

Indian Shipping Sector

Container freight rates firm up amid the Red Sea conflict; long-term outlook remains subdued

December 2023



Container freight rates have firmed up, given the conflict in the Red Sea, forcing ships to take longer routes along with moderating vessel availability.

The medium-to-long-term outlook for the freight rates remains weak given the slated capacity addition to the extent of 20% of the current shipping fleet in CY2023 and CY2024, even as growth in freight volumes is likely to remain subdued.



- Almost 12% of the annual global trade cargo flows, including 9% of crude oil, 6% of LNG trade and 30% of container flows globally happen through the Suez Canal, which is a key trade artery between Asia and Europe, saving time and cost over other alternate routes.



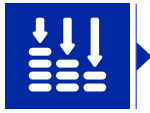
- Recent attacks by Houthi militants on cargo ships traversing the Red Sea through the Suez Canal have led to several shipping companies suspending operations through the Suez Canal and diverting cargoes through other routes i.e. around the Cape of Good Hope, South Africa.



- As a result of longer transit time and the increase in insurance premiums, the container freight rates have risen by around 20% in December 2023. The container freight rates otherwise had been on a sharp downtrend since the beginning of CY2023.



- The Indian industry will face increasing costs on account of higher working capital requirements amid longer transit times. The Indian exporters may find it difficult to pass on the entire increase in freight costs to the end users, as has been witnessed in the recent past.



- ICRA expects container traffic at Indian ports to also witness slower growth in the coming weeks as container liners take longer routes taking more time to arrive.



- Near-term container freight rates are expected to remain firm till a durable resolution of the conflict in the Red Sea region is witnessed. If the conflict lingers on and/or escalates we could see upward pressure on the shipping rates.



- The long-term outlook on the container freight rates remains subdued as significant vessel capacity will be added in CY2023-2024, while the Container volume growth has not witnessed meaningful revival over the last couple of years.



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