MARKET UPDATE

APRIL
2022

noatum logistics

EXECUTIVE SUMMARY

The ocean freight market saw further rate reductions, with space remaining tight due to ongoing China regional lockdowns. An advisory from a leading line suggested that reduced trucking capacity at many Chinese ports could see cargo volumes diminish temporarily, as China battles the omicron surge.

A report by the United Nations Conference on Trade and Development (UNCTAD) warns 1.5 million containers of Asia-Europe rail cargo could be re-routed to the air and ocean markets, driving rates higher.

The war between Ukraine and Russia has disrupted land and air cargo shipments between Asia and Europe. Restrictions on Russian air space, service suspensions and security concerns are complicating trade routes going through both countries which are part of the Eurasian Land Bridge.

Ocean Freight

There are signs that rate erosion may have begun, at least on the Asia-North Europe trade-lane. This component of the spot indices, which had remained stubbornly elevated after the Chinese New Year peak, has now started to recede.

The impact of the war on the global economy and consumer confidence may weaken growth prospects, which could lead to an earlier 'return to normal', which in turn could ease congestion in ports."

- Eyes remain on China's lockdown for direction
- Shenzhen & Shanghai lockdown causing congestion in these area's
- Ningbo lockdown might be initiated
- Container availability still tight and ongoing
- UK & North European Ports still congested

Air Freight

Global air cargo demand was up 2.9% in February, year on year, but capacity is still constrained, according to the latest IATA data.

Cargo is tracking above pre-COVID-19 levels, with demand, measured in cargo tonne-kilometers (CTKs) rising 2.5% yoy, but while cargo volumes continued to rise, the growth rate slowed from the 8.7% yoy expansion in December.

While capacity was 12.5% above February 2021 (8.9% for international operations), compared to pre-COVID-19 levels, it is actually 5.6% below 2019 levels.

- Capacity reduced due to ongoing Ukraine / Russia situation
- All of Shanghai now under lockdown and airline handling has become almost impossible, due to lack of staff
- Main carriers suspending many flights

Overland (Road/Rail)

Cross-channel capacity has been slashed by the fallout from P&O's controversial redundancy actions, fuel prices are spiking and driver shortages continue to be a very real concern.

Since the onset of the Ukraine crisis, the cost of filling up a truck has rapidly risen by £200 and with the government's 5ppl duty cut failing to make any impact, UK hauliers eye their peers across the channel with envy.

- Major cross border delays due to P&O situation and bad weather
- The cost of filling up a truck went up by £200, resulting in carriers imposing huge fuel surcharges
- Ongoing congestion and driver shortages still a real concern

Ocean Freight

Container freight rates seem unfazed by global issues and remain above par, but soaring bunker prices could hasten 'return to normal'.

Even before Russia invaded Ukraine, there were signs of a softening of demand from European consumers starting to struggle with higher energy costs and other inflationary pressures.

Low-sulphur bunker prices increased by $100 per in one 24hr period and, having soared by a third since the end of February to about $1,000 per ton, are adding millions of dollars to the cost of operating a ULCV on an Asia-North Europe round-trip.

And with a Russian oil ban “on the table”, as sanctions are ratcheted-up following the invasion of Ukraine, traders are predicting oil could hit $200 a barrel by the end of the month – more than double the price at the beginning of the year.

Notwithstanding the huge profits reported by ocean carriers in the past year, the leap in fuel costs will oblige shipping lines to readjust their 2022 full-year outlooks, hitherto calculated on an average of around $500 per ton.

Moreover, the widening spread between the price of compliant low-sulphur fuel oil (LSFO) and HFO (heavy fuel oil) – now approximately $250 a ton – will see renewed interest in scrubber retrofits, as and when special surveys or other operational downtimes of ships allow.

Market

While some downside risks are arguably stacking up for the container lines, it is unlikely to be the end of the bull run for freight rates, but the market is extremely volatile and things can change very fast.

All signs point to continued elevated volumes and rates in the coming months, partially driven by importers pulling some demand forward in anticipation of summer delays, and a possible strike at west coast ports, in the US.

To mitigate freight rate volatility, ocean carriers have used the baseline of highly elevated spot rates to lock the largest volume shippers into long-term and multi-year contracts.

Rates

Container spot rates, although trending down, are broadly in line with normal seasonal falls and, moreover, ocean carriers are succeeding in driving-through significant contract rate increases.

However, in the short-term, the lack of availability of containers to load in China, due to intermodal restrictions, could lead to carriers discounting rates to capture as much cargo as possible and thus ensure ships do not sail light.

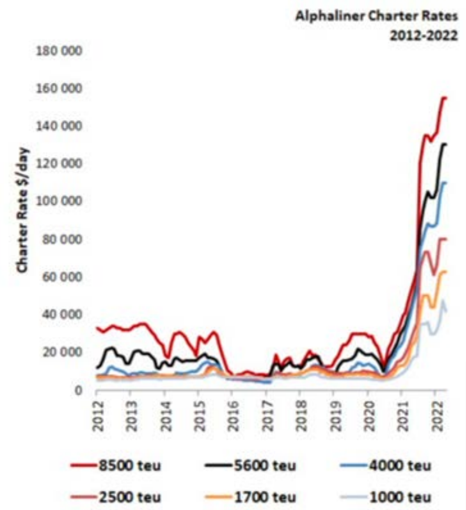
Nevertheless, across the spot market indices this week, there were just modest fall of between 1% and 2% on the Asia-North Europe components, with the readings of Drewry’s WCI, the Freightos Baltic Index (FBX) and Xeneta’s XSI.

Ocean Freight

The situation in Ukraine is expected to cause increased transit times, fuel surcharges, and shipping rates.

Final top 10 carrier operating margin rankings for 2021 including COSCO's container shipping business

	3Q21	4Q21	2021
Yang Ming	66.0%	67.8%	61.3%
Evergreen	67.3%	61.3%	59.3%
HMM	59.5%	63.9%	56.5%
Wan Hai	61.5%	62.1%	56.1%
ZIM	59.3%	61.0%	54.2%
ONE	56.8%	60.2%	52.8%
CMA CGM*	48.7%	50.1%	42.7%
Hapag-Lloyd	46.5%	49.4%	42.2%
COSCO Shg*	49.7%	34.6%	38.9%
Maersk Ocean*	40.8%	43.5%	37.2%



Shipping lines

Final operating profits for the top-10 carriers reached USD 115 bn last year, with the average operating margin in the final quarter of 2021 dropping slightly to 55.4%, similar to the previous quarter.

With a continued shortage of prompt tonnage across all sizes, and persistent disruptions in the supply chain supporting vessel demand, charter rates are unlikely to come off significantly from their current historic highs in the foreseeable future.

There is also a feeling that vessel demand might no longer be as pressing, with most lines seemingly happy to wait for a possible market correction before fixing any more tonnage.

This 'wait and see' approach can also be felt in the sale & purchase market which has gone equally quiet, as some buyers consider that prices have just gone too high.

The global uncertainties, with the ongoing unknowns surrounding the war in Ukraine and further COVID lockdowns in China, especially in Shanghai, are partly to blame for the current market dithering.

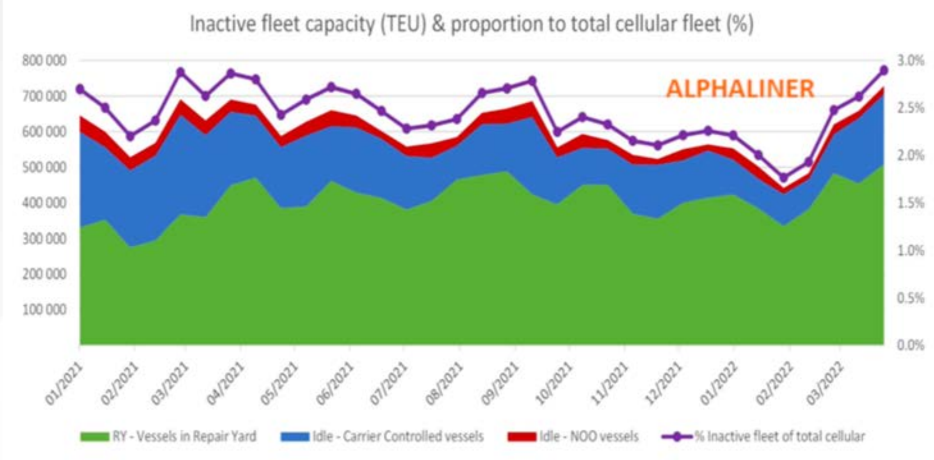
There are also question marks on how cargo volumes and freight revenues will evolve in the coming months, against a backdrop of continuously falling freight rates on most routes.

This perception of greater downside risks is dampening sentiment, causing more hesitation among carriers.

The global inactive containership fleet has exceeded 700,000 teu, which is the highest level recorded since late 2020.

The increase marks the fourth consecutive rise since January and it reflects the typical upswing in vessel drydocking that its commonly observed in the months that lead up to the summer peak season.

The inactive fleet accounted for 2.9% of the global cellular fleet, which is comparable to vessel inactivity a year ago in March of 2021.

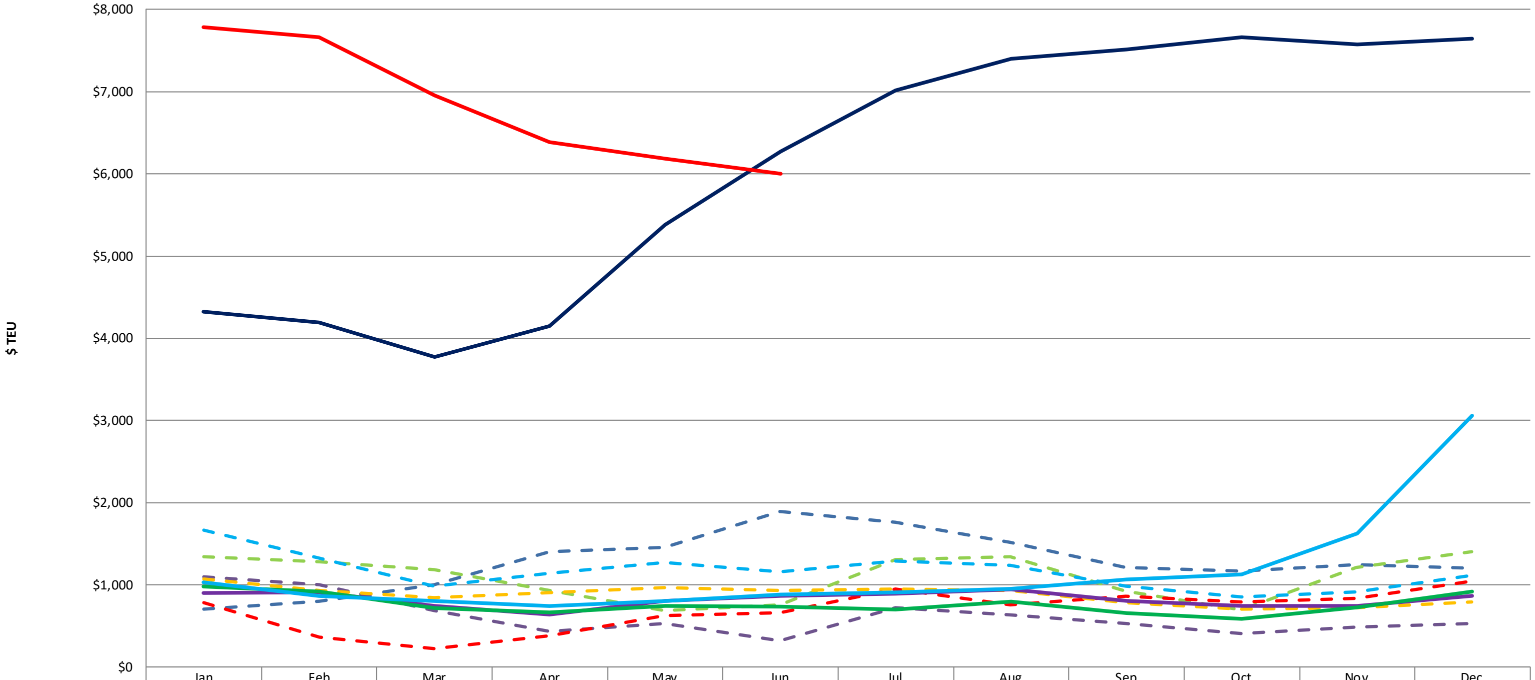


Ocean Freight

SCFI (excludes 'Priority' surcharge)

Shanghai Freight Index 2012 - 2022

Based on Shanghai to N Europe (monthly average), excludes PSS, Sea Priority, Port Congestion



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SHFI 2012	$700	$800	$1,000	$1,400	$1,450	$1,888	$1,763	$1,517	$1,208	$1,165	$1,241	$1,201
SHFI 2013	$1,341	$1,279	$1,184	$926	$687	$754	$1,309	$1,338	$920	$693	$1,207	$1,403
SHFI 2014	$1,659	$1,322	$983	$1,140	$1,267	$1,153	$1,288	$1,237	$979	$855	$914	$1,113
SHFI 2015	$1,095	$1,000	$683	$431	$530	$320	$721	$633	$530	$405	$483	$527
SHFI 2016	$784	$363	$224	$381	$622	$660	$950	$755	$864	$793	$836	$1,040
SHFI 2017	$1,074	$929	$841	$901	$965	$929	$948	$927	$783	$706	$723	$789
SHFI 2018	$896	$912	$739	$640	$804	$861	$888	$941	$802	$739	$745	$869
SHFI 2019	$976	$914	$720	$663	$746	$735	$698	$796	$654	$587	$722	$916
SHFI 2020	$1,026	$864	$805	$741	$801	$883	$906	$948	$1,064	$1,128	$1,622	$3,061
SHFI 2021	$4,325	$4,190	$3,771	$4,151	$5,378	$6,268	$7,014	$7,397	$7,509	$7,660	$7,575	$7,642
SHFI 2022	$7,784	$7,657	$6,949	$6,385	$6,188	$6,000						

Air Freight

Lockdown restrictions in Shanghai, due to end on 5th April 5, have been extended to the whole city, with congestion rising at Pudong International Airport (PVG), a backlog of cargo, rising rates and pressure on road transport.

PVG, a hub for China Cargo Airlines, China Southern Cargo, DHL Aviation, FedEx Express, UPS Airlines and Suparna Airlines has been effectively closed since the lockdown began on the 28th March, but there some scheduled arrivals and departures remain, indicating the airport is operating at a reduced capacity.

With limited goods available to despatch, demand for air cargo capacity out of Shanghai is decreasing quickly, with carriers cancelling flights.

When manufacturers can locate drivers and position trucks, to move their cargo to Pudong airport, we can book space and manage the export process because, despite assumptions that operations had ceased the operation at PVG never stopped at all.

Market

Global air cargo demand was up 2.9% in February, year on year, but capacity is still constrained, according to the latest International Air Transport Association (IATA) data.

Demand, measured in cargo tonne-kilometers (CTKs) rose 2.5% for international operations year on year, but the growth rate decelerated from 8.7% yoy expansion in December.

While capacity was 12.5% above February 2021 (8.9% for international operations), levels, it is actually 5.6% below February 2019 levels.

Several factors benefitted air cargo in February, with Asia manufacturing activity recovering quickly after CNY and capacity was positively influenced by the relaxation of travel restrictions and fewer winter weather operational disruptions.

Russia's invasion of Ukraine had limited effect on February's performance, but the negative impacts will become more visible from March, when rising oil prices and geopolitical uncertainty will take their toll on air cargo's performance.

The zero-Covid policy in mainland China and Hong Kong continues to create supply chain disruptions as a result of flight cancellations due to labour shortages, and because many manufacturers cannot operate normally.

Rates

Air freight rates have stabilised and could increase due to the ongoing space situation.

War risk surcharge on AFT being implemented.

Fuel surcharges still on the increase.

February 2022 (% year-on-year)	World share[1]	CTK	ACTK	CLF (%-pt)[2]	CLF (level)[3]
Total Market	100.0%	2.9%	12.5%	-4.9%	53.2%
Africa	1.9%	4.6%	8.2%	-1.7%	50.2%
Asia Pacific	32.4%	3.0%	15.5%	-7.1%	59.2%
Europe	22.9%	2.2%	10.0%	-4.8%	63.6%
Latin America	2.2%	21.2%	18.9%	0.9%	47.6%
Middle East	13.4%	-5.3%	7.2%	-7.0%	52.9%
North America	27.2%	6.1%	13.4%	-3.0%	42.9%

[1] % of industry CTKs in 2021 [2] Change in load factor [3] Load factor level

Air cargo market in February 2022. Source: IATA

Air Freight

Russia's invasion of Ukraine has added another obstacle for air cargo-reliant supply chains, already pressured by climbing rates and limited capacity.

Carriers

Airlines have adjusted their operations to minimise the war's impact, leading many to cancel services and flights to Ukraine and Russia when the attack began.

The two countries are also home to freighter fleets that specialise in handling extra-large cargo, which are hard to find elsewhere.

Commercial flights have vanished from the skies of Ukraine and surrounding areas as carriers avoid the conflict's airspace.

Rerouted flights and climbing fuel costs have resulted in higher surcharges for shippers and further flight cancellations as some services between Europe and Asia became economically unviable for carriers.

All this has happened during a period of already limited cargo space, as the COVID-19 pandemic grounded many aircraft due to plummeting passenger demand.

Some air cargo carriers are still traveling freely through Russian airspace, including China Southern and Air China, but at least 11 of the world's top 25 cargo airlines have made some sort of adjustment due to the war.

Overland

Cross-channel capacity has been slashed by the fallout from P&O's controversial redundancy actions, fuel prices are spiking and driver shortages continue to be a very real concern.

With P&O's ferry services still largely suspended, the loss of capacity has seen Operation Brock - the Brexit congestion contingency – implemented.

P&O operates a fleet of 21 vessels across 11 ports and accounts for 30% of the freight crossing the English Channel.

It carries half the road trailers that pass through Dover every year and with 2.1 million trucks moving through Dover in 2021, the loss of P&O capacity is having a profound impact.

With thousands of lorries heading for the Port of Dover, and tail-backs stretching 10 miles, drivers have been able to park along a 23-mile stretch of the M20 from junction 8 to junction 11, causing chaos to surrounding roads.

One driver shared his experience on Linked. "Dreadful queues to cross the Channel. Waiting 26 hours and still not in the dock. No toilets, no water, no empathy from authorities and poor attitude from Kent police. Completely unacceptable. Need to get those P&O boats sailing again now either with or without the incompetent management. Oh, and GVMS not working causing further delays!! Another kicking for international hauliers, dealing with chaos that's not of our making."

Increasing in popularity with shippers, particularly for high-value products, rail freight from China has grown massively since the advent of the COVID pandemic, with volumes surging 29% last year, to 1.46m teu.

While some rail freight services continue to run from Asia to Europe, on the southern corridor via Aktau – Baku – Istanbul, most major service providers have suspended services.

The displacement of such massive overland volumes will have a profound impact on air and sea modes from Asia, taking much needed capacity and putting even more pressure on pricing.

Overland

Since the onset of the Ukraine crisis, the cost of filling up a truck has rapidly risen by £200 and with the government's 5ppl duty cut failing to make any impact, UK hauliers eye their peeers across the channel with envy.

Market

While the UK's hauliers have had to make do a 5ppl duty cut, France's road hauliers are to receive direct state aid of €400m ($441m) to soften the blow of surging fuel prices.

It will be allocated on a per truck/gross laden weight basis, with individual aid ranging from €400 to €1,300.

French haulage firms will also continue to benefit from a rebate of €0.15 per litre of diesel or per kg of gas fuel.

Rates

High fuel prices have been putting a massive strain on the road freight industry. To illustrate the scale of the price rises, in January 2021, the oil price was around $50 per barrel – but in just over a year it has more than doubled to reach about $140 this March'

The war in Ukraine and subsequent disruption to global fuel supplies has exacerbated the issue, necessitating a 5p per litre cut to fuel duty. The US releasing huge reserves of oil is having a more immediate effect, resulting in a short-term crude oil price fall.

There are so many factors pushing road freight costs up right now, and the war in Ukraine is adding to an already uncertain situation. Unfortunately, there's no end to the conflict in sight, so its knock-on effects will continue for some time.

The TEG Road Transport Price Index, compiles aggregated and anonymised transactions. March's average haulage and courier price-per-mile was up 12% year-on-year.

The average price-per-mile for haulage and courier vehicles increased from 100.6 points to 112.2 points between March 2021 and March 2022.

These year-on-year increases have now continued for 14 months due to Brexit, driver shortages, high fuel prices and various other factors.

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
TEG Market Index	98	100.6	108.7	111.8	117.7	120.2	123.5	128.9	127.3	125.4	129.2	116.2	109.6	112.2
Courier Vehicles	101	101.6	107.8	110.9	116.2	118.9	120.2	124.1	122.7	121.3	125.2	115.1	110.1	113.3
Haulage Vehicles	94.8	99.7	109.8	113.2	120	122.3	128.6	136.4	134.2	131.1	135.2	117.5	109.1	110.9

Data ID: A3, B3, C3

noatum logistics

www.noatumlogistics.com
info@noatumlogistics.com

North America
Chicago, IL

T +1 773 824 2386
infous@noatumlogistics.com

North Europe
London, United Kingdom

T +44 1784 480 100
infouk@noatumlogistics.com

South America
Lima, Peru

T +51 1 615 76 76
infosa@noatumlogistics.com

East Med
Istanbul, Turkey

T +90 216 422 85 85
infoem@noatumlogistics.com

Asia
Hong Kong

T +852 2410 6900
infoas@noatumlogistics.com

West Med
Barcelona, Spain

T +34 93 298 77 77
infowm@noatumlogistics.com