Market outlook advisory Air, Ocean & Rail freight #1: Navigating through the perfect storm

With unprecedented market volatility within the global ocean, rail and airfreight market we wish to ensure you are fully updated on the situation. With this advisory we want to provide you with a clear understanding of the capacity and equipment situation, as well as price development appreciating the impacts the current situation has on your supply chain.

The challenges we are facing are industry wide, however if anything the year of 2020 has showed us, that we can find solutions and manage the most critical of situations by a transparent, honest and open dialogue.

We aim to keep cost impact as low as possible, however as can be seen from various price indices around the world, there is a significant cost impact that needs to be taken into account. Rates have sky-rocketed especially on ocean freight trades from Asia-Europe and Asia-US, while airfreight rate levels also remain highly volatile as seen throughout the pandemic.

Further below you will find a traffic light overview on the global main trades zooming in on capacity, equipment, schedule reliability and price development. It is important to underline that these are high-level assessments and to be used as indicators only, considering that on a country port and airport level the situation can vary.

As usual we encourage a constant and close dialogue with your regular Scan Global Logistics contact person(s) to assess alternative transport modes and solutions and keep us informed of “vital” shipments. We are working 24/7/365 to find solutions to all challenges with the aim to minimize disruptions to your supply chain.

With this introduction what are then the ingredients that have been mixed together causing this perfect storm?

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- **Stockpiling of products** ahead of second wave of pandemic fuelling a significant increase in demand
- Container carriers introducing **an array of blank sailings** especially during the initial period of the Covid-19 phase, in order to manage capacity and ultimately drive up prices, resulting in a fundamental gap in the global re-positioning of empty containers
- **Container carriers chasing short-term profits** over supply chain stability, by directing container equipment to trades where the highest price is available and not where equipment it is needed
- Many years of **under-investment in production of new container equipment**
- **Rates have sky-rocketed** on many trades by use of surcharges such Equipment Imbalance Surcharge, Peak Season Surcharge, premiums for loading guarantee, topped off with general rate increases – consequently the year of 2020 is profit wise expected to be one of the best years ever recorded for ocean carriers.

Current status
Container carriers are to a large degree abandoning existing agreements and prioritizing the short-term market to capitalize on the market conditions, and with the instrument of blank sailings capacity is managed tightly sustaining the price increases. As a testament to the situation Hapag Lloyd as an example

this week announced that FAK prices for a 40´ ex Shanghai to Europe in December would be over USD 5.000 which marks an all-time "record" on this trade[1].

As highlighted initially there are naturally differences across trades, and as an example the Westbound trade to Europe severely impacted compared to Eastbound trade to Asia that is considerably more stable. The same case for the Pacific trade from Asia to US where record rate increases have been the norm over the last months, despite some level of stabilization during last weeks - see traffic light overview for further guidance.

Outlook

Despite the current situation carriers across the three main alliances have announced further blank sailings during December, with this further worsening the situation. With this in mind our assessment is that the current situation will not improve materially before Chinese New Year 2021 and potentially expected to continue beyond this period.

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- Despite the gradual introduction of passenger flights belly hold **total capacity continues to be down with a whopping 25,2 %** compared to 2019
- **Cargo freighter capacity remains largely in place** as well as "preigther" capacity (converting PAX planes to accommodate freight) having acted as a mitigation measure to the steep decline in passenger flights
- **Demand is during November and expected for December also continuing to increase**, driven largely by E-Commerce volumes, launch of electronic products such as iPhone 12 and PlayStation 5 topped off with Black Friday and Singles Day volume spike
- Some degree of **stockpiling** of PPE (Personal Protective Equipment) products as part of wave 2 pandemic
- The biggest joker remains the **potential distribution of COVID-19 vaccine** which is expected to be initiated in Q1 2021 which will take up a large part of the capacity when commencing. Distribution of the vaccine is described as the single largest transport challenge in the history of airfreight, exemplified by the estimate of 8.000 Boeing 747 being needed to cope with the first round of distribution of vaccines – on this point important to note that distribution of COVID-19 vaccine is not a one-time exercise and will be a recurring one in the years to come.[2]

Outlook

Summing up, we expect that capacity constraints will continue over the next months, with this also driving prices upwards. Below overview provides a bit more insight to the global development of capacity during 12-25th October compared to same period in 2019.

[1] https://theloadstar.com/more-blank-sailings-as-hapag-lloyd-sets-new-asia-n-europe-freight-rate-record/

[2] https://www.aviation24.be/organisations/iata-international-air-transport-association/8000-boeing-747s-needed-to-deliver-covid-19-vaccine-doses-globally-iata-says/

Total air cargo capacity growth[1], 12 – 25 Oct 2020 vs. same two weeks last year[2]

YoY growth, %

Global capacity decline: -20%

Graph from https://www.accenture.com/hk-en/insights/travel/coronavirus-air-cargo-capacity

RAIL FREIGHT

- **Demand continues to be very high** especially on Asia-Europe trade with rail freight acting as a fully fletched alternative to both ocean and airfreight and this overall putting a strain on the capacity
- **Lack of container equipment** equally to ocean freight remains a significant issue with no immediate sign of this improving
- On the back of above points **price development has also seen an upward trend** during recent weeks and months, with this expected to continue until Chinese New Year 2021
- **Congestion issues** has also been apparent at some of the major hubs in China and Europe, however overall the main issue remains capacity and equipment
- **Traffic imbalance also remains a critical issue** with volume going from China-Europe far exceeding the volumes going back to China, with this being a natural result of the trade deficit between China and EU

Despite current challenges the outlook remains positive for rail freight with a tremendous growth recorded so far in 2020. In July alone over 1200 train departures were recorded from China with this being 68 % over same period in 2019.

Overall, we have recorded a growth in excess of 350 % during 2020, and with a continued expanding network we are prepared for further growth in the months and years to come – and continue to be in a position to find the needed alternatives exploring new routings and solutions in order to cope with the demand situation.

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

Stay safe,

On behalf of Scan Global Logistics

Mads Drejer
COO Air, Ocean and Rail

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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 Problem	No Problem	
🟡	30%-69% of normal capacity	Medium problem	Medium problem	
🔴	Less than 29% of normal capacity	Major problem	Major problem	

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

COLOR CODES	SPACE (CAPACITY)	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
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SCAN GLOBAL LOGISTICS

RAIL FREIGHT

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Asia-Europe (Westbound)	🔴	🔴	🟡	⇧
Europe-Asia (Eastbound)	🟢	🟢	🟢	⇨

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