

Weekly Market Update

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Latest News

Supply chain interruption tops 2021 risks for business. Three Covid-19 related risks are top of mind for business as we enter the second year of the global pandemic. Business interruption (BI), pandemic outbreak and cyber threats were the three most frequently cited dangers businesses see on the horizon, according to the Allianz Risk Barometer 2021. "The coronavirus pandemic is a reminder that risk management and business continuity management need to further evolve in order to help businesses prepare for, and survive, extreme events," said Joachim Müller, CEO of Allianz Global Corporate & Specialty (AGCS). "While the pandemic continues to have a firm grip on countries around the world, we also have to ready ourselves for more frequent extreme scenarios, such as a global-scale cloud outage or cyber-attack, natural disasters driven by climate change or even another disease outbreak." In Canada, 47 percent of respondents said business interruption was the biggest risk they face. Pandemic outbreak followed closely at 41 percent and cyber incidents was third at 37 percent. "Business interruption, pandemic and cyber are strongly interlinked, demonstrating the growing vulnerabilities of our highly globalized and connected world," Müller added.

Air Freight

It's a juggling act' say handlers as cargo congestion swamps Europe's airports. Forwarders and other stakeholders are being urged to help stem the chaos at airports, as multiple hubs and handlers across western Europe face severe congestion, with no sign of flows easing despite China's holiday. Cargo flows continue to be high – but also unpredictable – and handlers say they expect volumes to continue throughout the Chinese new year break. Dnata at Schiphol is among the handlers struggling, with one airline reporting that the facility was "imploding". Ross Marino, Dnata's regional chief executive for Europe, explained that the handler had experienced "a perfect storm" of problems. Dnata's volumes at the airport are up 40% on last year, while freighter ramp activity is up 113%. "Every week is a juggling act, and imports have got really busy," he said. "Volumes tend to come in on Thursdays and keep coming on Friday and over the weekend – but stay in the warehouse till Monday." However, this month was worse, he explained. "Our ETV (elevating transfer vehicle) system suffered a failure on 30 January, a Saturday. That led to a shutdown on imports, and then exports followed. "Everywhere was full of pallets and dollies waiting to come into the warehouse, but there was nothing we could do as we needed to wait for a part from Germany. So there was a huge backlog of 450 pallets.

Air Canada taking aim at seven B767 freighters. Air Canada is hoping to have seven freighters operating by the end of next year. Speaking as it announced its fourth quarter financial results, president and chief executive Calin Rovinescu said cargo will play an increasingly important role at the airline in the future. Executive vice president and chief commercial officer Lucie Guillemette later confirmed that the carrier plans to convert a total of seven of its B767 aircraft into freighters – it had initially announced plans for two conversions in January. Deputy chief executive and chief financial officer Michael Rousseau added that the airline would "love to have all seven up and operating by the end of next year". "These [conversions] are longer process and slots are not readily available but we are certainly working on having all seven up and running by fourth quarter next year," he said. The deal announced in January will see the airline sell two passenger Boeing 767s to lessor ATSG to be converted into freighters before leasing them back. The first aircraft will be inducted for conversion in March 2021. Both are expected to be redelivered

to Air Canada by the end of 2021. Looking at the cargo division's financial performance last year, revenues increased by 28% year on year to C\$920m. In the fourth quarter there was a 53% increase in revenues to C\$286m.

Sea Freight

Major economic and logistics impacts for Quebec and Ontario businesses that use the Port of Montreal. Montreal, February 17, 2021 - As the negotiation process is currently suspended and the truce between the dockworkers' union CUPE 375 and the Maritime Employers Association (MEA) draws to a close, and in the context of an unprecedented pandemic that the Canadian economy must continue to face, the Montreal Port Authority (MPA) hopes that the parties will quickly reach an agreement to avoid a new work stoppage by the dockworkers. Already, the Port of Montreal's user companies and clients are feeling the impacts. Nearly a month before the end of the truce between the employer and the union, scheduled for March 21 at 6:59 a.m., the MPA has found that several Quebec and Ontario businesses that use the Port of Montreal, including some that move critical cargo to combat COVID-19, are already diverting containerized goods to other ports, and that others are planning to do so if a new work stoppage occurs soon. This situation, similar to the 19-day work stoppage during the summer of 2020 when dozens of companies publicly disclosed the impacts on their operations, could cause major delays in the supply chain and higher freight costs, right as the economic recovery and a broader reopening of the retail sector in Quebec and Ontario get under way.

Shippers balk as contract box rates spike to massive highs. Contract rates as measured by the 23-year-old China (Export) Containerized Freight Index (CCFI) have risen faster than ever recorded putting containerlines on course to register improved profits this year, even over 2020's stellar performance. However, latest data seen by Splash shows many shippers are baulking at signing lengthy contracts now, willing to wait till the market cools. "For the Transpacific, we are not quite at record levels, but it is close. In the other trades we are seeing contract levels which far exceed past records," analysts at Sea-Intelligence noted in their most recent weekly report. Sea-Intelligence has also done modelling for Container Trade Statistics (CTS), which includes all trade lanes, not just ex-China ones, and again records are being smashed. Available CTS data dates back to 2009 – with an all-time high of 116 points achieved in 2010. Modelling by Sea-Intelligence suggests the CTS has hit 150 points this month. "The developments in late 2020 and early 2021 can only be described as extreme. For all intents and purposes, the best description is that contract rates measured by the CCFI index are almost twice what they have ever been before. This is an extreme record seen in a 23-year perspective," Sea-Intelligence stated. With global supply chains under enormous pressure – and ships arriving late with nearly 40% of cargoes rolled over – shippers want to get contracts nailed down this season but many are wary of today's extraordinary pricing levels.

Trucking

Tight capacity puts pricing power in trucking's hands as spot, contract rates rise. The trucking market is benefiting, as is every other freight mode, from the high demand for consumer goods in recent months that has led to an impressive surge in imports at ocean gateways. And once those containers land, it is trucks and rail that are responsible for getting them to where they need to be. "This tightness is driven largely by the supply side, with ongoing congestion at some of the major ports and a driver shortage," XPO Logistics Chief Strategy Officer Matt Fassler said on the company's earnings call Thursday when talking about its brokerage business. "There has been some loosening in capacity from the seasonal peak, which helps us with procuring capacity for our customers." In a research note published Friday, UBS noted that several companies reported strong brokerage results due to the tight market environment. "Brokerage mix in 4Q20 was ~35% /65% spot to contract, and we anticipate that continued tightness in the freight market and increased market participation in digital pricing systems will be tailwinds for XPO's ability to capture pricing in 1Q21," UBS said of XPO's results for the quarter.



Market Sources

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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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