MARKET UPDATE
September 2023

United Kingdom

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Executive Summary

The latest Drewry World Container Index is now 85% below its 2021 peak and 42% lower than the 10-year average, indicating a return to more normal prices. However, it remains 10% higher than average 2019 (pre-pandemic) rates.

August was a quiet month for Air freight and we see no meaningful signals of any kind of peak, but there could be a slight uptick in demand and volumes as we approach the Chinese Golden Week in October.

Despite some recent rate gains, driven largely by strong e-commerce volumes, air freight rates remain relatively stable.

The first half of 2023 for road freight has been characterised by the effects of the economic slowdown in Europe, illustrated by the sharp fall in spot prices.

Nevertheless, it is important to note that road freight prices in Europe remain on average 12-15% higher than before the pandemic, reflecting a structural increase in hauliers' costs

Ocean Freight 3

We are expecting more blanked sailings and even cancelled services on the transatlantic trade, unless there is an urgent reversal in the recent freight rate slump.

Sea freight spot rates ex-Asia to both North Europe and the Mediterranean have fallen again, prompting carriers into last-minute cancelled sailings, over and above their already aggressive blanking programmes.

- Bearishness has engulfed the market as low demand leaves carriers feeling vulnerable
- September GRIs diminished after carriers extend rates past the start of September
- Any material boost in volumes for the traditional peak season is dissipating
- Carriers are implementing further blank sailing and especially before the Chinese Golden Week

Air Freight 7

August, for the Air freight market was very quiet, as was July, and there are no meaningful signals of any kind of peak arising this year, which suggests that any demand recovery is unlikely this year.

The market seems to have levelled out, but still holds a lot of uncertainty, though with multiple blank sailings scheduled around Golden Week and passenger belly-hold capacity likely to be withdrawn, there could be upward pressure on Air freight rates in the second half of October.

- Slight rate increases on some lanes do not indicate a peak season
- Cross border eCommerce is propping up demand
- We could see a slight uptick in demand as we approach Golden Week
- Lock in longer term rates (SHA, HKG, SZX

Road Freight 10

Road freight rates across Europe are expected to continue falling through Q3 as demand remains slack and available capacity remains high.

With demand not expected to pick up again until 2024, we would expect rates to continue their downward trajectory, albeit to a higher floor due to a bigger carrier cost base.

- Data shows a 23% y-o-y decline in truck traffic for the last 3 month, due to capacity reductions
- Despite improvement, the EU driver shortage continues to remain in play
- Driver and vehicle supply still influencing rates and capacity
- Rates stable however this could change if the market picks

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Ocean Freight

Bearishness seems to have engulfed the container sea freight, with hopes of any September GRIs diminished after a number of carriers extended rates past the start of September and any hope of a traditional peak season is dissipating, with carriers looking to implement further blank sailing and especially before the Chinese Golden Week.

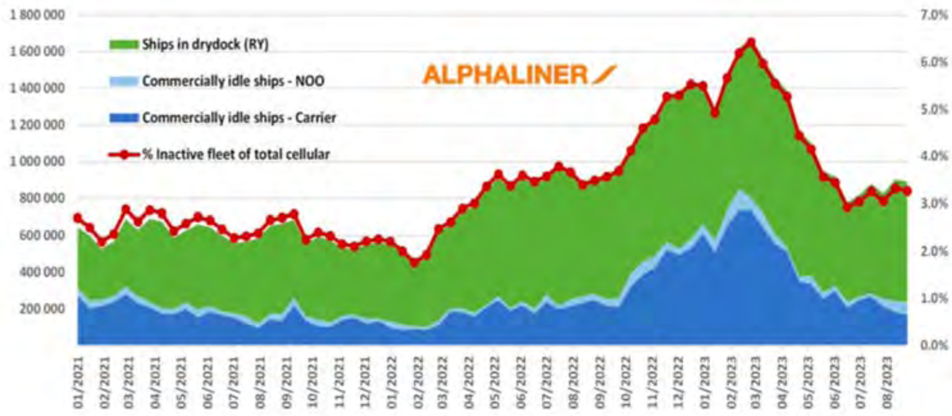
Key European hubs are operating stably going into September, with normal productivity and operations, with slight increases in volumes on Asia-Europe trades, while terminals in Antwerp are facing a shortage of pilots due to summer vacations, but without significant impact to operations.

Overcapacity in the sea freight market is forcing some carriers to idle new ultra large vessels before their maiden voyages from Asia to Europe, as the market remains soft, though prices remain slightly above 2019 levels.

Carriers have already been announcing additional blanked sailings in the weeks after the Golden Week holiday, suggesting that demand is expected to decrease in the weeks that would typically be in the Asia to Europe peak season.

Though ocean volumes remain relatively strong on the Asia to Mediterranean trade, rates continue to soften and the current level is the lowest for this lane since 2019, probably due to carriers adding too much capacity when demand proved resilient, and now carriers are trying to remove capacity to match volumes.

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



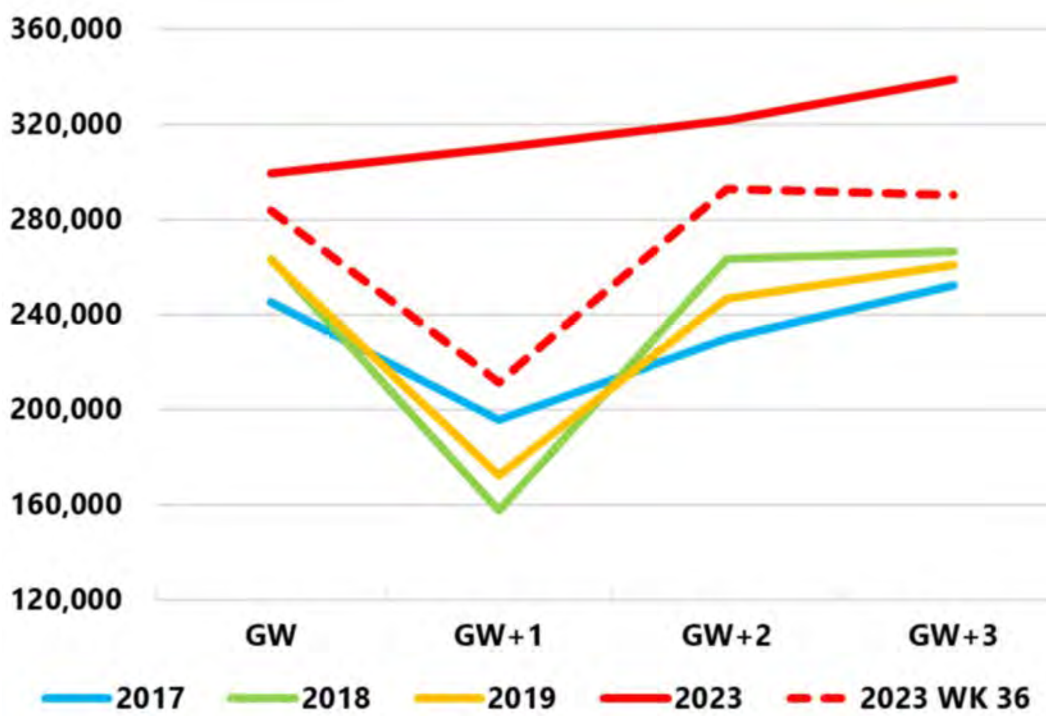
Source: Alphaliner

Transpacific rates to the West Coast have come down slightly, about 7%, so far this month, while prices to the East Coast have remained relatively static.

This relative stability, even with elevated volumes, is supported by significant capacity restrictions by carriers and the possibility of a moderate but sustained peak through October.

Ocean Freight

Asia to North Europe offered capacity



Source: Sea Intelligence

As we approach the Chinese Golden Week holiday, when factories close and production slows down and container shipping demand declines, the imbalance between supply and demand widens, with carriers typically announcing blank sailings.

While we traditionally see a decrease in capacity during Golden Week and beyond, this year we are seeing a higher percentage of reductions, which are happening earlier, compared to pre-pandemic levels between 2017 and 2019.

Market

The percentage of industry-wide blanked capacity between Asia and Europe in week 34 of the year, increased from an average of 6.8% in previous years to a significant 19.9% in 2023.

During Golden Week, percentage capacity reductions increased from a typical 11.1% to 17.0%, while in the three weeks following Golden Week, we are seeing an increase to 13.8%.

Blank sailings mean that services may not be sailing in certain weeks, there may be changes to departure dates, arrival dates or transit times and shippers need to follow the situation heading into Golden Week and beyond closely.

Our sea freight teams work hard to keep our customers' cargo moving, ensuring there is available capacity and offering alternative service options in the event of unforeseen blankings.

Providing us with regular forecasting, helps us to understand critical dates and intended volumes, so that we can secure the right amount of capacity to keep your supply chains running.

Ocean Freight

Container Trades Statistics' (CTS) most recent global price index shows that average freight rates in June 2023 had fallen 61% y/y and while freight rates for exports from Asia have been particularly hit, freight rates in all trade lanes have fallen.

CTS forecast that demand will grow faster than supply in 2024, though the markets will still be under pressure from significant excess capacity.

Rates

Drewry's composite World Container Index decreased by 7.1% in the week prior to drafting this report, dropping 68.4% when compared with the same week last year.

Asia to Europe sea freight spot rate weakness continues and in the case of North Europe it means that 67% of the rate increase gained in the first half of August by the carriers has now been lost.

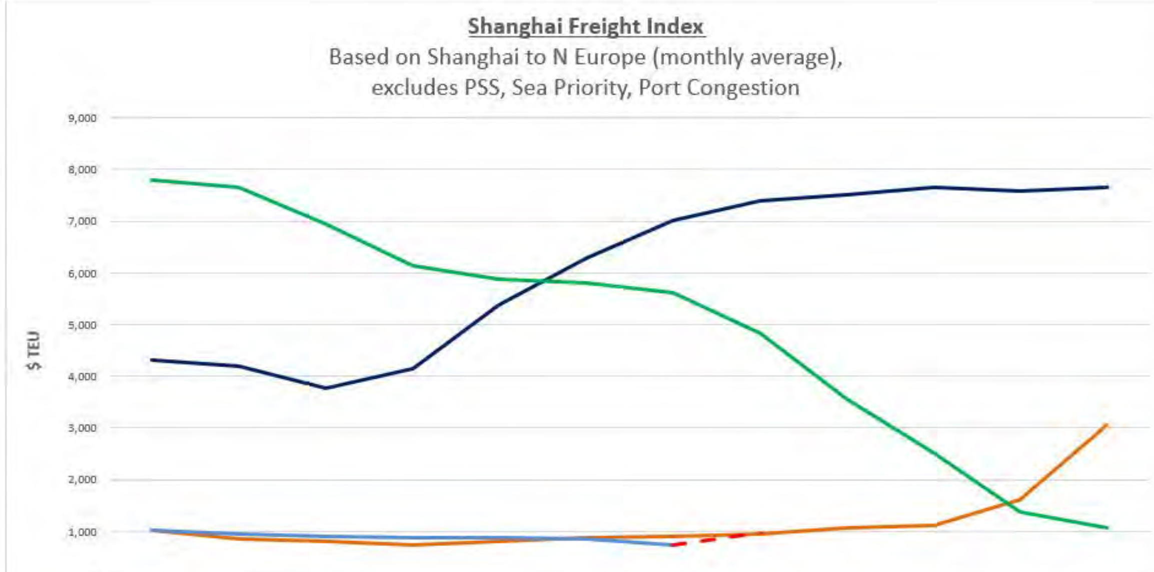
In the case of the Mediterranean the full gain from August has also been lost, with North Europe now just 4% below 2019 levels and the Mediterranean only 3% above.

Backhaul spot rates from Europe to Asia reached their lowest level recorded level since 2012, while Pacific headhaul rates mainly flatlined for USEC and declined slightly for USWC.

Both US coasts are now roughly 30% above the pre-pandemic level in 2019, while the backhaul from USWC is almost double the rate level seen in 2019.

The transAtlantic trade-lane is effectively flatlined in both directions, with the westbound headhaul one third below 2019 levels.

Shanghai containerised freight rate index 2012 - 2023

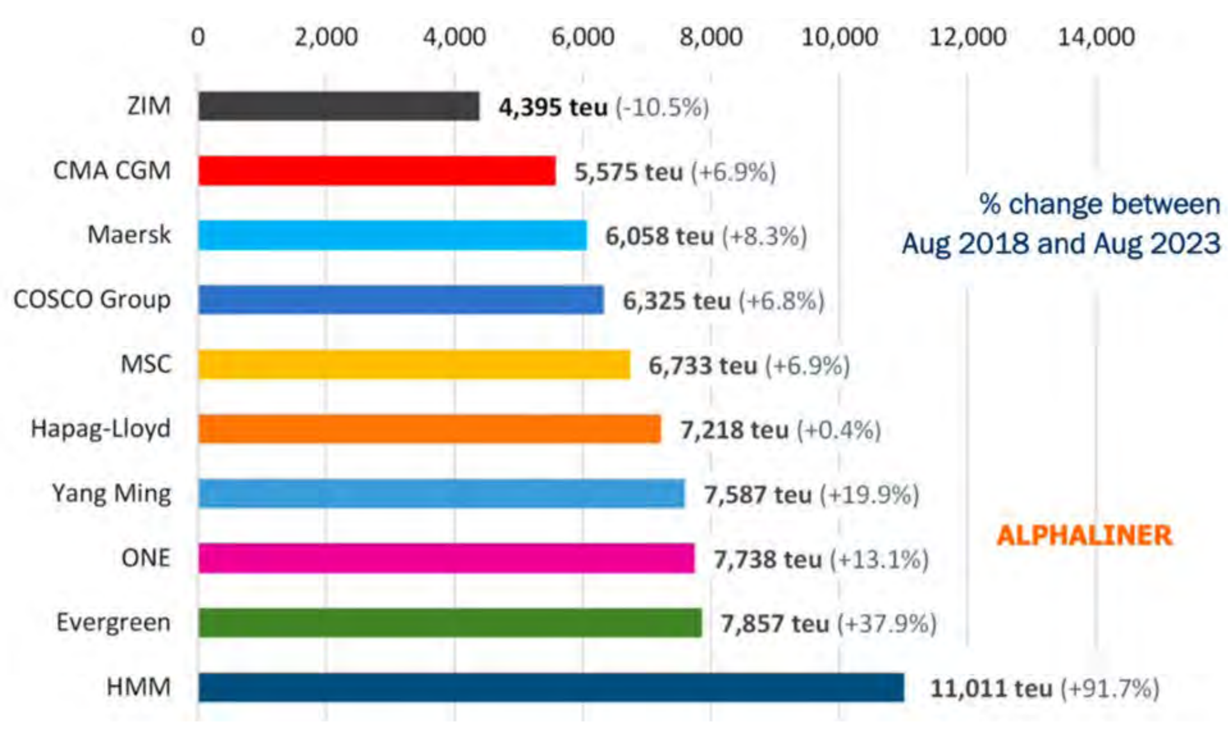


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	1,026	864	805	741	801	883	906	948	1,064	1,128	1,622	3,061
2021	4,325	4,190	3,771	4,151	5,378	6,268	7,014	7,397	7,509	7,660	7,575	7,642
2022	7,784	7,657	6,949	6,134	5,886	5,814	5,605	4,842	3,557	2,503	1,378	1,062
2023	1,023	963	908	880	870	860	750	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

Source: ISC

Ocean Freight

Average vessel size per top 10 operator



Source: Alphaliner

Global schedule reliability for the most part has been improving with the Asia-Europe trade lanes seeing good improvements in schedule reliability after dropping to its lowest point during the pandemic.

In a possible threat to this improvement carriers are now on track to blank capacity in line with both 2019 and the 2017-2019 average.

Shiping lines

MSC warned that despite cutting volumes, rates were beginning to dip under break-even levels and that if carriers cannot cover the cost of moving a container from A to B, then they will take any action not to go bankrupt, suggesting there is going to be a lot of blank sailings and cancelled services.

Hapag-Lloyd confirmed that “rates are down and revenues are under pressure and while many would say rates are at the same level as they were in 2019, costs today are much higher, with factors such as inflation and the new IMO rules.”

With the upcoming Golden Week holidays and container demand slowing from Asia the carriers have scheduled 29 additional blank sailings on the Transpacific, and 18 more on Asia-Europe.

Scheduled capacity reductions on Asia-North America West Coast went from 3.7% to 14.1%, and on the East Coast from 2.2% to 16.1%, while the Asia-North Europe reductions rose from 6.8% to 19.9%, and from 7.7% to 21.0% on Asia-Mediterranean.

The withdrawn sailings represent a massive reduction in scheduled capacity, in particular due to a large number of ‘last-minute’ blank sailings, with North Europe especially being targeted by carriers wanting to squeeze capacity and boost plummeting spot rates.

Air Freight

Global air cargo traffic decreased by 0.8% in July 2023 year-on-year, according to the latest IATA date, but increased by 2.7% from the previous month. Increasing capacity, however, prevents the contraction in freight rates from being curbed.

Air freight volumes continue to remain low, with flat growth and low expectations of any increase in volumes towards peak season.

Fluctuating Purchasing Manager Index (PMI) across the globe suggest higher export orders from emerging markets, while high inflation continues to affect the world economy and trade.

Subsequent high inventories and lower purchase power are contributing to the comparatively low demand.

However, eCommerce volumes continue to pick up, compared to previous months, with higher demand also noted in sectors including automobile, tech, life science and healthcare.

Higher flight frequencies in general for increased PAX demand during the summer mean that most airlines have available capacity at hand, absorbing low yields amidst lean volumes. Global capacity is 12% higher than last year, though this position may begin to change shortly as PAX services reduce.

The overall market still remains competitive, though we have seen slight increase on some trade-lanes, including Shanghai increasing up to 10%.

New export orders PMI in major economies

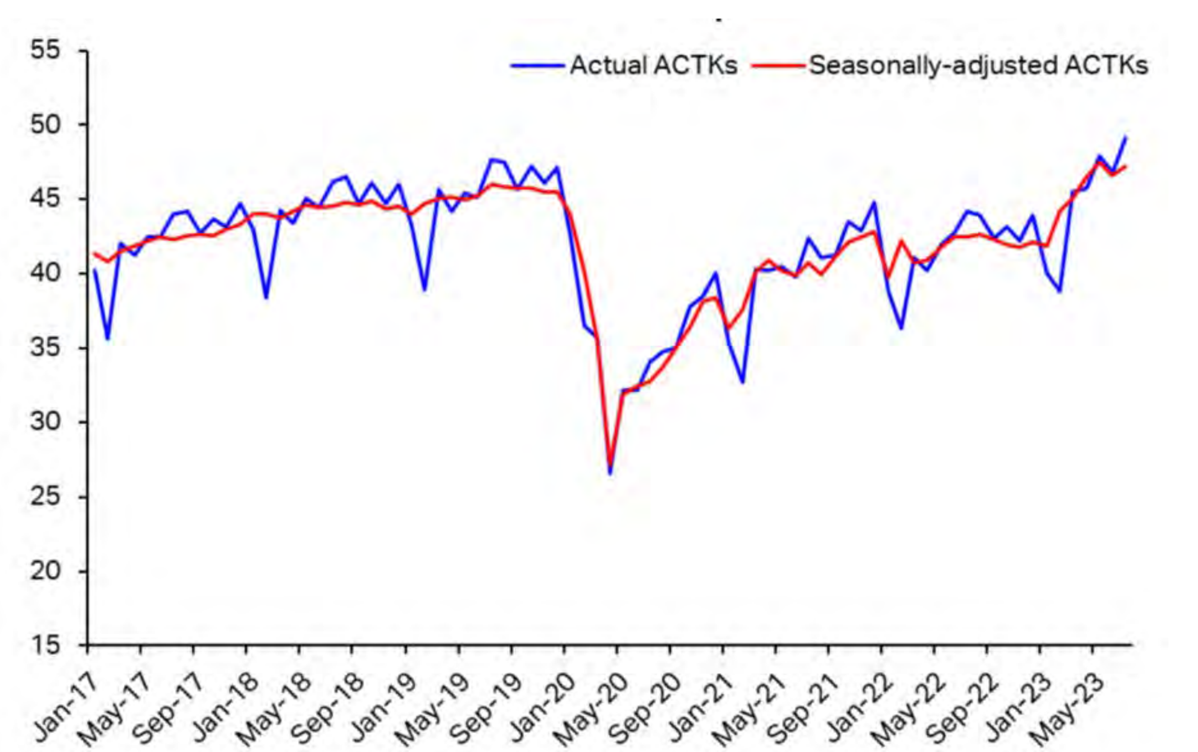
Source: IATA

Jet fuel prices remain higher than normal, but if they remain constant, the expectation is for stability on long term rates through Q4 2023.

Global oil inventories will be low for rest of this year, with jet fuel prices expected to remain comparatively higher. Demand and production is expected to be balanced towards start of 2024, which will likely have downward pressure on crude oil prices as well as jet fuel

Air Freight

Global ACTKs (billions per month)



Source: IATA

August, for the air freight market was very quiet, as was July, and there are no meaningful signals of any kind of peak arising this year, which suggests that any demand recovery is unlikely this year.

Market

The market seems to have levelled out, but still holds a lot of uncertainty, though with multiple blank sailings scheduled around the Golden Week period and passenger belly-hold capacity likely to be withdrawn, there could be upward pressure on air freight rates in the second half of October.

Demand growth simply does not exist currently, or for the foreseeable future and volume shippers will be tempted to try and fix longer-term deals because the levelling of volumes and imminent drop-off of belly-hold capacity means the market may not get any better than it is right now.

Data shows that spot rates declined 37% year on year and that of the 10 major trade lanes assessed in the past month, only China-US and Southeast Asia-US recorded growth, with air cargo spot rates up 3% and 4% respectively on these corridors. This is attributed to a more resilient US economy with strong retail sales and, to some extent, also delayed recovery of US-China passenger belly-hold capacity, which is growing at a much slower pace than Europe-China.

Capacity shortages triggered by geopolitical issues, mean that Air freight spot rates ex Northeast Asia to Middle East & Central Asia, Northeast Asia to Europe, China to the US and China to Europe remained highly elevated, still up by around 55% from their pre-pandemic levels.

Air Freight

Baltic Exchange Air Freight Index

Source: Air Cargo News

August saw global air cargo capacity rise +7% year-on-year, while the global load factor was down 3%

Increases in supply, in parallel with the contraction in demand, logically leads to a continuing trend of decreasing freight rates, more or less pronounced according to the trade lanes. However, air cargo yields still remain 35.4% above 2019 levels says IATA.

Rates

The global air cargo spot rate flattened in August, at its lowest level since the onset of the pandemic as another weak summer month saw chargeable weight edge -1% lower for a fourth consecutive month.

Of 10 major trade lanes assessed in the past month, only China to the United States and Southeast Asia to the United States recorded growth, with air cargo spot rates up 3% and 4% respectively on these corridors.

While shippers continue to benefit from the overall decline of general air freight rates, rising jet fuel prices would be of concern, in an already contracted market, with the US gulf coast jet fuel spot price jumping 21% month-over-month.

The data dampens some industry reports of a slight spike in demand in August, leading to hopes of a rise in volumes going into the final four months of the year.

The market seems to have levelled out, but still holds a lot of uncertainty, with no meaningful peak and all the signals suggest that it could take another few quarters before we see more demand on a global level.

Carriers

The latest figures from IATA show that in July air cargo traffic in cargo tonne km (CTK) terms fell 0.8% year on year – the narrowest decline registered since February 2022 - with demand for air cargo effectively flat.

On regional performance, airlines based in the Asia-Pacific region saw their air cargo volumes increase by 2.7% year on year in July.

Carriers in the region benefited from growth on Europe-Asia (3.2% year-on-year growth), Middle East-Asia (up from 1.8% in June to 6.6% in July), and Africa-Asia (returning to double-digit growth of 10.3% year-on-year from -4.8% in June.

North American carriers posted the weakest performance of all regions, with a 5.2% decrease in cargo volumes during the month, while European carriers saw their air cargo volumes decline by 1.5%.

Middle Eastern carriers experienced a 1.5% year-on-year increase in cargo volumes as demand on Middle East–Asia routes has been trending upward in the past two months.

Road Freight

The deteriorating economic climate is having a downward impact on road freight transport prices in Europe. In the second quarter of 2023, the Ti/Upply/IRU road freight rates index lost ground, for the second consecutive quarter on the contract market and for the third consecutive quarter on the spot market.

The first half of 2023 has been characterised by the effects of the economic slowdown in Europe, illustrated by the sharp fall in spot prices.

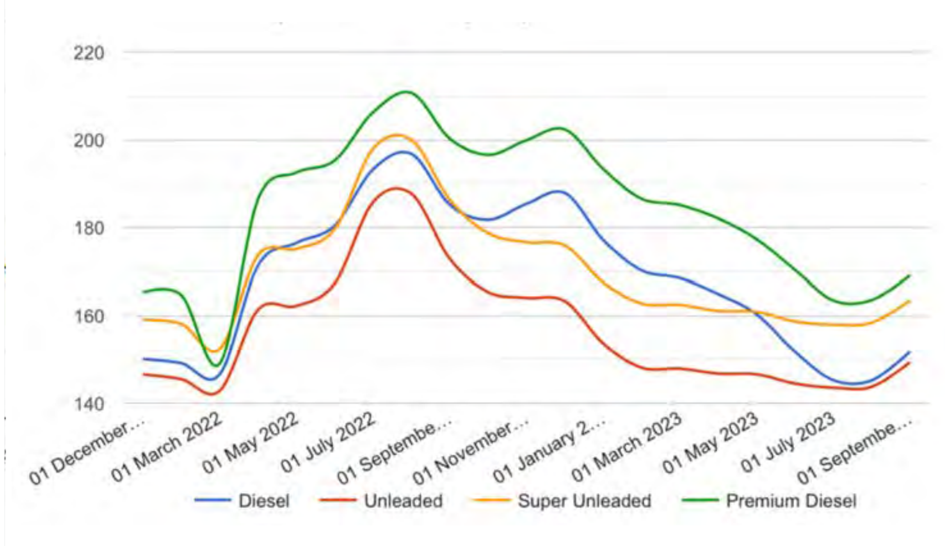
Nevertheless, it is important to note that road freight prices in Europe remain on average 12-15% higher than before the pandemic, reflecting a structural increase in hauliers' costs.

According to latest IRU driver shortage data, the shortage of truck drivers in Q2 2023 was slightly lower than a year ago, with 7% of truck driver positions remaining unfilled versus 9.7% at the end of 2021 and while some driver shortages are easing, the shortage is still applying upward pressure on rates.

The IRU said "The drop in demand for road freight should not distract us from the structural problems of the European truck driver population: less than 6% are under 25 years old while more than a third of those over 55 will retire in 5 to 10 years. More than 1.2 million truck driver jobs could be vacant in 5 to 10 years, due to driver retirements alone."

The outlook for the coming months is for further reduction in demand side pressure freeing up capacity and allowing for the possibility of further rate falls in the spot market.

Nationwide average fuel price per lite (pence)



Source: Fleet News

"We must act now to improve recruitment of drivers from third countries and enhance the attractiveness of the profession"

Road Freight

Market

In the first half of 2023, we saw the effects of the economic slowdown in Europe, illustrated by the sharp fall in spot prices. Nevertheless, it is important to note that road freight prices in Europe remain on average 12%-15% higher than before the pandemic, reflecting a structural increase in hauliers' costs.

Indeed, the main cost items for road hauliers, namely fuel and labour, both recorded a sharp increase.

Diesel prices remain higher than before the conflict in Ukraine, while, driver wages have risen sharply, in response to inflation that has spurred salary demands.

The driver shortage issue has eased slightly in 2023, with a 7% job vacancy rate, according to the latest IRU estimates, but the cost base is significantly higher than before 2020. (Upply)

The downward trend in road freight rates in Europe is expected to continue in the coming months, as demand remains slack and available capacity remains high.

Ti forecasts that the road freight sector will grow by 1.3% in 2023, which represents a significant slowdown compared to 2022 and 2021.

Falling order levels, with high and rising interest rates will continue to dampen demand and transport prices will continue to be affected, both on the spot and contract markets.

But we should not expect a collapse, due to the increase in operating costs, with fuel prices likely to rise further, due to the decrease in crude oil production announced by OPEC+.

Lower inflation could reduce wage claims, but the driver shortage, despite the slight easing this year, will remain a major concern for the next few years.

Road Freight

Prices drop for a second month, but fuel costs rocket back up, with haulage prices creeping up – but only by 0.35%. Year on year, prices decreased by 3%, mirroring the annual courier price fall.

Rates

The TEG Road Transport Price Index provides a monthly overview of the price-per-mile cost for vehicles used in the UK's haulage and courier industry.

The index considers various factors, including supply and demand levels as affected by Brexit, Covid-19, driver shortages, and other economic factors..

The latest TEG data shows the overall price for haulage and courier services is currently 119.4, down slightly from 119.7 in July and 122.3 in June. Year-on-year, the overall August price is down 3.2%.

During the course of August, courier prices dropped -0.7%. But year on year, there's a more marked fall of 3.3%.

Haulage prices have started to rise again this month – but only by 0.35%. Year on year, prices decreased by 3%, mirroring the annual courier price fall.

TEG Road Transport Index

Source: TEG

The European freight charge per kilometre was, on average, 14.1% lower in the second quarter as compared to the same quarter last year

Road Freight

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

Source: TIMOCOM

2023 in review

The European transport market moved at a lower level in the first half of 2023 as compared to the previous year and is underperforming figures posted in the pre-Corona year 2019.

After the last two atypical years, which remained affected by the pandemic and its recovery effects, road transport as a whole has quietened down significantly.

In Q2 2023 there were 46.3% fewer freight offers on average in the spot market across Europe, as compared to Q2 2022.

Following a weak start in the first quarter, an increase in transport demand emerged in the second quarter and April saw an increase of 40% more freight offers being placed compared to March.

In May, across Europe there was a plus of 8% and overall, due to the strong Q2 start, with 57% more freight offers compared to the previous quarter.

Great Britain and Poland were able to significantly increase their demand for inland transportation in Q2 2023 (+66% and +25%), compared to the second quarter of 2022.

While France and Germany posted extraordinary growth in freight offers in the second quarter 2022 due to the recovery effects of the Coronavirus pandemic period, this growth was not as significant in Great Britain and Poland at the time, which is why they are able to achieve increases of 66% and 25%, respectively, as compared to the same quarter last year.

Since June, the downward trend in the number of freight offers due to the traditionally weak summer months, which are also combining with a slackening economy, can be recognised across Europe. In June, freight entries fell by 15% across Europe as compared to the previous month. (Timocom)

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