MARKET UPDATE
October

2022

United Kingdom

noatum logistics

Executive Summary

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Market fundamentals have been changing rapidly and the costs of transporting goods out of China and many other critical sourcing regions continues to sink amid a sharp slowdown in western economies.

Air freight rates continue to soften, while ocean rates from Asia-Europe have dipped nearly 68% since the start of the year, but remain considerably higher than pre-pandemic levels, with carriers reducing capacity by rolling blank sailings to try and prevent further rate erosions. However, despite their best efforts, rates continue to decline.

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

Rates will continue their decline, due to weak demand for Asian goods and despite the lines attempts, there is no structural support to sustain them.

As spot rates continued to sink below long-term contacts, a growing number of the biggest volume BCO shippers are now seeking to have their contracts reviewed.

Shippers faced long delays and significantly higher freight costs throughout the pandemic, while carriers made bumper profits, but market dynamics are changing, with power shifting back to shippers.

- The tables have turned and it is shippers turn now!!
- Demand has been cooling off at an accelerated rate, with a bleak outlook
- Carriers are blanking sailings to try and prevent further rate erosion
- Felixstowe and Liverpool strikes are still ongoing

Improving conditions in sea freight, lower sales and high inventory levels has combined to reduce demand for air freight and while volumes have softened they are stable.

As demand has slackened, so rates have softened on most trade lanes and though month-on-month reductions continue (globally) rates in July were +23% higher than the same period in 2021.

While demand has softened, it is low but stable on most trade lanes, down 10% on 2021. Overall scheduled capacity is down 9% compared to pre-pandemic levels, but continued monthly improvements have combined to take it 16% above last last year.

- The airfreight market for September remained flat
- We are expecting only a small uptick in October
- Carriers may park aircraft to reduce capacity
- Rising jet fuel prices is the primary obstacle to pre-COVID level rates

The negative effects of the Ukraine war are increasingly being felt in the European economy, with the UK and EU both edging recession.

PWC highlight that the growth outlook for the UK has deteriorated and that they now expect UK GDP growth to average between 3.1% and 3.6% in 2022, followed by two years of slow, or even negative, GDP growth.

The EU faces continuous economic decline in the third quarter, driven by the manufacturing industry, which is particularly affected by the energy crisis. Many different sectors and countries have been affected, including glass manufacturers in France, steel mills in Spain, and fertiliser factories in Poland.

- European road freight rates hit an all-time high in 2022
- Smaller road freight providers suffer most from operating costs increases
- Driver shortages remain an acute problem in the European market
- EU Mobility Package could impact capacity, costs and rates

Ocean Freight

The general outlook remains flat, due to the Golden Week holidays in China and the weak demand from Europe and the US. Port congestion on both trades continues to be an issue, as it results in longer turnaround time for vessels to return to Asia.

Congestion at the port of Hamburg and Bremerhaven is expected to ease as strike actions have been called off, while strikes at Felixstowe and Liverpool, which overlapped for seven days, ended without agreement. Liverpool members of the Unite Union walked out for a second seven day strike from the 11th October.

The Unite union accused Felixstowe employers, Hutchison Ports, of refusing to negotiate and said the offer of an 8.3% pay rise and one-off £750 payment by Liverpool Port's operators fell well short of the inflation rate. Further strike action between now and Christmas is possible and other UK ports may follow suit and announce strike actions.

China's zero-COVID policy continues to impact major manufacturing and exporting regions like Chengdu, Dalian, Guangzhou, Shenzhen and Tianjin, and while port operations are exempt from restrictions, inland logistics have already been affected to varying degrees.

The queue of container ships waiting to enter ports in Southern California has moved to Savannah, where around 40 container vessels have been waiting to berth for an extended period, while in New York, around 15 vessels were waiting lately.

A potential US rail strike has been avoided which, as rail moves 40% of long-distance trade, would have caused massive disruption and delays for the holiday season in December.

Market

The rapid, consumer-led growth of the first two quarters has been buffeted by inflationary headwinds, resulting from the continuing Russia-Ukraine war, tightening financial conditions, and deteriorating confidence.

The outlook for sea freight will remain flat while weak demand continues in Europe and despite some improvement port congestion in Europe continues to be an issue, as it extends voyage time for vessels returning to Asia.

The impact of seasonal typhoons in Asia has been adding further uncertainty to schedules to Europe and we expect additional blank sailings and port omissions by carriers after October.

Disruption at European ports, including port strikes in Felixstowe and Liverpool and ongoing port congestions at US ports, including Savannah, New York and Houston has encouraged some shipping lines to continue with some blank sailings.

The shipping capacity outlook for Q4 and 2023 is uncertain, with falling confidence impacting demand and inventory levels, particularly in the US, remaining high.

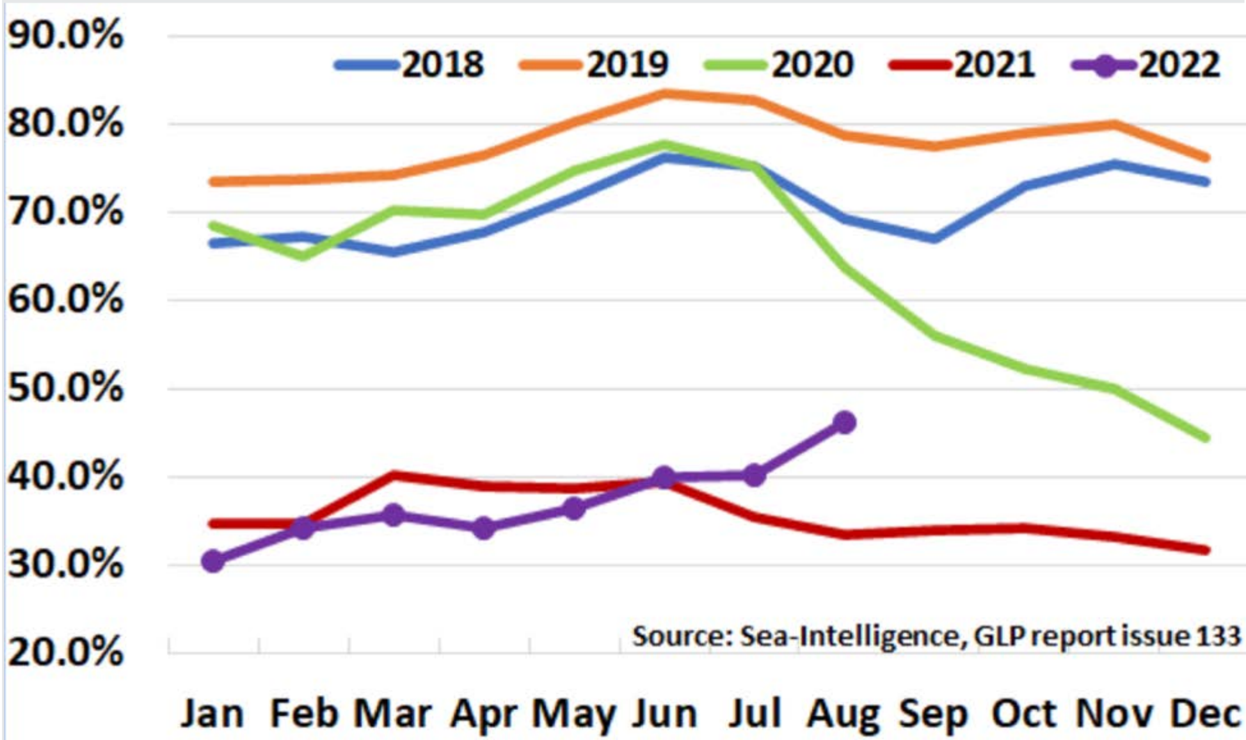
The transpacific trade saw no pre Golden Week rush, so demand is likely to be flat ongoing and there are concerns over a potential rail and security guard strike which may impact operations on the west coast.

Transatlantic volumes dropped slightly during the summer season and the shipping lines have decided not to use any more extra loaders, which means that demand on services remains high.

Felixstowe faces the prospect of industrial action until Christmas.

Ocean Freight

Global schedule reliability



Source: Sea Intelligence

Market (cont'd)

Globally, schedule reliability has improved to 46.2% in August, its highest level in almost two years.

Reliability on the Asia-North Europe trade has risen to 30%, while the trade with the lowest reliability is Asia-US East Coast trade at 17% and the Europe-Indian Subcontinent trade was the best performer 66%.

Transpacific eastbound has fallen slightly to 35%, while transatlantic westbound reliability is 29%.

In an effort to reduce a container imbalance of 200K TEU, the Port Authority of New York and New Jersey has joined Los Angeles and Long Beach in imposing a delay fee, launching in the 4th quarter, to encourage the quick collection of import containers and evacuation of empties.

Globally, schedule reliability has improved to 46.2% in August, its highest level in almost two years.

Ocean Freight

The ‘freight all kinds’ (FAK) rate market saw another big drop in September and has now moved below long-term contracts, with BCO shippers seeking contract reviews.

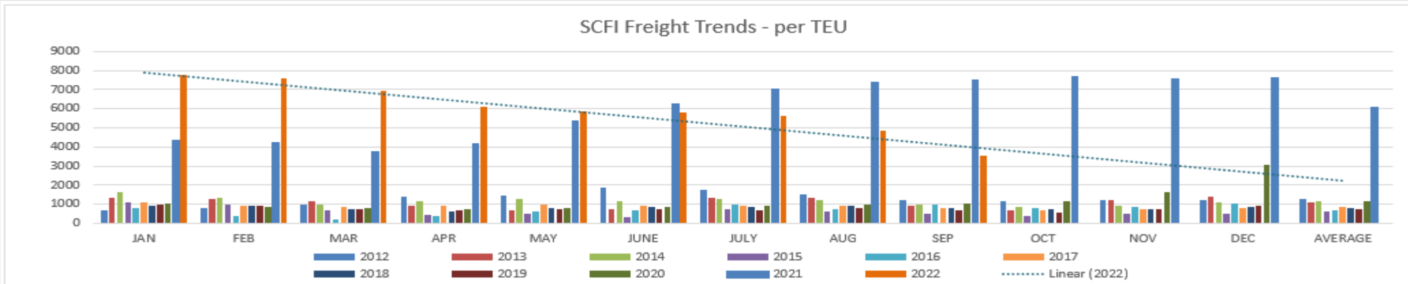
Bunkers prices have softened, which is contributing to the rate erosion and we anticipate further reductions, although at a slow pace. UK Fuel surcharges remain high even with fuel pricing softening,

The Suez Canal is increasing transit tolls by 15% from the 1st January 2023, for all ship types, with the exception of dry bulkers and cruise ships, whose tolls will rise by 10%.

The Canal Authority said the rises were the due to inflationary pressures, which had increased costs for its operations and navigational services.

Tolls were also being adjusted to reflect higher freight rates for ship owners, and the greater savings that could now be gained from using the canal given the increase in bunker costs.

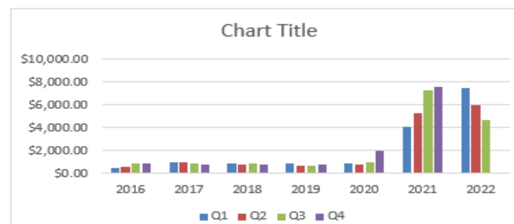
Shanghai container freight index



YEAR	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC	AVERAGE
2012	$700.00	$800.00	$1,000.00	$1,400.00	$1,450.00	$1,888.00	$1,763.00	$1,517.00	$1,208.00	$1,165.00	$1,241.00	$1,201.00	$1,277.75
2013	$1,341.00	$1,279.00	$1,184.00	$926.00	$687.00	$754.00	$1,309.00	$1,338.00	$920.00	$693.00	$1,207.00	$1,403.00	$1,086.75
2014	$1,659.00	$1,322.00	$983.00	$1,140.00	$1,267.00	$1,153.00	$1,288.00	$1,237.00	$979.00	$855.00	$914.00	$1,113.00	$1,159.17
2015	$1,095.40	$1,000.25	$683.00	$431.00	$530.00	$320.00	$721.00	$633.00	$530.00	$405.00	$483.00	$527.00	$613.22
2016	$784.00	$363.00	$224.00	$381.00	$622.00	$660.00	$950.00	$755.00	$950.00	$793.00	$836.00	$1,039.80	$696.48
2017	$1,073.75	$928.75	$841.40	$900.75	$964.50	$929.00	$947.50	$931.25	$783.00	$706.25	$722.50	$789.00	$876.47
2018	$895.75	$911.75	$739.20	$640.00	$804.25	$865.40	$888.00	$940.60	$801.75	$738.50	$745.00	$868.50	$819.89
2019	$976.25	$906.75	$719.80	$663.25	$746.07	$735.25	$697.50	$795.60	$654.00	$586.25	$722.40	$916.00	$759.93
2020	$1,012.20	$840.75	$804.50	$740.50	$800.80	$882.75	$906.20	$948.00	$1,064.25	$1,128.20	$1,622.25	$3,060.75	$1,150.93
2021	$4,325.20	$4,215.25	$3,771.25	$4,151.40	$5,377.75	$6,268.00	$7,014.40	$7,397.00	$7,502.25	$7,659.60	$7,574.50	$7,641.80	$6,074.87
2022	$7,784.25	$7,616.00	$6,949.00	$6,113.60	$5,885.00	$5,814.25	$5,601.60	$4,841.50	$3,557.40				
2021 vs 2022	$3,459.05	$3,400.75	$3,177.75	$1,962.20	$507.25	-$453.75	-$1,412.80	-$2,555.50	-$3,944.85				

Average per Quarter - per TEU

YEAR	Q1	Q2	Q3	Q4
2016	$457.00	$554.33	$885.00	$889.60
2017	$947.97	$931.42	$887.25	$739.25
2018	$848.90	$769.88	$876.78	$784.00
2019	$867.60	$714.86	$715.70	$741.55
2020	$885.82	$808.02	$972.82	$1,937.07
2021	$4,103.90	$5,265.72	$7,304.55	$7,625.30
2022	$7,449.75	$5,937.62	$4,666.83	
2021 vs 2022	$3,345.85	$671.90	-$2,637.72	



SCFI
Week 39
$2,950.00

Source: Noatum Logistics

Ocean Freight

For much of the last two years, container shipping lines have struggled to maintain sufficient capacity to meet demand, but in recent months demand has weakened and container ships have not been filled.

With demand waning and freight rates under pressure, lines typically impose tactical blank sailings, to reduce available capacity and reduce the erosion of rates.

Shipping lines

Transpacific routes are barometers for North European trade lanes, which tend to mirror trends in the short term. Capacity reductions to the US east and west coasts range between 22% and 28% of deployed weekly capacity in the weeks following Golden Week, up 50% on 2019.

Post Golden Week capacity reductions on the Asia to North Europe trade lane are removing almost 20% of available volume, which is in line with 2019, but higher than the 2014-2018 average.

The 2M Alliance partners, Maersk and MSC, have imposed a blanking programme on their Asia – North Europe services, which will see them skip nine sailings over weeks 37 to 41.

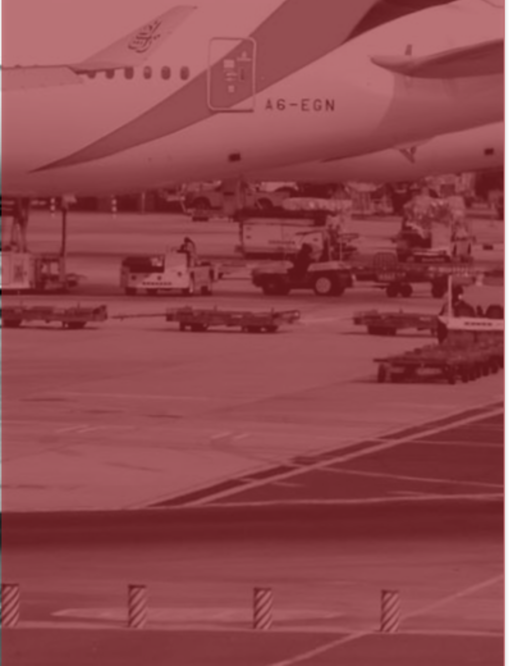
The sailing have been cancelled, or blanked, to reduce capacity in line with expected weaker demand and also address restrictions in cargo operations created by the reduced workforce in ports and terminals around the Golden Week holidays.

Other carriers are adjusting westbound sailing capacity from China in October, but have yet to announce their plans. Sea freight analysts, Xeneta, estimate that 1.5m TEU of capacity has been withdrawn from the Asia - North Europe route over the past 12 weeks.

Yantian port

Air Freight

The reduction in demand, driven by rising costs and inflation experienced across major economies, is creating a slump in export orders for emerging economies, with China's manufacturing PMI falling to ~49 in August, which signalled reduced export orders over the last quarter.



While air freight demand has softened since April this year and remains low, global air cargo capacity has continued to rise and is now 16% above last year - though it is still down on pre-pandemic 2019.

PAX belly-hold capacity, which has been given a further boost by Hong Kong and Japan finally relaxing travel restrictions, is already 23% above last year's level and will easily cope with any peak season requirements. However, airspace closures due to the Russia/Ukraine war continues to impact capacity negatively.

With the recovery in capacity, cargo demand is exceeded by capacity on most trade lanes, which means that carriers load factors are being reduced in all regions.

The CargoLoadFactor(CLF) is an indicator of the demand- supply balance and the industry-wide cargo load factor decreased by ~5 Pts in July, which is indicative of downward pressure on load factors and air cargo yields resulted in CLF dips, which typically impacts carriers' revenue.

Increases in air cargo capacity is encouraging, but jet fuel price hikes are the key obstacle to softening of rates to pre-COVID levels. Jet fuel price reduced but remained high reaching $143 in September. The US Energy Information Administration forecast that Brent crude oil will average $98 per barrel in the fourth quarter of 2022 and $97 per barrel in 2023.

The possibility of supply disruptions and slower-than-expected production growth continues to create the potential for higher oil prices, while the possibility of slower-than-forecast economic growth may create the potential for lower prices.

Market

Travellers are expected to deliver a £35bn boost to the world's third-largest economy after Japan lifted most of its remaining pandemic-related border restrictions, with carrier responding by added more flights and cargo capacity.

Hong Kong has finally relaxed its strict COVID controls and quarantine rules, which will boost belly-hold cargo capacity and boost the city's ailing economy.

Previously, travellers entering Hong Kong had to quarantine at a hotel for three days, followed by four days of movement restrictions, but this has been replaced by daily testing for the first week after entering the city.

The move comes just as Singapore has overtaken Hong Kong as Asia's top financial hub, according to the Global Financial Centres Index, due to strict Covid rules and border controls.

Cathay Pacific said the new measures would allow for the strengthening of network connectivity to, from and through its Hong Kong hub, adding that it would launch 200 pairs of regional and long-haul passenger flights in October.

Hong Kong has finally relaxed its COVID controls, which will boost belly-hold capacity

Air Freight

Market (cont'd)

Sunny Ho, executive director of the Hong Kong Shippers' Council, said the relaxed Covid rules would "certainly" have a positive impact on air cargo, but cautioned that most airlines would need six months' lead time for preparing additional routes.

There should be a sharp increase in flights from Hong Kong, with substantial traffic increases in Q1 2023, if demand supports the growth.

Despite the positive air freight developments, Hong Kong's mainland border-crossing with the Chinese mainland consider to suffer disruption, with trucking restrictions likely to continue impacting air export volumes, unless Hong Kong can achieve zero-Covid.

On the mainland, there has been a slight increase in freight rates from major origins including Guangzhou and Shanghai, ahead of the Golden Week holidays, but questions remain over whether rates will pick up, and how long any peak season will last.

Hong Kong international airport (HKIA)

Air Freight

With softened demand and recovering capacity, we are likely to see an aggressive spot market on most trade lanes, with rates most likely to remain affected by jet fuel price price movements, service disruptions and airspace closures, which may lead to higher transit and increased costs.

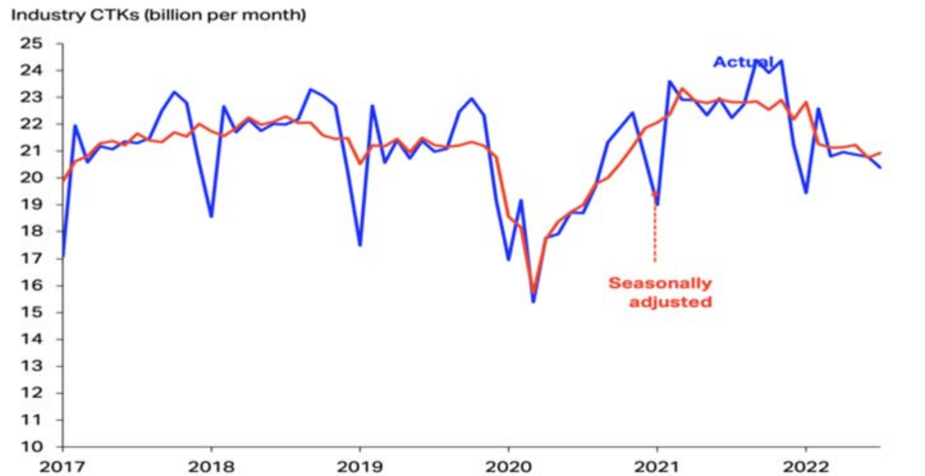
Rates

After remaining above last year's levels for the first seven months of 2022, worldwide rates are softening, but still sit 23% above their level, this time last year, despite softening fuel surcharges.

With softened demand and recovering capacity, we are likely to see an aggressive spot market on most trade lanes, with rates likely to remain affected mostly due to jet fuel price hike and service disruptions.

Fuel surcharges will continue to fluctuate amidst oil price fluctuations and restrictions in supply, with airspace closure, cancelled and re-routed flights leading to higher transit time and increased costs, which will put upward pressure on rates.

Industry-wide cargo tonne-kilometers (CTKs)



Source: IATA

With so much economic and political uncertainty we face the dual possibilities of supply disruptions and slower production growth creating the potential for higher prices, while the possibility of slow economic growth creates the potential for lower prices.

Carriers

Air cargo charter demand has softened, bringing down rates and prompting some carriers to consider capacity cuts, as peak season expectations are impacted by the conflict between Russia and Ukraine, which has made the market unpredictable and volatile, with prices continuing to decline.

The end-of-year peak season, which should be apparent from mid-October, is patently going to be far less hectic than recent years, with indications that the market will remain at current levels to Christmas and into 2023.

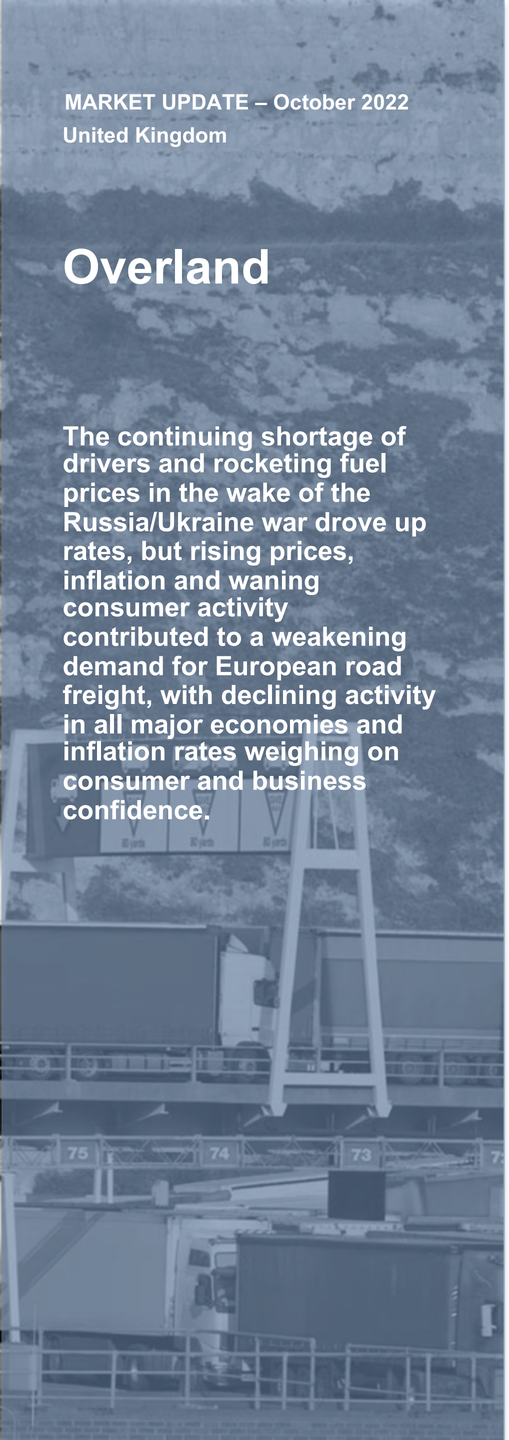
Some carriers are considering whether to reduce capacity, by temporarily withdrawing some aircraft, with wide-body freighters struggling to fill their capacity.

We are likely to see an aggressive spot market on most trade lanes

One leading integrator has already announced flight reductions, taking effect in October and into November on its transpacific, transatlantic and Asia-Europe routes.

Commentators have suggested that 2022 has been the most volatile year for cargo charters and that every sector in the freight industry has suffered at different speeds and at different times and with inflation and a recession looming, caution is being urged for 2023.

With so many impacting variables, economic and geopolitical factors the 1st quarter in 2023 is likely to continue cooling down in air cargo charter demand.



Overland

The continuing shortage of drivers and rocketing fuel prices in the wake of the Russia/Ukraine war drove up rates, but rising prices, inflation and waning consumer activity contributed to a weakening demand for European road freight, with declining activity in all major economies and inflation rates weighing on consumer and business confidence.

The dock worker strikes at Felixstowe and Liverpool could create real problems for the UK's haulage sector, with potentially 2,000 container delivery vehicles and drivers left idle for extended periods.

t is likely that drivers who typically service Felixstowe and Liverpool will seek work at the UK's open gateways, but this influx of additional haulage capacity is likely to suppress those local markets and drive rates down.

The inability to source work, or maintain revenue and profit levels could see haulage firms fail, which will reduce capacity and drive rates up, unless employers at the ports can reach agreement with their workforce.

The growing need for transport of the energy sources coal, oil, and gas by rail is further increasing the pressure on transport modes that are already working to their limits, with demand for rail capacity higher than ever.

It is still uncertain how the situation will develop in view of the upcoming peak season and to what extent costs for road freight will rise, but the economic environment is expected to remain fragile and to become more challenging, for example in terms of rising prices or capacity bottlenecks.

Market

The war in Ukraine and the resulting lack of Russian gas supplies are exacerbating the structural problems in supply chains caused by the coronavirus pandemic, with logistics burdened by the significant rise in energy prices, hauliers are struggling to cope with sharp increases in fuel, gas, and electricity prices.

The rise in energy costs is having a particularly dramatic effect on the production of the diesel exhaust fluid "AdBlue". In Germany, there was a shortage of AdBlue in September that threatens to spread throughout Europe.

Since a large number of trucks in the forwarding, logistics, and transport industry run on diesel and are dependent on AdBlue, there are warnings of supply bottlenecks due to the AdBlue shortage, which is also reflected in the rising price of diesel.

Road freight capacity utilisation had eased over the summer months, but worsened again in September, in the run up to the autumn/winter peak season.

The TIMOCOM transport barometer displays the current freight and vehicle space supply and demand trends within the road transport market and currently reports an average ratio of freight to available space of 78:22 in Europe, which reflects a renewed decline in capacity in the market compared to the previous month and illustrates ongoing congestion.

Germany's decision to give temporary priority to energy transports by rail and thus guarantee energy supply, is being mirrored by Poland who are prioritising coal transports by rail. The prioritising of energy shipments on rail is expected to have a far-reaching impact on the existing capacity of road transport, as it will have to absorb freight not being shipped by rail and inland waterways.

The prioritising of energy shipments on rail is impacting road transport capacity

Overland

Post-pandemic truck utilisation has fallen substantially with a decline in driver numbers and a surge in inefficient empty backhaul miles. Our transport teams work closely with colleagues across Europe to centralise freight and simplify access to return loads to avoid empty miles.

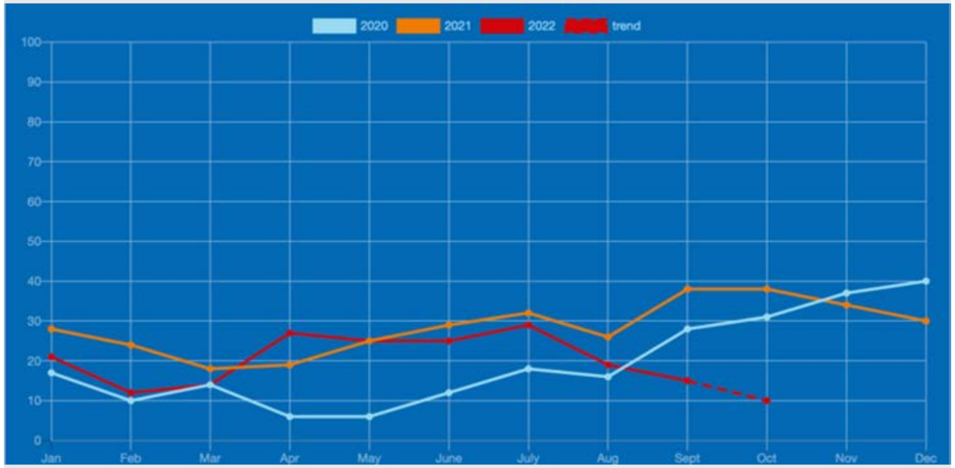
Rates

The latest Transport Exchange Group (TEG) price index data reveals road transport prices have risen for the sixth consecutive month, against a backdrop of runaway inflation and potential recession.

The average price-per-mile for UK haulage vehicles rose 117.8 points in August, which follows the trend of previous years and means that the overall price-per-mile for road freight has risen continuously for six months, now 12.5% higher than this year's lowest prices. However, when compared to August 2021, the overall price-per-mile has dropped slightly by 0.2%.

Fuel prices are also falling, driven by a parallel contraction in demand, with 42% of consumers cutting back on non-essential travel. Fuel costs peaked at 191.53p for petrol and 199.07p for diesel at the beginning of July, but now sit at 170.12p for petrol and 183.20p for diesel.

Annual comparison (in %) of the freight ratio developments: EU to UK



Source: TIMOCOM

EU Mobility Package

The EU's legislative initiative is intended to address a number of problems, including social fairness, competition and improving the environmental performance of road transport operations, but fears remain that it could create potential capacity constraints and therefore impact costs and rates.

The package's implementation is complete and changes have been in place for months, with profound changes to the regular return of vehicles, cabotage limits, minimum wages and tax changes.

With the capacity pressures that we have seen in the past year, the situation is expected to get even worse as fewer trucks can do cabotage trips because of the return home policy for trucks.

The rule is expected to take capacity out of the market because vehicles will have to return to their home member states and might have to run empty in the return journeys. In particular, Eastern European hauliers will be more affected and might not be able to secure additional loads for the return journeys as there are limited market opportunities to and from their operational centres.

Hauliers may pass through the additional costs arising from the new return home policy for trucks

Eastern European hauliers may be more inclined to absorb costs to keep their competitive advantage, but their vehicles are likely to be mostly affected by the provision to return home every eight weeks, since they are currently not in compliance with the new obligation.

Overall, while the latest rules bring an improvement to the working conditions of drivers, they are likely to reduce capacity and make deliveries more expensive, with hauliers introducing charges to respond to the regulations.

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