KWE Kintetsu World Express, Canada Inc.

Weekly Market Update

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Latest News

Logjam deepens at the world's ports as pandemic strikes shipping. An average of 30 container ships a day have been stuck outside the Ports of Los Angeles and Long Beach just waiting to deliver their goods. The backlog is part of a global supply-chain mess spurred by the pandemic that means consumers could see delivery delays for weeks. An average of 30 container ships has sat anchored daily just off the coast of Los Angeles this year. The normal number of container ships at anchor is zero to one. This ship, the Ever Front-- not to be confused with the now famous Ever Given-- was waiting for 13 days. Seeing vessels at Anchorage outside the nation's largest container port does not happen every day, and it is a once-in-about-a-decade situation that we see. Ever Front was part of a bottleneck in the supply chain that's still straining the neighboring ports, which handle about a third of all US imports. I don't think it's an exaggeration to say that the ports have never really seen this confluence of stresses that they've had to deal with. So what's causing this offshore queue? How do these waiting ships impact customers onshore? And when will it return to normal? I think we got here because we all had to stay home. Experts say if there's one cause for the backup, it's COVID-19. Staying home leads you to go, all right, my desk isn't great. If I've got one, my chair isn't comfortable. Even if I've got one, I might need a new computer monitor. I might need a webcam. Actually, I can't go to the gym, so I'm going to go buy a Peloton or a running machine or some dumbbells For many Americans, that has meant placing online orders for those items, most of which aren't made in the US. Seaborne imports to the US started surging in the late summer, as manufacturers and retailers tried to rebuild inventories that were depleted by shoppers in the early months of the pandemic. We had 57 extra ships arrive in the fall above normal levels, which chocked the system, because at that same time, the goods' movement system ashore-- the terminals, the trains, the trucks, the warehouses, the forklift drivers-- had some fraction of the work force out with COVID and a different fraction out because of contact tracing. So just when there's more cargo, there's a less-efficient goods movement the system ashore. So the ships backed up. But shipments continued peaking in February when 177 container ships carrying more than 800,000 containers arrived at the southern California ports. That's 31% more ships and 49% more containers than the same month last year. This gap highlights a related issue-- the ships are getting bigger.

North America responsible for the world’s container shortages. New analysis from Danish consultancy Sea-Intelligence shows just how much North America is to blame for the severe equipment imbalances challenging the global container shipping industry. The continent’s comparatively slow handling of containers has long been a source of supply chain pain and a leading cause of empty container shortages in Asia, but never to the extent recorded today. Before the pandemic North America was structurally responsible for 40-45% of the empty imbalance needed in Asia, according to analysis from Sea-Intelligence. Following the early pandemic volatility this changed sharply, so that North America is now structurally responsible for 55-60% of the imbalance in Asia. Sea-Intellligence warned in its latest weekly report that the structural supply chain imbalances related to empty containers are not approaching normalisation. “The imbalance problem now needs to be rectified through North America – which at the same time is the place with the worst port congestion problems, which slows down efforts to repatriate containers,” the report from Sea-Intelligence stated.

Surging imports show importance of global supply chains. Despite the current disruption, globalisation is far from over. Elevated freight rates are set to remain in place for the remainder of this year and any normalisation is unlikely to manifest itself until 2022. Policy makers should be wary of talking down the role of globalization, despite the disruptions seen in the supply chain from high demand and the recent Ever Given grounding in the Suez Canal. “Globalisation is the work of decades; do not let it run aground,” said BIMCO chief shipping analyst Peter Sand. “The whole world has been made aware of the significance of the shipping industry and some of the strengths and weaknesses of global supply chains. But at the end of the day, resilience comes not from autarky but from diversification of supply,” he said speaking on a webinar Thursday. Globalisation had been “shifting down through the gears” since the launch of the trade war between the US and China, but it was “nowhere near being in reverse”, Mr Sand said. This had been witnessed by the strength of imports into the US, which in February were twice as high as they had been at the low point at the start of the pandemic last year. “The doubling of volumes in February was good for business but also extended the troubles that have been experienced for at least half a year,” Mr Sand said. The 100% increase in US imports was not only a result of a strong stimulus package to US consumers but also due to a “very slow” recovery in the US manufacturing sector. “US manufacturing struggled throughout last year and when demand was picking up and underpinned by cash-rich consumers, they had nowhere else to go but to the key providers of consumer goods in Asia,” Mr Sand said. As retail sales rebounded to end up 3% ahead over the full year 2020, the value of US manufactured shipments remained down by over 5%.

Air Freight

Worldwide air cargo traffic volumes up 21% in March. Air cargo traffic in March showed year-on-year (YoY) worldwide growth of 21%, the corresponding month of last year having been significantly impacted by COVID-19, according to the latest analysis by WorldACD. “To make any sense of this percentage (increase), we need to revisit the detailed results for March 2020,” the market data specialist said, underlining that the first and second hal of the month in question had displayed the sharpest of contrasts “in air cargo living memory.” To bear this out, the YoY growth in the period 1-15, March, 2021, stood at -0.2%, whereas in the second half of the month it was +44%, “a clear reminder that the first lockdown started to bite air cargo by mid-March 2020,” WorldACD observed. “As the cautious recovery of early 2021 (+1.1% YoY for the first two months) was halted in the first half of March (-0.2% YoY), the question arises whether the second half reversed the trend again.” Volume 'only marginally lower' In its monthly analysis, WorldACD first looked at volume developments for the 30 largest markets. For six of them (the origins USA Atlantic South, USA Midwest, Taiwan, Thailand, Belgium and Kenya), March 2021 “was simply the best month since January 2018. The same was true for the destination markets China-East, South Korea, Japan, Belgium, the Netherlands and USA-Midwest.” In contrast, other top-origins, notably China North East and Central, France, UK, India, and Australia, have not yet recovered. Their month of March remained more than 20% below their best month over the past three years. This is also the case for the destinations Australia, Canada East, China Northeast, Spain, South Africa and USA Northeast. However, worldwide, March 2021 was only marginally lower than the same month in 2018 and 2019. “This is the more remarkable when taking into account the enormous reduction in cargo capacity. YoY load factor improvements in each of the three first months of 2021, range between 15 and 20 percentage points: airlines are clearly able to use their cargo space much more efficiently than in the past.”

Sea Freight

Ever Given: arrest and GA – what happens to vessel and cargo next? The Suez Canal Authority’s decision to arrest the Ever Given, following the six-day closure of the waterway, as leverage for its $916m insurance claim against the vessel owner, is likely to further delay the General Average process. Jose Guerrero, president of independent claims consultancy Virtual Claims, told The Loadstar one of the key elements of GA was that “the goods and the ship must successfully reach the destination, otherwise, there is no general average”. However, with the ship arrested, the prospect of cargo being released has diminished, as there is little practical option of unloading it at anchor in the Bitter Lake area and transhipping the boxes to another vessel. Ever Given will need to get to port for any sort of unloading to begin. The Q&A below with Mr. Guerrero explains what is likely to happen next. What happens to the GA process, given that the ship has been arrested? After the shipowner declares general average, the assigned average adjuster, RHL, will start assembling the bills of lading from Evergreen to start communicating with the consignees that they have to execute the average bond with commercial invoice. The consignee will then have to contact their cargo insurer so that the latter can execute the GA guarantee. If there is no insurance, the consignee has to post a cash deposit. All of these documents should be available before the cargo is released at the discharging port. Since the vessel and cargo have been arrested, I do not know the eventual result of the GA process, since one of the GA requirements is that the sacrifice and expenditures have to be successful.

Relief at Cathay Pacific Cargo as Hong Kong relaxes crew quarantine rule. Hong Kong has eased its airline crew quarantine measures – a move that will allow Cathay Pacific to regain its full complement of cargo capacity. In February, Hong Kong imposed a 14-day quarantine for locally based crew, forcing Cathay to cut 25% of its cargo capacity, and raising its monthly cash burn by some $50m. But the government has now lifted the quarantine requirement for crew who are fully vaccinated – excluding those in the UK and South Africa. There had been an exemption for flights arriving from Anchorage, which will remain, while crews flying in from Australia, New Zealand, Singapore, South Korea, Japan and Thailand will also no longer be subject to mandatory quarantine on return to Hong Kong. The changes were applicable from Friday. "We welcome the government's announcement," said Cathay Pacific. "These changes enable us to increase our freighter and cargo-only passenger flight operations with immediate effect and gradually restore our full freighter schedule. "We are reviewing crew resources for May and will announce our freighter schedule as soon as possible.

Shipping rates rocketing again, with contract talks 'a game of musical chairs'. Container spot rates are beginning to head upwards again across all trades from already elevated levels, as carriers reduce their commitment to contract volumes in favour of much higher FAK rates. The Freightos Baltic Index (FBX) China-North Europe component edged up to $7,316 per 40ft this week, and market reports to The Loadstar suggest rates on the route are set to soar again next week, returning to their mid-February peak of $8,430, and possibly higher. "The squeeze on shipping capacity on the route has caused freight rates to rise," said the Ningbo Containerized Freight Index (NCFI) commentary, which recorded a 4.6% rise in its North European index this week. The FBX China-North Europe component is up a phenomenal 430% on the same time last year, at a time in the supply chain cycle when rates are generally under slack season pressure before a peak season recovery in July. "Releasing the Ever Given mitigated the crisis, but in many ways the damage was already done," said Freightos research lead Judah Levine. "Two weeks post-Suez blockage, global trade is beginning to feel the slow-moving hit on both capacity and pricing fronts." Indeed, one UK-based NVOCC told The Loadstar this week his carrier had not only doubled his contract rate from Asia, but had also cut his MQC (minimum quantity commitment) by 75%.

Spectre of a new Montreal port labour clash sees shippers eye alternatives. The port of Montreal appears to be on course for another flare-up in the confrontation between management and labour. The past few days have seen an escalation in the conflict, increasing shipper fears of another crippling slowdown in operations. Tension was already building when the seven-month truce, after last summer's strike, ended in late March, with both sides accusing each other of negotiating in bad faith. And in a vote a week before the end of the armistice, dockworkers voted overwhelmingly to reject management's offer. In recent days, the situation has deteriorated rapidly. The Maritime Employers Association announced it was suspending the guaranteed basic income for workers, citing a drop in throughput caused by "uncertainty and anxiety triggered by the labour relations situation". The Canadian Union of Public Employees responded with a decision to stop all overtime on weekdays and all weekend work. In addition, workers would not participate in any training. Martin Imbleau, the port authority's new president and CEO said: "The port is being hit by a climate of uncertainty incompatible with a shipping industry that must choose to divert its vessels to provide a minimum of reliability despite the added delays and costs. The recent deterioration in labour relations (…) is seriously impacting our ability to fulfill a mission that has been drastically curtailed.

Trucking

Shipments up, freight spend way up — Cass reports. March was in and out 'like a lion'. Freight expenditures surged with another step higher in volumes, according to March data released by Cass Information Systems (NASDAQ: CASS) on Friday. The Cass Freight Index posted cycle highs with the expenditures' subindex displaying a new record. The proxy for freight payments was 27.5% higher year-over-year and 7.9% higher than February. This was the third all-time high recorded in the dataset over the past four months. The report said that the increase in the overall index was equally driven by volumes and rates. "Strong momentum continued in freight rate trends, with this month nearly off the chart, and we sense an axis adjustment on the way," stated the report's author, ACT Research's Tim Denoyer. "This acceleration suggests Q2 y/y comparisons will be in the 40%-50% range, compared to the shutdown." Freight shipments snapped back during March following severe storms that disrupted many transportation networks in February. The shipments subindex was up 10% year-over-year and up 5.8% from February (+3.4% seasonally adjusted). The March volume reacceleration in the truckload market was displayed daily in FreightWaves' Outbound Tender Volume Index. The recovery began in the third week of February as carriers started working through freight backlogs created by the storms. By month's end, volumes had surged to levels seen during the 2020 peak season.

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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. Thank you, we appreciate your business.

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