



ADVISORY: MARKET OUTLOOK

AIR | OCEAN | RAIL

SCAN GLOBAL
LOGISTICS

MARCH 26 2021 #4

Red alert for global shipping continues

Dear valued customer,

Let us jump right to it since it is the talk of the town: one of the largest container ships in the world, the MV Ever Given, operated by Evergreen, has run aground in the Suez Canal and is still blocking the canal in both directions. The incident will put further strains on supply chains around the globe, and Murphy's law is probably the best way to describe this incident which comes on top of many months of misery for shippers and consignees around the world.

It is ocean freight that continues to take the headlines with historic high freight rates, where record after record is being broken. At the same time, the industry is experiencing a historic low on-time schedule reliability, let alone being sure that containers get loaded on the intended vessel.

We assess that this will be the picture at least for Q2 and Q3, which is supported by low inventory levels relative to sales and the expected consumer demand. Analysts see no signs of consumer spending dropping short or mid-term with most governments' financial stimulus packages sustaining this.

On the other hand, we see a somewhat stable airfreight market where disruptions and delays are significantly less.

On a further positive note, the rail freight market situation from and to Asia has improved significantly with only minor challenges.

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 makes a real difference in finding the optimal solutions.

We recommend that you take special notice of our traffic light update. Note that all information is given to the best of our knowledge and is prone to change.

Enjoy the reading!



AIRFREIGHT

The airfreight market is overall fairly steady, with this trend expected to continue in the coming months. Demand is healthy, but despite the lack of capacity compared with pre-COVID-19, solutions can be found, both when it comes to exports ex Asia to Europe and US, as well as exports from Europe to Asia.

The distribution of COVID-19 vaccines is still gearing up. It is yet to affect the airfreight cargo industry in the massive manner predicted a few months back, and the outlook now is that there will be no major impact from this.

Overall rate levels ex Asia are still some 125-150 % higher than the same period last year, and it is not expected that we will see pre-pandemic rate levels any time soon.

Our conclusion is still that we are well into a "new normal" where the needed solutions are available in the market, and volume and capacity are bouncing back. Volatility is still apparent, and rate levels remain at a high historical level for the same reason.

Related to the Suez Canal incident, a short-term increase in volumes is expected as customers turn to other transport modes mitigating ocean freight delays.



OCEAN FREIGHT

Pre-Chinese New Year, it was the hope that we slowly but surely would return to more stable market conditions within ocean freight. Still, despite the worst chaos having subsided on the world's two largest trades being Asia-Europe and Asia-US, rate levels remain inflated, port and ramp congestion, especially in the US, worsens day by day, and lack of container equipment remains just some of the challenges.

Ocean carriers across have posted record financial results in Q4, with this expected to continue in 2021. There are now firm indications that ocean carriers will utilize a substantial part of the earnings to invest in new container equipment and container vessels. These investments are coming a little too late. There is no outlook that this materially will help improve the situation short/mid-term - summing up the expected normalization will take time, and volatility remains on the menu.

Pricing

As informed in the latest advisory worst chaos in Asia has subsided, also validated by decreasing rate levels on Asia-Europe during recent weeks. However, if there was a glimmer of hope that it would be a quick return to the old days, this hope is gone for now. Rate levels are stabilizing, with SCFI levels remaining at + USD 7.300 for a 40' container from Asia to Europe, with this being some 300 % above pre-COVID-19 level, and latest today SCFI increased 77 USD/ teu on this trade.

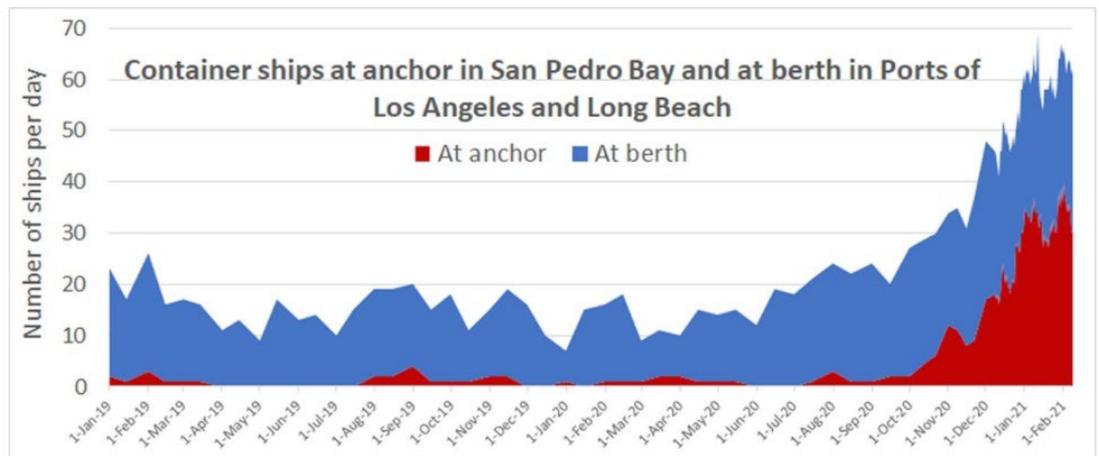
On US-Europe trade, a number of ocean carriers have implemented a complete booking stop, and on top, Peak Surcharges and General Rate Increases are introduced at a rapid pace. This trade now remains one of the most challenged within global shipping.

Capacity

The container equipment situation remains critical; however actual vessel capacity now also poses a significant challenge with all carriers operating near fully booked vessels.

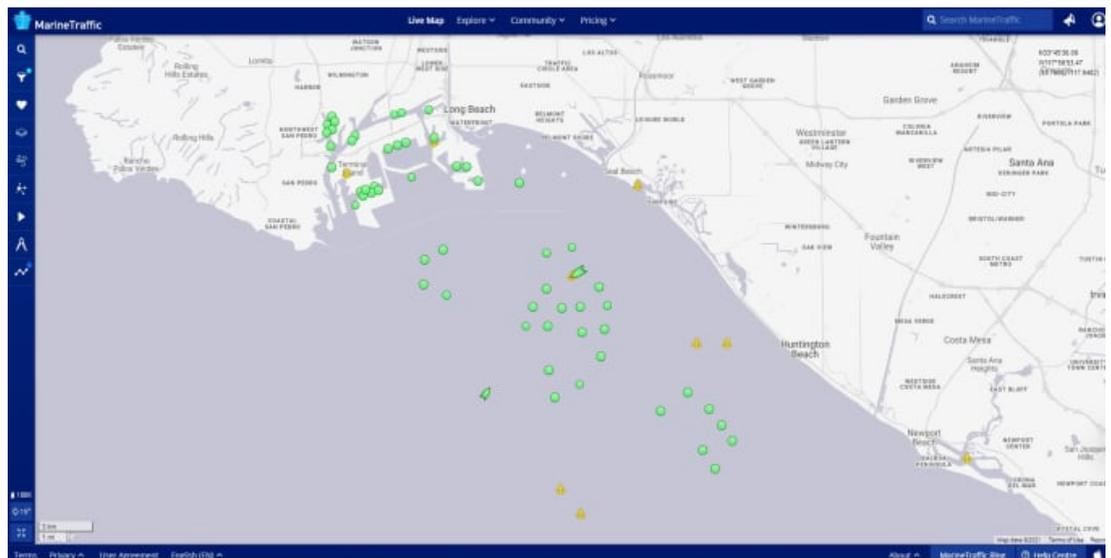
The picture seen on Asia to Europe/US trades has now spread to Europe-US, where the Trans-Atlantic trade is in red alert mode. Overall, US port congestion and ripple effects from the same look to continue and represent an infrastructural challenge that goes deeper than the impact of COVID-19.

The below chart illustrates the dramatic increase in container vessels anchoring outside Los Angeles not able to berth upon arrival. As we speak, there is no indication that this will change any time soon.



(Chart data: Marine Exchange of Southern California. Data bi-monthly Jan 2019-Nov 2020; daily Dec 2020-present)

Graph from: <https://www.freightwaves.com/news/new-video-shows-massive-scope-of-california-box-ship-traffic-jam>



Graph from: <https://www.cnbc.com/2021/03/05/retailers-pay-more-to-fly-bikes-to-hot-tubs-from-china-as-backup-at-us-ports-delays-deliveries.html>

Many US companies, especially retailers, turn to airfreight to minimize the impact of delays, allowing them to keep up with consumer demand with the price differential also being less, considering the elevated ocean freight rates.

The major point within global shipping has shifted from Asia to the US, and as in the year 2020, there will be ripple effects from this on other trades. Increased dwell and delivery times on the inland side have the obvious consequence that containers are not emptied at the normal pace, and accordingly, this leads to disruption on the repositioning of empty containers.

We recognize the impact this has on your supply chain both in terms of potential delays as well as cost impact. We are working 24/7/365 to minimize the effects of this and not least offer alternative solutions and price models that will allow you to have full transparency and control of both lead-times and costs.



RAIL FREIGHT

Overall, a significant improvement within rail freight with minimal disruptions, especially Westbound, enjoyed more stable operating conditions than months before the Lunar New Year.

We do though, expect that the Suez Canal incident will trigger a significant increase in demand on Asia-Europe to mitigate further delays. We encourage you to consider rail freight as a fixed alternative to ocean freight, also considering the historic high ocean freight rate levels.

On behalf of

Scan Global Logistics

Mads Drejer
Global COO of Air, Ocean & Rail



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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)

70%-100% of normal capacity
30%-69% of normal capacity
Less than 29% of normal capacity

EQUIPMENT

No challenges
Medium challenges
Major challenges

SCHEDULE RELIABILITY

No challenges
Medium challenges
Major challenges

PRICE DEVELOPMENT

⬆ Up
➡ Stable
⬇ Down



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AIRFREIGHT

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Europe-Asia (Eastbound)	●	●	●	→

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SCHEDULE RELIABILITY

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PRICE DEVELOPMENT

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Major challenges

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↓ Down