Kintetsu World Express, Canada Inc.

Weekly Market Update

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Latest News

Champagne in U.S. to talk unblocking supply chain. Unblocking North America's clogged supply chain and making it more resilient to outside shocks – especially from China – tops Francois-Philippe Champagne's agenda as he starts two days of meetings in Washington. Champagne told The Canadian Press he will be using his face time in Washington to press the Biden administration on the potential in Canada's largely untapped rare-earth mining sector, which would allow the U.S. – and its continental neighbors – to be less reliant on China, the world's leading supplier of those minerals. "We have the talent, we have the renewable energy, we have the critical minerals, we have the manufacturing base, we have the geostrategic location to do that. We can lead the world," Champagne said in an interview. "Therefore, that's really what I'm going to be proposing to our American colleagues and later on in this week, (to) our Mexican colleagues." Champagne is the federal innovation, science and industry minister, a portfolio he describes as being at the core of building back Canada's post-COVID-19 pandemic economy. And he's leveraging his former cabinet posts in the Trudeau government at foreign affairs and international trade with a trip to the American capital and to Mexico later in the week. Champagne will be picking up the ball on talks that Prime Minister Justin Trudeau, U.S. President Joe Biden and others held at last week's G20 summit in Rome on easing the supply chain crunch that has clogged U.S. ports. The pandemic-induced bottlenecks have created shortages of semiconductors and rare-earth minerals needed to power everything from computers and cellphones to electric vehicles – obstacles to both economic recovery and the fight against climate change. Champagne said a "regional" supply chain focus is required to make the North American continent more self-reliant and less vulnerable to offshore forces. It would also leverage the continent's updated free trade agreement, known in Ottawa as the Canada-United States-Mexico Agreement, or CUSMA. The minister said the vulnerability that the continent's economy experienced at the start of the pandemic, including shortages of personal protective gear and access to vaccines, must not be repeated. Much of it, he said, was due to a reliance on China, which must now be addressed.

Air Freight

Air cargo under pressure: rising demand hobbled by space and staff shortages. Air freight is straining under the twin pressures of high demand and disruption from lower capacity and labour shortages, as well as various Covid restrictions. Air cargo executives have cited problems across major hubs in Europe, including Amsterdam, London, Brussels, Frankfurt and Liege, as well as in the US. "It's crazy out there right now," said one cargo handling executive. "There are different situations at different airports, and handlers have different issues. But there has been a huge upturn in freighters, and passenger freighters, which has caused congestion. "In the US, there is a dearth of warehouse capacity, and labour in some markets. It's a bit of a bunfight for staff." Forwarders told The Loadstar customers were unhappy with sky-high rates, combined with delays. "LHR is facing significant delays, as sheds are unable to cope with the growing demand; waiting times are anything from five to ten hours," said Lee Alderman-Davis, global product and development director for Ligentia. "We are aware that some sheds are moving units to LGW for breaking, then returning loose cargo to LHR, which in theory should help ease the pressure, but in practice is adding further delays, and cargo is being misplaced. "At Ligentia, we are routing cargo via other UK airports to keep our customers' goods moving, as well as clearing cargo in the airline and moving to general purpose warehousing for processing, to alleviate the congestion through the ETSFs [external temporary storage facilities]." Ms. Alderman-Davis said that on Sunday she had gone to Doncaster Sheffield Airport to oversee the landing of a charter flight. "I was delighted to report goods being unloaded and available for collection within 24 hours. Air charters have proven, during the pandemic period, to be an effective solution when organizations need to move large quantities of goods quickly to meet consumer demands. We're currently seeing an increase in charter enquiries due to imminent sales expected on Black Friday." Airports tended to downplay the issue, but one noted knock-on effects from flight delays in China, which had caused scheduling challenges for some European airports.

Fury in China as 'greedy' airlines capitalize on market turmoil to raise rates. China's master co-loaders have accused airlines of "greed" and "sneaky practices" following the breaking of BSA contracts. While they acknowledge that additional GRIs and surcharges on top of their rates are reasonable in the current market, they are far less sympathetic to the sharp practices many airlines have indulged in since August in a bid to raise rates by three or four times the amount agreed. "The master co-loaders make year-round or seasonal BSA deals, with the agreement based on ULD allotment on individual flight numbers," explained Christos Spyrou, founder of Neutral Air Partner, an association representing master co-loaders, consolidators and neutral air freight agents. "But airlines are cancelling their scheduled flights and coming back with another flight number instead. The airline is then covered for breaking its agreement. Forwarders are still looking for a solution, so have to book with the 'new flight' – but instead of it costing $5 per kg, it's now $15. "This is happening often and some carriers can get away with it by promoting the 'new flight' as an ad-hoc charter. "The other thing they are doing is delaying flights. Rates are changing on a weekly basis, so some carriers will cancel a freighter flight on a weekend and put it on instead on a Tuesday – then put the price up to what rates would be that week. "This is not just normal price rises because of demand – this is carriers increasing their prices in a sneaky way." The master co-loaders preferred not to name individual airlines for fear of reprisals, but some indicated that it was a common problem among Middle Eastern and Asian carriers.

Air cargo demand rises, rates soar as shippers prepare for peak. Air cargo demand in October rose 3% from pre-pandemic levels in 2019, according to Clive Data Services, as companies prepare for peak season and shift volume from ocean to air to combat supply chain disruptions.
The demand buildup to peak season is visible, but it's "not yet as high as some stakeholders had feared (or hoped)," said Niall van de Wouw, Clive's Managing Director, in a statement. Capacity grew 1% compared to September, indicating the final sprint to the end of the year hasn't kicked off yet, van de Wouw added. Market dynamics still favor air carriers. Rates in October remained well above pre-pandemic levels, increasing 155% from 2019, and capacity was down 13%, according to Clive. Peak season is slated to spark another hectic stretch for air carriers, with shippers looking to expedite freight over congested U.S. ports to meet holiday deadlines. But some retailers already made arrangements to ensure their goods arrive on time, be it by chartering ships or simply shipping inventory earlier if they have the space for it. Additionally, the inflationary environment and heightened shipping costs may make some retailers think twice about using air transportation over ocean. "One of the roadblocks is the strong increases in prices, both for businesses and consumers," the International Air Transport Association said in a September analysis. Still, air transportation today is a better deal than it was pre-pandemic. According to IATA, in September it was three times more expensive to send a kilogram of chargeable weight using air versus ocean, compared to 12.5 times more expensive pre-pandemic. And data from Freightos shows ocean freight rates were more than seven times the pre-pandemic norm at the end of October.

Sea Freight

Container spot rates in free-fall. Container spot rates are falling – and are unlikely to see any noticeable edge up for the remainder of what has been a record-breaking 2021, multiple analysts polled by Splash have predicted. Liner shipping is on course to smash profits in excess of $150bn this year, more than five times their previous best cumulative effort as rates soared to highs never seen before. However, as the peak season has passed and carriers focus on getting more clients fixed to long term contracts, the spot market has entered free-fall. Last week saw the biggest week-on-week drop of Drewry's World Composite Index since November 30, 2017, a global spot rate indicator, which plunged 4.9% in the first week of the month. We think spot rates will probably continue to slide through the rest of the year, but that they will remain at high levels, feeding into strong contract rates next year," Drewry's Simon Heaney told Splash. "At Xeneta we clearly see a tendency that average spot rates are now past the peak. Until another freak event occurs, that is," commented Peter Sand, who this month joined Xeneta as chief analyst after 12 years at BIMCO. Shabsie Levy, founder of digital freight forwarding company Shifl, commented: "With the holiday shopping rush seemingly over and the already ordered goods sitting inside thousands of containers on many ships across the USA, the drop-in freight rates on the spot market continues into

November." Across the three main long distance high volume trades out of Asia heading towards the US and EU, spot rates in November have fallen from the end of October. Moreover, some carriers are now removing or not keeping previous surcharges.

Spot rates continue to slide, but premium surcharges continue to pile up. Container spot rates from Asia to Europe continued their downward trend this week from their September all-time highs, while transpacific base rates also lost significant ground. Today's Ningbo Containerized Freight Index (NCFI) commentary reports that the market from Asia to North Europe and the Mediterranean is "sluggish". "Some carriers have increased their efforts to solicit cargo, which led to a slight drop in spot freight rates," it said. Drewry's World Container Index's (WCI's) North Europe component slid a further 2%, to $13,798 per 40ft, while the Freightos Baltic Index (FBX) edged down 1%, to $14,219 per 40ft. While the decline is not dramatic, it appears some carriers are reducing, or waiving, premium fees that can easily add $3,000 or more to the final invoice. Indeed, one UK-based NVOCC told The Loadstar this week his carrier was prepared to "throw in" its equipment and space guarantee fees during November. "We were gobsmacked to get the call and find that they would throw in the premium charges for our next bookings," he said. "I could imagine the next step will be to see FAK rates come off in bigger chunks." Mediterranean rates were also down this week, the FBX declining by 2%, to $13,125 per 40ft, and the WCI down 3%, to $12,693. Elsewhere, Drewry's WCI reading for Asia to the US, which excludes premium fees, slumped 10% for west coast ports this week, to $9,857 per 40 t, and for east coast ports fell by 7%, to $12,667 per 40ft. In contrast, the FBX Asia-US west coast component, which includes premium fees, was up 1%, to $18,730 per 40ft, while for east coast ports, the spot rate slipped 2%, to $19,895 per 40ft. Meanwhile, shippers using the ports of Los Angeles and Long Beach are bracing themselves for huge quay rent bills, as directed by the Biden-Harris Supply Chain Disruptions Task Force and rubber stamped by port commissions on 29 October.

Trucking

Transborder freight on the rise. Trucks moved US $30.6 billion in freight across the Canada-U.S. border in August, accounting for 54.1% of all freight to cross the 49th parallel, the U.S. Bureau of Transportation Statistics reports. Freight moved by all transportation modes – including truck, rail, pipeline, air and vessel — was valued at $56.8 billion, up 21.9% over August 2020. (All figures in U.S. dollars.) The $70.5 billion in combined truck freight to cross U.S. borders with Canada and Mexico was up 15.9% over the same month last year, and up 6.8% over August 2019. This outpaced the $15.4 billion in August rail freight that was up 11.6% over the same month last year, and down 4.4% when compared to August 2019. Computer and parts ($13.1 billion), electrical machinery ($11.2 billion), and vehicles and parts ($8.6 billion) accounted for 46.7% of the total transborder truck freight.

Ontario to require ELDs for provincially regulated carriers. Ontario plans to mandate electronic logging devices (ELDs) for inter- and intra-provincial carriers effective June 12, 2022, building on a mandate that already applies to federally regulated carriers. "This will provide consistency and help level the playing field for all carriers regardless of where the carrier operates," the Ontario Ministry of Transportation says in a related notice. While federally regulated carriers – those that cross provincial borders – are already mandated to use such devices, enforcement was deferred until that date, in part because no ELDs were certified. The mandate itself became effective this June. Transport Canada has since certified six ELD models as meeting underlying technical standards. Bus drivers operating solely within Ontario will also be required to use a certified ELD as of July 1, 2023. There are some exemptions including commercial vehicles that operate within a 160 km radius, equipment that is rented no longer than 30 days, and trucks manufactured before Model Year 2000. "OTA congratulates [Transport Minister Caroline] Mulroney and the team at MTO for moving forward with this critical regulatory amendment, which will align MTO with Transport Canada's efforts on ELDs, improve road safety, and level the competitive playing field for all companies operating in Ontario," OTA chairman Wendell Erb said in a related statement.

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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