iXRT

Air Market News by Xeneta

February 10, 2025

The Xeneta Air iXRT provides an overview of market movements, the key risks and issues to be aware of and insight on how these may develop in the coming weeks and months.

Topics covered in this iXRT Report include:

- The global air cargo market is transitioning into its typical low season, with spot rates decreasing by 11% month-on-month in January.
- The ongoing supply-demand imbalance, particularly the cargo rush before the Lunar New Year holidays, keeps the market sentiment high despite the rate decline.
- The uncertainty around Trump's tariffs and the potential impact of stricter e-commerce regulations may pose challenges for the air cargo industry in 2025.
- Airlines are expected to begin 2025 stronger than last year, but freight forwarders will face tough tender negotiations due to eroded margins and the potential for more short-term contracts.

As the peak season comes to an end, the global air cargo market enters its typical low season with cooling spot rates.

In the four weeks ending 26 January, the global air cargo spot rate decreased 11% month-on-month to USD 2.71 per kg, while seasonal rate fell 8% to USD 2.39 per kg. The higher spot rate compared to the seasonal rate suggests a still-heated sentiment in the market.

This is in part due to continued supply-demand imbalance, particularly cargo rush ahead of the Lunar New Year holidays in many Asian countries (including China, Vietnam and South Korea) starting on 28 January and launching of Trump's tariffs to goods from China and suspension of de-minimis exemption targeting e-commerce shipments from 4 February.

Despite the long-feared strikes at US East Coast ports not going ahead in January, the air freight tender season is still likely to face several challenges in 2025. For example, there is ongoing uncertainty surrounding the scope and further evolvements of Trump tariffs following his announcement of 10% tariffs on China imports and threats against the EU.

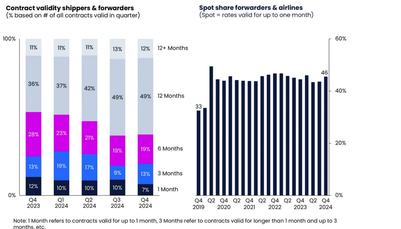
Other signs of a challenging year ahead can be found in contracting manufacturing new export orders in January, which would suggest a continued weakness in traditional air cargo markets.

There may also be a potential dampening of e-commerce demand, which powered double-digit global air freight growth in 2024, due to stricter regulations. This would not be surprising given Trump's trade policy towards China.

Trump's influence on the situation in Middle East in the wake of a ceasefire agreement between Israel and Hamas is still yet to be seen.

In the near term, airlines are likely to start 2025 in a stronger position than last year as the global air cargo spot rates in January were still nearly 20% above the levels in the same period 12 months ago. Airlines are likely to raise their block space agreements (BSAs) in response to anticipated supply-demand imbalances in 2025 (more details can be found in 2025 air cargo outlook report).

Freight forwarders will, therefore, face challenging tender negotiations due to limited benefits to the e-commerce boom and its eroded margins – in Q4 2024 they bought nearly 50% of cargo capacity at short-term market rates but sold over 90% through long-term contracts. This gap is likely to push freight forwarders to increase their long-term selling rates to shippers.

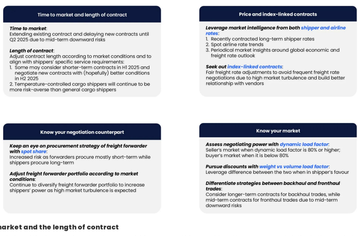


Note: 1 Month refers to contracts valid for up to 1 month, 3 Months refer to contracts valid for longer than 1 month and up to 3 months, etc.

Source: Xeneta

For shippers, Xeneta observes that early bids are coming in higher than they were at this time last year. To better prepare for 2025 tender negotiations, it is recommended shippers develop a holistic tender negotiation strategy, with some of the key points below:

Air freight negotiation strategies



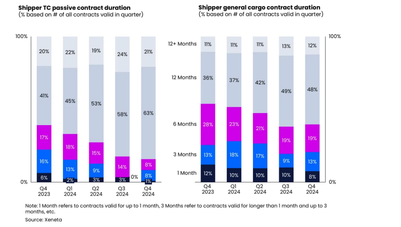
Time to market and the length of contract

Time to market and the length of contract are crucial for success this year. Given the many uncertainties in the market highlighted above, consider extending existing contracts and delaying new contracts until Q2.

Additionally, it may be prudent for shippers to adjust contract length according to market conditions and to align with their unique service requirements.

The mid-term downward risks, such as Trump tariffs, may see some shippers consider shorter-term contracts in H1 2025 and negotiate new contracts with (hopefully) better conditions in H2 2025. To demonstrate differing approaches, temperature-controlled (TC) cargo shippers held over 80% of contracts for one year or longer in Q4 2024, while general cargo shippers held 60%. This difference reflects TC shippers' greater risk aversion due to their strict service requirements, but given current market conditions, we may see a shift toward shorter-term contracts.

TC shippers prefer longer-term contracts compared to general cargo shippers



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Source: Xeneta

Know your negotiation counterpart

1. Keep an eye on the procurement strategy of freight forwarders.

As mentioned above, the volume share procured by freight forwarders in the spot market can deviate substantially from the rate they agree with shippers on longer-term contracts.

Such a gap could lead to increased risk to shippers if black swan events create market shocks that erode freight forwarders' margin and mean they are unable/unwilling to honor locked-in contracts. For instance, the outbound Hong Kong market tends to be long-term-driven, with over two-thirds of market volumes transported under agreements of longer than one month.

In contrast, more than two thirds of outbound Vietnam market volumes are transported under short-term agreements up to one month.

It is easy to understand why shippers in the outbound Vietnam market are exposed to substantial risks when load factor increases and rates head upwards.

2. Adjust freight forwarder portfolio according to market conditions.

With persistent market shocks, shippers should keep an adequate pool of freight forwarders for rate negotiations and secure cargo space. Relying on a single forwarder will increase the risk of shipment delays. For example, shippers contracted an average of 8 freight forwarders in Q4 2024, up from the pre-pandemic average of 5.



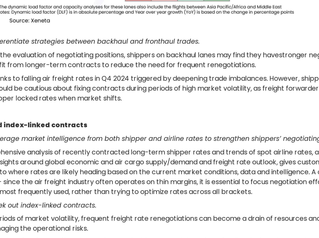
Source: Xeneta

Know your market

1. Understand negotiating position by analyzing dynamic load factor.

Freight buyers typically have stronger negotiating power when the dynamic load factor is below 80%, but weaker power when it exceeds 80%. Additionally, shippers gain negotiating leverage when the difference between weight load factor and volume load factor works in their favor. For example, a shipper transporting heavy machinery that occupies less bellyhold space is more likely to secure a discount than those shipping cargo with high volumetric weight.

Load factors are higher this year on most fronthaul routes compared to backhaul



*The dynamic load factor and capacity analyses for these lanes also include the flights between Asia Pacific/Africa and Middle East
Notes: Dynamic load factor (DLF) is in absolute percentage and Year over year growth (YoY) is based on the change in percentage points

Source: Xeneta

1. Differentiate strategies between backhaul and fronthaul trades.

Following the evaluation of negotiating positions, shippers on backhaul lanes may find they have stronger negotiating positions and benefit from longer-term contracts to reduce the need for frequent renegotiations.

This is thanks to falling air freight rates in Q4 2024 triggered by deepening trade imbalances. However, shippers on fronthaul trades should be cautious about fixing contracts during periods of high market volatility, as freight forwarders may struggle to honor shipper locked rates when market shifts.

Price and index-linked contracts

1. Leverage market intelligence from both shipper and airline rates to strengthen shippers' negotiating position.

A comprehensive analysis of recently contracted long-term shipper rates and trends of spot airline rates, along with additional market insights around global economic and air cargo supply/demand and freight rate outlook, gives customers the latest insights into where rates are likely heading based on the current market conditions, data and intelligence. A critical point to consider - since the air freight industry often operates on thin margins, it is essential to focus negotiation efforts on the weight brackets most frequently used, rather than trying to optimize rates across all brackets.

2. Seek out index-linked contracts.

During periods of market volatility, frequent freight rate renegotiations can become a drain of resources and distract shippers from managing the operational risks.

Index-linked contracts may, therefore, act as a valuable approach by automatically adjusting shippers' freight rates based on airline freight rate movements. This approach eliminates the need for constant manual renegotiations by making automatic adjustments based on Xeneta data which is trusted by both shippers and freight forwarders.