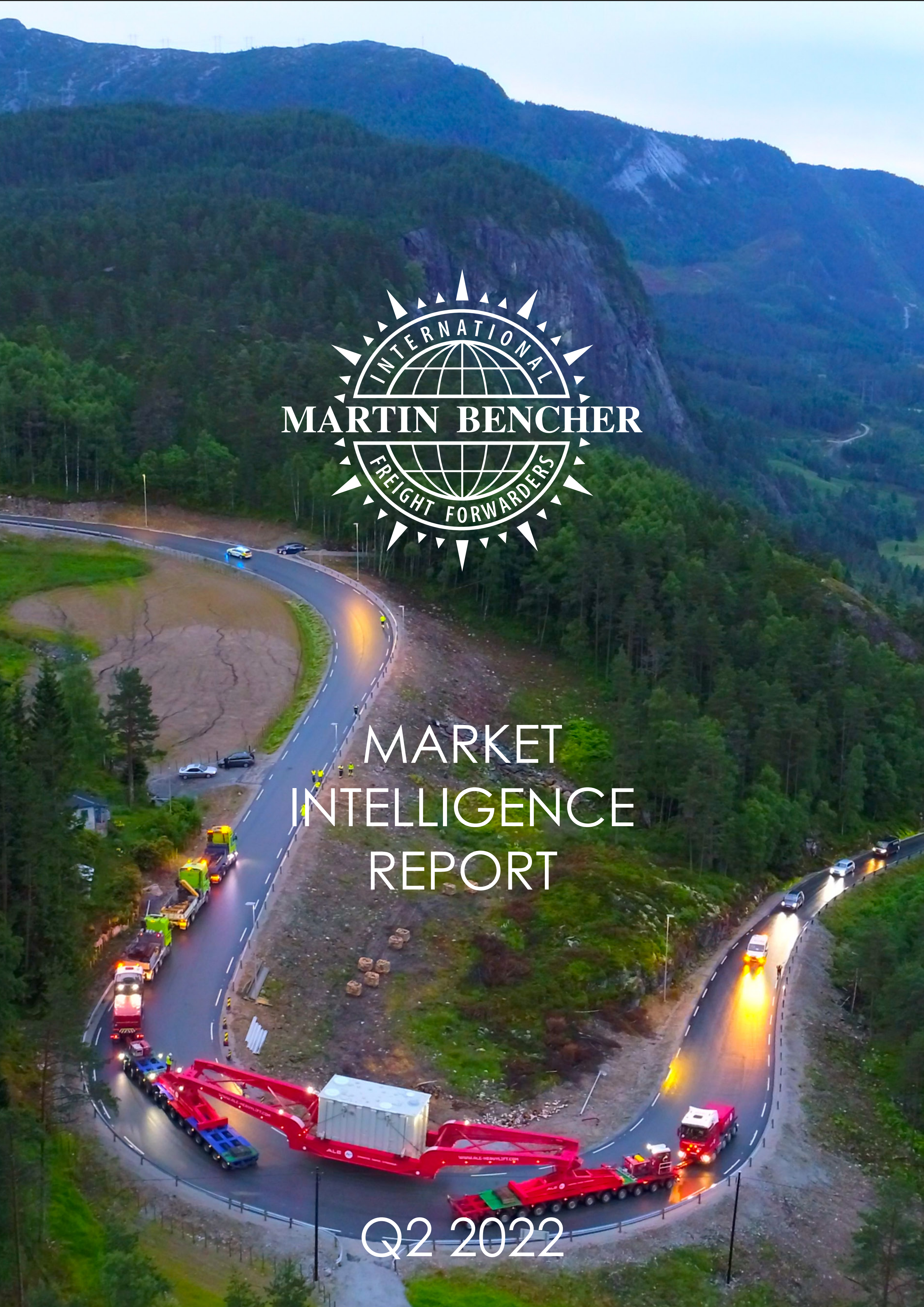

INTERNATIONAL
MARTIN BENCHER
FREIGHT FORWARDERS

MARKET INTELLIGENCE REPORT

Q2 2022

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Editorial: Airfreight

Martin Bencher Airfreight is expanding in a fast-paced direction that now covers three continents, meaning more local presence and direct dealing with clients. As of the 1st of March, Martin Bencher US opened an airfreight office with Martin Bencher's own IATA license in Dallas, Texas, solely focusing on airfreight and serving the entire US. Being centrally located in the middle of the country, our new air office will represent both east and west coast shipments, without being affected by the time difference. To comply with US regulations for Air Export, we will be directing all air export through this office.

Furthermore, 1st of March, Martin Bencher China opened an Airfreight office, located in Shanghai. The office will handle all RFQs and airfreight shipments in China, ensuring Martin Bencher's delivery of VIP products and special cargo to our clients.

These two new great initiatives will combine with the Martin Bencher European airfreight setup controlled by Martin Bencher Airfreight Copenhagen.

Martin Bencher Airfreight Copenhagen is able to assist with requests and shipments to and from Europe. We are already assisting all offices in Europe with larger airfreight shipments with increasing success for the Martin Bencher organization.

Offering airfreight services from all offices in 23 countries around the world, the new initiatives will strengthen the position and possibilities for Martin Bencher in the airfreight market. We can assist with all kinds of airfreight requests worldwide, covering project planning, door-to-door delivery, express shipments, after-hours, customs clearance, aircraft part shipments, ship spares, and general cargo up to full charter flights to remote areas of the world.

Nothing is too small or too big for Martin Bencher to handle.

Sincerely,

Patrick Winther

Branch Manager, Airfreight

> *Offering airfreight services from all offices in 23 countries around the world, the new initiatives will strenghten the position and possibilities for Martin Bencher in the airfreight market.*

Summary

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

We look back on the market tendencies and world outlook since the first quarter of the year, and likewise, we turn our heads to the uncertain future, looking at forecasts and predictions for the next quarter and year.

And the uncertainty definitely plays a major role in this market report. The last few months have shown us, once again, but also in a completely different manner, that the world changes rapidly and predictions are impossible to rest one's case on.

A Russian invasion has hit Ukraine and, in many ways, paralyzed the region and big parts of the world in general. Cargoes are stuck in Russian and Ukrainian ports and many industrial projects are on hold, and the impacts are expected to cause the inflation rates to increase even more.

Covid-19 has escaped large parts of the world for now but is currently raging in China, whose restrictions and lockdowns are challenging the global supply chains.

These two factors are specifically impacting the world economy and prices of everything from gas and oil to consumer goods with an inflation rate growing at the fastest pace since the early 1980s. Along with the geopolitical tensions, the overall picture is very unstable.

Looking at Multipurpose vessel indicators through the Toepfer index, the rates keep steady at a high level, but the steep rise has stopped. MPV freight rates are, however, expected to continue to rise over 2022, but at a much slower rate as supply chain problems are expected to come under control and shippers reach a ceiling for freight on MPV tonnage.

Looking at the current Shanghai Containerized Freight Index, container rates have dropped since the beginning of 2022, after approximately a whole year of increasing. However, the tight shipping capacity and high freight rates will continue to impact the global market this year as there is still no end in sight to the impact of the Covid-19 pandemic on the world's supply chains.

Bunker prices rose to almost double the previous cost from mid-late February to the beginning of March, and as of the beginning of April, the prices were still at a very high level. The demand for oil may begin to grow, leading to lower prices, but with the number of unknown factors, such as a potential global ban on Russian oil, the prices might as well increase.

For the first time, we have now included an Airfreight section to the report, and here too, the Omicron wave in Asia and the war in Ukraine are undoubtedly also having an impact on air cargo and the whole airfreight market. However, from the beginning of 2022, we have seen improvements in air cargo traffic thanks to reduced disruptions from Omicron outside of Asia.

> *The uncertainty definitely plays a major role in this market report. The last few months have shown us, once again, that the world changes rapidly and predictions are impossible to rest one's case on.*

World trade outlook

Two months have passed since the Russian invasion of Ukraine and we all find it hard to believe that the pictures we see are for real and that we must somehow deal with this new reality. It is still not clear what consequences the conflict will bring, other than we are all affected by it in some manner.

In the well-vaccinated wealthier countries of the world, year three of the pandemic will be better than year two, and Covid-19 will have much less impact on health and everyday activities (The Economist, 2021).

The coronavirus remains a formidable foe, especially right now in China with the country's largest Covid-19 outbreak in two years that continues to spread despite an extended lockdown of Shanghai's 25 million people, with the restrictions weighing on a fragile economy and straining global supply chains. Other areas have also been implementing restrictions, and these measures across China are an increasing drag on the world's second-largest economy, with consequences for global growth, supply chains, and inflation in all parts of the world (Bloomberg News, 2022).

The surge in inflation has spread all over the world. Consumer prices across most of the rich countries are rising by 7.7%, year on year, the fastest pace of increase in at least three decades, and it is expected to remain elevated throughout the year (The Economist, 2022).

At the same time, the world economy has entered a period of intense uncertainty as the unpredictable pandemic and the fallout from Russia's war in Ukraine combined with the rapid inflation and weighing on an already fragile global recovery. Economists expect the global output to slow this year to 3.6 percent, from 6.1 percent in 2021, which is a downgrade from a January forecast of 4.4 percent growth this year (The New York Times, 2022).

In conclusion, inflation continuously plays a major role and interest rates may be expected to increase. Along with the geopolitical tensions, all these factors create a very unstable overall picture.

Multipurpose vessel indicators

Despite the disruption that the invasion of Ukraine and the imposing of sanctions against Russia has caused to shipping and trading, the time charter rates keep steady at a high level, but the steep rise has stopped. With a modest increase from March to April, the Toepfer's Multipurpose Index has almost reached the level of real time fixtures that have been witnessed already in the past months, primarily for tonnage in favorite positions, with adequate TEU capacity to serve container trades. The index has gained 2.2% month-on-month and a remarkable 181,3% compared with April 2021 (Toepfer, 2022).

The availability of MPV sales candidates is extremely tight and there are many buyers who are willing and able to buy tonnage at the current high price levels (Toepfer, 2022). MPV freight rates are expected to continue to rise over 2022, but at a much slower rate as supply chain problems start to come under control and shippers reach a ceiling for freight on MPV tonnage. However, MPV freight rates have, as seen in the index, stabilized by the end of Q1 2022.

Although the problems that continue to trouble global supply chains are acting as a positive effect on this sector, the next wave of containership newbuildings, expected to leave the yards over 2023, will undoubtedly have a detrimental effect on MPV share (Fields, 2022). For short sea shipping, the current developments and restrictions in trading are challenging, but so far freight rates and earnings are stable. The time charter equivalents achieved in February are still keeping their high level, but the upward trend has stopped (see Figure 1). For now, not much has changed for multipurpose vessels that are hardly available with only very few prompt positions open to be chartered. Smaller MPV operators are struggling to find suitable tonnage because a major part of ships has been fixed long-term and period charters have even been concluded for delivery dates in the second half of 2022 (Toepfer, 2022).

The war in Ukraine and restricting measures against Russia have thus triggered several factors that influence the current market environment on top of already faced trading disruptions towards shipowners and shippers. In addition, unusual energy resources and high demand for renewables as a replacement for fossil fuels means that the demand for project cargo and wind turbines is expected to be pushed much faster and more excessive than estimated just a few months ago when the energy transition was thought to be the major challenge with global goals to be reached much further ahead in time (Toepfer, 2022).

Summing up, the index appears to be steady and not steeply increasing at the moment, but ultimately, it is nevertheless not possible to foresee the long-term consequences of the current challenges.

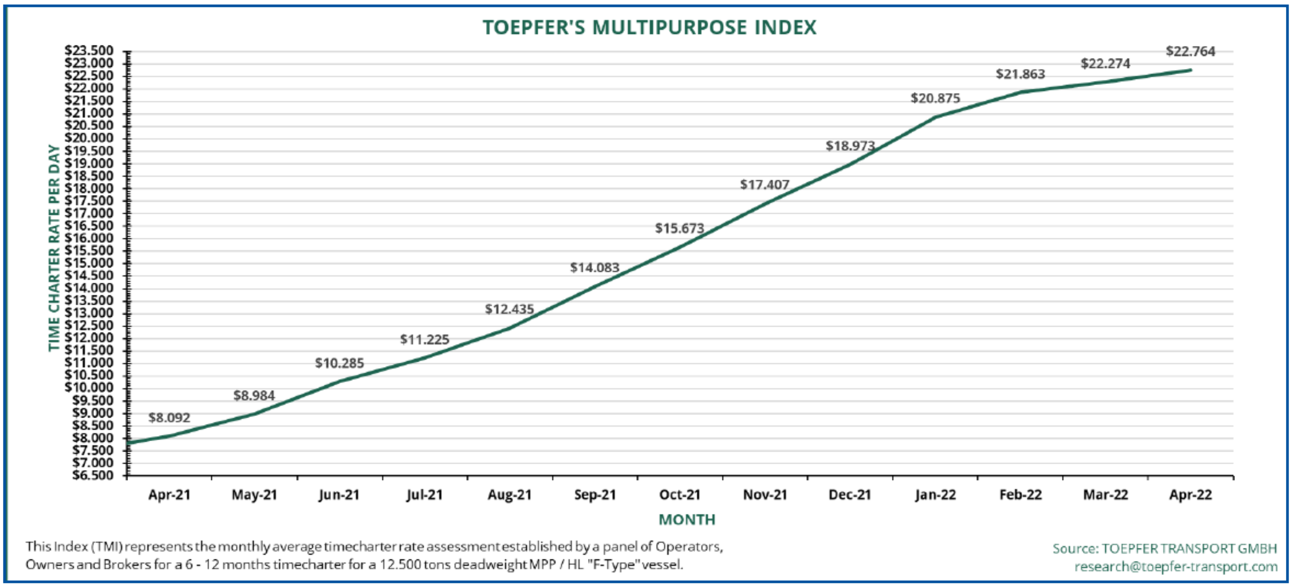

Figure 1: Toepfer's Multi-Purpose Index (TMI) - The index is based on a 12,500-ton deadweight MPP/HL "F-type" vessel under a six to twelve-month time charter and represents monthly assessments by operators, owners, and brokers.

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Container vessel indicators

The Shanghai Containerized Freight Index (SCFI) reflects the fluctuation of spot freight rates in the export container transport market from Shanghai. Looking at the current SCFI as per Figure 2, container rates have dropped since the beginning of 2022, after approximately a whole year of increase (Shanghai Shipping Exchange, 2022).

Although it seems like the rates have dropped, the high level continues. According to analysts, tight shipping capacity and high freight rates will continue to impact the global market this year as there is still no end in sight to the impact of the Covid-19 pandemic on the world's supply chains. Industry experts have been saying that the twin impacts of the pandemic and geopolitical tensions will crimp the operations of global ports and inland transportation this year.

Global container capacity will be tighter as many containers remain empty on the return leg of their journeys after delivering cargo, which has been affecting container turnover efficiency. The container market will remain tight due to poor container availability in many countries this year.

Given the complexities of the pandemic situation abroad, severe congestion and delays could lead to a decline in the efficiency of the entire supply chain. But, blindly increasing transportation capacity and container supply will not really solve these problems, claims industry analysts (Hellenic Shipping News, 2022). As the lockdown in Shanghai continues and many other Chinese cities face curbs due to Covid-19, the number of container vessels waiting outside the country's ports has almost doubled since February, creating a challenging environment for logistics in and out of China (Hand & Si, 2022).

Reading all these market signals has become increasingly complex. Spot rates appear to be pulling back, but not by all accounts. Congestion appears to be decreasing, but it may be just shifting to other ports, and declines may reverse when Shanghai lockdowns end.

China's Covid lockdowns will reduce demand for space on ships sailing out of Shanghai in the very near term, meaning there will be more vessel space available for other ports in the region and the expectation should therefore be for downward pressure on freight rates. Once we see a reopening, the expectation should be for a surge of cargo coming out of Shanghai which will lead to a sharp upward pressure on freight rates (Miller, 2022). Furthermore, the conflict in Ukraine has caused significant delays and congestion in the regional supply chain of the Black Sea and created a series of operational difficulties. This, together with the sanctions and impact on Russia, is causing problems in the supply chain that will inevitably exceed regional boundaries and assume a global dimension (Forbes, 2022).

All these abovementioned factors are creating a very blurry picture for the coming months. The overall expectation is, however, still tight capacities, higher freight rates, and bottlenecks in the supply chain.

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).

The bunker market has also faced the consequences of the ongoing war in Ukraine and sanctions against Russia from most of the Western World. As expectations of extremely squeezed energy supplies shivered the world, bunker prices rose to a record high peak of almost double the previous cost from mid-late February to the beginning of March, and as of the beginning of April, the prices were still at a very high level.

It is expected that freight rates will remain at a high level, as the high bunker prices will be the main cost driver for cargo transportation and shipments. There are no signs of a declining market, but like everything else, the market is unstable, and no actions or consequences can be predicted (Toepfer, 2022).

Regarding crude oil prices, the market volatility is set to continue as traders digest concerns of falling demand although supply remains tight. Traders try to assess the impact of Chinese lockdowns on global fuel demand although the authorities in China said the pandemic impact will be "rapidly restored" as manufacturing plants prepared to reopen in Shanghai (Trading Economics, 2022).

Nevertheless, a shortage of marine fuel can be expected in some regions, due to the current situation in Ukraine and Russia.

The OPEC+ alliance, which controls nearly half of global oil supply, has gradually rolled back the rec-ord production cuts that were instituted during the worst of the pandemic, saying it aims to balance supply with emerging demand from the recovery. The demand for crude is thus expected to rebound in Q3 2022 and reach a new high level in Q4 2022, and analysts expect the oil market to be in surplus in every quarter of 2022 (Bunkerworld, 2022).

The signals from the OPEC show that the demand may begin to increase which leads to lower prices, but with the number of unknown factors, such as a potential global ban on Russian oil, the prices might as well increase. Concludingly, it is once again more or less impossible to predict anything.

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Airfreight

As part of our increased focus on and development of airfreight within Martin Bencher, we will from this edition report on and form an overview of the international airfreight market in the Market Intelligence Report.

The air cargo sector saw a considerable uptick in activity following the outbreak of the Covid-19 pandemic in 2020. The resultant collapse in passenger air travel forced many operators to shift their strategies to stay competitive, and the boom in global e-commerce further strengthened the need for effective air freight to support global supply chains. Despite this, the air cargo market remains a volatile one moving through the first months of 2022. Sanctions and airspace closures following the Russian invasion of Ukraine are likely to bring challenges to all areas of global logistics, and with significant rerouting required, air cargo is no exception (IBA, 2022).

The beginning of 2022 has seen improvements in air cargo traffic thanks to reduced disruptions from Omicron outside of Asia. However, the Omicron wave has spread in China and certain other Asian countries, and the war in Ukraine is undoubtedly also having an impact on air cargo and the whole airfreight market.
Ultimately, lockdowns and factory closures in Asia, sanctions related to the war, and shortages of crucial inputs are driving prices higher, and economic activity and trade lower (IATA, 2022).

In addition, the IBA's research has identified some key trends within air cargo to watch for in 2022, that correspond to IATA's insights. Russia and Ukraine airspace closures will bolster air cargo capacity restrictions. With the airspace restrictions affecting over 30 countries, flight times between Europe-Asia and Asia-North America are being significantly increased as air cargo flights are rerouted.

Another major factor is that airfreight rates will remain elevated. rates continue to be inflated as passenger aircraft belly-cargo capacity remains restricted, and the introduction of new aircraft into the market is slow. There are indications that rates are expected to continue to increase in the near term, but surcharges from cargo carriers are likely due to network disruptions, surging fuel prices, and the war in Ukraine (IBA, 2022).

From Figure 4, the latest air cargo overview shows that Industry-wide cargo tonne-kilometers (CTKs) rose 2.9% year-on-year (YoY) in February 2022, compared to a 2.4% increase in January.

International available cargo tonne-kilometers (ACTKs) were up 12.5% YoY in February, in line with the past four months. Seasonally adjusted ACTKs grew 7.6% MoM, but the average of January and February was 3.7% below the December 2021 levels (IATA, 2022).

Air cargo market - February 2022

	World share [1]	February 2022 (% year-on-year)				Year-to-date (% year-on-year)			
		CTK	ACTK	CLF (%-pt) [2]	CLF (level) [3]	CTK	ACTK	CLF (%-pt) [2]	CLF (level) [3]
TOTAL MARKET	***100.0%***	**2.9%**	**12.5%**	**-4.9%**	**53.2%**	**2.7%**	**11.9%**	**-4.8%**	**53.6%**
International	*87.2%*	2.5%	8.9%	-3.8%	61.3%	2.9%	9.9%	-4.1%	60.1%

[1] % of industry CTKs in 2021 [2] Year-on-year change in load factor [3] Load factor level

Figure 4: Air cargo market overview, February 2022 (IATA, 2022).

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