

Market update

DSV Air & Sea

July 2023



Global Transport and Logistics

General update



DSV

Russian sanctions update: 11th package of EU sanctions clamps down on circumvention

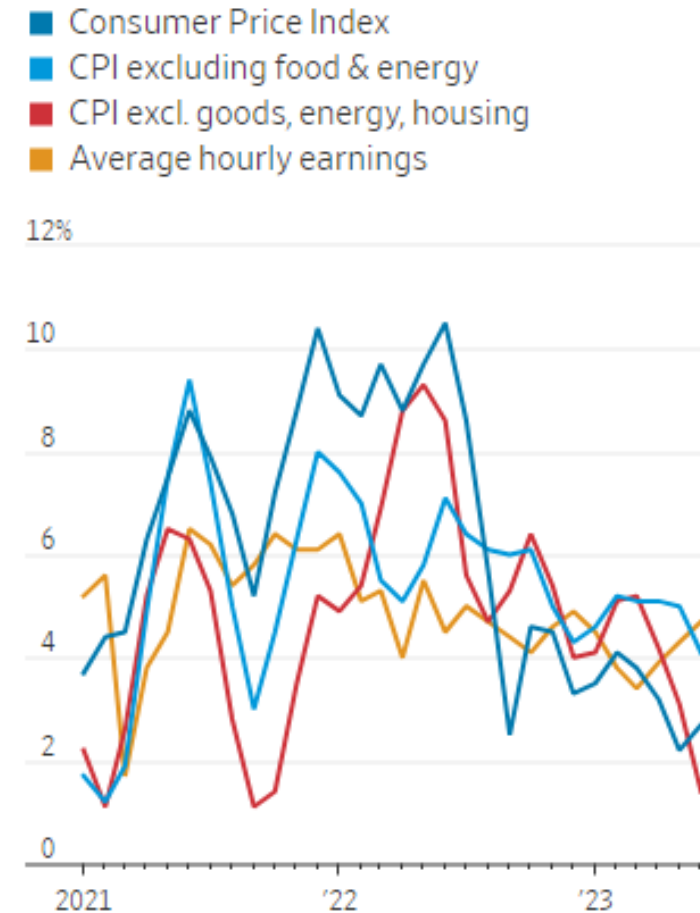
- In the 11th package of EU sanctions on Russia and Belarus, the focus is on the prevention of sanctions circumvention by using third countries as a backdoor into Russia. This sanctions package is introduced in response to cases where prohibited goods are shipped to non-EU countries that are known to be more “tolerant” towards Russia, after which they are re-exported to Russia. The EU’s 11th sanctions package hopes to close this loophole and put an end to this practice.
- Under new EU legislation, it will now be possible to prohibit the movement of specified goods to non-EU countries identified as being used for circumvention. This legal framework will only be implemented by the EU in cases where cooperation and engagement with the countries in question are not successful.
- As of yet, no goods or countries have been designated in relation to this new prohibition but as a result of their respective trade relations with Russia, potential targets under these new restrictions may include China, Turkey, the UAE and countries in Central Asia. For now, this has no direct consequences for current transport operations, but should the EU choose to use this new option in the future and activate regulations, additional guidance will be provided.



US: As Inflation Goes Down, Soft Landing Odds Improve

Latest data suggest a lot of past inflation was transitory

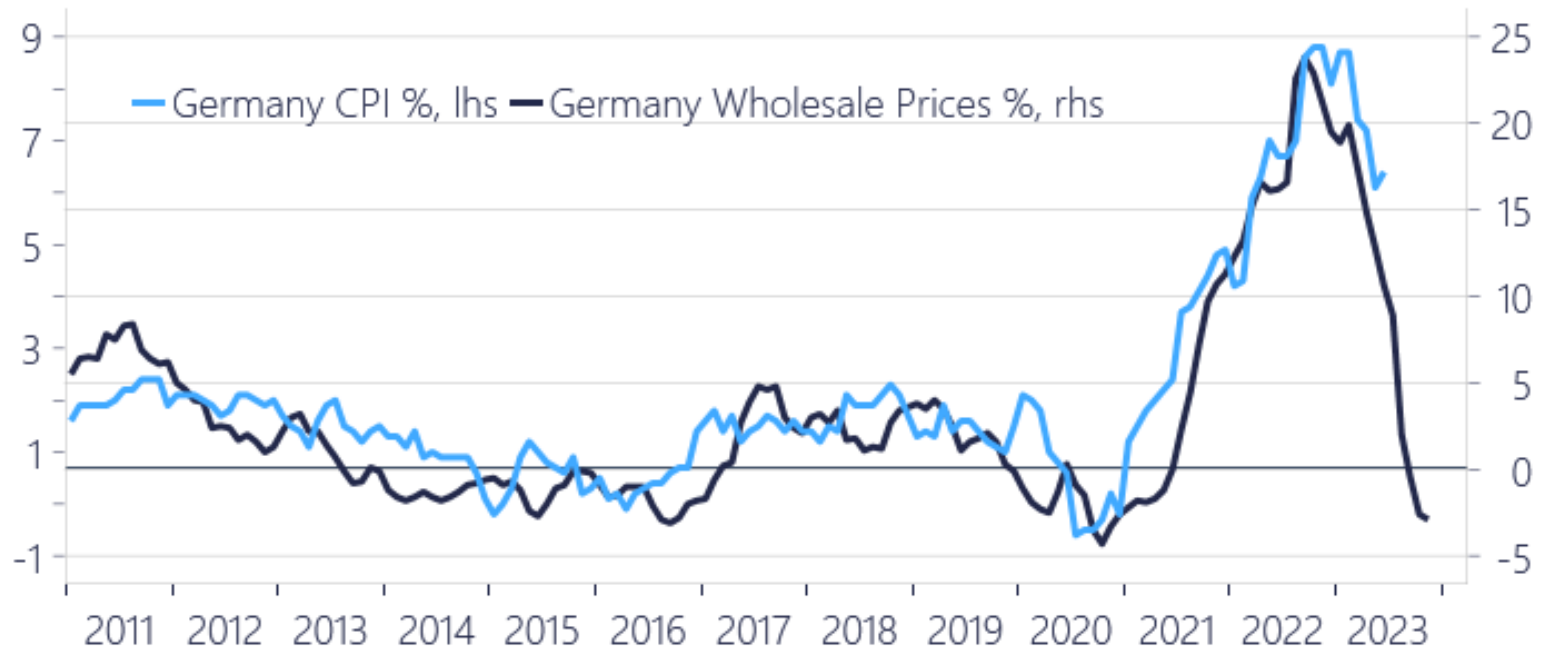
- Americans' two biggest economic worries are recession and inflation. The two are connected: the more stubborn inflation remains, the more likely it will take a recession to get it down.
- The latest data suggest the risk is diminishing. **Headline inflation has slid from 9.1% in June last year to 4% in May and 3% in June** of this year. Much of the latest month's drop was technical: a surge in prices in June 2022 finally dropped out of the 12-month calculation. Because that won't be repeated, headline inflation could rise in coming months.
- While unemployment remains low at 3.6%, vacancies and voluntary quits have steadily dropped, according to government and private data. That is a sign that, between slowing sales and robust hiring, businesses are no longer desperately short of workers. Another good sign: consumers' expectations of inflation in the coming year have dropped a lot. High inflation expectations can be self-fulfilling.
- None of this means the inflation battle has been won. Even though the Fed has raised interest rates 5 percentage points since early 2022, the impact seems to have faded. Wages are still growing at 4% to 5% a year, a percentage point faster than is consistent with 2% inflation.



Source: Labor Dept. (CPI, CPI excl. food, energy; hourly earnings); Goldman Sachs, WSJ (CPI excl. goods, energy, housing)

German wholesale prices drop sharply in June

- German wholesale prices fell by 2.9% in June compared with the same month last year, the sharpest drop in three years, according to data released on Friday, in a sign that inflation in Europe's largest economy will continue to ease.
- June's year-on-year decrease was the strongest since July 2020, when the outbreak of the coronavirus pandemic led to economic distortions, the federal statistics office said.
- Compared with the previous month, wholesale prices were down 0.2%, the office said.
- As wholesale price pressures fall, inflation in Germany could also continue to ease. Wholesalers are the link between manufacturers and end customers, and price changes usually reach consumers with a delay.



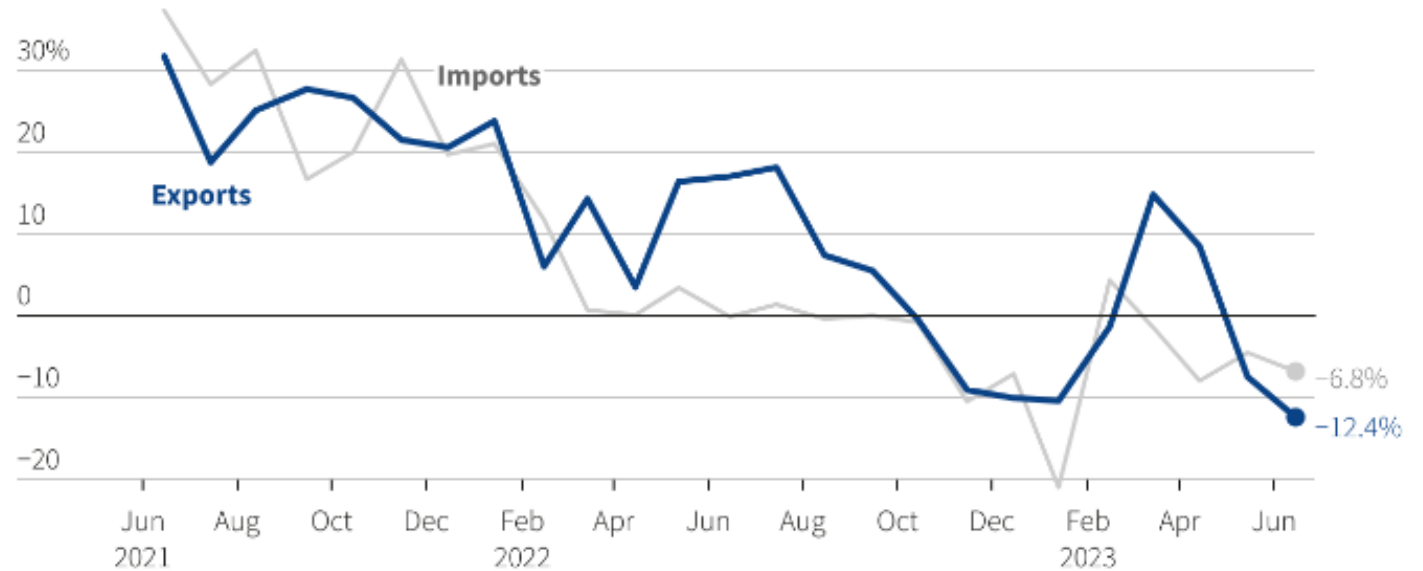
Source: Steno Research, Bloomberg and Macrobond

China's Drop in Exports Signals Deepening Slowdown in Global Trade

- China's exports to the U.S. fell 24% in June compared with a year earlier. Shipments to the European Union sank 13% and sales to the Association of Southeast Asian Nations, a group of 10 countries that includes Indonesia and Malaysia, fell 17%.
- U.S. imports of goods were 5.5% lower in the first five months of the year than the same period a year earlier, Census Bureau data shows. Goods imports fell 2.7% in May compared with April, after recording a brief rebound in March.
- A growing share of China's exports are heading to regions including the Middle East and Latin America, reflecting strengthening economic links thanks to Chinese investment and its hunger for natural resources. Exports to Russia surged in June, reflecting close ties between Moscow and Beijing and the effect of Western sanctions on Russian imports.

China's June exports had the biggest fall since February 2020 as sluggish overseas economies struggling with inflation and rising interest rates buy up fewer goods from Chinese factories.

Change in dollar-denominated exports and imports (Y/Y)

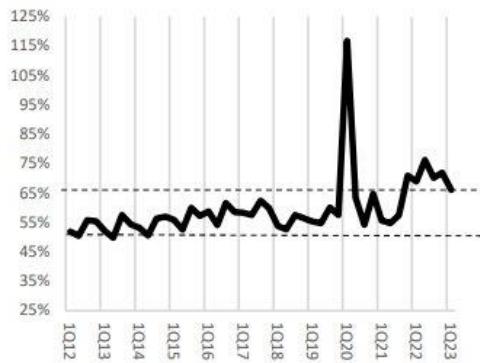


Source: Refinitiv Datastream | Reuters, July 13, 2023 | By Kripa Jayaram

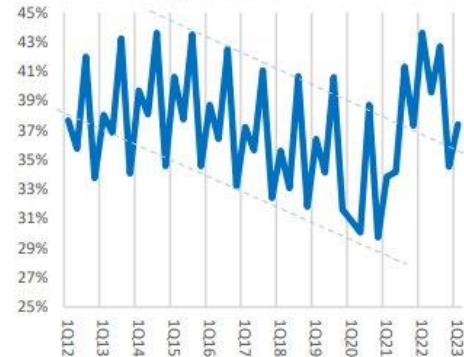
Inflation's inventory gluts are here to stay and will hit the bottom line in weaker economy

- Only about one-third of supply chain managers think warehouse inventories will return to normal before 2024, according to the new CNBC Supply Chain Survey.
- A little over one-quarter (27%) say companies are selling excess inventory on the secondary market because high storage prices are hitting the bottom line, with impacts to materialize in upcoming quarterly results.
- As expectations rise that Wall Street will revise earnings estimates lower in a weaker economy, almost half of those surveyed said the biggest inflationary pressures they are paying are warehouse costs, followed by rent and labor, and many are continuing to pass those costs on to consumers.

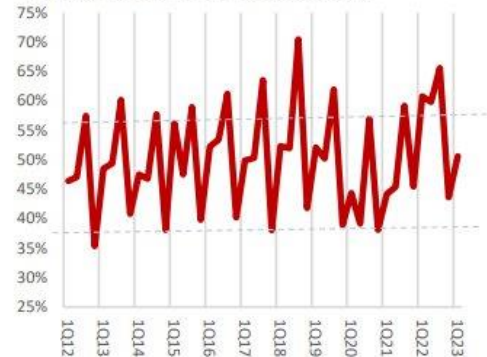
Nike : inventory-to-sales ratio



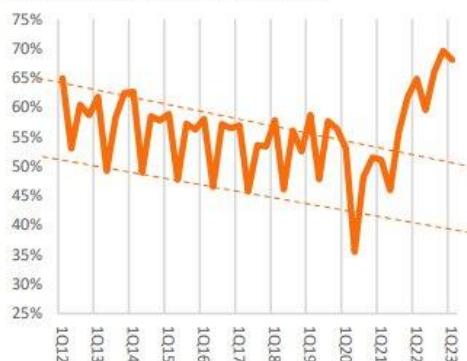
Walmart : inventory-to-sales ratio



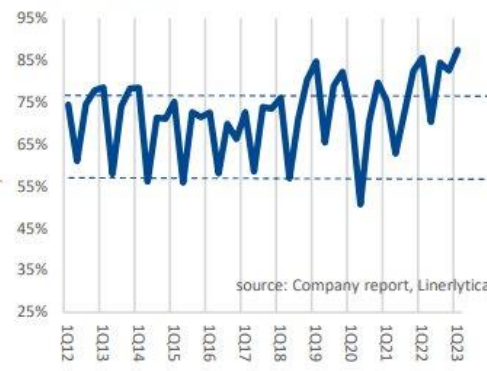
Target : inventory-to-quarterly sales ratio



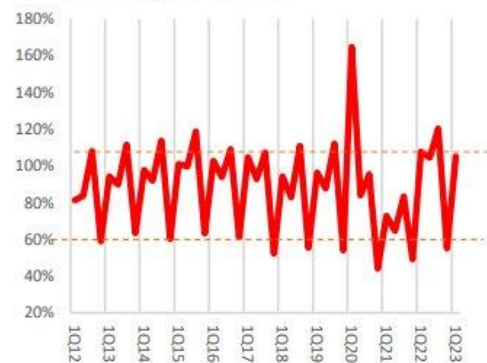
Home Depot : inventory-to-sales ratio



Lowe's : inventory-to-sales ratio



Kohl's : inventory-to-sales ratio

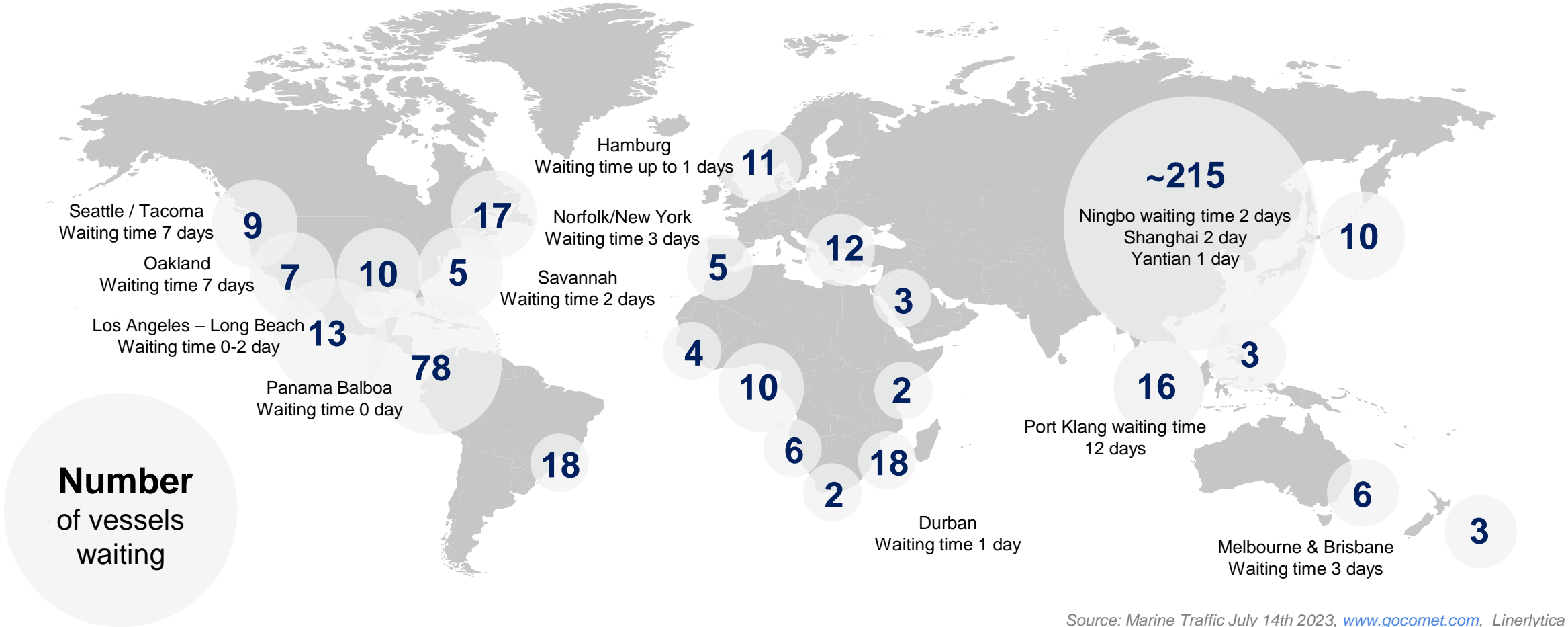


source: Company report, Linerlytica

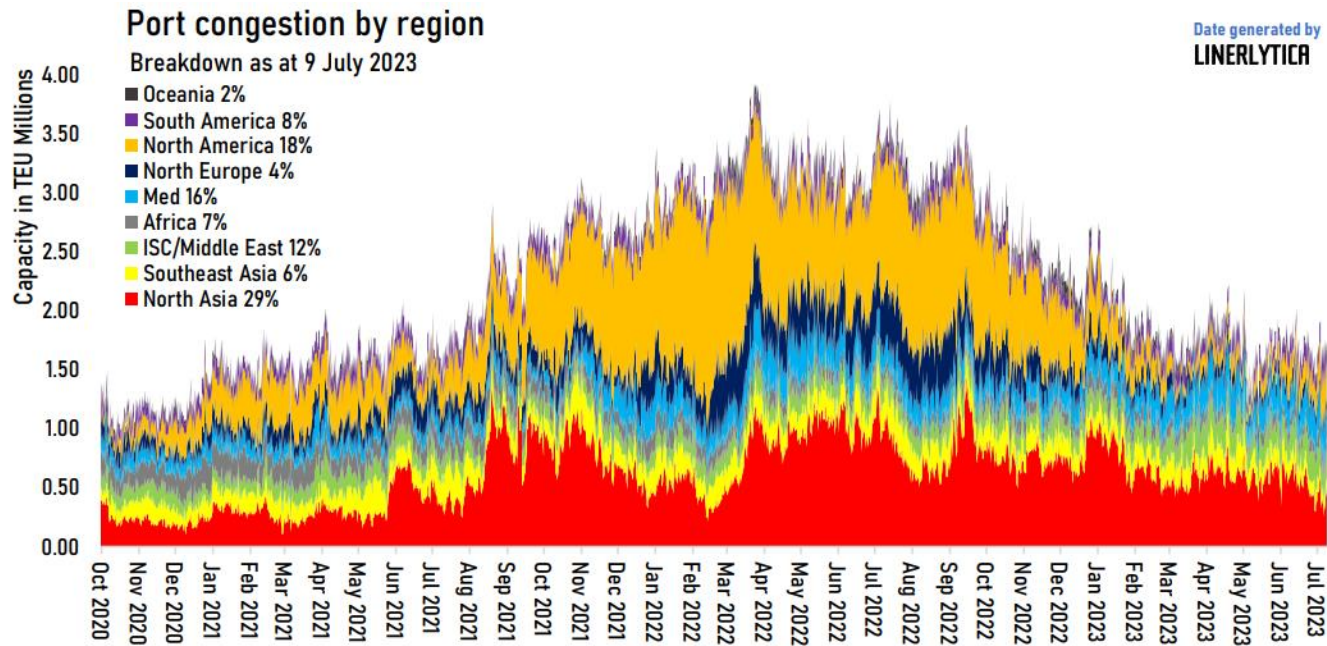


Global port congestion

6.1 % of the global vessel capacity effectively removed – 1,66m TEU affected



US West coast ports will improve after Canada and US pacific ports back on normal operations



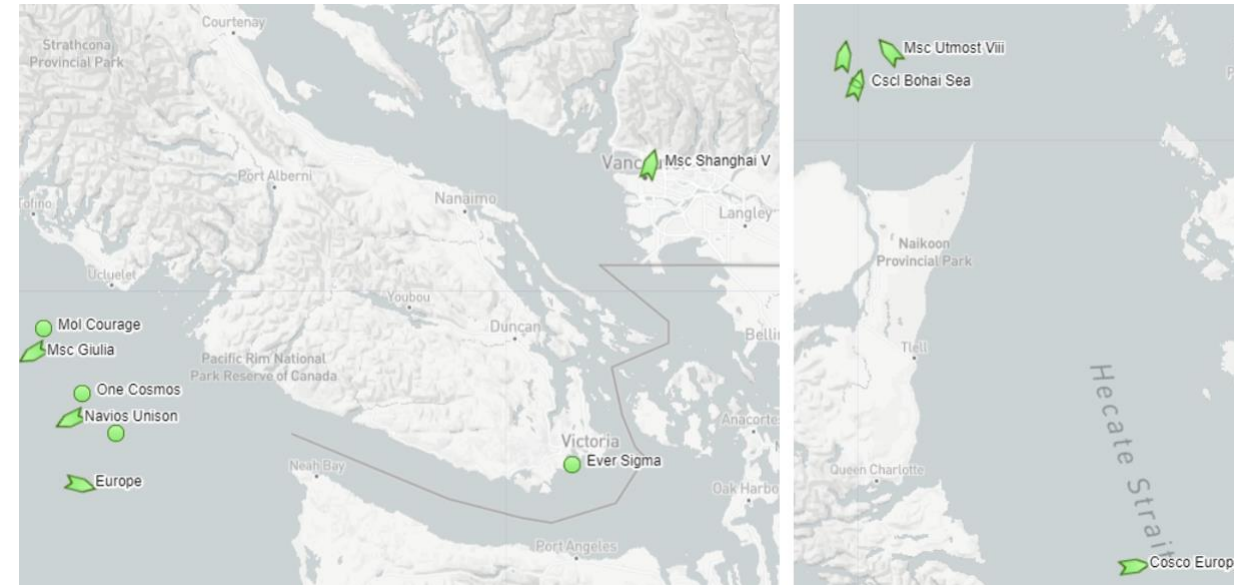
- There has been a gradual build up of ships waiting at the Canadian west coast ports of Vancouver and Prince Rupert as the ILWU Canada impasse stretches into a second week, with the total capacity of ships at the Puget Sound/British Columbia anchorages hitting 113,550 Teu as 9 July, the highest since October 2022 but still below the peak recorded early 2022 with 300,000 Teu
- The situation remains fluid with more vessel diversions to US ports planned over the coming week. The congestion situation at . Oakland remain escalated, with ships waiting for up to 6 days affecting some 51,000 Teu that are currently at San Francisco Bay anchorage. There is currently no congestion reported at Los Angeles / Long Beach terminals



Canada port strike ends

The announcement of a labour agreement in Canada draws to a close a protracted period of labour unrest along the Pacific coast of North America

- Quay cranes whirled back into action at ports across British Columbia late yesterday afternoon as a tentative deal between unions and employers was reached to end a 13-day strike.
- The four-year deal, hammered out with help from federal mediators, is subject to ratification by both sides.
- British Columbia premier David Eby applauded the thaw in relations, saying: "I am optimistic that this deal will help bring long-term stability to our ports, solidify Vancouver as a world-class trade centre, strengthen our economy and provide fairness to workers."
- The total cost to Canada industry is not just the days of the strike, but the days and months of work that precede and follow a disruption
- Now that the strike ends, the railroads will be challenged to handle the sudden influx of the cargo presently stuck on the vessels
- Last month, a deal was struck between employers and dockworkers south of the border in the US, averting similar industrial action.



Ship-position data from Marine Traffic shows that as of Thursday afternoon, there were eight container ships waiting to be served by the Port of Vancouver and four container ships in the queue off Prince Rupert.

IMO meeting results; “historic” decarbonization deal could inflate future shipping rates

What the IMO MEPC80 decided:

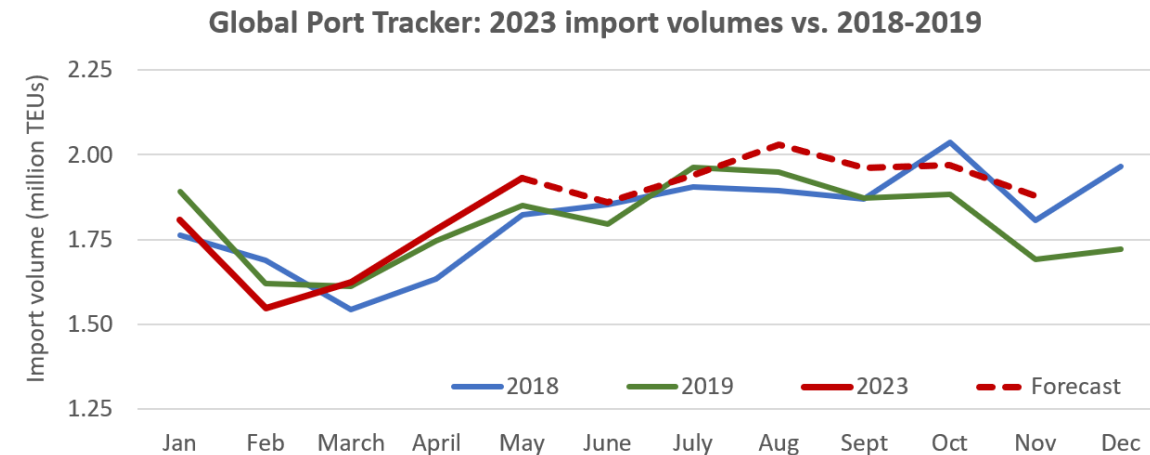
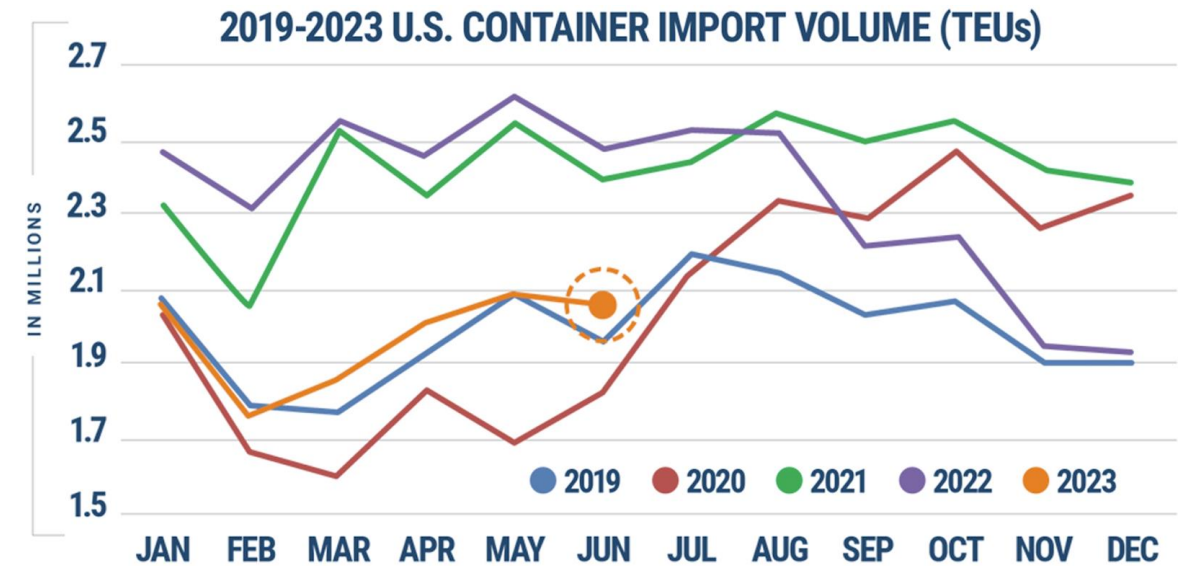
- An “indicative checkpoint” to reduce shipping’s GHG (Green House) emissions by at least 20%, “striving for 30%,” by 2030 compared with 2008 levels.
- A “level of ambition” to use “zero or near-zero GHG-emission technologies, fuels and/or energy sources to represent at least 5%, striving for 10%, of the energy used by international shipping by 2030.”
- An indicative checkpoint to reduce GHG emissions by at least 70%, striving for 80%, by 2040 compared with 2008 levels.
- For the shipping industry “to reach net-zero GHG emissions by or around 2050, taking into account different national circumstances.”
- For GHG emissions to be measured on a “well-to-wake” basis, i.e., not just emissions from ship operations but also from fuel production.



US container imports still outpacing pre-COVID levels

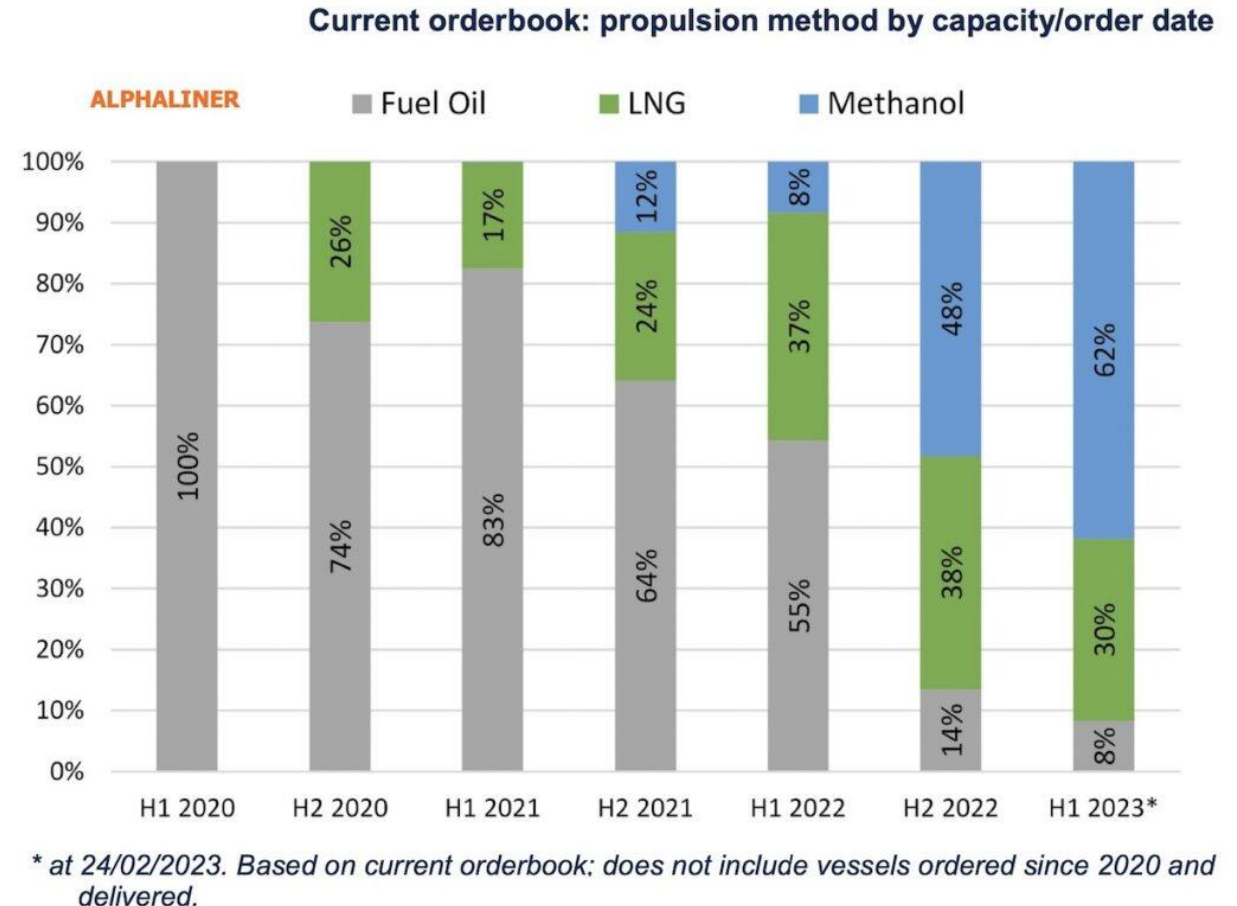
Descartes: June imports up 6% compared to June 2019

- Imports traditionally fall in June versus May (excluding the anomalous years during the pandemic). June's imports edged down 0.7% versus May, a smaller month-on-month decline than usual.
- Imports fell by 5.9% in June versus May 2019, by 2.2% in 2018 and 3.5% in 2017, according to Descartes.
- Another data source, Global Port Tracker, published by the National Retail Federation and consultancy Hackett Associates, tracks imports to 12 leading U.S. ports using official numbers released by the ports.
- Final numbers are not yet in for June, but Global Port Tracker estimates last month's volumes totalled 1.86 million TEUs for the ports it covers, up 4% from June 2019 and flat versus June 2018.



Switch to methanol could triple fuel costs

- The carbon levy is the one to watch for cargo shippers. Container lines ordering new ships have focused on two alternative-fuel types, both of which are much more expensive than traditional bunker fuel: liquefied natural gas and methanol.
- The vast majority of container ships ordered over the past two years are dual-fuel, with methanol emerging as the preferred alternative-fuel choice. The latest shipyard contracts came, with **Evergreen ordering 24 dual-fuel methanol new buildings**.
- Existing vessels are being retrofitted, as well. Hapag-Lloyd and Seaspan announced Thursday that they will retrofit 15 vessels for methanol use, with an option for 45 more.
- Methanol is triple the price of very low sulfur fuel oil, said Hapag-Lloyd. Consultancy Drewry estimated that a switch to “green” methanol — methanol produced from biomass or by other means to reach carbon neutrality on a well-to-wake basis — would increase fuel costs by 350%, equating to an additional cost of over \$1,000 per forty-foot equivalent unit for containers shipped from Asia to Europe.

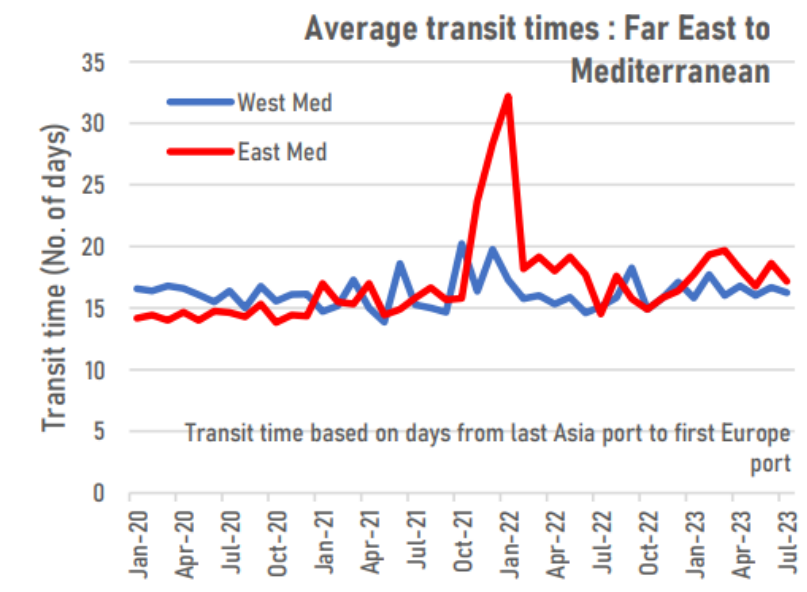
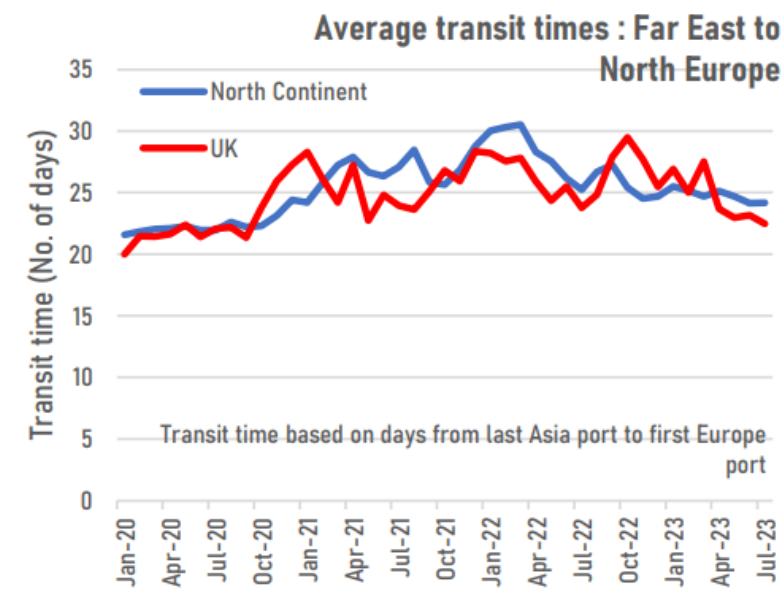
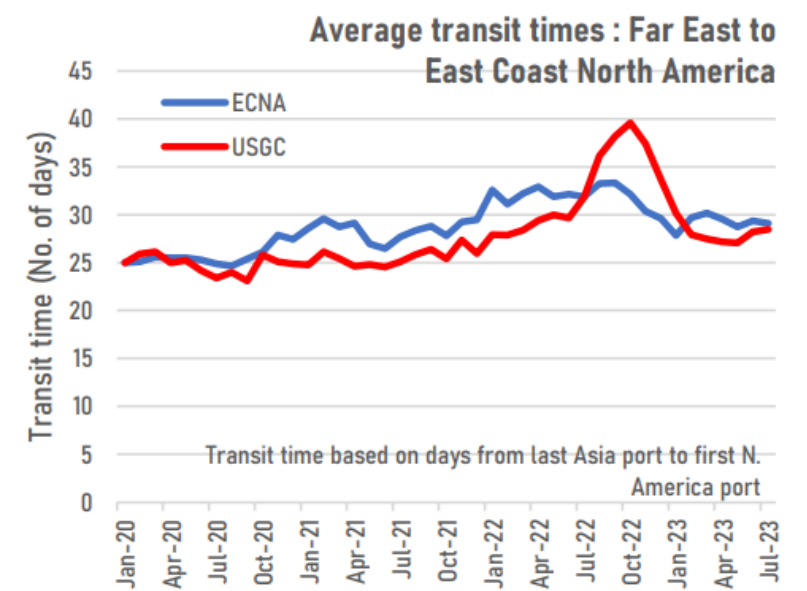
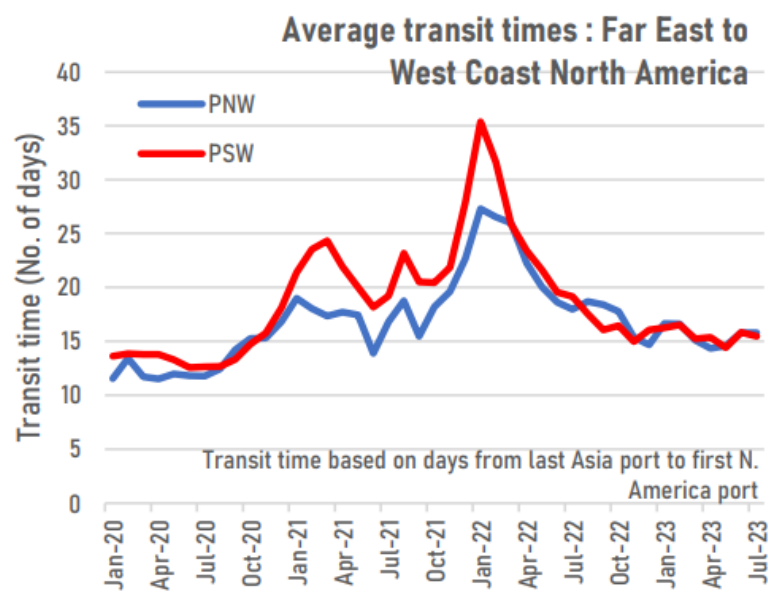


Next year's EU ETS bill will cost shipping more than \$3bn

- The EU MRV regulation requires all ships exceeding 5,000 gt to collect and report data on CO2 emissions released to and from EU and EEA ports and will serve as the basis for shipping's inclusion in the EU emissions trading system (ETS) from January 1 2024.
- Total ETS-applicable emissions for the maritime industry amounted to 83.4m metric tonnes of CO2 equivalent (tCO2e) in 2022, a modest decrease of 0.22% from 2021. At the current market value of €90 (\$98) per emissions allowance (EUA), shipping emissions carried a total worth of €7.5bn for the year.
- The container sector showed the largest reduction, falling by 8.95% equating to 2.3m metric tonnes of CO2 equivalent (tCO2e) saved.
- Taking into account the ETS phase-in period covering 40% of emissions in 2024, 70% in 2025 and 100% in 2026, and utilising the forward curve in EUAs, estimates by a new joint venture between Wilhelmsen Ship Management (WSM) and Affinity Shipping indicate that the shipping industry could be liable for €3.1bn in 2024, €5.7bn in 2025 and €8.4bn in 2026.

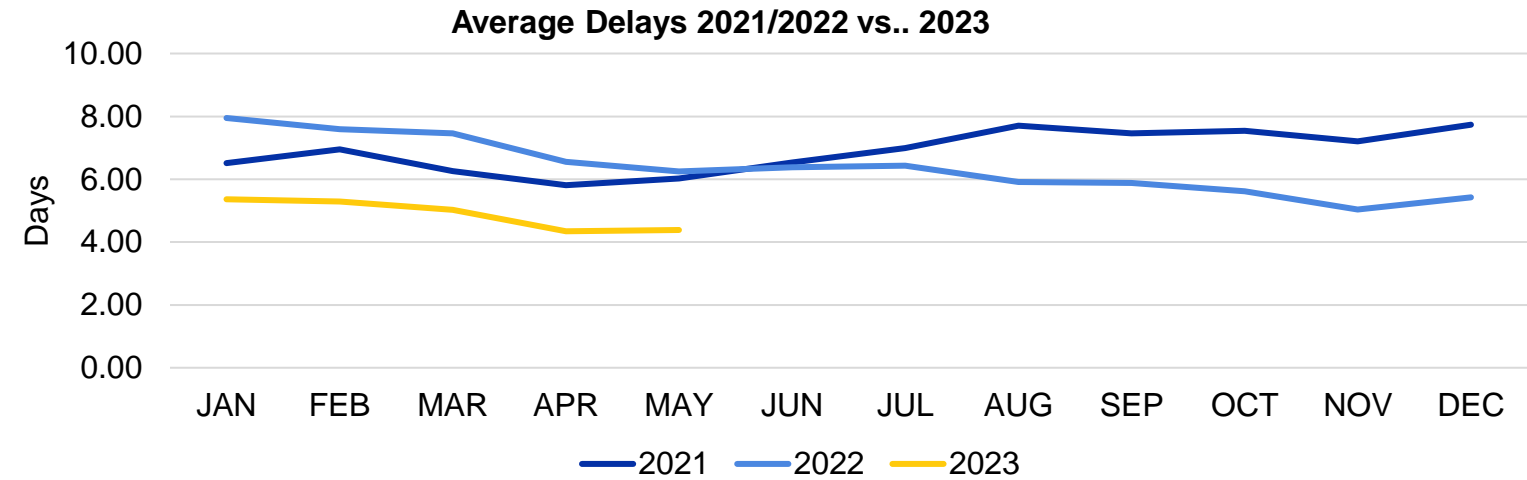
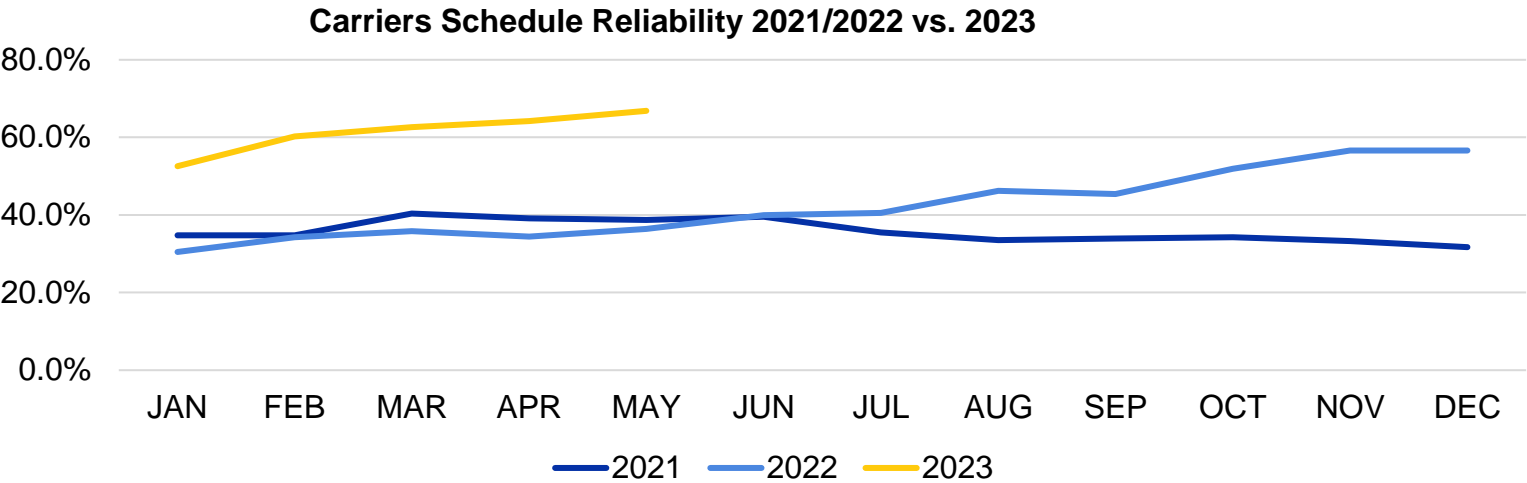


Small decreases in transit times due to less congestion



Source: Linerlytica (June 2023)

Global schedule reliability has continued to improve in May 2023 of 2.7 percentage points. As a result, schedule reliability increased to 66.8 %



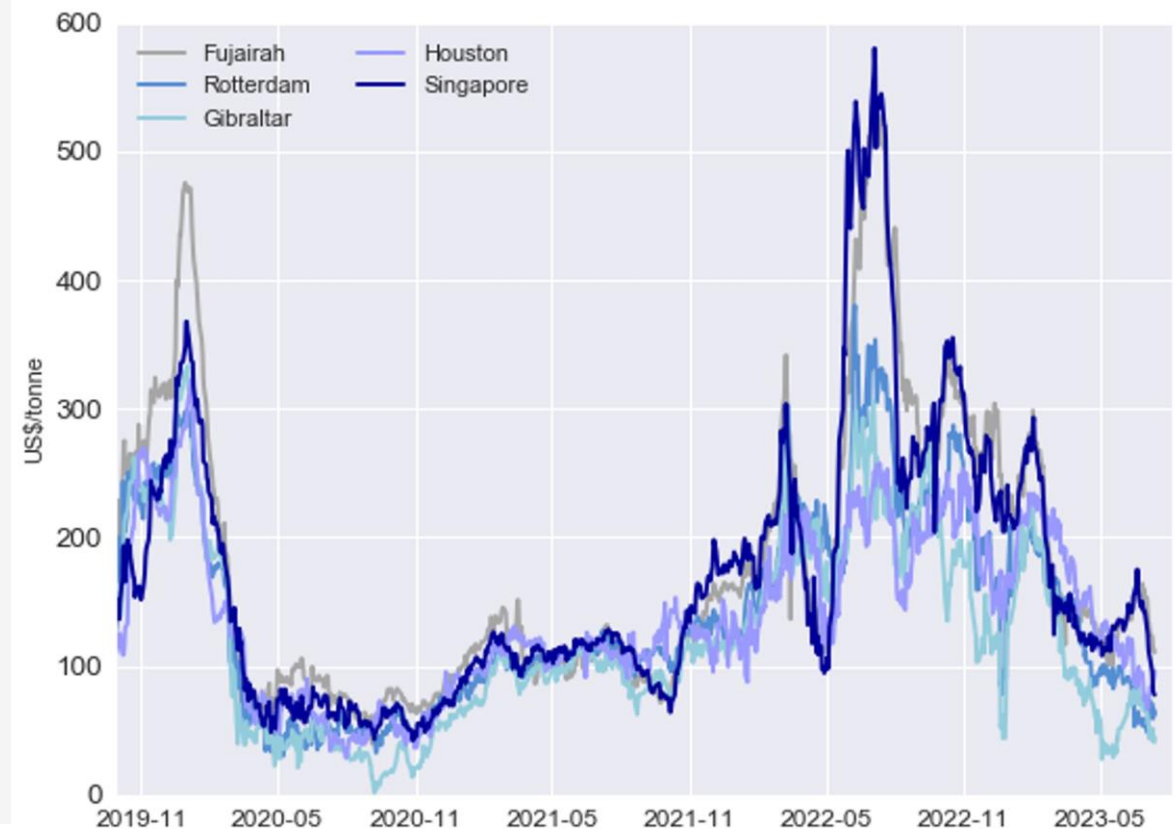
Vessel reliability per tradelane on May:

- Global schedule reliability has continued to improve M/M, with the latest improvement in May 2023 of 2.7 percentage points. As a result, schedule reliability increased to 66.8%, which is a massive 30.3 percentage point improvement Y/Y, and “only” 4.9 percentage points lower than the closest pre-pandemic score.
- The average delay for LATE vessel arrivals reversed its decreasing trend and increased M/M by 0.04 days in May 2023 to 4.39 days. Still, the average delay figure was -1.86 days lower than the corresponding Y/Y figure and remained lower than any of the pandemic years

A collapse in the Singapore spread (VLSFO-HSFO) has contributed to the sharp drop in global spread averages

- Rotterdam VLSFO / Mt: \$546 vs. IFO380 / Mt: \$483, spread of \$63 (12% increase from previous week)
- Singapore VLSFO/Mt \$588 vs. IFO380 / Mt: 472, spread of \$116 (-20% reduction from previous week)
- Due to Saudi Arabia Oil production cut in heavy crude grades has reduced the margin in Singapore of two low sulphur and heavy marine oil.

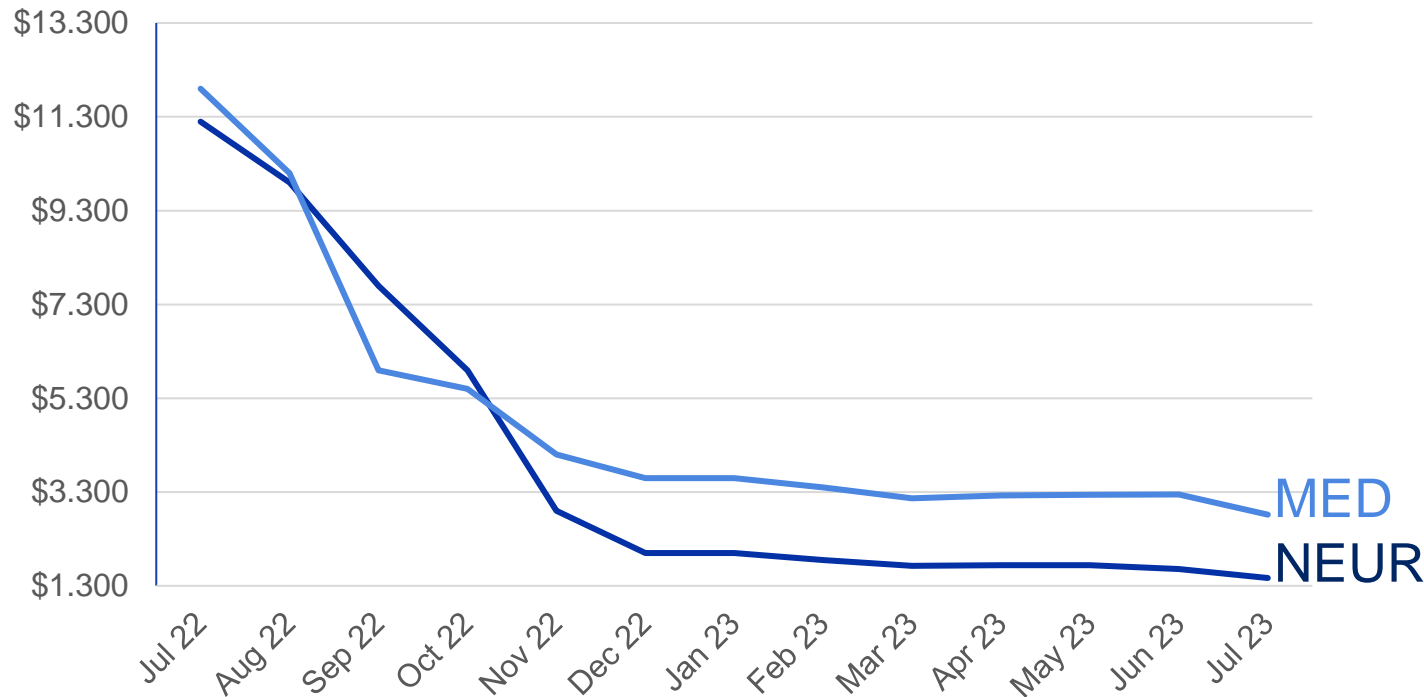
VLSFO vs IFO380 (Hi5) Spreads 2019-23
By Port, Daily, US\$/tonne



Ocean Freight Asia - Europe

Rates are stable since the beginning of 2023

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



Source: SCFI Week 28-2023

It seems that we have reached to an equilibrium and carriers are performing less blank sailings

SCFI Levels Week 28-2023:

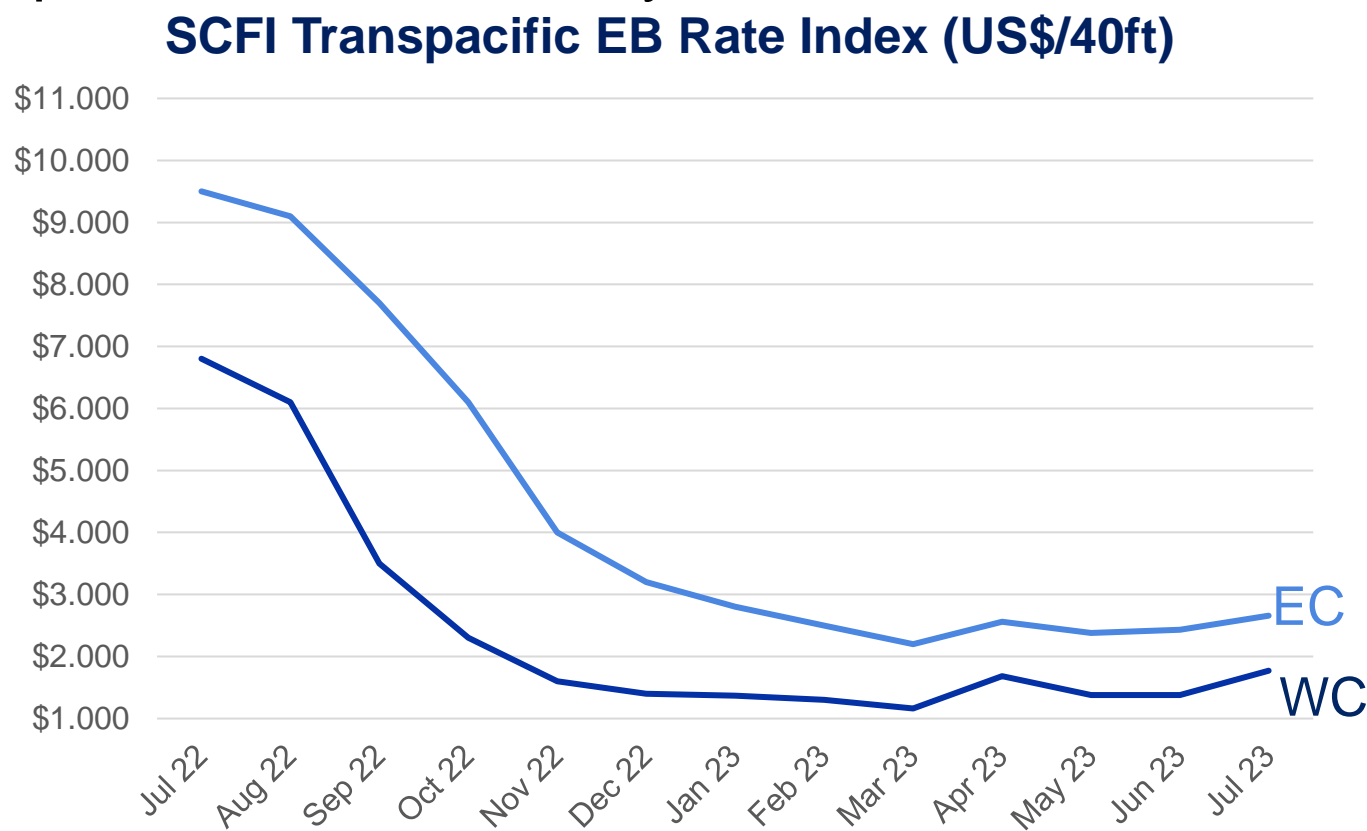
Shanghai – North Europe: USD 1,476/ FEU

Shanghai – Mediterranean: USD 2,824/ FEU

- Newbuilds with +24.000 TEU capacity are entering the market
- Cascade effect is about to start
- Various blank sailings announced for July – only few for August

Ocean Freight Asia - North America

Demand has not picked up due to high inventory levels and is not expected to pick up at least until end of year



Source: SCFI Week 28 2023

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

SCFI Levels Week 28-2023:

Shanghai – US West Coast: USD 1,771/ FEU

Shanghai – US East Coast: USD 2,662/ FEU

Blanking is expected to continue into Jul/Aug.

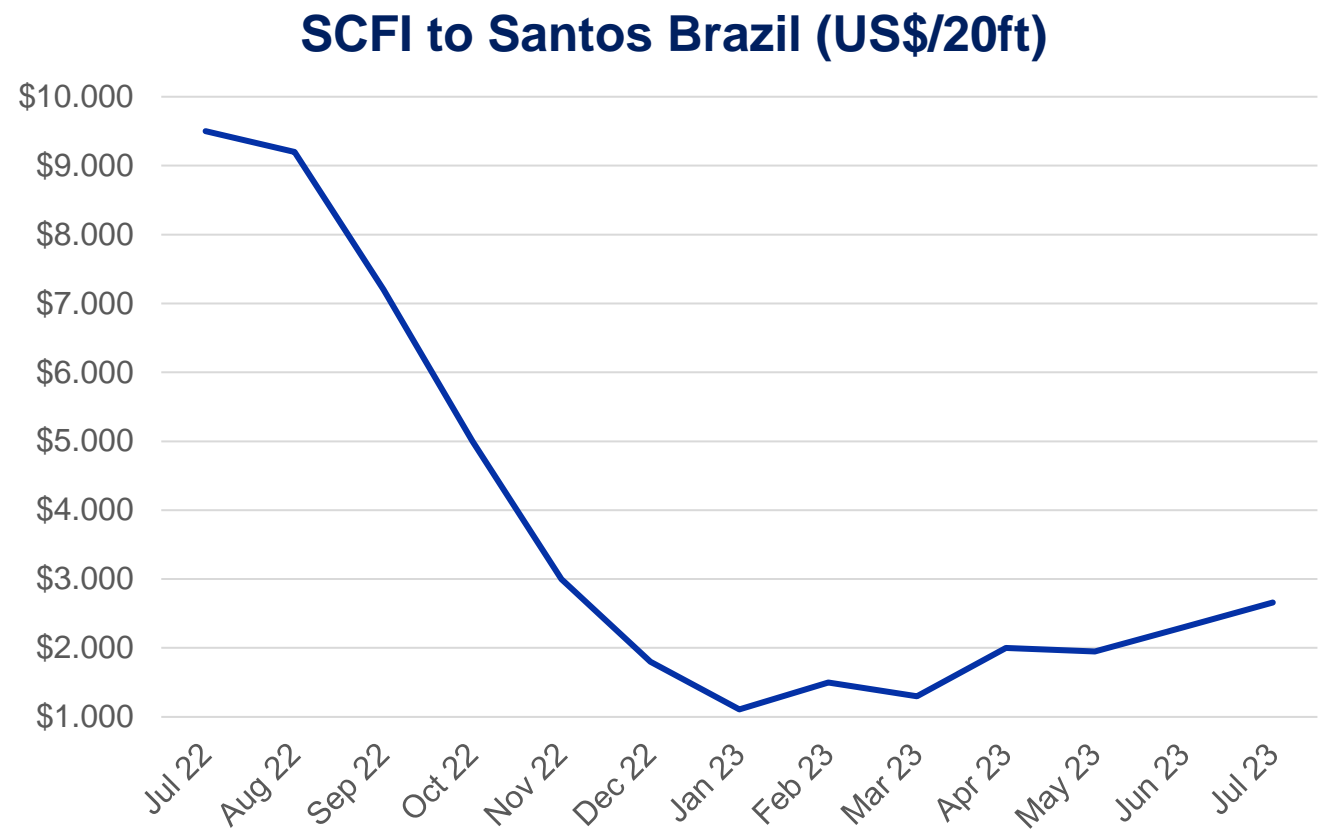
Overall deployed capacity is higher than last year (YOY+12% WC; YOY+17% EC) even after blankings.

The shift of cargo/capacity to USEC & USGC remains, but the

Panama Canal low water level is restraining capacity at the same time.

Ocean Freight Asia – South America (East Coast)

Carriers implementing blank sailings for east coast south America



Source: SCFI Week 28-2023

SCFI Levels Week 28-2023:

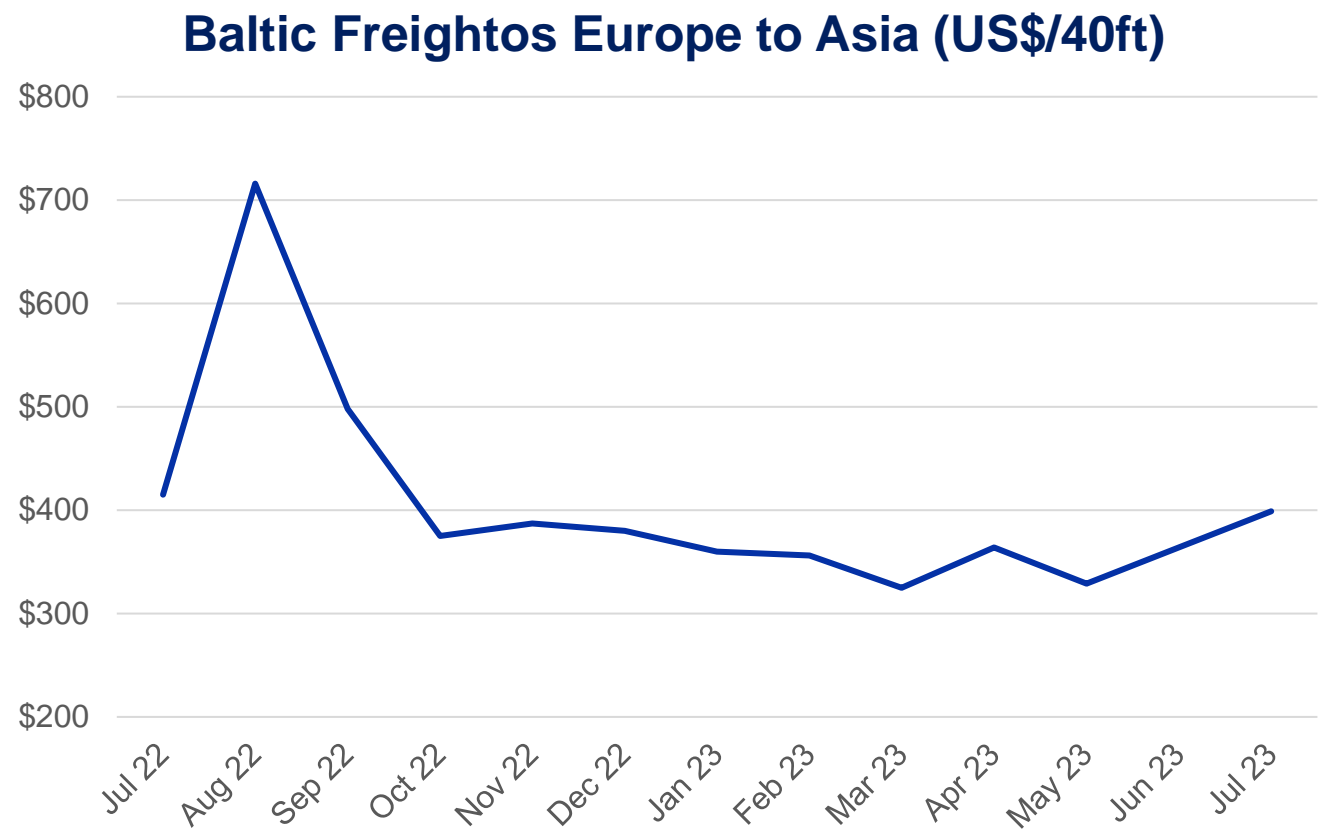
Shanghai – Santos: USD 2,665/ TEU

ECSA: demand is stable but being pushed by blank sailing program during consequent weeks

WCSA: demand is quite stronger with current vessel situation. Carriers start to applying GRI in order to recover the rates and avoid spot negotiation

Ocean Freight Europe – Asia

Rates still at low level



Source: Freightos Baltic Week 28-2023

Freightos Baltic (FBX12) index Levels 28-2023:

- Europe to ASIA : USD 399/ FEU

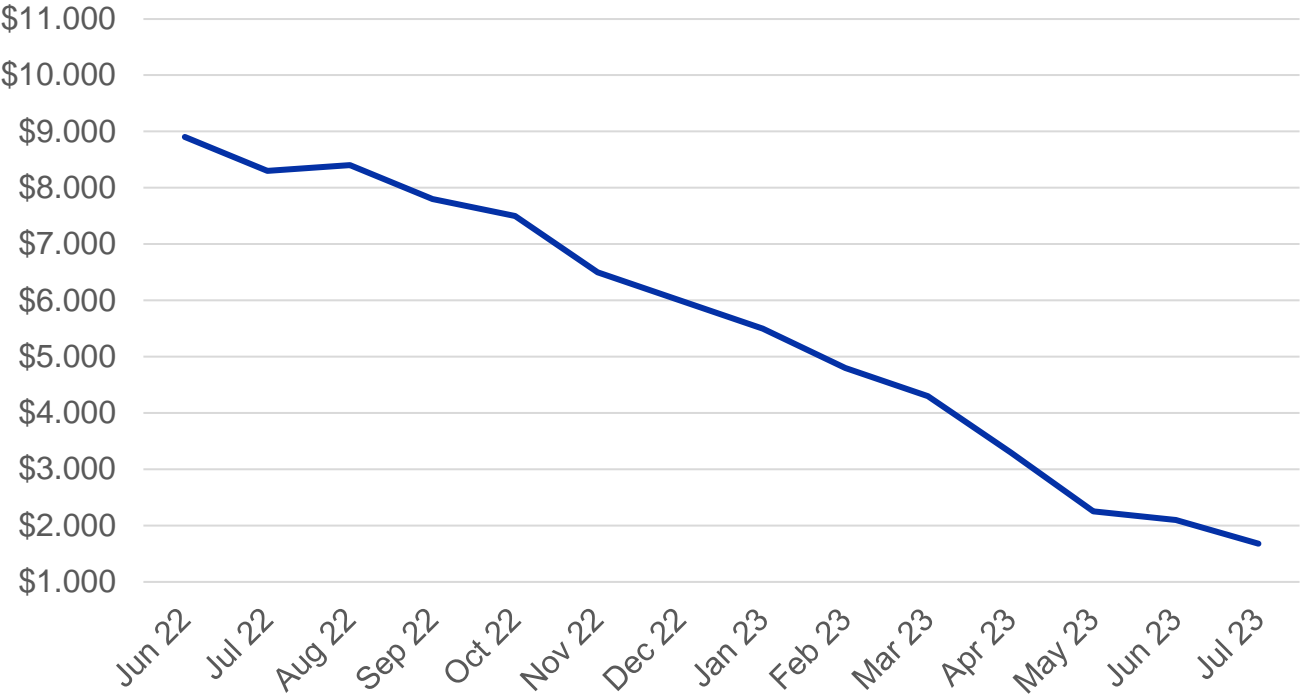
Ongoing softening in the spot market

- Sufficient space available on the majority of loops
- MSC to reinstate the “SWAN” service as stand-alone product (the former 2M loop was suspended in May 2020) First EU export sailings are expected to commence as from July 2023.

Ocean Freight Europe – North America

Vessel utilization is falling

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



Source: Freightos Baltic W28-2023

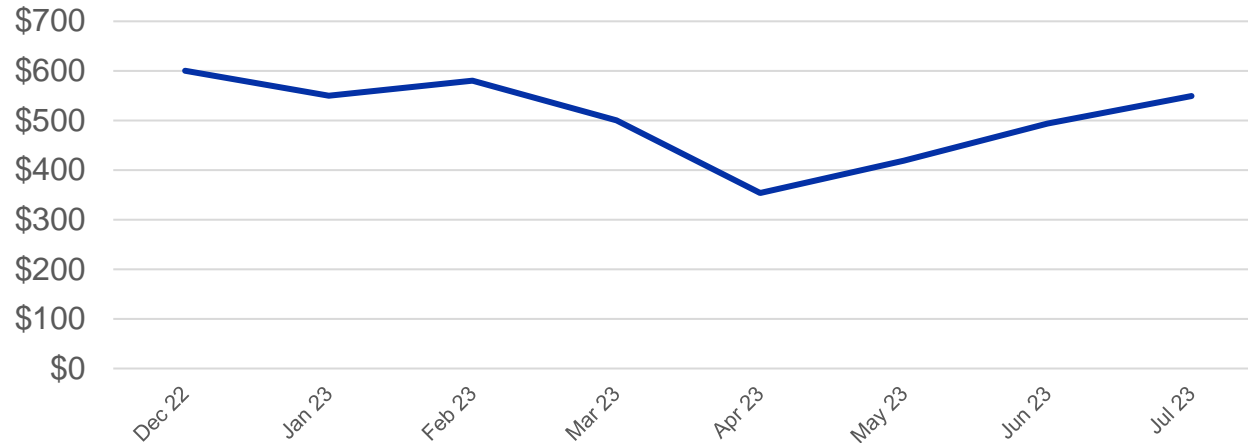
Freightos Baltic index (FBX22) Levels Week 28-2023:

- Rotterdam – New York: USD 1,688/ FEU
- Demand is expected to soften during the summer months
- Towards the end of the year / Q4 demand will likely recover in line with usual seasonality on this trade

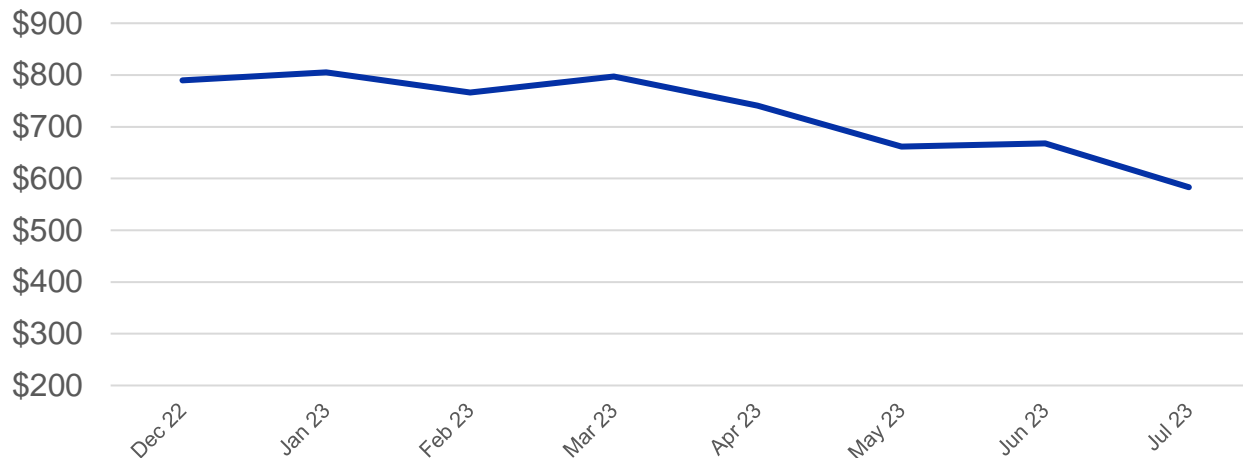
US outbound lanes

Vessel utilization is falling, terminals are still handling over capacity of empty containers

Freightos FBX 21 North America to Europe (US\$/40ft)



Freightos FBX 02 North America to China (US\$/40ft)



Freightos Baltic index (FBX21) Levels Week 28-2023:

- New York - Rotterdam: USD 549/ FEU

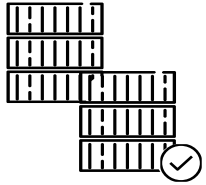
- Capacity stable in the trade, however 3-4 weeks advance bookings are still recommended for US outbound trades.
- PNW direct port call omissions continue with CMA, ONE and Hapag affecting the services to the NCP, MED and Africa (TAEB).
- No capacity to be added to the trade for 2023 (current status).

Freightos Baltic index (FBX02) Levels Week 28-2023:

- Los Angeles - Shanghai: USD 583/ FEU
- Long term, demand will be stabilized, however, still driven by the fluctuations in the global economy as well as changes in customers sourcing strategies.

Intra Asia

Demand



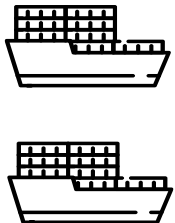
- The demand out of China is trending weaker than expected and weaker than previous months. The demand remains strong from China – Japan as the only corridor.
- The demand out of South-East with the exemption of in/out Vietnam is trading slow at 80-87% utilization rate and we've not seen any problematic cargo rushes from Thailand and Indonesia in the holiday season as it's usually the case.
- Stock inventory seems to be at healthy levels with no overstocking nor shortage to report on.

Rate



- The market is set to increase as more and more cargo is contracted long term to be protected in the historical summer peak.
- Outbound CN – JP rates are remaining stronger whereas we are seeing the traffics from SEA – China is remaining stable at low freight levels.
- We recommend customers to contract their cargo long term to avoid being caught in the market once the peak is here and the carriers will increase the rate levels as a result of the supply/demand challenges we will see in every peak







Supply



- Service reliability is improving for the intra regional trades. Do however take note of a server congestion in Ningbo which will result in disruption and minor delays.
- Utilization is trending upwards as carriers are fitting the capacity better to the demand output which is resulting in stable freight rates
- Capacity variation due to service disruption week over week as the charter market remains hot and the carriers are struggling to get access to vessel between 1-2000 Teu which is the preferred intra-Asia vessel sizes.



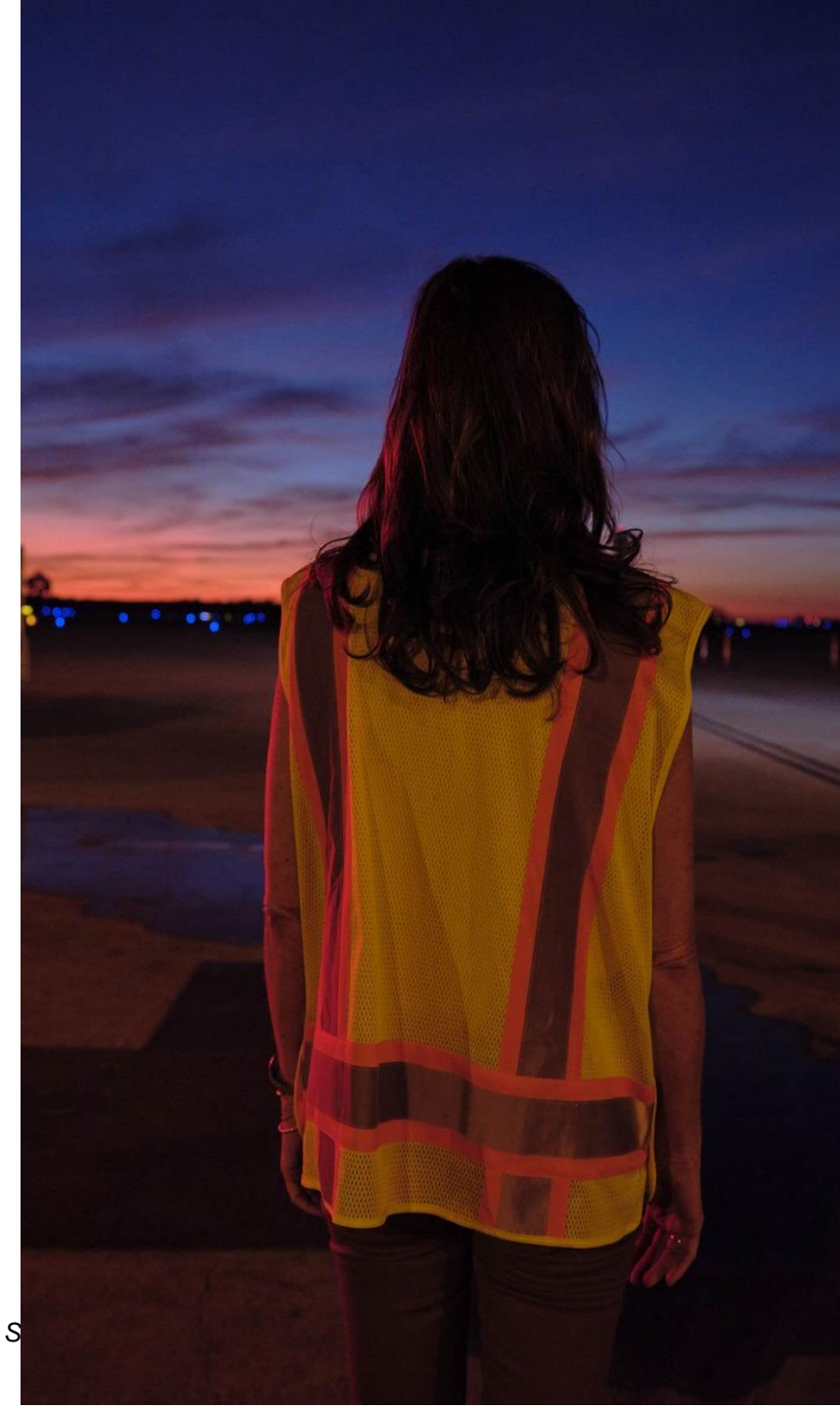
Ocean freight market overview – Rates have stabilized

TRADE LANE	COMMENTS	RATES AND SPACE	
ASIA to Europe	<ul style="list-style-type: none"> • Rates are stable at the moment • We can expect a seasonal "summer jump" for a later decrease • M2 has announced slow steaming with +3 days North Europe and +2 days in Mediterranean. 	➡	
ASIA to NAM	<ul style="list-style-type: none"> • Rates are stable • Carriers falde to push GRI • Panamá canal is reducing capacity to East Coast 	➡	
Europe to NAM	<ul style="list-style-type: none"> • Less congestion in both North American and European ports affects service • There is space available are rates are falde per-covid • Demand has normalized 	⬇	
Exports from India	<ul style="list-style-type: none"> • Space is open • Shipping lines are opening long term contrat rates to negotiate • Ports, terminals and ICD continue to work normally 	⬇	
ASIA to LATAM	<ul style="list-style-type: none"> • Flexibility to place booking, small increases • Cargo to West Coast is strong while East Coast carrier implementing black sailings • Equipment is available 	➡	
INTRA ASIA	<ul style="list-style-type: none"> • Port congestion improving in some south Asian ports • New bunker level. • We see a potential increase on rate in the future 	➡	



Market Outlook

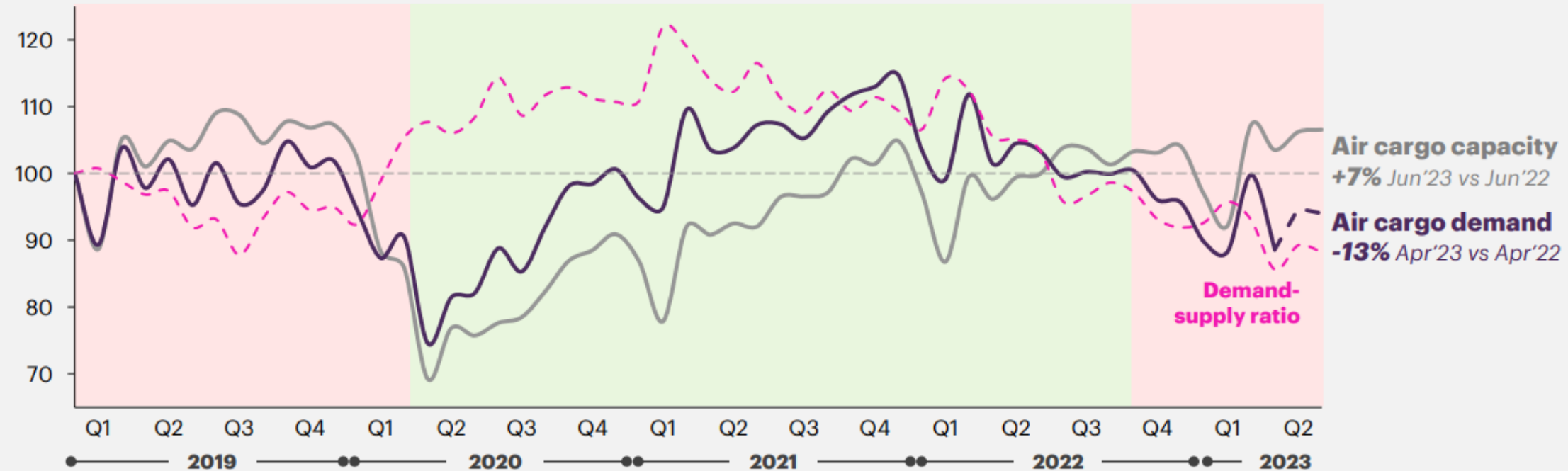
- Demand and Supply **diverted definitely** in the second quarter of 2023
- **Air cargo demand fell -12%** through Jan – Apr (vs. 2022), to levels below those of weak year 2019
- Covid related commodities disappearing **and generating a slowdown** in air cargo demand
- Large changes in demand have resulted **in significant shifts** on several trade lanes
- Air cargo capacity has **permanently exceeded 2019 levels**
- **Belly capacity can't grow much further** after its recent recovery, not aided by Airbus & Boeing supply chain issues
- In the face of low demand and belly growth, **freighter capacity remains surprisingly high**
- **Short-term outlook** improvements in year-over-year declines expected, but **no signs imminent growth**



The second quarter of 2023 was the quarter in which demand and supply diverted definitively

Monthly development of international air trade and air cargo capacity, 2019-2023

Index (Jan 2019 = 100)



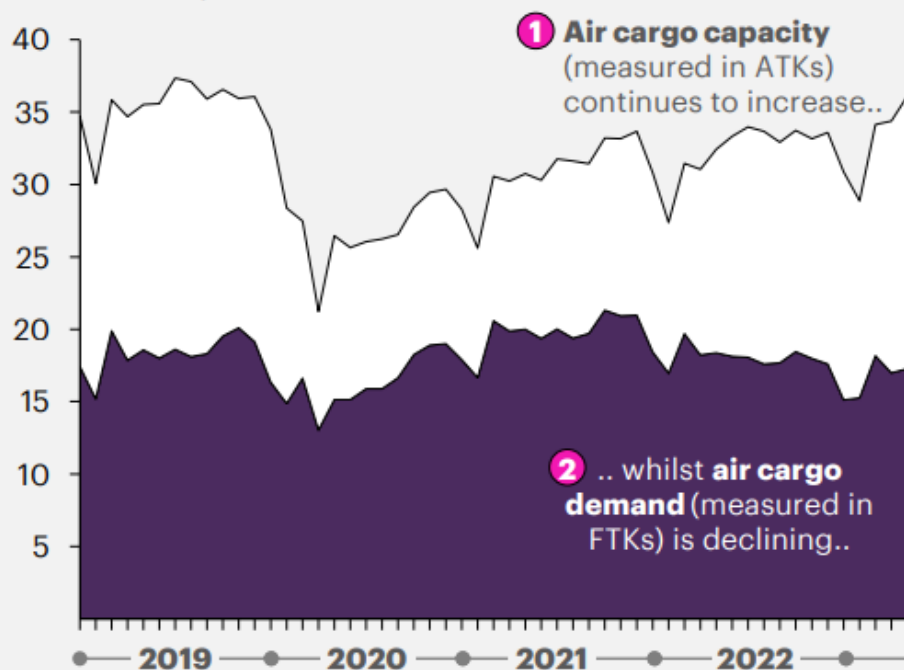
Air cargo's demand-supply balance is now worse than it was during the weak year of 2019

Source: Accenture

As a result of lower air cargo demand and recovering capacity, load factors have dropped to below 2019 levels

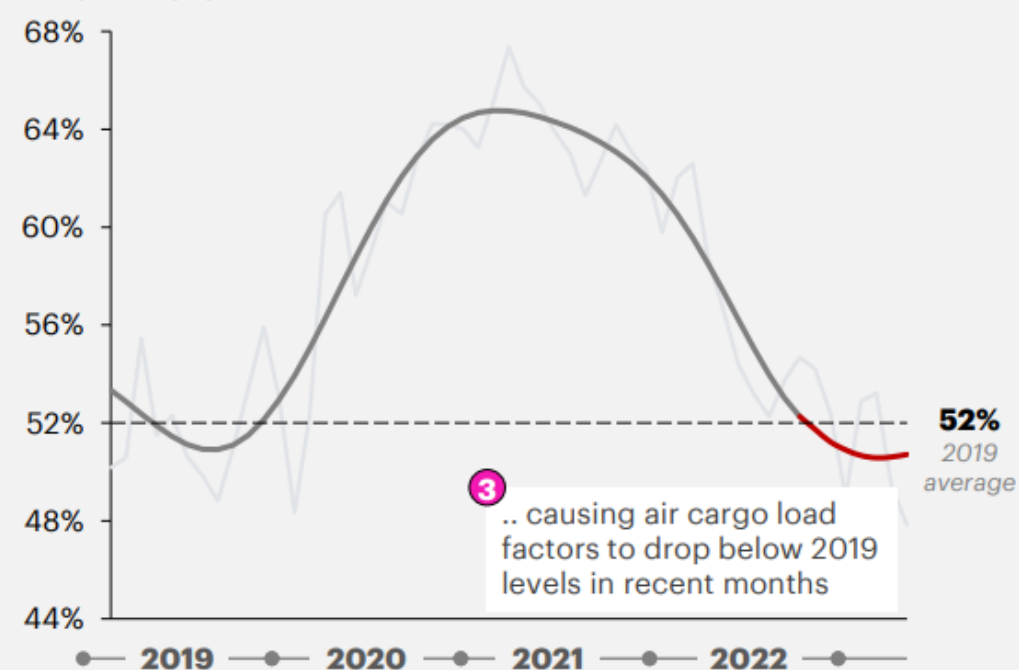
Global international air cargo traffic and capacity..

Billion FTKs/ATKs



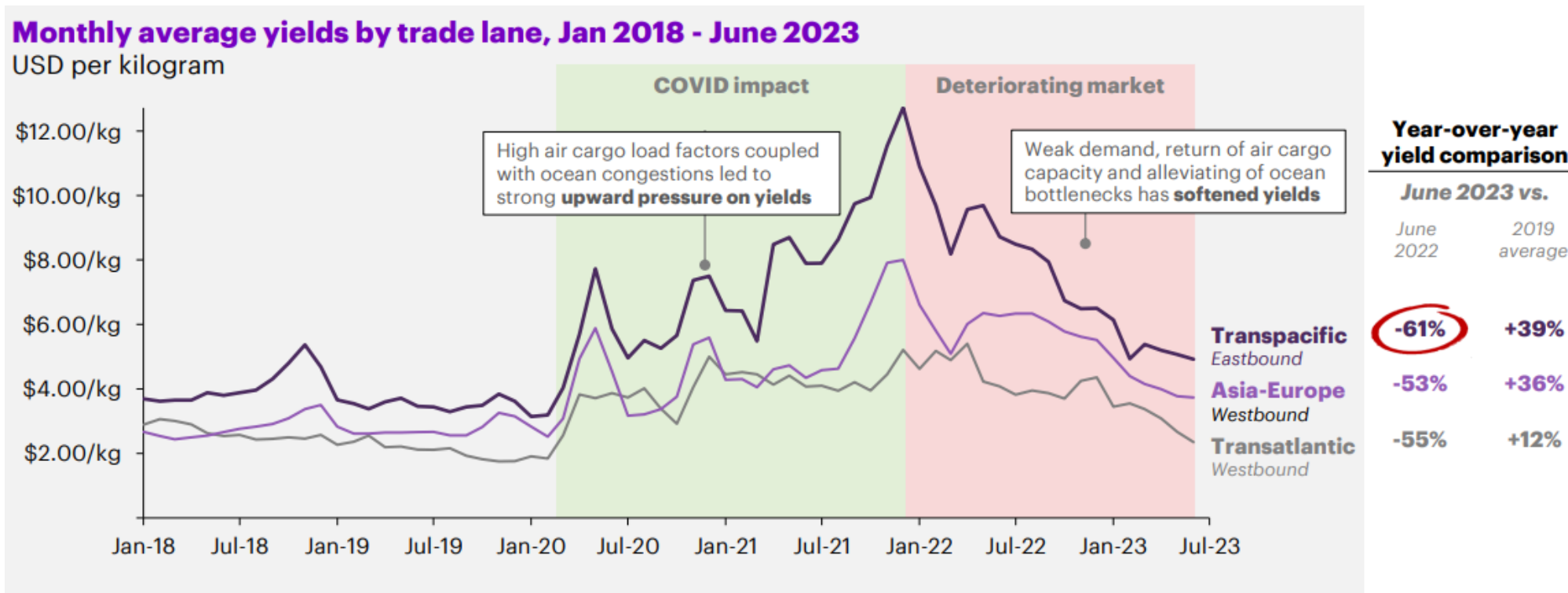
.. and resulting international load factors

FTK/ATK (%)



At ~50% average, air cargo load factors are near their historical low

Air cargo yields continue to decline amidst a weakening market, across all major trade lanes

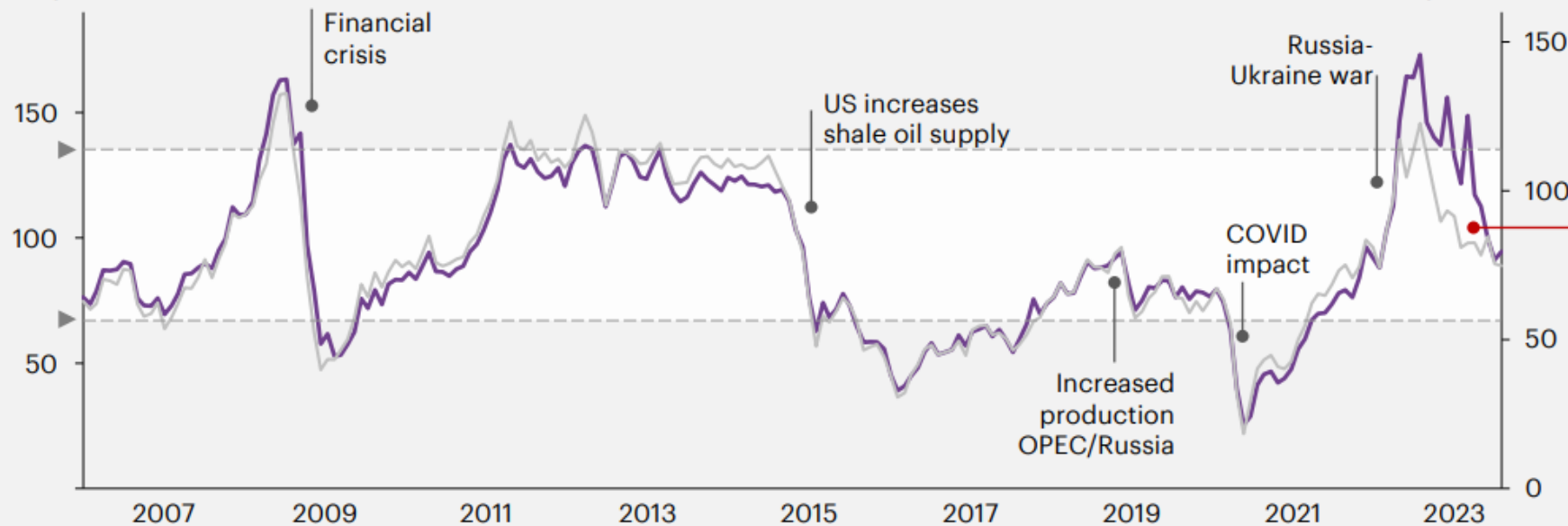


Yields are likely to decline further as a result of weak demand and increasing capacity

Global aviation fuel prices have normalized after a spike in 2022, averaging around \$90-100/barrel

Global oil & aviation fuel price development, 2006-2023YTD

Global aviation fuel price —
USD per barrel

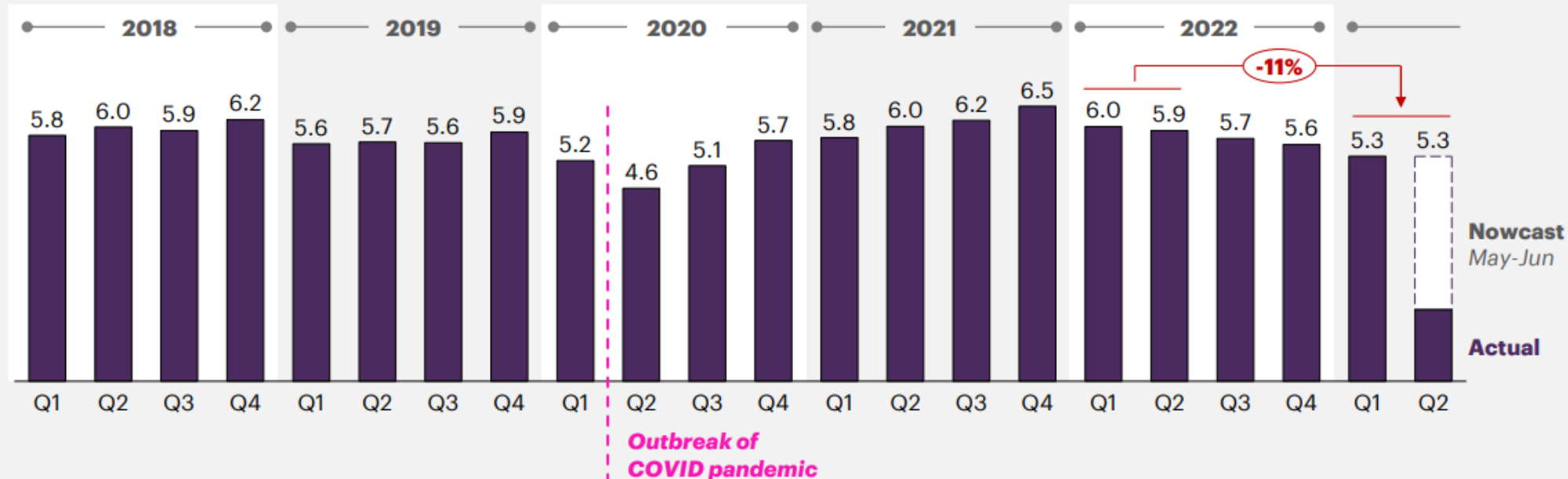


Lower cost of fuel has slightly eased pressure on cargo carriers, but is not nearly enough to compensate for lower yields

The first two quarters of 2023 are expected to register -11% air cargo demand growth versus 2022

Global air trade by quarter, 2018-2023

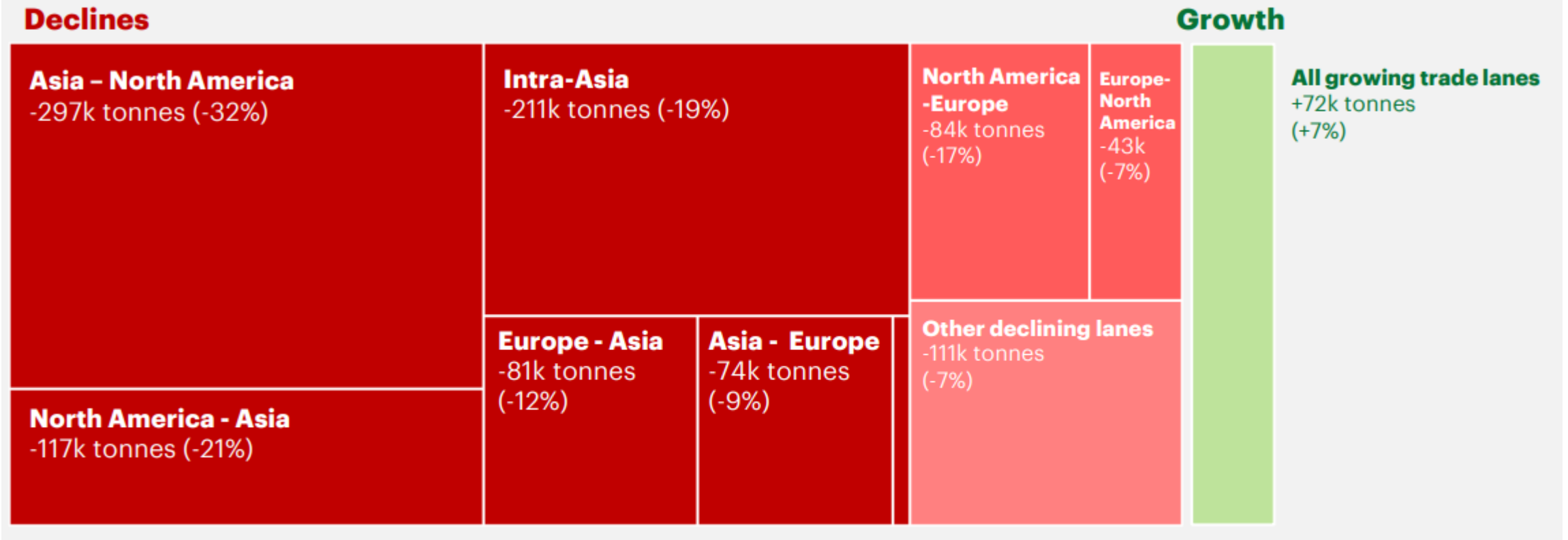
Million tonnes



Air trade demand in 2023H1 is ~6% below the (already weak) levels of 2019

The global air trade market lost ~1 million tonnes in the first four months of 2023, with 75% of that related to Asia

Global air trade growth by trade lane, Jan-Apr 2023 vs. 2022

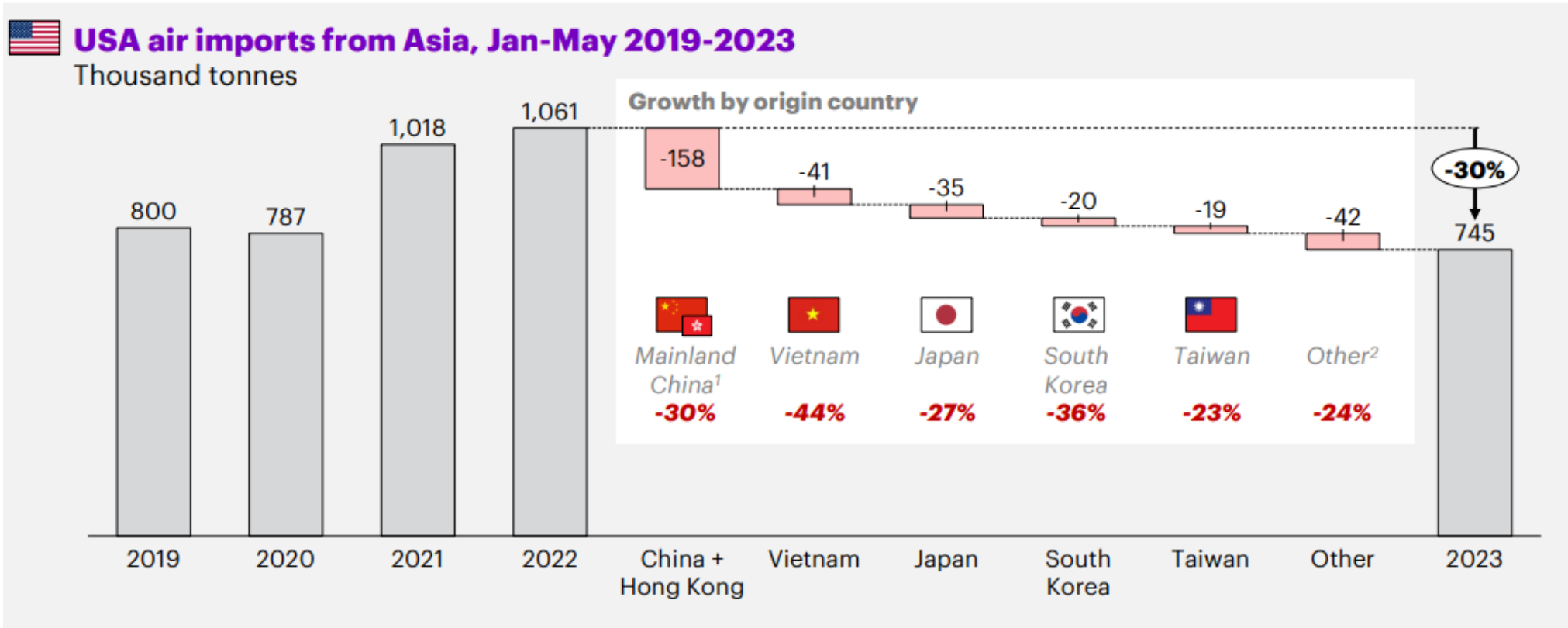


Transpacific air trade decreases account for 40% of total declines ..

.. with other APAC trade accounting for another 36% ..

.. of the total net decline of 952,000 tonnes in Jan-Apr

Transpacific USA air imports have decreased -30% in Jan-May 2023, compared to last year














Volumes on the Transpacific are currently back to below 2019 levels after a demand spike 2021/2022

Roughly 20% of global air trade demand loss can be attributed to COVID-related commodities

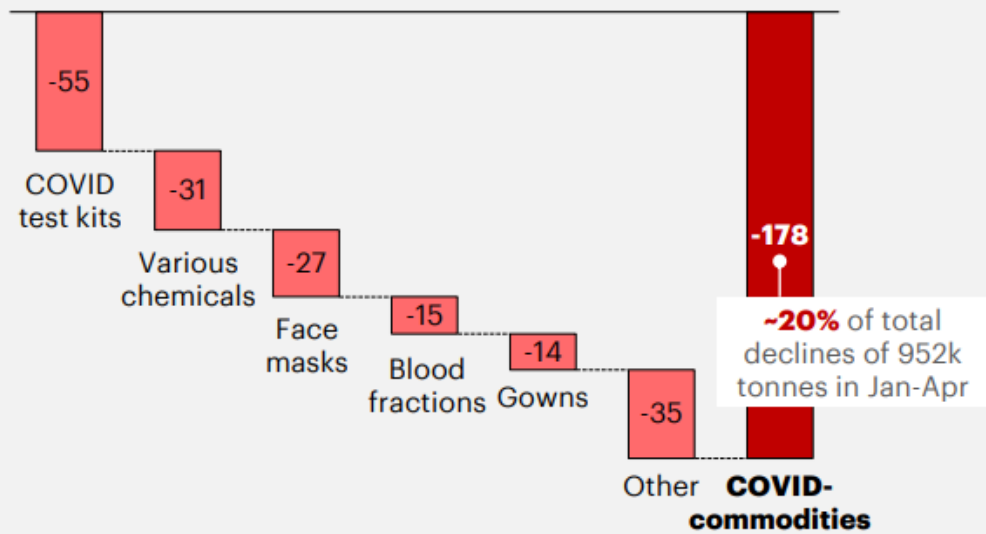
Global air trade growth by industry, Jan-Apr 2023

Growth (% , Thousand tonnes)

COVID-commodities ¹	Fashion goods	Raw materials
 -41% -178	 -18% -85	 -16% -224
High technology	Chemicals	Automotive
 -16% -214	 -15% -86	 -13% -49
Machinery parts	Consumer goods	Capital equipment
 -9% -124	 -4% -16	 -1% -5
Temperature control	Other ²	
 +2% +26	 +2% +3	

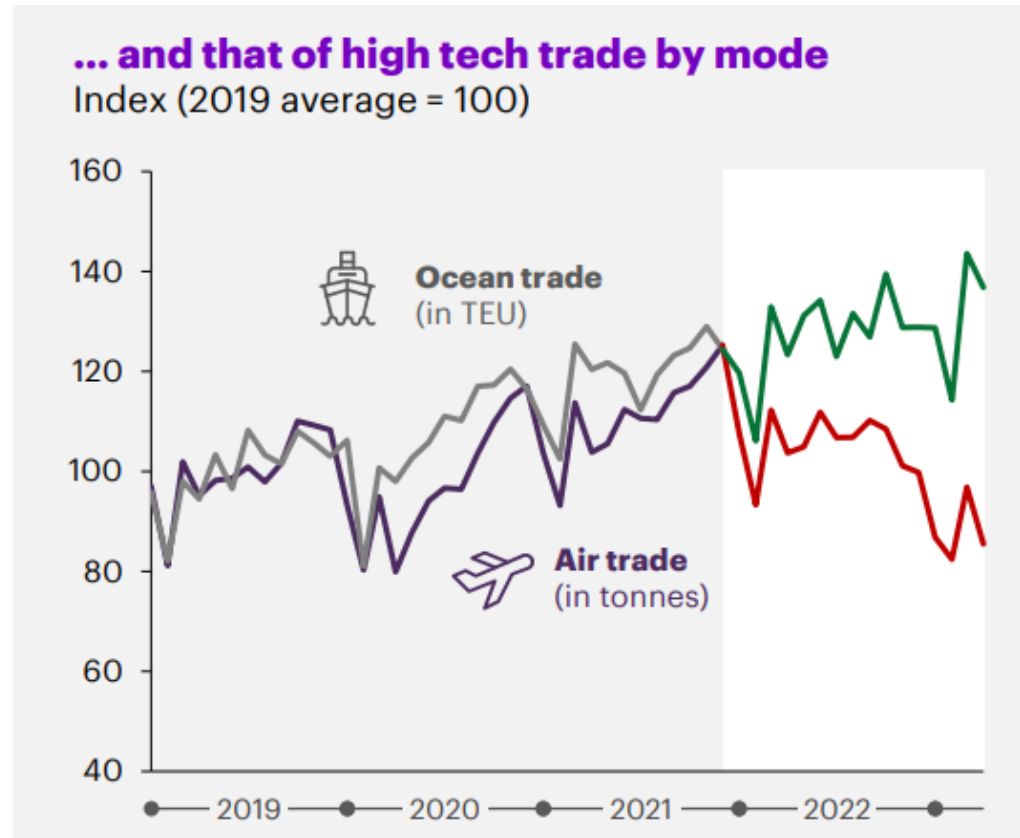
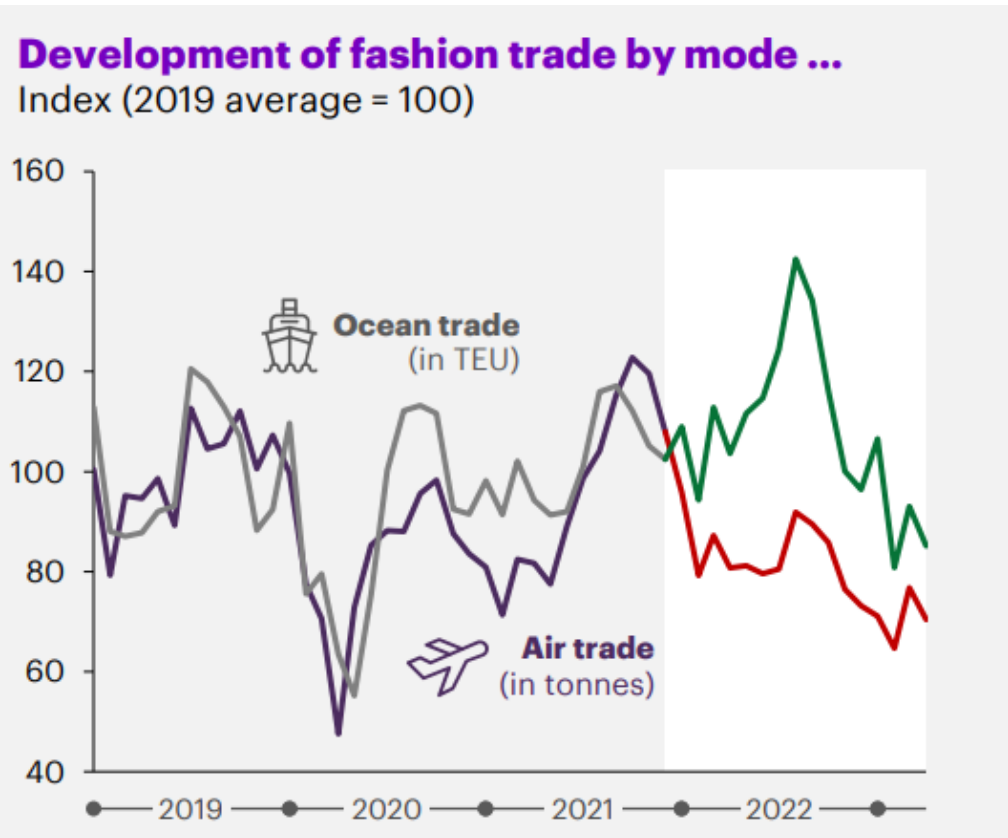
..and top losses of COVID-commodities

Growth (Thousand tonnes, %)



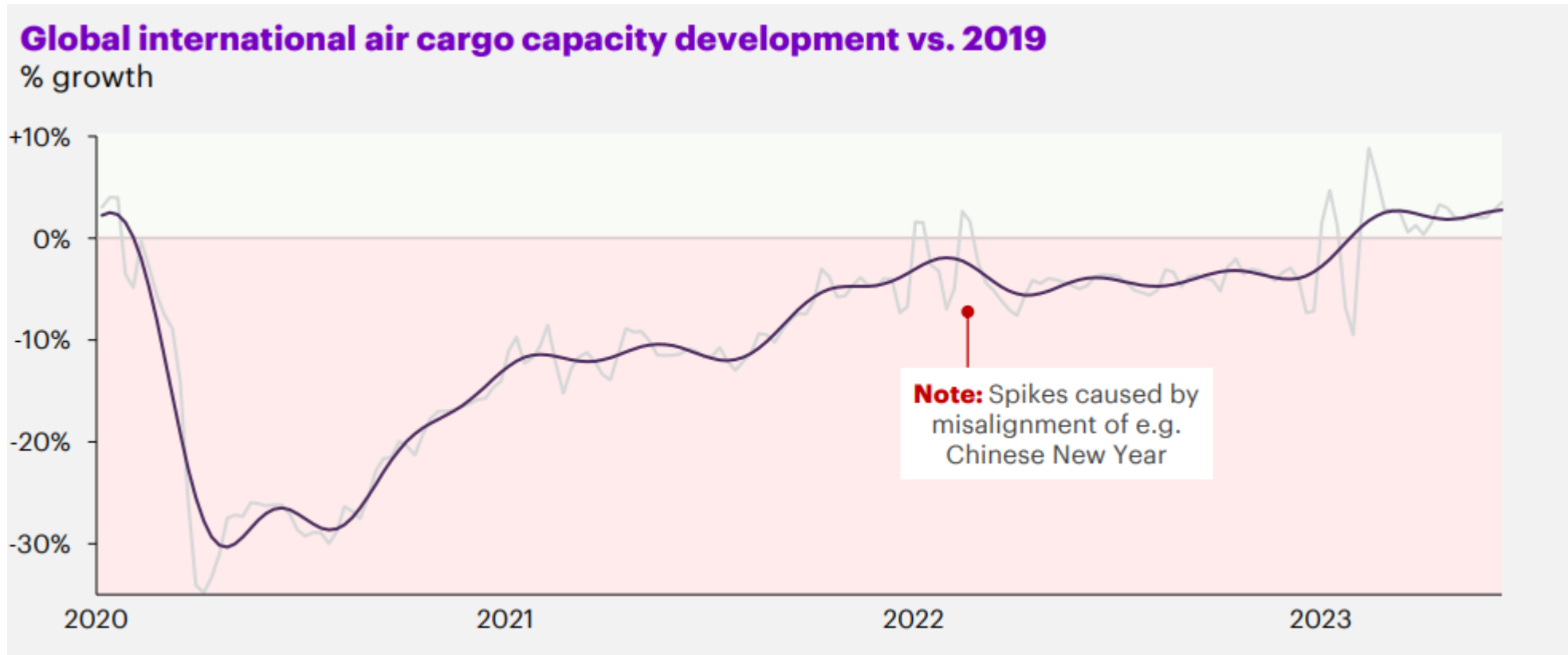
Unlike declines in e.g fashion or high tech, COVID-related commodities are a permanent loss to the air cargo industry

Resolution of ocean transport bottlenecks continues to negatively impact air cargo demand



Demand discrepancies between air and ocean transport are particularly visible for high tech and fashion

Air cargo capacity now permanently exceeds 2019 levels, after hovering around -5% throughout 2022

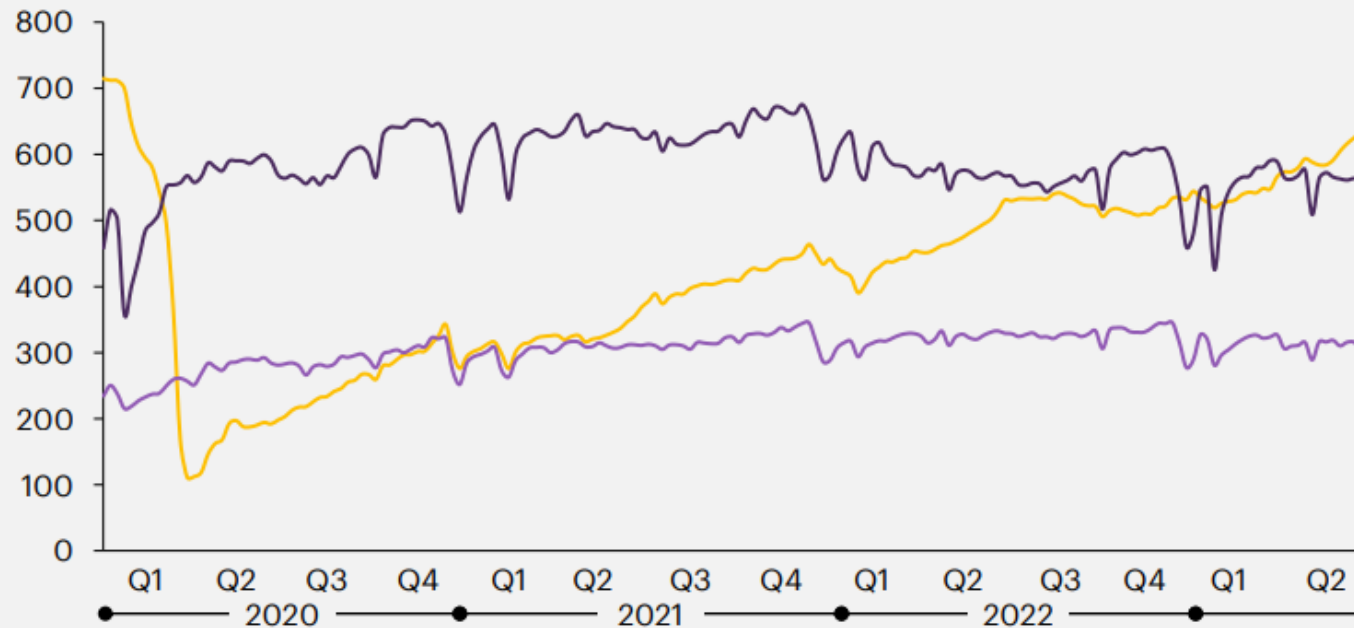


Total global international air cargo capacity is up +5% vs.. 2019 levels in recent weeks

With belly cargo capacity growing +25% vs. 2022, total air cargo capacity was up +2% vs. 2019 in Q2 2023

International air cargo capacity, Jan 2020 – June 2023

Thousand tonnes per week



Total capacity

Passenger belly (42%)

Widebody aircraft only

Airline freighters (37%)

Integrator freighters (21%)

Q2 2023 air cargo capacity

vs. 2019¹

vs. 2022²

+2%

+7%

-16%

+25%

+14%

-2%

+34%

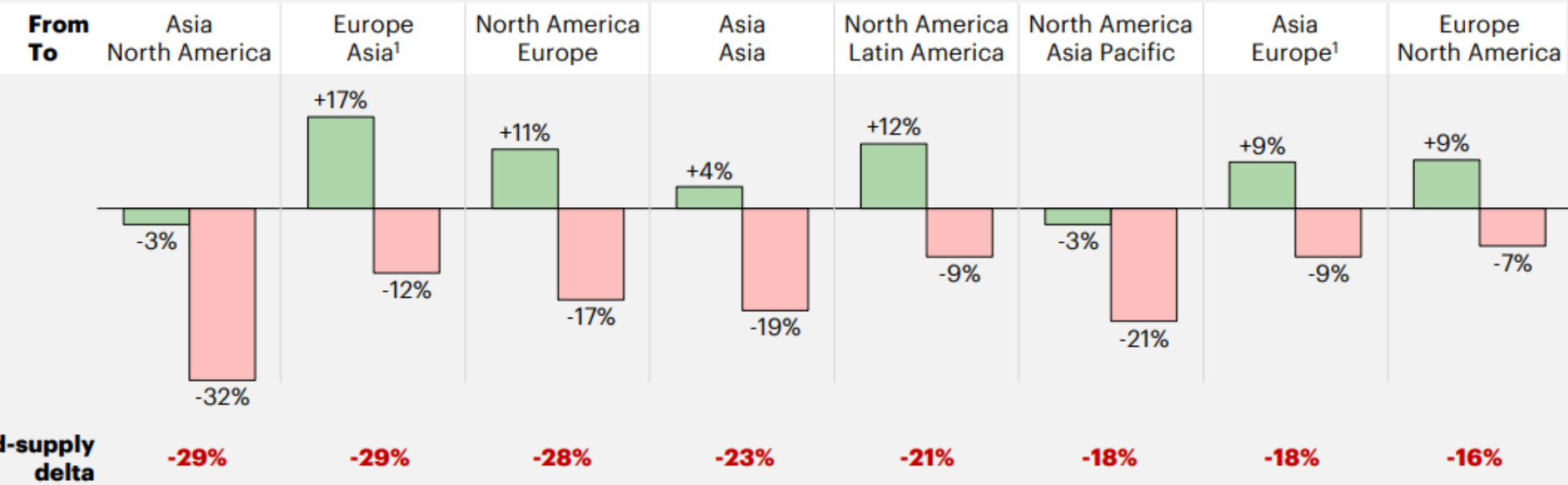
-4%

Despite weak demand, freighter capacity fell only by low single digits

Air cargo's demand-supply balance has slipped by up to 30 p.p. on the worst-hit trade lanes

Demand and supply growth by trade lane, Jan-Apr 2023 vs 2022
% (vs. 2022)

Capacity growth Demand growth

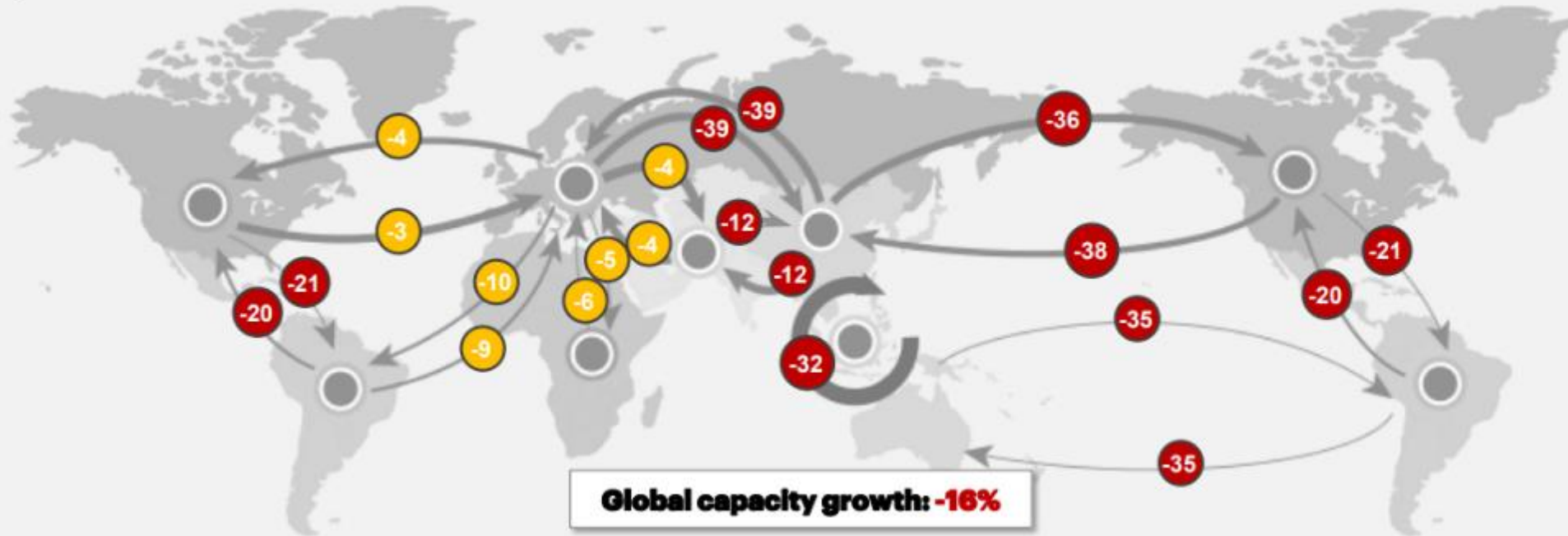


Demand-supply on the Transpacific has been distorted most, as a result of demand falling 20-30%

Source: Seabury

Global international passenger capacity is still down -16% vs.. 2019, with strong variations across trade lanes





International widebody belly air cargo capacity growth, Q2 2023 vs Q2 2019¹
% growth vs 2019



Transatlantic and Europe-Middle East belly capacity is close to full recovery

Air freight market overview

South Asia, demand is increasing short term and we start to see full planes

TRADE LANE	COMMENTS	RATES AND SPACE	
Exports from China / Hong Kong	<ul style="list-style-type: none">US market persists and again e-comm owns the spotlight. There is stable demand to Europe where we see recovery of volumes	➡	
South East Asia	<ul style="list-style-type: none">Space is open but stable both volume and prices, we expect some pick ups with product launches where e-commerce is also dominating the space	➡	
Exports from India/Bangladesh	<ul style="list-style-type: none">Demand is low and supply is increasingCapacity is recovering	⬇	
Export from Europe	<ul style="list-style-type: none">The market continues to soften in both directions with demand continuing to decline.A large amount of capacity will be added for the summer schedule by US and Europe airlines, and volumes and rates are both expected to rebound in Q3 with demand picking back up, driven by product launches	⬇	
Exports from NAM	<ul style="list-style-type: none">Export demand remains steady from all markets. US airports are running at a normal pace. Capacity is opening up further, especially into Europe	⬇	



Global Transport and Logistics