MARKET UPDATE

JUNE 2022

noatum logistics

EXECUTIVE SUMMARY

Global supply chains have been subjected to disruptions for the last two years and this has continued into 2022, with the war in Ukraine, shipping schedule unreliability, China's lockdowns, and restricted air freight capacity - as passenger aircraft have not returned on many routes - with Russian airspace avoided, together with a variety of other regional issues.

In light of recent developments and in particular the lifting of Shanghai's lockdown, we are anticipating an influx of demand coming into the market, as factories look to ramp up production and the peak season gets under way.

We have volume and rate agreements in place with all the main air and ocean carriers, across alliances, but awareness of our customers' upcoming order books will ensure we can allocate the most appropriate space and protect equipment.

Ocean Freight

The lifting of lockdowns in Shanghai could see a massive demand for vessel space. The build-up of export containers at the port, which has been estimated at 260K teu, and higher peak season demand, may drive further price rises as companies scramble to transport products.

With carriers' scheduling 'issues' and ongoing blanking programme, many Chinese ports do not have enough equipment, as it has not been transported during the lockdown period. Even with equipment shortages we anticipate further congestion at North European ports and in Los Angeles/Long Beach.

- Shanghai lockdown is over but don't expect business as usual
- 260K teu back-log will cause delay and congestion at some point
- Container and space availability at this time seems fine, although as above, could be short lived
- Blank Sailings still in play so expect some service delays for certain services

Air Freight

Air freight capacity to and from Asia remains strained, while long-haul connectivity from Asia to North America and Europe is about 1/3 of pre-pandemic levels. Connectivity in the Americas and Europe has reached 80% of pre-COVID-19 levels, according to a May report from the International Air Transport Association (IATA).

Transatlantic capacity is returning to the air cargo market as airlines ramp up their summer schedules to meet rebounding passenger demand, which hopefully could be a preview of what's to come for other air cargo trade lanes and particularly East/West as passengers begin to travel again

- More flights have helped cool transatlantic rates.
- Business travel across the Atlantic largely returned to normal
- Capacity to and from Asia remains strained.
- People are encouraged to fly, because there's pent-up demand.

Overland (Road/Rail)

The European road freight market is one of the most volatile markets in the logistics industry. Highly impacted by external events, it is also dealing with some of the worst supply-side market problems.

Tough market conditions and high rates mean its projected growth of 4.9% in 2022 is something of a surprise.

The majority of the supply side issues come from driver shortages, with numbers in some countries such as the UK and Poland, still reaching around 100,000, driving costs up for hauliers and therefore rates are rising too.

- Driver shortages still plague the industry causing delays
- Fuel still on the raise with surcharges currently averaging 30%
- European road freight market projected to grow 4.9% in 2022
- Busier roads throughout Europe will reduce capacity in the market as congestion grows

MARKET UPDATE – June 2022

Ocean Freight

Record delays caused by vessels not arriving on time during the pandemic means firms are having to hold inventory longer than usual. Holding inventory for a longer period is equivalent to a financial loss, and a model based on the actual delays of cargo at sea shows a loss of over £5bn.

Freight spot rates from Asia to North Europe could spike again, as North European hub ports continue to struggle with chronic yard congestion, exacerbated by threats of strikes by dockers.

Recent readings of freight indexes from Asia to Europe have reflected stable supply and demand against a fall of 8% for European imports in April. Despite the fall, North European hub ports have become overwhelmed with import boxes and are suffering yard density numbers of 80% to 90%, with some lines scheduling extra calls in order to ease the pressure on saturated Antwerp and Rotterdam terminals.

However, "warning strikes" by dockers at north German container ports at the start of June and the threat of increased industrial action at other North European hubs, does not bode well for the supply chain for the upcoming peak season. Container spot rates on the transpacific were stable after some weakening in recent weeks and carriers appear to have succeeded in locking BCOs into significantly increased deals.

Market

Container freight rates from Asia to Europe softened again in May, as a result of the two-month lockdown in Shanghai, which has finally begun to be lifted.

Early expectations that restrictions would begin to ease in the middle of the month prompted some shippers to begin booking cargo, leaving the market in a more bullish position longer term and, at least in the short-term halting the fall in rates.

With Shanghai effectively closed for two months and carriers diverting to other ports delays are starting to pick up across Asia, with many ships waiting offshore at ports in the region and could pose significant issues as Chinese manufacturing and exports reopen fully.

In addition to Shanghai, Shekou, Hong Kong, Ningbo, Xiamen and Yantian are all seeing delays, with Rotterdam really struggling on the European leg.

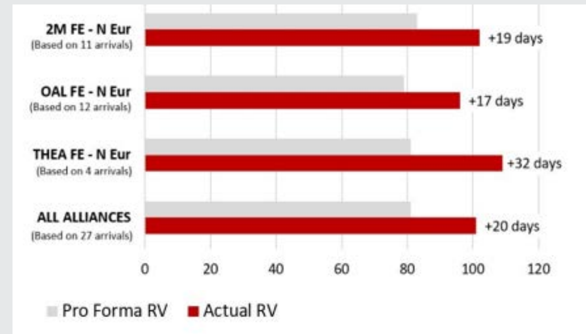
Carriers are still expecting rates to increase further, particularly as congestion is forecast to continue long after volumes return to the market. And with manufacturing hubs getting ready to produce high volumes of goods again, demand will certainly outweigh supply.

Longer term, however, many are eyeing the increasing cost of living and the higher fuel costs as a potential reason for a fall in demand from key importing regions as many consumers around the world begin to ease back on spending.

This could in theory bring lower container rates over the coming months, following the trend forecast by many in the market that rates will come down over the course of the year, but not with the same speed that they rose over the course of 2021. However, rate falls may yet be derailed by high yard densities at North European container terminals and inland transport bottlenecks which are aggravating port congestion problems in the the Far East and North Europe.

Container ships deployed on this route currently need on average 101 days to complete a full round voyage. This means that they arrive on average 20 days late in China for their next round trip, forcing carriers to blank some sailings as there is no ship available.

Incoming ship delays:
Far East – North Europe (May 1-15)

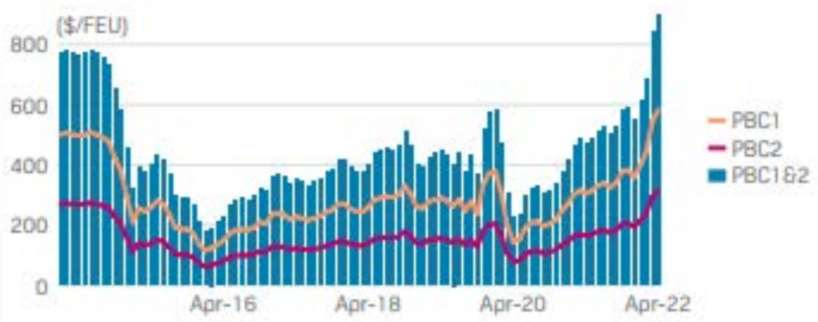


SOURCE: Alphaliner

Ocean Freight

Analysts expect a bump in spot rates in the coming weeks, as Shanghai reopens and an anticipated early peak season ripples into the trade. But the scale of the rate increase and length of the peak season are unclear, as some shippers are deferring orders, while others are front-loading cargo.

N CONTINENT – PLATTS BUNKER CHARGE MONTHLY AVERAGE



SOURCE: [S&P Global Commodity Insights]

Rates

Container freight rate erosion seems to have halted for the time being, with the SCFI showing its lowest fall in weeks.

Premium rates, which carriers imposed last year when demand exceeded vessel supply and are intended to guarantee that containers get loaded onto ships as booked, have faded on some lanes, which suggests there is some excess for the first time in two years.

Premium rates are losing a lot of value and are coming closer to FAK [freight all kinds] rate levels and we are seeing slippage in FAK rates, which are fundamentally spot rates, so supply and demand is an issue, and currently not always in the carriers' favour. However, carriers are getting bullish ahead of the peak season.

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

UK fuel surcharges seem to have stabled for now, although at high levels of around 25-30%.

Shipping lines

Average operating margins for the container industry are unprecedented in the history of shipping, with the leading carriers now generating a margin of 57.4%, versus an average of just -0.2% in the decade preceding the pandemic.

May saw the highest monthly increase in long-term contracted ocean freight rates, as the cost of locking in container shipments soared by 30%, which means that long-term rates are now 150% up year-on-year.

By the end of the year, container shipping lines will have earned an unprecedented half a trillion dollars of operating profit during the pandemic, and are on track to post new profit heights in 2022.

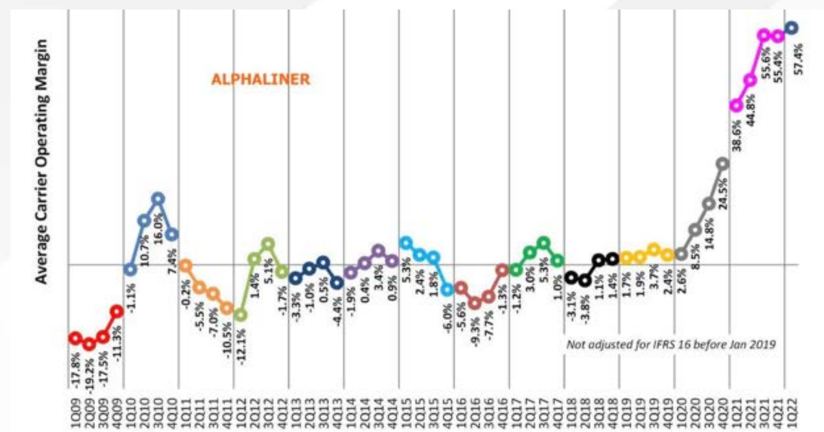
In the US, Hapag-Lloyd reached an agreement with the Federal Maritime Commission to pay a $2 million civil penalty to settle alleged Shipping Act violations related to its detention and demurrage practices.

"We are pleased with this settlement as it creates a common understanding….on the future handling of demurrage and detention charges in the U.S." Hapag-Lloyd said.

The original complaint sought to block the agreement as the settlement terms may establish a 'safe harbor' that will insulate Hapag Lloyd from future claims.

It remains to be seen if the peak cargo season, kicking in from August and probably earlier, will stimulate demand for tonnage and push charter rates up again, but for now, the trend is bearish. Though the continued shortage of ships and persistent disruptions in the supply chain, will keep charter rates high in the short term.

MAIN CARRIERS: AVERAGE CORE EBIT MARGIN BY QUARTER [(SOURCE]: Alphaliner)



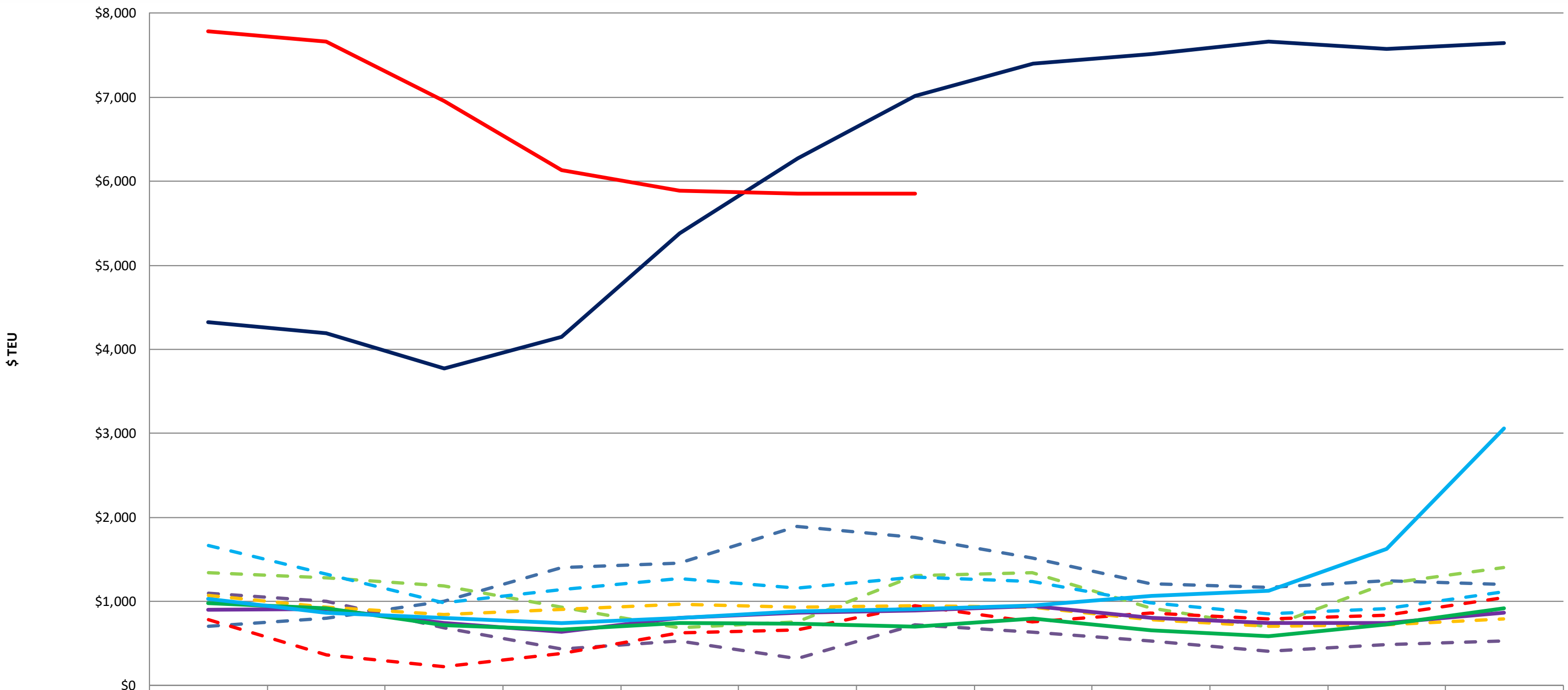
Average of CMA CGM (incl APL to 2Q 2016), COSCO Shg (since 1Q 2019), CSCL (to 1Q 2016), EMC, Hanjin (to 3Q 2016), Hapag Lloyd (incl CSAV to 2014), HMM, Maersk (Ocean from Q120), ONE (from 2Q 2018, formerly KL/MOL/NYK), WHL, YML, Zim

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	$5,886	$5,851	$5,851					

SOURCE: Internal

Air Freight

The air cargo market in May was impacted by a number of external factors including the war in Ukraine, the 'cost of living crisis', higher interest rates, COVID-related restrictions in China, and more warnings of global recession, but continued port congestion and disruption will benefit air cargo, if 'distressed' sea freight changes modes.

The market for air freight has been characterised by significant disruption and dysfunction since the onset of the COVID pandemic and entering 2022, the picture remained predominantly one of high demand and even higher rates.

The underlying drivers of the market have begun to shift over the first three months of the year, with belly-freight capacity returning as international passenger travel resumes.

Demand is softening as inflation and interest rates ratchet upwards and dampen consumer confidence and the supply of capacity in freighter markets is also subject to new dynamics, with freighter order books filling up.

The desperately needed and very welcome resurgence of belly-capacity is being hampered, with crew availability issues and extreme weather forcing US airlines to rein in their schedule expansion plans.

Severe weather has been one among several factors hampering schedule integrity, but shortages in flight crew numbers is the biggest issue, with absences higher than anticipated and a limited pool of pilots to fall back on.

Market

Cargo volumes at European airports rebounded in 2021, growing 33% during the year compared to 2020 and were slightly above the pre-pandemic levels of 2019.

So far in 2022 demand looks weaker with volumes down 4.5% in the first quarter of the year.

Volumes at London Heathrow have increased by 9%, but volumes at Frankfurt and Amsterdam Schiphol have fallen by 8% and 10%.

Volume data from March 2022 may indicate the trend is set to continue into Q2, with the seasonal rebound usually seen on the lane following the Chinese New Year at its weakest level since 2011. Volumes rose just 12% compared to a 10-year average of 16.7%.

Between January and March 2020, capacity on the East Asia – Europe lane fell 32.2%. During the same period in 2021 capacity recovered by 19.2% and in Q1-22, available cargo tonne-kilometres (ACTKs) on the lane grew 15.1%.

Despite the rises, IATA data shows that capacity still lies below pre-pandemic levels.

(Source: TI)

Rates

The air freight market situation is complex, and the development of rates is hard to predict.

Q1/2022 saw rates pull back from the highs at the end of 2021 globally, but different scenarios are playing out regionally and the dynamics shift as, volumes, rates, fuel, labour, COVID, the war in Ukraine and ongoing, wider supply chain dysfunction, all exert influence. And all in a wider context of macroeconomic and consumer uncertainty.

Head haul rates from Asia pushed upwards by a rush of demand preceding Chinese New Year celebrations have risen >55% year-on-year, to a new high, while backhaul rates are up >35% since the beginning of 2022.

In Q1/2022, transatlantic rates remained broadly in line with the levels set during the same period of 2021. In the first three months of 2022, head haul rates have quickly fallen from the November 2021 peak to modest year-on-year growth of 2.0%. The growth of backhaul rates was similarly muted, growing just 0.9% year-on-year, while remaining stable since the start of 2021.

Air Freight

Carriers efforts to increase capacity are being matched by upwards pressure from high fuel costs and congestion, meaning rates have remained strong on most lanes.

Carriers

Flights between Asia and Europe have been the most impacted by Russia's invasion of Ukraine.

Carriers from all 27 EU Member States as well as those from the UK, Albania, Iceland, Norway, and Switzerland have all been banned from Russian airspace in retaliation for sanctions on Russian carriers.

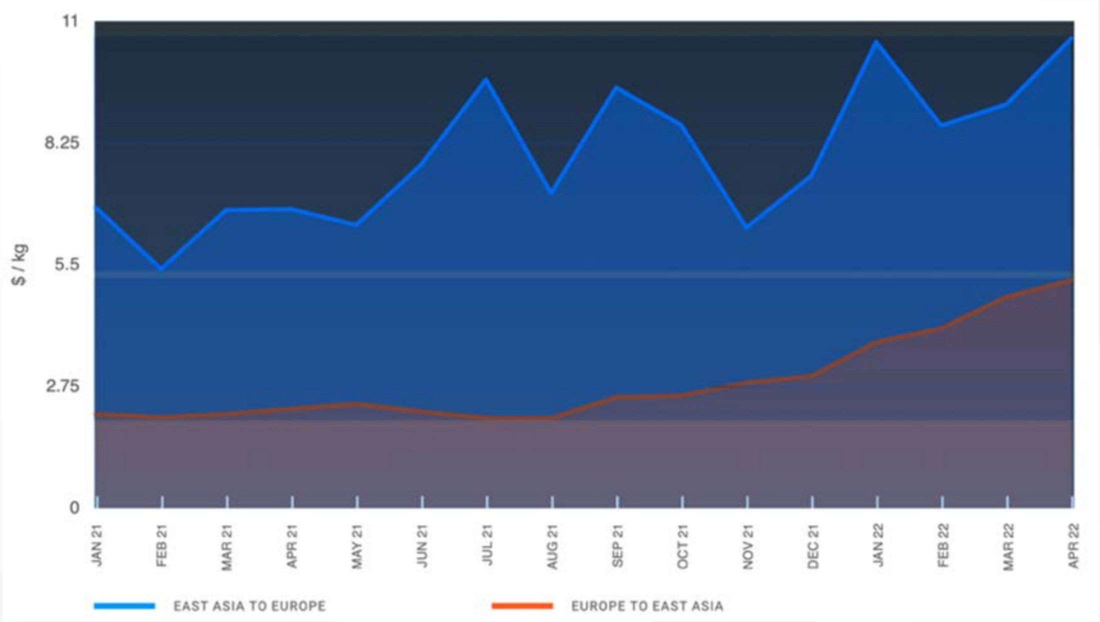
As a result, flights between Asia and Europe can no longer stop in, or over-fly Russia and instead have begun operating longer alternative routes, including some flying via hubs including Kuala Lumpur, Malaysia and Dubai.

The results are an increase in flight times of up to three hours, in addition to higher staff and fuel costs that the carriers are keen to pass on.

The gradual return of passengers to US flights has contributed to capacity growth, which peaked in Q2/2021 and has continued into 2022, however at a slowing pace, which the Russia-Ukraine conflict has slowed further.

Overall capacity is still higher than pre-pandemic levels, with average ACTK from carriers in North America and Europe 7.8% higher in Q1/2022 than in pre-pandemic Q1/2019.

EAST ASIA – EUROPE AIR FREIGHT RATES ($/KG)



SOURCE: Freightos / TI Dashboard

Overland

European road freight rates hit an all-time high in Q1 2022 as rising cost pressures, supply and capacity disruptions, regulatory change and war in Ukraine created a potent mix of rate drivers.

The road haulage sector has been challenged continuously in recent times, with driver shortages, the pandemic and Brexit, each impacting the availability of and demand for road freight solutions.

The road freight sector has been hit particularly hard by increasing fuel prices, pushed higher by the Ukraine crisis, with the cost of running a truck £20K more than a year ago.

Ultimately, with diesel prices increasing by 50% in a year, it is a further cost to the customer and ultimately the end-user, as it filters into inflation.

Two years on from Brexit and the road freight sector is still feeling the effect, with rules changing and inconsistent from country to country and the shortage of international drivers, contributing to the drop in the number of people working in the industry.

Thankfully, recent figures suggest that the driver shortage is lessening, with 27,144 HGV vocational tests undertaken in Q4 2021, a 53.5% increase compared with Q4 2019.

Despite multiple issues, the industry is seeing a general improvement in capacity, pricing and confidence, but there are more challenges ahead, including the need to meet net-zero emissions by 2030.

We see road haulage as an invaluable resource in end-to-end logistics solutions, which is likely to increase in importance, as we transition to more near-sourcing.

The European road freight market will expand by 4.7% in 2022, but will still be 1.5% smaller than it was in 2019

STRIKE ACTION

At the time of compiling this report the RMT Union (subsequently joined by others) has proposed strike action on the 21st, 23rd and 25th June.

We are working with our Rail Freight Operators on contingency plans to keep as much freight as possible on the Rail Network, but disruption to services and to rail supply chains is inevitable.

During this period of potential disruption we will deploy additional road resources wherever possible, to minimize any impact on our customers.

BIFT

Overland

The European road freight market is projected to show growth in 2022, expanding by 4.9%, with the UK expected to increase 5.9%.

Market

According to Ti's COVID-19 Recovery Tracker 2022 (CRT22), the European road freight market is expected to reach a CRT22 of 6.3%, representing a full recovery, with an additional 6.3% growth compared to 2019 levels.

All European markets are forecasted to recover from the pandemic in 2022, however the major European road freight markets are set to have some of the slowest recoveries.

The strength of the recovery in eastern Europe is prominently displayed in Poland, which has pushed ahead with its strong GDP growth forecasts and have remained strong despite its proximity to the war in Ukraine.

The economic environment promoted growth in the road freight market throughout 2021, with the recovery being driven by a surge in consumption. But moving into 2022, the outlook is less optimistic, with the war in Ukraine, supply chain disruptions, low unemployment, and rising energy prices, inflation will be a crucial factor in determining future demand.

A surge in demand for road freight services has further exacerbated price increases and the increases in the cost base are set to continue into 2022, stating a possible increase of 35.0% compared to the levels in mid-2020. These factors have led to a nominal 14.8% year-on-year growth in the market, with a total European price growth of 4.9%. European domestic prices have grown faster than international, at 5.3% and 2.8% respectively.
Market projections for 2026 show that the European road freight market is expected to reach a real CAGR of 3.0% from 2021 to 2026 and the total road freight market will be 23.1% larger in 2026 than it was in 2019 in real terms.

Rates

Pricing in the European road freight market continues to rise, in response to falling capacity, rising demand, and increases in the cost base, especially in diesel prices.

The Russian invasion of Ukraine and the restriction of oil supplies from Russia into Europe has led to further upward pressure on prices.

Although fuel costs are often mediated by heavy taxes, it is very likely that the recent increase in the price of diesel has resulted in fuel costs approaching 50% of truck operating costs.

European road freight rate indexes hit an all-time high in Q1 2022 as rising cost pressures, supply and capacity disruptions created a potent mix of rate drivers, rising by 4.3 points over the previous quarter, while it increased 7.5 points over the first quarter of 2021.

The TEG Road Transport Price Index, compiles aggregated and anonymised transactions and the index is at the highest level for May since index records began in 2019.

However, May's year-on-year jump of 6 points is less than April's 8.8 points and almost half the year-on-year hike seen just two months ago in March, which was some 11.6 points.

This could be signaling a levelling out in the index, after months of dramatic year-on-year increases.

Price-per-mile changes over the last 14 months

	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	May-22
TEG Market Index	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	117.8
Courier Vehicles	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	119.6
Haulage Vehicles	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	115.6

Data ID: A3, B3, C3

SOURCE: Transport Exchange Group

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