Kintetsu World Express, Canada Inc.

Weekly Market Update

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Latest News

Ningbo terminal closure and what if Covid hits more Chinese ports. The news that Ningbo Meidong Container Terminal had suspended operations on Wednesday over a single Covid case raises wider fears for the supply chain as the Delta variant outbreak in China continues to spread. Tackling its largest Covid outbreak since the onset of the pandemic in early 2020 China continues to operate a zero-Covid strategy of travel restrictions, locking down cities, and testing entire populations, when cases spring up. In the case of Ningbo Zhoushan Reuters reported that a single employee of the Meidong terminal had tested positive for Covid-19. The employee who was fully vaccinated with the Sinovac vaccine was believed to be asymptomatic. It is not yet known if the infection is the Delta variant strain which Sinovac appears to have limited in efficacy against. "Meidong firm immediately stopped all operations and shut down the port area after the Covid-19 test of the staff showed positive," said Jiang Yipeng, deputy general manager of Ningbo Zhoushan Port. The terminal is currently locked down with no movement of vehicles in or out and operations shutdown. All close contacts have been placed under observation; no more cases were reported till now. The immediate impact of the closure is expected to be on the members of the Ocean Alliance – Cosco, CMA CGM and Evergreen – primarily using the terminal. While container line Hapag-Lloyd told its customers: "With this sudden suspension, we expect a delay in planned sailings that might affect your cargo planning. Please know that we are working on alternatives, and hope for your understanding on a matter that is beyond our control." The terminal handles around 25% of the volumes at the world's fourth largest container port Ningbo Zhoushan which has a throughput of 18.68m teu in the first seven months of 2021. In terms of Ningbo – Zhoushan two key concerns will be how long will the closure last and more cases being found at other terminals resulting a wider scale shutdown of facilities at the key port. An outbreak earlier this year at Yantian International Container Terminal (YICT) resulted in a three-week shutdown and major disruption to container shipping with ripple effects felt across trades globally. But it also raises much wider fears for the supply chain if the current outbreak continues to spread with China having already put restrictions in place in a growing number of locations including Zhengzhou, Nanjing, Beijing, Wuhan, Yantai, and Shanghai.

Air Freight

Air freight rates on rise again after early-summer cooling. Having declined on a sequential basis in June versus May, July saw air freight rates rise again on major intercontinental lanes in anticipation of a healthy holiday peak, according to the latest analysis based on data from the Baltic Air Freight Index (BAI). "We cautioned last month that a cooling in rates was likely to be short-lived, and as we see a re-acceleration, particularly on US-bound routes, that may turn out to be just the case," noted Bruce Chan, vice president and senior research analyst, Global Logistics and Future Mobility, at US-based investment bank and financial services company, Stifel. Lapping the PPE surge from 2Q20, year-over-year rates continue to exceed the already elevated 2020 comparable by a significant margin, he underlined. BAI's Hong Kong (HKG) to Europe and Shanghai Pudong (PVG) to Europe basket indices rose 44% and 33% year-over-year in July, respectively, while HKG to North America and PVG to North America rose 59% and 51% year-over-year, respectively. "We think there are a few considerations here, beginning with

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the march of seasonality. It's almost silly to think about seasonal patterns in a market as fraught with disruption and chaos as this one, but at the risk of oversimplifying the equation, there are consumption patterns which drive the flow of goods regardless of this historically-unprecedented capacity situation. As we outlined last month, the potential for the first back-to-school season in two years, and the first holiday peak season with an opportunity for brick and mortar shopping and in-person family gatherings is expected to drive healthy baseline demand. "Retail inventory to sales ratios still near record lows: Similarly, but perhaps more importantly, the feared 'freight cliff' from a goods-to-services rotation is nowhere in sight, at least not in US end markets, Chan observed. Stifel's analysis in June, as well as its published investment research from last November, pointed out that the US household savings rate had ballooned to more than double its ~7% historical average after the pandemic, and that this rate, in concert with continued government stimulus, would serve as a robust shock absorber to goods-based spending as the economy reopened.

Sea Freight

Reefer cargo the new battleground with rates rising and equipment scarce. Container shipping bottlenecks are creating winners and losers in reefer cargo, with consumers footing the bill for the increased logistics costs. According to Drewry, average reefer freight rates jumped 32% in Q2, and are on track for a 50% increase by the end of Q3. Increases on the major east-west tradelanes were particularly strong, Drewry noted, where available capacity has seen record demand in recent months, and reefer shippers have to compete with dry freight BCOs for slots. Traditional north-south routes for perishables have been less affected by the pandemic-driven capacity crunch and therefore recorded less price inflation in Q2, Drewry said. However, while the uptick of reefer rates has been dwarfed by astronomical price rises in dry cargo, the analyst expects the situation to reverse next year, when the bull market is likely to cool. Philip Gray, head of reefer shipping research, said: "In contrast to dry container freight rates, which are expected to decline in 2022 as trade conditions normalise, reefer freight rates are forecast to continue rising as price inflation feeds into north-south routes, when long-term contract rates are renewed." Disruption to container supply chains has also caused an acute shortage of reefer equipment, said Mr. Gray, which is already challenged by the imbalanced nature of perishable trades. "We expect reefer equipment availability to remain an issue for certain trades during their peak seasons, as the global fleet is not expected to keep pace with rising cargo demand, despite record output of newbuild containers," he said. As well as equipment shortages, sky high transport costs mean some perishable commodities are being priced out of the market, according to Rafael Llerena, CEO of 3PL EasyFresh.

Ominous signs for supply chains from new Covid lockdowns in Vietnam and China. The lockdown in South Vietnam has caused a 100,000 teu pile-up at Ho Chi Minh City's Cat Lai port. And in China, ports at Shanghai and Ningbo are reportedly also facing additional congestion from new Covid restrictions. According to Saigon Newport (SNP), yard density at Cat Lai is currently around 85%, with 106,700 teu clogging the terminal, although 2,000 containers were cleared a few days ago. SNP said it had experienced a "rapid surge in the volume of over-dwelled import containers" at Cat Lai, which had negatively impacted vessel handling, and has implemented measures to encourage shippers to pick up their cargo, including offering free transport to nearby depots. Marc Guilhem, owner of Ho Chi Minh-based forwarder Cargoteam, said many factories had closed or reduced production to 50%-70% during the lockdown. "So containers are piling up with nobody picking them up, and they don't have room for new containers coming in," he told The Loadstar. "So far we can still use Cat Lai, but they're going to have to distribute more container blocks to the other smaller terminals."

U.S. imports expected to hit new highs in August. Largest retail container ports should hit yet another record in August as consumer demand continues to stretch supply chains. Imports at the U.S.'s largest retail container ports should hit yet another record in August as consumer demand continues to stretch supply chains and retailers shift from the back-to-school season to the peak shipping season for winter holiday merchandise. The forecast is from the monthly Global Port Tracker report released by the National Retail Federation and Hackett Associates. "Back-to-school supplies have been hit by the same supply chain disruptions and port congestion that have affected other products this year, but retailers are working hard to ensure that school and college goods are where they need to be," said National Retail Federation (NRF) vice-president for supply chain and customs policy Jonathan Gold. "Strong consumer demand has outpaced supply chain

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operations since late last year and could remain a challenge as the holidays approach. The continuing lack of labour, equipment and capacity has highlighted systemic issues and the need to create a truly 21st century supply chain to ensure resiliency against the next major disruption. Passage of infrastructure legislation currently pending in Congress is a key step in that direction. We need continued focus by the administration to help address these issues as well." U.S. ports covered by Global Port Tracker handled 2.15 million TEUs in June, the latest month for which final numbers are available. That was down 7.8 percent from May but up 33.7 percent from a year earlier when many stores were closed because of the pandemic.

Trucking

Supply-demand balance firmly in the red: a bumpy road still ahead for shippers. US shippers are headed into a tight trucking market, with plenty of challenges and elevated pricing and no relief in sight until 2022. The quarterly market update from transport management provider Transplace, based on over 200 users of its transport management system, suggests the balance of demand and capacity is already in the red zone. In the less-than-truckload (LTL) sector, most carriers are operating between 3,000 and 6,000 shipments a day over capacity. Whereas demand has been going strong, truckers are hamstrung by the driver shortage. In the truckload sector, the average driver count in July was 6% below the number recorded in June 2020, and 23% lower than in January. Some 70% of truck firms reported a lower driver count, noted Ben Cubitt, Transplace's senior VP of consulting & network services. It appears many drivers have left the industry, partly out of frustration over deterioration in network efficiency, he added. And the driver shortage has forced carriers to idle capacity, many having 'grounded' up to 10% of their trucks. This situation makes the idea of fleet expansion academic. Truck orders have dropped below 30,000 for the first time in nine months, according to Transplace. It has not helped that truck production itself has been volatile due to supply chain issues.

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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