

Europe Transport

BofA Freight Follower: 2023 transpacific ocean contract rates near spot

Industry Overview

Capacity utilisation remains lacklustre

Our tracker of the latest high-frequency freight indicators shows that the decline in ocean spot rates continued in March due to low capacity utilization on most of the key routes, in particular the transpacific. Container spot rates declined by -7% m-m (now -11% below early Jan. 2020 levels and -80% y-y). Transpacific contract rates signed so far are \$1000-1200/FEU as per industry sources, which is close to current spot levels. A recent survey by Flexport shows that a third of transpacific shippers had no plans to sign fixed contracts this year and prefer to use spot deals in the short-term to benefit from lower rates. Air freight rates improved in March driven by a slight pickup in demand post holidays while air freight capacity improved y-y in February due to the earlier timing of LNY this year. Our discussions with industry participants suggest the air freight market is oversupplied with plenty of dedicated freighter capacity, and we expect the decline in rates to resume.

Ocean: Steady decline in rates, low take up of contracts

Ocean rates declined -7% m-m in March, better than the -8% drop in Feb. SCFI posted a short-lived w-w gain pf +0.3% on 17 March, with rate gains limited to Asia-Europe and Mediterranean. USEC/USWC rates declined -16%/-9% m-m respectively. Asia-Europe rates declined only -4% m-m on high capacity utilisation. Global container volumes declined -10% y-y in Jan. (4% below 2019 levels). Global port congestion remains relatively stable at 6.7% of the fleet, well below the peak of near 15%. Liners continue to add more capacity via new ship deliveries amidst weak market conditions while 3.1% of the fleet are idle (ex-shipyards). ZIM expects spot rates recovery in 2H with 2023 volumes significantly above 2022 levels ([ZIM](#) note).

Air: volumes -8% y-y in Feb, rates pick up in March

Air freight rates were up c6% m-m in March due to uptick in demand as factory output recovered post LNY holidays with rates on transpacific and Asia-Europe both up. Global air freight volumes declined -8% y-y in Feb as per IATA data, an improvement from -15% in Jan, likely due to the earlier timing of LNY this year. Global air cargo capacity was up 9% y-y in Feb. (4% in Jan) and c1% above 2019 levels. Global loads improved 1ppt m-m to 46% in Feb. (down c8ppt y-y).

BLT conference feedback: Demand rebound in 2H?

Freight companies attending our BLT conference on 13-14 March noted early signs of freight demand stabilization in March but think it is too early to call an end to the de-stocking cycle and are hopeful of a demand rebound in 2H ([feedback](#) note). BAC US aggregated credit and debit card data shows card spending per household slowed in March. Furniture and clothing spending declined -17% and -4% y-y, respectively. See latest [BofA on USA](#) report for limitations, disclosures and methodology in connection with BAC card data. Retail inventories are 13% higher than 2019 levels.

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Refer to important disclosures on page 17 to 19.

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Timestamp: 30 March 2023 12:30AM EDT

30 March 2023

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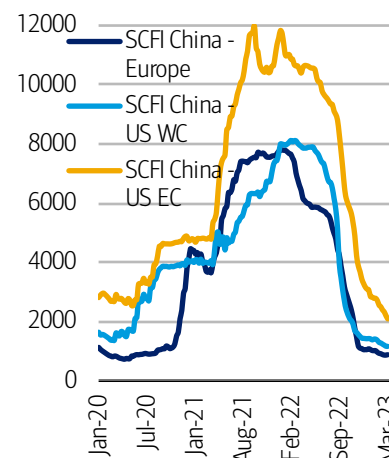
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Exhibit 1: SCFI indices by trade lane

USEC rates are down by -16% m-m



Source: Clarksons

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Definitions:

USWC: US West Coast

USEC: US East Coast

SCFI: Shanghai Containerized Freight Index

LNY: Lunar New Year

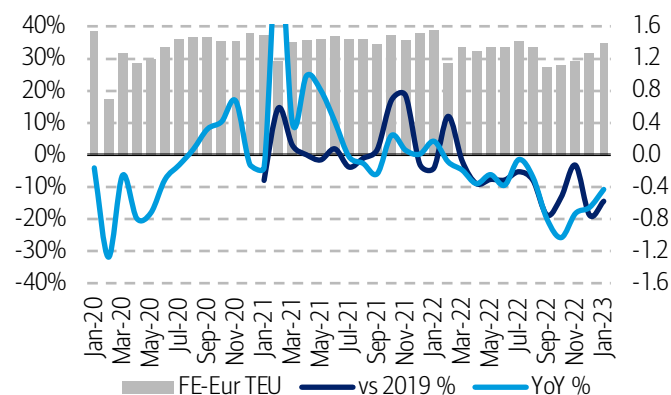
BLT: Business Services, Leisure and Transport

Container shipping data

Shipping Volumes

Exhibit 2: Far East – Europe volumes (TEU) and growth (%)

Asia to Europe volumes were down c11% YoY in January 2023

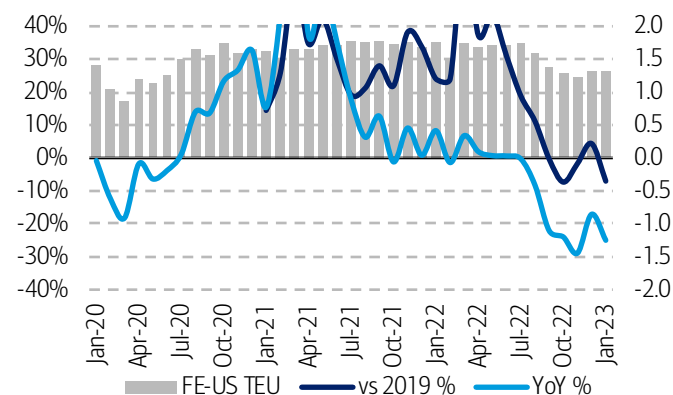


Source: Alphaliner

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Exhibit 3: Far East – US volumes (TEU) and growth (%)

Transpacific volumes were down c25% YoY in January 2023

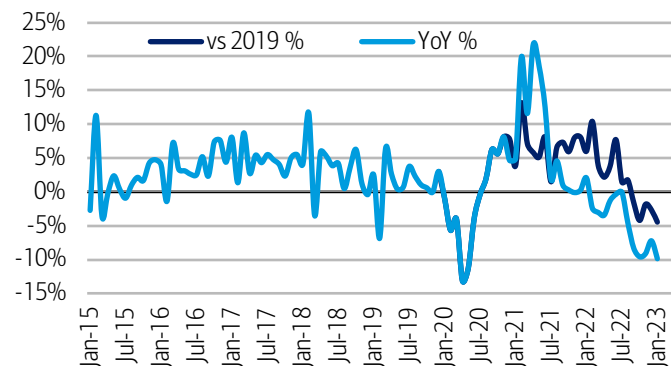


Source: Alphaliner

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Exhibit 4: Global container shipping volumes (YoY and vs 2019 %)

Global container volumes were down c10% YoY in January 2023



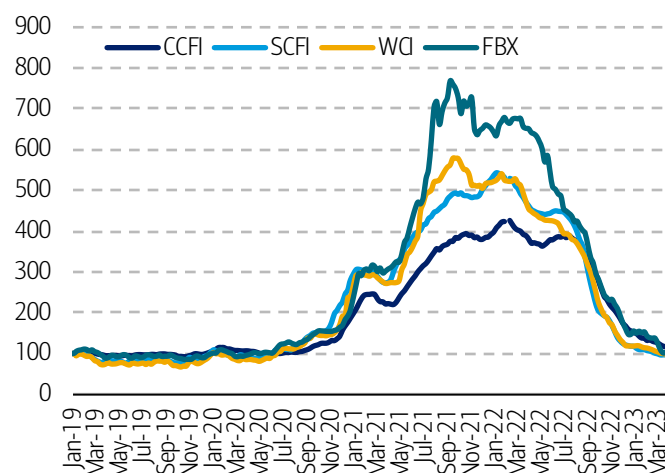
Source: Bloomberg

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Shipping rates

Exhibit 5: Container shipping freight rates, indexed to January 2019

SCFI declined -7% month-on-month

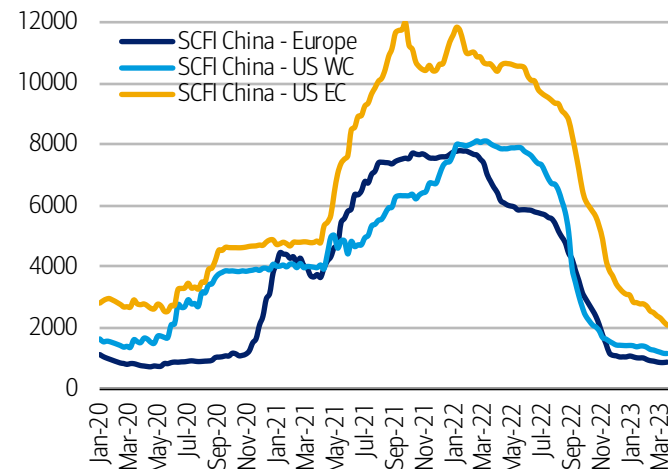


Source: Refinitiv Eikon, Drewry, Bloomberg

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Exhibit 6: SCFI indexes by trade lane

Asia-Europe rates are down by -4% month-on-month

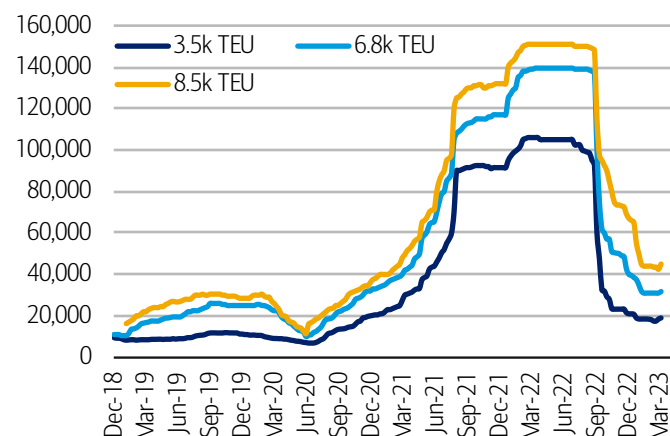


Source: Clarksons

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Exhibit 7: 6-12 month Timecharter rates

Short-term charter rates were volatile in March ...

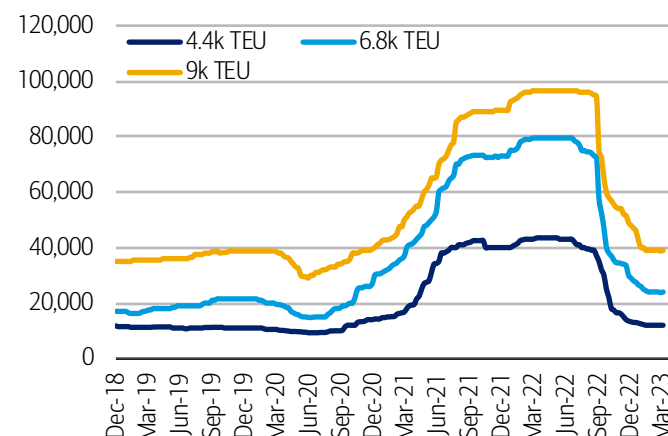


Source: Clarksons

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Exhibit 8: 3-5 years Timecharter rates

... with medium-term rates broadly steady in March ...

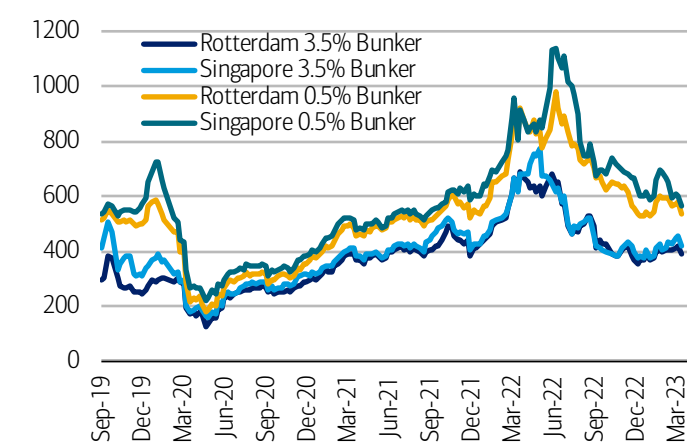


Source: Clarksons

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Exhibit 9: Bunker fuel prices (\$ per tonne)

Bunker fuel prices have declined over the past month...

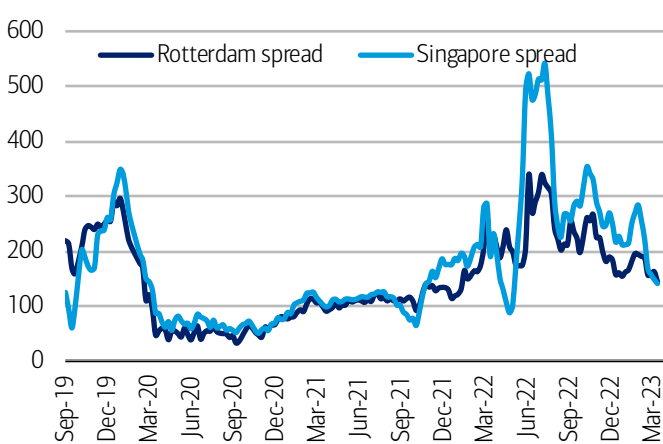


Source: Clarksons

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Exhibit 10: Rotterdam and Singapore 0.5% to 3.5% spread (ppts)

... while the high and low sulphur spread has tightened



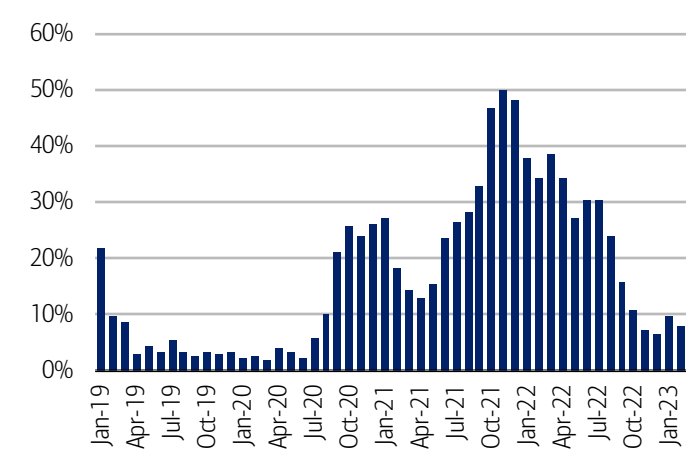
Source: Clarksons

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Port disruption

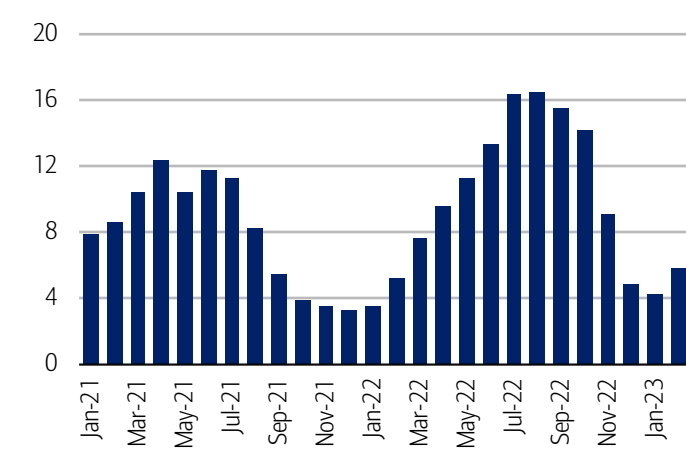
Exhibit 11: US West Coast container dwell time (% > 5 days)
USWC containers dwelling >5 days decreased to c8% in February 2023



Source: PMSA

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Exhibit 12: US West Coast rail dwell time in days
USWC average rail dwell times increased to 6 days in February 2023



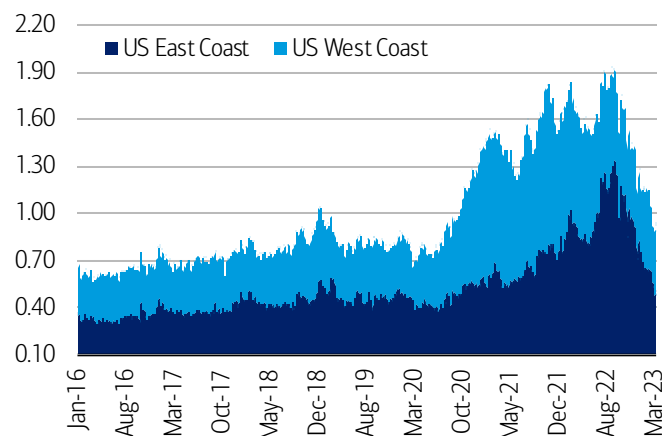
Source: PMSA

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Exhibit 13: Vessels in port – US East Coast & West Coast (TEUm)

US East Coast and West Coast port congestion eased in March

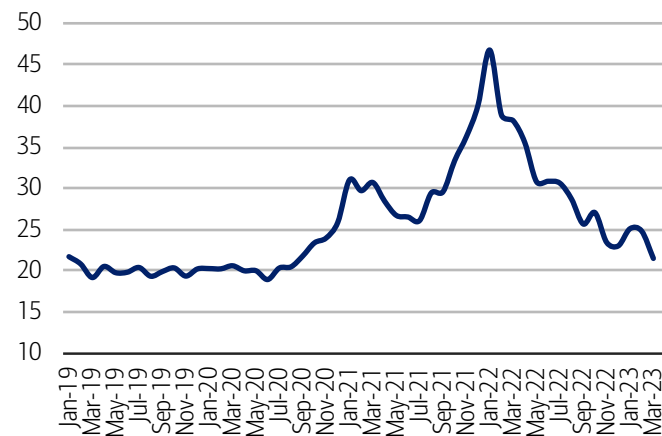


Source: Clarksons

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Exhibit 14: China to USWC average containership duration (days)

Transpacific transit times declined in March 2023

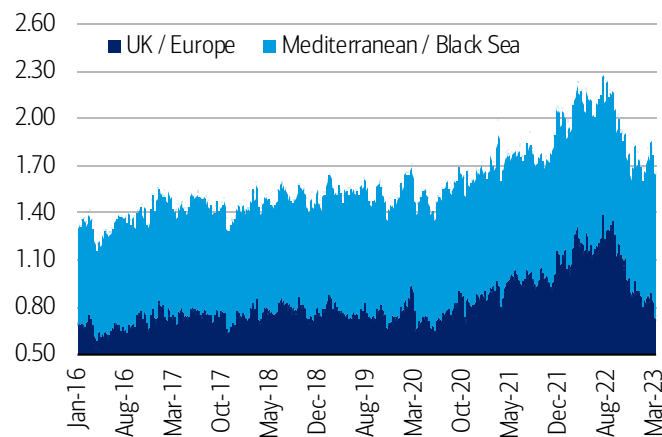


Source: Clarksons

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Exhibit 15: Vessels in Port – UK/Europe & Mediterranean (TEUm)

Port congestion in UK is easing while Mediterranean is rising

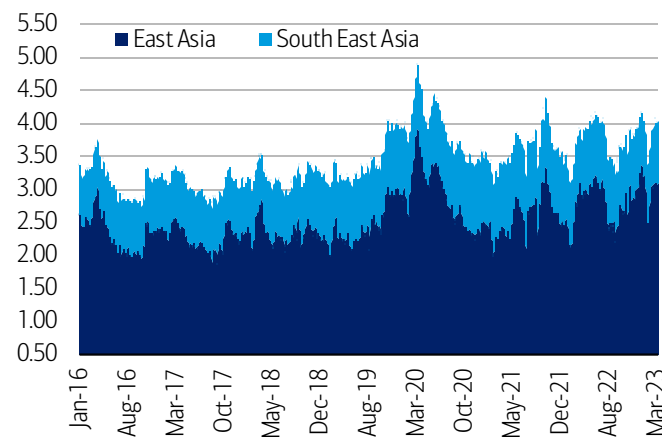


Source: Clarksons

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Exhibit 16: Vessels in port – East and South-East Asia (TEUm)

Port congestion in East Asia and South East Asia is rising

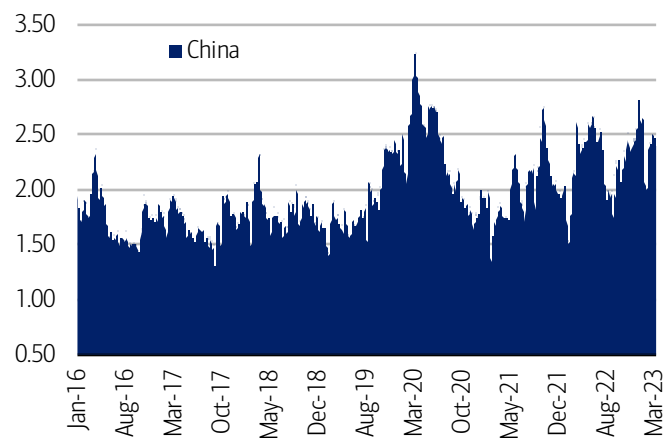


Source: Clarksons

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Exhibit 17: Vessels in port – China (TEUm)

Chinese port congestion has increased over the past month

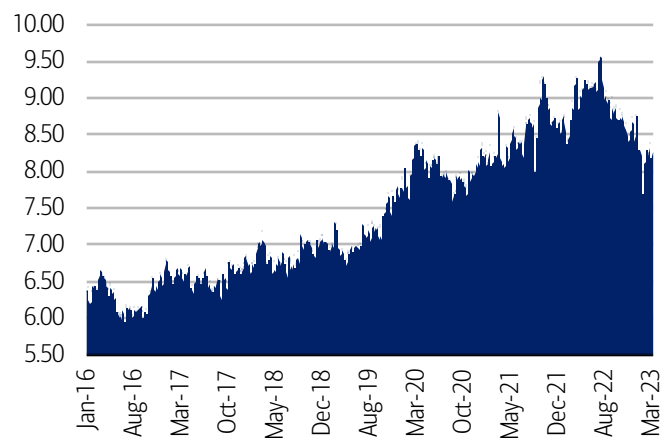


Source: Clarksons

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Exhibit 18: Vessels in port - Global (TEUm)

Global port congestion elevated but is now well below peak levels



Source: Clarksons

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Container boxes**Exhibit 19: Box Availability in Shanghai (CAx)**

Containerbox shortages have eased in Shanghai...



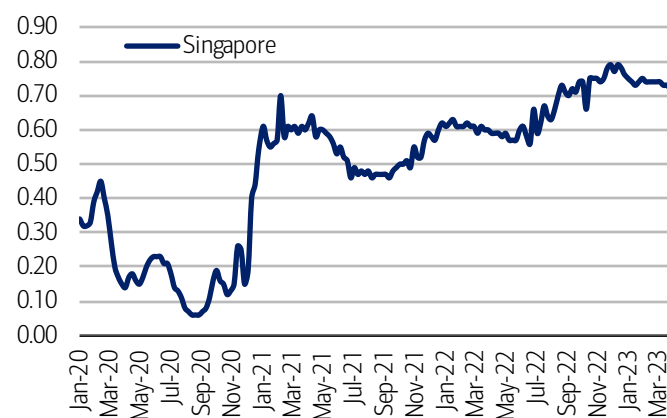
Source: Container xChange

Note: value of >0.5 means more boxes enter than leave and <0.5 means more boxes leave than enter. A low value reflects a deficit of containers.

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Exhibit 20: Box Availability in Singapore (CAx)

... and have also recovered in Singapore



Source: Container xChange

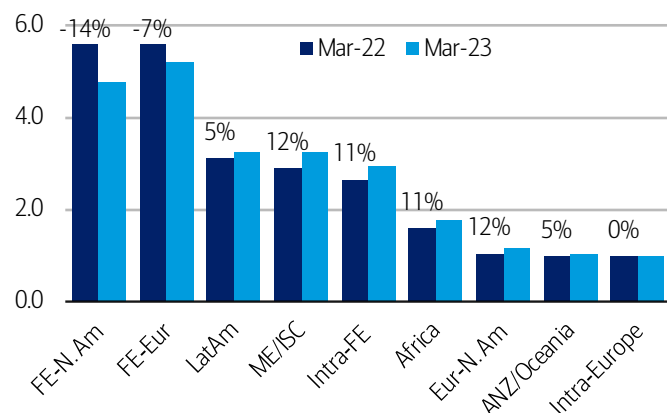
Note: value of >0.5 means more boxes enter than leave and <0.5 means more boxes leave than enter. A low value reflects a deficit of containers.

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Capacity deployment

Exhibit 21: Global deployment by cellular TEU capacity (TEUm)

Europe to N. America & ME/ISC have seen the biggest YoY increase in capacity at +12%

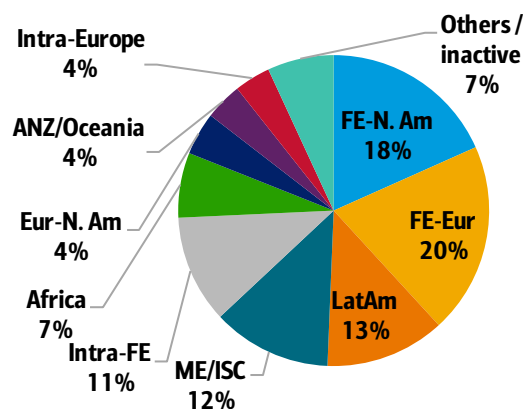


Source: Alphaliner

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Exhibit 22: Global deployment by TEU capacity in Mar-23 (% of total)

Asia-N. America and Asia-Europe dominate global trade lanes



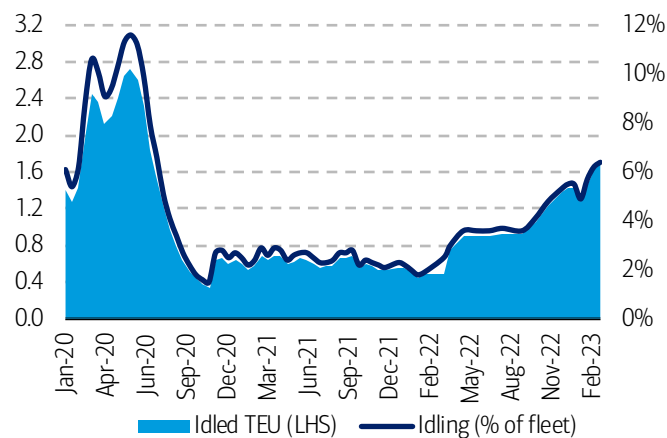
Source: Alphaliner

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Idle capacity

Exhibit 23: Idled TEU (and % of global fleet)

Idling (including capacity at shipyards) has risen to 6.4% of global fleet

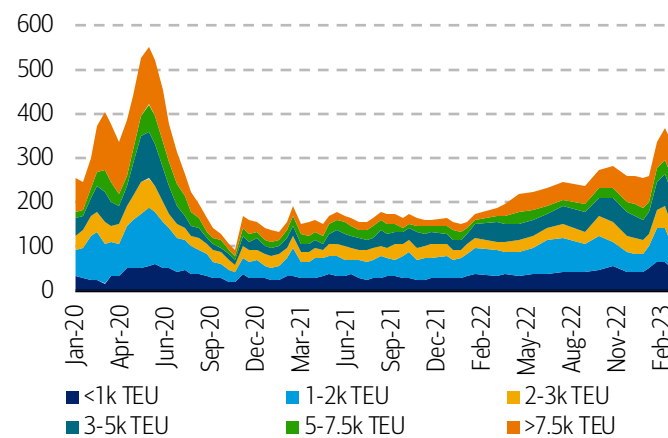


Source: Alphaliner

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Exhibit 24: Idled TEU breakdown by vessel size (number)

Inactivity was mixed across vessel sizes



Source: Alphaliner

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New orders

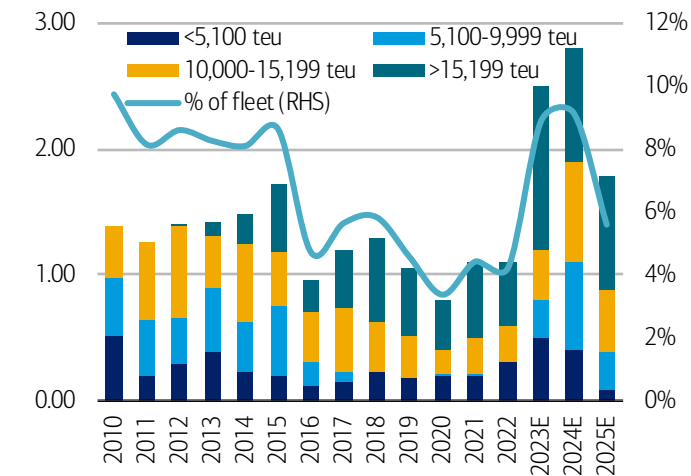
Exhibit 25: Global orderbook to fleet (%)
The global orderbook to fleet ratio is at c29%



Source: Clarksons

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Exhibit 26: Deliveries per year (TEUm) and % of fleet
There will be a big step up in fleet deliveries in 2023E



Source: Alphaliner

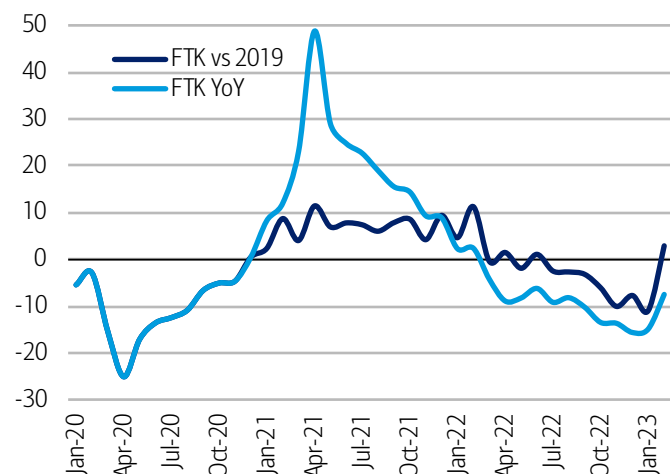
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Air freight data

Air Freight Volumes

Exhibit 27: Global FTK (% vs 2019 and % YoY)

Global air cargo volumes were down c8% YoY in February 2023

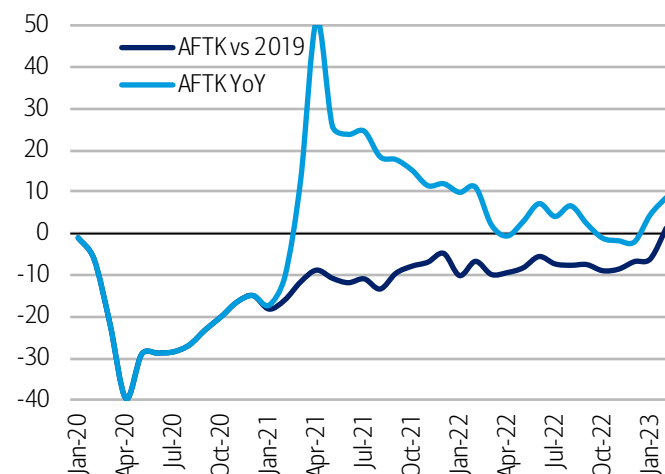


Source: IATA

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Exhibit 28: Global AFTK (% vs 2019 and % YoY)

Global air cargo capacity was up c9% YoY in February 2023

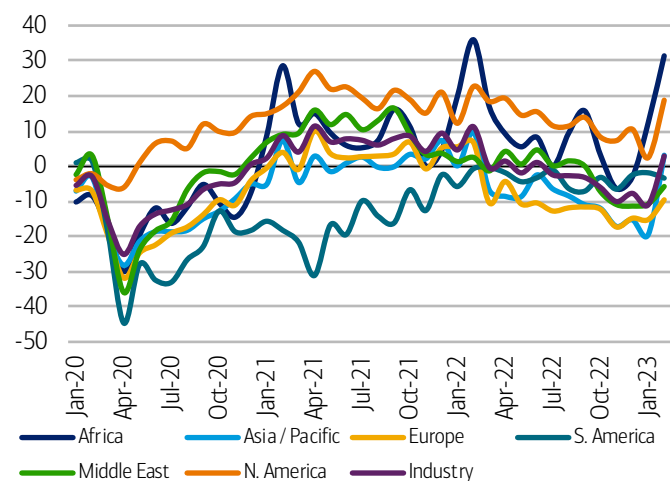


Source: IATA

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Exhibit 29: FTK growth by region (% vs 2019)

Volumes improved across most regions' vs 2019 levels in February 2023

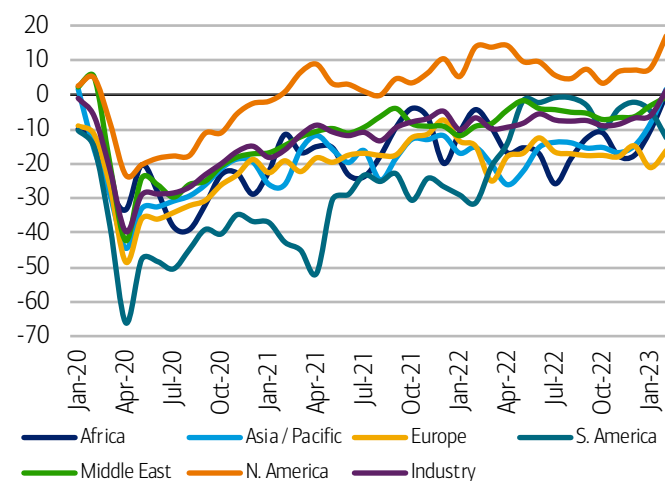


Source: IATA

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Exhibit 30: AFTK growth by region (% vs 2019)

Capacity improved the most in Africa vs 2019 levels in February 2023

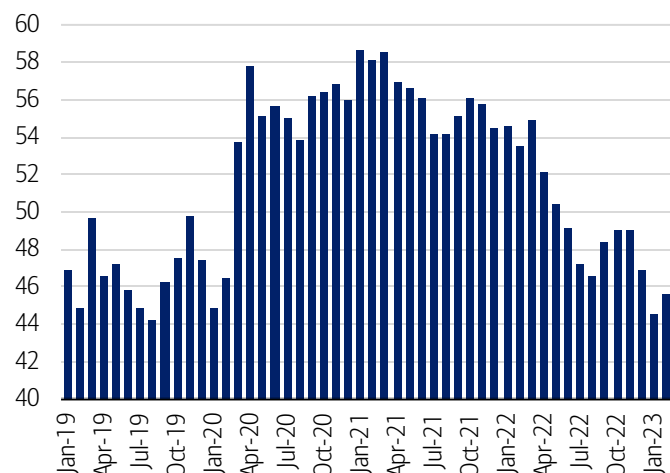


Source: IATA

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Exhibit 31: Global air freight load factor (%)

Load factor increased M-o-M to c46% in February 2023

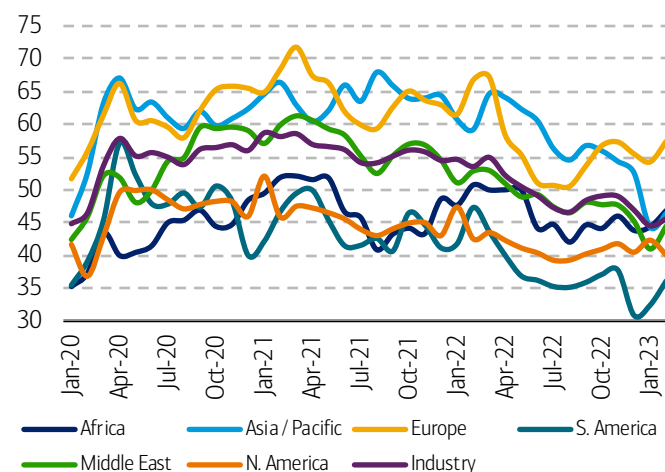


Source: IATA

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Exhibit 32: Air freight load factor by region (%)

Load factor improved M-o-M the most in S. America in February 2023



Source: IATA

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Air Freight Rates**Exhibit 33: Shanghai to Europe Air Cargo Index (USD per kg)**

China to Europe air freight rates were up c1% M-o-M in March

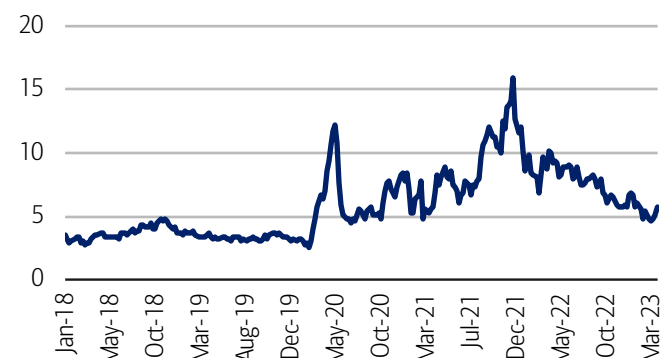


Source: Refinitiv Eikon (Baltic Air Freight Indices powered by TAC data)

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Exhibit 34: Shanghai to North America Air Cargo Index (USD per kg)

China to N. America air freight rates were up by c20% M-o-M in March

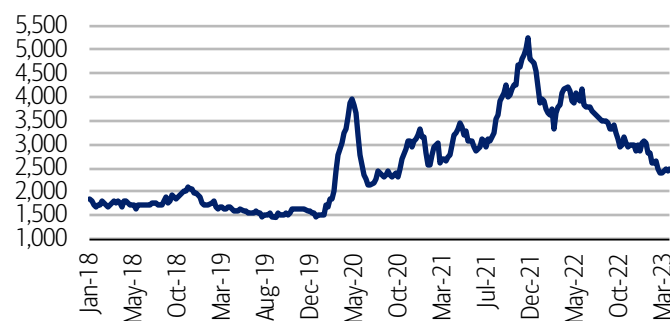


Source: Refinitiv Eikon (Baltic Air Freight Indices powered by TAC data)

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Exhibit 35: Baltic Exchange Air Freight Index

Global air freight rates were up c4% M-o-M in March



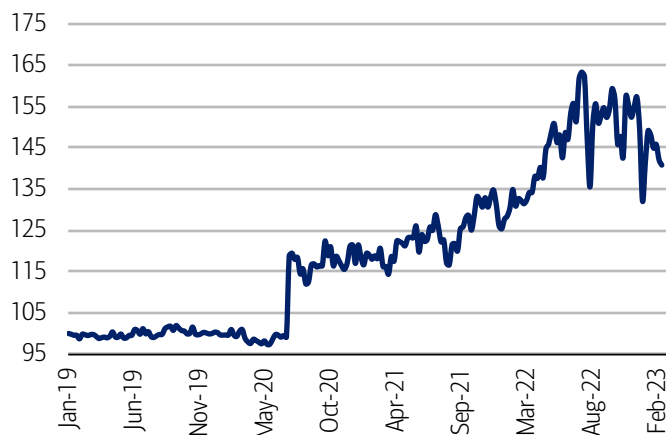
Source: Refinitiv Eikon (Baltic Air Freight Indices powered by TAC data)

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European road freight rates

Exhibit 36: Europe road freight rates (indexed to January 2019)

European road freight rates were 43% above 2019 levels in Feb '23



Source: BofA Global Research, Transport Intelligence, Uply. Note: average of selection of routes.
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Exhibit 37: Road freight rates out of Germany (indexed to January 19)

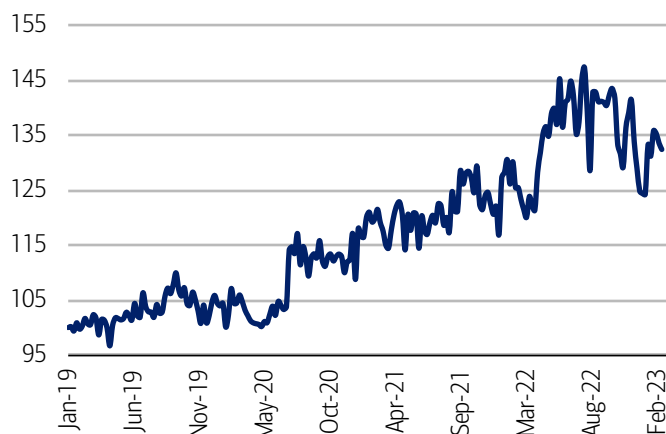
German outbound road freight rates were 36% above 2019 levels in Feb '23



Source: BofA Global Research, Transport Intelligence, Uply. Note: average of selection of routes.
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Exhibit 38: Road freight rates out of France (indexed to January 19)

French outbound road freight rates were 33% above 2019 levels in Feb '23



Source: BofA Global Research, Transport Intelligence, Uply. Note: average of selection of routes.
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Exhibit 39: Road freight rates out of UK (indexed to January 19)

UK outbound road freight rates were 48% above 2019 levels in Feb '23



Source: BofA Global Research, Transport Intelligence, Uply. Note: average of selection of routes.
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Demand drivers

PMI indicators

Exhibit 40: US ISM Manufacturing

US PMI increased to 48 in February 2023



Source: Datastream, Institute for Supply Management

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Exhibit 41: Eurozone Manufacturing Purchasing Managers Index (PMI)

Euro area PMI declined to 47 in March 2023



Source: Datastream, IHS Markit

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US consumption trends

Exhibit 42: US retail (ex. Auto) spending based on BAC aggregated credit and debit card data (% YoY)

US retail (ex. auto) spending was down c2% YoY in the week ending March 18

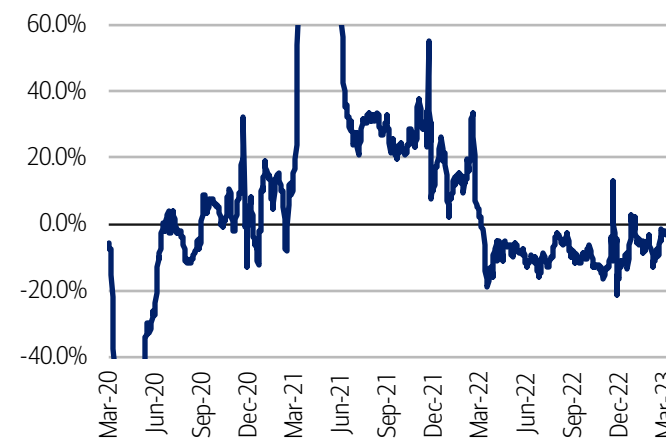


Source: BAC internal data.

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Exhibit 43: US clothing spending based on BAC aggregated credit and debit card data (% YoY)

US clothing spending was down c4% YoY in the week ending March 18



Source: BAC internal data.

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Exhibit 44: US general merchandise spending based on BAC aggregated credit and debit card data (% YoY)

US general merchandise spending was down c1% YoY in the week ending March 18

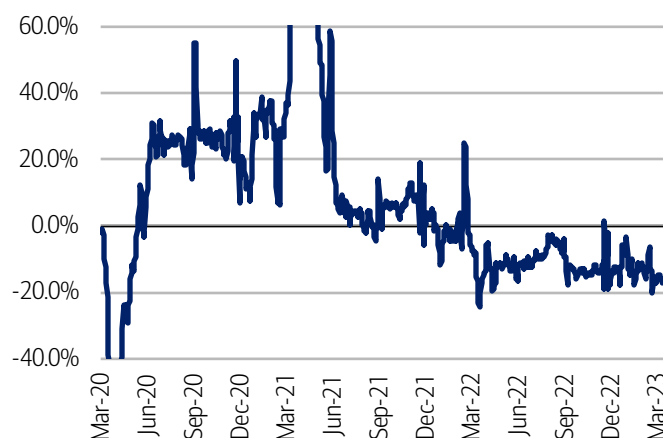


Source: BAC internal data.

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Exhibit 45: US furniture spending based on BAC aggregated credit and debit card data (% YoY)

US furniture spending was down c17% YoY in the week ending March 18

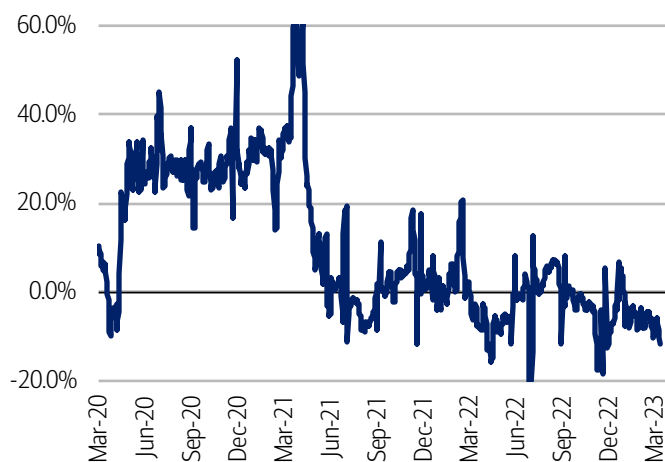


Source: BAC internal data.

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Exhibit 46: US home improvement spending based on BAC aggregated credit and debit card data (% YoY)

US home improvement spending was down c12% YoY in the week ending March 18



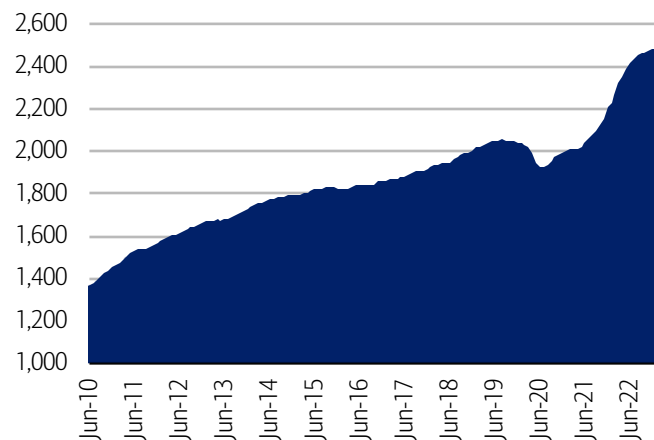
Source: BAC internal data.

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US inventories

Exhibit 47: US total manufacturing and trade inventories (\$bn)

US manufacturing & trade inventories were 23% above 2019 levels in January

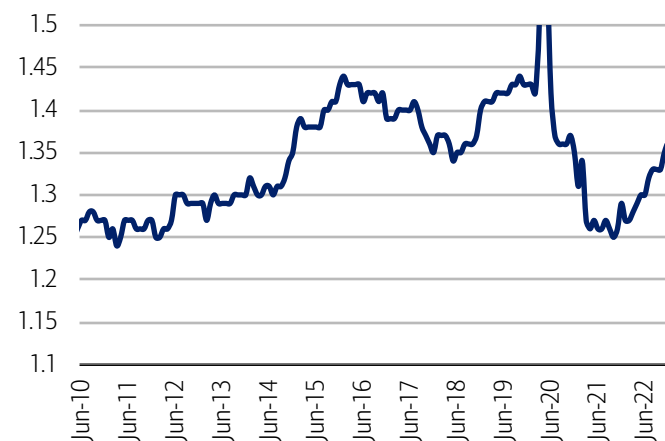


Source: US Census Bureau

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Exhibit 48: US total manufacturing and trade inventory to sales ratio

US total inventory to sales ratio decreased to 1.34 in January

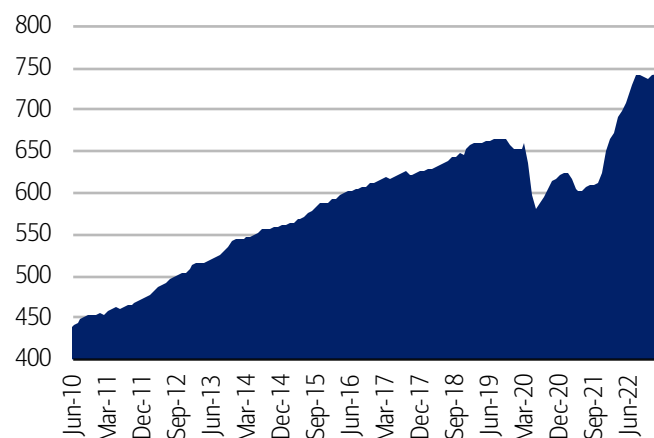


Source: US Census Bureau

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Exhibit 49: US retail inventories (\$bn)

US retail inventories were 13% above 2019 levels in January 2023



Source: US Census Bureau

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Exhibit 50: US retail manufacturing and trade inventory to sales ratio

US retail inventory to sales decreased to 1.23 in January 2023

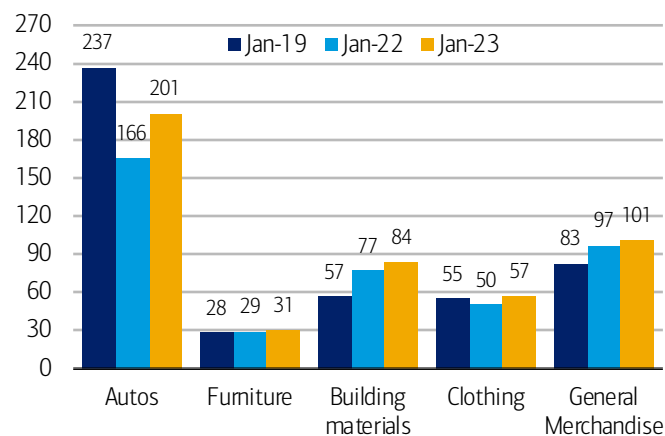


Source: US Census Bureau

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Exhibit 51: US retail inventories by product category (\$bn)

Most retail product inventory levels were above 2019 in January...

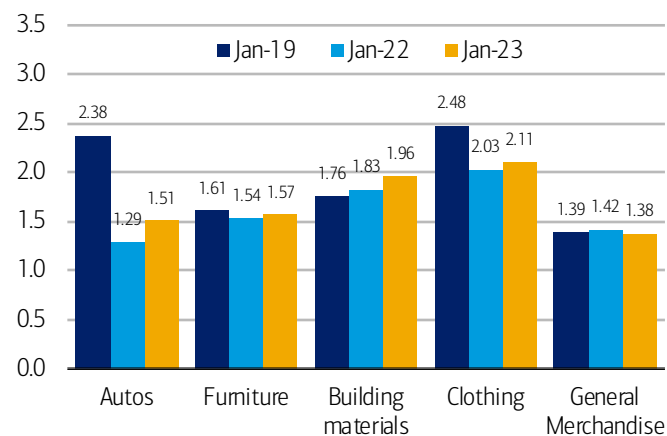


Source: US Census Bureau

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Exhibit 52: US retail inventory to sales ratio by product category

... while most inventory to sales ratios were below 2019 in January

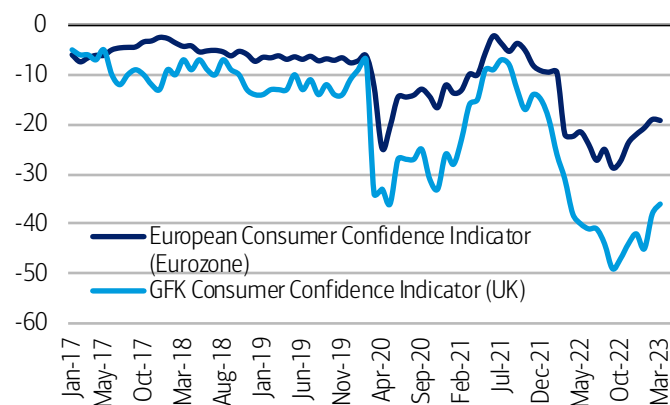


Source: US Census Bureau

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Consumer sentiment**Exhibit 53: Consumer confidence indicators (Eurozone & UK, monthly)**

Eurozone consumer confidence declines marginally in March, UK rebounds from record lows

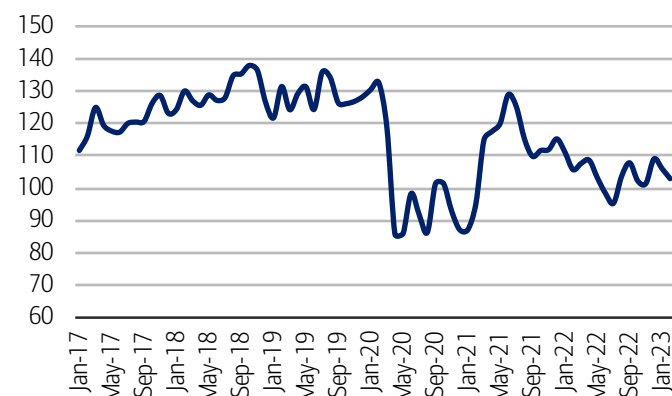


Source: Datastream

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Exhibit 54: US consumer confidence indicator

US consumer confidence declined in February



Source: Datastream, The Conference Board

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Disclosures

Important Disclosures

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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