

Transportation - Shipping

20-min series: Freightos sees sustained high inventories, no real green shoots

Industry Overview

Freightos kicks off 4th ann. 20-minute Shipping Call series

On May 31, we launched our 4th annual Hoexter's 20-minute Shipping update call series with Freightos (CRGO), an international freight booking platform. We hosted CEO Zvi Schreiber and Head of Research Judah Levine to discuss the ocean & airfreight markets.

Freight demand challenged; no real green shoots

Freightos sees elevated inventories and a shifting preference to services as weighing on freight demand. It sees no conclusive green shoots. While Target ended its excess inventory position and will soon start restocking, a move that is crucial to a freight rebound, that shift is countered by others (Nike, Adidas) that still struggle with elevated inventories. It sees green shoots that are talked about as based more on optimism than tangible signs of an inflection. In Ocean freight, Trans-Pacific rates are at \$1,300/box, up from sub-\$1,000 during Lunar New Year, yet down from \$1,700 in April, normalizing at 2019 pre-pandemic levels (down 85% y-y). Airfreight rates remain above pre-pandemic levels, but continue to fall (down 60% y-y) as belly space returns and excess freighters remain. While consumer spending levels were strong in April, Freightos sees notable softness in Big & Bulky verticals, such as home goods. Approximately 40% of its small- and medium sized business (SMB) shippers face excess inventories.

New vessel orders partly offset by carrier capacity control

In ocean freight, lower container demand and normalized supply chain fluidity led to a steep year-year decline in rates. As of last week, China-US West Coast liner rates were \$1,300/forty-foot-equivalent unit (FEU), down 85% year-year, and China-US East Coast rates were \$2,300 per FEU, down 84% year-year. Although ocean demand remains muted, import volumes bottomed in February and recovered above 2019 levels in April. Supply chain bottlenecks such as China's quarantines, port congestion, and rail service (which constrained US East Coast inland terminals in 2022) have been mostly alleviated. Carriers have been reducing capacity given the volume backdrop, returning chartered-in capacity, and increasing blank sailings (service suspensions). It noted that 1Q23 vessel speeds were at record lows as carriers slow steam to save on fuel (resulting in longer transit times). However, with a container liner orderbook-to-fleet ratio at ~30%, it still expects capacity growth (~4%) to outpace demand (~2%) over the next two years.

Air cargo rates pressured by rising passenger belly space

Air cargo demand has fallen on macroeconomic factors while capacity continues to increase. Total global capacity is 30% higher year-year and 3% above 2019 levels. Passenger belly space, which accounts for 30% of airfreight capacity, has jumped, with flights up 74% year-year (after falling 50% from pre-pandemic to Jan 2021). Capacity is on track to surpass 2019 levels. Cargo carriers have moved to cut capacity, with FedEx grounding nine cargo jets in March and ocean carriers, such as Maersk, suspending air service programs. Despite the supply/demand imbalance, Transpacific air cargo rates remain high at \$3.86/kilo, down 60% year-year, but above \$2.00-\$3.00 non-peak pre-pandemic average levels, although they remain under pressure. Similarly, Trans-Atlantic rates are at \$2.60/kilo, above \$1.50-\$2.50/kilo non-peak pre-pandemic average, partly due to structurally higher carrier costs (mainly on jet fuel, labor), but also continue to fall.

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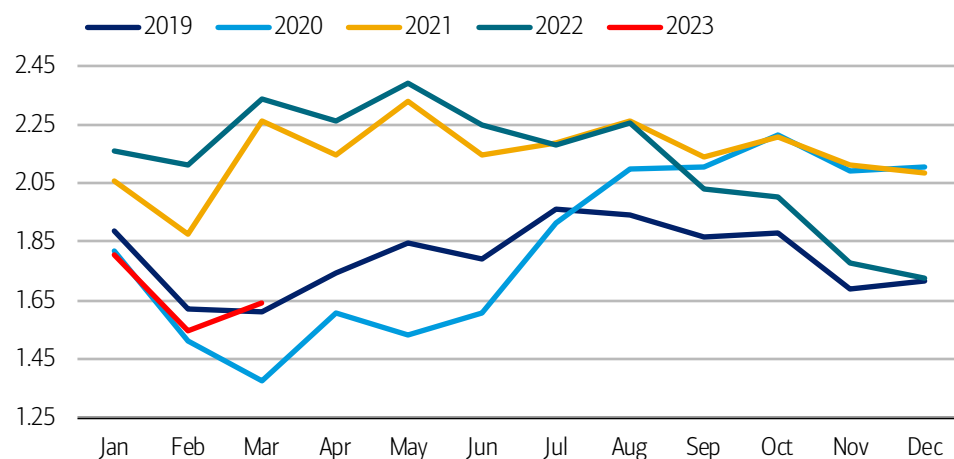
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Exhibit 1: US Import Volumes (million twenty-foot-equivalent (TEU) Units)

Port volumes have improved from a bottom in February after an atypically soft Lunar New Year

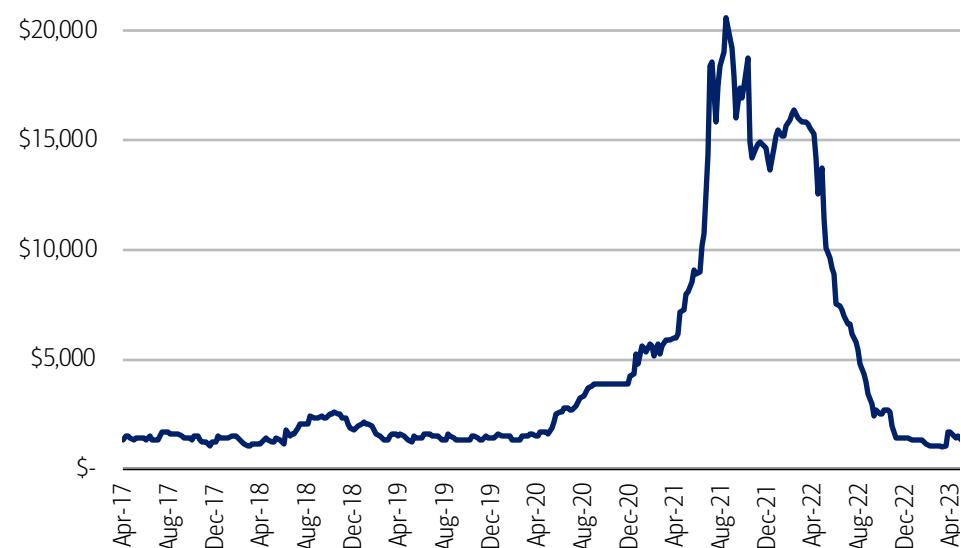


Source: BofA Global Research estimates, National Retail Federation, Hackett Associates

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Exhibit 2: Freightos Baltic Index (FBX) China-West Coast \$/Forty-Foot Equivalent Units (FEU)

China-West Coast container rates are currently \$1,300/FEU as of May 28, 2023, down 85% year-over-year.



Source: BofA Global Research, Bloomberg, and Freightos

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