DSV Air & Sea

Market update September 2022

US - Inflation Showed Signs of Easing during August

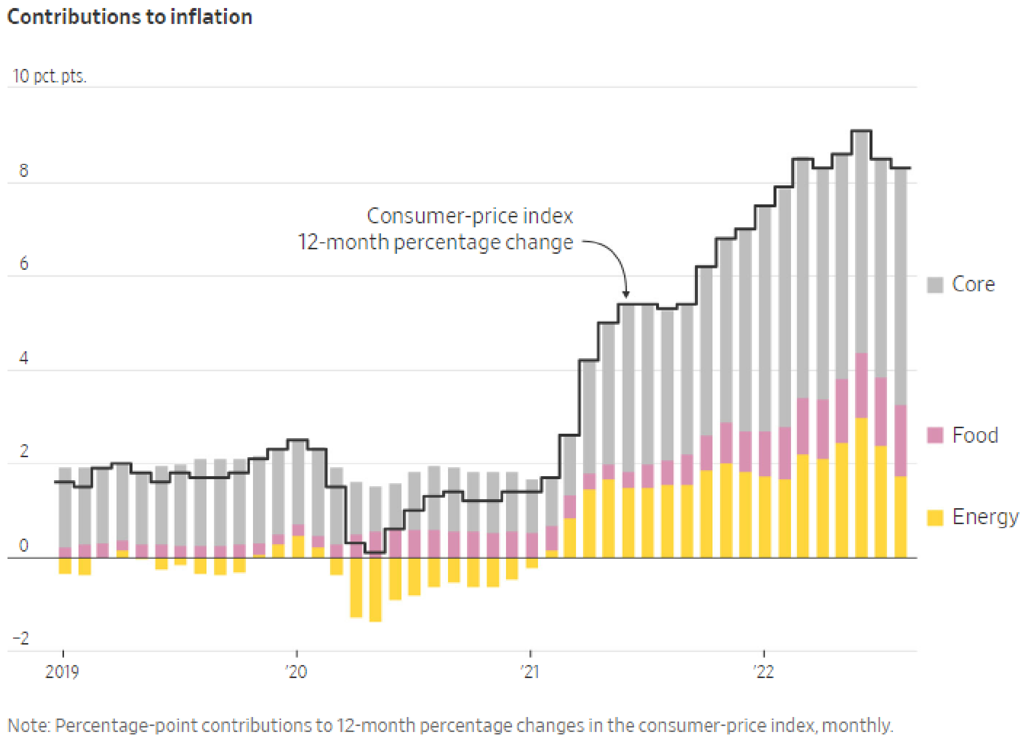
Prices fell for gasoline, airfares and lodging, though food and other costs

U.S. consumer-price inflation showed signs of moderating in August for the second straight month, though the decrease was uneven across sectors and it remains unclear whether the slowdown will continue.

Gasoline prices fell sharply in August, airfares dropped and used cars and hotels ebbed, while rent increases also gave hints of slowing, according to private firms that track such data.

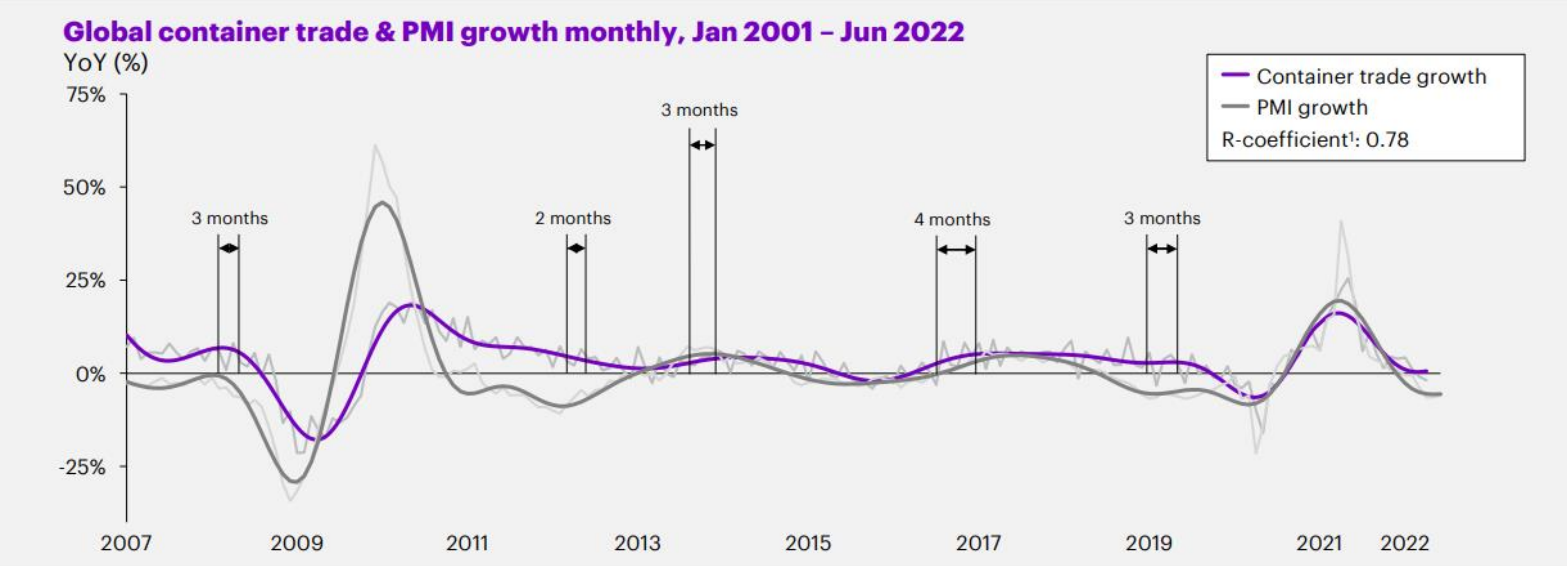
Still, food prices continued to soar this past month and prices for a range of goods and services remained much higher than a year earlier, the figures show.

In some industries, firms report progress working through pandemic-related supply-chain disruptions that have pushed prices higher. Moreover, many retailers have amped up discounting programs to clear inventory of clothing and other items that they overstocked during the pandemic.



Source: US Labor department

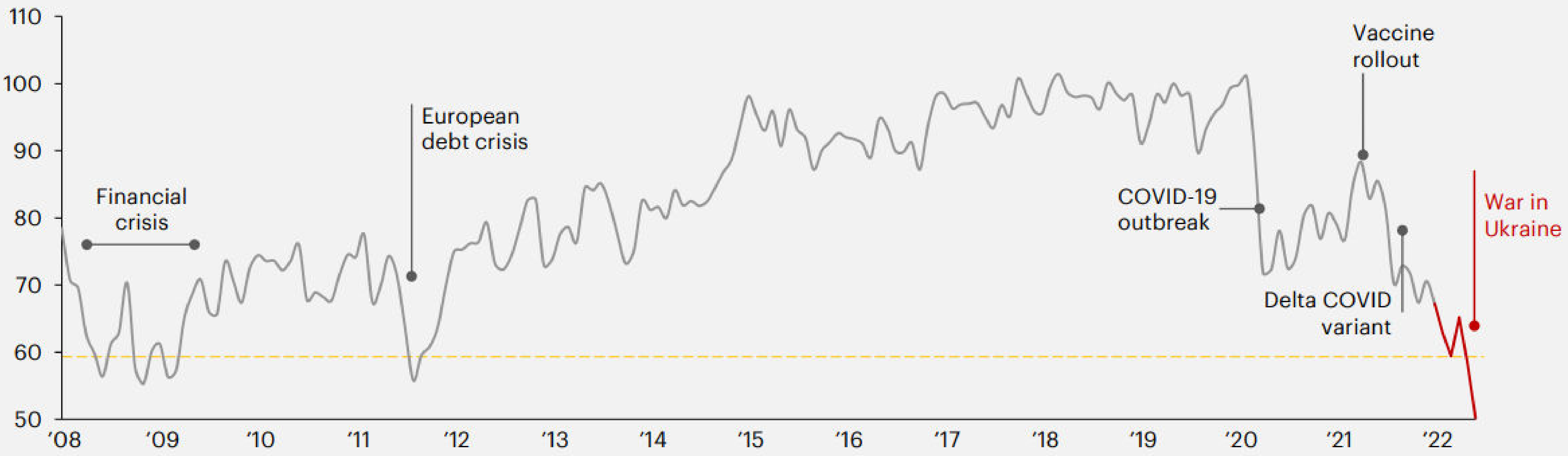
The Purchasing Managers Index has slipped into negative growth in 2022 Q2



Consumer sentiment has come down further in Q2

Monthly US consumer sentiment index, January 2008 - June 2022

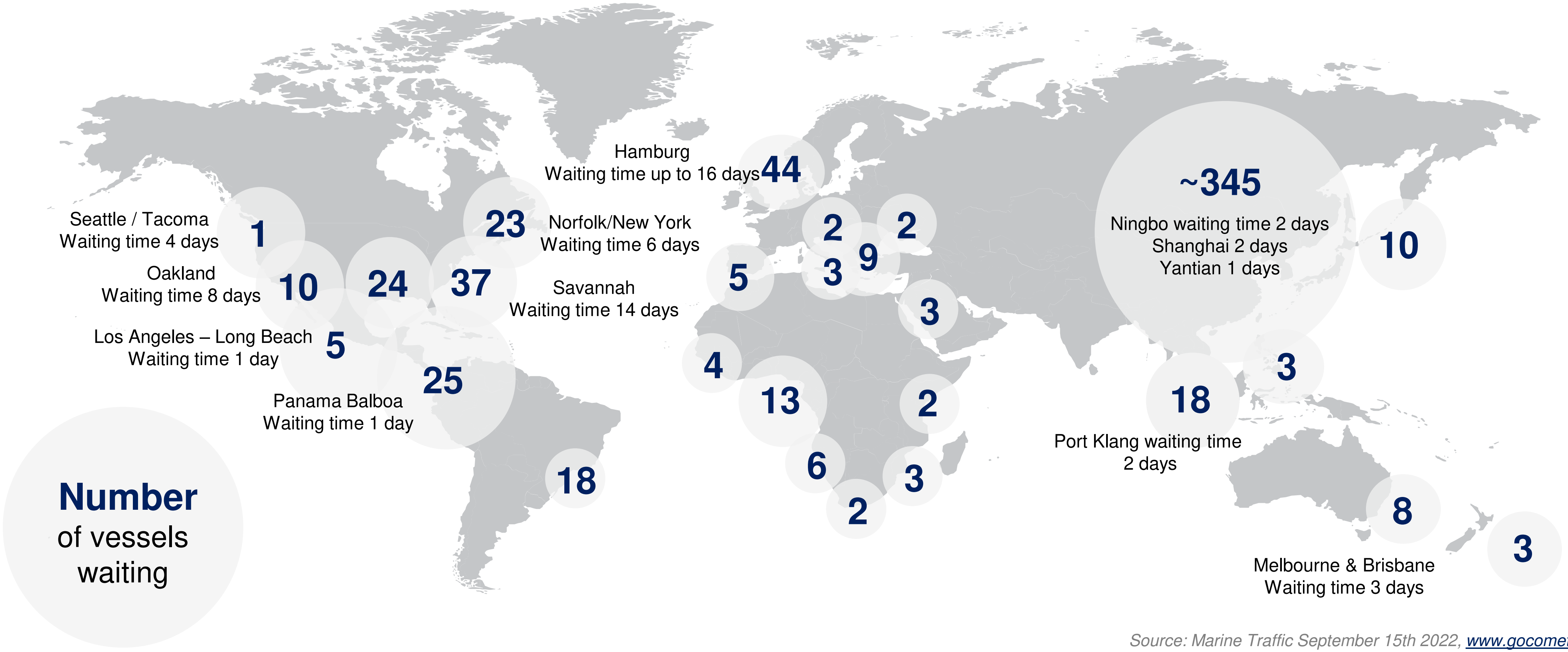
The University of Michigan Consumer Sentiment Index (Q1 1966 = 100)



Port congestion

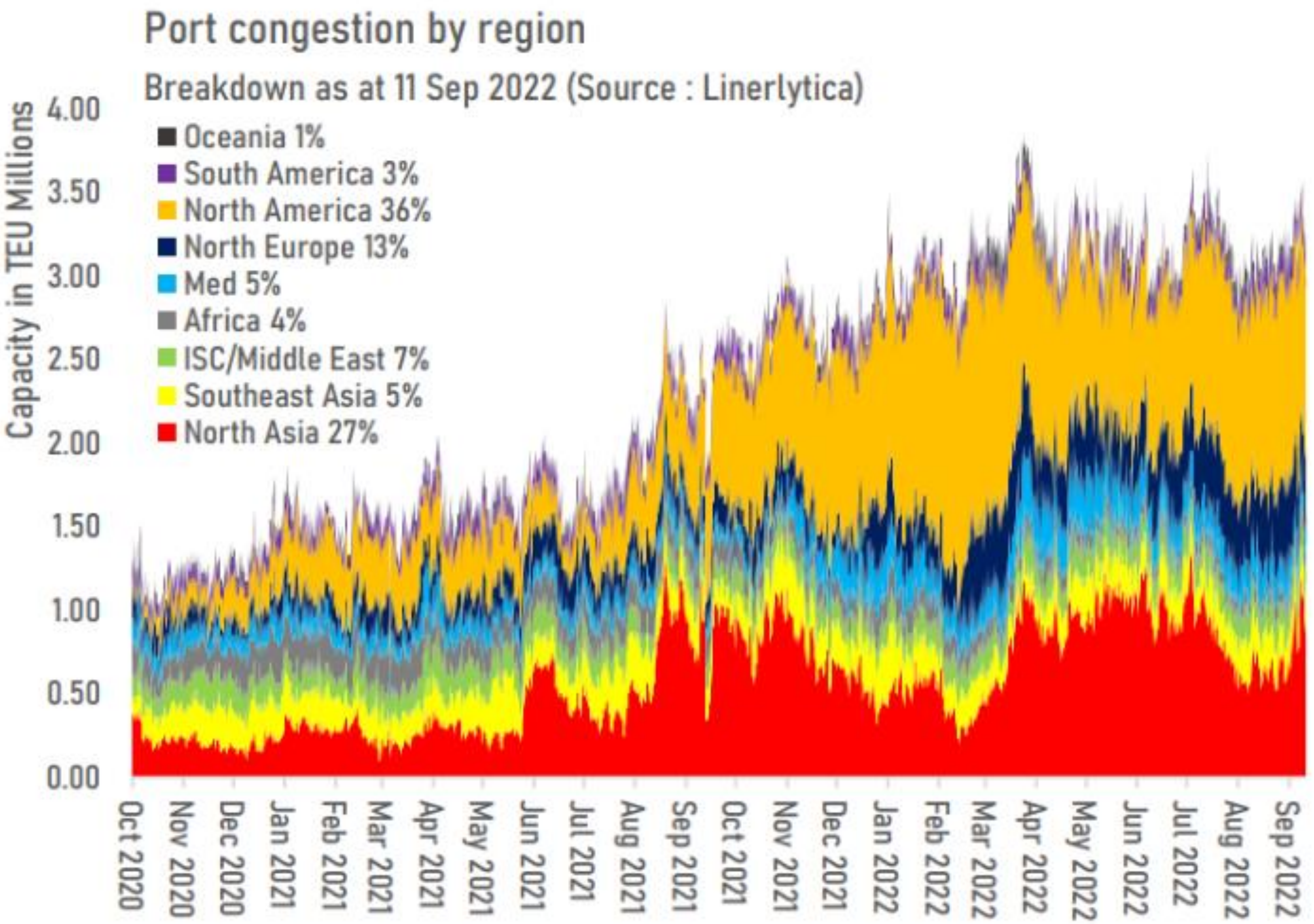
Global port congestion

12,2 % of the global vessel capacity effectively removed, congestion remains in US East coast and Europe north continent and growing in China due to a typhoon



Source: Marine Traffic September 15th 2022, www.gocomet.com, Linerlytica

Global congestion remained flat during past month – 12.2%



Source: Linerlytica (September 2022)

The after-effects of typhoon Hinnamnor has resulted in a large build up of ships waiting at Shanghai, Ningbo and Busan even though the congestion has started to clear by the end of the week.

It would take another week for the situation to return to normal as the affected ports work through the backlog of waiting ships.

There has not been any material improvement in the congestion situation at the other main regions, with only a small reduction in the vessel queues in North America and Europe.

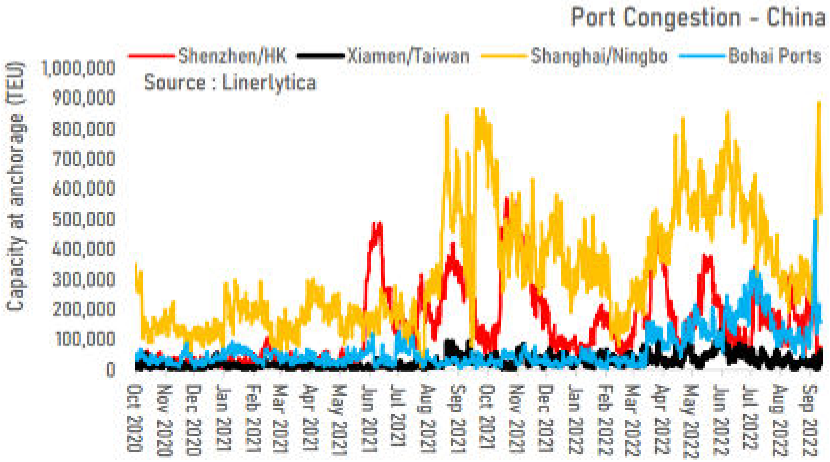
Chinese cities halt flights, trains as Typhoon Muifa nears

China raised its highest tropical cyclone alert on Wednesday as Typhoon Muifa approached the densely populated Yangtze River Delta, with Shanghai and other cities cancelling flights and trains and suspending work at busy ports.

All flights at Shanghai's Pudong and Hongqiao airports were cancelled, while the city of Hangzhou to the southwest of Shanghai will halt domestic flights from the evening.

Flights at Zhoushan and Ningbo airports, in the coastal province of Zhejiang, were also cancelled, while the ship bunkering hub shared by both cities temporarily suspended discharging and loading oil, and ordered tankers to stay at anchorages.

Ships that were diverted to the Qingdao anchorage in Bohai to avoid the path of typhoon Hinnamnor last week moved back to their scheduled windows at Shanghai and Ningbo, driving congestion at the 2 main eastern China ports to a record high of 885,00 Teus we don't know yet the final implications of Typhoon Muifa



Source: Reuters and Lynerlitica

European Terminal Congestion

European Hinterland disruptions, drought, congestion, delays, and no relief…

Whilst the summer holiday season is slowly ending Europe is hit by several summer attending ills that also influence the transport industry heavily.

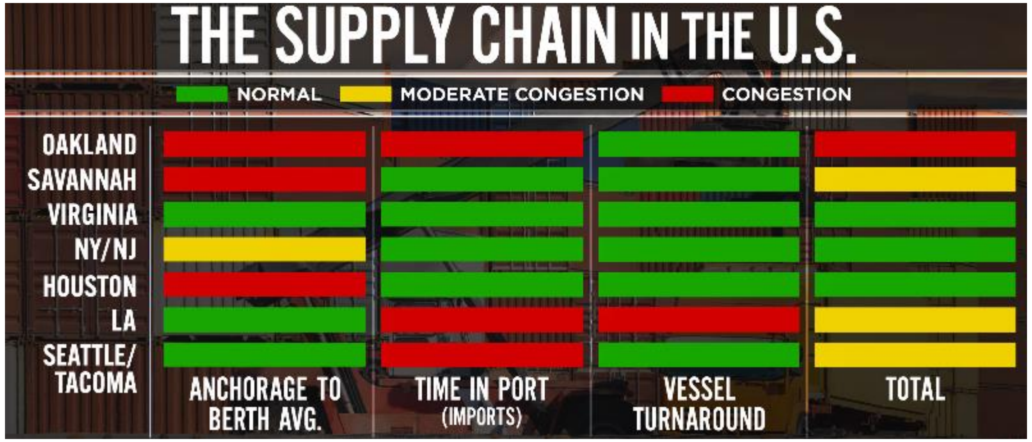
Being directly confronted with climate change we see the River Rhine at a dramatic low tide. 80 % of Germanys inland water transport is happening on the River Rhine which winds its way from its source high in the Swiss Alps for around 1,300 kilometres through some of Europe's most important industrial areas before emptying into the North Sea near Rotterdam. Inland shipping uses it to transport essential goods: Chemical giant BASF and steel company Thyssenkrupp are among the companies that rely on the river. Large industrial plants are supplied with fuel and raw materials in this way. Usually, an inland vessel can transport up to 4000 t – currently only a quarter can be shipped.

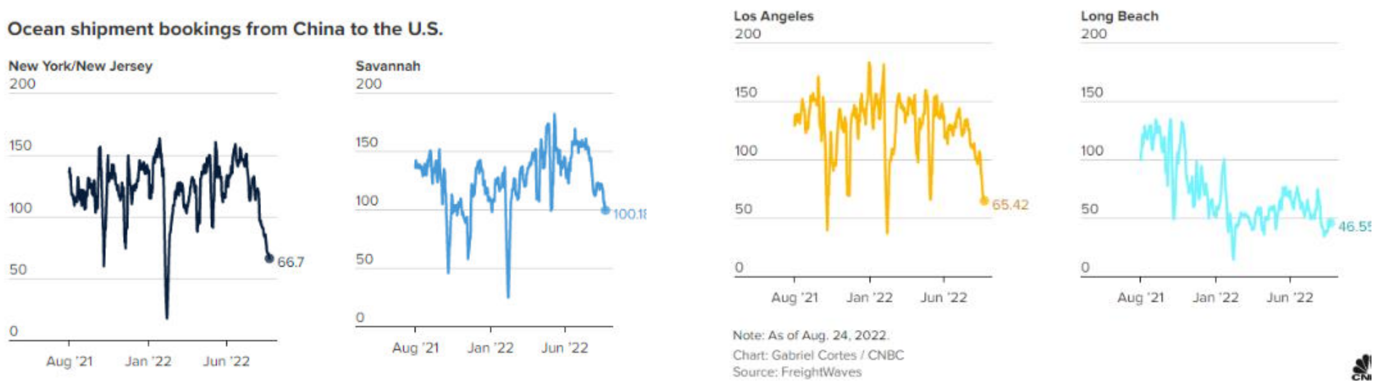
The Ukraine crisis has triggered an enormous need for cargo space for transporting coal to power plants. In addition, ship capacity is migrating to the Danube to transport grain from Ukraine. Goods and containers dedicated to the seaports Rotterdam, Antwerp, Zeebrugge now must move by rail or truck with no additional available capacity in these transport modes. The railway capacities are not sufficient to compensate for the lack of inland waterway vessels.

Source: Marinetraffic,, Linerlytica, Sea-Intel

US: Canceled sailings, stuck vessels, warehouse prices show U.S. ports are still struggling

Ocean carriers continue to cite congestion at U.S. and Canadian ports as the reason for canceling sailings in September





An increase in container vessels anchored off of Savannah and Houston is one sign of a global shipping industry that has moved more cargo away from the U.S. West Coast.

A big beneficiary is East and Gulf coast warehousing, where higher container delivery volume is pushing up prices.

Ocean carriers are cancelling sailings as result of U.S. port congestion, and even as container volume from China is way down, U.S. ports continue to have productivity issues.

Source: Linerlytica

The current strike at Felixstowe is slowing down $4.7 billion in trade.

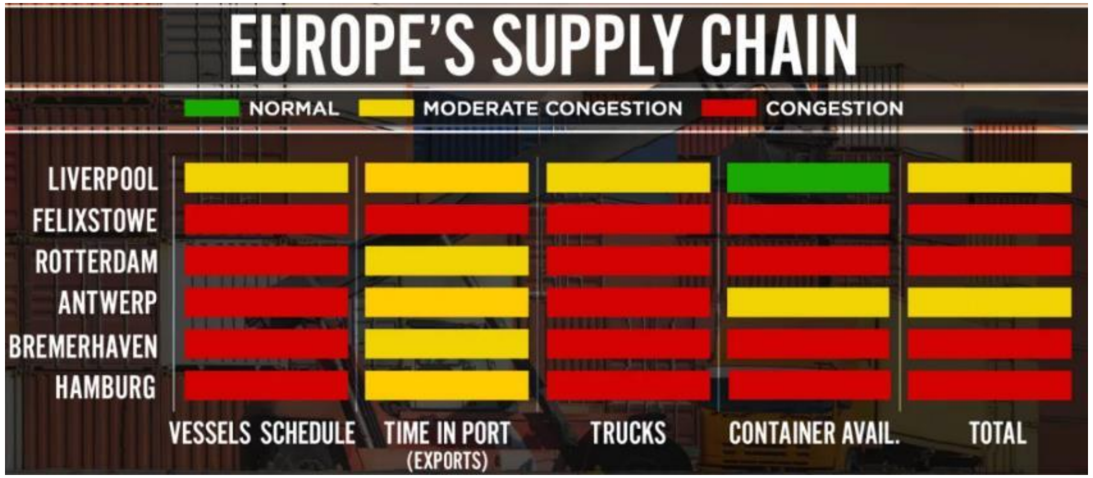
It will take at least two months for the backup of containers to be cleared out.

The union Unite has warned the port disruption could last until Christmas if the ten percent pay demand is not met. Sharon Graham, general secretary of Unite, says CK Hutchison Holdings, the company which owns the port, can afford the raise as a result of its record profits.

If the strike action goes for the full eight days or longer, massive delays will be seen across the UK, with spill over effects into the EU as containers get diverted to other ports such as Rotterdam or Le Havre.

Many UK and EU ports are already experiencing maximum capacity volumes, so their ability to handle even more may be limited.

This is also affecting export trades from Europe since it will increase complexity to ship goods.



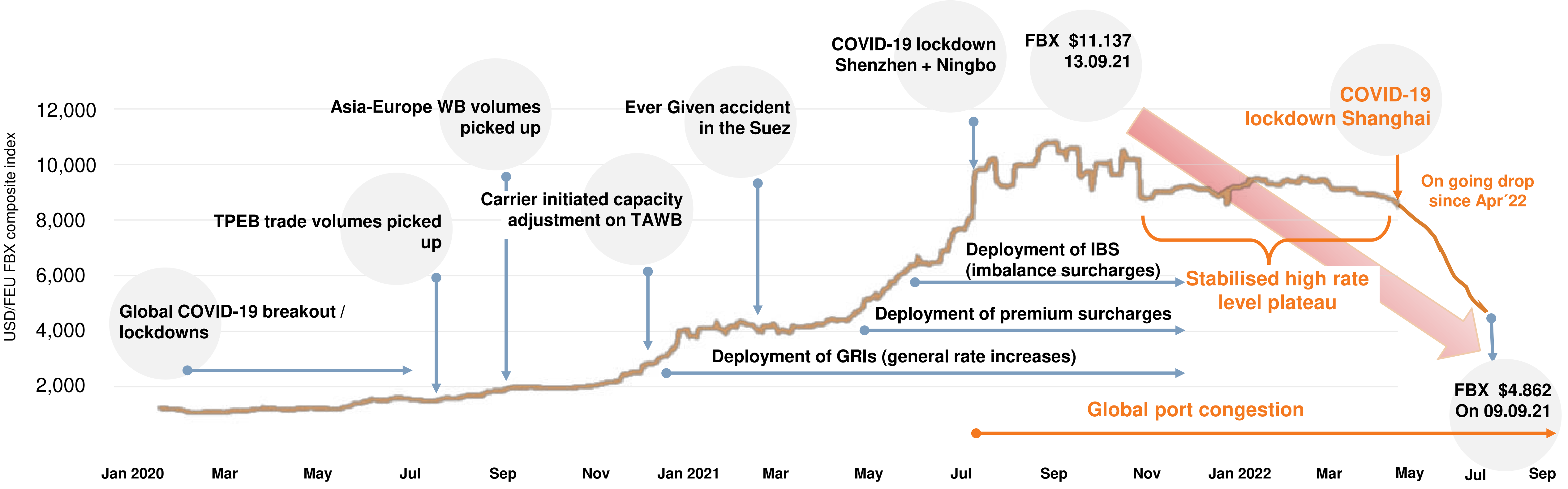
Source: The Guardian and multiple sources

Ocean update

Ocean market triggers over the last 24 months:

From overcapacity to historically high freight rates to new normal

- Surge in demand in H2-2020.
- Carriers deployed additional capacity.
- Many of the corrective actions have been eaten up by port congestion.
- After Shanghai lockdowns ocean shipping rates have plunged 60%

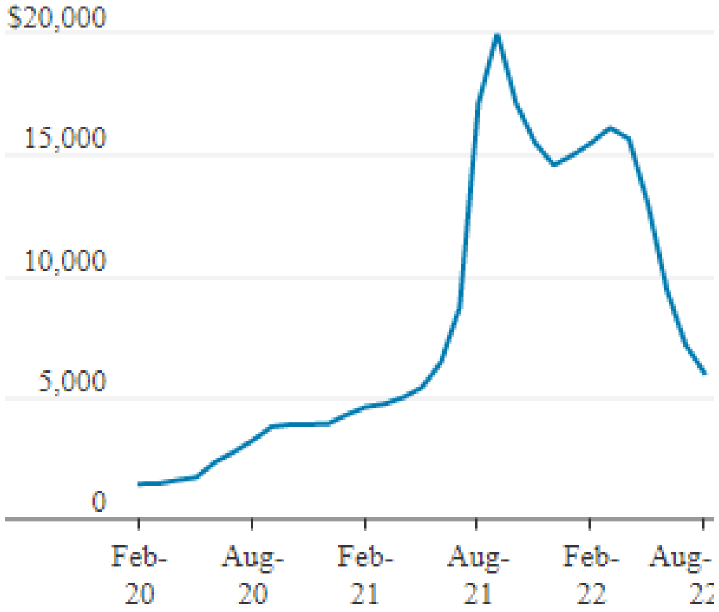


Source: FBX composite index

Ocean Shipping Rates Have Plunged 60% This Year

Freight Costs Ease

Average shipping rates, China to U.S. West Coast



Note: Reflects the spot rates to move 40-foot containers

Source: Freightos Baltic Index

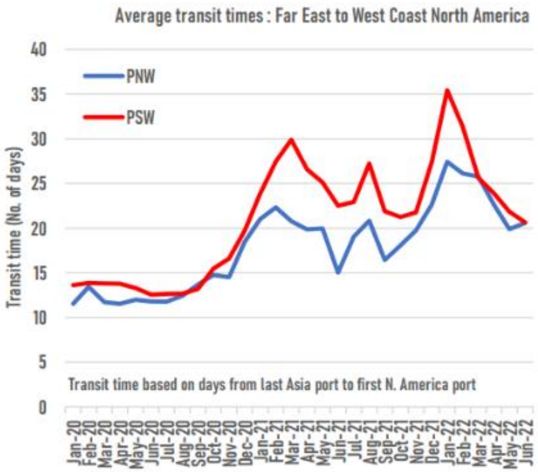
Freight rates on the main ocean trade routes are sinking during what is typically the industry's peak season after cargo owners shipped holiday goods early and inflation dented consumer demand.

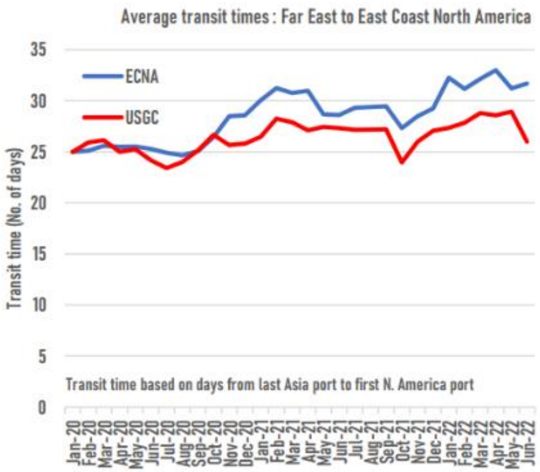
Market conditions have made a sharp reversal from earlier in the pandemic. Freight rates jumped roughly 10-fold in 2021 because supply-chain disruptions, port backlogs and a surge of cargo left importers scrambling for space on box ships.

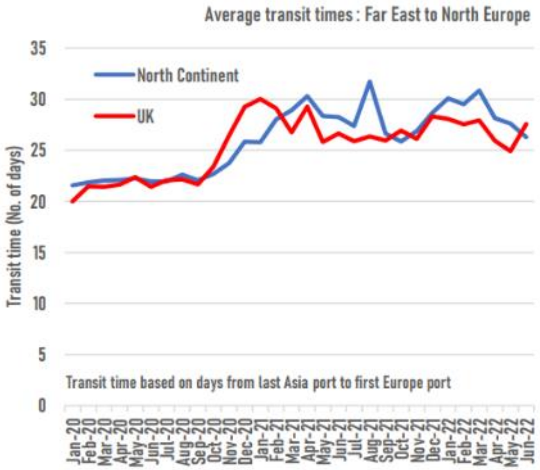
This year, Walmart and other retailers ended up with too much inventory after they raced to import goods earlier than usual, anticipating shipping delays and demand that didn't materialize. Manufacturers, too, moved goods earlier than usual. Apparel sellers such as Gap Inc. and toy makers including Hasbro Inc. reported spring surges in inventory levels that normally occur closer to the holidays.

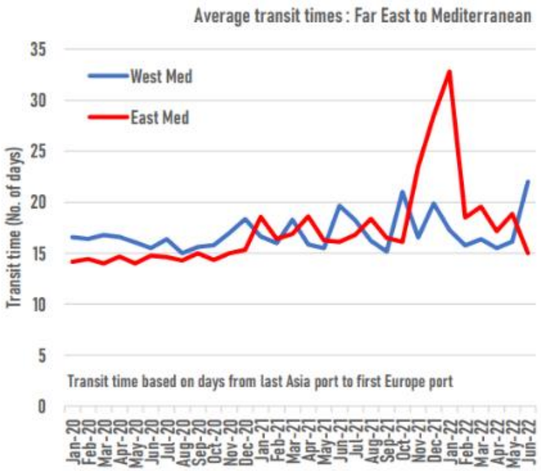
Source: WSJ – and FBX composite

Transit time performance, improvements seen in the Los Angeles and USEC ports and worsening in Vancouver and Europe









North Europe trade currently need on average 97 days to complete a full round voyage. They arrive on average 16 days late back in China for their next round trip.

European port congestion picked up, especially in Rotterdam where the number of vessels waiting at anchorage rising very quickly while yard capacity utilizations has reached critical levels. Due to the latest 8-days port strike in Felixstowe / UK vessels have been diverted from UK to Rotterdam to avoid further delays.

Although the Asia to Europe trade saw as much as 10% volume decline in June 2022 versus June 2021 the outlook for a quick reversal back to all over normalization like before the pandemic is still not given at this time

Source: Linerlytica (May 2022)

US - Freight Railroads Propose Limiting Sensitive Cargo as Strike Threat Looms

Freight railroads said they are planning to halt the transport of hazardous materials and sensitive cargoes, such as chemicals used in fertilizer and chlorine for water purification, as they continue negotiations with two labor unions.

The last national rail strike in the U.S. was in 1991 and ended after a day when Congress swiftly passed and President George H.W. Bush signed legislation ordering the workers back to their jobs and setting up an arbitration process to resolve a dispute over staffing. A walkout in 1992 against CSX, which affected interconnected rail networks across the country, also ended with Congressional action after two days

Amtrak said it would suspend all long-distance train services on Thursday to avoid disruptions from a potential strike by freight rail workers, as negotiations between railroads and labor unions approach a Friday deadline.

Actual demand declines further we could see an improvement of bottle necks

- July saw global demand increase marginally by 0.6%, however this was driven mainly by short-distance trades and hence the actual demand in TEU*Miles declined -1.7% and is now below pre-pandemic level.

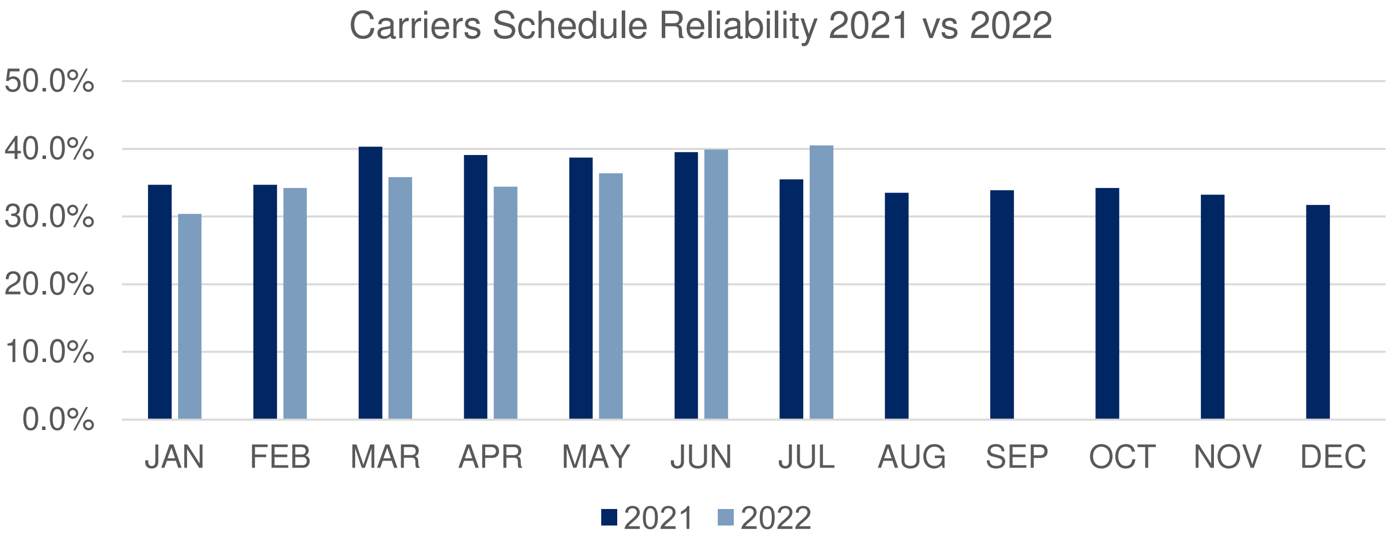
- As per the updated July 2022 data, this is the first time since October 2021,we have seen global demand growth, (if we don't count the the Chinese New Year effect)

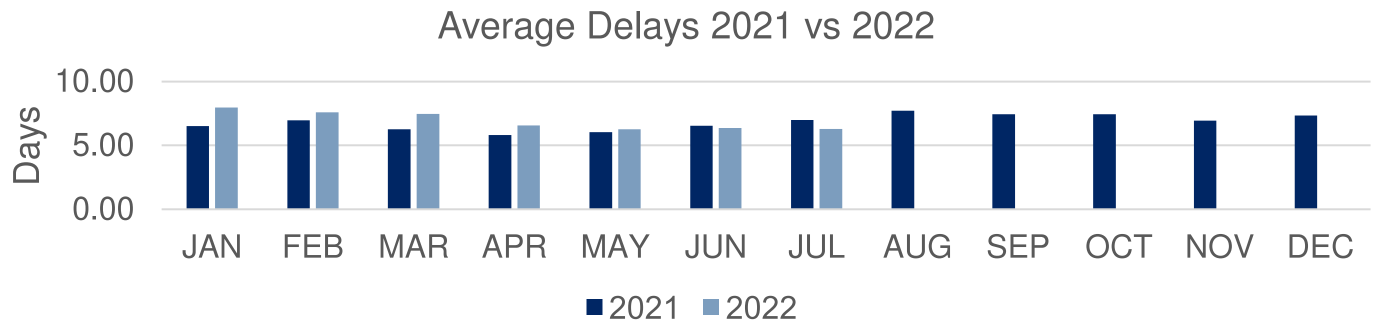
- The major deep-sea trades are experiencing sustained declines in cargo volumes, whereas smaller short-distance trades are seeing increases. This results in a continued weakening of the global supply/demand balance –a development which is further accelerated by the gradual resolution of bottlenecks

Source: Splah 247.com and Seaintelligence

Global Liner performance on July 2022 – 40% on time

July 2022 was the third consecutive month that schedule reliability improveduly 2022 was the second consecutive month that schedule reliability improved 0,6%





Vessel reliability per tradelane on June:

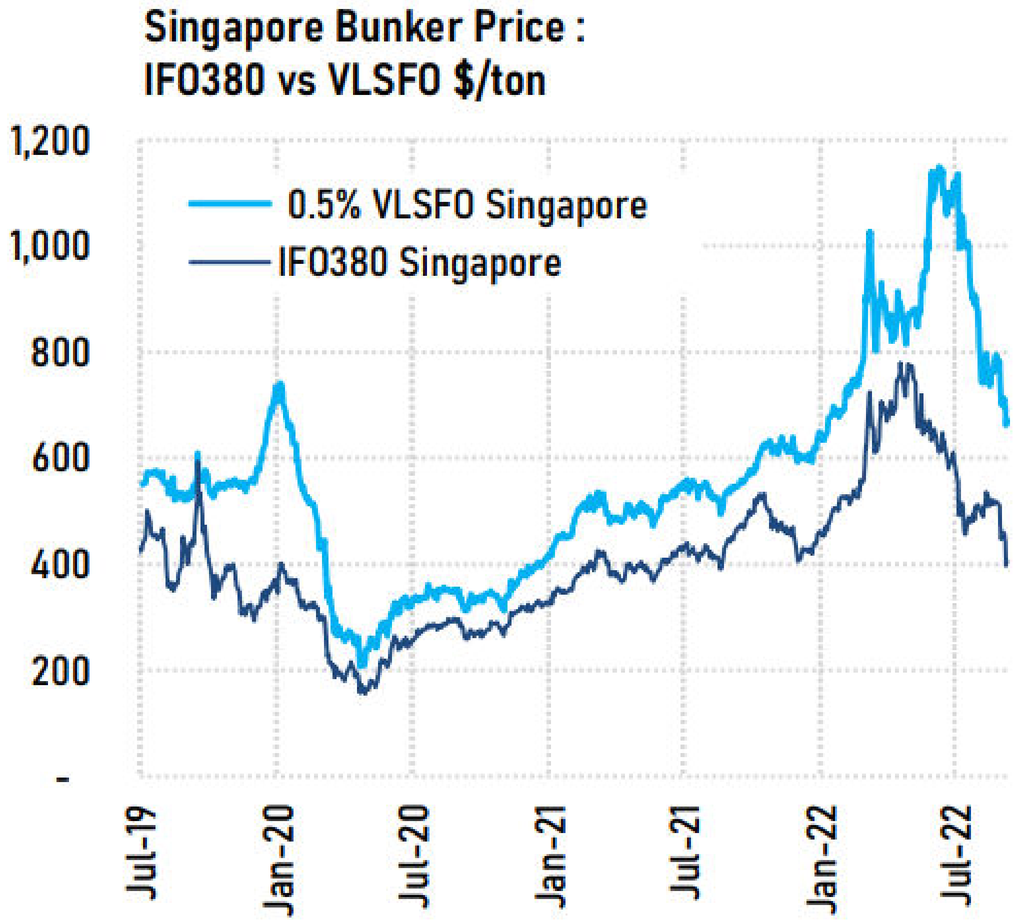
- Scehdule reliability is now trending upwards. With the July 2022 schedule reliability figure of 40.5%, it is now up 5.0 percentage points Y/Y, which is the second time we have seen a Y/Y improvement since December 2019 (the first being June 2022).

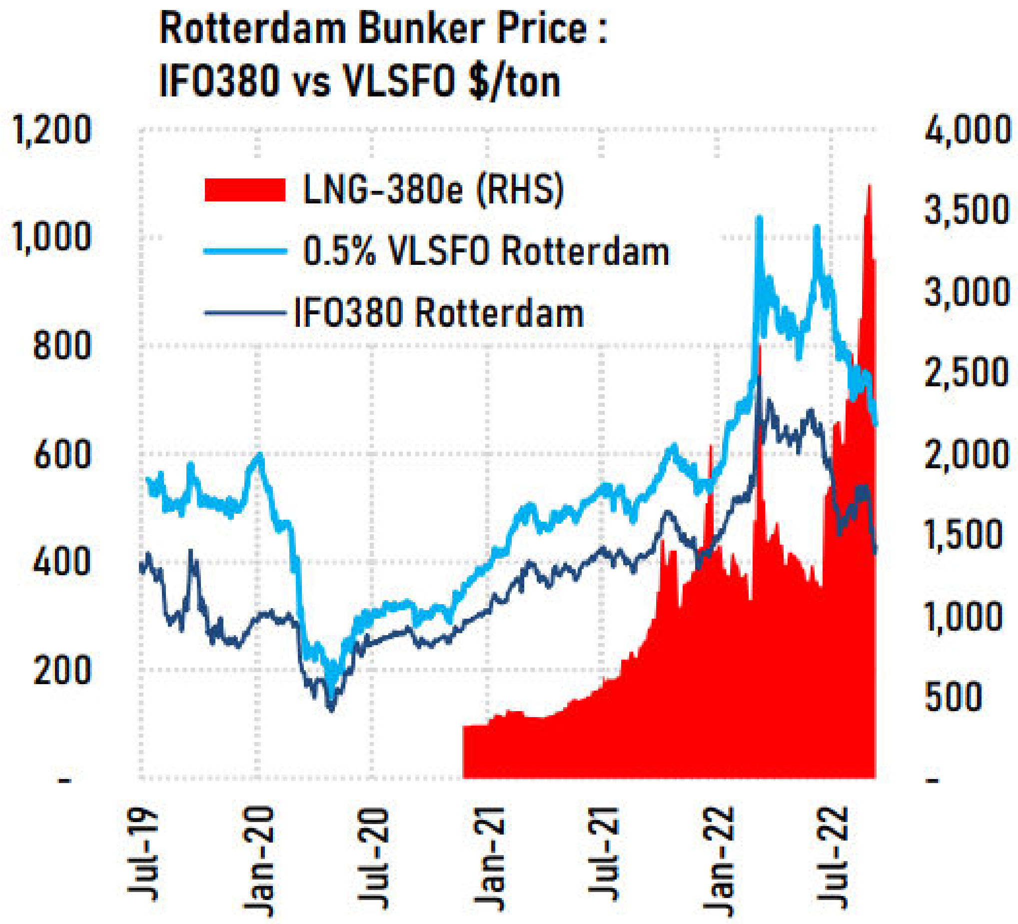
- The average delay for LATE vessel arrivals has been dropping sharply since the turn of the year, tapering off in the past few months. In July 2022, average delay dropped by -0.09 days M/M to 6.28 days. This is now the second time since April 2019 that average delay has improved Y/Y, dropping -0.71 days compared to July 2021.

Source: Sea-Intelligence Maritime Analysis

Bunker price development

The VLSFO-HSFO spread has reduced to $244 per tonne, and cost down to 434$ tn



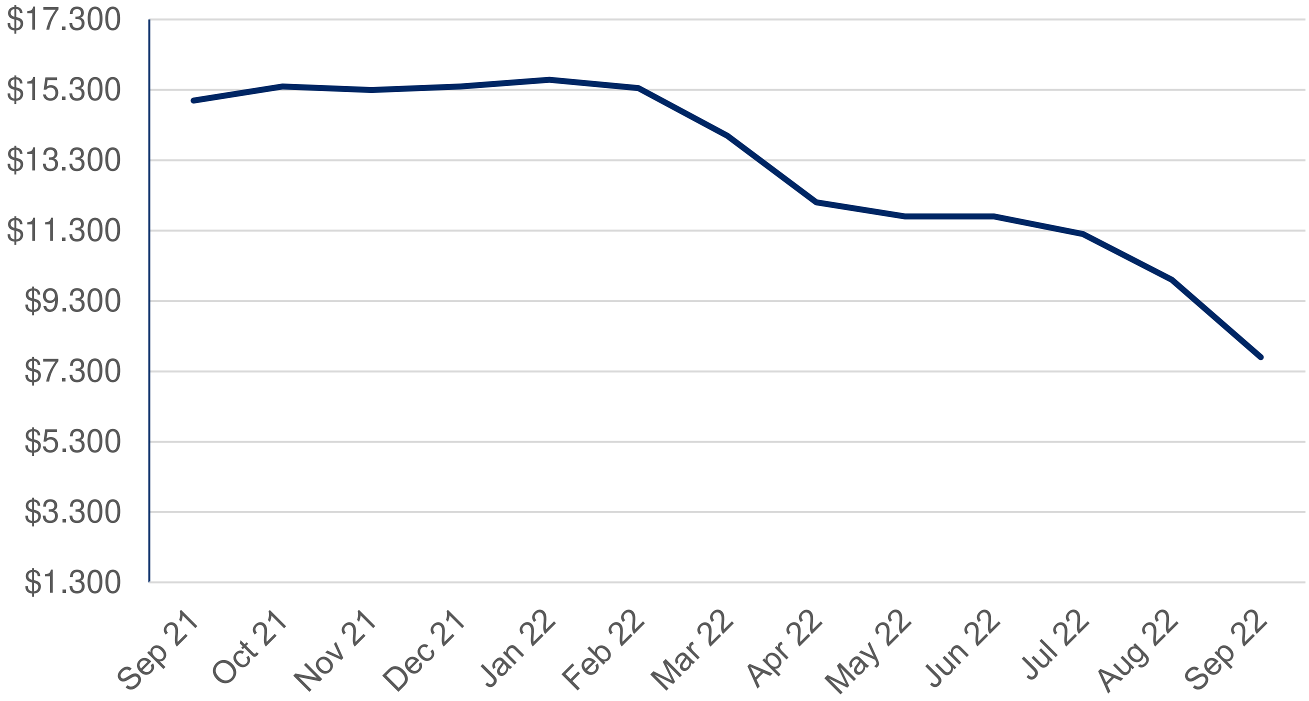


Source: Ship&Bunker - LinerLytica

Ocean Freight Asia - Europe

It has not been experienced a Christmas peak, rates trend downwards

SCFI – North Europe WB Rate Index (US$/40ft)



Source: SCFI Week 36-2022

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stoped accepting bookings for the time being in some origins

If demand keeps decreasing, carriers could potentially react with blank sailings

SCFI Levels Week 36-2022:

- Shanghai – North Europe: USD 7,754/ FEU
- Shanghai – Mediterranean: USD 8,444/ FEU

- Services keep being delayed and heavily disrupted – Especially due to the European situation

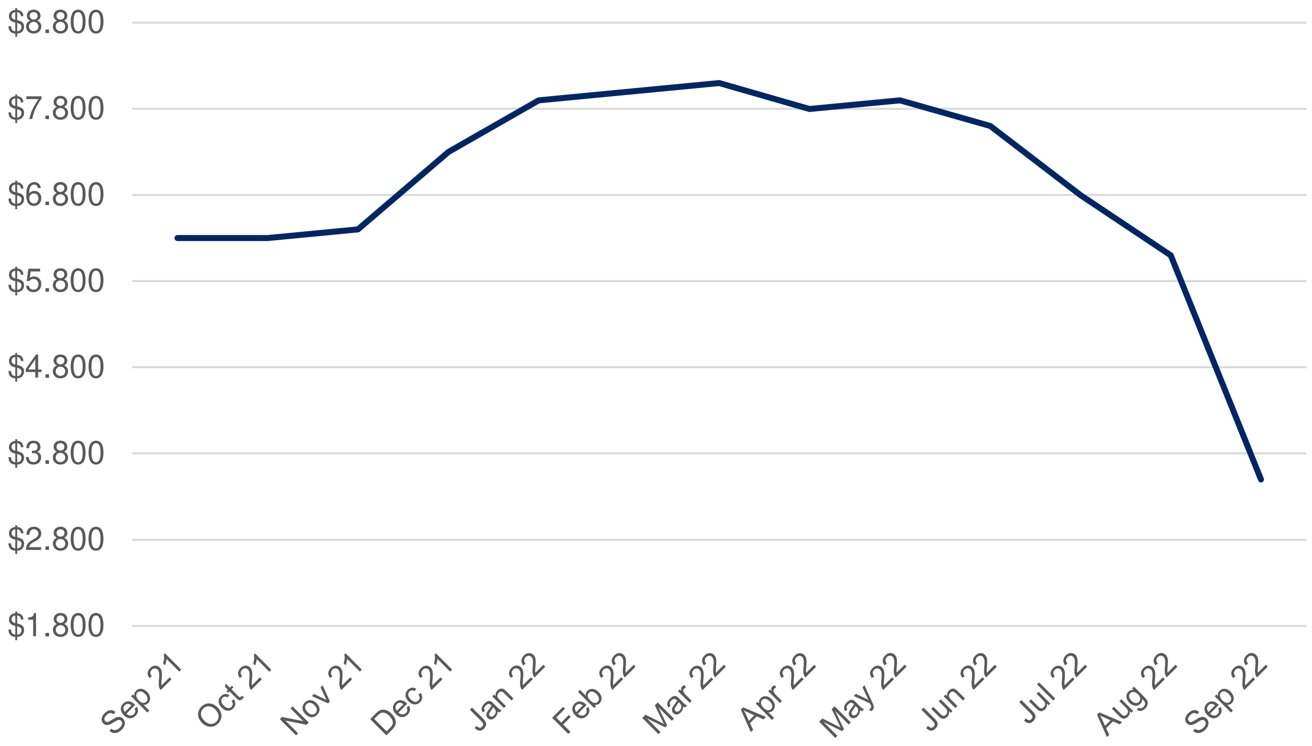
- Space is available on all carriers. Heavy use on spot contracts. This will put pressure into the long term contracts.

Ocean Freight Asia - North America

it seems unlikely a peak season to materialize this year and it seems that demand will continue to drop.

.

SCFI Transpacific EB Rate Index (US$/40ft)



Source: SCFI Week 36 2022

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stopped accepting bookings for the time being in some origins

The market seems to be slowing further and we are seeing some slack to the USWC
SCFI Levels Week 36-2022:

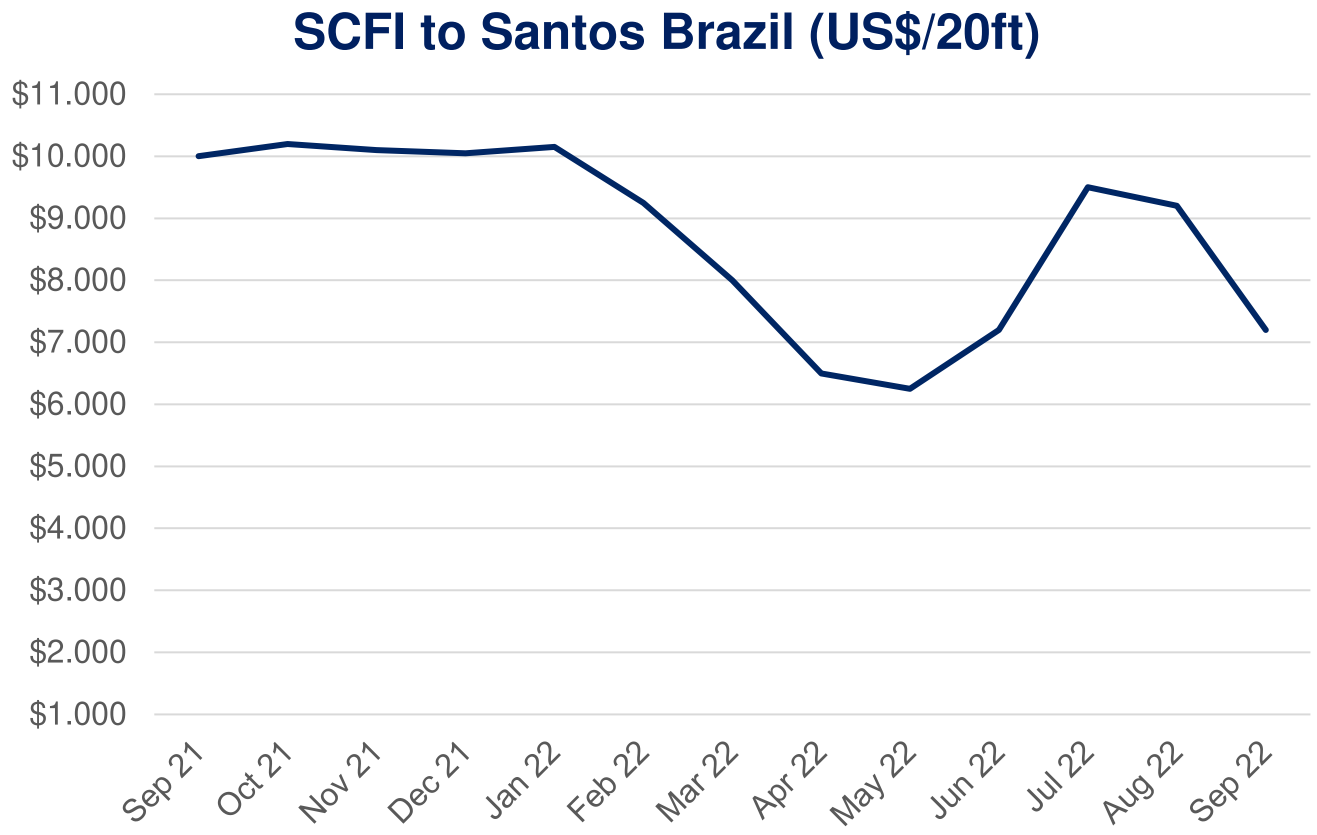
- Shanghai – US West Coast: USD 3,484/ FEU
- Shanghai – US East Coast: USD 7,767/ FEU

- Spot market remains under pressure
- Further rate erosion also in the mid- and long-term segment
- The ongoing COVID situation in China will continue to impact the market in future weeks and will most likely lead to uncertainty in rate levels beyond a 1 month window.

Ocean Freight Asia – South America (East Coast)

Market is still very strong, however we see rate erosion on West coast latam

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stopped accepting bookings for the time being in some origins



Source: SCFI Week 36-2022

SCFI Levels Week 36-2022:

- Shanghai – Santos: USD 7,183/ TEU

ECSA Carriers are fully booked and rolling.

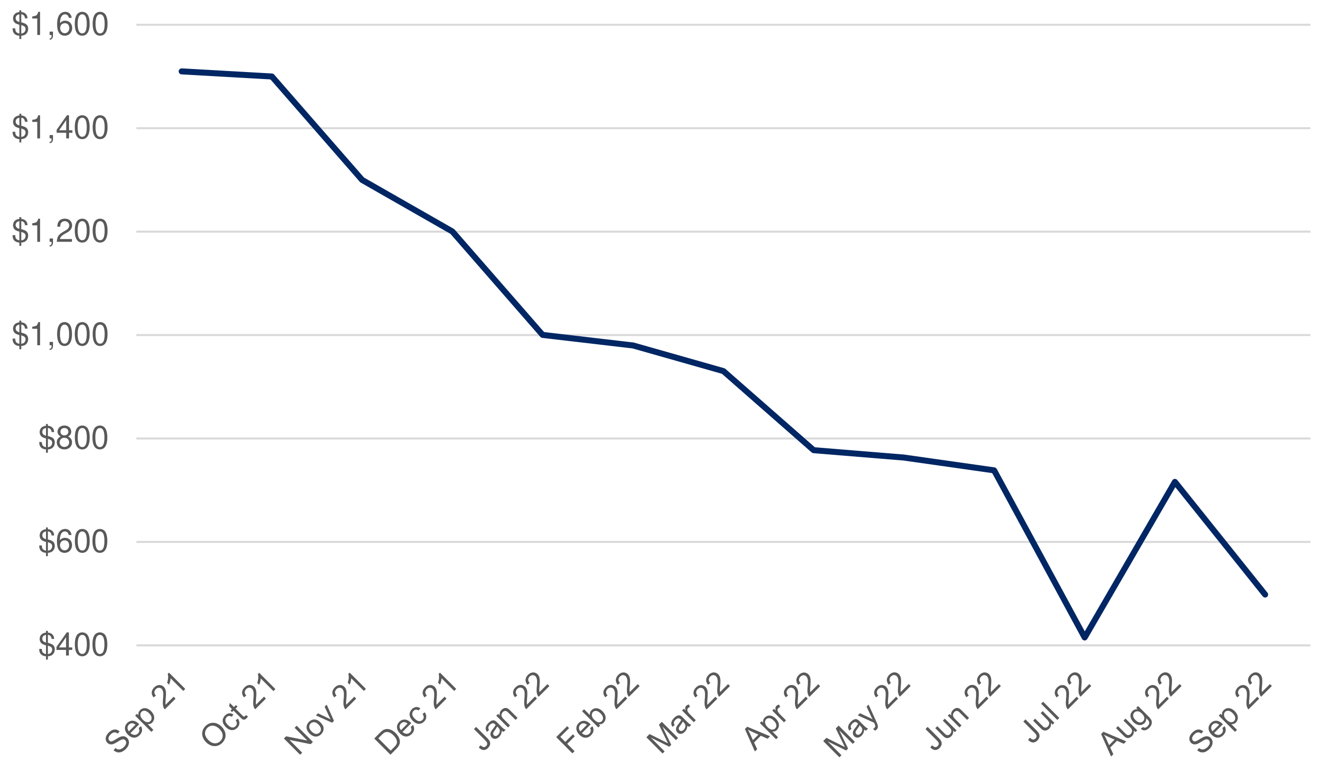
WCSA: SUPPLY is higher than DEMAND, ocean rates are on a down-trend.

2023 CNY (end of January) to add additional pressure on the demand side during Q4 2022.

Ocean Freight Europe – Asia

Pressure on rates while there are heavy issues in ports

Baltic Freightos Europe to Asia (US$/40ft)



Source: Freightos Baltic Week 36-2022

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stopped accepting bookings for the time being in some origins

Freightos Baltic (FBX12) index Levels 36-2022:

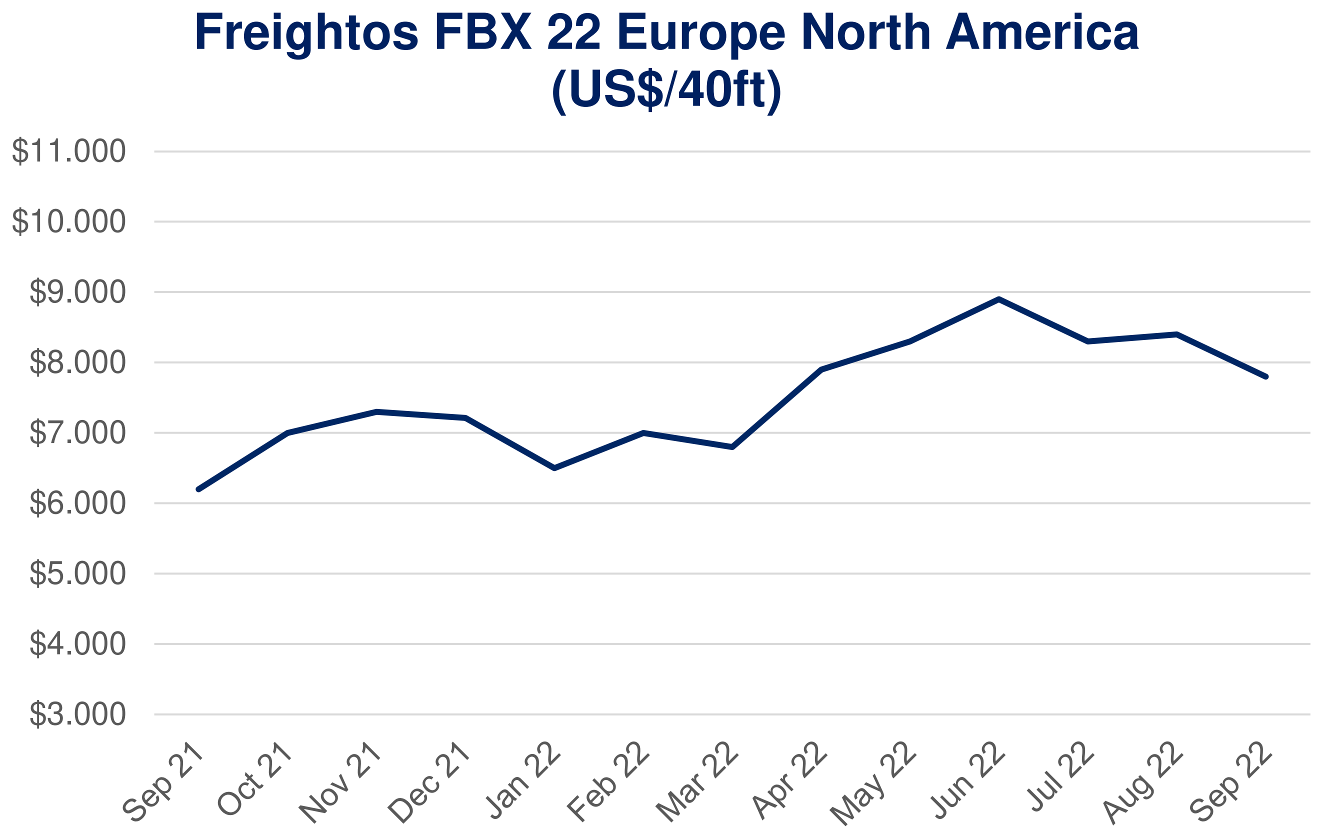
- Europe to ASIA : USD 498/ FEU

Ongoing softening in the spot market

- Spot market remains under pressure
- Volumes have slightly recovered, however liftings remain on low level
- Weak volume production in the commodity segment
- Increasing energy cost are expected to further impact trade volumes in certain cargo segments

Ocean Freight Europe – North America

Congestion in both North American and European ports affects service



Source: Freightos Baltic W36-2022

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stopped accepting bookings for the time being in some origins

Freightos Baltic index Levels Week 36-2022:

- Rotterdam – New York: USD 7,829/ FEU

Bookings need to be placed 6-8 Weeks in advance

- US inland deliveries remain challenging – port and rail terminals suffer from congestion and landside infrastructure issues
- Q4 onwards we expect carriers to adjust tariff costs for inland moves and remain reluctant to offer door deliveries. Fuel prices will continue to stay high on inlands as well as ocean freight.
- 2023 unpredictable but we do not expect huge changes up or down on the ocean rate levels.

Trade Update

Intra Asia

As per week 31 status, which is evolving and depends on latest updates

Demand

- China export is decreasing heavily, leading to a lower factory output than expected.
- SEA countries export is starting to decrease as well which are leading to open space across all strings and services. Despite the shift of production from China to SEA, is the demand looking weaker and weaker.

Rate

- The market slows down and lead to price sloping downwards
- The long term rate level remains to be quoted higher than the short term rates.
- LSS is starting to drop why heavily decreases for the carriers mechanism is to be expected in Q4.
- Raw material prices start to drop heavily which implies the effect of and increasing interest rent is calming down the inflation spikes.

Supply

- Capacity reverts to the IA trade as the feeder space is getting less demand from the TP & FEWB movements.
- Continuous or last minute blank sailings lead to schedule reliability low as the carriers are controlling the supply to stabilize the price fluctuations.
- There is no equipment shortage to report hence a overstock of containers in PH & JP is still causing imbalance surcharges to be imposed at these destinations.

Ocean freight market overview – Difficult to predict trends

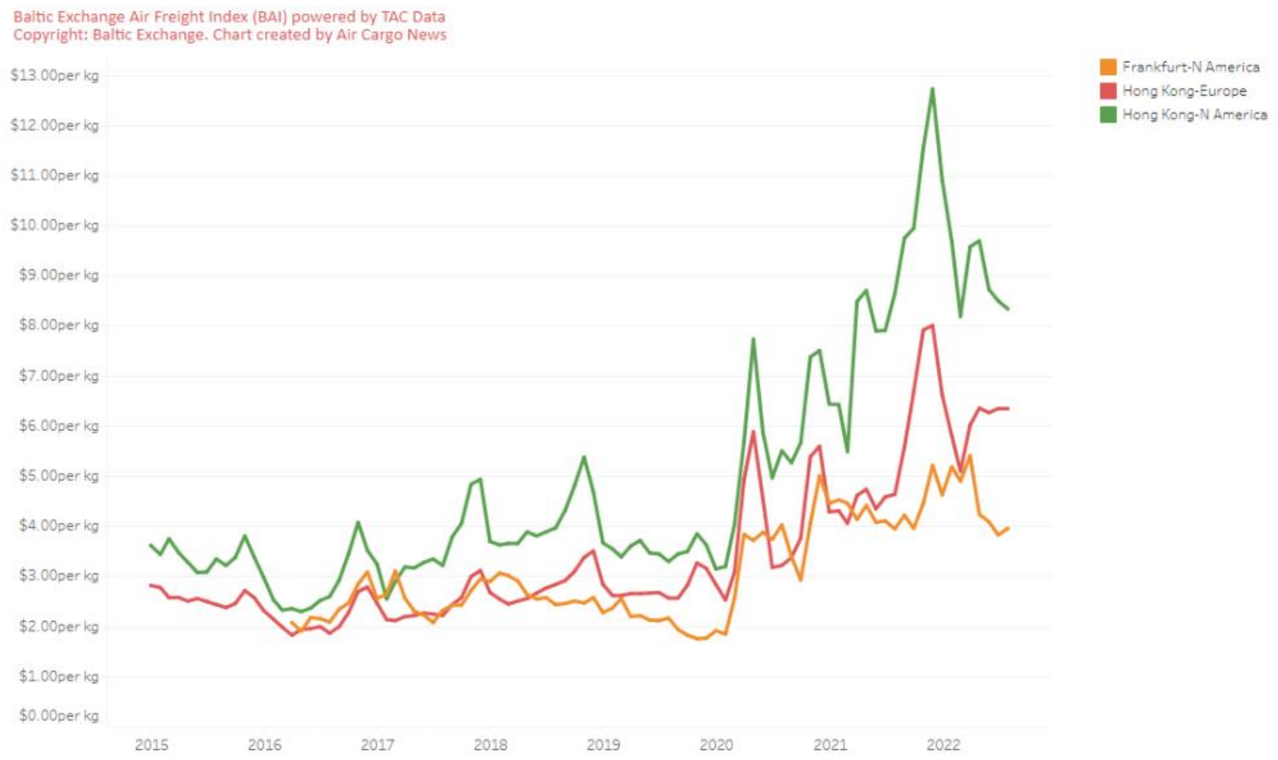
TRADE LANE	COMMENTS	RATES AND SPACE
ASIA to Europe	• Peak season volumes not performning • Space is open from China and there is equipment available • Inflation in Europe will be negative for the trade	
ASIA to NAM	• Market is open, large rate reduction to the West Coast – Rail strike? • Equipment is available • Problems of congestion in USA, specially in East Coast	
Europe to NAM	• Congestion in both North American and European ports affects service • Vessel are full and less capacity available • It seems rates will remain strong for the rest of the year	
Exports from India	• Space is open • Shipping lines are opening long term contrat rates to negotiate • Ports, terminals and ICD continue to work normally	
ASIA to LATAM	• Booking needs to be placed one month in advance • ASIA to LATAM due to longer transit times needs to offset with higher rates • Rates are stable	
INTRA ASIA	• Port congestion improving in some south Asian ports • New bunker level. Australian ports are still congested but improving • Overstock of container equipment	


Airfreight update

Summary

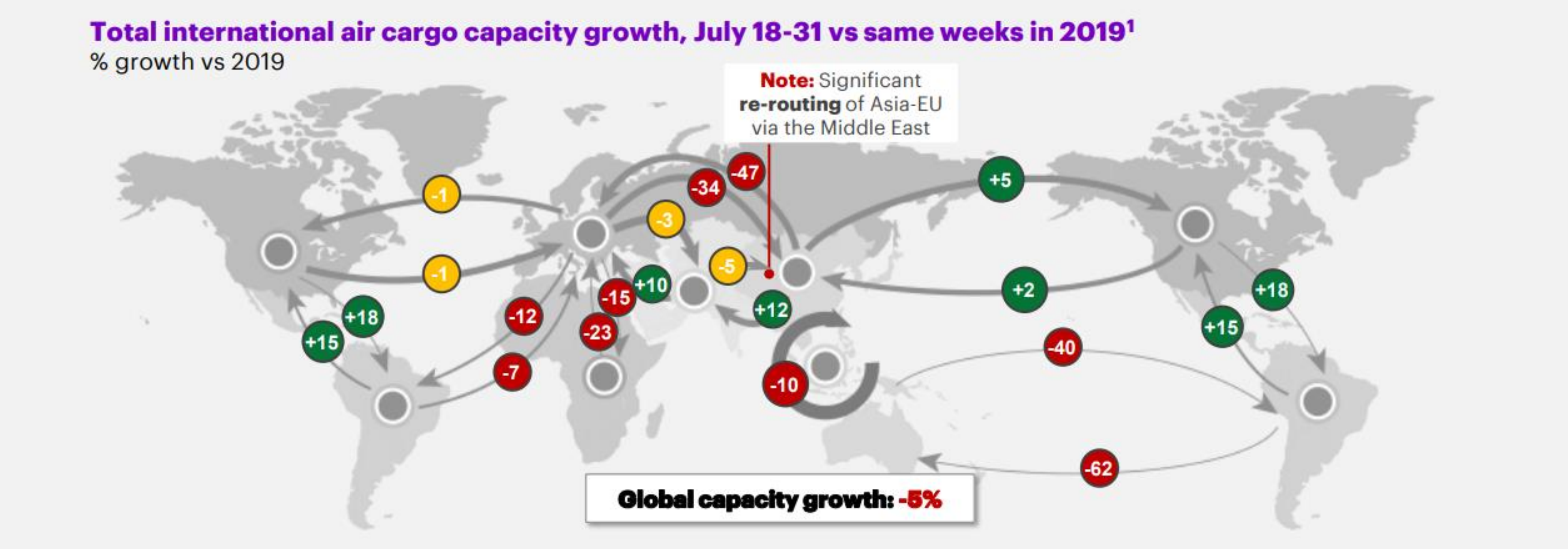
Recovery of passenger flights are pressuring rates down in some routes

- The growth of the EU to Asia and Asia to EU trade lanes are still negative due to the ongoing China lockdown.
- USA to LATAM capacity growing strongly.
- Transpacific has gradually come down to single digit growth against 2019
- Exceptional growth in “belly-space” (passenger flights) capacity on North Atlantic route , Europe to South America and Asia via Middle East to Europe
- Strong recovery of passenger travel on North Atlantic and Transpacific
- Prices still remain high due to elevated fuel charges / although this is slowly decreasing.
- IMF revised world economy forecast to grow by ~3% in 2022; the crisis and in turn inflation can further affect the growth



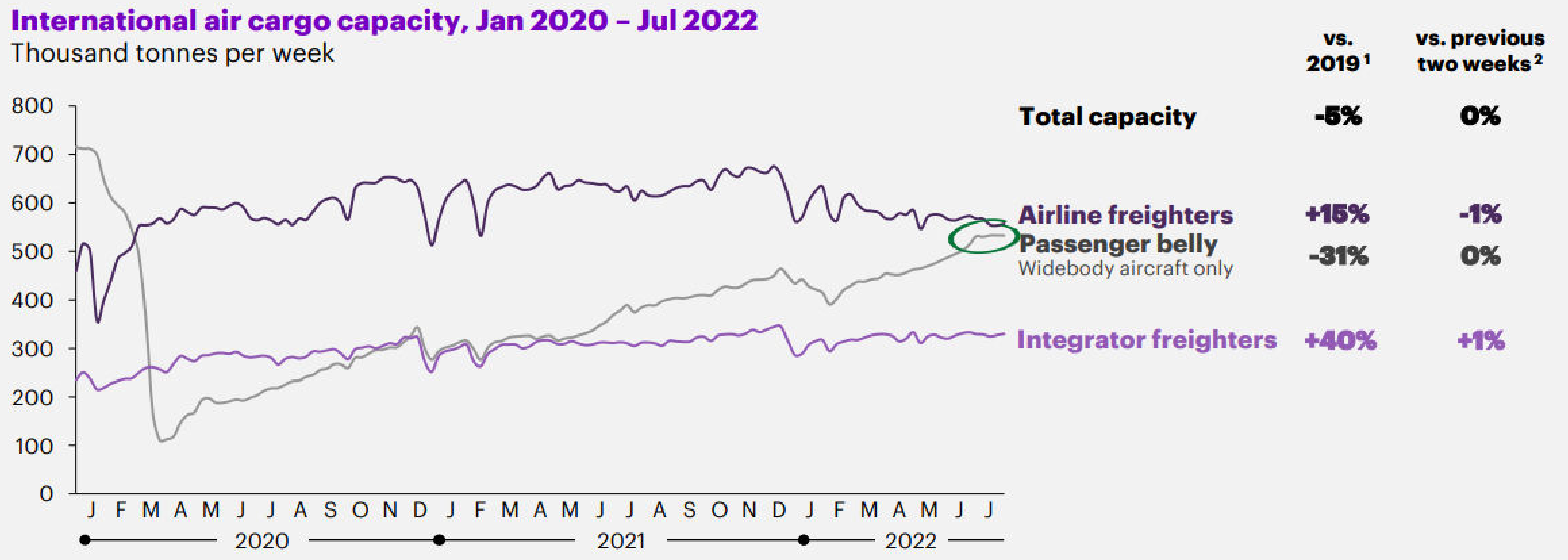
Source: FAX global Avergae

Global international air cargo capacity was down -5% (vs. 2019) between July 18-31, 2022



Transpacific capacity has gradually come down, now low single-digits above 2019 levels

Global international air cargo capacity remained flat in the last two weeks, with belly growth temporarily stagnating



Widebody passenger aircraft now operate almost as much international air cargo capacity as airline freighters

German government support fund sells remaining Lufthansa stake

- Germany’s Economic Stabilisation Fund (ESF) has withdrawn its interest in Lufthansa after the airline’s operations and income were hit by pandemic measures.
- Lufthansa was granted state aid in June 2020. The aid comprised a ‘”silent” participation of €5.7bn and a €300m acquisition of shares, giving the fund a 20% stake in the carrier.
- In November, Lufthansa said it repaid or cancelled all remaining stabilisation funds from the German government which the carrier was able to access at the start of the pandemic.
- On July 28, the ESF reduced its shareholding to 9.92% through a further partial sale. The finance agency said ESF’s last remaining shareholding was sold to international investors through a block placement.
- The total proceeds generated for the ESF from the sale of the shareholding in the amount of €1.07bn exceed the amount used to acquire the stake €306m with €760m significantly.

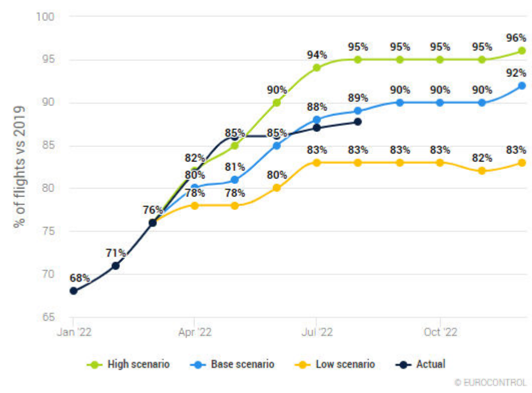
Europe

Softening across various airports while is growing

Market

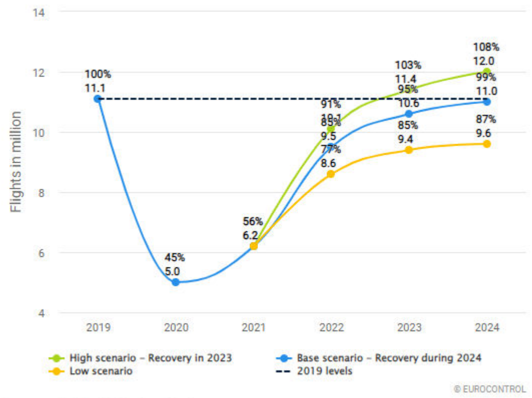
- Market remained on the lower side mainly due to inflation experience by the major EU economies. Export orders remain flat if not on the softer side. We anticipate a little less deployment of capacity for the winter-schedule then previously announced and expected.

EUROCONTROL Traffic Scenarios for *Europe 2022
Traffic as a % of 2019



*Europe = ECAC 44 Member States
Date: August 2022

EUROCONTROL 3-year forecast for *Europe 2022-2024
Actual and future IFR movements, % traffic compared to 2019



*Europe = ECAC 44 Member States
Source: EUROCONTROL, 3-year Forecast, June 2022

Demand

- It has been softening across various regions – space has been available outbound which wasn't the case to all destinations last month.
- Holiday season has been finished which should be driving the demand a bit upwards towards the last Quarter in 2022, however, there are still uncertainties on the inflation and consumer side as well as how the economic impact of a possible power shortage will be over the next month in various countries such as Germany / France etc.
- From South Europe we see more capacity to the US and South America being deployed.
- Central Europe to Asia – as ICN, NRT, MNL, TPE, AKL and MEL is still running on good levels whereas to the US it's flat at this stage.
- Retail and manufacturing inventories are on a very high level which further slows demand.

North America

PAX capacity stable and projections for winter season that capacity will be reduced

- PAX capacity stable and projections for upcoming winter season is that capacity will be reduced on certain destinations but overall stable capacity on all major US-outbound trade-lanes.
- CAO new conversions (Passenger to Freighter) and deliveries of new equipment (777F) is entering the market opening up capacity to LATAM. LATAM airlines has received its 4th 767F conversion.
- Although softer market conditions, high fuel cost and returning of PAX capacity, carriers stay bullish on strong market outlook for Q4-2022.

Demand

- Demand for US outbound Air Freight relative stable but with continued inflationary pressure and recovery of Ocean Freight performance, outlook is that demand will continue to slowdown and ‘’capacity-demand’’ balance will be back to pre-Covid levels going in to last quarter 2022.

Capacity

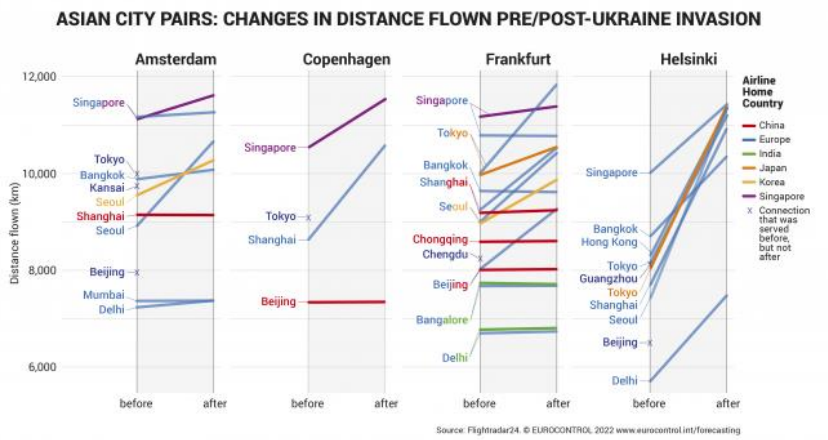
- With PAX capacity stagnating and various Freighter airlines cancelling services due to crew shortage and/or summer demand, capacity is stable on most North American outbound trade-lanes,
- Expect capacity to be similar going in to Q4 where freighter frequencies could be increased to accommodate peak season demand.

Asia Pacific

Volume dropping

Oceania:

- The market remains stable both inbound and outbound however gaining additional capacity outbound is a challenge as services remain largely unchanged through July & August. Additional capacity to the US, LATAM and Europe is expected in October as a number of carriers return to the market and existing carriers increase their flight frequency.



South East Asia

- Demand has been dropping steadily over the past few weeks and we see the relatively low demand continuing into the traditional peak season.

- Additional belly capacity is being steadily inducted into the market and expected even more capacity when entering the winter schedule 1st of Oct.

China/Hong Kong

- Market is very soft due to the contraction of Chinese manufacturing in general.
- We usually see a pre-golden week airfreight rush to ensure deliveries in time for black Friday/cyber-Monday campaigns, and its uncertain how much pressure we will see on airfreight capacity this year, due to the already booming inventory levels across Europe and America.

- We do not foresee any additional capacity in and out of China/Hong Kong until after parti-congress in early November

Middle East and Africa

Volumes are growing

Capacity

- Capacity is becoming more constrained again and we are seeing a lot of delays and extended lead times due to the sudden spike in demand.

Demand

- Inbound demand into middle east was definitely slowing down during August, which is normal based on the traditional trends with European holidays, but we are already seeing a spike in demand over the past 2 weeks and we expect this to continue going into Q4-22 (our traditional peak season, seems we are getting back to the pre-covid seasonal trends on the in-bound into the region).

- Export demand currently very soft.

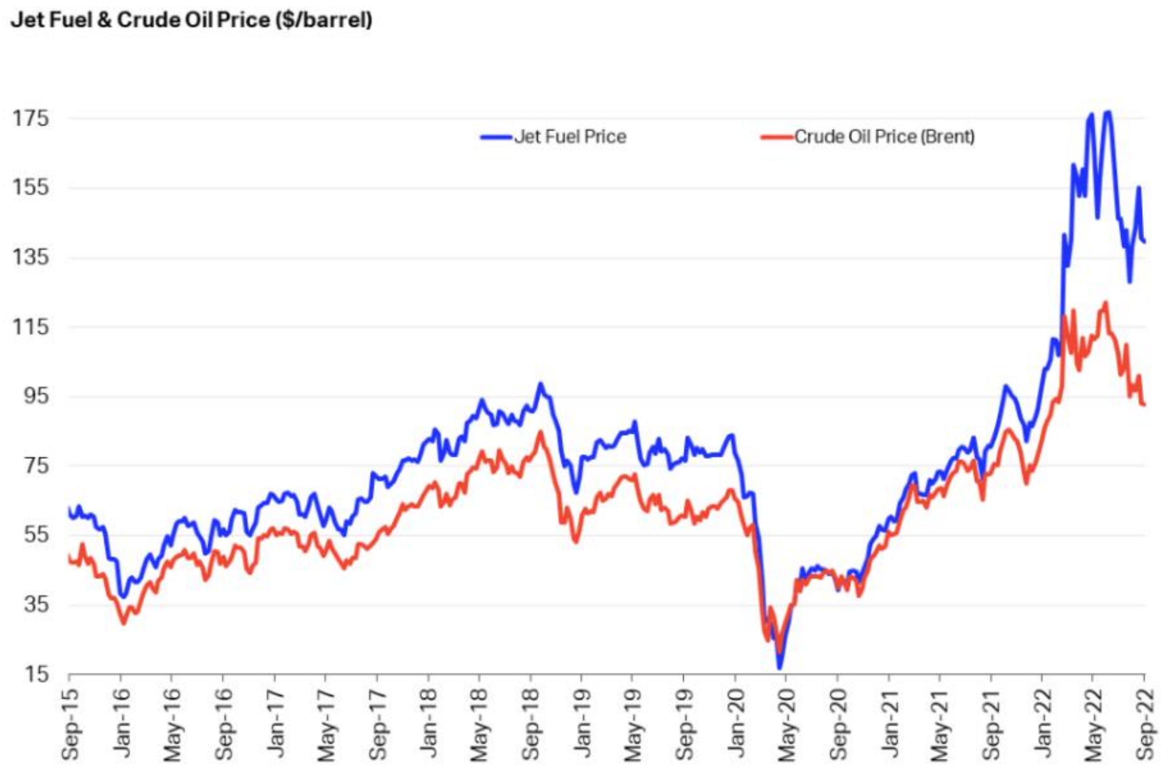
Soaring jet fuel prices now trending downward

Fuel prices are still at a high level and there is still a spread with crude oil prices

- For airlines, the increase in jet fuel prices represents a major challenge as this cost typically accounts for 20% to 25% of total operational costs. The jet fuel price rose by more than 70% during the first 6 months of 2022, marking one of the steepest increases since at least 2002 (see chart), and causing unprecedent pressure in terms of cost management for the airline industry. Jet fuel prices are soaring on the U.S. East Coast, home to some of the world's busiest airports, with buyers anticipating a worsening shortage as supply dwindles amid sanctions on Russian energy exports

- The IEA expects refinery output in August to reach its highest level since January 2020. The third quarter of 2022 is also likely to be the first quarter in two years when supply of refinery products surpasses demand

Jet fuel price developments - longer term perspective



Source: S&P Global, Refinitiv Eikon

Air freight market overview

Market is currently “slow” but stable recovering passenger capacity in trades

TRADE LANE	COMMENTS	RATES AND SPACE
Exports from China / Hong Kong	• he market is very weak due to continued low demand and the short working week. Rates have dropped to their lowest level YTD and carriers are eager for cargo.	
South East Asia	• After the long weekend cargo demand remains soft and rate levels similar to last week. The market continues to see 1-2 days of additional transit time in regards to the Shenzhen-Hong Kong border situation	
Exports from India/Bangladesh	• Demand remains soft as we approach the second half of Sept. This has led to carriers passing on rate deductions for many key lanes • Capacity is waiting to recover	
Export from Europe	• Demand is expected to pick up towards the end of September.. • Ground handling operations in major European hubs have improved compared to July. Many airlines are expected to cut capacity for their winter schedules, which could cause further capacity constraints and push rates up in the upcoming months.Jet fuel prices continue to slowly decrease.	
Exports from NAM	• US airports are running at a normal pace.Capacity is opening up further, especially into Europe, where most carriers have increased the number of passenger flights for their summer schedules.	