MAY 18 2021 #5

The "shipping pandemic" continues with major trades in lockdown

Dear Valued Customer,

Never has the distance between reliability and cost been bigger within the global shipping industry than now.

While the airfreight market as a whole has settled into a "new normal," the ocean freight industry seems to be in an uncontrolled spiral towards further chaos. With schedule reliability down to approx. 50 % across carriers and record after record in rate increases, the answer everyone is looking for is when will we experience the first sign of "normality"? Looking at the SCFI index as an indicator, there is little sign that the foreseeable future will offer relief, with the index (Asia-Europe) settling in at USD 4676/TEU in week 18, marking an increase for the fifth consecutive week.

On top of paying record rate levels, there is limited assurance that shipments will actually move on time. Supply Chain Visibility provider Project44 estimates that around 39 % of all shipments are experiencing at least one roll-over.

At this point, identifying the root cause is becoming an irrelevant discussion. Container carriers are citing unprecedented demand as the root cause. At the same time, shipper associations accuse carriers of profiteering and exploiting the situation, considering that ocean carriers have had more than a year to adapt to the new COVID-19 normal.

The trade "flu"
What is also becoming apparent is what can be considered the "trade flu." It clearly shows how inter-connected the various trades are, with the Europe-US trade being the latest victim of the flu that impacted Asia-US and Asia-Europe trades earlier on.

Lack of equipment remains a significant industry pain point. However, by now, it is also apparent that actual vessel capacity is scarce. Investments from carriers in new vessels and container equipment are all coming a little too late, resulting in minimal impact expected in 2021 and only full impact expected in 2023.

Simon Heaney, Drewry commented during a recent webinar that "*Shippers must brace themselves for at least two more years of elevated freight rates and tight supply*.", He while also stated that "*For 2022, we do see some erosion in freight rates as the inflationary impact of supply chain inefficiencies hopefully disappears, but we think carriers are still going to be able to keep freight rates high, thanks to the in-depth capacity management they fine-tuned during the pandemic, as well as the pricing discipline they have shown*".[1]

On the macro-side, the conclusion is crystal clear – global consumer spending in the Western economies aided by continued Governmental financial stimulus packages is breaking all records with no signs of slowing down. Inventory levels, as a consequence, remain very low, and all this points to sustained high demand for the foreseeable future. Some analysts still hold on to the argument that consumer spending will switch to hospitality and services, and less so the physical products. This could help ease the tight capacity situation across all transport modes, however currently no signs that this is happening in a manner where it will have a significant impact.

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 all customers is making a true difference in finding the optimal solutions.

To get an overview of the important 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

The Ever Given aftermath
All carriers are still in the process of returning to normal schedule rotation after the Ever Given Suez-canal incident. The estimate is still that this will only be completed in June. In actual terms, this means that port omissions are happening frequently, often at very short notice, subsequently adding to further backlogs at the major ports around the world.

Pre-agreed allocations are, as a result, reduced by container carriers in many cases by up to 60 %. We estimate that only in July will there be some form of improvement in terms of allocations being increased again.

Rate level inflation continues
Essentially all trades are in red-alert mode, and as always, with some specific destinations more impacted than others. For example, Asia-Mediterranean, Europe to the US and from Asia to North Europe rates per 40´ costs more than USD 14.000. The

[1] https://theloadstar.com/at-least-two-more-years-of-freight-rate-pain-for-shippers-as-carriers-cash-in/

situation in Asia has been described as bidding war to get loaded. Premium fees, Peak Season surcharges, and general rate increases are here to stay for the time being on all of these trades.

Heavy port congestion continues

US port congestion and ripple effects from the same seems to continue and represent an infrastructural challenge that goes deeper than the effects of COVID-19. We assess that the US trades will remain hot for an extended period still, both in terms of actual capacity but as much on the landside with heavy port congestion.

Another growing concern is the situation in India. A dramatic rise in the COVID-19 cases has resulted in port and landside operation restrictions. Bottlenecks will surely be one of the consequences in the coming months while India battles the latest COVID-19 wave. Furthermore, there is a potential implication for the global shipping community, beyond India itself, with India being of the nations with most crew members globally. For example, last week, the Port of Singapore banned vessels with crew who had been in India within the past 14 days, and similar examples were seen at Fujairah port (UAE).

Summing up, there is very little light at the end of the normalization tunnel, and subsequently, we expect continued challenges both in terms of space and equipment while rate levels are expected to remain inflated at record levels.

AIRFREIGHT

While the airfreight market continues to operate more stable, a significant increase in the pressure on capacity has been apparent over the last weeks. Especially export from Asia is surging with demand being 35 % over the same period last year with the US having the biggest stake in this increase. Europe is though not far behind, and demand has quickly picked up since the 1st May holidays. It is worth noting that this all follows normal seasonality patterns, and subsequently, this increase was expected.

In Asia, the capacity issue was worsened by the decision from Taiwan to ground a large share of the pilots due to a COVID-19 outbreak. As a consequence, an estimated 20 % of all flights were cancelled.

Notably, exports from Europe are also strong both to the US and Asia. Especially the West Coast of the US is experiencing capacity issues with the US consumer demand remaining historically strong, surprising even the most sceptical analyst.

The situation in India and Bangladesh continues to be critically rooted in the new wave of COVID-19 cases where relief commodities are getting priority over commercial cargo, with this expected to continue short and mid-term.

Capacity expected to increase slowly

On a global scale, capacity is slowly but surely increasing with more and more passenger routes resuming. However, there is still some way to go in terms of full normalization. There is still a waiting game on the airline side in especially in the EU, with travel regulations for the summer still hanging in the balance.

The "PREIGTHERS" concept (passenger flights converted into cargo flights) is still being utilized by many airlines providing much-needed capacity, with this expected to continue until full normalization kicks in.

Zooming in on some of the more fundamental changes within the airline industry, the importance of freight cargo is becoming higher and higher. Cargo now represents up to 30 % of the bottom-line income for a standard airline, which has historically only been 10-15 %. The relatively high freight rate levels from a historical perspective are expected to remain in place for the long term, which on a positive note also means that airlines will continue to invest in additional capacity.

In conclusion, we expect a continued high demand within the air freight market, and simultaneously we expect a continued increase in capacity as well. The massive challenges on the ocean freight market will short-term fuel airfreight demand further as companies scramble to expedite urgent shipment.

We assess that we are well into a "new normal" where the needed solutions are available in the market, volume and capacity are bouncing back, although volatility is still apparent.

RAIL FREIGHT

Rail freight follows the trend of ocean freight 1:1, and a significant tightening of capacity and equipment has been apparent over the last weeks on export ex Asia. Rate levels have also increased significantly on this trade with no immediate sign of this changing.

On export from Europe to Asia the situation is considerably more stable and no major issues to report.

We expect this situation to continue in the coming period, and for the same reason, we encourage that rail is considered an alternative to ocean freight.

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	Yellow	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	Green	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

AIRFREIGHT

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)	🟡	🟡	⇨

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RAIL FREIGHT

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

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