MARKET UPDATE

April 2023

United Kingdom

noatum logistics

noatum logistics

Executive Summary

Optimism among container shipping lines has been in short supply in recent months. However, this appears to be changing, with full ships, stabilising spot rates and a bullish charter market putting a spring in their step, after months of rate erosion and abundant capacity.

The International Air Transport Association (IATA) released data for February 2023 global air cargo markets' showing that air cargo volumes rose above pre-pandemic levels, with demand for manufactured goods from China, the world's largest export economy, growing.

The Q4 2022 easing in road freight capacity continued in the first quarter of this year, but despite a higher supply of spare capacity and a drop in diesel prices rates in general have fallen only slightly since the beginning of the year.

Ocean Freight 3

A definite end to rock-bottom freight rates could be in sight, as carriers take advantage of tight capacity management and full vessels to launch rate restoration programmes across their networks in the next few weeks.

The ocean carriers are preparing to unleash a barrage of GRIs this spring, in order to shore-up freight rates ahead of the peak season, and to mitigate any weak demand, they are planning to blank up to 50 head-haul sailings from Asia to the US east and west coasts this month. It remains to be seen whether they will look to announce similar GRIs on other routes, including the key Asia-North Europe trade-lane.

- April seems to be a turning point with full ships and stabilising rates
- Rates from Asia to Europe remained stable with a small drop for March
- Lines continue to adjust and tighten capacity to keep vessels full
- Big spike in oil prices followed the surprise OPEC+ decision to cut output

Air Freight 7

The shifting volume and capacity balance is reflected in the global dynamic load factor, which in March was 60%, 6% short of the same month a year earlier, but up 6% on January's seasonal low.

There was also a sense of a return to normality in March, with the previous month's rate fall attributed to shrinking cargo volumes and recovering capacity.

Global cargo volumes have been falling for the past 13 consecutive months but showed some sign of relief in March, as volumes registered their smallest drop, of 3% year on year, the lowest monthly decline in over a year.

- Airfreight rates have stablished and increased in some markets
- Belly-hold capacity has increased, but volumes remain subdued
- Space has tightened on some routes and we recommend booking 4-5 days prior to uplift, to secure space
- Lock in longer term rates on core lanes including SHA, HKG, SZX

Road Freight 10

The latest data from the TEG Road Transport Price Index is tracking a small fall in haulage prices of 3%, which is lower than the start of the year and the lowest level since March 2021.

The TEG data suggests that despite cost and workforce pressures, hauliers are holding back some increases.

With the Windsor Framework potentially prefacing a better working relationship between the UK and EU, they will be hoping that an economic upturn will trigger increased volumes and better margins in the short term.

- Fuel costs reducing and will hopefully soften further into Q2
- UK law change could see HGV drivers pay an additional £1000 p.a., which is likely to be passed onto consumers
- Our Turkey road and intermodal services operating 100%
- Noatum Portugal road freight service operating smoothly, with weekly departures and short transit times

MARKET UPDATE – April 2023

Ocean Freight

The outlook for the container shipping lines is looking brighter, with full ships, stabilising spot rates and a bullish charter market, after months of rate erosion and abundant capacity.

April seems to be a turning point for the market with carriers reporting full ships and stabilising rates from Asia to Europe, with the SCFI only reflecting a small drop for March.

Container spot rates increased from the Chinese port of Ningbo, with Maersk believing that the market is "finally beginning to stabilise and find equilibrium".

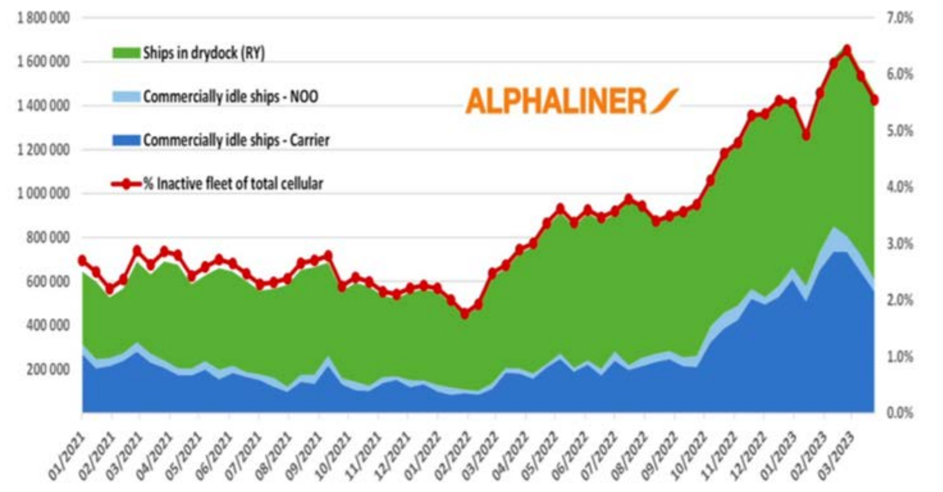
Carriers are planning to blank up to 50 head-haul sailings from Asia to the US east and west coasts this month and are preparing GRIs this spring, to shore-up freight rates ahead of the peak season.

Hapag-Lloyd announced $1,000/40' increase on transpacific sailings from 1st May and it remains to be seen if carriers will announce similar GRIs on other routes, including the Asia-North Europe trade-lane.

Vessel space is lacking at the moment, with many full until the third week of April, which suggests that carriers have mostly succeeded in matching supply with demand on the transpacific and Asia-Europe lanes.

Spot rates are seeing a slight uptick as a consequence.

Inactive fleet capacity (TEU) and proportion to



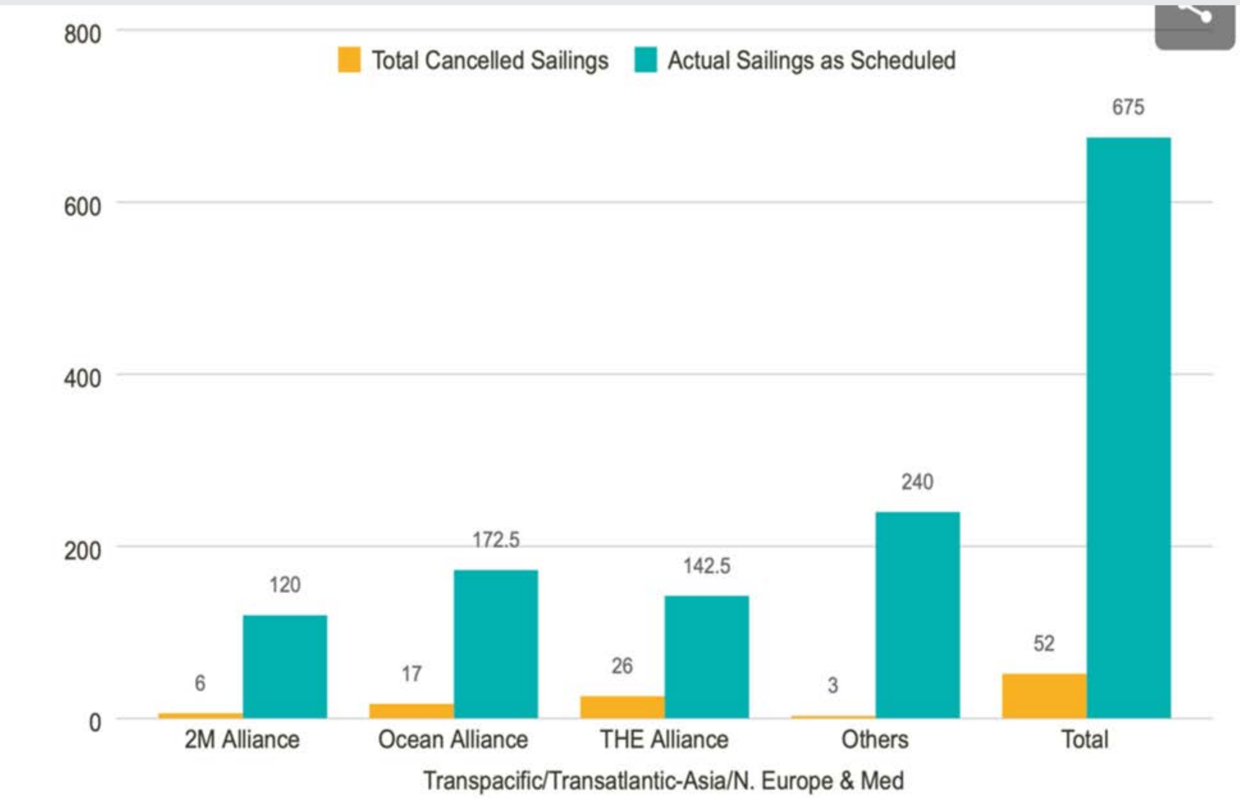
Source: Alphaliner

Ocean carriers will adjust and tighten their capacity to ensure full voyages are maintained and will continue with this mindset until market demand changes.

Meanwhile, a big spike in oil prices following the OPEC+ coalition of oil-producing countries' surprise decision to cut output, could result in a fresh raft of bunker surcharges for shippers.

Ocean Freight

Cancelled vs scheduled sailings (Week 16 to 20)



Source: Drewry

The Asia to North Europe blank sailing program continues to balance out demand and supply, with full vessels and rolled cargo.

Ports and terminals in Europe are generally fluid but disruptions are possible due to a series of strikes and protests in various countries.

Market

Transpacific blank sailings have been around 64% over the first quarter, which is above 2022 averages and means that total effective deployment is the lowest it has been since before the pandemic.

The port situation is stable on both the east and west coast, with vessel dwell time decreasing week over week due to softening demand.

Transatlantic Westbound (TAWB) rates remain high, but are under pressure as demand is not recovering and capacity continues to increase, and this trend may continue beyond Q2.

Space is available on most services and while schedule integrity improves, we are watching transit times as vessels go on slow steaming, in line with IMO 2023.

Intra-Asia rates continue to slide but at a much slower pace and while some GRIs have been implemented locally, many remain unsuccessful.

Space is tight at some locations, as a result of blank sailings arrangements, with roll pools accumulating at origin and transhipment ports.

Ramadan will impact some schedules to Malaysia, Indonesia, India, Bangladesh, and Pakistan, and time-sensitive cargoes should load on direct service to prevent any delay at transhipment port.

noatum logistics

Ocean Freight

High inflation continues to undermine household purchasing power and economic growth across the UK and Europe.

Rising interest rates, tightening credit, and housing market corrections impedes demand and near-term growth.

Rates

The large rate declines experienced are fundamentally a market correction, from the historically high rate levels in late 2021 and early 2022, that were driven by pandemic supply chain disruptions.

This normalisation process, rather than a market decline is global, but not all trade lanes adhere to change at the same time or pace, as on the westbound North Atlantic trades where rates remain highly elevated compared with 2019 levels.

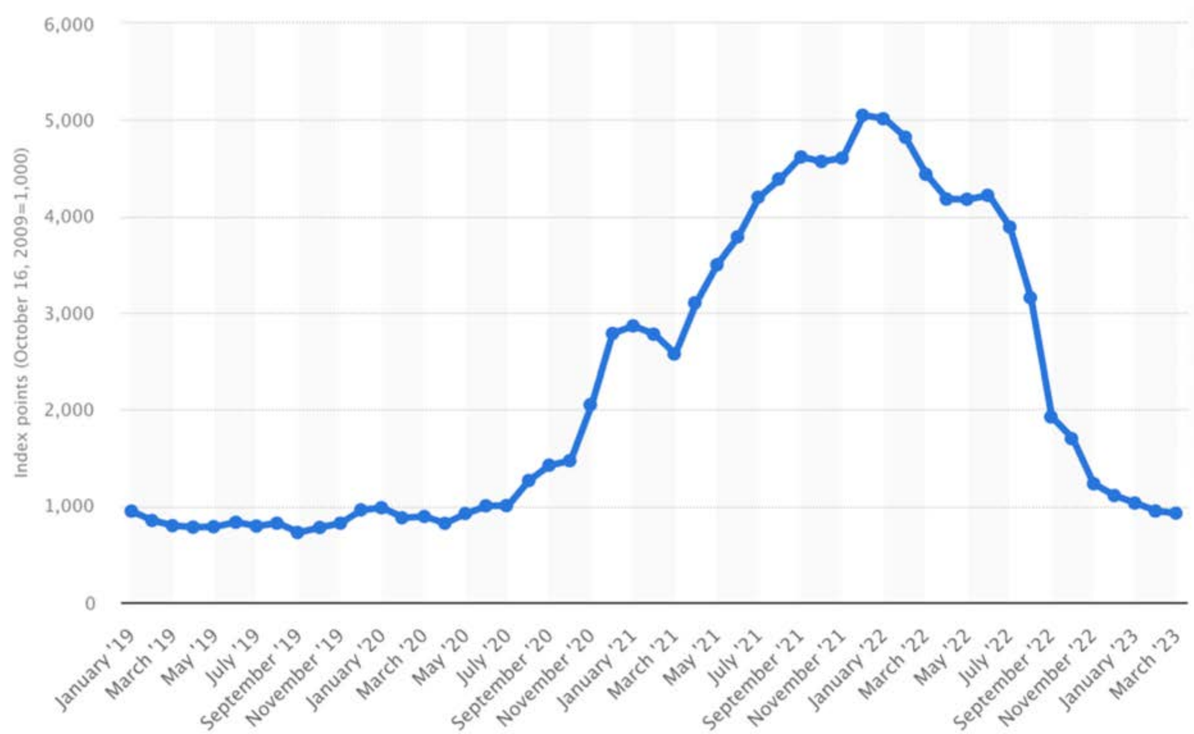
On the Far East Westbound (FEWB) lane, the market has picked up and we see less volatility from major gateways.

Carriers are holding rates high for the ongoing negotiation season, encouraged by positive yields in the second part of March, and we do not anticipate the market going back to Q1's low rates.

According to data from Container Trades Statistics (CTS), head-haul TEU miles have declined in the range of 13-16% over the last six months, which is significant as it is the growth in head-haul traffic which drives market dynamics and market pricing, because this is where vessel deployment earns the majority of income for the carriers.

Global rate levels have held up quite well given the market circumstances, suggesting that carriers, to some degree, have become better at pricing and yield management, than they were prior to the pandemic.

Shanghai containerized freight rate index from January 2019 to March 2023



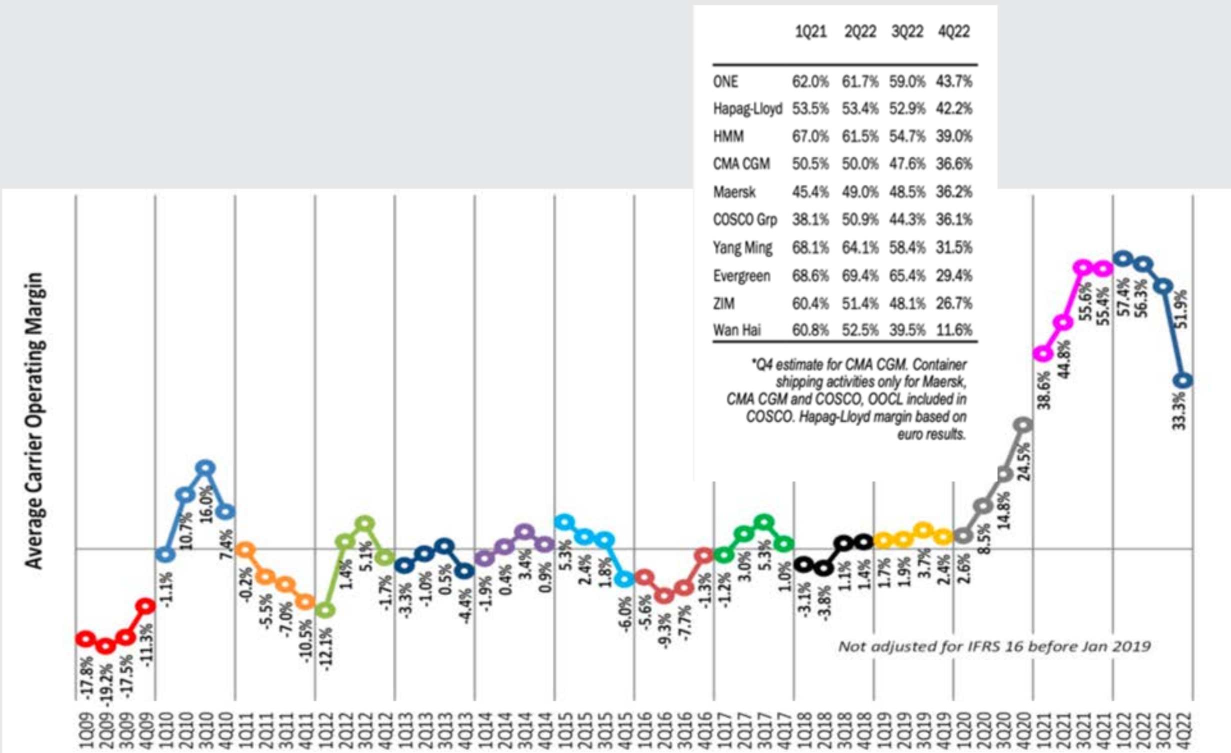
Source: Statista

noatum logistics

Ocean Freight

Main carriers: Average core EBIT margin by quarter

Carrier Operating margin by quarter



	1Q21	2Q22	3Q22	4Q22
ONE	62.0%	61.7%	59.0%	43.7%
Hapag-Lloyd	53.5%	53.4%	52.9%	42.2%
HMM	67.0%	61.5%	54.7%	39.0%
CMA CGM	50.5%	50.0%	47.6%	36.6%
Maersk	45.4%	49.0%	48.5%	36.2%
COSCO Grp	38.1%	50.9%	44.3%	36.1%
Yang Ming	68.1%	64.1%	58.4%	31.5%
Evergreen	68.6%	69.4%	65.4%	29.4%
ZIM	60.4%	51.4%	48.1%	26.7%
Wan Hai	60.8%	52.5%	39.5%	11.6%

*Q4 estimate for CMA CGM. Container shipping activities only for Maersk, CMA CGM and COSCO, OOCL included in COSCO. Hapag-Lloyd margin based on euro results.

Average of CMA CGM (incl APL to 2Q16), COSCO Shg (since 1Q 2019), CSCL (to 1Q 2016), EMC, Hanjin (to 3Q 2016), Hapag-Lloyd (incl CSAV to 2014), HMM, Maersk (Ocean from Q120), ONE (from 2Q 2018, formerly KL/MOL/NYK), WHL, YM, ZIM

Source: Alphaliner

Average operating margins for the leading container carriers fell by a third to their lowest level in two years in the final quarter of 2022, following the severe decline in rates and demand.

Carrier financial results for 2022 suggest bleak 2023

OOCL reported one of the highest financial operating margins among container shipping lines for 2022, but its operating profits dropped nearly 75% in the first quarter of 2023 following steep declines in freight rates, as carriers face up to the new market reality.

Quarterly revenue for Hong Kong-listed carrier OOCL fell 58% in the first quarter of 2023, with transpacific income down 66% and Asia-Europe activity down 68%, while its transatlantic business grew 25%.

Following an average margin of 51.9% in the third quarter of 2022, the top 10 carriers reported a much more modest 33.3% for the fourth quarter, the lowest level since Q4 2020.

The top 10 carriers have now generated operating earnings (EBIT) of USD 155.9 bn for 2022, which represents a 30% uplift on 2021 and means they have amassed huge amounts of cash since the third quarter of 2020 which will help them weather bad markets.

At the end of the year, before debt obligations, Maersk Group had total cash and deposits of USD 28.6 bn, while Hapag-Lloyd had cash and cash equivalents of USD 16.3 bn with a further USD 3.0 bn in time deposit investments.

Many carriers are also hoping that their pivot to non-shipping and logistics activities will mitigate any shipping down cycle.

noatum logistics

Air Freight

The International Air Transport Association (IATA) released data for February 2023 global air cargo markets' showing that air cargo demand rose above pre-pandemic levels, with demand for manufactured goods from China, the world's largest export economy, growing.

Rising interest rates, micro and macro economic challenges and the Ukraine crisis continue to negatively affect global consumer demand, but major economies may show more resilience to high inflation towards the second half of the year, with recovery in volumes expected and PMI indexes already edging upwards.

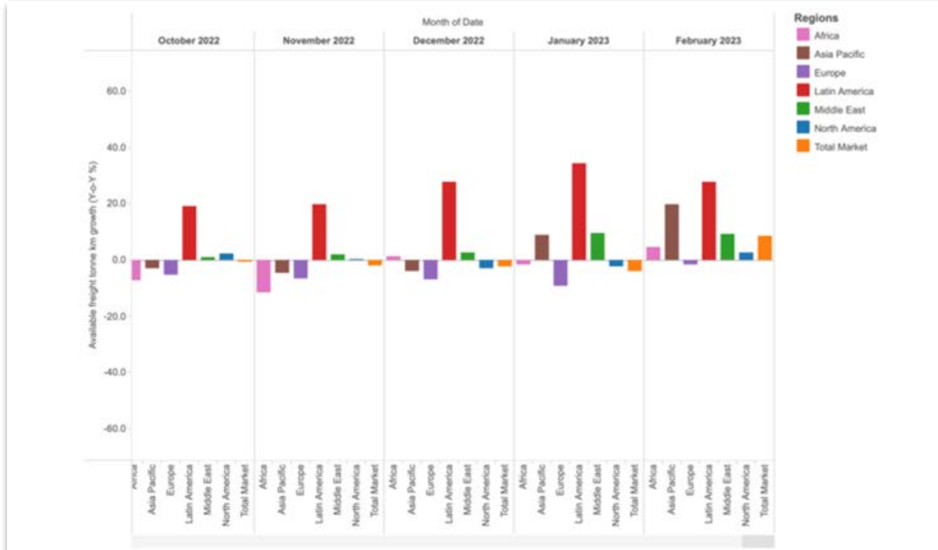
The re-opening of the Asia-Pacific markets is likely to support a faster global economic recovery, with belly capacity growing in line with passenger travel increases.

Most airlines have available capacity at hand, absorbing low yields amidst lean volumes and no bottlenecks are expected to impinge capacity in the coming months, although ongoing labour disputes may have some limited operational impact.

Global capacity is up 14% on 2022, with belly capacity increasing 20%, as passenger travel recovery remains significant on outbound Asia, Europe and North American lanes, with additional PAX capacity on long-haul lanes.

Labour dispute delays may affect capacity on impacted trade-lanes, with ground handling and trucking disruption creating ripple effects on available air capacity.

IATA capacity growth



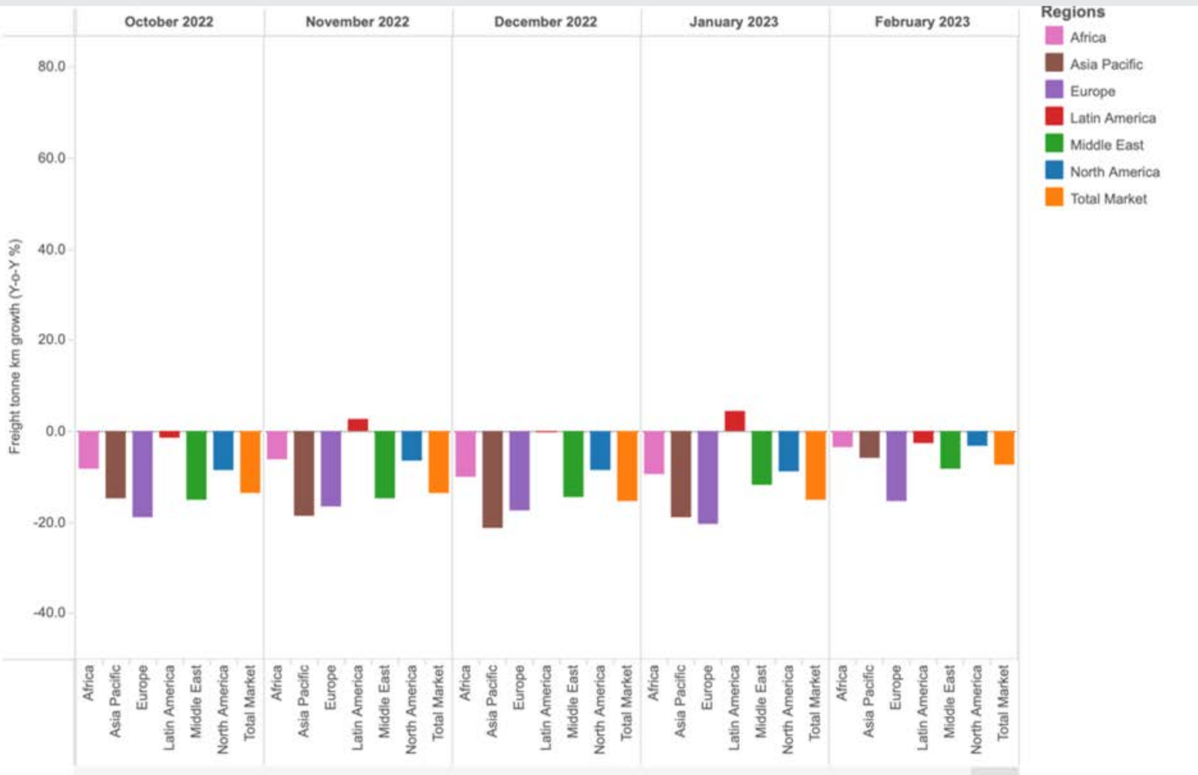
Source: Air Cargo News

IATA data for February 2023 global air cargo markets showed air cargo demand rising 2.9% above pre-pandemic levels, the first time it has surpassed pre-pandemic levels in eight months.

Year-on-year demand fell by 7.5% in February, which is half the rate of decline experienced in January and was sufficient to boost the industry into positive territory (+2.9%) compared to pre-pandemic levels.

Air Freight

IATA Monthly Demand Growth



Source: IATA - Air Cargo News

The airfreight market saw some stabilisation end March and into April, after flat growth post-Lunar New Year, while the Purchasing Managers Index (PMI) for emerging markets, Europe and US is improving, which suggests an increase in volumes from the 2nd quarter.

Market

The latest IATA update for February 2023 saw a shift in several regions. Europe to Asia, Asia to North America and intra-Asia routes experienced a significant improvement in their growth rates, compared to previous months, although they still remain in the negative territory.

Airfreight rates, that were on a downward trend, have stablished and in some markets, like Shenzhen, have actually increased.

If you would like to lock in longer term rates on the most important core lanes, including Shanghai, Hong Kong and Shenzhen, we have some options for you to consider.

While export orders have increased slightly from Asia, economic challenges are still impacting the PMI, with lower sales and higher than normal inventory levels.

Westbound transatlantic air cargo traffic registered its first monthly decline in two years and transatlantic routes are continuing to see increasing numbers of passenger flights being scheduled, increasing capacity to pre-COVID levels.

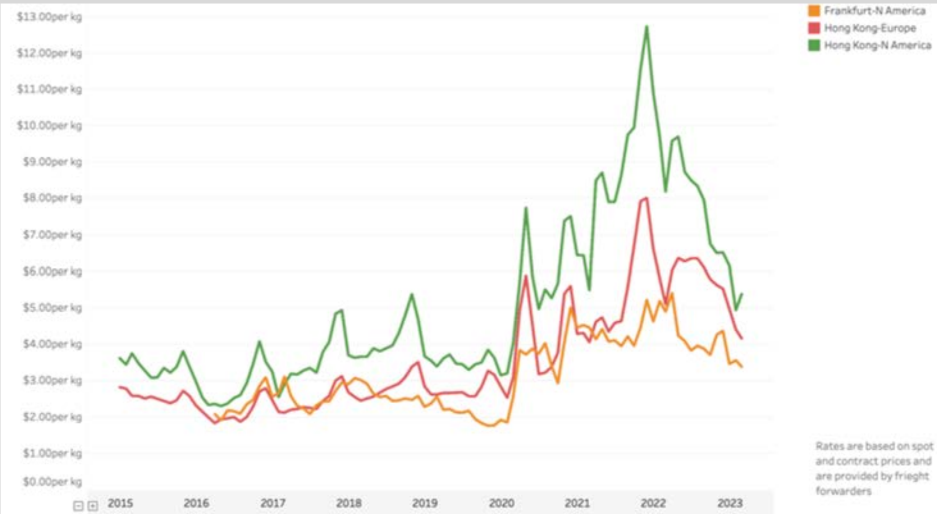
American Airlines is adding over 400 wide-body flights a month this summer and United Airlines is increasing its presence in London to almost two dozen daily flights.

This huge influx of capacity will hit a market that has already seen retreating demand and pricing, driving rates down further as carriers scramble for cargo to fill their aircraft.

Air Freight

Source: Air Cargo News

Baltic Exchange Air Freight Index



Source: IATA and S&P

Global air freight capacity was up 15% last month, with large increases in most regions and trade-lanes, taking rates down from their record 2021 levels, but still remain far above pre-pandemic 2019 levels.

The market has remained aggressive on most trade-lanes, as demand remained low amid sufficient capacity.

Rates

After a decrease in ad-hoc rates over the last weeks, there was a slight rise in the ad hoc market and charter rates in March, with higher jet fuel prices.

Long term blocked capacity contracts are still significantly above ad-hoc rates and the slight increase in tonnage against last month will change the rate market further, though more stability is expected as we move into the 3rd quarter.

Jet fuel prices ended March slightly down, with a further 4.5% drop since the first week of April. Prices in North America saw the biggest drop, falling 6.6% since March.

However, global oil consumption has increased and China is the main driver of growth in 2023, which means that jet fuel price will remain on the higher side as demand is increasing and some refinery outages have further limited supply.

Carriers

In addition to the return of long-haul passenger aircraft and significant belly freight capacity, out of Asia, America and Europe, several airlines are adding freighters to the biggest and most important transatlantic, transpacific and East/West trade lanes.

Maersk Air Cargo will operate three weekly freighter flights between Northern Europe and Asia-Pacific, while CMA CGM Air Cargo has increased to 15 weekly flights, connecting Europe, Asia, and the US, while MSC began its round-the-world service with the first of four Boeing 777-200 freighters.

Emirates begun daily flights between Dubai and Shanghai and Dubai-Beijing, while Qatar have restarted daily flights from Doha to Beijing and Guangzhou.

Etihad has expanded frequency and capacity on key routes in China and the Asia Pacific and is investing heavily in its cargo infrastructure.

KLM has introduced three flights per week between Amsterdam and Hong Kong, with six direct flights a week to Beijing and to Shanghai.

Lufthansa has virtually doubled flights to China with nine weekly flights and is increasing frequencies to Hong Kong, while Cathay will increase its London-Hong Kong connection from four to five flights a day in April.

"An optimist could see a return to more normal demand patterns." IATA Director General.

Road Freight

The easing in the capacity bottleneck situation, which was already evident in the final quarter of 2022, continued in the first quarter of this year, as we reported in last month's market update

After an excess capacity was recorded for the first time in February (46:54), the TIMOCOM Transport Barometer recorded a slight decline in available freight capacity again in March with a ratio of 49% freight share to 51% available cargo space.

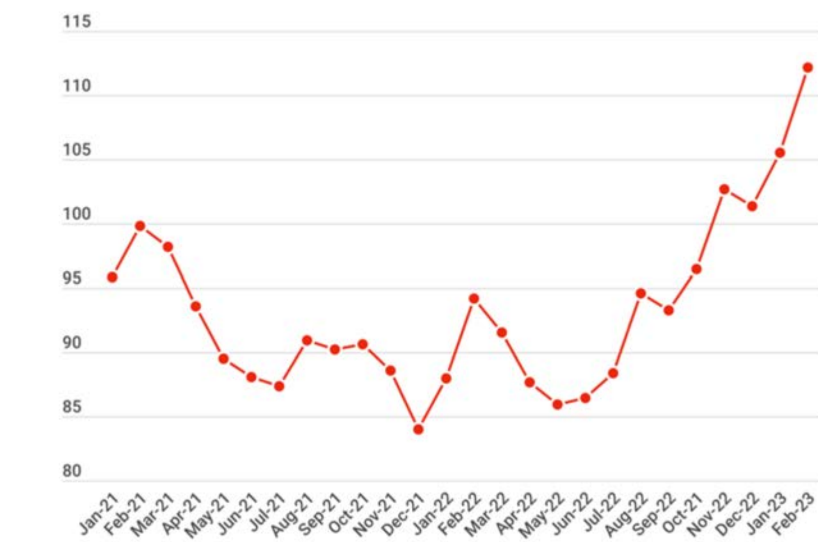
This development is most likely due to the seasonal nature of the road transport market, as the weeks around Easter are usually characterised by an increase in volumes and suggests a minimal capacity bottleneck this month.

In his Spring Budget, Chancellor Jeremy Hunt announced that the planned rise in fuel duty will be cancelled, maintaining last year's 5p cut for another 12 months. This came as a particular relief to vehicle users and businesses reliant on fleets of vehicles.

However, the government also announced the return of the HGV levy later this year.

Vehicles that meet the latest Euro VI emissions standards will receive a 10% discount on it, encouraging companies to use newer vehicles.

European Road Freight: Capacity Index (Monthly)



Source: Ti-Insight

Coming into force in August, it puts hauliers in a potentially lose-lose situation: pay more for older vehicles or spend to update the fleet to newer/greener vehicles.

Unlike last year, electric vehicles did not feature in this year's Spring Budget. In an industry set to be penalised for CO2 emissions with the new HGV levy, many would have expected support for transitioning vehicle fleets to greener energy.

Road Freight

TEG Road Transport Price Index

Source: Transport Exchange Group

Market

Compared to March 2022, the the TEG Road Transport Price Index is up 2.8%, driven by strong year-on-year growth of 6.4% for courier prices. By contrast, haulage prices are down 1% on 2022 levels, although they increased by almost 2.2% during March.

The TEG data suggests that despite cost and workforce pressures, hauliers are holding back some increases, but with the Windsor Framework potentially prefacing a better working relationship between the UK and EU, they will be hoping that an economic upturn will trigger increased volumes and better margins in the short term.

Over the past year, courier prices have told a different story, rising by over 10% year-on-year, but in the last recorded month courier prices also fell by 4% as consumer spending grows slowly.

Demand for lower and zero-emission vehicles is growing as the road transport sector prepares to make the transition, hastened by fuel price volatility and the Russian invasion of Ukraine.

Truck manufacturers are already investing heavily to bring a range of electric, hydrogen and other new technology models to market. Those companies who can afford the initial investment in greener fleets will make significant savings on ongoing operational costs.

Soft freight rates in the first quarter is not unusual and we'd normally expect to see prices rise gradually as we head into spring, but 2023 is different, as the UK narrowly avoided a recession, and with consumer demand remaining muted, businesses are scaling back, which may encourage hauliers to keep a lid on prices.

Road Freight

A glance at the factors relevant to freight rates shows there was not only a higher supply of spare capacity in the first quarter of 2023, than in previous quarters, but also a further drop in diesel prices.

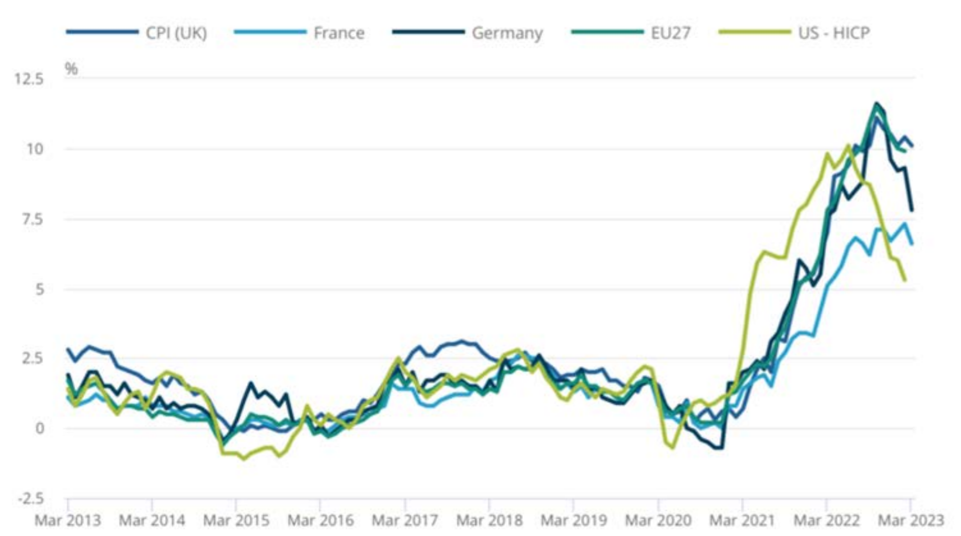
Rates

Despite a higher supply of spare capacity and a drop in diesel prices in the first quarter of 2023, these developments have not yet been reflected to any great extent in overland freight prices, as rates in general have fallen only slightly since the beginning of the year.

A clear trend can be seen in spot prices. After very high rates throughout 2022, the increase in available capacity is now having an impact on the market, leading to increased competition between carriers and, as a result, some reductions in spot rates.

Throughout the first quarter, the highest inflation rates were in the Baltics, most recently in March at 17.3% in Latvia, 15.6% in Estonia and 15.2% in Lithuania. In Germany, the figure is above the EU average, with an expected annual inflation rate of 7.8% in March 2023.

UK Consumer Prices Index compared with G7 and EU inflation rates



Source: Tax Research LLP

Annual inflation rate in the UK unexpectedly edged higher to 10.4% in February of 2023 from 10.1% in January, before falling back to 10.1% in March, which is above a consensus projection of 9.8% in a Reuters poll of economists.

Road Freight

Fuel prices

Diesel

February	March	Variance
169.47	166.45	-3.02

Petrol

February	March	Variance
147.95	146.83	-1.12

Source: Transport Exchange Group

Carriers

The most positive news from the Spring Budget for hauliers was the freezing of fuel duty for 12 months and is welcome relief for the freight industry, which has been urging the government to extend the cut for some time.

The road haulage industry is at the heart of the UK economy, so help in keeping transport costs down can reduce inflationary strains on businesses and consumers.

Many hauliers would have liked to see increased support for green initiatives, as the road transport sector is under particular pressure to go greener. Pressures like these, combined with stubborn inflation, mean we could see significant rate rises in the future.

With higher spare capacity in the first quarter of 2023, compared to previous quarters and a further drop in diesel prices (particularly in the EU), freight prices in general have fallen, albeit only slightly since the beginning of the year.

Presently it is difficult to predict future price levels, but if sufficient capacity continues to be available, freight prices may decrease, however, it is equally likely that freight prices will remain high, particularly with toll increases in various European countries and inflation driven wage costs.

The outlook for the European road freight market depends on many opaque factors, but after the mostly positive trends of the first quarter, there is reason to hope the economic upturn will continue.

www.noatumlogistics.com
info@noatumlogistics.com

North America
Chicago, IL
T +1 773 824 2386
infous@noatumlogistics.com

South America
Lima, Peru
T +51 1 615 76 76
infosa@noatumlogistics.com

Asia
Hong Kong
T +852 2410 6900
infoas@noatumlogistics.com

North Europe
London, United Kingdom
T +44 1784 480 100
infouk@noatumlogistics.com

East Med
Istanbul, Turkey
T +90 216 422 85 85
infoem@noatumlogistics.com

West Med
Barcelona, Spain
T +34 93 298 77 77
infowm@noatumlogistics.com