October 2022 #5

Back to (un)normal?

Dear valued customer,

The consumer spending nose-dive continues at an unparalleled pace, putting a major dent in the demand bubble with the Trans-Atlantic trade being the only exception.

And while rate levels were indeed expected to moderate significantly, no one expected it to happen overnight. The pace of development over the last weeks and months has taken all parties in the industry by surprise.

So, do the declining rate levels across air and ocean freight on majority of trades mean that we are back to "normal"?

NO

The simple reason being that the last two years have shown that the simple equation of supply and demand is no longer the only truth when assessing future development.

Congestion issues persist, not only in the US but also in major European ports. In the US, we still see containers stuck at terminals and rail ramps for months. The average idling time at European ports remains around 5-7 days, and in many cases, carriers decide to skip specific port calls (slidings) to mitigate the impact of port congestion.

Port strikes threat ever present

The threat of port strikes continues to loom both in the US, the UK and latest also in South Africa. In the US it is over three months, since 1 July, where the collective agreement expired, and the parties have not yet been able to reach an agreement. This effectively leaves West Coast dockworkers working without a contract. In the UK, 600 port workers will be on strike from 24 October to 7 November as part of a long-lasting dispute on pay rises. In South Africa more than 50.000 port workers are involved in a strike that spans across all major South African ports and again, the heart of the dispute is salary increases amidst historic high inflation levels.

An array of blankings

So, what about the "blankings" phenomenon which has loomed over the ocean freight market for the last 2-3 years.

A headline on The Loadstar on October 20 says the following:

"***Ocean carrier voyage blankings causing chaos and confusion for shippers***"[1]

While carriers might have been caught off guard in terms of the drastic slump in demand it is now expected that the blanking programs across all alliances will kick into a higher gear. It is yet too early to determine the effect of same. If there had been doubts on whether ocean carriers would sit passively by as rates slump, then we now have the answer. An array of blankings have been announced during the last couple of weeks and the waiting game is now on in terms of whether this is sufficient for carriers to turn the rate development tide. What is certain, is that this will have an immediate impact on schedule reliability and cause further delays.

Slow steaming ahead while airfreight takes a softer landing

Looking a bit further ahead, ocean carriers have IMO 2023 as the big-ticket item impacting actual capacity and supply levels. Many vessels will not be compliant with the new regulations in time, leaving further slow steaming as the only option in order to comply. This will ultimately result in a need for adding an additional vessel to each string. On the opposite side of this point is the new capacity that will come into the market during 2023, as part of the large new-build program, which all carriers have invested in, with MSC leading the way.

Adding to the uncertainty is the potential risk of new lockdowns in major port cities in China in a response to an increase in COVID-19 cases. Presently, this is causing disruption in cities as Tianjin, Shanghai and especially in Ningbo. A development certain to result in shipment delays on both ocean and airfreight.

Ocean freight is taking the bulk of the attention in the current market. The logical reason for this being, that the airfreight market is less impacted by the current development. Airlines are more seeing a soft landing in terms of rate levels, as opposed to the hard landing seen on the ocean freight side. Airfreight tonnages remain soft with the traditional Q4 season not expected to materialize.

In the last edition of our advisory, a large portion of the content was devoted to the macro-economic development. The topic remains equally relevant. However, the situation is like-for-like exactly the same with record high inflation levels causing havoc across the global financial markets. This coupled with record-high energy prices, especially in Western European households, has put consumption of traditional commodities sourced overseas to a grinding halt. Record-high inventory levels in both Europe and the US is also part of the reason why demand has faded away overnight.

The slump in global consumption remains the absolute main driver for the current market development and less so that the underlying infrastructural issues have been resolved. Consequently, when demand rebounds at some point, it is our assessment that some of the challenges we have seen over the last couple of years may resurface.

For more in-depth analysis, please fasten your seatbelt as we walk you through some of the specific impacts and developments within air, ocean, and rail freight.

[1] https://theloadstar.com/ocean-carrier-voyage-blankings-causing-chaos-and-confusion-for-shippers/

All information is given to the best of our knowledge and is subject to change.

Enjoy the reading!

On behalf of

Scan Global Logistics

Mads Drejer
Global COO & CCO

AIRFREIGHT

Doing the limbo dance is a pretty accurate analogy of the global airfreight market as we speak. A quick Wikipedia search reveals that the aim of the limbo dance is "to pass forward under a low bar without falling or dislodging the bar."[2]

Airlines across trades are currently entangled in a limbo-like dance, aiming not to fall despite the sudden slump in demand. With many companies applying a strict cost focus amidst rising inflation levels, airfreight being the most expensive transport mode, has taken its fair share of the brunt caused by fading demand. However, as already highlighted, significantly less than seen on ocean freight.

Transatlantic trade lanes

Net capacity is fading on the Trans-Atlantic trade due to summer/winter schedule adjustments, which is having a noticeable impact on the overall capacity situation. Subsequently, this is sustaining a more stable rate level development on account of the decreasing capacity, offsetting the fading demand. In a recent statement Seabury's Mr. Marco Bloemen commented:

"Demand and supply on the transatlantic are back to pre-Covid levels. Mr. Bloemen said: "US air trade has plateaued after the largest surge in a decade. It accounts for 40% of global air trade, so it is really relevant.

US inventories are outpacing sales and limiting the expected growth of air imports in the short term. But despite the recent year-on-year decline, US air imports are still on track to equal 2021."[3]

Asian trade lanes

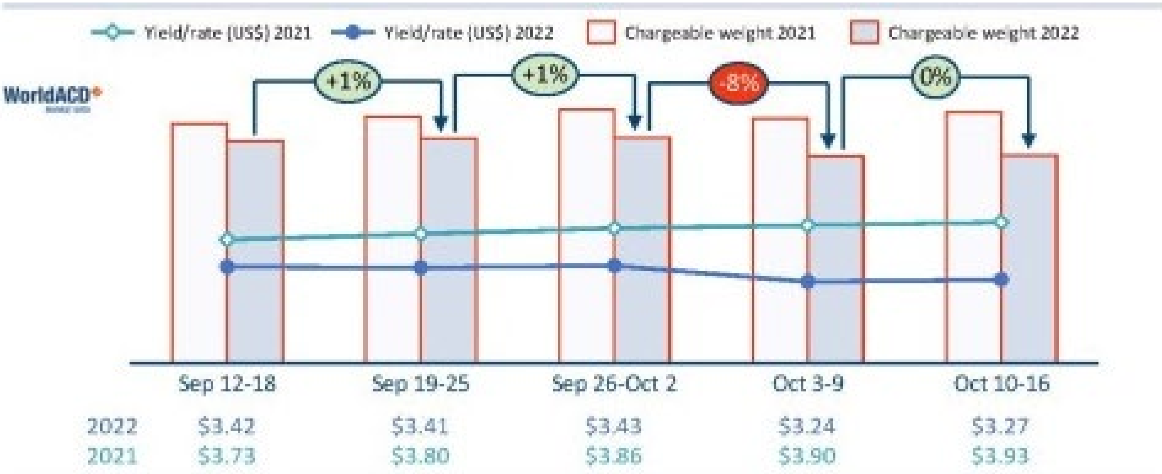
The impact of high inventory-levels also leads to reduced volumes on other trade lanes. This is primarily impacting the blockbuster trades from Asia to Europe and Asia to US. Besides, as many will have seen first-hand when running through an airport, the gradual increase in passenger travel continues at a steady pace and therefore belly-hold capacity is increasing. China continues to apply a strict COVID-19 zero-tolerance policy, resulting in China passenger travel remaining subdued. Conversely, the very strict Hong Kong travel restrictions have been loosenedslightly as part of its efforts to get business back to normal levels. Hong Kong has seen its financial hub rival Singapore let go of all restrictions with an immediate boom in travel, restaurant, and hotel activity as a result.

On Asia/Pacific, we see Australia-specific challenges with pressure on capacity. Here, the pressure remains higher than in other markets and alternative routings and solutions are being explored accordingly.

[2] https://en.wikipedia.org/wiki/Limbo_(dance)
[3] https://theloadstar.com/air-cargo-players-can-wave-goodbye-to-a-peak-season-as-the-market-softens/

The past weeks development

Despite majority of major trade lanes having seen declining freight volumes and rate levels during Q3, this trend plateaued somewhat during October, to some extent also impacted by Golden Week. Global rate levels stabilized completely in week 41 as seen on below graph published by World ACD for week 41:

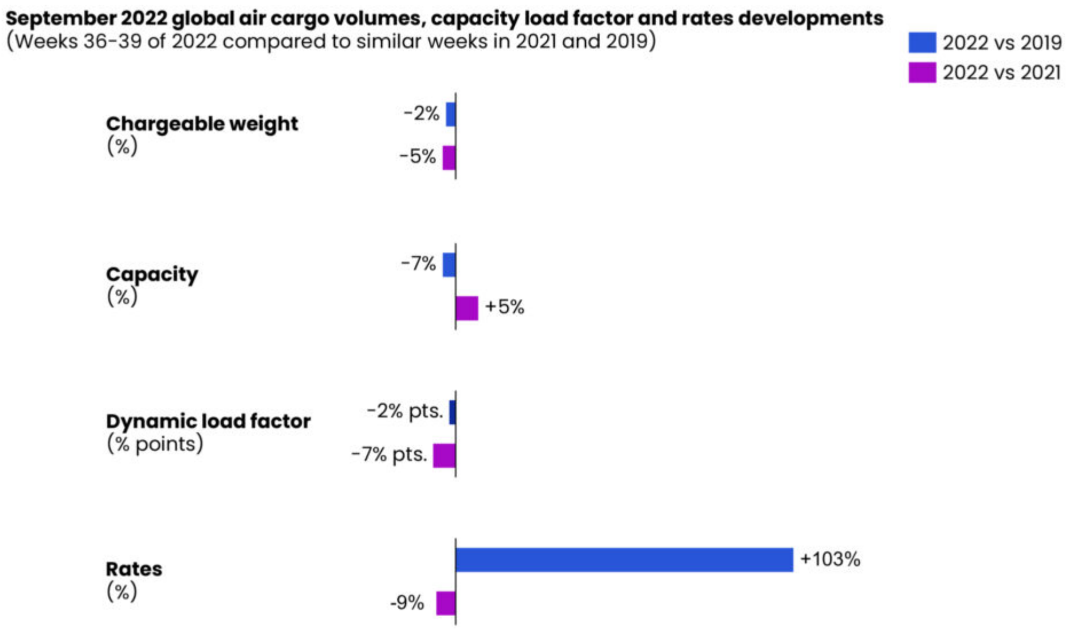


Source: https://ajot.com/news/worldacd-air-cargo-trends-for-the-past-5-weeks-wk-41-rates-and-tonnages-stabilize-in-global-negative-trend

With this said expectation remains that the traditional Q4 peak season will not materialize and if so with only a modest increase in volumes.

The overall outlook remains that there is sufficient capacity on most trades, with Trans-Atlantic being the only exception and this is accordingly the driving force behind the downwards rate trajectory as illustrated below by Clive/Xeneta. As can be seen, volumes (chargeable weight) decreased, while capacity increased (2022 vs 2021) leading to a decreased load factor. However, it is important to note that rate levels generally are still significantly higher compared to pre-COVID19.

September air spot freight rates fell below the 2021 level for the first time this year



Source: CLIVE Data Services, now part of Xeneta

Source: https://www.aircargonews.net/business/jumpy-airfreight-market-sees-spot-rates-fall-again/

It is important to note when discussing volumes and the overall drop in demand, that a significant portion of the volume decline pertains to PPE (Personal Protective Equipment), vaccines and test-kits, which peaked in 2021 and since then slowed down in 2022, and this is blurring the overall volume picture.

For the African continent, the situation is unchanged. Capacity and volumes are all in all stable. However, in South Africa (RSA), port strikes on the oceanside may lead to an increase in airfreight-volumes both on imports and exports.

On the landside, the drop in volumes has to some extent eased the ground handling pains we have seen throughout 2022 and subsequently less delays on account of ground handling congestion.

Outlook

Summing up, we expect a minor uptake in volumes during rest of the year. Compared to last year, it is still at a significant lower level and this being the case across most trade-lanes.

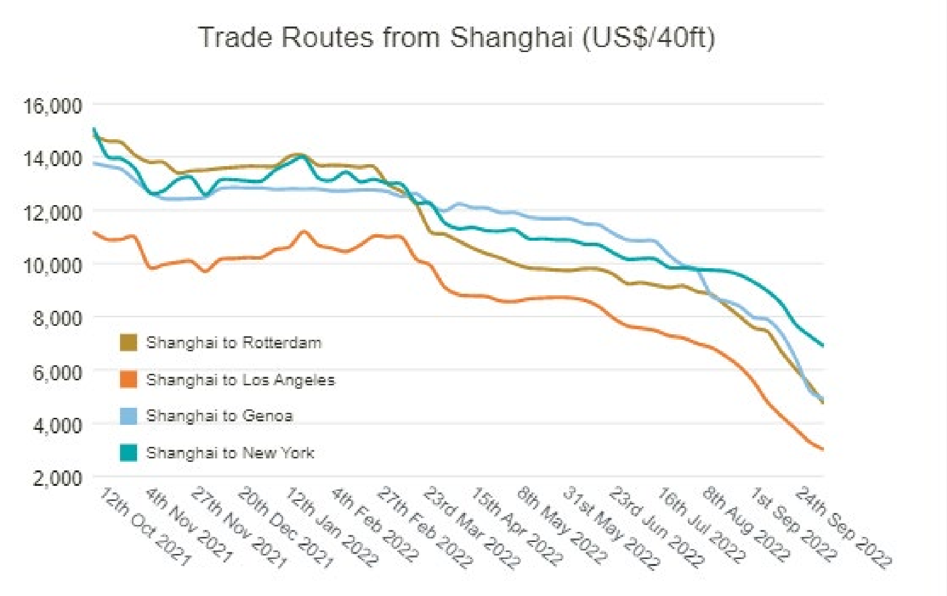
With Chinese New Year commencing already on 22 January in the new year, it is expected that parts of the volume that traditionally is shipped in January will be shipped in December instead.

Volume development post-Chinese New Year will very much depend on Christmas sales in Europe and the US, and to which extent consumers regain confidence and start spending money again. It also remains to be seen how inventory levels will be after Christmas sales, which in its own right plays a vital role when looking at the overall supply & demand outlook.

OCEAN FREIGHT

The general demand slowdown is continuing on all key East-West trades with no immediate indication that demand will return to "normal" anytime soon.

The effect on rate levels is therefore no surprise with all indices showing a week on week drop of +10%. The development is though nuanced with Trans-Pacific rates dropping significantly faster vs. Far-East to Europe. Trans-Pacific rates have officially returned to pre-COVID-19 levels, whereas this is not the case for Far-East to Europe rates, that despite the accelerated drops over the last months are still significantly higher when comparing to the pre-pandemic period. The nuance is also present on a more granular level with a significant difference between East and West coast rates in the US showed below.



We do anticipate a moderate peak season ahead of Chinese New Year, which, as mentioned, commences on 22 January; but not to the same tune as seen in 2021.

BLANKINGS DEJA-VU

In an effort to balance supply and demand, carriers are pulling out services as part of a significantly increased tactical blank sailing programs. Over the next five weeks, a whopping 12% of 392 scheduled sailings have been cancelled on the Trans-Pacific trade, while on the sister trade from Far-East the corresponding number is 12% out of a total of 157 sailings.

The immediate and noticeable effect will come in the form of shipment delays, and then the waiting game is on to see the potential effect on rate levels. We are approaching the 2023 contract season and all eyes will now turn to the outcome of the largest BCO (Beneficiary Cargo owner) agreements, which traditionally guide the general market level for the coming year.

Port and Terminal Situation: US

The port situation on both the East and West coast is stable with the only exception of Vancouver caused by lack of Westbound rail car supply, as well as Montreal and Inland ramp restrictions. Inland moves to Toronto and Montreal are suffering from major delays as well, in some cases up to 3-4 weeks. The port of Houston continues to clear backlogs with average vessel waiting time currently being 22 days. The main reason for the dire situation in Houston is the fact that significant volumes have been re-routed to Houston

The bottlenecks at inland rail ramps for loading intermodal containers at the port of Los Angeles/Long Beach are gradually improving. BNSF Railway clearing container backlogs at St. Louis and Fort Worth rail champs since more chassis are available, which enables more inbound cargo arriving at both hubs.

Europe

In Liverpool, dock workers initiated a new strike on 24 October in a continued dispute over future salary levels. This strike is expected to cause further delays on top of the issues stemming from earlier strikes. Unite Union and port operator Peel Ports appear deadlocked with both sides blaming each other for the breakdown in talks. As we speak, the current strike is expected to end on 6 November and carriers are for the same reason already in the process of diverting as many shipments as possible to alternative ports.

Hinterland connections at the Port of Rotterdam are still facing delays due to high yard density at the terminal. Same applies for the Port of Hamburg where the situation is still critical and import cargo is delayed for up to four weeks and cargo cannot be gated-in early.

Africa

Workers at South Africa´s state-owned logistics firm, Transnet, are currently engaged in strikes, and also here the issue relates to dispute over future salary levels. The strike is having a major impact on all ports with the largest impact being in Durban and Cape Town, the two largest ports in South Africa. Carriers are struggling to re-route shipments since the strike relates to all national ports.

As a result of the on-going strike, the Transnet Port Terminals has formally declared a force majeure. As we speak, there is no immediate sign of a resolution to the strike and lengthy shipment delays can be expected accordingly.

Bunker price

Oil bunker costs are at a stable level, and we expect no further increases in the coming months. There is still no clear indication of potential additional charges related IMO 2023 regulations, and equally it is unclear if same will come in the form of a specific surcharge, or if same will be imbedded in actual freight rates.

Outlook

The demand outlook is crystal clear in the sense that there are no macro indicators suggesting that demand will increase with Christmas sales viewed as the best indicator for how volumes will develop during 2023.

What is though unclear while writing these words, is the potential effect of the accelerated blanking programs introduced by carriers across all alliances. The Golden week holiday period marked the kickoff of blankings, and it is expected that ocean carriers will continue this course of action in an effort to stop the downwards rate spiral. There is speculation of up to 20% of the total capacity being blanked during the last months of 2022. For the same reason we encourage you to maintain a close dialogue with your regular SGL contact persons to evaluate alternatives on priority shipments.

As mentioned in the intro to this advisory, the coming weeks and months will be a limbo for all parties in the supply chain, in order to navigate the constantly changing market dynamics.

RAIL FREIGHT

From a reliability perspective, service disruptions have been at a minimal level in recent weeks and months, and we expect this development to continue short and mid-term.

Westbound

Overall, the rail freight market development has a large correlation to the ocean freight market and there is also an apparent softening of rail volumes.

In terms of freight rate levels there is a notable difference with rate levels not having dropped near to the same extent as seen on ocean freight, but there is nonetheless also a downwards direction on the rate side.

In a response to this development, the main rail transport coordination entity, China Railways, has issued notice to reduce train “slots”/departures similar to the introduction of blankings on ocean freight.

Eastbound

Rail transport from Europe to China remains stable with a relatively constant rate level and stable transit time performance.

AIRFREIGHT

TRADE UPDATES	SPACE (CAPACITY)	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
Asia-Europe (Westbound)	Green	Green	Stable
Europe-Asia (Eastbound)	Green	Yellow	Stable
Europe-US	Yellow	Green	Stable
US-Europe	Green	Green	Stable
Asia-US	Yellow	Yellow	Stable
US-Asia	Green	Yellow	Stable
Intra-Asia (incl. AU)	Yellow	Yellow	Stable
To Africa	Green	Yellow	Stable

COLOR CODES	SPACE (CAPACITY)	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
Green	70%-100% of normal capacity	No challenges	Up
Yellow	30%-69% of normal capacity	Medium challenges	Stable
Red	Less than 29% of normal capacity	Major challenges	Down

OCEAN FREIGHT

TRADE UPDATES	SPACE (CAPACITY)	EQUIPMENT	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
Asia-Europe (Westbound)	🟢	🟢	🔴	⇩
Europe-Asia (Eastbound)	🟢	🟢	🟡	⇩
Europe-US	🟡	🟢	🟡	⇨
US-Europe	🟡	🟡	🟡	⇨
Asia-US	🟢	🟢	🔴	⇩
US-Asia	🟢	🟡	🟡	⇨
Intra-Asia (incl. AU)	🟢	🟢	🔴	⇨

COLOR CODES	SPACE (CAPACITY)	EQUIPMENT	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
🟢	70%-100% of normal capacity	No challenges	No challenges	⇧ Up
🟡	30%-69% of normal capacity	Medium challenges	Medium challenges	⇨ Stable
🔴	Less than 29% of normal capacity	Major challenges	Major challenges	⇩ Down

RAIL FREIGHT

TRADE UPDATES	SPACE (CAPACITY)	EQUIPMENT	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
Asia-Europe (Westbound)	●	●	●	⇩
Europe-Asia (Eastbound)	●	●	●	⇨

COLOR CODES	SPACE (CAPACITY)	EQUIPMENT	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
●	70%-100% of normal capacity	No challenges	No challenges	⇧ Up
●	30%-69% of normal capacity	Medium challenges	Medium challenges	⇨ Stable
●	Less than 29% of normal capacity	Major challenges	Major challenges	⇩ Down