

Tuesday, January 23, 2024

Service Interruption Red Sea and Suez Canal – Update 5

Dear valued Customer,

Many carriers are avoiding the Red Sea and the Suez Canal following a series of attacks on ships by Houthi militants from Yemen. After the first two weeks of 2024, Suez transits by container ships have fallen by 64% compared to the same period last year, according to Drewry data. In the same period, transits by ocean-going vessels around the Cape of Good Hope increased by 168%.

Diversions away from the Red Sea are also beginning to have a bigger impact on ships in other segments.

The duration of the disruption to container shipping on the Red Sea is the biggest unknown. The analyst Drewry predicted on Friday last week that most carriers will only resume transits through the Suez Canal once the danger of an attack has been eliminated, “which seems more like months than weeks away.”

Sea Freight

Long detours around the Cape of Good Hope have already pushed spot container rates well above pre-COVID levels, and rates continue to rise. Spot rates for containers from Asia to the USA and Europe continued to rise last week. Xeneta's XSI spot component Asia-Northern Europe increased by 25% per 40 feet, an increase of almost 200% compared to the previous month. Drewry's Asia-US West Coast WCI spot rose 38% per 40 feet last week, while the East Coast WCI spot climbed 35% per 40 feet, up 88% and 64% respectively on the same week last year.

However, the shipping companies have available ship capacity and demand is at a calculable level for the period. As soon as the longer transit times are anchored in the schedules of the liner shipping companies, there is hope that the trend of rising spot rates could calm down.

In one of its latest reports, the research and analysis specialist Sea-Intelligence has analysed the current ship delays in comparison to the delays of recent years. The data shows that the longer transit around the Cape of Good Hope is already having a greater impact on available ship capacity than during the pandemic. According to estimates by Sea-Intelligence and other maritime officials, around 10% of the global fleet is currently out of service. The deployment of additional ships could harmonise the imbalance in vessel availability and increase certainty in vessel schedules. “To go around the Cape of Good Hope, ocean carriers need one or two additional vessels to offset the delays,” Alan Murphy, CEO of Sea-Intelligence said. “Ocean carriers are going to need to add vessels.”

Currently, there is a risk that the diversions will cause ships to back up in ports on arrival in Europe, leading to congestion in ports and ultimately worsening equipment shortages and gaps in sailings. These effects could have an increasingly rapid negative impact on global supply chains.

Air Freight

Xeneta said in a report on Friday last week that shippers in retail and apparel are starting to switch to air freight. Volumes from Vietnam to Europe increased by 62% in the week ending January 14, some 6% higher than the peak in October 2023 and 16% higher than a year earlier.

Niall van de Wouw, Xeneta Head of Air Freight, said: “This is the first signal in Xeneta data that the Red Sea crisis is impacting air freight. This is typically a quieter time of year for air freight so to see increases of this magnitude, with higher volumes than at any point in 2023, is significant. Routes from Vietnam to Europe are used heavily for apparel, a sector we have been told is switching more goods from ocean to air due to the Red Sea crisis, so it is particularly noteworthy we are seeing volumes increase to such an extent on this trade. We should also recognise that the upcoming lunar new year may also be contributing to the increase in volumes.”

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Rates from Vietnam to Europe were up 10% on the previous week, and Mr van de Wouw said the next two weeks would show whether this was a one-off situation or whether shippers were looking at a longer-term shift to air.

Rail

The price increase in sea freight is also spreading to further types of transcontinental freight transport. Affected by the Red Sea Crisis, the popularity of the China-Europe rail service has increased, and the number of inquiries has surged recently. Transit times from China-Europe and Europe-China range from 15 to 20 days, depending on terminal pairs (Rail FCL and LCL).

If you have any questions about your shipments, please get in touch with your known contact person in the Leschaco Group.

For urgent shipments, we recommend to proactively consult with your known contact person at Leschaco about alternative transport options in the form of air freight, sea / air freight and rail freight and to book the freight immediately in advance to ensure that solutions can be created for your individual needs.

Further developments and effects remain to be seen. We will monitor the situation closely and keep you informed.

We will make every commercially reasonable effort to fulfil the agreements concluded with you on time and under the agreed conditions. However, we cannot exclude the possibility that these developments and events may prevent us from doing so or may cause additional costs.

We will inform you proactively about all possible changes, so that we can find the best possible solution together for your shipments.

Kind regards

Leschaco (Lexzau, Scharbau GmbH & Co. KG)

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Please note that all information reported in the Customer Advisory is to the best of our knowledge at the time of writing, but we cannot guarantee its correctness or accuracy.