AUGUST 13 2021 #7

CONTINUED MARKET TURBULENCE AHEAD!

Dear Valued Customer,

Unprecedented volatility keeps impacting all major trades across all transport modes. Local COVID-19 outbreaks continue to affect cargo handling and is putting an extra strain on air, ocean, and rail transportation. The simple conclusion is that that the pressure on capacity and the subsequently inflated rate levels will not be subsiding in the immediate future.

Has the airfreight peak season already kicked in for exports from Asia? And if not, how will it unfold in a period of historic global turbulence for the transport sector? And how will it ultimately impact the customer´s supply chains?

These are just some of the many critical questions transportation providers and customers are facing currently and yet, any answer to this question will be accompanied with significant uncertainty.

Minor events, big impact

In our latest update, we highlighted how fragile the end-to-end transportation-chain currently is. The current situation requires all parts of the chain to function equally well. Flying into a congested airport does not help if a congested ground handling operation causes a delay of several days.

Within ocean freight, events that prior to COVID-19 would have been considered events with minor market impact, today has the potential to cause massive disturbances to schedule reliability which in turn will have ripple effects on port congestion, vessels missing berthing windows and empty container equipment not getting offloaded in the designated ports where it is needed.

On the airfreight side, the same picture is slowly emerging, especially when zooming in on Asia where local COVID-19 outbreaks has led to suspension of flights and severe impact on ground handling.

Increasingly, we see that new COVID-19 outbreaks create service-and manpower-disruptions that impact cargo handling at both ocean and airports. This in turn creates issues with rail- and trucking-services between the various ports and airports. A painful reminder of just how inter-connected global trade has become.

Looking into the macro-economy side of the equation, the expected "goods-to-service"-trend is not gaining traction as expected. This means that consumer spending remains high, while inventory levels across the globe continue to be very low. With Black Friday and Cyber Monday approaching, all this will add to the pressure on both ocean and airfreight capacity.

Summing up

Ocean freight remains in red alert mode, and while rate levels have stabilized, they have done so on a level that is unsustainable for global trade in the long term, especially considering the erratic service quality currently experienced. We assess that the current situation with inflated rate levels and service disruptions will last well into Q1 2022.

On the airfreight side the traditional peak season is setting in and coupled with an increasing disruption from local COVID-19 outbreaks we foresee an increased pressure on airfreight in the coming weeks and months.

We also see a significantly worsened situation on rail freight ex Asia with massive congestion issues, and consequently this mode of transport has moved into full blown red mode and delays are to be expected.

Where there is will, there is a way

Despite the gloomy and at times desperate situation, 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, but there are solutions to be found to even the most complex challenges.

We would like to take the opportunity to thank all of you for the pro-active and constructive dialogue we experience every day. It is making a true difference in finding the most service and cost optimal solutions.

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

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

Enjoy the reading!

AIRFREIGHT

Over the past days we have again seen flights being cancelled from Asia due to local COVID-19 outbreaks forcing airlines and ground handlers into operating under restrictions. Several freighter-rotations have been cancelled and passenger flights have been withdrawn as flight crews could not stay overnight due to quarantine regulations. This has had an immediate impact on capacity and has been driving up rate levels.

Some specific areas in Asia are more impacted than others, however, the overall market situation remains difficult. Volume has reached pre-COVID-19 levels, but the industry is still facing a significantly reduced capacity situation with many passenger flights not having resumed as off yet, driving a further supply and demand imbalance.

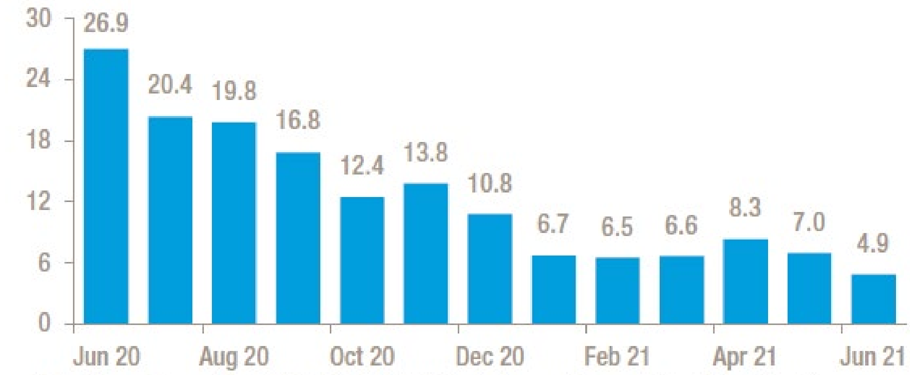
Rates on an upwards trajectory

The freighter market continues to be in hot demand with belly-hold capacity at a continued reduced level, however, there is little chance of adding additional freighter capacity as all operating freighter aircrafts are in full rotation. There is an increasing concern pertaining to ground handling issues leading to severe congestion in some of the major airfreight hubs globally. This in turn will potentially lead to restrictions on either traffic rights for additional flights or delays and service disruptions on the ground. Even if this picture might primarily reflect the situation to and from Asia, similar scenarios, especially around ground handling disruptions, are foreseeable in other markets, too.

The Transatlantic trade is expected to be somewhat more stable albeit rate levels are remaining high from a historical perspective. Only in case of US travel-restrictions being lifted, we can expect a slight ease on capacity and rates.

From an overall cost-perspective, and with ocean rates being tremendously high as well, the difference between ocean and air freight costs for carrying goods has significantly decreased. Information shared by Drewry as seen below shows that the "*Airfreight Price Multiplier*" (airfreight being more expensive than ocean freight on selected trades) came down from >25 to 4,9, marking a historic low multiplier.

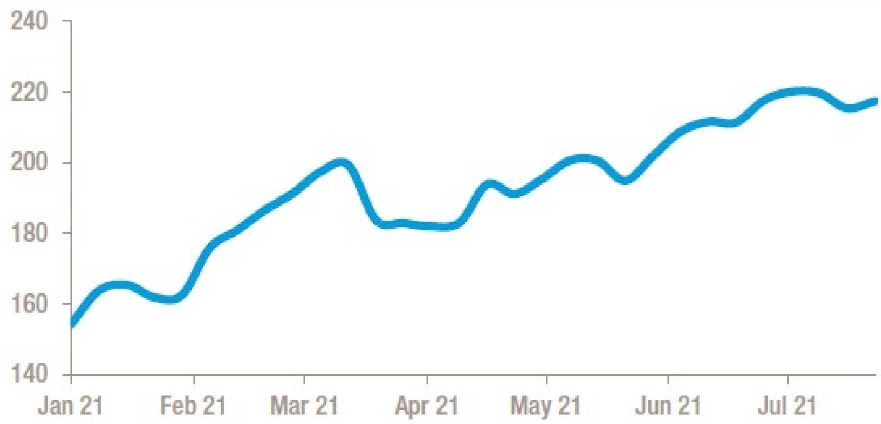
DREWRY EAST-WEST AIRFREIGHT PRICE MULTIPLIER



Note: Comparison of East-West Air Freight Price Index and Drewry's East/West Container Freight Rate Index (converted in to cost per kg: basis 4,500 kg per teu).
Source: Drewry Maritime Research

On top we see an increasing oil-price which adds further pressure on Fuel Surcharge levels. Since the start of 2021, the Jet Fuel Price Index (source Drewry/Platts) has increased by approximately 30%.

JET FUEL PRICE INDEX [2000=100]



Source: Platts

All in all, this will lead to further increasing rates and furthermore, extended transit times should be expected in the coming weeks and months. For the time being there seems to be only one rate direction on the major trade lanes to and from Asia, which is upwards.

OCEAN FREIGHT

In our latest ocean advisory, main focus was on the China port closure of Yantian, on account of a surge in COVID-19 cases among terminal workers. This time around the focus turns to Ningbo, one of the largest ports in the world.

Asian ports remain heavily impacted

A limited number of COVID-19 cases were detected among port operators leading to suspension of operation at one of the terminals in Ningbo port. This terminal represents around 20% of the volume shipped from Ningbo. We do not assess a similar situation as seen in Yantian and caution speculation on this. The terminal suspended its operations in the early hours of August 11, 2021, when the cases were detected and is expected to resume full operation in the coming days.

Elsewhere in Asia, major ports are continuously impacted by congestion and excessive container yard utilization, making little room for an efficient turn-around of containers and operations.

In Busan, increased volumes transiting through the ports and vessels arriving outside planned schedules are expected to last until end of September.

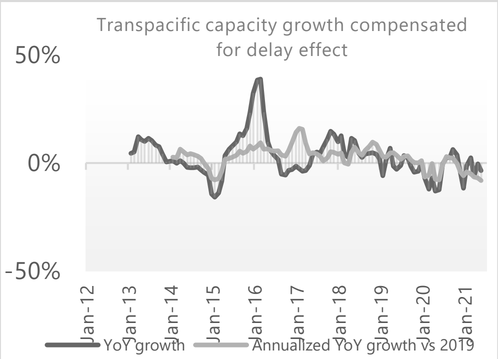
Singapore is also impacted, and this has led Singapore port operator, PSA, to prioritize loading of containers on vessels, rather than offloading containers for import or with purpose of transhipment.

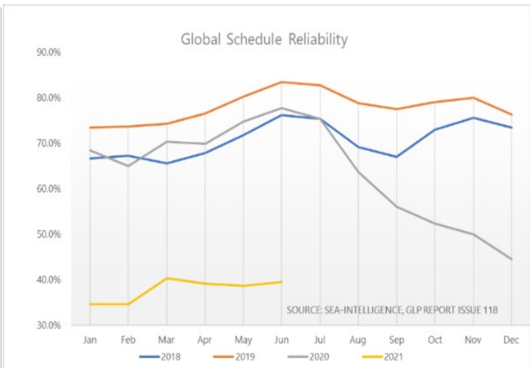
Continued red alert mode

A report[1] from shipping consultants Drewry, outlines global port capacity is projected to increase by an average of 2.5% annually until 2025. With global demand growth expected to exceed 5% during the same years, a further and gradual imbalance is expected adding further pressure on the entire market.

Sea-Intelligence, leading provider of ocean freight research and analysis, reports that despite of carriers deploying more vessels in rotation during 2021, net capacity has decreased, as a consequence of port congestion, lack of infrastructure such as shortage of trucks and drivers, rail capacity etc.

Alan Murphy, CEO & Founder of Sea-Intelligence, concludes that building more vessels will not materially solve the problem – partly because vessels ordered today mainly get delivered in late 2023 and in 2024, and partly because injecting more vessels contribute to the bottleneck challenges in ports.





Source: Sea-Intelligence. Link: https://www.sea-intelligence.com/press-room/86-net-capacity-reduction-on-transpac-and-asia-eur

[1] Drewry - Browse Recent Opinion Articles - Acceleration in port capacity investment insufficient to support cargo demand growth

Peak season approaching in the US

Peak season demand is specifically adding to delays at already congested container terminals at key US West Coast ports, driving upwards pressure on ocean freight spot rates to more than USD 20,000 per 40' container.

Congestion at US West Coast ports is all too well known in the industry and has been so for many months. There are currently 29 ships at anchor awaiting berths in L.A. All terminals remain and are expected to continue being extremely congested. Further spike on imports is expected as the peak season approaches, ahead of China's Golden Week and for Christmas products arrivals.

American Shipper interviewed Gene Seroka, executive director of the Port of Los Angeles, who did not bring comforting news on the horizon: Port terminals are full, railroad network is heavily congested, warehouses are full, and vessels are idling outside ports unable to berth[2].

During July, Union Pacific Rail-Road company suspended the California to Chicago connection for a week and BNSF Railway rationed service for two weeks on account of 22 miles of trains idling outside Joliet, Illinois. The temporary cease of service hampered congestion in the port but has eased railroad congestion.

Source: Freightwaves. Link: https://www.freightwaves.com/news/in-the-eye-of-the-congestion-storm-qa-with-port-of-las-gene-seroka

Rate level inflation continues

According to the latest analyse from rate benchmarking company Xeneta[3], the long-term contract XSI index saw a month-on-month increase of 28% for July. It confirms that even the biggest shippers have been unable to hold back the tide of substantial rate inflation for their annual contracts, fueled by the colossal hikes in the short-term market.

It was expected that short-term freight rates would begin to decline at some stage this year, however, with the combination of strong demand across major trades, majority of analysts do not expect any rate easing until after Chinese New Year in February 2022 at the earliest.

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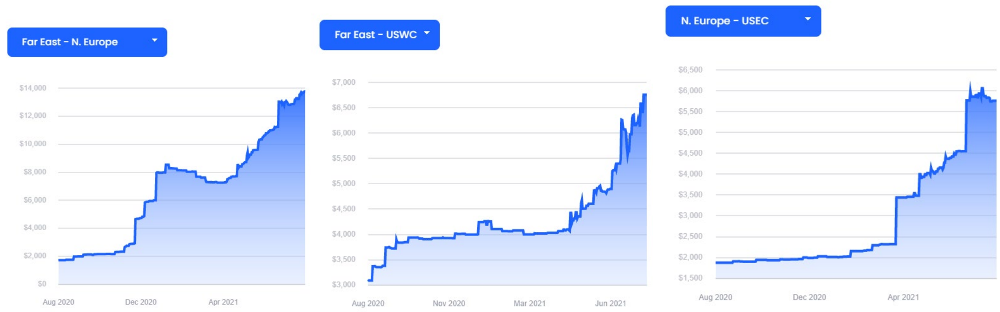
2 https://www.freightwaves.com/news/in-the-eye-of-the-congestion-storm-qa-with-port-of-las-gene-seroka

3 https://www.xeneta.com/news/container-rates-alert-shippers-stunned-as-long-term-rates-surge-by-almost-30-in-a-month

Drewry's World Container Index (a benchmark index of eight East-West trades) rose by a further $600 per 40ft container over first three weeks of July:



Source: XSI benchmark, link: https://xsi.xeneta.com/

Container carriers are managing capacity on a week-to-week basis, assigning priority to the most profitable trade lanes. The Transpacific has been the priority with significant capacity additions to meet the current extreme demand, which in turn is sparking rate increases on competing trade lanes, such as Asia-Europe. The Transatlantic trade being one example of a trade that is seeing increasing rate levels more on account of capacity being pulled out due to same capacity being utilized on other trades, and not because demand is high on the trade itself.

Shippers fury as rates continue upwards!

US regulator Federal Maritime Commission has raised enquiries with eight ocean carriers on the practices related to the levying of certain surcharges, specifically aimed at US markets. It said, "In reviewing ocean carrier responses, the Commission will determine if surcharges were implemented following proper notice; if the purpose of the surcharge was clearly defined; if it is clear what event or condition triggers the surcharge; and is it clear what event or condition has been identified that would terminate the surcharge"[4].

The enquiry is launched in the wake of several additional surcharges implemented amidst record reaching freight levels. New surcharges such as "Customer Freight Activity (CFA) charge", "Service Disruption Surcharge" has recently been introduced by carriers as a response to the extreme demand for container freight capacity.

Lastly, the first lawsuit has emerged with US furniture shipper MCS Industries having filed a lawsuit with the FMC against MSC and Cosco for "unjustly and unreasonable" exploiting customers and has colluded to manipulate the market. It is still too early to speculate in the potential consequences of this, however, it shows how chaotic and painful the situation has become.

RAIL FREIGHT

Rail freight is thriving volume wise with a significant and continuous increase in booked volumes, primarily driven by the elevated ocean freight rate levels and lack of ocean capacity. This, however, has expectedly sparked congestion at key hub and border

[4] https://www.fmc.gov/commission-questions-shipping-lines-about-surcharges/

points, connecting Asia with Europe and schedule reliability has worsened accordingly, resulting in significant delays. Adding further pressure on the situation, significant rail track construction will commence in Poland during August, leaving track capacity at merely half of the full network of tracks.

Lack of rail wagons and a general container shortage is also impacting the situation and we have for this reason adjusted our traffic light update for rail freight to red.

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)	🔴	🔴	🔴	⇧
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)	🟡	🟡	⇨
Europe-Asia (Eastbound)	🟡	🟡	⬀
Europe-US	🟡	🟡	⇨
US-Europe	🟡	🟡	⇨
Asia-US	🔴	🔴	⇧
US-Asia	🔴	🔴	⬀
Intra-Asia (incl. AU)	🔴	🟡	⇨

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