

Advisory

The only predictable thing about the pandemic is its unpredictability

02 Oct, 2020 | Share



Many countries are still struggling with the pandemic one way or the other, which reflects in different ways in our industry. The ocean market is as volatile as ever and continues to hit us with other challenges besides the pandemic such as port congestions, strikes, shortage of containers, shortage of rail wagons, full vessels.

In general, despite the return of capacity to the market, we have not seen any reduction in ocean freight spot rates. On the contrary, spot rates on East-West trades have continued moving upwards and the rate levels on many trades have reached close to, or above, historical records. Goods demand continues to grow and import flows is expected to remain heavy all the way into 2021.

To secure a sustainable supply chain we recommend:

- Plan for extended leads times
- Forecast and allocate volumes on a weekly basis as accurately as possible
- Place bookings well in advance to secure equipment and space. However, the carriers still only releases space for the received bookings on a weekly basis subject to equipment availability
- Keep crystal clear communication on the challenges between all stakeholders.

In the 2 sections below, we firstly zoom in on some of the main challenges in the ocean market and then secondly we have a status on trade lanes.

Some of the main challenges in the market

Several challenges have occurred in the ocean market following the pandemic. Here we deep-dive into three of the main challenges: 1) Shortage of empty equipment, 2) Delays and congestions and 3) Pricing.

1) Shortage of empty equipment

- Europe and the US are struggling to return empty equipment to Asia, why there is a shortage of equipment all over Asia. South China has been a critical spot for equipment since the summer, but the shortage is increasing in all of Asia and sub-continent.
- An acute shortage of containers is hampering exports from Bangladesh via Chittagong, following a significant fall of imports because of Covid-19.
- There is an acute inventory shortage at all Inland locations / Dry ports in India (ICD Locations), all main Indian ports like Nhava Sheva, Mundra, Chennai, Kolkata are also facing container shortage why some carriers have implemented booking stops.

2) Delays and congestions

- Delays in Sydney was initially caused by a poor winter with lots of wind causing unloading delays and consequently many ships omitted Sydney. At the same time, there was an industrial action by the Stevedoring, which caused a peak of empty containers in Sydney and Melbourne. Carriers have now either amended schedules to totally omit Sydney, whilst others will not accept any Sydney cargo for at least the next 30 days. All carriers have introduced a Port Congestion Surcharge, of around US\$300/teu.
- Felixstowe port states: a sharp spike in import container volumes, along with a high proportion of late vessel arrivals and has issued an apology to customers for "Inconvenience", admitting that "our service standards are not currently where we would like them to be".
- The port of Rotterdam is experiencing excessive delays due to the storm "Odette" that passed Europe recently.
- During the summer there have been various labour actions, so called "go slow" actions, and labour market agreements that has caused severe delays, and a worsening situation is predicted to be seen.
- Congestion in the port of Vancouver in combination of shortage of railcars is causing delays of up to 2-3 weeks to get the containers moved to final destinations.
- Making appointments to pick up containers in the port of Long Beach is a challenge, and can take up to a week, due to increased import volumes that is causing a congestion in the port.

3) Pricing

- Oil price remains at a somewhat low level compared to historic numbers hence if anything a modest increase in bunker charges can be expected.

Status on trade lanes

General

The stratospheric increase in spot rates from Asia to the U.S. West Coast appear to have levelled off, at least temporarily, around \$4,000 /40 container which is more than double the level of what was agreed in the 2020 Trans-Pacific contracts. The Asia to Europe spot levels today are about 20% higher than the 2020 contract levels. The carrier discipline is here to stay, and they will use the tool of blank sailings to monitor the supply and demand to keep pressure on the rate levels.

Far East Westbound

- Overall rates have in 2020 increased vs. 2019 with 30%.
- The equipment remains challenging. Especially 40'HC are difficult to get with since carriers have re-directed the majority of the limited equipment available to the Pacific trade to cash in on the record rate levels.
- We expect a 2021 that is in line with present market levels, i.e. it is not expected that there will be a major drop in rates during 2021, however seasonal fluctuations will be present as normal.
- Surprisingly demand situation seems so far to continue at a healthy pace, however the big joker being if the general economical GDP decrease will have an equal effect or not.

Far East Eastbound

- The equipment situation remains challenging since carriers having re-directed majority of the available equipment to the Pacific trade why not enough containers are arriving to Europe to supply the export bookings.
- After recording high rate levels in April and May triggered by +40% blank sailings due to the outbreak of COVID-19, rate levels have declined again, but continue to be significantly above pre COVID-19 levels.
- We expect a 2021 that overall will see a decline in rate levels compared to present market levels, however, it would be too early to state that rate levels will drop back to pre-COVID-19 levels.

Trans-Pacific Eastbound

- The withdrawal of vessel capacity during spring was in anticipation of negative consumer trends, and financial consequences for the average American. The spend on durable goods has exploded. Home goods, recreational and WFH/School From Home etc.
- A dramatic increase in volume is causing issues in port infrastructures and beyond. Vessels are waiting for discharge and the higher turnaround time for containers and vessel are congesting the ports. The waiting time for truckers is going up and the dwell time before loading on rail to IPI is extended as well. The warehouses along the coastline(s) are struggling to keep up, which leads to containers idling on chassis until unloaded. Chassis used for container storage is creating a shortage that further challenges timely pick up at the port
- Continuously high levels of PPE equipment, and with the pandemic still raging, we are predicting a historical busy 4th quarter rivalled only by the cargo rush in late 2018 due to the implementation of new import tariffs.

Transatlantic trade

- There has been a strong volume increase (approx 10%) in Q3 vs Q2 on the Transatlantic westbound trade, and today's volumes is only slightly below the pre-Covid-19 performance.
- The market rates remain more or less stable. 2M extended their suspension of the one loop that was suspended in end April in response to the drop in demand related to the COVID-19. The voided sailings are leading to rollings and this is expected to remain during
- A similar pattern is also valid for the TAEB trade.

North - South routes - Latin America, Africa

- The rates to Latin America and Africa are showing record levels. The rate escalation between Shanghai and Santos are record high, where spot rates have risen from a low of around USD 550/teu in July to USD 1,877/teu at the end of August and recently reached a record USD 3,958/teu, which is the highest tariff since the launch of the SCFI in 2009. High cargo demand is also visible on other North - South routes, rates between Shanghai and Durban increased 43% in the month of September alone.

This is how we see the market as for now, but if you want to know more, you can contact us.



Get in touch

Eva Brasar
Global Head of Ocean Freight
+46 31 354 4722

[EMAIL ME](#)

Headquarter

Jernholmen 49, 2650 Hvidovre
Denmark
Tel +45 32 48 00 00
Fax +45 32 48 01 01

Services

Scan Global Logistics covers all of your logistical needs.

- » Airfreight
- » Ocean Freight
- » Rail Freight
- » Road Freight
- » All services

Industries

- » Aid & Relief
- » Automotive
- » Aviation & Aerospace
- » Energy
- » All industries

About

Discover Scan Global Logistics here:

- » Contact
- » About us
- » Our locations
- » Career
- » Investor
- » Press and Media