MARKET UPDATE September 2022

United Kingdom

noatum logistics

noatum logistics

The recent Felixstowe strike saw vessel calls drop from 29 to 5, with many calling at alternative ports or delaying cargo for a week to avoid disruption. With a similar strike planned at Liverpool later this month and more action possible at Felixstowe, fears are rising that the Rotterdam automated terminal, due on-stream in 2027, could mean fewer direct calls at UK ports.

Last week, the US government suspended 26 China-bound September flights from Chinese carriers in a tit-for-tat response to the Chinese government's decision to cancel flights by US carriers over Covid cases, in a move that reduces capacity and could hit cargo markets hard after the summer slack season.

On the road; the effect of rising costs in 2022 is now very evident with road freight rates across the European continent reaching all-time highs, whilst industrial action and persistent driver shortages keep capacity tight.

As global economies take a battering, with PMI indices and consumer sentiment plunging, the inevitable slowing in demand is leading carriers to blank sailings, with 8.8% of capacity due to be pulled from Asia to Europe over the next 12 weeks.

The continuing unrest at Felixstowe and Liverpool raises concerns about more vessel omissions, while North Europe Port congestion could be on the cusp of easing as demand falls and strikes comes to an end.

- Rates softened in August, with biggest drop in months on some routes
- High inventory levels contributing to weak demand
- Bunker prices have plateaued contributing to rate erosion
- UK fuel surcharges remain high, though these are expected to soften in time too

The airfreight market has been pretty flat and has continued to slow, with a pronounced drop in July.

On many routes, space is freely available, but we expect this will change in the coming months, even though Peak season is unlikely to trigger any volume surge.

Tensions between the US and China could affect westbound trade, with the US potentially using EU aircraft to ship their product via Europe.

European bottlenecks are ongoing, with fresh strikes on the cards for Lufthansa.

- Rates continue to soften but are expected to increase as the traditional peak and Golden Week approach
- Fuel surcharges have softened
- European bottlenecks still ongoing, with fresh pilot strikes at Lufthansa
- Improving sea freight conditions further reduce demand for air

The need for domestic and international road transport remains high, but any continuity in demand is offset by reduced transport capacities - primarily due to the shortage of drivers - and less cargo space.

While some carriers have elected to reduce their cost exposure by not reactivating previously shut-down transport resource, the capacity imbalance in the market has been lessened by the end of the summer holidays, the seasonality of the road transport market and the decision to give Ukrainian drivers easier access.

- European road transport prices break new records
- Haulage rates remain on the high side and will continue to see disruptions
- Instability are driving tumultuous developments in road freight prices
- Drivers pushing for better working conditions due to continued disruptions

Ocean Freight

Since 2020 liner shipping and container ports have challenged supply chains, with massive price hikes, disruption, congestion and shipment delays, with schedule predictability a distant memory. But things are starting to change.

Vessel delays due to port congestion have slightly reduced on the China – North Europe trade, though ships still arrive on average 16 days late in China for their next roundtrip, which is only four days better than May.

September's outlook from Asia is expected to be flat, with concern remaining on port congestion in Europe which delays schedules, increases blank sailings and adds port omissions. However, there are indications that the situation may improve, providing the continuing typhoon season does not further disrupt schedules. Container ports, terminals and yards in Ningbo and Shanghai have already been closed for several days in September due to typhoons and, while airports have remained operational, flights will be delayed.

Container ports on the US east and west coasts remain highly congested, with inland capacity and labour reductions impacting operations, which lead to pick-up and delivery delays, with extended container dwell times and the ripple effect often means vessels experiencing extended berth-waiting time.

Transatlantic demand remains strong, with rates stable, albeit at a high level. However these may be threatened by energy price increases and a range of environmental factors, including current low water on many key inland waterways, including the St. Lawrence.

As of the 1st September the Port Authority of New York and New Jersey introduced a container imbalance fee for ocean carriers, to try and reduce the number of excess empty containers dwelling at the port, so there is more capacity to process import containers and while no carrier has so far commented, it has to be expected that carriers will pass the associated costs to the market.

Market

Dockworkers at the port of Liverpool are set to follow their Felixstowe colleagues recent action and walk out on the19th September for two weeks of industrial action, after rejecting the management's proposals over the latest contract renewal. The Unite Union has also warned that if Felixstowe's owners do not engage in meaningful negotiation, the port may face industrial action until Christmas.

On mainland Europe, the combination of improved labour availability, due to the end of the school holidays and a reduction in Asian imports, will ease congestion at container hubs and help restore schedule reliability, which has increased over three consecutive months to 40.5%, though just 31.5% on the Asia – North Europe trade.

Moreover, a wage settlement last week at German ports is also expected to relieve the high yard density at Hamburg's box terminals in the coming weeks.

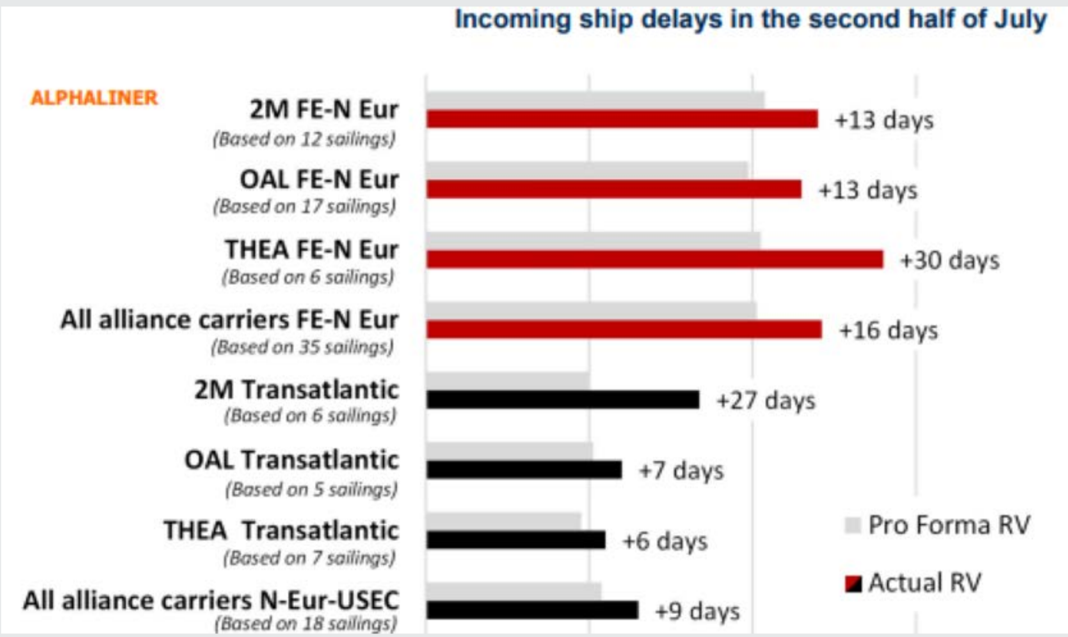
According to new weekly data from the port of Rotterdam, congestion at the Dutch gateway and neighbouring Antwerp has declined significantly in the past few weeks.

The data provides an insight into the berthing wait times for container vessels at Rotterdam, Antwerp-Bruges, Hamburg and Bremerhaven, tracking waiting vessels and waiting days.

Felixstowe faces the prospect of industrial action until Christmas.

Ocean Freight

Incoming ship delays



Source: Alphaliner

Market

The longest wait time for a containership to berth at Rotterdam's terminals plunged from 23.3 days, on 22 August, to just four days on 29 August. At Antwerp-Bruges, the longest wait times, which had already reduced to 4.8 days by 22 August, were further improved to 2.1 days on 29 August.

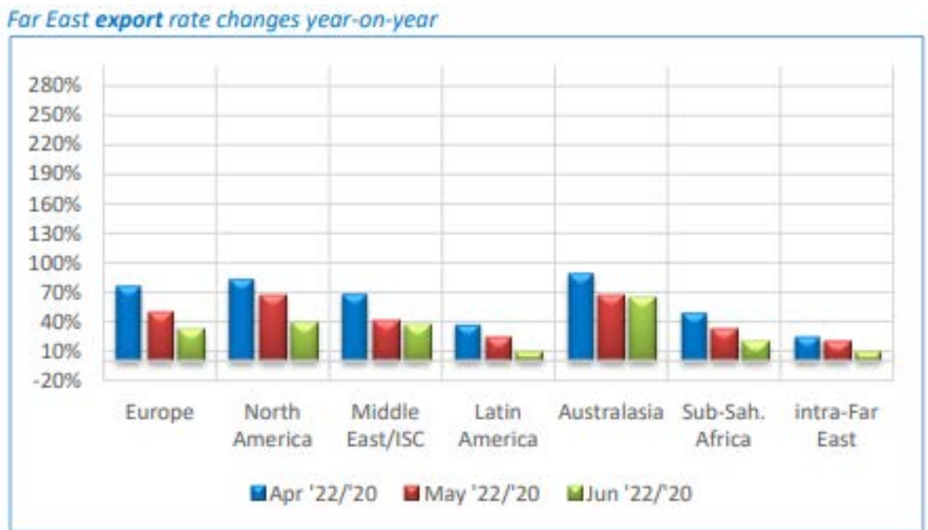
However, the longest wait time at Hamburg was still extremely high on 29 August, at 26.7 days, having reduced from 31.1 days on 22 August. But that is expected to improve substantially as the high yard density eases in the wake of industrial action and a greater take-up of volunteer weekend labour.

The latest ocean carrier operational advisories are also more positive on the terminal congestion issues at the hubs that have plagued their networks for months.

Hapag-Lloyd said the increase in labour at ECT Rotterdam was "visible, leading to faster turnarounds of vessels".

Carrier advisories are much more positive on the terminal congestion issues that have plagued their networks for months.

Ocean Freight



The slow peak season build-up, ahead of Golden Week has encouraged the container shipping lines to reduce capacity, by blanking sailings, as they seek to to support rates, that are under downwards pressure, particularly on Asia-Europe routes.

Market

Carriers have been enjoying exceptionally high earnings because of the surge in demand that built during the pandemic - one leading line's current earnings per share are six times higher than its share price in early 2020 - but the trend is now slowly fading away as rising costs of living from high inflation have weakened consumer demand and, ultimately, shipper's appetite for imports.

Uncertainty in the markets, coupled with a weak economic outlook, indicates the industry is slowly heading toward some form of normalisation. Inventory build-up and shifting supply/demand balance could result in a further contraction in volumes in the remaining half of the year.

Box rates from Asia to North Continent are down $10,000/FEU since their peak last year ($20,000/FEU) and in many cases below contract rates and even with disruptions in the global supply chain, including congestion, strikes, and coronavirus-related lockdowns in China, rates continue to erode.

It is becoming increasingly evident that power is being shifted from carriers to shippers, with carriers on many routes reportedly cutting rates to compete with the limited demand in the market, while also showing some flexibility in negotiating long-term rates.

Carriers are often aggressively looking for more bookings, with some offering attractive rates on spot basis while others are trying to hold on to higher levels. The simple reality is with a downturn in cargo and more open space, due to weak demand, carriers will chase cargo - until that capacity is blanked.

Box rates from Asia to North Continent are down $10,000/FEU since their peak last year

Ocean Freight

In a bid to halt plummeting rates on primary trade lanes, where dwindling demand has resulted in over-allocation, shipping lines are beginning to blank scheduled sailings to constrain space and drive up prices.

Shipping lines

Almost 9% of capacity on Asia-Europe rotations will be blanked by carriers across the three shipping alliances: 2M, Ocean Alliance and THE Alliance.

At a time when global trade is focusing on China's upcoming Golden Week festivities in the first week of October, French line CMA CGM has said it will pull five sailings over this period.

In real terms, it means capacity over a very busy period will be decreased by 100 000 TEUs.

The two leading lines, MSC and Maersk, will also remove capacity from 2M's services between Europe and Asia, amounting to 10% of scheduled allocation (seven sailings), in the run-up to the 1st October and the start of Golden Week.

THE Alliance, the biggest of the three by membership, comprising Hapag-Lloyd, Ocean Network Express (ONE), Hyundai Merchant Marine, and Yang Ming, will apparently blank 10 sailings, 18% of its combined TEU capacity.

The forced capacity constraints will reportedly be sustained over 12 weeks.

Hapag Lloyd is upgrading 150 ships of its fleet, to reduce fuel and CO_2- emissions and is investing in 12 x 23,660 TEU new-buildings, while HMM is planning to expand its current container fleet from 820,000 TEU to 1.2 Mteu by 2026.

noatum logistics

Air Freight

Global demand has remained largely stable, down just 3% on last year, and even slightly strengthened on certain trade-lanes, before a big drop in July. Overall the market has continued to slow, with space on aircraft freely available, though we expect this will change in the coming months.

Overall the airfreight market has been pretty flat and volumes remain soft but stable, with the highest drop in July and improving conditions in sea freight further reduces demand for air transport.

Rates show signs of softening on a few trade-lanes, but globally are still 21% higher than the same pre-pandemic period in 2019.

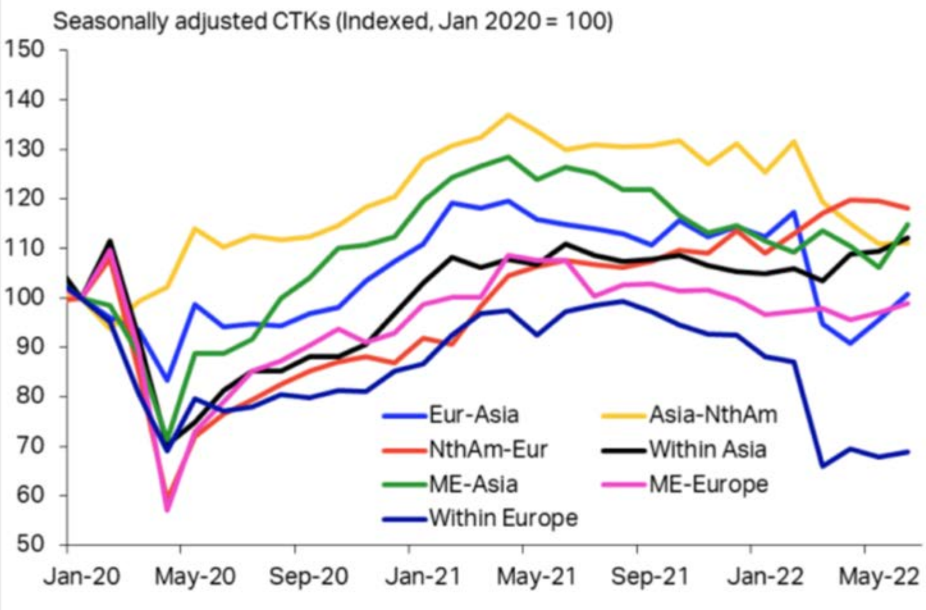
Aggressive spot markets is expected on certain trade-lanes and surcharges likely to fluctuate with reducing fuel prices

Overall global capacity was down 11% in August, compared to 2019, with belly capacity 19% below Covid levels and while this has improved since last year, capacity recovery has slowed due to service disruptions and backlogs.

The gradual improvement of cargo capacity is encouraging but jet fuel price hikes remain a key obstacle to softening of rates, with oil inventories expected to increase.

Peak season is unlikely to trigger a surge in volumes, particularly with lower sales and many retail and manufacturing inventories at record highs, while eCommerce movements remain stable, but at lower levels.

Air Freight



Source: IATA Economics, IATA Monthly Statistics by Route

The easing of restrictions in China and reduced disruption in global supply chains should be good news for world trade and air cargo volumes, but the impact of high inflation and rising interest rates is working against any recovery.

Although China has eased the Omicron-related lockdowns, other headwinds including infrastructure and labour supply constraints persist. In addition, the ongoing conflict in Ukraine still affects cargo capacity, with a number of important air cargo carriers directly impacted.

Market

IATA's latest Cargo Market Analysis, reports that global goods trade recovered further in the 2nd quarter, due mainly to strong volumes in emerging regions such as Latin America, but also the Euro area and China, where further easing of Covid-19 restrictions and factory re-openings had an impact.

However, most of the uptake in trade is supported by maritime service that has been growing in line with the global trade.

The New export orders component of manufacturing PMIs – historically a leading indicator for air cargo shipments – have softened over the first half of 2022 and with the exception of China, new export orders for the world's main manufacturers are currently below 50, which denotes manufacturing contraction.

Air cargo volumes in Asia Pacific looked promising at the end of the 2nd quarter, in large part reflecting the easing of lockdown restrictions and supply chain disruption in China, with international CTKs flown by Asia Pacific airlines essentially recovering to their 2021 levels.

Looking at IATA's latest route data confirms an improved performance for most of the Asia Pacific's main air cargo markets, with the exception of North America.

Air cargo capacity increased in all regions over the year to June, 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. At 49.2% in June, the industry CLF was 6.9 percentage points (ppts) 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.

Air Freight

Even with softened demand and recovering capacity, rates are 120% higher than pre-Covid levels. Service disruptions, fuel costs and multiple external factors further complicate pricing and we are consequently likely to see an aggressive spot market on certain trade-lanes.

Overall, the market has been pretty flat recently for outbound cargo to both the EU and US, though rates ex-PVG [Shanghai] to Europe started to increase, but not from other origins, so it's not certain yet if this is an ad-hoc increase or if it could last longer.

Rates

Asia's airfreight market has been "stable" over the summer, but are expected to increase next month, due to more passenger luggage taking up cargo capacity as well as the traditional peak season approaching.

With heat waves in China subsiding, and new tech products, such as an iPhone, launching in September/October, it may suggest a peak season starting at around the third week of September.

Despite the "soft" summer for airfreight, the market may simply be returning to pre-Covid norms, as demand this year is broadly similar to pre-Covid, but the difference is that we are actually experiencing a normal seasonal summer slack period, as opposed to the relentless demand and capacity shortfalls we have had to work through in the previous two years.

Carriers

Last week, the US government suspended 26 China-bound September flights from Chinese carriers in a tit-for-tat response to the Chinese government's move to cancel flights by US carriers over Covid cases.

The impacted airlines include Xiamen, Air China, China Southern and China Eastern, while the US airlines are American, Delta and United and the reduction in capacity could hit cargo markets even harder after the summer slack season, if China responds by cancelling US-bound flights.

Airlines in Europe and Asia Pacific continue to be most affected by the various headwinds which are currently impacting the air cargo segment. These include disruptions related to the conflict in Ukraine, labor shortages, and lower levels of trade and manufacturing activity in Asia due to Omicron-related restrictions.

Europe remains the weakest performing region for air cargo volumes, with CTKs for European carriers 13.4% below the level of a year ago, due in now small part to the significant impact of the Russia-Ukraine crisis earlier in the year; a situation the region continues to grapple with.

Air cargo capacity increased in all regions into the summer, in part reflecting the increase in belly capacity as the number of passenger flights increased, with YoY capacity growth ranging 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.

Road Freight

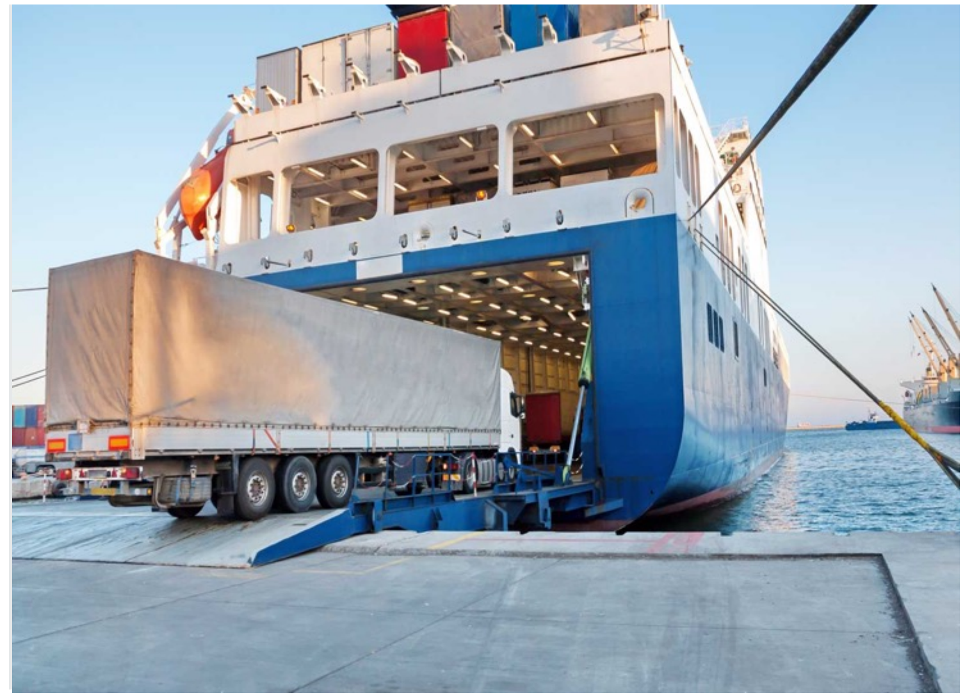
Despite the challenges, the IRU expect that the market's recovery through to 2026 will remain positive, with the market forecast to grow 3% from 2021 to 2026.

The fuel price rises that followed the invasion of Ukraine have held and produced a much more costly environment for European road carriers, whilst industrial action across the continent and persistent driver shortage keep capacity tight. Primary economic indicators suggest that a slowdown in consumption and production will ease demand, while high costs will keep rates elevated.

The European road freight market grew 9.4% in real terms in 2021 and despite the challenges that we have reported on continuously this year, analysts suggest the market could still expand by up to 5% in 2022.

The current operating environment is characterised by continuously rising prices in the wake of the pandemic, Ukraine war and macro-economic factors, which contributed to a shortage of capacity in the market, as well as significantly increased transport costs.

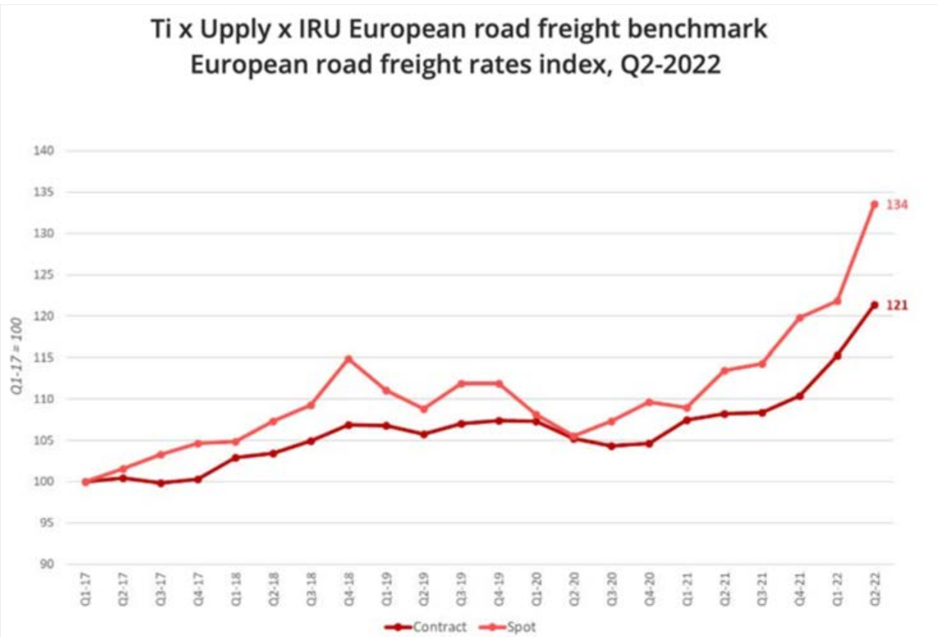
European road freight rates hit an all-time high in Q1 2022 as rising cost pressures, supply and capacity disruptions, regulatory change and war in Ukraine created a potent mix of rate drivers, with smaller carriers likely to suffer disproportionately from the increase in operating costs.



Businesses, particularly those operating in energy-intensive sectors are likely to curb their production and time will show to what extent this will ultimately be reflected in the road transport market.

Although experts agree that air and sea freight rates will normalise in time, no such trend can be agreed for road transport, because market constraints ware unlikely to ease in the short term, which means that transport costs will likely remain at a high level.

Road Freight



ource: Upply

Inflation is rising across Europe, reaching a record high of 8.9% in the Eurozone in July and expected to reach 9.1% in August, weighing on costs and demand, while diesel prices have varied by country, they are 69% above the January level.

Demand has been weakening for European road freight, with declining activity in all major economies, as inflation rates weigh on consumer and business confidence.

Market

The suspension of gas supplies from Russia through the Nord Stream 1 pipeline, increases worries about future energy supplies and means that energy price spikes across Europe will add further to inflation, increasing the likelihood of interest rate rises and the risk of recession.

Despite shrinking industrial production and rising costs, the need for domestic and international road transport services remains high, but demand is offset by reduced transport capacities and less cargo space, due to the prevailing shortage of drivers, higher commodity and energy prices.

Rates

The suspension of gas supplies from Russia through the Nord Stream 1 pipeline, increases worries about future energy supplies and means that energy price spikes across Europe will add further to inflation, increasing the likelihood of interest rate rises and the risk of recession.

Research by the London School of Economics has found that while exports have largely recovered from Brexit, imports from the EU have fallen by 25% compared to other destinations. In addition, the variety of goods traded fell by 30% and low value goods were the most affected by the increase in administrative costs, with transport operations between France and Great Britain becoming more expensive and longer.

The French/Spanish corridor has seen very significant increases in spot rates, reaching 21.2% quarter-on-quarter in the Paris-Madrid direction, which is almost twice the average increase in European spot rates.

The war in Ukraine has particularly impacted operation in Germany/Poland and with the exception of spot rates from Duisburg to Warsaw, which reached new highs, spot rates generally increased more slowly than contract rates.

The IRU European benchmark show considerable spot and contract increases in Q2

Road Freight

A cross-party group of MPs has called for the logistics industry to "get its house in order", including better overnight facilities for drivers and new training routes to recruit more drivers, with the threat of a new tax, if the industry do not react within two years.

Over the last year, a lack of HGV drivers has created a bottleneck in the supply chain, leading to fuel shortages at petrol pumps and empty shelves in major supermarkets.

Supply chain levy

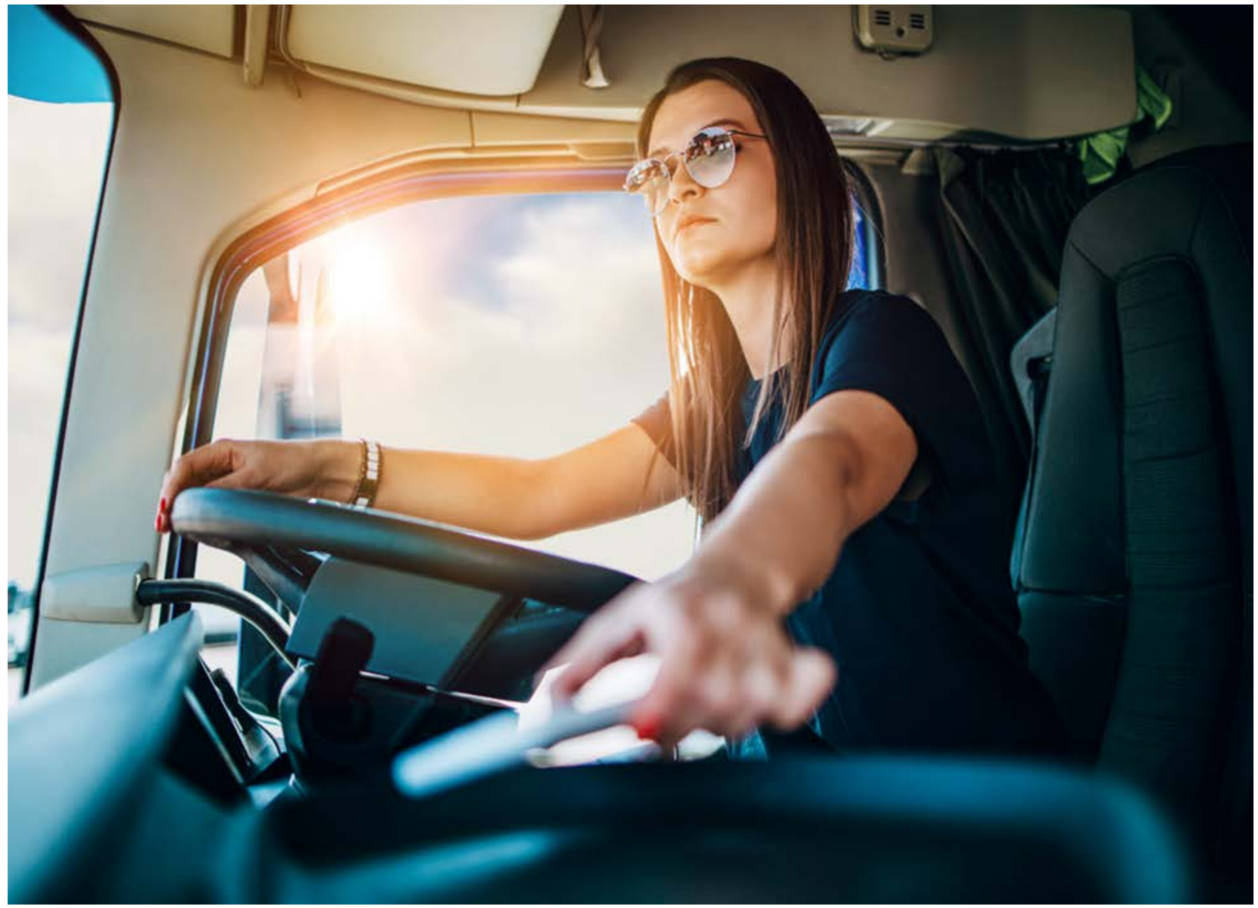
Under the proposed Supply Chain Levy, large supermarkets, oil companies and online service giants could be forced to pay towards the cost of new facilities for HGV drivers.

The MPs said that if the industry won't deliver change, Government should do so and send them the bill via increased taxes, to those who produce and sell and make the most profits.

The committee's report, Road Freight Supply Chain, is calling for minimum standards of facilities, including security, clean showers and toilets, healthy food options, and services for female drivers.

The report says that if the industry does not adopt a "sector-wide solution" and improve conditions at services for drivers within two years, then the Government should step in and impose the Supply Chain Levy to fund new facilities.

The committee has called for haulage companies to pay for the special training needed to drive a HGV, currently covered by drivers themselves and highlighted the ageing and mostly male workforce, stressing that more needs to be done to attract women and younger people.



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