MARKET UPDATE

March 2023

United Kingdom

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Executive Summary

With cargo volumes in a downward cycle, air and sea freight rates have weakened on major trade-lanes and routes, while some road freight routes remain largely unaffected and at a high level.

Further pressure on freight markets will build as new airline passenger capacity is added and the container shipping lines receive their new-build vessels, but gloomy demand continues to weigh on the cargo carriers.

It is hopeful that rate erosion is easing, which is probably a good thing as rock-bottom prices are ultimately not good for shippers, because if carriers deem that revenue levels are not sustainable they will simply stop serving the market.

We are already seeing air cargo carriers exiting some routes and the container shipping lines are restructuring their networks to meet the reduced demand, with 2M withdrawing one of their primary Asia-North Europe services, after blanking the service for consecutive weeks.

Ocean Freight 3

Demand and freight rates on the main trade-lanes continue to soften and there is anticipation of further declines, as new-build capacity is added.

With persistent weak demand and low booking levels, some carriers appear to be entering into a deeper price war, offering discounted spot rates, while others are cancelling entire service loops.

Container shipping line schedule reliability hit 52.6% in January, representing an improvement of 22% on a year earlier, while the average vessel arrival delay is 5.26 days, which is a decrease of -2.68 days on 2022.

- Rates have softened again with expectation of further drops
- Pressure is building as new capacity comes online
- Carrier's are looking to secure long term business with fixed rates on the table
- Schedule reliability has improved since 2022

Air Freight 7

We didn't see the traditional volume surge post CNY and volumes remain low compared to last year, with rising interest rates and the Ukraine crisis continuing to affect the world economy.

Carriers increased flight frequencies for a post-CNY volume surge, which failed to appear and in the wake of the earthquake increased flight frequencies to Turkey, with freighters deployed for humanitarian aid.

Most airlines have available capacity at hand and are absorbing low yields amidst lean volumes, with aggressive spot market across most trade-lanes.

- Rates have remained low since CNY and should stablise until demand increases
- It continues to be a challenge setting monthly rates, so we suggest spot for now
- If you would like to lock in longer term rates on our core lanes (SHA, HKG, SZX), we have some options for you to consider
- Carriers are now focusing on Q3 for a bigger increase in demand

Road Rail 10

Several road freight factors suggest that freight rates may stay strong. The rise of toll road charges in Europe, the increase in living costs and driver wages will probably combine to keep freight rates elevated.

Weak confidence and high inflation continue to reduce demand and pressure for road freight services from consumers and producers is falling.

Considering the economic incertitude, it is difficult to make reliable forecasts for the years ahead, and the outlook for the European road freight market will depend on the outcome of various unpredictable factors.

- European road transport capacity is up 20% year-on-year
- Transporeon's spot index is down 11% year-on-year
- Industrial production in Europe dropped 1.7% year-on-year
- The outlook for 2023 suggests road freight rates will stay strong

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Ocean Freight

At a time of global political insecurity, macro-economic challenges and weak consumer demand across G20 economies, the top-11 container shipping lines are scheduled to receive another 89 large container vessels in the remaining course of the year. This number includes 31 megamax, 41 neopanamx and 9 'other' mainline vessels larger than 7'000 TEU.

With container sea freight markets in downward cycles, with economic headwinds impacting consumer demand, freight rates on the Asia-Europe trade-lane dropped another 3.8% in just a week.

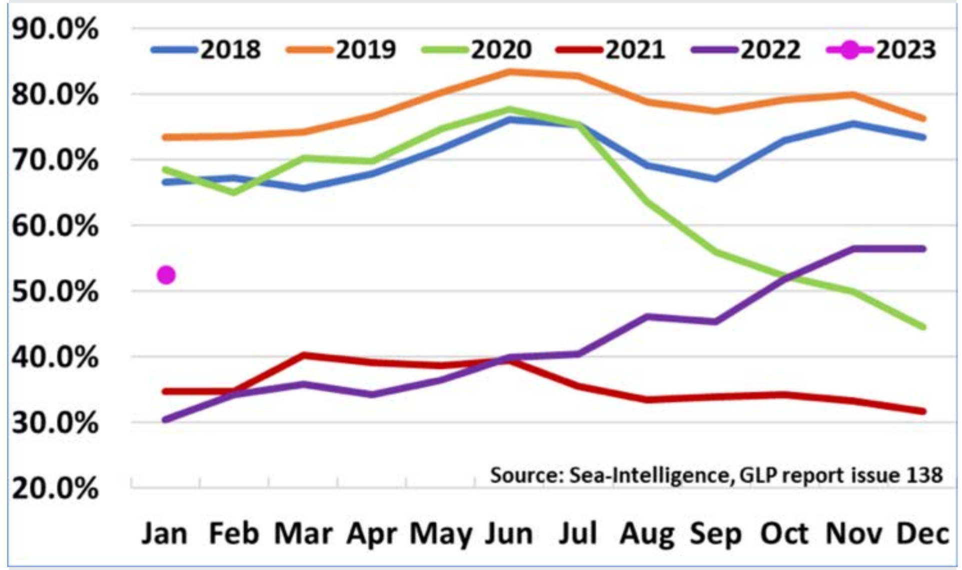
Expectations of further rate declines remain, as the pressure of new-build capacity, bloated inventories and the gloomy demand outlook continue to weigh on the markets.

With persistently weak demand and low booking levels, some carriers appear to be entering into a deeper price war, offering 'discounted' spot rates to secure cargo on selected routes.

In the near term, carriers have been focused on gaining volume and capturing market share, however that appears to have changed, with carriers now looking to manage capacity, to try and reverse the rate decline, with the blank sailing program continuing after the CNY break.

Meanwhile, schedule reliability has improved to 52.6% as of January 2023, which is a 22% improvement on last January.

Global schedule reliability



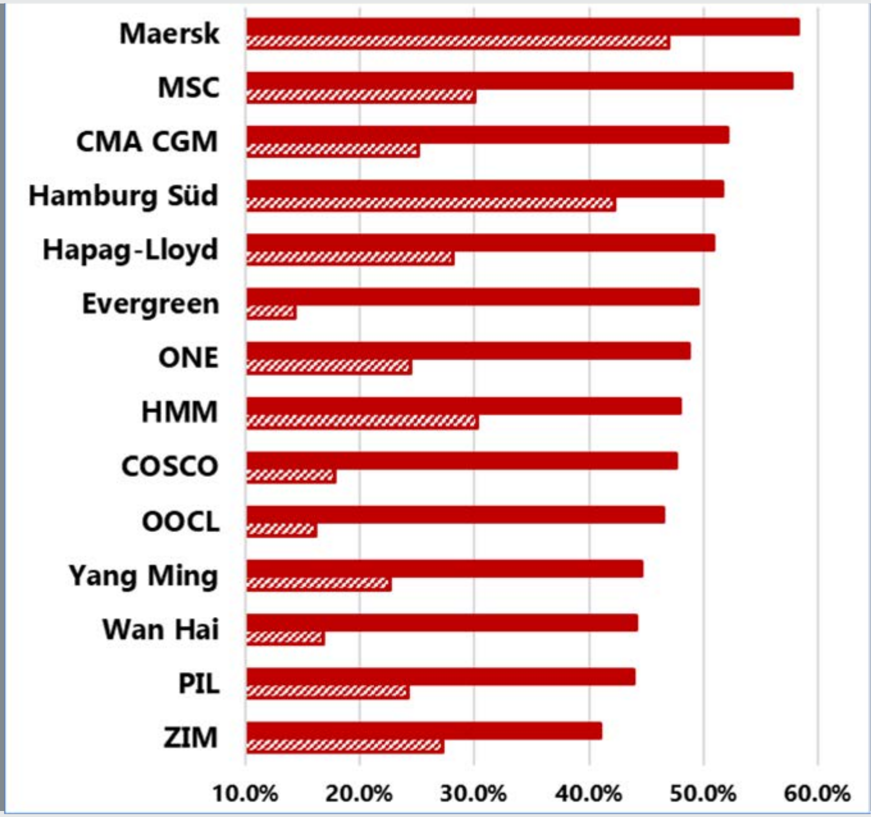
Source: Sea-Intelligence

On the transpacific trade-lanes, the port situation is improving on the US East and West Coast, with vessel dwell decreasing week over week due to softening demand. The volume recovery in March remains slow and carriers are looking for more support.

Transatlantic rates and capacity remain steady, while vessel schedules and services are returning to some normalcy.

Ocean Freight

Carrier reliability scores for January 2023 (compared with January 2022)



Source: Sea-Intelligence

As the underlying supply/demand imbalance continues to weaken freight rates, time-charter rates and second-hand ship values have been under pressure in 2023. Though there appears to be a growing disconnect between the anaemic freight market and the charter market, with brokers reporting renewed interest and an uptick in daily hire rates.

Major economies and trade volumes are likely to be negative or flat through the first half of 2023, but return to growth is expected thereafter, though performance is likely to fluctuate by region.

Market

The global container shipping fleet is expected to grow by 6.3% and 8.1% in 2023 and 2024 respectively, while reductions in congestion and any increase in sailing speed will add even more capacity, with supply potentially growing by 11.3% in 2023 and by 3.1% in 2024.

So far, the carriers have not been able to adjust available capacity in line with demand and it is unclear whether the released 2023 service plans and schedules will address the increasing imbalance.

Container shipping line schedule reliability hit 52.6% in January, representing an improvement of 22% on a year earlier, while the average vessel arrival delay is 5.26 days, which is a decrease of -2.68 days on 2022.

Maersk was the most reliable leading carrier with 58.3%, followed by MSC with 57.7%with thee more over 50% and the remaining providing schedule reliability of 40%-50%.

The lines are writing-off the first six months of this year and are counting on a demand boost in H2 to recover hugely downgraded full-year profit forecasts.

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The blank sailing programme from Asia continued after CNY break to restrict supply, while rising interest rates, tightening credit standards, and housing market corrections will impede consumer demand over the short to medium term.

There is no certainty that rates have bottomed-out, on transpacific and Asia to Europe trade-lanes, but the indices are clearly showing that the rate erosion from the stellar highs of a year ago is beginning to ease.

Rates

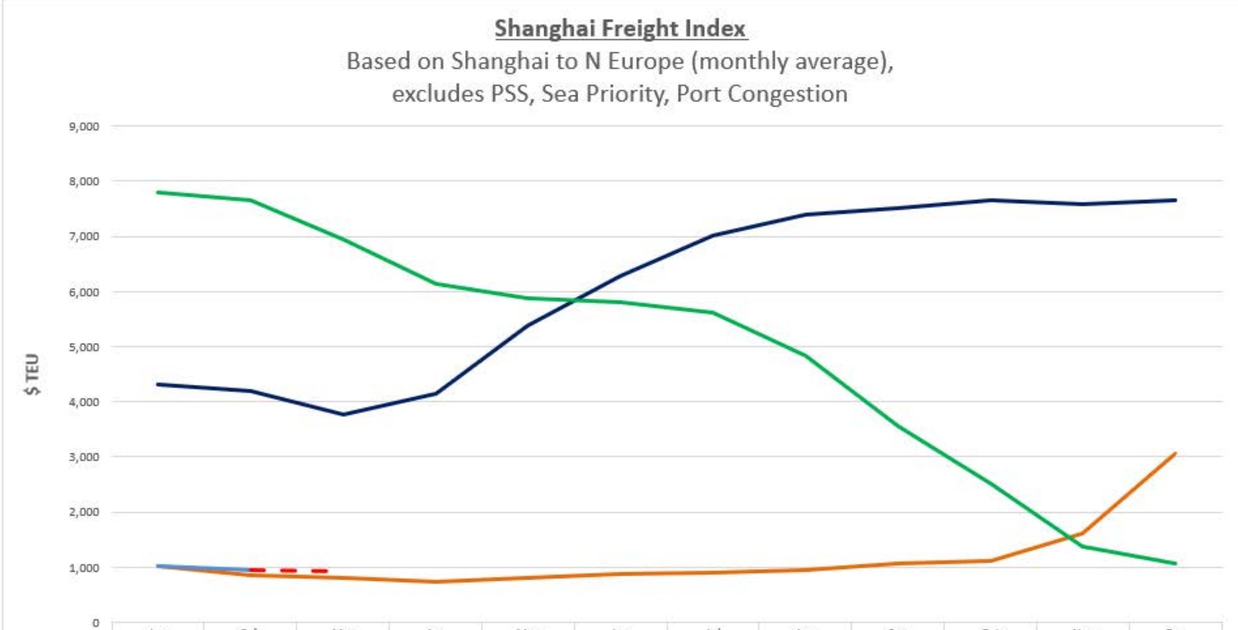
Headhaul rates from Asia to Europe softened again, with the second half of March expected to see further drops and carriers now actively looking to secure long-term business with fixed rates.

Backhaul rates are still decreasing slightly and remain on a very low level. The space situation is relaxed and there are no issues with capacity, only vessel delays, even though a high number of blank sailings in March are expected.

Transatlantic FAK rates from the US are now stable, after some softening in the first two months of the quarter. There is no change in capacity and schedules and services are returning to some normalcy.

On the transatlantic headhaul, schedule integrity improved and vessel space is generally available on short notice, but can be tight on certain services, so well worth checking with us asap.

Inland transport operations in Europe are generally efficient, but the threat of disruption due to strikes continue in some regions. In the US the overall inland situation has improved significantly, but some capacity constraints within rail yards remain and chassis shortages still occur.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	1,026	864	805	741	801	883	906	948	1,064	1,128	1,622	3,061
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
2022	7,784	7,657	6,949	6,134	5,886	5,814	5,605	4,842	3,557	2,503	1,378	1,062
2023	1,023	963										
2023F		963	950									

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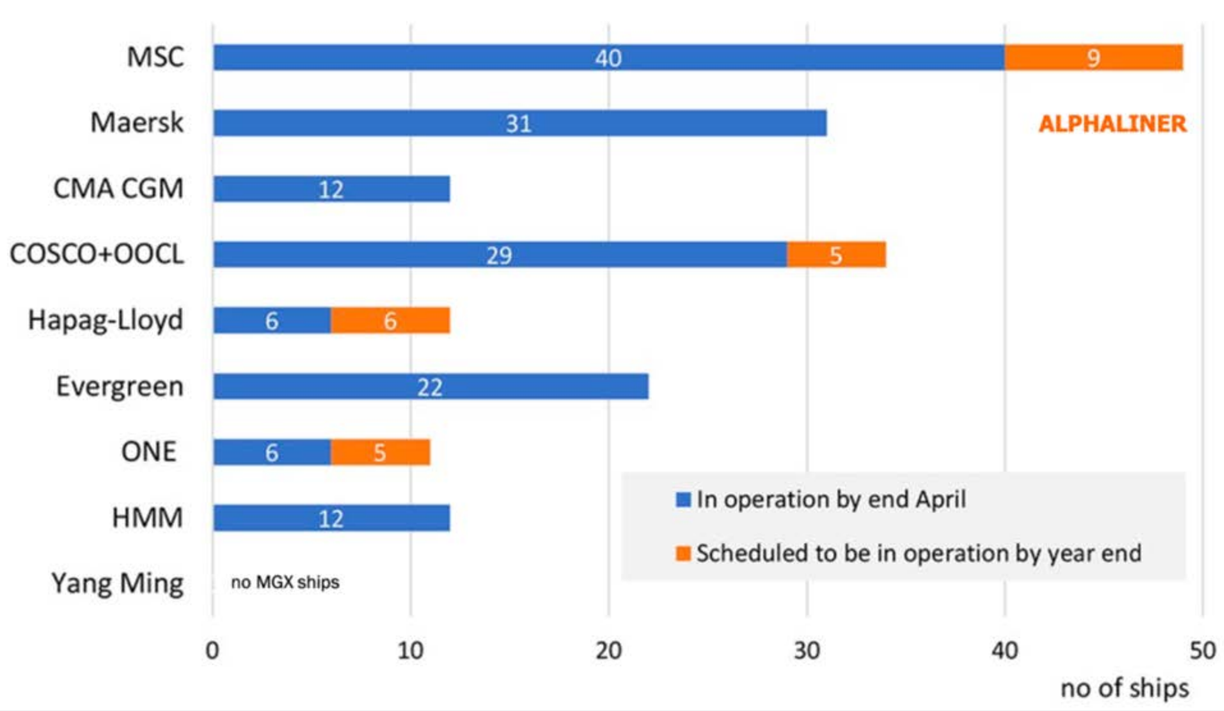
Ocean Freight

Carriers' megamax ('MGX') fleets now and at year-end



Source: Alphaliner

The decision to axe one of 2M's premium services comes as MSC is taking delivery of five new 'megamax' (>24K TEU) container ships, in March and April.

News vessels and service culling

MSC and Maersk have confirmed the structural suspension of the Asia – North Europe loops, the 'AE1 / Shogun', but with this loop's sailings blanked since early December, there will be immediate market impact.

'AE6 / Lion' is now the biggest 2M loop, with four new 'megamax' vessels, increasing average capacity to 22,700 teu per week.

The new container ship deliveries on the Asia trades are beginning, with the pace picking up and stretching through 2025.

89 new mainline vessels are scheduled for delivery in the remainder of 2023, followed by 130 next year and 96 in 2025, for a total of 315 over the next three years

2M's service cutting is likely to be followed by the other two alliances, as the largest container shipping lines try to mitigate the impact of significantly reduced demand.

The suspension of a service, rather than blanking voyages will be welcomed by many, as the former provides certainty, while the latter increases uncertainty.

Hapag-Lloyd's CEO, acknowledged the point in a debate with shippers, when he suggested that if demand is weak for a long period, it is "better to restructure a service network than to constantly blank".

Despite their current travails, the ship lines have evidently not lost their desire to grow their fleets, with Japanese carrier ONE placing an order for ten >13,7K TEU vessels, which follows their order last May, for ten vessels with a similar capacity for delivery in 2025.

Air Freight

The economic outlook for the air cargo industry in 2023 is expected to be a challenging one. Multiple macroeconomic headwinds stemming from the global pandemic persist and the on-going war in Ukraine has disrupted important trade flows and economic activity across various regions.

Rising interest rates and the Ukraine crisis continue to negatively affect the world economy, with PMI indices indicating low export orders over the short-term.

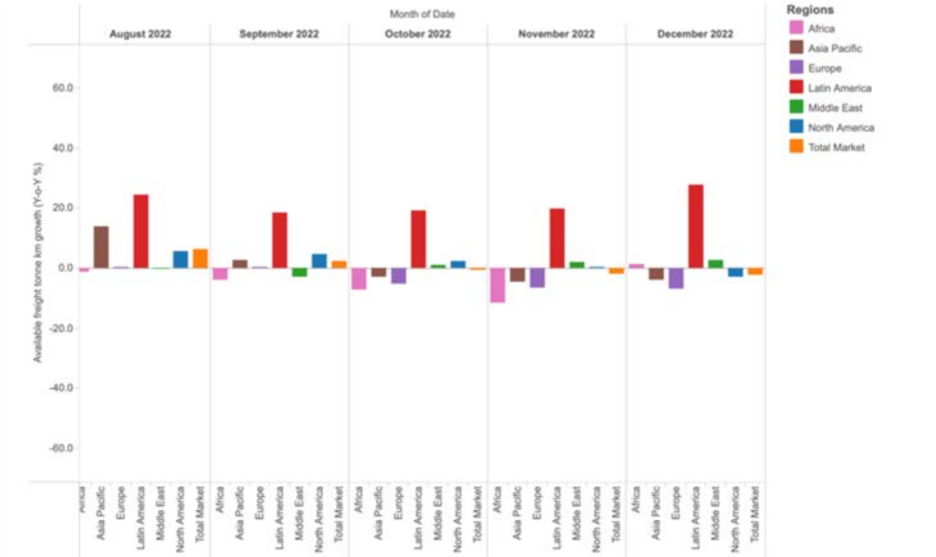
Consumer demand is likely to be depressed for some time yet as global growth is forecasted by IMF to decline to 2.9% in 2023 but rise to 3.1% by 2024, while global inflation is expected to fall to 6.6% in 2023 and 4.3% in 2024.

Volumes to the US and Northern Europe increased very slightly post the Lunar New Year slowdown, but nowhere near the volumes of 2022, though the comparison is not precise, as the Lunar Year fell on different dates.

eCommerce movements remain buoyant, but not to the extent anticipated, amidst high inflation.

The earthquake in Turkey and Syria dealt a huge blow to the operation of certain trade-lanes and availability of some commodities, while overall supply chain disruptions have been limited. Considerable humanitarian aid volumes into Turkey/Syria continue.

IATA capacity growth



Source: Air Cargo News

Overall global scheduled capacity is more than sufficient to support the current volumes, which are likely to remain flat, as they were in the second half of 2022.

The challenging economic environment for air cargo is expected to persist this year. Global economic growth is forecast to remain weak, and a slowdown of economic activity is unavoidable in major economies.

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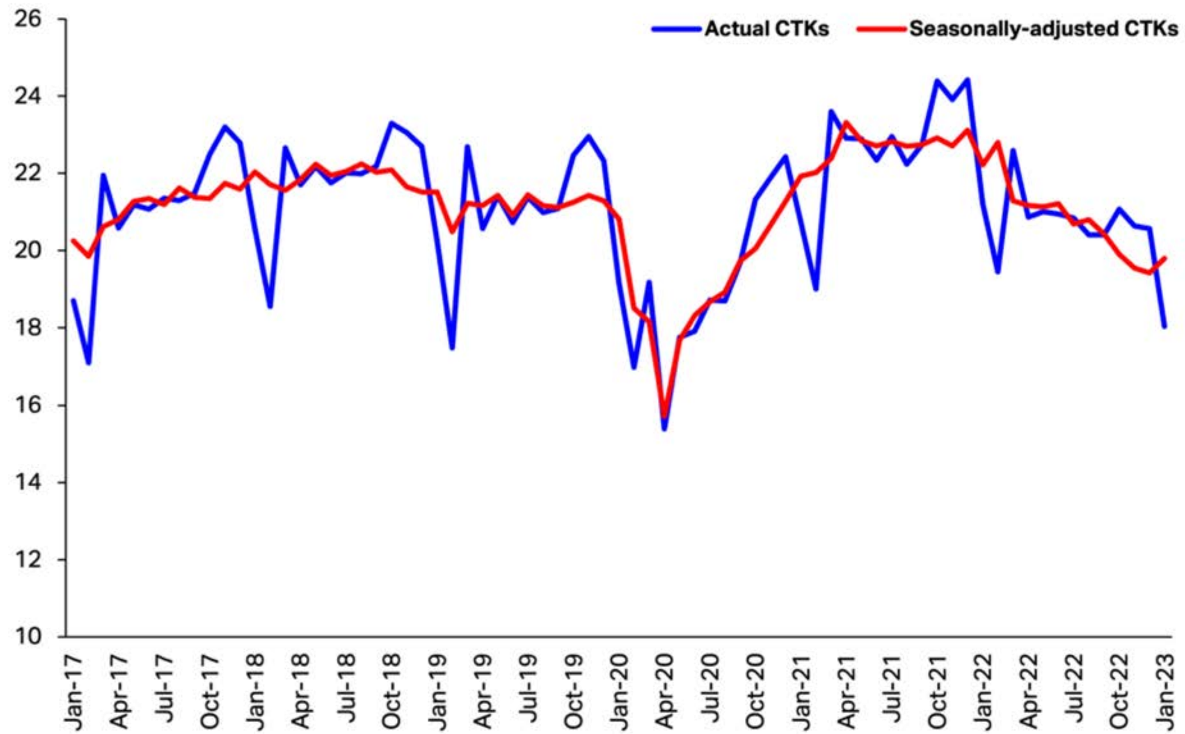
Air Freight

Global Industry CTKs (billions per month)



Source: IATA

Market indicators, compared to the same period in 2022, continue to paint a gloomy picture and while there was a slight increase in volumes post-CNY slowdown, there has not been the surge many hoped for.

Market

Demand was down -20% in February, compared to the same period in 2022, while capacity growth is up +18%, with month on month increases, as belly capacity continues to improve with more passenger frequency.

Spot rates on the primary ex Asia routes are down around -20% in year on year comparisons and the market remains ultra competitive.

The latest market analysis figures from IATA show how air cargo demand started the year on a weak note, with industry-wide cargo tonne-kilometres (CTKs) continued to decline in January, falling 14.9% year-on-year (YoY) and marking the 11th month of consecutive annual declines.

International CTKs declined slightly faster than industry-wide cargo traffic, registering a 16.2% YoY contraction in January.

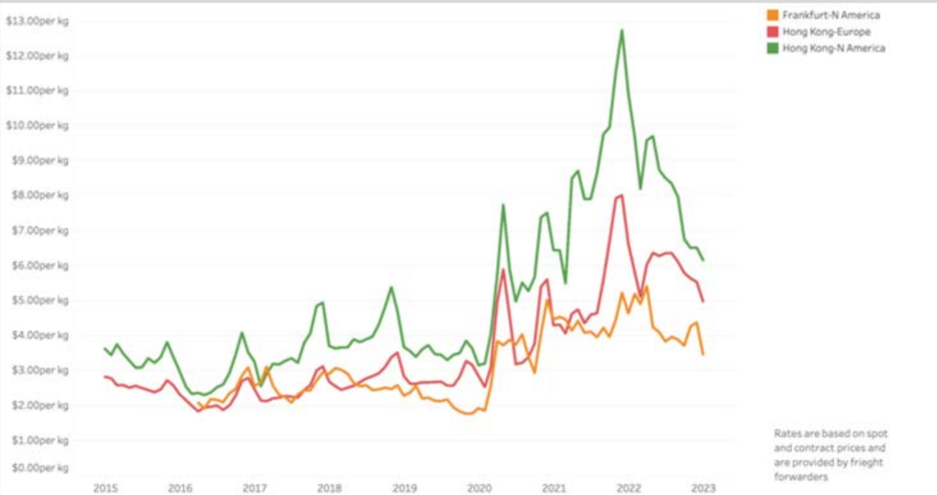
High inflation will continue curtailing purchasing power, dampening consumption and global trade. These impacts are worsened by currency depreciations relative to the US dollar, which increase the local currency price of commodities invoiced in US dollars. Oil price volatility will likely remain in 2023, owing to the EU ban on maritime transportation of Russian crude oil and petroleum products.

Cargo capacity – measured by available cargo tonne-kilometres (ACTKs) – picked up 3.9% YoY in January, reflecting the strong recovery of belly cargo capacity in passenger airline markets. Cargo load factors stood at 44.8%, after falling 9.9% below load factors in January 2022.

Air Freight

Source: Air Cargo News

Baltic Exchange Air Freight Index



Source: IATA and S&P

Owing to the historical relationship between global manufacturing Purchasing Managers' Index (PMI) – historically a leading indicator for air cargo demand - and industry-wide volume lifted, the recent increase in new export orders could point to growth in air cargo demand going forward

Rates are expected to remain competitive apart from higher jet fuel prices, which touched $108/Bbl in February.

Rates

Spot rates remain dynamic but on the lower side compared to last year as the demand capacity balance remains unbalanced and with aggressive spot market across most trade-lanes there is little value in setting monthly rates.

Global oil inventories have started to build slowly, which should prompt a gradual decline in average prices, though the earthquake in Turkey prompted oil terminal closures and spiked prices for a short while. Further impacts cannot be estimated at this point.

Jet fuel price is likely to remain on the higher side, even though a gradual decline is expected. OPEC+ production is partly responsible for gradual decline and while Russian crude oil exports remain higher than previously forecast the Energy Information Administration (EIA) still expects Russia's production to fall which is likely to disrupt global crude oil production

Long term rates likely to stabilise towards mid of Q2 2023.

Carriers

While passenger airlines are opening up more services and adding belly-hold cargo capacity, as passengers return to the skies, freighter operators are evaluating service coverage, with many cancelling or deferring fleet additions.

Rising interest and inflation rates have hit consumers' desire to keep spending and is even slowing the growth of eCommerce and with low purchasing managers' indices across major manufacturing nations the outlook for weak demand continues.

Market adventurists, like CMA-CGM, Flexport and Amazon are left counting the cost of their foray into airfreight, while they scale back the use of dedicated freighter flights and look for early lease exits, with Amazon only renewing four of twelve aircraft leases.

Even experienced integrators are trying to lessen exposure, with FedEx aiming to save $2bn in costs, which includes a cull of 16 aircraft over the next six months.

The Asian market has been "quiet" since Chinese New Year with no sign of the usual strong March pick-up

Road Freight

European road freight forecasts for 2023 reflect the general weakening of demand, weaker consumer confidence and high inflation across the entire European continent.

Demand pressure for road freight services from consumers and producers has been falling, but the outlook may be brighter, with slight economic growth currently expected in the euro area in 2023..

Following the pandemic and Russia's invasion of Ukraine, Europe's transport and logistics industry has entered a new phase.

Nearly all travel restrictions have been lifted since the beginning of 2023, although consumer demand remains very weak, due to a weak overall economy.

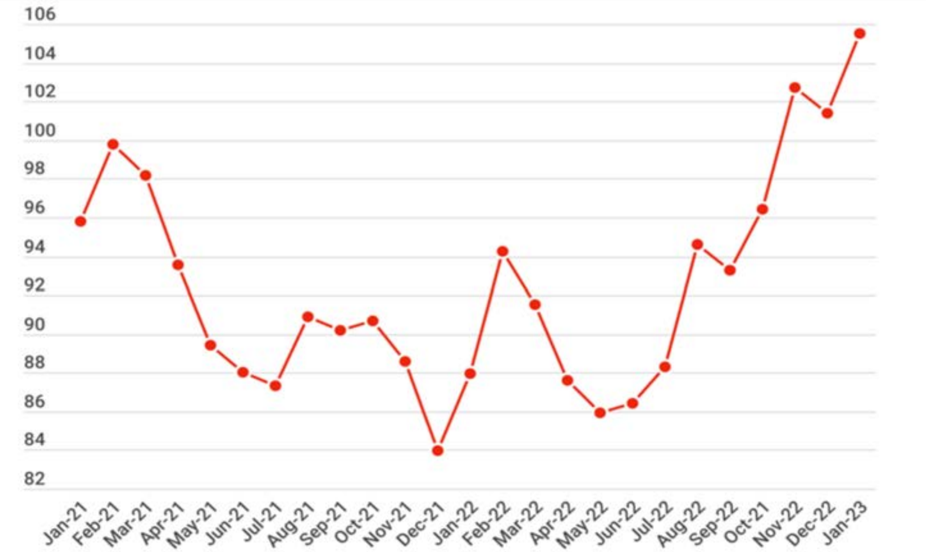
Based on how carriers are utilising their fleets, the capacity index for the European Road Transport in January 2023 is up 4.1% to the previous month and up 20% year-on-year, according to Transporeon.

The capacity index stood at 105.51 in January 2023, the highest point since January 2021.

The capacity index provides insights into truck availability in Europe.

Although demand naturally drives production, the truckload market is cyclical and goes through different parts of the cycle.

European Road Freight: Capacity Index (Monthly)



Source: Ti-Insight

For example, the economy incentivises carriers to invest in fleet expansions until, at some point, this creates overcapacity.

For the first time in almost three years, there is overcapacity in the European road freight market. What is yet to be seen is how the relationship between supply and demand will develop, especially in view of the Easter period.

Road
Rail

Photo Caption: Disembarking Dover

Given the evolution of supply and demand for freight and cargo space in the European transportation market, the fourth quarter of 2022 represents a tipping point.

A seasonal high in freight supply followed by a decline is not rare. But, contrary to seasonal tendencies in recent years, a steady increase in capacity has been apparent from May 2022 until January 2023.

Market

TIMOCOM's transport barometer reported a value of 55:45 for the ratio of freight to available cargo space in January and the proportion of available cargo space increased significantly in February. As a result, freight demand of 46% contrasted with 54% of available cargo space.

Compared to the tight capacity bottleneck situation last year, especially in comparison to February 2022, when the demand/supply ratio was 73:27, there is now a clear relief on the European freight market in terms of available capacity.

While the capacity bottleneck in the market has improved significantly, road freight rates remain largely unaffected and at a high level. Even falling diesel prices have not yet led to a significant drop in freight rates.

The current easing in diesel prices is offset by toll increases in various European countries and rising wage costs, which will probably be further fuelled by the shortage of truck drivers in the transport sector.

Due to the slight decline in inflationary pressure and the robust economic performance to date, the cautious optimism of economists and market participants continues.

Contrary to the stagnation that was originally predicted, slight economic growth is currently expected in the euro area in 2023.

However, this forecast is subject to considerable uncertainty, as the overall market environment remains volatile and geopolitical developments cannot be foreseen.

Considering the road freight market, we see that demand for cargo capacity is lower than the supply of space

Road
Rail

The decline in Eurozone inflation has continued slowly but steadily since November 2022, with the UK's headline rates also peaking, bringing some relief to consumers, whose spending mood is recovering slightly.

Consumer sentiment in February was again better than in the previous month and may yet filter through to road freight demand.

Rates

Low peak season demand is causing increased capacity and a decline in European spot rates. However, according to Eurostat, European consumer confidence slightly improved in January from negative in December, although inflation is still high at 8.5% in January.

As reported by Eurostat, economic growth was weakening, and industrial production in the European area was down by 1.1% in December 2022 compared to November.

The outlook for 2023 on road freight shows that freight rates will stay strong, and the rise of toll road charges, the increase in living costs and driver wages will probably cause freight rates to remain elevated. However, a fall in diesel cost should cause rates to contract.

TEG Road Transport Price Index: February

	Jan	Feb	MoM Change	YoY Change	12 month Low	12 month High	12 month Trend
Overall	118.7	114.8	-3.9 -3.28%	5.2 4.74%	109.6	130.5	
Haulage	110.4	107.2	-3.2 -2.90%	-1.9 -1.74%	107.2	122	
Courier	126.1	121.6	-4.5 -3.57%	11.5 10.45%	110.1	136.9	

Source: Transport Exchange Group

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Road
Rail

Portugal road Schedule - Weekly LTL Service

	MON	TUE	WED	THUR	FRI		WED	THUR	FRI
Booking received date	●	●	●	●					
Approvals deadline / cut off				11:00 UK					
CFS close out				12:00 UK					
Trailer loading					12:00 UK				
ETD					●				
Goods in transit						TRANSIT			
ETA							●	●	
Trailer unloading / clearance								●	●
Estimated delivery date								●	●
	-4	-3	-2	-1	-0		5	6	7

Source: Noatum Logistics

Turkey

Noatum Logistics' road freight service from Turkey are operating well and with minimal disruptions.

The bi-weekly Turkish intermodal service is also back up and running reliably, with all rail links working and transit times of 12 to 14 days.

Local costs in Turkey are being affected by the depreciating Lira, which is now 22:1 GB£

Portugal

The Noatum Logistics road freight service for groupage from Portugal is operating smoothly, with departures every Thursday and Friday and transit times to door of 6-7 days.

Fuel costs have been reducing and will hopefully soften further into Q2.

Trends in 2022 HGV registrations

The HGV Road User Levy is a time-based charge of up to £1,000 a year or £10 a day and applies to all vehicles weighing 12 tonnes or more using the UK road network.

The Government suspended the levy during the pandemic on August 1, 2020, but from July 31, 2023, charges will begin to apply again.

The Levy is charged to make sure that HGV operators from abroad are paying towards the cost of building and maintaining the country's roads, but could see UK HGV drivers pay an additional £1000 per annum, which will of course be passed on to customers.

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