

LARGE Q4 RATE DECLINE EXPECTED

Q4 Carrier results for Asia-Europe will see significant worsening compared to Q3

In April 2011, SeaIntel Maritime Analysis launched a model demonstrating a very clear link between the SCFI spot rates and the CTS contract rates in the Asia to Europe market. The link showed that spot rates served as a leading indicator for the contract rates in the market, with a lead time of 1 month.

At the time, our model was met with a certain degree of skepticism. The two main points raised, were that the spot market was relatively small compared to the contractual market, and that the spot rates were much more volatile than the contract rates.

This week we re-evaluate the model, and find it to remain fully valid. The two points concerning the size of the spot market, as well as the volatility, are indeed correct – however,

between spot and contract rates, as well shall see.

As a consequence, we are able to forecast the development of the contractual rates for full Q4 2011.

Additionally, we review the development of the price spread between the Mediterranean and North Europe freight rates, and conclude that even if North Europe rates stabilize, the Mediterranean rates are likely to decline at least another 100 USD/TEU.

The nature of the data

The data and hypothesis tested herein is purely focused on the Asia to Europe container freight market.

Average spot rate development in the market is measured by the SCFI index,

EUROPEAN SLOWDOWN

New data from Container Trade Statistics show significant weakening of European imports in October compared to October 2010. Asian imports grew 3.5%. Imports from India and the Middle east declined 1.6%.

Transatlantic imports declined 7.3%. Australian imports declined 10%.

Following growth rates around 20% in the beginning of the year, South American imports (and exports) now only grew 1%.

These numbers, combined with the recent warnings from China of a manufacturing slowdown, serves a stark warning that market conditions on the European trade lanes are likely to worsen further