OCEAN MARKET UPDATE

SEPTEMBER 2022

CURRENT STATE

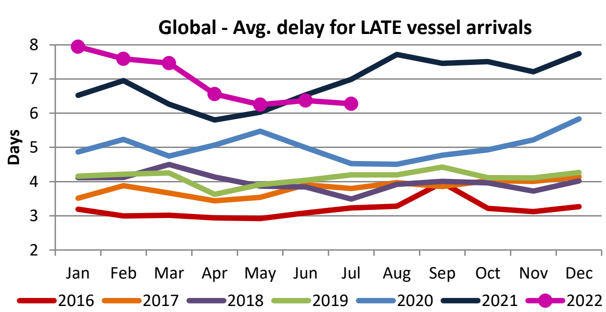
- Global container shipping turned a corner in the second quarter of 2022 according to the findings of the latest Quarterly Review of the market produced by MDS Transmodal and Global Shippers Forum (GSF).
- A tentative agreement has been reached between key unions and the National Carriers Conference Committee representing the U.S. railroads, avoiding a work stoppage that would have begun on September 16. The U.S. Class One railroad has been negotiating with the Railroad Labor Unions since January 2020. The U.S. operations of the Class I railroads are working to resume operations "immediately" now that a deal has been reached to avoid a strike by union members. If a nationwide rail strike had occurred, it would have been the first in more than 30 years at the cost of USD 2 billion in lost economic output every day.
- Typhoon Muifa has prompted the ports of Shanghai and Ningbo to close for the second time in 10 days. The typhoon barreled towards Ningbo and Zhoushan, which share the ranking of the second-busiest port in China. Although weaker than Typhoon Hinnamor – which saw Shanghai, Ningbo, and Busan all suspend operations last week.
- Shanghai Containerized Freight Index (SCFI) dropped by 18.8% in the last two weeks causing Shanghai - USWC spot freight rates to fall 32.1%, which significantly increased the pressure on spot rates in early September. The largest spot freight rate decreases on the East-West trades were recorded on the corridor from Shanghai to California. Last year, it attracted a considerable amount of extra slot capacity and many newcomers as it became the most lucrative trade route in terms of revenue. Spot freight rates from the Far East to the US East Coast have also gradually declined since the beginning of the year but did not witness the same sharp drop over the past few weeks. The main reason for the drop in spot freight rates is the weak cargo demand. The phenomenal rise in energy costs and high inflation will further impact consumer spending. The weaker cargo demand between Asia and North America is less felt on the Far East - USEC services as port congestion in the United States takes its toll, keeping many more vessels busy than needed compared to pro forma schedules.

Comparative decline in spot freight rates ex China: 9 September vs 26 August (SCFI)

Route	% change	Route	% change
Shanghai - Durban	-4.9%	Shanghai - Med	-16.7%
Shanghai - Lagos	-8.0%	Shanghai - Santos	-18.6%
Shanghai - Melbourne	-11.0%	**SCFI**	**-18.8%**
Shanghai - USEC	-11.7%	Shanghai - Dubai	-28.0%
Shanghai - N Eur	-12.7%	Shanghai - USWC	-32.1%

MARKET FORECAST

- Schedule reliability keeps trending upwards. July's 2022 schedule reliability reached 40.5%, which is a 5% increase compared with July 2021.
- The average delay for LATE vessel arrivals has been dropping sharply for the past few months. In July 2022, the average delay dropped by 0.09% compared to June 2022. Moreover, this is the second time since April 2019 that the average delay has improved Y/Y, dropping 0.71% compared to July 2021.
- While supply chain congestions are still on across various ports in Europe and the US, the waiting time for ships has decreased considerably since January 2022, coinciding with high freight rates. With better schedule reliability and vessel utilization being normalized, there is a high chance of the support levels being tested on the downside till October before the holiday season demands are seen as the first indicator of reprieve. However, companies have been planning for the same over the past few weeks, with warehouse spaces in the US being crunched. Thus, the movement of spot rates seems interesting.



- Container shipping is heading for overcapacity despite 10% of the available fleet capacity in 2023 being absorbed by environmental regulations set to be implemented from Jan. 1, according to the latest market outlook by shipping association BIMCO. On the supply side, the shipping association said of the 7 million TEU capacity on order — which was 27.6% of the existing fleet — about 5 million TEU will be delivered through 2023 and 2024. That will translate into capacity increasing by 8% in 2023, easing congestion at key port destinations and adding a further 7-8% of held-up capacity. In early summer 2022, capacity reached a point where vessel utilization dropped below the threshold, indicating a lack of capacity. BIMCO expects volume growth to increase by 3-4% in 2023 over an expected decline of 1-2% this year.
- The global bunker market is still in a state of high volatility with no sustainable trend, which entails irregular fluctuations of bunker indices about the present levels.
- A potential strike at Port of Felixstowe and Port of Liverpool is scheduled for later this month. Union Unite announced the Port of Felixstowe strike is planned to begin on September 27 and end on October 5. The Port of Liverpool strike is planned to begin on September 19 and last through October 3. The strikes are expected to cause operational delays with potential effects on other ports in Europe. A previous eight-day strike action last month brought the port to a standstill. Felixstowe port handles about four million containers annually, approximately 48% of the country's containerized volumes. It is a regular port of call on the mainline Asia-Europe services.
- The Suez Canal Authority (SCA) will increase the transit tolls for all types of vessels by 15% during the next year and by 10% for dry bulk ships and cruise ships as of January 2023.