MARKET UPDATE
October 2023

United Kingdom

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Executive Summary

Some airlines have resumed routes to Israel, however, the industry is still exercising caution as conflict continues between Israel and Hamas, with charter requests becoming increasingly harder to fulfil.

Operations continue at most sea freight terminals, but a backlog of vessels is growing, with MSC noting increased waiting times at Ashdod.

Ocean rates for goods shipped to Israel from Asia and western Europe actually fell, but that may change as insurance costs increase and carriers pass along war risk premiums, with some underwriters reviewing cover provisions for Ashdod, although Haifa remained unaffected.

The Suez Canal may face disruptions and while this is unlikely the threat to merchant vessels has increased significantly, and particularly those with links to Israel or the United States.

Ocean Freight 3

The European Union's surprise decision to end container shipping lines' exemption from competition law next April and imposing carbon taxes on them from January, mean the lines already have a challenging 2024.

While co-operation between carriers is still possible, the potential downside of the EU's action is that carriers will downsize service portfolios, frequency and connectivity, which would reduce, not increase, competition

- EU to end container shipping lines' Consortia Block Exemption Regulation
- The Xeneta Global Index recorded its first gain in 13 months
- Carriers announcing ETS-related surcharges from 1st January
- Record year for new container ship deliveries

Air Freight 7

The overall Baltic Air Freight Index gained 11.0% in September, and was up 0.7% in the week to October 9, suggesting that air freight rates may have finally bottomed out.

The overall upward trend was fairly broad-based, with the rise of eCommerce business out of southern China particularly prevalent, with Hong Kong routes up 6.3% in the week prior to publication and Shanghai up 2.6%.

- Overall Baltic Air Freight Index gained 11.0% in September
- Outbound Hong Kong routes up 7.3% and Shanghai 19% in the month
- 5.8% increase in jet fuel in September but situation volatile
- Air cargo capacity rose12.2% over August

Road Freight 10

Capacity is returning to normal and there is significantly more volume than in the pandemic years. Nevertheless, freight rates remain at a high level, driven by rising diesel prices, which are further threatened by conflation in the Middle East.

The traditional road freight price uptick seems to have come earlier this year and shippers need to be planning ahead to make sure their products aren't left stranded in warehouses.

- Overall price per mile in largest jump since December 2022
- Market capacity is gradually returning to normal
- Operators seeking clarity on the 2040 deadline for zero-emissions HGVs
- CDS deadlines for exporters in November 2023 and April 2024

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Ocean Freight

Prior to the Chinese Golden Week holidays demand for sea freight has been moderate, with the spot market showing fluctuations, while the container shipping lines have continued to show discipline in capacity deployment.

After a full year of month-on-month falls in ocean freight rates, the Xeneta Global Index (XSI) recorded its first gain in 13 months, edging up 0.2% in September.

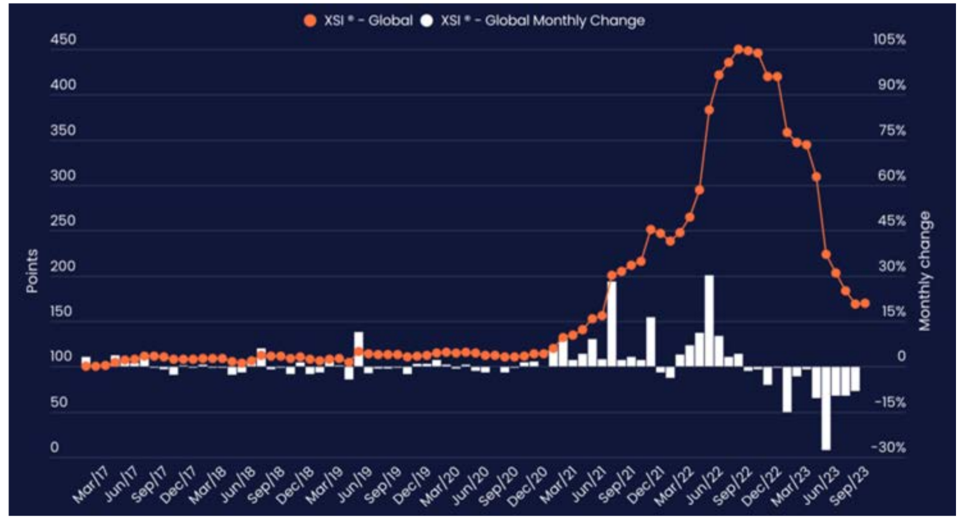
Although the latest figures are 62.2% lower than last August's all-time high, of 453.2 points, the development will be welcomed by a carrier industry desperate for any indication of market improvement.

The European Union's surprise decision to end container shipping lines' Consortia Block Exemption Regulation (CBER) next April and imposing carbon taxes on them from January, mean the lines already have a challenging 2024.

Four months before CBER comes to an end the EU's emissions trading system (ETS) will apply to shipping within the EU and all shipments to and from the EU, with carriers beginning to announce ETS-related surcharges from the first quarter of 2024.

With the lines setting the surcharge a year before they have to pay for their emissions means it will be next to impossible to get any deep transparency on how these numbers are arrived at.

XSI Global



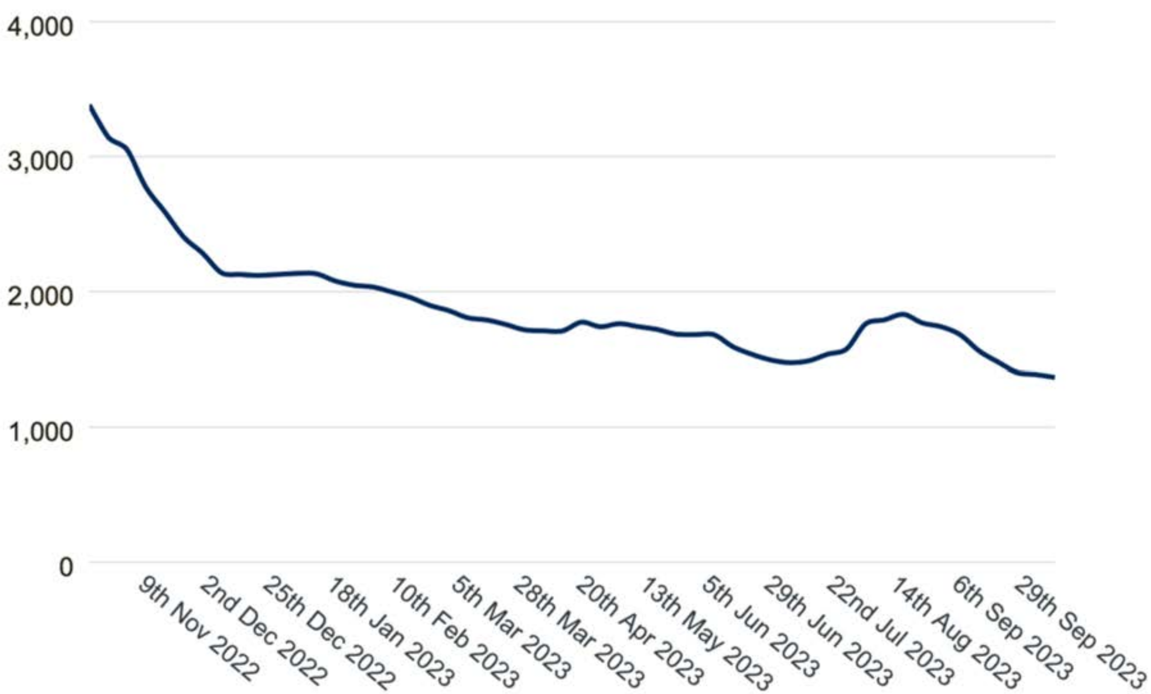
Source: Xeneta.com

While co-operation between carriers is still possible if compliant with general competition rules, carriers may be put off, if they risk exposing themselves to potential legal action.

The potential downside of the EU's action is that they are effectively pressuring the lines to operate independently and the logical conclusion is that carriers will downsize service portfolios, frequency and connectivity, which would reduce, not increase, competition

Ocean Freight

World Container Index (WCI) - (US$/40ft)



Source: Drewry's

The Drewry container index decreased by 1.5% in the last week, and has dropped by 60.7% when compared with the same week last year.

By contrast, the European imports Xeneta sub-index increased by 1.8% to 182.0 points in September, though it's down 59.3% from last year, the small increase is a positive amidst consistent declines.

Conversely, the European exports index dipped by 2.2% to 183.9 points, its lowest since October 2021.

Market

As carriers look to manage a market plagued by overcapacity, they have chosen to ensure profitability on high volume trades, by shifting capacity onto lower volume trades, which is why there is a small increase in the import index.

Container exports from ten major Asian economies to the US increased 5.2% on 2022, with China the top source of imports, transporting, up 6% year on year, the first rise after 13 months, but total volumes on this trade were down 19.0% year-on-year to August.

The Xeneta index for US imports is at its lowest since June 2021, yet it remains the highest sub-index, with some spot rates rising.

In September, the index for Far East exports, the world's largest trade, grew to 164.1 points, marking a 1.4% rise after thirteen consecutive monthly declines.

TransAtlantic rates have been showing signs of stabilising, as carriers modify their deployed fleets, by adjusting the vessels' size/capacity to demand.

The trade remains fluent, and beside seasonal weather influences (hurricane season), ports and inland terminals are operating without major issues.

Ocean Freight

Spot rates have been something of a mixed bag, with those on the transPacific having more than doubled in the same quarter, due to strict capacity management by carriers, however, other trades are still experiencing record low spot rates.

After a year of consistent drops in ocean freight rates, September finally saw a small boost of 0.2% according to the Xeneta Global Index (XSI).

Rates

Although it's still 62.2% below last August's peak, this little uptick offers a glimmer of hope for carriers looking for signs of market recovery.

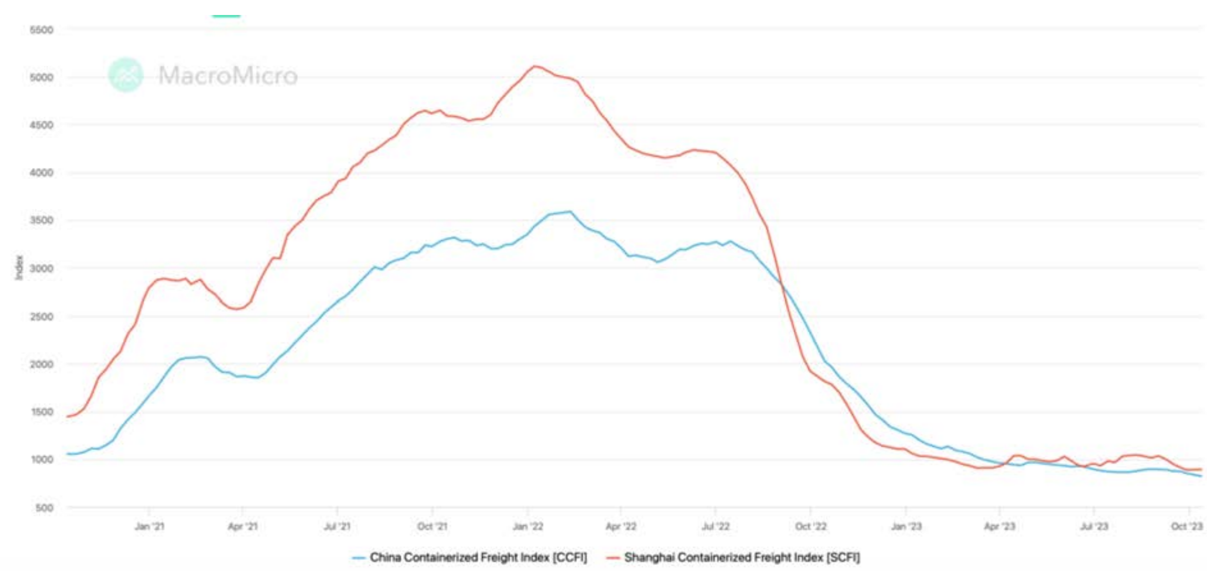
By the end of Q3, the XSI was down by 16.5% compared to the previous quarter, which will be reflected in the carriers' Q3 results, particularly those in the long-term market, who will report even lower average freight rates than Q2.

Spot rates have been more of a mixed bag, with those on the transPacific having more than doubled in the same quarter thanks to the implementation of strict capacity management by carriers.

However, other trades are still experiencing record low spot rates, with carriers seemingly choosing to "sacrifice" rates pressure on some routes, through added capacity, while reducing sailings on others to bolster prices.

Spot rates from Asia to the US have responded to carriers removing capacity and a pick-up in demand and while y-o-y volumes are still around 9% lower, increasing spot rates suggest that shippers may want to look at locking in rates.

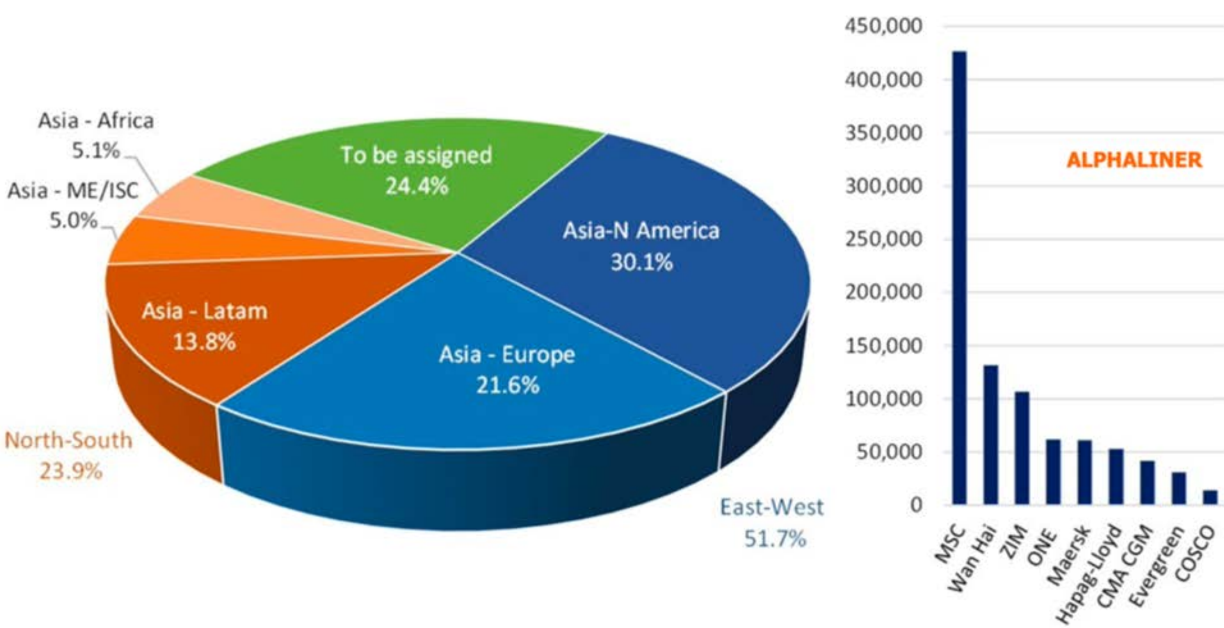
China - Global & Shanghai Export Containerized Freight Index



Source: MacroMicro

Ocean Freight

023 built neo-panamax capacity (teu) per trade and carrier



Source: Alphaliner

Alphaliner's new container ship order-book projections show that 2024 will be a record year for deliveries as carriers ordered great amounts of new vessels in the boom years of 2021 and 2022, while at the same time scrapping activity has been very low.

A total of 62 neo-panamax ships (NPX) in the size range of 13,000 to 16,550 teu will enter service in the course of 2023, with 19 already joined Asia to North America services, 13 trading between Asia and Europe and 15 assigned to North-South services from Asia to Latin America (9), Africa (9) or the Middle East and the Indian sub-continent (3).

Shiping lines

Over the course of this year and the next, new-build deliveries are expected to remain high, but weak economies with a slow cargo market could see vessel handovers deferred whenever possible and vessel scrapping rising sharply.

MSC and Maersk (2M) blank sailings at the end of September and in October impacted a huge number of sailings on the two biggest East - West trades, with Hapag-Lloyd blanking 12 sailings on the Asia-Europe trade in the weeks 39 to 43.

The carriers want to balance their network in light of forecasted reductions in cargo demand, and a reduced available workforce to handle operations during and after the Golden Week holiday in China.

Global schedule reliability remained unchanged month-on-month at 64%, which is slightly lower than May's peak.

Asia to North Europe remained flat at 70%, while transAtlantic Eastbound reliability increased by 4.3 percentage points to 76.2% and by 2.5 percentage points to 71.7% on the Westbound trade.

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Air Freight

After a pronounced and prolonged fall from the peaks of COVID demand, some air freight indices are suggesting that air freight rates may have finally bottomed out are now starting their long journey back.

The global air cargo market has been relatively flat for three months in a row and September produced no surprises, with traditional seasonality pushing up demand and we expect a similar trend in October.

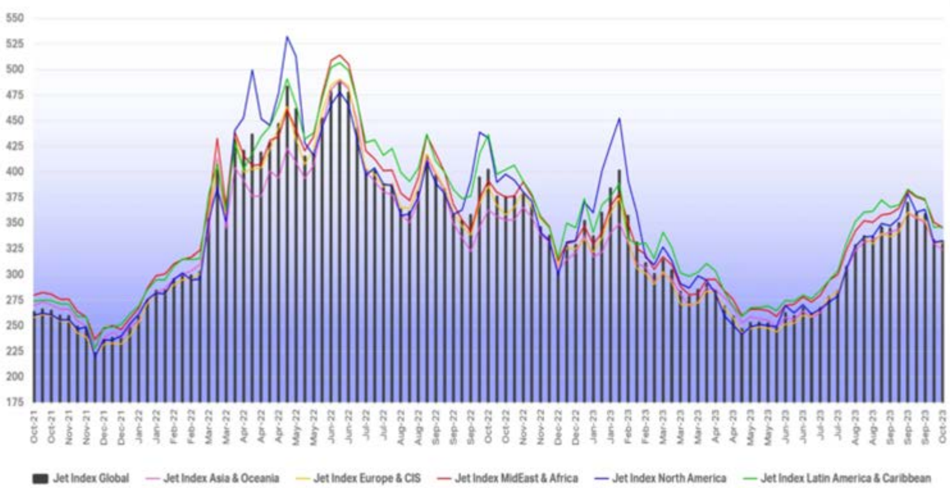
Recent rate increases may suggest a stabilising market, they are still well-below last year and where they started this year, and supply continues to enter the market on some lanes.

In addition to returning capacity, rising average fuel prices account for half of the overall rate increases on certain lanes in September and current events in the Middle East may further impact fuel prices.

While the market may see a better-than-expected finish to 2023, inflationary pressures and energy prices continue to restrain discretionary spending, so while inventories may have bottomed the likelihood of significant restocking is unlikely.

In the absence of positive macro and market conditions the uptick in rates is arguably driven by supply rather than demand and with the air cargo market entering this new phase, we are not anticipating big moves up or down, while the market finds its equilibrium, and it may be well into next year before we start to see a full-blown recovery.

Jet Fuel Price Index Development (Global and Regional)

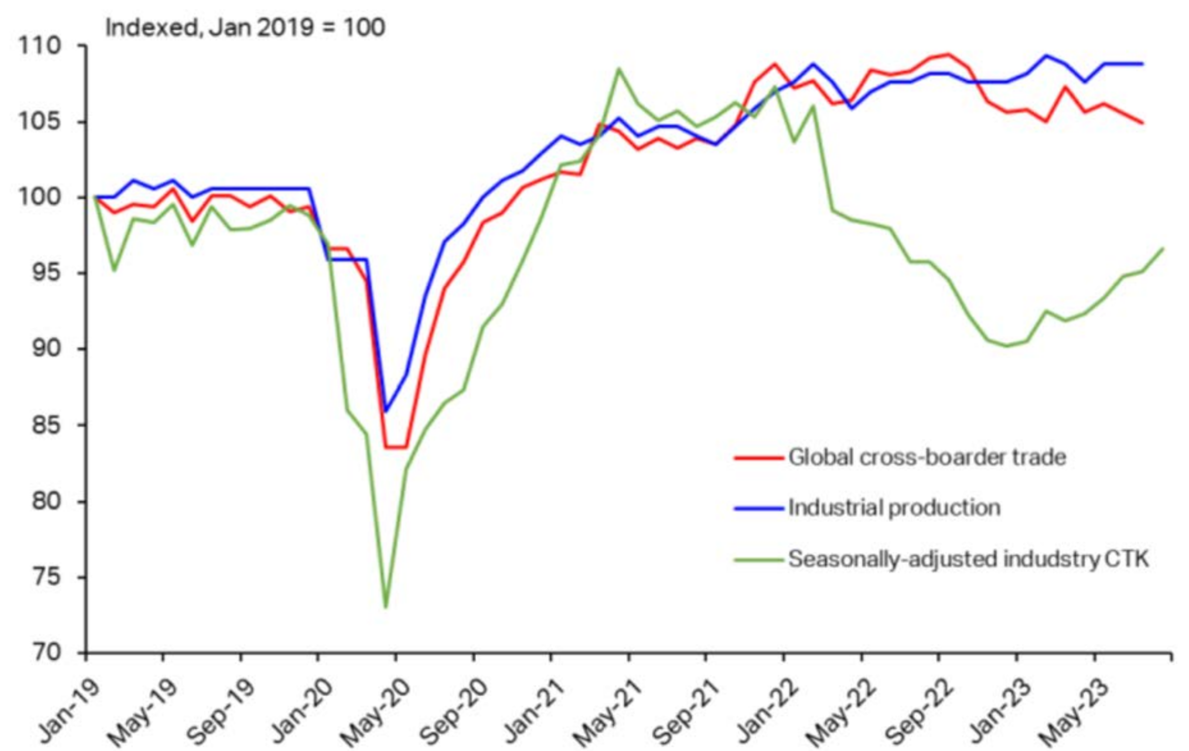


Source: IATA

Some airlines have resumed routes to Israel, however, the industry is still exercising caution as conflict continues between Israel and Hamas, with charter requests becoming increasingly harder to fulfil and insurance war risks surging.

Air Freight

Seasonally adjusted trends of global trade, industrial production, and industry CTKs (indexed)



Source: IATA

An 11.2% increase in crude oil prices in the month to 29th September had only fed through to a 5.8% increase in jet fuel, but the situation has been exacerbated greatly by the recent dreadful developments in Israel and Gaza and further cuts in crude oil production are expected during Q4.

Market

With the market experiencing a modest recovery out of Asia, there have been moves in the market to secure capacity going forward.

Niche layers in fast-growing eCommerce sectors have opted to gamble on spot prices remaining at recent lows, though that may soon leave some of them players scrambling for shrinking capacity.

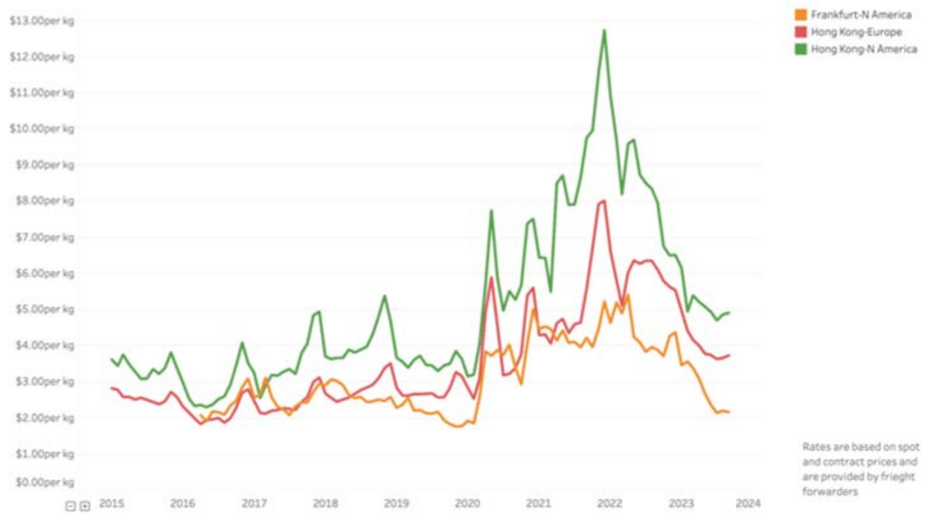
While recent increases could suggest a stabilising market, it is too early to be certain and rates are by and large still well-below where they were last year and where they started this year, with supply continuing to enter the market on many lanes.

Some increase in demand is expected as of mid Oct (after golden week) through the final quarter, with eCommerce and capital goods volumes expected to rise, with demand also in automobile, tech and healthcare.

One important concern has been in the oil market, where cuts in production led by Saudi Arabia boosted the crude price back above $90 a barrel during September – threatening to stoke inflationary pressures again just as they had been easing.

Air Freight

Baltic Exchange Air Freight Index



Source: Air Cargo News

"Rates from Shanghai gained even more strongly, rising 19.0% to leave the YoY change from there at only -28.2%"

There is no doubt that the air cargo industry has seen some improvement over the last few weeks but there is debate over whether this represents the start of a full recovery for the market, with the more sceptical describing the current market conditions as a "dead cat bounce" - because even a dead cat will bounce if it falls from a great height.

Rates

The overall Baltic Air Freight Index gained 11.0% in September, and was up 0.7% in the last week, cutting y-o-y decline to -29.2%.

Continuing rise of eCommerce business out of southern China is reflected in the index for outbound Hong Kong routes, gaining 7.3% over the month, with rates from Shanghai, rising 19.0%.

Airline sources have been suggesting that major product launches like the new iPhone would boost demand and in September it started to feed through into rising rates, with pre-order bookings potentially solid through year-end – the traditional peak season – and well into Q1 next year, as far as Chinese New Year.

The rise in rates could be visible first on transPacific routes, possibly ahead of Black Monday, but would soon pick up pace to Europe too as spare transPacific capacity started to tighten.

Carriers

In IATA's latest figures, airlines in the Asia Pacific, North America, Latin America, and Middle East regions all registered annual growth in their international cargo tonne-kilometres (CTKs) in August, owing to improved traffic in major trade lanes.

Industry-wide air cargo demand grew by 1.5% y-o-y, which is the first annual growth since February 2022.

However, global air cargo capacity registered 49.3 billion available cargo tonne-kilometers (ACTKs) in August, which is 12.2% higher than August 2022 and 3.9% higher than 2019 levels, largely due to the sustained strong growth of belly cargo capacity in the summer season (30.0% YoY).

In August, both the manufacturing output Purchasing Managers Index or PMI (49.4) and new export orders PMI (47.0) saw a slight improvement to the previous month.

They remained, however, below the critical threshold represented by the 50 mark, indicating a continuing, if slower, annual decline in global manufacturing production and exports.

Road Freight

Overall capacity is returning to normal and there is significantly more volume available than in the pandemic years. Nevertheless, freight rates remain at a high level and this will not change for the time being given rising diesel prices, increased toll rates, and investments in EVs and sustainable technologies.

The economic situation in the UK and across Europe remains tense, which is reflected in the road freight market's performance.

Peak season traditionally runs from October to January, with many businesses relying on road transport to meet customer orders.

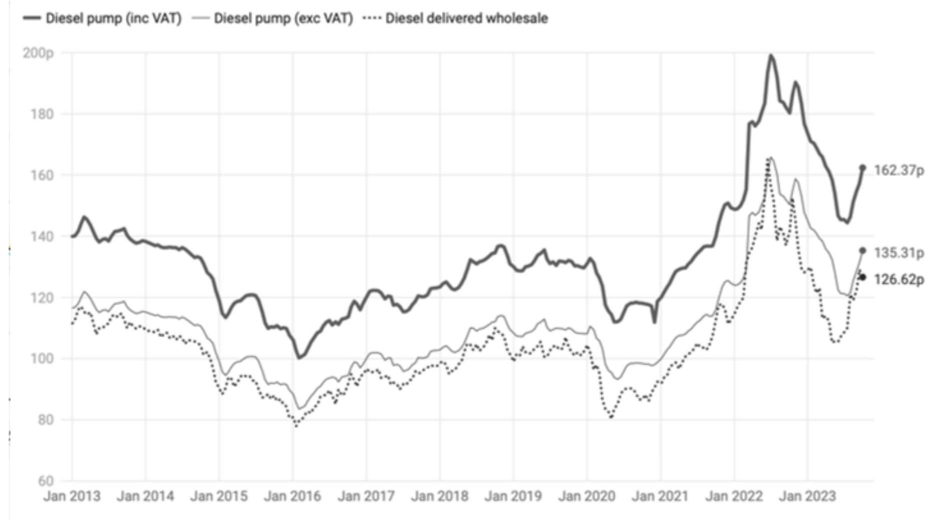
Influenced by the return of the HGV levy, fuel costs, higher business overheads and congestion charges, the traditional road freight price uptick seems to have come earlier this year and shippers need to be planning ahead to make sure their products aren't left stranded in warehouses.

The industry is facing uncertainty around Net Zero targets, which means plans are being put on hold, particularly with doubts about EV infrastructure investment.

Hauliers and couriers are raising their prices ahead of the traditional Christmas peak, but the ongoing driver shortage could cause problems if demand rises significantly, which will add to price pressures, as will surging diesel prices.

But no matter what's happening around them, road haulage firms will want to capitalise on Christmas demand, especially with the UK's 2024 growth forecasts looking underwhelming.

Diesel - average UK pump and wholesale prices @ 1st October 2023



Source: RAC

"The eCommerce market is projected to reach £118bn in 2023, which industry optimists hope will point towards a meaningful peak season"

Road Freight

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

Source: TIMOCOM

Market

After the year begun with excess capacity, a decline was recorded during the second quarter which continued into the 3rd quarter.

July saw a ratio of freight to available cargo space of 64 to 36, while August witnessed a typical seasonal (holiday-driven) decline in volumes and thus a slight easing of available capacity, with a ratio of just 57 to 43.

According to TIMOCOM's transport barometer, there is once again an increasing shortage of available capacity in September (68:32).

Comparison with pre-pandemic years indicate that the ratio of freight to available cargo space is in line with industry trends and after two exceptional years, the market is gradually returning to normal.

The UK government's Net Zero U-turn dealt a real shock to the industry, with operators who use smaller vehicles welcoming the extended deadline, while others will be frustrated that their planning for Net Zero is now premature.

Operators of larger vehicles are seeking clarity on whether the 2040 deadline for zero-emissions HGVs still applies and how their plans will be affected. Some may be hoping that the reversal in policy could lower costs for emissions charges and similar measures. But until the policy is fleshed out, uncertainty reigns.

At the same time, the very fuel that Net Zero targets sought to wean the UK off is causing increasing costs for operators. Diesel prices are creeping up yet again.

However, hauliers and couriers will be looking forward to taking advantage of the busier Christmas season – provided they have enough drivers to cover demand.

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Road Freight

Road freight rates remain persistently high, driven by high diesel prices, increased wage costs, persistent driver shortages, EV investments and increases in road tolls in many European countries.

Rates

September's TEG Road Transport Price Index data reveals a significant jump in average prices. The overall price per mile for haulage and courier vehicles increased to 123.3, up from 119.4 in August. With an increase of 3.9 points, this is the largest jump since December 2022.

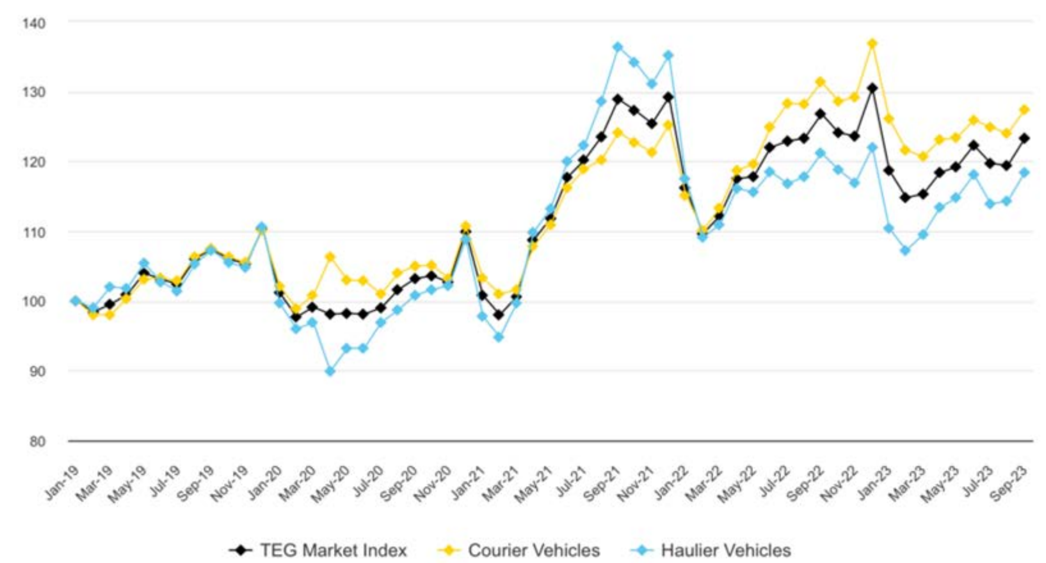
Year on year, the overall price was down 3.5 points, with courier prices also 4 points lower than last September.

But in the last month, courier prices increased by some 3.4 points, while haulage prices rose 4.1 points throughout September.

In the first half of the year, the price of diesel fell continuously for several months, however, since June fuel prices have been on the rise, with average petrol prices over the month increasing by 3.4% and diesel rising by 4.19%.

This is now the third consecutive month of petrol price increases, with diesel rising for the second month in a row.

TEG Road Transport Index



Source: TEG

"Hauliers and couriers will be looking forward to taking advantage of the bumper Christmas season – provided they have enough drivers to cover demand."

Road Freight

Month in review

On the 20th September, Prime Minister Rishi Sunak confirmed a delay to phasing out new petrol and diesel car sales, pushing the deadline to 2035.

The changes to the UK's Net Zero plans will have a number of implications for haulage and courier drivers, fleets and companies and many will fear that it'll mean less investment in EV charging infrastructure, while other businesses will simply lament the lack of certainty.

The Department for Transport (DfT) offered no further detail following the Prime Minister's announcement. And, frustratingly, there was no clarification on what may happen to the 2040 phase-out date for new large diesel lorry purchases.

The Road Haulage Association are seeking clarity from government on what their announcement means for the future of HGVs, because businesses looking to play their part on the road to net zero need certainty, not delays.

HMRC's Customs Declaration Service (CDS) is replacing the Customs Handling of Import and Export Freight (CHIEF) service and provides businesses with a more streamlined system that offers greater functionality.

CDS has been running since 2018 and is already being used for making import declarations when moving goods into the UK.

Exporting companies will have to make the switch before April 2024 at the latest, with high-volume hauliers facing a 30th November 2023 deadline, with shippers being advised to plan ahead.

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