MARKET UPDATE

August 2022

United Kingdom

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After the re-opening of Shanghai, many expected pent-up and peak season demand to exceed available air and sea capacity, pushing up rates. But the spike failed to materialise and rates deteriorated, which was largely blamed on weak retail demand and high inventory levels.

With activity in all major economies falling and inflation rates dampening consumer and business confidence across the board, rapidly rising energy prices can be expected to further deter demand and by extension freight growth into 2023.

Air and ocean carriers will do everything they can to stop declining rates from falling, by strategically rolling out blank sailings and diverting aircraft to tighten supplies.

Accordingly blank sailings are on the rise, with up to 20% of services blanked on some ocean routes and airlines diverting so much transatlantic capacity, that they drove up profitability for the remaining carriers.

The peak season from Asia into Europe has yet to begin and while demand has been slowing down, rates have not softened significantly because supply is kept relatively tight by the volume of blank sailings, vessel sliding, and port omissions.

Port congestion in Europe and particularly Hamburg and Rotterdam, has reached critical levels causing further delays and late return of vessels to Asia, which will be further exacerbated when dockworkers at Felixstowe begin their eight day walkout on the 21st August.

- There may be no ''traditional'' peak season this year
- Disruption and land-side issues (strikes) adding to European port congestion
- Space and equipment available but sailing omissions creating pinch points
- Blank Sailings on the rise and more expected, if market softens

Globally volumes are 3% down year-on-year (YoY) and softening is likely to increase in coming months, as consumer demand weakens and retailers work through excess capacity, though this may be mitigated by demand from the eCommerce sector.

Overall capacity is down by 10% compared to the same period in 2019, but it has been improving for some time and the PAX recovery is quite noticeable.

Even though jet fuel prices have breached $160/b rates are showing some signs of softening, but are still +120% higher than pre-pandemic 2019.

- Rates have started to slide due to demand lacking
- The market has slowed and space is starting to open up into Europe
- European bottlenecks shown no sign of easing anytime soon
- Ongoing strikes contributing to delays and existing congestion

Multiple indicators point towards the demand for European road freight weakening with activity in all major economies falling and inflation rates dampening consumer and business confidence across the board.

Energy prices can be expected to continue putting upward pressure on European prices, deterring growth and therefore road freight demand in Q3.

Driver shortages continue to push wages up and with it transport costs, as employers try to remain competitive and keep their drivers.

- Haulage rates remain high and are unlikely to soften in short term
- Operations continue to be disrupted by strikes and congestion
- Driver shortages still plague the industry across Europe
- UK Fuel surcharges remain high across the UK and Europe

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Ocean Freight

Dock strikes at Felixstowe from the 21st August, with Liverpool likely to follow suit, together with the potential resumption of industrial action at German ports, risk further disruption for carrier networks.

Shipping schedules are constantly in a state of flux as carriers attempt to navigate heightened congestion at North European hub ports, which is likely to slow the decline in container spot rates, despite weakening demand.

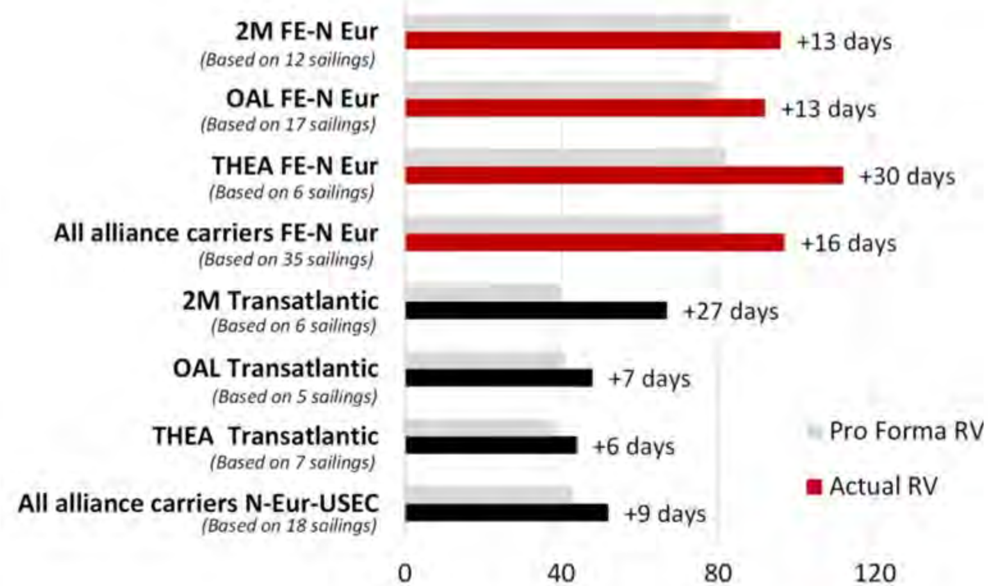
Container freight rates from Asia to Europe saw a gradual decline throughout July, but the market remains unpredictable, with no clear picture of what coming months will look like and with dynamics changing every week, forecasting demand is incredibly difficult.

Weak retail demand and high inventory levels are pressuring rates and with consumer spending declining amid fears of rampant inflation, higher fuels costs and rising interest rates, weaker than usual demand is likely in the third and fourth quarters of 2022.

Carriers have rallied to save declining rates by strategically rolling out blank sailings and tightening supplies, with 33 sailings blanked, out of 177 calls.

Recent spikes in COVID-19 cases in China sparked fresh fears of lockdowns as Shanghai's districts underwent mass testing and a single case in Wugang (a steel producing hub) resulted in a three-day lockdown.

Incoming ship delays in the second half of July



Source: AlphaLiner

Market

Container ships deployed between China and North Europe currently need on average 97 days to complete a full round voyage, which is only a four day improvement in three months.

Ships currently arrive on average 16 days late in China for their next round trip and while there have been improvements for some carriers, port congestion remains a huge problem, causing disruptions to schedules.

Ocean Freight

European container gateway delays continue and China terminals face heavy congestion.

Hamburg and Bremerhaven are “paralysed” by port worker strikes. The eight day Port of Felixstowe walkout commences on the 21st August, while Liverpool workers strike vote will be known soon and three more rail strikes are planned across the UK over the coming month.

Market cont’d

Transatlantic demand for the whole month of August is expected to be lower, as continental Europe take their annual summer vacation with factories closing from late July through August, with demand expected to ramp-up swiftly in September.

Carriers are experiencing increased waiting times in ports such as Savannah, Houston and New York, which add to the vessels delays in the big North European hubs and mean they need on average 52 days to complete a North Europe - USEC or US Gulf roundtrip and means they arrive on average 13 days late in Europe for their next voyage.

Congestion on the U.S. West Coast (USWC) has been improving, but with insufficient railcar assets to bulk move containers away from ports dwell times have been creeping up and last month Long Beach had 12,650 rail containers on dock, while Los Angeles had 31,186, of which 23,880 were waiting nine days or longer.

The ILWU and marine terminal employers have reached a tentative deal on health benefits for West Coast dockworkers, which is a positive move towards an overall agreement on a new labour contract.

Sources close to the negotiations believe that the likelihood is growing that a deal will be reached in August or September with little disruption occurring on the docks.

Port of Antwerp

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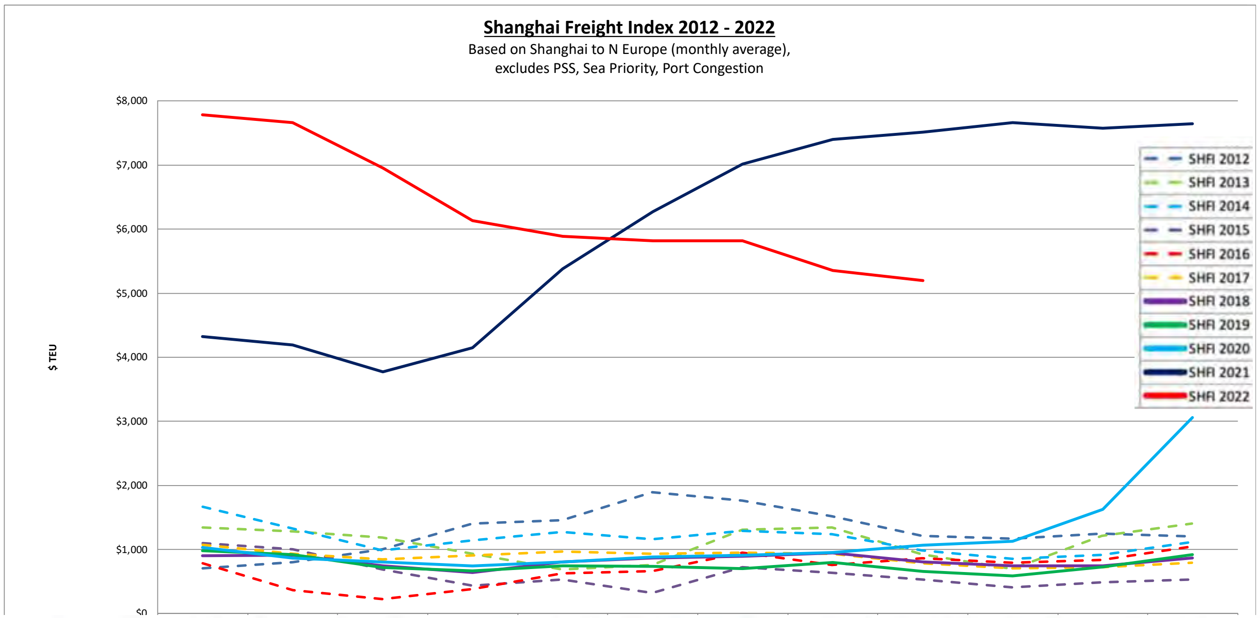
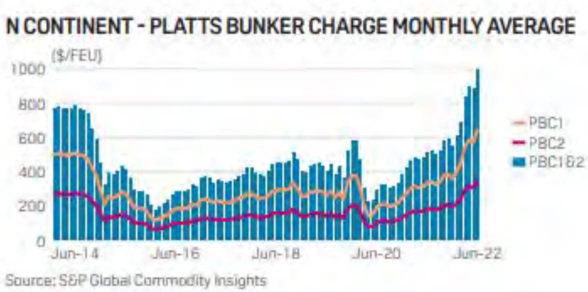
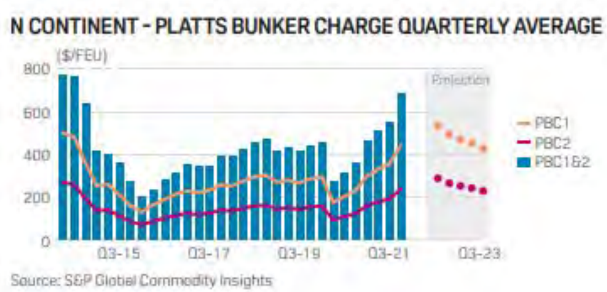
Ocean Freight







Despite weakening demand and a widely predicted decline in spot rates in the second half of 2022, several major liner operators are expecting 2022 results to be even better than 2021.

Port congestion in Europe is still a major issue which ties up much needed capacity, delaying schedules and contributing to blank sailings, as the carriers and alliances try to restore service.

Most terminals in China also faced heavy congestion due to coronavirus-related restrictions, bad weather and high yard concentration.

Rates

Rates continue to slide, due to demand remaining weak, but are being supported on many major trades due to the capacity constraints caused by continuing port congestion, that disorders vessel schedules and equipment delays due to landslide disruption and bottlenecks.

High inventory levels continue to plague European retailers, contributing to the weak demand and with consumer spending declining, amid fears of rampant inflation, higher fuels costs and rising interest rates, weaker than usual demand is likely in third and fourth quarters of 2022

Bunkers prices remain elevated, which slows rate erosion and UK fuel surcharges remain high, seemingly stabilised around the £2.00/litre level.

Ocean Freight

Despite softening demand, rates are still robust due to high port congestion and constrained landside logistics, with congestion tying up as much as 10% of fleet capacity during the past 18 months.

There are nearly 200,000 teu waiting for berths to open up in Hamburg, while industrial action spreads.

Carriers

CMA CGM's vessels returning in China in the second half of July were either on schedule or maximum two days late, which may simply be due to this OCEAN Alliance loop having no calls at the busy ports of Rotterdam or Hamburg.

Evergreen did not manage to make a China - North Europe voyage in less than 100 days, with vessels arriving 23 to 47 days late in Shanghai in the second half of July, due to long waiting times in Hamburg.

The 20,124 teu EVER GENTLE left Felixstowe on 25 May for Hamburg, where it finally berthed on 2 June for an eight day stay.

Alliance partners have the same waiting problems, with vessels waiting 43 days for calls at Rotterdam, Antwerp and Hamburg.

2M reduced vessel delays from 19 days in May to 13 days, but they are suffering the most on the transatlantic, with voyages taking up to twice the scheduled time.

Smaller delays for THE Alliance and the OCEAN Alliance on the transatlantic are partly due to their increased skipping of port calls.

OOCL's BRUSSELS was the only ship on the North Europe - US trade to arrive back in Antwerp without delay, purely due to the fact that the vessel skipped Houston and New Orleans and only called at Veracruz and Altamira.

CMA CGM container ship

Air Freight

Globally volumes are 3% down year-on-year (YoY) and softening is likely to increase in coming months.

Overall capacity is down by 10% compared to the same period in 2019, but it is has been improving for some time and the PAX recovery is quite noticeable.

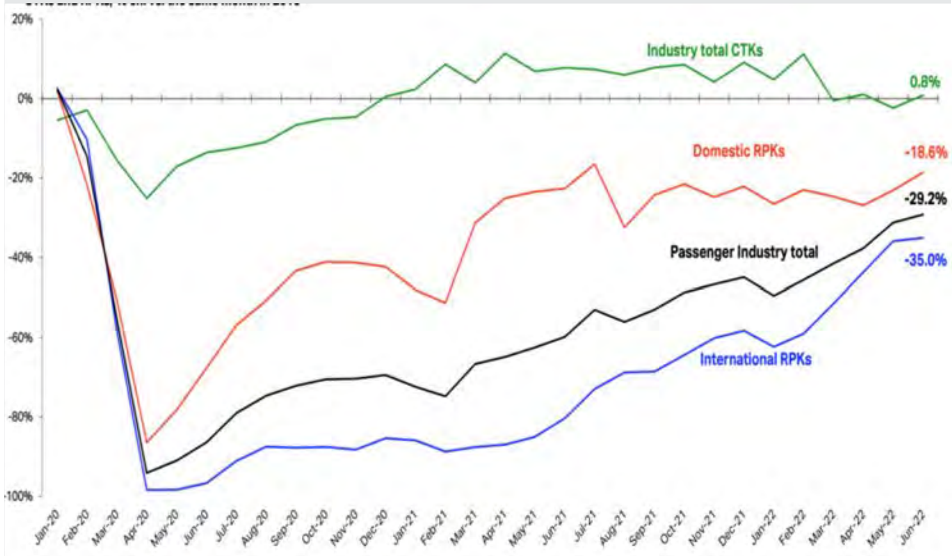
As we move into Q3, we expect the air freight market to be driven mainly by the state of the global economy, ocean freight market conditions, the war in Ukraine, and future Covid lockdowns.

Despite YoY demand falling by 5%, the market will remain strong through 2022 due to the gap between supply (down 12% vs 2019) and demand caused by decreases in the number of passenger flights, the end of "preighter" flights, and disruptions in the ocean transport market.

Air freight rates can be expected to remain at elevated levels, unless macroeconomic developments, such as inflation and interest rate hikes, accelerate a drop in consumer confidence.

Labour shortages continue to hamper the airfreight market, with Frankfurt Airport refusing some freighter flights till the end of August, due to labour shortages. Pilot shortages and the lack of ground personnel, due to furlough and layoffs continue to result in congestion and flight cancellations worldwide.

Cargo tonne-kilometers (CTKs) and revenue passenger kilometers (RPKs)



Source: IATA

The state of the sea freight market is a major contributory factor in air freight market demand. Space availability, ocean freight rates, and port congestions are all part of the equation that determine air freight demand and price levels.

Currently, China's port congestion is easing as a post-lockdown cargo boom failed to materialise and with more readily available ocean space, air freight capacity has increased, which has caused rates to soften.

Air Freight

Freighter

The International Air Transport Association (IATA) the trade association of the world's airlines, most recent air passenger and cargo updates, affirm that the air industry's recovery is continuing in challenging post-pandemic markets.

Air cargo revenues have doubled, which in turn have tripled as a share of total airline revenue, and cargo volumes retraced some of their gains over the past year (down 6.4%) but cargo tonne-kilometers (CTKs) were 1% above their pre-pandemic level in June.

Market

The New export orders component of manufacturing Purchasing Managers Index (PMI) - historically a leading indicator for air cargo shipments – have softened over the first half of 2022.

Except for China, new export orders for the world's main manufacturers are currently below 50, the level which typically denotes expansion in manufacturing output from contraction.

The magnitude of the decline in recent months is significant and the abrupt reversal of fortunes in China over a similar period is becoming clear.

The historical relationship between the global PMI for new export orders and industry-wide CTKs suggests that weak YoY CTK outcomes may persist in the near- term.

Air cargo capacity is increasing in all regions, in part reflecting the increase in belly capacity as the number of passenger flights continue to recover.

YoY capacity growth ranged from 5.6% for European and North American airlines, to 6.2% for Asia Pacific carriers, 6.7% for the Middle East and then double- digit growth of 10.3% for Africa and 29.5% for Latin American airlines.

With capacity outstripping demand, the industry-wide cargo load factor eased back below 50% for the first time since early 2020 and lower than its level of a year ago.

Asia Pacific has the highest cargo load factor across all regions currently at 60.8%, a full 10pp gap to the next best performer, Europe at 50.7%. Europe is also the region which has seen the largest decline in its load factor over the past twelve months, down a sizeable 11.2pp.

Higher inflation leads to raised consumer prices and higher interest rates directly impacting household disposable income and typically reducing consumer spending. In turn, this could impact air cargo demand in the period ahead.

With capacity exceeding demand, the cargo load factor eased back below 50% for the first time since early 2020

Air Freight

Air freight rates are generally sliding due to demand slowing, but their erosion is being tempered by increasing fuel surcharges. We are expecting to see rates stabilise over the coming weeks, while remaining fairly elevated.

Rates

Xeneta the data provider reported that demand for air cargo dropped by 9% in July (year on year) while the dynamic load factor (weight and space) which is a key profitability indicator slipped 8% on last year to 58%.

In July rates were up 11% on a year ago – and 121% of July 2019 – but the gap between pre-Covid levels has continued to narrow.

Rates are expected to remain higher than pre-Covid and space agreements remain high, primarily due to fuel hikes.

Currently softened demand may be reversed if China eases lockdowns and export volumes spike, with backlogs likely to occur.

Peak season will be influenced by decisions on inventory refill and inflation will play a major role in purchase decisions and trends.

Capacity | Chargeable Weight | Yield

Origin Regions - last 2 to 5 weeks

WorldACD	Capacity[1]			Chargeable weight[1]			Yield/rate[1]		
	Last 5 wks	2Wo2W	YoY	Last 5 wks	2Wo2W	YoY	Last 5 wks	2Wo2W	YoY
Africa		+3%	+18%		-9%	-10%		+0%	+12%
Asia Pacific		-2%	-10%		-10%	-19%		-2%	+21%
C. & S. America		-2%	+4%		+2%	0%		-2%	+8%
Europe		+0%	+18%		-8%	-5%		-1%	+13%
M. East & S. Asia		-1%	+12%		-17%	-19%		+0%	+12%
North America		-1%	+18%		-13%	-8%		-1%	+25%
Worldwide		**-1%**	**+11%**		**-10%**	**-12%**		**-1%**	**+15%**

[1] 2Wo2W compares the last 2 weeks with the preceding 2 weeks this year. YoY compares the last 2 weeks with the same 2 weeks last year.

Source: WorldACD

WorldACD reported that, year on year, capacity out of Asia Pacific in the past two weeks was down 10%, but up 18% in both Europe and the U.S.

Carriers

Carriers have resumed flights from Shanghai and as lockdowns ease more origins will re-open.

Cathay Pacific has resumed 100% of its transpacific freighter schedule and also all freighter flights into Europe.

Etihad Cargo is providing more capacity from July across Asia, Africa, Europe.

C-checks to reduce commercial flight frequency shortly (typically performed approximately every 20–24 months) as industry gears for passenger travel return.

Airlines and airports continue to struggle with multiple operational challenges, with significant shortages of ground staff.

Despite positive signs on some individual routes, volumes are generally subdued, and while air cargo rates remain elevated, they are slowly but surely easing back towards pre-Covid levels.

Confidence is weakened by supply chain challenges, dire global macro-economics and geopolitical turmoil.

Carriers are following the market very closely to ensure they are deploying their assets profitably and we have already seen freighters move away from transatlantic routes, where rates are now below 2021 levels.

Ironically, as carriers redirected operations to other lanes, the load factor across the Atlantic relative to June increased from 58% to 61%, increasing revenues for the remaining flights.

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Road Freight

Multiple indicators point towards the demand for European road freight weakening with activity in all major economies falling and inflation rates dampening consumer and business confidence.

Demand for European road freight is weakening, with activity in all major economies impacted by the war in Ukraine, inflationary dampening of consumer demand and falling business confidence.

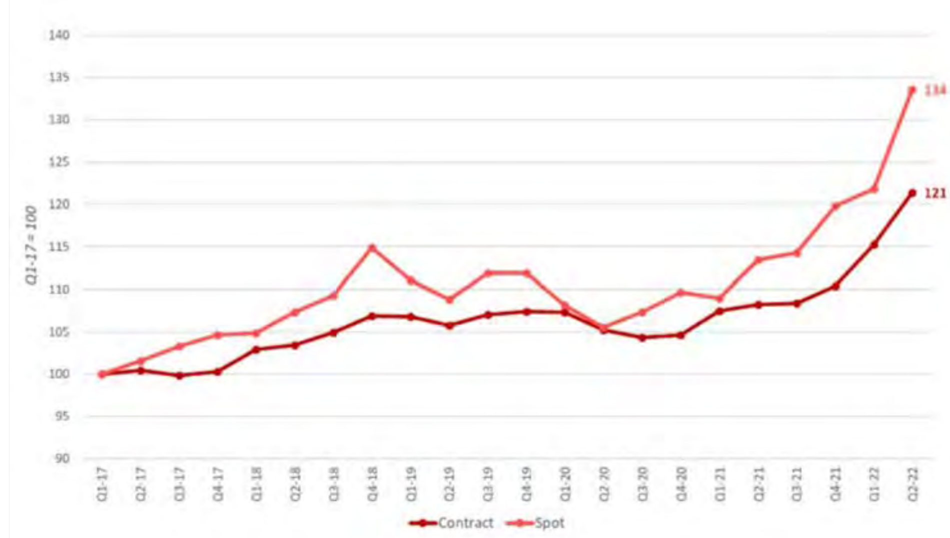
The European Road Freight Rate Benchmark shows considerable rate increases in Q2 2022, as a result of the Ukrainian conflict, with contract rates reaching an all-time high of 121 points. This is up 13.1 points on Q2 2021, the result of four consecutive quarters of rate rises, with the spot market index rising nearly twice that amount.

The full effect of diesel price rises in March can now be seen, with pre-tax diesel prices jumping 69% vs its January level and prices have remained elevated in July, 69% above the January level.

Diesel costs usually account for one third of the total operating transport costs, but given the increase, they may now account for 50% of costs.

The price of diesel at UK pumps is the highest of all major European countries, 16.8% higher than French prices and 19.1% more expensive than German prices.

European road freight rates index, Q2-2022



Source: Upply

Diesel has played a significant role in Q2 price rises and will continue to inflate rates for exports in Q3. The cost of labour has been stable, but that is changing swiftly as inflation is adding pressure to increase wages, with summer industrial action expected in the transport sector on either side of the Channel.

Road Freight

Market

In May, UK consumers faced a 40-year high inflation rate of 9.1%, The Bank of England expect this will exceed 11% by October. More than half of the goods in the UK's inflation basket have risen by more than 7%, while the UK's demand for cars is also falling with car registrations in June 2022 down 24.3% year-on-year. The UK's manufacturing sector is also suffering from rising prices, with the costs of raw materials rising at their fastest rate on record.

Researchers from LSE (The London School of Economics) found that while exports have largely recovered after Brexit, UK imports from the EU fell by 25% relative to other destinations and the variety of goods trades has fallen by 30%.

Low-value goods have been most affected because of increased admin costs.

Summer travel has caused further congestion and with new border checks due to be introduced in September, more delays could add further pressure to rates, while demand typically falls off in the Autumn.

Rates

For the first time since the publication of the European Road Freight Rate Benchmark began, it paints a similar story for spot and contract markets, with considerable rate increases in Q2 2022.

The true effects of cost increases as a result of the Ukrainian conflict have been reflected in Q2 prices.

Rates on cross-Channel routes have grown less than many others around Europe, but there were no price falls in the spot market with prices reacting quickly to cost rises in the road freight industry. Rate increases are just two-thirds of the European average, up 7.4% quarter-on-quarter for imports and an increase of 14.5% quarter-on-quarter for exports.

The UK has the lowest proportion of drivers under 25 - 2.2%.

Carriers

Multiple indicators point towards the demand for European road freight weakening with activity in all major economies falling and inflation rates dampening consumer and business confidence across the board.

Energy prices can be expected to continue putting upward pressure on European prices, deterring growth and therefore road freight demand in Q3.

Driver shortages continue to put upwards pressure on wages and with it transport costs, as employers try to remain competitive and keep their drivers.

At the end of the year, the shortage of drivers is forecasted to increase in Europe, reaching 14% of unfilled driver positions, and with an ageing driver workforce - 34% are above 55 years old - there are not enough young drivers to replace the drivers that will retire in the next 10 years.

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