MARKET UPDATE

MAY
2022

EXECUTIVE SUMMARY

The government has attracted political and business criticism for delaying July's final UK border controls for the 4th time, despite the EU imposing full control on UK exports, at the end of the Brexit transition period.

With export bookings and demand for space falling, freight from Asia to Europe continues to be impacted by the ongoing lockdowns in Shanghai and China regions, with ocean carriers implementing blank sailings to prop up rates.

Air freight diverted from lockdown-hit Shanghai (PVG) is clogging up China's other major airports, with Zhengzhou (CGO) hardest-hit, given the large amount of cargo diverted there from Shanghai. Adding to the difficulties, Zhengzhou was put in lockdown, with restrictions on travel and vehicle permits.

When China fully reopens, there is gong to be a deluge of demand and that surge in freight will worsen congestion along the entire supply chain.

Ocean Freight

Even with tiered restarting of manufacturing and partial lifting of the lockdown in Shanghai, the situation across China remains challenging, with a total of 56 sailings blanked over the next four weeks.

The most significant and recurring problem has been restrictions limiting road transport collections and deliveries to the ports and airport.

Lockdown restriction measures have closed many highways normally used by truckers, with road transport costs and waiting time costs, for repeated testing, soaring during this time.

- Shanghai lockdown drags on, but the port remains open.
- Getting trucks and getting cargo in/out remains the main challenge.
- Space is not an issue, though we advise booking in advance.
- Congestion in UK & North European ports continues, with delays of up to 2 weeks

Air Freight

Shanghai Pudong is operating, with airlines continuing to serve.

The problem is restrictions limiting transport to/from the airport which means low volumes of cargo are transported to the airport and much cargo is diverting to other airports in the region.

Rates for air transport have stabilised, because so many factories have been closed by the lockdown and the limited availability of road transport to deliver export cargo, is reducing demand, while road transport and waiting time costs have soared.

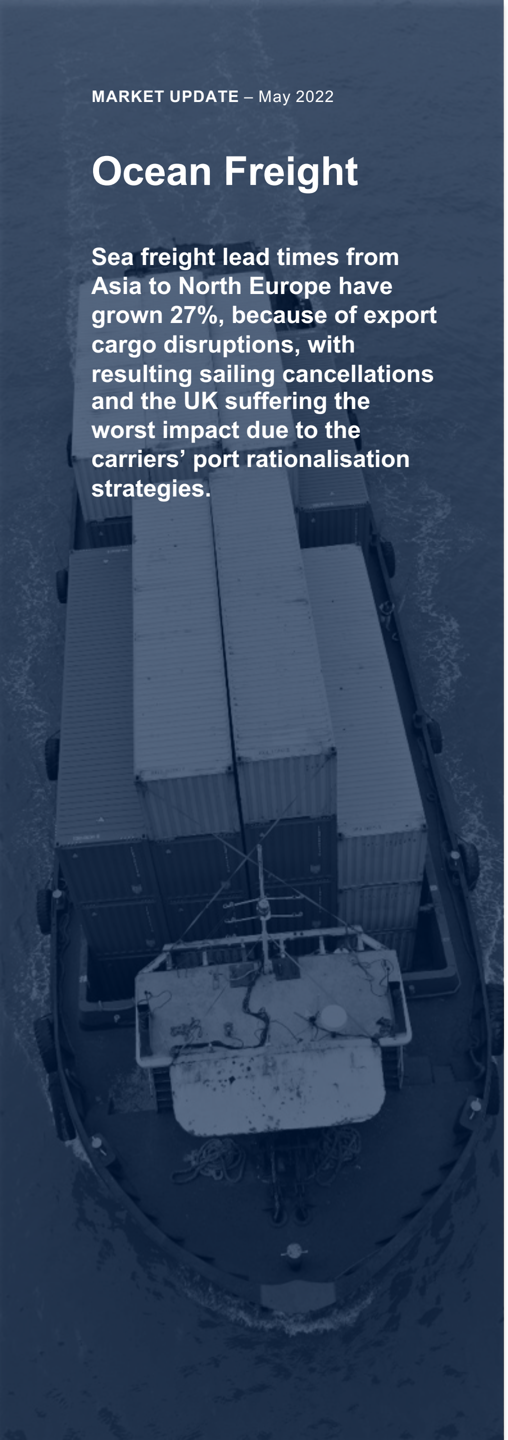
- Load factors from Shanghai plummet as cargo fails to arrive.
- The air freight market is likely to struggle with uncertainty and volatility in the short-term, as China continues with 'zero-COVID' and the war in Ukraine drags on.
- Carriers have gotten 'better' at adjusting their capacity to the ever-changing environment.

Overland (Road/Rail)

The EU introduced full import controls on UK goods when the Brexit transition ended in January 2021, while the UK government has now delayed full import control four times, with concerns rising that UK importers are not making appropriate declarations.

The Public Accounts Committee warned that much remains to be done to introduce import controls and the government's aspiration to create "the most effective border in the world" by 2025 is optimistic, "given where things stand today".

- Driver shortages still ongoing although easing due to market volumes softening
- Fuel on the raise with surcharges hitting 35% with some hauliers
- Trade press accuse 'opportunistic' hauliers of taking border shortcuts without understanding the repercussions that may follow



MARKET UPDATE – May 2022

Ocean Freight

Sea freight lead times from Asia to North Europe have grown 27%, because of export cargo disruptions, with resulting sailing cancellations and the UK suffering the worst impact due to the carriers' port rationalisation strategies.

Freight from Asia to Europe continued to show signs of weakening over the course of April, as weaker demand coupled with the ongoing lockdowns in the Shanghai region of China weighed heavily on market sentiment.

With Chinese lockdowns continuing and so much uncertainty in the market some shippers and beneficial cargo owners (BCOs) are waiting for clarity, rather than book goods and not be able to move them from North China.

The fall in export bookings and drop in terminal cargo throughput, amid the ongoing lockdowns in China, have seen vessel queues grow outside some ports and equipment imbalances have been anticipated as the length and magnitude of the lockdown was largely unexpected.

There is some hope that carriers may have positioned sufficient empty equipment, in readiness for the surge of cargo that will surely follow the lifting of COVID lockdowns.

The current issues in China look likely to continue for some weeks and in the meantime our team are re-routing cargo where it is possible and cost-effective.

With Beijing likely to be the next major lockdown, Shanghai are unlikely to see any relaxation of the rules and the 'zero-virus' approach is likely to be pursued until the very end.

Market

The Shanghai lockdown, which began on the 28th March, remains in place, with offices, workplaces, and public transport closed and while airport and sea container terminals remain operating, they are massively restricted by the availability of labour and transport to deliver and remove cargo, which is significantly depleting the volumes that are moving by either mode.

The situation is further impacted by vessel delays, and longer waiting times, though the availability of ISO tank containers is improving and Maersk has lifted a stop on bookings for dangerous goods cargoes.

The concern now, is that when demand does return, carriers will not have enough equipment on the ground, putting even more pressure on rates.

Rates may soften as carriers scramble for export cargo, but there should be no illusions, because rates are still almost certain to spike when China's lockdowns finally lift and delayed orders boost demand.

Sea freight lead times from China to North Europe have grown 27% in the last year, as a consequence of export cargo disruptions and the resulting cancellations of sailings. With the UK suffering the worst impact due to the carriers' port rationalisation strategies.

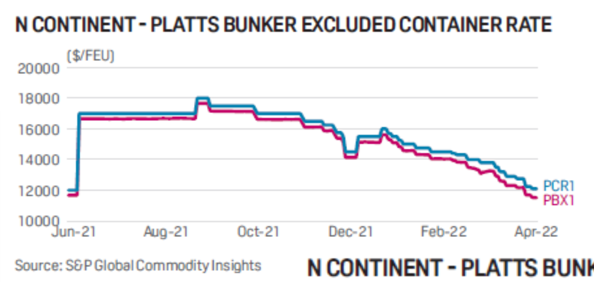
Up to w/c 30th May a total of 56 sailings have been blanked over the next four weeks, which represents an 8% cancellation rate.

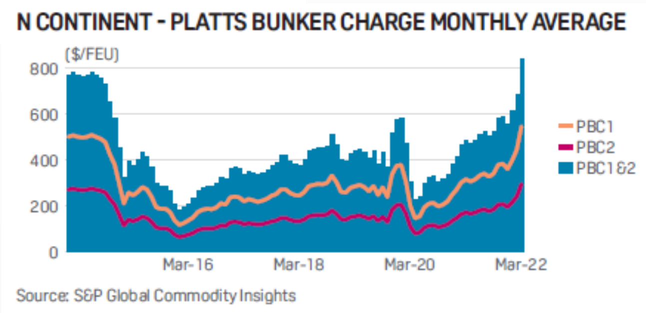
The Alliance has announced 21 cancellations, followed by 2M and Ocean Alliance with 14 and six cancellations, respectively.

And carriers may be preparing further blank sailings from Asia over the next few weeks, as their operational headaches mount.

Ocean Freight

Concerns are growing that Shanghai's eventual re-opening could trigger a 'Bullwhip Effect', as the impact of the world's biggest port unleashing pent-up demand is exaggerated along global supply chains.





Rates

Freight from Asia to Europe continued to show signs of weakening over the course of April, because there hasn't been the demand.

But there will be a sudden and probably massive jump in prices when Shanghai (and China) finally reopens, because the pent-up demand will be like a pressure-cooker exploding and with nowhere for it to go, the impact will spill all over the place to other ports.

This sentiment is one that is starting to be more widely shared around the market, with a bullwhip effect largely expected to be seen as demand returns sharply once manufacturing sites and inland logistics return to full staffing levels behind the world's largest container port.

Bunkers prices remain high which is helping rates to remain elevated.

UK Fuel surcharge increased again in April with fuel percentages as high as 35% seen in the market place.

Shipping lines

The impact of reduced volumes from China and weakening demand forecasts from the US and Europe is cooling over-crowded trade lanes and a red-hot containership charter market.

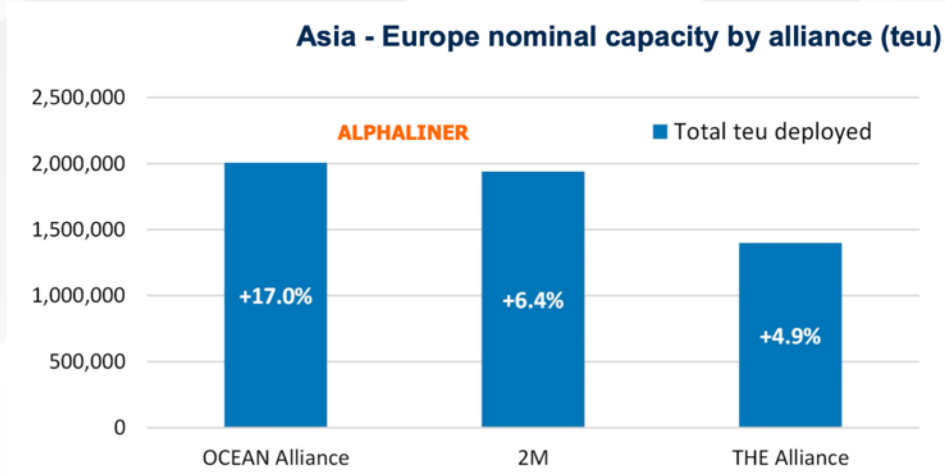
Last month, before the latest round of blanked sailings, there were 348 container ships deployed between Asia and Europe, representing a total capacity of 5.45 Mteu, which is an increase of 10.4% compared to April last year.

Evergreen and CMA CGM have led the capacity growth over the past twelve months, adding respectively 147,500 and 118,700 teu slots to their fleets be- ing operated on dedicated Far East—Europe services.

The OCEAN Alliance is now the largest grouping on the trade with a market share of 36.8%, up from 34.7% in April last year. It has over- taken 2M, which currently deploys 35.6% of all capacity, down from its market share of 36.9% in April 2021.

And the impact of reduced volumes from China and weakening demand forecasts from the US and Europe is cooling the red-hot containership charter market, with brokers talking of a correction

New charter enquiries are "down to a trickle" and hire rates for small vessels are falling, which will eventually filter through to the bigger ships. Illustrating this, CMA CGM has taken the 1,368 teu Eagle 11, for eight to ten months at $36,000 a day – significantly below the daily $62,000 achieved for a similar vessel in February.

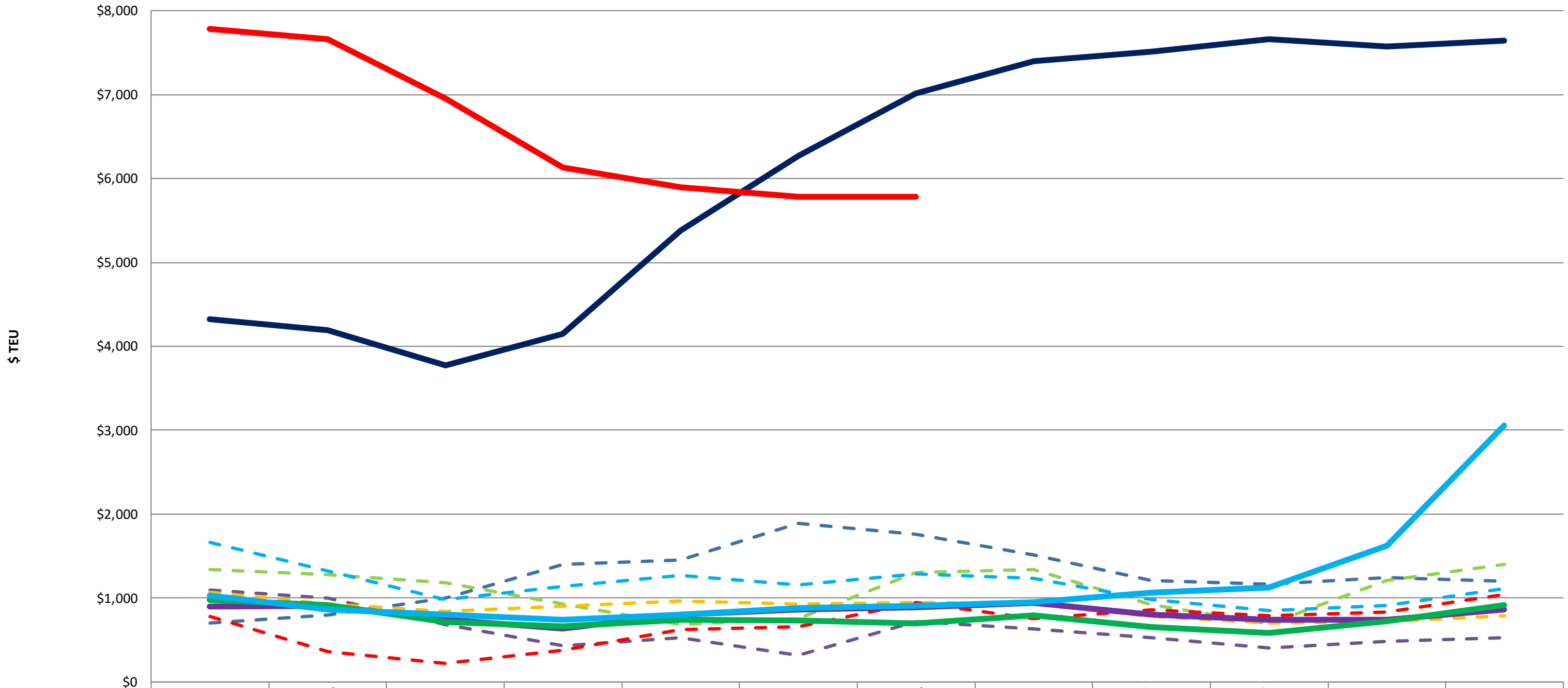


Ocean Freight

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	$6,134	$5,895	$5,781	$5,781					

Air Freight

Rates for air transport from Shanghai have softened, because so many factories have been closed by the lockdown and the limited availability of road transport to deliver export cargo. While road transport and waiting time costs have soared.

Shanghai Pudong (PVG) is operating, with major airlines continuing to operate services. The problem is restrictions limiting the transport to/from the airport and low volumes of cargo transported to the airport due to the restrictions for road transportation and much cargo diverting to other airports in the region.

Airlines still flying out of Shanghai (PVG) could struggle with profitability after being unable to pick up shipments.

Data in April showed that capacity out of Shanghai had fallen 40% from March to 49%.

The average between January and March was about 92%. Capacity has shrunk tremendously, but airlines still can't get goods on board, which is very bad for profitability.

For exports, our team can assist with potential re-routing of cargo where possible. For cargo outside of Shanghai, it can be transported to other airports and for import, we recommend the use of other airports in the region.

Market

Cargo owners increasingly switched from sea to air in 2021, with port congestion and a narrowing price gap helping the air freight market grow twice as fast as sea cargo, recording 11.2% growth.

Strong growth in international trade in 2021 was mainly the result of pandemic restrictions being phased out, and surging demand for goods, with the expansion of e-commerce and supply chain bottlenecks in sea and land transport.

Sea freight growth opportunities were lost due to "a shortage of carrier capacity and port congestion", while freight rates were up 69.8%, due to demand being "considerably higher than available capacity".

Congestion in the ocean freight market continues to push shippers to the air freight market, adding to demand and driving up air freight rates.

The price difference between air and ocean narrowed during the past year, making the shift to air slightly less costly than before the pandemic.

Then, the average price of global air cargo was 12 times more expensive than sea shipping.

Towards the end of 2021, the cost to move goods by air was about 2.5 times more expensive than pre-pandemic.

Nevertheless, the air freight industry still has its own capacity constraints to contend with, despite record numbers of charter flights from Asia laid on to carry e-commerce cargo.

Rates

Air freight rates have stablished from China, on many routes, although we would expect to see significant upward pressure to rates, after the China lockdowns end, though this may last only until the backlog has been cleared.

TAC Index data shows rates from Shanghai to Europe fell 8.3% in the week to 18 April to $7.16, while to North America they dropped 8.2%, to $9.12.

Hong Kong to Europe, fell 1% to $6.09; from Hong Kong to North America, rose 5.7% to $9.87.

Overall, the Baltic Air Freight Index has edged up 0.8% to 18 April and is 29.9% up on a year ago.

Fuel surcharges still on the increase.

Air Freight

Airlines still flying out of Shanghai (PVG) could struggle with profitability after being unable to pick up shipments, as capacity out of Shanghai has fallen 40% from March.

Carriers

Shanghai westbound load factors have been running at 49%, while the average between January and March was about 92%.

And while capacity has shrunk tremendously, airlines still can't get goods on board, which is very bad for profitability and either means the cargoes cannot be delivered, handlers are unable to load goods, or the cargo has diverted elsewhere.

These are the worst load factor figures we have ever seen ex-Shanghai. The capacity is just not being used.

Certainly loads of cargo has been diverted to other airports. Possibly more than than 60% capacity has gone out of Shanghai, but major airlines continue to operate. Chinese freighters in particular.

Bucking the trend, Cathay Pacific's cargo throughput increased over 26% in April and the airline plans to add more cargo flights following the Hong Kong government's easing of crew quarantine rules.

The airline carried 92,361 tonnes of cargo last month, an increase of 26.3% compared to April 2021, but a 43.6% decrease compared with the same period in 2019.

Boeing has begun converting 737-800 passenger aircraft into freighters at London Gatwick Airport.

The 737-800 BCF has more than 200 orders and commitments from more than 20 customers.

Boeing forecasts 1,720 freighter conversions will be needed over the next 20 years to meet demand.

Of those, 1,200 will be standard body conversions, with nearly 20% of that demand coming from European carriers.

Overland

The further delay of full UK import border controls is raising concerns that hauliers are cutting corners and importers are not making appropriate declarations.

While the EU introduced full border controls on goods from GB in January 2021, the UK has phased in EU import controls, and the latest import controls due in July 2022, have been deferred for the 4th time.

The government said it would be wrong to risk disruption to supply chains, in the midst of the cost of living crisis and that the remaining import controls on EU goods will no longer be introduced this year - saving British businesses up to £1bn in annual costs.

Freight trade association, BIFA, has written to the government to highlight the financial losses incurred by forwarders as a result of making investments in IT, software, staff and equipment, to facilitate the changes that result from the Border Operating Model and the contribution by the sector in keeping the UK's trade flowing during the pandemic and the implementation of Stages 1 and 2 of the Border Operating Model

Without safety and security declarations being imposed on the 1st July, Border Force officials cannot see what needs to be stopped and which arrivals are without pre-lodged declarations, which means a vehicles coming off the ferry could be carrying any number of undeclared shipments.

Reports in the trade press accuse some hauliers of taking opportunistic shortcuts without understanding the repercussions that may follow and until GVMS is operating effectively there may be little chance to restore order.

While deferred entries ended last June there are suggestions that some hauliers still use the entry in declarant's record (EIDR) shortcut for GVMS entries, with others ticking the 'empty vehicle' option for GB inbound.

Part of the problem is that a goods movement reference can be finalised via GVMS with the entry of just one 'movement, or employer, reference number (MRN/ ERN), running the risk that hauliers could avoid declaring all shipments onboard a truck.

HMRC told the press: "HMRC has a strong track record in tackling all kinds of avoidance, evasion and non-compliance, and we will continue to employ an end-to-end approach to tackling customs risks."

Overland

Two months after P&O's controversial redundancy actions and the Ro/Ro line has still only recovered 50% of its cross-Channel capacity. Leaving other operators to fill the hole.

Market

Brittany Ferries has announced the 2024 launch of a rail freight 'motorway' service for unaccompanied trailers, running between the Normandy port of Cherbourg and Bayonne, in the French Basque region, a voyage of almost 1,000 km, that will link up with the freight markets in the UK, Ireland and Spain.

The seamless transport of unaccompanied trailers from Ireland (Rosslare) and the UK (Poole and Portsmouth) to the Iberian peninsula and vice versa, via France's Atlantic corridor, would reduce the number of trucks transiting France by road by around 25,000 a year.

The year-round service, with one return trip six to seven days a week, will be operated by two trains and is ideal for shippers seeking to reduce CO2 emissions.

DP World is going ahead with plans for a new road-rail intermodal terminal in Aiud, Romania, to be operational in the first half of next year.

The terminal will be linked by rail with the Black Sea port of Constanta, to create an export route for the central-Romanian region of Transylvania, where some 50% of the country's industrial GDP originates.

Rates

Driver shortages, though ongoing, are easing, which will (in time) filter through to increased market volumes and softening rates.

There are now currently record levels of HGV driving tests being carried out, new data produced by the Department for Transport (DfT) shows.

The March figures of 10,481 tests and 6,307 passes can be compared to the pre-Covid pandemic era, where the previous record was 4,268 passes and 7,323 tests, which was recorded in March 2017.

The TEG Road Transport Price Index, compiles aggregated and anonymised transactions.

The average price-per-mile for haulage and courier vehicles in April 2022 was the highest April figure since we began monitoring prices.

April's increase follows the patterns of previous years, with figures dropping between December and February after the Christmas/New Year spike, before rising again in spring.

Year-on-year for April, however, the index has increased by 8.8 points. Its current level of 117.5 points represents the highest figure for April since we first put the index together in 2019.

For haulage vehicles, there's been a 5.2 point month-on-month increase in the average price-per-mile figure. Year-on-year, it's now 6.3 points higher than last April.

For courier vehicles, the month-on-month rise is an almost identical 5.4 points. Year-on-year though, there's been a much more substantial 10.9 point jump, highlighting how the courier price index has caught up with (and overtaken) the haulage index in recent months.

Price-per-mile changes over the last 14 months

	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
TEG Market Index	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	117.5
Courier Vehicles	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	118.7
Haulage Vehicles	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	116.1

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