February 24 2021 #3

China export chaos travels on to European export…

Dear valued customer,

With the celebration of the Lunar New Year providing some relieve to exporters in Asia, the global container trade pain point gravitated towards European exports. A number of carriers have introduced a full booking stop to several of destinations amongst others South America and North America.

For the **airfreight market**, we remain optimistic that it will continue its steady course towards normalization. At the moment in particular exports ex Asia is as expected experienced a surge in volumes ahead of Lunar New Year. As predicted, shippers and consignees scrambled to ensure most critical shipments were expedited before to the close-down of factories.

Summing up for the **ocean freight market,** the expected normalization will take time, and volatility remains on the menu despite ocean carriers scrambling to improve the situation.

As in the case of the chaos seen in Asia, it is a combination of shortage of container equipment, congested terminals and a sustained demand being significantly higher than expected causing the challenges. Subsequently, an array of surcharges has followed from most carriers with premium and Peak Season surcharges required to guarantee the load of containers.

Adding to the narrative that the global challenges will remain for some while still are comments from Hapag Lloyd CEO Rolf Habben-Jansen made during a recent press conference commenting that "it will hopefully be in Q2 or maybe the start of Q3 we see a normalization".

Take a special note to the **traffic lights**, where significant changes are noticeable like export ex Europe and note that placing bookings well in advance will give us the opportunity to research all potential options in the market.

The transport industry is still facing an untidy market, where the key to success is through our transparency dialogue with you which we encourage you to continue.

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

The 2021 full-year contract season is slowly getting started, although with some restraint on the carrier side considering the very blurry full-year outlook. It remains evident that there is a historically large gap between short-term and long-term rates, caused by significant volatility and uncertainty, which in turn is sustaining relatively high rate levels from a historical perspective. A contributing factor that likely will drive down rate levels is the expected COVID-19 normalization throughout 2021, combined with mitigating measures taken by the majority of ocean carriers to increase capacity and improve the container equipment situation.

In terms of the 2021 outlook, a joker is the demand situation which in theory should increase as the pandemic subsides. Increasing speculation although suggests that demand will to, some extent, change from physical goods to services with this reducing actual volume demand. On the other hand there is also speculation that many orders have been postponed ahead of the Lunar New Year due to lack of capacity and equipment, and some might have been basis the assumption that rate levels would decrease as we exit the typical peak season in Asia.

Container equipment

The container equipment situation overall remains critical and increasingly terminal congestion and lack of haulage capacity is becoming a systemic challenge. Simply put: if full containers are not delivered and unstuffed at a normal pace then shortage of empty container equipment will continue to pose a global challenge. As a consequence, will the evil spiral continue despite investments from carriers purchasing additional container equipment. Hapag Lloyd also noted in recent statements that the equipment situation is not yet expected to have reached its worst point yet.

In North America it is clear that it will take months to clear backlogs, the worst example being the port of Long Beach experiencing massive congestion. In average more than 30 vessels have been idling outside the port waiting to dock.

Rates

The Asian chaos is subsiding albeit too early to conclude that the storm has passed. Short term rate levels from Asia-Europe as per the SCFI index actually increased moderately in week 7, however short and mid-terms rates are though still expected to decrease on imports to Europe and US from Asia. Exports ex Europe will likely see an upwards trend and we expect significant pressure on capacity and subsequently also price increases short-term.

AIRFREIGHT

The airfreight market in Asia is as expected experienced a surge of volumes ahead of the Lunar New Year period, however this being in line with expectation and normal seasonal fluctuations. With the third wave of COVID-19 pandemic affecting many countries around the globe the re-introduction of belly-hold (passenger flight) capacity is returning at a slower pace than expected with this resulting in airfreight rates being maintained at a high level compared to previous years.

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 Lunar New Year.

Equipment
We expect a continued high demand in the coming weeks due to rush shipments following Lunar New Year period and following this a period with a gradual decline in demand from Asia with the situation overall considered stable.

The distribution of COVID-19 vaccines is still gearing up, however is yet to affect the airfreight cargo industry in the massive manner that was predicted a few months back.

Rates

Overall rate levels ex Asia are still some 125-150 % higher than same period last year and it is not expected that we will see pre-pandemic rate levels any time soon.

The same situation applies in Europe where demand is at a healthy level as well, but capacity is available, and solutions can be found.

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	Green	Green	⇩
Asia-US	Red	Red	⇧
US-Asia	Yellow	Yellow	⇨
Intra-Asia (incl. AU)	Yellow	Yellow	⇧

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)	🟢	🟢	🟢	⇨

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