MARKET UPDATE
July 2022

United Kingdom

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The strong cargo demand that helped airlines stay afloat during the pandemic is showing signs of softening, while the Asia to Europe ocean freight trade lanes saw further falls over the course of June, compounding the downward movements seen since the Lunar New Year, as demand appears significantly weaker than expected.

This comes following the Shanghai lockdown, increasing cost of living for consumers, increasing energy costs, and prolonged high freight rates, all of which have resulted in weaker demand, leaving rates falling since the start of the year.

The anticipation that there would be a bullwhip effect once Shanghai reopened appeared to be ungrounded, as rates continue to fall with carriers competing for market share.

Ocean freight performance was further impacted by a 24 hour stoppage in Antwerp and labour strikes in Germany, the first in over thirty years in Hamburg, that slowed container movements, preventing carriers from repositioning containers and ports clearing their backlogs.

On the spot side, despite rates coming off at the start of the month, they remained largely rangebound over the latter half of the month, finally giving some stability to the container market.

- The lifting of Shanghai's lockdown has not generated the anticipated 'bullwhip' effect
- Container and space availability is currently fine, although we may see capacity starting to be reduced
- Blank Sailings are still in play and we could see more, if demand falls
- UK & North European Ports still struggling with congestion

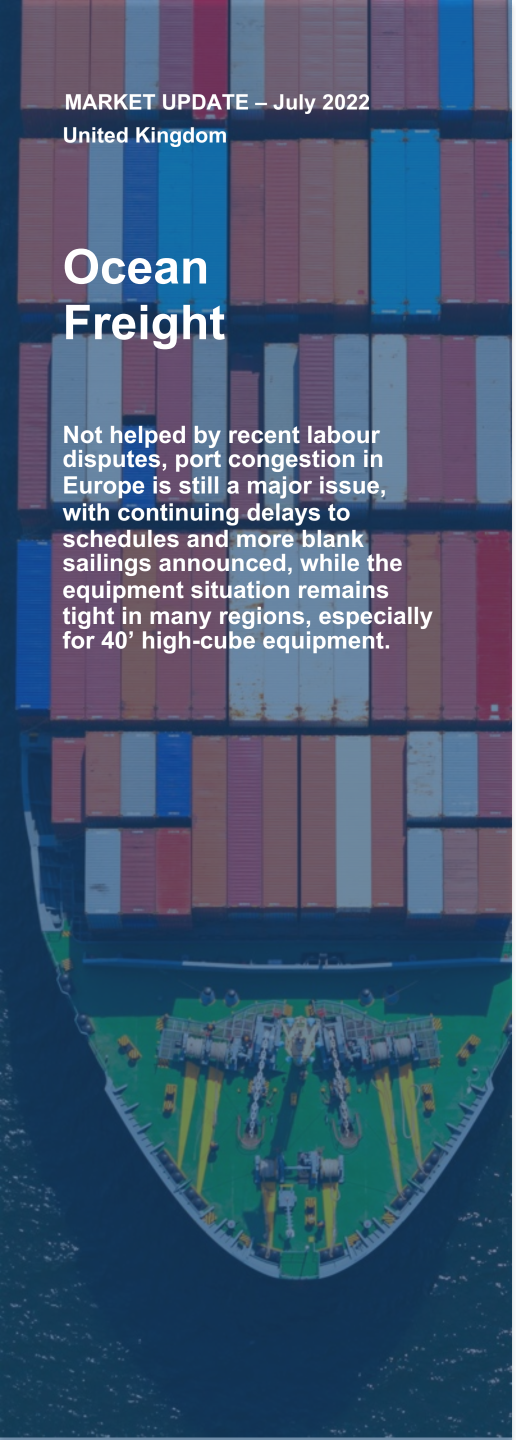
For the fourth consecutive month, air cargo volume continued to fall in June, with cargo tonne-kilometers (CTKs) 11.2% lower than a year ago, amid growing economic uncertainty, while air freight rates were significantly higher than last year's levels.

- The air freight market picked up slightly after Shanghai reopened, but volumes were lower than expected
- Carriers are still not seeing clear signs of a full market recovery, so will look to add capacity as and when needed, keeping space tight
- China's manufacturing PMI climbed over three points to 51.7 and will help alleviate pressure on supply chain and exports
- Australia and Vietnam are lifting border restrictions, which will add much needed extra capacity to the air cargo market
- The return of belly capacity to the air cargo market will continue and while recovery will take time, disruption is likely to diminish

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

More border easements have been announced by the UK government, but vast numbers of traders are unprepared for the launch of HMRC's new customs declaration platform.

- Haulage rates remain on the high side and are likely to continue rising, in line with inflation
- Driver shortages continue to plague the industry, contributing to delays
- UK fuel surcharges still on the increase as diesel passes £2.00/litre in some parts of the UK
- Significant UK border changes announced and pending



Ocean Freight

Not helped by recent labour disputes, port congestion in Europe is still a major issue, with continuing delays to schedules and more blank sailings announced, while the equipment situation remains tight in many regions, especially for 40' high-cube equipment.

Shanghai's port operations have returned to pre-lockdown volumes and it remains the world's largest container port despite the lockdown, while Ningbo overtook Singapore as the second busiest container port.

With cargo moving at near pre-lockdown levels and Asia ports returning to operational capability, we are likely to see congestion persist at other ports around the globe.

On the US west coast, despite the deadline for reaching a new labour deal passing, the ILWU and PMA has reiterated that neither party is preparing for a strike or lockout and there will not be no port disruption at LA/Long Beach.

Space and equipment remain tight in key South East Asia exporting countries, with strong demand for space and direct services, as shippers are keen to avoid potential congestion and delays at transhipment ports.

Advance bookings are necessary and we are seeing an almost continuous increase in BAF surcharges, as carriers announce emergency fuel surcharges, or increase the frequency of reviewing their bunker mechanisms.

Market

Container shipping carriers are resorting to more aggressive blanking strategies to manage dips in demand on important trade lanes. The 2M alliance of Maersk and MSC has been the most aggressive, cutting back its services by over 70% in the second week in May.

With ocean freight spot rates falling and demand for containers down year on year, carriers have moved to protect profitability, and we expect to see more slow-steaming, which extends transit time, to cut available capacity, protect rates and mitigate the impact of soaring bunker costs.

Historic data is of little use in this post-pandemic environment and while the carriers have tried to match capacity management with demand, they have struggled to adjust successfully to market conditions, with teu capacity suggesting there's more tonnage available.

The lines injected 3.3% of capacity into the market in the first quarter, but 10.5% of capacity is still unavailable or 'absorbed' into the supply chain.

Some carriers continue to transfer vessels to more lucrative trade routes, which can leave some trades lanes without vessels, referred to as "'ghost" services.

In the short-term data indicates that blank sailings are set to decline in the coming weeks as carriers gear up in anticipation of the traditional peak season.

On the Asia-North Europe trade, up to 5% of the vessels operated on the trade are being 'blanked', effectively removing 200,000 TEU's of weekly capacity.

On the US west coast, the union (ILWU) and employers (PMA) maintain that neither party is preparing for a strike or lockout.

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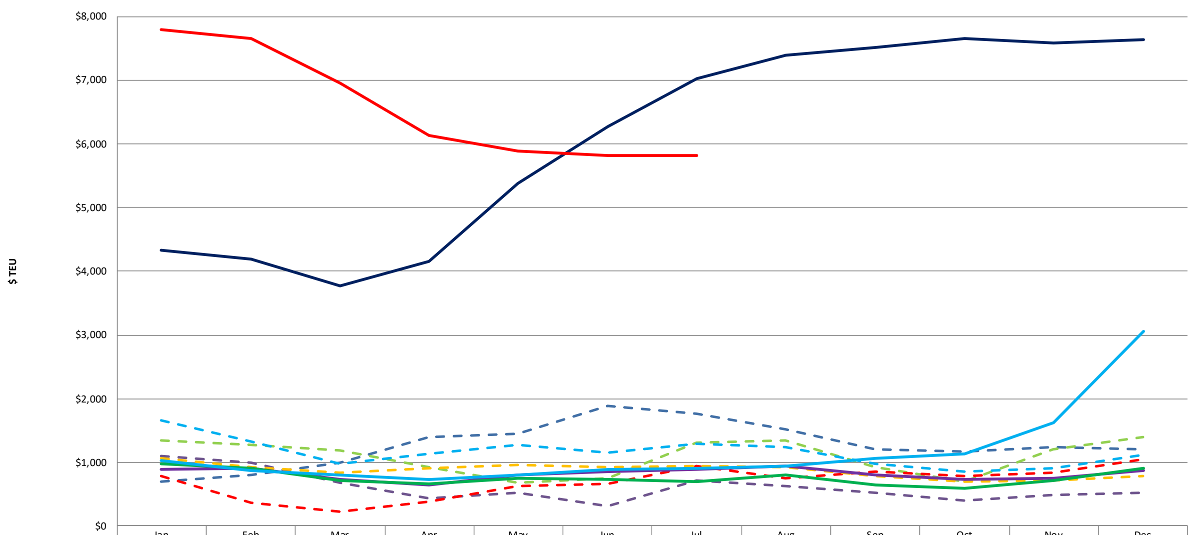
Ocean Freight

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	$5,814	$5,814					

The recent softening in spot rates on the Asia-Europe trade is broadly in-line with historic fluctuations post-CNY and while the Shanghai lockdown impacted demand, it has not had a disproportionate impact on rates, in comparison to 'normal' during the low season.

Rates

A recent survey of SME shippers found that more than half have placed peak season orders early, in the hope of building inventory, while two-thirds said they were already experiencing a decrease in demand, which most of them attributed to inflation.

The combination of sky high spot rates and the severe capacity shortage in 2021 encouraged the largest volume BCO shippers to sign long term contracts, with long-term rates up 150% year-on-year.

However, the concern for the lines must be that while the BCO looking for space, was prepared to sign contracts, the allure of spot quotes will grow, as the spread between current and contract rates gets higher, depending on the size of the BCO.

The Ningbo Containerised Freight Index is showing a decline in the loading rate of the Europe route and the market freight rate continued to show a downward trend.

It is looking increasingly likely that this pessimistic market outlook will persist, with a weakening demand-side environment, as inflationary pressure forces consumers to cut back on discretionary spending.

Ocean Freight

The industrial action in Germany and Belgium comes as Europe's busiest ports struggle with persistent congestion, that has delayed vessels, increased cargo lead times and created bottlenecks across inland logistics chains since the onset of the pandemic two years ago.

Shipping lines

High freight rates are caused by lack of capacity and lack of capacity across Asia, Europe and the USA is caused by vessels waiting, which is in turn caused by port congestion. If rates are to normalise, port congestion must end and cargo lead times normalised.

The ports worst affected by increased lead times over the last twelve months include Fos, Bremerhaven, and Zeebrugge, with 28%, 31%, and 39% increases year-on-year. A container moving from China to Zeebrugge currently takes an average of 37 days compared to 27 days in May 2022

An easing of congestion in Rotterdam, Hamburg, Le Havre, and Dunkirk meant carriers were able to deliver cargo faster to 8 of the 12 main EU/UK ports last month, while 8 out of 12 ports showed an increase in cargo lead times year-on-year, that highlights the alarming drop in carrier reliability two years into the supply chain crisis.

Schedule reliability improvements in the 1st quarter have already been reversed, falling 1.3% and down 4.7% year-on-year.

Average days delay improved by 1.04 days to 6.41 days late, but are still way above historic levels. Some trades are faring worse than others, with Asia- Europe achieving 19% on-time, with average delays of +10 days.

Felixstowe

In its recent market update IATA stated that new export orders, a leading indicator of cargo demand and world trade, were shrinking in all markets except the US

For the fourth consecutive month overall air cargo volumes continued to fall in June, amid growing economic uncertainty.

Despite falling demand and rising capacity air freight rates are higher than last year and up over 130% compared to pre-pandemic levels.

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-19 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 air freight 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.

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 on some routes.

Air Freight

Asia air cargo activity ramped up slightly in May as lockdowns in China due to Omicron were eased and emerging regions also contributed to growth with stronger volumes. But new export orders, a leading indicator of cargo demand and world trade, decreased in all markets, except China.

Market

The war in Ukraine continues to impair cargo capacity, with carriers banned from Russian airspace, which means flights between Asia and Europe have begun operating longer alternative routes, 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 potential weakening of the air freight market coincides with growing concern in the aviation sector that resurgent passenger demand, which has reduced airlines' reliance on cargo revenue, may already be waning.

Global air freight demand has softened, down 5% year-on-year, with expectations of further drops as macro-economic uncertainty grows. The growth of capacity continues, growing 20% in June, but it is slowing with belly-capacity down 22% and down 12% overall, when compared to 2019.

Last year saw the lowest total of newly delivered belly cargo capacity in fifteen year, mainly due to order deferrals, but conversion of passenger aircraft could potentially add eight thousand tonnes of freighter capacity by 2025.

Air Freight

European carriers saw a 14.6% decrease in cargo volumes in May 2022 compared to the same month in 2021, which was the worst performance of all IATA regions. This is attributable to the war in Ukraine, labor shortages and lower manufacturing activity in Asia due to Omicron. Capacity increased 3.3% in May 2022 compared to May 2021.

Rates

Air freight rates have been elevated throughout the pandemic, driven by sustained demand and supply side issues and it does not seem likely they will fall substantially any time soon, with head haul and back haul rates trending upwards since the start of 2021.

The issues that are driving rates up are not likely to improve in the short term.

The conflict in Ukraine is moving towards a drawn-out war of attrition, that may drag on, into 2023, the Chinese government shows no signs of relaxing its zero-COVID policy, which means further lockdowns are likely and sea freight disruption continues.

Growth prospects for major global economies is increasingly pessimistic.

Source: XXXXXX XXXXXX

The possibility of a global recession in the second half of 2022 may stifle demand to a level that moves freight rates back towards pre-pandemic levels.

Mid-June, the Baltic Air Freight Index showed that transactional rates for general cargo had fallen 8.7% and IATA confirmed that freight revenue generated by carriers in 2022 would fall by 6.4%.

Carriers

Global air cargo capacity is almost back to 2019 levels on some transatlantic and Asia routes as passenger flights return.

Capacity is up 20% year on year, but there are very large differences between trade lanes. The war in Ukraine and closure of Russian airspace, for example, has cut direct air freight capacity between Asia and Europe by as much as 50%.

Consequently a lot of cargo flying from Asia, is moving via the Gulf, into Europe, with multiple carriers benefiting.

Transatlantic capacity is back to 2019 levels after being down by as much as 50% last year, with a lot of wide-body passenger aircraft deployed, with expectations that numbers will increase further as carriers prepare for the summer holiday season.

80% of the global fleet of wide-body passenger aircraft were grounded when COVID hit in 2020

Pure-freighter operators continue to fly as much as they can, because demand is still still quite strong, with fashion and automotive two particularly well-performing verticals.

Cathay Pacific Cargo has for example resumed its full freighter schedule, operating 90-100 services every week, including 35 on the transpacific and a daily service to Europe.

The airline is confidently rebuilding its network, but admitted there is pressure from more cargo belly capacity returning, and potential economic headwinds that may impact consumer confidence.

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Road Freight

Pricing in the European road freight market continues to rise, in response to falling capacity, rising demand, lack of drivers and increases in the cost base, especially in diesel prices, which now account for 50% of truck operating costs.

The European road freight market has been driven by sustained consumer spending and inflationary dynamics since 2021 and this trend showed no signs of abating, with rising fuel prices, pressure on capacity and driver shortages.

The war in Ukraine is disrupting European supply chains, affecting driver availability, and causing an unprecedented spike in fuel costs.

In the coming months, we can expect further increases in transport costs, which could fuel a subsequent rate increase.

However, Rising inflation and the expectation of higher interest rates to come have seen confidence amongst consumers erode in much of Europe, including in Germany, the UK, Spain, Italy and France.

The effects of inflation on the supply side of the European road freight market, especially on diesel prices, have led to substantial increases in rates and the war in Ukraine has restricted oil supplies from Russia, which has led to further upward pressure on prices, with the cost of diesel rising sharply.

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

Market

During the pandemic, roads were clear and congestion wasn't an issue for the market, resulting in higher reliability, efficiency and asset utilisation.

For the first time in several years, seasonal congestion will be a problem; as tourists return to motorways in the summer months, creating congestion and costing carriers time and money.

In continental Europe, many countries such as France and Spain, ban trucks from driving on certain days in order to avoid heavy tourist congestion on 'changeover days'.

The road freight market is greatly impacted by congestion at ports, with longer wait times for containers, which increases lost time and creates other problems through not transporting other shipments.

If these trucks decide to return to the depot in order to fulfil other journeys, these too will cost due to potentially running empty journeys.

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.

Road Freight

Highly impacted by external events, European road freight is also dealing with some of the worst supply-side market problems, the majority of which come from driver shortages.

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

Rates

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, with a likely increase of 35% compared to the levels in mid-2020.

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

The shortage of international drivers continues to act as a drag on sector performance, diminishing available capacity, though recent UK 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.

Market

In the UK, the government announced customs easements, intended to improve the flow of cargo at UK borders, that come into effect on Friday 1st July 2022.

The decision to make Safety & Security (S&S) Movement Reference Numbers (MRNs) optional in the Goods Vehicle Movement Service (GVMS), for imports and exports, means that hauliers will no longer be burdened with the creation of documentation for the port of departure and can move through their port unheeded.

HMRC is preparing to launch its new Customs Declaration Service (CDS) on the 30th September, which all importing and exporting businesses will need to use, but traders must register for access to CDS and over 200 thousand have yet to take action.

For your customs broker or freight forwarding agent to use the Customs Declaration Service on your behalf, you need to follow these five steps:

1. Register for a Gov Gateway account
2. Apply for an EORI number
3. Register for CDS
4. Choose payment method to use
5. Instruct your customs broker or agent.
6. If you have a deferment account, we will need your Customs Comprehensive Guarantee (CCG) number to update our records
7. CCG will also be required for Special Authorisations and Procedures
8. CDS payments will reach HMRC via a different electronic pathway and a new guarantee will be required with your bank

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