JULY 5 2021 #6

KEEP YOUR LOGISTICS SEATBELT FASTENED!

Dear Valued Customer,

There does not seem to be a single month without a form of major impact or even disruption to our industry as we know it. With the ongoing volatility in performance and rates, the entire industry and its customers need to stay agile and close to each other to mutually overcome the constant changes. Close cooperation and exchange between all parties in the supply chain are required to balance the problematic situation as much as possible.

Consequences of Yantian port close-down
In China, we have had the Yantian port close-down situation with significant ripple effects on all trades. This is just ahead of the traditional peak season for Asia Exports, where a surge in volumes is apparent, especially on the airfreight side. All this in a market environment that can hardly stand any impact on capacity and schedule reliability, let alone inflated freight rate levels that continue to break record after record.

The Yantian situation continues to have a knock-on effect on the ocean freight market with a spillover over to airfreight and rail freight, adding significant pressure on both transport modes. This comes on the back of the Suez Canal incident, from which the industry is still scrambling to recover fully.

Transport modality-shift is being utilized to the full extent; however, the situation for these alternatives, be it rail as the most frequent example, is challenging in itself, especially when it needs to occur on short notice.

Ocean freight remains the hot topic with no immediate outlook of normality being on the horizon. Analysts across the industry earliest expect some form of significant improvement during Q4 2021.

Capacity is shifting
In the airfreight market, a different challenge is looming around the corner. Dependent on the trade lane, the airfreight capacity is shifting on short notice. Freighter aircrafts are going into maintenance being readied for the peak season, and with passengers returning, we see passenger aircrafts (PAX) pulled from the PAX freighter (passenger

aircraft only used for cargo, acting as freighter flights) routes to support passenger travel.
All these changes impact the supply-and-demand scenario and, with it, the capacity availability and rates. Overall capacity is expected to steadily increase; however, demand remains high, subsequently sustaining the inflated rate levels.

Adding another topic to the equation is handling and warehouse limitations (space and labor) at some major airports. Here operations cannot cope with the volumes, and backlogs and massive delays lead to excessive waiting time. This affects the ground transportation flows, with truckers being forced to line up for several hours to collect cargo.

The changes in the months to come
With increasing levels of vaccinated people in the US and an increasing number of European countries, the expected shift towards hospitality and services may now finally occur during July, August, and September. Despite this, ordered products will still be in transit, and the restocking requirements will still continue over some time. Following this, the Asia peak season is on our doorsteps, and orders will enter into a market that will still be facing an imbalance between cargo demand and capacity supply favoring the supply side.

Conclusion
The scenarios mentioned above prove once again how connected the entire end-to-end transport chain is. But even more so, the constant changes prove how fragile global logistics is with micro-management of forecasting, and preparedness for modality changes as the best medicine to mitigate the situation

As always, we wish to emphasize that we remain confident in our ability to find solutions to the challenges we jointly face. There is no one-size-fits-all solution, and the market overall remains very volatile. However, the pro-active and constructive dialogue we experience every day with you makes an actual difference in finding the optimal solutions.

To get an overview of the critical changes in the specific lanes, please see the traffic light update included in this advisory.

Note that all information is given to the best of our knowledge and is prone to change.

Enjoy the reading!

OCEAN FREIGHT

Global port congestion continues
The re-opening of port operations in Yantian has materialized fully; however, the effects still linger. A significant backlog of containers still waiting for evacuation by ocean transport is one side effect. We still see some vessels being re-routed to other South China ports while the backlog is being cleared.

While the port in Yantian was closed, carriers diverted vessels to neighboring ports such as Nansha and Shekou. The sudden heavy burden on these ports not being accustomed to such volume surge has caused bottlenecks and a yard density of upwards 100% in recent days. Efforts to secure business continuity have spurred sporadic port closures from these ports as well.

As a consequence of the more than 2 weeks of closure in Yantian port, analysts have suggested that the port closure has caused a total of 298 vessel omissions and +50 blank sailings. The now known ripple effects of incidents such as the Yantian port closure or the recent Ever Given incident start to prove evident. Equipment supply is significantly impacted in the whole Guangdong region, whereas many other areas, including the Indian subcontinent, also suffer from container shortages.

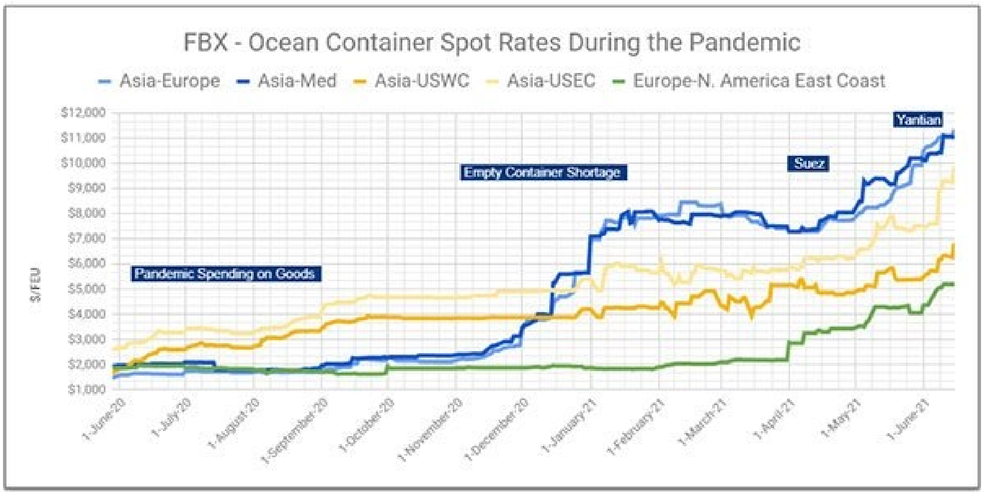
As commented by Lars Jensen, an expert in the container shipping industry, the global disruptions currently faced are not only caused by those in South China and the ongoing congestion in the US West Coast ports. Hamburg Port is also impacted, leading to many vessel omissions, and particular services out of Rotterdam have been suspended. All this points to an evil spiral congestion situation around the globe with the US market still suffering heavily on this part.[1]

Amidst being in this perfect storm, carriers continue to struggle to provide consistency and reliable lead times. Sea-Intelligence analysts report global schedule reliability shy of 40%, noting, however, slight improvements compared to the worst period, namely January 2021, with a gain of 5%. Key corridors from Asia to Europe continue to struggle at devastating 24,4%, a year-over-year decline of 50%, and an average vessel delay of 7,93 days.

Continued up, up, upwards trend on rates
The disruptions that have caused significant impact on already maxed-out trade lanes are expected to sustain continued rates in the coming months. Far East Westbound short-term rate levels remain sky-high to the tune of USD 16.000/40´ and, in some cases, higher for guaranteed loading. All major trade lanes are impacted by this, with rate levels far exceeding the same period last year. This is the case both for Transpacific and the Transatlantic also. Historically exports from Europe to Asia and the EU have not been impacted given the empty equipment was needed in Asia and the US; however, this time around, the congestion and vessel capacity issues mean that exports are hit hard, both in terms of high rate levels and schedule reliability being very low.

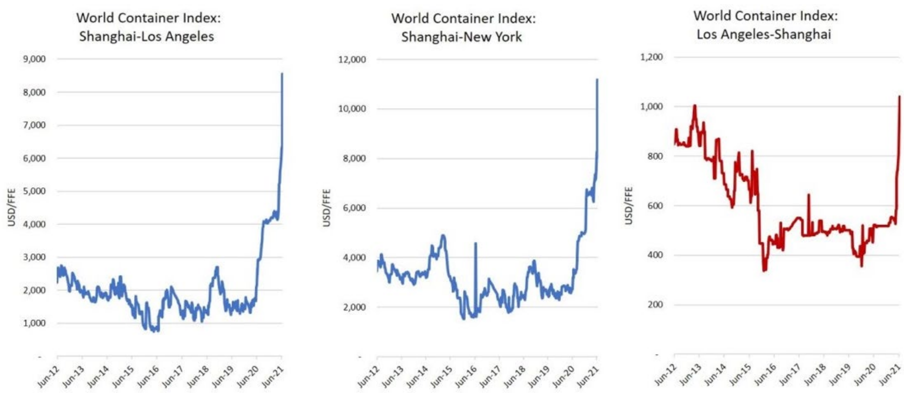
Transportation consultants IHS Markit predict little hope for structural improvement within the year 2021 on the current container capacity crunch.

[1] Lars Jensen on LinkedIn, https://www.linkedin.com/posts/larsjensenvespuccimaritime_it-is-easy-to-be-blinded-by-the-major-problems-activity-6812747166784786432-axa5



Source: Lloyd's Loading List

The continued strong demand for Asia-Europe container transport has seen rising rates from Shanghai to North Europe, as shown below, with rates 600% higher or more than those of last year.



Source: Drewry World Container index

Carriers invest in long-term capacity improvements

Buoyed by record strong Q1 earnings within the container carrier segment, carriers continue to fill up their order books for new builds, unfortunately with no short-term effect. Germany's Hapag Lloyd announced on 22 June the order of another six ultra-large container vessels (23,500 TEU) to be deployed from 2024. Similarly, Taiwan's Evergreen has signed contracts for 2 more vessels of similar size, adding to an already dense order book within the segment. According to the industry news outlet, The Loadstar, the global containership order book is now over 18% of the current active fleet.

AIRFREIGHT

As highlighted, we already see some changes in the capacity happening now: Freighter aircrafts going into maintenance and on top of that, passenger (PAX) aircraft rotations and PAX freighters on the Trans-Pacific being reduced to accommodate PAX travels in the US domestic market or in favor of some Trans-Atlantic destinations.

One could take the return of PAX travel as a good sign or expect decreasing rates – for example, the US had the highest number of air travelers in mid-June (+2 million/day) – but it is not yet a relief for international trade. Firstly, it is primarily US domestic, and secondly, those capacities will be pulled out again latest when summer travel will come to an end. In addition, there is hardly any travel increase to and from Asia, with these countries applying a more strict approach to COVID-19 restrictions and specifically international travel.

Stable high rates and tight capacity

The decrease of capacity on the Trans-Pacific has not yet led to increasing air freight rates but instead kept them at a high level. On some occasions, we have even seen declining rates for specific departures, though this is considered a short-term adjustment due to limited cargo output.

On the Trans-Atlantic routes, we may see a minor decrease in the rates for ad hoc volumes, but this has its limitations as well. If the rates get below a certain threshold, PAX freighter capacity will be reduced and lead to a change in the demand/supply scenario once again. This will balance out rates and keep them at a constant (high) level.

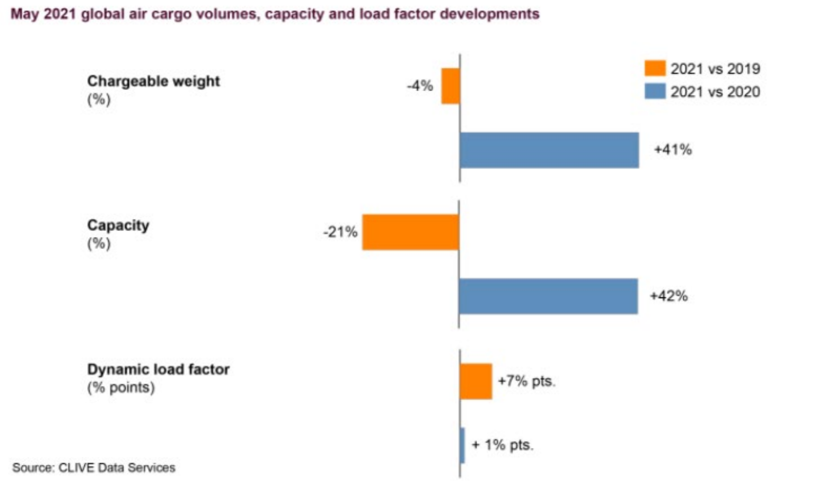
The development of the routes between Europe and Asia is less impacted by changing PAX flight capacity. With the Asian countries mentioned not yet opening up for travel, the number of flights will not materially change in the coming weeks. The freighter capacity remains stable, and some decrease in volumes over the coming months will be balanced out from a capacity perspective with freighter aircrafts going into maintenance. This situation is expected to sustain rates at a stable level. Especially on the routes from Asia to Europe, rates will remain high and capacity tight. The return leg from Europe to Asia is less restricted in general, but this is already factored in price-wise, pointing to minimal rate changes in the coming months.

Looking further ahead, a strong peak season is expected, and with it, capacity shortages will follow suit.

Summary

The market remains constrained and will be for some time still. CLIVE Data Services shared good insights with the below supply and demand overview.

The global air cargo market grew in May by -4% compared to the same period in 2019



With the volumes (chargeable weight) being (only) 4% behind 2019-tonnages (demand), we see a very high load factor, while the offered capacities (supply) are still 21% behind 2019. Even if the situation eased versus 2020, the load-factors (utilized capacity on board of aircraft) are pretty much maxed out.

Rate decreases will not happen until load factors go down and capacity becomes available again. With the market expecting increasing demand towards Q3 and Q4, we cannot foresee any trend towards lowering rates on any of the major trade lanes.

https://www.aircargonews.net/data/did-the-air-cargo-recovery-stall-in-may/
CLIVE Data Services / Mr. Niall van de Wouw nvdwouw@useclive.com

RAIL FREIGHT

The Rail freight market continues to follow suit with the ocean freight developments, and capacity remains scarce. Rate indications suggest a continued strong market on this mode of transport, and rate increases are expected in the coming month.

Congestion along the silk road railway impacts schedule reliability, and delays should be factored in for the time being. Wagon shortages at crucial border points on the route between Belarus-Poland-Germany have also led to extended lead times. With this said, performance, cost, and lead-time-wise, rail freight remains a solid alternative to ocean and airfreight.

In a continuous effort to respond to the increased demand for rail freight from China to Europe, critical infrastructure is constantly being developed. New border crossing stations connecting China with Kazakhstan and other border points are being built and are undergoing pilots ahead of implementation to increase overall capacity on this route.

On behalf of

Scan Global Logistics

Mads Drejer
COO, Air, Ocean & Rail

OCEAN FREIGHT

TRADE UPDATES	SPACE (CAPACITY)	EQUIPMENT	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
Asia-Europe (Westbound)	Red	Red	Red	Up
Europe-Asia (Eastbound)	Red	Red	Red	Stable
Europe-US	Red	Red	Red	Up
US-Europe	Yellow	Yellow	Yellow	Stable
Asia-US	Red	Red	Red	Up
US-Asia	Yellow	Yellow	Yellow	Stable
Intra-Asia (incl. AU)	Yellow	Red	Red	Stable

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

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TRADE UPDATES	SPACE (CAPACITY)	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)	SCHEDULE RELIABILITY	PRICE DEVELOPMENT
🟢	70%-100% of normal capacity	No challenges	⇧ Up
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🔴	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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🔴	Less than 29% of normal capacity	Major challenges	Major challenges	⇩ Down