US, Europe backhaul box rates rise on coronavirus

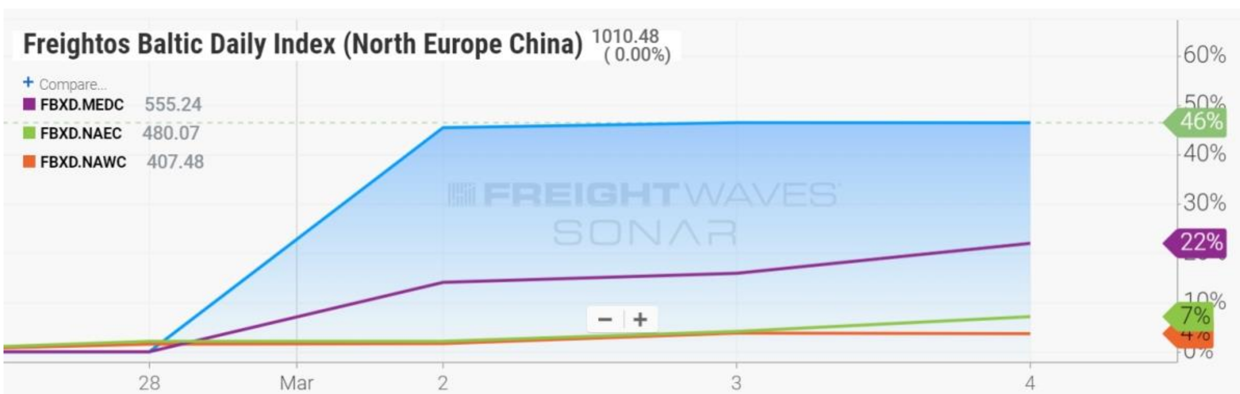
As predicted, the coronavirus-induced cancellations of fronthaul container-ship sailings from China to the U.S. and Europe are creating a capacity shortfall for cargo going the opposite direction — and rates are starting to escalate.

Copenhagen-based Sea-Intelligence reported on Monday that a total of 77 container-ship sailings had been blanked (canceled) due to coronavirus — 48 trans-Pacific and 29 Asia-Europe.

According to Eytan Buchman, chief marketing officer of Freightos, "The record cancellation of sailings has backhaul rates on many routes already starting to climb. These blankings also mean that whenever production [in China] does pick up, capacity will likely be tight, not only because there will be fewer ships but also because many empty containers have been stranded outside of China."

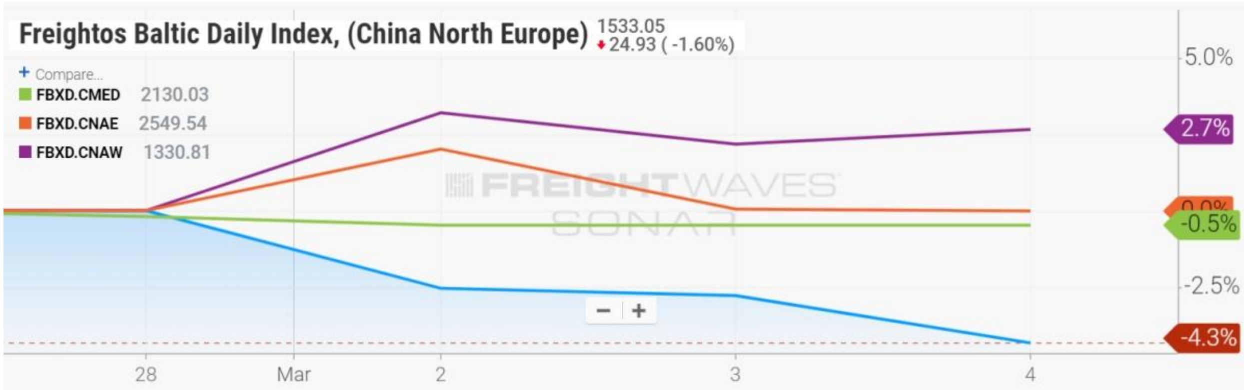
Freightos produces indices that track the daily change in the price to ship a forty-foot-equivalent-unit (FEU) container along major trade lanes.

Between Feb. 28 and March 4, rates on the North Europe-China route (SONAR: FBXD.NERC) have risen 46%; rates on the Mediterranean-China route (SONAR: FBXD.MEDC) are up 22%; rates on the North America East Coast-China route (SONAR: FBXD.NAEC) have increased 7%; and rates from North America's West Coast to China (SONAR: FBXD.NAWC) are up 4%.



The takeaway from this index data is that backhaul rates are rising across the board, but much more so from Europe than from the U.S., at least so far.

Meanwhile, the recent rate trend in the fronthaul markets is entirely different. Between Feb. 28 and March 4, rates on the China-North Europe route (SONAR: FBXD.CNER) are down 4.3%; China-Mediterranean pricing (SONAR: FBXD.CMDE) is down 0.5%; China-North America East Coast pricing (SONAR: FBXD.CNAE) is flat; and China-North America West Coast pricing (SONAR: FBXD.CNAW) is up 2.7%.



The takeaway is that the headhaul rates haven't changed that much, likely because coronavirus is limiting outbound cargo volumes, so there's nothing pricing can do to impact volume one way or the other.

But even as headhaul pricing remains relatively constant, the fallout for U.S. importers is rising.

According to Buchman, "A sample of surveyed Freightos.com marketplace users shows that for many U.S. SMB [small- to medium-size business] importers from China, the shutdown has already had a negative impact on inventory (78% answered in the affirmative) and bottom lines (66%). How disruptive and expensive the comeback will be for U.S. importers will depend on how quickly production and ports clear the backlog."

The good news, he explained, is that "Chinese manufacturing took definite steps towards normal this week as quarantine periods in many areas came to an end and travel restrictions were eased.

"The vast majority of factories are back online, with many operating at as much as 80% capacity. Inter-province trucking, which last week was a major pain point, has also benefited from these developments and is now operating at about 80% capacity as well. Nearly all major ports are likewise coming to life."