KWE Kintetsu World Express, Canada Inc.

Weekly Market Update

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Latest News

Border won't open any time soon, Trudeau says. Recent conversations with president Joe Biden have rekindled the debate about letting travel resume. Prime Minister Justin Trudeau waved away suggestions Monday that Canada is prepared to explore reopening its shared border with the United States any time soon. Canadians are looking forward to the day regular cross-border travel "eventually" resumes, Trudeau told a news conference in Montreal – his first public appearance outside Ottawa in recent memory. But while that day will inevitably arrive, it's not imminent as long as Covid-19 continues to pose a serious risk to public health, he suggested. "We're all eager to be able to travel again," Trudeau said. "But I think we're all going to wait patiently until such time as the health situation allows us to loosen border restrictions internationally. That'll be eventually, but not for today."

Air Freight

As air freight rates start to fall, how long can passenger-freighters stay in the air? Air freight rates have started to fall, triggering a debate on how long the 'new' capacity might stay in the market. According to the latest TAC Index data, rates per kg from China to the US are down some 5%, while to Europe they have edged down– despite fuel prices creeping up. They still, however, remain 'elevated', with 'normal' February rates traditionally below $4 to the US and $3 to Europe. As Emirates celebrated one year of flying passenger-freighters, however, market observers wondered at what freight rate the additional, less-economical capacity would need to be grounded. "If rates go any further into decline, carriers will simply stop flying the passenger-freighters, and pure freighters for that matter, on the routes," said one forwarder. "So I can't see them softening that much. China/Hong Kong is still fairly dynamic." Emirates said today it operated its first cargo-only flight on a passenger aircraft one year ago, carrying 34 tonnes of belly cargo. Since then, the carrier has operated 27,800 cargo-only flights on passenger aircraft. It has removed the economy class seats on 16 777-300ERs for cargo operations.

Tight capacity and vaccine demand surge set to keep air freight rates high. Constrained capacity, a surge in the roll-out of vaccine shipments worldwide, and already buoyant demand in the air cargo sector for other commodities are likely to keep air freight rates at their current buoyant levels for some time to come, according to a senior executive at a leading air charter broker. Chapman Freeborn's head of cargo, Pierre Van der Stichele, told Lloyd's Loading List in an interview that prices for full freighter charters had been very high until the start of Chinese New Year (CNY), with examples of near to $1million per flight for a B747F or equivalent from Asia to Central Europe. Since CNY, those prices had since slipped to $500,000-600,000, albeit with a fair bit of fluctuation from one week to the next; but he believes prices are set to rise again. "I really don't know whether this a sign of a downward trend but I certainly wouldn't bet on it," he noted. "Rates are more likely to increase again because if you're trying to find a 100-tonne capacity pure freighter at the moment, it's still super hard." He said capacity was stretched on most of the major routes for air cargo Asia-Europe, Asia-USA, Asia-LATAM, Europe- USA, Europe-LATAM, and Asia/Europe-Africa. "Right now, the demand for cargo is very strong and there are no signs of a swift recovery in capacity and the core fleet of freighters is fully committed until at least December 2021," he noted.

Sea Freight

Shippers brace for fresh price hikes in the 'new normal' for ocean freight. Shippers are bracing themselves for a fresh onslaught of freight rate hikes and peak season surcharges (PSS) from April, as ocean carriers reinforce their supply chain dominance across tradelanes. Carriers have begun to focus on the traditionally low-revenue backhaul routes in order to restore rates to levels that will incentivise them to make equipment available for cargo shipments, rather than using the default option of deadheading empty containers back to Asia. For headhaul routes, transpacific carriers, having eased off on their GRIs (general rate increases) in September following a shot across the bows by the Chinese regulators, are again preparing to roll out rate hikes next month. For example, Hapag-Lloyd has advised customers of a $1,200 GRI per 40ft from Asia to the US and Canada from 1 April, while other transpacific carriers are understood to be applying similar GRIs and PSSs in a month usually bang in the middle of the slack season, when rates are under pressure. Meanwhile, demand on the Asia-Europe route has softened in the past couple of weeks, but there is no sign so far of a spot rate collapse – rather, the expectation is for a "small correction" from the 450% inflation seen in the market since the second half of 2020. On the transatlantic, OOCL and Hapag-Lloyd are preparing to raise rates from North Europe to the US by $1,000 per 40ft from 1 April, on a traditionally stable tradelane that would usually see adjustments of less than $100 over the course of a year.

A tumultuous year of ocean shipping prompts a rethink of contracts. Negotiations are taking place earlier than usual, with greater interest in two-way commitments and tiered pricing. But a focus on resiliency and capacity comes at a cost. At some point, everyone was on the losing side of an ocean shipping contract in 2020. When shippers' demand dropped in March of last year, they slashed their orders, leaving carriers to blank sailings in an attempt to manage capacity and cost. Then, when consumer demand jumped unexpectedly later that year, contract shippers struggled to find space as carriers decided to haul loads from the spot market because of higher rates. The ocean shipping market rode these wild waves generated by the pandemic last year. While the waters have not yet settled, carriers and shippers are rethinking the way they contract with each other, experts said in interviews and in panel discussions at the recent TPM 2021 conference. "A transactional price-based discussion alone, in my book, is never a good idea, but especially this year, is not really going to lead to the outcome that you're looking for," Vincent Clerc, CEO of ocean and logistics at A.P. Moller - Maersk, said during a TPM discussion last week. "It is really important that we understand what we're selling and what we're buying and how we're going to make it happen together." Shippers are seeking increased redundancy and resiliency in their ocean shipping contracts this year. Carriers want to know shippers' volume is going to keep showing up and that orders won't be cut.

Ordering spree shuffles liner rankings. The spate of boxships ordered over the past six months is seeing radical shifts in the global liner rankings. When including their orderbooks, Mediterranean Shipping Co (MSC) is now on track to overhaul Maersk as the world's largest liner, while France's CMA CGM is on schedule to reclaim third spot from China's Cosco. MSC became the world's second largest carrier in 2004, and since then, it and Maersk have continued to top the global ranking table compiled by Alphaliner, something Maersk has topped for more than a quarter of a century. Over the past six months, MSC has been on an extraordinary secondhand tonnage buying phase, spending hundreds of millions of dollars on a huge variety of different sized boxships. Brokers Braemar ACM report today MSC has purchased the 925 teu sister vessels Perseus and Pictor for just over $5m each. "With a number of other discussions in their final stages, we expect to report further MSC purchases shortly," Braemar ACM stated today. Returning to newbuildings, as of March 5 a total of 147 boxships had been ordered since the start of October 2020, compared to just 40 in the January to September period of last year, according to data from Clarkson Research Services. The 363 ships on order equating to 2.9m slots represent 12.2% of the extant fleet on a slot basis and 10.8% on a dwt basis. Until the last quarter of 2020 this fleet to orderbook ratio had been in single figures.

Trucking

Strong LTL market still has some bumps in the road. On the surface, all is well in trucking as a sustained period of high demand outpaces supply, driving rates ever higher. Both less-than-truckload and truckload carriers have more freight than they can handle in what is widely being described as a "carriers' market." But the boom time environment is causing more than just headaches for many carriers. Finding drivers and dockworkers, port congestion, bad weather, rail service issues, and getting equipment stuck at warehouses are some of the obstacles carriers are facing as they try to meet inflated demand and replenish still depleted inventories. This hot freight market may not be as desirable as it appears from afar, according Curtis Garrett, VP of pricing and carrier relations at Recon Logistics. Recon is a third-party logistics and transportation management system provider. Garrett's role in pricing and analytics provides a great view into the operations at many LTL networks across the country. While many of the traditional LTL metrics like tonnage and revenue per hundredweight are rising, excluding the recent winter storms, there is some noise in the numbers as carriers navigate chaotic conditions.

2 Canadian trucking companies close amid financial struggles. Owner files for personal bankruptcy after shuttering Orbit Freight and Delta Carrier. Two Canadian trucking companies operating in the same Toronto site have shut down as their owner faced a mountain of debt and largely unprofitable businesses, bankruptcy court records show. Orbit Freight ceased operating in February following the shutdown of Delta Carrier, according to filings in Ontario Superior Court in March. The size of either carrier wasn't clear at the time of closure. At its peak, in 2018, Orbit had 25 power units and 66 drivers registered in the U.S with the Federal Motor Carrier Safer Administration. Owner Satnam Pandal said in a court filing for his personal bankruptcy that both companies had been largely unprofitable. "I owned and operated two trucking businesses and relied on credit facilities to fund the businesses from time-to-time. … The businesses were by-in-large unprofitable," Pandal wrote in his Feb. 27 personal bankruptcy filing. "Unfortunately both companies failed and my vehicles have been repossessed or surrendered." The shutdowns emerged in court documents as lender Toronto-Dominion Bank (TD Bank) successfully petitioned to have Orbit Freight placed into receivership on Thursday. The bank contends that Orbit owes it nearly CA$2 million ($1.6 million.) The carriers' struggles appeared to have come to a head in December when TD sent its first default notice to Pandal, according to the court filing from the bank.

Warehouse

Double digit growth projected for warehousing and fulfillment. Next five years will see continued growth of e-commerce activity. The warehouse and fulfillment sector is projected to see double-digit growth over the next five years. According to research recently published by Interact Analysis, the e-commerce habit brought on by the Covid-19 pandemic has been "embedded for the long term". Although demand is likely to flatten out as the virus is brought under control, warehousing and fulfillment centers will continue to play a key and growing role in the world of retail. North America and Europe have a disproportionately high quantity of warehouses relative to their population. However, the burgeoning middle class and demand for retail goods in developing countries will mean that by 2025 China, the U.S., Japan, India, and Germany will account for more than 50 percent of the global warehouse building stock of 180,000 units.

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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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