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Shipping markets and freight cycles

The four markets, supply and demand, the freight cycle, market segments, freight indices and what they mean for quotations and customer conversations

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SHORT ANSWER

Freight rates are set by the balance between ship capacity (supply) and the cargo to be moved and the distance it travels (demand). Because a new ship is delivered several years after it is ordered, supply cannot grow quickly in the short term; when demand or distance jumps, rates spike, and when new ships arrive and supply overshoots, rates fall. This recurring pattern is the freight cycle, and the newbuilding, freight, second-hand and demolition markets all move with it.

Why do freight rates swing?

The rate for the same container on the same route can multiply within a year and then fall back just as quickly. There is no single cause, but the logic is simple: ship capacity is almost fixed in the short term, while the cargo to be moved and the distance it travels can change fast.

For anyone selling in shipping, this logic underpins every quotation and customer conversation. Questions such as "why have rates gone up?", "when will they come down?" and "should I sign a contract?" all come back to how the market works.

The conceptual framework for this topic is best known from Martin Stopford's *Maritime Economics*, one of the core textbooks of the field. What follows summarises that framework using open-access academic sources and official pages from the organisations involved.

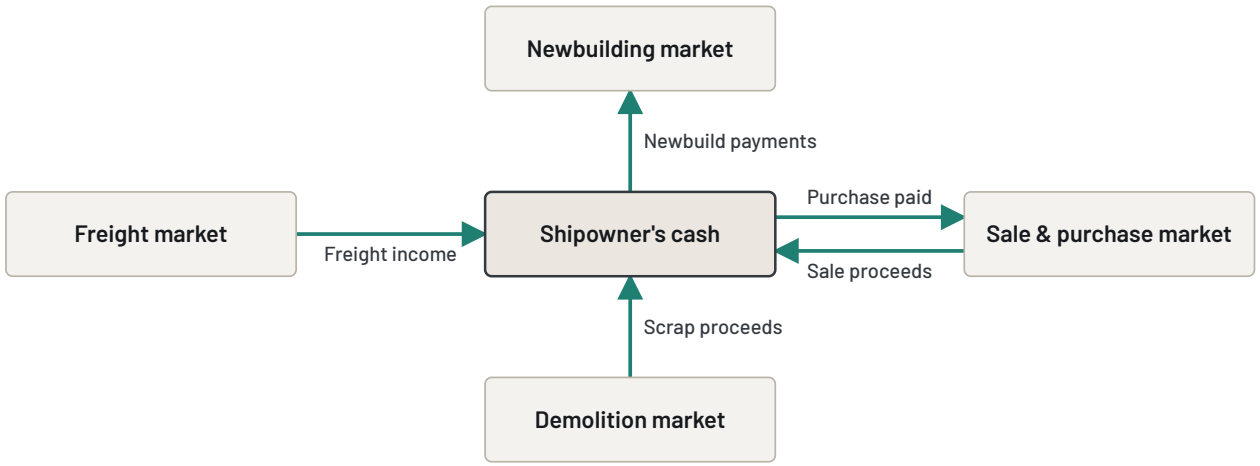
Four markets: one ship, four kinds of deal

Maritime economics courses treat shipping as four connected markets, each trading something different:

Market	What is traded?	Buyer and seller	Cash flow (from the owner's side)
Freight market	Transport: freight per voyage or daily hire (time charter)	Cargo owner or charterer ↔ shipowner	Cash **in**
Newbuilding market	Ships not yet built	Shipowner ↔ shipyard	Cash **out**

Market	What is traded?	Buyer and seller	Cash flow (from the owner's side)
Second-hand (sale and purchase, S&P)	Used ships	Mostly shipowner ↔ shipowner	In for the seller, out for the buyer
Demolition market	Ships at the end of their life	Shipowner ↔ ship recycler	Cash **in**

Tsolakis's PhD thesis lists the same four markets and adds ship finance as a fifth market that facilitates the others. The Baltic Exchange likewise describes sale and purchase as one market covering newbuilding, second-hand and demolition sales.



Market	What happens?
Freight market	Transport is sold here, as freight per voyage or daily hire under a time charter. It is the owner's main source of income and sets the direction for the other three markets.
Newbuilding market	The owner orders and pays for a ship that has not yet been built. Delivery takes several years, so today's order is tomorrow's supply.
Sale & purchase market	Used ships change hands, mostly between owners. Money moves within the industry, and prices rise and fall with freight rates.
Demolition market	A ship at the end of its life is sold to a recycler, bringing cash to the owner. Scrapping rises when the market is weak, and the fleet shrinks.
Shipowner's cash	The hub that links the four markets. Freight and scrap income flow in; investment in new ships flows out.

How are the markets linked? The relationships summarised in Tsolakis's thesis are:

- **Freight → second-hand prices:** when rates rise, a ship earns more and buyers pay more for second-hand tonnage. When rates fall, ship values fall too, and owners in difficulty may be forced to sell.
- **Freight → new orders:** high hire rates encourage newbuilding orders. But delivery takes several years; ships ordered in good times can arrive in a weaker market and deepen the oversupply.

- **Newbuilding ↔ second-hand:** the two markets are substitutes; as second-hand prices rise, demand for new ships and newbuilding prices rise too.
- **Demolition:** when the market is strong, old ships keep trading and few go for scrap. When it is weak, scrapping rises and supply shrinks.
- **Finance:** banks lend freely in good times and pull back in bad times, amplifying both ordering and distressed sales.

Money earned in the freight market is reinvested in ships; a few years later that investment comes back to the freight market as new capacity. That is the mechanism driving the cycle.

The demand side: tonnes, distance and ton-miles

Demand for ships is not demand in its own right; it is derived from world trade. As the economy grows and trade expands, there is more cargo to move.

Looking only at tonnes carried can be misleading, though. When the same cargo travels further, the ship is tied up for longer. That is why the industry widely uses **ton-miles** (tonnes carried × miles travelled). Duru (2017) discusses how ton-miles became a common measure of both supply and demand, and the limits of reading it on its own.

A distance shock: because of security problems in the Red Sea, a large share of ships switched from the Suez Canal to the Cape of Good Hope. According to UNCTAD's *Review of Maritime Transport 2025*:

- in 2024 seaborne trade volume grew by 2.2% while ton-miles grew by 5.9%;
- the average haul rose from 4,831 miles in 2018 to 5,245 miles in 2024;
- tonnage transiting the Suez Canal in early May 2025 was still around 70% below the 2023 average.

So even if cargo volumes barely grow, a longer route means the same fleet can make fewer voyages. For sales, the lesson is that "has trade grown?" is only half the explanation; the routing matters too.

The supply side: fleet, orderbook, scrapping and speed

Supply is the ship capacity available to carry cargo. Its main drivers are:

- **Fleet size:** the total capacity of existing ships.
- **Orderbook:** ships ordered from yards but not yet delivered; it shows supply growth in the years ahead.
- **Scrapping:** older ships leaving the fleet.
- **Speed:** when ships slow down (slow steaming), each ship completes fewer voyages a year and the same fleet offers less capacity. In 2023 BIMCO noted that slower sailing in container shipping was cutting effective supply by more than the drop in speed alone.
- **Efficiency:** port waiting times, congestion and empty sailings also change effective capacity.

Why is supply inflexible in the short term? Summarising the field's core assumptions, Duru (2017) describes supply as rigid and inelastic, becoming more responsive only in downturns, when lay-ups and slow steaming reduce effective capacity. When demand jumps, new ships do not appear overnight; years pass between order and delivery. As capacity nears its limit, even a small rise in demand can push prices up sharply. That is the basic reason behind freight spikes.

The freight cycle: four stages

This delayed relationship between supply and demand moves the market in waves rather than a straight line. Industry accounts based on Stopford's framework describe four stages:

Stage	Freight rates	Typical picture across the four markets
Trough	Low	Surplus capacity, lay-ups and slow steaming; low second-hand prices; more scrapping; few new orders
Recovery	Start to rise	The surplus is absorbed; second-hand prices recover; confidence slowly returns
Peak	High; capacity tight	Ships run at full capacity; second-hand and newbuilding prices rise; the orderbook grows; scrapping falls
Collapse	Fall quickly	Orders are delivered and demand slows; surplus capacity returns

The "typical picture" column is our own generalisation from the market relationships summarised by Tsolakis. Not every cycle plays out the same way.

Length: cycles have no fixed length. When a cycle has turned is only clear in hindsight, so giving a customer firm forecasts such as "rates will fall on this date" is not sound practice.

Market segments: dry bulk, tanker and container

The four markets and the cycle apply to all ship types, but each segment works in its own way:

	Dry bulk	Tanker	Container (liner)
Typical cargo	Unpackaged cargo such as iron ore, coal, wheat and soya beans	Crude oil, dirty and clean petroleum products	General cargo in containers
How it operates	Mostly tramp: no fixed schedule, chartered to wherever the cargo is	Mostly tramp, chartered	Scheduled, regular liner services
Pricing	Per tonne for a voyage or a daily hire rate	According to the Baltic Exchange, assessed on Worldscale and TCE bases	Freight per container plus surcharges
Contract	Charter party	Charter party	Bill of lading; contract or spot rate

How the liner market differs:

- **Scheduled sailings:** a line sails to its published schedule whether or not cargo is there. Capacity cannot be adjusted to demand straight away; adjustment often comes through blank sailings.

- **Alliances:** large lines form operational partnerships such as slot charters and vessel sharing. Notteboom, Pallis and Rodrigue cite reaching critical mass, global reach, efficient fleet deployment and sharing the risk of investing in large ships as the reasons.
- **Contract and spot:** large shippers usually agree contract rates for a set period and volume; one-off or extra loads move at spot rates. By the same authors' rough estimate, around three-quarters of the global container market runs on contract rates. That is why spot indices do not mirror exactly what many shippers actually pay.

For charter types and contract structures in dry bulk and tankers, see **Chartering, laytime and vessel demurrage**.

Tracking freight: four indices

Indices are the most practical way to follow the market. Because current values change quickly, we explain only what each one measures; always check the current level on the publisher's own page.

Index	Publisher	What does it measure?	Unit and frequency
Baltic Dry Index (BDI)	Baltic Exchange	A composite of dry bulk time charter averages: Capesize 40%, Panamax 30%, Supramax 30%. A continuous series since 1985	Index points
World Container Index (WCI)	Drewry	Spot container rates on 8 East–West routes and a composite. Includes BAF and other surcharges, CY to CY	USD per 40 ft, weekly
SCFI	Shanghai Shipping Exchange	Spot container rates out of Shanghai plus related surcharges; THC at both ends excluded	USD per TEU (USD per FEU on US routes); usually Friday, base 16.10.2009 = 1,000
Freightos Baltic Index (FBX)	Freightos with the Baltic Exchange	Spot 40 ft rates and related surcharges on 12 tradelanes; FBX00 is the global composite	USD per 40 ft, daily

Reading an index:

- **Look at the right segment.** The BDI tracks dry bulk. Watching it for container rates means watching the wrong market.
- **Check what is included.** Which surcharges are in varies by index. The WCI excludes inland transport, documentation and booking fees; the SCFI excludes THC at both ends.
- **Compare with your own lane.** Indices track specific main routes. For Far East imports into Türkiye, the WCI's Shanghai–Genoa route or the SCFI's Mediterranean route can be useful pointers, but neither measures Turkish ports directly. That is our own interpretation.
- **Do not confuse spot with contract.** All four indices mainly track the spot market; contract rates move more slowly.
- **Watch direction more than level.** In a sales conversation, what really helps is the direction and speed of the index over recent weeks.

A past example: the 2021 container freight peak. According to UNCTAD's November 2021 release, the Shanghai–Europe SCFI spot rate was below USD 1,000 per TEU in June 2020; it reached about USD 4,000 by the end of 2020 and USD 7,395 by the end of July 2021. UNCTAD attributed this to a surge in demand for goods meeting limited ship capacity, container and labour shortages, and port congestion. It is one of the clearest examples of how inflexible supply is in the short term.

What it means for sales and marketing

Understanding the market makes a concrete difference to quotations and customer communication. The points below are general principles; each company's own pricing policy decides.

Contract or spot? A contract rate makes budgeting easier and can improve the chance of getting space when capacity is tight. A spot rate pays off in a falling market but carries price and space risk in a rising one. Customers with regular volumes are often advised to use a mix. Which is better depends on the stage of the market when the contract is signed.

Quotation validity: in a volatile market, a quotation should state clearly how long it is valid, which loading dates it covers and which items may change. When validity periods get shorter, explaining why builds trust.

Surcharges: part of the price moves not in the base rate but in surcharges. Fuel costs pass through BAF, general increases through GRIs, and seasonal pressure through further surcharges. See **Freight quotations and surcharges** for details.

Sharing market information honestly: when talking to customers about the market, keep what is known apart from what is forecast. "The index has risen over the last four weeks" is information; "it will fall next month" is a forecast. Citing the source (which index, which route, which date) is more persuasive than a bare claim. Reporting falling rates just as openly protects long-term trust.

Prioritising when capacity is tight: when space runs short, cargo may roll to the next vessel (rollover) or sailings may be cancelled. In these periods, talk to customers in advance about priority for contract and regular cargo, how early bookings need to be made, and alternative routings or dates. Buyers often ask for more space than they need during shortages; this follows the same logic as "rationing and shortage gaming", one of the causes of the bullwhip effect covered in **Supply chain basics**.

Where to go next in the guide

- What a quotation contains: **Freight quotations and surcharges**, **FCL, LCL and freight calculation**
- The tramp market and chartering: **Chartering, laytime and vessel demurrage**
- Capacity and schedules: **The container shipment timeline**
- Port and equipment costs: **Demurrage, detention and storage**
- How demand swings travel along the chain: **Supply chain basics**

Test yourself

1. From the shipowner's point of view, which two markets bring cash in? *(Answer: The freight market and the demolition market. In the newbuilding market cash goes out; in the second-hand market it mostly changes hands between owners.)*
2. If ships switch to a longer route while the cargo volume stays the same, what happens to ton-mile demand? *(Answer: It rises. The same cargo travels further, ships are tied up for longer and effective capacity falls.)*
3. A customer watches the Baltic Dry Index to follow container freight. Why is that the wrong index? *(Answer: The BDI measures the dry bulk time charter market. For container rates, use container indices such as the WCI, SCFI or FBX.)*
4. In which stage of the freight cycle does scrapping usually rise and new ordering fall? *(Answer: The trough.)*

Frequently asked questions

Why do freight rates swing so sharply?

Because ship supply is almost fixed in the short term. A new ship arrives several years after it is ordered; if demand or sailing distance rises in the meantime, the same fleet has to cover more work and prices climb fast. When the orders are delivered and demand slows, supply overshoots and rates fall.

Does the Baltic Dry Index show container freight rates?

No. According to the Baltic Exchange, the BDI is a composite of dry bulk time charter averages (Capesize 40%, Panamax 30%, Supramax 30%). For container rates, look at container indices such as Drewry's WCI, the SCFI or the FBX.

Is a spot rate or a contract rate better?

It depends on the stage of the market and the nature of the cargo. A contract rate gives predictability for a set period and volume; a spot rate can pay off in a falling market but is expensive, and risky for space, in a rising one. Shippers with regular volumes often use a mix of both.

Why did the Red Sea crisis push freight rates up?

Ships sailing around the Cape of Good Hope instead of through Suez travel further for the same cargo. That raises ton-mile demand even if tonnage is unchanged and cuts the effective capacity of the same fleet. According to UNCTAD, seaborne trade volume grew 2.2% in 2024 while ton-miles grew 5.9%.

What are the stages of the freight cycle?

Industry accounts based on Stopford's framework describe four stages: trough, recovery, peak and collapse. The trough brings surplus capacity and low rates; the peak brings tight capacity and high rates. The length of each stage varies and cannot be known in advance.

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