FBX Index: A turning point in risk management?

We are without a doubt in one of the strongest bull-markets for the container carriers seen in the last few decades, with container rates on many trade lanes setting records week after week. But how long will this last? The answer to this question is incredibly important for anyone – shipper and carrier alike – trying to plan more than just a few weeks into the future in the current market environment.

However, the most honest answer to the question right now is that no-one knows this for sure.

The container shipping supply chain is comprised of a large number of elements, and presently virtually every single one of the involved components is finding itself in a state of turmoil. Getting the market to a normal level of predictability and performance will take an unknown amount of time.

The trigger for this level of uncertainty is of course the pandemic which in turn has dramatically altered consumer behavior – again leading to an impact on container shipping volumes. This impact has not only been both negative and positive in 2020, but it has also shifted with a speed not seen previously. The magnitude and speed with which the consumer behavior – and hence impact on the container markets – will change in 2021 is exceedingly difficult to predict given that all modelling of this is quite literally virgin territory.

Seeing beyond the immediate issues related to the pandemic, it would be erroneous to believe that once the pandemic is over then the container markets would become stable and predictable. There are two key reasons for this.

The first reason is that the container shipping market has always had a relatively high level of unpredictability. Whenever there are large changes in market elements, this tends to draw headlines. But unfortunately, this often also leads to the perception that large changes are an anomaly – a unique and rare event. The reality is that these changes are more frequent than market participants appear to give them credit for.

As a few examples, it is the norm and not the exception that spot rates in key markets change by 50-100% or more between the low and high point within a year. It is the norm and not the exception that schedule reliability changes more than 25 percentage points within a year on most deep-sea trades, and it is increasingly the norm and not the exception to see cancellations of individual sailings.

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The second reason is that the structural development in the industry will act to enhance these uncertainties and not necessarily reduce them going forward.

As a consequence, we might well see a gradual market shift – in essence a bifurcation – towards a more volatile spot market on one hand and a more stable contract market governed by enforceable contracts. For shippers who wish to manage their market risk, this will result in a challenge. Even the most structured shippers cannot accurately predict their volume flows up to a year in advance. Especially not at a port level as both customer demand, as well as sourcing locations, might change. This, in turn, means that they will be able to secure only the most predictable part of their demand in a strict contractual framework but be left to the increasing uncertainties of the spot market for the rest.

For those shippers, it is therefore worthwhile to consider how to re-address risk management to find the correct balance between the need to know future costs, the need to be able to move product reliably, and the need to be able to shift sourcing locations and address changes in consumer demand.

About Lars Jensen, CEO, SeaIntelligence Consulting

Lars is a leading expert and thought leader in analyzing global container shipping markets. Lars has 19 years' experience hereof the last nine within multiple companies he has founded, with the main focus as CEO of Seaintelligence Consulting.

FBX Index: Current Market Summary

The Freightos Baltic Global Container Index (FBX) climbed 38% in December to a new FBX-high of $3,377/FEU, a 143% increase annually, driven by still-surging global demand and the resulting container shortage that kept rates spiking on Asia-Europe and Asia-Mediterranean lanes.

Strong demand for transpacific ocean freight is still causing congestion and delays at US ports, and remains the main driver of the global equipment shortage.

For most of the month, Asia-US rates remained at about the same level they hit in mid-September, when pressure from Chinese regulators reportedly kept carriers from increasing any further the rates that had climbed since June.

But prices ticked up by about 8% to close the year at new highs and cross new thresholds – with China to US West Coast rates reaching $4,200/FEU, 208% higher than last year, and East Coast rates ending at $5,405/FEU, 110% above the price a year ago – perhaps indicating that any tacit agreement may be coming to an end as additional pre-Chinese New Year demand begins to build.

Compared to this time last year, Asia-Mediterranean rates were 169% higher, while Asia-North Europe prices were more than three times more expensive.

Sustained demand for increasingly scarce empty containers and other equipment kept rates spiking on the other major ex-Asia lanes. Asia-North Europe rates finished the year at an incredible $5,662/FEU, and Asia-Mediterranean prices closed at $5,644/FEU with both lanes about doubling in cost this month. Compared to this time last year, Asia-Mediterranean rates were 169% higher, while Asia-North Europe prices were more than three times more expensive. Compared to this time last year, Asia-Mediterranean rates were 169% higher, while Asia-North Europe prices were more than three times more expensive.

The Asia-US East Coast lane is typically the most expensive ex-Asia route, with rates an average of about 50% higher than prices for Asia-Europe and 35% more than Asia-Mediterranean. But the pandemic-driven shift in trade patterns that has kept trade surging since the summer saw another unpredictable end to 2020 in which containers from Asia to North Europe and the Mediterranean were about 5% more expensive than their US East Coast counterpart, and in which a cost of $5,000+/FEU has become the new normal for most ex-Asia lanes.

Vaccine campaigns already underway that get people – and their spending habits – out of their homes and back to normal, could finally lead to an easing of demand, congestion and possibly ocean rates, but how soon and what the new normal may look like of course remains to be seen.

About Judah Levine, Research Lead, Freightos

Judah is an experienced market research manager, using data-driven analytics to deliver market-based insights. Judah produces the Freightos Group's FBX Weekly Freight Update and other research on what's happening in the industry from shipper behaviors to the latest in logistics technology and digitization.

FBX Index: Looking forward

As we moved through December and look forward towards 2021, market outlooks and FFA sentiment continues to fluctuate. Largely linked to consistent gains in spot prices, the majority of the front haul routes have seen a substantial upwards correction. FBX 01 China/ East Asia to North America West Coast saw gains throughout the 2021 periods with the full calendar year 2021 (Cal 21) now sitting at a relative high of $3,400 indicatively. Whilst the spot price for Trans-Pacific front haul rates has been flat, with much of the price fluctuation due to heavy surcharging of existing FAK rates, the focus has been the impact on a standard industry cycle and market bearish sentiment post Chinese New Year.

For China to Europe, there is still everything to play for. Throughout December there appeared to be no cap on how far rates could climb, with spot rates on FBX 11 China/ East Asia to North Europe climbing from $3,470/FEU on 1st December 2020, to $5,662/FEU on 31st December 2020. Much of this increase remains linked to high demand, capped capacity and equipment shortages, putting a premium on the lifted rate for containers on the route. As a result, forward prices have undergone substantial corrections as the market chases runaway spot prices. As of writing the offer level for FBX 11 for Jan 21 now sits at $7,200/FEU, with much of this price increase carried through into the rest of the 2021 curve.

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On the backhaul routes, FBX 02 North America West Coast to China/ East Asia saw a gain from $391/FEU to $591/FEU at the end of November, carried through into forward price gains and Jan 21 now offered at $600 indicatively. Much of the focus has been on the high-paying fronthaul, with backhaul shippers (particularly agricultural producers and traders) feeling the pain of a drop-off in service levels, and in some cases a cancellation of entire shipments in favour of rapid container moves.

The focus for 2021 has then shifted as the 2020 market has developed. For the carriers, priority will be placed on locking in as much business as possible at the ‘new-normal’ market level. Reliance on traditional fixed-price contracts, in our opinion, may look good for the moments when the underlying market remains stable – however risk falling into the trap of becoming highly ineffective against forward market volatility. Contract performance remains a critical issue. For contract buyers, any form of long-term contract might increase exposure to a drop in the market rates, as buyers end up stuck with premium contract prices, or do as many always have done and drop out of contracts entirely.

About Peter Stallion, Head of Air and Containers, Freight Investor Services

Peter Stallion heads up the Air and Container Freight desks at FFA brokerage Freight Investor Services. He started his career in air freight chartering, and has a passion for emerging risk management markets and the logistics industry.

Index	Avg Nov Value	Avg Dec Value	+/– % change
FBX (Headline Global Index)	2350	2984	**27.00%**
FBX 01 (China to US West Coast)	3861	3935	**1.91%**
FBX 02 (US West Coast to China)	403	516	**27.90%**
FBX 03 (China to US East Coast)	4781	5019	**4.99%**
FBX 04 (US East Coast to China)	506	607	**19.87%**
FBX 11 (China to North Europe)	2439	4424	**81.40%**
FBX 12 (North Europe to China)	1108	1359	**22.63%**
FBX 13 (China to Med)	2655	4749	**78.91%**
FBX 14 (China to Med)	1105	1396	**26.35%**
FBX 21 (USA East Coast to Europe)	309	341	**10.26%**
FBX 22 (Europe to USA East Coast)	1874	1910	**1.91%**
FBX 24 (Europe to South American East Coast)	854	859	**0.54%**
FBX 26 (South American West Coast to Europe)	1559	1678	**7.67%**