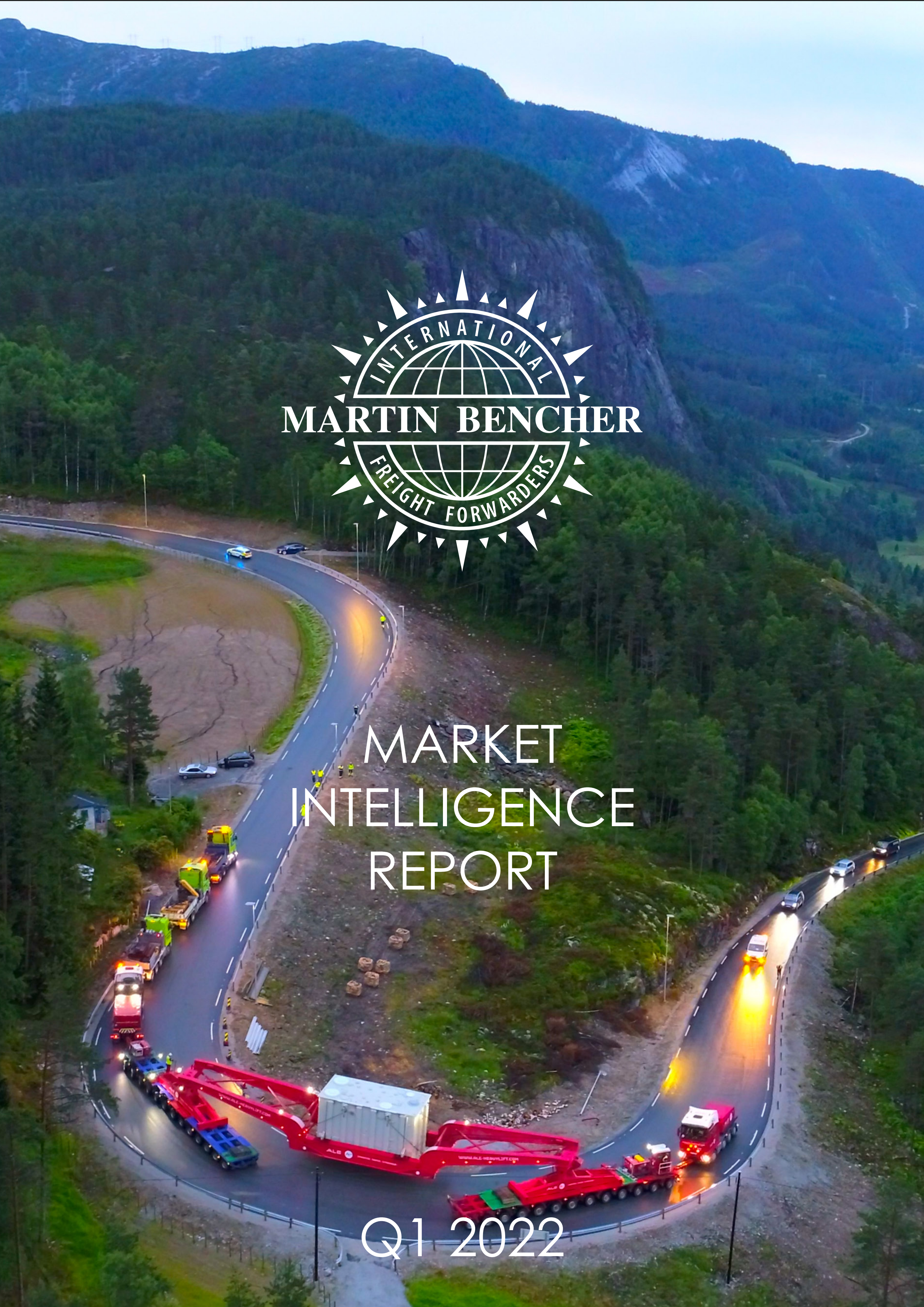

INTERNATIONAL
MARTIN BENCHER
FREIGHT FORWARDERS

# MARKET INTELLIGENCE REPORT

Q1 2022

**Prepared by:**
Martin Bencher Group
Vandvejen 7, level 4
8000 Aarhus C - Denmark
Tel: +45 86 122 699
headoffice@martin-bencher.com

# Editorial: Digitalization

This time, we introduce a new feature to the Market Intelligence Report: a specific editorial topic of the quarter, changing from time to time. Please do not hesitate to contact the editorial sender or the communication department, if you have any questions or comments on the current topic, or to the Market Intelligence Report in general.

So, before digging into the market report, we start off with this editions' editorial, focusing on Digitalization, which is a big step in our 2022 Strategy that supports and strengthens our vision significantly: Logistics made easy.

Martin Bencher focuses on the customer: we want to meet their requirements which means constant development and innovation. The world is moving and so are we.

Today it is obvious, that Digitization is one tool to develop and support customer requirements, and therefore Digitalization is also included in our 2022 Strategy.

One important step in Digitalization is good data. *What is good data?* In Martin Bencher, good data is accurate and up to date. This is a continuous task, but as a group, we have improved a lot over the last years and still are.

*Why is good data important?* Good data assist us as a company to make smarter and better decisions. By doing so, we naturally also use this to give better service and possibilities to our customers. Better combinations to optimize our services, an overview of our suppliers, which improves our quality, we can also support customers with data, which they may not have in-house.

CO2 Emissions on shipments have been a wish for a long time, and now, through data, we get CO2 emission estimates (according to international standards) on 99% of all shipments we create within seconds. This is our tool to assist our customers to make more clean decisions.

We believe the best way to develop is with our customers and suppliers, therefore we are also open to ideas and input. Our Digitalization can only improve when we develop together, so reach out to us – if we don't reach out to you first.

Sincerely,

Thomas Lind Jensen
CIO

> *Martin Bencher focuses on the customer: we want to meet their requirements which means constant development and innovation. The world is moving and so are we.*

# Summary

In the following Market Intelligence Report, please find our update on the first quarter of 2022.

At the turn of the year, we look back on the market tendencies in 2021, and likewise, we turn our heads to 2022, looking at forecasts and predictions for the quarter and year.

The world starts the year 2022 with economies still held back by a supply chain crisis and the rapid spread of the Omicron Coronavirus variant. Although forecasters expect the economy to be held back, the global economy is still expected to grow by about 4% in 2022, compared with an estimated 5.1% in 2021. Yet the biggest issue facing policymakers around the world is likely to be inflation. The year ahead will be dominated by efforts to fight inflation along with climate change, while global economic growth will be reasonably strong and stock markets weak.

Looking at the MPV and the Toepfer index, expected growth of 0.56 % is seen over the next six months, however, it is expected to dip 8.7 % over the next 12-month period. A look at the index during 2021 tells a story of a shipping segment where rates have skyrocketed, from somewhere between good and sustainable to a level unimaginable only a year ago.

The Shanghai Containerized Freight Index (SCFI) has broken through the US$5,000/TEU mark for the first time in its history on the 31st of December. The overwhelming consensus is that this year will remain extremely strong for ocean carriers and extremely expensive for cargo shippers, however, with a few big unknown factors. The strength in shipping freight rates could possibly come under pressure and start to return to a fundamentally reasonable level in the later part of 2022 or early 2023.

Bunker prices are following the general tendencies in the market with an upward slope. The price of bunker reached the highest point since 2014. Consequently, marine fuel is getting a lot more expensive, and logically, this will impact the costs of transportation.

Like much of the global economy, the energy sector enters 2022 on a highly uncertain footing as the Omicron variant launches a new chapter in the pandemic. The challenge for the bunker industry in 2022 will be to manage its growth during the market's recovery while not overextending itself as fuel-efficiency measures and the shift to alternative bunkers drive the continued secular decline in bunker demand.

# World trade outlook

The speed of the economic bounce-back from the recession of 2020 has taken many forecasters by surprise. By 2021, output across the 38 most developed OECD countries combined probably surpassed its pre-pandemic level a few months ago. The average unemployment rate, at 5.7%, is in line with the post-war average. And aggregate household income, adjusted for inflation, is above its pre-covid level (The Economist, 2022).

The world starts the year 2022 with economies still held back by a supply chain crisis and the rapid spread of the Omicron Coronavirus variant. But the woes of global trade in 2021 have not just been caused by disrupted supply, such as covid-19 outbreaks shutting factories. There has also been excess demand. Massive fiscal and monetary stimulus, combined with social distancing, led to large consumption of physical goods. And the pandemic is not over. The spread of the virus could yet disrupt economies once again if immunity wanes and new variants can evade vaccines (The Economist, 2021).

But with supply chains at their limits, the world cannot repeat the trick of maintaining economic growth using stimulus that shifts consumer spending towards goods. Instead, central banks would have to cut consumption with higher interest rates to avoid excessive inflation while the supply-side of the economy adapt to patterns of spending and working that are vastly different from what prevailed in the 2010s (The Economist, 2021).

Although forecasters expect the economy to be held back, the global economy is still expected to grow by about 4% in 2022, compared with an estimated 5.1% in 2021. Yet the biggest issue facing policymakers around the world is likely to be inflation (The Guardian, 2022).

Throughout 2021, central banks and most economists have said that the factors causing inflation to rise and growth to slow would be temporary. Though inflation in 2022 will continue to overshoot central-bank targets, it will decelerate from 2021 and eventually fade as a macroeconomic concern. Energy prices should plateau and fall in the spring, thanks to the easing of energy demand, increased fuel production, and perhaps also a slowing Chinese economy (The Economist, 2021).

The year ahead will thus be dominated by efforts to fight inflation along with climate change, while global economic growth will be reasonably strong and stock markets weak, according to economic forecasters (The Guardian, 2022). Forecasts should be treated with caution as there is a significant unpredictability of the pandemic and the unknown directions of the Omicron wave (Brodzicki, 2022).

> *The year ahead will be dominated by efforts to fight inflation along with climate change, while global economic growth will be reasonably strong and stock markets weak.*

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# Multipurpose vessel indicators

Looking at the Toepfer index, the figure shows an increase of 173.73 % during the last year. Thus, the high demand for multipurpose tonnage continues. Time charter contracts are being fixed well in advance with only very few spot market opportunities (Toepfer, 2022).

The index has reached $20,875, growing 10.02 percent from the previous month. However, the development of the index is expected to level out with a slight growth of 0.56 % over the next six months, and with an expected dip of 8.7 % over the next 12-month period (Bajic, 2022).

A look at the upturning Toepfer index during 2021 tells a story of a shipping segment where rates have skyrocketed, from somewhere between good and sustainable to a level unimaginable only a year ago. In addition, it is notable that the official index of the special cargo and heavy lift industry does not cover the peak spot prices (Kristiansen, 2021).

Project and breakbulk shippers faced a surging carriers' market for the first time in more than a decade during 2021 as "unboxed" breakbulk cargo and laden containers flooded the MPV sector. Some shippers found themselves priced out of the market, projects missed deadlines, and even shippers willing to pay high premiums saw cargo rolled or delayed (JOC, 2021).

Wind power cargo demand will soak up huge amounts of MPV/HL capacity for the foreseeable future, as the United States, Europe, and Asia have all announced ambitious offshore and onshore wind growth targets.

To combat this uncertainty, project shippers and their forwarders are now booking MPV/HL tonnage through 2022 and in some cases into 2023 and beyond. Forward bookings also include new clients with cargo that has been taken out of containers and will move as breakbulk (JOC, 2021).

Although there was a glimmer of MPV newbuilding interest as the year ended, according to Toepfer, activity is scarce because shipyards prefer building larger, simpler container and bulk ships to MPVs. The newbuildings under construction will mainly replace rather than increase fleet capacity since most of the current global MPV/HL fleet is not fitted to meet escalating emissions regulations and will soon begin aging out of eligibility to carry premium cargoes.

Concludingly, carrier executives and industry players warn that these factors all add up to a future MPV/HL capacity crisis. Rates will decline from the current spillover market levels, but thanks to forward contracting, tightening capacity, and continued demand, they are unlikely to return to pre-pandemic levels in 2022 or 2023, and perhaps beyond (JOC, 2021).

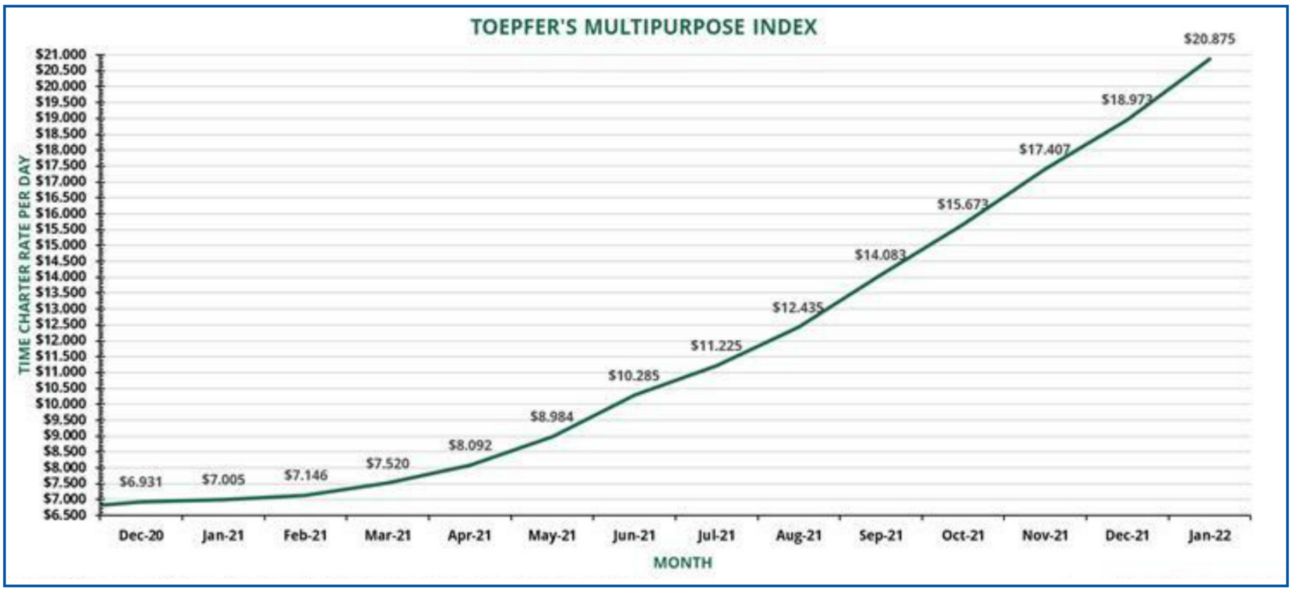


*Figure 1: Toepfer's Multi-Purpose Index (TMI) - The index is based on a 12,500-ton deadweight MPP/HL "F-type" vessel under a six to twelve-month time charter and represents monthly assessments by operators, owners, and brokers.*


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# Container vessel indicators

The Shanghai Containerized Freight Index (SCFI) broke through the US$5,000/TEU mark for the first time in its history on the 31st of December, ushering in 2022 with ever greater fortunes for liner operators. The index has climbed roughly five times higher than its historical average and is thus reaching a whole new level (Container News, 2022).

It's not just the spot market that is breaking new highs. As the first round of tender data has started to roll in, Xeneta data indicates that most of the 2022 long-term contracts will be at record-high levels. Carriers are asking clients to pay up for secured, long-term deals or risk being hit by the vagaries of the spot market (Chambers, 2022).

The congestion of shipments waiting for unloading has continued, and the situation has potentially worsened due to the Omicron variant as it has slowed major ports and global supply again. As export companies, which are suffering from freight charge hikes and freight space shortages, have begun to use air shipment, the air freight rates are also increasing (Business Standard, 2022).

Sources say that some carriers are pushing for multi-year contracts in order to lock in high rates and avoid spot market instability, resulting in carriers shifting focus in 2022-23 term negotiations, and contract terms and conditions are also expected to evolve. The overwhelming consensus is that this year will remain extremely strong for ocean carriers and extremely expensive for cargo shippers.

But there are, however, also some big "known unknowns" in, for example;

1) how future Corona variants will impact the consumer demand as well as effective shipping capacity and factory output;

2) whether rate strength is driven by higher import demand or by lower effective shipping capacity (given vessels tied up in congestion), and finally;

3) will liners have the discipline to remove vessel capacity to keep rates strong in case import demand should fall and/or congestion eases?

From a carrier's perspective, the optimistic view on rates is that volumes will continue to be very high this month, prior to the Lunar New Year holiday. Volumes will pick up once again after China resumes work, after which the 2022 peak season will keep rates elevated into Q4 2022. On the other hand, a more doubtful view is that freight rates have been propped up by U.S. stimulus — which is now over. Consumer demand will fall, inventories will not be restocked to the extent predicted, and port congestion will clear (Miller, 2022).

As COVID-19 containment measures start to soften with vaccination rollouts progress and decontainerized trend will be reversed with extremely high container newbuilding deliveries, the strength in shipping freight rates, especially Asia-Atlantic container-dry bulker rates, would likely be under pressure and start to return to a fundamentally reasonable level in later part of 2022 or early 2023 (Hellenic Shipping News, 2022).

**Shanghai Containerized Freight Index**

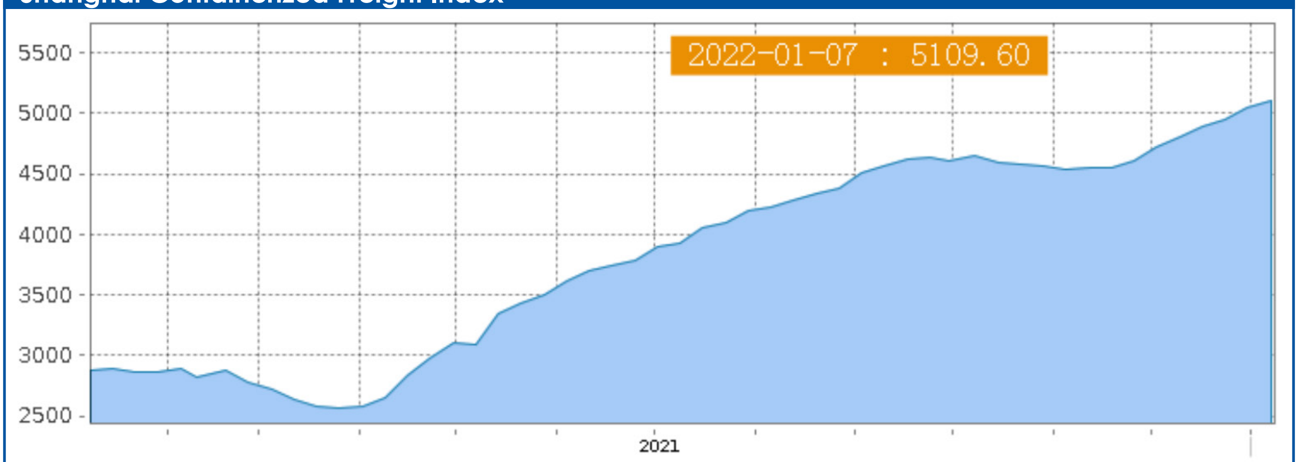


*Figure 2: Shanghai Containerized Freight Index (Shanghai Shipping Exchange, 2022).*

# Bunker prices

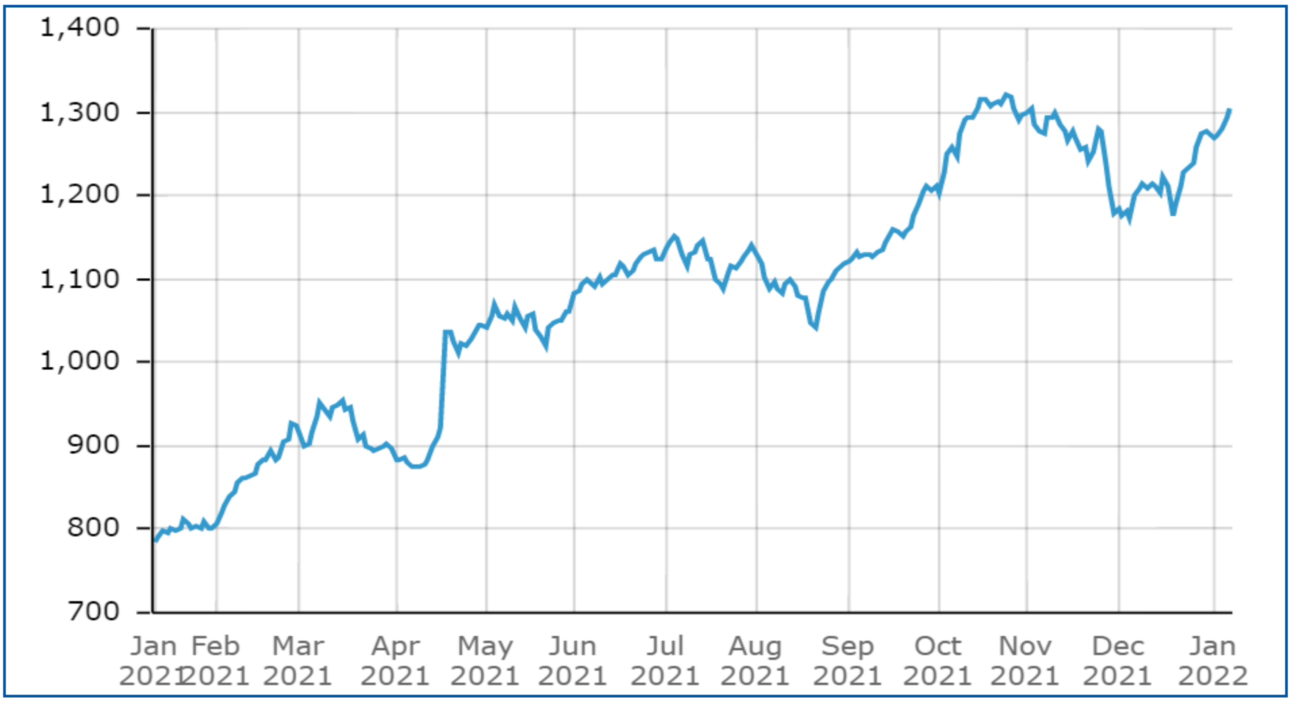


*Figure 3: Fuel prices from Bunkerworld index (Bunkerworld, 2022).*

Bunker prices are following the general tendencies in the market with an upward slope. In Q4, 2021, we saw a downturn, but the price once again increased from mid-December and continues to trend upwards, supported by increasing confidence in the wider oil complex and by limited supply of marine fuel at some ports.

In 2021, the bunker index raised approximately 60 %. The price of bunker reached the highest point since 2014, and as commodity prices are surging around the globe, it should come as no surprise: Marine fuel is getting a lot more expensive, and logically, this will impact the costs of transportation.

The downturn in late Q4 reasons for surging cases of the Omicron coronavirus variant in Europe and investors worry that new restrictions to combat its spread could dent fuel demand (Kelly, 2021).

However, crude oil and refined products futures have rallied amid thriving stock market indices and rising optimism that the omicron variant surge will not disrupt oil demand as much as previous coronavirus spikes (Bunkerworld, 2021).

So, like much of the global economy, the energy sector enters 2022 on a highly uncertain footing as the Omicron variant launches a new chapter in the pandemic (Rich, 2021).

Adjustments continue to be made to change the fuel mix and reduce the operational carbon through the introduction of new technology, ship designs, and alternative fuels.

The challenge for the bunker industry in 2022 will be to manage its growth during the market's recovery while not overextending itself as fuel-efficiency measures and the shift to alternative bunkers drive the continued secular decline in bunker demand.


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