MARKET UPDATE
July 2023

United Kingdom

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Executive Summary

A subdued peak season, followed by a lengthy slack period, will prompt further rate erosion and while the Asia to Europe sea freight trade-lane has been relatively healthy and positive in June, with record numbers of new-build capacity being delivered through this year and next, carriers are expected to restore the blank sailing program.

Airfreight rate softening between May and June is not unusual and prices tend to fall incrementally during the summer, but it remains to be seen if they will pick up again in September ahead of the summer peak season.

The latest data shows that year-on-year haulage and courier prices remain stable, despite inflation pushing prices up elsewhere, though this stability may be short-lived as the HGV levy is reintroduced and staff shortages become a concern.

Ocean Freight 3

Blank sailings in June were lower than previous months, as the carriers tried to secure additional booking on their newly deployed vessels, achieving load factors of 85-95%, which in turn affect rate levels.

Most carriers are now looking to implement further blank sailings in July, which will affect transit times and cause delays.

With the ocean carriers now in the red, their attention will soon be on stopping loops, if this trend continues into August, which is the traditional start of the peak season.

- Rates in June and into July continue to soften
- BAF surcharges continue to soften, with no increases expected in July
- Further blank sailings anticipated going into July
- With ocean carriers in the red, they may soon consider stopping loops

Air Freight 7

Underlying trends were little unchanged in June, with robust eCommerce volumes keeping some demand in the market.

The addition of passenger belly-hold space for the Summer season will see some freighter space exit the market, due to an overall lack of demand.

June overall showed a slight tonnage decrease of 2%, which we suspect will remain the case for the remainder of July.

- Airfreight prices remain relatively stable
- Rates are 40% lower than last year, but well above pre-pandemic levels
- Carrier costs have been rising fast
- Excess capacity may decrease slightly after the summer holiday period

Road Freight 10

The UK and EU driver shortage continues to worsen, with the IRU reporting shortages that exceed 380,000, which accounts for approximately 10% of demand, with the expectation that this will increase to 14%, with hauliers and governments seeming unable to act.

In June, the overall TEG Index price-per-mile has risen slightly, with a 0.3% change, while over the past month, indexed courier prices increased by 1.2% and haulage prices rose by over 3%, though economic forecasts suggest that even these small changes may be short-lived.

- Some lane rates have softened due to the decline in market volume
- Rates are expected to soften, but remain elevated
- The driver shortage continues to impact capacity and prices
- At 47, the EU boasts the highest average driver age in the world

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Ocean Freight

Blank sailings in June were lower than previous months, but most carriers will be looking to implement further blank sailings in July and with the ocean carriers now in the red, their attention will soon be on stopping loops, if this trend continues into August, which is the traditional start of the peak season.

The container shipping lines must be seriously concerned about the deteriorating trading outlook for the second half of the year, as tighter monetary policies dampen consumer demand.

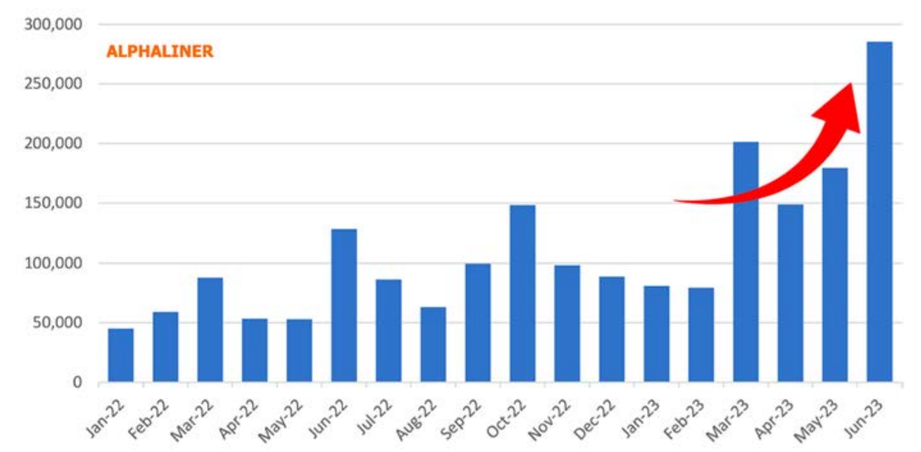
A subdued peak season, followed by a lengthy slack period, will prompt further rate erosion and wreak havoc on the balance sheets of the carriers, who will need every cent of the profits achieved in the first quarter, to avoid finishing the full year in the red.

The Loadstar are reporting that container lines are already racking up loss-making voyages on the transpacific, while Asia-Europe results are only being kept in the black by a robust Mediterranean market.

The delivery of a number of 24,000 teu ultra-large vessels in the coming months, which can only be deployed on Asia-North Europe alliance loops, could start a downward spiral of rates on the trade-lane, unless demand picks up significantly.

The timing couldn't be worse for the introduction of the new mega-ships and the cascading of incumbent vessels to other trades will put downward pressure on rates on those routes.

Container deliveries by month



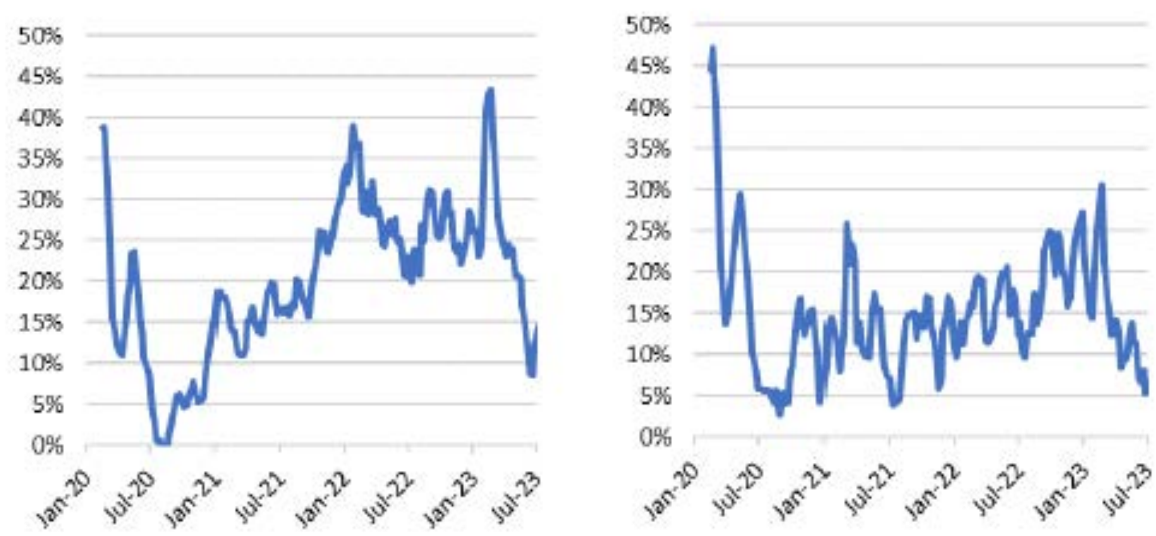
Source: Alphaliner

Container throughput during May at the top 10 US container hub ports shows import volumes down over 20% on 2022, and is the eighth straight month where total inbound volume saw a double-digit percentage decline year over year.

Reduced demand for imports into the US from Asia, and a consequential slump in freight rates, has prompted niche carriers on the transpacific, including China United Lines and Pasha Group, to leave the market.

Ocean Freight

Share of sailings being blanked – Asia to NAWC (Left) | Asia to North Europe (Right)



Source: Sea Intelligence

With a new container ship order book of 7.60 Million teu, which is equivalent to almost a third of the existing liner fleet, it does look like the carriers are subverting their own market, through excessive capacity injection.

The deep-sea container shipping market has been here many times in the past and the cyclical nature of shipping makes it inevitable that capacity injections will at times exceed demand growth.

Market

It is not a given, that new capacity should necessarily subvert the market, because the carriers have the ability to manage capacity, even in the face of large supply/demand discrepancies, as the lines have clearly demonstrated over the last couple of years.

It does look like the lines' current planning will result in a sharply worsening market balance, with the likelihood of continuing declines in freight rates and potential loss-making in the 2nd half of 2023.

The worst impacts may be avoided by the tactical use of blank sailings and we may see some of the idled capacity sent to yards to get retrofitted for more slow steaming, in preparation for the tightening environmental regulations.

Blank sailings in June were certainly lower than previous months, with carriers trying to secure additional booking on their newly deployed vessels, but the carriers do now appear to have a choice: Resume active capacity management, or head into highly significant overcapacity.

Ocean Freight

Asia-Europe freight rates only seep slowly, while on the Pacific USWC indexes recorded a 4% drop at the end of June, though 8% above pre-pandemic levels, while USEC rates are 2% above pre-pandemic levels.

The eye-catching change was reserved for the Atlantic westbound where spot rates dropped 17% in the last week, with the rate level on the head-haul Atlantic 13% higher than in the same week in 2019 before the pandemic disruptions.

Rates

Drewry's composite World Container index (WCI) decreased by 2.7% in the final week of June, down 78.9% when compared with the same period in 2022.

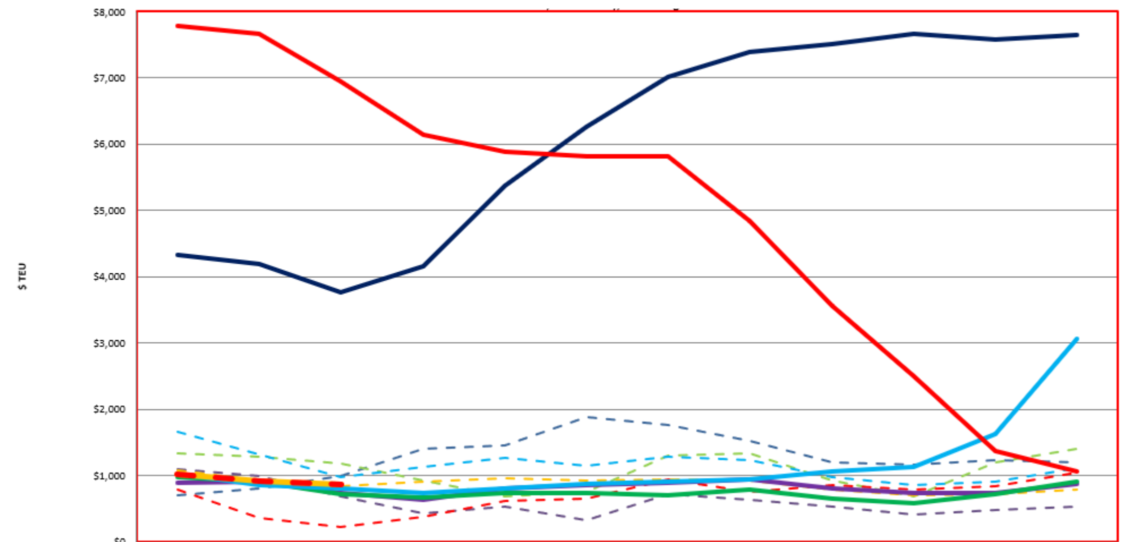
The latest Drewry WCI composite index is 86% below the September 2021 peak and 44% lower than the 10-year average, but 5% higher than 2019 (pre-pandemic) rates, indicating a return to more normal prices.

Spot rate levels continue to decline and are roughly at pre-pandemic levels on the major trade-lanes, including the North Atlantic head-haul, which has taken a long time to normalise and, when inflation is considered, this is very bad news for the carriers.

We are already seeing many of the new smaller carriers, which launched services at the height of the bull market, rapidly moving out again, though she commentators had predicted this as being inevitable in 2021/22, when those services were being launched.

The peak season should be getting underway, but there is little evidence of this happening, which does raise the question of how about the carriers will manage capacity, particularly with their new-build capacity injection.

Shanghai containerised freight rate index 2012 - 2023

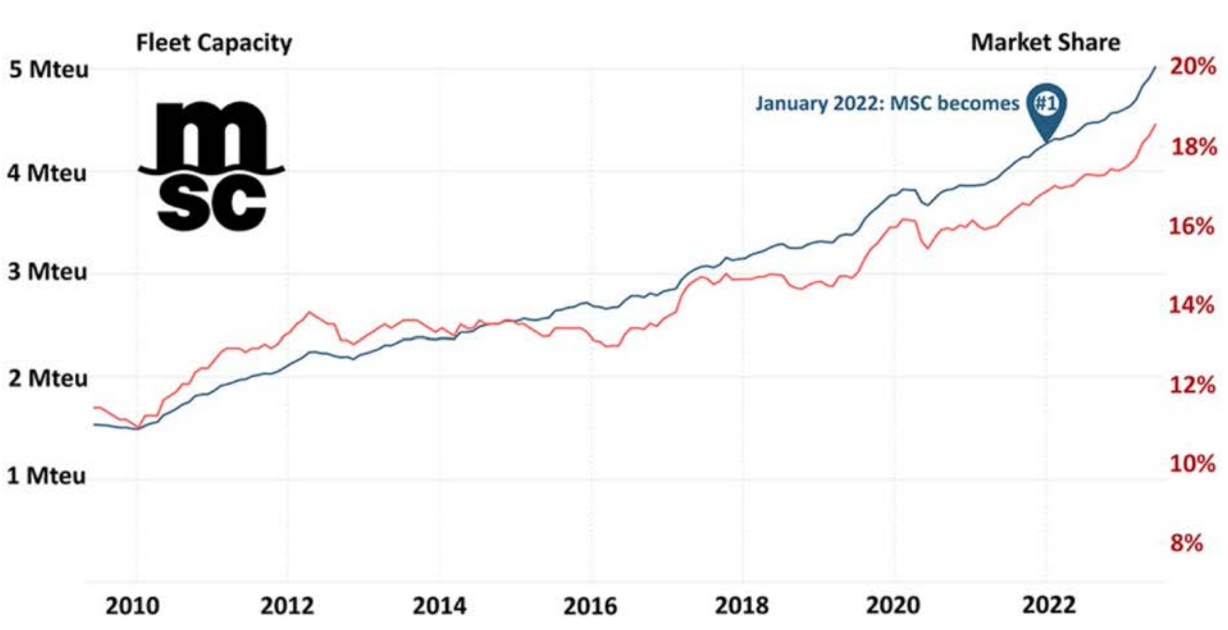


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SHFI 2012	$700	$800	$1,000	$1,400	$1,450	$1,888	$1,763	$1,517	$1,208	$1,165	$1,241	$1,201
SHFI 2013	$1,341	$1,279	$1,184	$926	$687	$754	$1,309	$1,338	$920	$693	$1,207	$1,403
SHFI 2014	$1,659	$1,322	$983	$1,140	$1,267	$1,153	$1,288	$1,237	$979	$855	$914	$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	$920	$871									
SHFI 2023 F	$1,025	$920	$871									

Source: ISC

Ocean Freight

MSC fleet capacity



Source: Alphaliner

Overtaking Maersk 18 months ago to become the world's largest container shipping line, MSC has increased the fleet capacity gap by a staggering one million teu.

MSC's lead over Maersk has grown by nearly 13,000 teu every week since January 2022 and the line's order book means that MSC will continue to expand its lead.

Carriers

MSC's rapid growth was fuelled by new-building deliveries, second-hand buying and chartering, with MSC accounting for 40% of slot capacity that entered the global liner fleet in June.

No fewer than five megamax ships joined the global fleet in June: Two units for MSC and one each for ONE, OOCL and Hapag-Lloyd.

On top of these, shipyards delivered nine neo-panamax vessels. MSC received five of these, while Maersk, Evergreen, Hapag-Lloyd and ZIM each got one.

Over the course of this year and the next, new-building deliveries are expected to remain high, fuelled by an order-book of 7.60 Mteu - or 29% of the existing liner fleet.

While the new CII and EEXI regulations have created some 'artificial' tonnage demand through mandated slow-steaming, cargo volumes will most certainly not grow enough to absorb all of these new ships and Alphaliner predict that large chunks of today's vessel pipeline will be for fleet renewal, rather than fleet growth.

Air Freight

The underlying market trends are little changed, with robust eCommerce volumes supporting the market and with passenger belly-hold being added over the Summers we are starting to see freighter space being reduced by the airlines due to an overall lack of demand.

Airfreight rates declined again in June as demand slows in the quieter summer period, with the Baltic Exchange Airfreight Index (BAI) showing that average rates from Hong Kong to North America are nearly 44% down on 2022, while average rates to Europe are down 40.4% for the same period.

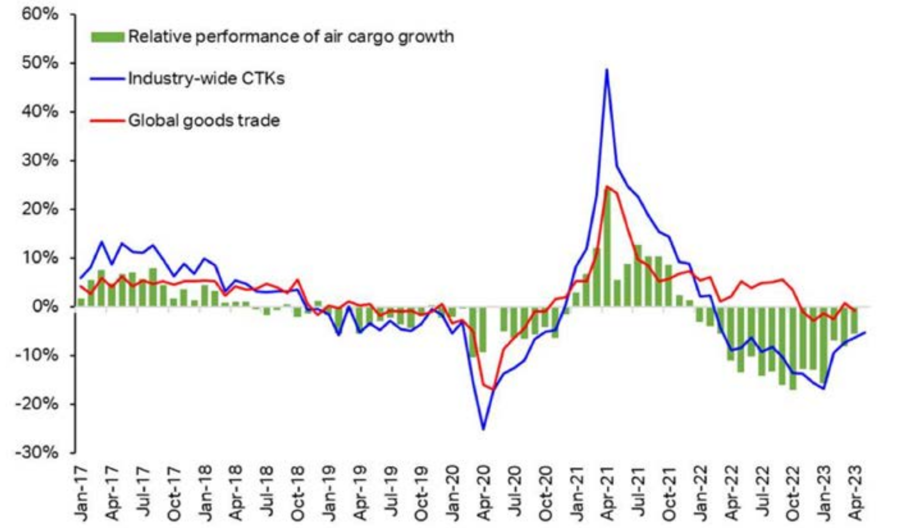
Rate softening between May and June is not unusual as demand reduces during the summer holiday period and capacity increases as passenger aircraft belly-hold capacity is added for the summer season.

Prices tend to fall incrementally during the summer before starting to pick up again in September ahead of the summer peak season.

The fall in rates this year also reflects weaker market conditions and while declines do now seem to have plateaued, it remains to be seen if the market will pick up again in September.

Global air cargo tonnages in June show a continuation of the flat trend that started at the beginning of the month, while average rates continue their slight slide.

Growth in global goods trade and CTKs



Source: IATA

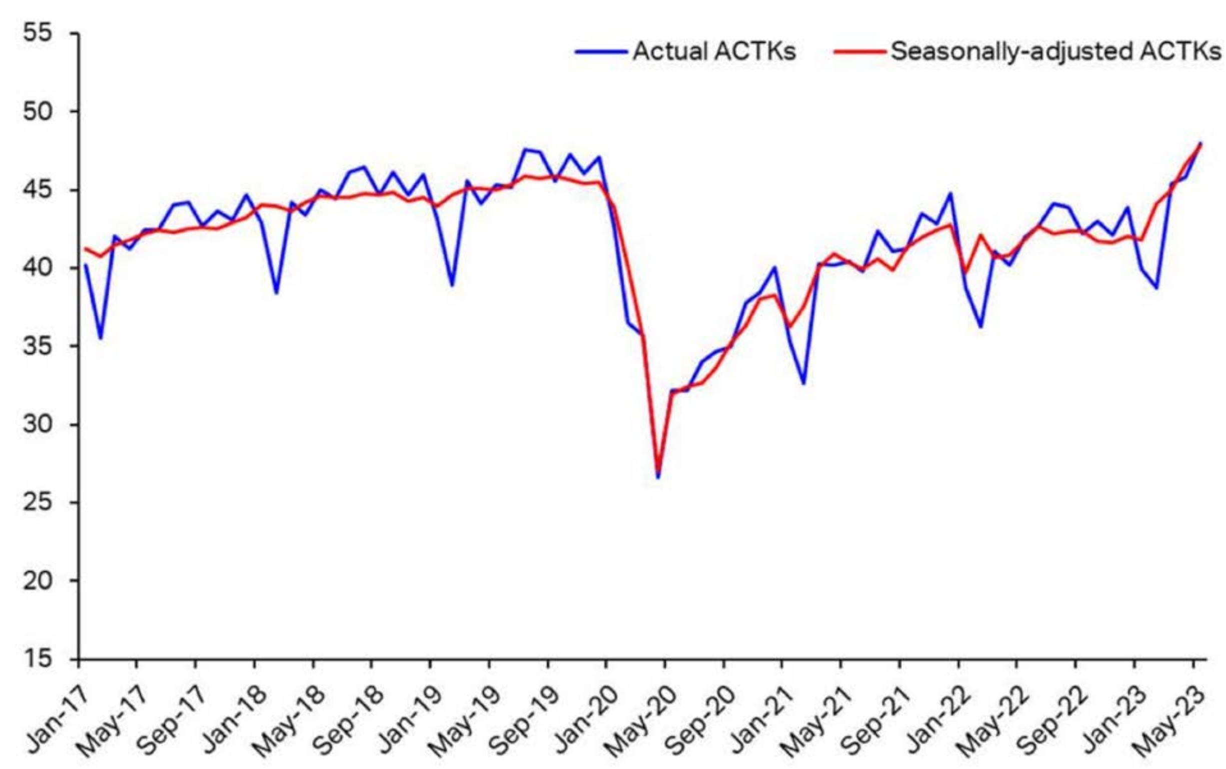
The overall global market, as measured by chargeable weight was down 6% in June, compared with the same period last year, with decreases ex-North America (17%), Europe (9%) and Asia (3%), while capacity was up 11%.

Looking forward supply will continue to exceed demand for the next two months, with capacity supply decreasing slightly after the summer holiday period, as passenger flights are scaled back, but not to an extent that will have any profound impact on the overall supply and demand situation.

Decreasing inflation levels will have a positive impact, but will take time to filter through.

Air Freight

Global ACTKs (billions per month)



Source: IATA

The International Air Transport Association (IATA) released data for May 2023 global air cargo markets showing weak market conditions.

Market

Global demand, measured in cargo tonne-kilometers (CTKs), fell 5.2% compared to May 2022, while capacity, as measured by available cargo tonne-kilometers (ACTKs), rose 14.5% compared to May 2022, primarily driven by belly capacity which increases as demand in the passenger business recovers. Capacity is now 5.9% above May 2019 (pre-pandemic) levels.

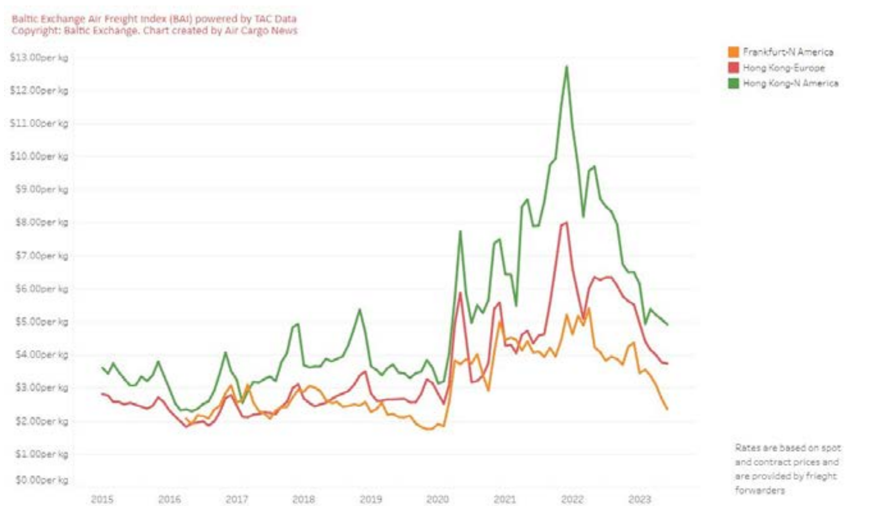
The global manufacturing Purchasing Managers Index (PMI) indicates a decrease of 5.2% year-on-year in production PMI, which suggests a cooling in global manufacturing demand, with global goods trade down 0.8% in April and air cargo demand weakening by 6.3% year-on-year.

The global supplier delivery time PMI increased to 54.5 in May, up from its low of 35 in October 2021, indicating shorter delivery times and some relief for supply chains. However, this is also a sign of weaker global goods trade demand.

Asia-Pacific airlines saw their air cargo volumes decrease by 3.3% in May 2023 compared to the same month in 2022, while North American carriers experienced the weakest performance of all regions for the third consecutive month with an 8.1% decrease and European carriers had a 6.7% decrease, that was a slight improvement in performance compared to April.

Air Freight

Baltic Exchange Air Freight Index



Source: Air Cargo News

“The second half of the year, as inflation moderates, should help stimulate economic activity with a positive impact on demand for air cargo.”

Willie Walsh, IATA’s Director General

Although some industry commentators point to the fact that while rates are nearly 40% lower than last year, they are still well above pre-pandemic levels, airlines have been quick to point out that costs have been rising fast.

Rates

The TAC Index showed a slight decline in rates, at the end of June, following a slight recovery a week earlier, while the global Air Freight Index dropped 2.4% week on week, with tonnages also down 2%.

While passenger/belly capacity may be up, freighter capacity is expected to slide, with airlines using this dull period to conduct heavy maintenance checks on older freighters, with fewer conversions coming to the market.

Rates out of Hong Kong rose 2.1%, largely driven by eCommerce volumes, while prices out of Shanghai fell marginally, particularly to North America.

The Loadstar has reported that more freighter capacity is leaving the market, although this may be a temporary measure, as operators park their fleet, while deciding how to navigate the prevailing economic headwinds.

Carriers

Trading conditions for air cargo continues to be challenging with a 5.2% fall in demand.

The latest statistics from IATA show that air cargo traffic in cargo tonne km (CTK) terms declined by 5.2% year on year in May and by 7% compared with 2019.

Meanwhile, capacity is up 45% year on year resulting in an 8.6 percentage decline in load factors in May to 41.5%.

Looking at regional performance, Asia Pacific airlines registered a 3.3% fall in demand in May with performance weakening compared with April.

North American carriers registered the weakest performance of all regions for the third consecutive month with an 8.1% drop in May.

“Notably, airlines in the region saw the third month of double-digit contractions in volumes on the North America-Europe trade lane (-10.3%),” IATA said.

European carriers experienced a 6.7% decrease in cargo volumes in May 2023, although this was an improvement compared with April.

Road Freight

The latest data from the TEG Road Transport Price Index shows that year-on-year haulage and courier prices remain stable, despite inflation pushing prices up elsewhere, while the latest European Road Freight Transport Report from Trans port Intelligence (Ti) shows a picture of a weak recovery, with some unpredictable factors creating an uncertain, challenging and complex market environment.

The road haulage and courier sectors have been weathering the economic storm with stable prices, despite the surge in inflation, but now a threat of a mechanics shortage looms and the HGV levy is due to be reintroduced.

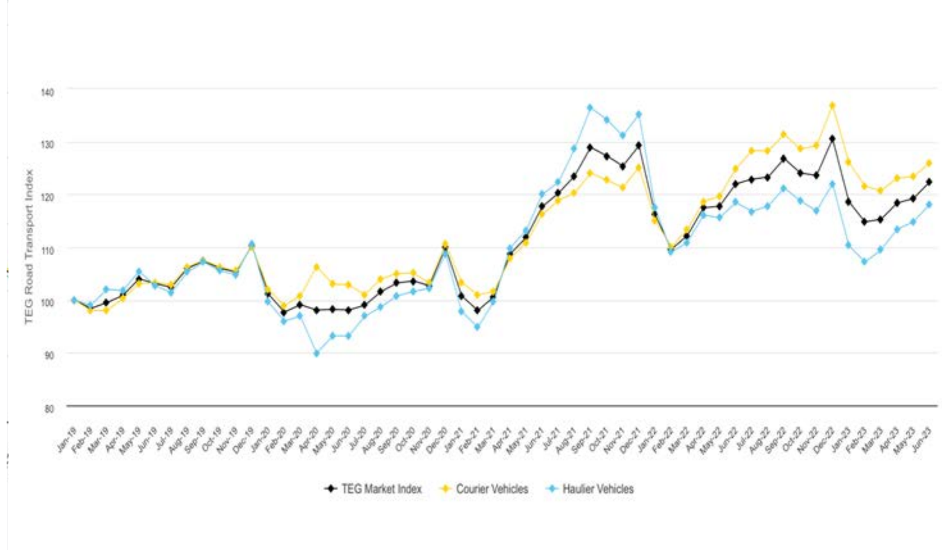
Current economic forecasts assume that global economy growth in 2023 and 2024 will be continue to be relatively weak due to high price levels and increased interest rates and could be the two years with the weakest growth rates since the financial crisis, apart from the pandemic year 2020.

The latest TEG Index shows both haulage and courier road transport price indices showing slight increases in June, with diesel prices falling sharply to near parity with petrol.

The average price-per-mile for haulage and courier vehicles dropped slightly year on year by 0.25%, but Month on month, however, the index is up 2.10%, with both haulage and courier prices rising.

Year on year, only courier prices are showing a modest increase of 1.54%, while haulage prices dropped a little, though they could soon leave the extended period of deflation they've experienced since June last year.

TEG Road Transport Index

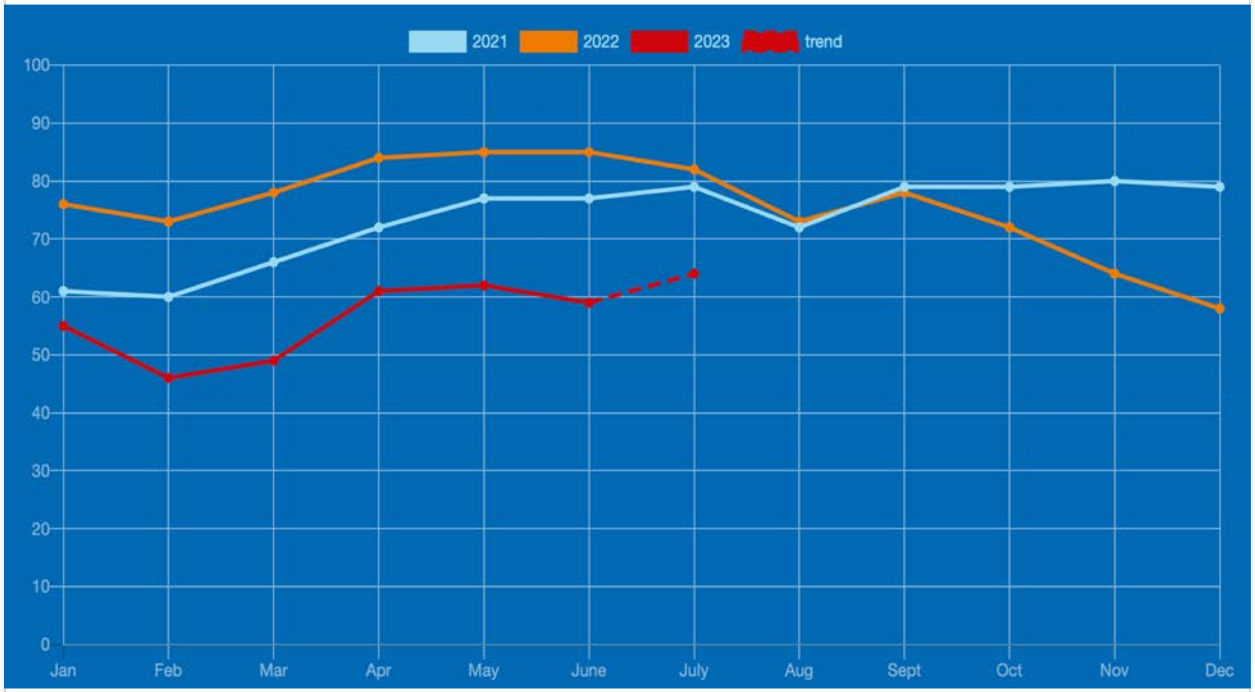


Source: TEG

Indices for spot rates have risen compared to last month, but haulage continues to show year-on-year deflation.

Road Freight

Transport Barometer >50 = capacity shortage, <50 = overcapacity



Source: TIMOCOM

Market

The European road freight market grew 3.5% in real terms in 2022, owing largely to Europe's recovery from the COVID-19 pandemic and the stimulus packages working at full speed in the first half of the year. However, Ti write that the market moderation seen in the second half of 2022 has spilled over into 2023.

After the high freight volumes and the corresponding capacity shortage of the last two years, the downward trend, which has been continuing since September 2022.

As a result, the European road freight market is projected to lose speed in 2023, expanding by only 1.4% in real terms. Decreasing real income, tight financial conditions, and soft external demand will weigh on Europe's economic activity and outlook.

Both the domestic and international road freight markets segments will experience a slowdown.

Looking ahead, we expect the road freight market to be flat in 2023 and the downward trend in rates looks set to continue.

While Europe is in a technical recession, S&P Global's most recent forecast for 2023 sends a signal of cautious hope, with growth raised by 0.4 percentage points to 0.9% in June, due in particular to the drop in inflation. Despite the increased forecast, the situation of the European economy remains tense and expected growth for 2023 is at a low level.

The UK's growth continues to lag behind the EU, with a growth rate of 0.3% expected for the whole of 2023, rising slightly to 0.6% in 2024, and 1.0% in 2025. Forecasts from the Bank itself as well as from the Office for Budget Responsibility (OBR) both predicted a rapid fall in inflation in 2023, leading to a return to the 2% target early in 2024.

Road Freight

In March 2023 capacity continued to exceed freight demand, but since the beginning of the second quarter, an increase in freight volumes or a decrease in capacity could be observed, which is in line with the typical seasonal trends for the road freight industry.

Rates

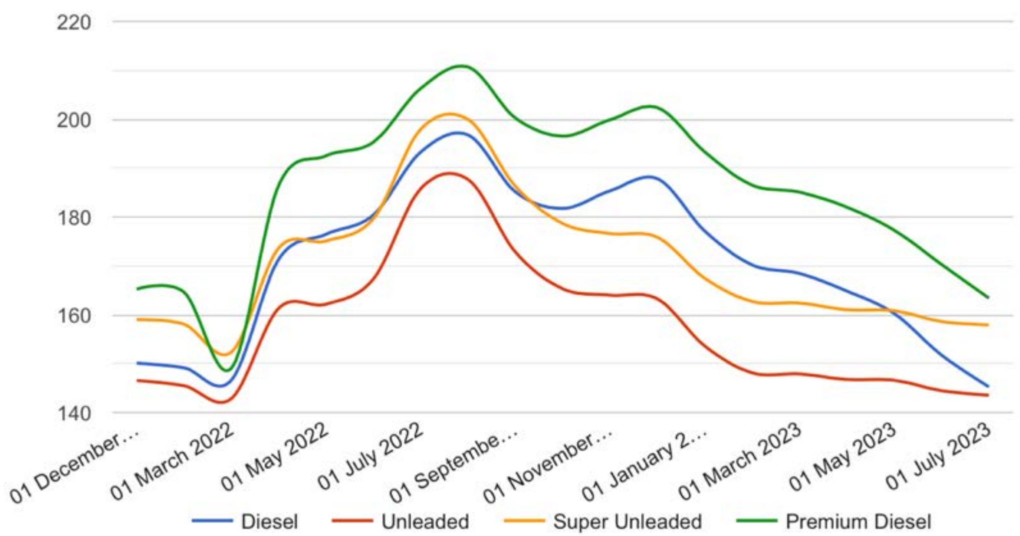
TIMOCOM reported ratios of freight to available cargo space for May and June of 62 to 38 and 59 to 41, respectively and while this is well below the levels of the last two years, it shows a trend similar to the pre-pandemic years.

Despite diesel prices continuing to fall in Q2, 84% of road freight companies are currently experiencing increased pressure on margins as costs soar and demand weakens.

Year-on-year haulage and courier prices remain stable, despite inflation pushing prices up elsewhere, though this stability may be short-lived as the HGV levy is reintroduced and staff shortages become a concern.

In June, the overall price-per-mile has risen slightly, with a 0.3% change, while over the past month, indexed courier prices increased by 1.2% and haulage prices rose by over 3%, though economic forecasts suggest that small changes may be short-lived.

Average fuel prices (£/L) at pump



Source: alllstar

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

Road Freight

HGV Levy

From August 2020, HGV operators benefitted from the suspension of the daily HGV levy charge, as they recovered from the Covid-19 pandemic.

Now, the levy is set to return on 31 July, with a new focus on emissions, weight and time spent in the UK.

Even as diesel prices have fallen to a quarter of July 2022 prices, the reinstatement of the levy will be a challenge to many operators. It's another factor that may cause some to re-evaluate their pricing strategy.

HGV mechanic shortage

Road haulage operation have dedicated significant effort to tackle the shortage of drivers, offering higher salaries and attractive signing-on bonuses, which have enticed many individuals, including mechanics to become drivers.

With many mechanics tempted to make a career change, more than half of businesses surveyed by Logistics UK (formerly the Road Haulage Association) have encountered difficulties in hiring enough fitters, technicians, and mechanics.

Yet another challenge for hauliers, which could impact supply chains, as out-of-action vehicles disrupt capacity availability and the smooth flow of goods.

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