MARKET UPDATE
August 2023

United Kingdom

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Executive Summary

While much has been made of the impact of the peak season from Asia on sea freight rates, arguably the line's capacity management is a bigger driver, with rising rates to the US and attempts to recover revenue from Asia to Europe and the Med.

The quiet summer period continued in Airfreight markets during July, with TAC Index data showing the overall Baltic Airfreight Index up +2.9% in the final week of July, leaving the index up +1.2% on the month – though lower some -46.2% over the previous 12 months.

Despite the easing of road freight demand, the supply pressures remain, with driver shortages eroding capacity, and, while fuel costs have fallen from their 2022 high, they still remain elevated compared to 2021, both of which means rate falls will be limited

Ocean Freight 3

Blank sailings in July continued with many sailings being cancelled, causing space restrictions and roll pools to again be formed.

The carriers used this strategy to implement a GRI for August, which slipped a little, but for the most part has been sticking.

Although the 2023 peak season may be muted in the US and Europe, trade dynamics may gradually improve and the lines would dearly love to increase rates, though with sentiment still muted, this quarter will be critical.

- Rates for August have seen a GRI imposed
- Lines implement further blank sailing for Q3
- Most carriers looking to increase rates for Q3
- New-build deliveries influencing carriers' decision making

Air Freight 7

Global air cargo demand fell by 3.4% year-on-year and air cargo capacity grew 9.7% MoM.

Leading indicators of air cargo demand, including global goods trade, manufacturing PMIs, and inventory-to- sales ratio, continued to point to contractions. However, improvements in inflation in major economies could provide a tailwind to the global economy and air cargo demand.

Major trade lanes including Europe-North America and Asia-North America experienced smaller annual contractions in international air cargo demand.

- Volumes continue decline MoM
- Annual volume is projected to be 4.7% down on 2022 levels
- Rates ex China remain subdued, and no significant change expected
- With rates seemingly bottomed out, hopes are rising for a peak season to start soon

Road Freight 10

Spot and contract rates are falling, with demand offset by available capacity improving.

Spot rates indexes fell for two consecutive quarters, which is the first time since the second quarter of 2020, but remain slightly above 2022.

Spot rates have declined 1.5 times faster than contract rates on average in Q1 2023, which is a result of falling demand from European economies, reducing the immediate demand-side pressure on spot market rates.

- Low demand contributing to 23% decline in truck traffic in last qtr
- EU driver shortage not improving
- Rate remain stable
- Major rail freight investments

Ocean Freight

While much has been made of the impact of the peak season from Asia on sea freight rates, arguably the line's capacity management is a bigger driver, with rising rates to the US and attempts to recover revenue from Asia to Europe and the Med.

Sizeable GRIs by Asia-North Europe ocean carriers have been imposed a number of times in August, but there are already signs that only a few will be sustained.

Indeed, a straw poll of shipper and forwarder contacts reveals the major carriers are only likely to achieve about 50% of their initial August FAK rate increases.

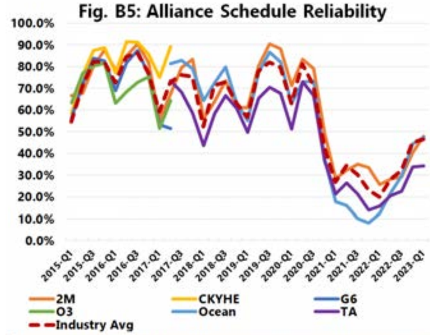
Almost all the major lines followed Maersk's GRI advisory of a minimum 40ft FAK rate of $1,900, effective from the 1st August, from Asia to the main North European hubs.

With peak season demand "subdued" on this trade-lane, and more than 1.2m teu of new-build container ships, due for delivery before the end of the year, including several 24,000 teu behemoths, which will be deployed on the route, Asia-North Europe carriers will need to be judicious in their capacity management to avoid a further rates collapse.

In contrast to Asia-Europe, the trans-Pacific trade-lane is showing further signs of a recovery, with another jump in Asia-to-US spot rates this week. Increases of $161 per 40ft, or 12% have been seen.

Schedule reliability

Fig. B5: Alliance Schedule Reliability



Alliance	2022-Q2	2023-Q2	Y/Y Change	Diff. From Industry (2023)
2M	28.2%	60.2%	32.0%	1.1%
Ocean	21.8%	59.0%	37.2%	-0.2%
TA	20.5%	43.5%	23.0%	-15.6%

Fig. B4: Top-14 on-time performance in 2023-Q2

Top 14 Carriers	2022-Q2	2023-Q1	2023-Q2	Q/Q	Y/Y
Maersk	48.8%	63.6%	71.2%	7.7%	22.4%
MSC	33.8%	63.1%	69.6%	6.5%	35.9%
Hamburg Süd	41.7%	59.5%	67.0%	7.5%	25.3%
Evergreen	31.7%	56.1%	66.9%	10.9%	35.3%
CMA CGM	34.8%	57.2%	66.3%	9.0%	31.4%
Wan Hai	22.8%	53.8%	65.2%	11.5%	42.5%
PIL	31.5%	56.5%	64.0%	7.5%	32.4%
COSCO	30.0%	53.8%	63.0%	9.2%	32.9%
OOCL	28.5%	53.1%	62.7%	9.7%	34.3%
Hapag-Lloyd	32.4%	54.9%	58.7%	3.8%	26.3%
ZIM	30.7%	50.8%	55.8%	5.0%	25.1%
ONE	33.5%	53.6%	54.9%	1.4%	21.5%
Yang Ming	27.4%	50.0%	52.2%	2.3%	24.9%
HMM	33.8%	53.7%	51.9%	-1.8%	18.1%

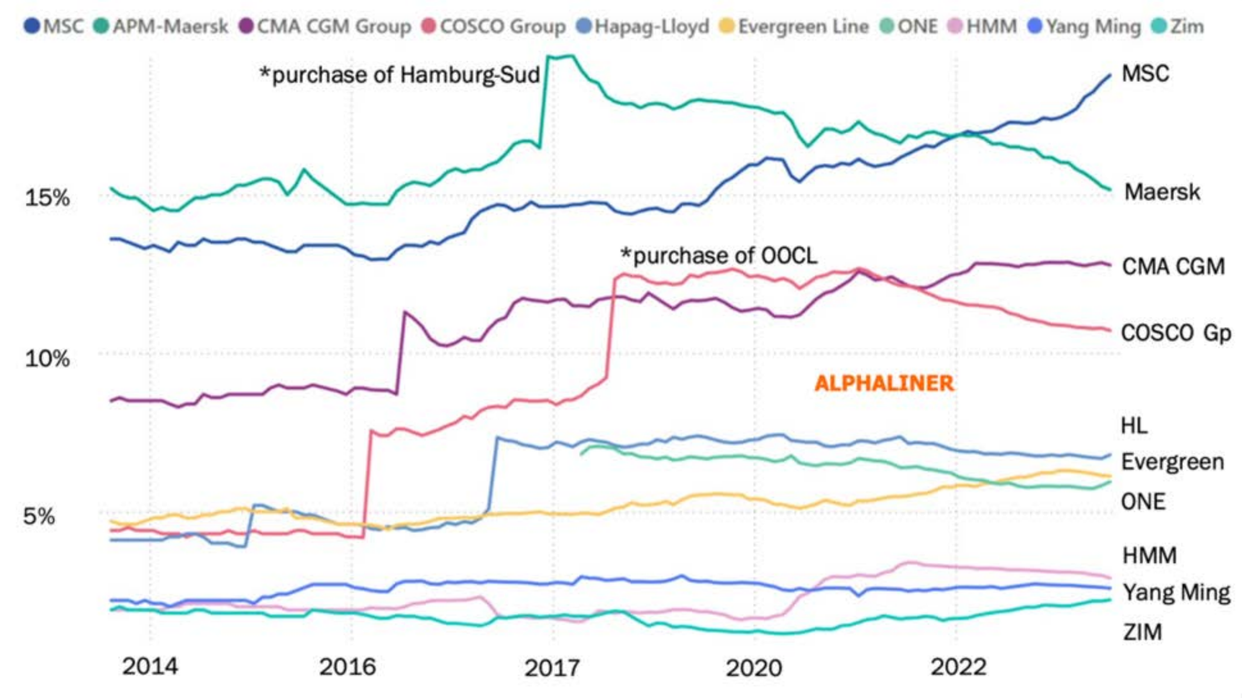
Source: Alphaliner

On the trans-Atlantic freight rates from Europe to the US East Coast are back to 2020 levels, which means that the trans-Atlantic liner ''party'' seems to be over.

MSC, which is by far the largest carrier in this trade, has already started to remove tonnage again.

Ocean Freight

Top-10 Carriers: Market Share Evolution (Operated Capacity)



Source: Alphaliner

Average spot rates from Asia to the US West Coast have jumped up to 70% in the last two months, despite the apparent lack of any meaningful peak season.

It does look like effective capacity management by the container shipping lines, has coincided with modest volume increases due to inventory restocking, which has altered the spot market, sending rates up from post-pandemic lows.

Market

Carriers have already successfully implemented trans-Pacific general rate increases (GRIs) in April, June, July and August, with a Asia-Europe GRI implemented in August, solely on the basis of current market conditions, which are tight, as evidenced by recent reports of cargo rolling in Asia.

Vessel utilisation has increased significantly over the past several weeks, aided by Panama Canal restrictions, diverted booking volumes from Canada's West Coast gateways and more blank sailings in July, and it will be some time before the ILWU Canada labour agreement has any impact on the situation.

After a massive splurge in vessel ordering over the past two years, the new container ship order book is larger than at any other time and with record number of new ships joining the global fleet, the ocean carriers are getting more aggressive in withdrawing capacity.

Although the 2023 peak season may be muted in the US and Europe, trade dynamics may gradually improve for the remainder of the year and the lines would dearly love to increase rates, though with sentiment still muted, this quarter will be critical.

Ocean Freight

The most recent Drewry composite World Container Index (WCI) increased by 1.7% in the week before publishing this report, and has dropped by 72.2% when compared with the same week in 2022.

The Drewry composite World Container Index is 83% below the peak reached in September 2021 and 33% lower than the 10-year average and while this suggest a return to more normal prices, it remains 26% higher than average 2019 (pre-pandemic) rates.

Rates

Drewry's indexed freight rates on major trade lanes make positive reading for the container shipping lines, in the week prior to publication.

Shanghai – Rotterdam: +3% | Shanghai – Los Angles: +2%

Shanghai – New York: +1% | Shanghai – Genoa: 0%

Rotterdam – Shanghai: +1% | Rotterdam – New York: 0%

New York – Rotterdam: +8% | Los Angeles – Shanghai: +1%

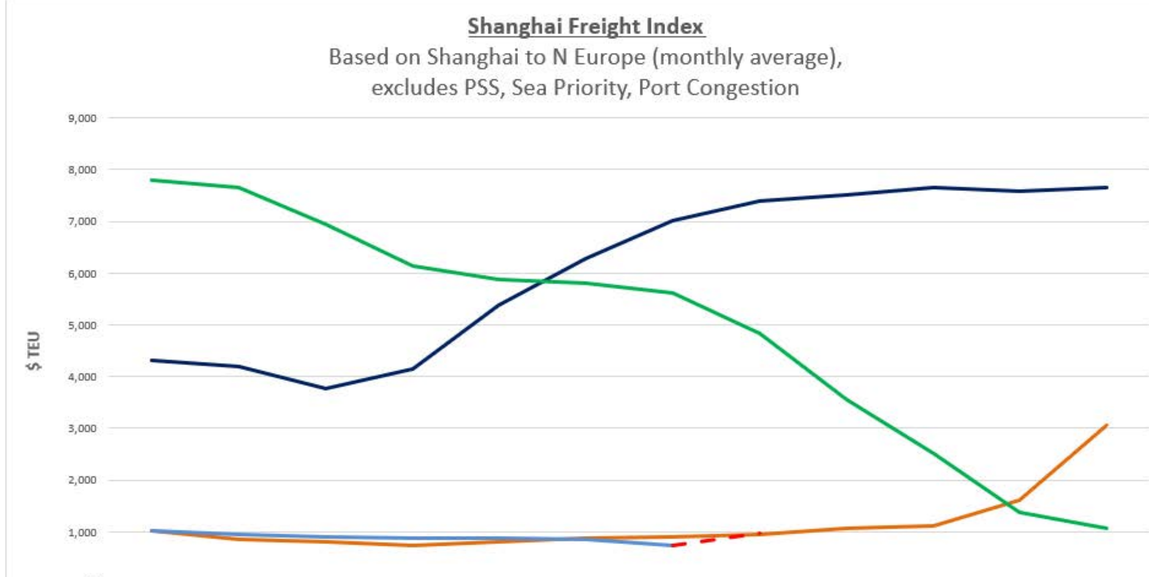
Based on current data available we expects East-West spot rates to remain stable over the next few weeks.

Drewry's WCI surges the continued rebound of the market, with Pacific rates increasing for the 6th consecutive weekend the US West Coast now 42% higher than pre-pandemic and the East Coast 21% higher.

The Asia-Europe rebound is only in its 2nd consecutive week and while it is only a marginal increase, it has held firm.

On the Atlantic head-haul changes are also marginal, but the collapse in rates halted two weeks ago and have since flatlined - 33% below the pre-pandemic level.

Shanghai containerised freight rate index 2012 - 2023

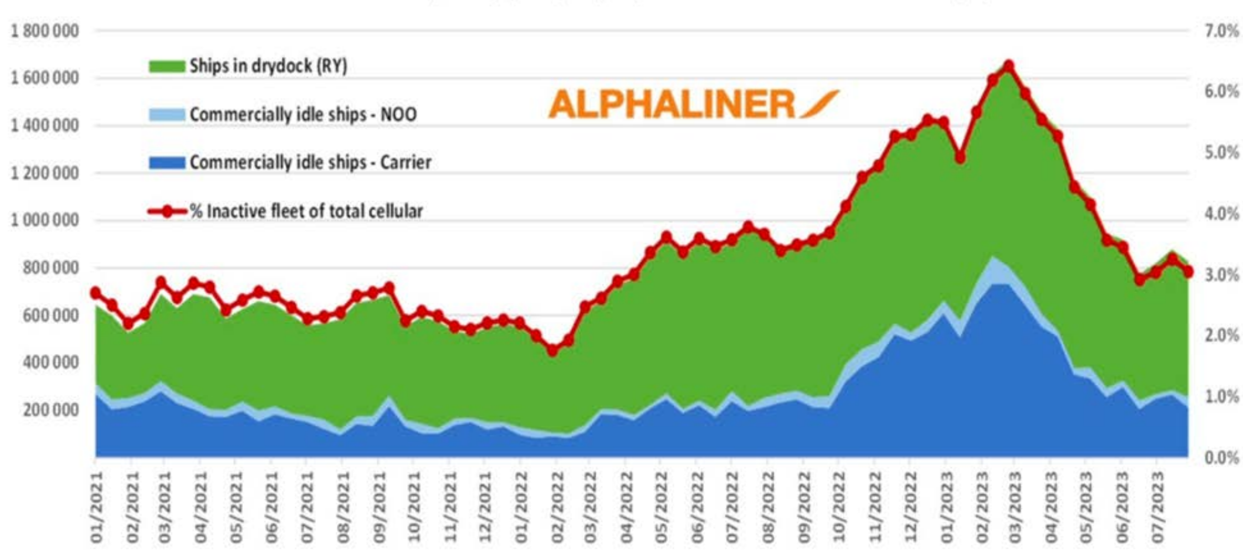


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	1,026	864	805	741	801	883	906	948	1,064	1,128	1,622	3,061
2021	4,325	4,190	3,771	4,151	5,378	6,268	7,014	7,397	7,509	7,660	7,575	7,642
2022	7,784	7,657	6,949	6,134	5,886	5,814	5,605	4,842	3,557	2,503	1,378	1,062
2023	1,023	963	908	880	870	860	750					
2023F							750	975				

Source: ISC

Ocean Freight

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



Source: Alphaliner

Despite recent increases on specific lanes, rates on the whole remain at a low level compared to a year ago. In response carriers have been employing large blank sailing programmes to balance supply and demand and attempt to halt the rate erosion.

This is a trend which is expected to intensify as a huge amount of capacity is to be delivered by Q1 2024, enters the market.

More blank sailings anticipated amid a weak rate market

The massive injection of new-build capacity into the market is happening when a muted peak season is mounting downward pressure on rates.

As a result shippers should expect continued and expansive blank sailing programmes from carriers.

Perhaps one silver lining can be found in recent schedule reliability figures, which have been improving for most of 2022 and into 2023 as well.

Schedule reliability has been continually increasing on a Q/Q level since 2022-Q1.

Throughout this period, schedule reliability increased from 33.4% in 2022-Q1 to 65.1% in 2023-Q2; the latter was a 6.8% increase Q/Q.

On a Y/Y level, schedule reliability was higher by 28.2%, with the 2023-Q2 score now closer to the historical average than the two most pandemic impacted years.

In summary, reliability figures have been steadily increasing and currently stand at around 67% on a global level. This indicates that, although blank sailings may be widespread, they are being announced earlier, with fewer last minute cancellations.

Air Freight

Global air cargo demand fell by 3.4% year-on-year in June, the smallest decline since February 2022, while year to-date cargo tonne-kilometers (CTKs) were 8.1% below last year's level.

Airfreight volumes continue to see a slow decline month on month and show no change for August.

The volume forecast specifically for Airfreight this year is projected to be around 4.7% down on 2022 levels, with the war on Ukraine and high inflation being the main drivers for driving down volumes.

The Peak period usually starts from now until early December and with rates seemingly bottomed out, we are hopeful that some kind of peak season may start soon.

In the first week of August, the International Air Transport Association (IATA) released data for June 2023 global air cargo markets showing the smallest year-over-year contraction in demand since February 2022.

Global demand, measured in cargo tonne-kilometers (CTKs), fell 3.4% in June compared to June 2022 (-3.7% for international operations).

For the half year, demand slid 8.1% compared to the January-June period of 2022 (-8.7% for international operations). However, demand in June was only 2.4% below June 2019 levels (pre-pandemic).

Load factors

Source: IATA

Capacity, as measured by available cargo tonne-kilometers (ACTKs), rose 9.7% compared to June 2022, which was a slower rate compared to the double-digit growth recorded between March and May.

This reflects strategic capacity adjustments airlines are making amid a weakened demand environment.

Capacity for the first half of 2023 was up 9.9% compared to a year ago. Capacity is now 3.7% above June 2019 (pre-pandemic) levels.

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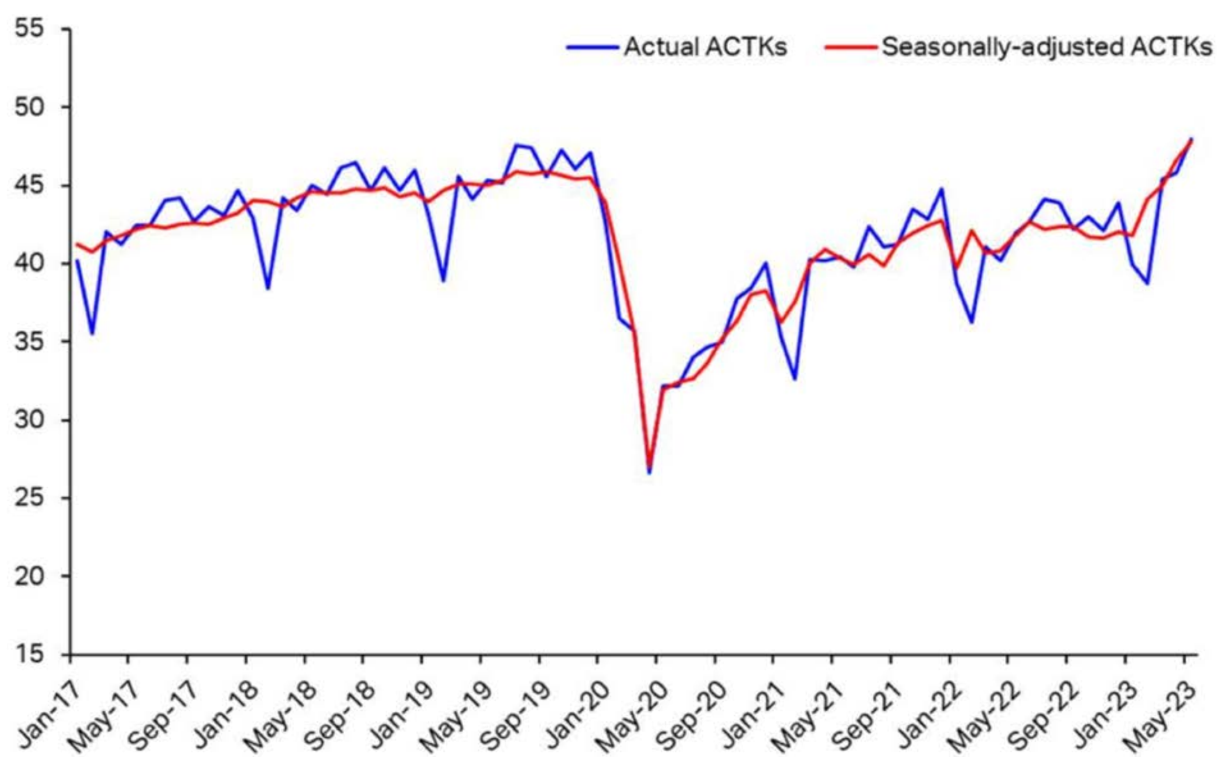
Air Freight

Global ACTKs (billions per month)



Source: IATA

Despite no real signs of any bounce in Airfreight rates, industry figures (notably Willie Walsh) continue to be optimistic that some sort of uptick will come soon – based not least on major product launches (think Apple) which should stimulate demand by September.

Market

Last year, it seems the peak season was undetected because capacity had been increased so much following COVID, while this year capacity is being reduced again.

From a macro perspective, evidence is gathering that might back this more optimistic scenario, including a sharp fall in inflationary pressures in the US, and to some extent in Europe.

Economic optimists are hopeful that we are at a point where higher interest rates will cool growth, but only to a limited and desired extent. Just enough to quell inflation but avoiding much if any recession.

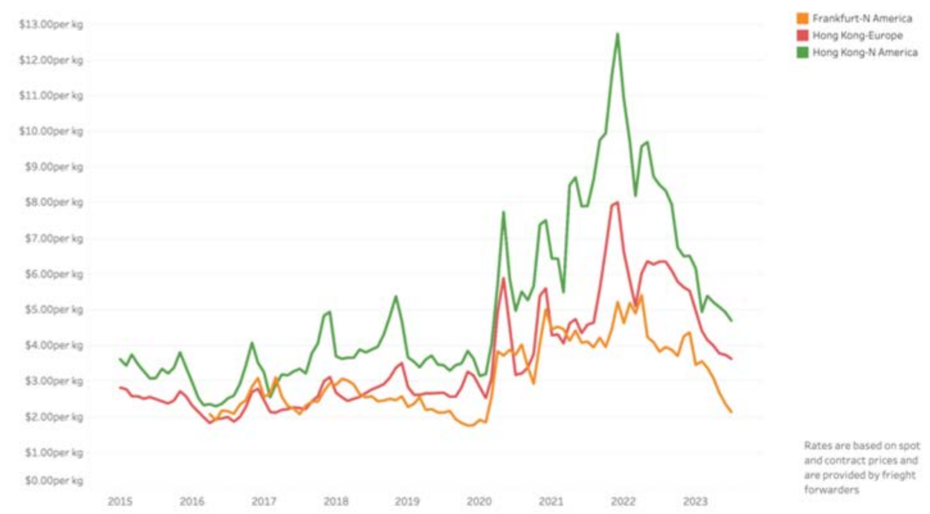
Against that, there are also at least three risk factors that could make the outlook more bearish – US markets already looking expensive; growth in Europe continuing to look weak if not anaemic; and China not enjoying a strong post-COVID recovery, but slipping into a deflationary cycle - with global ramifications.

In the US, inflation has been falling steeply. It was down to only 3% in June, with sharply higher interest rates – appearing to do the trick.

In Europe, inflation has also been falling – though at a slower pace. During June, it was still more than 6% in the Eurozone and nearly 8% in the UK – and with little if any real economic growth.

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

With air cargo capacity also being cut by pure-freight carriers, some appear to be cautiously optimistic that there will be some sort of peak season spike, unlike last year, when peak simply failed to occur.

Rates

The quiet summer period continued in Airfreight markets during July, with TAC Index data showing the overall Baltic Airfreight Index up +2.9% in the final week of July, leaving the index up +1.2% on the month – though lower some -46.2% over the previous 12 months.

Regional variations included a strong final week in the month in Hong Kong, with a gain of +2.9% driven by continued robust eCommerce business in southern China, leaving it only slightly lower by -1.3% MoM and putting the YoY change there at -42.6%.

Outbound Shanghai also edged up +0.2% WoW to complete a stronger July with a gain of +3.6% MoM leaving it at -47.7% YoY.

In Europe, the market bounced late in the month, with outbound Frankfurt rates jumping +9.7% WoW to leave a meaty gain of +11.8% MoM, trimming the YoY decline to -46.4%.

London also gained +4.8% WoW to put the change at -1.9% MoM leaving the YoY change at -51.4%.

Carriers

June air cargo demand decreased by 3.4% year on year, while capacity was up 9.7%.

The percentage fall in volumes was the lowest level since February 2022 and compares with a fall of 8.1% over the first six months of the year.

The capacity increase for the month was also lower than the double-digit percentage increases recorded between March and May, reflecting strategic capacity adjustments airlines are making amid a weakened demand environment.

Looking at performance indicators, IATA said that global cross-border trade decreased by 2.4% year on year in May, reflecting the “cooling demand environment and challenging macroeconomic conditions”.

And June saw both the manufacturing output Purchasing Managers Index or PMI (49.2) and new export orders PMI (47.1) below the 50 mark, indicating a decline in global manufacturing production and exports.

European carriers experienced a 2.8% decrease in cargo volumes in June, which was an improvement on May and helped by transatlantic performance.

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Road Freight

Despite shrinking industrial production and rising costs, the need for road transport remains high. However, any demand is easily accommodated by reduced transport capability and less cargo space, which is mainly due to the prevailing shortage of drivers, higher commodity and energy prices.

The European road freight sector continues to show a picture of weak recovery, with unpredictable factors creating an uncertain, challenging and complex market environment.

The market moderation seen in the second half of 2022 has spilled over into 2023 and as a result, the European road freight market is projected to lose speed in 2023, expanding by only 1.4% in real terms.

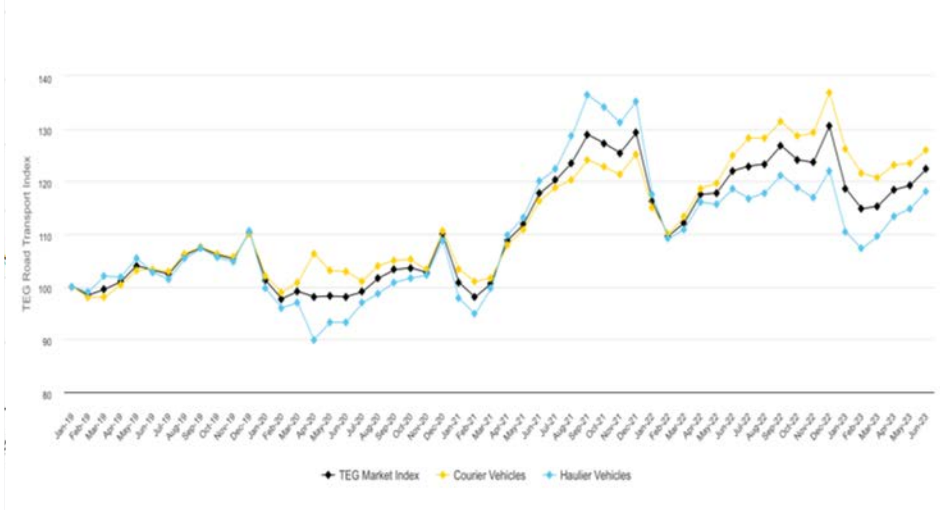
In 2023, decreasing real income, tight financial conditions, and soft external demand continue to weigh on Europe's economic activity and outlook.

The war in Ukraine is a major setback to recovery and the total European road freight market is currently projected to see a CAGR of 2.1% from 2022 to 2027.

Ti's latest State of Logistics Road Freight Survey 2023 reveals that 84% of road freight companies are currently experiencing increased pressure on margins as costs soar and demand weakens.

To sustain revenues carriers are investing in technology and value-added services, which may prove to be good long-term investments for shippers.

TEG Road Transport Index

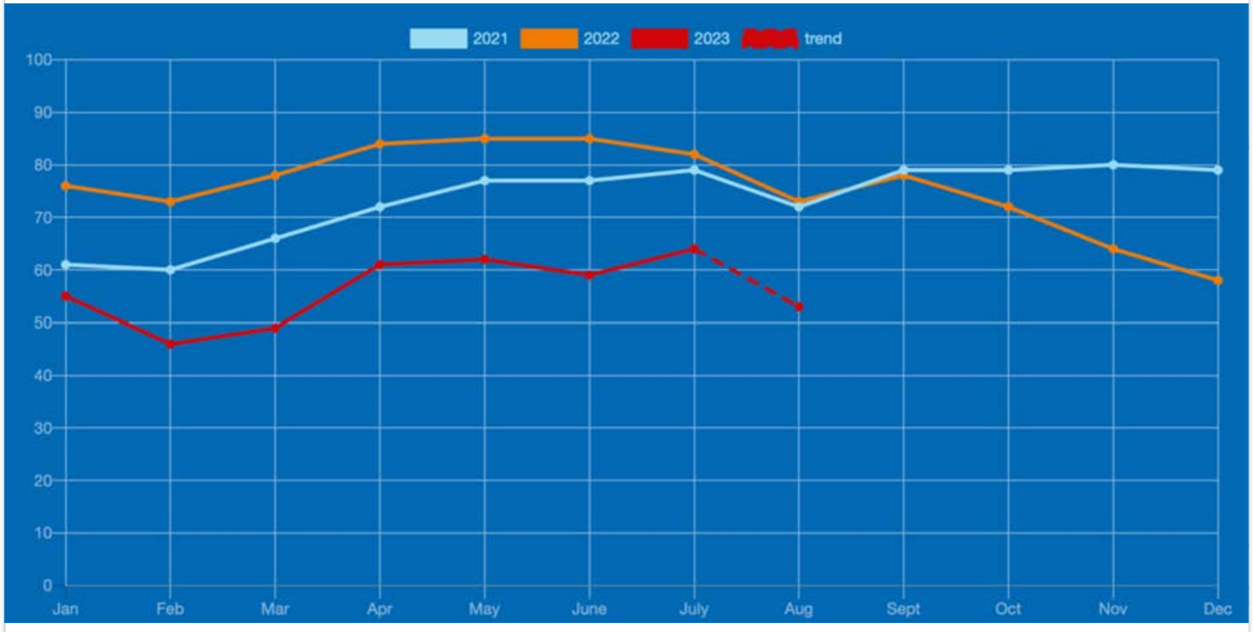


Source: TEG

Both the domestic and international road freight markets segments are experiencing a slowdown

Road Freight

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



Source: TIMOCOM

Market

While it's typical for road freight rates to dip during after the holiday peak season, this year's drop is hitting harder than usual.

While it's typical for road freight rates to dip during Q1 after the holiday peak season, this year's drop is hitting harder than usual.

The market appears to be recalibrating after experiencing a hefty double-digit surge in 2022, but it's doubtful that it will return to pre-pandemic conditions, especially with capacity shortages remaining a major concern.

The stagnation in freight demand from Q4 2022 has continued into 2023, flattening the driver shortage curve, but nothing has changed in the long-term outlook of the profession and the share of young drivers remains extremely low.

Any jump in demand from European economies will further exacerbate the shortage of drivers, which in turn will limit economic growth.

The cost-of-living crisis across the continent is also increasing wage demands in 2023, resulting in labour costs increase, but any freight rate falls resulting from falling demand may be limited by supply-side pressure, that has created a higher cost base, which will prevent freight rates from reaching historic lows.

As volumes dropped off in Q1, the continuous increase in available capacity eased pressure on rates, but capacity remained constrained by driver shortages.

The outlook is for rates to continue to fall in Q2, although seasonal demand will support higher rates in Q2 and rates are expected to remain at a higher level than their pre-pandemic base.

Road Freight

The latest report from Ti, IRU and Upply on road freight prices has revealed that both spot and contract rates are falling quarter on quarter, dropping by 7.5 and 2.8 points, respectively.

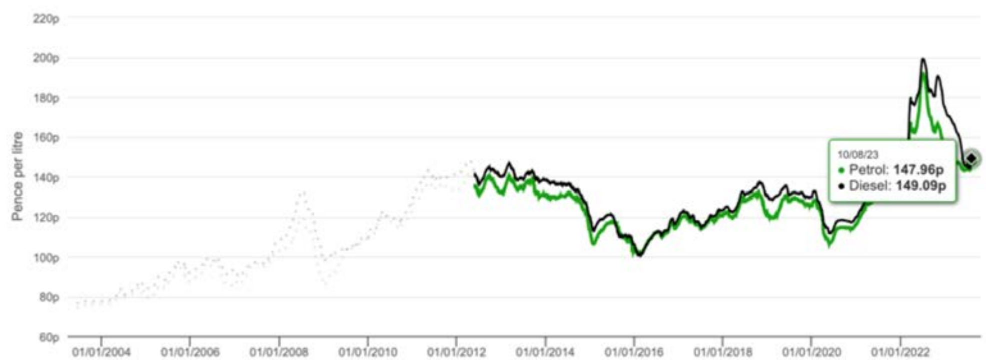
Rates

Spot rates in the European road freight market experienced their second consecutive quarter of decline in the first quarter of 2023, research by Ti, IRU and Upply found, marking a significant shift since the onset of the COVID-19 pandemic.

The spot rates index fell in Q1 by -7.5 points quarter-on-quarter to 132.5 points, with the report noting that this is the first time rates have fallen for two consecutive quarters since the second quarter of 2020.

The spot market index has also fallen below its Q2 2022 level, when the Ukraine War saw costs rise. Despite this, spot rates remain up by 8.9 points year-on-year.

Average fuel prices (£/L) at pump



Source: alllstar

The cost-of-living crisis further reduces demand-side pressure on road freight rates, allowing for further rate falls

Road Freight

Investments signal green light for European rail freight projects

Major investments are being ploughed into European rail freight infrastructure, including in the UK, despite the latest Channel Tunnel results indicating still-declining volumes.

GetLink, which operates UK Channel Tunnel rail freight services, recorded a 23% year-on-year downturn in truck traffic for the three months to June, indicating a deteriorating situation after movements fell 14% in Q1, showing year-to-date figures at 19% below those in 2022.

Truck traffic was penalised by an unfavourable base effect due to capacity reductions in the short straits.

This follows the massive redundancies carried out by P&O in Q2 22 against a backdrop of a relative slowdown in UK household consumption.

At the end of July, UK Export Finance (UKEF) agreed to partner with BNP, ING and JP Morgan to provide some €781m to finance a high-speed 286 km electric rail connection in southern Turkey, connecting its second-largest box port, Mersin, with the cities of Adana, Osmaniye and Gaziantep.

This deal shows that the UK, home to the world's first railway system, still moves full steam ahead with its export of railroad innovation and expertise.

Conditional to UK exporters supplying the project, it is hoped the funds will generate major opportunities for the UK's infrastructure, engineering and project management sectors.

The project is expected to reduce traffic congestion on the motorways and promote more sustainable transport in the region.

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