

## Europe Transport

Takeaways from Red Sea disruption –  
implications for air cargo

Industry Overview

## Key takeaways from expert call

We hosted Mr. Neil Wilson, Editor at TAC Index to discuss the impact of Red Sea disruptions on air cargo market. Mr Wilson notes that despite the disruption already having an effect on the ocean shipping market, with vessels rerouted around Africa leading to significant increases in spot rates as well as costs, the air freight market is yet to see any impact reflected in the numbers. Outlook in terms of timing for Red Sea disruptions impacting air freight rates are limited and visibility in terms of timing for Red Sea disruptions impacting air freight rates are limited. Overall, Mr Wilson believes that given the volatility of the air freight market, even a small shift of volumes from sea to air could lead to material increase of demand and price pressure on those lanes affected.

## Red Sea disruption not yet reflected in air rates

Baltic Exchange Air Freight Index, which aggregates air freight pricing (on basis of actual airway bill price paid) is down -28% m-m. This follows a return to 'normal' peak seasonality, with rates stepping up between September and mid-December 2023 year-end. Mr Wilson expects air rates to have a small mini peak into Chinese New Year (CNY), which would happen over next 2-3 weeks. Capacity is also returning to a 'normal' historical 60%/40% belly-freighters mix. Any extension or escalation of the Red Sea conflict would cause more traffic to be diverted, leading to shippers being further delayed and causing higher risk of late delivery penalties - leading to more use of air cargo. Some of the freight forwarders, such as K+N and DHL have already reported first customers switching to a combination of sea and air freight, with goods arriving in containers switching to air cargo in Dubai or Los Angeles for further transportation. Mr Wilson notes that this is potentially reflected in the latest reading of TAC Index for the Shanghai to Amsterdam route, which is up +9% w-w.

## Ecommerce an important contributor

Demand remains strong for products that traditionally move by air, such as phones and various tech products, with others, such as pharma, becoming a less meaningful part of air cargo market post-Covid. However, ecommerce has been an increasingly important contributor to air freight demand since end of Covid, representing approximately 30-50% depending on lane. More recently ecommerce operators have been taking advantage of lower air freight rates as market sees a reduction in activity from other participants.

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Europe  
Transport

**Muneeba Kayani >>**  
Research Analyst  
MLI (UK)  
+44 20 7996 5208  
[muneeba.kayani@bofa.com](mailto:muneeba.kayani@bofa.com)

**Paul Kirjanovs >>**  
Research Analyst  
MLI (UK)  
+44 20 7996 1082  
[paul.kirjanovs@bofa.com](mailto:paul.kirjanovs@bofa.com)

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