Post-Pandemic Readiness of ASEAN Ports, Shipping and the Logistics Sector for a Rapid Re-emergence of the Economy, Demand and Trade Growth

Updated on 09 February 2021

HQ

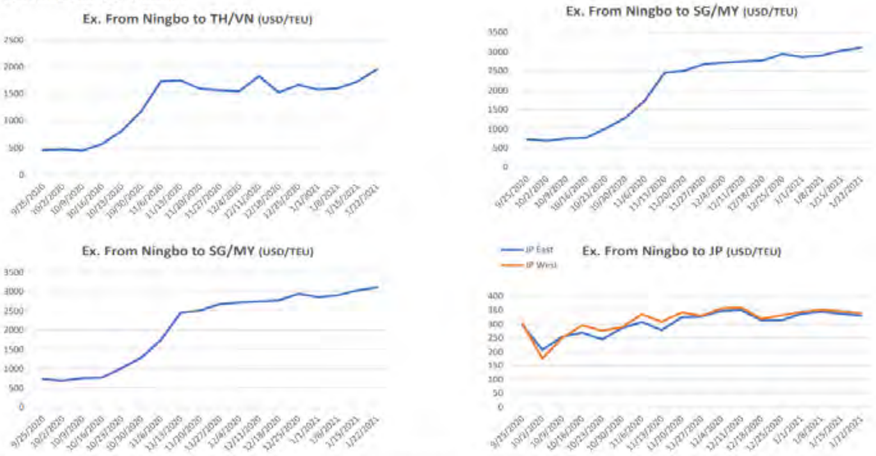
AGENDA

1) Ocean Freight Outlook
2) Air Freight Outlook
3) Railway & Cross Border Land Freight in China
4) Moving Forward
5) Q&A

Ocean Freight Outlook

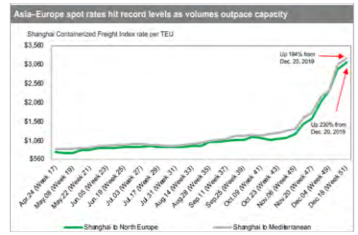
Intra-Asia (Including ISC – India Subcontinent / Oceania)

NCFI Index for last 4 months



Ningbo Containerized Freight Index (NCFI), a type of economic transport shipping index of freight. (http://nefi.msri.cn/ncfi)

Outlook 2021: Asia-Europe Spot Strength Heralds Sharp Rise In Contract Rates



Asia–Europe shippers reaching the end of their annual contracts should prepare their budgets for steep and unavoidable rate increases in 2021, with the surging spot market unlikely to weaken before Chinese New Year in mid-February.

This divergence will put strong upward pressure on contract price levels, Danny Smolders, managing director of global sales at Hapag-Lloyd, told the virtual JOC Container Trade Europe conference in late November. "It is too early to put a percentage on the contract rate increases on Asia–Europe for next year, but looking at the low long-term rates we have so far, I can say that the contract rates will be substantially higher," Smolders said.

The soaring spot market has left shippers at the end of their annual contracts facing a potentially costly dilemma. Do they risk stalling negotiations with carriers in the hope that short-term rates will decline after Chinese New Year, or do they lock in new contracts and at least have some security on rates — not to mention capacity — going into a highly uncertain 2021? Either way, the rates paid by shippers will be going up, believes Peter Sand, chief shipping analyst for BIMCO, who outlined the shipper predicament in a late November market update.

If the alternative to signing a new, higher priced contract deal is the spot market, which may be two or three times that price, you need to get that higher contract rate," Sand said. "Remaining in the spot market will be so much more expensive."

Carriers are in a position where they can't lose. While they benefit from high spot rates, at least two-thirds of containers on the Asia-Europe trade move under 12-month or 6-month contracts, and those long-term rates are heading for increases. Sea-Intelligence said its data show long-term rates on Asia-Europe signed in December would be 23 percent above this year's levels, but some forwarders believe the contract rates could be even higher. "There will definitely be a spike in long-term rates that could be higher than 50 percent," Michael Amri, global head of sea freight FCL at Hellmann Worldwide Logistics, told The Journal of Commerce.

Source: JOC

US Port Delays Force "Structural" Blank Sailings On Asian Services

With Hapag-Lloyd — and by extension its partners in THE Alliance — advising customers of 21 de facto canceled sailings in February in the eastbound trans-Pacific due to schedule disruptions, importers should anticipate even tighter capacity in the coming months.

Unlike blank sailings made by carriers in response to weak cargo volumes, these missed voyages are structural in nature. When a vessel has been delayed for a week or longer at a given port, the carrier will then institute a "structural" blank for that ship's next sailing to rectify the service schedule.

"The sailings are sliding. Other alliances will also see sailings slide," Uffee Ostergaard, Hapag-Lloyd's Americas president, told JOC.com Monday. Hapag-Lloyd is a member of THE Alliance along with Ocean Network Express (ONE), Yang Ming, and HMM.

Carriers will be unable to rely on a drop in imports next month if factories work through the Lunar New Year. Photo credit: Shutterstock.com.

Lars Jensen, CEO of SeaIntelligence Consulting, told JOC.com Tuesday that although no other carrier or vessel-sharing alliance has announced structural blank sailings, he anticipates more will be coming.

A spokesperson for ONE in Singapore told JOC.com that schedule delays have become so bad that the carrier is considering whether to void sailings during the Lunar New Year so it can reposition ships to restore schedule reliability.

Carriers at the time deployed "sweeper" ships to Los Angeles-Long Beach to vacate the empties, but Ostergaard said that strategy may not work this time. Carriers have few idle ships in the fleet, and even if they can secure some, the sweeper ships will face continued congestion at the ports.

"Even the sweeper ships can't run on schedule," he said.

With reports from Asia indicating some factories are planning to remain open through the Lunar New Year, US import volumes may not drop significantly as they normally do during the holidays, so vessel space at Asian load ports is likely to remain tight for sometime, Sur said.

Source: JOC

Still A Problem: Congestion Of Ports And Anchorages

The fourth quarter's unexpected cargo rush keeps causing problems in many container ports around the globe. With berths often running at capacity, there is nowadays very little buffer in the transport chain and vessel delays, once they occur, begin to have more and more knock-on effects.

In recent weeks, port congestion has worsened in many places, but the United States' West Coast and ports in the United Kingdom have been particularly affected. At the beginning of this week, some 30 large container ships had queued-up in the San Pedro Bay, waiting to dock at LA or LB.

The situation is especially bad in California, because there are quite a number of Transpacific services that only have a single USA call, where the ship is completely emptied and reloaded before heading back to Asia. Unlike in Northern Europe, where a deep-sea loops typically serve four or five ports, many California services realistically cannot just skip a call or move a p call sequence to have some operational flexibility.

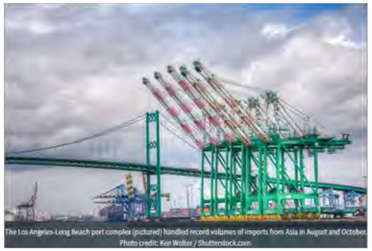
Even in normal circumstances a large container vessel might take two or three days to fully discharge and equally long to load. That means some ships spend five or six days in port and it is not uncommon for an outbound ship to meet the vessel that offers the next inbound sailing on the same service just a few miles outside of the port limits.

At the beginning of this week, vessel positions on the COSCO Group's 'SEA' (OOCL: SC2') weekly peak season service illustrate the situation with two ships in port simultaneously. Of course, other carriers and alliances are similarly affected. In the United Kingdom meanwhile, the situation is made more difficult by the ramifications of Brexit, which causes delays at border controls at a time when port and hinterland infrastructure was overstrained in the first place.

The vessel delays also have a noticeable effect of vessel availability and some of the current VLCS shortage is due to vessels being stuck waiting at anchorages, which forces carriers to add tonnage to service rotations, as the ships take much longer to return than scheduled.

Source: Alphaliner Newsletter

Outlook 2021: No Relief In Sight For LA-LB Congestion Problems


The Los Angeles-Long Beach port complex (pictured) handled record volumes of imports from Asia in August and October.
Photo credit: Ken Wolter / Shutterstock.com.

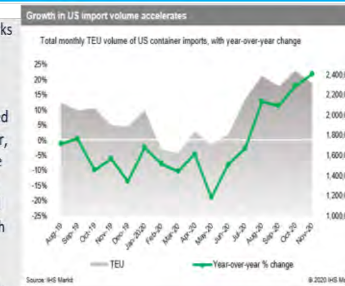
The ports of Los Angeles and Long Beach entered the new year struggling to handle record import volumes, with no relief in sight for the congestion problems they faced during the second half of 2020 until — possibly — the Lunar New Year celebrations beginning on Feb. 12. In fact, Jon Monroe, a consultant to non-vessel-operating common carriers (NVOs), said he is beginning to see a scenario develop in the Asia–North America trade in which the pre-Lunar New Year spike in imports that began in December will continue into the arrival of the 2021 spring and summer merchandise and even on into the 2021 peak season that would traditionally begin in August.

The US Federal Maritime Commission (FMC) is worried. The economic impact of the port and supply chain congestion in Southern California was so severe last fall that the FMC on Nov. 19 announced it was launching a formal investigation into ocean carrier actions the commission believes are contributing to the issue. “I believe that we have deep-seated problems that could continue for the foreseeable future, and I strongly believe we must pay immediate attention to these issues,” FMC Commissioner Carl W. Bentzel said in announcing his support for the commission’s investigation.
The commission will also investigate the Port Authority of New York and New Jersey, which has been experiencing similar issues, as the two largest US gateways contend with unrelenting imports of e-commerce merchandise, personal protective equipment (PPE), and home improvement goods during the COVID-19 pandemic.

Southern California’s entire international supply chain has been stressed since imports began to increase rapidly in late June. The problems included vessel bunching at the ports, congested marine terminals, shortages of skilled equipment operators on the docks, lengthy truck queues at the gates, chassis shortages, and distribution warehouses filled to capacity.

Source: JOC

Carriers Add Boxes, But No Swift End To Equipment Shortage



Container lines are scrambling to expand their container fleet while the largest box maker works around-the-clock to meet forecasted double-digit demand, as one analyst warns equipment shortages on the trans-Pacific and Asia-Europe trade lanes will persist through January.

The surge in cargo demand has boosted investment in new container equipment, Drewry noted in a market update Tuesday. From a 35 percent contraction in global output in the first quarter, manufacturing has since recovered and is expected to reach 2.67 million TEU by the end of the year, according to Drewry’s Container Equipment Forecaster, down 5 percent from 2019. But with demand for new containers remaining strong and factories reporting full orderbooks well into the first quarter of next year, output in 2021 is forecast to leap as much as 40 percent with further growth anticipated in subsequent years.
The only prospect of the equipment shortage issue being resolved by Chinese New Year in February was if carriers continued with their current strategy of procuring new containers and aggressively repositioning empties, according to Sea-Intelligence Maritime Analysis. But the analyst noted in its latest Sunday Spotlight that the apex of the container shortage has not yet been reached, forecasting that net levels of empty equipment in Asia in January will increase by 600,000 TEU compared with December.

The world’s largest equipment manufacturer, China International Marine Containers (CIMC) — a subsidiary of state-owned China Merchants Group and China Cosco Shipping that makes almost 60 percent of the world’s dry containers — told the Shenzhen Exchange last week that its orderbook was full until the end of March and its Shenzhen plant was operating double shifts to manage the demand.

Source: JOC

Box-ship Shortage And Sky-High Rates Prompt Carriers And Forwarders To Seek “Creative” Shipping Options (1/2)

The unprecedented cargo rush of the past few weeks and months and the subsequent shortage of available vessel capacity has prompted some ’creative thinking’ in the maritime industry. Carriers, forwarders, cargo owners, and ship owners have all tried to come up with ‘new’ ways to ship containers from Asia to Europe or the USA (and elsewhere) in a market that is generally sold out. The capacity shortage has affected each and every industry player in a different way and to a different degree.

Carriers wanted to up-size services or offer additional sailings, but could not find the required tonnage to do so on the charter market. If suitable container ships were available for hire after all, the rates that owners wanted to see were - unsurprisingly - steep.
Cargo owners and forwarders meanwhile had (and still have) massive problems to book cargo on sold-out sailings ex Far East. The freight rates that carriers asked for ad hoc cargo outside of long-term commitments quickly reached levels that many forwarders described as ‘ridiculous’. Carriers would meanwhile argue that the sky-high rates are simply a function of tight capacity and that their costs had gone up as well.
Every party meanwhile unanimously laments the acute shortage of container equipment. Marine containers are hard to come by at the moment and if - by any chance - they pile up in some places, it is usually right where they are needed the least, thanks to global imbalances of trade. Cargo owners and forwarders who want to ship back-haul freight from Europe or the Americas to Asia also complain that the record high front-haul rates tempt carriers to quickly ship empty containers back to Asia on their own dime. This makes the containers unavailable for Asia-bound cargoes.
Carriers do this just to have the equipment back in place quicker for lucrative front haul trips, rather have the boxes filled and shipped back to Asia with low-paying cargoes. Over the past weeks, a number of patterns have emerged which show that carriers, ship owners and forwarders have become creative in their cargo shipments. Particularly forwarders are also keen to ’send a message’ to the container shipping lines that current rates are ’unacceptable’.
Here are some of the typical scenarios that played out recently:

Small Newbuildings Position With Cargo
With most container ships built in the Far East these days, there is a regular stream of smaller box vessels that position from their Chinese, Korean or

To be continue…

Source: Alphaliner Newsletter

Box-ship Shortage And Sky-High Rates Prompt Carriers And Forwarders To Seek “Creative” Shipping Options (2/2)

continue…

Japanese yards to Europe, the Med, or the Americas. In the past, ships made this trip sometimes with ad hoc cargoes, some of which destined for West Africa, with breakbulk cargoes, and sometimes empty. Today, these newbuildings are filled up with containers to make the delivery trip a commercial voyage - and a lucrative one at today’s rates.

Forwarders Charter Multipurpose Vessels And Open-Hatch Bulkers
Frustrated with the major carriers, the big forwarding firms have begun to selectively charter non-cellular multipurpose cargo vessels, heavy-lifters and open-hatch bulk carriers. These trips are performed with pure container loads. Since the ships can carry containers but are not perfectly suited to do so and may be cumbersome to load and discharge, schedules are typically limited to A-to-B trips without (m)any intermediate ports. Recent voyages include Shanghai - Hamburg and Shanghai - Antwerp- Hamburg.

MPP Carriers Become More Active In The Container Market
Operators that already run semi-liner multipurpose services, mainly geared toward breakbulk under normal circumstances, have begun to market their services to carry containers. These services ’always’ carried limited quantities of boxes, but shipping lines now try to expand this business - surely not forever, but while the sky-high rates last.

Regional Container Lines Plan Deep-Sea trips
A few regional-intra Asia lines are planning to send some of their midsized container ships on new ’services’ to Europe or the USA. While these carriers try to market their efforts as ’regular service’, most likely this will be limited to a handful of extra sailers, during the freight rate bonanza.

Carriers Charter Multipurpose Vessels For Container Duties
Scarcity of suitable tonnage has already prompted several shipping lines to charter container-friendly multipurpose vessels to perform regular scheduled container sailings. This is no longer limited to regional trades, where the ships’ slower speed is of no concern: The 40+ day China to Brazil trip of the mpp/ bulk carrier COSCO SHIPPING HOROR proves, that this is now also being done on a number of long intercontinental deep-sea trips.

Source: Alphaliner Newsletter

Air Freight Outlook

Air Cargo Demand

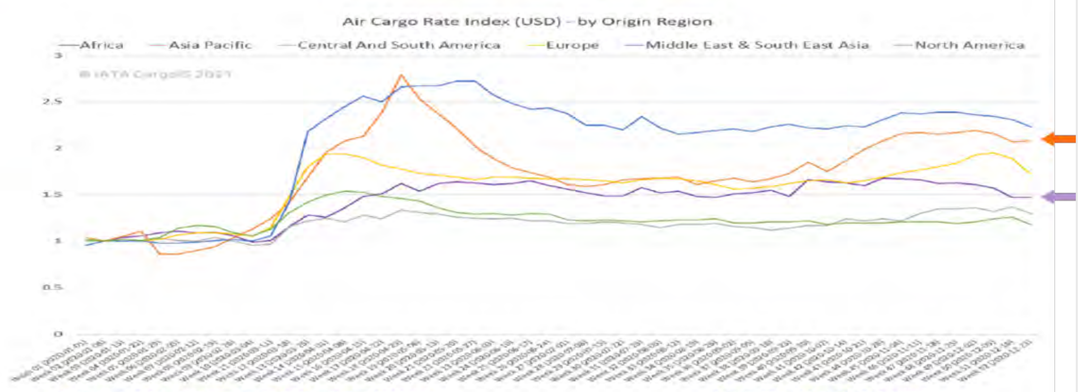
The average rate increase for the origin region Middle East and South East Asia continues to be higher than for other regions.

In December, average rates increased from Asia Pacific and Europe. Rates decreased from the Middle East and South East Asia and Africa and remained stable in the Americas.

There is a decrease in rates from all regions in the last week of December.

What is causing the rate fluctuation? Strong demand? Capacity constraint?

Regional Trends



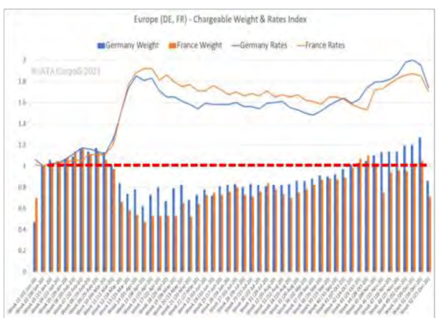
Source: Classic CargoIS based on CASS   Index 1 = Week 2 2020

Notes:
- Based on all CargoIS origin countries, international shipments only.

Same trend can be seen in Europe and Americas outbound;

Demand reaching pre-covid level while rates remain higher than usual until mid-December.

EUROPE (DE, FR) Outbound



Source: Classic CargoIS based on CASS   Index 1 = Week 2 2020

Notes:
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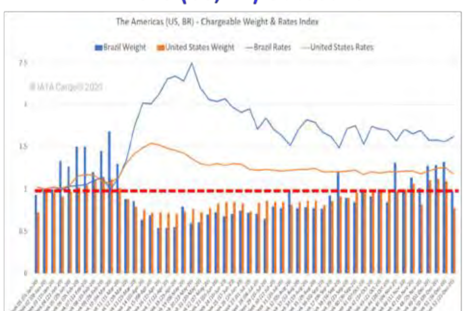
AMERICAS (US, BR) Outbound



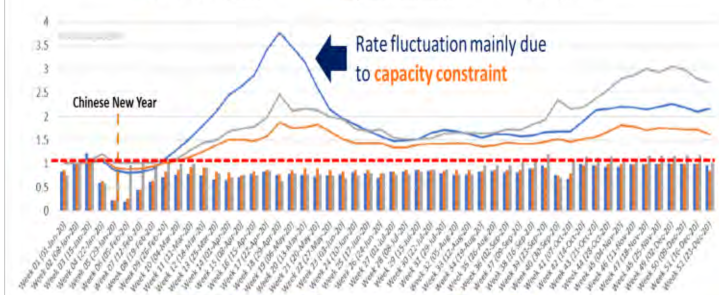
Source: Classic CargoIS based on CASS   Index 1 = Week 2 2020

Notes:
- Based on CargoIS origin countries, international shipments only.

Do we see strong demand in the market?

Rate significantly increased since October. Maintained its peak until mid December. Rate surge was mainly due to demand increase, not only the capacity constraint.

Far East Demand Trends Comparison



Source: Classic CargoIS based on CASS   Index 1 = Week -2 2020

Notes:
- Based on CargoIS origin countries, international shipments only

Air Freight Outlook (Supply)

TASCO Yusen Logistics

Today's situation:

1. Diminished belly capacity
2. Dominance by a few all-cargo freighter operators

Hurdles for belly capacity recovery

Financial issues

Airlines will have tremendous difficulties obtaining financing from any sources other than government funding and subsidies to restart. In such a bleak revenue environment, passenger airlines will be desperate to generate revenue from international widebody operations.

Source: The Load Star

Retirement of cargo-friendly aircrafts

Airlines will start to slim down and "right-size" their fleets, retiring less-efficient, older widebody aircrafts such as the B747, A380, A340, B777, B767...etc that may not be suitable for conversion to freighters*. These older widebodies retiring are cargo-friendly passenger aircraft with substantial belly capacity.

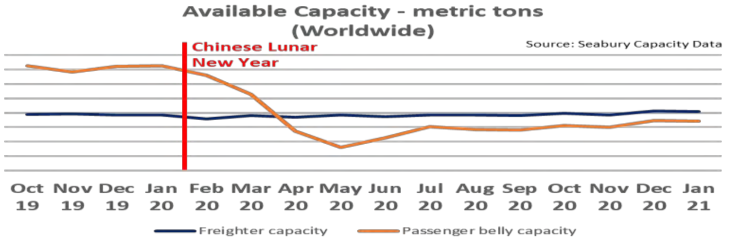
Source: The Load Star

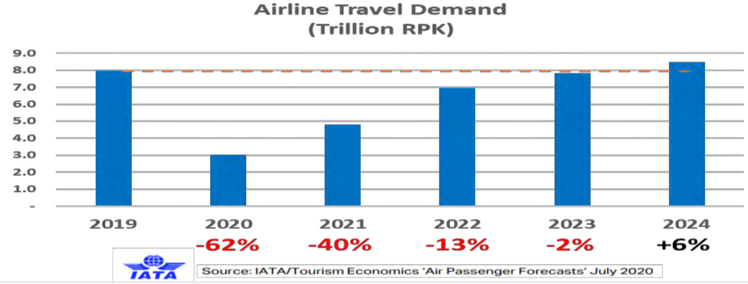
*Reference: BBC News

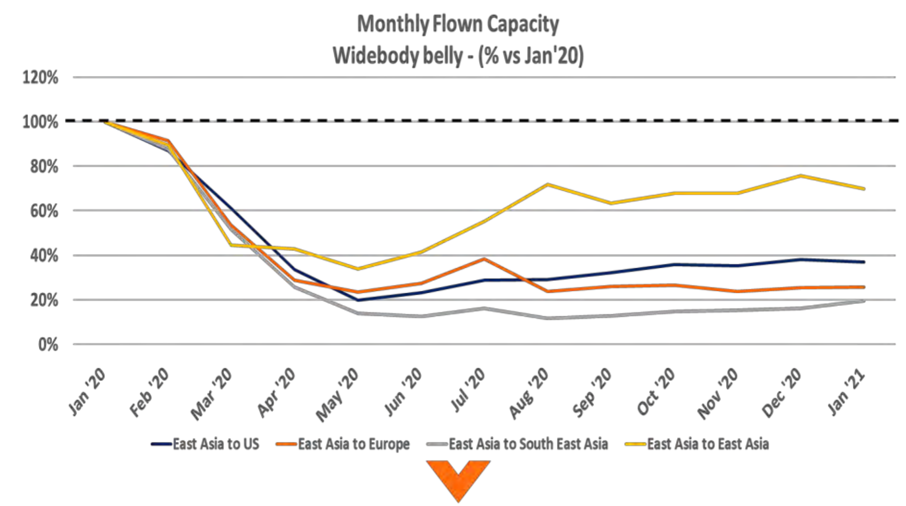
Low air & travel demand

Global passenger traffic (revenue passenger kilometers or RPKs) will not return to pre-COVID-19 levels until 2024, a year later than previously projected. This more pessimistic recovery outlook is based on **1) Slow virus containment in the US and developing economies, 2) Reduced corporate travel** and **3) Weak consumer confidence.**

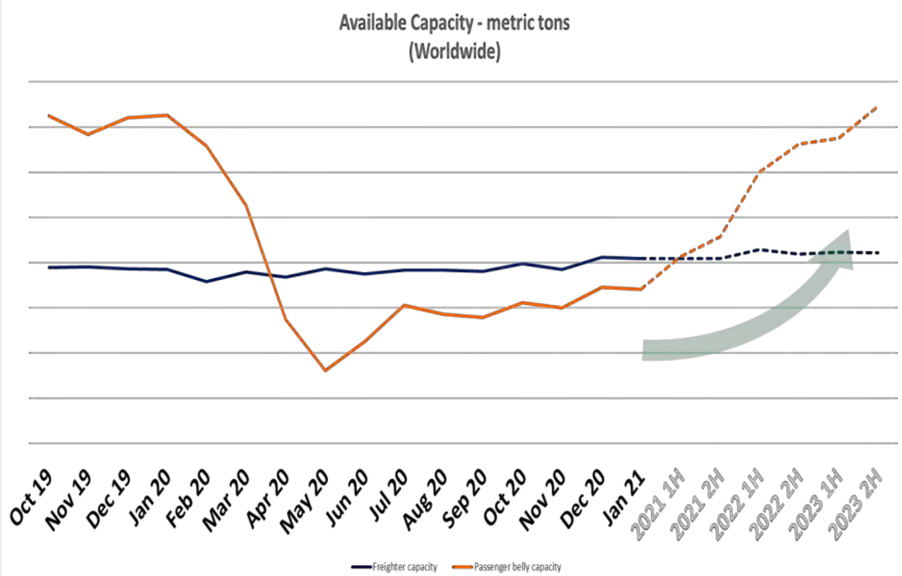
Source: IATA Pressroom (July 28th, 2020)







Capacity recovery is mainly coming from East Asia to East Asia lanes; still at approx -30% level vs Jan'20.
US/EU bound long-haul lanes are still struggling to recover; still below -60% level.



Air Freight Outlook (Overall)

TASCO Yusen Logistics

What is happening?

1) Supply (belly capacity) may take approx. 3 years to recover to 2019 level (2024)
This is mainly due to slow recovery of air travel demand.

2) Supply is gradually recovering for Intra-Asia, but US/EU bound is still at 20-30% of January'20 level.
Most of the recovery is from Intra-Asia; China related lanes. Long-haul capacity is still vastly limited.

3) Rates from Hong Kong and China are sharply rising again, regardless of huge demand drop at the end of 2020.
While worldwide regular common space capacity are still widely limited...
Demand is coming back rapidly due to pre-Chinese New Year demand and more ocean cargo shifting to air.

What may happen next?

1) As passenger demand remains low, airlines will unlikely resume operations; capacity will remain at low level.
Airlines have been right-sizing their fleet, which involves preserving aircrafts at remote locations, retiring aircrafts and postponing new aircraft deliveries. As IATA announced, capacity will remain to be limited for another 3 years.

2) Chinese Lunar New Year is coming; capacity constraint and rate surge expected in the 2nd half of January.
Although market has been stabilized as peak season demand has subsided, rate remains high and upcoming Chinese Lunar New Year may boost pre-holiday demand and trigger another sharp rate surge again.

Capacity constraint to be continued

- **Air travel will not recover until 2024** (Source: Business Traveler)

IATA has released an updated global passenger forecast predicting that air travel will not return to pre-COVID-19 levels until 2024.
The more pessimistic recovery outlook is based on recent trends of:

1. Slow virus containment in the US and developing economies
2. Reduced corporate travel
3. Weak consumer confidence

- **Cathay to park 40% of fleet in storage** (Source: Air Cargo News)

Beleaguered Cathay Pacific will move about 40% of its fleet to long term storage locations overseas, as it adjusts downwards its forecasted capacity for the coming months.

- **Airlines to retire iconic planes sooner** (Source: Business Insider)

The reduction in demand caused by the global spread of COVID-19 has accelerated some of the retirements, meaning more iconic aircraft will be permanently grounded sooner than originally expected.

B757-200 (AA)	B767-300ER (AA)	B747-400/400M (KL)
A340-600 (VS)	A380 (LH/KE/QF/AF)	B747-400 (QF/VS/BA)
B777-200 (DL)		...etc

Possible air cargo demand boost

- **Increased retail/e-commerce demand** (Source: Air Cargo News)

Cross-border e-commerce volumes have accelerated in 2020 spurred by lockdown measures and will provide a strong avenue for growth in years ahead. Retail and fashion are the leading verticals, as they recorded a 44% and 27% year-on-year revenue growth respectively for the first eight months of 2020.

- **Possible demand shift from Ocean to Air** (Source: Freightos)

Ocean freight's recent volatility is likely to continue through the spring of 2021, with severe congestion, delays, equipment shortages and high rates. This is driving more importers to air cargo, squeezing capacity and driving up prices. The growth of e-commerce during the pandemic, and the continued demand for PPE, air cargo costs might not have reached their peak just yet. (as of Feb 3rd,2021)

- **Demand bouncing back in 2021** (Source: Air Cargo News)

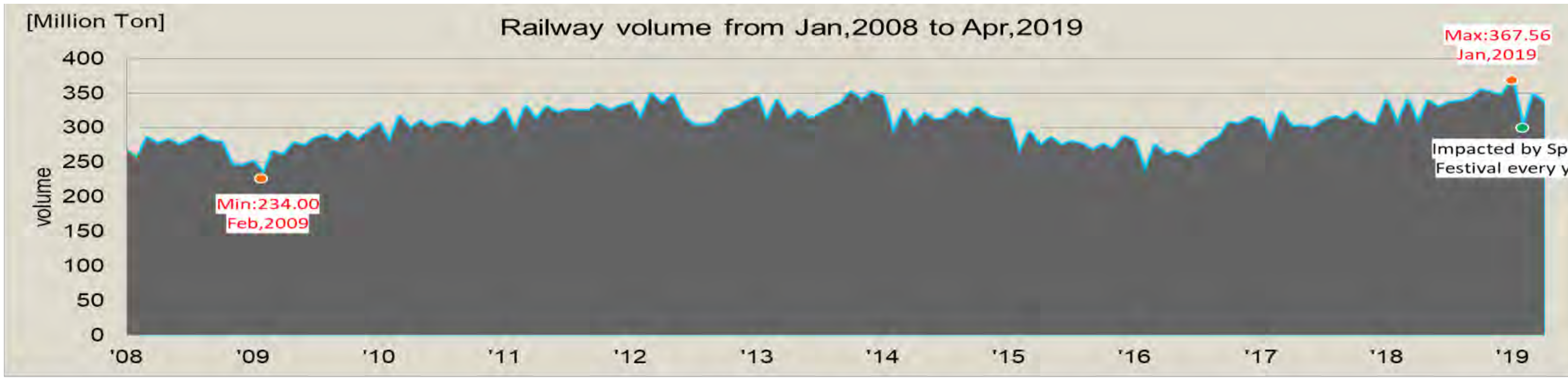
Transport Intelligence (Ti) expects both ocean and air freight forwarding to see a strong boost from the industrial and automotive sectors in 2021. Automotive sales were down approximately 25-30% for H1 2020 but are predicted to rebound to around 17% for the full year.

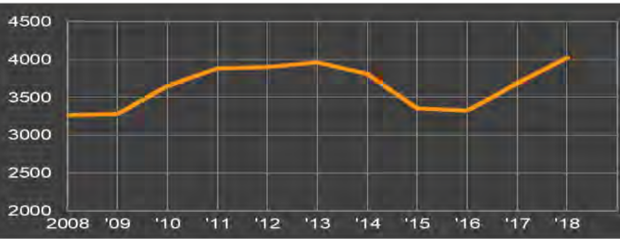
- **COVID-19 Vaccine Progress** (Source: NY Times)

A growing number of countries across the world have started to give full approval or emergency authorization for the use of leading vaccines.

Railway & Cross Border Land Freight in China

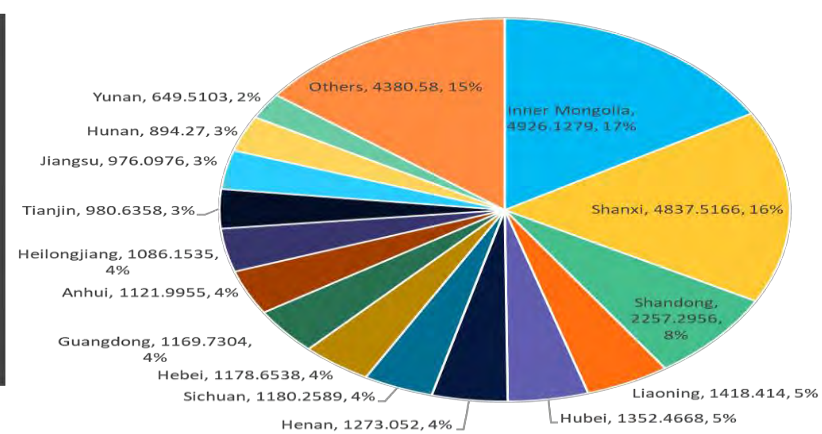
Trend of China Railway Transportation Volume for X-Border





The China's railway freight volume continuously developed till 2013.Since that year, it has been negative for 3 years consecutively. From 2016,obviously, the railway freight volume rebounded (nearly 60% coming from **coal** transport).
The record high volume by month level existed in Jan 2019,it is a significant point that we optimistically consider that the railway transportation will continue to develop in the coming years in China.

Total railway Volume from 2008 to 2018 (top 15)



The **top 5 provinces ,** Inner Mongolia, Shanxi, Shandong, Liaoning, Hubei, occupied **over 50%** of total volume.

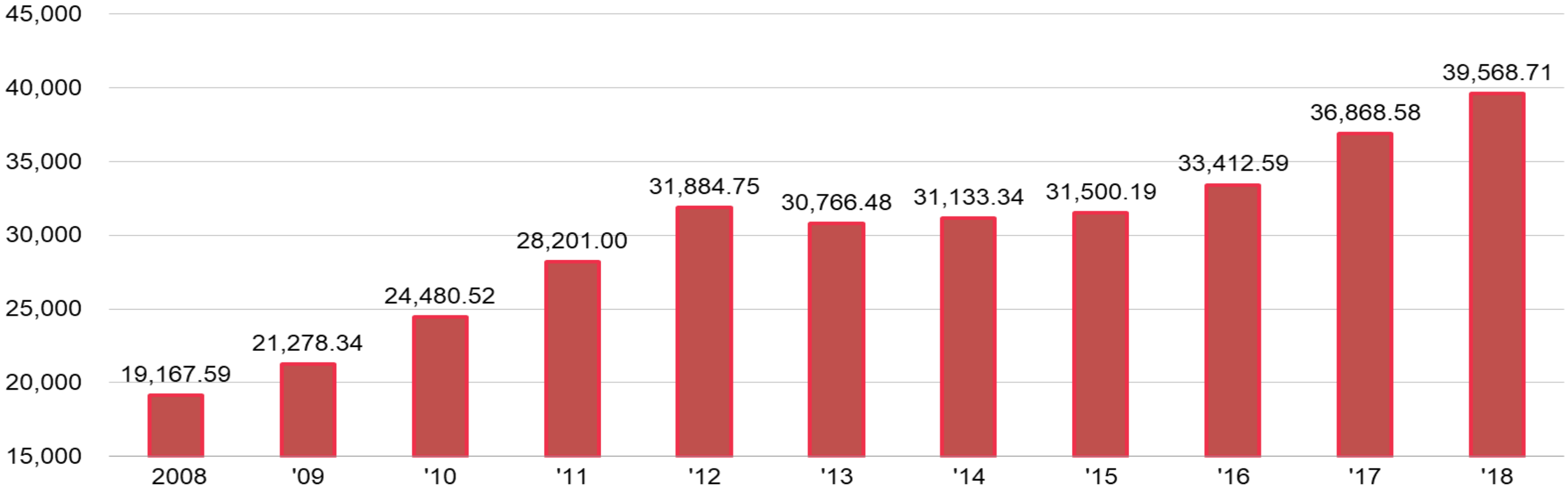
Inner Mongolia, Shanxi and Liaoning are the major coal production areas

Shandong has high volume of cokes & ores.

Hubei, mineral (raw materials) is the major goods to transport via railway.

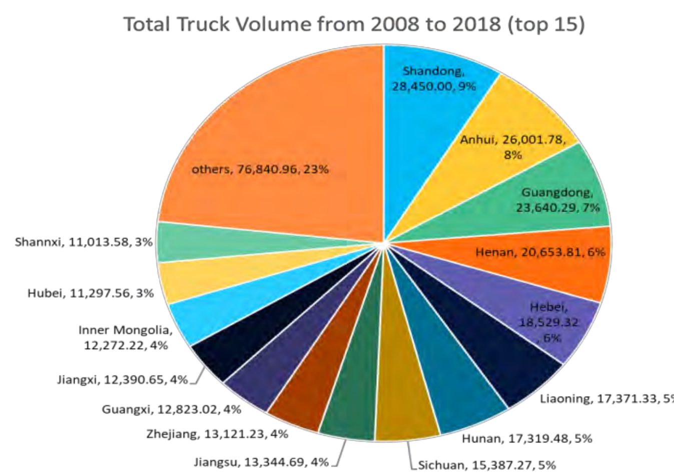
Trend of China Truck Transportation Volume for X-Border

TASCO Yusen Logistics



The China's truck freight volume continuously developed, **206%** increased from 2008 to 2018 and the volume will keep increasing due to the growing demands.

The **top 5 provinces,** Shandong, Anhui, Guangdong, Henan and Hebei, occupied over **35%** of total volume.



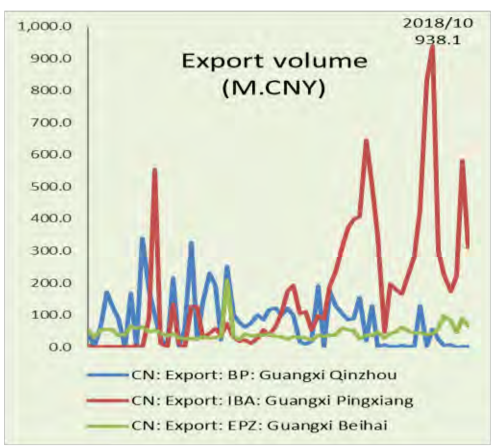
Pingxiang – Gateway to Southeast Asia

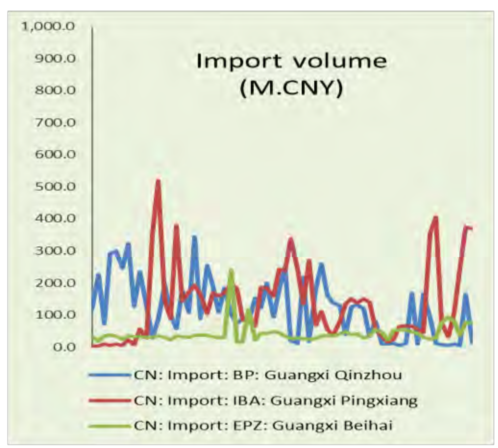
1,Pingxiang gateway is **most famous** in China for its cross border trucking transportation service to southeast Asia.
The shifting happens at the "Friendship Gate" which is the main road entrance from China into Vietnam and thereafter other ASEAN countries.

2,Nanning BLP,according to the data,there is little volume for import/export business,seems **U-turn mode** is the major service.

3,Qinzhou bonded port area, known as the **only bonded port area in west China**, is the closest bonded port area to ASEAN in China.

4,Beuhai export process zone is the **closest EPZ to southeast Asia**, and it is the only coastal EPZ in west China.

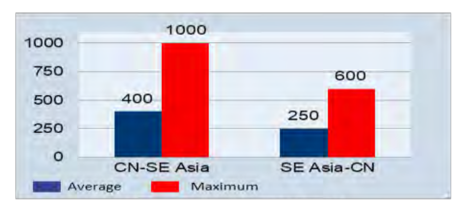




Data from 2014 Jan to 2019 April

Obviously, for both export and import, the volume in Pingxiang is much higher than Qinzhou BP and Beihai EPZ.

The daily volume by truck level as below, for the cross border business between China and Southeast Asia, export volume is higher than import.



Daily Volume (truck level)

In Pingxiang gateway ,trucking is the main transportation mode, while in Qinzhou and Beihai, mainly airfreight and ocean freight business.

Moving Forward

TASCO Yusen Logistics

4C

Complete

- Logistics Network
- Services & Solutions
- People, Knowledge, Skill Set
- Automation (Humanless & Contactless)
- IT (WFH)

Complex

- Horizontal Evolvement (Air Sea Land etc)
- Vertical Evolvement (Traditional vs On Line)
- BCP (Response, Back Up, Decentralization)
- Covid19 Compliance (Human & Cargo)

Consolidate

- M&A (cross border & cross services)
- Player Categories (Sizeable vs Niche)
- No Man’s Land

Collaborate

- Private Sector
- Public Sector
- Education Sector (R&D)

Q&A

THANK YOU