WEEKLY MARKET UPDATE

Week 17 → 4-27-2022

LATEST News

Crisis or hiccup? Assessing the logistics impact of China lockdowns. Some experts predict ending quarantine restrictions will open cargo floodgates as airfreight feels immediate crunch. A mixed bag of circumstances and time horizons are creating diverging narratives about whether shipping delays stemming from the shutdown of Shanghai and other Chinese cities are getting better or presage massive supply chain gridlock. There is no sign that Shanghai's lockdown is easing anytime soon. Footage on social media shows steel fences being installed on public roads and inside residential compounds to keep people from traveling to other districts and moving in neighborhoods. On Monday, the Shanghai Health Commission reported 2,472 new positive cases of COVID-19, up from 1,401 the previous day. Total daily case levels exceed 30,000. Fifty-two people died Monday of COVID, according to the China Daily. While some cities in China, including Guangzhou are loosening COVID restrictions, rising COVID cases in Beijing are sparking fears the Chinese capital and other cities could join Shanghai, Suzhou and other major cities in lockdowns. Kunshan, a technology manufacturing hub west of Shanghai, has extended a lockdown, which began on April 2, to April 28. Several districts in Hangzhou, home to e-commerce giant Alibaba, began a lockdown on April 23, with mass testing being carried out for three days. Based on current trends, China watchers say lockdowns won't begin to ease until mid-May or possibly June as the government maintains its zero-COVID policy. In some ways the logistics situation sounds manageable. The Port of Shanghai, the largest container shipping gateway in the world, has remained in operation. Wait times for export loadings are only about two days and the 12 days it takes to pick up an import box is below wait times for other COVID-related disruptions in China since 2020, as American Shipper reported Thursday. The daily number of vessels waiting for a berth has actually fallen since the lockdown began nearly four weeks ago and there is limited congestion from redirected cargo at other ports.

AIR Freight

Air Canada adding two new freighters. Air Canada Cargo will be adding two more Boeing 767-300F freighters to its growing freighter fleet. The announcement was made at the same time as the company released its financial results for the first quarter of 2021. The cargo division of the carrier posted quarterly revenue up 42 percent to $398 million. The company's first Boeing 767-300ER freighter made its maiden flight in December 2021, carrying cargo to Vancouver in the aftermath of the British Columbia floods. Growing fleet. The two new aircraft are to be delivered this year and will be in addition to the eight 767-300s that are being converted for cargo operations. "Since their entry into service, our Boeing 767-300BDSF freighters have proven their value to Air Canada and Air Canada Cargo," said Jason Berry, vice-president, cargo, at Air Canada. "These additional factory-built 767-300F aircraft will allow Air Canada Cargo to speed up the expansion of its freighter fleet, helping provide reliable, dedicated service to key cargo routes around the world, further bolstering the capacity provided by Air Canada's mainline fleet." Added capacity: The 767-300 freighters allow Air Canada Cargo to offer five different main deck configurations, increasing the overall cargo capacity of each aircraft to nearly 58 tonnes or 438 cubic metres, with approximately 75 percent of this capacity on the main deck. Berry said the addition of the new freighters signals the airline's commitment to dedicated freighter operations.

Russian takeover of foreign-owned aircraft portends higher lease rates. Air Lease absorbs $802M charge for 27 aircraft trapped in Russia. Air Lease Corp. disclosed Friday it is writing off $802.4 million for leased aircraft trapped in Russia it doesn't expect to recover following Western sanctions against the country for the invasion of Ukraine. The broader significance of the impairment charge is that "lessors are going to treat country risk differently than they had in the past and will charge airlines accordingly," Cowen equity analyst Helane Becker said in a client note. "We expect lease rates to trend higher." So far only 32 of 513 Russian-operated aircraft managed by foreign leasing companies have been returned to their owners, aviation consulting firm IBA Aero said in an analysis published Monday. The returned aircraft include two Boeing 747-400 freighters, a 747-8 freighter and a 757-200 converted freighter. The 747-400s were operated by Sky Gates Airlines and taken back by Silk Way West Airlines. Lessor BOC Aviation also said it reclaimed a 747-8 from Volga-Dnepr Group subsidiary AirBridgeCargo. Los Angeles-based Air Lease Corp. (NYSE: AL) leases Airbus, Boeing, Embraer and ATR aircraft to carriers worldwide. At the end of March, it terminated leases for 21 owned aircraft remaining in Russia, representing 3.4% of its fleet by net book value. The company said in a filing with the Securities and Exchange Commission that it is unlikely to regain possession of those aircraft, plus six aircraft it manages for clients, that Russian customers have not returned. It opted to write off the assets after determining, along with its auditors, that there wouldn't be any future cash flows from the aircraft.

SEA *Freight*

Container market won't stabilize until 2023, Drewry reports. Before the Russian invasion of Ukraine and the new Covid-19 wave in China,the container shipping market had been expected to stabilize. But now, research firm Drewry believes it will not level out until 2023. Carriers and their customers may have to struggle with at least another 12 months of lengthy delays and high freight rates. Simon Heaney, Drewry's senior manager of container research said that carriers' ability to charge customers extremely high freight rates is dictated by the duration of supply chain bottlenecks, which remain highly unpredictable. Heaney shared the results of the company's 1Q22 Container Forecaster report published in March at a webinar on April 26. The report downgrades the outlook for global port handling, and saw significant increases in freight rates and carrier profits. Carriers' sweet spot: Heaney said in terms of profitability, carriers are concerned with the pandemic-related issues in China, whether the impact will mainly affect the factories, ports, or terminals. "We have to say that Covid-19 has been exceptionally good for carrier profitability. From a logistics perspective, the primary side effect has been to create capacity shortages in virtually every link of the freight transportation network at a time of very high demand," he said. "Any new factory shutdowns or slowdowns in China spell bad news for carriers, as it will forcibly choke off demand for their services, potentially inadvertently correcting some of the capacity shortage problems that we've been experiencing for the last couple of years. The sweet spot for carriers is for logistics congestion to be bad, but not so bad that it interrupts the flow of goods out of the factory gates."

China COVID policies to squeeze flow of European exports to North America. An empty-container-supply crisis is expected to fuel the next capacity constriction issue. China's zero-COVID measures are producing another problem in trade. Logistics providers in Europe told American Shipper they are concerned about an impending empty-container-supply crisis. A bitter combination of blank sailings and an increase in delays of Europe-bound shipments from China have created a cocktail of capacity constriction. "You need imports to have containers for exports," said Alexander Geisler, managing director, German Shipbrokers' Association (ZVDS). "The whole system only works when you can put a container six to seven times on a ship in a year. Therefore, you have to reduce the dwell time in the ports and at the inland terminals." As a result of the decrease in TEU capacity from the Far East to Europe, logistics companies have fewer containers for clients to fill their products bound for the East Coast. "Vessels are slowing Asia and there is a lack of empties," explained Anne Brouwer, director of operations at TOC Logistics. "We are very concerned about the impact on availability of empty containers for European exports to North America's East Coast." "Although the Port of Shanghai has remained open throughout the lockdown, leading to very little port congestion, the shuttering of China's manufacturers means that export shipment delays will persist for weeks, if not months, to come," said Josh Brazil, SVP of supply chain insights for project44.

SURFACE *Transportation*

Truckload rates expected to plateau in Q2 as demand cools. Dive Brief: Truckload demand is expected to soften in the second half of 2022, but market forces continue to drive higher rates in the near term, according to the April 2022 Cowen/AFS Truckload Freight Index. The index, which measures TL rate per mile in the quarter, was 25.2% above the January 2018 baseline in Q1. While that's more than 15 percentage points higher than the year before, shippers may soon get a needed reprieve. The index is expected to plateau in Q2 at 27.1% before a potential decline. While spot rates are falling, contract rates should stay elevated as demand for produce shipping climbs in the warmer months, Cowen analysts wrote in a research note. "That said, we acknowledge 2H22 could paint a potentially bleak picture (declining rates) for the TL group," wrote the analysts, referring to 2022's second half. Dive Insight: Demand is cooling in 2022 after TL shipments jumped 9.4% YoY in 2021, according to Cowen. This slowdown, in conjunction with smaller fleets bolstering their capacity, has whittled down spot prices, Jason Seidl, senior analyst for airfreight and surface transportation, said in a statement. Larger fleets like Landstar have also added capacity, despite a shortage of trailers in the face of OEM backlogs. The average spot rate for dry van shipping fell to $3.06 per mile in March, 3 cents lower than in February, according to a DAT news release. The spot reefer rate fell 9 cents, while the flatbed rate increased 26 cents to a record $3.45 per mile. A growing industrial economy is driving flatbed demand, DAT principal analyst Dean Croke said in a blog post.

MARKET *Sources*

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