January 28 2021 #2

From un-controlled chaos to controlled limbo!

It is said that all good things come to an end, and same seems to be the case for the bad things in the transport market as well. The first concrete signs of a normalization are now apparent within ocean freight. The airfreight market and in particular exports ex Asia is as expected seeing a surge in volumes ahead of Chinese New Year as shippers and consignees scramble to ensure most critical shipments are expedited prior to close-down of factories.

We can see a positive effect by placing bookings well in advance with this giving us the opportunity to research all potential options in the market.

You can get into details within the different transport modes in the next pages and as well as the traffic light for trade lanes.

So, what does the economic crystal ball tell us for the overall market?

As the most critical corner (this time around) seems to have been turned, focus now turns to expectations for 2021. In essence there are two opposing views on the economic development in 2021 and thus also the impact on volume development:

Scenario 1 – the ketchup effect
On one hand some analysts point out that we have seen the most significant ketchup effect in history with a total decoupling of economic indicators relative to volume development.

Taking US, the single largest economy in the world numbers tell a story where total sales in US rose 2.2 % year-on-year in October, and US imports were up a whopping 20.4 %. If this is the case, and that is a big "if", it means that the volume surge largely has been boosted by an inventory build-up and less so actual demand. As a result, it is very likely that the increase in volumes will come an abrupt halt in 2021 when inventory levels need to be adjusted.

A few analysts supporting the conservative outlook for 2021 also pointed out that we could see a shift in consumer spending from physical goods to services such as travel and leisure with an expected ease of travel restrictions during this year.

Scenario 2
On the other hand, the simple counter argument supporting a continued growth in global airfreight and ocean volumes is that consumers will keep spending as part of what is best described as a "consumer party" – this is a direct effect of the relieve and joy of restrictions being lifted worldwide.

It is also expected that stimulus packages to re-boost the economies will continue to fuel consumer spending. Finally, financial indicators also show that personal savings on average have increased during the pandemic, and if unleashed during 2021 this will sustain demand.

Conclusion
What is for sure, is that 2020 showed us that we cannot rely on the GDP (Gross Domestic Product) development as an indicator for volume development.

Add on top a historic high discipline by especially container carriers – which some will argue is as much an over-enforced control of supply and demand – the situation could very likely be that capacity will be scarce in 2021 as well. This means a continued focus on forecasting, scenario planning and overall utilizing all products and solutions in the toolbox will remain critical as we set sail for a new and exciting year.

Forecasts for mid- and long-term effects
What now remains to be seen is the mid- and long-term effects, in particular when it comes to the trading relationship between carriers, customers and forwarders. We foresee an increase in interest, and demand for long-term agreements with firm and secure mutual commitment in place with a lesser degree off speculation. The current level of supply chain disruption is unsustainable for all parties and this will drive a different behaviour in the years to come.

As always, we wish to emphasize that we remain confident in our ability to find solutions to the challenges we jointly face

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

Enjoy the reading!

On behalf of

Scan Global Logistics

Mads Drejer,
Global COO, Air, Ocean & Rail

OCEAN FREIGHT

With a historic chaotic ocean freight market having stolen the headlines over the last months, the beginning of a new normalization is now apparent.

Rates
Let us serve the good news first – SCFI rate levels have topped for now after a long period with significant and sustained increases. There are no signs that ocean freight rates will drop dramatically overnight, but the rate correction game has officially started supported by an improved capacity situation as we near the start of Chinese New Year.

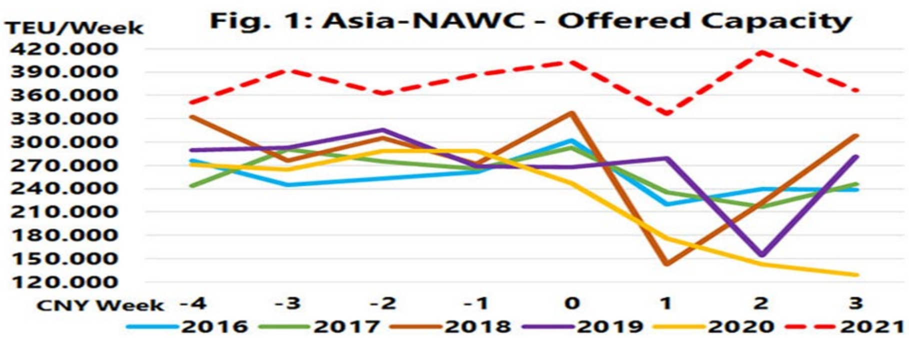
A decrease of USD 19/TEU on the Far East Westbound trade in the big picture seems marginal at best, considering the overall very high rate levels. It does however symbolize the start of an expected steady rate decrease in the coming weeks and months. The same picture is apparent on most other trades as well.

With the full year 2021 contract season well underway indications are also clearly that long-term rates are being locked in at significantly lower levels than current spot rates. This fact is also triggering especially larger customers to lock in long term rates to achieve some form of stability ahead of a very unpredictable year despite contract rates being significantly higher compared to previous years.

Blank sailings
The next short term joker is the "blank sailings" period which normally sets in around Chinese New Year and while same will also be the case this year it is expected that it will be relatively less in comparison with previous years.

Capacity and equipment
The container equipment situation overall remains critical, however a massive port congestion especially in US is now being a major root cause of the current challenges. A continued and surprisingly surge in demand remains another explanation for the lack of capacity.

As can be seen in below graph actual offered capacity is considerably higher than in previous years:



Graph from Lloyd's Loading List – link https://www.lloydsloadinglist.com/freight-directory/news/CNY-2021-blank-sailings-currently-%E2%80%98far-below-previous-years%E2%80%99/78214.htm#.YBFP4OhKi71

This also means it would be an over-simplification to say that container carriers have controlled capacity in an attempt to sustain rate increase. It is however fair to say that this increase in like for like capacity comes to the rescue at a very late stage after significant capacity pullback basis blank sailings was the case early and mid-2020.

Conclusion
Inasmuch as the overall situation seems to be slightly improving ripple effects from the last months chaos continues to effect shippers and customers. Schedule reliability overall remains historically low and latest

Summed up, chaos is subsiding, short term rate levels will drop in the coming weeks, however volatility remains on the menu and significant landside infrastructural challenges will continue to pose a challenge.

AIRFREIGHT

The airfreight market as expected saw a re-surge of volumes in December and this has continued into January ahead of the Chinese New Year period. There are indications that the airfreight market can return to pre-pandemic levels volume wise already by end of Q1 2021 which is earlier than most expected at the early stage of the pandemic.

Rates
Consequently, rate levels on especially exports from Asia to Europe and US have over the last few weeks increased again, however as on the ocean freight side a significant decrease is expected after Chinese New Year. In other words, the last weeks increases are more a direct seasonal effect, rather than effected by COVID-19 related factors.

Overall rate levels ex Asia are still some 150 % higher than same period last year and it is not expected that we will see pre-pandemic rate levels any time soon.

Capacity
The distribution of COVID-19 vaccines is still gearing up but is yet to affect the airfreight cargo industry in the massive manner that was predicted a few months back. Supporting this view is also the fact that additional belly-hold capacity will be introduced as global restrictions are lifted and eased gradually.

Looking into a few structural changes on the back of a chaotic year of 2020, the trend of increase in freighter volumes vs. belly-hold volumes is apparent as a natural consequence of the reduction in passenger flights.

The question is whether this marks a long-term change where freighter capacity is viewed as a safer option to reduce dependency on the development in passenger flights. It is still too early to say, however the clear trend of belly-hold capacity gaining market share at the expense of freighter capacity at least for now seems to have stopped.

Conclusion
Overall we assess that we are well into a "new normal" where the needed solutions are available in the market, volume and capacity is bouncing back, however volatility is still apparent and for the same reason rate levels remain at high historic level, albeit with an expected downwards trend post Chinese New Year.

RAIL FREIGHT

For Rail freight the outlook mirrors ocean freight, as the situation of container equipment shortage is as ever present and challenging. As a natural consequence rate levels have surged within this transport mode as well and our traffic light update is red for the same reason.

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

AIRFREIGHT

TRADE UPDATES	SPACE (CAPACITY)	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
Asia-Europe (Westbound)	Yellow	Yellow	↑
Europe-Asia (Eastbound)	Yellow	Yellow	→
Europe-US	Red	Red	↑
US-Europe	Red	Yellow	↑
Asia-US	Red	Red	↑
US-Asia	Red	Green	↓
Intra-Asia (incl. AU)	Red	Green	↑

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

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
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