MARKET UPDATE

December 2022

United Kingdom

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Executive Summary

The spiking freight rates on all modes are falling away and, taking inflation into account, the market is expected to grow over 27% this year, though that figure tumbles to a 2.4% contraction, when inflation is removed, reflecting falling volumes and demand slumps that have been so prevalent in recent months.

As transport prices return to relative stability in 2023, and the worst effects of inflation work though, the market is expected to rebalance and recover with slow growth in 2023, but with so many uncertainties the market's longer term growth prospects remain opaque.

Ocean Freight

Container freight spot rates continue to plummet to new depths, amid falling demand with no sign of the market bottoming out and, as some carriers are getting very close to their breakeven levels, it is becoming increasingly critical for them to stop rate erosion.

The reduction in container volumes is easing bottlenecks and port congestion, which is helping to improve transit times and adding further downward pressure on rates.

- Plunging rates cause panic in the market
- More blank sailings on the horizon
- Bunker softening adds to rate erosion
- IMO2023 could add disruption going into the new year

Air Freight

With Christmas just days away, the traditional peak season has been missed, as demand falls again. Increasingly it looks as if the only things that might slow down rate decline is for belly-capacity to be grounded, or for the market to pickup again.

Overall capacity is sufficient to support demand levels, particularly as belly capacity continues to increase and with the global downturn expected to continue into 2023, consumer confidence is unlikely to pick-up for some time to come.

- Airfreight rates continue to soften as the year ends
- Rates could increase if tonnage removed and volumes increase
- Volumes remain low, with high inflation to continue into 2023
- PMI Index indicates low export orders as inventories remain mostly full

Road Rail

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, but are beginning to soften after Q3 peak.

The road freight market grew 9.4% in real terms in 2021 and expanded by 4.9% in 2022, and recovery through to 2026 is expected to remain positive, with the market forecast to grow 3% to 2026.

- Smaller road freight providers likely to suffer most from increases in operating costs
- Driver shortages remain an acute problem in the European market
- Road freight market forecast to grow 3% from 2021 to 2026
- UK rail set to grow in the coming years and should help reduce costs

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Ocean Freight

While consumer spending remains muted, demand for head-haul cargo from Asia will struggle to recover, which means more blank sailing in the run-up to Christmas is likely, particularly as the current levels have failed to protect rates.

Freight rates have continued their decline with the market struggling to keep up and the carriers resorting to ever more drastic blanking programmes, to slow the slide.

Even with residual disruption and congestion, container freight spot rates have reached new lows, amid falling demand. The reversal toward normality is happening faster than most anticipated, sending markets into panic mode.

Asia-Europe freight rates that peaked in September 2021 at $18,000/FEU are now at $2500/FEU (as of end Nov).

With constantly increasing capacity and waning demand, ocean carriers are competing on volumes by offering heavily discounted and sub-economic spot rates, not only hurting spot markets but also putting added pressure on long-term rates.

Fundamentally there is huge panic in the market, with a mixed bag of rates being offered, but generally the carriers with more spot business are the ones with the most aggressive price-matching strategies.

Improving bottlenecks also are having a downward effect on rates, because shorter transit times and improving congestion levels are increasing available capacity in the markets, which further widens the gap between supply and demand.

Market

The Asia-Europe trade remains under pressure with falling spot rates, a generally soft trading environment and no sign of the market bottoming out.

Carriers are expected to announce more blank sailings as they seek to balance the supply equation in their favour - which is unlikely - and while residual congestion is still impacting parts of Europe, hopes are rising in China as the government finally begin to relax zero-COVID restrictions.

With transpacific volumes declining, rates have been declining, with west coast spot rates reaching pre-pandemic levels and while east coast rates have fallen, some capacity has been tied up in the continuing Savannah congestion.

In better news for U.S. shippers, one week before it was due to start, President Joe Biden signed legislation to block a national railroad strike that could have frozen almost 30% of U.S. cargo shipments and devastated the American economy.

Transatlantic rates are starting to soften, particularly to Europe and while there is no change to capacity expected through the end of 2022, the fall in volumes is reducing port congestion and vessel waiting times on both coasts.

After what seems like an eternity most ports are finally turning vessels around on schedule, although times are still tight in Savannah, Houston, Oakland and Vancouver.

Vessel schedules are still a work in progress, due to previous delays, inland transport and backlogs at terminals.

It will be interesting to see if carriers share the blanking pain, because some must be getting close to breakeven levels

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Ocean Freight

BCO shippers have been renegotiating rates in their carrier contracts to reflect a market that has softened markedly, but most are keen to avoid a rate war that would diminish relationships they established with core carriers during the pandemic disruption of the past two years.

The BCO contract negotiations are locking in rates that are far below the levels they negotiated last spring, but higher than current levels, suggesting they are prioritising service continuity over the uncertainty of fishing for rates in the spot market.

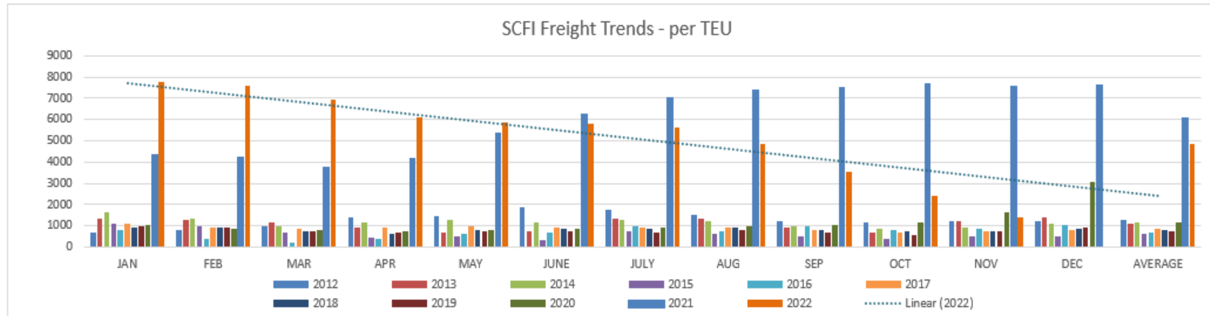
Rates

Carriers have for months tried to support spot rates by blanking sailings, with 30% of transpacific capacity removed through blank sailings in December, while Asia to Europe services have seen 15% and 16% of capacity withdrawn in November and December.

Despite their efforts in removing significant amounts of capacity, they have not been able to match the rapid drop in demand and rate levels continue to plummet on both trades out of Asia, with little visibility on when the market slowdown will hit bottom.

The traditional peak season barely materialised this year some industry observers suggest that the slump could be structural, rather than seasonal, with the easing of COVID restrictions causing consumption patterns to shift back toward services, at the expense of shopping.

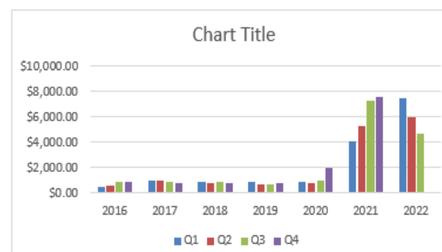
Containerised trade grew just 1.2% this year and will only marginally increase by 1.9% in 2023 in the face of strengthening macroeconomic headwinds and a slowing Chinese economy, according to the United Nations Conference on Trade and Development (UNCTAD).



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	$1,378.25		**$4,829.30**
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	-$6,196.25		

Average per Quarter - per TEU

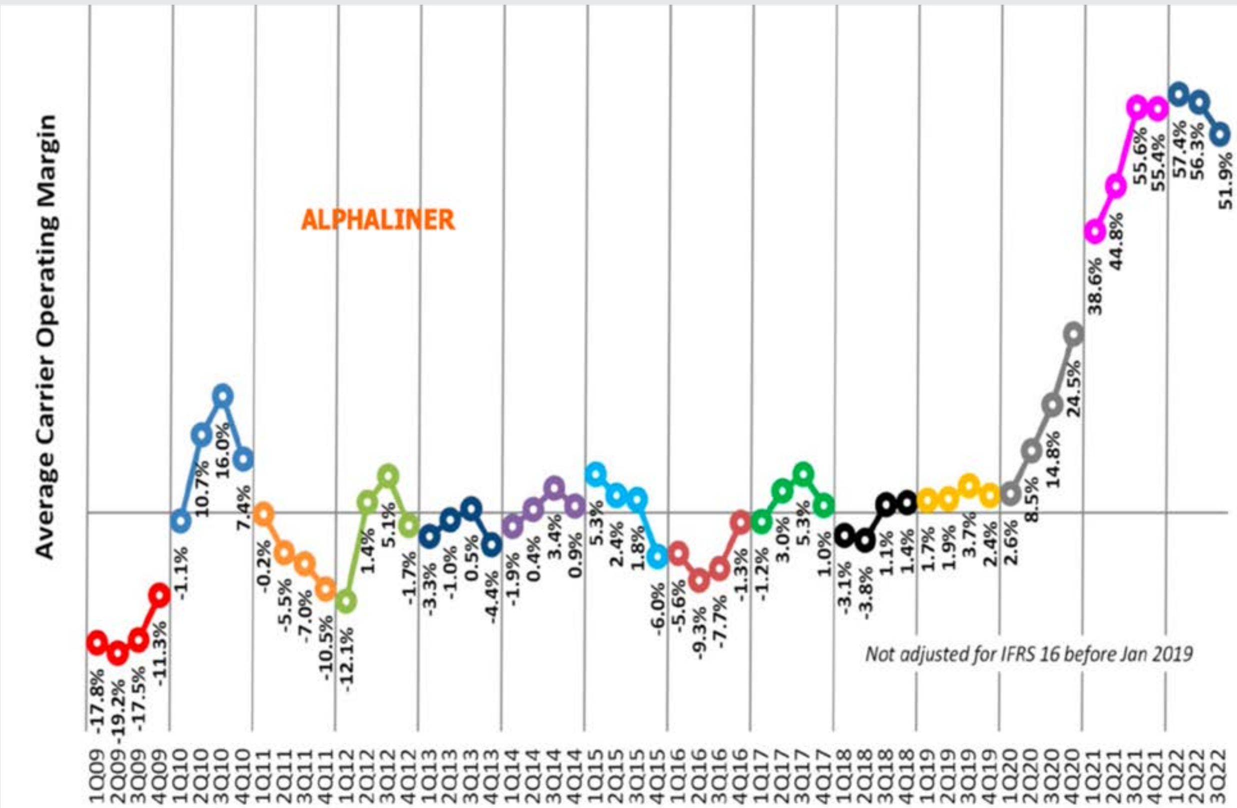
YEAR	Q1	Q2	Q3	Q4
2016	$457.00	$554.33	$885.00	$889.60
2017	$947.97	$931.42	$887.25	$739.25
2018	$848.90	$769.88	$876.78	$784.00
2019	$867.60	$714.86	$715.70	$741.55
2020	$885.82	$808.02	$972.82	$1,937.07
2021	$4,103.90	$5,265.72	$7,304.55	$7,625.30
2022	$7,449.75	$5,937.62	$4,666.83	
2021 vs 2022	$3,345.85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



SCFI
Week 48
$1,100.00

Ocean Freight

Main carriers: Average core EBIT margin by quarter



Source: Alphaliner

Weakening demand and a stagnating global economy will drag container shipping earnings down from its 3rd quarter $60 billion net profit, with warnings that some carriers could see profits plunge by 70% in Q4

Carrier operating profit forecasts for 2022 which, while still highly positive, indicate a significant slowdown in earnings in Q3, have also fallen in the previous two quarters.

Shipping lines

The 10 leading carriers generated an average margin of 51.9% in Q3, the lowest figure in five quarters, which reflected both a drop in revenue from rapidly falling rates and the impact of rising costs, but is still way above the single digit margins enjoyed in previous years.

The top 10 lines have now collectively pulled in nearly $ 260 billion in operating profit (EBIT) since the start of the pandemic, with CMA CGM narrowly beating out Maersk to the top spot. However, despite the huge amounts of cash now held by the carriers, certain lines will inevitably be forced to call on these reserves to meet the likely shortfall between lower rates and the expensive charters they signed at the height of the pandemic.

Maersk is on target to report earnings before interest and taxes (EBIT) of $5.2 billion in the last three months of the year, which would be a 45% decline compared with Q3, while Hapag-Lloyd will see EBIT 30 to 60% lower than the third quarter and Ocean Network Express looking at a quarter-on-quarter decline of 45%.

Air Freight

November's PMI data pointed to a slowing of global economic growth, which signalled the strongest recession risks since 2008, with the US, UK and eurozone all in contraction territory and airfreight volumes expected to witness flat growth in the first two quarters of 2023, but airline CEO's are more optimistic.

Shippers that switched from ocean to air, due to record-low service levels, are switching back to sea freight, as ocean congestion ends and rates fall, but they are also securing some air capacity for 2023.

The stabilisation of rates and improvements in schedule reliability is encouraging some shippers to move cargo between airplanes and ocean containers, and especially users of our supply chain management PowerVIEW platform.

With PowerVIEW it is easy to amend purchase orders and be agile in switching complete or partial orders from ships to planes, or conversely, if SKU sales velocity change.

Despite rates on many routes continuing to soften, shippers are unlikely to delay booking and securing airfreight capacity, to wait and see how the market fares, because from an operational point of view, this would mean an enormous risk, if there were any market improvements.

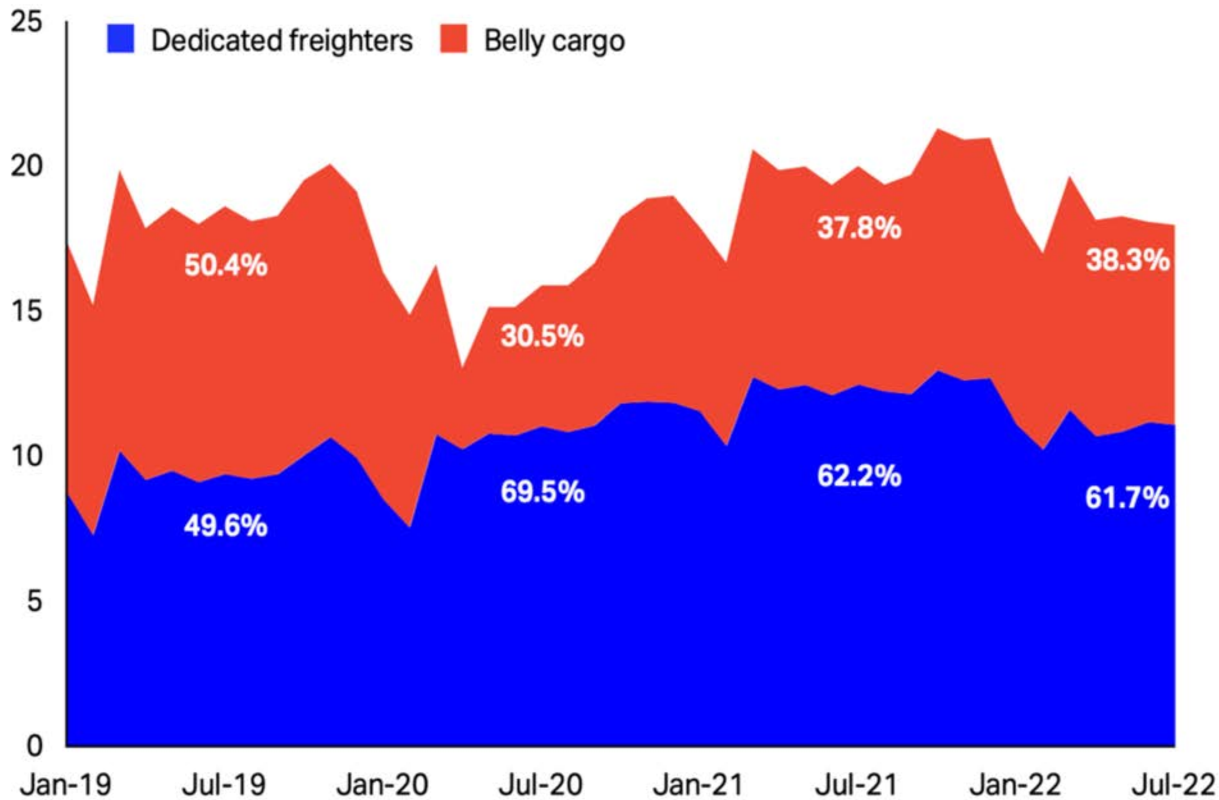
The relative price of air versus maritime cargo

Source: Boeing, IATA CargoIS, Freightos Baltic Index

From a financial point of view, the airfreight market seems to be 'normalising', which will be beneficial for all budget-driven shippers, as ad-hoc rates are replaced by long(er)-term stability.

Air Freight

International CTKs by types of air cargo, millions



Source: IATA

The latest statistics from IATA show that air cargo tonne kilometres (CTK) declined by 13.6% year on year in the month, while capacity was down 0.6% and load factors slipped 7.4% on last year to 48.7%.

New export orders, a leading indicator of cargo demand, are “shrinking in all markets, with the exception of China and South Korea, while on a more positive note, inflation in producer (input) prices, reduced by 0.5% points to 13.3%.

Market

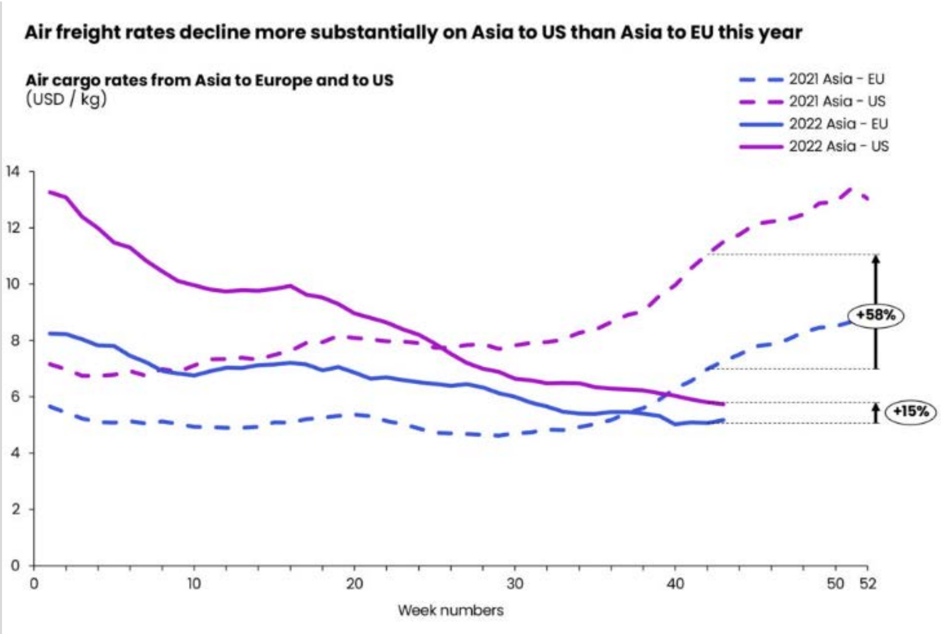
Despite the challenging air cargo market conditions, CEOs at The International Air Cargo Association’s (TIACA's) annual Air Cargo Forum remain optimistic that demand on the major east-west trade lanes will begin to recover in the first quarter of 2023 and after Chinese New Year, which falls on the 22nd January 2023.

TIACA delegates were told that while there has been a downturn in volume, markets are beginning to normalise, with demand in sectors such as Africa and the Americas and strong growth in e-commerce, which is another reason to be optimistic.

Average spot market rates on the Shanghai-North Europe route are down 23% year on year, but still more than double the rate in pre-pandemic 2019. Shanghai to U.S. rates are less than half the rate in November last year, but 60% above the first week in November 2019.

The average price per kilogram of cargo remains significantly higher than it was before the pandemic began and yields are still significantly higher than pre-pandemic.

Air Freight



Coming out of the COVID-19 pandemic, war in Europe and headwinds for the global economy, 2022 testifies to the resilience of the air transport industry. After the largest shock in aviation's history, recovery is well underway, with traffic forecast to grow at a record rate in 2022, and cargo revenue likely to exceed 2019 results going forward, according to the latest IATA reports.

Rates

Rates on the major airfreight routes out of Asia have fallen from their 2021 record highs as capacity floods back into the market, with the resumption of passenger flights and the return of belly-hold space.

While rates have fallen sharply through the year, they remain significantly elevated compared with pre-pandemic levels.

Spot market rates on the Asia to Europe indexes are down 23% year over year, but still more than double the rate in pre-pandemic 2019, while Asia to North America rates are less than half the rate last year, but 60% above 2019 and transatlantic rates are down 9% year over year but are still almost three times higher than November 2019.

The average price per kilo of cargo remains significantly higher than before the pandemic. Even in markets like the transatlantic, where the split between passenger and dedicated freighters is pretty close to pandemic levels, rates are still 30% or 40% higher.

In a market update, Willie Walsh, director general of the International Air Transport Association (IATA), said global volume for the year to date was down on the exceptional performance recorded by carriers last year, but was tracking the levels seen in 2019.

While air cargo was "bearing up well," Walsh warned that the headwinds facing the industry were strengthening.

"At the consumer level, with travel restrictions lifting post-pandemic, people are likely to spend more on vacation travel and less on eCommerce, and at the macro-level, increasing recession warnings are likely to have a negative impact on the global flows of goods and services, balanced slightly by a stabilisation of oil prices," he said.

While rates have fallen sharply through 2022, they remain significantly elevated compared with pre-pandemic levels.

Air Freight

The air transport industry will likely post a loss of nearly $7 billion in 2022 and deliver a profit of $4.7 billion in 2023, which is a remarkable performance given the $138 billion loss seen in 2020.

Cargo continues to outperform domestic and international passenger markets and while cargo ton kilometres (CTKs) have moderated, the related revenue will likely exceed 2019 results going forward, in spite of pressure on yields as belly capacity returns.

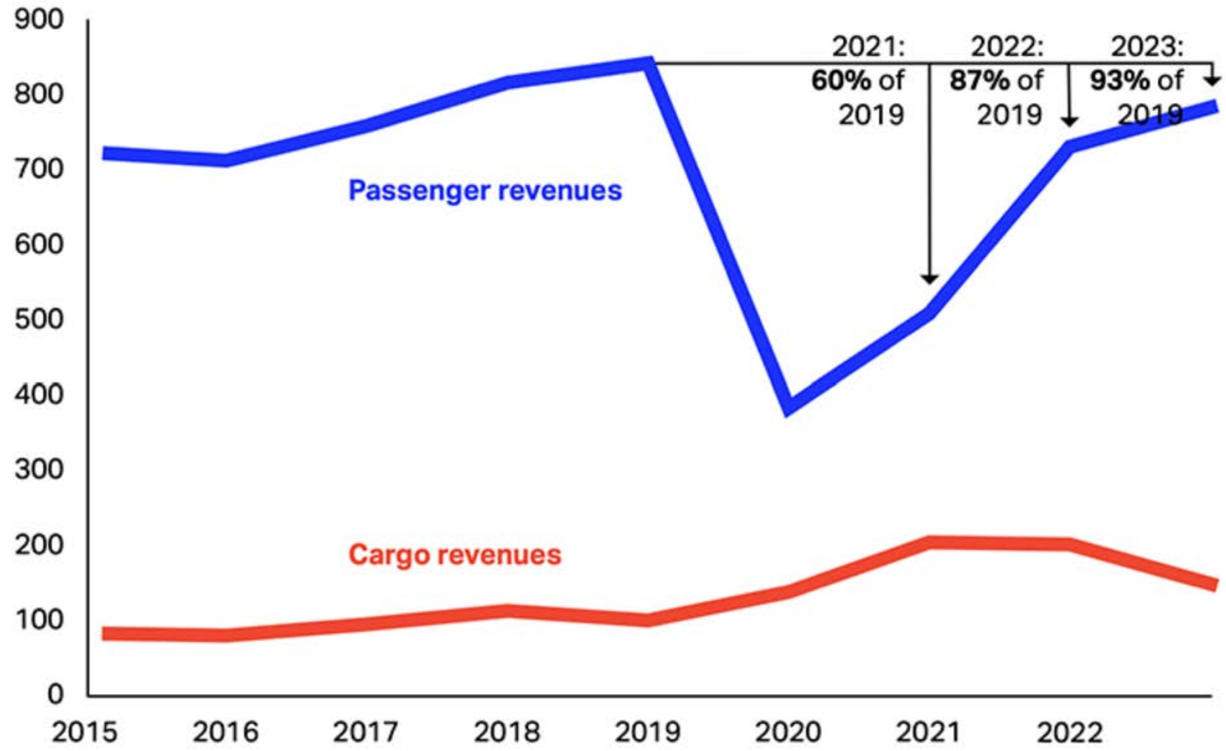
Carriers

Industry wide, total airline revenue is expected to recover to around 93% of the pre-Covid level in 2023. This reflects additional recovery in air passenger revenue and is partly offset by an easing in air cargo revenue, following an unusually strong couple of years, to around 150% of the 2019 level.

In 2022, with the recovery of passenger air transport, and with it access to belly-hold capacity, cargo is expected to account for 27.7% of airlines' total revenue.

This larger share of cargo in airlines' total revenue is of course partly a function of the depressed state of passenger travel during the pandemic. Airfreight has been in the rare "sweet spot" position where the price of air cargo has been relatively more competitive than the price of maritime cargo since 2021 and while the relative price advantage of air cargo over maritime is narrowing, recent cargo yields have made it a critical source of revenue to the air transport industry.

Global airlines revenue, USD billion



Source: IATA

Road
Rail

Rising transport prices driven by soaring fuel prices, increasing operating costs, and a sharp slowdown in demand, in a context of high inflation, make for a challenging year.

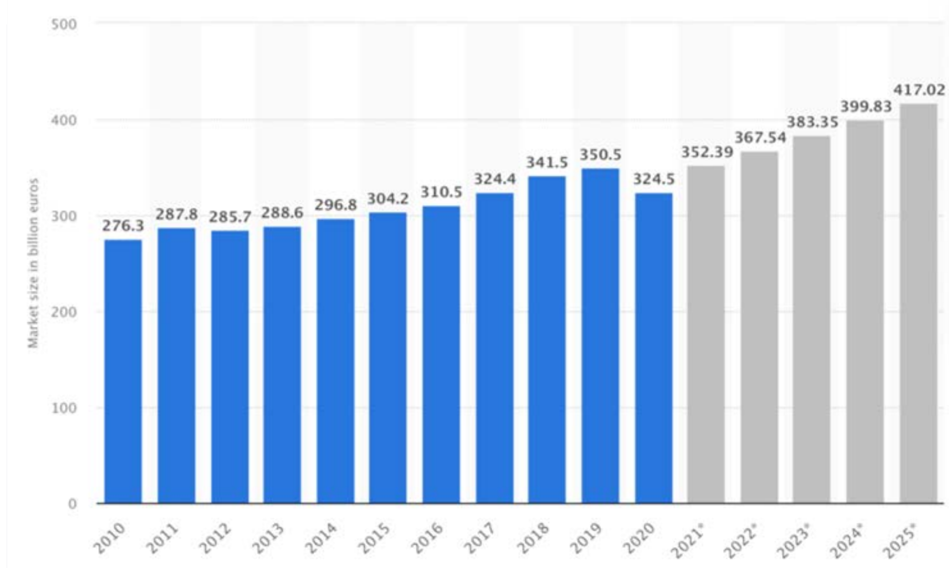
The economic recovery that began in 2021 continued in the first half of 2022, leading to a positive development in volumes for road freight transport. But growth then began to slow, depressed by rising transport prices that were driven by soaring fuel prices, increasing operating costs and a sharp slowdown in demand, as high inflation sapped consumer confidence.

The European road freight market grew 9.4% in real terms in 2021 and will expand by 4.9% in 2022. Recovery through to 2026 is expected to remain positive, with the market growing 3%.

The report from Transport Intelligence, which underpins this section, suggests that the European road transport market will come under more pressure in 2023. The analyst expects this market to expand by just 1.1% in real terms (holding prices and exchange rates constant) next year.

Ti expects both the domestic and international European road freight market growth to slow down in 2023, but the slowdown will be more pronounced for domestic deliveries.

Size of the road freight market in Europe from 2010 to 2025 in billion euros

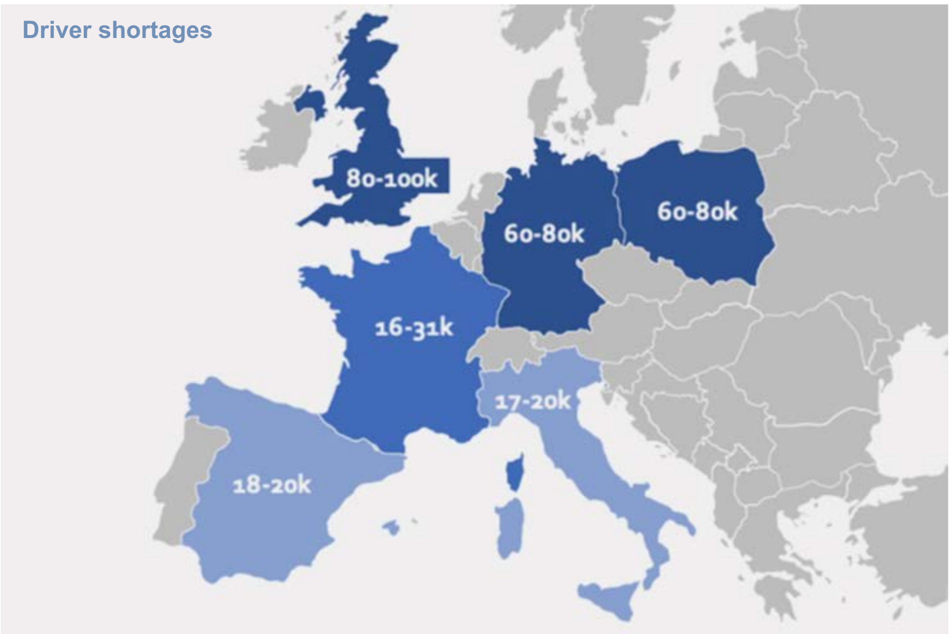


Source: Statista - Ti

A key driver behind the stronger international performance might be e-commerce and retail sales which stimulate more cross-border flows, while industrial sectors like construction are likely to feel the effects of the economic weakening in 2023, which will dampen domestic market growth.

The energy crunch, resulting price increases and recessionary risks will continue to counteract the economic recovery in Europe in 2023.

Road
Rail



Source: IRU

The market cooling that began in the second half of 2022 is expected to continue next year, with the European road freight market forecast to expand by 1.1% (holding prices and exchange rates constant) as downward economic pressures gain an upper hand across Europe, amid weakening demand for road freight services.

Europe's domestic road freight market is projected to grow by just 0.7% in real terms, while the European international road freight market is projected to grow by 2.1% in 2023.

A key driver behind the stronger performance of the international section might be retail and e-commerce sales which stimulate more cross-border flows of consumer goods.

Shortages of raw materials and intermediate products, together with weakening demand and energy shortages are clouding the outlook for the manufacturing sector in Europe, with the Munich-based Ifo Institute, suggesting around 90% of German electronics, mechanical and automotive companies are not receiving all the materials and intermediate products they need to run their production lines.

And while, in a DIHK survey, 16% of manufacturers said they were either scaling back production or partially discontinuing business operations, German order books are still full, suggesting there will not be a significant drop in production. However, fewer orders are coming in, fuelling expectations that the year ahead may be bleak

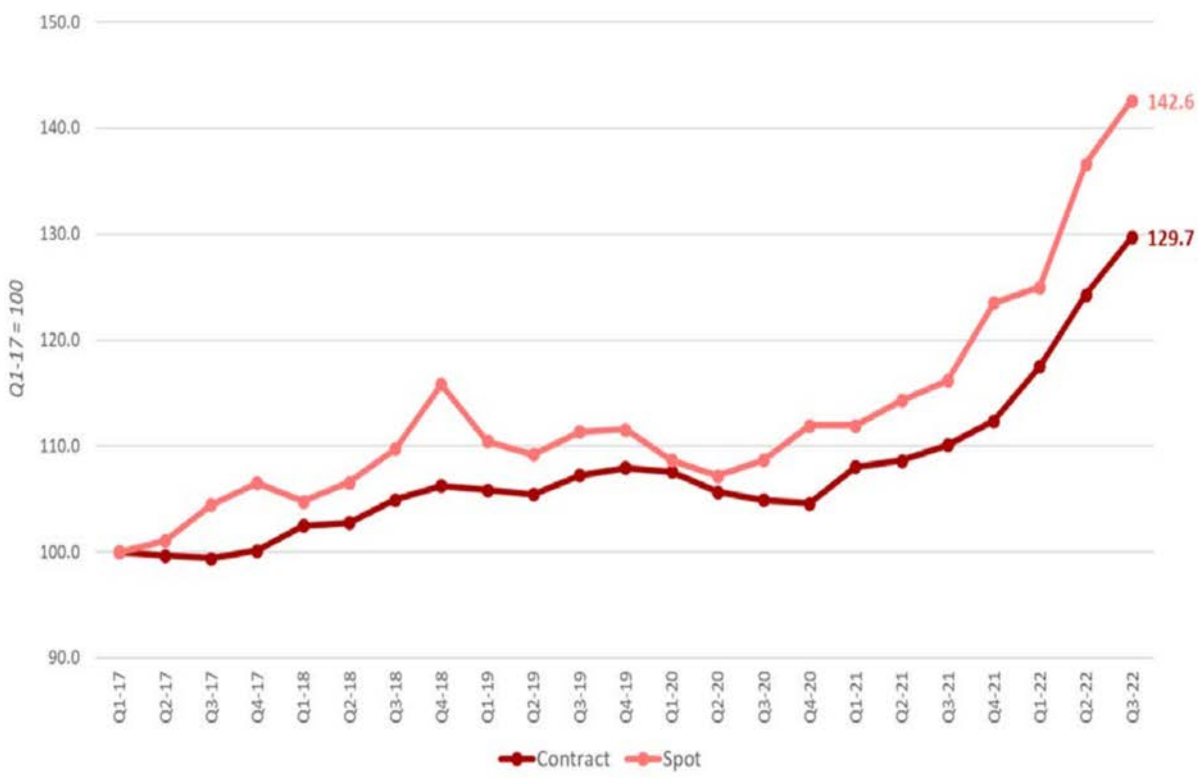
In the absence of a swift resolution to the war in Ukraine, market performance will depend on how unpredictable factors ultimately impact, domestically and globally:

- **High inflation will weaken demand for road freight**
- **Shortages of raw materials will restrict finished goods**
- **Energy shortages may impact the manufacturing sector**
- **Driver shortages will continue to impact capacity**
- **Fuel costs, inflation and driver shortages will add cost**

European international road freight market is projected to grow by 2.1% in 2023.

Road
Rail

European road freight index Q3 2022



Source: Upply

Germany is Europe's leading manufacturing exporter and a survey of 3,500 manufacturers carried out by its Chambers of Industry and Commerce found that 16% were either scaling back production or partially discontinuing business operations due to rising energy prices.

In 2022, road transport prices rose across Europe, accompanying the staggering rise in diesel fuel, with transport prices on average 19.6% higher than in Q3 2021. An exceptional increase which has not been experienced for decades.

Rates

Freight price increases began to slow in Q3 2022 due to the decrease in transport demand and there is reason to believe that prices in Europe may have peaked and have now begun to stabilise.

Soaring diesel prices appear to have come to an end for now in the UK and the most recent EU data shows that the average weekly diesel prices in Q3 have fallen by 1.7% quarter-on-quarter.

This represents at the very least a stabilisation of prices across the UK and Europe, with the momentum at the end of quarter appearing to be downward.

Despite this, the outlook for diesel prices remains very uncertain. With recent escalations in the war, the EU is set to respond with a ban on Russian crude oil imports. This could apply significant upward pressure to prices from December, when the restrictions are planned to start.

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Road
Rail

The Rail Freight Group (RFG), the representative body for the industry in the UK, has called for an ambitious target to drive rail freight growth.

Rail Freight Group (RFG) has highlighted the potential for freight growth, and the need for Network Rail replacement, Great British Railways (GBR) to work with private sector freight operators and customers to bring more goods to rail.

UK needs ambitious target to drive rail freight growth

RFG believe that a widespread change in attitude towards rail freight is necessary, and definitive targets must be set, otherwise the opportunity to greatly expand the beneficial impact of rail freight will be lost.

The UK government has committed to setting a freight growth target on GBR as a key part of its governance.

For RFG, a freight growth target is a vital part of encouraging modal shift, as it is a signal of government intent and market potential and therefore provides an encouragement to those considering the use of, and investing in, rail freight.

Growth target incentivise investment in wagons, traction, and recruitment of staff, all of which have long-term economic benefits. Train Operating Companies require a reminder to support freight in decision making at every level and incentivisation of GBR staff to deliver for freight, in particular across its routes and regions who will have an increased role in the passenger railway.

Freight has been conceived with a target as its core in the Plan for Rail and and the target must be designed to act as a powerful incentive to managers to put freight at the heart of decision-making", say the RFG. "They must therefore be focussed on short term achievements, measurable and meaningful to those people."

Photo Caption: BIFT

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