KWE Kintetsu World Express, Canada Inc.

Weekly Market Update

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Latest News

Federal government watching for Canadian port backlogs. Finance Minister Chrystia Freeland says she is keeping a close eye on the pace of trade at Canadian ports for signs of strain. While Freeland suggested Thursday she hasn't seen difficulties similar to those south of the border, she does say the government is mindful of supply-chain issues in the Canadian economy. She also sounded an upbeat note about Canada's economic recovery from COVID-19. The recovery has come with a rebound in consumer spending for goods, which has put pressure on shipping companies and ports trying to keep up with demand. At the same time, ongoing COVID-19 outbreaks in other parts of the globe throw a wrench into the movement of goods. This affects inventories of in-demand consumer products and the delivery of parts needed to build things like cars, and pushes up transportation costs. All that drives up overall consumer prices.

Air Freight

New focus on cargo will be 'a permanent structural shift' for airlines. Air cargo's moment in the spotlight will change the aviation industry for good, with fleet and network decisions likely to be shared rather than passenger arm choices. "The focus on cargo will be a permanent shift," said Wille Walsh, director general of IATA, at the World Cargo Symposium in Dublin last week. "Cargo wasn't an afterthought, but it was a less significant factor [for many airlines]. And decisions that have favoured passengers have often gone against what cargo businesses want – for example, orders for the A380, not a cargo-friendly aircraft. "And when airlines retire aircraft, they look at the A340 and B747 – which have good cargo capacity that cargo people would probably have kept. "I think cargo strategy will now go into aircraft and network decisions. This will be a structural shift; it's always been important, but it's only been about 12% of overall revenue." Revenues from cargo currently comprise about one third of total revenues, although this is expected to decline as the passenger market rebounds.

Sea Freight.

Shippers warned to brace for fuel surcharge rises. Resurgence in fuel prices, set to be passed on by carriers, means cargo owners will have to contend with higher bunker adjustment factors on top of already high freight rates. Shippers are being warned to prepare for higher bunker adjustment factors on top of already high freight rates as carriers seek to claw back rising fuel costs. "Bunker fuel prices are impacted by the increasing energy costs globally and the recent escalations will also have an impact on rates in the coming months," said Sea-Intelligence chief executive Alan Murphy. Fuel prices dropped sharply at the beginning of the pandemic as global demand slowed. This coincided with the introduction of the International Maritime Organization's new sulphur rules in 2020 regulations and took the sting out of the tail as the mandate to use either scrubbers or low-sulphur fuel was introduced. Since the initial shock, however, the price of fuel has rebounded and now sits at levels not seen for several years, with IFO380 bunker fuel now back over $530 per tonne. For vessels without scrubbers that require VLSFO, the cost has increased to $630 per tonne.   "The recent price increases have led to VLSFO fuel prices now rivalling the situation in late 2019 and early 2020, where the supply chain issues related to IMO2020 phase-in caused a temporary fuel price spike," Mr Murphy said. Nevertheless, the price premium between lowand high-sulphur fuel had remained steady at around $100 per tonne since early 2021, indicating that the price rises were “endemic” and based on underlying increases in the price of oil.

Pacific Transit Times for Containers Doubled in Past Six Months. In another sign of just how difficult trans-Pacific shipping has gotten, new data reports that transit times between China and the U.S. West Coast ports have doubled in the past six months. Despite the recent attention and growing initiatives aimed at easing some of the congestion, the backlog continues to reach new records at the ports of Los Angeles and Long Beach with no short-term decline expected. Between the second half of May 2021 and the beginning of October 2021, the average transit time from Chinese base ports to the U.S. West Coast ports of Los Angeles and Long Beach increased from 19 to 36 days, according to a new analysis from digital freight forwarding company Shifl. In some cases, Shifl says in the spring carriers were still making the transit in 16 days from port to port in May. “Usually, a ship from Chinese base ports like Shanghai, Ningbo will take between 16-18 days to arrive and discharge cargo at U.S. West Coast ports,” said Shabsie Levy, Founder, and CEO of Shifl, commenting on the findings of the data analysis. “The increase in transit to 36 days, makes it extremely painful for businesses dependent on supply chains.” They also noted that while the port-to-port transit time has nearly doubled that is only part of the problem. With the ports facing delays due to lack of adequate landside infrastructure, containers are sometimes stuck in closed areas within the port delaying inland transit even further leading to potential business-crippling conditions says Shifl. “While we are in constant communication with our customers about the location, release, and delivery times of their shipments, when a ship spends 2-3 weeks waiting to unload, that’s a nerve-wracking situation for the customer,” said Levy. With daily reports highlight the problems and challenges along the supply chain, the Biden Administration joined with the ports and their unions to announce new initiatives designed at easing the backlogs. The ports of Los Angeles and Long Beach both committed to moving to 24/7 operations along with the truck drivers and longshoremen unions to clear more containers out of the yards and speed them inland to their destinations. The ports of Seattle and Tacoma are also increasing their hours and opening on Saturdays to move containers, while ports such as Oakland are seeing a resurgence in vessel traffic. After a few days of declines in the backlog, the Marine Exchange for Southern California reports that the number of vessels waiting to enter the ports again spiked to record levels highlighting the challenges that lay ahead. For the first time, 100 vessels (all types) are waiting to enter the Southern California ports. This is three higher than a record set a month ago when 97 ships were waiting on September 19. With 57 ships at berth, there is a total of 157 commercial vessels in the ports of Los Angeles and Long Beach. The surge continues with another 45 vessels due to arrive in the next three days

No end in sight for China power crisis as pressure grows on supply chains. China’s power crisis is expected to further disrupt supply chains bringing longer lead times and a preference for high-value goods. Last month, factories across Guangdong’s Pearl River Delta manufacturing heartland and nine other provinces were forced to cut output due to government-imposed energy caps. According to Jacky Yan, founder and CEO of Chengdu-based New Silk Road Intermodal, the power cuts have already had a “big impact” on manufacturing, combining with the usual Golden Week lull to trigger a rare dip in container freight rates. “And there’s still no certain answer when the shortages will end,” he told The Loadstar. A combination of factors are putting extreme pressure on China’s energy consumption, Mr Yan explained. First, coal and gas accounts for three-quarters of the country’s energy usage and import prices have surged in recent weeks. “With increased rates for coal and a relatively fixed electricity price, the energy firms have been losing huge amounts of money every day. So they have the temptation to produce less electricity,” he said. “Furthermore, winter is the dry season for the main rivers, which leads to less hydropower. Winter also means the government needs to prioritise the supply of electricity for heating and consumption.”

Trucking

A perfect storm for ground shippers. A perfect storm has been brewing in the Canadian trucking market that will see continued pricing pressure and capacity constraints on shippers. Freight conditions have been strong through 2021 and are expected to remain so in the near future, and trucking providers have been unable to add capacity due to labour issues and supply chain challenges that are limiting manufacturers’ abilities to supply new trucks. As in the automotive industry, truck manufacturers have seen their build rates curtailed due to the global microchip shortage. Each Class 8 truck requires between 15 and 35 microchips. “If you can’t get enough semiconductors, you can’t build enough trucks,” reasons Don Ake, vice-president – commercial vehicles with industry forecaster FTR. But supply shortages don't end there. The manufacturers have also had to contend with shortages of tires, sheet metal, aluminum, wiring harnesses and other components. All this comes while manufacturers try to ramp up production at their plants after Covid-related shutdowns. "It's much more difficult to turn any kind of manufacturing plant back on than it is to turn it off," Steve Latin-Kasper, work truck association NTEA's senior director – market data and research, said during a recent market update. Comparing 2019 Class 8 demand and build rates to this year, Ake noted there's about a 40,000-unit gap in production, or 26 percent, which highlights the impact of the supply chain issues manufacturers are facing this year. "There is no clear progress being made to catch up," he adds. This has curtailed the traditional trucking company response to high demand and strong rates, which has been to buy more trucks. Build slots for 2021 are already full, and OEMs were hesitant to open 2022 order boards due to uncertainties related to component supplies and prices.

Market Sources

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This announcement applies to all Kintetsu World Express Transportation Services, including our Air Freight, Sea Freight, Ground Freight and Logistics.

Kintetsu World Express is continuously monitoring the situation and will provide further updates as the information becomes available.

If you have any questions, please contact your local KWE representative.

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