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WEEKLY MARKET UPDATE

Week 2 → 1-10-2022

LATEST News

Economy added 55,000 jobs in December, unemployment rate 5.9 percent. The Canadian economy added 55,000 jobs in December before Covid-19 cases began spiking at the end of the month, prompting public health restrictions that forced many businesses to close or curtail operations. Dominique Lapointe, senior economist at Laurentian Bank Securities, said the report provides a snapshot of the economy before the Omicron variant. "It has to be taken with a grain of salt, but what it says is before the variant the employment situation was really strong," he said. "The overall report is showing double the employment gains we were expecting." The report was based on survey results done during the week of Dec. 5 to 11, before the public health restrictions were put in place to slow the latest surge in Covid-19 cases. The highly transmissible Omicron variant has fuelled a record spike in Covid-19 cases with daily increases in new cases in the tens of thousands in recent days. In its labour force survey, Statistics Canada said the unemployment rate edged down to 5.9 percent compared with 6.0 percent in November. It was the lowest unemployment rate since February 2020 before the pandemic when it was 5.7 percent and half of a percentage point off the record low of 5.4 percent set in May 2019. Statistics Canada also said the number of jobs was up by 886,000 compared with December 2020 and up by 240,500 compared with February 2020 before the pandemic. The employment report came ahead of the Bank of Canada's rate decision and monetary policy report on Jan. 26. The central bank is expected to start raising its key interest rate target later this year.

Businesses face widespread labour shortages. An intensifying labour shortage is rippling through the economy, forcing businesses to curtail operations, reduce hours and in some cases, euthanize livestock. The situation is a result of a chronic worker shortage worsened by the crush of new Covid-19 cases forcing many into isolation. School closures have also left some workers scrambling for childcare and unable to go into work. The result is rising employee shortages, prompting airlines to cancel flights, drugstores to close early, restaurants to shutter or move to takeout only and municipalities to warn of delayed waste collection. At a slaughterhouse in Quebec, the worker shortage became so extreme in recent days it opted to euthanize thousands of chickens that couldn't be processed. Exceldor Co-operative said in a statement that rising Covid-19 infections and a significant shortage of personnel have forced the company to resort to "humane euthanasia." It blamed the protracted worker shortage on federal delays processing temporary foreign worker applications. Meanwhile, some provinces have tried to ease staffing woes by shortening isolation periods, allowing people to return to work sooner. Yet the sheer number of new daily cases caused by the highly transmissible Omicron variant continues to leave many confined to their homes and businesses struggling to remain open.

AIR Freight

Virus rules hit Hong Kong airfreight just as Cathay freighters limp back into action. Things went from bad to worse for airfreight shippers and forwarders in Hong Kong yesterday, as the territory's government banned more international routes in response to an increase in Covid-19 cases. It announced flight bans from eight countries for two weeks, starting on Saturday, affecting all flights from the US, Canada, the UK, France, Australia, the Philippines, Pakistan, and India. And, in a separate announcement, the authorities barred flights from South Korea after three passengers tested positive for the virus on arrival from Seoul. In less than six weeks, Hong Kong has imposed flight bans on 24 routes. The latest affect the likes of Air Canada, Air India, and Philippines AirAsia, but Hong Kong-based Cathay Pacific has borne the brunt of these measures. When the authorities tightened rules and voided quarantine-related exemptions for flight crews late last year, management announced it might be forced to merge passenger and cargo flight schedules, but after further restrictions on 30 December, the airline announced it was suspending all long-haul cargo flights – freighters and passenger aircraft deployed on cargo missions – for seven days. Director of flight operations Chris Kempis explained that it was impossible to transition overnight to closed loop operations and that management needed time to consider all factors, including hotel availability for quarantined crews.

SEA Freight

Containers taking twice as long to reach their destination compared to pre-pandemic period. New data shows how much longer containers are taking to reach their destination on the main east-west tradelanes, helping explain the port snarl-ups seen across the world over the past year. San Francisco-based freight forwarding and customs brokerage Flexport provides a weekly measurement called the Ocean Timeliness Indicator, which measures the time taken from the moment cargo is ready from the exporter until the importer takes delivery. On the transpacific eastbound, the average time in 2019 prior to the pandemic was 45 to 50 days. The latest measurement on January 2, 2022 was a new record high of 110 days. Similarly, for Asia to Europe, the pre-pandemic average transport time was around 55 to 60 days, whereas the situation on January 2 was 108 days. "This extreme increase in transportation time leads to a similar large increase in the demand for containers – simply because each container is tied up much longer than usual," analysts from Sea-Intelligence pointed out in their latest weekly report. Sea-Intelligence data shows that pre-pandemic typically 2% of containership capacity was caught up in delays, a figure that shot up to 11% in 2021. Early indicators this year show that congestion is far from improving. "All the available data shows that congestion and bottleneck problems are worsening getting into 2022," Sea-Intelligence warned. "Port congestion and inefficiencies remain an ongoing issue resulting in everything from vessels slow steaming, vessels being diverted to different ports, containers being uncirculated, and longer unloading times by onshore workers. COVID is still boosting consumer spending on goods, and we believe rates will hit new record highs in the coming weeks," a new shipping report from investment bank Jefferies stated today.

'Stick or twist' – do shippers play the spot market or go for fixed-rate contracts? Volume shippers offered new long-term fixed-rate contracts by container lines are, nevertheless, still keen to keep a foot in the door of the spot market. The extreme volatility of the spot market saw many shippers get their fingers badly burned over the past 18 months as rates were turbocharged by supply constraints and strong consumer demand. But if port congestion eases and demand softens, short-term market rates could head south again quite quickly. The advent of multi-year deals by carriers is a new facet of the contract season that has shippers re-examining their strategies more closely. Miles O'Donnell, national sales & procurement manager for sea freight at Europa Air & Sea, said shippers needed to decide whether to "stick or twist" on playing the spot market or agreeing a contract fix at substantially increased terms. "The challenge for all customers is to weigh up potential changes in the sector and then decide whether fixing offers the best long-term benefit," said Mr O'Donnell. However, the container spot indices for the first week of the year are not giving away too many clues on the direction of rates. For example, for the Asia-North European tradelane, the Freightos Baltic Index (FBX) and Drewry's World Container Index (WCI) were both flat, at $14,24 and $13,64, respectively, per 40ft, while Xeneta's XSI was up 2.6% on the week at $14,84 per 40ft. And the Ningbo Containerized Freight Index (NCFI) recorded small declines on 14 of its selected 21 trades, with five routes showing slight increases and two unchanged.

Shenzhen on alert as more Covid-19 cases crop up. China's whac-a-mole approach to containing Covid-19 is seeing restrictions rushed in at many more important hubs across the country as the nation struggles to contain more contagious variants spreading. Two Covid-19 cases in Shenzhen have seen local authorities usher in travel bans making it difficult to leave the city with more mass testing underway today in the city's Longgang district. Trucker availability at the key southern Chinese box port is likely to be hit by this latest outbreak. Meanwhile, hundreds of thousands of workers at iPhone maker Foxconn's Zhengzhou facilities and Huawei's research campus in Dongguan are being tested as more Covid-19 cases crop up. Beijing's strict zero-Covid policy has curbed local outbreaks with mass testing, snap lockdowns, vigilant surveillance and extensive quarantines. However, new variants such as omicron have seen outbreaks intensify since the autumn. Ningbo, home to the world's largest port, has had three partial lockdowns in the space of six months. Ship operations have become very difficult in China, the world's most important merchant shipping destination. "China's zero-tolerance policy towards COVID-19 has turned out to be highly stressful for many ships' crews and challenging and costly for the ship operators. Ships arriving at Chinese ports are currently faced with strict epidemic control measures," an alert from P&I club Gard warned yesterday.

SURFACE *Transportation*

Truckers warn against vaccine mandate. By January 15, only fully vaccinated Canadian truck drivers will be permitted to move the $650 billion in trade that crosses the Canada-US border, Ottawa has signaled to supply chain stakeholders. Washington has made the same decision, with an expected date for enforcement beginning Jan. 22. The Canadian Trucking Alliance (CTA) has requested both governments consult key members of the supply chain to find a date for enforcement that would be less disruptive to North American supply chains, which are already struggling to function at normal capacity. **January 15th mandate:** "Feedback from CTA members from across the country over the last couple of weeks indicates the Canadian trucking industry is preparing or bracing for these mandates one way or another," said CTA president Stephen Laskowski. "While there's reportedly a modest uptick of drivers getting vaccinated at some companies, there are substantial reports of higher-than-normal turnover and others declaring their intention to leave the industry or seek employment in the provincially regulated sector over the impending mandate at the border and the recently announced domestic mandate impacting the federally regulated trucking sector." Industry vaccination rates remain reflective of the Canadian national average as well as the regional provincial averages of 83 to 87 percent. The industry is expecting a loss of 12,000-16,000 (10-15 percent) cross-border commercial drivers if the mandate takes effect this month, with higher or lower losses in capacity in certain regions depending on the location of companies. **30,000 drivers at risk:** The enforcement of a federal domestic vaccine mandate on drivers could lead to as many as 30,000 Canadian federally regulated drivers exiting the supply chain, CTA estimates.

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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