MARKET UPDATE
November 2022

United Kingdom

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Executive Summary

The dock worker disputes in Felixstowe and Liverpool continue to threaten sea freight operations, and while a deal may have resolved the latter, union members in Felixstowe may take further action.

Strikes continues to impact the rail freight network and it is likely that workers in the public sector will follow suit.

The air freight market benefited from massive modal-shift volumes over the last two years, as ocean carriers struggled to maintain schedule integrity in the face of endemic disruption, but those shippers are moving back to ocean as congestion eases and reliability improves.

Diesel prices, driver shortages and drought in Europe have all played a significant role in pushing average European road freight rates up again in Q3, despite lower consumer spending. However, data from the end of the quarter shows prices softening towards the end of Q3.

Ocean Freight

The container shipping lines have implemented significant capacity reductions in response to reduced demand. Despite their efforts, many commentators believe that the lines have not been bold enough, particularly in light of the record-breaking new vessel volumes due for delivery over the next two years, which could create structural overcapacity.

With two good quarters (and not a bad third, due to long-term contracts) the carriers are still highly profitable, but earnings are now dropping from the third quarter and rates are volatile across the board.

- Economic uncertainty is making itself known across the supply chain
- Slack peak season has pulled the plug on runaway freight rates
- Shipment delays are down 19%, but lead times remain high @ 43 days
- North European port congestion has reduced significantly, as ships sail less full
- In a bid to slow rate erosion, carrier continue with aggressive blank sailings

Air Freight

The build up to the traditional peak season, that usually sees a sharp increase in demand and rates from Asia between September and October, has not materialised, ending hopes of a recovery, to Europe or the US.

Rates on both lanes are down year on year; 14% to Europe and 32% to the US - but ahead of pre-COVID levels.

Further price declines are likely, as the market outlook remains weak, due to inflation slowing consumer spending and belly-hold cargo capacity increasing as passenger flights recommence.

- Volumes remain low, as high inflation is set to continue into 2023
- Transatlantic volumes remain comparatively stronger amidst global volume drop
- Lower sales and high inventory across most sectors
- Modal shift more likely as reliability of vessel schedules improves

Road Freight

Smaller spot and contract rate rises suggest that the market may have adjusted to higher costs, with increasing production costs and decreasing consumer confidence reducing demand-side pressure.

Industrial electricity prices in the UK are up over 500%, with prices increasing 65% in just one month and as the UK heads into winter there is uncertainty over continuity of power, and the threat of power-cut interruptions to manufacturing, is likely to further reduce road freight volumes.

- Rates on many European lanes are beginning to soften after the Q3 Peak
- Softening in rates may continue over the next couple of quarters
- Driver shortages continue, with a 40% increase in unfilled positions
- UK Port strikes directly impact drivers and the areas they operate in, causing fluctuations in local availability

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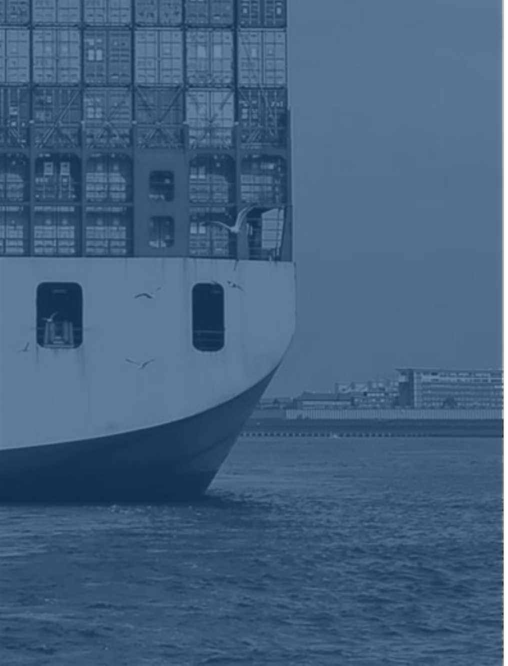
Ocean Freight

The westbound trade from Asia remains under pressure with the market softening and the lines' blank sailing program expected to be continued. Disruption has been exacerbated by typhoons in Asia, China's zero-COVID policy, port congestion in Europe and ongoing labour disputes.



Europe's consumers and businesses have been hit harder than those in the US, by Russia's continuing war with Ukraine and the resulting surge in energy costs, that have fed into high inflation and declining consumer confidence.

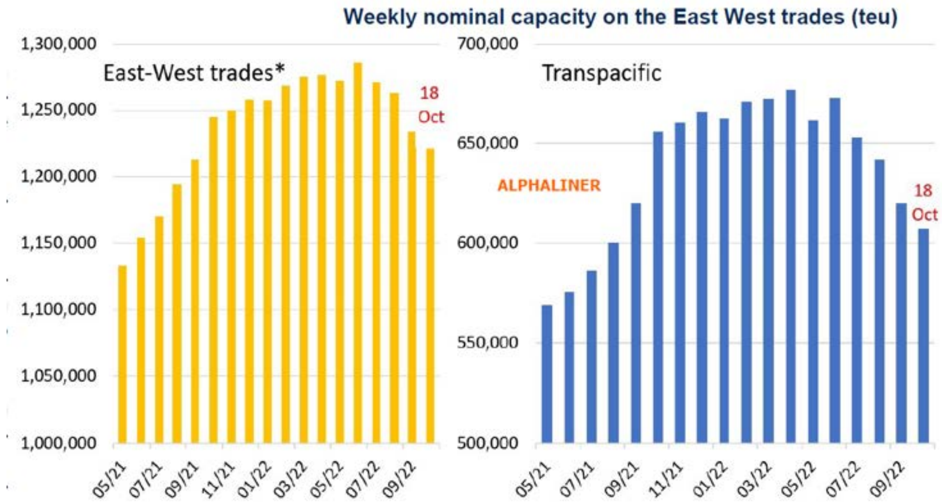
On a wider economic front, Europe and the USA both face softening demand amid tightening financial conditions on housing markets and capital investment, that will impact trade and capital flows.

Barclays expects China's exports to drop by 2% to 5% in 2023 and cut its forecast for China's economic growth next year to 3.8%, based partly on the drop in global demand for Chinese goods.

The Middle East, Africa and Asia Pacific regions will dominate global growth in 2023, with regional free-trade agreements, efficient supply chains, and lower costs driving performance.

Transatlantic demand remains high, as do rates (comparatively) and despite the container shipping lines' efforts to recover vessel transits times, schedule integrity remains low with extended waiting times in Europe and the US, which are still leading to recovery-led blank sailings.

Weekly nominal capacity on East West trades (teu



Source: Alphaliner

Market

The global macroeconomic situation has prompted analysts to slash forecasts for shipping lines in response to the accelerating timeframe for a return to pre-pandemic freight rates.

Ocean Freight

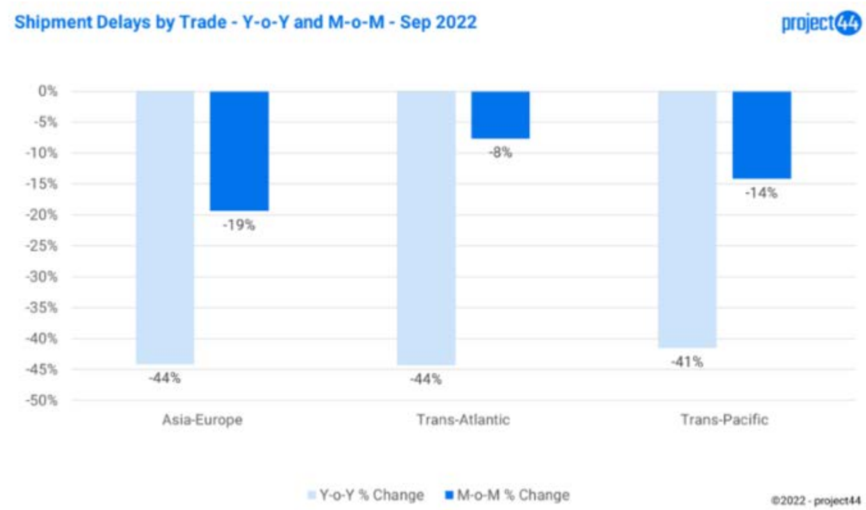
Market cont'd

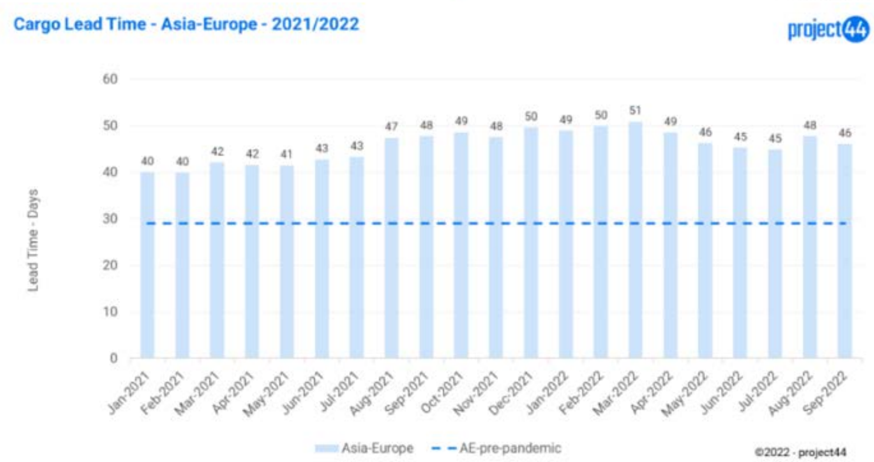
Rather than mid-2023, it is now forecast that shipping lines will be back to the old normal with shippers squeezing shipowners for 2019 rates as soon as the end of this year. No more dizzy deals for boxes from China, as the pandemic bonanza is definitely behind us.

Meanwhile, COVID resurgences, congestion, socioeconomic and environmental factors will continue to impact the supply chain, increasing the likelihood of supply-side interruptions in the short- to medium-term. Industrial action in response to the spike in the cost of living as well as droughts and hurricanes have all played a part in closing ports and intermodal options in the last two months. Not to mention the threat of further pandemic outbreaks, conflicts, and war.

Likewise, the slight shift of production centre's from China to other South-East Asian countries and the construction of fully automated hi-tech production facilities hint of what could come in an increasingly uncertain geopolitical environment.

The economic, environmental, and social challenges we are facing are unprecedented. The supply chain, which was vital to keeping the world moving during the pandemic, is being tested to its limits. Shipping lines have been calling the shots for two years and shippers will not have forgotten how the carriers hit them with record lows in reliability and eye-watering rates. As retailers discount to shift their bloated inventories, they will be expecting the same from cash-rich shipping lines. Whether the carriers can weather the storm will be the most interesting piece of the puzzle, but for now, more capacity cuts appear inevitable.





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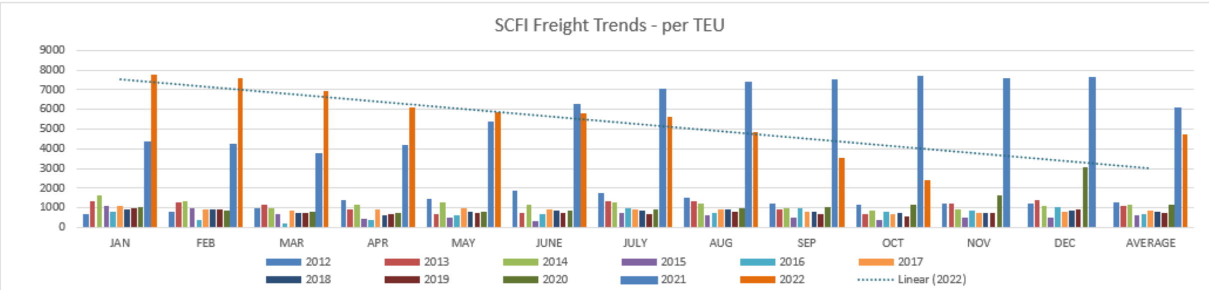
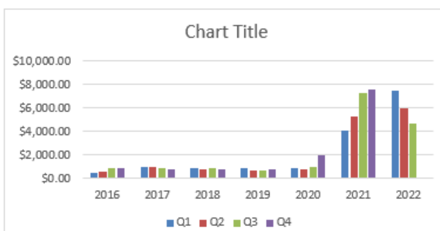
Ocean Freight



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	$2,410.75			$4,714.45
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	-$5,248.85			

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 44
$2,102.00

Source: Internal

Ocean carriers are continuing to blank consecutive head-haul sailings from China to North Europe and the US west coast, as they attempt to slow the erosion of container spot rates and with their revenue streams still collapsing, the carriers can only pin their hopes on the early Chinese New Year.

Rates

Despite the sharp increase in voyage cancellations, shippers appear to be having little difficulty getting space on first-available departures, which is reviving the concept of 'just-in-time' supply chains.

Carriers are hoping the early Chinese New Year in 2023, which falls on the 22nd January, will boost demand in late November and December, but until then they will are likely to remove more capacity, either by more blanking or by the temporary suspension of services.

Asia-Europe head-haul spot rates have been under intense pressure slumping 13%, in one week, on the North Europe component, while rates into the Mediterranean trade fell 9%.

Container spot and short-term freight rates from China to the US also remain under pressure, as sluggish demand has led carriers to take out more capacity.

Some (potentially optimistic) carriers are trying to implement a GRI in November with FAK rates, especially to the West Coast falling rapidly.

Ocean Freight

With an increasing decline in liftings the biggest carriers have reiterated their strategy to take out capacity to meet demand, but the speed of the decline in exports from China has caught many off guard and made their reactive blanking strategies ineffective.

Carriers

Blanking sailings during what should be the ocean freight peak season show how difficult times are for the container shipping lines, with almost 300 idled vessels passing the 1M teu capacity milestone and likely to go much higher, as carriers prepare to suspend services.

Collapsing cargo demand and declining freight rates have prompted carriers to blank more sailings and suspend services on major east-west trade-lanes, with some Asia-North Europe loops being voided in consecutive weeks.

Blank sailings were highest on the Asia to Europe trade lane in September with an average of 41% compared to 27% in October and is forecast to rise again to 31% in November. On the transatlantic trade lane, blank sailings averaged 36% in September, compared to 32% on the Transpacific.

Analysts suggest that more radical capacity reduction plans will be necessary to avoid a collapse in contract rates and HSBC have said that the container shipping lines need to do much to stabilise freight rates ahead of contract negotiations for the Asia-Europe route, in November and December.

The Loadstar has reported that some of the partners in the three east-west alliances are calling for their networks to adopt 'winter programmes' until mid-January, ahead of the Chinese New Year holiday, because nobody wants to be the first to cut out a loop and potentially lose market share.

Source: Project44

Air Freight

Air cargo volumes declined 8% year on year in October – the eighth consecutive month of decline – and the outlook is uncertain.

The festive season is only a matter of weeks away and there is no likelihood of a peak, with demand falling further in October, on top of the reduction we reported in our last market report.

In light of global economic challenges and the hollowing out of demand rates remain at a higher level than would have been expected and carriers are not currently suffering the decline of their ocean peers, who have experienced rate drops of 70% in 2022.

The air freight market benefited from massive modal-shift volumes over the last two years, as ocean carriers struggled to maintain schedule integrity in the face of endemic disruption, but those shippers are moving back to ocean as congestion eases and reliability improves.

The outlook for air cargo remains uncertain, with no real pressure on capacity and rate increases unlikely, as congestion easing on ocean freight removes a channel for air freight growth.

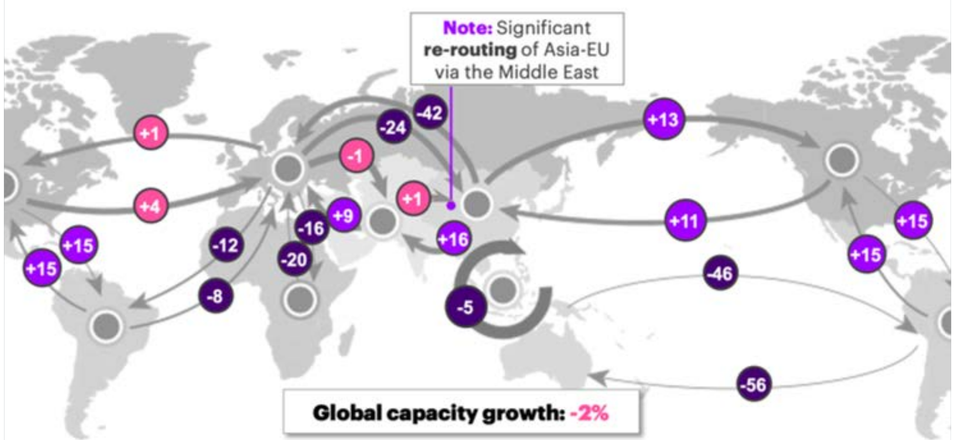
Heathrow ground handlers at dnata and Menzies will take part in three days of strike action later this month over a pay dispute.

Noatum Logistics Heathrow

Ground-handling bottlenecks could impact effective capacity and create upward pressure on rates and operations on the ground may be problematic, if airlines and cargo handling companies struggle to hire people and remain short-staffed, or if the Heathrow ground handlers dispute at dnata and Menzies continues past this month's strike action.

Air Freight

Air cargo capacity growth October 2022 vs October 2019



Source: Accenture

The global economy is expected to grow 3% in 2022 and is expected to be affected into 2023, due to persistent inflation, with demand continuing to remain low on most trade lanes.

Demand has softened since Apr and remains low, with a limited peak season that is unlikely to trigger a volume surge.

Market

Consumer sentiment remains low, driven down by surging inflation and interests rates, with export orders low across developed and emerging economies.

Overall scheduled capacity is down 2% compared to the same period pre-COVID, but is actually 18% higher than last year.

Belly-hold capacity is up 23% on 2021, with capacity increasing monthly to levels that easily support support the currently low volumes.

As travel and quarantine restrictions have been lifted, outbound capacity from Asia as increased significantly, but demand is unlikely to surge in the final quarter, to fill the improving capacity.

Trans-Atlantic capacity is stable as passenger travel and services continues to grow and Gulf capacity is also buoyant, but demand is below capacity on most trade-lanes outside the transatlantic.

While the improvement in cargo capacity is encouraging, hikes in jet fuel prices continue to block the softening of freight rates to pre-COVID levels and with oil production likely to be affected, price is likely to remain elevated.

Most of the major trade-lanes experienced YoY declines in volume and overall contributed to a flat growth of the global air trade, but transatlantic trade remained resilient, with volumes slightly higher than 2021.

The drop in demand is 3% below the pre-COVID level in 2019

Air Freight

While airfreight rates in Asia have been dropping in recent months, there was a short-lived price increase in the first half of October, due to cancelled flights from China during Golden Week and high demand for e-commerce cargo.

Rates

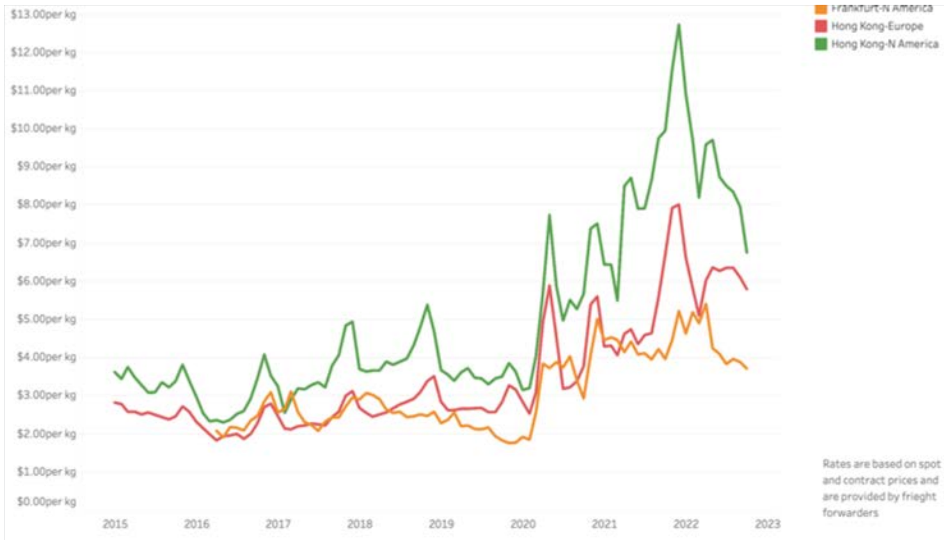
Rates continued to exceed expectations on most trade-lanes, as demand remains soft, indicating the onset of an aggressive spot market.

With softened demand and sufficient capacity across most significant routes, we are expecting aggressive spot markets on most trade-lanes.

Global capacity is 2% lower than 2019, but 18% higher against last year, with belly capacity up 23% and rates could further ease as capacity continues to recover.

Freight rates remain well above 2019 levels, and while the continuing return of capacity has softened yields in recent months , rates are unlikely to be affected, mostly due to jet fuel price hikes and service disruptions.

While fuel surcharge have recently softened, they are likely to fluctuate amidst oil price fluctuations, particularly with OPEC+ agreeing production cuts.



Source: Baltic Exachange Air Freight Index

Carriers

Cathay Pacific uncreased its passenger flights in October; with daily flights into Tokyo starting in November.

With the re-opening of Japan's border and the easing of hotel quarantine for arriving passengers in Taiwan and Hong Kong, more passenger services are expected, with additional belly capacity likely to be added.

Space constraints from China are improving after Golden week cancellations, while air space closures continue to impact EU,UK and US carriers; increasing costs and transit times.

UAE flag carrier Emirates has ordered five new Boeing 777-200LR freighter aircraft, with two to be delivered in 2024 and the remaining three in 2025.

The Dubai based carrier currently operates a fleet of 11 Boeing 777 freighters, in addition to belly-hold cargo capacity on its fleet of wide-body 777 and A380 passenger aircraft.

Emirates says that its investment in new freighters reflects confidence in airfreight demand and overall aviation sector growth, but experts have warned of a potential oversupply against a backdrop of softening demand for air freight.

With softened demand and sufficient capacity, we are expecting aggressive spot markets

The Boeing 737-800 is dominating the passenger-to-freighter (P2F) conversions market, with a fleet of 121 active aircraft, 47 pending conversion and 33 in store.

The B737-800 has soaked up the sector's capacity and conversion centres for the aircraft have sprung up around the world, which increase the risk of too much going through, resulting in oversupply and putting pressure on cargo yields.

Road Freight

Forward delivery electricity prices in the UK are up over 500% on a year ago, with prices increasing 64.2% in just one month, leaving the UK in the most uncertain energy supply predicament in Europe. While the eventual impacts of the energy crisis are uncertain, it is likely there will be interruptions to manufacturing over the winter, reducing road freight volumes.

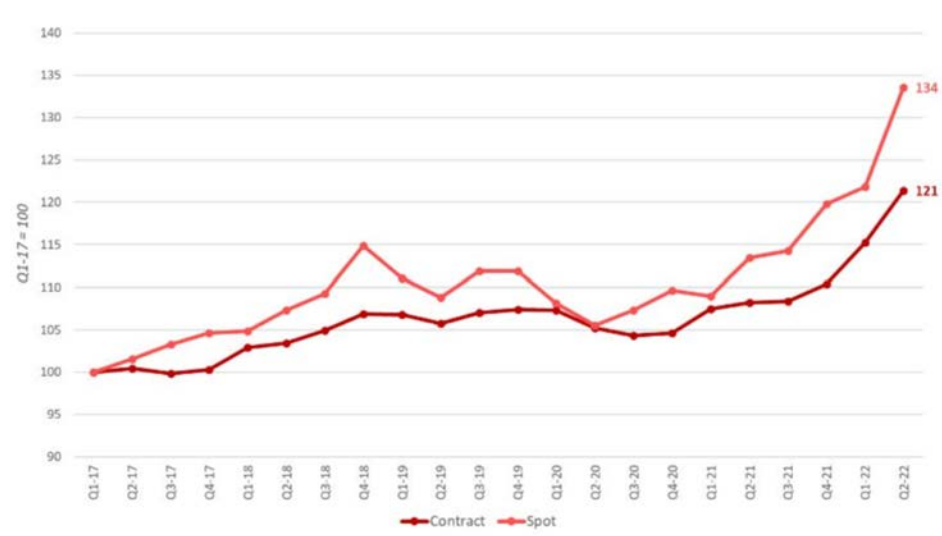
The continuing war in Ukraine, the energy crisis, and spiking inflation and interest rates across Europe has dampened consumer spending and with it demand for freight.

The UK and EU's inflation rates have already exceeded 10%, with some EU member states experiencing massive increases; Estonia 22.4%; Lithuania 22.0%; Latvia 21.8%; and 11.6% in Germany, the the highest level since 1951.

European economic growth appears to have stabilised to some extent in October, with GDP growth of around 3.2% forecast for 2022, which is an increase of 0.4% compared with September and despite the negative predictions of many economists, the EU's economy remains relatively stable.

The growth forecast for 2022 has been upgraded to 4.3% from 3.7% after ONS revisions to historical data. The UK economy is expected to contract around 0.2% each quarter from Q4 this year through to Q2 2023, resulting in GDP falling 0.3% in 2023 as a whole, with the UK economy expected to be in recession until summer 2023.

European road freight rates index, Q2-2022



Source: Upply

Rising price inflation and economic uncertainty are becoming more apparent in the transport logistics sector, with decline in demand in the third quarter and forecasts that this trend will continue into 2023.

This decline in demand is also reflected in capacity indexes, which indicate that the supply of capacity in the market is generally improving, while some bottleneck situations remain.

Road Freight

Forward delivery electricity prices in the UK are up over 500% on 2021 and with prices increasing 64.2% in just one month, the UK is heading into the winter with the most uncertain energy supply predicament in Europe. While the effects of this are uncertain, it is possible there will be interruptions to manufacturing, which will proportionately reduce road freight volumes.

Market

This quarter's smaller spot and contract rate rises may signify that the market has adjusted to higher costs whilst higher production costs and lower consumer spending have eased the demand-side pressure on rates.

Growing energy costs and uncertainties in energy supply are causing difficulties for the German industrial sector, which has pushed Germany's manufacturing industry into decline, which means less road freight demand as factories produce fewer intermediate and finished goods.

Driver shortages continue to challenge Europe, with demand for drivers in France, Spain, Germany, Romania, Poland and Denmark continuously increasing, up 44% in the year to date and the shortage is forecasted to be far worse bt 2026, with a multiplier effect of up to seven in the case of France.

More challenges faced buy the sector include: early harvests in Spain created greater than usual demand for road freight in Q3, but will result in less than usual demand in Q4; drought in Europe has diminished river freight capacity, pushing demand onto the road, adding pressure on rates; high summer temperatures have impacted agricultural production, with record-low harvest volumes and road freight demand.

Photo Caption: Xxxxxxxxxxxxxx + copyright if needed

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Road Freight

Price Index decreases as the Price of fuel rises again

Average price-per-mile drops by 2.7 points in October, having peaked in September

Source: TEG

The European road freight market - like every mode globally - is impacted by weakening demand, which is slowing down the increase in road freight rates, but it is not reversing the trend.

Rates

Hauliers continue to face driver shortages that are restricting the amount of market capacity available, as well as increasing their overall costs.

Freight index data shows a growing gap between spot and contract prices and shippers should consider longer-term contracts to secure their capacity and the most competitive rates.

Diesel prices and driver shortages have inflated European road freight rates again, despite lower consumer spending, but data from the end of the quarter shows prices softening.

Average European road freight contract rates hit an all-time high in Q3, with spot market rates also increasing, though rates on many European lanes are beginning to soften after this peak.

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

Driver shortage growth is expected to continue to increase until the end of 2022, with a 40% estimated increase in unfilled truck driver positions, putting immense pressure on operations and costs.

EU's Entry/Exit System

The European Entry/Exit System (EES) will replace wet stamping of passports and require Britons to register biometrics including facial and fingerprint scans on their first border crossing into the EU.

The technology the EU is implementing to support the EES rollout was designed for airports and railway stations, where passengers approach individually.

At British exit ports, EES would require car passengers and commercial vehicle drivers to exit their vehicles to undertake passport checks.

The port of Dover has voiced fears that EES will not work in a ferry port where there could be hundreds of cars waiting to get onto ferries and with up to 10,000 lorries crossing every day, any disruption to processing cars for departure, could lead to prolonged freight delays.

Experts suggest that EES could extend passenger processing times, currently averaging 90 seconds per car by a few minutes, which Imperial College forecasts would trigger 29-mile queues.

EES could extend processing times and trigger 29-mile queues

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