US-CHINA TARIFF TRUCE

Indian shippers see cargo rush, freight rates surge

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After the United States (US) administration announced a 90-day pause on the tariff war with China last week, Indian shippers are facing the risk of being caught in disruption in global supply chains because Chinese goods are seeing an evacuation rush.

"The US-China announcement on the temporary lowering of tariffs fired the starting gun for shippers to rush as many imports as they can during the 90-day window of opportunity. There is no time to waste for these shippers and the rush of cargo will put upward pressure on spot rates on transpacific trades," said Peter Sand, chief analyst, Oslo-based market intelligence firm Xeneta.

The effects of the announcement were visible immediately. On Thursday, the Drewry world container index, a global benchmark index that measures weekly ocean freight rates for eight major east-west routes, rose 8 per cent to $2,233 after multiple weeks of decreasing rates.

"The 90-day truce has set the stage for potential growth in container shipping volumes. This window of relief might also trigger significant bottlenecks at American and Chinese ports. There are two sides to this agreement from the standpoint of Indian exporters. On the one hand, it presents an opportunity to boost exports through the utilisation of lower tariffs and expediting shipments to the US. However, there is also a chance that supply-chain interruption could occur due to increased freight costs and capacity constraints brought on by the growing demand for logistics services," said Prediman Koul, chief executive officer, Jeena and Company.

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- Freight rates for China to US containers jumped nearly 20% after their recent trade truce
- Some experts expect short-term easing of container rate pressures in next 90 days
- Situation presents opportunity for Indian firms to boost exports
- India-Pak security concerns raising operating expenses in the Arabian Sea

Indian players need to take a proactive stance to reduce disruption, including an assessment of supply-chain routes, making the most of current capacity, and improving vendor coordination.

Some say the window will bring order to the already disrupted shipping ecosystem in the world. According to sector experts, this could mean better access to shipping capacity and improved bargaining power in contract negotiations.

"In the next 90 days, we expect some short-term easing of container rate pressures and greater predictability in ocean and air freight schedules, particularly on transpacific and Asia-Europe routes," said Vineet Malik, co-founder, logistics company Hexalog.

For global shipping dealing with one new development after another, the vortex may continue for another month.

"Spot rates will peak and then flatten as carriers redeploy capacity to match demand, then rates will begin to slide again just as we saw in January-March. This is expected to happen over the next two to four weeks," said Sand.

A costly double whammy

Amid tensions between India and Pakistan, transporters have been hit by the double whammy of both commercial and security-related risks, with the private sector saying that the industry's resilience is being tested like never before.

"Though increased naval activity in the Arabian Sea raises concern about maritime security, our industry is exploring alternative routes. Over 90 per cent of India's trade volume is attributed to maritime activity, with major exports passing through ports like Chennai, Mumbai, and Mundra. Security concern is leading to increased operating expenses," said Koul.