

Air cargo rates up in August as peak season looms

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By Damian Brett



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Air cargo rates on major east-west trade lanes began to pick up in August as the industry faced supply chain disruption due to lockdowns in China and the peak season looms (see dashboard below).

The latest figures from the Baltic Exchange Air Freight Index (BAI) show that in August average prices from Hong Kong to North America increased by 9.4% compared with the previous month to reach \$8.64 per kg – the second highest monthly rate of the year.

Compared with August last year, rates on the route are up by 57.1%, while compared with 2019, there is a 162.2% increase.

In the latest Baltic Exchange monthly market update, Peter Stallion, head of air and containers at derivatives broker Freight Investor Services, said the increases out of Hong Kong are likely driven by a lack of widebody bellyhold capacity.

The main story of the month was the disruption experienced at several airports in China, in particular the country's largest cargo hub Shanghai Pudong, as handlers and ramp companies were affected by lockdowns due to growing numbers of Covid cases.

Prices from Shanghai to North America are understood to have increased by more than 20% in the final week of the month due to the disruption.

From Shanghai to Europe, it is understood rates jumped by closer to 30% in the final week of August, although from a much lower level than across the transpacific.

However, Stallion said that the index rates were unlikely to reflect the price increases registered on the spot market as they were affected by increased use of long-term contracts.

"This is no way close to the pace of rate changes given a baseload of medium to long-term contracts still fills up the Asia-Europe and Asia-US markets," he said.

Prices from Hong Kong to Europe were also on the rise during the month, although more along usual lines for the time of year, increasing by 1.1% on July to \$4.63 per kg.

Compared with August last year, rates on the route are up by 54.6% and against the same month in 2019 there was an 80.8% increase.

On services from Frankfurt to North America rate increases continued to slow after a spike at the end of 2020 and in the first few months of 2020.

In August, rates on the route were down 3.9% on July at \$3.94 per kg and were 2% down on last year.

Looking ahead, investment bank Stifle senior analyst Bruce Chan said the market will be unpredictable given sporadic Covid outbreaks and ensuing lockdowns.

"The European Union recommendation [that its member states restrict non-essential travel from the US] will be implemented differently by different members, creating imbalances in capacity that follow passenger demand, and not freight needs," he said.

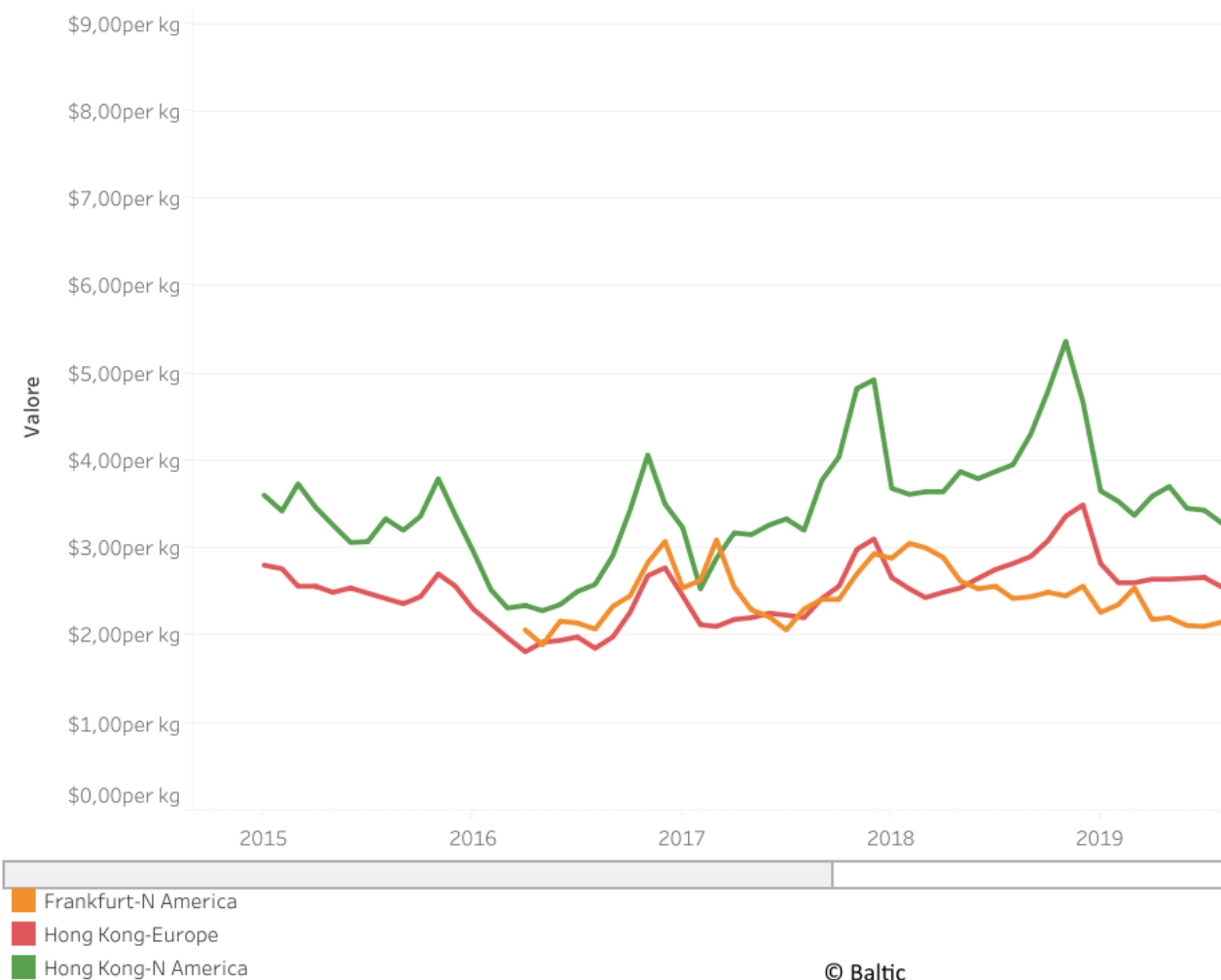
"And different policy restrictions, different terminal shutdowns, and sporadic infections are likely to make planning even more challenging."

He added that the Chinese Golden Week holiday will take place at the start of October and have “shippers scrambling to move inventory in an already constricted capacity market” and “the holiday peak looms in the distance”.

“From a market-dynamics perspective, these are truly unprecedented times, and we see little on the horizon that could restore balance to the market. In 2020, we had surmised that a vaccine would be the answer and restore supply. But that eventuality seems unlikely at this point,” said Chan.

“Another possibility is a substantial deterioration in demand, but that also seems unlikely based on current spending patterns and the state of business inventories, which remain at historic lows.”

Baltic Exchange Air Freight Index (BAI) powered by TAC Data



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