MARKET UPDATE

JUNE 2022

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OUTLOOK & HEADLINES

- **MARKET:** Shanghai have entered the second phase of their three stage plan, which will see work and production resume in China's largest commercial and industrial city.
- **MARKET:** Space, equipment, schedule reliability and high freight rates remain challenges in early 2022.
- **MARKET:** OPEC has warned that replacing Russian oil, should a full EU ban be implemented, would be next to impossible .
- **OCEAN:** The ongoing war in Ukraine continues to cause uncertainty and disruption across many areas of the supply chain.
- **AIR:** The air freight market is still largely driven by capacity issues and not so much by demand.
- **AIR:** Hong Kong Government is beginning to ease quarantine restrictions.

OUTLOOK & HEADLINES (CONTINUED)

- **OCEAN:** Despite fleet expansions and capacity increases, a normalisation in seafreight rates could be as far away as 2025.
- **AIR:** Sanctions imposed on Russian aircraft fleets are further squeezing air cargo capacity in an already constrained market.
- **OCEAN:** Container liner operators are continuing to mop up second-hand ships from non-operating owners.
- **AIR:** Freight carried across Indian airports increased 27% to over 3mn tonnes in FY ending March 2022. Target is 10mn tonnes by 2030.

SUBJECT QUICKLINKS

OCEAN FREIGHT

AIR FREIGHT

WAREHOUSE & DISTRIBUTION

EUROPEAN ROADFREIGHT

ENVIRONMENTAL COMPLIANCE

OCEAN FREIGHT MARKET OVERVIEW

The geopolitical landscape we are all operating in currently remains one of the most challenging environments most of us have encountered in our adult lifetimes.

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- It's often difficult to know where to begin. We are definitely living with 'cause and effect' at the moment. The war in Ukraine, Sri Lanka's economic woes, rising inflation, utilities, fuel, groceries and general cost of living increases coupled with rising interest rates, China's ongoing 'dynamic covid-zero lockdown strategies', and consumer spending in the West finally shifting from goods to services have us all, at times, scratching our heads. Turbulence breeds good, better, best behaviours though. Expect the unexpected and learn from it. As always, our focus remains on securing coverage, equipment and reliable capacity solutions. Be that liner, charter, and our own equipment. For time-sensitive goods that need to be moved quickly, our air freight service is another transport alternative that may be able to assist you. Please do reach out to your Uniserve representative if you feel we can assist your business further.
- Space, equipment, schedule reliability and high freight rates remain challenging in early 2022, and we suspect beyond as well. The good news is that there is respite in the equipment situation, where we expect that container supply will keep better pace with demand in 2022 due to increased new container production volumes. We continue to see a slightly softer market, with →

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OCEAN FREIGHT MARKET REGIONAL REVIEW & CARRIER OUTLOOK

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slight reductions in freight rates. However, peak season is just around the corner. With the ongoing lockdowns in Shanghai, and the anticipated backlog of orders and manufacturing, we are predicting a strong, challenging peak season that will start later than previous years. Carrier behaviour re-enforces our belief due to their ongoing aggressive blank sailing programme for June. Just looking at Ocean Alliance as one example, we can see that just for East Asia to UK / EU in June, the tonnage taken out equates to 75,130 TEUs across 4 Loops. Challenges exist around these blank sailings of course, but with our multi-carrier strategy in full swing, we are normally able to work around this. However, as we have seen in the past, blank sailings employed on westbound loops have a direct impact on getting empty equipment back to where it's needed most. It will remain to be seen if we see similar equipment issues down the road.

Freight rates are continuing to soften in the market

- The consolidation into 3 alliances of the main carriers mean that in order to stave off any major drop in spot rates, the carriers will push ahead with their capacity management tools.
- Whilst we hear that Shanghai is aiming to end the Covid lockdown that has heavily affected manufacturing output on June 1st, at the time of going to press, Tianjin in Northern China enters a two-week hard lockdown period. The logistics industry has been heavily affected by the lockdown's impact on the production of goods. Some factories have re-started operations in recent weeks but with reduced output due to the requirement that they

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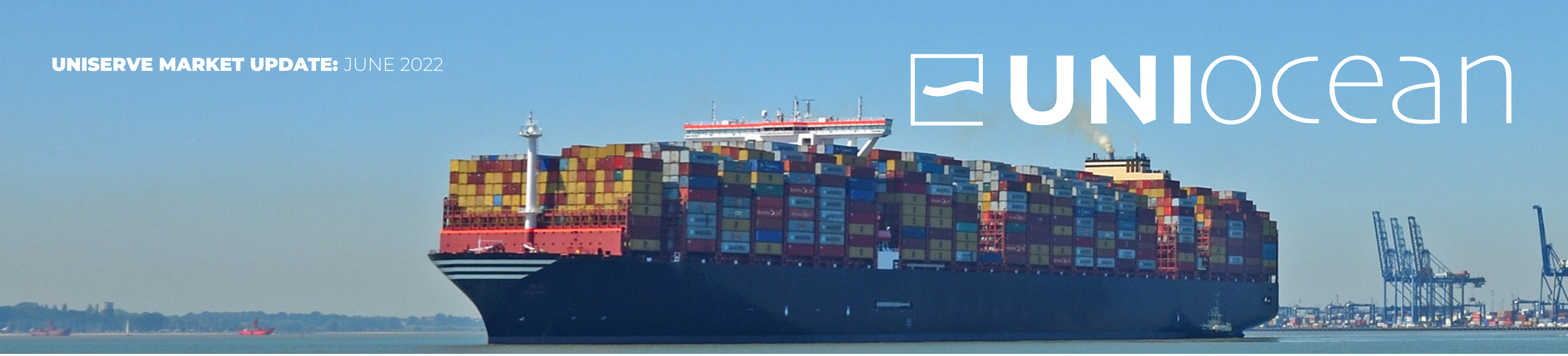

OCEAN FREIGHT MARKET REGIONAL REVIEW & CARRIER OUTLOOK

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operate under a closed-loop system. Media reports look positive, but our research leads us to conclude that Shanghai's emergence from lockdown will be a long and challenging period.

- Road haulage operations in China are gradually recovering: Trucking capacity is continuously improving with the Ministry of Transport of the People's Republic of China's various actions. Highways are all open for trucking arrangements. Efficiency might be impacted due to local regulations to screen, monitor, and approve operations.
- We continue to predict strong export demand from Asia for the rest of the year particularly into the US and Europe. In order to mitigate the risk of liner equipment shortages as much as we possibly can, our International Sea Freight Division, UniOcean Lines has purchased over 24,000 branded new containers (HQ's and 20ft GP's) into service from China to Europe and the U.K. We also have introduced a limited supply of brand new 45ft super cube containers. This helps us support all existing carrier contracts. Whilst some carriers close the door on the 3PL community, we continue to push ahead with our continued multi-carrier strategy, seeing new carriers stand shoulder to shoulder with our long-term carrier partners.

UniOcean Lines has purchased over 24,000 branded new containers into service from China to Europe and the U.K

- Updating UK exports, even in view of the strong pound, we are seeing a positive upwards trend on bookings on all major trade lanes. Space, equipment and pricing all seem to be stable, and access to haulage services has become easier. Some of

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this is probably mirroring the slightly softer UK import markets. For USA, Latin America, Mediterranean, Middle East, Far East and Indian Sub-Continent we don't predict any major headaches for June. Singapore port congestion remains an area of slight concern, however, the situation is improving day by day. As always, there remains a little room for improvement.

- Shanghai, which has been shut down for weeks due to Covid-19, has just presented plans to return to more normal conditions and thus the end of a lockdown that has had very clear consequences for container logistics, among other things. According to Xeneta chief analyst Peter Sand, the outlook to a more normal Shanghai, in terms of the container industry, might be a significantly farther-off prospect.
- The container market upswing has entailed significantly more boxes on the market, and according to Sea-Intelligence, there will possibly be far too many once the market returns to normal. In the foreseeable future, will the industry be left with 13 million containers that it will not actually need? There are signs pointing that way, according to calculations by Sea-Intelligence.
- Are we in for another challenging peak season this year? You bet! An estimated 260,000 teu of Shanghai's unshipped cargo is set to swamp the market this summer, making the peak season "even more chaotic" than last year. According to new analysis from Drewry, China lockdowns have stored up problems for a global container distribution system →

Shanghai, presented plans to return to more normal conditions after their recent Covid-19 outbreak

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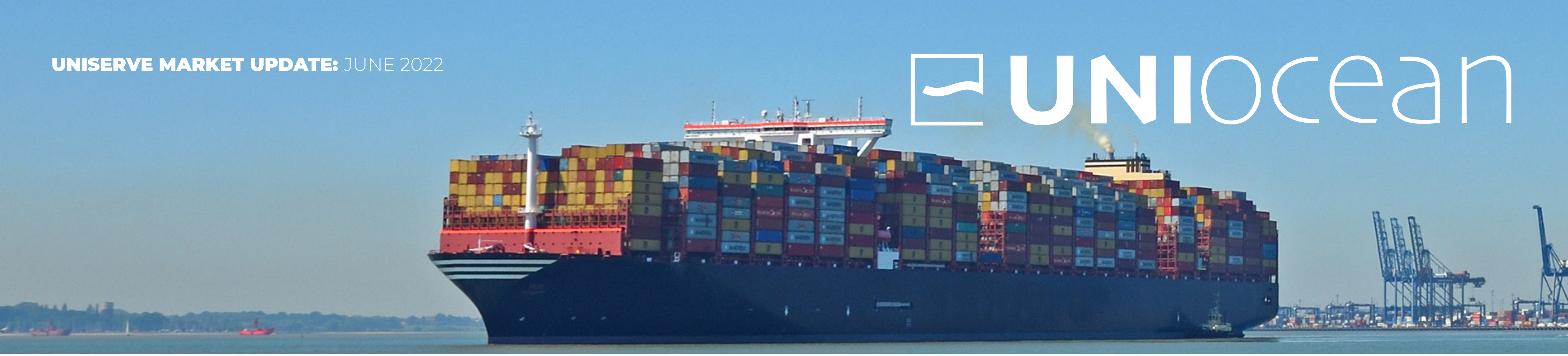

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"already severely stressed and facing reduced capacity due to pervasive congestion".

- Overall spot prices on container freight from Shanghai to the rest of the world increased in May for the first time after a 17-week continuous decline. The Shanghai Containerised Freight Index (SCFI), which measures spot prices on container freight from the major Chinese city to a range of destinations across the world, increased by 0.4%.
- The world's largest container carrier, MSC, has ordered a new amount of ships that the order book itself is equivalent to the size of Hapag-Lloyd's fleet, writes Sea-Intelligence.

India

- ISC Exports stabilising with the exception of trans-shipments in Colombo as Sri Lanka continues to face social and economic pressures. Colombo port is operational, but delays and increased roll-over risk should be expected.
- Temporary softening of pricing is being experienced, but this is not expected to last as major Chinese ports open which will lead to an uptick in volume being sent to the USA mainly.
- Uncertainties on what demand will look like as issues persists at a macro level, such as the Ukraine conflict, high inflation across Europe, and low consumer confidence.
- Carriers will look at strategies like blank sailings to avoid underutilisation which could lead to increased rates on the horizon. →

Uncertainties on what demand will look like as issues persist at macro level

OCEAN FREIGHT MARKET CARRIER OUTLOOK

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- Overall space is starting to fill up again. Congestion in European ports is causing sailings to return to Asia late, resulting in additional delays and blank sailings.
- Rates will remain at elevated levels for June, 2022 compared to pre-covid levels.
- Chittagong seaport faces acute shipping jam with vessels waiting up to 8 days post Eid-ul-fitr holiday.
- Continued disruption at the Colombo port due the economic crisis brewing in Sri Lanka has opened opportunities for ports in southern India. In the past two months, the International Container Trans-shipment Terminal (ICTT) in Kochi, Kamarajar Port Limited in Ennore and VOC Port in Thoothukudi—all have registered an increase in their cargo traffic. The trend is likely to continue for the next couple of months, or until Sri Lanka drags itself out of the financial mess it sees itself in. The trans-shipment container volume witnessed a huge jump in the past two months; the ICTT handled 13,609 TEUs and 15,324 TEUs in March and April 2022 respectively, as against 8,394 TEUs and 4,415 TEUs last year.
- Pakistan- Carrier schedule reliability is still disturbed with CMA/ONE/Hapag only having 2-3 vessels per month; MSC is still able to offer solutions but the number of vessels calling per month is very low.

MSC has surpassed Maersk as the world's biggest container line

AIR FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

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The air freight market is still largely driven by capacity issues and not so much by demand.

May volumes in the Far East were down in the commercial sector, which are reflective of reduced demand from the west, with consumer spending down amongst the fear of an increased cost of living and high inflation, along with China's ongoing 'dynamic zero-Covid' city-wide lockdowns. Fresh Covid-19 outbreaks across the region continue to blight the supply chain. Omicron infiltrated Hong Kong's (strong) defences, however after a period of about one month, cases are now falling. Whilst the Hong Kong Government are easing quarantine restrictions, we are still seeing most carriers delaying the re-commencement of 'business as usual' when it comes to Hong Kong. The return of passenger flights with bellyhold capacity operations for now, remains sluggish. Cross-border trucking capacity is still around 20% of the original capacity, but we are hearing positive rumours that this situation could change soon. Watch this space. With news coming from Shanghai that lockdown restrictions have already started to ease, we are anticipating a hard rebound for back orders. The inevitable strains across sea freight modes, coupled with the black-listing of rail freight services transiting Russia, lead us to conclude that we should anticipate a strong demand for air freight solutions in the coming months leading up to the more traditional peak season.

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AIR FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

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- A number of factors will influence this of course, ranging from air line capacity, additional space and manpower at origin ground handling facilities, a 100% return to trucking and drivers, suppliers being free to open, obtaining access to a strong flow of raw materials and a stable power-grid, and having the manpower needed to fulfil their order books.
- As always, our goal remains 100% committed to offering our clients fluid, multiple solutions and options when looking towards the air freight mode of transport. We continue to manage multiples, craft new carrier partnerships, and our multi-carrier strategy sees new offers pairing up with our long-term solutions.
- Air cargo capacity out of Shanghai has been reduced to just a third of its level last year in response to the city wide lockdowns that have caused production to grind to a halt. Most of the reduction has come from non-Asia Pacific-based airlines which have reduced their capacity over that period by 75.7% to 4,100 tonnes. Asia Pacific-based airlines have reduced their capacity by 53.4% to 11,700 tonnes.
- Airfreight rates on major east-west trades began to creep back up in April following the previous month's decline, as demand began to rise in line with seasonal trends. The month-on-month increase is in line with seasonal trends at this time of year as volumes begin to creep back up following Christmas and New Year holidays. The year-on-year increase comes as the market continues to be buffeted by disruption as the Ukraine war has affected Asia-Europe flights and Covid lockdowns and →

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travel restrictions in Shanghai and Hong Kong have also affected operations.

- IAG Cargo has reported revenues of €432m for the first quarter of 2022; an increase of 23.4% on the same time in 2021. This positive first quarter for the cargo division of IAG (International Airlines Group) for the period from January 1 to March 31 2022 follows a record year in 2021.
- EVA Air Cargo will purchase a Boeing 777 freighter to add to its existing fleet of seven B777Fs. The new build freighter is expected to be delivered by the end of 2023. In addition to its eight Boeing 777 freighters, EVA flies 34 B777-300ERs. In March, EVA contracted Israel Aerospace Industry Corporation (IAI) to convert three of its Boeing 777-300ER passenger jets into cargo aircraft. By 2025, the carrier plans to have grown its cargo fleet to 12 freighters.
- Cathay Pacific's cargo throughput increased by double-digit figures in April as the airline plans to add more cargo flights following the Hong Kong government's easing of crew quarantine rules. The airline carried 92,361 tonnes of cargo last month, an increase of 26.3% compared to April 2021, but a 43.6% decrease compared with the same period in 2019. Chief customer and commercial officer Ronald Lam said: "Regarding cargo, our flight capacity continued to recover in April as we maximised regional frequencies and resumed freighter services to Frankfurt – the first freighter flights we have operated to Europe since the end of December last year. Nevertheless, our cargo flight capacity remained about 29% of our pre-pandemic capacity.
- The current easing of the airfreight market may only be a temporary blip and rates could rise further once lockdowns in China are lifted, according to Bruce Chan, senior analyst

> **The current easing of the airfreight market may only be temporary blip**

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at investment bank Stifel. In the latest Baltic Exchange market round-up, Chan said that despite a year on year drop in demand over recent months, supply chains remain congested and there could be a surge in production when factories in China re-open following Covid curfews.

- Shanghai aims to end lockdown in June. Statistics from Accenture's Seabury Consulting show that in the first two weeks of April airlines reduced cargo capacity from Shanghai Pudong (PVG) show that in the first two weeks of April, cargo capacity is 66.4% down on the same period in 2021. Production is expected to ramp up quickly once restrictions are lifted, which should result in increased air cargo demand as companies look to quickly move goods to end market.
- Airport Authority Hong Kong (AAHK) reported a year-on-year drop in cargo throughput for April as a result of reduced capacity. Cargo throughput and flight movements recorded 375,000 tonnes and 10,320, respectively, representing decreases of 2.8% and 0.6% compared to the same month in 2021. Despite the AAHK figures, Hong Kong International Airport was assessed as the busiest cargo airport in the world in 2021.
- China's strict authoritarian regime is creating risks for technology giant Apple, which is considering boosting production of its products outside the country, reports the Wall Street Journal. According to the WSJ, 90% of Apple's products are made in China, but the country's strict lockdowns during the Covid-19 crisis and the government's current cold relations with Washington are proving to be problematic. The current restrictions in China and the bottlenecks they entail could slow Apple's

Shanghai aims to end thier lockdown in June

AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW

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sales by USD 8bn in the first quarter alone.

- Foreign and domestic businesses have warned that prolonged lockdowns could put China's economic growth at risk and deal a huge blow to the automobile and tech industries. Chinese authorities have taken notice. Vice-premier Liu He said this month the country would work to stabilise industrial development and supply chains, and instructed local governments not to block transportation for key logistics. Local governments in Shanghai and Suzhou have also put hundreds of key electronics, automotive and medical suppliers on a so-called white list and said they will be able to gradually resume some manufacturing and logistics activities. But China is officially committed to a zero-Covid policy, and many suppliers with production facilities in the region fear it will take months for normal operations to resume.

India

- Uncertainty remains as to what rates will look like as China has opened last week so the impact will be seen by mid-June, 2022. Some warn that a sharp spike in demand from China will put pressure on onward hubs once again.
- Freight carried across Indian airports increased 27% to over 3mn tonnes in FY ending March 2022. Target is 10mn tonnes by 2030.
- Emirates announced the addition of a new Boeing 777F freighter to its fleet and expected addition of another in June this year at the Air Cargo India Event in Mumbai.
- British Airways is adding capacity from India-
- Ex-DEL, currently BA is operating 7 flights/week (per day flight) and plan to increase the same to 10 flight/week effective July 2022.

Businesses have warned that prolonged lockdowns could put China's economic growth at risk

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- Ex-BOM, they are operating double daily flights and plan to increase the same to triple daily in winter schedule which will be effective Nov 2022.
- Ex-MAA, currently they are operating 4 flights per week (day 1,3,5 & 6) and plan to increase the same to 5 flight/week effective July 2022.

BANGLADESH

- Purchasing power of Western consumers is declining due to accelerating inflation, the clothing items are not on their priority list so the local suppliers may face the same work order cancellations and deferral payments that they witnessed during the peak of Covid-19.
- Air Freight demand from BD is low currently & flight capacity has also improved.
- Slight increase in volume is expected from Mid-June, 2022 since EID holidays will begin from 1st week of July, 2022.

PAKISTAN

- Market has been slow post EID but Mango exports has started from last week of May, 2022 which will impact rates & space.
- VS has reduced its frequency to half with weekly 2 flights for MAN and 3 flights to LHR; previously there were 5 flights for MAN & 4 flights for LHR weekly.
- Passenger Traffic is also currently low from PK.

SRI-LANKA

- Space is available ex CMB & no significant rate increase in CMB.
- Sri Lanka's extended power cuts since February 22 has dampened the growth of the industry as the island nation is still depending on Indian credit lines to import fuel for power generation due to severe dollar shortage.
- Sri Lankan export orders are being cancelled due to fears of delivery as a result of the ongoing crisis. Volume drop of about 30-40% is being reported by the factories compared to previous years.

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WAREHOUSING & DISTRIBUTION UPDATE

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Logistics - Sustainability

- In a move towards sustainability and reduction of CO_2 emissions, the logistics industry continues to review its environmental impact and consider how sites are powered in the future.
- Logistics continues to be a growth sector, with demand set to rise sharply in the next 30 years as e-commerce and same day delivery demand continues.
- New sustainable transport modes such as electric bicycles are considered for urban deliveries with electric LGV and HGV's slowly picking up pace. Benefits include a reduction in CO_2 emissions, air and noise pollution with the added cost efficiencies they deliver.
- Warehouse buildings now incorporate solar panels, generating around half of their energy requirements for a year, sending any additional supply back into the National Grid.

Warehousing - Energy Crisis

- The energy crisis is not only impacting households, but latest government figures also show 56% of transport, logistics and storage companies faced higher costs in March. The Office for National Statistics (ONS) Business Insights report shows transport and storage companies were forced to pass on higher costs to their customers in April in light of the energy crisis.
- With many logistics companies operating with slim margins, the sector has little protection against increases in fuel and equipment costs.

Warehousing Space

- UK companies continue to search for warehouse space closer to home in a bid to protect themselves from supply chain disruptions, such as those caused by the Ukraine war or the blockage of the Suez Canal. With low availability of warehousing space in the UK, rents are continuing to be driven up.
- In the latest research released by property consultant Colliers, rents in March increased 1.9%. Developers have delivered approx. 18 million ft2 in the last 12 months, however April availability is down 22.4% year on year at only 19.7 million ft2.
- In addition, estate agent CBRE state that vacancy rates within UK warehouses sit at around 1.5%. This acutely low level is contributed to by the time taken for planning and land/site availability.

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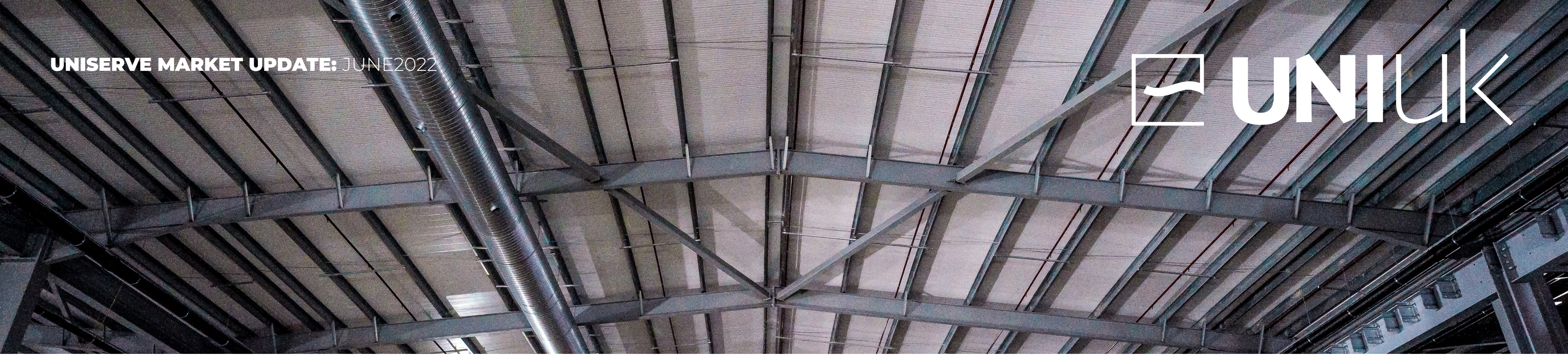

WAREHOUSING & DISTRIBUTION UPDATE

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- Despite developers delivering new space, demand far outstrips supply and the on-going shift towards e-commerce means the pressure for space availability continues and rent rises are set to stay.

Transport

- Having seen and delivered very high volumes through Q1 of 2022, we are now experiencing a general volume reduction across the market through Q2, with fewer bookings and the bookings we do receive have a higher proportion of cancellations and amendments. This is due to a number of factors, one of the most high profile being the lockdown issues in China. However, the UK itself is slowly edging towards a recession, which is evident in the number of containers coming in and customers not requiring deliveries, instead leaving them on quay and / or moving to storage areas until they are ready to accept them into their warehouses, others are stock piling in their warehouses.
- The rising cost of living has crushed consumer confidence and put the brakes on consumer spending.

UK companies continue to search for warehouse space closer to home to protect themselves from the ongoing supply chain disruptions

- Global food prices have risen sharply, pushed up by the war in Ukraine and an increase in the National Insurance contributions, together with rising fuel prices is causing household bills to significantly rise (gas and electric price caps are due to increase again in October).
- All these issues are causing a knock-on effect to container deliveries and end user receipt of their cargo.
- This reduction in volume is not just in the container transport market, but across all sectors of the road haulage industry, a fact backed up by the large number of enquiries that we are receiving from smaller hauliers

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WAREHOUSING & DISTRIBUTION UPDATE

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looking for help to keep their trucks working.

- Rail companies are currently offering space on the 'spot' market daily, usually space the carriers are unable to fill, this does give us the opportunity of offering 'spot' rates for rail movements on request.
- We are still investigating the potential to start a rail service from The Port of Tilbury to the North West. Negotiations currently are ongoing with 2 rail providers, and we hope to soon be able to offer this service to our customers.
- Fuel (Diesel) prices continue to rise to levels never seen before in the industry, forcing many hauliers (including ourselves) to review their customer fuel surcharges weekly, whereas in the past this would have been monthly and in some cases even quarterly.
- The market for new truck purchases is still very uncertain, with manufacturers not able to accept new orders due to the uncertainty of components availability to make up complete vehicles. The volatile situation in Ukraine has meant factories shutting down with no immediate alternative suppliers available. The rental market is still very weak with most haulage companies keeping vehicles and extending leases rather than returning them on the normal termination date. This is because of the situation with placing orders for new vehicles remaining so uncertain.
- There has been a marked increase in both raw products and electrical components in the trailer sector, which is leading to difficulties in getting trailers repaired & serviced. We are also seeing component suppliers having to increase their prices dramatically because of these unprecedented times we all find ourselves. We are seeing sharp parts price increases across both vehicle & trailer components.
- On a positive note, James Kemball continues to receive new customer enquiries and tenders remain strong and plentiful, keeping our teams busy converting these opportunities into reality, so that we can increase our customer base across all container ports to maximise our vehicle utilisation.

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EUROPEAN FREIGHT TRANSPORT MARKET UPDATE

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- The European Green Deal has called for the European Commission to increase volumes and capacity of the TEN-T (Trans-European Transport Network). Currently having 75% of inland freight carried by road, the body has called for a heavy shift to rail and inland waterways – with only the final miles being transported via road. However, by 2030, they have noted that transhipment technology will not be sufficient enough to meet the required demands of current planned network capacity expansion.
- Customers will need to be aware of this when attempting to shift from road to intermodal or short-sea solutions, as it has already been noted that in some markets capacity is not attainable. This could result in longer dwell and transit times for your consignments.
- Unaccompanied services throughout Italy are becoming increasingly overbooked, due to increased demand coming into the summer months. Similarly, our Spanish market has also seen heavy price increases this month from short-sea vessel lines, resulting from the balance of supply and demand leaning towards the latter – with a tussle between providers for vessel space.
- In France, however, it seems that intermodal and short-sea capacity are becoming more widely available, while some transhipment providers have even begun to alleviate their surcharges arising from the fuel costs.
- We advise customers to be aware of new customs charges being implemented by certain ports. Last month, we warned measures may be implemented after the announcement from the government surrounding the postponement of the phased plant health controls. Ports such as Teesport, Tilbury and Southampton have begun issuing new custom clearance and examination charges, which seem to be indicative of potential cost recoupment.
- As we enter the warmer periods of the year, it is important that customers moving sensitive goods provide details and discuss temperature-controlled options with their CRM manager, to ensure consignments are moved compliantly.

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COMPLY DIRECT OVERVIEW

Positively, the interest from companies wanting to assess their scope 3 emissions is soaring

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Scope 3 emissions assessments

- largely as a result of the various demands and pressures from suppliers and customers up and down the supply chain.
- Whilst scope 1 and 2 emissions largely capture emissions from activities which are owned or controlled by an organisation, such as fuels used in company cars and purchased electricity, scope 3 emissions are a consequence of an organisations activities, but occur at sources which they do not own or control.
- There are 15 categories of scope 3 emissions, ranging from upstream categories such as purchased goods and employee commuting, to downstream categories such as outsourced transportation and distribution, and the use of sold products.
- Scope 3 emissions are actually the most difficult for organisations to capture and assess due to the significant amount of data required and the difficulty with accessibility. However, they are often the largest source of emissions for companies, making them increasingly important to account for in order to ensure companies fully understand

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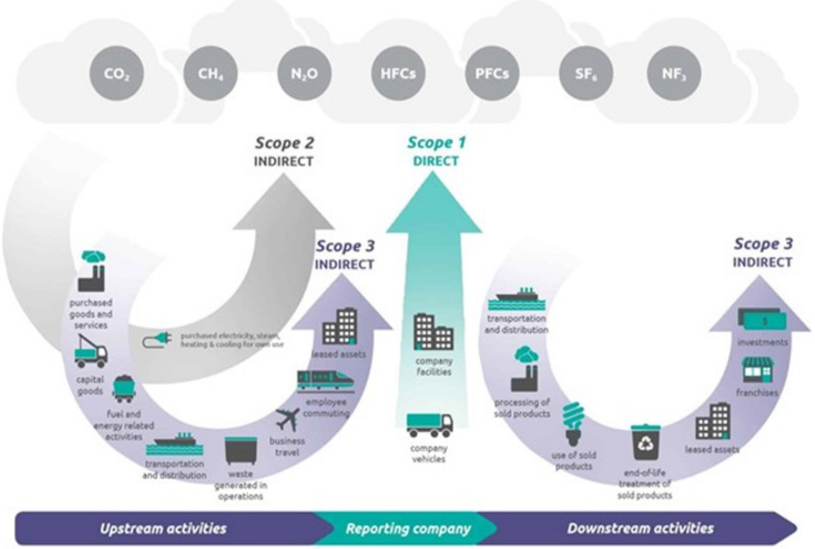
their value chain emissions and the impact.

- It is also worth noting that in order for companies to set science-based targets, they need to commit to measuring and reducing their scope 3 emissions, making it an integral part of any businesses journey to net zero and one that should not be overlooked. In addition to this, if a company's scope 3 emissions account for 40% of their overall emissions, they must also set a scope 3 reduction target.
- It is advised to carry out a scope 3 assessment in conjunction with scopes 1 & 2, providing businesses with a full carbon footprint calculation, facilitating a step forward on a company's net zero journey and enabling them to set science-based targets.

Should you wish to carry out such an assessment, get in touch with Comply Direct's team on marketing@complydirect.com or call 01756 794 951 and they will be delighted to create a bespoke project proposal.



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