May 2022 #3

The wheel of volatility spins again

Dear valued customer,

From an industry perspective, it remains a mixed bag of goodies when looking at the current market temperature, both in the short and mid-term outlook.

Geopolitical impact as consequences of the war in Ukraine, COVID-19 lockdowns in the factory of the world, China, coupled with an already overheated logistics market, has sent the Western world as we know it into an unprecedented supply crisis.

This time, the wheel of volatility landed at a total COVID-19 lockdown in Shanghai and other major cities in China. Inasmuch as ports and airports remain operational, actual supply from factories has taken a tumble and moving cargo around port areas comes with extreme hassle and delays.

Moderation in ocean freight

A small relief, yet noteworthy, is that the demand impact has resulted in a continued ocean freight rate moderation for most trades. This includes the blockbuster trades from Asia to the US and Asia to Europe. The Trans-Atlantic trade from Europe to the US remains strong, where the same development has not been seen, with freight rates remaining at a sustained high level.

While spot/short-term ocean freight rates have moderated to the tune of 20-25 % vs. peak levels seen in 2021, levels are still at a historically high level. Ocean carriers have responded quickly to the slump in demand and introduced an array of blank sailings.

We increasingly see customers opting for long-term rates amidst the chaos and volatility surrounding us. There is currently an open window because ocean carriers are currently seeking to secure long-term volumes.

No flight zone is still impacting capacity

Airfreight rates remain at a very high level. This has, amongst others, been fuelled by lack of capacity as a consequence of the impact of airspace restrictions, and the latest COVID-19 lockdown in Shanghai.

We currently assess that the Shanghai area will start to loosen lockdown restrictions during mid to end of May. When it happens, it is expected that we will see a surge in airfreight volumes owed to customers needed to evacuate idling products in Asia that are needed on the shelves in Europe and the US.

US West Coast labor talks prelude

Turning the focus across the Pacific, the talk of the town is the brewing US West Coast conflict between ILWU dockworkers and US West Coast port terminals. The current agreement expires by July 1, 2022, and as we speak, the two sides remain deadlocked in the negotiations. This potential threat comes on the back of the US West Coast, having been exposed to the worst port congestion in modern history. Already now, shippers are looking into alternatives on US East Coast and in the Gulf region, attempting to mitigate the worst consequences of a potential strike.

The latest discussions have centered around automation, with the Pacific Maritime Association (PMA) seeking to automate port operations to a much higher degree. This, in turn, meets significant pushback from the International Longshore and Warehouse Union (ILWU). The PMA argues that two automated terminals at Long Beach produce an output up to 44 % higher than manually operated terminals. PMA also argues that this will actually create more port-related jobs and jobs in the supply chain as a whole basis increased growth. ILWU reacted swiftly with a statement outlining that "*we haven´t seen an overall increase in productivity at the automated ports, just a shell game to mask the human cost of job destruction.*"

Until now, the two organizations have refrained from going into full confrontation. However, it is very clear that the battle is heating up as we get closer to June 30.

While the expectation is that some form of agreement will be reached since there is substantial pressure from the political side, shippers are increasingly mitigating the risk by utilizing US East Coast and US Gulf ports.

Russia and Ukraine conflict fuelling supply chain chaos

Our booking stop for shipments to/from Russia and Belarus remains in place until further notice, with the exception of selected product groups such as medicine, aid, humanitarian cargo, and food supplies.

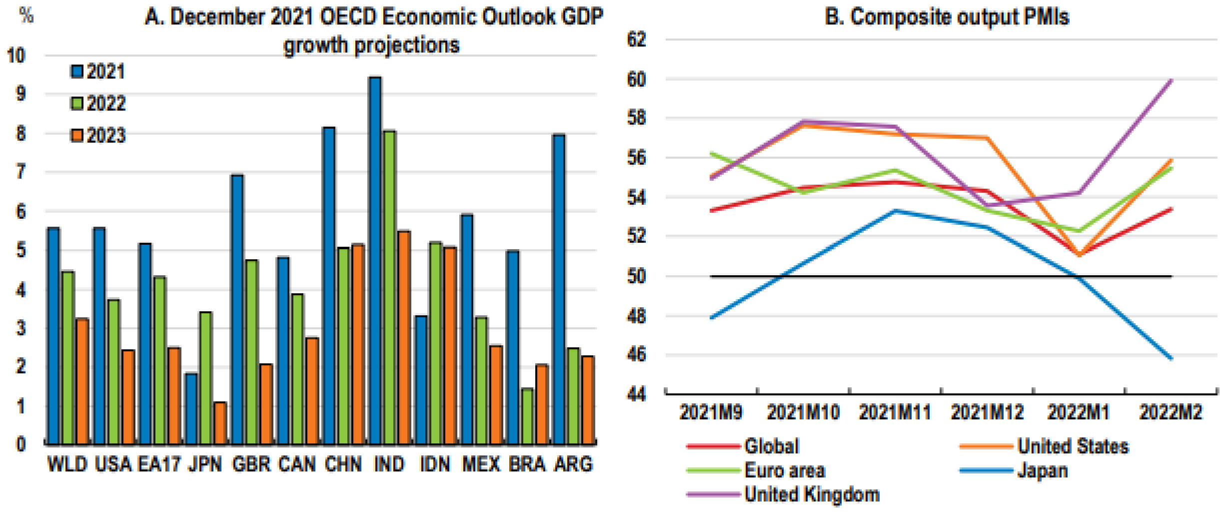
As mentioned, the ripple effects of the Russia-Ukraine war continue to impact the airfreight market severely. This is expected to continue for the short and mid-term.

The macro crystal ball is buzzing

Despite the ongoing uncertainty related to the Russia-Ukraine war, it is still expected that the Western world economies will enjoy a GDP growth in 2022, albeit somewhat more modest than expected.

Prior to the outbreak of the war, a global economic recovery was in full motion. OECD forecasted global GDP growth of 4,5 % in 2022 and 3,2 % in 2023. This development came after many countries enjoyed a rebound following the Omicron variant showed less impact on societies, and thus most restrictions were lifted.

Figure 1. Prior to the war, a global recovery was underway



Source: Economic Outlook 110 database; Markit; and OECD calculations.

On the flip side, a surge in inflation levels was apparent. Many major EU economies see inflation levels of up to 5 %, and in specific countries such as Poland, up to 8-9 %.

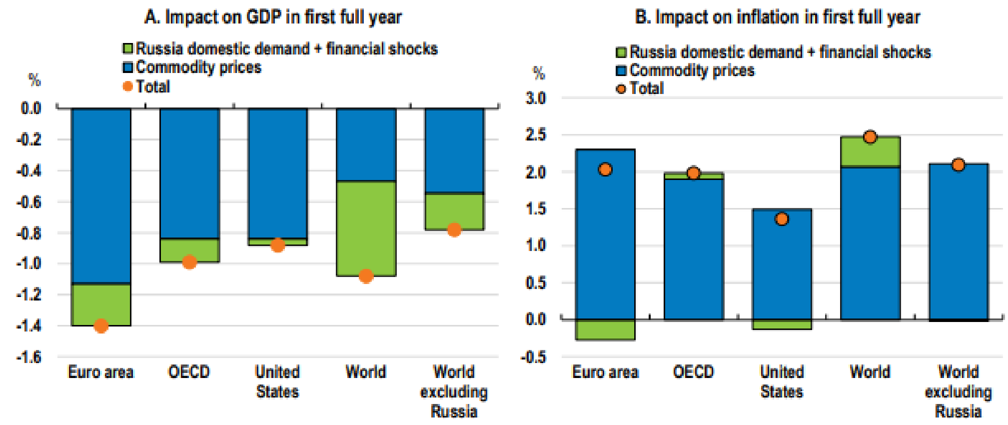
This development accelerated due to the ongoing war, with the world being thrown into a historic supply chaos. Despite the combined Russia and Ukraine economies accounting for only around 2 % of global GDP, both countries are major suppliers in a number of commodity markets. Russia and Ukraine combined account for approximately 30 % of all wheat exports globally, 20 % for corn, mineral fertilizers, and natural gas, and 11 % for oil. On top of that, many countries depend heavily on exports of metals from Russia and Ukraine, including nickel and palladium used in steel production and catalytic converters for cars. Other similar commodities are also impacted, resulting in prices skyrocketing due to an abrupt shortage of these products.

It is noteworthy that the US economy is less impacted than EU economies due to a strong rebound from the pandemic and durable inflation levels ahead of the recent surge in commodity prices.

All in all, a significant hit to global growth and a sustained record high level of inflation is expected, as illustrated in the below graph published by OECD in March 2022.

Figure 5. The conflict implies a substantial hit to global growth and stronger inflation

Difference from baseline



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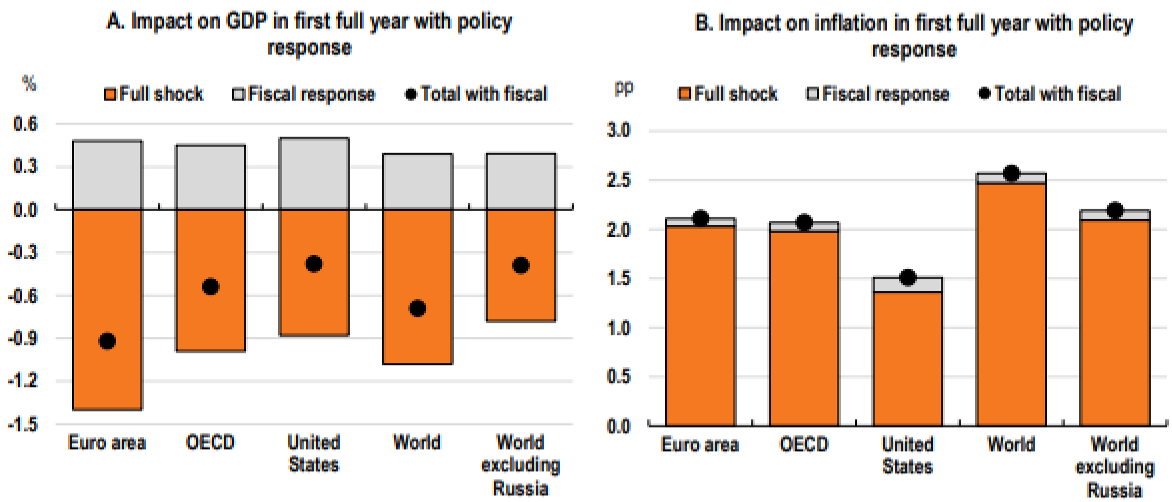
Note: See the Technical Appendix for full details of the shocks applied.
Source: OECD calculations using the NiGEM global macroeconomic model.

The full impact will depend on the level of government fiscal stimulus packages. OECD projects that it is possible to cushion the worst effects by effective and targeted fiscal measures as outlined below.

Figure 8. A well-targeted fiscal expansion would help to cushion the impact of the conflict

Differences from baseline



Note: See Technical Appendix for details of the shocks applied.
Source: OECD calculations using the NiGEM global macroeconomic model.

Source links for all OECD graphs: https://www.oecd.org/economy/Interim-economic-outlook-report-march-2022.pdf

Complicated freight market

We re-emphasize our statement from the last market advisory: the *old normal* as we knew it is gone for good. What the *new normal* looks like is not clear yet, apart from change and volatility being the only constants.

We strive and live to uncomplicate the world of logistics, and never has this been more important than now. Constant communication and solution agility will be key to ensuring on-time delivery of your shipments. We encourage a constant pro-active dialogue allowing us to provide a plan A, B, C, and more as needed, observing the chaotic nature of the current marketplace.

We will do our utmost to minimize potential additional costs, recognizing that this comes on top of already elevated freight rates. However, we do wish to underline that additional costs will occur, especially within airfreight and on landside trucking, as a result of the current situation.

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

Enjoy the reading!

On behalf of

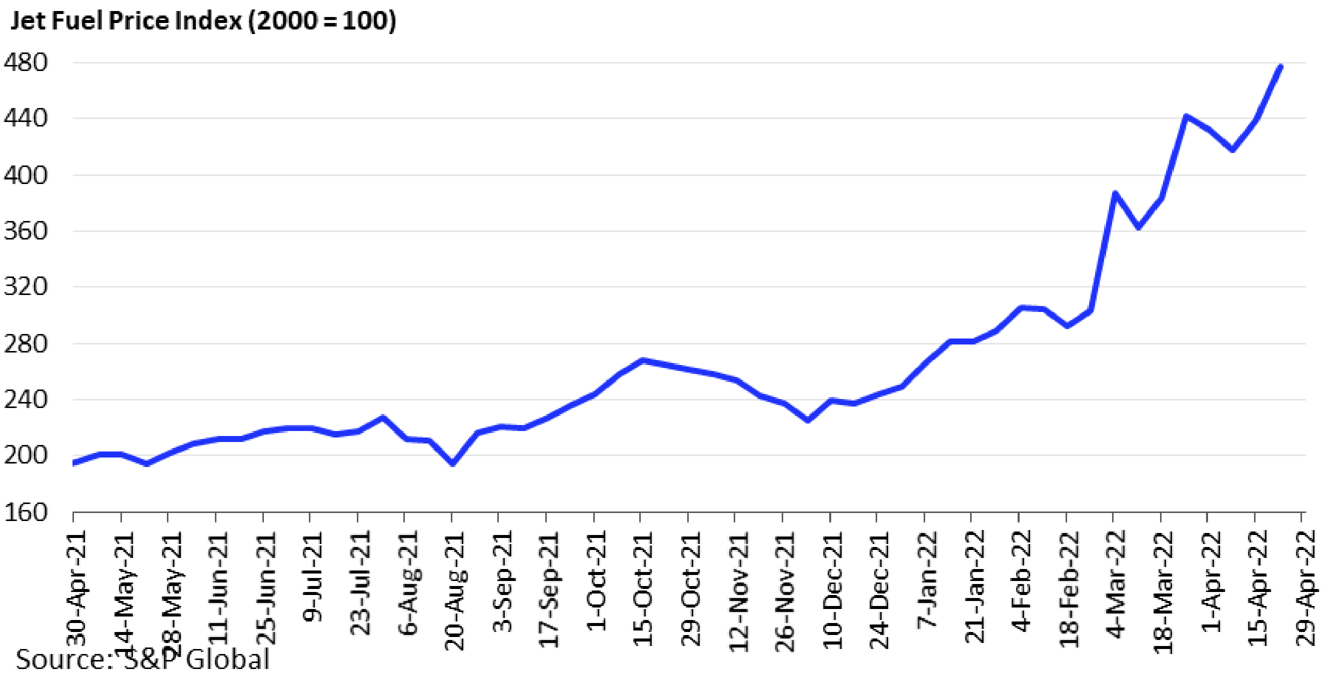
Scan Global Logistics

Mads Drejer
Global COO & CCO

AIRFREIGHT

Market conditions continue to be very challenging, albeit with different levels of impact across trade lanes. With this said, the overall outlook remains the same, i.e., uncertainty and little expectation that the airfreight market situation will ease up short or mid-term.

The two major impacts globally stem from lockdowns in China and the Russia-Ukraine war. As the Russia-Ukraine war continues, it is forcing airlines to take different routes, which leads to longer flying times, increasing demand for kerosene, and reduced payloads. The sanctions and overall uncertainty led to increasing fuel prices, as you can see in the below chart from IATA.



Source: https://www.iata.org/en/publications/economics/fuel-monitor/

The past weeks

With the greater Shanghai entering lockdown mode, we have seen drastic decreases in capacity to and from Shanghai. Some volumes have been directed to alternative departure airports, however, it is expected that bottlenecks will occur in these airports as well. This has only partly mitigated the issues, and far from all cargo has been shipped. Consequently, backlogs are expected to pressure capacities once Shanghai opens up again. Upon reopening, we expect that it will be a gradual ramp-up of capacity. Delays compared to standard transit times are still to be expected.

According to Accenture, available capacity ex Shanghai during the first half of April was only 1/3 of the capacity during the same weeks in 2021. It is expected that some planned ocean freight volumes will be evacuated and thus required to be shipped by airfreight, adding further pressure on capacity.

Source: https://www.accenture.com/us-en/insights/travel/coronavirus-air-cargo-capacity

Trade lane overview

EU-Asia: The trade lanes between the EU and Asia (both directions) are still mostly impacted by the required reroutings caused by airspace sanctions. Furthermore, the Shanghai lockdown causes significant capacity and transit time issues. Other cities in China are facing lockdown scenarios as well, and it will be a challenge to find the optimal routings and capacities. Even more to overcome potential limitations locally (trucking, warehouses, etc.). Once Shanghai opens up, additional volumes from backlogs can be expected, putting further pressure on capacities and rates.

Asia-US-Asia: Similar pressure will occur when Shanghai lockdowns are eased. The decreased capacity and a limited number of flights will be a major challenge here as well. Additionally, a potential wild card impact is potential port strikes on the West Coast.

Europe-US: The oil price impact is a major factor in this trade lane. However, we see increasing passenger-travel flights and added flights to various airports positively impacting capacity. The high focus from the airline side on cargo volumes during last years with low passenger activity is likely to gradually shift again to a major focus on the passenger component resulting in bellyhold capacity increase vs. pure freighters. This will lead to reduced payloads per flight and may even impact uplift performance with a "passenger and baggage over cargo-focus" going forward.

To and out of South East Asia: We slowly but surely see an increasing passenger travel level again, positively boosting the bellyhold capacity. Effectively we will see an increasing number of flights, however, it is also expected to be a slow and gradual development.

Intra Asia, to and from Africa or Latin America: Especially Intra Asia remains challenging due to China's continued zero COVID-19 tolerance policy and thus travel limitations. For the time being, the market from Latin America to North America saw some positive developments and uptrending volumes.

Alternative options:

Routings from Asia to EU: Sea/Air remains a good and viable alternative in cases where ocean freight, rail, or airfreight cannot be utilized.

Routing on TransPacific eastbound: Sea/Air solutions are now also available with noticeably increased usage of same in last months.

Outlook to continue "as is"

As the Russia-Ukraine war continues, we assess that capacity shortage will continue to impact the industry, which will sustain already elevated freight rates

Looking further ahead, speculation is mounting regarding the impact of inflation levels on the traditional airfreight peak seasons. Especially high-value product categories are expected to be hit by the high inflation levels, and thus a decline in volume within these categories could be a realistic scenario,

For now, the airfreight market as a whole will continue to be impacted by the capacity shortage, delays, and elevated freight rates throughout 2022.

OCEAN FREIGHT

Shanghai lockdowns have taken all headlines, with Shanghai being the largest container port in the world. Vessels are still calling Shanghai, but as seen by many radar overview pictures in the mainstream media, the queue of idling vessels outside Shanghai port has increased steadily during the lockdown period.

Shanghai Port has been and remains operational. To some extent, it is manageable to expedite volumes considering that actual throughput is significantly down as many factories are closed down and simply not producing products at the normal pace.

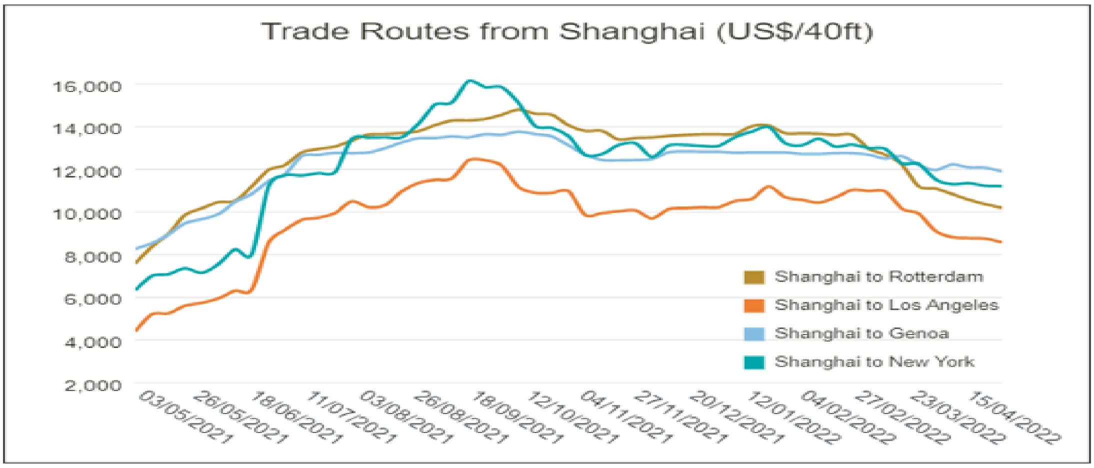
A ketchup effect is expected when lockdown restrictions are eased. This is, in turn, expected to result in shipment delays and short-term rates taking an upwards trajectory again.

Blank sailings are back

As expected, ocean carriers responded immediately to the softening demand and announced a large number of blank sailings on especially key East-West trades. In total, we have so far registered 14 scheduled blank sailings from Shanghai to US and 8 blankings from Shanghai to Europe during May. It remains to be seen whether carriers are taking further actions should lockdowns be extended.

Rate development

Moderation remains on the menu for ocean freight rates, especially on East-West trades, as seen from the SCFI overview below. However, no drastic decline in rates has been noted



According to Drewry, the Asia Westbound trade added approximately 6% capacity to the market during April. The slowdown in production and manufacturing because of the lockdown and the traditional slack season reflect the softening trend on the spot market.

Furthermore, according to Drewry, the strong demand for the Transatlantic Westbound trade (Europe-to-North America) will continue, with spot rates increasing, despite +8% capacity having been added.

Overall we expect that freight rates will continue at a sustained high level during 2022, short of a total collapse of the western economies. Carriers continue to rigidly manage supply and demand, also basis the notion that it is not an ideal situation for carriers if short terms rates fall significantly below long-term rates.

Bunker price

Oil bunker costs have stabilized, albeit at a high level, and no further significant increases are expected neither have ocean carriers announced any additional Bunker Surcharges.

Port Congestion

Data from Global Liner performance shows an improvement in schedule reliability to 35.9%. There is still a long way to go to reach pre-COVID-19 schedule reliability levels of 75-85%.

Massive congestion is now no longer a US impact solely. Major European ports such as Rotterdam, Felixstowe, and Hamburg are suffering as well, in some cases with delays of up to 2-3 weeks. Actually, the situation in the US, namely in Los Angeles and Long Beach, is improving with an average waiting time of around 1 day, according to Drewry.

Vancouver and Oakland are heavily congested with more than 6 days of waiting, whereas Tacoma seems up and running with no delays.

RAIL FREIGHT

As a natural consequence of the Russia-Ukraine war, rail freight volumes to and from Asia-Europe have decreased dramatically due to the general uncertainty of passage through Russia.

With this said, transit cargo is still moving both ways. Conversely to common speculation, the situation is relatively stable. This is mainly owed to China's interest in preserving a stable product considering the enormous investments into establishing rail freight as a stable transport mode.

New and alternative routes in order to avoid Russian passage are being explored, with specific departures acting as test cases amongst others using a routing via Azerbaijan, Georgia, Turkey, and onwards via Southern Europe. However, the expectation is still that these routings can only accommodate a smaller portion of the volume, i.e., around 5-10 % of the total volume, compared to utilizing normal corridors passing through CIS countries. On top of this, it comes with more transshipment points compared to standard routings.

Shipments to/from Russia are still banned in accordance with imposed sanctions.

AIRFREIGHT

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

Fuel Surcharge will continue to drive all-in aspect of rates up globally

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

ADVISORY: MARKET OUTLOOK

AIR | OCEAN | RAIL

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