Insurance Marine News

Container and bulk freight rates rise, tankers in doldrums

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The United Nations Conference on Trade and Development (UNCTAD) has just published its Review of Maritime Transport 2021, looking at the impact of events in the past two years on maritime transport in general and on the challenges faced by seafarers in particular.

IMN is covering each of the (six) individual chapters separately.

Today, Chapter 3: Freight rates, maritime transport costs and their impact on prices.

The chapter covers 2020 and the first half of 2021. As indicated in previous chapters (see last week's IMN), the Covid-19 pandemic led to a sudden dip in international seaborne trade, but by late 2020 there had been a swift rebound, mainly in container and dry bulk shipping. The recovery in container trade flows, which was mainly on East-West containerized trade lanes, created a series of logistical challenges and hurdles, pushed up rates and prices, increased delays and dwell times, and undermined service reliability. As a result, there have been calls for more government intervention and regulatory oversight to mitigate any unfair market practices.

Sustained higher container freight rates would increase costs in global supply chains which could work their way through to higher consumer prices, with adverse economic effects globally – but particularly on the small island developing states (SIDS) and the least developed countries (LDCs) whose consumption and production depend more on international trade. There have been similar surges in trade and prices for dry bulk freight.

The situation for tanker shipping, however, has been very different: a drop in global fuel demand and high carrying capacity have pushed tanker rates to record lows.

In 2020, lockdown measures and other impacts of Covid-19 suddenly cut the demand for containerized goods. April and May 2020 were the worst months and by the end of May 2020 a record 12% of global container capacity was idle or inactive (2.7m teu). Liner shipping companies responded with measures to mitigate costs, manage capacity and sustain freight rates. By the second half of 2020, the situation had reversed, but this sudden boost in demand stumbled hit the barriers of limited capacity and congested ports.

During H2 2020 demand for container shipping started to pick up and absorb spare capacity. Vessel supply capacity remained limited, but idle container shipping capacity levels started to decline in line with growing demand. By the end of June 2020, the level of idling was 9%. By July this had fallen to 6%, and by August to 4%. By the end of September 2020, it was down to 3.5%, which was below the 4.1% average seen for 2019 for a whole.

In 2020, global container fleet capacity expanded by almost 3%, to 281.78m dwt while container trade contracted by 1.1% year on year to 149m teu.
In an effort to maintain freight rates during the period of lower demand, carriers restricted capacity.

Unfortunately, this meant that, as demand unexpectedly rebounded rapidly, despite more capacity being released, supply was being constrained by other factors, notably port congestion and equipment shortages, which kept vessels waiting, especially on the West Coast of North America.

By the end of 2020, freight rates had surged to unexpected levels. This was reflected in the China Containerized Freight Index (CCFI) for both short- and long-term contracts. During Q2 2020 the CCFI stood at 854 points, but by Q4 2020 it had reached 1,250 points, and for the first and the second quarters of 2021 had risen to new record heights of more than 2,000 points.

Towards the end of 2020 and into 2021, container shortages and congestion at ports, along with other disruption, led to record container freight rates, notably on the routes from China to Europe and the US. These were reflected in the Shanghai Containerized Freight Index (SCFI).

In June 2020 SCFI spot rate on the Shanghai-Europe route was less than $1,000 per teu, but by the end of 2020 had reached around $4,000 per teu, remaining firm throughout the Q1 2021. By the end of April, despite Clarksons reporting a 3% increase in supply capacity, the SCFI spot freight rate on the Shanghai-Europe route rose to $4,630 per teu, and by the end of July it had reached $7,395 per teu. Since the timing of this report, total index rates have been steady at the $4,500 to $4,700 level, slightly above the level seen at the end of H1 2021.

Freight rates also escalated on the China-US trade lane, and, faced with backlogs and longer waiting times, shipping lines have also been adding extra fees and surcharges.

The trend was similar on routes from Asia to the East Coast of the US. The surge in spot freight rates also extended across developing regions, including South America and Africa.

Since late 2020 shipping costs had increased in part because of a shortage of containers. Containers are shipped full from export-oriented locations, notably in Asia, and many usually return empty. As Asia slowly began to recover, other countries remained under national lockdown and restriction so the importing countries could not return containers. The resulting shortage of empty containers was exacerbated as carriers introduced blank sailings where empty containers were left behind and failed to be repositioned. These impediments led to higher container dwell times at ports, and empty containers not returning to the system where they were most needed. This increased shipping costs as shippers were reported to be paying premium rates to get containers back, in addition to surcharges arising from port congestion and delays, including delays in returning equipment.

With containers scarce and ports suffering from congestion, shippers, freight forwarders, and importers were charged increasingly higher demurrage and detention fees. Between 2020 and 2021, across the world's 20 biggest ports, the average demurrage and detention charge doubled – equivalent to $666 for each container, according to Container xChange figures.

On the bulk carrier side, during H1 2020, the demand shock caused by the pandemic added downward pressure to an overly supplied market, leading to a drop in dry bulk shipping freight rates. But H2 2020 saw a rebound in demand for dry bulk cargo, particularly for iron ore and grain into China. Together with slower growth in the active fleet, this pushed up freight rates. The Baltic Exchange Dry Index stood at 461 points in February 2020, but by July 2021 had reached 3,257 points

Freight rates were high through the first half of 2021 as a result of continuing higher demand, combined with fewer new vessel deliveries and increased scrapping activity.

Rates were also affected by delays caused by port congestion. The number of vessels caught up in port congestion rose from 4% of the fleet during Q4 2020 to 5% during Q1 2021. This was mainly due to increases of exports of iron ore and grain products from Brazil, which blocked up to 100 Capesize and Panamax vessels in Brazilian ports during February and March 2021, according to Danish Ship Finance figures. The strength of the dry bulk market meant that average monthly earnings increased from $4,894 per day in May 2020 to $27,275/day in June 2021, the highest rates in a decade.

Dry bulk demand was forecast to continue to grow, and rates were likely to remain high. The order book still sat at only around 6% of the existing fleet capacity, the lowest level in three decades, according to Clarksons Research figures.

The tanker sector saw the most depressed activity (with the exception of the cruise ship sector) with freight rates dipping to the lowest levels ever. During H1 2020 there was a surge in tanker freight rates, boosting profits for tanker shipping companies. In the second half of the year the Covid-19 impacts weakened demand and rates started to drop in an oversupplied market. By January 2021, oil tanker spot earnings were $5,237 per day, and by July had fallen to $2,753 per day, the lowest levels ever.

Given current low global demand and future uncertainties, short-term tanker freight rates will probably remain low, UNCTAD said.

The issue is covered in far greater detail at:

https://unctad.org/system/files/official-document/rmt2021ch3_en.pdf