MARKET UPDATE
February 2023

United Kingdom

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The continued fall in global container freight rates that began last year, abated somewhat in January on major routes, with capacity deployed on the two largest east west trades falling from 43.7% to 39.8% year on year.

Air freight volumes have been trending down since the first half of 2022, but the first half of 2023 continues to look bleak for air freight. Any hope of an early recovery are receding, with global demand remaining low and no pre-Chinese New Year surge in demand from Asia.

Operating costs in road freight transport remain on the rise for 2023. The deterioration of the economy will have an impact on volumes, at least in the first half of the year.

The traditional ex-Asia space and volume crunch around Chinese New Year was extremely muted and capacity remained higher than previous years, so we expect blank sailings to continue.

In the month up to the middle of January, 14% of all ex-Asia sailings were cancelled, of which 53% were trans-Pacific sailings, followed 24% on the Asia-Europe lane and 23% on the transatlantic.

Maersk's 2022 Q4 volumes were down 14% on 2021 and it announced the suspension of its TP20 transpacific loop just after news broke of their impending split with MSC and the end of the 2M alliance.

- Rates back under pressure post-CNY
- Carriers moving vessels from Asia to more robust trade-lanes due to weak demand and blank sailings
- Expected rate drop from Europe to USEC yet to be seen in spot indices
- CMA announced a transatlantic PSS of $1000/teu

Worldwide inflation continued into 2023, with the PMI index remaining low, which means fewer export orders and demand ex-Asia stated muted, even in the run up to Chinese New Year (CNY), which would traditionally trigger a demand surge. Most trade-lanes have enough capacity to support the demand and aggressive spot market are expected to continue.

Unforeseen circumstances could still disrupt the market, including COVID situation changing, employee shortages, industrial action, extreme weather events or new regulations. (See our EU Import Control System update).

- High interest rates and falling demand continue to impact
- China market has remained quiet post CNY
- Volumes from China to Europe have fallen by over 10% with load factors only reaching 54% in January
- Post CNY rates to Europe fell by -10% and -5.4% to US

The UK and Europe is moving through the 1st quarter of 2023 with some optimism. Fears of a gas shortage have failed to materialise, inflation may have peaked, supply chains are stabilising, and the economy is proving to be more resilient than expected. But challenges remain considerable and the prospects for growth are slender, with economic stagnation or a moderate contraction not ruled out.

European road freight is experiencing a relaxation in available capacity, but not freight rates and the next peak season, which could be as early as Easter will show if this shift to a more balanced ratio is here for the long-term.

- Steep improvement in capacity availability
- Border Force staff strike for 2nd time in February
- Government pushing for better truck stops and drive treatment
- Industry call for fuel duty cut to be extended

Ocean Freight

The huge downward push on freight rates did slow in January and the continuing weak demand will put the brakes on any rate increases, with expectations for post-CNY volumes bearish, although CMA have announced a transatlantic Peak Season Surcharge of $1000/teu.

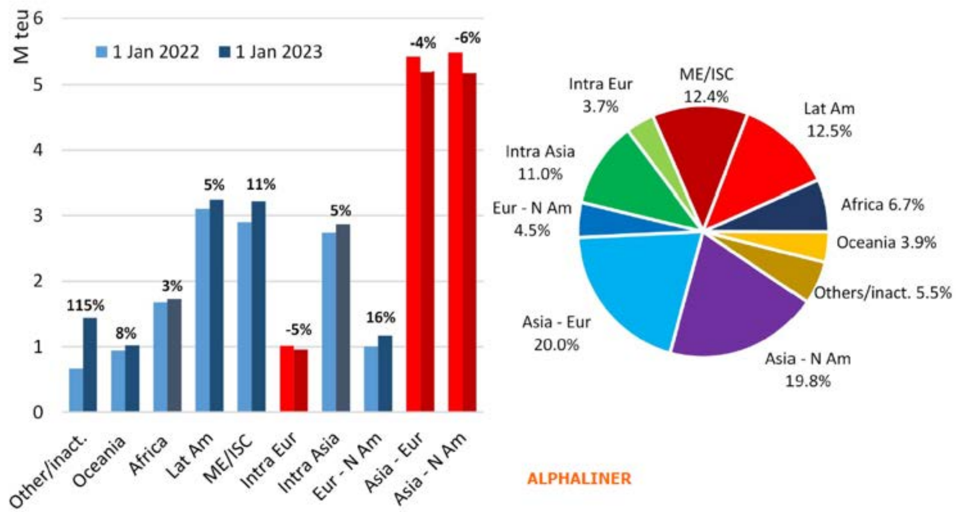
The decline in global container freight rates that began last year, abated somewhat in January on major routes as supply-side efforts to reduce capacity excesses appeared to find some purchase, with capacity deployed on the two largest east west trades falling from 43.7% to 39.8% year on year.

Poor cargo demand in China and the falling ocean spot freight rates encouraged the leading container shipping lines to make significant changes to global fleet deployment, with 565,000 teu of capacity withdrawn from Asia-North America and Asia-Europe trades last year.

The highest percentage increase was seen on the transatlantic, which recorded a 16.2% increase in capacity with the addition of 162,300 teu slots, as the transatlantic market remained resilient, despite the demand downturns seen elsewhere.

Carriers do not expect the Chinese export market to recover anytime soon, due to the softening of demand and the number of blanked sailings is likely to increase due to the extended slack season after Chinese New Year and the time it takes for cargo volumes to recover.

Global container fleet deployment by trade



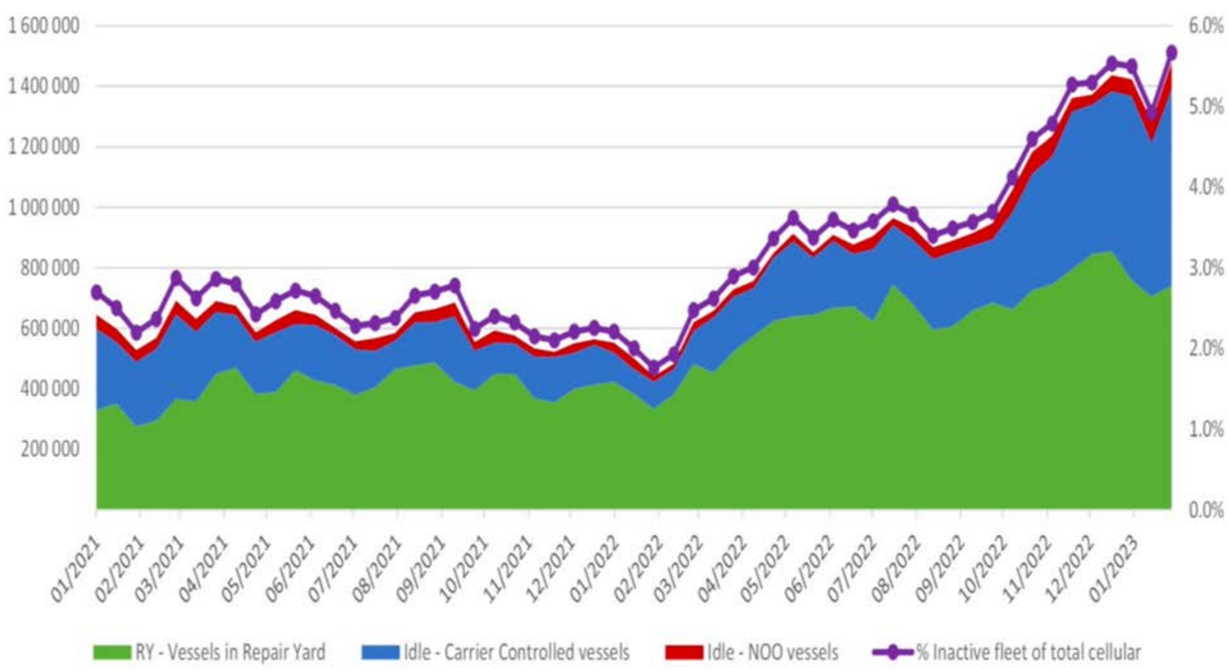
Source: Alphaliner

Some market analysts attribute the balanced rates seen during the month as a signal that the market is bottoming out, as rates draw near to breakeven points for carriers on major deep-sea trades.

MSC and Maersk, the two largest container shipping lines in the world, announced an end to their 2M alliance in 2025. Their decision may increase competition, trigger rate wars and put other alliances under pressure, while leaving Maersk, with a limited order-book and an already strained network, looking for alternatives.

Ocean Freight

Inactive fleet capacity (TEU) and proportion (%) to cellular fleet



Source: Alphaliner

Container shipping lines are diverting vessels from the Asia to Europe and US trade-lanes to more robust routes and markets - with transatlantic and Middle East/India services the biggest beneficiaries - due to weak demand and the blank sailings they have implemented, which are now causing severe space issues.

In their efforts to support rates, carriers are not hesitating to blank sailings with little or no notice – which are over and above those already announced.

Market

Even contracted space protection is now at risk, with the largest (BCO) volume shippers' containers rolled due to lack of vessels.

ONE and its partners in THE Alliance have been diverting ships round the Cape of Good Hope on return legs of Far East-Europe and Far East-North America east coast sailings to reduce the idle time of vessels caused by blank sailings and other lines may yet follow their lead.

Slow-steaming initiatives are also in place, to reduce available capacity, affecting transit times and schedule regularity. Slow-steaming will also be enforced to reduce carbon emissions and vessel supply, while container supply will be optimised by returning leased containers and distributing empty containers to the appropriate locations.

As carriers have started to cascade vessels onto other trade-lane, the transatlantic lane has benefited, due to demand still being buoyant and load factors remaining high.

Congestion on the trade has eased significantly, with data showing a 18% YoY slump on imports in December.

Ocean Freight

Ex-Asia box rates are back under pressure post-CNY and the Shanghai Freight Index (SCFI) confirms that rate erosion has started again, albeit at a reduced pace.

And while freight rates have been dropping, the carriers' per-unit costs have increased, because their operational and administration costs increased significantly during the pandemic.

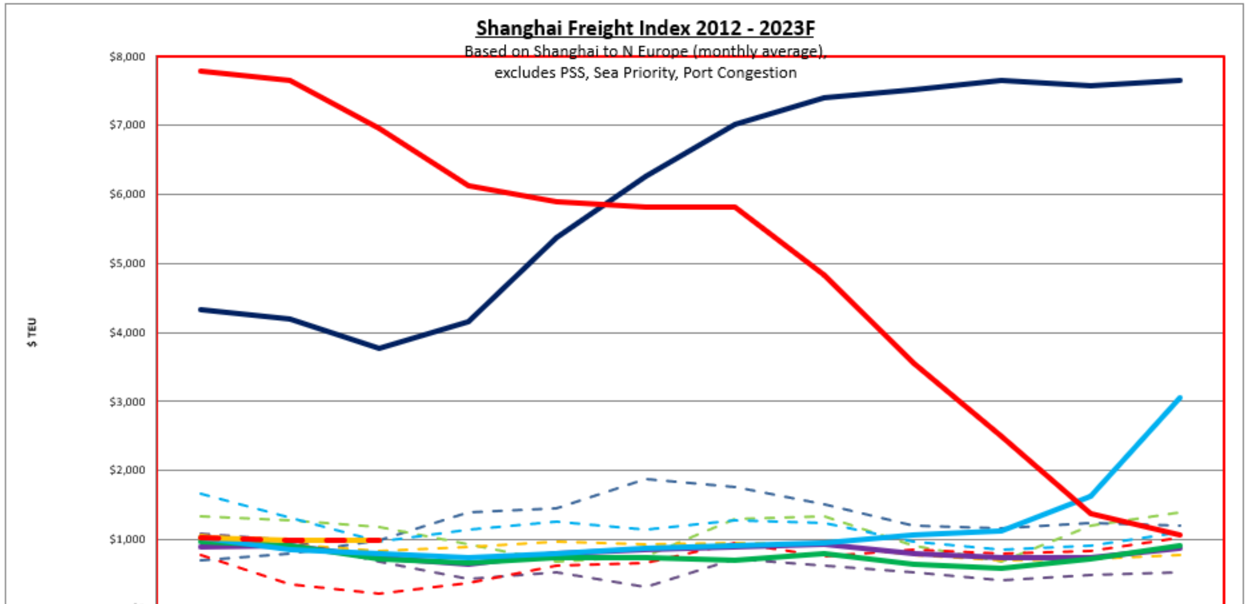
Rates

The market continues to wait for any positive demand indicators post-Chinese New Year, which remain muted as flush inventory levels across many North American sectors point to limited demand growth, while inflationary headwinds in Europe are keeping a lid on consumer appetite.

On the eastbound transpacific trade-lane the lines claim units costs are up by >40% due to vessel backlogs and inland bottlenecks that add delays and costs to the supply chain, rising prices for bunker and diesel fuel, and administrative costs. Though it has to be noted that these issues have now largely dissipated.

Carriers are looking to secure regular, fixed business from large volume shippers (BCOs), offering space protection for those willing to accept premium deals. Potential customers are wary though, particularly as so many BCOs' containers are currently being rolled.

The expected drop of freight rates on the North Europe to US East Coast, is yet to be reflected in the spot indices. In fact CMA have announced a peak season surcharge (PSS) ($1000/teu) to the USA for this trade-lane due to high demand.



	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	$1,025	$990	$1,000									
SHFI 2023F	$1,025	$990	$1,000									

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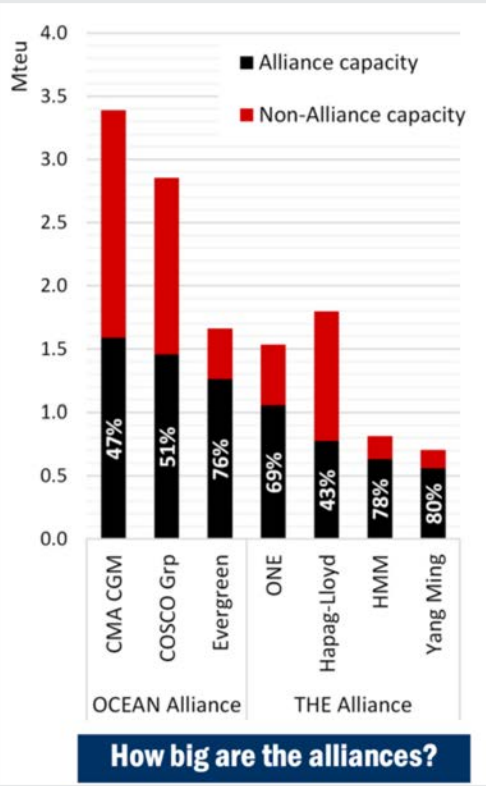
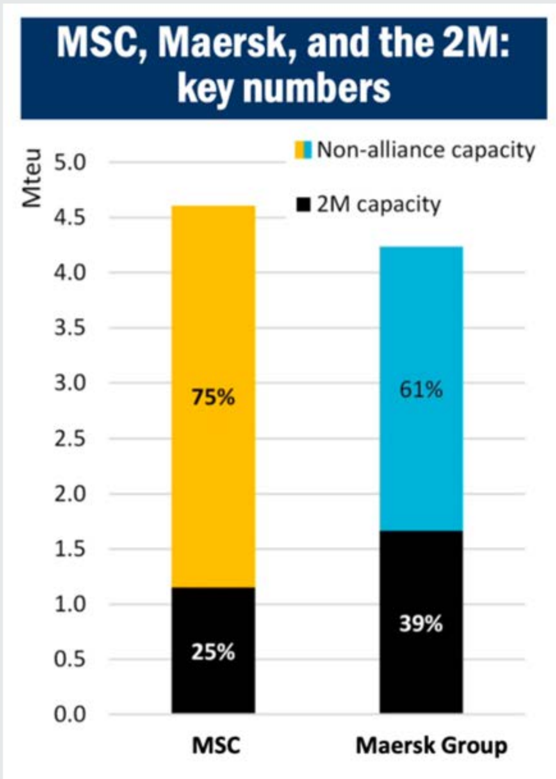
Ocean Freight

Focus on 2M





Source: Alphaliner

Since the launch of 2M, both MSC and Maersk have grown massively, with MSC's fleet almost doubling from 2.54 Mteu in January 2015, while Maersk stood at 2.89 Mteu, almost three years before the takeover of Hamburg Sud.

2M split threaten alliance structure

MSC and Maersk have mutually agreed to discontinue the 2M vessel sharing agreement (VSA) from 2025, which is likely to be the beginning of a re-shaping of the alliances and vessel sharing agreements and most particularly on the major east-west, transpacific and transatlantic trades.

It could trigger a complete overhaul of the carrier alliances, as shipping lines in OCEAN and THEA alliances reconsider their strategic options.

There will be changes in the competitive dynamics on all the major trade-lanes, which will have implications for all the shipping lines, and they will need to carefully evaluate the new threats and opportunities they face over the next 1-2 years.

Even if 2M formally runs until January 2025 it should be expected that Maersk's and MSC's networks will begin to deviate even more in 2023 and 2024, as they evolve through different VSA and slot-charter agreements.

One thing is however almost certain: MSC is poised to go it alone from 2025, as the only independent large-scale container shipping line that is working outside of any alliance.

Shipping alliances, VSA's and new service launches, over the next two years, will alter competitive dynamics on all the major trade-lanes, which is why we will stay close to our industry partners and contacts, to identify opportunities for our customers, strengthen existing carrier relationships, build new ones and help shape whatever finally replaces today's three alliances.

Air Freight

Air freight volumes remain low, with flat growth, as worldwide high inflation is likely to continue well into 2023, with any expectation of a recovery likely to be in the 3rd and 4th quarters.

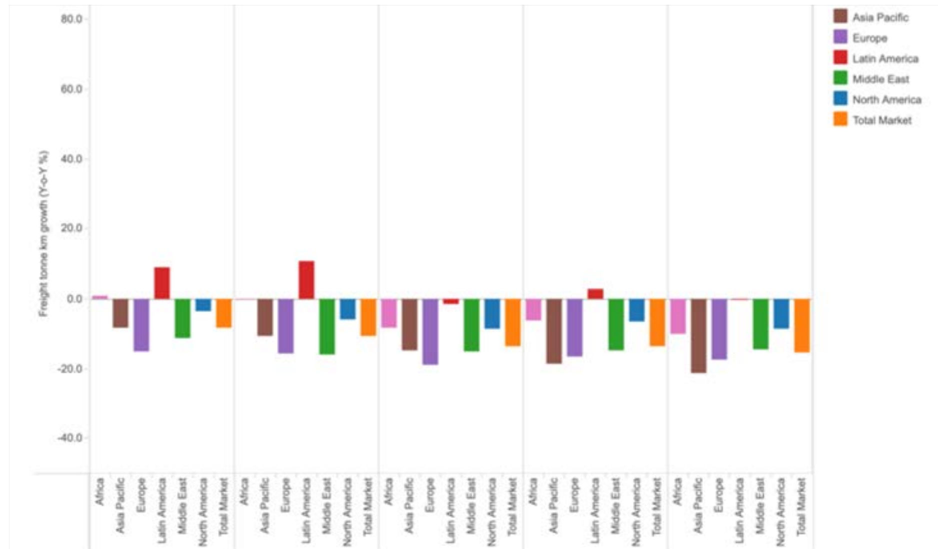
Air freight volumes have been trending down since the first half of 2022. eCommerce movements added negligible growth to global volumes in the last quarter 2022, but the first half of 2023 continues to look bleak for air freight. Any hopes of an early recovery are receding, with global demand remaining low and no pre-Chinese New Year surge in demand from Asia.

Reduced ocean freight costs are encouraging a shift in transport mode from air to sea and rates from China have continued to slip, but despite being a third lower than a year ago, they are still far higher than pre-COVID levels.

The market is very soft, ex-India and due to upcoming holidays volumes are expected to drop further in the coming weeks.

Demand ex-South-east Asia remains low, with capacity widely available except for Hanoi, which is experiencing a pre-holiday rush and will require as much advance notice as possible.

IATA demand growth

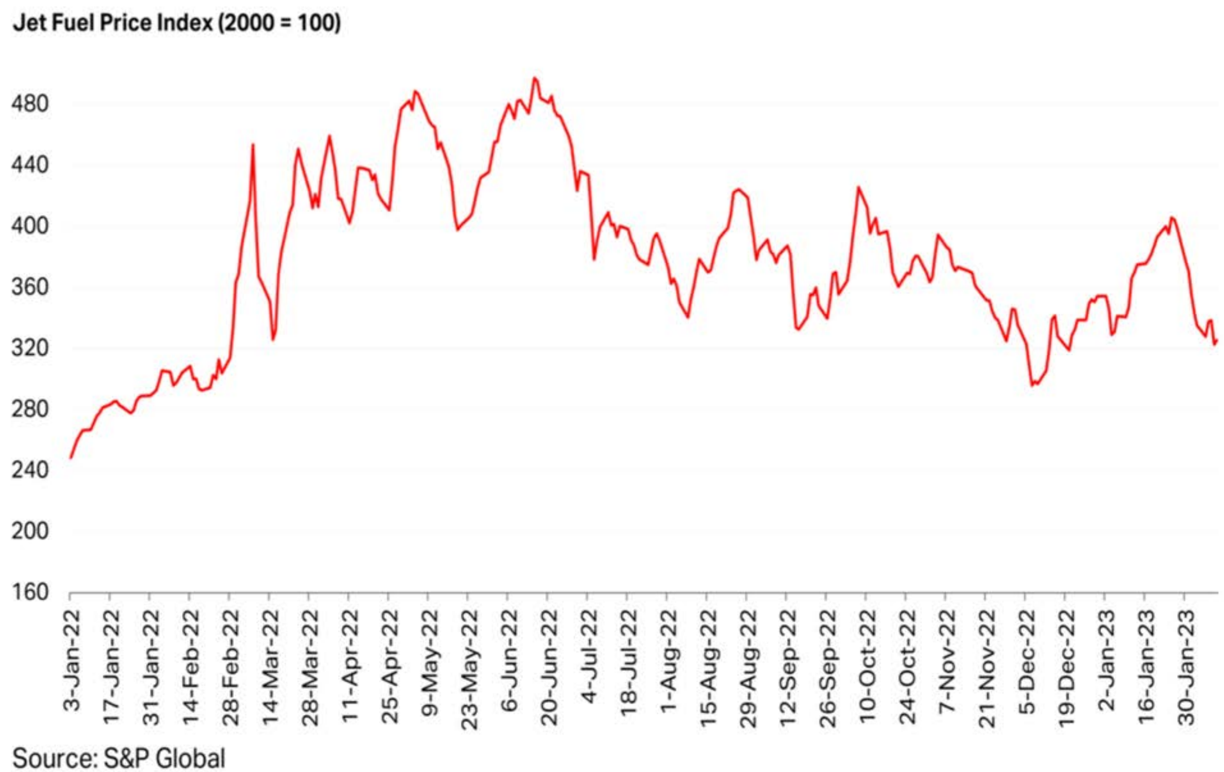


Source: Air Cargo News

In Europe, demand was soft and rates looking like “normal Q1 levels”. On the upside, ground operations are working well, without the pressure of congestion.

Air Freight

Jet fuel price over the last 12 months



Source: IATA and S&P

Global inflation is forecast by the International Monetary Fund (IMF) to decline to 6.5% in 2023 and to 4% by 2024, raising hopes of a demand recovery commencing in the 2nd half of the year.

Market

Volumes from China remained low, without any sign of the normal pre- Lunar New Year surge and factory closings have started, as inventories remain high.

Overall scheduled capacity is 9% up on last year and is more than sufficient to support comparatively lower volumes.

Ample capacity is available on the vast majority of trade-lanes, but can be tight spaces on some ex- EMEA and ex-China routes.

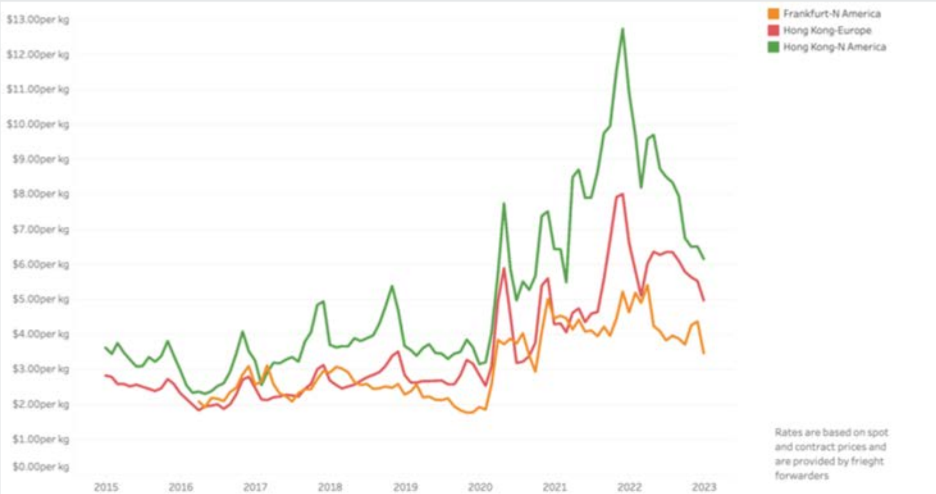
With low demand and plenty of capacity, the market has remained aggressive on most trade-lanes and with demand expected to remain low, rates are expected to remain competitive.

As we move into 2023, high jet fuel prices are likely to affect rates and fuel surcharges will fluctuate amidst oil price fluctuations. Jet fuel price touched $134/Bbl in January, while global oil inventories have started to build, which may encourage a gradual decline in average prices for 2023.

Some forecasts show an $83/Bbl price average in 2023, which would be down 18% from 2022, but with current sanctions and low production, pressured on jet fuel price will remain on the higher side.

Air Freight

Baltic Exchange Air Freight Index



Source: Air Cargo News

As passenger numbers return and the holiday seasons approaches, carriers are increasing flight frequencies across all regions, with some new freighter schedules also included.

Airspace closures continues, with EU, UK, US (and other) airspace closed to Russian airlines and vice-versa; increasing transit times and operating costs.

There are aggressive spot market across most trade-lanes, as carriers chase volume, but any increase in long term rates is not expected before the 2nd held of the year, as the macro-economic environment improves.

Rates

Air freight rates softened further post CNY with China rates falling to Europe and the US by 5.4%, which increases the challenge of setting monthly rates, however carriers are getting ready to offer longer terms rates for regular, steady traffic.

The Baltic Air Freight Index (BAI) tracks weekly transactional rates for general cargo and is a weighted average of 17 key trade routes. The BAI slipped nearly 8% in the past week, making it 34% lower than a year ago, but despite that drop the index is still almost double where it was pre-pandemic in January 2020.

Outbound Shanghai fell 9.2% week on week, taking its year-on-year change to -37.9%, while Hong Kong was down 5.6% WoW, taking it to -41.9% YoY.

The index also indicated that prices fell from all major outbound locations, with Frankfurt down 5.8% in the week, Heathrow 12%, Chicago 8.6%; China to Europe fell 10% in the week, while China to the US was down 5.4%.

EU launch customs pre-advice regime for air cargo.

The EU's Import Control System (ICS) processes large-scale advance cargo information to monitor the security of the EU´s external border. ICS2 is an automated entry process that will apply to all air cargo moving to and via the EU from the 1st March 2023 and requires customs pre-acceptance and pre-arrival security and safety clearance.

The carrier's pre-loading and pre-arrival information data set, including the journey details, is sent to ICS2, where it is automatically reviewed for possible security threats. The pre-loading and pre-arrival messages are collectively referred to as the Entry Summary Declaration (ENS).

When the ENS information is not provided to EU customs, shipments will be stopped and will not be processed for customs clearance, which will lead to delays and potential fines.

Shippers need to provide info so that pre-loading data is made available to the carrier in good time

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Road
Rail

Operating costs in road freight transport remain on the rise for 2023. The deterioration of the economy will have an impact on volumes, at least in the first half of the year.

The global economic slowdown is continuing through the 1st quarter of 2023 and some countries, most likely including the UK, will not escape recession. At the same time, war is still raging on European soil, radiating economic and supply chain turmoil.

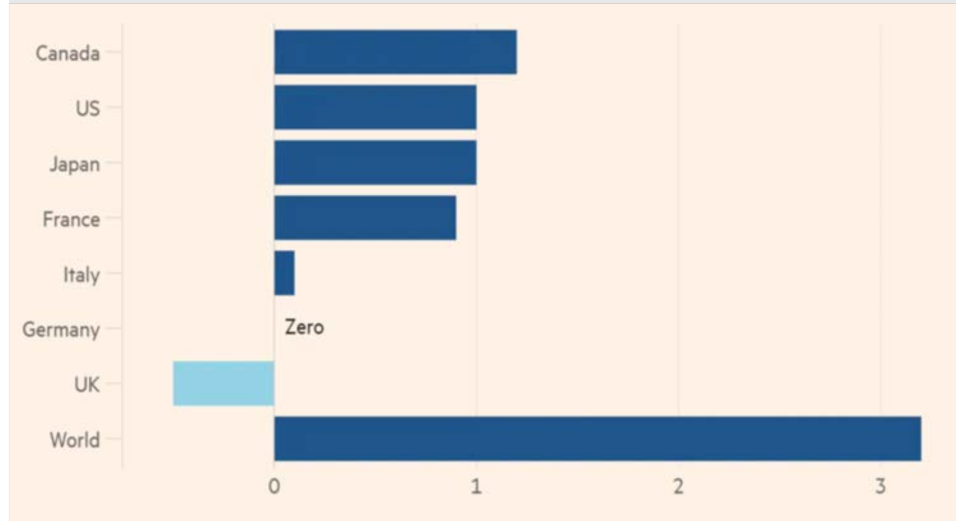
Some signs are emerging that inflation may have peaked in the United States and Europe, but these are weak signals, and the first half of the year is likely to remain gloomy, with very muted consumer demand.

The International Monetary Fund recently warned that global growth will fall to 2.9% in 2023 but rise to 3.1% in 2024, with optimists looking for a rebound in global activity in the second half of the year.

Economic recovery will vary at the pace of geopolitical tensions, and in particular any developments in the war in Ukraine.

The conflict is having a profound impact on the road transport industry, inducing capacity challenges, a worsening of staff shortages by depriving the market of Ukrainian and Belarusian drivers, and an unprecedented increase in costs, mainly due to the increase in fuel prices.

IMF forecast for GDP growth in 2023 (Q3 vs Q4)



Source: FT

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

After demand for freight volumes in the European road freight market had almost permanently exceeded available freight capacity in 2022, the capacity bottleneck eased significantly by the end of 2022, with a sharp decline in freight demand in December, relative to the availability of cargo space and a Europe-wide decline in freight offers

Market

Freight exchanges recorded a ratio of 58% freight to 42% available cargo space in December, whereas in previous months, cargo space utilisation was at times only 15 to 20%. The December trend, and thus the reduction in capacity shortages, continued in January, with a 55:45 ratio of freight to available cargo space.

The shortage of drivers across Europe, the persistent lack of personnel, is forcing some transport companies to turn down orders and reduce cargo space, even though there are enough resources in their fleets.

The easing of capacity bottlenecks also indicates the fundamental economic development and the related decline in market volume, which is illustrated by the German truck toll mileage index, which shows that in December 2022 there were 5% fewer trucks on the autobahns than a year earlier.

Nearly 78% of all goods moved in the UK were transported by road. But importing goods from the EU by road has decreased significantly in the past couple of years.

At the same time, providers in the road freight sector report significant volume declines that will continue at least until the second half of 2023.

The deterioration of the economy will have an impact on volumes, at least in the first half of the year

Road
Rail

European road freight is currently experiencing a relaxation in available capacity, but not in terms of freight rates.

The next peak season, which could be before Easter, will probably show whether this shift to a more balanced ratio of freight demand and supply is a long-term turnaround or merely a snapshot.

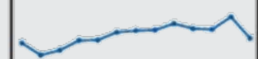
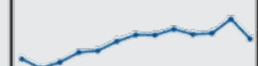
Rates

Although the capacity situation has improved, this is still not reflected in freight rates.

Even the now somewhat weakened diesel price, which for the 27 European member states is a weighted average of 1.80 euros per litre in January, it is not having a downward effect on freight rates and there are concerns in the UK around a 23% increase in fuel duty from the Spring, which will result in higher road freight costs being passed onto customers, at already high levels.

The road toll increases introduced in 2023 in some countries, including Germany, and rising wage costs are likely to push freight rates up even further, or at least keep them at a high level.

TEG Road Transport Price Index: January

	Dec	Jan	MoM Change	YoY Change	12 month Low	12 month High	12 month Trend
Overall	130.5	118.7	-11.8 -9.04%	2.5 2.15%	109.6	130.5	
Haulage	122	110.4	-11.6 -9.51%	-7.1 -6.04%	109.1	122	
Courier	136.9	126.1	-10.8 -7.9%	11.0 9.6%	110.1	136.9	

Source: Transport Exchange Group

Road
Rail

HGV registrations muted

Source: iStock

Trends in 2022 HGV registrations

The benchmark of demand for road transport services; registrations of commercial vehicles over 3.5 tonnes in the UK increased by 5.9% and in the European Union by 3.5% in 2022 compared to the previous year. After the low of 2020 the recovery is continuing, however, the market still remains far below the 330,000 registrations seen in 2018 and 2019.

The two biggest markets, Germany and France, are struggling. In 2022, these countries failed to see a continuation of the recovery observed in 2021 after the exceptional fall of 2020 linked to the COVID-19 pandemic. Compared to 2018, the number of registrations of vehicles over 3.5 tonnes in France and Germany is even down by almost 20%.

Poland, on the other hand, confirms its powerful upswing, with a clear rebound year-on-year in 2022 and growth of nearly 17% compared to 2018.

The first place for 2022 in the European Top 5 for growth goes to Spain (+12.7%), but this is not enough to allow vehicle registrations over 3.5 T to return to their pre-pandemic level. Similarly, the Italian market is trending upwards in 2022, but without seeing a return to pre-crisis levels.

Focusing solely on vehicles over 16 tonnes, 2022 offered a more widespread recovery compared to 2021, with the market recording an overall growth of 6.5%.

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