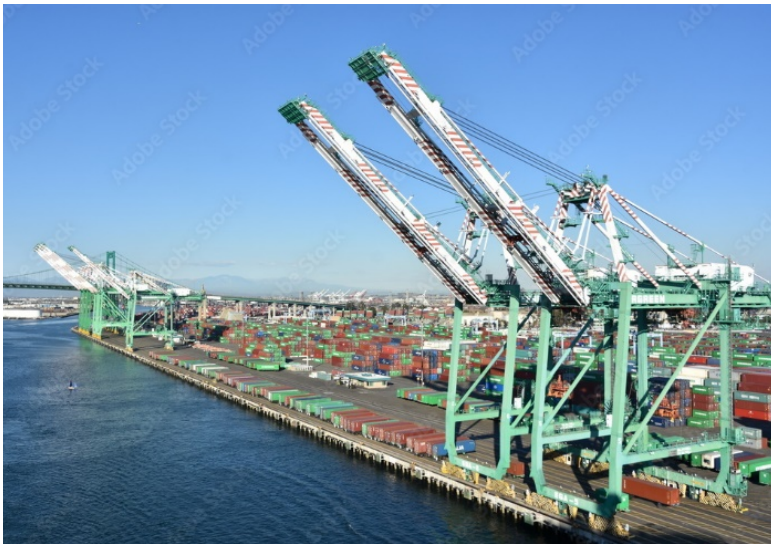


SKYROCKET FREIGHT COST (PART 1 OF 2): NEW NORMAL OR TEMPORARY?

Spot Rate of 40-foot Container from Shanghai to LA Hits \$10.5k in July with Total Cost Greater than \$20k

Since Q3 2020, cargo shippers have been alarmed by the upward movement of the freight rate from China to the West Coast. This momentum was further accelerated in the last few months and the spot rate of shipping a 40-foot container (FEU) from Shanghai to Los Angeles reached US \$10.5k on July 29, 2021. In this seller's market, total cost can be over US \$20K with overhead costs and premiums on the spot rates to get cargo onboard the vessels. Freight costs have been 5 times more since the COVID-19 outbreak.



Trans-Pacific route shippers are not the only ones impacted but others in the world are suffering from similar situations. On July 20, 2021; **Drewry's Composite World Container Index** was 370% higher than a year ago and this is the 16th consecutive week of increases. In China, similar index such as the **Shanghai Export Containerized Freight Index (SCFI)** and **China Containerized Freight Index (CCFI)** also have had strong indication of upward trend for shipping a container out from China to other continentals.

CCA Newsletter August 23, 2021

The CCA Newsletter is summary of articles about the Asia Business environment that is published bi-weekly. This month's topic is the Skyrocketing Freight Cost. In next newsletter, we discuss strategic considerations to tackle the skyrocketing freight cost. Please follow-us on [LinkedIn](#) for more.

About China Centric Associates

Since 2003, China Centric has assisted 250+ companies and 30+ Private Equity firms to develop and execute customized regional business strategies in China and Asia. We provide Consulting and Project Management, Outsourced Supply Chain Management and Hosted Facility and Administration.

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Your input is valuable to us

China Centric Associates always welcome your contribution of the [questions and feedback](#) to the subject of this newsletter. You are also welcomed to raise [specific topics](#) that you are interested. Our team members will make response to your request in quickest manner.



Spot freight rates by major route (as 16-Aug-21)

Route	29-Jul-21	05-Aug-21	12-Aug-21	Weekly change (%)	Annual change (%)
Composite Index	\$9,330	\$9,371	\$9,421	1% ▲	358% ▲
Shanghai - Rotterdam	\$13,352	\$13,628	\$13,653	0%	636% ▲
Rotterdam - Shanghai	\$1,710	\$1,670	\$1,651	-1% ▼	27% ▲
Shanghai - Genoa	\$12,761	\$12,792	\$12,993	2% ▲	556% ▲
Shanghai - Los Angeles	\$10,503	\$10,229	\$10,322	1% ▲	241% ▲
Los Angeles - Shanghai	\$1,408	\$1,479	\$1,461	-1% ▼	182% ▲
Shanghai - New York	\$13,434	\$13,489	\$13,505	0%	285% ▲
New York - Rotterdam	\$1,256	\$1,257	\$1,171	-7% ▼	109% ▲
Rotterdam - New York	\$5,624	\$6,417	\$6,390	0%	182% ▲

This shipping cost increase and potential risk of port dwelling requires shippers (especially retailers) to looking into root-causes and tackling the pressure of cost surging and on-shelf delay as we near peak season.

Root Causes of Container Rates: Temporary or New Normal?

Through CCA's research and analysis, we believe that key root causes of the increasing shipping rates are:

- **Port congestion** – Because of COVID-19, prolonged port quarantine process and port operations halted unexpectedly causing port congestion worldwide. L.A. Long Beach reported that as many as 40 container ships per week (in early Feb 2021) were anchored and waited for discharge. The bottleneck persisted in July with ~20 vessels queued per week. Yantian Port China also encountered congestion in early June because of new COVID-19 cases found.
- **Backlog of empty containers returning to China** - due to the imbalance of cargos shipped between China and other importing countries, returning empty containers became large logistics issue.

"Goods in containers are flooding into the biggest US gateway for seaborne trade at 5 times the volume of steel boxes full of exports"- Bloomberg

- **Under Capacity and High Demand** – Prior to 2019, shipowners faced years of overcapacity and held back on ordering new vessels. The lockdown control in early 2020 slowed down the consumer demand but rapidly rebounded and causes a surge of demand in 2021 which caused a super cycle of shipping space needs.



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