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MARKET UPDATE – HIGH DEMAND, HIGH RATES AND THE NEED FOR CAREFUL PLANNING

During our series of market updates, we have been reporting about the void sailings, rate increases, and tight space, that are now very relevant in the transportation market today. As the below highlights may have more significance to a certain mode, trade lane, or port, they can generally apply across the transportation arena throughout most global regions during the past few weeks.

Floating rates (spot rates) continue to increase with yet another General Rate Increase over the past few weeks, and most significantly, on the Transpacific Eastbound trade from Asia. Rates to the U.S. West Coast are well over 100% higher than this time last year. Rates to the U.S. East Coast are just shy of being 25% higher for the same period. The recent series of rate increases that took place up to mid-July represent new 10-year highs and primarily driven by the continued blank/void sailings by the carriers.

With higher demand from Asia to the U.S. West Coast ports in order to have access to the freight quicker and a surge in national distribution programs being implemented from this region during this unique time, driven by COVID-19, not only have ocean freight rates to this region increased, but volumes have been higher than anticipated, creating significant shortages in chassis equipment. This is most relevant at the ports of Los Angeles and Long Beach. Further compounding the equipment shortage includes many full containers sitting at warehouses and distribution centers waiting to be unloaded, which is delaying the return of chassis for new arriving containers. It is reported that over 10% of the total chassis inventory in Los Angeles and Long Beach are sitting idle and waiting for repair, putting further stress on the system that supports 12 terminals. Although the situation is not at a critical level yet, drayage operators are starting to struggle, delays are beginning to increase and additional costs are starting to mount.

There are less void/blank sailings being scheduled by the carriers in the next month, especially on the Transpacific Eastbound trade from Asia. As we have been reporting, void/blank sailings have been used by carriers to create a supply and demand scenario that has greatly benefited them by passing along higher rate levels. As mentioned above, a 10-year high has been reached in rates, while carriers reduce costs as well by removing capacity and using other methods, such as slow steaming to reduce consumption of fuel, which increases transit time, and using transshipment points to shorten routes, consolidate and maximize larger vessels at full capacity for the voyage to the U.S., often causing container rolling in the process. The tentative outlook shows signs of some relief to the market in the coming months, however not until after we get through August sailings and strong volume that is expected. Most carriers will remain conservative in their approach for the balance of the season, especially with continued uncertainty of new and potential COVID-19 outbreaks. Carriers will maintain their primary focus this season of making profit and not chasing volumes, which has been evident in some of the quarterly earnings being announced. This was a direct result of the tight space control and high vessel utilization the carriers have learned to take advantage within their alliances during this carrier driven market. Navigating the next few weeks will still require advance bookings, which we recommend a minimum of 3 weeks to meet the targeted vessel departure, and careful planning.

Countries around the world continue to transition back slowly from their lockdowns, but have started to see more consistent flow of cargo and upward swing of orders and volumes, both outbound and inbound. Those countries that have been hardest hit by COVID-19 or had later lockdown periods, are still challenged in their recovery efforts as the demand outpaces equipment availability, vessel capacity or continued obstacles in their infrastructure and adequate labor levels. Regions such as the Indian Sub-Continent and S.E. Asia are still adjusting to smaller than normal vessel sizes, interruptions in vessel schedules due to past or current void/blank sailings that have been implemented, causing severe congestion in the process. Ports in India as well as Chittagong, Bangladesh are experiencing major space shortages and container rolling has become more evident as a result. Rates in these regions continue to increase steadily and are forcing shippers to pay surcharges to cope with the market such as premiums for "guaranteed" loading.

Export cargo via ocean freight from the USA continues to experience constraints relative to vessel space, void sailings, and rising rate levels for many of the same reasons as the inbound cargo, especially caused by reduced capacity. This is relevant on both the Transpacific Westbound and Transatlantic Eastbound strings and as more countries and companies increase orders coming further out of their recoveries or seeing improvements in their economy. U.S. West Coast ports will see a rise in chassis shortages, due to the inbound surge, further compounding the coordination and timing to load export containers and meet terminal cutoffs in time for the intended vessel departures.

Air Freight rates from China and other Asian origins have fallen from their record rate levels and peak demand of PPE materials, however, rates continue to remain higher than normal, as space continues to be tightly controlled while capacity and frequency are still very limited. With the fear of new COVID-19 outbreaks, particularly in the USA, there is belief there will be another wave and demand for more PPE and medical products. Airfreight rates from China have already increased this week in anticipation of increased shipments and likely to be the case from other origins around the world that have become reliable sources of medical products and materials as well. Should we see the return of the constant high demand for space, the rates are likely to increase significantly again and there should be another expectation of congestion and backlogs that will create longer transit times again. It should also be expected that cargo breakdown and availability at the major cargo hubs across the U.S. will be delayed as experienced previously, adding to transit delays that should be factored in for delivery to the ultimate destination. In such a market, airfreight rates will operate under a "spot market" environment and will be volatile. It is recommended that rates be quoted and/or requoted closer to the ready date at origin and based on the booked departure date. Rates can change multiple times in a week.

The Port of Montreal has been plagued with various strikes in the past two weeks, with the International Association of Longshoremen and the Canadian Union of Public Employees having different grievances and shutting down terminals in the process. The work actions look to continue well into this week and should there be no resolution, federal mediation could be the next step. Carriers do have contingency plans should there be concern of continued disruption, by diverting ships to Halifax or New York - New Jersey.

Tropical Storm Isaias continues a path along the U.S. East Coast, with expectation of disruptions caused by power outages and flooding. Please be prepared for delays and potential obstacles.

We must continue to advise that there is still a great deal of uncertainty in the coming weeks and challenges to endure, some that are unforeseen at this time. We do highly recommend that you prepare for continued disruptions, volatility in costs, possible congestion, and likely delays. This should be exercised on a global basis. Please do your best to plan in advance and communicate with all parties involved in your transactions. Do not hesitate to contact us should you have questions or need further guidance.