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MARKET INSIGHTS

Global Logistics Update

JULY 18, 2022

State of Global Trade

Factories worldwide are reporting plunging demand as price increases and interest rate hikes produce an adverse spending effect. Exports from China, South Korea, Vietnam, and Taiwan have slowed sharply as demand drops. Many retailers are experiencing a drop in sales of high value items and less-essential goods, indicating that world economies are heading towards troubled waters, and excess inventory levels are leading to heavy discounting.

According to the World Trade Organization, global merchandise trade growth is expected to moderate to 3% this year as inflation and political uncertainty weigh on consumers. Inflation has surged to 9.1% in the U.S. and the UK, the highest level in over 40 years, while the European Union's inflation rate increased to a record high of 8.6%. Rising fuel costs, sanctions, insurance costs, and stranded Russian cargo are all stressing the global transportation system, which continues to be a major factor driving global inflation.

Consumer sentiment has plummeted to record lows as the costs of staples such as food and utilities rise. As a result, consumers are beginning to cut back on unnecessary expenses, leading to a 20%-30% decrease in manufacturing orders. We are seeing the impact and slowdown on consumer goods, electronics, home appliances, furniture, and construction materials, while apparel, footwear, and sporting goods volumes remain high. The eCommerce market has been especially hard hit, with consumers showing a low tolerance for supply chain issues, especially the unavailability of products.

Global food insecurity is also on the rise, and factors such as disrupted supply chains, the cost of diesel, and diesel and labor shortages, will exacerbate the existing food shortages and food prices are expected to rise 20% by the end of the year.

The housing market, a huge indicator of the stability of an economy, is showing signs of a rapid slowdown after the Fed raised interest rates last month, leading to higher mortgage and rental rates. To make matters worse, the Fed is expected raise interest rates again this month, with some speculating the increase will be between 0.75% to 1.0% percentage points. As the Central Banks tend to work in tandem with the Fed, we also expect to see rate hikes across North Europe before month's end. Latin American countries have also joined the bandwagon, raising interest rates in Brazil, Chile, and Mexico.

Taken all together, that data show how spending scrutiny will continue to weigh on the supply chain situation and inventory planning.

While manufacturing plants in Shanghai, Wuhan, and Xing Tai are operating 24/7, production ramp-up is proving to be a more prolonged process. According to Bloomberg, up to 30 million people in 31 cities across China are currently under some form of COVID restrictions, with the current hot spots being the Henan and Gansu provinces. Wuhan, home to one of the country's largest steel mills, and Lanzhou announced city-wide lockdowns last week after finding a single COVID case. With Shanghai and Guangzhou re-introducing mass COVID testing, there is some concern over renewed restrictions or lockdowns in the two port cities, which would disrupt peak season. Indeed, Shanghai officials have reopened quarantine sites and many neighborhood committees have warned residents to prepare 14 days worth of food and medicine. Many experts anticipate rolling mini-lockdowns across the country throughout the rest of year. As a result, the overall market remains softer than predicted.

China's economy is facing significant headwinds. The draconian zero-COVID policy, which has curtailed factory output and consumer spending, has worsened the debt bubble of the country's overinflated real estate sector, which led to spectacular crashes, including the default of gigantic property developer Evergrande. Import volumes have nose-dived to a three-year low, indicating continued weakness in China's construction sector, usually a significant growth driver. Pressure continues to mount on the nation's banks to provide cheap lines of credit to the faltering economy, while mass protests have been mounting for weeks in the Henan province after city-owned banks froze accounts of tens of thousands of citizens, totaling well above tens of billions of yuans. The banks have still not offered a clear explanation as to why or how long the funds will remain frozen. Chinese authorities announced they will start refunding bank customers whose accounts have been frozen for months, after a mass demonstration in Zhengzhou was crushed violently by authorities.

Other markets, however, remain robust, driving strong demand for expedited ocean products, along with air freight and charters. While China continues to be the dominant sourcing locale, we are seeing more manufacturing shifts away from the superpower following months of supply chain disruption due to Jinping's draconian zero-COIVD policy. The ensuing sourcing shift has brought growth to Asian countries such as Vietnam, Thailand, and Cambodia as multinationals moved production to offset business risks, with Vietnam

State of Global Trade (Cont'd)

emerging as an important manufacturing hub for electronics, textiles, consumer goods, and automotive goods. Along with this growth, we expect Mexico to continue to prosper as additional manufacturing moves into that critical U.S. nearshore market.

The months-long shutdowns of Shanghai and Beijing had a significant impact on manufacturing capability across the world. Factories across Europe, the U.S., and Asia have reported a drop in factory output due to a shortage of raw materials due to the supply chain disruptions, resulting in an upsurge in commodity prices. The industries most affected include textiles, garments and footwear, electronics, wood production, construction, rubber, iron and steel, automotive, pharmaceuticals, and healthcare.

While a move by China to take Taiwan is seen as a black swan event by many, increased activity by China's military into Taiwan's air defense zone has raised the stakes to new levels. Further aggression would have a shocking impact across the world's semiconductor sector and could trigger a global shortage if the island's manufacturing capability is impacted.

Despite the economic and political headwinds, we expect strong imports to the U.S. through the summer months as retailers bring in back-to-school merchandise and start bringing in holiday merchandise.

Major Disruptions

- Energy Crisis
  - U.S. boosts exports of gas and crude oil from the Strategic Petroleum Reserve (SPR) to Europe and China, **despite domestic shortages, record high prices, and refining capacity restraints**
    - According to Reuters, the U.S. exported more than 5 million barrels of reserve oil to China and Europe in June alone, while the SPR dropped to its lowest level since 2004
    - Another explosion has occurred at a natural gas plant, this time in Oklahoma, further depleting the nation's supply
  - Texas electric companies warn the state's power grids are likely to fail amid heat waves
    - Wind energy has collapsed to 8% due to a lack of wind
    - Tesla warns customers not to charge their electric cars during peak hours to reduce strain on the power grid
  - Europe braces for energy collapse after Russia halts 60% of natural gas exports
    - Twelve EU countries - Including Italy, Poland, Bulgaria, Finland, Denmark, and the Netherlands – have been negatively impacted by Russian gas supply cuts
    - Macron warns people of France to prepare for a total cutoff of Russia's natural gas
      - The government is preparing a "sobriety plan" to conserve energy, starting with cutting off streetlights and nigh-time illumination of public landmarks, offices
    - Germany declares gas crisis after Russia turns off the NordStream 1 pipeline for maintenance; takes a step closer to gas rationing
      - While the maintenance project was expected to be completed by July 21, Gazprom has warned it can't find parts to complete the project due to sanctions against Russia
      - Berlin has activated the second phase of is three-phase gas emergency program, calling on all consumers – industry, public institutions, and households – to reduce their consumption as much as possible and to collect firewood – but the country's woodstove supply has dried up
      - Meanwhile, German utility giant Uniper has been forced to tap into its emergency supply ahead of the winter season
        - The shortages are likely to spill over to other North European nations
      - The International Energy Agency warns matters are likely to get worse amid the rising political tensions with Russia and has cautioned that fuel rationing may be imposed across Europe if President Putin completely cuts off gas supplies
        - Energy rationing will likely hit industries first, followed by households
  - Gas and diesel prices continue to soar across the globe due to limited supplies
    - First responders across the U.S. cut back on services as soaring gas prices eat away budgets

- The weakening euro, which is now in parity with the U.S. dollar for the first time in 20 years, could harm American businesses
  - While a strong dollar may help importers buy more European goods at a cheaper price, if it becomes too strong it's not so good for exporters, whose goods will become more expensive for European buyers
  - If U.S. exports decrease as a result, it could further slow down the already stalled American economy

- Strike Actions
  - Biden issues executive order to block a nationwide rail strike (see **Rail** section for more details)
  - California trucker strike looms over the state's controversial AB5 regulation, which will limit the state's trucking industry (refer to the **Trucking** section for more details)
  - German dockworkers stage 48-hour strike action (for more details, refer to the **Ocean** section)

State of Global Trade (Cont'd)

Major Disruptions (Cont'd)

- UK railworkers set to strike across Britain again on **July 27**

- Protests / Civil Unrest
  - Truckers in LA protest against California's AB5 labor law
    - More strike actions are expected in the coming weeks
  - More than 1,200 Delta pilots and staff staged a demonstration on June 30 at seven major U.S. airports , calling for proper compensation, better work-life balance, health insurance, retirement benefits, and job security
    - The demonstrations were held in New York City, Atlanta, Detroit, Minneapolis, Salt Lake City, Seattle and Los Angeles
  - Airport and transport workers across Europe are striking, disrupting travel, supply chains
  - Sri Lanka's political and economic crisis escalates as protestors storm the capital
    - The island nation is no longer able to purchase fuel, even for cash, after failing to repay $51 billions of foreign debt
    - Inflation has rise to 39% as shortages of fuel, food, medicine, and other essential goods reach critical levels
  - The UK braces for the "summer of discontent" as people are pushed to the breaking point by the rising cost of living
    - The chaos will hit railways, airports, customs, healthcare, education, civil services, and other industries
    - The British government is pushing ahead with controversial plans to allow businesses to replace striking employees with agency workers
  - Farmers in the Netherlands, Italy, Germany, Poland and Spain stage protests against a 30% cattle-culling mandates and limits on farm production aimed at reducing nitrogen emissions
    - The famers have shutdown highways, gas stations, and distribution centers and have blocked access to airports
      - Firemen and truckers in Netherlands have also joined in the protests
    - Fishermen have joined in the protests in the Netherlands and are blocking containerships from entering the ports
  - Protests erupt across China as city-owned banks freeze accounts; residents stop paying their mortgages in protest of the government's draconian policies
  - All around the world, people are protesting high energy prices and gas shortages, while others have also broken out in Italy, Belgium, and France against certain social and economic issues

Shame of Thrones

- UK's ethically-challenged Prime Minister Boris Johnson resigns in disgrace after mutiny in his party
  - More than 50 members of the British government stepped down, including five cabinet members, in an effort to force him from office
  - No clear successor has been identified yet

- Disgraced Sri Lankan President Gotabaya Rajapaksa and his family have fled to the Madives amid accusations of high-level corruption and mismanagement that led the country to bankruptcy; resigns from office via email
  - Prime Minister Ranil Wickremesinghe has been appointed as acting leader

- Italy's Prime Minister Mario Draghi resigns after refusing to participate in a No Confidence vote and losing the support of the coalition party, saying "the pact of trust that the government is based on is no longer there"

- Israel's Prime Minister Naftali Bennett resigns after several lawmakers withdrew support for the coalition
  - Elections are likely to take place in October
- Estonia's Prime Minister Kaja Kallas resigns to form a new government, disbands government amid economic woes
  - Estonia's inflation rate is now the highest in the Eurozone, hitting 22% in June

- Bulgaria's coalition government resigns after Prime Minister Kiril Petkov lost a vote of confidence

- Who will be the next to fall? France's Macron, who has lost his coalition? Canada's Trudeau, who has lost the support of the people? Joe Biden, who's approval rating has plummeted below 28% amid inflation fears and negative sentiment about his energy policies?

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State of Global Trade (Cont'd)

Announcements

- Congress to vote on controversial **H.R. 4350**, National Defense Authorization Act, which proponents say violates the U.S. Constitution
- Authorities in Beijing announce the zero-COVID policy could be in place for the next five years
  - Hong Kong sees mass exodus of businesses after draconian lockdown and quarantine policies ease; many move to Singapore, Japan
  - Nearly ¼ of European companies with facilities in China are considering relocating due to the country's zero-COVID policy, according to a recent survey by the EU Chamber of Commerce
    - 85% struggle to access raw materials or components needed for production
    - 83% struggle to deliver finished products around the world
    - 27% are struggling to retain staff
    - 62% plan to relocate key personnel out of China
- European Union member states have agreed to include shipping and road transport to the **European Emissions Trading Scheme (ETS)**, which aims to reducing emissions by 55%, despite having conditions in place for them to switch to alternative fuels
  - The ruling is likely to further reduce the already tight trucking capacity
- U.S., Canada, UK, and Japan ban imports of Russian gold as tensions rise
- Biden to increase tariffs to 35% on more than 570 groups of goods from Russia, effective **July 27**
  - While the list of affected goods is not yet available, the Office of the U.S. Trade Representative (USTR) said it includes steel and aluminum, chemicals, minerals, ores, metals, wood and paper products, automotive parts, and aircraft and parts
- UK to switch to Customs Declaration Service on **September 30**
  - 220,000 British traders have yet to register for the new system
  - Customs processing delays are expected, even if only a fractions of those importers fail to migrate to the new system, creating yet another hurdle for trade in the UK
- Central Banks around the globe, including the UK, Switzerland, and Australia, raise interest rates, following the Federal Reserves' 0.75% interest hike in mid-June; more rate hikes expected in July
  - The increases on a global scale combined with supply chain bottlenecks will likely stymie global economic growth
- G7 countries pledge to raise $600 billion over five years to financed infrastructure in developing countries, a counter act to China's Belt and Road Initiative; China welcomes the additional funds
- Brussels-based **Transport & Environment** hits out at the use of biofuels in transport, saying it is environmentally worse than fossil fuels, creates greater carbon emissions, reduces the global food and feedstock supply, and needlessly increases costs for end users
- India announces **international trade settlements** will be made in rupees, effective immediately

Requests for Public Comments

- The Office of the U.S. Trade Representative is inviting public comments on **strategies to combat forced labor** in traded goods and services, through **August 5**
  - In particular, the USTR is seeking comments from industry stakeholders on:
    - Actions the U.S. could pursue with like-minded trade partners and allies to combat forced labor
    - Ways to bolster the forced labor components of trade agreements/trade preference programs to have greater effect
    - Identifying and developing new, innovative tools to advance America's efforts in combatting force labor
    - Options for making the development of the forced labor trade policy a more inclusive process
    - Recommendations for monitoring, tracing, or eliminating forced labor in supply chains

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Air Freight

Market Expectations, Space, Volume, and Rates

CAPACITY EQUIPMENT RATES

The air cargo market is hitting turbulence amid global economic pressures and labor shortages. The labor woes are currently the biggest challenge facing this market and threaten to restrict post-pandemic recovery. Pilot and crew shortages and a lack of skilled ground handlers, stemming from massive cuts made during the height of the pandemic, continue to result in flight cancellations worldwide, creating chaos for their customers and exacerbating the strain on the global supply chain.

Air cargo volumes have dropped for the last four consecutive months after seeing huge gains in 2021. On paper, capacity continues to trend upward as borders reopen but remains 20% below pre-COVID levels. In reality, capacity is down more than 15% as airlines slash summer flight schedules after the staffing woes led to massive flight cancellations in June and early July. In addition, several major airports in Europe have announced passenger travel caps, removing even more belly capacity.

Some of the problems facing the industry are self-inflicted, caused by persistently undervaluing personnel and perpetuating a system where staff are low paid. Many airline and airport workers agreed to salary reductions in 2020 - averaging 20% - to keep the industry afloat during lockdowns but have not seen their pay boosted back to even pre-pandemic levels since the travel bans were lifted. As a result, frustrated crews around the world have staged sick-outs or mini strike actions. On the other hand, the airlines and airports, just like every other industry around the world, struggle to recruit enough staff to maintain even the most minimal operational levels.

We expect to see the labor shortages continue to hamper the airfreight market, and, as a result, capacity on passenger aircraft is likely to remain unstable over the coming weeks as airlines continue to adjust capacity.

Overall, spot rates are continuing a steady decline as market conditions soften, although they are still higher than pre-COVID levels. As a result, many shippers are looking to renegotiate long-term contracts. But this may not be wise just yet, as any additional capacity constraints could still lead to spot increases over the coming months.

Jet fuel prices have jumped more than 40% this year. Airlines are passing on nearly all of the fuel expenses due to high travel demand and the limited ability to add extra flights due to the labor shortages. In addition, more than half of the world's top airports have announced infrastructure fee increases for 2022 and 2023 to make up for revenues not collected during the pandemic. London's Heathrow has announced it will be increasing its fee by 50% and Amsterdam's Schiphol by 37%. Authorities in Dublin are seeking an astonishing 80% hike over the next three years.

Despite global economic headwinds, IATA predicts cargo volumes will rise 11.7% above pre-pandemic levels through the end 2022 based on the gap between supply and demand caused by the reduced capacity, then end of "preighter" flights, and the chronic disruptions in the ocean transport market. Air freight rates are expected to remain elevated unless the marketplace sees sustained macroeconomic headwinds, namely rising inflation, additional interest rate hikes, a significant drop in consumer confidence, or a rise in geopolitical tensions.

Asia – U.S. / Asia - Europe

Overall, market conditions from China are trending down on both lanes due to a surprisingly muted post-shutdown recovery of Chinese manufacturing. While space is available to U.S. destinations, space remains tight to North Europe due to a 50% reduction in capacity caused by the Russian airspace restrictions. On the backhaul on both lanes, demand remains steady with ample capacity.

Airfreight rates from China and Hong Kong have slightly rebounded this month, with the slow manufacturing recovery dampening the anticipated rate increases. From U.S. and European origins, rates have stabilized.

Demand remains low from Korea, Taiwan, and other SE Asian markets, with carriers eager for cargo. Rates have dropped slightly from all origins, except Taiwan who imposed fuel rate increases.

Spot rates from India to the U.S. and Europe are currently trending down due to softening global market conditions and enhanced capacity amid strong passenger travel. However, rates for Indian-bound cargos have remained relatively stable. Rates for Indian air exports are expected to climb again in September, with the peak season setting in ahead of the holiday season.

Demand from Bangladesh has sharply declined as international clothing retailers and brands slash 20% of orders. As a result, rates have plummeted to all destinations and continue to drop daily.

Air Freight (Cont'd)

U.S. - Europe

Demand remains stable from both sides of the pond but is expected to drop to seasonal summer levels later this month. Belly capacity is back to pre-COVID levels, although flight cancellations continue to delay shipments, especially weekend deliveries. Shipments into Europe are likely to experience increased dwell time at destination due to labor shortages at major hubs.

While rates remain elevated compared to 2019, the market is continuing to experience a steady decline, although the impact of increase fuel cost on rates is expected to be seen in the coming weeks. Shippers are advised to consider deferred routings via secondary hubs to reduce air freight costs.

Announcements

- The Dutch government has ordered Schiphol to cut 12% of its flights next year to cut down on noise pollution, emissions; cargo flights will likely be affected
- Cathay Pacific resumes full freighter schedule, operating between 90 – 100 freighters per week
- The European Union will end the use of "preighters" (cargo transported in passenger cabins) on **July 31**
- European Commission urges the air cargo industry to prepare for new customs pre-arrival security rules that take effect on **March 1, 2023**
  - The new regulation will require the advanced submission of cargo information for all European Union imports and exports
    - Norway and Switzerland are also impacted by the rule
  - Importers and exporters will be required to file the information prior to cargo loading at origin (instead of four hours before arrival) in the Import Control System 2 (ICS2) in the form of a complete entry summary declaration
- LATAM Cargo doubles capacity between the Latin America, the U.S., and Europe
- Korea Air plans to ramp-up capacity beginning mid-July
- Air New Zealand has restarted 14 of its international routes, boosting international capacity to 60% of pre-COVID levels
- China's Hubei province opens new air cargo transport hub

Major Disruptions

- Unprecedented labor shortages rock the aviation sector, threaten to decimate the industry
  - The labor crunch was made worse by pandemic-induced layoffs of 2.3 million pilots, cabin crew, ground handling, and security staff, many of which will not return to the industry due to low wages and undesirable working conditions / requirements
  - After weeks of last-minute cancellations and delays, major airlines across the globe trim thousands of flights from their summer schedules
    - Disruptions have been particularly bad in the U.S., Europe, and Australia
  - Several major airports are limiting capacity to account for the deficit
    - Frankfurt Airport has been forced to cut some freighter flights through the end of August in an effort to stabilize ground handling services
    - Heathrow Airport imposes daily capacity cap, forces airlines to cancel flights through September 11
    - Amsterdam's Schiphol ordered airlines to reduce the number of passenger flights through the end of July
      - Many airlines have responded by cancelling flights or redirecting them to Rotterdam, while others – including Air Serbia - have threatened legal action
    - London's Gatwick will limit airline capacity over the entire peak summer period
  - Cathay Pacific continues to experience a massive number of pilot resignations as struggles to recruit more
    - Many blame the airlines' COS18 policy, which slashed pilots' pay by 40% and reduced housing and retirement benefits; others blame Hong Kong's strict COVID policies, which have sparked a mass exodus from the region
  - As a result, airlines and airports across the globe are likely to further reduce capacity in the coming weeks
- United Airlines cuts 12% of Newark flights, blames airport construction and capacity constraints
- Airlines cut capacity and embargo cargo bound for Sri Lanka amid fuel shortages and the collapse of the economy
- Vietnam's air exports plummet 20% - 30% as the shortage of raw materials and components affects production output levels
- Parts shortages hit Boeing and Airbus, severely hinder aircraft production

Ocean Freight

Market Expectations, Space, Volume, and Rates

CAPACITY | EQUIPMENT | RATES

Global shipment volumes have dropped 8% amid weakened consumer demand, and container bookings have plummeted 36%. Transhipment rollovers continue their trend of monthly declines, falling to 26.5% from a peak of 53% in January. Despite the uptick in factory productivity in Shanghai, sky-high inflation is eroding confidence that volumes will stage much of a comeback.

In the U.S., East and Gulf Coast import volumes experienced a growth of 11.9% as importers divert shipments from the West Coast amid the ongoing dockworker contract negotiations. Export volumes have fallen for the twelfth straight month, averaging 8.7% per month, with West Coast ports weaker than their East and Gulf Coast peers. With California's controversial AB5 law going into effect, shippers are bracing for the impact which could severely disrupt import and export activity at ports across the state (please refer to the **Trucking** section for more details).

Port yard congestion has been growing at an alarming rate on the West Coast due to deteriorating rail conditions across the country. Rail dwell times at Los Angeles, Long Beach, and Oakland have tripled due to congestion in Chicago and Dallas and labor shortages brought about by the implementation of Precision Scheduled Railroading. Dwell times are expected to increase further due to BNSF's temporary embargo on shipments from IPI locations and East Coast locations that transit their IPI terminals. Carriers will likely restrict IPI bookings over the next few weeks as the nation's rail service continues to collapse. This will put downward pressure on West Coast rates as carriers will be forced to backfill allocations left open by fewer IPI bookings.

U.S. East and Gulf Coast port congestion continues to grow, but so has the rest of the world. Vessels calling at Vancouver continue to face significant delays due to worsening congestion. North Europe's port congestion shows no sign of easing, with Rotterdam, Hamburg, and UK ports hardest hit. Trucking capacity issues across Europe are also leading to increased dwell times at the ports, severely impacting productivity levels, and industrial actions in Germany and Belgium threaten to make the situation worse. While many industry experts anticipate it will take at least eight weeks to clear the current congestion levels, any significant increase in traffic will only increase the logjam.

Carriers continue to struggle with schedule reliability, especially on the South Asia – Europe and Europe – U.S. tradelanes. On the other hand, the Transpacific lane has seen a significant improvement, with average transit times dropping nearly 25% since January.

Overall, spot rates have fallen below contracted rates, but still remain well above pre-pandemic levels. For those on the contract market looking to save money by jumping into the spot market, we are hearing that some carriers are reportedly looking to penalize contracted shippers who are pulling their loads in favor of savings on the spot market – a sharp contrast to their actions over the last two years when they cancelled allocations and forced shippers into the higher spot market.

Carriers are resorting to more aggressive strategies to manage the dip in demand and underpin rates to protect their profits, including blanking more voyages to tighten capacity and keep pressure on rates, utilizing slow-steaming to mitigate the impact of soaring bunker costs, and diverting vessels to more profitable routes, which lightens up supply on some trades, with India being hardest hit.

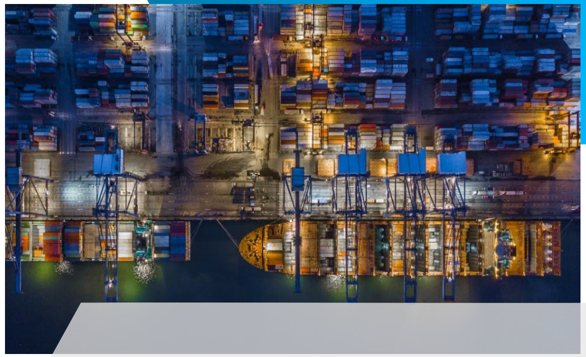
Asia – U.S. / Asia - Europe

The expected surge of volumes out of China has yet to materialize, leaving many to wonder if there will be a true peak season this year. If dropping consumer demand is the main driver, there may not be a surge. On the other hand, there is still likely enough demand and congestion to increase delays and keep capacity tight, with volume projections from the National Retail Federation higher than the same period last year. Either way the peak season will likely be less chaotic compared to last year's peak .

On the Transpacific trade, available capacity and cheaper spot rates continue to entice importers from the contract market looking to take advantage of the short-term savings. Erratic vessel schedules continue to cause significant challenges for American exporters and available capacity remains fluid, especially from the West Coast.

While volumes appear to have picked up on the Asia-Europe lane, in all actuality importers are vying for space due to the large number of blank sailings and omissions.

Falling demand on the Asia - U.S. trade has pulled down spot rates, while tight capacity to Europe has kept rates stable. Rates are expected to climb for the peak season and will likely remain elevated into next year. On the backhaul, carriers have announced limited General Rate Increases on U.S. exports.



Ocean Freight

Market Expectations, Space, Volume, and Rates (Cont'd)

Colombo remains insulated from the Sri Lanka's economic collapse, with emergency fuel reserves and U.S. dollar restrictions keeping the port running, although volumes continue to decline. There is a slight backlog at origin due to blank sailings and omissions. Rates on all lanes remain high but have stabilized.

On the India to U.S. trade, capacity remains tight, especially to the East Coast due to ongoing congestion in Savannah. Schedule reliability has suffered, resulting in irregular sailing schedules and port omissions. The India-Europe tradelane continues to be the hardest hit by the omitted port calls and blank sailings as the market continues to slow. Rate levels across all tradelanes out of India continue their downward trend.

Space remains limited to all destinations from Bangladesh, Thailand, and Vietnam, with carriers only releasing space on high premiums. Schedule reliability continues to be impacted by equipment shortages and congestion at transshipment hubs.

Significant delays continue to impact shipments from Cambodia, with delays currently averaging 2-3 weeks. Space remains tight on the Transpacific route, but we are seeing more allocations open up to Europe. Rates on all tradelanes are starting to ease.

The market out of Indonesia has stabilized and carriers are operating on normal schedules. Rates have slightly decreased, especially on the U.S. trade.

U.S. - Europe

Demand on this tradelane remains high on both legs. Space is still very tight from Europe, although there are signs of improvement on certain U.S. East and West Coast loops. Instances of cargo rollovers are on the rise, especially on tight loops. Space continues to open up from the U.S. East Coast to Europe, while West Coast service remains extremely tight due to skipped port calls and blanked sailing.

Rates on both hauls remain stable, although some carriers have implemented Peak Season Surcharges/General Rate Increases ex-Portugal and -Spain due to severe equipment shortages.

Shippers are advised to book at least 4 weeks prior to cargo ready date for U.S. East Coast and North Europe origins, while 6 weeks is advised for West Coast origins. For westbound shipments, premium services are suggested to ensure higher reliability and no-roll.

Demand in August is expected to be lower as factories close for summer holidays, but is expected to strengthen again by September, adding pressure to rates.

LATAM

Demand to all Latin America destinations remains strong with capacity utilization over 95%. Cargo rollings are likely due to the sustained strong demand. Rates on the Brazil – U.S. trade spike amid tight capacity and port congestion.

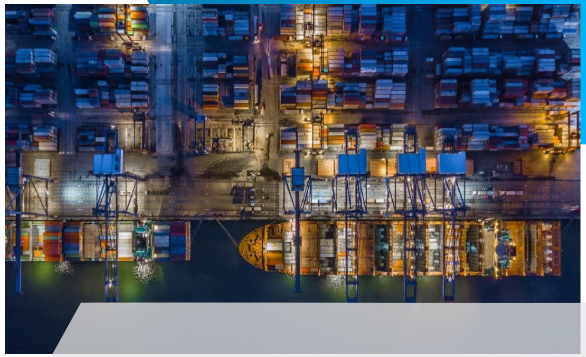
Oceania

Long-term freight rates from Australia to all destinations have declined slightly and are expected to continue declining over the next year but will remain above pre-COVID levels.

Australia's importers are dealing with delays and extra costs due to cumbersome biosecurity measures, which can take weeks to complete. As a result, importers are incurring additional storage costs and demurrage and detention fees.

Major Disruptions

- Rail slowdowns and trucker strikes threaten to exacerbate California port congestion and add complications to already strained supply chains (refer to **Rail** and **Truck** sections for more details)
- Rail operations at U.S. West Coast ports continues to be the biggest bottleneck
  - LA has reported an increase of over 29,000 rail-bound containers - more than triple the usual number – two-thirds of which have been waiting more than nine days for pickup
    - LA's TraPac terminal has had to cut five shifts as yard density reaches the breaking point
  - Long Beach has reported 28,732 rail-bound containers dwelling nine or more days, jumping 40% in the past 12 days alone
  - In Oakland, 60% of long-dwelling containers are designated as rail cargo
  - The value to goods stuck at the Southern California ports is estimated at over $1.54 billion dollars
- BNSF to limit the number of rail shipments to California ports through **July 31**
  - The embargo is in effect for all shipments from Alabama, Arkansas, Arizona, Iowa, Illinois, Kansas, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, Oklahoma, Tennessee and Texas
  - All eastern points of origin which interchange the BNSF network through these gateways are also included in the embargo



Ocean Freight (Cont'd)

Major Disruptions (Cont'd)

- Chinese carriers OOCL and COSCO have refused loaded U.S. exports more than any other carrier
- Houston has limited the number of U.S. exports in line with carriers' export allocation figures
  - Once allocations are met, the port will no longer accept exports for the respective vessels
- Five key U.S. ports have the world's highest demurrage and detention fees
  - According to the report by Container xChange, New York/New Jersey has the highest average charge followed by Los Angeles, Long Beach, Oakland, and Savannah
- Operations ground to a halt at the ports of Hamburg, Bremerhaven, and Wilhelmshaven as 12,000 port workers stage a 24-hour strike on **July 15**
  - The strike action will have serious impact on liner networks and worsen the chronic port congestion in Germany and across North Europe
  - Further strike actions cannot be ruled out at this time as the ports refuse to offer sufficient wage increases for its workers
  - Carriers are looking at options to amend vessel rotations to defer calls from the three ports, such as overlanding cargos from Gdansk, Zeebrugge, or Felixstowe
- Empty containers continue piling up at the Port of Rotterdam amid a growing backlog of undelivered cargo
- The UK-bound *APL Vanda* is delayed in Djibouti after mysterious incident
  - According to *The Loadstar*, forwarders have been advised that an unknown number of containers were lost overboard during a storm in the Indian Ocean, but no critical weather event took place during that time
  - CMA CGM has still not made an official announcement as to the cause of the incident, which occurred somewhere between July 3 and 5, the extend of the cargo loss, any damage to the vessel, or the well being of the crew
  - CMA CGM plans to omit the call to Southampton; cargo will be offloaded in Tangiers around July 29-30
- Explosion at Jordan's Aqaba Port kills 14, injures 250 after a crane dropped a container full of chlorine gas
- Canada's railroads begin metering cargo levels in Vancouver and Prince Rupert due to severe inland and East Coast congestion
  - Drayage capacity issues in Toronto and Montreal lead to increase dwell times at the Pacific Coast ports

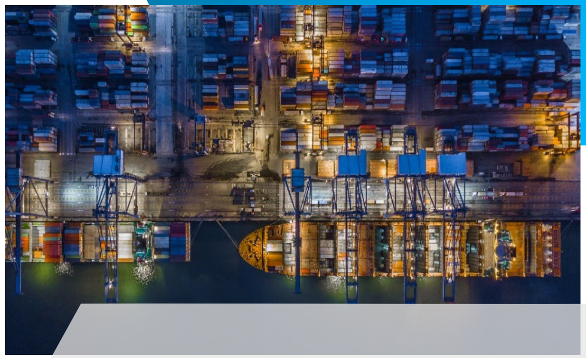
Port Congestion

Region	Country/State	Vessel Backlog	Wait Times to Berth	Average Container Dwell Times
North America	Los Angeles / Long Beach	26 ↑	3 - 4 days ↑	5 – 14 days
	New York / New Jersey	20 ↑	20+ days ↑	8 days
	Seattle / Tacoma	3 ↑	1 day ⇨	*
	Oakland	10 ↑	7 - 31 days ↑	9 – 12 days
	Houston	20 ↑	10 days ↑	8 days
	Savannah	40 ↑	20 days ↑	11 days
	Norfolk	3 ↑	2 - 4 days ⇨	*
Asia	China	* ↑	2 – 6 days ↑	*
	Australia	* ↑	4 – 6 days ↑	*
Europe	Antwerp	* ↑	* ↑	*
	Rotterdam	* ↑	*	*
	Hamburg	15 ↑	2+ weeks ↑	*

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

Equipment Shortages

- Unprecedented chassis shortages add to port congestion woes, as shippers take 2-3 times longer than normal to return them
- Scarcity of chassis at San Pedro Bay ports is affecting all types of moves, from local deliveries to terminal moves to/from off dock rail ramps
- Equipment availability remains the biggest challenge at ports across Europe and South Asia
  - Equipment availability is slightly better at the ports, but significant shortages remain at inland depots



Ocean Freight (Cont'd)

Announcements

- ONE imposes Weight Discrepancy fee to crack down on shippers who incorrectly declare container weights or make last-minute VGM amendments, beginning **July 1**
  - The $2,000 fee will apply to all containers where gross weights deviate by more than +/- 3 tons per TEU from the bill of lading instructions and VGM documentation
- U.S. lawmakers propose new legislation that would give container lines preferential berthing status for having least 51% of cargo bookings for American exporters or who serve multiple U.S. ports
- Port of Oakland slashes free wait time for import containers – including rail-bound containers - from seven to four days in an effort to clear long-dwelling import containers, effective **July 1**
  - In addition, the port is considering raising penalties on containers that sit too long
- Norfolk decreases free storage window from 7 to 5 days and increases storage costs in order to decrease container dwell time
- MSC to impose an Emergency Storage fee for all imports and exports at Dutch ports due to the severe yard congestion
- CMA CGM has announced it will lower freight rates by €500 ($520.70) on all imports to France and its overseas territories for a year following talks with the French government, beginning **August 1**
- Fiata calls on IMO, governments to end "abuse by box lines" and create "fairer" supply chains
- Maersk quits the International Chamber of Shipping over the board's stance on climate change
- British ports threaten legal action against the UK government after spending millions of pounds on unused border control posts, which the government said were needed for post-Brexit checks and were subsequently put on hold until at least the end of next year

ILWU Contract Negotiations

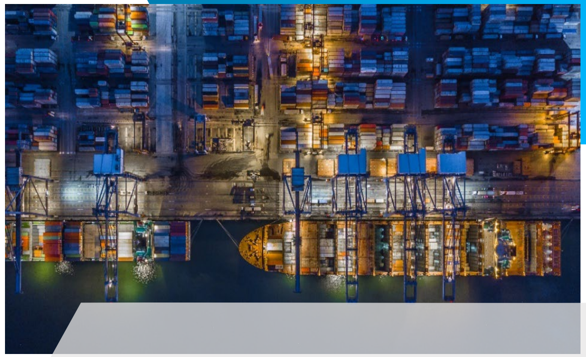
- While the ILWU contract expired on July 1 without a new deal, cargo operations continue

Port Call / Rotation Changes

- MSC adds direct calls to Boston on its Santana service; drops Houston, Ningbo
  - Haiphong - Shanghai - Charleston - New York – Boston
- Hapag Lloyd adds 20% more capacity on the North Europe – U.S. East Coast AL3 route by upgrading its five U.S.-flagged ships, from 3,230 TEU to 7,320 TEU vessels
- TS Lines and Sea-Lead partner to provide Asia-U.S. East Coast (AEC) service, with plans to eventually offer weekly sailings
  - Nansha - Ningbo - Qingdao - Busan - Norfolk - New York - Charleston - Jacksonville
- MSC adds new Asia – U.S. Gulf Coast service
  - Shanghai - Ningbo - Busan - Houston - Port Everglades - Savannah
- Nippon Express launches intermodal U.S. export service from the West Coast to Asia via Mexico
  - Manzanillo - Shanghai – Ningbo – Shekou – Kaohsiung - Yokohama - Busan
  - Goods can be collected from Toronto, Minneapolis, Chicago, Indianapolis, Detroit, Columbus, Cincinnati, Nashville, Atlanta, and Houston and will be moved by trailers to Manzanillo

Blank Sailings

- Carriers are resorting to more aggressive blanking strategies amid the dip in demand to protect profitability
  - Blank sailings from Asia to the U.S. West Coast have increased to levels not seen since 2021, when congestion levels in Los Angeles and Long Beach reached an all-time high
- Some vessels continue to omit calls to Charleston and Savannah to avoid congestion
- Increasing berthing delays across Europe and severely congested quays will likely result in carriers announcing a large number of blanked sailings from Asia in August and September
- Carriers continue to blank sailings from India to Europe amid schedule reliability woes



Trucking

Market Expectations, Space, Volume, and Rates

The balance between supply and demand for freight capacity has given way to loosening market conditions, with shippers seeing a larger percentage of the loads accepted by their contract carriers. Tender rejections rates have fallen nearly 70% from 2021 levels.

The domestic FTL spot market is now scrambling to keep their wheels rolling amid the inventory glut, skyrocketing fuel costs, and soaring inflation, which has dampened consumer demand.   Load-to-truck ratios, a key barometer for economic health, are down roughly 30% year to date. Less-than-truckload (LTL) carriers - usually the last part of the market to feel a slowdown and the first to feel a recovery - are also starting to see a slowdown.

In California, the controversial AB5 ruling is adding yet another layer of complexity for shippers to deal with, just when we were seeing signs of improvement. Trucking capacity will be eroded as thousands of drivers are forced off the roads, adding extreme pressure on rates. Short haul rejection rates are now exceeding those for loads moving more than 800 miles. This is an extremely rare occurrence, and the timing suggests the AB5 ruling is already impacting capacity.

Spot rates have dropped below the level on contract prices for the first time in over a year. As a result, carriers are showing some flexibility in re-negotiating contracted rates with freight brokers. Seasonal strength from produce and beverage markets should help spot rates stabilize in the near term, but the probability of sustained spot market pricing weakness and freight recession is now significantly higher as we look out into 2023.

Diesel prices remain at record high levels and are currently the biggest expense for carriers. Many carriers have reported spending over $1,000 at the pumps every time they fill up and are reflected in the elevated contracted rates.

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 a negative COVID test certificates well as a local traffic passport. Capacity in some communities may be limited due to localized lockdowns and further lockdowns are likely due to the latest round of mass testing. Given the soft container market conditions, spot rates are trending down.

Lockdowns in other regions, including Jiangsu, Tianjin, and Shenzhen are affecting pickups and deliveries and capacity is tight. New outbreaks in Beijing and Xian are also likely to effect capacity.

CAPACITY EQUIPMENT RATES

Canada / Mexico

Trucking capacity remains tight into Canada and northbound from Mexico due to the lack of available trucks and trailers.

Europe

Demand continues to remain high across North Europe. Trucking capacity issues are leading to increased dwell times at North European ports, which are impacting productivity   Trucking deliveries in Germany are likely to be impacted by the dockworker strikes and delays should be expected.

Major Disruptions

- California Trucking Association (CTA) warns **70,000 truckers will be taken off the roads** as California's controversial Assembly Bill 5 (AB5) law kicks in
  - The new law bans independent contractors from operating transport truck in California, including out-of-state truckers driving in the state
  - AB5 is set to take effect once the injunction is lifted - which is any day now - after the U.S. Supreme Court refused to intervene in the matter
  - An injunction has been in place since 2020 to prevent the law from being enforced while the lawsuit made its was through the judicial system
  - The CTA warns the court's decision will hurt thousands of independent owner-operators and will have **devastating repercussions on the already fragile supply chain, increase costs and will likely lead to worsening runaway inflation**
  - Protests are scheduled from July 18 – July 20 at the Port of Oakland; delays and disruptions are expected
  - Meanwhile, a trucker protest held in Los Angeles on Wednesday will likely spur truckers across the state go on strike
  - Any strike action by the truckers is expected to last several weeks

Domestic Trucking (Cont'd)

Major Disruptions (Cont'd)

- More than half of Los Angeles' truck gates are going unused due to inconsistent staffing and operational hours both at the terminals and nearby distribution centers
- Trucking industry sounds alarm on diesel shortages, rising prices
  - Shortages of diesel fuel, DEF, and diesel engine oil (due to *force majeure* declarations by raw materials suppliers in Asia) threaten to bring down global economies within months, unless steps are taken to boost inventories
    - Diesel and DEF inventories on the East Coast have reached critical levels, with some gas stations rationing diesel
    - Countries across Europe are preparing blueprints for emergency rationing
    - The poorest and most vulnerable nations will feel the harshest effect
      - India begins rationing diesel in some states
      - Truck driver unions across Argentina protest diesel fuel shortages and rising prices by blocking highways and threatening to paralyze exports
        - The protests are expected to last several weeks in an effort to pressure the government to do more
  - Shortages on everything will be exacerbated, leading to soaring food prices and inflation
  - Experts agree inflation can't be controlled without relief in diesel prices
- A growing global shortage of emission control sensors, which are made in China, could force companies to pull trucks off the roads, driving up transport costs and further crippling the supply chain
- Small trucking companies are going out of business at an alarming rate amid rising fuel costs, weakened demand
- Vermont-based LandAir, New England's largest LTL carrier, quietly closes doors, terminates 450 employees via Zoom call
  - There is speculation that the company didn't officially announce the closure to avoid penalties of the WARN Act, which requires companies with 100+ or more employees to provide the state and employees a 60-day written notice of pending closure

Truck Driver Shortage

- Global driver shortages are anticipated to surge this year, with Europe and China among the hardest hit
- Finding and retaining talent reman the biggest challenges, despite salary increases, sign-on bonuses, and the addition of full benefits packages
- More than 4,000 trucking jobs were added to the U.S. economy last month, a modest increase compared to gains over the rest of 2022
- The American Trucking Association recently reported the industry-wide turnover rate is hovering around 90%
- Drayage operations in Toronto have been severely hampered by a driver shortage
  - According to the Canadian Trucking Alliance, there are 23,0000 unfilled trucking jobs in Ontario

Equipment Shortages

- The chassis shortage continues to grow due to rising import volumes and longer street dwell times
- American and Chinese manufacturers have been slow to ramp up production
- The situation is likely to continue until 2023, when a surge of chassis is expected to hit the market

U.S. Chassis Availability

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

Rail

CAPACITY ↓ EQUIPMENT ↓ RATES ↑

Market Expectations, Space, Volume, and Rates

U.S. rail traffic remains well below 2021 levels. Weekly carload volumes were down 3.1% from the same period last year, while intermodal volumes dropped 4.7%. Year-to-date figures show overall traffic down 6.1%. A look at unfilled card orders, which have seen a 231% increase, reveals that the declines are not due to reduced demand, but rather to the ineptitude of the Class I railroads.

Rail service disruptions are slowing nationwide cargo flows and helping to stoke inflation. Turn times continue to increase at interior rail hubs - most notably in Chicago, Memphis, and Kansas City. Rail speeds continue to decline, with the average speed of grain and ethanol lower than other goods. Average rail origin dwell times (the number of hours trains spend waiting at origin) have increased by 18% since the beginning of the year and are up 62% compared to the same period last year.

Worsening congestion at inland rail ramps, particularly in Chicago and the Midwest, are adding more complications for shippers trying to manage the flow of goods. Containers are sitting 20% longer than they were a year ago, caused in part by a critical shortage of chassis. The congestion in intermodal operations, which combine truck and rail transport for longer freight hauls, is also adding to delays.

The congestion at inland freight-switching yards is severely delaying the repositioning of rail cars to the West Coast, hampering container processing at the nation's largest port complex. Over 57,000 containers have been left stranded at Southern California ports, more than triple the usual number. As a result, carriers will likely restrict IPI-bound bookings over the coming weeks.

Some retailers have reported waiting weeks to move cargo by train out of West Coast ports, while others are completely giving up on the railroads, shifting shipments of consumer goods to trucks for long-haul journeys. Gene Seroka, executive director at the Port of Los Angeles, warns that if rail service is not improved immediately, the nation's supply chain will face a nationwide logjam.

Efforts by the Surface Transportation Board (STB) to help aren't making any headway. In a recent statement, STB Chairman Oberman said, "The freight rail industry is currently struggling to provide adequate rail service. It is particularly disturbing that the railroads failed to comply with the order requiring them to file adequate service recovery plans. I had expected a better response from the carriers to the Board's order, and now with more explicit instructions, which should not have been needed, there will be no excuse for continued lack of compliance."

Rail freight rates continue to skyrocket, outpacing both inflation and rates for all other modes of transport. The most recent financial reports from the Class I railroads show them raking in all-time high profits amid plummeting service metrics, while forcing "captive shippers" to pay more for less service.

Canada / Mexico

Canada's carload volumes increased 14% last week compared to the same week last year, while intermodals units jumped up 26.7%. Meanwhile, Mexican railroads reported a 2.6% decline in carloads compared to the same week last year and intermodal volumes dropped by 9.1%.

Rail traffic from the ports of Vancouver and Prince Rupert to Toronto and Montreal are stuck in low gear to due severe congestion at inland rail hubs. The weeks worth of delays from the Pacific Coast have been attributed to insufficient drayage capacity in Toronto, which is down 18.5% from a year ago. Flows from Canada's Atlantic Coast ports have also been affected. At the moment, there are no projections on how long it will take to clear the congestion.

The Canadian National Railway and the union representing its signal and communications workers have agreed to binding arbitration, ending a two-week strike on July 6.

China - Europe

Volumes on the northern route through Russia have plummeted 60% since sanctions were imposed against Russia and Belarus. As a result, demand for the southern and middle corridors has increased 120% despite the longer transit times.

Delays have been reported in Baku and Georgia due to severe congestion and infrastructure constraints amid the rise in traffic.

Intensifying port congestion and vessel delays across North Europe are forcing many frustrated shippers to switch to China-Europe freight trains, with many choosing the shorter route through Russia despite the sanctions, saying they are left with no other choice.

Rail (Cont'd)

Major Disruptions

- Biden signs executive order blocking nationwide rail strike, which threatened to bring the rail system to a halt
  - The order will create a Presidential Emergency Board to intervene in the contract dispute, giving them 60 days to develop a compromise; during which no industrial actions can happen
  - The rail unions themselves were the biggest industry group to push the Administration to make the strike action illegal - at the expense of their own members
  - More than 115,000 U.S. railworkers operating at more than 30 railroads across the country voted in favor of the strike action, which was set to take effect today after the mandated 30-day colling off period
  - BLET union president Dennis Pierce blames the railroads who "used and continue to use their economic strength to steamroll their employees, their customers, and the nation, all for the sake of their bottom line"
  - Thousands of railworkers have resigned in recent weeks and many more are likely to in the coming days in protest of the legal action aimed at suppressing worker opposition
  - The unions have been working without a contract or a pay raise since June 2019, and, as previously reported, the working conditions in the railroads are atrocious
- BNSF limits the number of boxes moved to California as they work to clear backlogs at inland rail ramps through **July 31**
  - The embargo applies to all commodities shipped from Alabama, Arkansas, Arizona, Iowa, Illinois, Kansas, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, Oklahoma, Tennessee, and Texas
  - The embargo also applies to **all eastern points of origin** outside the BNSF network which interchange through any of the points listed above
- Canadian railroads begin metering cargo levels in Vancouver and Prince Rupert due to severe inland and East Coast congestion
  - Trains are currently operating at 80% capacity as inland terminals cannot handle more volume
- UK railways will grind to a halt again on **July 27** as workers stage another strike after rejecting the latest offer from RMT
  - Rail strikes are set to continue intermittently throughout the rest of the summer, but the unions remain open to further talks
  - UK's Transport Secretary Grant Shapps blames the RMT for failure to negotiate in good faith and said "negotiations over recent weeks have merely been for show… to cause further misery for people across the country"
- Germany's METRANS Group temporarily suspends rail service to Hamburg due to severe landside congestion at the port
- Lithuania restricts rail freight from Russia to Kaliningrad; Russia claims the move is in violation of an agreement made decades ago, threatens actions unless the block is lifted
- Kazakhstan eyes rail freight ban of sanctioned goods to Russia and Belarus through its territory in response to Russia cutting off oil exports
  - If the ban is implemented, goods will not be allowed to cross the Kazakh-Russian border and rail traffic between China and Europe will likely be affected

Container Dwell Times

Rail Terminal	Average Dwell
Charleston	8 days
Chicago	10 days
Houston	8 days
Kansas City	9 days
Los Angeles / Long Beach	13 – 17 days
Memphis	13 days

Rail Terminal	Average Dwell
New York / New Jersey	8 days
Oakland	13 days
Savannah	9 days
Seattle	16 days
Toronto, CA	12 days
Vancouver, CA	8 days

Announcements

- Rail Bridge Cargo launches four new services from China to Europe along the middle and southern corridors using intermodal routes through the Caspian Sea and gateway ports of Istanbul, Constanta, and Varna
- China launches new sea-rail container terminal connecting Guangxi Autonomous Region with the Beibu Gulf ports

Equipment Shortages

- Containers are stacking up at rail ramps in Chicago and Dallas due to a critical shortage of chassis, slowing productivity and delaying the return of trains to the West Coast

Thank You

Please note the information contained in this publications is compiled from a variety of sources - including trade publications, local media outlets, federal agencies, and partner agents - and is based upon information available at the time of writing. This information is provided to our valued clients for informational purposes only, and we do not accept liability or responsibility for reliance on the information contained herein.

www.oceanair.net

OCEANAIR, Inc.
186A Lee Burbank Highway
Revere, MA 02151

Phone
781.286.2700

Email
solutions@oceanair.net