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SONAR highlight reel: Ocean rates to the moon

This "SONAR highlight reel" freight market update report, which we plan to publish every other week, is intended to concisely hit data highlights in the truckload, intermodal and maritime industries.

June is typically a strong period for truckload demand and this June is proving to be no exception. Gaining steam from an already-high level, accepted tenders are up 4% over the past month and are 15% higher than 2020 levels. While tender rejection rates have declined from recent highs (to below 23%), we attribute that primarily to contracts being re-priced at sharply higher rates rather than any meaningful loosening of capacity.

Major trends in intermodal data include: (1) international volume up nearly 30% y/y while domestic volume is down slightly; (2) international empty container volume is up 78% y/y; (3) eastbound headhaul lanes continue to show far greater volume and pricing growth than backhaul lanes; (4) spot rates have spiked in certain domestic intermodal lanes as carriers price to the market and respond to congestion.

Meanwhile, the most notable data set showing movement in maritime is the Freightos Baltic Daily Index from China to the North American East Coast, which looks more like a meme stock chart than a series of freight rates and is now up over 200% y/y. The same index from China to the North America West Coast is up a relatively modest 174% y/y.

Dry van spot all-in rates per mile[1]

LAX-DAL	$3.29 (+ $0.08)
CHI-ATL	$2.84 (-$0.08)
PHL-CHI	$1.98 (-$0.06)
ATL-PHL	$3.39 (-$0.06)
DAL-ATL	$2.43 (-$0.04)
DAL-LAX	$1.15 (-$0.07)
National	**$3.11 (-$0.06)**

Freight volume index (weekly change)

Ontario, CA	582.07 (+20.07%)
Atlanta	547.2 (+2.58%)
Harrisburg, PA	473.26 (+9.61%)
Los Angeles	405.01 (+10.21%)
Elizabeth, NJ	400.74 (+5.72%)
Dallas	354.52 (+3.93%)
National	**15,669.51 (+0.67%)**

Tender rejection rates

Ontario	22.22% (+3.15%)
Atlanta	24.47% (-0.32%)
Harrisburg	22.78% (+0.97%)
Los Angeles	22.21% (+3.13%)
Elizabeth	16.26% (+2.08%)
Dallas	25.22% (+3.42%)
National	**22.78%(+0.08%)**

Mike Baudendistel
Rail/Intermodal Market Expert
mbaudendistel@freightwaves.com
(773) 991-9534

Tony Mulvey
Analyst
tmulvey@freightwaves.com
(423) 637-1940

Jared Kachmar
Analyst
jkachmar@freightwaves.com
(607) 201-7786

[1] Truckstop.com all-in per-mile rate

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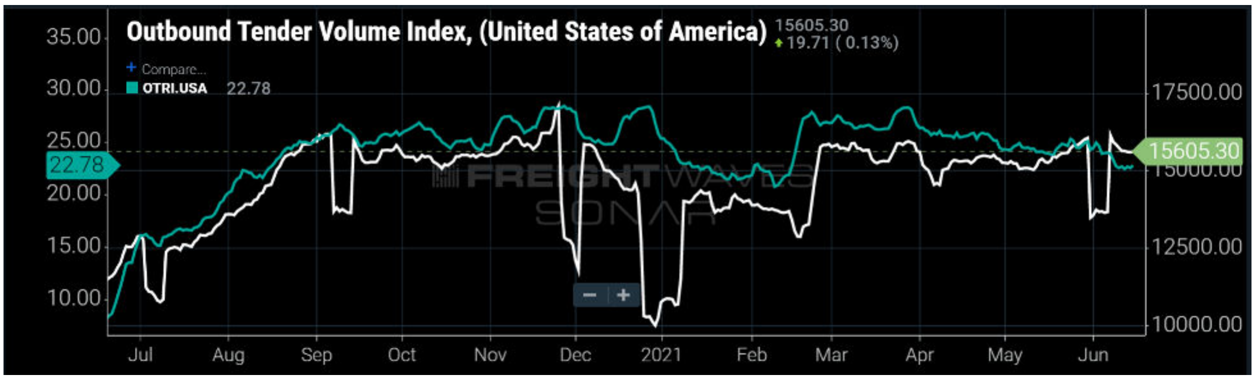
The truckload market remains strong entering what is typically one of the strongest periods of the year for freight.

Truckload demand has stabilized following Memorial Day weekend as relative capacity loosens as shippers focus on routing guide compliance. The combination of strong freight demand and loosening relative capacity is leading market rates to slide, but remaining elevated compared to the previous two years.



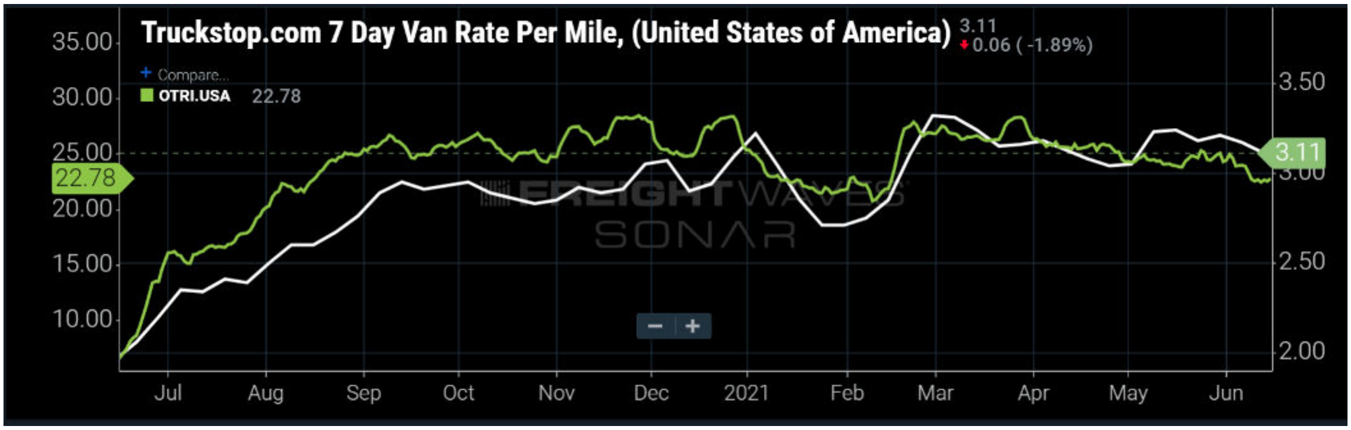
(Chart: FreightWaves SONAR, the Outbound Tender Volume Index {white} and Outbound Tender Reject Index {blue})

The Outbound Tender Volume Index (OTVI), which is a measure of freight demand from electronically tendered requests for capacity (including both accepted and rejected tenders), is maintaining strength following Memorial Day weekend. The holiday noise was quickly erased and absolute tender levels are up nearly 1% over the past month. The expected strong summer season is off to a roaring start as accepted tenders are up nearly 4% over the past month from a staggeringly high level already.

Outbound tender volumes are outperforming the previous two years by significant amounts. Accepted tenders are running up over 15% compared to 2020 levels, when the freight rally experienced over the past year really started to kick off. Accepted tender levels are up 20.5% compared to 2019 levels, though 2019 was a notable soft freight environment.

The Outbound Tender Reject Index (OTRI) is in the midst of a substantial loosening as rejection rates have fallen back below 23% for the first time since early February. The winter storm that hampered the country acted as a catalyst, driving rejections back above 25% and holding freight demand near all-time highs. Rejection rates have fallen by over 200 basis points in the two weeks following Memorial Day weekend; however another catalyst for tightening capacity looms with the Fourth of July holiday.

The national rejection rate is down by over 100 basis points during the past month. However, even with the loosening over the past month, rejection rates are still historically high – more than 1,600 basis points higher than last year and nearly 1,800 basis points higher than 2019 levels.



(Chart: FreightWaves SONAR, Truckstop.com's national dry van spot rate {white} and OTRI {green})

A slight divergence between trucking market rates and OTRI in early May due to International Roadcheck Week has corrected itself as anticipated. The short divergence signaled that carriers with contracted freight were still driving as relative capacity loosened. However, market rates increased due to smaller carriers (including owner-ops) that are more reliant on load boards stayed off the road during Roadcheck week. Since mid-May, both market rates and rejection rates have been trending downward, apart from the slight uptick during Memorial Day week.

Current market rates sit at $3.11/mi, including fuel, well off the high experienced in early March when the national average dry van spot rate, including fuel surcharge and other accessorials, was $3.32/mi, the highest level within the dataset. Market rates are still elevated compared to the beginning of May but have been slowly given back the increases attributed to Roadcheck Week, falling six cents per mile in the most recent week.

The strength in current market rates can't be discounted. Rates are nearly 60% higher than a year ago and nearly 40% higher than rates in 2019. The rate rally really found footing beginning in the middle of June 2020 and has continued that strength all the way through today. From the onset of the dataset in January 2019 through the beginning of June 2020, the average market rate was just $2.06/mi, though that period was one of the softest cycles in recent history. Since early June 2020 through now, the average dry van market rate is $2.90/mi, while the overall average for the entire dataset is $2.42/mi.

Even though rates have slipped in recent weeks and relative capacity has loosened, the ability to secure capacity is still extremely difficult. As the higher negotiated contract rates begin to take hold, this trend could continue, though freight demand looks to remain strong through the upcoming months.

Numerous catalysts over the upcoming months will affect the trucking market. These include the Atlantic hurricane season, which is just beginning, elevated freight demand heading into the holiday season in the back third of the year and a potential infrastructure package. All are likely to keep upward pressure on market rates.

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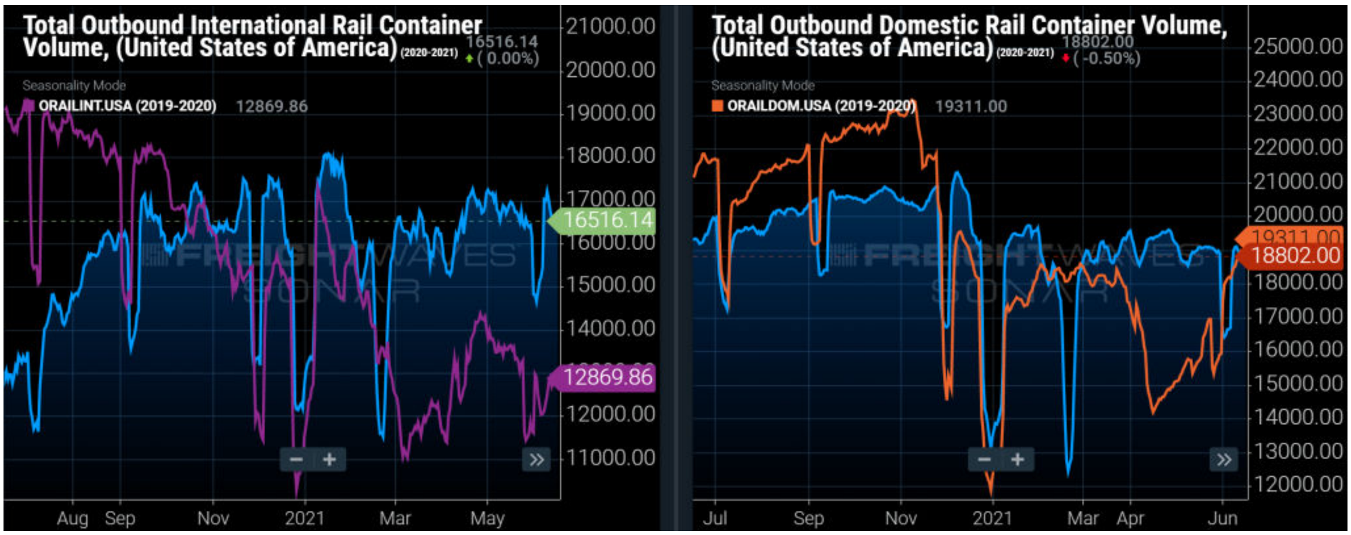
Intermodal market remains tight, but is highly mixed by segment and lane

International intermodal and domestic intermodal should be viewed as two distinct markets and the latest volume data show differing trends. While the weekly Association of American Railroads (AAR) data show that overall container volume (includes both the international and domestic intermodal markets) is up 23% y/y in the past week, SONAR data shows that the y/y volume growth is concentrated in the international intermodal market. SONAR data in the past week show that international volume (which includes loaded and empty containers) is up 28% y/y while domestic volume is down 2.6%. That's due to international intermodal volume benefiting more from elevated import volume and domestic intermodal now lapping difficult comps versus 2020 as well as capacity constraints from a lack of domestic container availability.



(Chart:FreightWaves SONAR, international intermodal volume versus last year {left} and domestic container volume versus last year {right})

Part of what is causing the surge in total container volume is a heightened volume of empty intermodal container volume. The chart below shows total 2021 empty container volume (blue) up 78% y/y compared to 2020 empty container volume (green). That is being driven by the global international container shortage and the container ship companies' demands to get empty containers returned quickly so there can be greater throughput in their much more profitable headhaul service.

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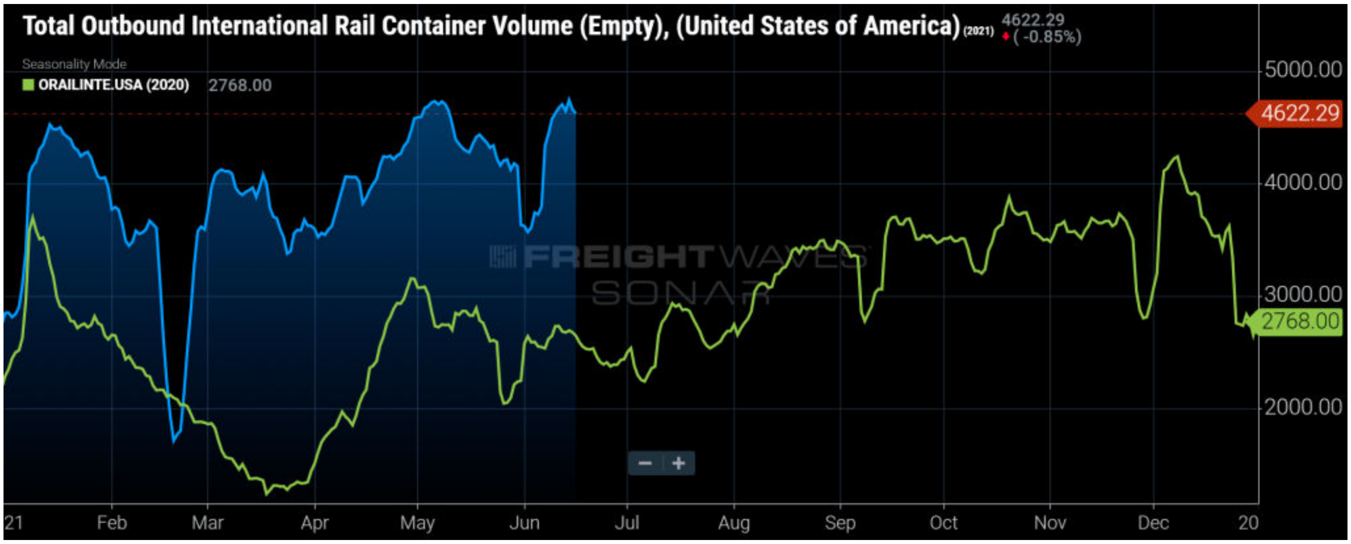
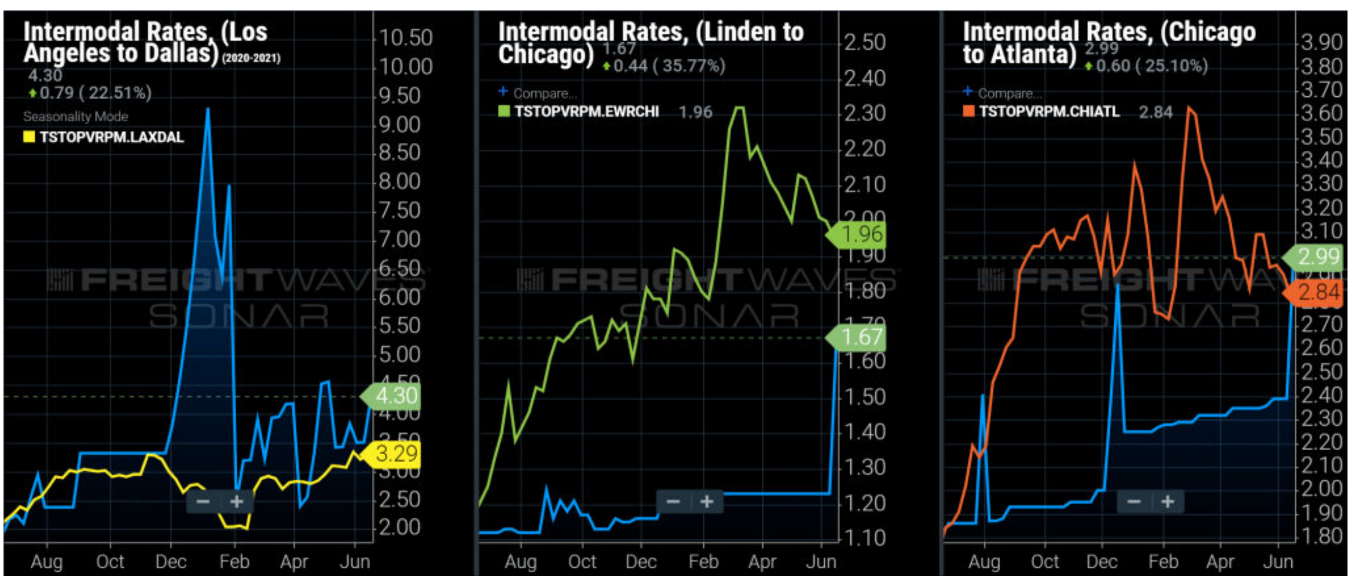


(Chart:FreightWaves SONAR, the volume of international intermodal containers moving empty, shown in blue and green, respectively.)

Comparing domestic intermodal spot rates to move 53' containers door-to-door, including fuel surcharges (shown in blue below) to dry van spot rates in the same lanes (shown in yellow/green/orange below) highlight differing market dynamics by lane. Relative to last year and what is normal, the headhaul intermodal lanes are tighter than normal and the backhaul intermodal lanes are looser than normal. As a result, intermodal spot rates in eastbound lanes from the West Coast have often exceeded truckload rates as carriers have endeavored to protect capacity for contracted shippers. Spot rates in other lanes have been more reasonable, but the latest data points suggest that carriers have adjusted rates closer to the truckload market in many lanes, as shown below.

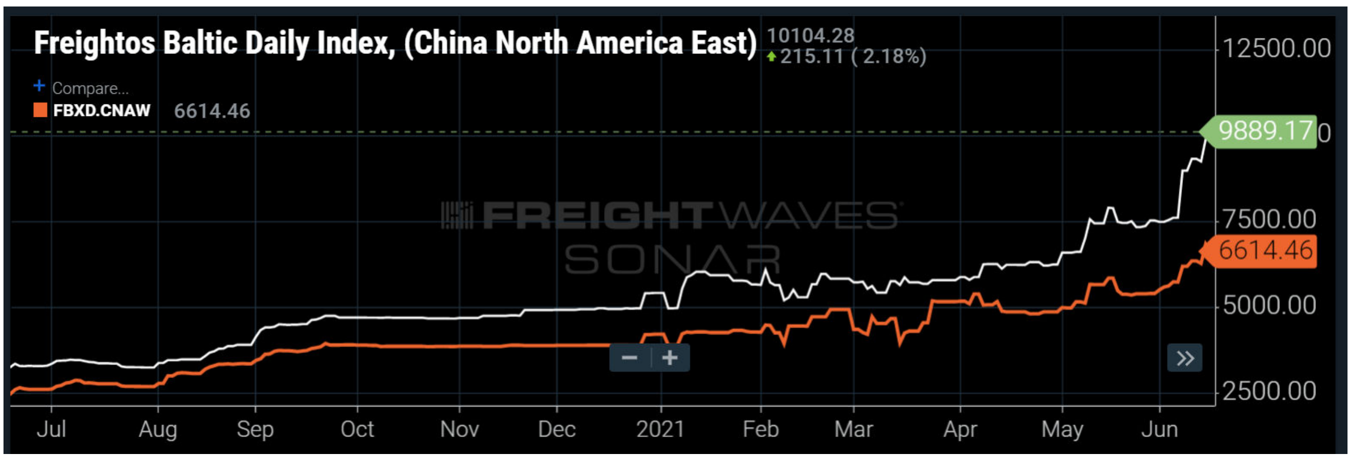


(Chart:FreightWaves SONAR, domestic door-to-door intermodal spot rates are shown in blue while truckload spot rates are shown in yellow/green/orange. Both data sets include fuel surcharges.)

Ocean rates surge, particularly from China to the North American East Coast

Accumulating supply side disruptions will keep upward pressure on ocean container rates. The outbreak of positive COVID cases at the Port of Yantian is one of many recent issues that will be felt by shippers in the coming weeks. While the port has partially reopened, the continued congestion of Chinese exports will add to the already unprecedented conditions on the U.S. West Coast.

Already heightened levels of import demand have overwhelmed U.S ports, which continue to break newly set records of TEU volumes. The influx of imports has produced instances of 20-plus vessels waiting for a berth. Rerouting of cargo away from this congestion is not an easily accomplished feat, typically reserved for the top percentile of consignees who hold the appropriate leverage. This continued deterioration of the global maritime supply chain has caused a surge in rates that is likely to remain elevated.

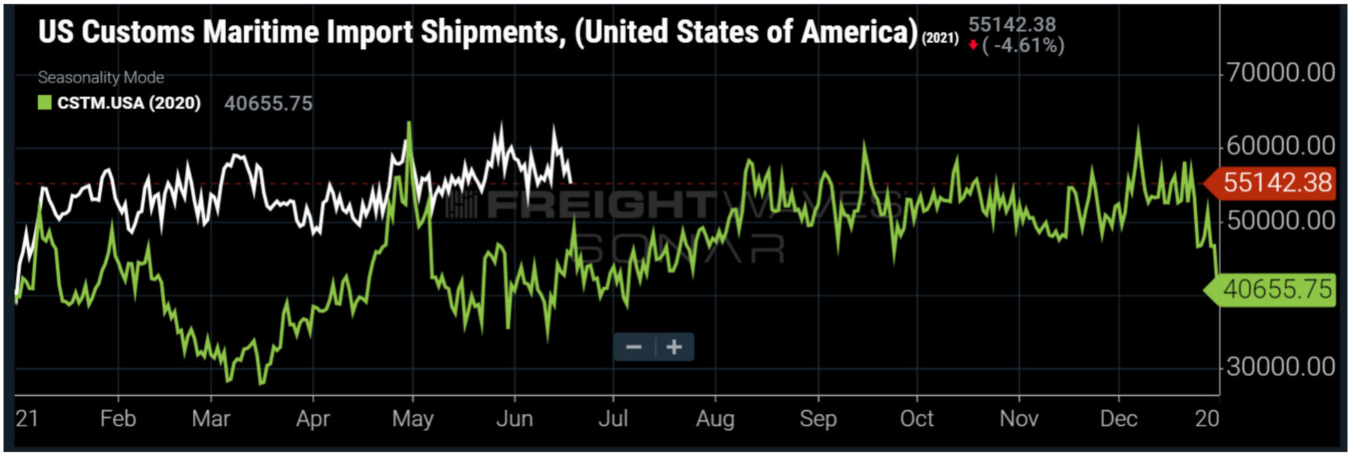


(Chart:FreightWaves SONAR, Freightos Baltic Daily Index China to North America East {White}, China to North America West {Orange})

The average rate per 40-Foot Container (FEU) moving from China to North America's East Coast has reached an all-time high of $9,889, a 10% w/w increase. From China to North America's West Coast, rates have experienced a similar trajectory. The average rate per FEU currently resides at $6,829, also up by 10% w/w.

The Panama spread, or the increased premium paid by shippers to import goods from China to North America's East Coast, has increased since the beginning of June. This outlines the additional costs that shippers will be up against as they try to avoid delays within their supply chain. Avoiding costly congestion will be of the utmost importance as we approach what will prove to be a very pivotal peak season for importers.

While rates continue to trend upward due to supply side pressures, an additional catalyst of this inflationary trend lies on the demand front. With inventory to sales ratios at historical lows, many inventories are still within the process of heavy replenishment. Consumer demand continues to remain unfazed as government stimulus evaporates. These two factors working in conjunction will likely lead to an atmosphere of continuously elevated demand.



(Chart:FreightWaves SONAR, US Customs Import Shipments 2021 {White} 2020 {Green})

This level of demand can be seen when looking at U.S Customs Maritime Import Shipments. This index depicts import shipments to the U.S. as reported by Customs and Border Patrol and includes both containerized and non-containerized goods.

While imports have fallen off their recent late-May peak, demand has not waned. Import levels remain significantly above 2020 totals. The slight reduction is likely due to an elastic regression from the ceiling of peak capacity. If supply side disruptions can get shored up, containerized and non-containerized imports are set to explode through the peak season of late summer, leading to levels we have not yet seen.

While pandemic recovery continues to gain steam, additional barriers to demand are being removed. The winding down of government stimulus could encourage re-entry into the workforce, which could alleviate a barrier to industrial production. Consumer demand has not deterred from spending on goods, nor has it lessened in its intensity. At least, not yet. All indications point to continued strong demand for imports.

While conditions seem to be improving at a steady pace in Yantian, its effect will likely cause ripples in the coming weeks. Port congestion on the West Coast, especially at the Port of Oakland, doesn't show any signs of improving. While more ships are set at anchor, more are entering the line. Congestion and increases in missed bookings are likely to worsen in the coming weeks. If capacity continues to experience shortfalls and disruptions, expect to see an unprecedented increase in ocean rates throughout the summer.

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