

Airfreight rates to continue to rise despite easing demand?

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The current easing of the airfreight market may only be a temporary blip and rates could rise further once lockdowns in China are lifted, according to Bruce Chan, senior analyst at investment bank Stifel.

In the latest Baltic Exchange market round-up, Chan said that [despite a year on year drop in demand over recent months](#), supply chains remain congested and there could be a surge in production when factories in China re-open following Covid curfews.

“Early in the year, I expressed some level of surprise that we were not seeing even more upward rate trajectory based on the removal of air cargo capacity due to ongoing conflict in Ukraine,” said Chan. “I posited that upward pressure there was being offset, in large part, by a production vacuum in China as a result of widespread Covid-related lockdowns.

“For context, the percentage of the population under lockdown in China right now is estimated to be larger than the entire population of the US.

“And, while critical economic functions are still technically operational, the systemic nature of the quarantine restrictions means that production output from some of the country’s largest manufacturing centers are at their lowest levels since the initial shutdown in early 2020.”

He said that as well as a clearing of backlogged China freight, other factors that could again disrupt the market include ongoing capacity reductions related to the conflict in Ukraine and if US west coast port and labour negotiations result in strike action.

“Assuming no sharp and sudden deterioration in baseline demand levels (which cannot be guaranteed), there is a distinct scenario in which airfreight rates spike again, even from these elevated levels,” Chan said.

He pointed out that even though the market has softened on the demand side in recent weeks, due to pressure on consumer spending and a post-Covid rotation from goods to services, rates in April remained at historic high levels – although there have been some signs of pricing easing on some trades since then.

The latest figures from the Baltic Exchange Airfreight Index (BAI) show that in April the average rate from Hong Kong to North America reached \$9.57 per kg, which is 12.9% up on a year earlier.

From Hong Kong to Europe average rates in April stood at \$6.01 per kg, which is up 30.4% compared with last year.

“Logistics networks remain very congested and there is a real possibility that any temporary pull back in bottlenecks and rates are ‘head fakes’ and volatility will continue to be an issue until the core problems are resolved,” Chan said.

Peter Stallion, head of air and containers, at derivatives broker Freight Investor Services, agreed that many had expected prices to have weakened in April,

although he said spot market prices are likely to be lower than index rates which also incorporate pricing on longer term deals.

“While we may have expected a drop off in rates from the first quarter of this year, the removal of Russian-owned airfreight capacity has artificially levered up the constraints for airfreight shippers,” he said.

“Asia to US rates have also seen a sharp increase, posting double digit rate percentage point increases following a collapse of available airfreight demand. However, this increase is still quite muted versus the true spot price.

“Transatlantic prices continued to jostle as they have done all the way through since second-quarter 2020.”

Stallion added that higher fuel prices are also likely to impact rates.

“The impacts of this fuel demand is reasonably clear, with Singapore Jet Fuel closing back up towards its previous high of \$150.39/barrel (now \$138.73/barrel).

“This will feed through into fuel surcharges and forms a component of general inflation that bleeds through into the cost of running airfreight operations.”

TAC Index monthly airfreight rates

Di [Air Cargo News Data](#)