MARKET UPDATE
January 2023

United Kingdom

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Executive Summary

Freight rates are dropping from their pandemic highs, following two years of tight capacity and high rates.

Ocean container rates were particularly high during 2022, but towards the latter half of the year started to plummet, due to a fall in demand and significant oversupply of capacity - with a further influx expected in 2023, prompting shipping lines to blank sailings.

Airfreight volumes dipped for a ninth consecutive month in December, dashing hopes of a late peak season boost, with many forwarders taking a ‘wait and see’ approach before making long-term air cargo capacity commitments.

Overland freight prices are also due pressure, but the cost base is high, so spot rates may remain relatively stable as contract rates continue to “normalise,” ebbing from their pandemic highs.

Ocean Freight 3

Weak demand from shippers and tight vessel space availability have counter-balanced each other to keep freight rates relatively stable, as we enter the New Year.

The relaxation of China’s zero-COVID strategy will opening up manufacturing and free supply chains, but rising infection levels are causing concern.

Anticipating a significant post-CNY demand slump Ocean carriers plan to blank half their sailings to keep rates stable.

Port of Rotterdam operations have been massively impacted by industrial action, but the danger of further strikes at UK’s Felixstowe port has been avoided after a pay deal was reached with unions.

- Freight rates remain stable
- Carriers have made significant capacity cuts
- Global schedule reliability up 4.7% in November
- Rising coronavirus numbers disrupts Chinese supply chains

Air Freight 6

Headwinds in the air cargo market continue to persist, including a possible global recession, high fuel prices, rising inflation, the war in Ukraine and the ongoing U.S.-China trade war. These factors serve to weaken both purchasing power as well as freight demand

The shift of China’s policy toward COVID containment and management will be tested by any widespread outbreak.

A shortage of ground handlers and air crew will be another problem faced in 2023, possibly causing delays. The air cargo market outlook remains subdued as demand continues to remain soft.

- Airfreight rates remained stable throughout Christmas and into the new year
- We could see a small rate increases imposed pre CNY
- Carriers likely to shift away from long-term contracts to shorter-term deals
- Some carriers may withdraw entirely from some trade lanes

Road Rail 9

UK and European road freight rates continue to increase into 2023, as rising costs are passed onto customers

Driver shortages remain an acute problem in the UK and European markets, with hauliers finding themselves stretched to the max.

January strikes threaten British rail, with 2023 starting off where 2022 left off and the country in the grip of widespread industrial action keeping trains off the rails.

A series of national strikes have been organised by the trades unions RMT and Aslef, lasting throughout the first week of 2023.

- High inflation weakening demand for road freight
- Shortages of raw materials and intermediate products, impact demand
- Driver shortages continue to affect available capacity
- Fuel, inflation and driver shortages put upward pressure on costs

Ocean Freight

Container volumes fell 5% year-on-year, in the first three quarters of 2022 and the big carriers - led by MSC and Maersk - have been withdrawing additional capacity from the key Asia to Europe trade lane, down 7.2% since August.

In China, rising coronavirus infections following the country's relaxation of its zero-COVID policy have caused significant disruptions in supply chains.

Cold weather and the rapid surge in positive cases has resulted in delivery delays, factory closures and labour shortages across the country.

China departure stations are experiencing delays due to COVID infections, and bad weather, with some factories reporting that half of their employees were sick at home.

Poor cargo demand, spot freight rates in free fall, and a looming overhang of containership capacity have prompted carriers to blank sailing, but also, increasingly to abandon the Suez Canal on backhaul voyages from Europe to the Far East.

While the danger of further strikes at UK's Felixstowe port has been avoided after a pay deal was reached with unions, workers are on a go-slow at Hutchison Ports' Delta II terminal in Rotterdam, with 82 hour delays for barge operators and shippers waiting seven days for their goods.

Responding to the labour action, Maersk has suspended all calls to Rotterdam, discharging goods destined for the port at alternative gateways, including Antwerp and Zeebrugge, noting that customers would be responsible for the cost of retrieval.

For those using Europe's inland waterways, Maersk's decision has compounded issues faced by users of Rotterdam's terminals and, with congestion now climbing at Antwerp, leading to delays of 57, up from 34 hours two weeks previously.

Market

Carriers have made significant capacity cuts, in increasingly desperate attempts to support rates. 29% of Trans-Pacific capacity was blanked in October, 24% in November and 21% in December. On the Asia-Europe route, 26.5% was blanked in October, 17% in November and 19% in December

And now poor cargo volumes and tonnage overhang are leading carriers to re-route Europe to Far East backhaul via the Cape of Good Hope, rather than forking out hundreds of thousands of Dollars in Suez Canal fees.

Around a dozen ships are currently returning to Asia via the Cape, and the count will likely increase in the coming weeks. Most of the diversions were made by ships of THE Alliance.

Based on an exemplary nonstop voyage from Rotterdam to Singapore, the diversion around the African continent adds about 3,500 nautical miles of steaming distance to the route.

Typically, diverted vessels will steam at eco speeds of around 16 knots, which means the detour will add nine days to the ships' transit time.

Some ships may sail around the cape at a super-slow 10.5 knots, which will push their arrivals in Asia out by two weeks

Meanwhile, global schedule reliability and average delay time improved once again in November. It remain to be seen what impact the Cape diversions will have.

Schedule reliability rose 4.7% month on month and stood at 56.6% as of Dec. 30, according to Sea Intelligence. Over the same period, average delay time decreased by 0.58 days month on month to 5.04 days.

Lower shipping costs will filter through and could make goods more affordable

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Ocean Freight

For ocean volumes to remain unchanged from 2022, a fast normalisation of energy prices and swift decline in inflation must occur, but they are likely to fall and while less volume normally means less negotiation leverage, the carriers will be desperate for cargo.

Although rates in the European container market remained largely stable over week 52, by the end of 2022, freight rates had fallen around 90% from the year high's of $20,000/FEU, due to weak demand and tight supply, balancing the supply and demand equation.

Rates

The Shanghai freight index (SCFI) shows how rates erosion has stabilised and potentially bottomed out, with a slight uptick in January 2023.

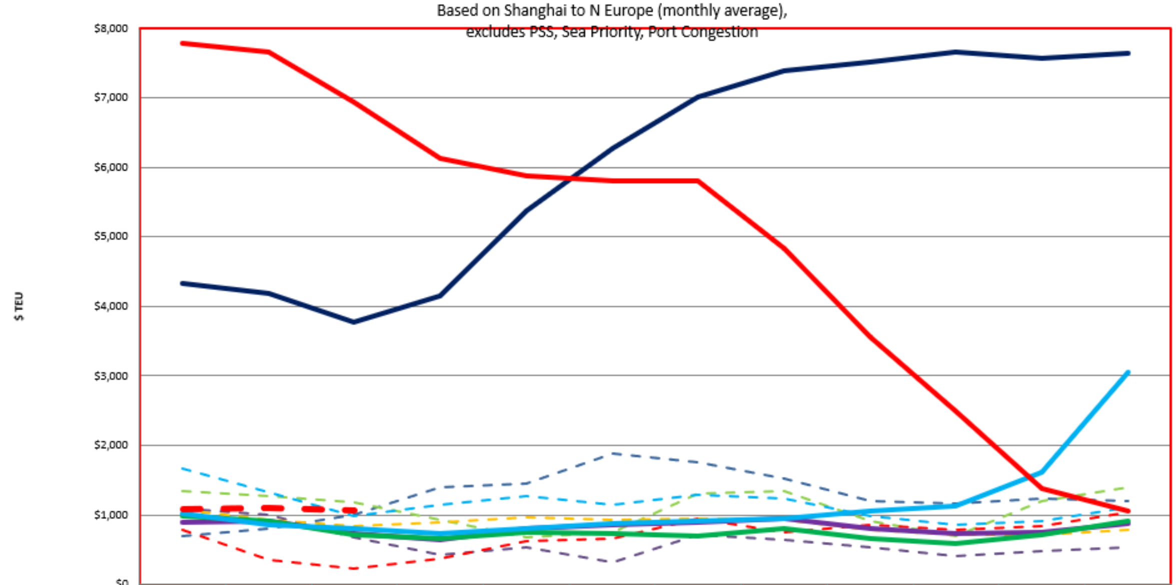
Bunkers prices continue to soften, which is contributing to the rate erosion.

The biggest challenge for carriers is that supply growth is going to accelerate markedly, with 7% fleet growth year-on-year in both 2023 and 2024, and above average growth in 2025. Fleet growth though be as high 10% a year if a high expected volume of scrapping does not take place.

Shipping line earnings remained at record levels in Q3 2022, though lines that have a particular focus on spot business on the biggest trades are likely to come under pressure soonest, while those that have a more diverse cargo base across different regions and more contract versus spot cargo will see more earnings longevity.

Shanghai Freight Index 2012 - 2023F

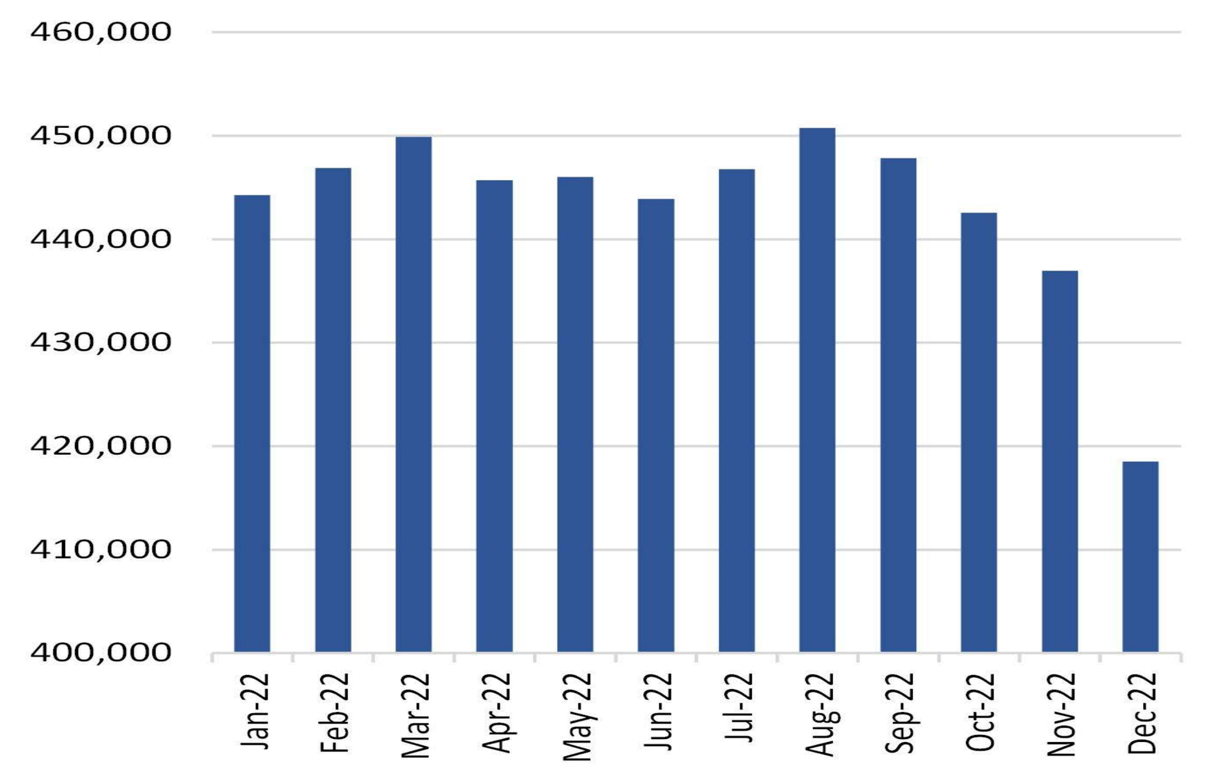
Based on Shanghai to N Europe (monthly average), excludes PSS, Sea Priority, Port Congestion



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SHFI 2012	$700	$800	$1,000	$1,400	$1,450	$1,888	$1,763	$1,517	$1,208	$1,165	$1,241	$1,201
SHFI 2013	$1,341	$1,279	$1,184	$926	$687	$754	$1,309	$1,338	$920	$693	$1,207	$1,403
SHFI 2014	$1,659	$1,322	$983	$1,140	$1,267	$1,153	$1,288	$1,237	$979	$855	$914	$1,113
SHFI 2015	$1,095	$1,000	$683	$431	$530	$320	$721	$633	$530	$405	$483	$527
SHFI 2016	$784	$363	$224	$381	$622	$660	$950	$755	$864	$793	$836	$1,040
SHFI 2017	$1,074	$929	$841	$901	$965	$929	$948	$927	$783	$706	$723	$789
SHFI 2018	$896	$912	$739	$640	$804	$861	$888	$941	$802	$739	$745	$869
SHFI 2019	$976	$914	$720	$663	$746	$735	$698	$796	$654	$587	$722	$916
SHFI 2020	$1,026	$864	$805	$741	$801	$883	$906	$948	$1,064	$1,128	$1,622	$3,061
SHFI 2021	$4,325	$4,190	$3,771	$4,151	$5,378	$6,268	$7,014	$7,397	$7,509	$7,660	$7,575	$7,642
SHFI 2022	$7,784	$7,657	$6,949	$6,134	$5,886	$5,814	$5,814	$4,842	$3,557	$2,503	$1,378	$1,062
SHFI 2023	$1,078											
SHFI 2023F	$1,078	$1,095	$1,060									

Ocean Freight

Weekly capacity deployed on Asia - Europe trade (nominal teu)



Source: Noatum

Against a background of extremely weak demand forecasts, ocean carriers are preparing to blank around half their advertised sailings from Asia to North Europe and the US after Chinese New Year on 22nd January.

Spot rates fell by an average of 79.3%, across the three main trades from 31 December 2021 to 31 December 2022, with rates on the Far East to North Europe trade falling 84.1%.

Shipping lines

ONE CEO Jeremy Nixon said he expected short-term rates would remain flat into 2023, and added: “I think we are effectively on the bottom of those spot market rates.” But he warned of a “big drop” in exports from Asia after the CNY holiday, and a “very soft” February and March. “Let’s see whether demand starts to push back up around April/May time,” he said.

Elsewhere, on the Asia to North Europe trade-lane, the average spot rates recorded in December, ranged from $2,500 down to $1,800 per 40ft.

However, reports indicate that space is becoming tight for sailings to North Europe prior to CNY.

Many annual contract negotiations for the route – traditionally finalised in December or January – appear to have stalled, as neither shippers nor carriers want to commit in the uncertain market conditions.

The strength of the US dollar against the euro and sterling, along with the increased focus on sourcing product from Europe instead of China, has enabled the trade to stay robust despite the downturns elsewhere, but freight rates may still soften post CNY, due to a huge 43% year-on year injection of capacity on the route.

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Air Freight

The market remained aggressive on most trade-lanes, as demand remained low, with plenty of available capacity, and is expected to remain competitive.

There are some instances of backlogs and tight spaces ex-EMEA and ex-China, which is likely to slow rate decreases on certain trade-lanes.

As we move into 2023, high jet fuel price likely to affect rates and fuel surcharges are likely to fluctuate amidst oil price fluctuations.

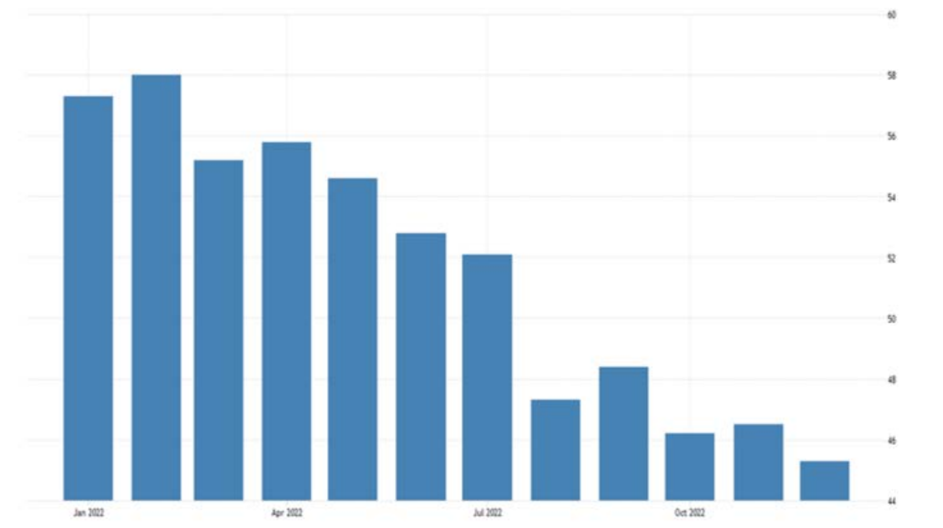
Air freight volumes remain low and with global inflation levels likely to remain elevated into 2023, demand is likely to decrease even further.

Chinese factory activity fell again in December as the spike in Covid-19 cases disrupted production after Beijing started dismantling its pandemic curbs.

The manufacturing purchasing managers' index (PMI) fell to 45.3 in December from 46.5 in November. The index has registered below the 50-point mark dividing growth from contraction for five straight months.

Despite raised hopes, eCommerce movements added negligible growth to global volumes over the final two months of 2022.

United Kingdom Manufacturing PMI



Source: Trading Economics

As ocean freight freight costs reduce and performance improves, we are seeing a shift in transport mode from air to sea

Volumes are expected to witness flat growth in the first two quarters of 2023, although the Lunar New Year may trigger a short volume spike.

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Air Freight

Worldwide airline industry figures

Worldwide airline industry	2019	2020	2021e	2022f	2023f
Spend on air transport,$bn	876	394	521	754	812
World GDP growth, %	2.5%	-3.5%	5.8%	2.9%	1.3%
World trade growth, %	0.3%	-5.1%	9.8%	3.5%	1.0%
Aircraft departures, million	38.9	16.9	20.1	27.9	32.4
% change over year	2.1%	-56.5%	18.5%	38.8%	16.5%
ASKs, % change over year	3.4%	-56.6%	18.7%	43.6%	18.0%
Passenger load factor, % ASK	82.6%	65.2%	66.9%	78.9%	81.0%
Freight load factor, % AFTK	46.8%	53.8%	56.1%	50.6%	47.8%
Weight load factor, % ATK	70.0%	59.5%	61.7%	67.5%	68.9%
Breakeven load factor, % ATK	66.4%	76.8%	67.2%	68.3%	68.6%

Source: IATA

Freight forwarders are taking a 'wait and see' approach before making long-term air cargo capacity commitments as airlines saw demand drop 2% month-over-month as 2022 drew to a close.

General airfreight volumes dipped for a ninth consecutive month in December, dashing hopes of a late peak season boost.

Market

Chargeable weight was -8% versus 2021, although the 1% reduction in global air cargo capacity, as airlines adapted to winter schedules, contributed to a stable 'dynamic load factor' of 61%, on a par with the previous month, based on the volume and weight of cargo flown and capacity available.

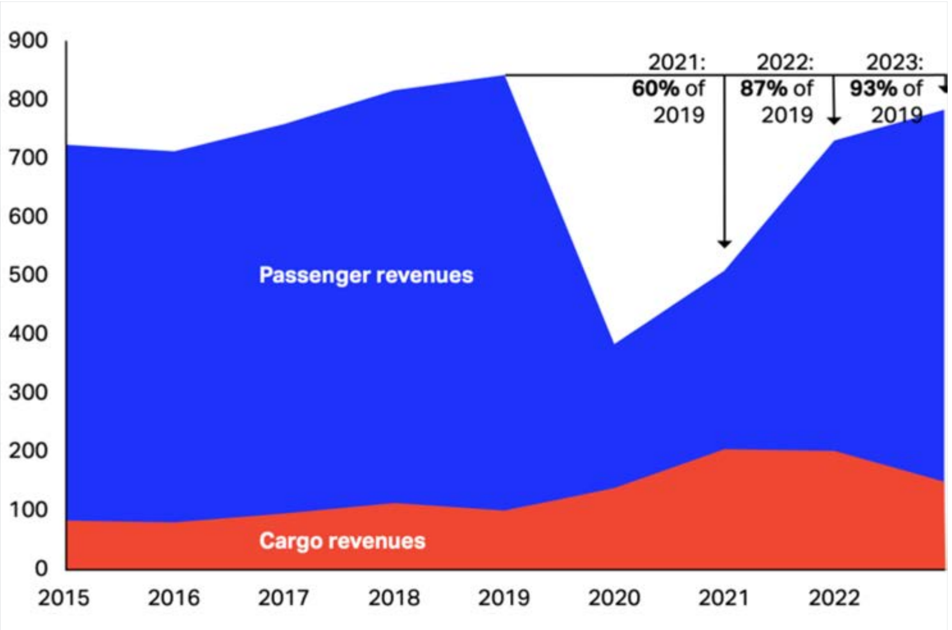
Load factors, however, continued to sit well below last year's extraordinary peak season. Europe to North America load factor in the week leading up to the 2022 Thanksgiving holiday sat at 74%, down 12% from 2021.

Distribution of contract rates for shippers shows commitments of over three-month contracts hardly exist in Q4 this year.

What we are seeing is a lot of uncertainty. After a massive drop (-8%) in air cargo demand, followed by a little stability, the market is not worsening; it's just very hard to read longer-term. This is reflected in the rise in short-term contracts, with forwarders unwilling to commit to long-term deals.

Shippers should see some budgetary benefit from this and falling rates may provide a glimmer of hope for cash-strapped consumers - that lower shipping costs in 2023 may make some goods more affordable.

Air Freight



Global airlines revenue, USD billion – Source: IATA

The exceptional demand period that air carriers have enjoyed is coming to an end, but, if the conflict in Ukraine resolves quickly, business and consumer confidence may rebound quite quickly.

Air cargo traffic is predicted to drop by a further 4% this year, while yields and revenues are also expected to weaken compared with this year's levels.

Rates

Low demand and ample capacity has created aggressive spot market across most trade-lanes, from the last quarter of 2022 and into 2023.

As demand is expected to remain low with sufficient capacity on most trade-lanes, rates are expected to remain competitive.

Globally rates are below their 2022 levels, despite the effects of higher fuel prices, with jet fuel touching $118/Bbl in December, but oil inventories are forecasted to to fall in the 1st half of 2023 before rising again towards later half of the year.

As a result, EIA now forecasted $92/Bbl price average in 2023; $3/Bbl less than previous forecast.

Under current circumstances, jet fuel price will remain on the higher side, but any forecast is likely to change as the situation remains fluid.

Carriers

IATA predicts that cargo volumes will fall 4.3% year on year to 57.7m tonnes, following the 8.1% fall in 2023, to 60.3m tonnes.

The fall reflects the challenging economic backdrop, in terms of global economic growth and international trade.

As a result of load factors returning to pre-Covid levels, yields are expected to decline by around 22% this year, following a 7% increase 2022, a 24% increase in 2021 and a 50% increase in 2020.

Airline cargo revenues are expected to fall around 25% in 2023, although this is still around 50% higher than pre-Covid levels.

The exceptional demand period that air carriers have enjoyed is coming to an end but, if the conflict in Ukraine resolves quickly, business and consumer confidence may rebound quite quickly and if that happens we can expect to see a recovery in economic activity, consumer spending, business investment and international trade.

Yield falls of 22% isn't unreasonable given the very strong increases seen in recent years

Road
Rail

The market moderation seen in the second half of 2022 is spilling over into 2023 and the European road freight market is projected to lose speed, expanding by only 1.1% in real terms over the next 12 months

The energy crisis, high inflation, and economic recession all weigh on consumer purchasing power, which in turn impacts demand for road transport - a development which can be seen across the entire European continent.

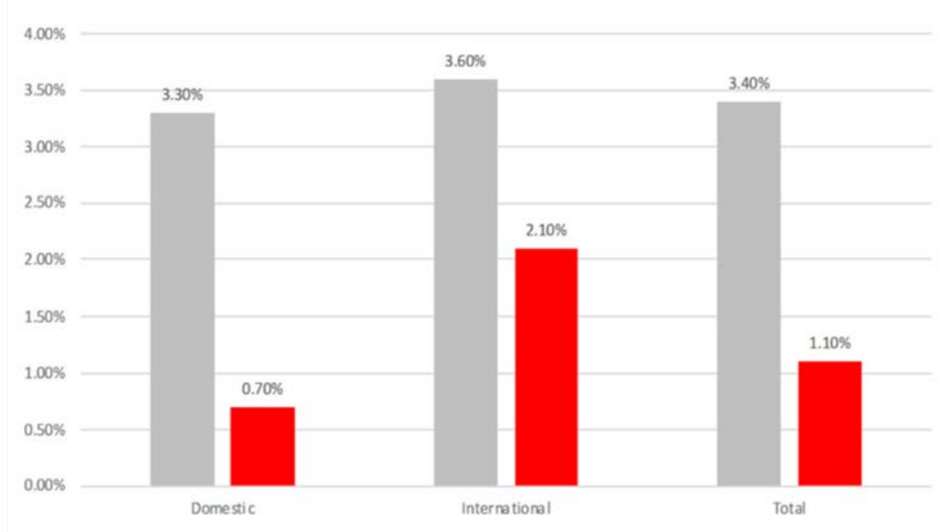
And where demand does pick up, workforce shortages are impacting the amount of capacity available.

According to TIMOCOM Freight and Cargo Exchange, in certain European countries there has been a significant drop in the vehicle space being offered. One of the key reasons behind this is probably the shortage of drivers.

In Germany for instance, 24% less capacity was posted on the TIMOCOM Freight Exchange in the first nine months of 2022 compared to 2021. A similar pattern can be seen in carrier countries including Hungary and Romania.

Since the beginning of the year, companies from these three countries have placed an average of 8% less vehicle space on the TIMOCOM Marketplace than in the same period in 2021.

Real Growth Rates: Domestic and International Markets 2022 and 2023



Source: Ti

Considering that the problem with driver shortages is here to stay and become even worse, shortage of capacity will likely continue to remain a concern for road freight companies.

Poland might be an exception and could even see an increase in truck capacity, which is mainly to do with the changes related to EU licenses introduced with the Mobility Package in May 2022.

Road
Rail

Photo Caption: Disembarking Dover

Road freight rates are significantly determined by driver wages and fuel costs, with the latter more uncertain and difficult to forecast. The cost of fuel has stayed at record high levels since the war in Ukraine began, but the cost of fuel does not build a clear advantage for carriers from a particular country.

Carrier will naturally try to fill up where fuel is the cheapest, to use this as an additional competitive advantage and to reduce costs - just like their competitors.

Market

The European road transport market is not homogeneous, it is highly fragmented, and while drivers' wages depend on a number of factors (e.g. drivers' work system, distance and direction) differences in this area are not actually very large.

Competitive advantage of carriers from different countries in international transport results primarily from market share, and this is where historically, carriers from Poland have excelled, with market share ranges from 25 to 33%.

The possibility of smaller carriers pulling out of cabotage and cross-trade operations remain a live situation.

Small carriers (up to 5 vehicles) are the most numerous on the market, but are the least resistant to any fluctuations. Small carriers are critical vendors, because they can adapt most flexible to shippers' needs and are able to move their fleet to destinations in a short period of time.

The EU Mobility Package limited the possibility of carrying out cabotage operations and carriers have been operating under this new reality since February 2022. The trend has been strengthened by the licensing requirement for carriers with vehicles between 2.5 and 3.5t GVW.

Some companies obtain transport licenses early, while others waited until the last minute, which has led to the inactivation of some small carriers, who have withdrawn from the market.

High inflation is weakening demand for road freight services in, through and out of Europe

Road
Rail

Q3 2022, transport prices were on average 19.6% higher than in Q3 2021. However, the increase slowed after the third quarter of 2022 due to the decrease in transport demand and it may be that prices in Europe have peaked.

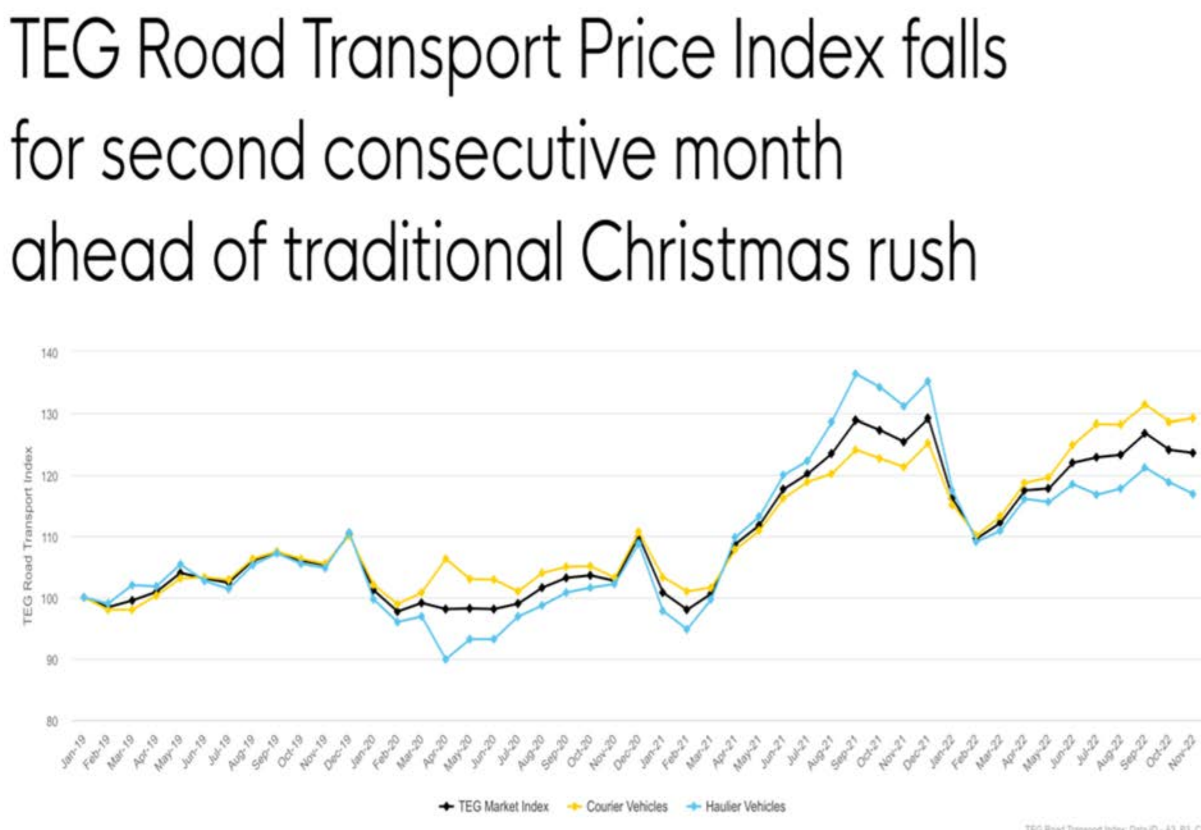
We have seen how road freight rates increased after Russia's invasion of Ukraine, as a result of higher energy prices and labour costs, but recession in many markets is reducing demand and this inevitably impacts rates.

Rates

Over the past two years there has been a continuous increase in rates caused by high post-pandemic demand, increased raw material prices, the energy crisis, wage pressure and the EU's mobility package.

Therefore, the future direction of rates will depend on how economic factors evolve and the global recession is the most significant factor, as it directly shapes demand for road freight transportation. However, there are no expectations that the rates could return to the pre-pandemic levels of 2019.

This is due to the fact that carrier expenses increased significantly in 2020-2022 (fuel, drivers' wages, tires and service, prices of new lorries) so any adjustment will incorporate these new cost bases. In the short term, it may be clearly noticeable and might last well into the middle of the year.



Significant monthly fall of 1.9 points

Road
Rail

Strasbourg intermodal terminal

Source: iStock

Rising energy prices threaten French rail freight and intermodal sector.

Rising energy prices are threatening the future of France's rail freight and intermodal operators, according to industry body Fret Ferroviaire Français du Futur (Alliance 4F).

It has slammed the government's "silence" in response to its demands for financial relief.

Rising from €56 per megawatt per hour (MWh) last year to €473.51/MWh next year, the electricity bill paid by rail freight operators to SNCF Réseau, France's rail network manager, will have increased more than eight-fold, it said.

"This is enough to put a stranglehold on the sector, putting its very survival in danger."

During a meeting with French transport minister Clément Beaune last month, Alliance 4F called for a cap on the price of rail traction electricity of €180/MWh and the exoneration of tolls paid by operators to SNCF Réseau for using the rail network, with the state picking up the tab.

However, more than a month on, Alliance 4F said it had yet to receive a response from the government.

"We have no visibility as to the relief we are requesting in order to cope with the explosion in electricity prices, the unsustainable nature of which is putting businesses at risk, especially the smallest ones in the sector. Without an appropriate response [from the government] the momentum we have seen in modal shift in freight transport between 2020 and 2021 will be seriously compromised."

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