



SCHENKER

Market Update

Region MEA



May/June 2022

150 Years
Elevating Lives

The logo features the text '150 Years Elevating Lives' in a teal, sans-serif font. To the right of the text is a stylized graphic of a leaf or flame with multiple colored lines (red, orange, yellow, green, blue) radiating upwards.



Developments in the Middle East and Africa

- Global goods trade has continued to decline in 2022, and China's economy will likely only grow by around 4 – 4.5% this year, down from nearly 8% last year. The supply chain disruptions due to the Ukraine-Russia conflict add to the downward pressure on trade
- New export orders – a leading indicator of demand for air cargo shipments and historically strongly correlated with CTAs – are now contracting in all major markets except for the US. Sanctions against Russia have disrupted manufacturing activity, seeing export orders diminish in Q1 2022 in Germany, Japan, and Korea
- Economy-wide PMI rose sharply in Saudi Arabia in February, reversing the downward trend seen in the previous three months. The improvement was driven by the fall in Omicron infections and the corresponding increase in consumer demand. The metric also improved in the UAE and is currently hovering close to pre-crisis levels thanks to the rise in tourism related to Expo 2020. After six months of high volatility, South Africa's PMI moved sideways above 50 due to increased new businesses

Air Freight

- Global international air cargo capacity was down by 4% (vs. 2019) between Apr 18 – May 1, 2022
- The airfreight market and dynamics remain volatile and fragile due to the impact of the COVID-19 policies and the ongoing war in Ukraine
- Lockdown measures in China's main ports are slowly easing, but the overall situation for cargo movement remains challenging due to extreme backlogs of import cargo in all major ports.
- Hong Kong – China Border: All truck border crossings remain extremely challenging
- The labour situation in the USA remains constrained
- Flight operation services face disruptions according to the latest bans on air space and COVID-19 restrictions. Hence adjustments to the flight schedule are unavoidable.
- The cancellation of passenger flights due to Omicron disruptions resulted in a renewed squeeze in belly-hold cargo capacity. Industry-wide ACTAs fell by 8.9% in January compared with pre-crisis levels – more than double the rate of decline seen in December. The deterioration was widespread across all regions but Africa.

Ocean Freight

- Shanghai government sent a signal that the lockdown may end. On May 16th, Shanghai began to resume commercial activity by phase, starting with accommodations related to supermarkets, department stores, and restaurants
- There is no clear policy on when residents' areas can be re-opened. Still, no traffic is allowed on the road without special approval, neither public traffic nor private vehicle
- There is speculation that the government might resume traffic from June 1st if there's no increasing positive case in the next two weeks. And the revival of business activity should be expected from the middle of June.
- More and more companies are back to work gradually but are still fragile to be disrupted.
- Silence-keeping rule has been carried out area by area from last week. Major container depots shut down temporarily in the WGQ area, so FCL shipments might inevitably encounter delays.
- SHA CFS facilities are all re-opened, and weekly consolidation service resumes as of WK20.
- FTL and LTL are unreliable, even with higher service costs.
- Domestic trucking condition in the Beijing area is getting worse due to Omicron cases. Patches of streets or buildings in four districts (Fangshan, Shunyi, Chaoyang, and Fengtai) were on lockdown; pickup or delivery in those areas is not workable.
- The current situation in Ukraine is impacting vessel routing, schedules, ports, and rails, especially in Eastern Europe, aggravating delays. Services from the Mediterranean regions, i.e., Spain, Italy, and Turkey, are experiencing delays due to feeder vessel capacity, schedule delays, port congestion, and severe congestion in the transshipment hubs of Algeciras, Las Palmas, and Sines. MSC, as a carrier, has advised that container backlog in Las Palmas is critical, with containers waiting more than four weeks for transshipment. Every effort is being made to load containers as soon as possible, with First In, First Out being the basis of load planning on all vessels.

Global Market Update Spotlight: COVID-19 in Greater China



Market update and major operational impact in China East Area (including Shanghai): Business disruption: High impact on operations COVID-19 current state:

- Lockdown in Shanghai continues, all staff working from home
- Key industrial enterprises in Shanghai resume operations gradually, with 'closed loop management' in effect. So far there is no significant improvements in the transportation sector

Impact on service operation:

- In general, more companies are back-to-work gradually, but the situation is still volatile. All operations in Shanghai are still constrained with labor shortage and traffic restriction. The restriction measures are still dynamic with frequent changes. All our products (incl. pre-carriage, on-carriage, as well as domestic transport & int'l land-bridge) are impacted and delays are expected. Ocean: Capacity is still constrained, caused by the COVID-19 control measures. Public depots re-open for lifting on/off. All terminal operations in SHA resume work gradually. LTL & FTL resume service however at higher spot quotes
- Air: Highways connected with PVG airport have reopened gradually, and terminal operations resumes with 'closed loop management' in effect. Warehouses are full and severely constrained to receive any cargo, and truck resources are limited
- Land: Truck & driver resources have recovered slightly, with rates at high levels, as the restriction policies published by local authorities differ from city to city
- CL: All the WHs in Shanghai and Kunshan resume operation with 'closed loop management' in effect, to support urgent pickup from customers

Market updates and major operational impact in China South area (including Hong Kong S.A.R):

- All the citywide lock down in Area South has been lifted. In general, there's slight improvement on the cross-dock service between Mainland China and Hong Kong, more capacity space can be offered to meet the needs of customers. While, for larger volume orders, a buffer of at least two days will be required for preparation. Market updates and major operational impact in China North area:
- Changchun and Jilin city are almost back to normal, all factories have been reopened with COVID-19 control measures in effect. Overall productivity is ramped up to over 90%. Changchun office is operating in A/B shift work mode from 24th May
- COVID-19 cases in Beijing continue to increase with some impact on public transportation resulting in temporary closure
- Beijing office switch to BCP from May 9; all staff working from home



Demand

- Cargo demand has been strong, with significant differences in the strength of different trade lanes. The strongest have been those connecting the strong US and Chinese economies, either directly or via the Gulf super-connector hubs. Major European trade lanes have been weaker, reflecting the impact of further lockdowns in many European economies
- Airlines in Europe, Asia Pacific, and the Middle East experienced subdued demand impacted by the conflict in Ukraine, labor shortages, and lower manufacturing activity in Asia due to Omicron

Rates

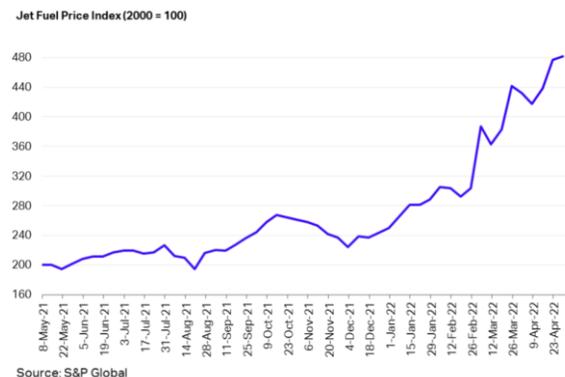
- Inflation and many of its subcomponents are at their highest levels in decades. The general consumer price inflation for the G7 countries was at 6.3% YoY in February 2022, the highest since late 1982
- The conflict in Eastern Europe is creating significant fresh challenges, notably in air cargo rates as well as economic activity
- Market rates remain extremely volatile

Carriers

- EK SkyCargo reaches 1 billion vaccine doses milestone 18 months after transporting the first trial shipment of COVID-19 vaccines. Vaccines moved to more than 80 destinations through Dubai
- EY Cargo has appointed Accelerated, Inc. and Jet Airways of the US, Inc. as its road feeder service (RFS) providers for customers in US territories for third-party trucking logistics to offer seamless road connectivity
- Ethiopian Cargo & Logistics Services has transported more than 50 million test kits from South Korea to the United States and Canada in the first quarter of 2022. ET operated 61 scheduled flights to transport the 3200 tons of time-sensitive kits directly to US and Canada

Jet Fuel

- Jet fuel prices have reached the highest level since April 2011. The jet fuel price average for 2022 (year to date) is USD 132.3/ per barrel
- On the 6th of May, jet fuel prices were 146.6% more vs one year ago



Regulations/News

- Jet fuel prices continue to rise amid Russian oil and gas sanctions. The jet fuel crack spread is also increasing as some refineries switch from jet fuel to diesel due to the lack of supply of Ultra Low Sulfur Diesel (ULSD) from Russia
- Daily close Brent crude oil prices reached their highest value since mid-2008
- APAC airlines are scheduled to receive 48% more aircraft deliveries in 2022 compared with 2021
- LATAM airlines are scheduled to receive 18% more aircraft deliveries in 2022 compared with 2021, while NAM carriers are expected to obtain 62% more aircraft deliveries; airlines based in Latin America seem to be benefitting from the end of bankruptcy procedures for some of the main carriers in the region

Capacity

MEA

- Carriers registered in Africa were the best performers, with CTKs rising from 4.5% to 22.2% above 2019 levels between December and January. However, this strong improvement can be partly attributed to the base effect from the comparison with 2019
- Seasonally adjusted CTKs rose by a more modest 4.0% month-on-month. Middle Eastern airlines reported slower growth versus 2019 in January than in December (1.9% vs. 4.6%), and a clear downward trend in traffic has emerged
- African airlines are scheduled to receive 29% more aircraft deliveries in 2022 compared with 2021, while Middle Eastern carriers are expected to obtain 47% more deliveries

Americas

- Intra-Americas: Capacity is in strong demand, but with some easing of backlogs. Challenges related to freighter carriers' schedule fluctuations to continue but are improving

Asia

- COVID-19 situation in China resulting in city-wide lockdowns will likely cause a ripple effect on multiple trade lanes as trucking, and cargo handling capacities due to workforce availability are being impacted at major China hubs in Area South and East
- The ongoing war in Ukraine will also significantly impact capacity, operations, and costs due to sanctions imposed and compliance requirements

Europe

- The situation in Ukraine has led to a fall in the capacity used to serve Europe, as several airlines based in Ukraine and Russia were crucial carriers in the region
- The conflict in eastern Europe creates significant fresh challenges, notably in capacity. Russia accounted for 2.5% of worldwide cargo flights in 2021, according to data provided by FlightRadar24. The importance of these flights for global heavy-weight cargo is significant, and the corresponding capacity will be difficult to replace

Equipment/Capacity

MEA

South Africa

- Carrier schedules and capacity remain a concern in cargo movement into and out of the country
- Vessel schedule delays and blanked sailings are increasing on European / South African services, and vessel capacity is premium
- Planning and forecasting remains critical in order to improve equipment and allocation planning over the next period. We expect a pre-peak season spike when Shanghai re-opens, resulting in visible equipment shortages, space demand, increased spot rates, and vessel clogging across all trades
- Carriers prefer more 40ft lightweight cargo over 20ft heavy
- For Durban, carriers are still working to the Import Overstay deadlines for container documentation to ensure efficient evacuation of the Durban terminals continues
- For Cape Town, vessel berthing times have been improved

Oman

- There are some delays in the container pick-up schedule from the Sohar port
- Severe equipment and space constraints from Sohar to Chittagong continue. The carriers strictly monitor non-performance and overperformance on committed allocation
- Space constraints to Americas with HPL/CMA. MSC has a limited allocation to the Americas

Kenya

- Sailings have been reduced by 50% due to massive congestion in Tanzania. Inventory in Mombasa is stable

Egypt

- Space constraints to North Africa and the Americas. Sokhna port congestion easing out

Americas

- Equipment constraints continue, especially in hinterlands. Space constraints are easing out, but early booking placement is important to cope with unexpected challenges

Asia Pacific

- Lack of demand experienced in the last few months has forced carriers to reduce capacity and more blank sailings. On the contrary, the year-end peak season is expected to start early. As a result, the space constraints continue to get severe. Therefore, a minimum of three weeks of advance booking placement is advised

Europe

- The general situation stays critical in Germany. Limited container availability to the depot within Germany, Austria, Switzerland, Hungary, and Czech Republic/Slovakia. Vessel delays at the port of Hamburg, causing significant congestion of export containers
- Area north (Poland, Denmark, Sweden, Finland) is still struggling with empty 20ft availability in inland terminals
- Rail capacity remains a general problem. In most terminals, the waiting time is two weeks to book transport—there is no space on regular trains to move empties in most cases

Rate development

MEA

- Rates are stable in Europe
- Outbound to Americas, MSC continues to apply PSS of USD 2000/ per container
- Carriers apply space premium guarantees over published rates for confirmed space

Americas

- Rates remain stable, especially from base seaports

Asia Pacific

- Demand yet again on the rise. Early peak season is expected, thus the high demand, which will directly impact the freight. The rate has already increased from USD 4000 to USD 5000 in a matter of weeks.
- As the Shanghai lockdown is easing down, the factories are coming back to work gradually. Thus, the carriers are expecting a strong booking forecast in the coming months
- Rates from India to MEA continues to remain strong due to lack of space and equipment availability.

Europe

- Rates remain steady; long-term rates are not encouraged

TRADELANE		CAPACITY	RATES	UTILIZATION
Europe	North Europe	▼	▼	95-98%
	Mediterranean	▼	▼	95-98%
MEA	Gulf	▶	▲	NEA: 98% SEA: 96%
	Red Sea	▶	▶	
	Africa	▶	▲	NEA: 95% SEA: 95%
Intra-Asia	Intra Far-East	▶	▲	Refer to Individual Country Market Outlook
	Indian Subcontinent	▼	▲	NEA: 97% SEA: 107%
	Oceania	▼	▲	NEA-AU: 95% SEA-AU: 108% Into NZ: 111%
Americas	Transpacific	▼	▼	USWC: 100% USEC: 120%
	Latin America	▶	▲	WCSA/MX: 110-120% ECSA:90%

Upward Trend
 Downward Trend
 No change from last week



Congestion

MEA

- Congestion in Tanzania continues. Taking 20 days for a vessel to berth at the port of Dar Es Salam
- Massive congestion faced in Abu Dhabi for transshipment cargo with MSC
- Congestion in Sokhna is easing out

Americas

- Congestion at base ports is easing out. This is mainly low due to low import volume.

Europe

- Italy – high cargo demand and constrained carrier services out of Italy continue. There are challenges with carriers being able to provide feeder services out of Italy, with vessel stability concerns, lack of capacity as well as port omissions, and vessel delays. Las Palmas still remains congested, with trans-shipment delays of up to 4 – 6 weeks being experienced.

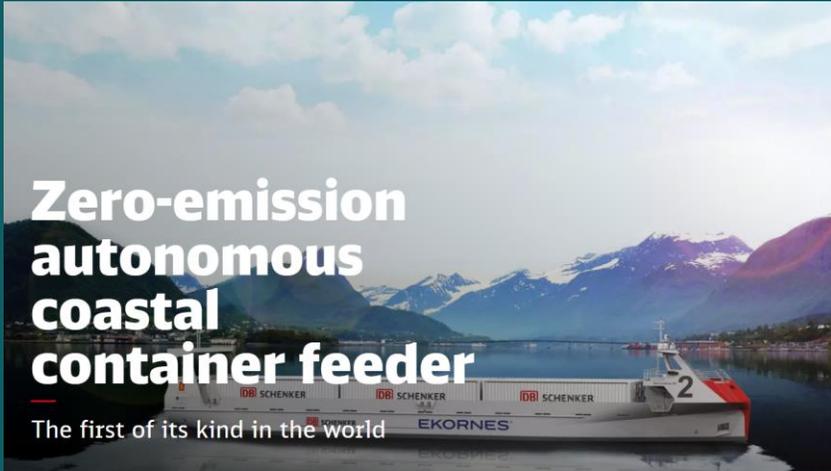
News/Highlights

- In UAE, certain hazardous chemicals (DG) are banned or restricted to be exported/imported in Dubai ports. Jebel Ali has been stricter, according to the Securities Industry Regulatory Authority (SIRA). All such import/export activities must be approved by the SIRA in advance, which the shipper/consignee must obtain and submit the approval documents (SIRA approval) when making their bookings.
- In Egypt, The Central Bank of Egypt (CBE) has issued new regulations stipulating that Letters of Credit will be required for all import shipments into Egypt with a value exceeding USD 5,000 or its equivalent in foreign currencies, and banks will no longer accept documentary collection (CAD). This is to facilitate the import of goods into Egypt. CBE decided to exclude raw materials, medicine, and food commodities from the new import regulations. In addition to the commodities listed above, the foreign companies and their subsidiaries are also exempted from this requirement. CBE added a new exception, “Raw Materials” to the excepted items
- Clearance rates have increased due to the market situation and currency fluctuation in Egypt.

Highlights



DB Schenker will operate an electric, zero-emission coastal container feeder – first of its kind in the world



DB Schenker releases the official 150th anniversary movie – the MEA edition.



DB Schenker is the first in history to ensure a legally reliable solution to replace the Bill of Lading document



DB Schenker's company-wide challenge will donate to carefully selected organizations every quarter based on the mileage earned by the employees



Abbreviations

ACTK	Available Cargo-tonne Kilometers
CTK	Cargo-tonne Kilometers
ME	Middle East
MEA	Middle East And Africa
M-O-M	Month-on-month
NOR	Non-Operating Reefers
PMI	Purchasing Manager's Index
PSS	Peak Season Surcharge
RPK	Revenue Passenger Per Kilometer
SCFI	Shanghai Freight Index
SEA	Southeast Asia
USWC	U.S. West Coast
VLSFO	Very Low-Sulphur Fuel Oil
NAM	North America
LATAM	Latin America
HC	High cube
ZACPT	Port of Cape Town
ZADUR	Port of Durban
ZAPLZ	Port of Port Elizabeth
ZA ZBA	Port of COEGA

