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Trans-Pacific rate push tests health of early peak season

Forwarders said Asia-US East Coast rates, while still strong, could drop further by the end of August as import volumes tail off. Port of Qingdao pictured. Photo credit: NurPhoto / Getty Images.

Bill Mongelluzzo, Senior Editor | Aug 16, 2024, 12:01 PM EDT

The degree to which container lines can increase spot rates from Asia to the US in the coming week will determine the strength of the trans-Pacific market for the remainder of the peak shipping season this fall.

The frontloading of import cargo for a variety of reasons ushered in an earlier peak season this year, starting in early spring rather than late summer. Injections of new capacity to the US West Coast have helped push down container spot rates for the last five weeks, according to various pricing indexes.

Carriers and non-vessel-operating common carriers (NVOs) said the coming week should determine if carriers have established a floor for spot rates to the West Coast or if the additional capacity drags pricing farther below the high-water mark set in early July.

Normally, about 60% of eastbound trans-Pacific volumes move under contract rates and the other 40% under spot rates, according to industry sources. However, when space is tight, as it was this spring, carriers favor higher-paying spot and FAK cargo, so only about 45% of the total volume moves under the lower-paying contract and named-account rates.

Carriers and NVOs said Thursday most lines are seeking general rate increases (GRIs) of $200 to $400 per FEU that would go into effect Sept. 1. The current spot rates carriers are quoting to customers are in the range of $7,100 to $7,200 per FEU to the West Coast and $9,800 to $9,900 per FEU to the East Coast, a carrier executive who asked not to be identified told the *Journal of Commerce.*

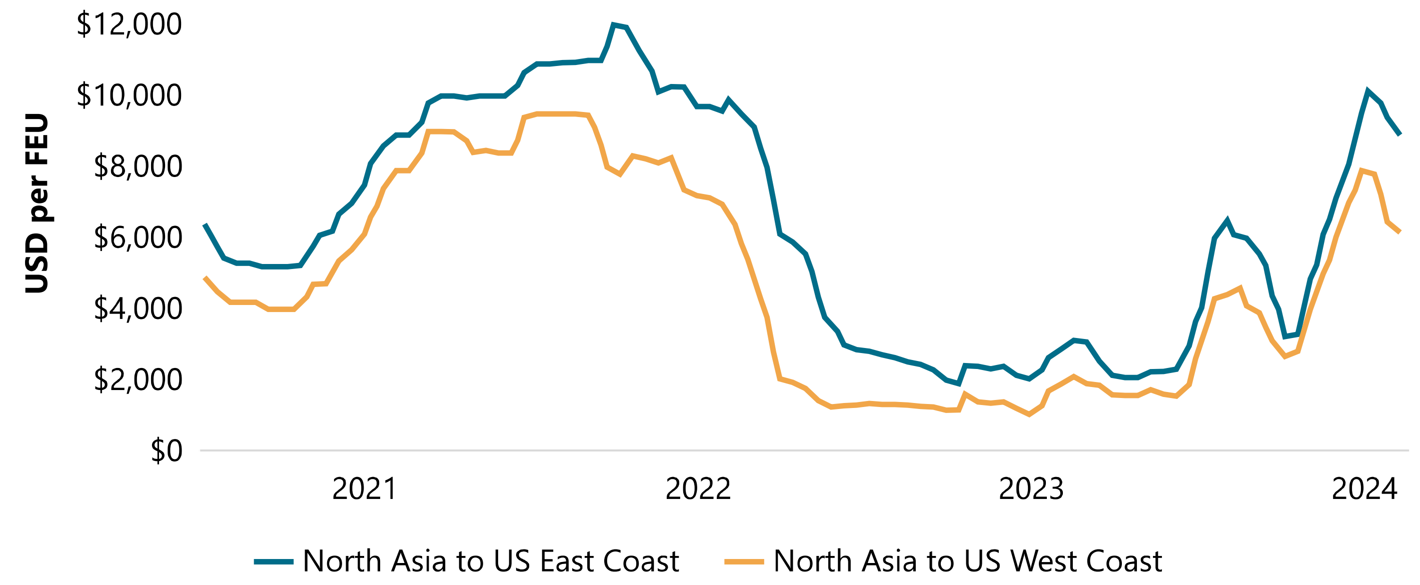
However, some major carriers are under-cutting the spot rates by offering voyage-specific “bullet” rates of just over $6,000 per FEU from major load ports in China to the West Coast, and smaller lines that entered the trans-Pacific in the past two months are offering similar rates for all sailings, said Kurt McElroy, executive vice president of the NVO Kerry Apex.

“We’re trying to make sense of the rates these carriers are filing,” he said. “They’re taking the FAK [freight all kinds] rates up even though they’re posting lower bullet rates that are valid through next week.”

After five straight GRIs beginning on May 1, average Asia-US spot rates peaked at $8,133 per FEU to the West Coast and $10,133 per FEU to the East Coast in the week of July 5, according to Platts, a sister product of the *Journal of Commerce* within S&P Global. As of Friday, average pricing had slipped to $6,000 per FEU to the West Coast and $9,000 per FEU to the East Coast, according to Platts.

Trans-Pacific spot rates sliding from early July highs

Container spot rates 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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Shippers and NVOs have a wider range of rates available to them today than in previous markets, a second carrier executive based in North America said. These options include special bullet and port pair-specific rates offered by the larger alliance member carriers, lower rates offered by the smaller lines that entered the trans-Pacific in recent months and single-voyage “extra-loader” vessels that some carriers have deployed this summer, the carrier executive said.

Matson Navigation, for example, deployed an extra-loader vessel on its weekly service from China to Long Beach earlier this summer and plans to launch another.

“The second was added in response to continuing solid customer demand for our differentiate service,” a company spokesman told the *Journal of Commerce.* Matson offers expedited transit and special ground handling of containers at its terminal in Long Beach.

Carriers have commenced or re-instated 10 services from Asia to the West Coast so far this year.

“This means rates will come down,” said an NVO who asked not to be identified. “We already have offers [from carriers] below $6,000 [per FEU].”

Rachel Shames, vice president, pricing and procurement at forwarder CV International, said some lines “are still trying to increase rates for NVOs. If it happens, it may last maybe a day or two.”

James Caradonna, executive vice president of the NVO M&R Spedag Group agreed. “It’s tough to see the GRIs sticking for very long,” he said, citing the additional capacity that has come into the trade.

East Coast volumes still strong

Carriers and NVOs say the East Coast GRIs may last for another week or two, but the decline in spot and FAK rates that began in mid-July should accelerate later this month.

Generally, import volumes on all-water services to the East Coast peak in August. That’s because the 30-day voyage from Asia to the East Coast plus the additional weeks needed to move holiday merchandise through the inland supply chain to the stores for Black Friday sales require that shipments leave Asia in August.

This year, retailers face the added risk of a strike by the International Longshoremen’s Association (ILA) when its existing contract with East and Gulf coast employers expires on Sept. 30. Speaking on the carrier’s earnings call Wednesday, Hapag-Lloyd CEO Rolf Habben Jensen warned that the probability of an ILA strike has increased since spring.

Caradonna said volumes that will move to the East Coast in the next two weeks “are the strongest we’ve seen,” but the growth should taper off quickly after that because retailers will not risk being caught up in a potential ILA strike.

“I’m surprised the East Coast volumes are still staying strong,” the first carrier executive said. “We have only another week before it will be too risky [to ship to the East Coast].”

Through July, US imports from Asia have grown 17.8% year over year, with shipments to the East Coast rising 12.8% and West Coast volumes up 22.1% from the first seven months of 2023, according to PIERS, also part of S&P Global.

NVOs feel brunt of GRIs

Spot rate fluctuations and GRIs in the trans-Pacific have the greatest impact on NVOs. That's because most cargo owners ship a large percentage of their annual volume under the service contracts they negotiate with carriers each spring. The contract rate for midsize shippers in the contracts, most of which took effect on May 1, is about $1,500 to $1,700 per FEU.

Major retailers were better shielded than NVOs and smaller shippers from rising container spot rates when space was especially tight in May and June. However, large and midsize shippers in recent weeks report they have gotten a greater share of their contact allocations as space loosened, especially to the West Coast.

Furthermore, larger cargo owners attempt to ship a high percentage of their annual volume under contract.

"We purposely don't contract 100%, so we can have some flexibility to take advantage of opportunistic pricing," Brian Grass, CFO of Helen of Troy, which sells food preparation, storage and cooking products, said during a July 9 earnings call. "But somewhere near 80% is contracted into the next fiscal year, so we feel good about that and the protection it provides."

Floor & Decor similarly said its dedicated capacity gained through longer contracts has insulated the home furnishings company from the higher spot rates.

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