, which he attributed to a range of factors.

"There is some restocking, there is probably an early peak season, there is probably an influence of the increase in US tariffs on China and there is some anxiety about events that could happen in the second half and people want to be on the safe side," he told customers during the carrier briefing.

China to North Europe volume up sharply through Q1

Container volume from China to North Europe measured in TEUs with year over year change



Source: Container Trades Statistics

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While shippers complain about having cargo rolled, Habben Jansen pointed to an age-old problem that container shipping has not been able to address — overbooking. When vessel space is tight, shippers often book the same cargo with several carriers to ensure it gets on board a ship, and countering that approach leads carriers to accept more container bookings than they have slots available.

"The number of double, triple and quadruple bookings that we get is not helpful as it creates artificial demand," Habben Jansen said. "I would like to be in the situation where we do not have to overbook but the reality is that there is a fairly large percentage of containers that never show up, and if we did not overbook, we would sail with significant empty space."

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