MARKET INSIGHTS

Global Logistics Update

August 18, 2022

State of Global Trade

Global export data suggest the pace of global trade is starting to slow considerably. New export orders have decreased in all markets amid sustained inflationary pressures. S&P Global Market Intelligence expects the slowdown in global trade will continue in the following quarters, with the potential for contraction later this year in some economies. The firm said, despite the slowdown, recent values and trends remain above levels observed before the pandemic and trade growth is still far from being negative.

Global consumer spending habits continue to shift as inflation takes hold and consumer confidence drops to the lowest on record. Consumers are cutting back on expensive luxury items and buying daily necessities instead.

According to trade analyst Jon Monroe, U.S. retail trade has been "hard hit" by the inflationary pressures, with product "not moving off the shelves quick enough." As a result, most of the big retailers are limiting deliveries. The National Retail Federation (NRF) has revised its forecast for the remainder of the year and now expects imports will decline slightly in the second half of the year, with the potential of a deepening decline in early 2023. Despite concerns over inflation and recent spikes in gas prices, the NRF expects total 2022 retail sales will grow 6% - 8% over 2021 and that declines in monthly retail import volumes in 'H2 will range from flat to down as much as 4% versus last year. Another contributing factor to the potential slowing of imports, according the NRF, is that "many retailers brought in cargo early and shifted to East and Gulf Coast ports to avoid any potential disruptions related to [ILWU] contract negotiations."

China has put several more cities and tens of millions of residents under new lockdowns while the country is going through its worst energy crisis in decades that has already slowed or halted production in several major manufacturing hubs across the country. According to Chinese media, a new wave of COVID has swept through 25 of the country's 31 provinces, spanning from the southernmost province in Hainan to Xinjiang in the north and Tibet in the West. Total lockdowns in Wuhan (home to 500 factories, which include optical-electronics, automobile, biotech, and iron and steel manufacturing) and Yiwu (the world's largest wholesale hub located in the Zhejiang province) are set to disrupt the global supply chain. Localized lockdowns have been implemented in Shenzhen, which are impacting cross-border shipments with Hong Kong. While the localized lockdowns in Shanghai are expected to have a minimal impact on supply chains, factory closures throughout the city due to power rationing, will have a significant impact (please refer to the Energy Rationing section on the next page for more details).

The production shift from China to South Asia continues to accelerate as Beijing's draconian COVID policy dents confidence. The trend was already underway among bigger brands, but now we're starting to see SMEs join the search for alternative supply chains.

Meanwhile, China's military exercises near Taiwan are causing worsening delays across the Taiwan Strait as vessels and aircraft avoid the area.

The U.S. continues to ramp up diesel exports despite muted production levels. In July, the U.S. exported 1.4 million barrels a day to Europe, China, and South America - the highest amount in five years. Meanwhile U.S. distillate inventories have declined in 66 of the last 109 weeks and have plummeted to critically low levels. The Department of Energy has also reported a sharp decline in oil inventories in the strategic petroleum reserve, which has fallen to its lowest level since 1985. The situation is likely to worsen in the coming weeks with the harvest season in the Midwest looming and will most certainly rise further as we head into the winter months unless steps are taken to increase drilling and production.

Global Recession Ahead?

The robust growth seen over the past few years looks set to decelerate over the next few quarters as major developed economies enter recessions amid a global economic slowdown.

In the U.S., interest rate traders are now anticipating that a recession is virtually certain after recording two quarters of negative growth. In an effort to keep inflation down by controlling spending, the Federal Reserve raised interest rates again in late July, this time by 0.50%. The Biden Administration has also signed the **Inflation Reduction Act** (AKA Climate Legislation) into law, which will raise taxes on everyone making less than $400,000 and unchain a fiercer IRS who will be given $80 billion - more than six times the

State of Global Trade (Cont'd)

current annual IRS budget - to increase enforcement and audits efforts, which have historically been geared towards middle- and lower-income earners.* The Inflation Reduction Act will have the same effect on the American economy as the Affordable Care Act had on healthcare - and would most likely be even worse. Meanwhile, the IRS also seems to be ramping up its policing power after recently snapping up 5 million rounds of ammo, which has prompted several representatives to introduce the **Disarm the IRS Act**.

And the U.S. isn't alone. The governor of the Bank of England has forecast the British economy will enter a recession before the end of the year and other major European economies are likely to follow suit as surging inflation and energy prices dampen business and household spending. The Chinese economy is also struggling amid the repeated lockdowns - and the continued fallout from the collapse of property giant Evergrande - as evidenced by dwindling import numbers. While exports held up well in July, thanks to a backlog of orders being cleared, cargo volumes have begun declining due to cooling demand and a slow peak season start. The economy has also been marred by rural bank defaults, frozen bank accounts totaling roughly $6 billion dollars, and homeowners across China are boycotting mortgage payments. Recessionary pressures will also propagate through countries that are major global suppliers, including Brazil, Indonesia, Japan, Mexico, Thailand, Turkey, and Vietnam.

Energy Rationing

- Norway threatens to cut electricity exports to prevent domestic shortages this winter
  - Norway is one of Europe's top exporters of electricity, and the lack of rainfall across the region has hit the country's production of hydroelectric power
- China rations electricity to factories across the country as demand surges amid heatwave, significantly reducing output levels
  - Factories in Shanghai and Chongqing have completely suspended production
  - All factories in the Sichuan province - home to major electronics, semiconductor, and solar panel industries and a key lithium mining hub (a component of electric car batteries) - have been ordered to shut down for six days to conserve energy, beginning **August 22**
  - Factories in Ningbo, Wenzhou, Yiwu and the Jiangsu providence will only be allowed to work 3 days a week until further notice
- Spain bans people from having AC below 80°F
- EU also asks the 27 member states to consider introducing gas rationing measures this fall
- Shell CEO warns Europe may need to ration energy this winter
- Egypt to ration electricity by 15% to boost gas exports to generate foreign currency
  - Under the new rules, shops and malls be required to limit their use of strong lights and keep air conditioning above 77°F, ministries and government facilities will have to run lights off at the end of working hours, and street lighting will be reduced
- Africa plunges into darkness amid rolling blackouts to conserve electricity

Major Disruptions

The rising cost of living and food / diesel shortages spark mass protests around the globe. According to a special U.N. task force, over 60 countries around the world are struggling to afford food and essential imports.

- The rising cost of living in the UK have given rise to a civil disobedience movement
  - Over 95,000 protestors across the country are expected to stop paying their energy bills in protest of the increased energy price cap which takes effect on October 1
  - Trade unions, community groups, and politicians launch a new campaign group, *Enough is Enough*; plan a series of 50 rallies across the country beginning this week
  - Workers across the country, from rail, maritime, and transport workers to postal workers and coffee barristers, are planning walkouts over pay
  - There are also increasing numbers of "wildcat" strikes, especially at industrial plants and factories
- Indian police detain dozens of Congress MPs during a nationwide protest over soaring unemployment, food and fuel prices, power cuts, and increased taxes
  - Electricity workers stage a nationwide strike/protest on August 8-9 to denounce the proposed Electricity Bill
- In Bangladesh, angry protests have erupted across the nation after a 52% hike in fuel prices
- UN human rights experts condemn Sri Lanka's prolonged, repeated use of emergency measures to crush peaceful protests amid the country's deepening economic crisis
  - The protest movement continues to grow, with its focus now turning to removing the newly appointed, illegitimate president Ranil Wickremesinghe

*Forbes, *The Inflation Reduction Act Unleashes a Tougher IRS*

State of Global Trade (Cont'd)

Announcements

- U.S. Customs and Border Protection announces changes to customs user fees, effective **October 1, 2022**
  - The minimum Merchandise Process Fee for formal entries (class code 499) will increase from $27.75 to $29.66, while the maximum fee will increase from $538.40 to $575.35
  - The fee for automated Informal Entry/Release (class code 311a) will change to $2.37 for entries not prepared by CBP personnel
  - The surcharge for Manual Entry/Release (class code 500) will change to $3.56
  - The Dutiable Mail fee (class code 496) will change to $6.52
  - The Express Consignment Carrier/Centralized Hub Facility fee will change to $1.19 per individual waybill/bill of lading
  - The Commercial Vessel or Commercial Aircraft Passenger Arrival customs fee will change to $6.52 per passenger
  - The Commercial Vessel Passenger Arrival (from exempt areas) customs fee will change to $2.29 per passenger
  - The Commercial Truck Arrival fee will change to $6.50
    - The Commercial Truck Arrival Fee is the CBP fee only and does not include the USDA Animal and Plant Health Inspection Service (APHIS) or the (AQI) Services Fees
- The Department of Transportation has issued a final rule that will amend the Federal Hazardous Materials Regulations to maintain alignment with numerous international standards, effective **August 25**
  - The new amendments will cover changes to proper shipping names, hazard classes, packing groups, special provisions, packaging authorizations, air transport quantity limitations, and vessel stowage requirements
- U.S. to limit exports of technologies that support the production of advanced semiconductors and turbine engines to cut "nefarious" military and commercial use
- New ACE functionality will allow users to electronically view and track outstanding refund status and history
  - CBP will deploy the new report on August 29, but the report will only show outstanding and dispersed refund data processed after August 29

Upcoming Global Holidays

Holiday	Country	Date(s) Observed
National Day	Vietnam	September 1
Labor Day	United States and Canada	September 5
Mid-Autumn Festival	Taiwan	September 9
Mid-Autumn Festival	China and South Korea	September 10 – 12
Independence Day	Mexico	September 16

Requests for Public Comments

- The Federal Railroad Administration is seeking public comments on a proposed rulemaking that calls for a minimum of two main crew members for over-the-road railroad operations nationwide
  - Comments on the proposed rule must be received via www.regulations.gov by **September 26**
  - Docket # **FRA-2021-0032**
- The Federal Maritime Commission is seeking public comments on a proposed plan for gathering import and export information from ocean carriers as [art pf mew regulations in the Ocean Shipping Reform Act of 2022
  - Written comments must be submitted to omd@fmc.gov on or before **October 7**

Forced Labor Update

- U.S. Customs detains solar panel shipments from China as authorities crack down on human rights abuses in China's Xinjiang region
- U.S. Customs and Border Protection has issued a Withhold Release Order prohibiting imports of garments made wholly or in part by Natchia Apparel Ltd. In India
  - Importers of detained shipments will have 90 days to export the merchandise or contest the detention based on evidence the products were not made with forced labor

Air Freight

Market Expectations, Space, Volume, and Rates

CAPACITY EQUIPMENT RATES

The airfreight market continues to face significant headwinds amid sector-wide staffing shortages, flight disruptions, strike actions, high fuel prices, and subdued volumes.

Air cargo volumes have dropped for the last four consecutive months after seeing huge gains in 2021. Reduced factory output in China due to Beijing's draconian COVID policies and forced power cuts have thrown in another curve ball. And while the air cargo industry benefitted the last two years from the modal shift from ocean amid chronic bottlenecks, the trend started to reverse in Q2 as the cost of container shipping eased, further reducing demand.

Schedule reliability continues to be disrupted by the massive flight cancellations, re-directions, and reductions, owed to a shortage of crews, that have roiled the air cargo market in recent weeks. As a result, shipper concerns over reliability and consistent capacity has led to a shift toward all-cargo carriers. Cargo operations at key hubs have experienced of shortage of ground handling crews, resulting in significant backlogs and missed loadings. Pilot and crew strikes across Europe demanding better pay and working conditions have further disrupted the aviation industry this summer, with more strikes planned over the coming weeks. To alleviate the disruptions, key hubs in Europe have introduced capacity limits.

Overall, spot rates have softened due to the increased capacity, but remain elevated compared to pre-pandemic levels, indicating the market has yet to bottom out.

The market remains optimistic about this year's peak season, although many expect it won't be as strong as they were in the last two years. As belly capacity is expected to be reduced in Q4 as passenger travel declines, freighter capacity will likely continue to dominate the market. The sudden reduction in capacity will likely elevate rates.

Asia – U.S. / Asia - Europe

Air freight volumes out of China to all destinations continue to decline amid weaking demand. As a result, carriers have cancelled several flights to North America and Europe. The market out of Shanghai is currently operating at about 80% of normal capacity. Cross-border operations between Shenzhen and Hong Kong have been impacted again by capacity quotes amid another COVID outbreak, and shipment transit times are experiencing delays of two – three days. Rates to all destinations have slumped from the historic highs seen just a few months ago.

Westbound Transpacific volumes remain strong, with rates dropping due to the increased capacity.

From Europe, demand and rates continues to decline due to summer holidays and is expected to begin picking up again in mid-September.

The Taiwan and Korean markets remains stable with rates at steady levels. Increased passenger travel to San Francisco and New York has resulted in decreased belly capacity and payloads.

The Indian market remains tight, particularly for U.S. exports to Bangalore, Chennai and Hyderabad, and continues to put pressure on rates.

Demand in the Southeast Asian markets continues to remain soft with rates normalizing to pre-pandemic levels. Carriers continue to cancel flights from Vietnam due to low market demand.

U.S. - Europe

Demand remains steady for U.S. exports. Summer holidays in Europe have softened demand, which is expected to ramp up by mid-September. The return of passenger travel has boosted capacity on this tradelane and softened market conditions. However, after massive numbers of last-minute flight cancellations in July due to staffing and fuel shortages, major airlines have trimmed their schedules through October. In addition, some European airports have implemented capacity caps on passenger and cargo planes due to a handling restrictions amid a significant shortage of ground handling crews. As a result, backlogs at origin continues to grow and shipments into Europe may experience additional destination dwell time.

Rates ex-European hubs are trending downward, despite high fuel prices, while rates into Europe remain stable. Freighter cargo may see higher spot rates compared to belly cargo as freighter providers pull away from Transatlantic routes.

Some airlines have placed embargos on certain perishable commodities due to the instability of flight schedules amid the labor shortages.

Shippers are advised to book early and build pallets below 160CM in order to secure the best uplift options and routings.

Air Freight (Cont'd)

Canada

Demand remains steady from all markets. While capacity is up due to the increase in passenger travel, a heavy travel season in Canada is straining the infrastructure at major airports, which is impacting cargo operations. Shippers should expect longer than normal dwell times for both import and export cargo. Rates between the U.S. and Canada remain stable, while rates from Europe are trending down.

Latin America

The return of passenger planes to Mexico and Brazil has brought much needed capacity on these tradelanes, but especially from Europe. Some airports in Brazil remain heavily congested, resulting in shipment delays. Despite the additional capacity, rates remain elevated due to fuel prices.

Oceania

Demand on the Oceania and North America / Europe trades remains relatively strong, while capacity remains tight due to flight frequent adjustments and cancellations. Rates on all routes have begun to taper off.

Major Disruptions

- Major airlines continue to slash flights across the U.S. and Europe amid labor shortages and strike actions
  - Ground handling agents at major airports are facing heavy backlogs and congested terminals, with shipments delayed one to two days before being released to customers
  - In addition, truckers are reporting wait times of up to 10 hours to retrieve loads
  - Many flights have been diverted from Frankfurt to Amsterdam due to airport handling restrictions
- Air New Zealand to cut capacity over the next six months as it confronts its highest levels of crew sickness in over a decade
- Amsterdam's Schiphol and London Heathrow extend passenger capacity cap through October
- Lufthansa and British Airways pilot unions are currently holding a vote on whether to hold a strike action
  - The move would inevitably lead to reductions in both the airlines scheduled passenger and cargo services
- Portugal's airport workers to stage a three-day strike over pay and working conditions, from **August 19 – August 21**
  - The strike action will affect 10 airports across Portugal, including Lisbon, Porto, and Faro
- Ryanair cabin crews in Spain have called for weekly strike actions to put pressure on the airline for higher pay and better working conditions
  - The strikes will take place from Monday to Thursday every week from **August 8 - January 7**
  - The unions are also calling for employees fired during previous strike actions be reinstated and disciplinary actions on other striking employees be dismissed
- EasyJet pilots to hold a 9-day strike action over working conditions and pay
  - The strikes are expected to take place **August 12 – 14, 19 – 21 and 27-29**
- More strike actions are likely in the coming weeks as contract talks continue to break down

Announcements

- Lufthansa Cargo deploys more freighter capacity between Frankfurt and North America, Asia
- Korean Air increases international capacity in August to meet growing demand; expects to be at 50% of pre-pandemic levels by September
- JetBlue announces new services from Boston to London
  - The airline has begun daily flights Boston to London Gatwick
  - JetBlue will off from Boston to Heathrow starting in September
- Air Canada to add additional freighter and passenger flights out of all major gateways
- Finnair to offer three weekly services connecting Helsinki and Mumbai
- Vietnam Airlines to launch new freighter unit
- LATAM Cargo gears up to increase flights to Europe and the U.S. with the addition of a new B767 freighter
  - New routes include Amsterdam via New York and Miami to Bogota, Amsterdam via New York and Miami to Sao Paulo and Bogota, and Amsterdam via Madrid to New York and Miami and Bogota
- Air France to launch two daily flights between and Newark, NJ beginning in December

Ocean Freight

Market Expectations, Space, Volume, and Rates

The peak season, which traditionally starts August, is already showing signs that the economy is winding down. Early August global import data suggests a significant drop-off compared to the same time period last year. Despite the in continued blank sailings, carriers are struggling to fill space allocations on many tradelanes, especially to Europe, amid considerable uncertainties related to widespread inflation, rising oil prices, and geopolitical tensions. Looking at the U.S., future bookings data tracked by FreightWaves show that container volume from all Chinese origins is down to all U.S. destinations, reflecting a slowdown in consumer spending.

Port congestion continues to increase globally. Traffic jams along the U.S. East and Gulf coastlines continue to grow and have now surpassed the previous peak seen in early 2022. Chronic congestion across North Europe continues to worsen, with Belgium, the Netherlands, Germany, Spain, and Italy particularly hard hit. Despite weakening demand, ports across Asia are also facing severe berth congestion, with average wait times exceeding 5 days.

Consequently, schedule reliability continues to suffer on all tradelanes. Reports from China show that 67% of vessels are returning late, with round-trip delays from North Europe exceeding 30 days, even with carriers skipping port calls in a bid to reduce delays. The chronic schedule reliability issues, along with equipment shortages, have led to increasing backlogs at North European and South Asian ports, with significant delays reported in the Netherlands, Germany, New Delhi, Hyderabad, Kolkata, and Thailand.

Inland disruptions remain the largest bottlenecks slowing down port operations, exacerbated by a perfect storm of inland capacity issues in both the trucking and rail sectors, industrial actions, labor shortages, and COVID outbreaks. Among the hardest hit are California, New York, Canada, Belgium, Germany, the Netherlands, and the UK.

Overall, spot container rates and premium charges are declining, an indication that the supply-demand scales are shifting back in favor of shippers, while long–term shipping rates are experiencing downward pressure. Demurrage and detention (D&D) charges continue to be a significant expense for shippers. While overall global D&D charges decreased slightly in 2022 from the highs in 2021, some outlier ports - such as New York, Los Angeles, Long Beach, and Shanghai - have seen a 12% increase due to supply chain disruptions.

Shipper should be prepared for volatility in the market in the coming months. Overall demand from Asia is expected to continue softening through the end of the quarter. Blanks sailings are expected to remain at or above 30% as carriers continue to struggle with massive congestion-related delays. Despite the high rate of blanked sailings, rates are expected to decrease over the coming weeks.

CAPACITY ↑ EQUIPMENT → ↓

Asia – U.S. / Asia - Europe

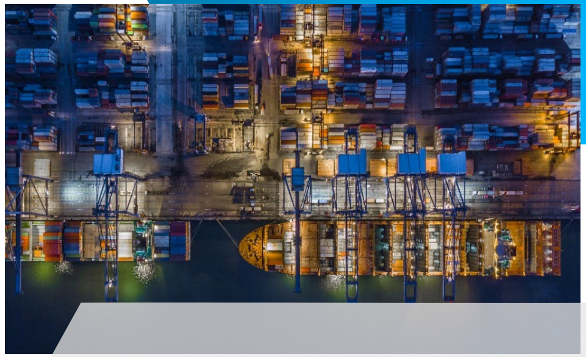
Despite being in the peak season, China's exports have stalled amid lockdowns and forced factory power cuts. Total Chinese exports declined 2.9% last week from the previous week, while volumes at the port of Shanghai are down 19% since July.

On the Transpacific trade, demand continues to wane to West Coast destinations, with volumes dropping 12.8% YOY over fears of stalling ILWU labor negotiations and significant bottlenecks / shortfalls with rail transport. East and Gulf Coast volumes continue to experience record growth, with carriers adding 18.9% more capacity over the same period last year. On the backhaul, capacity has constricted as carriers continue to prioritize the return of empty containers over loaded export containers. The situation is particularly acute in New York/New Jersey, prompting the port to implement a policy that penalizes carriers for refusing to take export containers.

On the European routes, carriers are struggling to fill their ships as consumer confidence drops to an all-time low amid a worsening economic outlook. On the backhaul, capacity is relatively open as carriers push to return equipment to Asia, as reflected in declining spot rates.

Container spot rates are falling fast on most routes out of China despite widespread blank sailings. Rates have plummeted to the U.S. West Coast and the Mediterranean amid softening demand. Carriers have been able to mitigate some of the rate erosion on tradelanes where there are pockets of congestion, especially on the U.S. East and Gulf Coasts and North Europe trades.

Despite the economic turmoil in Sri Lanka, the Port of Colombo continues to function normally, although at significantly reduced capacity due to port omissions and blanked sailings. As a result, there is a slight backlog at origin. Fuel rationing has significantly affected inland transport, with days-long queues at the pumps reducing capacity. Rates remain unchanged since last month.



The market out of Indonesia remains stabile, with carriers operating on normal schedules. Rates have slightly decreased, especially on the U.S. trade.

Ocean Freight (Cont'd)

Volumes from South Korea to the U.S. and Europe continue to grow after a robust July, which saw outbound shipments rise 9.4% over the same period last year. Overall rates remain stable, but we are starting to see rates moderately decline on some trades.

On the India trade, schedules have normalized from Bangalore, Chennai, and Mumbai, but schedules from New Delhi, Hyderabad, and Kolkata are highly volatile and subject to change at short notice. Some rollovers have been reported at transshipment hubs. On the India to U.S. East Coast trade, space continues to ease and rates have declined to reach early 2021 levels. On the India-Europe tradelane, space remains tights as carriers continue to blank sailings. Overall rates to Europe continue to fluctuate on a daily basis, but we are starting to see reduced rates from Bangalore.

Space from Vietnam remains extremely tight, especially to North America where carriers are only releasing space on high premiums. Vessels schedules are subject to change, often without prior notice, due to vessel delays at transhipment hubs. While spot rates are moderating, freight rates are expected to remain high into 2023 as ship leases from foreign partners are about to expire and will likely lead to reduce capacity.

To all destinations from Bangladesh, space is extremely limited, and carriers are only releasing allocations on high premiums. Vessel schedules are subject to change due to severe congestion at transshipment hubs, often without prior notice.

Cargoes from Cambodia are experiencing delays of 2 -3 weeks due to backups at transshipment hubs. While the space situation is improving to all destinations, carriers are limiting the number of containers customers can send to the U.S. on each sailing. Rates have fallen slightly to both U.S. and European destinations.

U.S. - Europe

Demand on westbound trade remains stable and space remains tight, especially from Houston and the U.S. West Coast due to service reductions. Across the pond, demand is expected to be lower through the end of the month due to European factory closures but is expected to pick up again in September.

The decline that shippers were seeing in spot rates on the Europe to U.S. haul has reversed, with prices edging up again due to severe congestion in North Europe and the U.S. East Coast. The rising congestion levels are impacting schedule reliability, and exports bound for the U.S. are running at least two months late. On the backhaul, rates are flat month over month. Importers and exporters are advised to book at least 4 or more weeks prior to cargo ready date. For westbound shipments, premium services are suggested to ensure higher reliability and no-roll.

Canada

Vessels calling on Vancouver continue to face significant delays due to labor shortages and limited inland transport capacity. As a result, the port is metering vessels based upon mode of inland transport. Labor shortages in Montreal continues to hinder port operations and severe congestion has been reported. Lengthening berthing delays are expected to continue over the coming weeks.

Latin America

Services to the South American east coast have been impacted by congestion and COVID-19 implications, but space has remained open. Meanwhile, carriers continue to suspend service offerings to the west coast due to severe congestion at transhipment hubs, and shippers are advised to book 6 weeks in advance of cargo ready date to secure space allocations. Spot rates are seeing a slight decline.

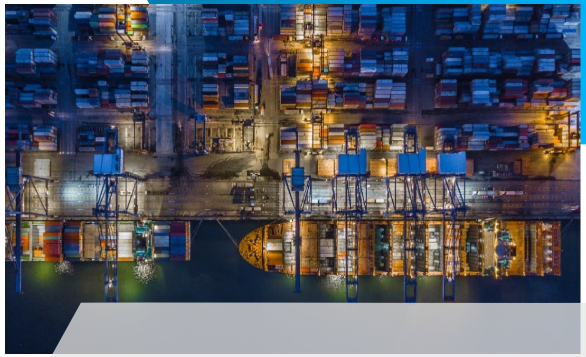
Exports from South America have strong demand. However, adverse weather conditions, inadequate port/terminal infrastructure, equipment shortages, and port omissions are keeping the market relatively tight to most destinations.

Oceania

Unusually bad weather has forced closures in Sydney, while vessel bunching and labor shortages are contributing to delays in Auckland.

Space remains extremely tight on Oceania - U.S. trades. In addition, space constrains on the Asia-Oceania trade are limiting options for transshipment services. Spot rates remain at record high levels.

North Europe - Mediterranean - Oceania (NEMO) services are experiencing heavy vessel delays, and as a result, weekly rotations changes are expected to continue through the end of the quarter. Strong market conditions are expected to endure, along with the elevated rate levels on direct service.



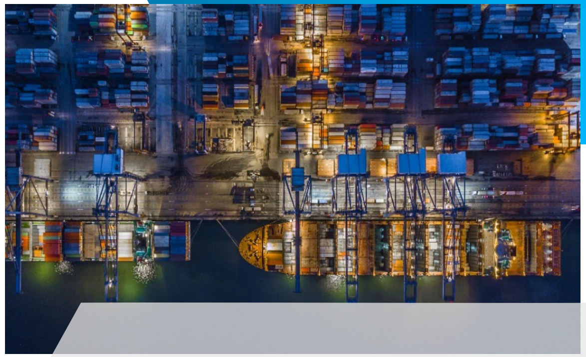
Ocean Freight (Cont'd)

Major Disruptions

- The Port of New York struggles to process cargo as weekend gate hours go unused and containers pile up; Trucker availability and limited space at warehouses and container yards have contributed to the low weekend turnout rate
- The Port of Los Angeles warns of a nationwide logjam, unless immediate action is taken by Union Pacific and BNSF to clear the backlog of 35,000 containers clogging up the port - up from 29,000 in July
- Union Pacific joins BNSF in metering the number of containers headed to West Coast ports, causing more container backups in Los Angeles and Long Beach
- Rhine closes to barge traffic as water levels plummet amid a lengthy heatwave
  - As trucking and rail capacities across the region are limited, the river's closure will significantly impact moves between Rotterdam, Antwerp, Germany and Poland
- Maersk shortens import container dwell time at Los Angeles/Long Beach and Newark/Elizabeth to 9 days, down from 14, beginning on **August 8**
  - After 9 days, import containers will be transferred to an off-dock facility
  - Containers with confirmed delivery appointments may also be included if the shipper's appointments are routinely missed or cancelled
- Dockworkers at Felixstowe, the UK's biggest container port, announce strike action from **August 21 – 29**
  - The strike action could disrupt $800 million in trade, increase the backlog, and create more delays that will severely hinder international maritime trade
  - Shipping lines will likely reschedule calls to other ports, such as Southampton and London, to avoid the disruption or delay the arrive of vessels until after the work stoppage
  - In addition, hundreds of dockworkers in Liverpool have overwhelmingly voted in favor of a strike action; the timing and duration have yet to be announced
  - Maersk has announced there will be no moratorium on demurrage and detention charge during the duration of the strike, sparking outrage among shippers
- German dockworkers banned from further industrial action until August 26, court rules
  - More work stoppages are possible after **August 26** as talks continue to fail
  - Carriers are warning customers to expect disruption to continue through August and September, particularly in Hamburg and Bremerhaven
- French dockworkers will begin labor negotiations in September
  - It is expected that the negotiations will be difficult, and many experts anticipate a strike action by the union is very likely this fall
- Cargo volumes on the Red Sea, the main trade route between Asia and Europe, have dropped 21% due to severe traffic jams off German ports
  - Strike actions, capacity constraints and long dwelling containers, which have slowed handling operations, have exacerbated the situation
- New trucking restrictions cause severe congestion at India's Nhava Sheva Port as traffic grinds to a halt
  - Carriers advise shippers to plan shipments in advance to avert cargo gate-in delays, rollovers
- A small containership, the MAYA ,capsized, sank at Tokuyama Shimomatsu Port in Japan
  - Some 100 containers were lost overboard, and one crew member was taking to the hospital with non-life-threatening injuries

Announcements

- FMC sets up new enforcement bureau – the Bureau of Enforcement, Investigations and Compliance (BEIC) - to enforce the Ocean Shipping Reform Act 2022 and closely scrutinize the conduct of ocean carriers
- MSC implements new Hazardous Surcharge for low-risk, medium-risk, and high-risk commodities on shipments between the U.S. and Puerto Rico to the Indian Subcontinent, Middle East, and Red Sea, based upon IMDG Packing Group
  - Low Risk (PG III): $250 per TEU
  - Medium Risk (PG II): $500 per TEU
  - High Risk (PG 1): $800 per TEU
- The Port of New York / New Jersey imposes new fee on ocean carriers to clear container congestion, effective **September 1**
  - The $100 Container Imbalance Fee will be applied to all long-dwelling import and export containers
  - In addition, the port is setting mandatory export container levels that must equal or exceed 110% of incoming container volumes; if carriers fail to achieve this, they will be charged $100 per container of the imbalance



Ocean Freight (Cont'd)

Announcements (Cont'd)

- Carriers levy hefty surcharges on shipments from India to North America
  - CMA CGM has announced a $1,000 per box penalty on all shipments moving from India to the U.S. and Canada weighing over 20 tons, including the container's tare weight
  - MSC has announced a $2,000 per box peak season surcharge beginning **August 1** and a $1,500 per box general rate increase, effective **August 11**
  - Other carriers, including Hapag-Lloyd, are expected to announce surcharges soon
- Carriers continue to snap up secondhand containerships at astonishingly high costs despite failing freight rates and economic headwinds
  - Are the liner operators seeing something that others cannot?
- Hapag Lloyd to begin installing tracking and telemetry devices across their entire fleet of standard shipping containers at the end of August
  - The devices will track GPS location data, temperature measurement, and sudden vibrations, like shocks, in real time
- ZIM invests in container tracking firm Hoopo, as shippers seek to gain more visibility into their freight movements

Equipment Shortages

- Increasing port congestion and blanked sailings continue to tie up supplies of shipping containers around the globe
- Chassis shortages in the ports of Long Beach, Los Angeles, and New York, as well as inland rail facilities are leading to pick-up and delivery delays
- Equipment availability remains the biggest challenge in Europe, with inland depots and the Mediterranean region hardest hit
- Equipment availability is becoming tighter at southern Indian ports due to the cargo flow disruptions in Sri Lanka, with Chennai and Hyderabad especially hard hit
- Equipment shortages in Bangladesh and Thailand have reached critical levels and are negatively impacting export operations

Port Congestion

Region	Country/State	Vessel Backlog	Wait Times to Berth	Average Container Dwell Times
North America	Boston	0	Normal	Normal
	Los Angeles / Long Beach	18 ↓	3 days ↓	5 – 14 days
	New York / New Jersey	20 →	25 days ↑	8 days
	Seattle / Tacoma	0 ↓	0 days ↓	*
	Oakland	14 ↑	15 - 31 days ↑	26 days
	Houston	23 ↑	16 days ↑	8 days
	Savannah	39 ↓	20 days →	9 - 11 days
	Norfolk	4 ↑	2 - 4 days →	*
	Vancouver		14 – 56 days ↑	2+ months
Asia	Shanghai / Ningbo	* / 192 ↑	10 / 3-5 days ↑	*
	Thailand	38	2 days →	*
	Singapore	117 ↑	3 days →	*
	Australia	5 ↑	2 – 10 days →	*
Europe	Antwerp	* ↑	* ↑	*
	Rotterdam	40 ↑	3 days →	10 days
	Hamburg / Bremerhaven	24 ↑	3+ weeks ↑	*
	Felixstowe	22 ↑	3 days →	*

*Data not available, as ports are not forthcoming with timely data.

ILWU Contract Negotiations

- International Longshoreman and Warehouse Union (ILWU) ILWU and the Pacific Maritime Association (PMA) have reached a tentative agreement on health benefits, an important part of the labor negotiations
- The two sides continue to work on a deal over compensation and automation
- Although both the PMA and the ILWU have assured that operations will continue unhindered, shippers remain skeptical as evidenced by the continued shift away from the West towards East and Gulf Coasts

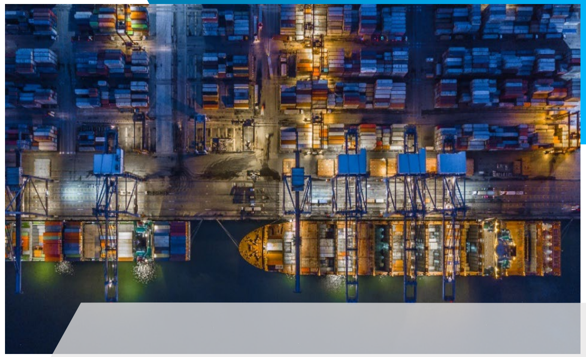
Ocean Freight (Cont'd)

Blank Sailings

- Carriers have ramped up blank sailings from Asia to all destinations, with 25% - 35% of capacity removed from service
  - Amid weakening demand, carriers will look to blank as much capacity as possible over the coming weeks to level out the supply demand equation
- Carriers cut Hong Kong calls as transshipment volumes fall amid tough COVID-19 policies
  - Some experts warn that if the trend continues, Hong Kong will lose its position as a leading transshipment hub for the region
- Carriers continue to blank India - Europe sailings
  - Hapag Lloyd has announced intermittent blank calls between India and North Europe on its IOS service, from August through November
- Carriers have begun cancelling some sailings to Vancouver due to extreme port congestion
  - Some of these blank sailings have been issued with no advance notice from the carriers, often while the vessel is enroute
- As record high numbers of vessels continue to await berth in the North America, Europe and transhipment hubs, cancelled sailings and port omissions are likely to continue increasing well into the traditional peak season
- Carriers are also likely to use blank sailings, port omissions, and rotation changes to level up supply and demand imbalances to increase pressure on rates

Port Call / Rotation Changes

- THE Alliance (Hapag Lloyd, ONE, Yang Ming, and HMM) adjusts Transpacific service due to port congestion
  - The Pacific North Loop 2 (PN2) sailing from Singapore will skip Tokyo, Kobe, and Vancouver and add a vessel call to Shanghai
    - Tokyo and Kobe services will be transferred to the PN3 service
    - Vancouver customers will have the option of routing cargos via the PN3 and PN4 services
  - The Pacific North Loop 3 (PN3) sailing from Hong Kong will drop calls to Tacoma
    - Tacoma customers will have the option of routing cargoes via PN2 and PN4 services
- ZIM will temporarily skip New York on its Southeast Asia – U.S. East Coast (ZSE) loop due to congestion problems at the port
  - Cai Mep – Yantian – Charleston – Savannah – Tanjung Pelepas
  - The suspension of the New York call is expected to last six weeks but will be dependent upon how the congestions problems evolve



Trucking

Market Expectations, Space, Volume, and Rates

Overall U.S. trucking demand remains steady, with some pockets of softening demand, especially in the Southeast and Upper Midwest. Tender volumes increased marginally - up 1.1% - but are down 20.1% on a year-over-year basis, with over the road contact carriers seeing the largest decline. Of the 135 U.S. markets, 70 reported weekly volume increases, with Austin, TX and Detroit, MI seeing the highest truck-to-load ratios. Dry van and reefer markets saw only modest gains, up 0.85% and 0.64% respectively, indicating most of the traction is being gained by the flatbed sector. Overall tender rejections rates have fallen 7.4% since July and 67% YOY amid the softening demand.

Contracted rates remain stable from last month. The spot market, on the other hand, is a mixed bag. Spot rates remain stable in the Northeast, while the Southeast has seen a double-digit decline amid weaking demand. Spot rates from Los Angeles to Dallas, one of the most heavily travelled lanes in the country, are now lower than the national average. Diesel prices have pulled back slightly from the all-time high we saw in July but remain well above what they were at the beginning of the year.

In the less-than-truckload (LTL) market, overall tonnage is showing signs of slowing growth. Tight capacity in this market has kept rates elevated and carriers are expected to maintain pricing discipline through the remainder of 2022.

The trucking market will likely face a bumpy road ahead. Economists are warning the "retail therapy" boom is over as rising inflation erodes consumer confidence, with excess inventories reported in many sectors. Contracted rates are expected to remain strong through the rest of the year despite the softening of volumes, as supply chain headwinds continue to impact the market. In the spot market, rates are likely to continue to fall in the short term, but economic and political headwinds will likely drive up rates later this year or early next year. Rising fuel prices and operational costs will continue to force smaller carriers off the road, reducing available capacity. We are also hearing complaints from truckers, who are losing money due to longer wait times at ports, warehouses, and stores for loading / unloading due to labor shortages and landside congestion issues. The implementation of California's controversial AB5 law is also expected to have a severe impact on capacity, especially drayage, with 70,000+ independent owner operators removed from service across the state. The law will also affect out-of-state long-haul drivers, who will no longer be allowed to operate within the state's borders.

CAPACITY EQUIPMENT RATES

China

Local pandemic policies have affected trucking lead times in some areas, especially in east China.

The domestic trucking market in Shanghai has begun to rebound due to the easing of some restrictions, although drivers are still required to have negative COVID test certificates well as local traffic passports. Capacity in some communities may be limited due to localized lockdowns.

Lockdowns in other regions, including Jiangsu, Tianjin, and Shenzhen are affecting pickups and deliveries, and, as a result, capacity is extremely tight. New outbreaks in Beijing and Xian are also likely to effect capacity. Capacity in Hong Kong has taken another hit as local authorities have reduced cross-border traffic to mainland China by 10%-20% until further notice due to increasing numbers of COVID cases in Shenzhen and Dongguan The reduced capacity will lead to longer lead times as shippers divert to the Pearl River Delta barge network.

Despite the capacity limitations, spot rates are trending down due to soft market conditions.

Asia

Rising fuel costs have led some South-Asian nations to increase fuel surcharges, including Cambodia and Vietnam, which have increased 20% and 15% respectively.

Europe

Across Europe, the trucking market remains tight due to prolonged driver shortages, keeping rates elevated. Fuel prices continue to swell across the continent, putting pressure on rates as carriers implement emergency fuel surcharges.

Canada / Mexico

Capacity remains extremely tight across Canada amid surging import volumes and limited driver availability, especially at inland rail ramps. As a result, rates remain elevated.

Cross-border volumes with Mexico remain strong. Rising diesel prices continue to impact rates. Trucking service delays have been reported at major ports due to increasing congestion.

Domestic Trucking (Cont'd)

Major Disruptions

- California governor Gavin Newsom refuses to back down on the controversial AB5 law
  - Some independently owned California trucking companies have moved towards classifying themselves as brokerage operations in order to remain independent contractors
  - Landstar, the largest group of owner operator trucking companies, has warned drivers to relocate out of the state if they want to remain working for the company
  - No date has yet been announced for its implementation
- California's **clean truck rule** may further impact drayage capacity, as replacing older trucks with compliant vehicles becomes increasingly more difficult – and costly – amid microchip and parts shortages
- Massachusetts considers **independent contractor law**, which is similar to California's AB5 law
  - While the gig-worker law was approved by voters in 2022, the vote was ruled unconstitutional by a state court last year; the decision is now under appeal
- New York's expanded gate hours fail to help with supply chain snarls, with less than 4% of expected cargo moves taking place on Saturdays
- Truck drivers picket outside the Port of Baltimore, demanding payment for the long hour spent waiting for loads
- Portland, OR considers banning diesel fuel sales
  - Under the proposed regulation, only electric trucks or those using biofuels would be allowed to operate within city limits
  - The city has yet to discuss the matter with trucking and fuel station representatives, who were caught totally off guard by the proposal
  - Fuel station representatives say its members have been looking to increase the amount of renewable fuel they sell, but the transition has been tricky due to major biofuel shortages
  - The City of Portland is expected to seek public comments at the end of August
- The "Great Purge" has begun - small trucking companies are going out of business at an alarming rate amid rising diesel prices and the collapse in spot rates
  - Meanwhile big carriers, who secure large volume diesel discounts, are reporting record earnings
- The closing of Germany's Rhine River due to extremely low water levels will add even more pressure on shipments between Rotterdam, Antwerp, Germany, and Poland
- Local authorities in Nhava Sheva impose new traffic restrictions for heavy vehicles, resulting in a slowdown of truck flows in and out of the port
- Sri Lanka's economic crisis continues to severely disruption trucking operations as the nation has been unable to import any fuel in months

Equipment Shortages

- The chassis shortage continues to grow due to rising import volumes and longer street dwells, with Los Angeles, Long Beach, Chicago, Memphis, and New York particularly hard hit
- Chassis manufacturers in the U.S. expect to fall well short of production goals this year amid parts and labor shortages

Port	20' Chassis	40' Chassis
Boston	Normal	Normal
Chicago	Constrained	Critical
Denver	Normal	Constrained
Houston	Critical	Critical
New York / New Jersey	Critical	Critical
Memphis	Critical	Constrained
Oakland	Critical	Critical
Seattle / Tacoma	Constrained	Critical
Los Angeles / Long Beach	Constrained	Constrained

Driver Shortages

- After reporting massive driver shortages just a few short months ago, many U.S. carriers are now slowing recruitment efforts and others are imposing hiring freezes
  - Trucking employment saw modest gains in July with the addition of 3,500 drivers, mostly in the drayage sector, compared to 7,000 hires in June
  - Due to an acute shortage of long-haul drivers, hiring efforts remain strong in this sector
- The number of available drivers in Canada continues to decrease, leaving less drivers to handle the increasing number of imports
- Significant driver shortages in Rotterdam and Antwerp have compromised trucking capacity, and the situation is expected to remain critical over the coming weeks

Announcements

- Canada's ELD mandate takes effects in **January 2023**
  - As many carriers are already in compliance, the impact on capacity is expected to be minimal, when compared to what we saw in the U.S. in 2018
- Canada's cross-border vaccine mandate has been extended to **September 30, 2022**

Rail

Market Expectations, Space, Volume, and Rates

U.S. rail traffic continues to slide. Weekly carload volumes were down 2.6% from the same period last year, while intermodal volumes dropped 3.4%. Year-to-date figures show overall traffic down 3.2%.

Total intermodal volumes fell 4.3% year-over-year in the second quarter of 2022, according to the Intermodal Association of North America's quarterly report. Domestic intermodal shipments saw 4.0 % growth, while international containers dropped 8.4 % and trailers dropped 25.2%. The seven highest-density corridors, which collectively handled more than 60% of total volume, were all down in the second quarter. The Midwest-Northwest corridor led the losses with a 20.1% decline, followed by the South Central-Southwest corridor at 14.5%. The Intra-Southeast, Southeast-Southwest and Midwest-Southwest dropped 7.8%, 5.5%, and 5.3% , respectively. Northern corridors saw the smallest declines, with the Northeast-Midwest dipping 3.1% and Trans-Canada down 2.2%.

Turn times continue to increase, particularly in Chicago, Cincinnati, and Houston. Rail speeds continue to decline, with the average speed of grain and ethanol shipments remaining lower than other goods. While average rail origin dwell times (the number of hours trains spend waiting at origin) have decreased by 8% since the beginning of the year, they are up 12% compared to the same period last year. Unfilled car orders remain extremely high - especially for grain, fertilizer, and energy shipments - up 97.3% over the same period last year, with many over 11 days past due. In a supposed effort to restore service, the railroads have curtailed the number of railcars on their lines and enforced intermittent container embargoes across much of the country, driving up rates in the process.

Worsening bottlenecks at inland rail ramps, particularly in Chicago and Columbus, are adding more complications for shippers trying to manage the flow of goods. The congestion at inland freight-switching yards - due to rail car, chassis, and staffing shortages - is severely delaying the repositioning of rail cars to the West Coast, hampering container processing at the nation's largest port complex. As a result, the backlogs of IPI-bound continuers in Los Angeles has jumped to over 35,000 containers, up from 29,000 in July, and carriers are likely to restrict IPI-bound bookings to the West Coast over the coming weeks.

The railways continue failing American farmers, with 47% of all grain car orders going unfilled. Fertilizer customers, who were forced by the railroads to curtail shipments, are reporting a massive reduction in crop yields due to the short window for fertilizer application. Cattle and dairy farmers have had to drastically reduce their herds as the disruptions in rail service have sparked a massive feed shortage. Texas has been especially hard hit, with farmers forced to cull their herds by an astonishing 80%! Increases in dwell time are also costing farmers in storage fees.

Efforts by the Class I railroads to hire new workers to improve service metrics are falling flat. According to data submitted by the Class I railroads to the Surface Transportation Board, the six-month average of talent acquisitions in 2022 for all categories of employees has barely changed when compared to the first six months of 2021. While the railroads claim their hiring efforts are working, in taking a deep dive, we see the biggest gains posted were for executives, officials, and staff assistants, up 5.73% since 2021. Maintenance workers showed a decline of 1.57% over the same period. Transportation workers (other than train and engine) also saw a decline of 1.6%, while transportation (train and engine) saw a modest increase of 1.34%. And, even if the Class I's were to hire a thousand workers tomorrow, it takes several months of training for some of the roles, such as train engineers, to get them qualified to productively move freight. To put that into a service perspective, hiring efforts are unlikely to bear any significant fruit until at least Q1'23. The current friction between the railroads and unions is another potential bottleneck preventing improved transit times, given the potential for a strike action this fall.

Canada / Mexico

Canada's carload volumes increased 3.2% last week compared to the same week last year, while intermodals units jumped up 6.7%. Significant labor and equipment shortages have compounded backlogs in Halifax, Montreal, and Toronto. Poor rail productivity is impacting port operations on the east and west coasts, with average dwell times seeing significant increases.

Mexican railroads reported a 4.8% increase in carloads compared to the same week last year and intermodal volumes were up 2.7%.

China - Europe

Chronic port congestion in Europe has driven more shippers to the China – Europe rail. While volumes are up 12%, the overall market is relatively weak, with sufficient space available. Freight rates have seen a modest declined due to weakened purchasing power in Europe and lower factory output in China.

While rail authorities have been coordinating to open new routes to Europe, the alternative routes have not been able to handle the same volume of

Rail (Cont'd)

freight traffic due to infrastructure constraints. As a result, many chokepoints have been reported, with severe congestion reported in Turkey, Baku, and on the Kazakhstan border.

Germany's rail system remains stressed, and congestion continues to increase. Rail operators continue to miss scheduled delivery and pick up windows, sometimes by as much as two weeks.

In Rotterdam and Antwerp, we have seen disruptions in rail transport caused by labor shortages, line maintenance/construction, and disruptions in the seaports. In some cases, train services have been cancelled at short notice, resulting in cargo backlogs.

Announcements

- Union Pacific announces extra charge for delayed freight pickups, although they did not mention how much the new charge would be
  - "We're using accessorial charges to encourage the right behavior of our customers," CEO Lance Fritz told Reuters
- China Railway launches first freight service connecting Zhejiang to the Netherlands
- Germany's METRANS to apply a 30% fuel surcharge for all shipments passing through Berlin, Leipzig, Munich, and Nuremberg terminals, effective **September 1**

U.S. Railway Labor Negotiations

- The Presidential Executive Board has issued recommendations for ending the contract negotiation stalemate between the railroads and unions
  - The 119-page report recommends annual wage increases through 2024, retroactive wage increases going back to 2020 (the railworkers have not had a pay raise since 2019), plus five annual bonuses and an additional paid day off
  - Both sides will have a 30-day cooling-off period to consider the recommendations, during which time the unions will not be permitted to strike or engage in a work stoppage
  - In the end, it's going to be up to the Class I railroads - who have raked in record earnings so far this year - to make a contract proposal that the railworkers could reasonably accept in order to avoid a national shutdown of the rails in mid to late September

Major Disruptions

- UK railworkers stage three more strike actions as labor talks fail
  - The strikes have been scheduled for **August 13, 18 and 20**
- Rail workers in Sydney plan five partial strikes and limited work bans through the rest of the month over passenger safety issues and pay

Equipment Shortages

- The industry continues to be plagued by a critical shortage of chassis
- Most notably, we are encountering chassis availability issues in Atlanta, Chicago, Cleveland, Columbus, Houston, Long Beach, Los Angeles, Louisville, Memphis, Nashville, New York, Philadelphia, and St. Louis are resulting in pick-up and delivery delays
- Many chassis are being used by importers as mobile storage units due to the lack of warehouse space, further exacerbating the situation

Container Dwell Times

Rail Terminal	Average Dwell
Boston	normal
Charleston	8 days
Chicago	10 days
Houston	8 days
Kansas City	12 days
Los Angeles / Long Beach	19 days
Memphis	11 days
New York / New Jersey	9 days
Oakland	30 days
Savannah	10 days
Seattle	15 days
Canada (all ports)	10 days

Thank You

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