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INSIDE

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Freight Price Challenge

Freight Current Landscape, Seasonal Factors, COVID Related Factors, and Future Scenarios

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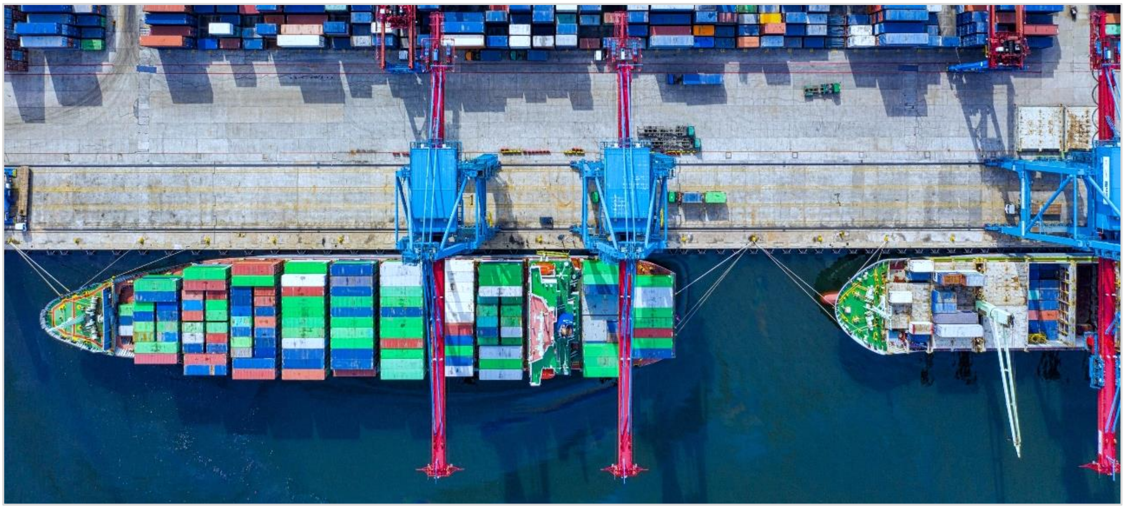


Freight Current Landscape

We have experienced, in the last weeks, a sharp and an unprecedented increase in freight price as well as delays in shipments worldwide.

Prices for freight from China to Toronto, for example, grew by as much as 100% for shipments at the end of January. Even with this price increase, the month of January has been a challenge to ship goods, due to "bidding wars" when booking vessels before the Chinese New Year.

The COVID pandemic, with safety measures and new processes, has also impacted seaports around the world and Vancouver is not an exception, which is also causing delays for shipments arriving in Canada.

We believe this situation is not sustainable and should gradually improve after the Chinese New Year, but we recommend our customers to understand the factors driving these prices and delays, and plan accordingly when importing products from China.

Seasonal Factors

In normal conditions, we would expect two peak periods for freight prices - a first peak from September to November, then a second smaller peak in January due to shipments before the Chinese New Year, with regular level of shipments and prices from March to August.

These seasonal factors are more predictable, and companies can plan when working with trading companies and ensure shipments are made during the lower price season.

Christmas and End of the Year – as companies build inventory and have products ready for the Holidays, this represents a high impact on freight price, with high demand across the globe for imports from China.

Chinese New Year – as factories close for 2 to 4 weeks in February, importers normally rush to have products shipped out of China in January, increasing demand for containers and vessels, driving prices up.

COVID Related Factors

The COVID related challenges are now amplifying the seasonal pressure in shipments from China, and three factors have contributed to the challenge:

China imbalance between export and import – the COVID pandemic affected manufacturing capacity around the world, and China had to increase the supply of goods globally. This resulted in about 20% YoY increase in China's export in the last months of the year, putting pressure in container demand which affected freight prices. By the end of 2020, for example, China was exporting 3 containers for every 1 container of imports.

Seaports delays – COVID has also affected processes and workflows at seaports around the world, delaying cargo ships. In this context, the number of containers returning to China was impacted, with container turnaround at 100 days, up from a normal level of 60 days. As 60% of all global freight is moved by containers, the demand-supply in China was greatly affected, impacting price.

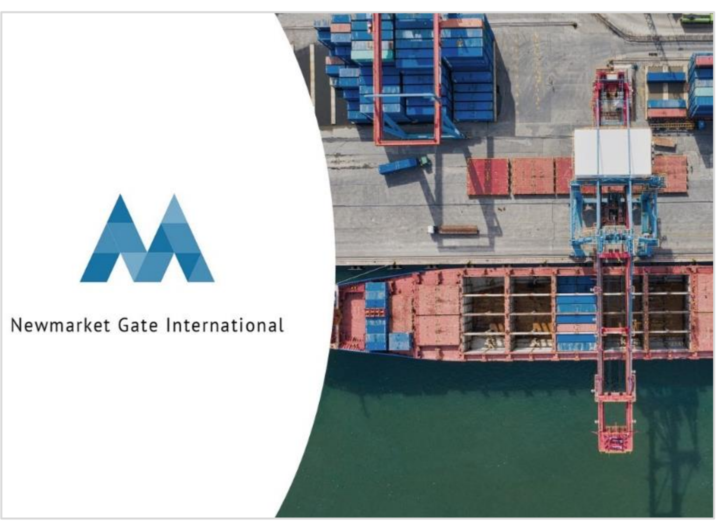
International passenger flights and cargo – finally, with passenger flights grounded, additional freight was transferred to cargo ships, which also put pressure on containers and vessel availability.

Future Scenarios

In the short term, we believe we will gradually see an improvement in the situation as production in China will now stop due to the Chinese New Year. This will give time for vessels and containers to return to China, helping to rebalance supply-demand for containers, therefore improving price.

In the mid and long terms, the situation should completely normalize, supported by several points:

- With pandemic improving, production will restart in other countries, reducing pressure to import from China.
- As flights restart, some cargo will again be shipped by air.
- China is responsible for more than 95% of container production globally and its production is currently at an all-time high, which should help to rebalance demand-supply for containers.
- China's government has a high interest in supporting manufacturing export. Many suppliers in China are facing challenges as they keep their products in stock, impacting their production and financial health. With this, we can also expect support from the government to help to normalize this situation.



Final Remarks

In conclusion, even though freight price has been a challenge in the last weeks, we expect a better position starting in March, with a gradual improvement and rebalance globally.

Companies should plan for short and long term, so financial and production impacts are minimized.

Please contact us at 1-866-644-2233 or visit our website at www.newmarketgate.com.

Source-credits: Reuters, Freightos and BBC News.