Ocean freight rates in rough waters on congestion, Red Sea crisis

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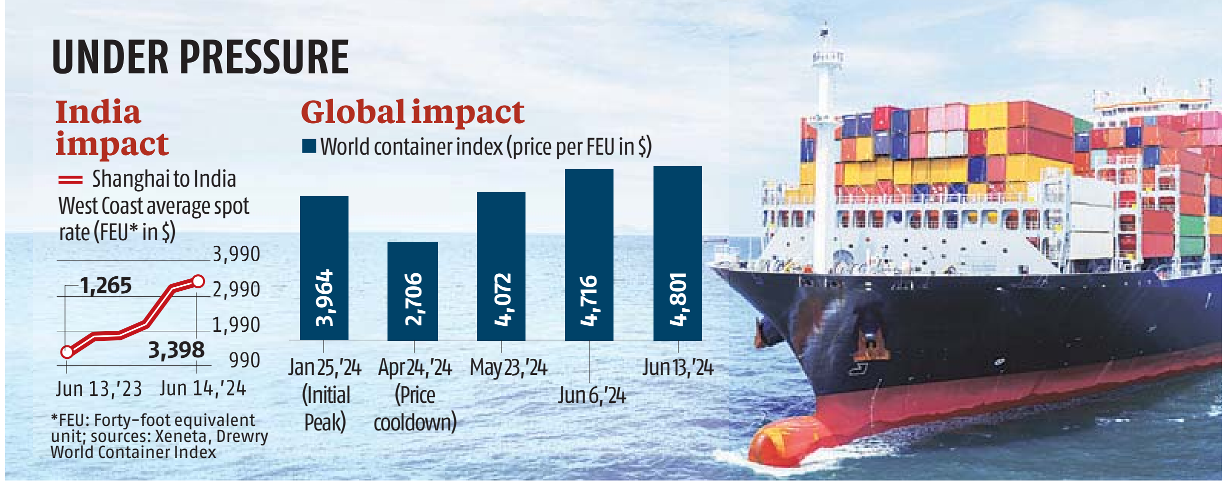
Indian traders are reeling under the impact of rising ocean freight rates, triggered by the Red Sea crisis and congestion at several key ports in the global supply chain, causing container prices to skyrocket over the past month. The Drewry World Container Index (WCI) increased 2 per cent to $4,801 per 40ft container this week and increased 202 per cent when compared with the same week last year.

According to Drewry, the latest index of $4,801 per 40ft container is 238 per cent more than the average 2019 (pre-pandemic) rates of $1,420. The company expects that freight rates from China will continue to rise next week due to congestion at Asian ports.

On the global scale, freight rates have gone up by 202 per cent over the past year. The rise in freight rates between China and Europe has gone as high as 358 per cent on a year-on-year (Y-o-Y) basis, while the increase is close to 250 per cent for China-US shipments.

Peter Sand, chief analyst of Oslo-based logistics platform Xeneta, told *Business Standard:* "The ocean freight container shipping market has seen rapid and dramatic increases during May and June and that is set to continue with further growth in spot rates. Spot rates from Shanghai to India West Coast have now reached a level we haven't seen since 2022 when the impact of the Covid-19 pandemic was still being felt across ocean freight supply chains."

"There is a cocktail of uncertainty and disruption across global ocean freight supply chains at present and this is fuelling the spot rate increases. However, it is the speed and magnitude of this recent spike that took the market by surprise – including the CEOs of the world's biggest ocean freight liner companies," he added.



According to Indian traders, the higher rates have led to inflationary pressures and impacted the competitiveness of their exports.

"The high costs have strained exporters and importers, increased the prices of goods and made Indian exports less competitive globally. The surge in rates has been driven by a variety of factors, including increased global demand, congestion at ports, and a shortage of containers. This has led to higher logistics costs, affecting supply chains and overall trade volumes," said Jitendra Srivastava, chief executive officer of Triton Logistics and Maritime.

According to Container XChange, capacity is low because of Red Sea diversions stretching carriers' networks thin — essentially carriers wanting to maintain weekly sailings have to deploy additional vessels on their Asia-Europe loops. This decreases the margin for error, making the management of unexpected disruptions very challenging. The diversions and the subsequent rebalancing of carrier networks have led to downstream disruptions like port congestion as short-term changes in carrier networks and "vessel bunching" have led to some ports facing spikes in throughput.

Similar to what can be expected on a highway, throughput spikes then lead to traffic jams—here of vessels and containers.