



Container Freight Rates Stable to Firm Despite Higher Capacities

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Container freight rates have remained firm this year following an exceptionally weak 2016 and it appears that there is potential for more increases on some routes as market participants enter the 2018 negotiation rounds even though extra capacity is coming on stream.

Darron Wadey, Senior Shipping Analyst at Dynamar said: “The price increase will depend on the routes in question. Globally, there is a lot of additional capacity led by deliveries of vessels of 18-21,000 TEU (Twenty-foot Equivalent Units, the standard measurement for container capacity and volumes).”

Some fourteen in this size bracket have already been delivered in 2017, with another nine due this year alone, bringing 463,000 TEU in new capacity. They are all (to be) deployed to the Far East-Europe trade and are enough in number to fully populate two services. In capacity terms, these new builds would be enough to be the twelfth largest carrier around.

“The concern is if cargo volume does not increase at the same pace as capacity,” Wadey said.

According to a report by Xeneta, a freight rate benchmarking platform, these mega ships need to command utilization rates of at least 91% to achieve cost savings.

“Even in the high-volume Asia-Europe trades that is difficult and may necessitate lower than average rates for some volume, which, inevitably, will hit overall rate development,” the report said.

The Xeneta report suggests that there are 78 new mega ships due to come online for the Asia-Europe routes over the next two years, increasing capacity by over 23%.

This means that there will also be more empty backhaul to take advantage of, which could further pressure prices on the Europe to Far East routes. The big price increases experienced in Europe earlier this year already reversed and this is good news for European exporters.

In terms of shipping to North America from Europe, the price could go up as capacity is tighter, although on the East Coast more ports can now accept larger vessels which could alleviate the pressure somewhat.

Wadey said: “In Europe, rates suddenly spiked earlier this year but that has calmed down now. It was created mostly by the Chinese New Year vessel re-routings and Alliance structure changes. Prices have now gone back down and it seems stable here.”

The Asia to South America route showed what can be achieved with sustainable capacity management. Although action had already been undertaken prior to then, rates had fallen to a paltry \$99 per TEU in February 2016 (Shanghai Containerized Freight Index). Over the two-year period to start 2017, carriers had reduced the number of services by half to three, and capacity by 36%. Aided by cargo volumes, SCFI rates recovered to \$3,800 at their peak in June 2017.

“Although rates have fallen back to \$2,200/TEU as of 8 September, they are still far higher than last year’s average,” Wadey said.

On other routes, there has been a similar tendency of increases although not as sharp as on the Far East-South America direction.

The peak this year for the Far East to Rotterdam route was \$1,168 TEU in June but this dropped to \$812 on 8 September which in turn was the lowest in 2017. However, this was still higher than the 2016 average at \$603. The average in 2017 so far stands at \$937.

Drewry’s World Container Index, a composite of weekly container freight rates on eight major routes to and from the US, Europe and Asia has also showed firmer tendencies.

On the 5 January, the World Container Index (WCI) stood at \$612 for a 40-foot container on the Rotterdam-Shanghai route. This went up to \$1,452 in June 2017 and now it stands at \$1,232. On the reverse route, it is \$2,210 for a 40-foot container.

Whether higher prices can hold remains to be seen but Wadey doesn't have enough confidence to see additional cargo capacity to fill all the extra container capacity coming online.

Wadey said: "In 2017 a total of around 375,000 TEU has been demolished up to this month, but alongside 856,000 TEU has been added. So, we have all this extra capacity and if cargo volumes do not grow at the same rate, this is slightly worrying."

The total global container capacity is at 21.3 million TEU in September 2017. This means that container ships around the world can carry 21.3 million 20-foot equivalent containers, up from 20.8 million TEU at the start of the year, a growth of 2.4 %.

Along the key Asia-North Europe rate, as of July this year, the Annual Trade Capacity had grown by 6% year-on-year. Cargoes along the same corridor grew by 8% in total for the first seven months of 2017 over 2016.

"Although this difference is encouraging from the carriers' point of view, again, it is worth remembering that more capacity has and will come on stream since then, and perhaps we are seeing that with a softening of rates in the third quarter of the year," Wadey added.

According to Drewry's, the industry's return to the profitability in Q2 2017 was expected, but it is more broad-based.

"Even greater pricing discipline should prevail as more lines emerge from their own troughs, which combined with a brighter market outlook and a smaller field should ensure the recovery is more sustainable than before," Drewry's added in their latest market update.

Drewry's said that freight rates along some of the main East-West head haul trades are up by as much as 50% year-to-date.

The WCI sub-index for Shanghai to Rotterdam shows that 2017 year-to-date rates are up by 51% on average over the same period last year; staying within a profitable and much narrower spread of \$1,500/40ft to \$2,200/40ft.

Drewry's added that "removing some of the unpredictability in rates is welcome news for carriers and shippers alike".

Port pair	YTD avg	Y/Y % chg	High	Low	Spread	STDEV
Shanghai to Rotterdam	\$1,771	51%	\$2,212	\$1,516	\$696	\$195
Shanghai to Genoa	\$1,704	34%	\$2,144	\$1,446	\$698	\$178
Shanghai to Los Angeles	\$1,554	38%	\$2,241	\$1,133	\$1,108	\$303
Shanghai to New York	\$2,664	37%	\$3,581	\$2,017	\$1,564	\$456
Rotterdam to New York	\$1,752	-7%	\$1,810	\$1,702	\$108	\$29

Source: Drewry's World Container Index

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