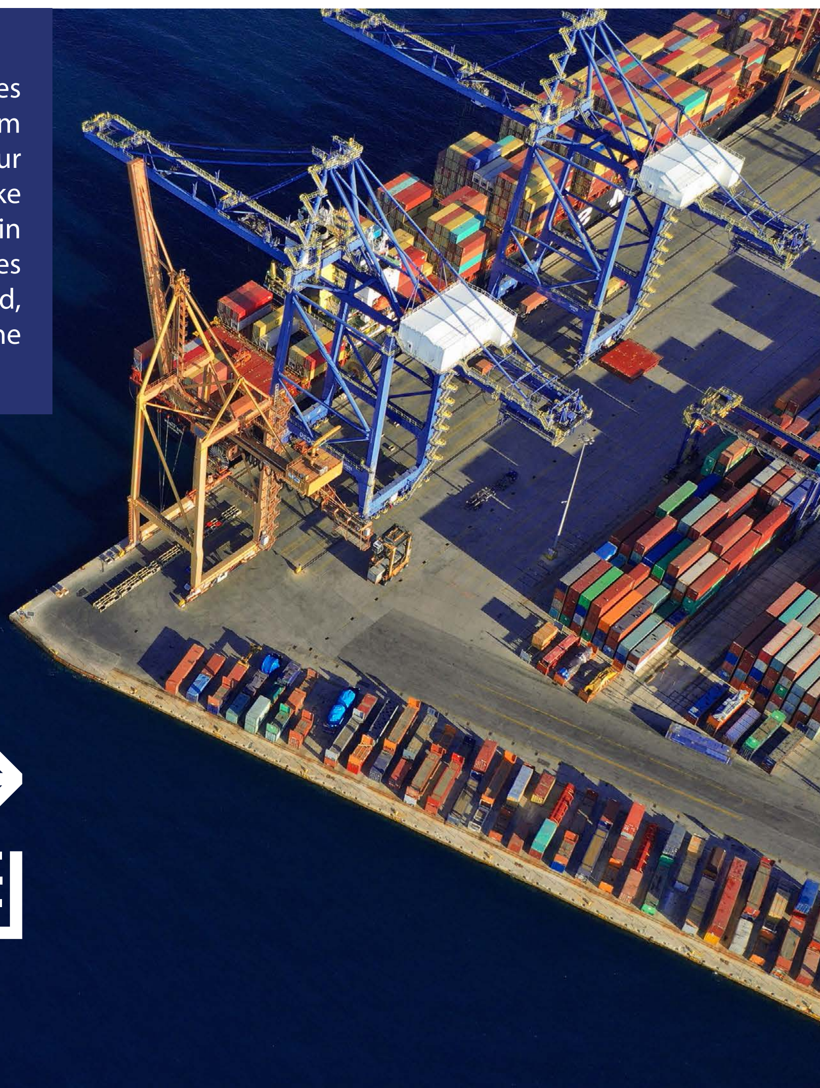
Fracht Newsflash

Market Update July 2021

As we all continue to navigate 2021 and the challenges associated with the global fight & recovery from COVID-19, many obstacles still stand in our way. The supply chain industry has taken a hit like never before, causing unprecedented challenges in every corner of the world. From container shortages and lack of space to sky-high rates across the board, the entire globe is watching as we steer through the ongoing adversity.



Ocean Freight

LATIN AMERICA

Brazil, the next China?

With Brazil having the rich resources to supply global consumers, they are enjoying unprecedented export surges as shippers' source to other countries to meet demand and avoid delays in China.

This worked earlier this year, but times have caught up, inciting just another trade lane for the carriers to exploit freight rates.

Fight for Space Escalates

"You haven't seen anything yet."

With the import forecasts increasing and importers gearing up for back-to-school and the holidays, one thing is for certain- space on vessels, primarily at the Trans-Pacific trade level, will continue to be scarce.

New regional carriers to the Trans-Pacific market, such as China United Shipping & BAL Container line, will provide some additional capacity and major carriers such as Cosco & Maersk are adding weekly services to both West & East Coast in the coming months. However, even with the increases in space by regional carriers and additional services from major carriers, the fact still stands – **the surge in demand in the US continues to keep carriers at capacity, leaving all parties scrambling for space, all while navigating the sky-high rates, congestion & delays.**

As retailers continue to import at volumes never seen before, predictions of another record-breaking month are on the horizon. According to JOC.com & Global Port Tracker, projected imports for July show a 15.1% increase over July 2020. August and September are projected to have increases of 9.4% and 2.5% respectively. It can be anticipated that those projections will increase once July's numbers are clear. This continuous surge in imports has put immense pressure on US transportation supply chain, and the only way to continue to keep the supply chain moving is diligently work together. "The challenge for retailers and supply chains is keeping shelves stocked as port congestion and other supply chain disruptions continue to impact the industry and the economy more broadly," said Jonathan Gold, VP for Supply Chain at the National Retail Federation. **Close communication and strategic planning between retailers and their supply chain partners is essential to continue to bring goods to the shelves.**

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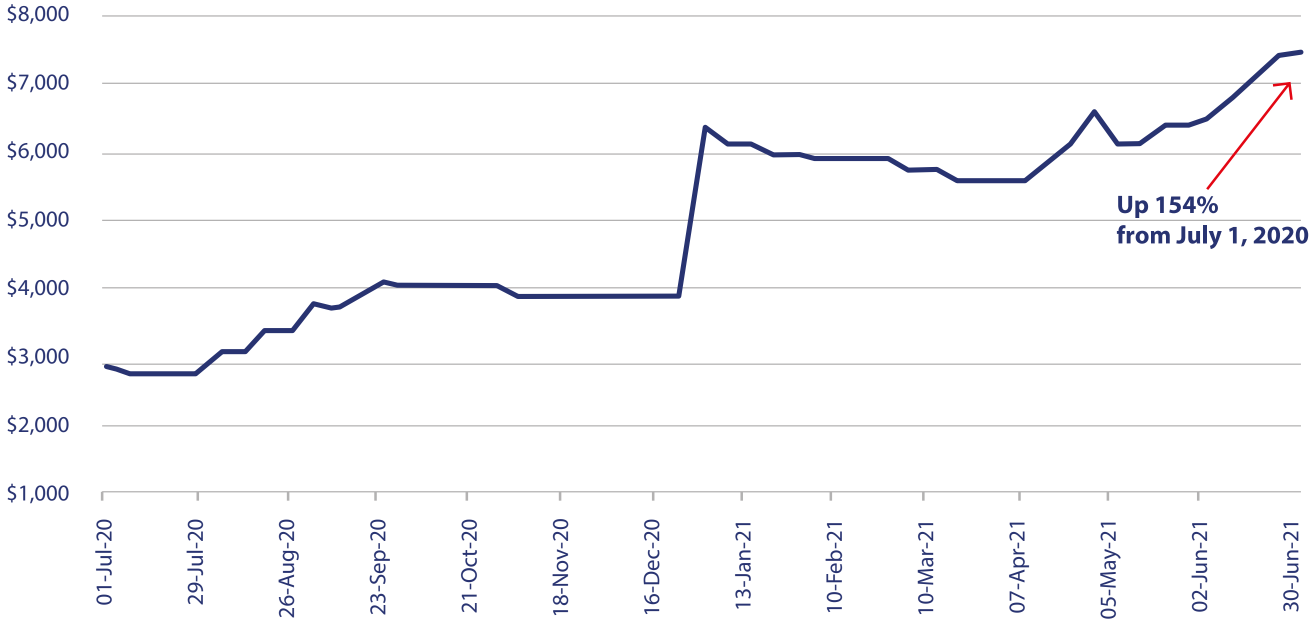
Trans-Pacific container spot rates peak, then plateau

Drewry Hong Kong to Los Angeles Spot Rate Benchmark per FEU



TRANSPACIFIC EASTBOUND

Spot rates continue to climb.

Average spots are shown in the diagram above, but do not measure premiums being applied for guaranteed space and equipment, pushing the spot level well above $20,000/container.

Charter rates are at unprecedented levels.

With charter contracts due to expire, carriers have already started negotiating term contracts. These contracts were once a minimum of 2 years & are now signing at current levels for 5 years, indicating there is no sign of relief anytime soon.

Source: More supply chain woes ahead as US retailers boost import forecast. Maritime-News: More supply chain woes ahead as US retailers boost import forecast. (n.d.). https://www.joc.com/maritime-news/container-lines/more-supply-chain-woes-ahead-us-retailers-boost-import-forecast_20210708.html?destination=node%2F3679211.

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How do we navigate this storm?

Customized Solutions

Custom, creative solutions allow forwarders to utilize market expertise and industry connections to get the job done. **Fracht** will continue to think outside of the box to provide the best possible solutions.

Air Freight

Various air freight solutions such as charter flights and passenger aircraft flights may be increasingly utilized in the second half of 2021 as lack of space and shipment delays continue to worsen.

Ocean Charters

Ocean Charters are another viable option to escape the rising rates of ocean freights. Despite high costs, ocean chartering guarantees free space in a time when capacity is so limited.

Alternative Solutions

Through production, both domestic and in Mexico, many companies are finding ways around high carrier shipping rates. Resistance from the use of carriers by finding alternative solutions is a strong way in navigating the remainder of 2021.

Outlook for 2nd Half of 2021

Demand is simply outweighing Supply.

Liners will continue to operate as their "new normal," especially with Q1 (2021) profits grossly outperforming 2020 in its entirety. The rules of the game have changed. Due to the exceedingly high demands, we are seeing that the tides have turned from a buyer's market to a seller's market. Still the question remains; when will we see rates begin to decrease? And how do we navigate this landscape in the meantime?

2021 Q1 Profits vs 2020 Q1 Profits

	2021	2020
MAERSK	2.7 billion	209 million
COSCO	2.4 billion	45 million
CMA CGM	2.1 billion	48 million
Hapag-Lloyd	1.5 billion	27 million
EVERGREEN	1.3 billion	-24 million
ZIM	587 million	-11.9 million

With no sign of the rising rates slowing down, many importers are being left with no margins and are looking towards alternative solutions.

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Air Freight

Airlines are slowly beginning to bring their aircrafts out of storage and back into rotation; however, we will not see the capacities we saw prior to the COVID-19 pandemic for some time.

Moving forward, airlines will concentrate on consumer travel & tourism rather than business travel. With platforms such as Zoom & Teams, we are seeing a shift in the way we communicate on the business level, causing airlines to reevaluate their focus, which has always predominantly been business-related travel.

Although the focus is beginning to shift, country lockdown status must be taken into consideration by airlines and consumers alike, as many regions are still faced with rapid spread of the virus & delays in vaccine distribution.

Rates in China are beginning to decrease to more manageable levels, drastically lower than the double-digit rates we were seeing in late 2020. It is expected that rates will continue to level-out over the coming months as the distribution of vaccines continues.

Air charters are continuing to be a strong, driving force in the market, especially from Asia, due to the continuously rising transpacific ocean rates.

Rail Freight

In Q1 & Q2 of 2021, the US has imported goods at record levels. Combined with current labor and chassis shortages in the US, congestion is expected to worsen worsening at inland rail ramps into the second half of 2021 as peak season approaches.

"The freight surge we are seeing in some markets is up 30 percent and 130 percent or more in other markets."

Ryan Houfek, Chief Commercial Officer of DCLI

Rail Traffic for first 25 weeks of 2021

5,765,679 carloads	**8.9%**
7,055,994 intermodal units	**7.7%**
12,821,673 combined US traffic	**13.6%**

Percentages compared to same time last year.

Offshore, the widespread shortages of equipment, lack of vessel availability and space, and the decrease of service reliability as a direct result of the pandemic has resulted in heavy congestion at ports. Congestion at ports while loading and discharging has cause large increases of overall transit time resulting in high transport cost increases.

Onshore, terminal and warehouse congestion coupled with labor shortages has only exacerbated issues within the supply chain, such as container and chassis shortages. Despite widespread issues, retail consumers bolstered by stimulus packages have resulted in the US importing goods at record levels. The massive demand caused by US consumers has increased widespread congestion, which is only expected to worsen as peak season and the holidays approach.

GRI's up to $3,000 per 40ft.

East coast ports have prices as high as $17,000 per 40ft

Only 35% of container ships operated without delays

Expect 4-6 week delays as a rule of thumb

Shortages

Massive shortages in containers and capacity in ocean freight has created a ripple effect that is affecting all modes. Currently, widespread labor shortages and the unavailability of chassis are causing delays in the unloading of container and the consumption of additional chassis that are already in short supply. The combination of these has caused industry-wide congestion resulting in additional delays and rail storage fees, general costs, and inefficiencies in the supply chain.

- **U.S. rail traffic is 13.7% higher year-over-year**
- **Rising intermodal surcharges as a result of uncertainty going into peak season.**
- **Railroads are grounding import boxes until more chassis become available.**
- **Average number of days a chassis is out on the street has risen in every inland location.**
- **Recall of 5,100 domestic chassis worsening shortage.**

Rail Forecast

Various Class 1 railroads are tightening free time, narrowing pickup windows on domestic and international shippers, in an attempt to relieve congestion and combat surges in volume. Similarly, many railroads are raising surcharges on those who ship more than their contractual limits. This has been done in an attempt to combat customers shipping surge volume and retain containers for peak season. Many freight forwarders, including **Fracht**, are expanding their railcar fleets to help meet increases in demand. **Fracht** has acquired 12 new railcars to help navigate the current issues affecting rail freight.

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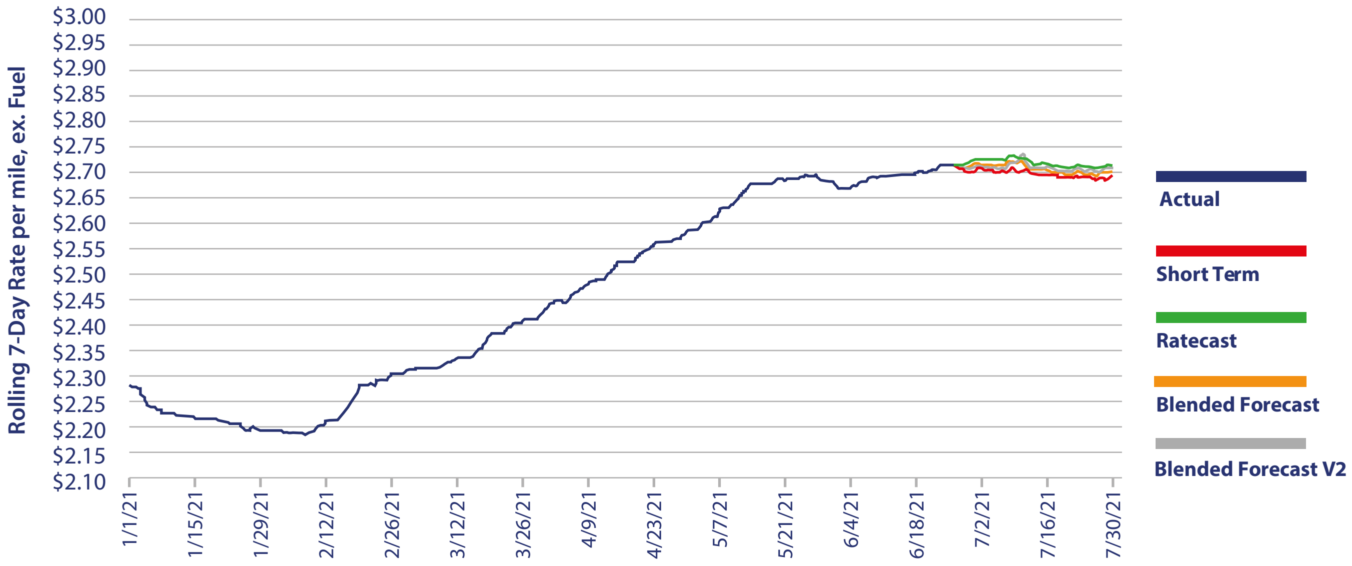
Truck Freight

Inland freight has had many issues as a result of lack of capacity and supply chain disruption in Q2. This affected drivers, as a driver shortage has only exacerbated issues within the supply chain. Specifically, large numbers of drayage drivers are quitting as a result of rail terminal congestion, which has slowed turn times and thus their paychecks.

Lack of drivers and issues within the supply chain has caused decreases freight volume in May, despite high demand. Similarly, various shortages have caused rising rates, specifically for freight moved by flatbed. Average flatbed spot rates are up by 25% since January and there is likely no deflation on the horizon due to the lack of flexibility when trucking larger, heavier freight.

National Spot Rate Flatbed Actuals w/ Forecast

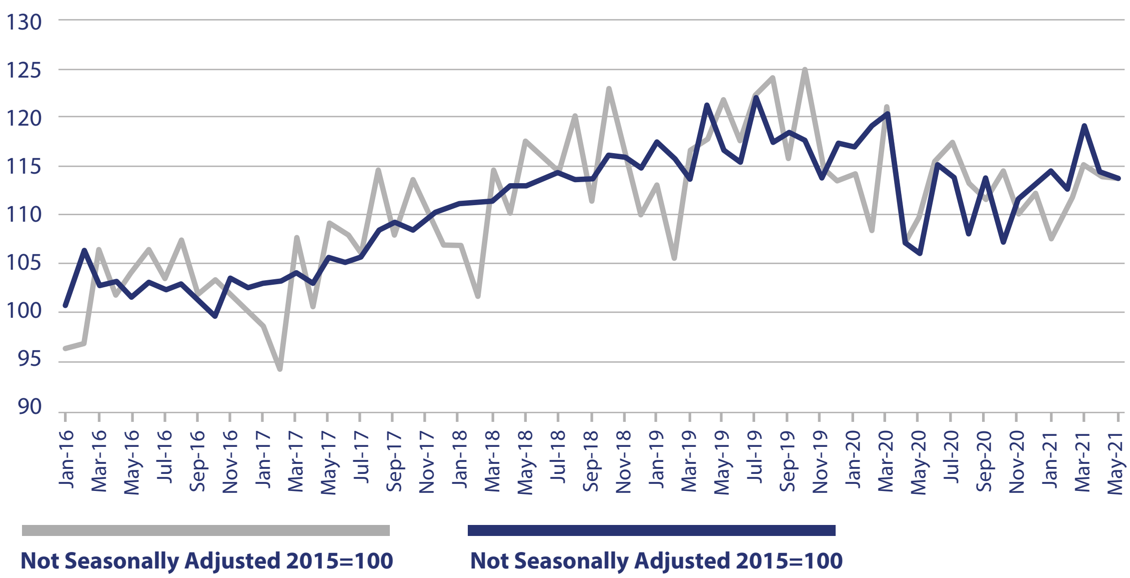


Source: Croke, Dean. "Does Tractor and Combine Sales Mean More Flatbed Demand?" DAT, 30 June 2021, www.dat.com/blog/post/does-tractor-and-combine-sales-mean-more-flatbed-demand.

- **More than 50 percent of employers were having trouble hiring truckers.**
- **7 or more days to secure a truck at most major US coastal and inland freight hubs.**
- **Many drayage drivers have lost as many as three turns per day.**
- **40% fewer drivers were trained in 2020 than in 2019.**

ATA Truck Tonnage Index drops in April, May on capacity shortages

American Trucking Associations Truck Tonnage Index



Source: "US Truck Freight Volumes Slip, but Not Rates or Demand." US Truck Freight Volumes Slip, but Not Rates or Demand | JOC.com, www.joc.com/trucking-logistics/us-truck-freight-volumes-slip-not-rates-or-demand_20210623.html.

Looking Forward

To address the critical shortage of drivers, many employers have offered pay raises, sign-on bonuses, more control over work decisions, and the ability to be home on weekends. Despite increases in pay, there is still a large driver shortage. Therefore, many recruiters have decided to widen their pool of potential applicants by targeting military veterans, women, and young drivers in an attempt to fill vacancies.

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