KWE Kintetsu World Express, Canada Inc.

Weekly Market Update

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Latest News

The world enters 2021 with a third wave of infections attributed to a coronavirus variant that first appeared in the UK, along with five new variants already observed in Ukraine and another from Argentina. Pressed by mass social gatherings over the winter that contributed to the new wave, many countries are imposing new lockdowns in their most populous cities which may blunt the expected recovery. Slowed national and regional vaccine rollouts, in particular by the EU, have strained hospital infrastructure and aggravated local health officials. But even an overcast new year is not without its silver lining. Many signatories of the signed Regional Comprehensive Economic Partnership (RCEP) are expected to ratify the trade agreement throughout the year. Cargo shipped within Africa will see substantial cuts in cross-border tariffs come January 8 as a new free trade agreement is enforced in 54 of the continent's countries. Efforts to correct the container and equipment disparity across regions will see further delays due to recent lockdowns in North America and Europe. Oil leaders in Saudi Arabia have agreed to cut daily production by one million barrels to support faltering market prices, which is projected to readjust carrier fuel costs.

Air Freight

With air cargo rates set to remain sky high, shippers need to plan carefully. Accurate forecasting by shippers will be crucial to manage their shipping requirements – and costs – efficiently, as air freight rates look set to remain high this year. The Baltic Air Freight Index saw a 100% year-on-year increase this week, while the past few weeks have seen the highest readings since the Q2 capacity shortage. However, forwarders in Asia have noted a softening market ex-China, in part due to lockdowns, although e-commerce remains strong. One South-east Asian forwarder told The Loadstar: "Air freight wise, spot rates reduced after new year, but it was not a plunge. We might expect to see rates dropped in a couple of weeks, although in a normal year there should be a rush from middle of this month to early Feb because of Chinese new year." But, he added: "Air freight [rates] in general might not drop significantly for the next six months at least. After all, major passenger belly capacity will still be absent for a while."

Air cargo volumes slowly rising. The International Air Transport Association (IATA) released data for global air freight markets in November showing that freight volumes improved compared to October but remain depressed compared to 2019. Capacity remains constrained from the loss of available belly cargo space as passenger aircraft remain parked. Global demand, measured in cargo tonne-kilometers (CTKs), was 6.6 per cent below previous-year levels in November (-7.7 per cent for international operations). This was on par with the 6.2 per cent year-on-year drop in October. The year-on-year decline is skewed as November 2019 had a boost in demand from the waning US-China trade war. Seasonally adjusted demand (SA CTKs) continued to improve, increasing 1.6 per cent month-on-month in November. This was a slight improvement over the monthly growth rate of 1.1 per cent in October. Current month-on-month gains indicate that SA CTKs will return to 2019 levels around March or April 2021.

Capacity still declining. Global capacity, measured in available cargo tonne-kilometers (ACTKs), shrank by 20 per cent in November (21.3 per cent for international operations) compared to the previous year. That is nearly three times larger than the contraction in demand. The capacity crunch is caused by a 53 per cent decrease in in belly capacity. This has only been partially offset by a 20 per cent increase in freighter capacity. Strong regional variations continue with North American carriers reporting year-on-year gains in demand (plus five per cent), while all other regions remained in negative territory compared to a year earlier. Economic conditions in November, normally the peak season for air cargo, remained positive. The new export orders component of the manufacturing Purchasing Managers' Index (PMI) remained in growth territory in both developed and emerging markets for the third month in a row after two years of indicating negative growth.

Sea Freight

Boxship Space in Asia Now Going, Going, Gone – to the Highest Bidder. Major forwarders are engaged in fierce bidding wars in China, in order to secure equipment and space to North Europe. And several carriers are reported to have opened first- and second-round tenders with the highest bidders for guaranteed shipment this month. According to Chinese forwarder contacts, carriers are inviting offers for available slots on end-January sailings from Shanghai, Ningbo, Qingdao and Yantian, with all-in bids below $16,000 per 40ft H/C for the UK and $10,500 for Rotterdam, Antwerp and Le Havre unlikely to be successful. Meanwhile, today's Shanghai Containerized Freight Index (SCFI), which does not include additional premium fees to guarantee equipment and space, saw its North Europe component gain a further 9%, an astonishing 344% higher than for the same week of last year. For Mediterranean ports, spot rates were stable, but remain 265% higher than a year ago. Most forwarding contacts The Loadstar spoke to this week said they expected rates from Asia to Europe to fall after the China's new year holiday, which begins on 12 February, especially as carriers have, so far, this year untypically blanked very few sailings. However, nobody is predicting a crash.

The Halifax Port Authority has chosen Commissionaires Nova Scotia once again to provide security-related services, including surveillance monitoring, patrolling, and access control. The initial term of the contract is one year with the option to renew annually for two additional years. Commissionaires has been HPA's security partner for over a decade. The new contract was awarded following an open tender process and came into effect January 1, 2021. Commissionaires employs 46 full-time staff year-round at the Port of Halifax, and an additional 22 staff during a typical six-month cruise season. "We see Commissionaires as a part of our Port Community," said Captain Allan Gray, president and CEO, Halifax Port Authority. "It means a lot to be able to partner with an organization that can help us meet our environmental, social and community goals." "Halifax is a port city, and we're proud that our veteran commissionaires – many of them former sailors – will be able to continue to play their key role at the Port of Halifax," said Geoff Hamilton, CEO, Commissionaires Nova Scotia. "COVID-19 has highlighted the importance for any organization to work with a reliable integrated security partner who can provide depth and resilience in a prolonged crisis." Commissionaires is a not-for-profit organization dedicated to providing employment opportunities for veterans of the Canadian Armed Forces and RCMP.

Don't expect rate relief from container-ship order spike Q4 2020 container-ship orders were the highest since Q3 2015. In virtually any ocean shipping market, a big jump in newbuilding orders is a headwind for future freight rates. More capacity spread among competing owners strengthens the negotiating hand of cargo shippers. According to Alphaliner, container-ship orders spiked in Q4 2020. Orders totaled to 673,500 twenty-foot equivalent units (TEUs), the highest quarterly tally since Q3 2015. That's a big jump and cargo shippers may hope for rate relief when those newbuilds eventually hit the water. But they probably won't get it. The ultra-consolidated liner sector proved in 2020 that it can manage capacity downward in periods of low demand. Container-vessel supply — unlike tanker and dry bulk vessel supply — is not the total number of ships on the water. It's the number of ships liners place in scheduled service. Liners generally own around half their ships and charter the rest from so-called non-operating owners (NOOs). If there is not enough demand to fill recently ordered ships when they arrive in 2023, liners can reduce capacity in service. They can let charters from NOOs expire and temporarily lay up their own vessels.

Trucking

When will the next wave of trucking capacity hit the market? One of the biggest questions of 2021 for trucking is whether a wave of capacity will enter the market that stabilizes the current elevated spot rate environment. This is a question many transportation providers struggle with each year as they attempt to balance the need for growth versus cost control. Overextend your fleet beyond demand and you have to drop your prices just to keep rolling. Demand exceeds your capacity and you miss out on precious growth opportunities. The bottom line is spot rates have expanded too much and sustained for too long not to see growth in capacity this year. So the real question is not if, but when will it occur. Trucking capacity is relatively opaque, with very few measures available to get a full picture of how much is available in the for-hire or non-private trucking space. The Bureau of Labor Statistics puts out a monthly figure measuring employees in the truck transportation space that is a good directional measure for the growth or decline of the industry. It covers all the employees of carriers, including drivers and back office workers. Looking at the non-seasonally adjusted figure for truck transportation employment levels as of November, there is still a long way to go to get back to pre-pandemic levels. In November of 2019, there were over 15.3 million people employed in the trucking industry, whereas this past November that figure sat around 14.8 million — a difference of more than 500,000 jobs.

FMCSA proposes eliminating vision exemptions for drivers. Those with impaired vision in one eye can qualify to drive under revised program. Federal regulators want to amend driver qualifications to allow those with vision loss in one eye to be deemed qualified to drive a commercial motor vehicle (CMV) without having to apply for an exemption. In a notice of proposed rulemaking scheduled to be published on Tuesday, the Federal Motor Carrier Safety Administration (FMCSA) is seeking an alternate vision standard that would replace the current exemption program as a basis for establishing vision qualifications. “It is well recognized in the literature that individuals with vision loss in one eye can and do develop compensatory viewing behavior to mitigate the vision loss,” according to FMCSA. “Therefore, if an individual meets the proposed vision standard, the agency expects there will be no adverse impact on safety due to the individual’s vision. That is, once an individual’s vision is stable and the individual has adapted to and compensated for the change in vision, the loss in vision is not likely to play a significant role in whether the individual can drive a CMV safely.” Instead of requiring three years of driving experience with the vision deficiency within a state – which is the case under the current exemption program – individuals who qualify under the proposed alternate vision standard would complete a road test, conducted by the carrier, before operating in interstate commerce. Drivers would be excepted from the road test requirement if they have three years of intrastate or excepted interstate CMV driving experience with the vision deficiency, hold a valid federal vision exemption or are medically certified, according to FMCSA.

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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