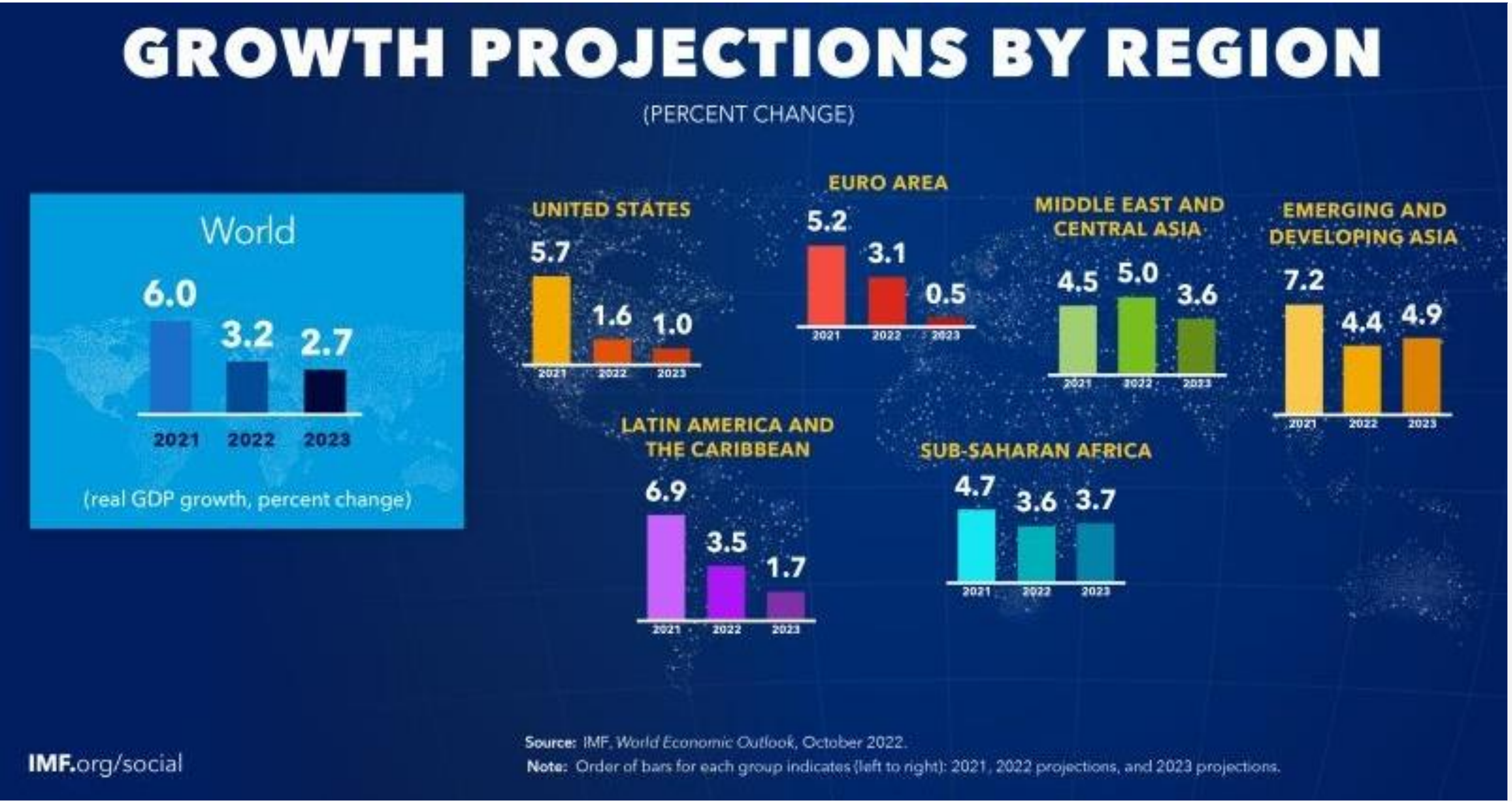
DSV Air & Sea

Market update October 2022

World economic Outlook slowdown - October 2022



Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades.

This is the weakest growth profile since 2001 except the global financial crisis and the acute phase of the COVID-19 pandemic.

For logistics this means lower volumes and lower freight rates and potentially fewer obstacles in the way of global supply chains to get adjusted. We see the weakness pf indexes across different trades but not all trades are following the general trend.

OPEC Slashes Oil-Demand Forecasts After Supply Cuts

Cartel points to elevated inflation, rising interest rates and geopolitical tensions as factors that will drag on demand

The Organization of the Petroleum Exporting Countries slashed its forecasts for global economic growth and crude-oil demand, offering a justification for the cartel's recent 2 million barrel-a-day supply cut that it said was part of ongoing efforts to balance oil markets.

The oil-producers group lowered its global gross domestic product forecasts to 2.7% from 3.1% for 2022 and to 2.5% from 3.1% for 2023. It cited elevated inflation, rising interest rates and geopolitical tensions as factors that were weakening the global economy and would reduce demand for oil.

OPEC now forecasts the U.S. and eurozone economies will slow sharply next year. The cartel expects the U.S. economy to grow by 0.8% in 2023, down from an earlier forecast of 1.7%, while it expects the eurozone economy to grow by just 0.3%, down from 1.7%. It also sharply revised its 2022 growth forecast for China to 3.1% from 4.2%.

Source: WSJ

China's major party congress is set to grant Xi Jinping a 3rd term

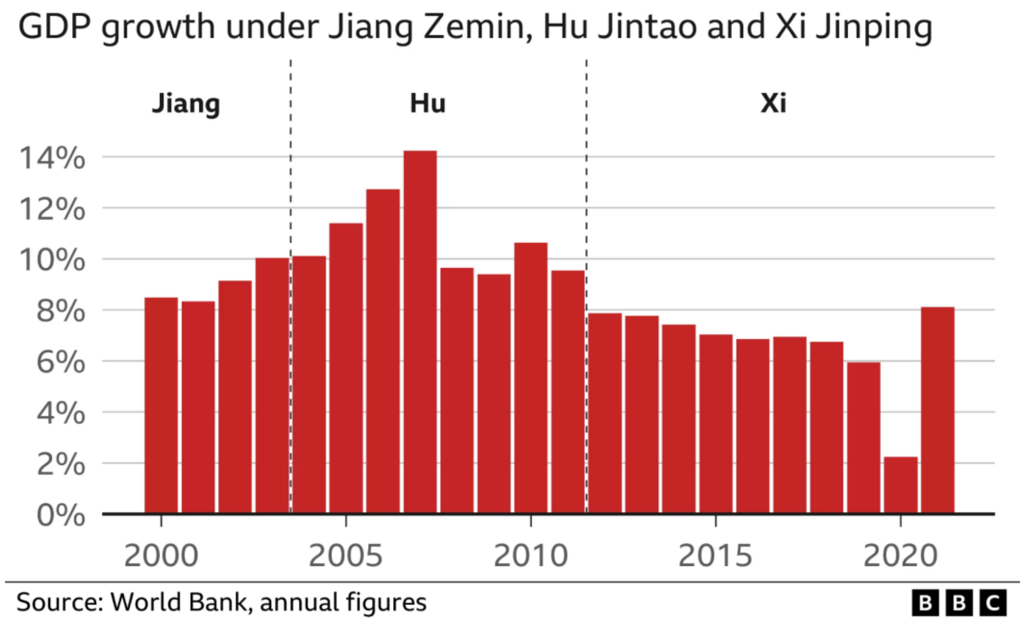
On 16 October the Communist party (CCP) will come together for a twice-a-decade gathering

China's zero Covid approach to the pandemic is one of Xi's landmark policies.

While much of the world has been returning to normal, China's authorities have intensified their efforts to contain outbreaks, with strict lockdowns, mass testing and lengthy quarantines.

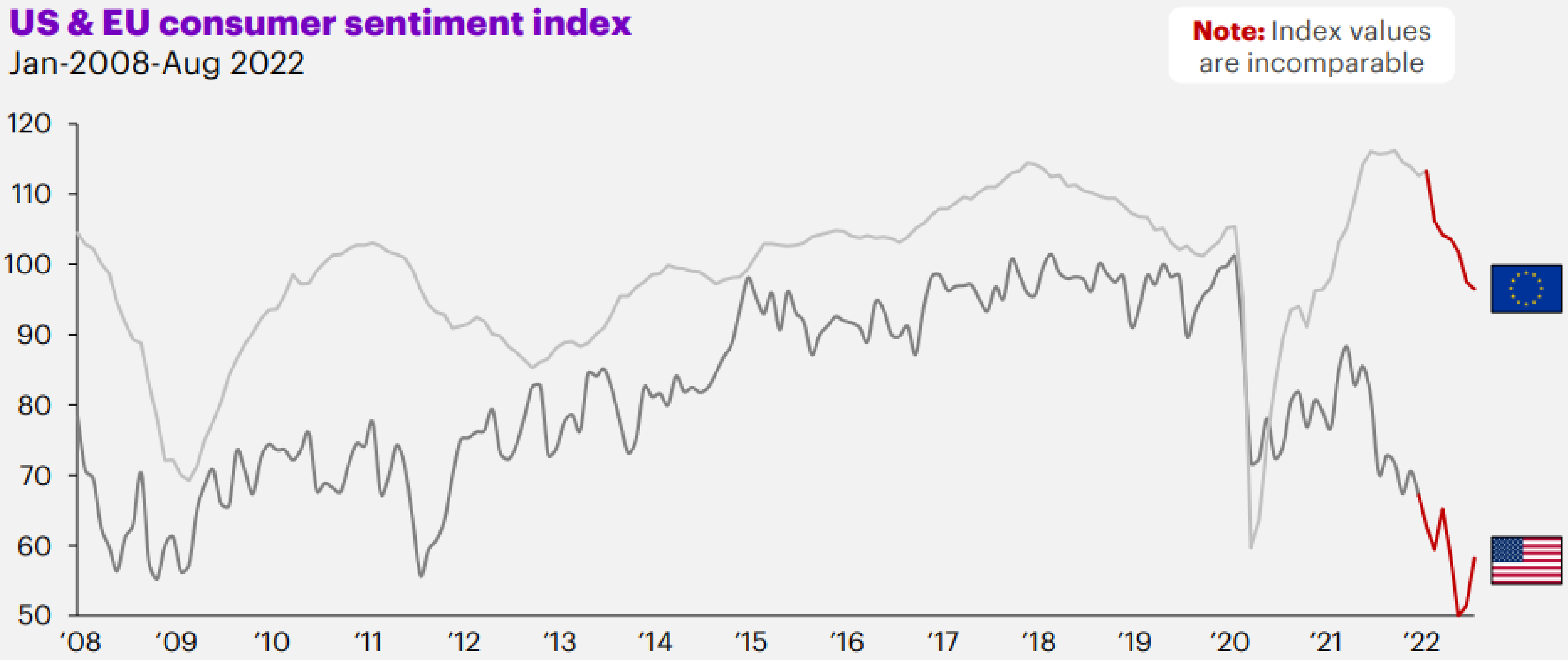
Some observers say the party may use the Congress to declare victory over the pandemic and end the zero Covid policy.

Alternatively, the party may argue that China - unlike other countries - values people's lives more than the economy, in which case the policy will continue.



Source: BBC

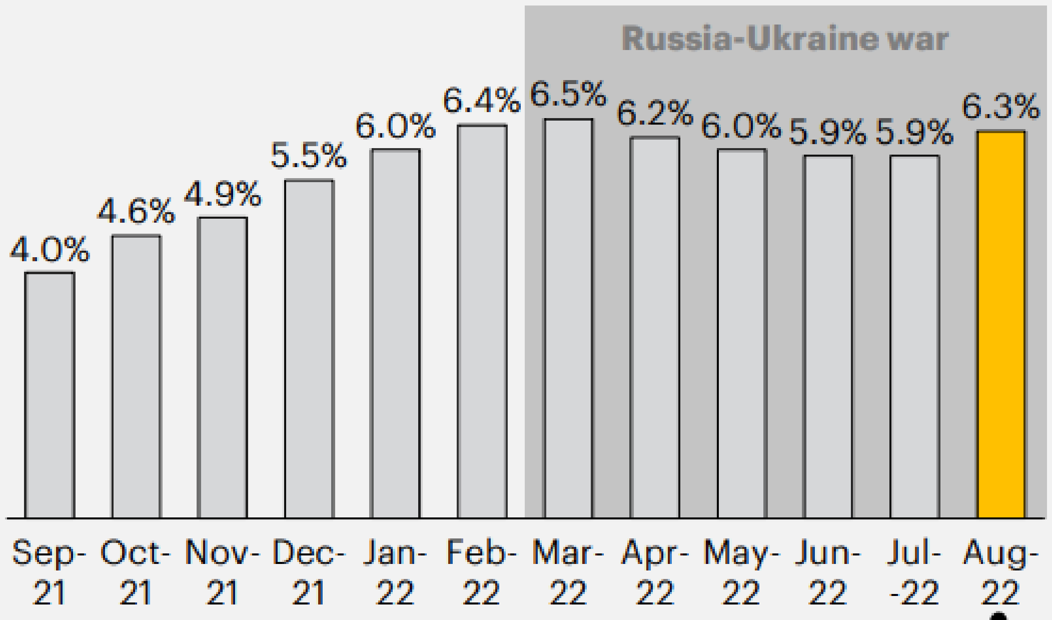
Consumer sentiment has fallen significantly in recent months, in part due to concerns over inflation



Persistent higher than expected core inflation rates contribute to a more pessimistic macro-economic outlook

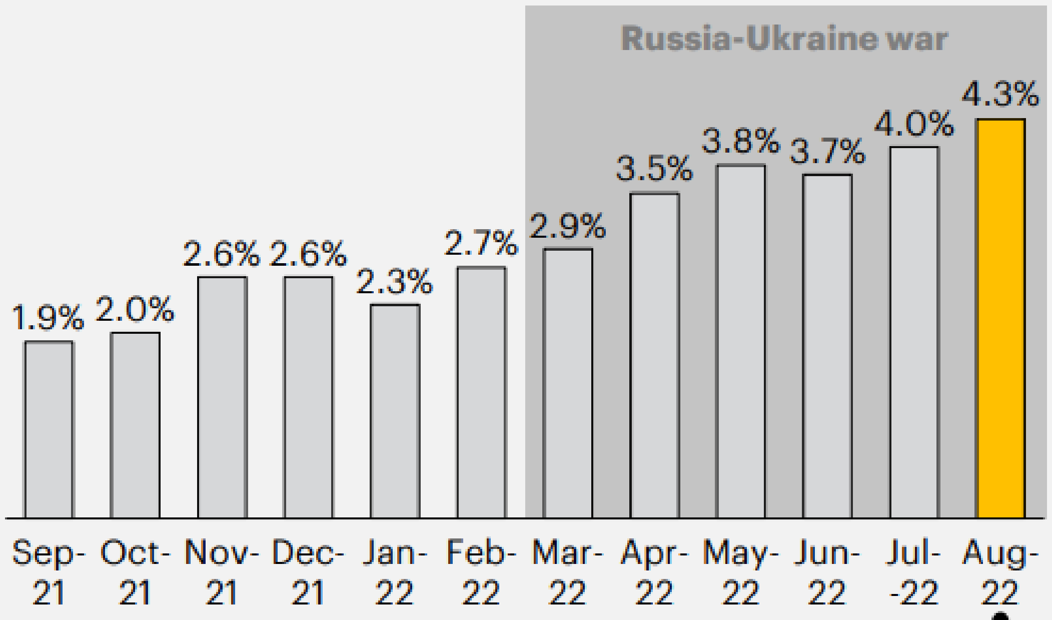
Even with the exclusion of food and energy prices, US and EU inflation has been around +6% and +4% respectively in the last half year

US[1] YoY core annual inflation rate
Excluding food and energy prices, percent (%)



US annual inflation rate in August 2022 was higher than expected and was a **break from the declining trend**

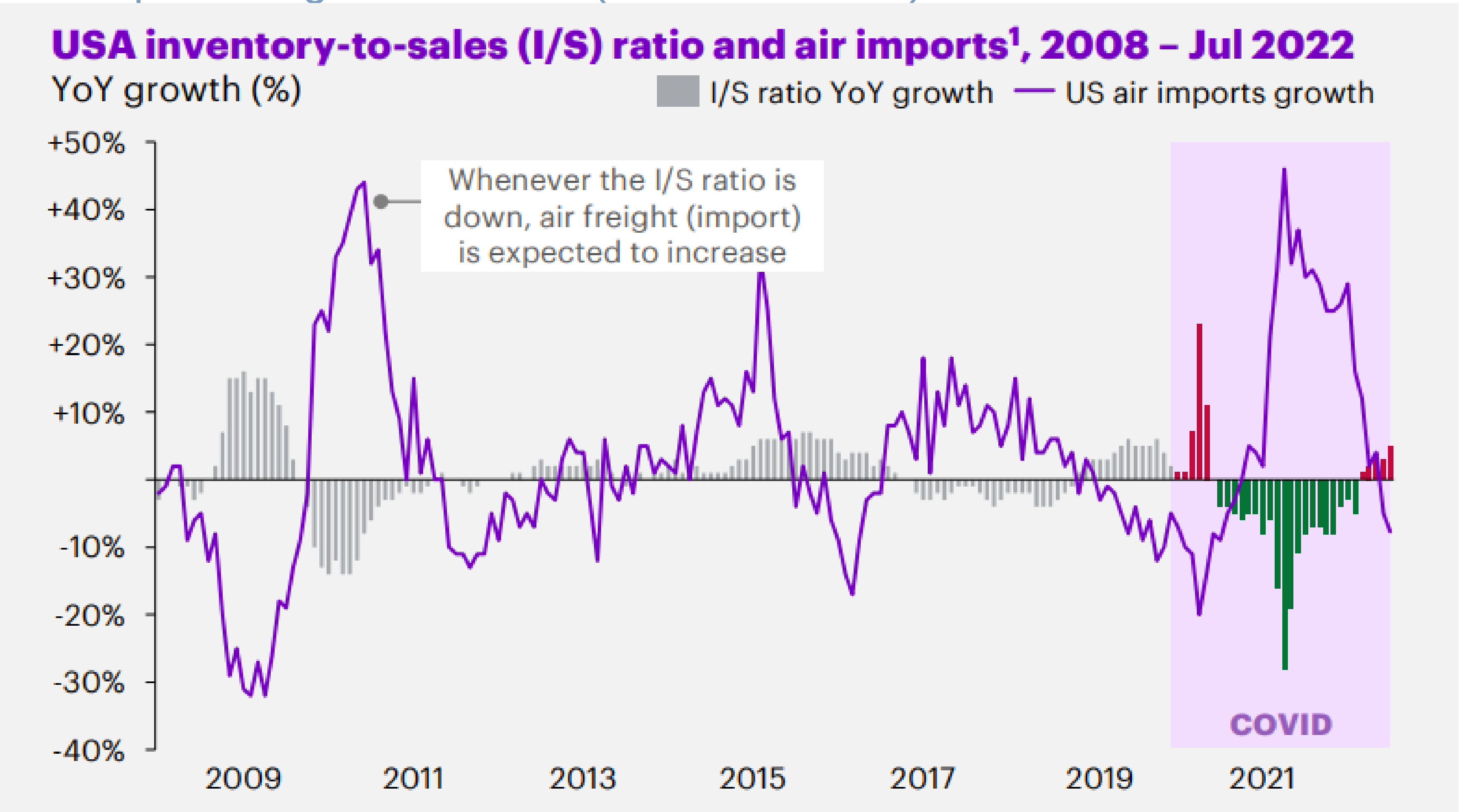
EU[2] YoY core annual inflation rate
Excluding food and energy prices, percent (%)



EU annual inflation rate in August 2022 was **highest of the year**

US inventories are once more outpacing sales, limiting expected growth of US air imports in the short term

Although recent months show a YoY decline, US air imports in 2022 are still on track to equal the exceptional figures of 2021 (+20% vs. 2019)



Persistent supply-chain bottlenecks have led many retailers to stretch out buying cycles, bringing in goods early to ensure shelves are stocked during the critical fall sales season.

The inbound shipments are stacking up at seaport docks, filling up warehouses near gateways and clogging distribution networks across the U.S.

Latest restrictions COVID-19

APAC

NEW

Note: The following updates are based on various online sources and subject to changes due to the evolving COVID situation.

Australia

- From 9 September 2022, masks are no longer required on flights travelling to Australia.
- AU lifted all Covid-19 border restrictions for travelers, all visa holder can travel to AU without a travel exemption.

New Zealand

- From Sep 13, travelers to NZ are not required to be vaccinated or to test for COVID-19 after arriving.
- The requirement to not exhibit COVID-19 symptoms has also been removed. All travelers are however encouraged to complete a Day 0/1 and Day 5/6 RAT.

Mainland China

- Starting from August 31, China does not require COVID test information for international arrivals.
- Travelers are only required to have centralized quarantine for 7 days and an additional period of health monitoring that determined by the local authorities.

Hong Kong

- From Sep 26, travelers will be required to home medical surveillance for 3 days
- HK halted Covid flight suspension mechanism, airlines temporarily banned under the measure are allowed to fly to HK from July.

Taiwan

- From Oct 13, Taiwan will lift quarantine and only required for 7 days of “self-monitor.
- All travelers are not required to provide PCR test result taken within two days of flight time/upon arrival.

Japan

- From Oct 11, Japan will relax border control measures, as well as resume visa-free travel and individual travel.
- Tourists must present a proof of vaccination or a negative coronavirus test within 72 hrs before departure if not vaccinated.

Korea

- From Oct 1, all travelers are not required to present any negative COVID-19 test result.
- There are no quarantine requirements for all travelers.
- All travelers are still required to register for Q-code on Gov website prior to entry into Korea.

Singapore

- No entry approvals, pre-departure tests, on-arrival tests and quarantine required by fully vaccinated travelers
- From Aug 29, non-fully vaccinated visitors will no longer need to apply for entry approval or undergo quarantine. PCR/ART is required.

Malaysia

- Starting from Aug 1, Pre-Departure Test (PDT), On-Arrival Test (OAT) and Traveller’s Pass are no longer required.
- Travelers are not required to do quarantine when visiting Malaysia.
- Inbound travelers will no longer need to fill in the Traveler’s Card.

Vietnam

- Vietnamese gov already lifted the requirement for quarantine, Covid test result on arrival and presentation of vaccination certificate for all incoming travelers.
- E-visa for a stay of up to 30 days is available to travelers.

Cambodia

- From Oct 4, all COVID-19 restrictions were lifted. All travelers can now visit Cambodia without proof of COVID-19 vaccination, or a negative COVID-19 test result.
- E-visa for a stay of up to 30 days is available to travelers.

Thailand

- Now, all COVID-19 restrictions have been removed. Travelers are no longer required to show vaccination status/negative COVID test result.

Myanmar

- From Oct 8, 2022, travelers need to show either a printed COVID-19 vaccine certificate, or a printed negative COVID-19 antigen or PCR test result within 48 hrs before arrival.
- Medical screening and COVID-19 test on arrival are required.

Philippines

- From Sep 12, fully-vaccinated travelers are not required to undergo facility-based quarantine and testing.
- Unvaccinated or partially vaccinated travelers are required to undergo facility-based quarantine.

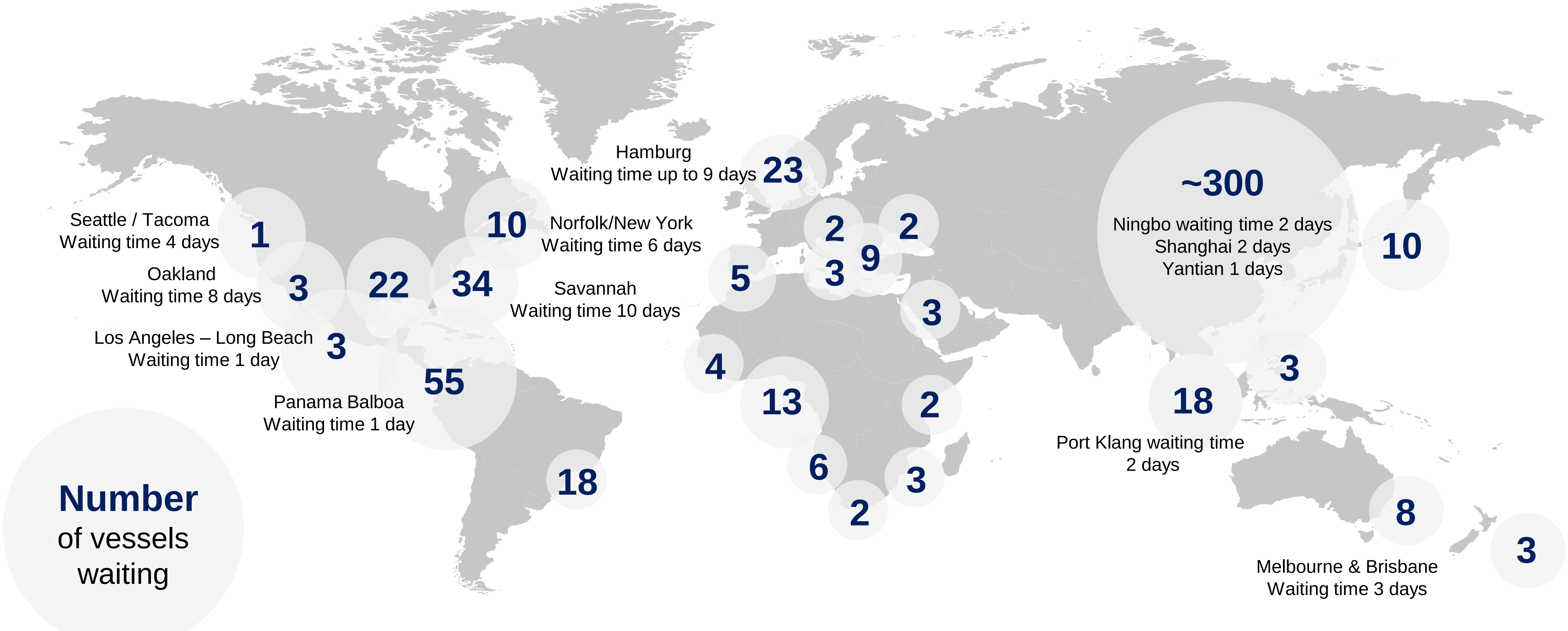
Indonesia

- Fully vaccinated travelers no longer have to take a PCR test upon arrival or have COVID-19 insurance coverage to enter ID.
- Travelers who are not fully vaccinated must take a PCR test upon arrival and wait for a negative result at a designated hotel.

Port congestion

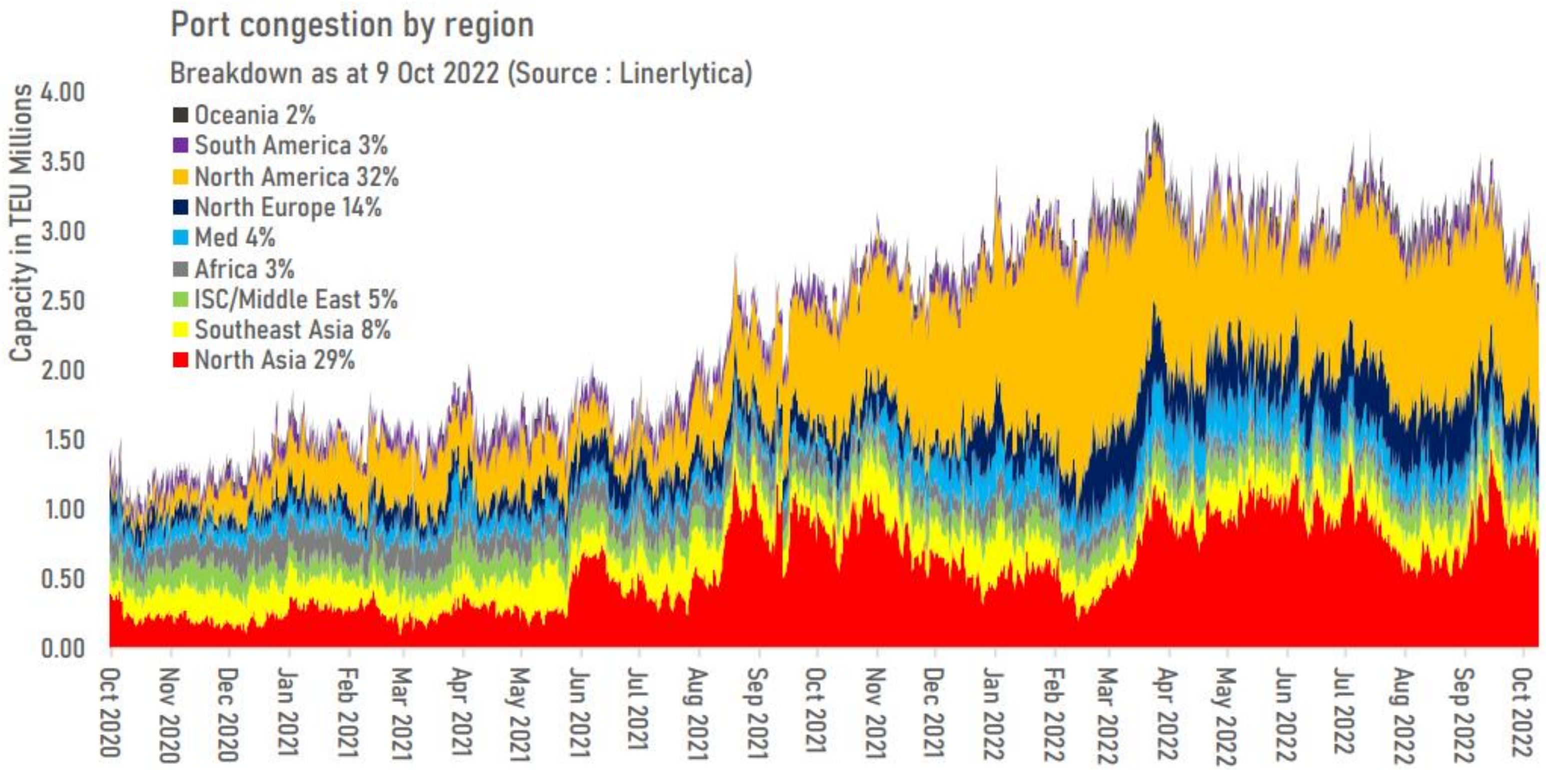
Global port congestion

10,5 % of the global vessel capacity effectively removed, it has eased for the first time in 9 months with both US and China recording low levels



Source: Marine Traffic October 15th 2022, www.gocomet.com, Linerlytica

Global congestion remained flat during past month – 10.5%



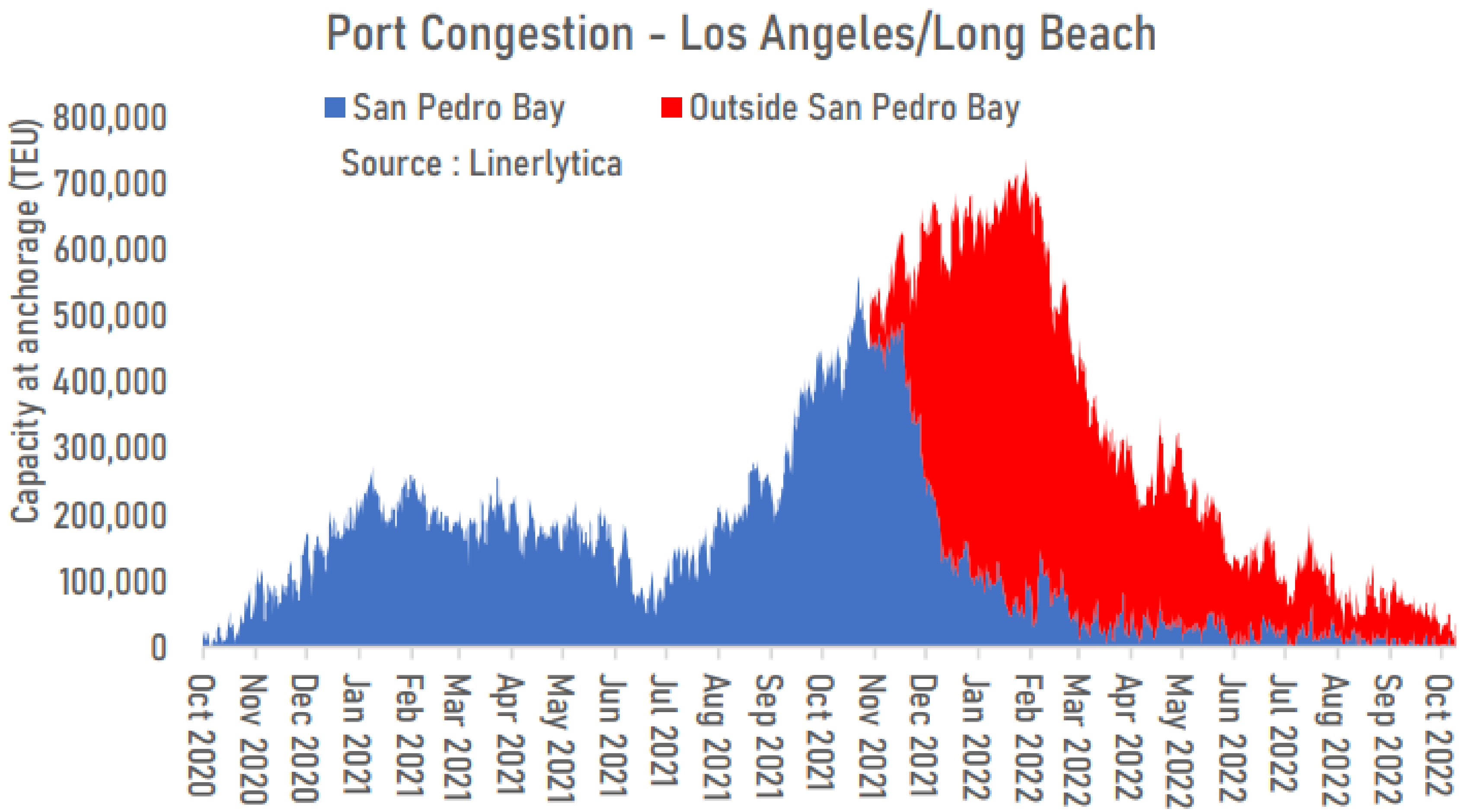
Source: Linerlytica (October 2022)

Global port congestion eased to a 10 month low, with both the US and China ports recording lower congestion levels.

Vessels calling at MOL's Trapac and NYK's
YTI are still facing extended delays but the queues at other terminals have all fully cleared, with average berthing delays not less than 2 days.

The situation will continue to improve as carriers adjust their capacity deployed on the transpacific route over the next 2 months.

Los Angeles/Long Beach congestion levels are back to 2020 levels



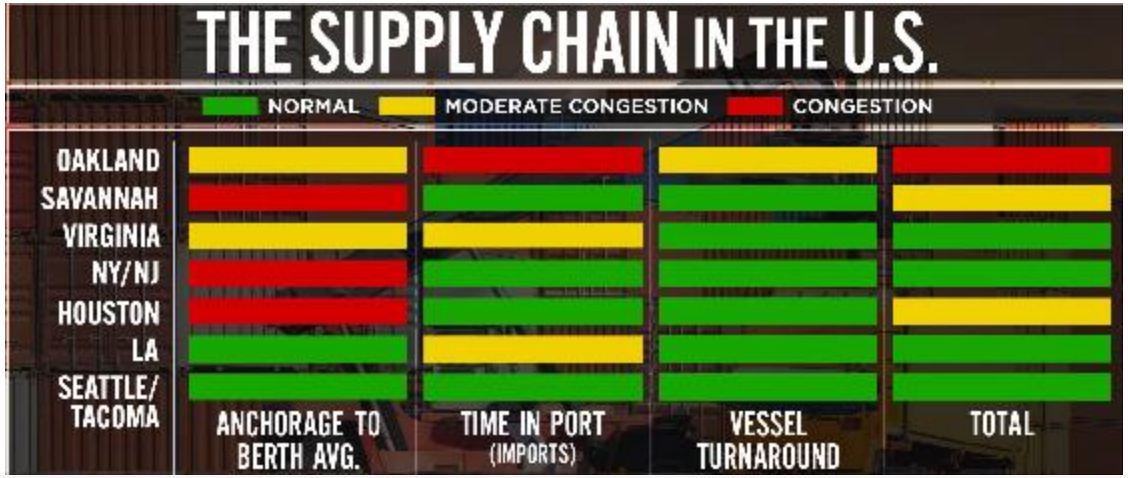
In the US West Coast, the congestion at Los Angeles and Long Beach have been almost fully cleared, with only 2 out of the 13 LA/LB terminals still facing any material congestion.

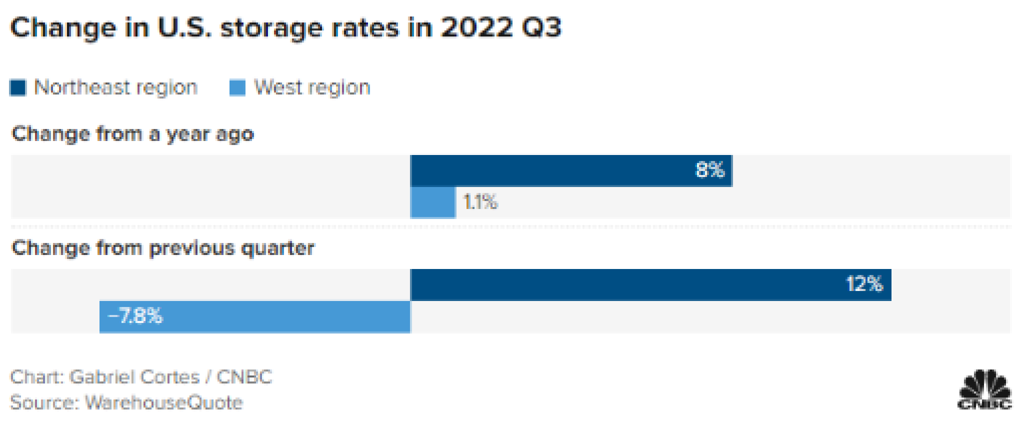
There is still a potential strike amongst the port workers on the US West Coast. The union agreement expired 3 ½ months ago and there is still no agreement. Minor disagreement has flared in recent weeks, and if there is not an agreement after the US mid-term elections in November, the risk of a strike increases significantly.

Source: Reuters and Lynerlitica

Big decline in warehouse shipments is latest sign of the consumer pullback

Warehouse prices on the East Coast continue to move up as trade continues to be diverted away from West Coast ports.





Savannah continues to have the most vessels at anchor among East Coast ports.

A big decline in warehouse orders leaving storage and heading to retailers is another signal of the pullback in consumer demand.

According to the latest data from WarehouseQuote, outbound orders from customers shipping to retailers is down by one-third (-33%) year over year.

Based on ocean orders, there is no sign of this trend slowing down. The ports of New York/New Jersey and Savannah continue to lead the way for incoming vessels. In the Gulf, the Port of Houston recently announced it was considering an “excessive dwell fee” on containers that stay longer than the free time allowed at the terminal. The port posted historic volumes processed in August.

Source: Linerlytica

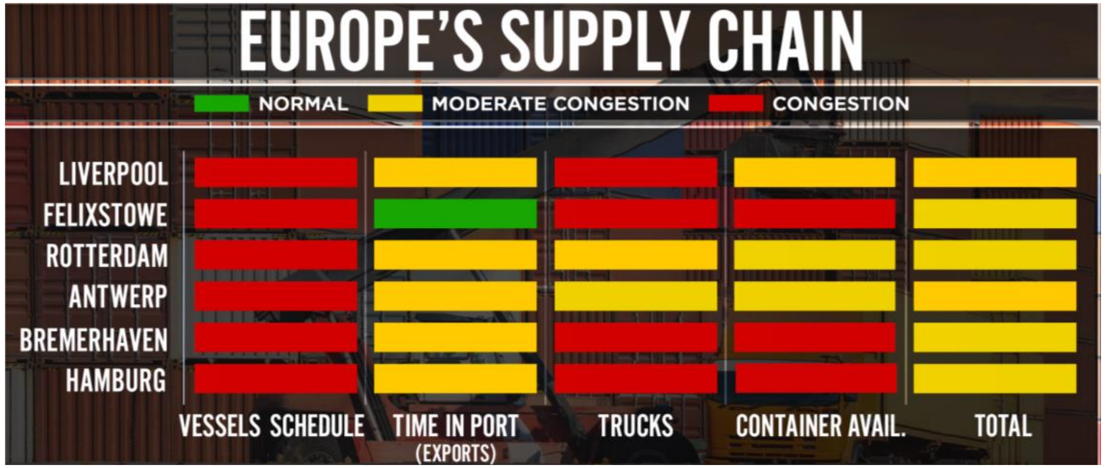
Second strike at Liverpool to add to European port congestion, slow product delivery

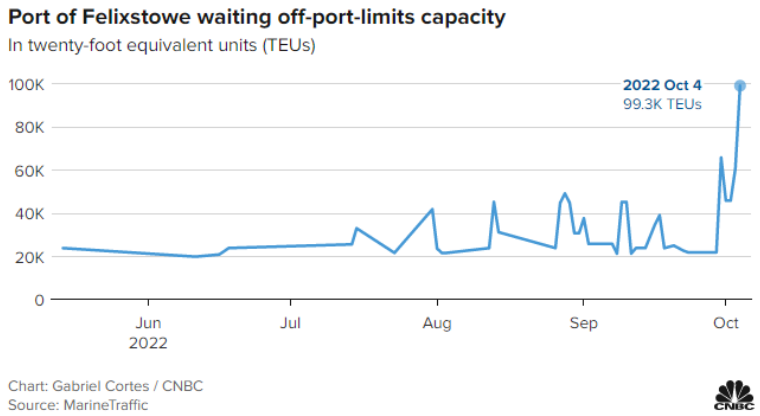
Dockworkers in Liverpool are set to start a seven-day strike on October 11 as U.K. and European ports remain congested from dual prior strikes in Liverpool and Felixstowe.

The new labor action will add to the existing delays in product delivery.

Trade productivity at Felixstowe, the U.K.'s largest container port, and Liverpool have suffered as a result of various labor strikes since August. As a result, the diversion of trade away from the ports has created a snowball of congestion at other ports in Europe.

If the Felixstowe dockworkers agree to a third strike it will for sure create additional delays and extra costs for all transport companies involved





Source: CNBC

Ocean update

IMO 2023

EEXI = EEDI for existing ships / CII = Carbon Intensity Indicator

Timeline

2023	2030	2050
Start of IMO regulation	-40% of CO_2 emissions *(vs. 2008)*	-70% of CO2 emissions *(vs. 2008)*

REGULATORY CONTEXT per ship basis

VESEL DIESEL

IMO INTERNATIONAL MARITIME ORGANIZATION

EEXI

→ 2023

1. **Vesel design**
2. **Efficiency**
3. **Compliance**

Limit Engine power & max. speed

>55% of the World fleet is not compliant
→ Investment needed to optimise Engine power limitation and speed

VESEL OPERATIONS

IMO INTERNATIONAL MARITIME ORGANIZATION

CII

→ Every year from 2023

1. **YEARLY**
2. **CO_2 EMISSION**
3. **COMPLIANCE**

Limit Engine power & max. speed

Yearly ranking
A B C D E

A, B or C
→ Compliant

D
→ non compliant: 3 years to remedy

E
→ Non compliant: 1 year to remedy

...Leading to the following consequences

From 2022, most of the 6 000 containerships worldwide will have to go on Drydock to make technical changes to reduce marginally CO2 emissions 9between 2% and 7,5%): **change of propellers, change or bulbs, minimum Engine power limitation etc.**

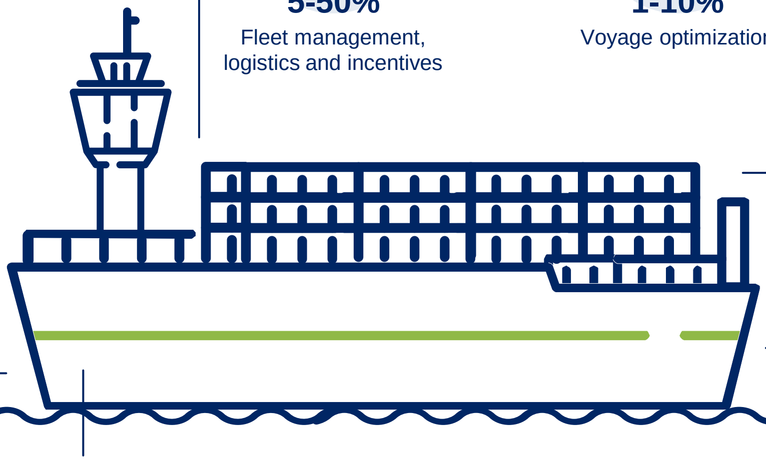
To remain compliant, most of the vessels will have to **reduce their speed** as a **result more ships will be needed to maintain weekly frequencies, reducing further global capacity**

DSV

Sustainability resp. GHG requirements in global shipping

A wide variety of design, operational and economic solutions

Achieving the goals of the initial IMO GHG Strategy will require a mix of technical, operational and innovative solutions applicable to ships.Some of them, along with indication on their approximate GHG reduction potential, are highlighted below.



5-50%
Fleet management, logistics and incentives

1-10%
Voyage optimization

2-50%
Concept, speed and capability

5-15%
Power and propulsion systems

up to 75%
Extensive speed optimization

50-90%
Full electric

35%
Bio-LN/LPG

90%
Biofuel 3rd generation

8-100%
Hydogren and other synthetic fuels

1-10%
Energy management

2-20%
Hull and superstructure

Time-schedule:

01. Short term measures –
To be completed by 2023

02. Mid term measures –
From 2023 to 2030

03. Long term measures –
From 2030 to 2050

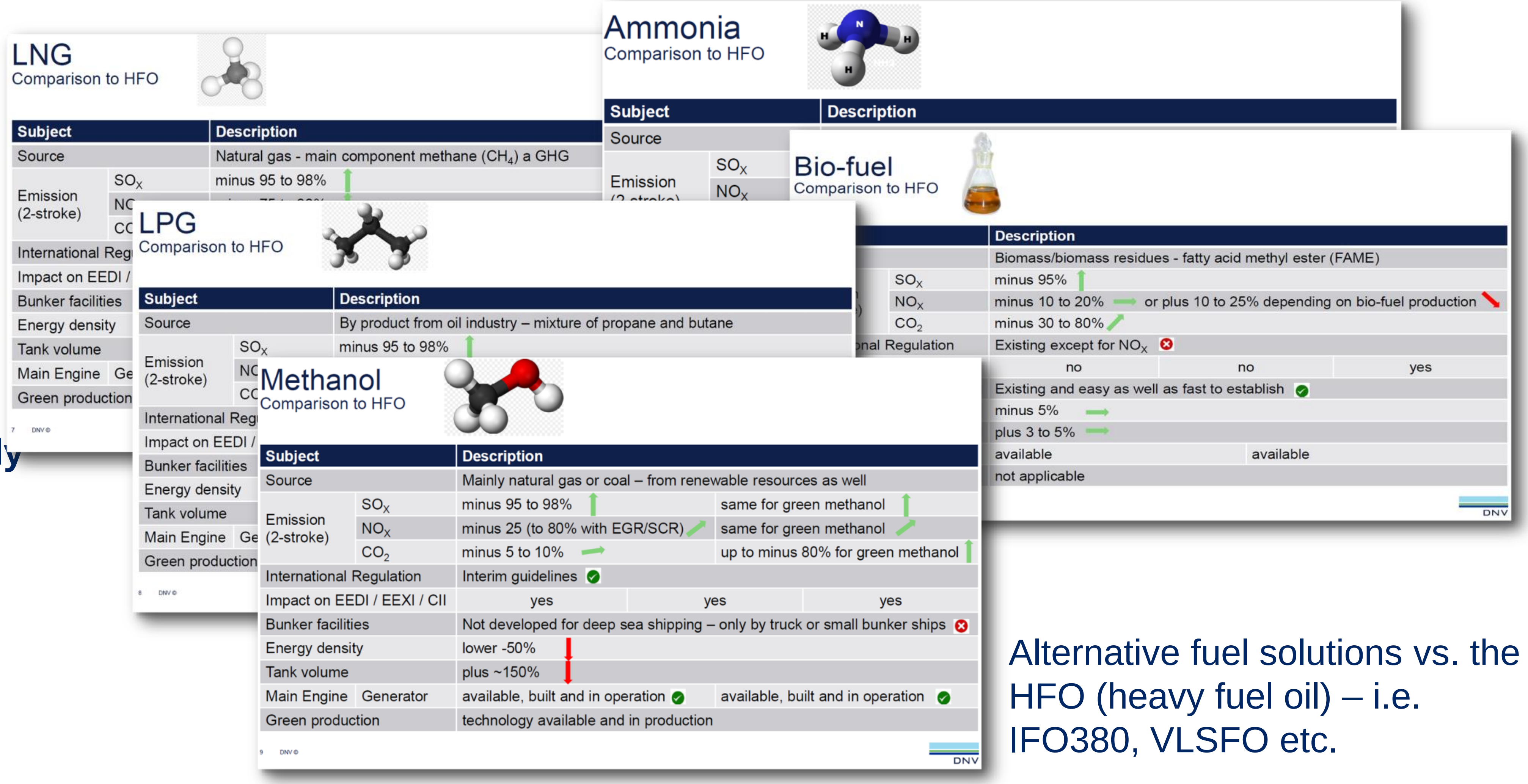
During the last MEPC (Marine Environment Protection Committee) meeting, IMO has ratified 2 important **Short-term** measures

EEXI
Energy Efficiency for existing ships

CII
Carbon Intensity indicator

What can be actually done to reduce the CII?

- **Speed reduction**
- **Vessel's performance**
- **Voyage planning and Voyage monitoring**
- **Shore Power supply**
- **Alternative fuels**
- **Others / TBN**

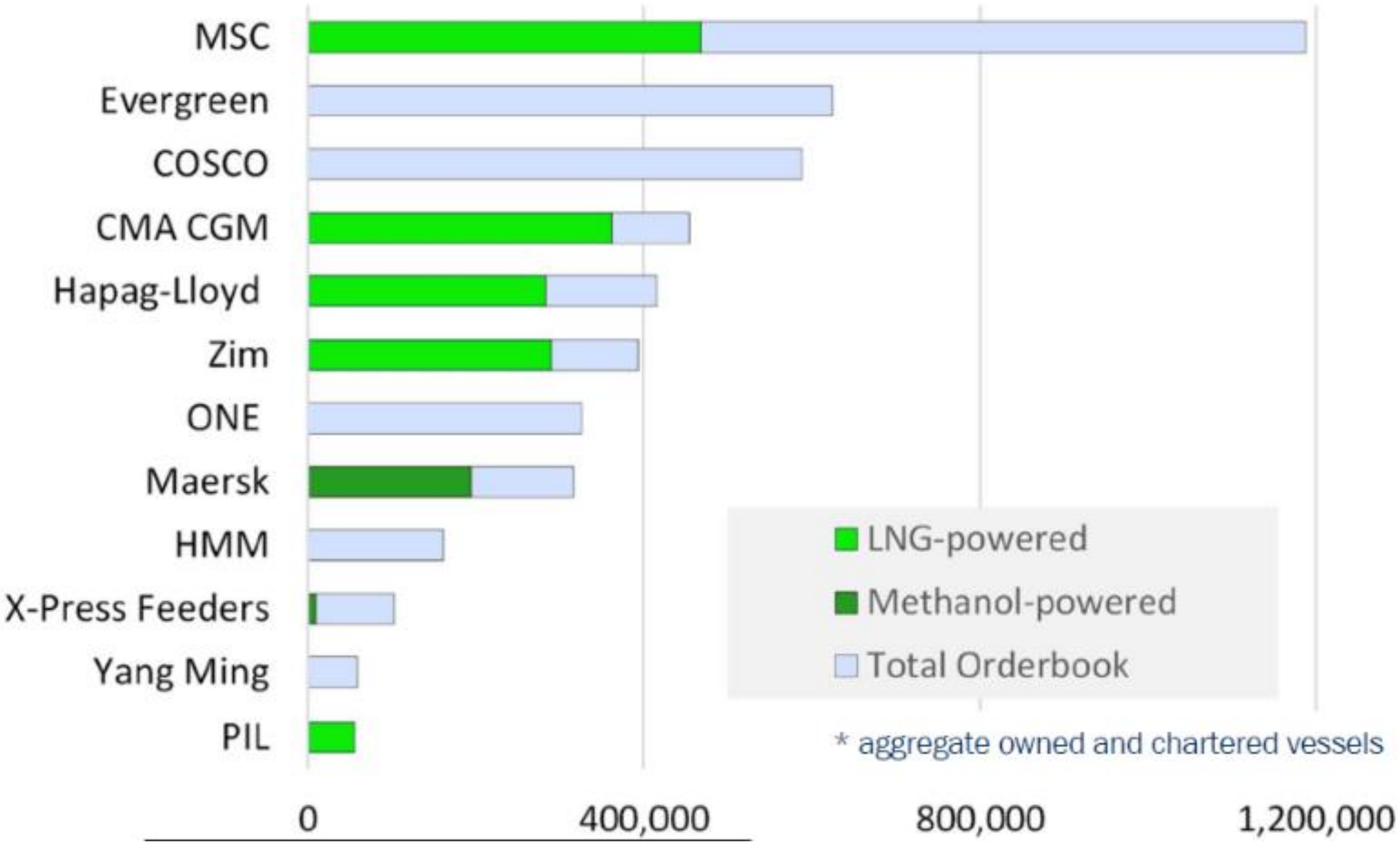


Subject		Description	
Source		Mainly natural gas or coal – from renewable resources as well	
Emission (2-stroke)	SO_X	minus 95 to 98%	same for green methanol
	NO_X	minus 25 (to 80% with EGR/SCR)	same for green methanol
	CO_2	minus 5 to 10%	up to minus 80% for green methanol
International Regulation		Interim guidelines	
Impact on EEDI / EEXI / CII		yes	yes / yes
Bunker facilities		Not developed for deep sea shipping – only by truck or small bunker ships	
Energy density		lower -50%	
Tank volume		plus ~150%	
Main Engine	Generator	available, built and in operation	available, built and in operation
Green production		technology available and in production	

Alternative fuel solutions vs. the HFO (heavy fuel oil) – i.e. IFO380, VLSFO etc.

LNG and Methanol propulsion

Orderbook by carrier



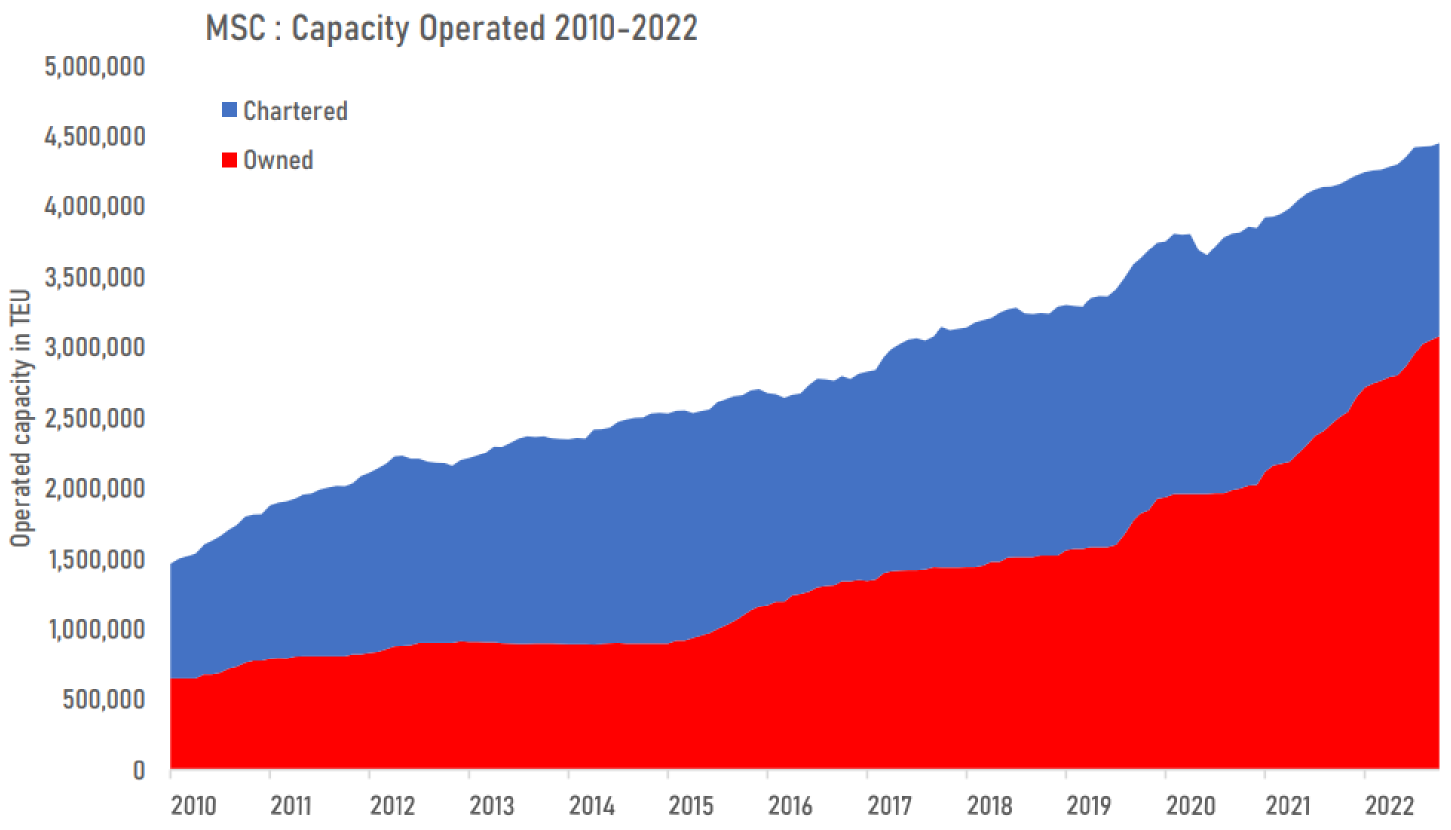
LNG-powered ship orders now represent 25% of the orderbook by teu capacity. This figure rises to 28% if methanol propulsion is added

CMA CGM has made the greatest commitment to LNG, at 80% of its current orderbook and by far the most ships in service, but MSC now has more capacity on order

The average size of LNG unit ordered by the main carriers is 14,400 teu, with Hapag-Lloyd's 23,660 teu ships currently the only megamaxes on order

Source: Alphaliner

Orderbook record of MSC with 43% of its current fleet

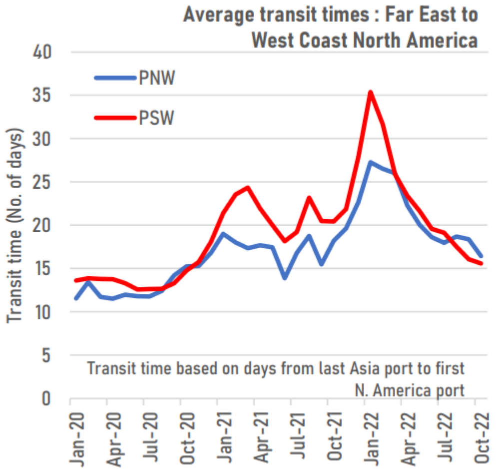


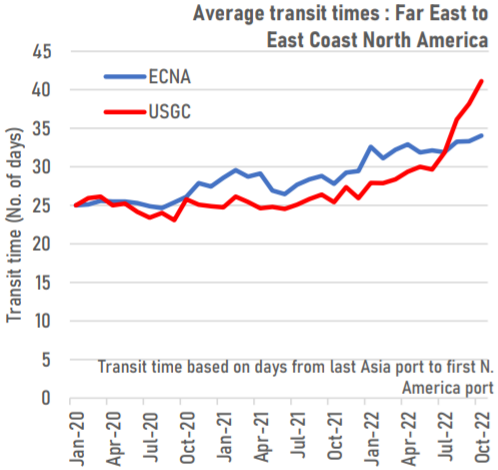
MSC has taken its orderbook to a record of 1.96m teu equivalent to 43% of its current fleet after it confirmed its latest series of orders for 12 LNG dual fuel ships of 16,000 teu at Yangzijiang last week. Over the last 2 years, it has already grown its fleet substantially from 3.75m teu at the beginning of 2020 to 4.45m teu currently.

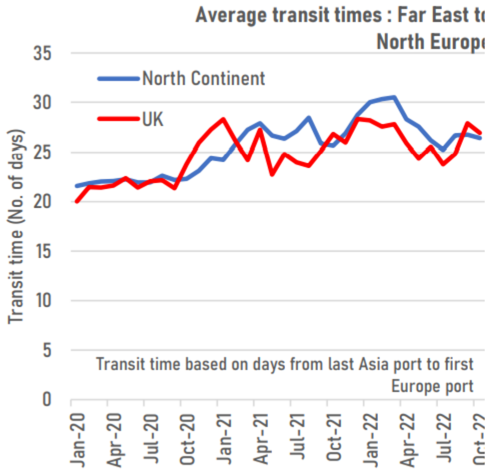
It also embarked on a massive ship acquisition spree, buying some 296 ships from the resale market since 2020, as the share of owned ships increased to 69% from 51%

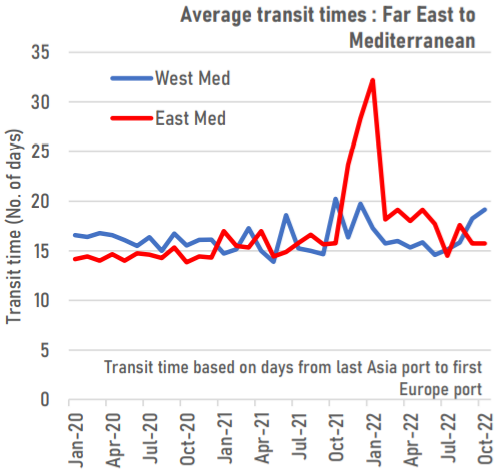
Source: Lynerlitica

Transit times for West Med and East Coast USA services deteriorated but West Coast USA and North Europe









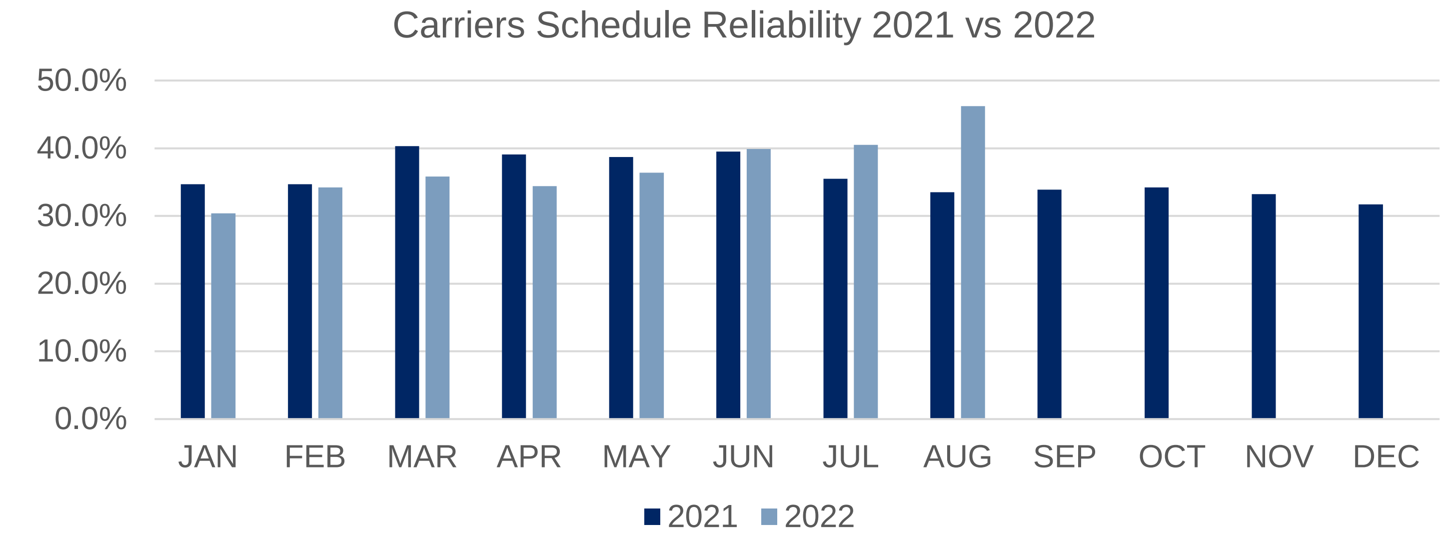
The Hurricane Ian effects showed last week with transit time to both ECNA and USGC worsening. Most of the arrivals at Savannah and Charleston took over 40 days to arrive, while USGC arrivals are taking even longer especially at Houston.

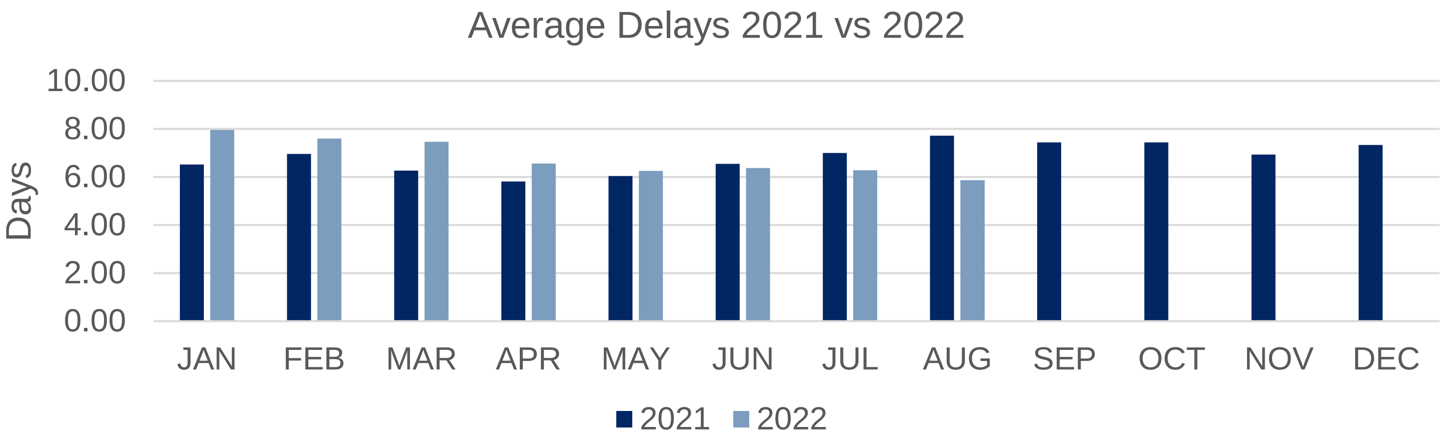
The reduction in departures to North Europe and the Med helped to improve overall transit times with the small sample size helping to reduce the transit time to UK ports although this masks the continuing delays especially at Felixstowe and Southampton. Transit time for arrivals at Rotterdam improved but is still 25% slower than pre 2020 levels.

Source: Linerlytica (May 2022)

Global Liner performance on August 2022 – 46.2% on time

Schedule reliability in August, of 46.2%, recorded the largest M/M improvement in 2022 of 5.8 percentage points.





Vessel reliability per tradelane on August:

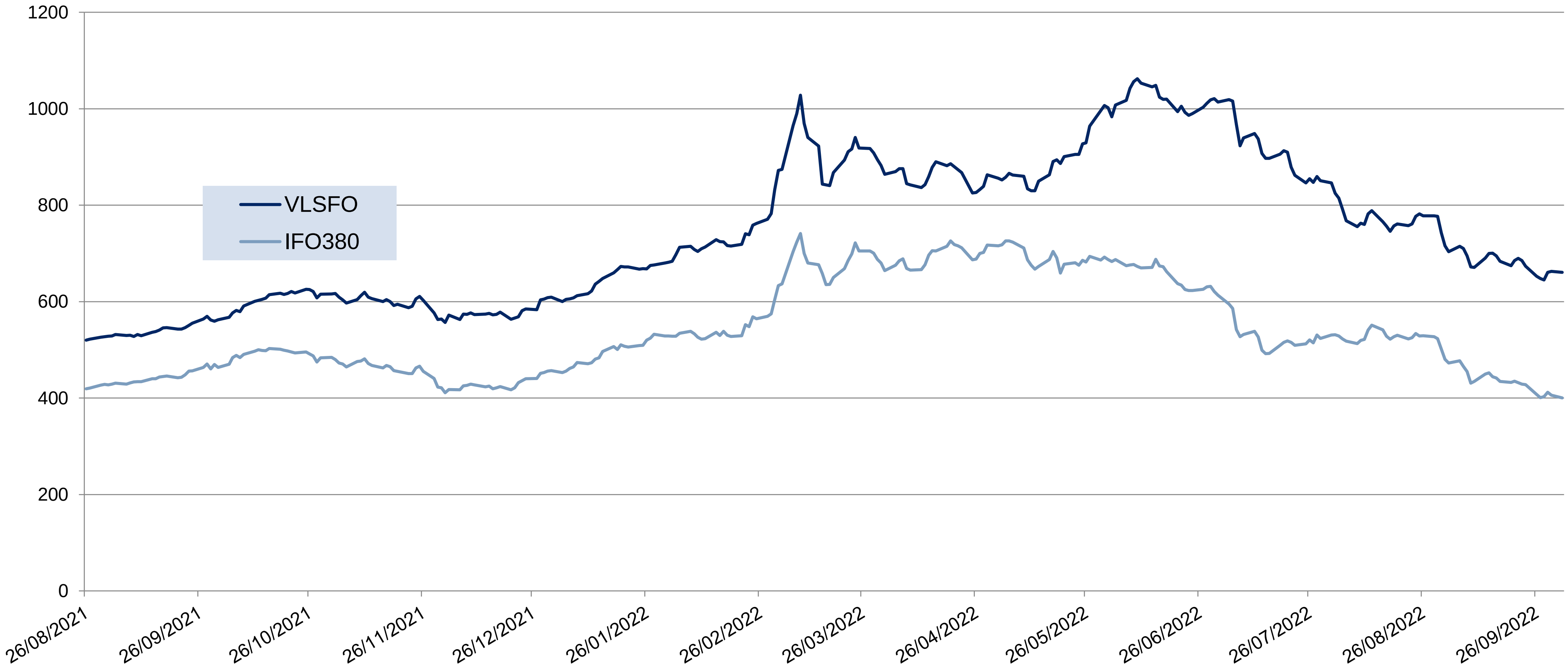
- This takes the August 2022 score 12.7 percentage points above the respective 2021 level. This is now the fourth consecutive month that schedule reliability has improved M/M.

- The average delay for LATE vessel arrivals has been dropping sharply since the turn of the year, tapering off in the past few months. In July 2022, average delay dropped by -0.09 days M/M to 6.28 days. This is now the second time since April 2019 that average delay has improved Y/Y, dropping -0.71 days compared to July 2021.

Source: Sea-Intelligence Maritime Analysis

Bunker price development

Global 4 port average: On Sept 28th VLSFO stood at $711.5 per metric ton (levels before Ukraine-Russia war)

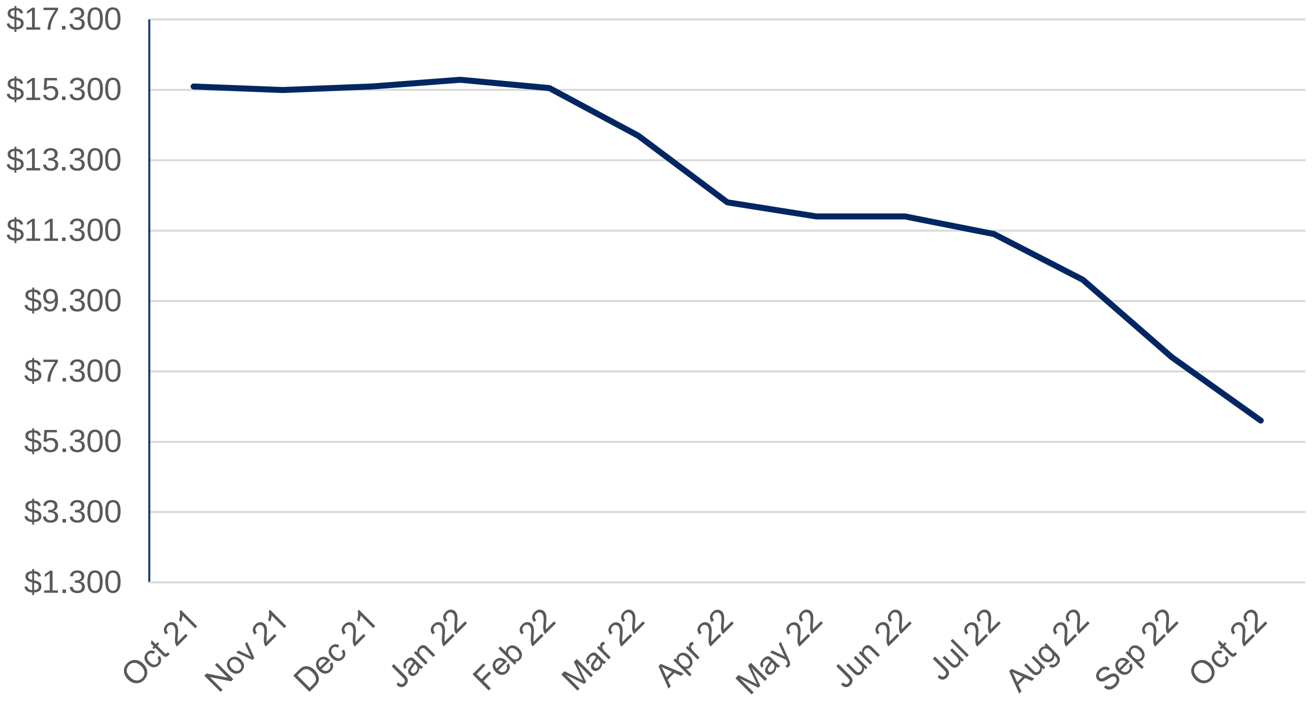


Source: Ship&Bunker - LinerLytica

Ocean Freight Asia - Europe

Rates are dramatically reducing

SCFI – North Europe WB Rate Index (US$/40ft)



Source: SCFI Week 39-2022

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stoped accepting bookings for the time being in some origins

If demand keeps decreasing, carriers could potentially react with blank sailings

SCFI Levels Week 39-2022:

- Shanghai – North Europe: USD 5,900/ FEU
- Shanghai – Mediterranean: USD 5,998/ FEU

- Carriers are asking for cargo by offering rates reductions.
- Cargo is moving on spot
- Slight signs exist that congestion situation in North Europe eases

Ocean Freight Asia - North America

Shipping lines are starting to reduce capacity and services

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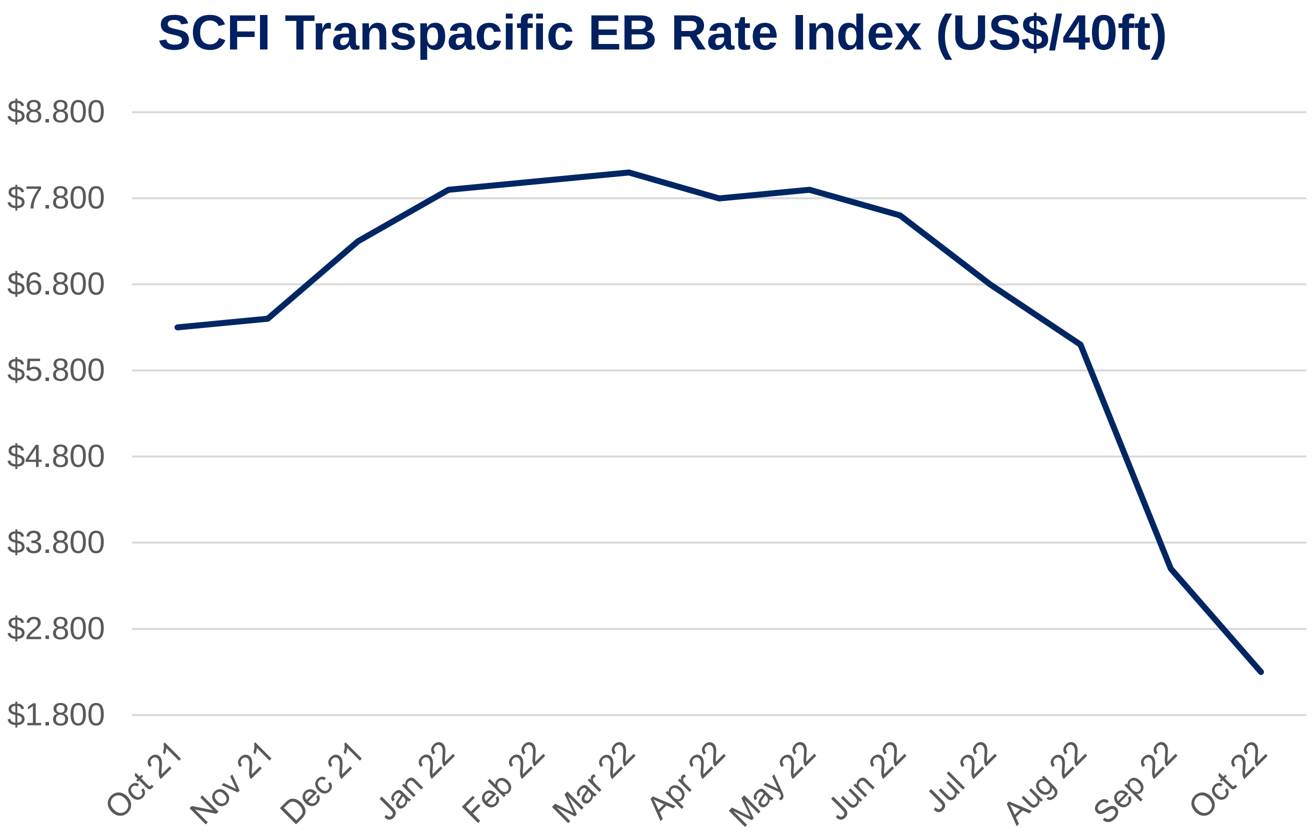
Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stopped accepting bookings for the time being in some origins



Source: SCFI Week 39 2022

The market seems to be slowing further and we are seeing some slack to the USWC

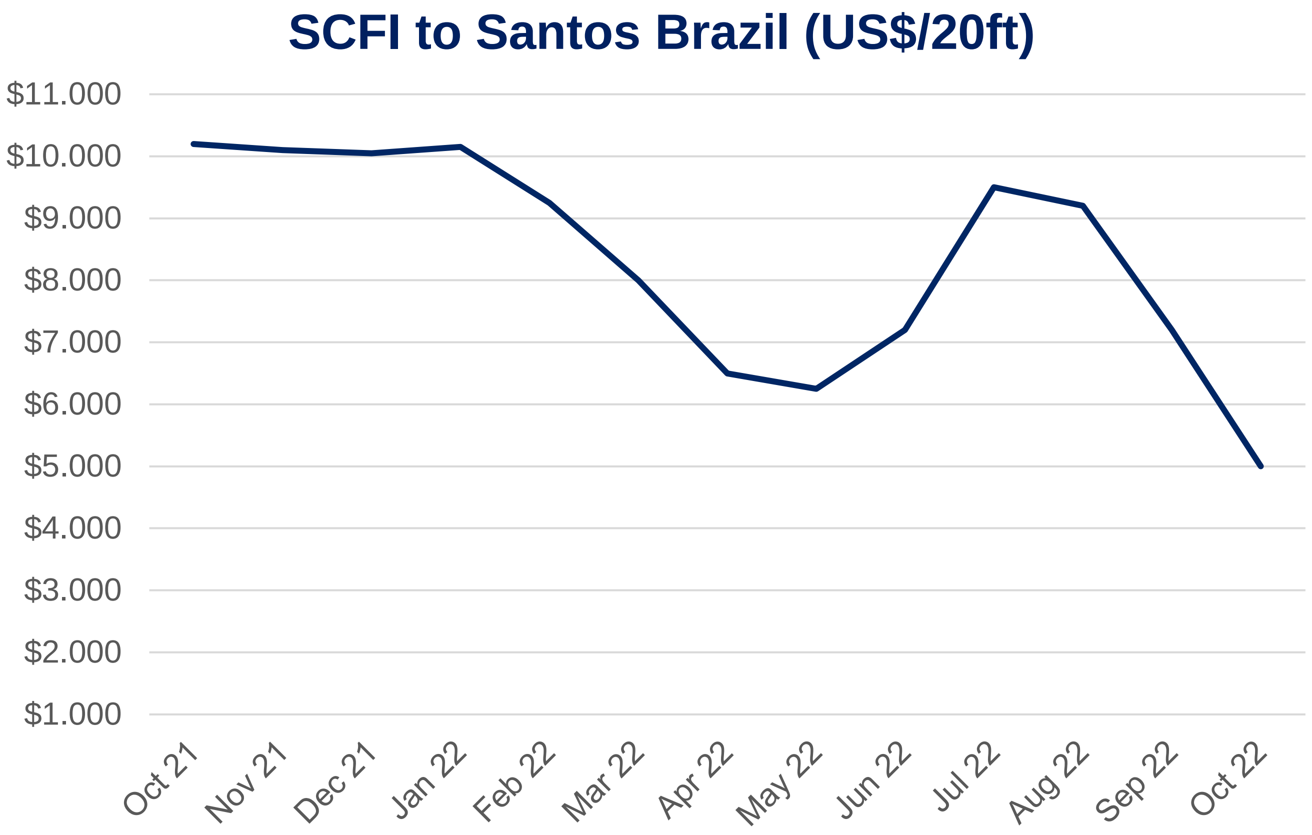
SCFI Levels Week 39-2022:

- Shanghai – US West Coast: USD 2,399/ FEU
- Shanghai – US East Coast: USD 6,159/ FEU

- Lines continue to report lower utilized vessels.
- Space is available to all of North America, USWC being the most open.
- Lines are still blanking sailings to the USA due to the congestion and now for golden week. We are seeing the most delays to berth on the USEC and Gulf Coast.
- Lines have now started to pull capacity with 2M removing a west coast string and other lines suspending low utilized services.
- There is excess capacity in the market currently and we forecast it to last through December and maybe up through Chinese New Year in January.

Ocean Freight Asia – South America (East Coast)

Rate erosion on both West Coast and East coast



Source: SCFI Week 39-2022

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Carriers have partially stopped accepting bookings for the time being in some origins

SCFI Levels Week 39-2022:

- Shanghai – Santos: USD 5,025/ TEU

ECSA Carriers are fully booked and rolling.

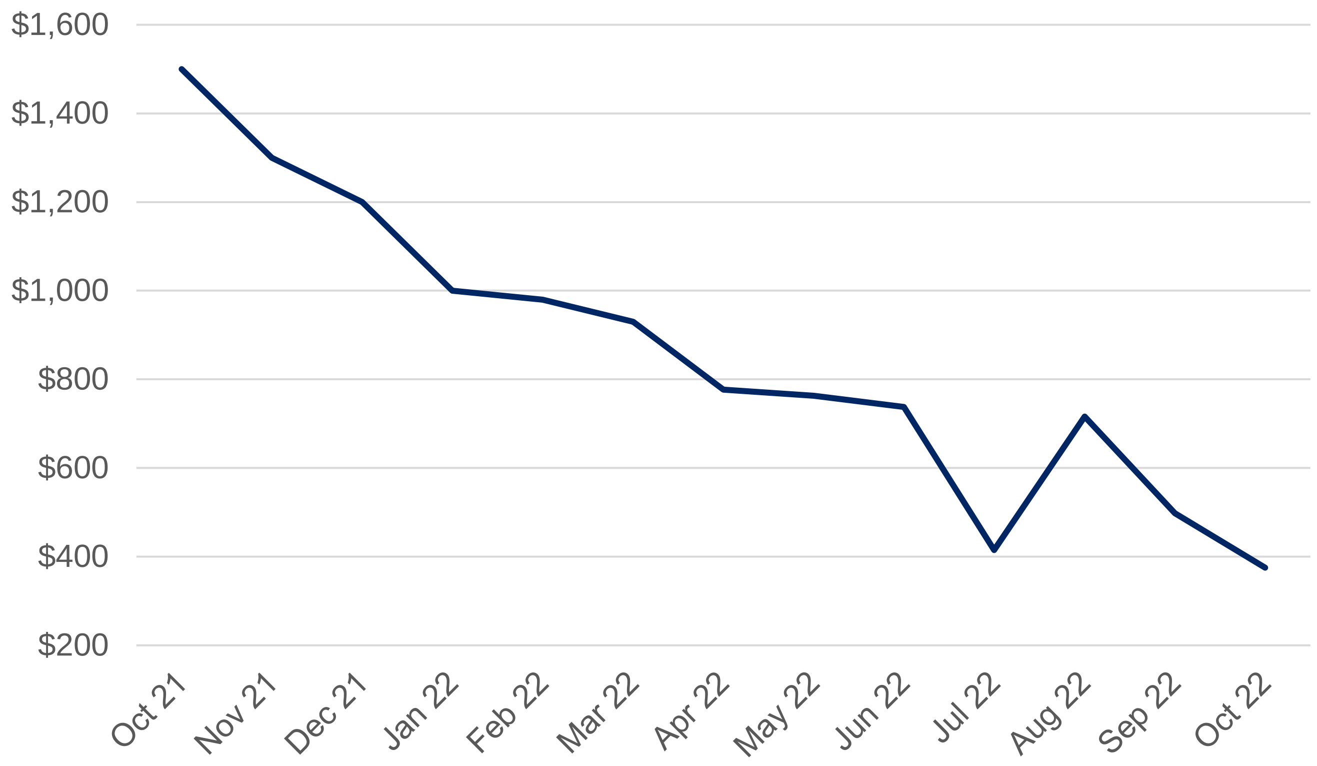
WCSA: SUPPLY is higher than DEMAND, ocean rates are on a down-trend.

2023 CNY (end of January) to add additional pressure on the demand side during Q4 2022.

Ocean Freight Europe – Asia

Pressure on rates while there are heavy issues in ports

Baltic Freightos Europe to Asia (US$/40ft)



Source: Freightos Baltic Week 40-2022

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stopped accepting bookings for the time being in some origins

Freightos Baltic (FBX12) index Levels 40-2022:

- Europe to ASIA : USD 375/ FEU

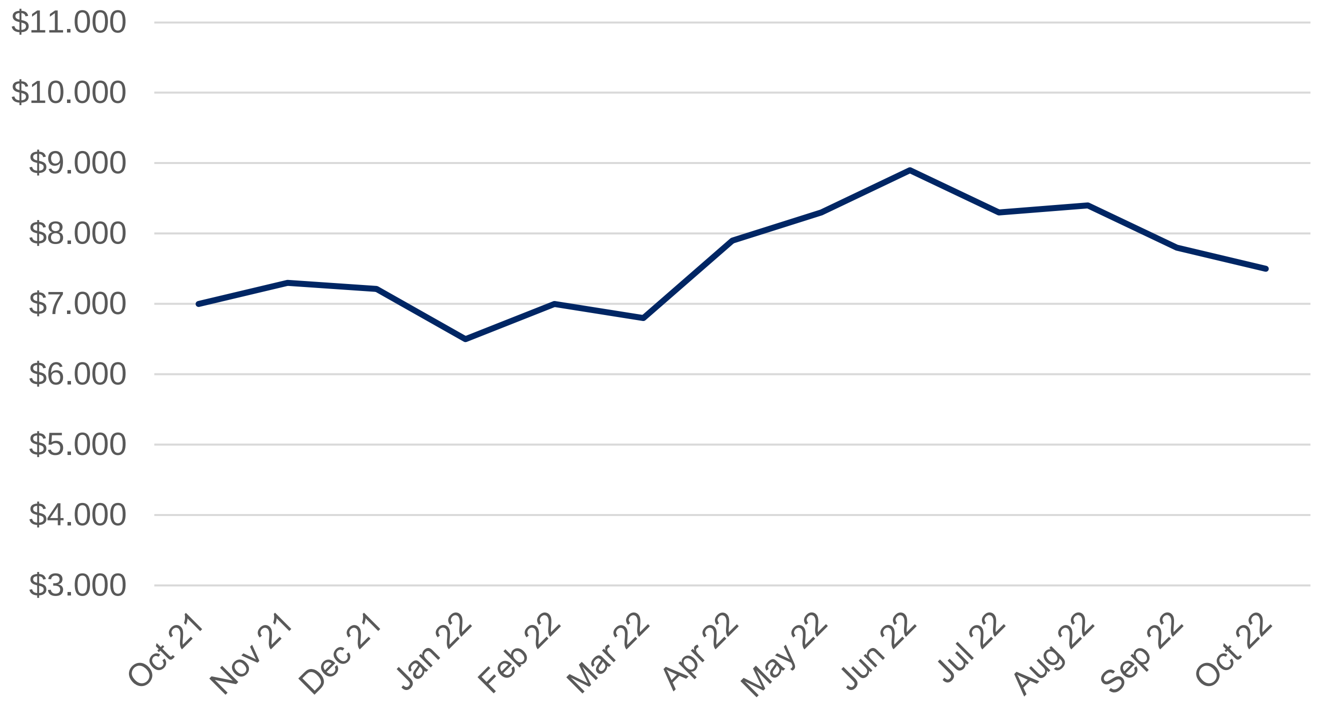
Ongoing softening in the spot market

- Sufficient space available on the majority of loops
- Ongoing operational challenges due to port congestion, vessel delays and equipment availability problems
- Recent strike actions as well as critical water levels on Rhine river have created further pressure
- Post-Golden Week blank sailings will create further operational obstacles

Ocean Freight Europe – North America

Congestion in both North American and European ports affects service

Freightos FBX 22 Europe North America (US$/40ft)



Source: Freightos Baltic W40-2022

Alert: To guarantee space and equipment carriers are applying additional surcharges that are not part of the index rate aggreation and they can be a large amount.
Carriers have partially stopped accepting bookings for the time being in some origins

Freightos Baltic index Levels Week 40-2022:

- Rotterdam – New York: USD 7,550/ FEU

Bookings need to be placed 6-8 Weeks in advance

- Q4 onwards we expect carriers to adjust tariff costs for inland moves and remain reluctant to offer door deliveries. Fuel prices are expected to stay high on inlands as well as ocean freight.
- For rest of 2022 we expect market to be slightly more competitive.
- 2023 unpredictable but North Atlantic weather conditions may negatively influence schedule reliability and port congestion.

Trade Update

Intra Asia

As per week 40 status, which is evolving and depends on latest updates

Demand

- Lower factory output than expected is leading to less need for capacity in particular China outbound.
- SEA countries export is decreasing, which are leading to open space across all strings and services. Despite the shift of production from China to SEA, the demand is getting weaker.

Rate

- The market slows down and the supply/demand scenario is getting in favour of supply.
- The long term contract level remains high as carriers intend to protect their yields.
- Raw material indexes are decreasing, which implies the effect of an increasing interest rate is calming down the inflation spikes.

Supply

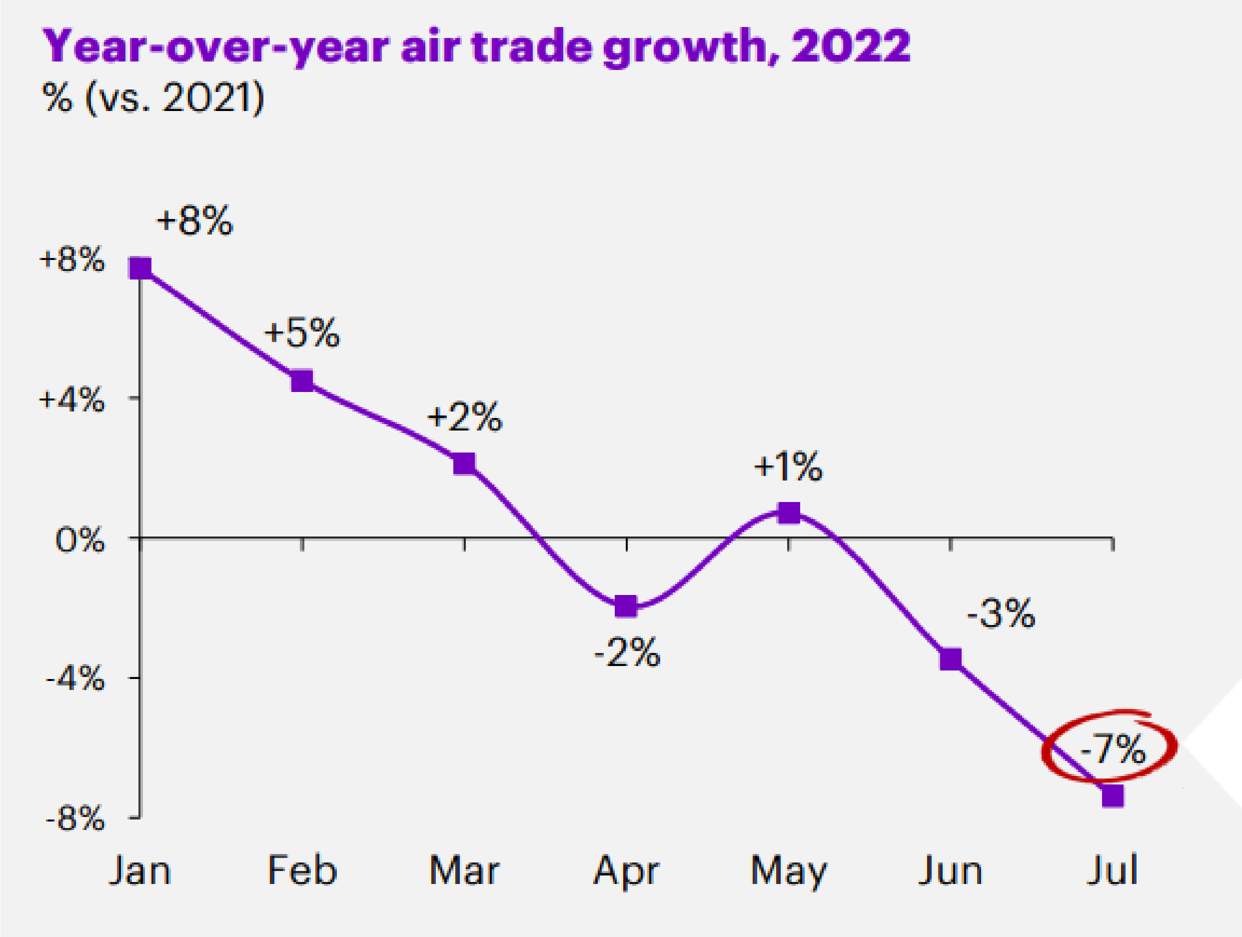
- Capacity reverts to the IA trade as the feeder space is getting less demand from the TP & FEWB movements.
- Continuous or last-minute blank sailings lead to schedule reliability low as the carriers are controlling the supply to stabilize the price fluctuations.
- Chinese port congestion is gradually easing in Ningbo/ Shanghai but has picked up in Qingdao last week due to poor weather conditions.

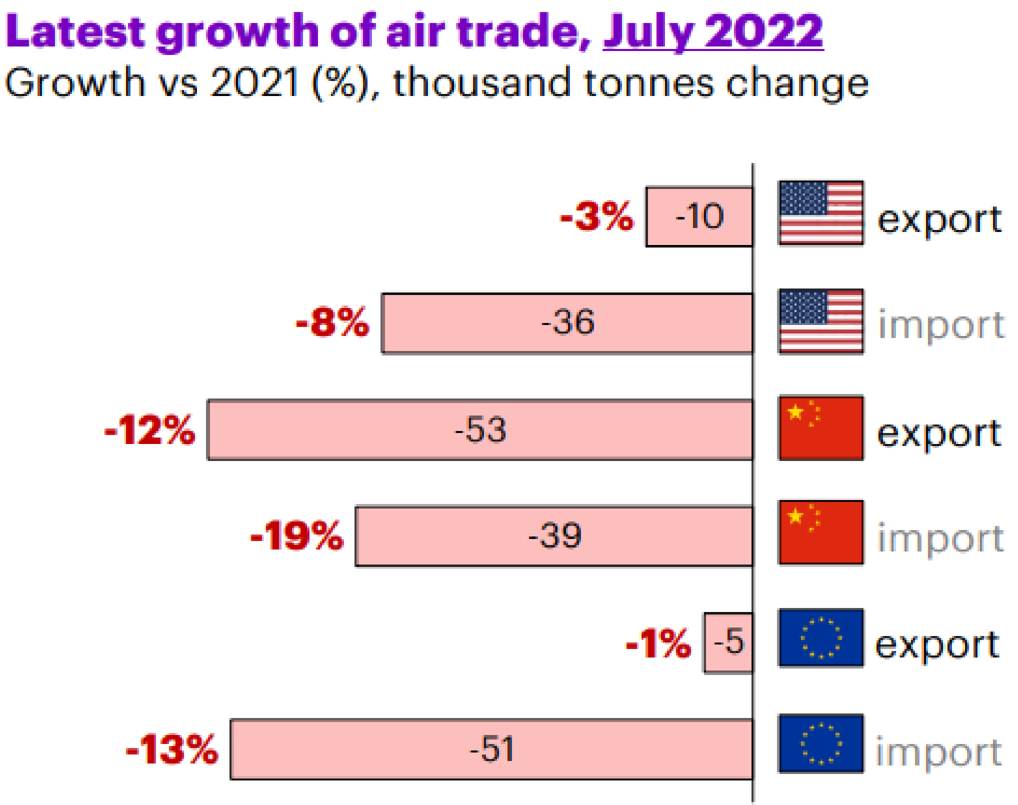
Ocean freight market overview – Large rate reductions from Asia

TRADE LANE	COMMENTS	RATES AND SPACE
ASIA to Europe	• Peak season volumes not performning • Space is open from China and there is equipment available • Congestion is easing at the terminals however UK is difficult	↓
ASIA to NAM	• Market is open, large rate reduction to the West Coast • Equipment is available • Problems of congestion in USA, specially in East Coast	↓
Europe to NAM	• Congestion in both North American and European ports affects service • Vessel are full and less capacity available • It seems rates will remain strong for the rest of the year	→
Exports from India	• Space is open • Shipping lines are opening long term contrat rates to negotiate • Ports, terminals and ICD continue to work normally	→
ASIA to LATAM	• Booking needs to be placed one month in advance • ASIA to LATAM due to longer transit times needs to offset with higher rates • Rates are stable	↓
INTRA ASIA	• Port congestion improving in some south Asian ports • New bunker level. Australian ports are still congested but improving • Overstock of container equipment	↓


Airfreight update

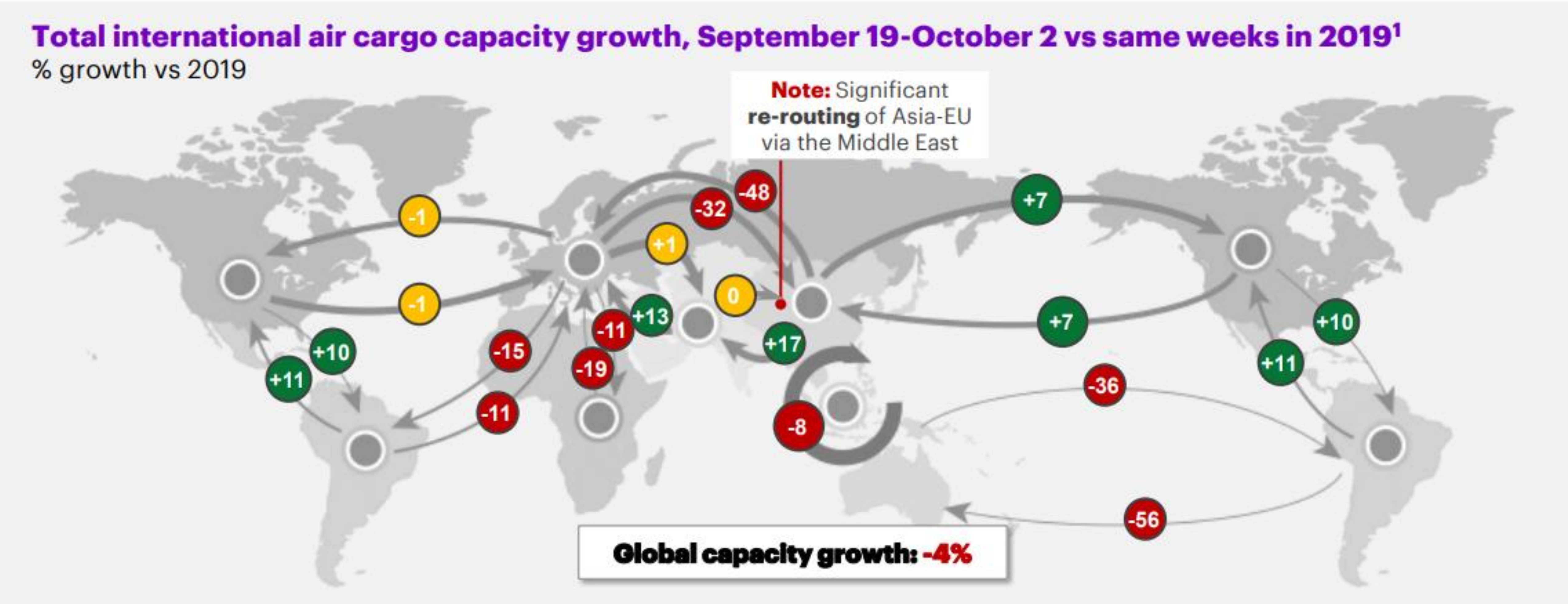
Year-over-year air trade growth figures have declined throughout 2022, with latest figures of -7% (vs 2021) in July





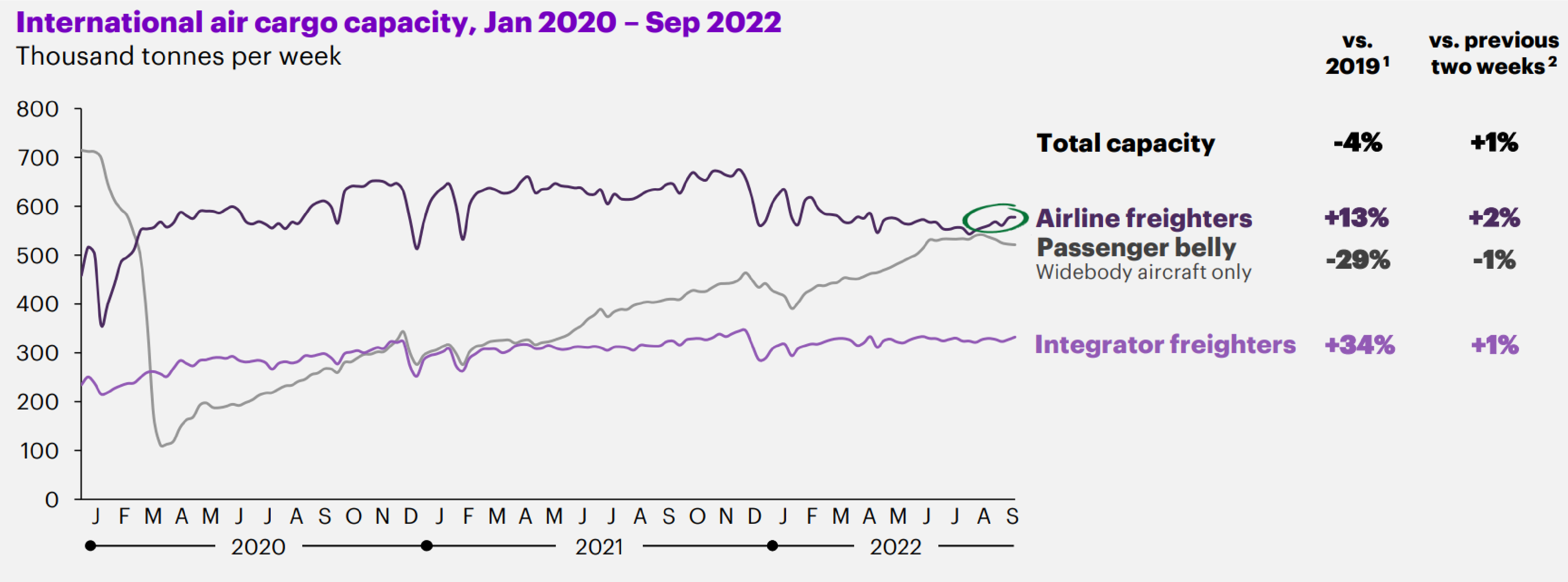
All air cargo flows to/from major air trade countries show year-over-year declines

Global international air cargo capacity was down -4% (vs. 2019) between September 19-October 2, 2022



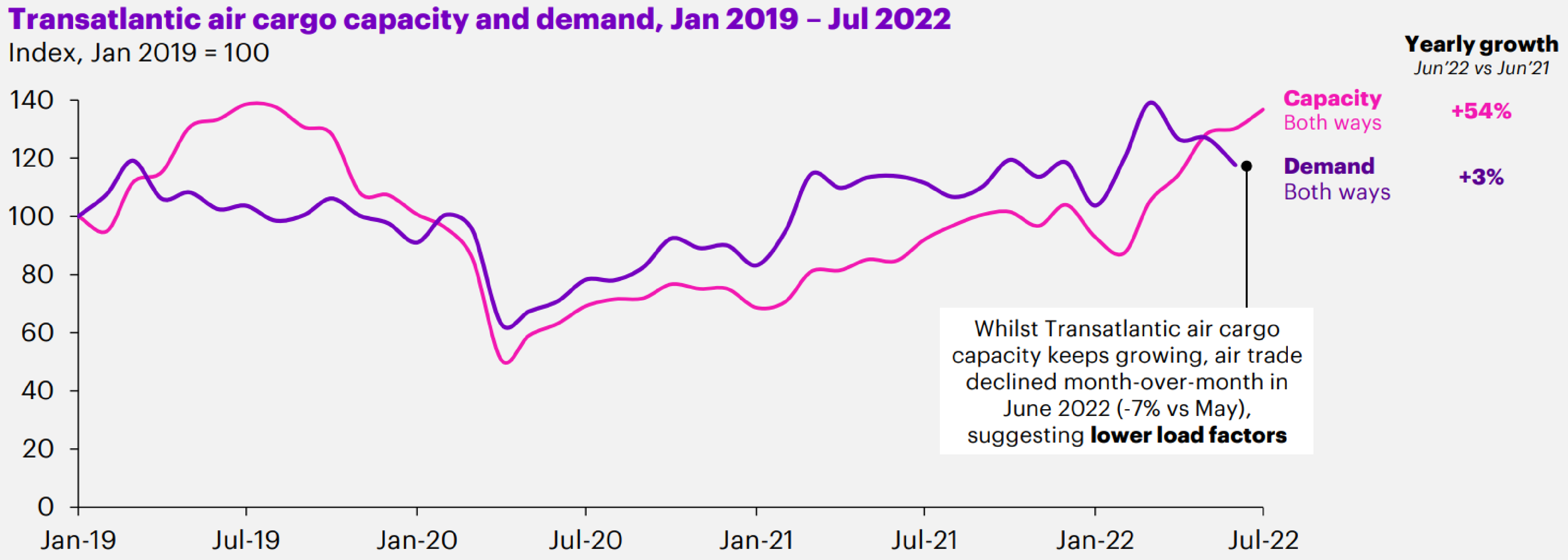
Air cargo capacity from Asia Pacific to Middle East & South Asia remains elevated (+17% vs '19)

Global international air cargo capacity grew slightly in last two weeks, mostly due to airline freighters



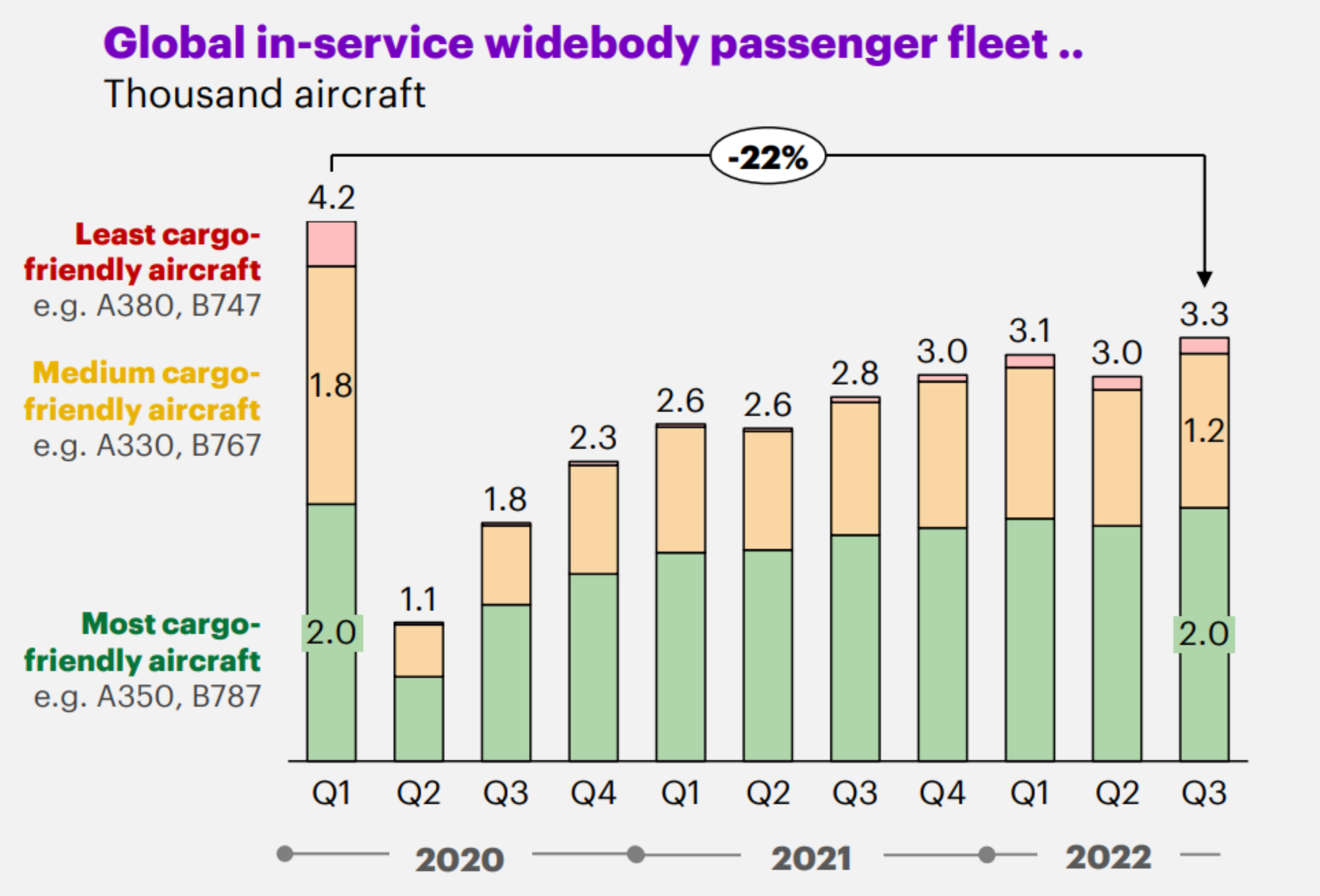
Widebody belly capacity marginally declined in the last two weeks

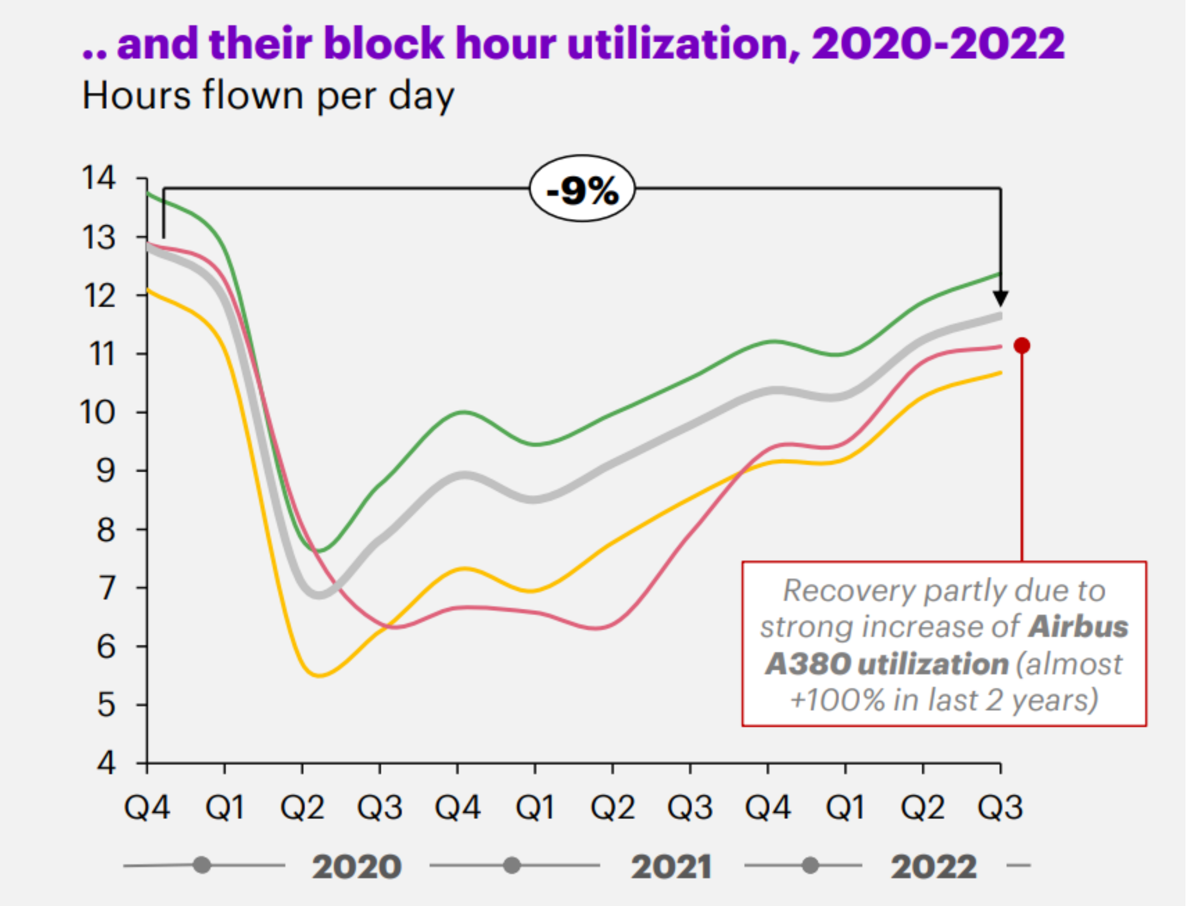
Air cargo's demand-supply balance on the Transatlantic trade lane has returned to pre-COVID levels



Slower air trade growth suggests lower load factors on the Transatlantic trade lane

Widebody passenger fleet utilization recovered to -9% vs pre-Covid levels, mostly due to higher share of newer aircraft





The aviation industry still operates 22% fewer widebody passenger aircraft than in the first quarter of 2020

Vietnam air exports grew significantly since 2020, while air cargo capacity remains around 2019 levels

THELOADSTAR
MAKING SENSE OF THE SUPPLY CHAIN

Alert for cargo even as Vietnam becomes SE Asia's fastest-growing economy

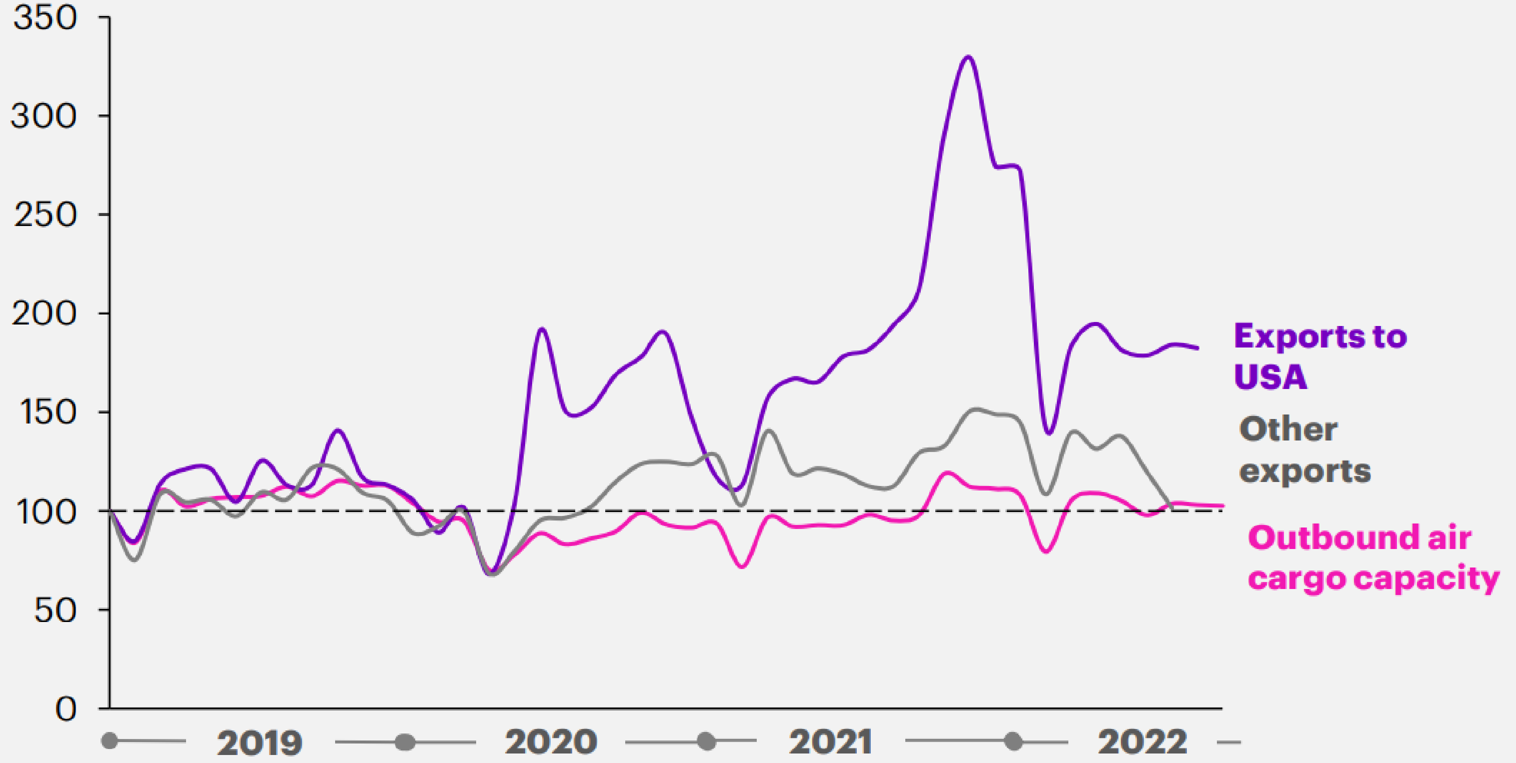
By Sam Whelan 05/10/2022

Backed by booming exports, Vietnam is on track to become ***South-east Asia's fastest-growing economy*** *this year.*

... ***concerns remain*** *over the exposure to the economic downturn in destination markets, as well as the country's reliance on China for raw materials.*

Vietnam air exports and outbound air cargo capacity, indexed

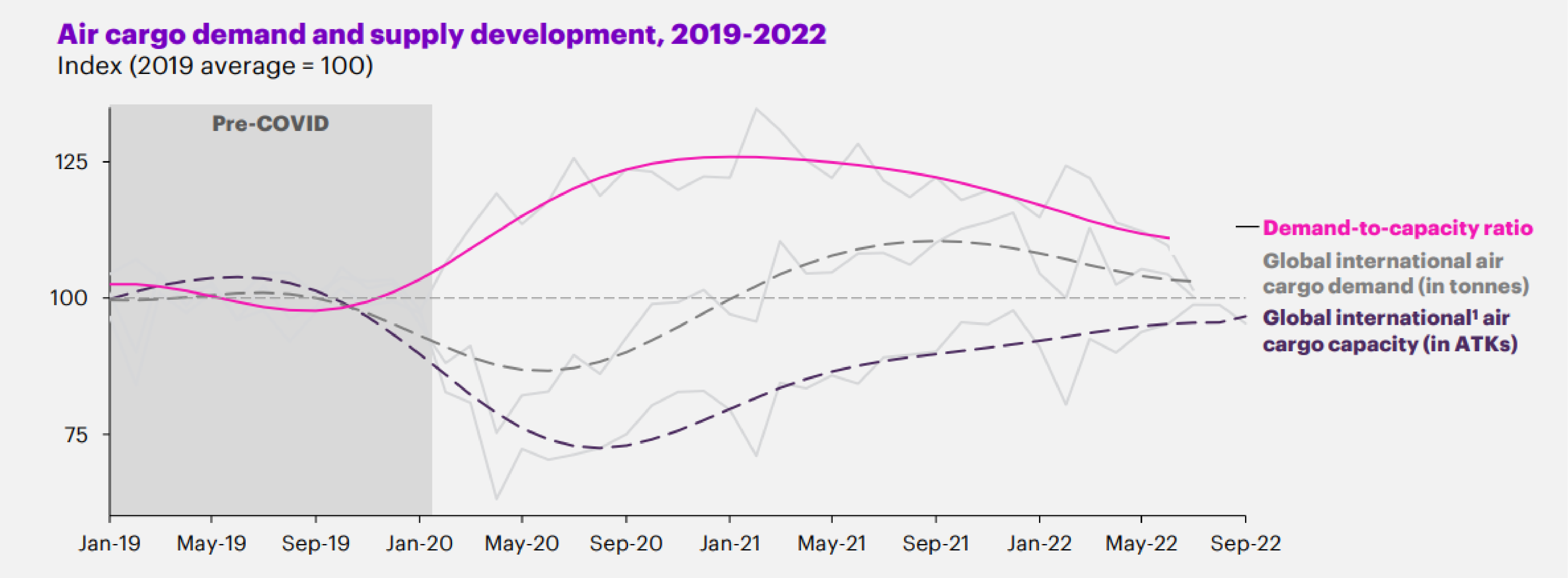
Index Jan 2019 = 100



Following strong growth last year, Vietnam air exports decreased in recent months, mainly due to exports to USA

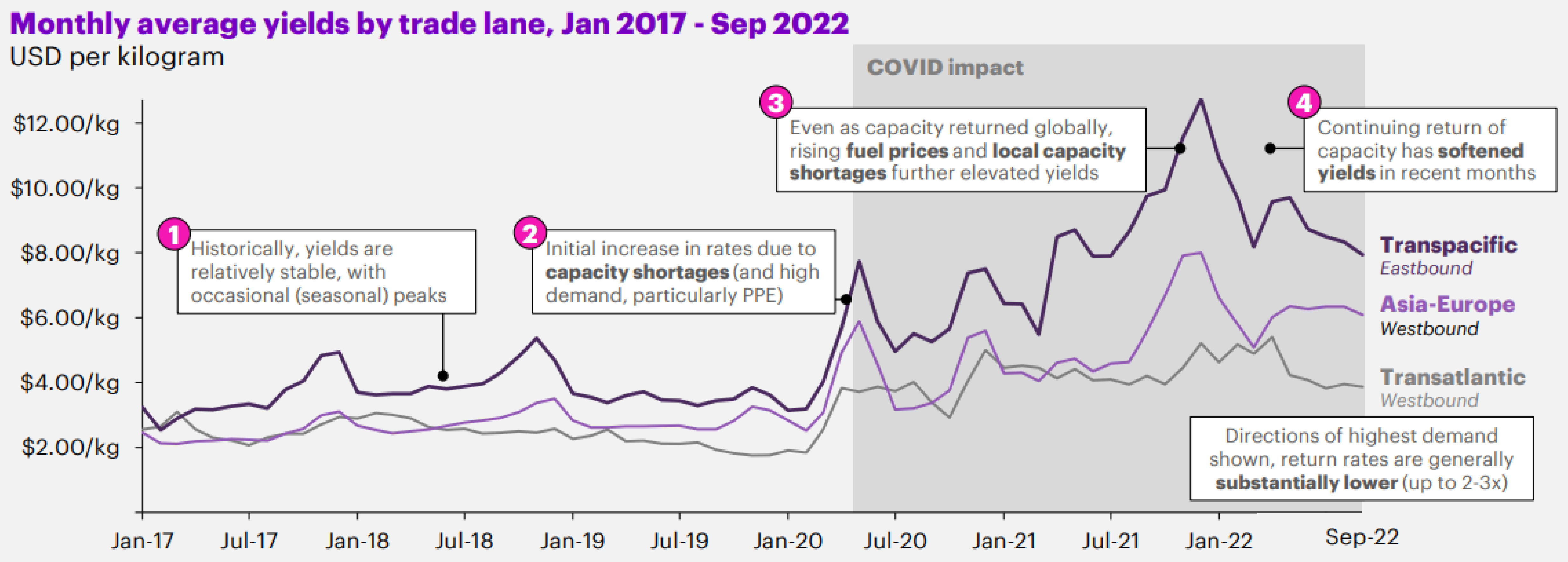
DSV

Stagnating air trade demand and recovering capacity mean the pressure on the air cargo market has eased slightly



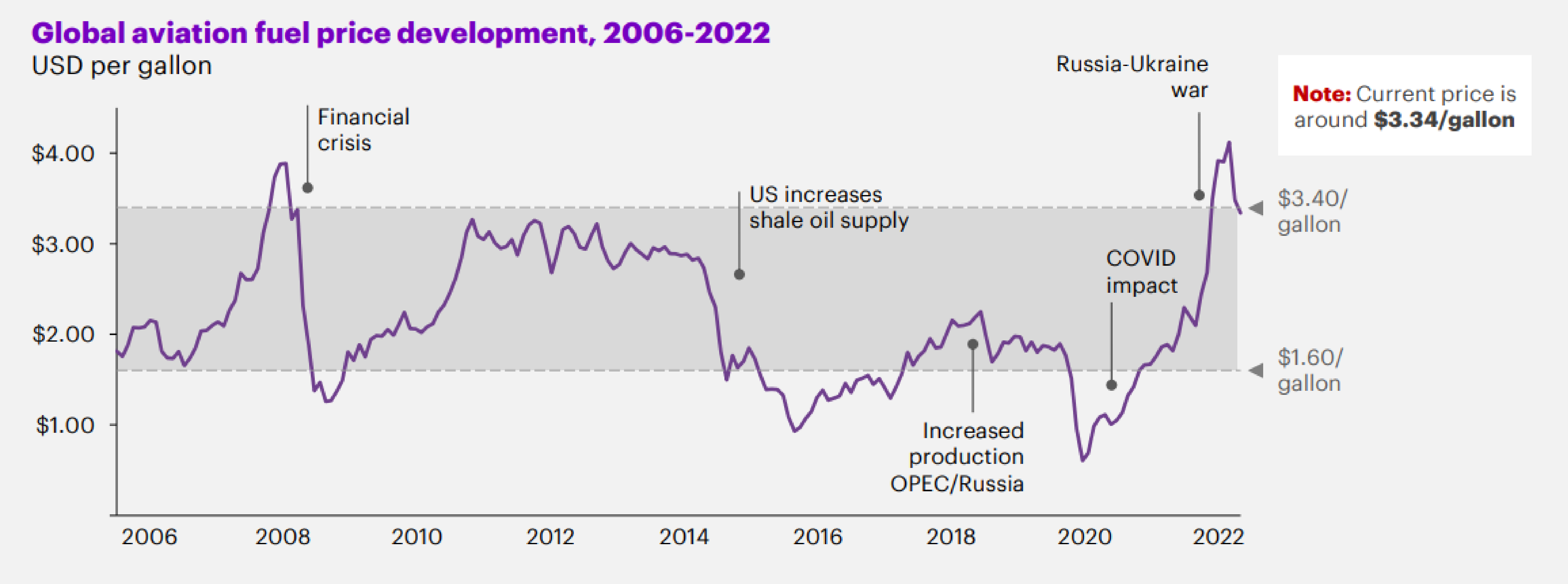
Air cargo's demand-supply ratio is slowly returning to 2019 levels, but large differences exist by trade lane

Reduced pressure on the air cargo market has resulted in the first signs of yields easing



Rates could further ease as capacity recovers, but are still well above 2019 levels

Yields in part remain elevated due to high global aviation fuel prices, which are still near record levels



Aviation fuel prices still remain above the levels of last decade

Air freight market overview

Market is currently “slow” but stable recovering passenger capacity in trades

TRADE LANE	COMMENTS	RATES AND SPACE
Exports from China / Hong Kong	• The market is very weak due to continued low demand and the short working week. Rates have dropped to their lowest level YTD and carriers are eager for cargo.	
South East Asia	• Cargo demand remains soft and rate levels similar to last week. The market continues to see 1-2 days of additional transit time in regards to the Shenzhen-Hong Kong border situation	
Exports from India/Bangladesh	• This has led to carriers passing on rate deductions for many key lanes • Capacity is waiting to recover	
Export from Europe	• Demand is expected to pick up towards the end of September.. • Ground handling operations in major European hubs have improved compared to July. Many airlines are expected to cut capacity for their winter schedules, which could cause further capacity constraints and push rates up in the upcoming months.Jet fuel prices continue to slowly decrease.	
Exports from NAM	• US airports are running at a normal pace. Capacity is opening up further, especially into Europe, where most carriers have increased the number of passenger flights for their summer schedules.	