MARKET UPDATE – SPACE CONSTRAINTS & VOLATILE RATES

During our series of market updates, we have been reporting about the void sailings, rate increases, and tight space, that are now very relevant in the transportation market today. As the below highlights may have more significance to a certain mode or trade lane, they can generally apply to all transportation modes and most trade lanes to and from the USA at this moment.

Several more countries around the world have come out of their lockdowns, adding more volume, and a significant increase in the demand for space, in what has already been a volatile global market the past few weeks. As some of these countries ramp back up and begin their recovery, it is quite common that vessel sizes are smaller and frequency of sailings remains far less than normal.

Void sailings that were scheduled in advance by the carriers and their alliances, are now the major contributor to rates that have skyrocketed, space constraints and the practice by the carriers of container rolling. There are now signs of increasing congestion at many origin ports in route to the USA that will create delays and lengthen transit times. Carriers intend to add extra loaders in specific ports and strings that are experiencing heavy rolling, but these are often smaller vessels sweeping what is backlogged and still pose delays after the main vessel voyage and for many, the intended target date for departure. In some cases, the extra loaders may simply shuttle to a transshipment port where there can be an even further delay before the next direct sailing to the USA. Reinstatement of scheduled void sailings has been a high hope to shippers while capacity remains very tight, but the carriers and alliances continue to act on the side of caution, control the space and focus on profitability instead of chasing volumes. During this time, we have identified a serious need to achieve volume forecasts from our clients by well over a month in advance to the ready dates. In turn, we are booking the space a minimum of 3 weeks in advance to have the best opportunity to meet the targeted vessel departure and arrival dates.

Rates have increased on the Transpacific Eastbound strings, as carriers used a series of General Rate Increases in June and July that were as much as $1500 per FEU in total for some carriers, inflating costs as volumes began to spike. Carriers are now utilizing Peak Season Surcharges and “Guaranteed Space” and/or “No Roll” surcharges to increase their revenue further. These cumulative increases are now very close to double the amount in cost compared to the same period last year, as the carriers navigate through any outstanding or new void sailings to come. They are also waiting for more certainty and forecasts from shippers so that any addition to capacity returned to the market does not put them in a position of operating underutilized vessels and sending the rates into a quick retreat.
Export cargo via ocean freight from the USA continues to experience constraints relative to vessel space, void sailings and rising rates levels for many of the same reasons as the inbound cargo, especially reduced capacity. This is relevant on both the Transpacific Westbound and Transatlantic Eastbound strings and as more countries and companies increase orders, especially those that are recovering from their lockdowns.

Air Freight rates from China and other Asian origins have fallen from their record rate levels and peak demand of PPE materials. Space has also remained tightly controlled across many parts of the globe as capacity and frequency are still very limited and passenger aircraft are still not allowed due to travel bans, keeping the rates per kilogram prompted higher than normal. However, new concerns of increases in COVID-19 cases, particularly in the USA, are putting focus back on the potential need for replenishment of medical products. Should there be a demand again for PPE materials, the rates are likely to increase again with a new expectation of congestion and backlogs, creating longer transit times again.

Warehouse capacity across the USA continues to be highly maximized as a result of the COVID-19 lockdowns and having to manage through recovery phases in order to return to manageable operation levels. Many businesses are still in a transition period, some with slower recovery and therefore, not as successful in turning their inventory. This is forcing warehouses to sit on the product longer and operate with limited space capacity. Other business had a higher exposure and increased success with E-Commerce and online retail models in order to keep distributing their products during the lockdowns and beyond. Companies of all sizes have also come to learn the strength of outsourced warehouses and 3P/L’s in their expansion of distribution, while minimizing their exposure to higher overhead trying to facilitate on their own.

We must continue to advise that there is still a great deal of uncertainty in the coming weeks and challenges to endure, some that are unforeseen at this time. We do highly recommend that you prepare for continued disruptions, volatility in costs, possible congestion, and likely delays. This should be exercised on a global basis. Please do your best to plan in advance and communicate with all parties involved in your transactions.

We will continue to keep you advised as to what we learn in the market and continue to highlight anything of significance.

Do not hesitate to contact us should you have any questions or need further guidance specific to your supply chain needs.