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Rate slide slows on Asia-Europe ocean trade, with hefty hikes set for May

Forwarders expect volume on trades out of Asia to grow through the rest of the year. Photo credit: OOCL.

Greg Knowler, Senior Editor Europe | Apr 25, 2024, 10:22 AM EDT

Two rounds of April price hikes on the Asia-Europe ocean trade have arrested a recent westbound rate slide that had seen the spot market fall more than 30% since hitting a peak in early January.

And with the ink not yet dry on the latest April 15 freight-all-kinds rate increase, some carriers have set aspirational May 1 rate levels above $4,000 per FEU from Asia to North Europe and as high as $5,600 per FEU to the Mediterranean.

The increases would be substantially higher than current rate levels, with various indices assessing the spot market on Asia-North Europe at $3,000 to $3,200 per FEU and Asia-Mediterranean rates at $3,500-$4,100 per FEU.

“The two rounds of rate hikes in April have at least reversed the recent rate slides, with carriers keen to keep the positive momentum with capacity on both the North Europe and Med sectors remaining tight due to the [southern Africa] diversions,” according to an April market update from analyst Linerlitica.

“Capacity utilization remains very high despite lackluster volume growth to Europe this year and carriers will be banking on an early summer rebound in volumes to push for further rate increases in May,” Linerlitica added.

The likelihood of demand growth through the summer is high, if comments by the CEOs of Kuehne+Nagel and DSV are any indication. Both K+N’s Stefan Paul and DSV’s Jens Lund told analysts in their first-quarter earnings calls this week that demand on Asian export trade lanes was expected to continue growing through the second half of the year and beyond.

“We believe that Q2 from a volume perspective will be stronger than the first quarter and year over year, and there should be between 2% and 5% volume growth in the second quarter versus 2023,” Paul told analysts.

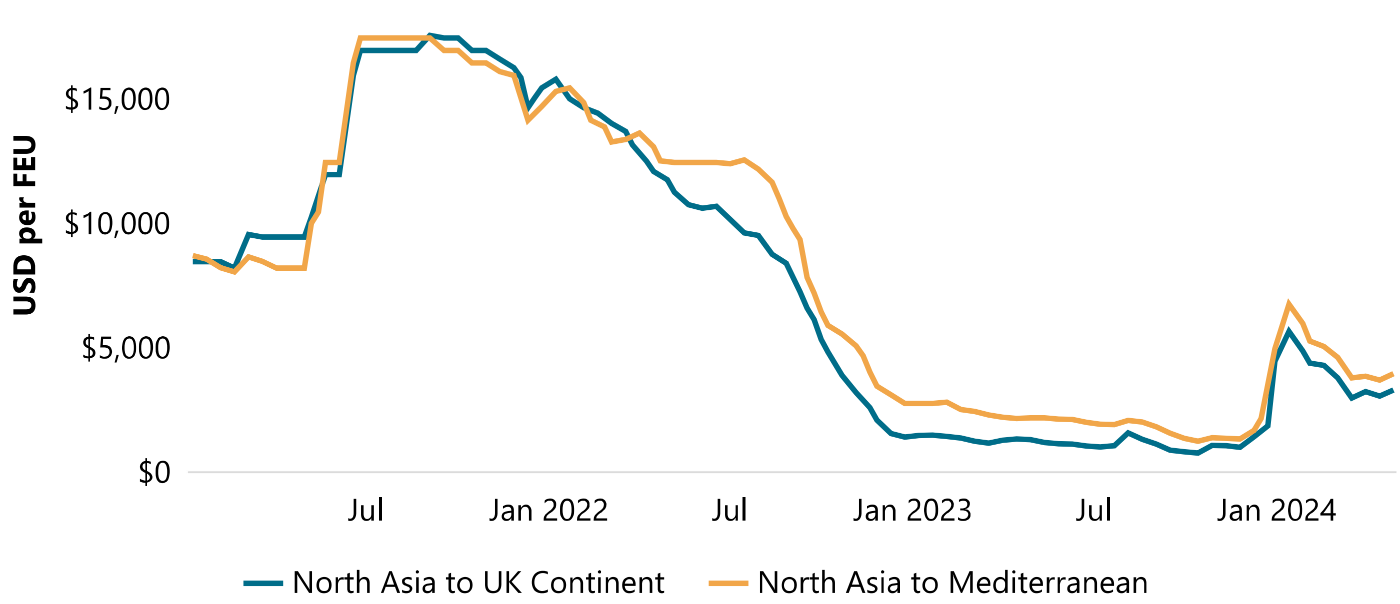
Volume up, rates heading south

The news from a rate perspective was the opposite. Although current high ship utilization will provide at least some support for rate levels, Paul did not expect any contribution to Asia-Europe rates from the Red Sea ship diversions to last beyond the second quarter.

“We believe that the situation from a rate perspective is going to normalize at the back end of the second quarter,” he noted.

Sharp correction in rates on Asia-Europe trade lanes

North Asia to Europe and Mediterranean container short-term rates in USD per FEU



Source: Platts, S&P Global

6M 1Y YTD MAX

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DSV's Lund said bookings in the forwarder's business pipeline showed volume growth continuing, but he agreed rates would head in the opposite direction considering the large amount of capacity coming into the market.

"It probably means that the rates which have already been pushed down will continue to decline," he told analysts.

Although shipping association BIMCO estimates that 9.5% of capacity has been absorbed by the need to divert ships around southern Africa to avoid the Red Sea attacks, the eventual return to Suez Canal transits will see the industry quickly return to an oversupplied situation.

Almost half the 8.1 million TEUs in capacity ordered in the past three years is for vessels above 14,500 TEUs, according to Sea-web, a sister company of the *Journal of*

Commerce within S&P Global. That capacity is steadily sailing into service and keeping the supply-demand balance under pressure.

BIMCO expects cargo volumes to grow more slowly than the fleet, at 3% to 4% in both 2024 and 2025 with the fleet growing at 9.5% in 2024 and 4.9% in 2025.

As the market has adjusted to the new normal of longer voyages, the number of blank sailings has fallen sharply since March when heavily disrupted schedules saw carriers blanking almost 30% of sailings, according to data from Sea-Intelligence Maritime Analysis.

Blank sailings dropped to 5% in April, with 12.4% of capacity set to be canceled in May, about on par with May 2023.

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