MARKET UPDATE
June
2023

United Kingdom

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Executive Summary

With 4.9 million TEU due to be delivered from 2023 to 2024 and Europe's GDP slowing to 0.7%, constraining demand, capacity will be top of mind for the global shipping lines, as rates sink to pre-pandemic levels and yet more blanked sailings are announced.

Many airfreight trade-lanes are seeing yields below 2019 levels, with high levels of transatlantic belly-hold capacity and parts of South-east Asia seeing passenger services increase substantially, while China and Hong Kong PAX services are growing more slowly.

Hauliers must recalibrate their route networks, to alleviate the strain on Europe's beleaguered road transport sector, caused by the ever-worsening driver shortage and while freight rates are expected to continue to soften over the year, they are likely to remain elevated, in part due to the shortage of drivers.

Ocean Freight 3

Persistently subdued demand and the injection of new-build capacity is exerting downward pressure on spot rates and led some participants to doubt the possibility of a traditional peak season.

The average sailing speed of the global container shipping fleet has fallen 4% year-on-year. Lower sailing speeds will decrease efficiency by 5% in 2023 and another 5% in 2024. Therefore, our forecast is for supply to grow by 8.3% in 2023 and 3.0% in 2024, as the lines seek to absorb all their new capacity.

- Asia-Europe spot rates stable, further dips expected
- • Global schedule reliability continues to improve
- Blank sailing to continue due declining volumes
- BAF stabilised and we are not expecting increases

Air Freight 7

Summer transatlantic and transpacific passenger services are returning, and the combination of extra capacity alongside weak cargo demand is pushing air freight into the doldrums and with volumes expected to bottom out within the next couple of months, rates will continue to slide.

While cyclical downturns in air freight tend to last between six months and a year, this cycle looks as if it might be longer, with very few bright spots for carriers, though yields are still higher than pre-Covid.

- Given the uncertain global macro-outlook there has been no sign of a peak season
- • Global demand for airfreight has fallen by 6.6%
- Additional capacity is up 13.4% in a month
- Rates continues to slide and are expected to continue into June/July

Road Freight 10

The first quarter of the year traditionally corresponds to a fairly quiet period in road freight transport, after the end-of-year holidays, but the decline in 2023 is striking by its magnitude, especially in spot prices, which are a good indicator of the state of the supply/demand balance at any given time.

On average, in Q1 2023, spot rates declined much faster than contract rates, in line with the decline in consumer demand within European economies, which reduces the immediate pressure on spot market rates.

- Some trades have seen a softening of rates due to the decline in market volume
- • Rates are expected to soften over the year, but would likely remain elevated
- • The EU driver shortage continues to impact capacity and prices
- • The EU currently boasts the highest average driver age, 47, in the world

Ocean Freight

While Europe's GDP growth is projected to slow to 0.7% in 2023, record volumes of new ships are joining a global fleet, which is sailing at ever slower speeds, as the shipping lines attempt to absorb additional capacity, by diminishing supply.

With 4.9 million TEU due to be delivered from 2023 to 2024 capacity will be top of mind for the global shipping lines, as rates sink to pre-pandemic levels and yet more blanked sailings are announced.

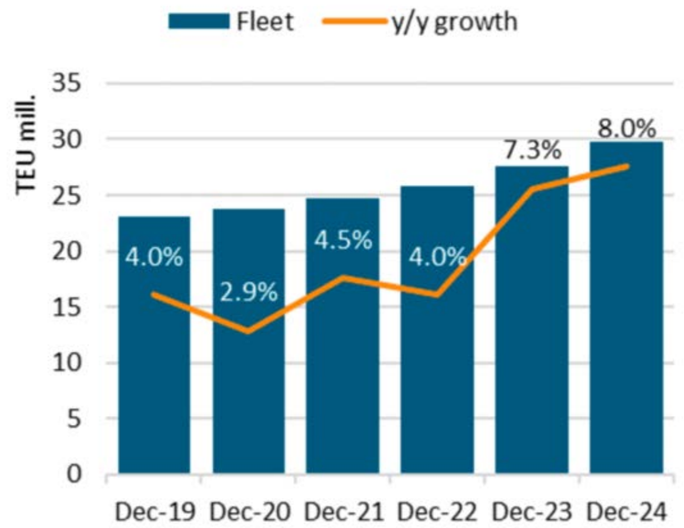
Maersk and MSC announced last month they would be adding nine new vessels into the Asia-Europe trade, but that these services would be moving up to three days slower than before, thus absorbing all the new capacity.

During the COVID pandemic the container shipping lines increased average sailing speed by 4% to meet strong demand and create spare time, because of widespread port congestion.

In the first quarter of 2023 the average sailing speed has come back down 4% year-on-year and could drop a further by 10% before 2025, to absorb capacity that would otherwise be surplus.

Negotiations between the ILWU and PMA continue, with rather more focus, after labour actions caused disruption and vessel backlogs at West Coast ports. Additionally, drought conditions are affecting the Panama Canal's draft, which is restricting vessel weight and has the very real potential to cause disruption and delays to TPEC traffic.

Fleet development



Source: Bimco

The Shanghai Containerised Freight Index (SCFI) covering export spot rates ex Shanghai had some upward momentum in April and remains higher than in March despite some recent setbacks.

Export rates to North America have also risen, mainly to the US West Coast, but remain lower than earlier in the year. Rates to other regions have remained steady or continued to fall.

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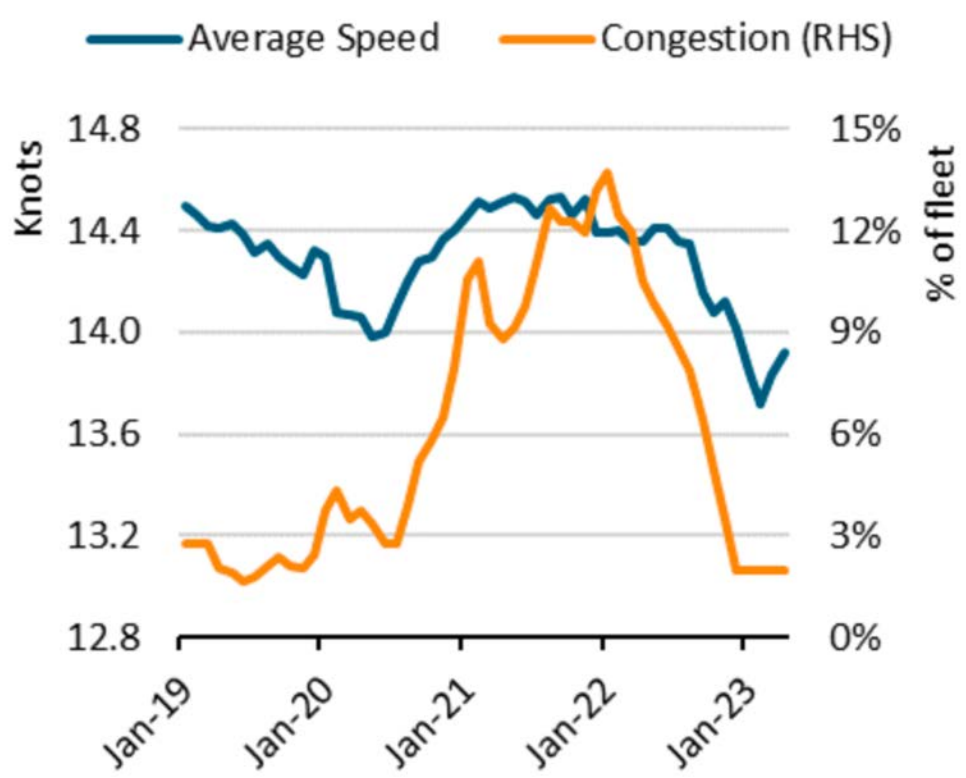
Ocean Freight

Sailing speed and congestion



Source: Bimco

Blank sailing for May certainly had an effect on the Asia - Europe trade, with some carriers reporting roll pools at hubs and is expected to continue through June, which may cause some transit time delays and space issues.

MSC currently has no planned blank sailing for June, suggesting they are actively trying to reduce these roll pools, which will hopefully help the trade get back on track.

Market

The market outlook still looks uncertain with carriers still reporting a downward volume trend, which will only feed into the carriers implementing more blank sailing.

Recently, the 2M Alliance took structural steps to change service scheduling with lower sailing speeds. Starting in June, the alliance will further lower sailing speed to reduce capacity on Asia-Europe services as they add nine new ships.

Freight rates for shipping containers from Asia to Europe and the UK remained stable during the early pat of the month, however, with little to no upside potential in sight, they are expected to gradually soften moving forward.

Subdued demand and the injection of new-built capacity continues to disrupt the supply and demand balance is not only exerting downward pressure on spot rates but has also led some participants to doubt the possibility of a traditional peak season.

As of this time we are not expecting a traditional peak season or any significant rebound in volumes for the next couple of months

Carriers implemented a transpacific eastbound GRI on the 1st June, but while sentiment remains poor and the trade is under significant pressure, it’s difficult to see it sticking.

Ocean Freight

For decades, carriers have adopted slow-steaming whenever there is structural overcapacity.

Maersk and MSC are adding nine new vessels into the Asia-Europe trade, but these services will be moving up to three days slower than before, thus absorbing all the new capacity.

Rates

After a slight recovery in April, spot rates from the Drewry World Container Index, which tracks the freight costs of 40-foot container via eight major routes, including spot rates and short-term contract rates, continues to track downward. There is no specific sign of a collapse in rate levels for the major head haul trades, with minor week-on-week changes very small, except for the Atlantic headhaul.

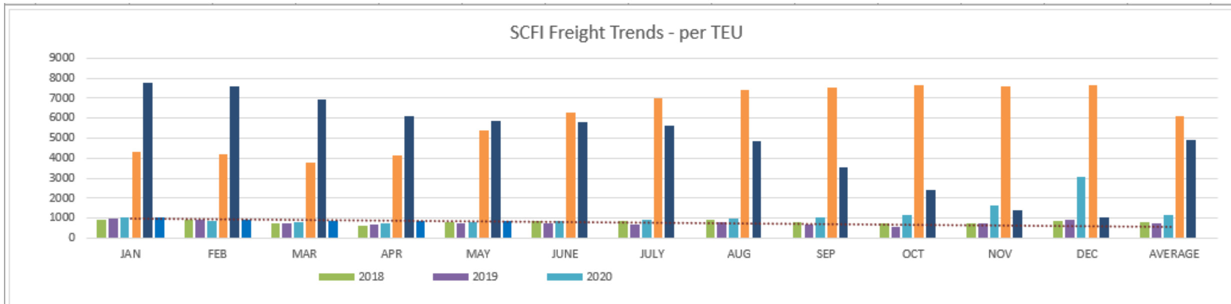
Atlantic headhaul rates declined 6.4% and 10.5% in weekly moves at the start of the month and while the rate is down 50% compared to its pandemic peak, it it is still 63% higher than the corresponding period in 2019 before the pandemic. The transatlantic is still undergoing normalisation, it is not collapsing.

The drop of 50% compared to the pandemic peak is not much compared to other major trades: Asia-North Europe is down 90% compared to peak; Asia-Med down 84%; Asia-US West Coast down 86% and Asia-US East Coast down 82%.

Compare the first week of June 2019 before the pandemic: Asia-North Europe is up 6%, Asia-Med is up 50%, Asia-US West Coast is up 41% and Asia-US East Coast is up 13%.

Backhauls are also still up compared to the corresponding week in 2019: North Europe to Asia is up 4%, US West Coast to Asia is up 104% and US East Coast to North Europe is up 58%.

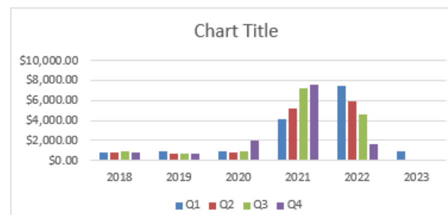
Shanghai containerized freight rate index trend



YEAR	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC	AVERAGE
2018	$895.75	$911.75	$739.20	$640.00	$804.25	$865.40	$888.00	$940.60	$801.75	$738.50	$745.00	$868.50	**$819.89**
2019	$976.25	$906.75	$719.80	$663.25	$746.07	$735.25	$697.50	$795.60	$654.00	$586.25	$722.40	$916.00	**$759.93**
2020	$1,012.20	$840.75	$804.50	$740.50	$800.80	$882.75	$906.20	$948.00	$1,064.25	$1,128.20	$1,622.25	$3,060.75	**$1,150.93**
2021	$4,325.20	$4,215.25	$3,771.25	$4,151.40	$5,377.75	$6,268.00	$7,014.40	$7,397.00	$7,502.25	$7,659.60	$7,574.50	$7,641.80	**$6,074.87**
2022	$7,784.25	$7,616.00	$6,949.00	$6,113.60	$5,885.00	$5,814.25	$5,601.60	$4,841.50	$3,557.40	$2,410.75	$1,378.25	$1,061.80	**$4,917.78**
2023	$1,028.00	$919.50	$871.00	$878.00	$868.25								
2022 vs 2023	-$6,756.25	-$6,696.50	-$6,078.00	-$5,235.60	-$5,016.75								

Average per Quarter - per TEU

YEAR	Q1	Q2	Q3	Q4
2018	$848.90	$769.88	$876.78	$784.00
2019	$867.60	$714.86	$715.70	$741.55
2020	$885.82	$808.02	$972.82	$1,937.07
2021	$4,103.90	$5,265.72	$7,304.55	$7,625.30
2022	$7,449.75	$5,937.62	$4,666.83	$1,616.93
2023	$939.50			
2022 vs 2023	-$6,510.25			



SCFI	
Week 22	
$846.00	

Source: ISC

Ocean Freight

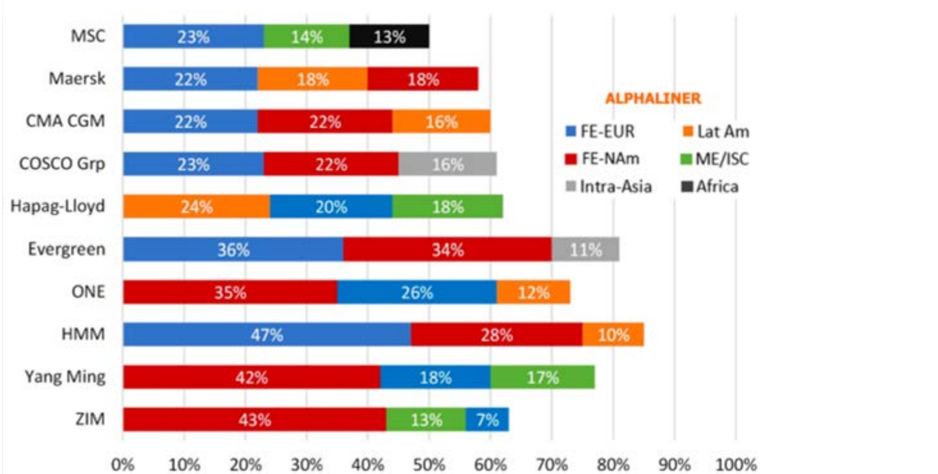
The end of the pandemic-era port congestion, shortage of ships and sky-high rates, has prompted carriers to re-adjust their operations and vessel deployments, with MSC's fleet and COSCO's total liftings in TEU both overtaking Maersk.

The top-10 carriers lost 2.4% of market share to small and medium carriers, with Maersk and COSCO losing out on both rate premium and market share, during the pandemic. The global container fleet splits, with 21% of all capacity active between the Far East and Europe, Asia-North America trade is second with 18%, while Latin American and Middle East/India Subcontinent related services share third position with 13% each.

MSC carrier dedicates 23% capacity to the Asia-Europe route, with 14% on Middle East/Indian loops and 13% on services to/from Africa.

The transatlantic fleet of MSC at 10% and its activities to/from Latin America at 12% are now more important than its transpacific operations.

Top-three trades (fleet deployment)



Source: Alphaliner

Maersk's trading profile is different with 22% of its fleet deployed on Asia-Europe and 18% on Asia-North America.

It might come as a surprise that services to/from Latin America are the most important for Hapag-Lloyd in terms of fleet deployment, whereas Asia-Europe was its principal trade by capacity a year ago.

CMA CGM and Chinese COSCO both dedicate the largest part of their fleet to the Asian export trades to Europe and North America. COSCO has the highest profile in intra-Asia trades with 16% of capacity deployed there, while for the French carrier Latin America-related services come in third position.

Schedule reliability trended up through 2022, reaching 54.9% in Q4 and 58.3% in Q1 2023.

Air Freight

IATA has lowered its expectations for air cargo revenues and yields for the year due to growing capacity and a weak demand outlook, with the airline association predicting that cargo revenues will be down 31.3% on last year, as global demand for airfreight has fallen by 6.6%.

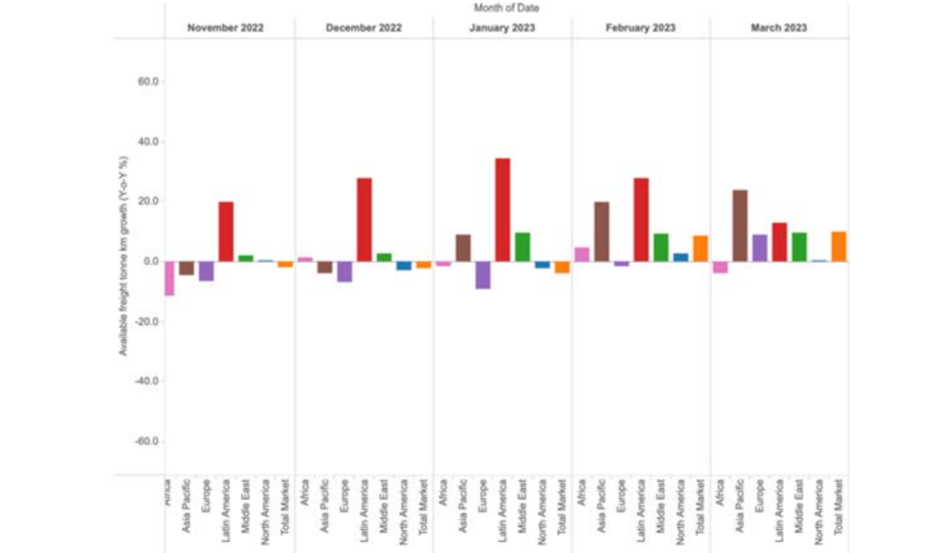
The air cargo market's performance continues be bleak, but airlines and IATA, the air trade association are confident it won't get much worse.

Air cargo tonnage and rates fell against the start of June, with volumes down 4% and rates down 1% on a weekly basis, while average pricing decreased, on a fortnightly basis, from all of the main origin regions, with rates outbound Europe to Asia Pacific showing the most notable drop of 4%.

Chargeable weight in the two-week period, year on year, was down 8% – with ex-North America down 18%, ex-Europe down 9%, and ex-Asia Pacific down 6%. Traffic ex-Middle East & South Asia is up 6%, YoY, however, with capacity up 11% overall and up 29% in Asia Pacific.

While demand remains sluggish, industry optimists predict an acceleration of demand in 2024, while 2023 looks like hard work for the carriers, with much higher input costs, which they will struggle to absorb without revenues.

IATA capacity growth



Source: Air Cargo News

Many trade-lanes are seeing yields below 2019 levels, with high levels of transatlantic belly-hold capacity and parts of South-east Asia seeing passenger services increase substantially, while China and Hong Kong PAX services are growing more slowly.

Additional capacity is up by 13.4% compared to April 2022.

Cargo revenues are 40% higher than they were in 2019, but airline revenues are being driven by passengers again, with worldwide average cargo rates 38% below their levels this time last year.

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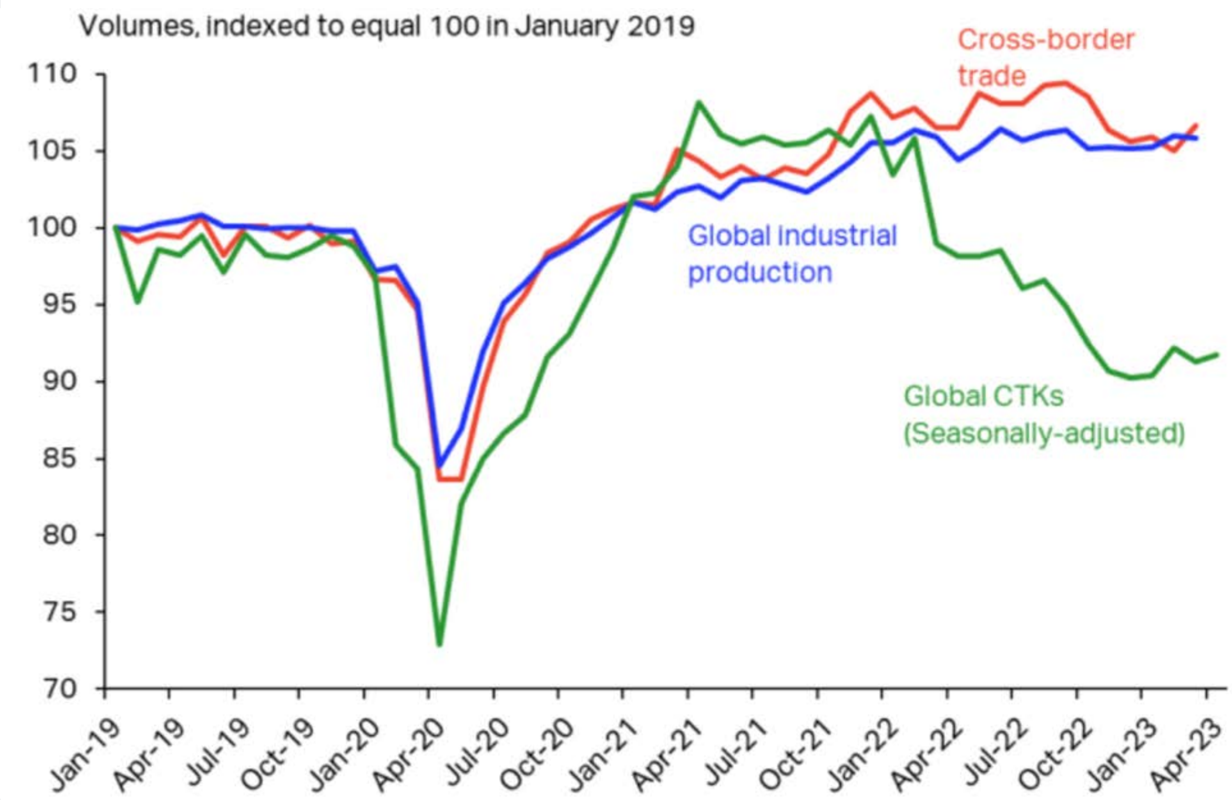
Air Freight

Global trade, industrial production, and CTKs



Source: IATA - Air Cargo News

The overall airline industry's profit forecast has been supported by several positive developments.China lifted COVID restrictions earlier than anticipated, cargo revenues remain above pre-pandemic levels and on the cost side, there is relief that while Jet fuel prices are high, they have moderated over the first half of the year.

Market

Cargo tonnages have experienced 13 months in a row of year-on-year declines since March 2022 while capacity has been steadily increasing due to the restart of passenger operations.

One of the main drivers behind the growth in available cargo tonne km (ACTKs) has been the recovery in belly-hold capacity as passenger aircraft return to service in various markets.

Industry-wide cargo capacity returned to pre-pandemic levels for the first time in three years, with available cargo-tonne kilometres (ACTKs) surpassing April 2019 levels by 3.2%.

Industry-wide cargo tonne-kilometres (CTKs) in April were 6.6% below their 2022 levels.

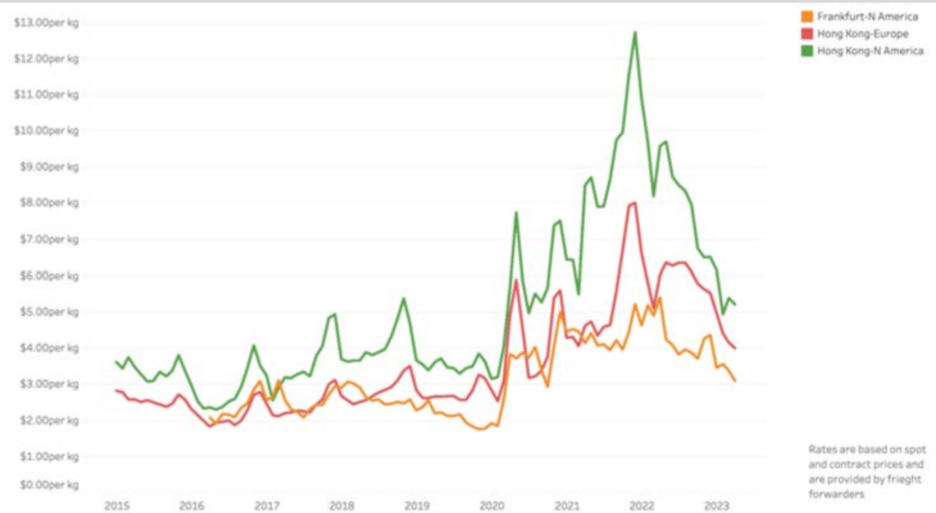
Global cross-border trade and new export orders PMIs, the two critical indicators of air cargo demand, both saw year-on-year growth for the first time in several months.

North American airlines experienced notable declines in international CTKs compared to the previous year, primarily due to decreased air cargo traffic on the North America-Europe and North America-Asia trade lanes.

Air Freight

Source: Air Cargo News

Baltic Exchange Air Freight Index



Source: Air Cargo News

The annual contraction of cargo demand in April was driven by the softening demand for carriers in North America and Europe. However, there were signs of improvement in CTKs for airlines in the Asia Pacific region.

2023 airfreight rates continue to grind lower, with soft demand and the continued resurgence of belly-hold space. And it will take time for that capacity to dissipate after the summer surge, possibly trailing off into 2024.

Rates

Weak market demand and the addition of abundant belly-hold capacity, as trans-Atlantic and trans-Pacific passenger traffic returns, combined to hit airfreight rates again in May, with pressure on rates likely to continue for the rest of the year.

The net result is that West-bound transatlantic cargo spot rates are up only 10% on pre-Pandemic levels, while Asia to Europe are around 30% higher on average and Eastbound transpacific up 35% on average.

IATA's data on Freight Tonne Kilometres (FTKs) for March showed a 7.7% decline, year on year and an 8.1% decline versus March 2019, with the shift back from air to ocean largely been completed following airfreight's boom when container shipping was hampered by congestion during the pandemic, which has contributed further to the demand challenge.

Carriers

The need to meet the global operations of a large freight forwarder like Noatum Logistics customers was a key driver behind the partnership between Air France KLM Martinair Cargo (AFKLMP), who have been latterly joined by CMA CGM.

The alliance announced in May 2022, will see the two carriers jointly operate the full-freighter aircraft capacity of their respective airlines, with CMA CGM's six freighter aircraft and AFKLMP's six freighters.

The commercial partnership also covers Air France-KLM's belly aircraft capacity, including more than 160 long-haul aircraft.

When it is appropriate to use Paris CDG or Schiphol AFKLMP offer an integrated global network, which can be completely effective, particularly into China and India in addition to Africa, South America and the US.

We will be interested to see how AFKLMP solutions combine ocean and air assets and whether they will develop sea-air or air-sea operations.

Road Freight

The most popular road freight lanes have seen a softening of rates due to the decline in market volume and while prices are expected to continue softening over the year, they are likely to remain elevated compared with historic norms, due to the shortage of drivers and vehicle supply pressures.

With inflation falling to 8.7% from 10.1%, the Bank of England's predictions of a drop finally came to fruition, although the fall wasn't as sharp as expected and demand remains sluggish, with the central bank expecting to see inflation down to 8.2% by now.

The long-awaited diesel price drop is picking up pace, with prices down 2% during April and 5% during May and while petrol prices have also dropped a little, diesel prices are falling seven times as fast as petrol prices right now, which will in time show as a reduction in the everyday costs that lower diesel prices bring.

The average price-per-mile for haulage and courier vehicles, calculated by the TEG Price Index, rose 0.7% during May, and 1.2% year on year.

Courier prices are 3.2% higher than the same period in 2022, but courier price growth now appears to be slowing down, while haulage prices grew 1.2% during May, but are still 0.7% lower than this time last year.

According to the IRU, the driver shortage across Europe exceeds 380,000 and fears that the 'aging-out' in Europe's haulage sector could lead to a "demographic time-bomb" as the continent boasts the highest average driver age, 47, in the world.

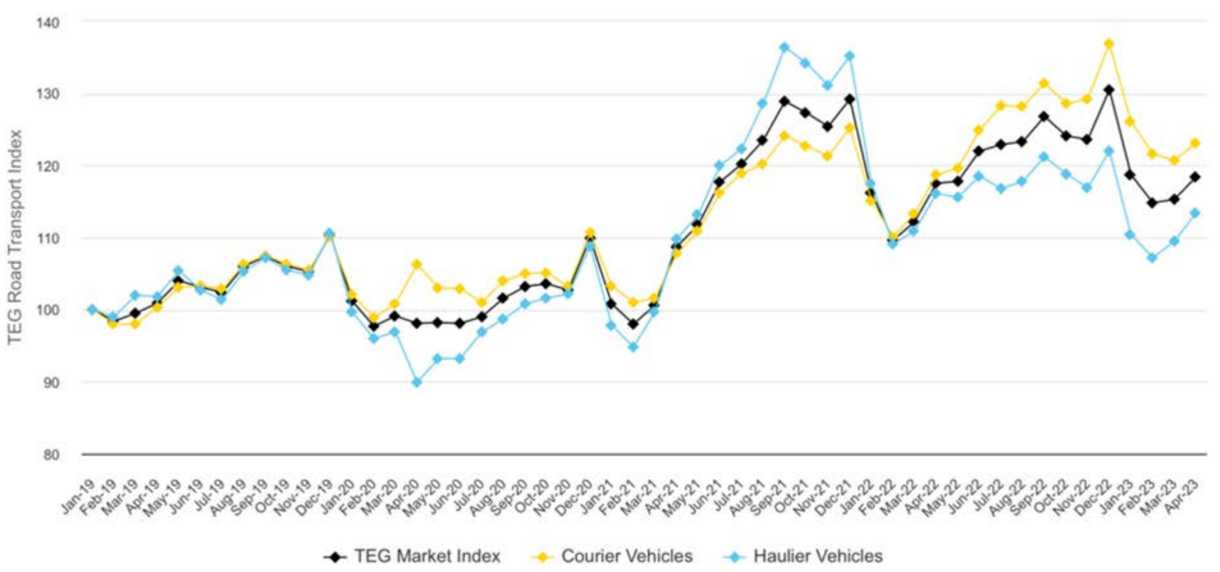
TEG Road Transport Index

Source: TEG

Fuel costs remain high for households and businesses, which maintains pressure on road transport companies to offer higher wages

Road Freight

Ti x Upply x IRU European road freight benchmark European road freight rates index, Q1-2023



Source: Transport Exchange Group

Market

Q1 is traditionally a fairly quiet period in road freight transport, but the decline in 2023 is striking, especially in spot prices, which are a good indicator of supply/demand balance.

On average, in Q1 2023, spot rates declined much faster than contract rates, in line with the decline in consume demand within European economies, which reduces the immediate pressure on spot market rates, as detailed in the most recent Ti/Upply/IRU market report.

Seasonally adjusted average monthly consumption figures make depressing reading, falling year-on-year by 6% in Germany, 3.9% in France, 2.8% in Italy, and 4.3% in the United Kingdom.

With wages generally not rising to the same extent as prices, the erosion of purchasing power is weighing heavily on consumption, even if the inflationary phenomenon began to ease in many territories at the beginning of 2023.

Similarly, although the rise in energy and raw material prices is showing signs of easing, the phenomenon is affecting the growth of industrial production in some European economies. Overall, demand for intermediate and capital goods remains stable.

Carrier costs have increased substantially. Fuel prices were a major inflation factor in 2022, when the conflict in Ukraine broke out, but have since fallen sharply, with a decrease of 9% in the first quarter of 2023 compared to the previous period.

On the other hand, the context of driver shortages is putting upward pressure on wages and this pressure has become even stronger, as inflation has also boosted demands.

This has now become a structural issue across the continent, with the IRU calculating that the shortage across Europe exceeds 380,000, accounting for approximately 10% of demand, with expectations that it will increase to 14%, with hauliers and governments seeming unable to act

Road Freight

Economic conditions are expected to weigh on demand for much of the year. However, according to Ti/Upply/IRU analysts, volumes could start to recover at the end of the year, which would again put upward pressure on rates.

Rates

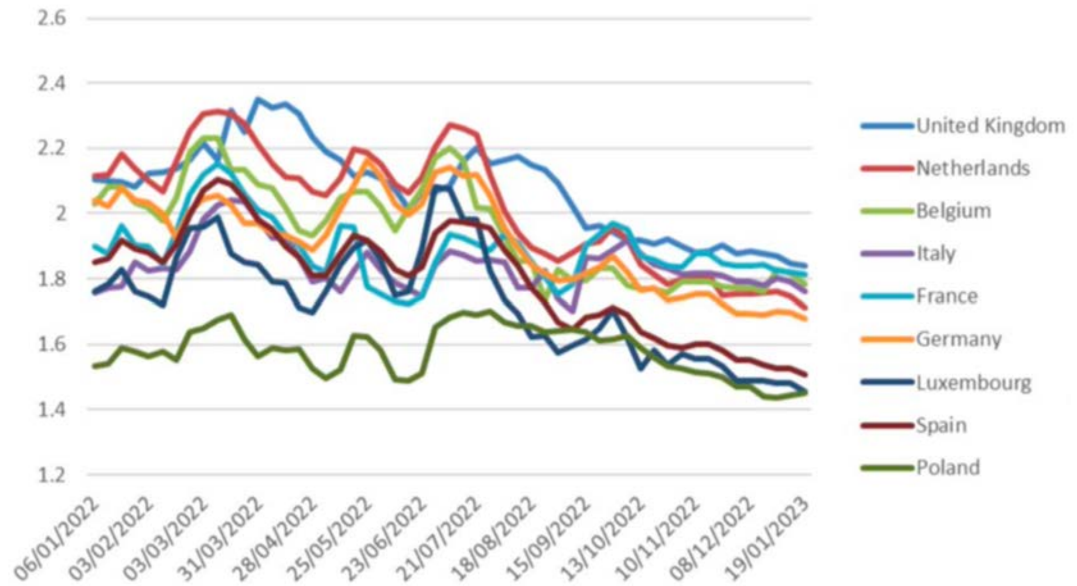
The latest data from the TEG Price Index reveals that the average price-per-mile for haulage and courier vehicles rose 0.7% during May. Year on year, there was a 1.2% increase, pushing the index to a record high for the month of May.

Courier prices are behind much of this year-on-year rise: they now sit almost 3.2% higher than they did in May 2022. This is despite a modest uptick of 0.2% over the last month. After much more dramatic hikes during spring in 2021 and 2022, courier price growth now appears to be slowing down.

Haulage prices still lag behind the overall index, having grown by just 1.2% during May. Year on year, they're still 0.7% lower than this time last year.

The dip in inflation and fall in diesel prices have been a welcome development for the industry, but at the same time, road transport firms must contend with a rise in corporation tax, rising costs and continued driver shortages.

Average diesel prices (€/L) at pump



Source: IRU

TEG road transport price index shows steady rise in overall prices, even as inflation falls.

Road Freight

Longer lorries rolled out

The UK government has approved changes to laws to permit longer semi-trailer combinations up to 18.55 metres, which is 2.05 metres longer than standard size on GB roads from the 31st May 2023..

The use of longer lorries is expected to bring £1.4 billion boost for the UK's economy and cut emissions, saving 70,000 tonnes of carbon dioxide.

These new lorries will use 8% fewer journeys than current trailers, which effectively takes one standard-size trailer off the road for every 12 trips.

These longer trailers, known as longer semi-trailers (LST) measure up to 2.05 metres longer than a standard semi-trailer and their introduction follows an 11-year trial to ensure LSTs are used safely on roads, with operators encouraged to put extra safety checks and training in place.

The trial demonstrated that LSTs were involved in around 61% fewer personal injury collisions than conventional lorries.

Vehicles which use LSTs will be subject to the same 44 tonne weight limit as those using standard trailers. These new vehicles are also expected to cause less wear on the roads than conventional lorries due to the type of steering axle used.

Operators will be legally required to ensure appropriate route plans and risk assessments are made to take the unique specifications of LSTs into account.

In addition to these new legal requirements, operators will also be expected to put in place extra safety checks including driver training and scheduling, record keeping, training for transport managers and key staff, and loading of LSTs.

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