

## Europe Transport

# BofA Freight Follower: ocean rates improve, but expect weak peak season

Industry Overview

## Ocean rates see improvement, but risk of more downside

Our tracker of the latest high-frequency freight indicators shows that ocean spot rates improved in July, in particular the Transpacific, driven by successful 15 July GRI (General Rate Increase). Container spot rates are up +5% m-m, putting them 22% above Jan 2019 levels (but -76% y-y). We hosted Mr. Tan at Linerlytica and he expects further improvement in rates during August as utilisation improves, but overall downturn is in early stages and rates could see additional downside of 20-30% ([takeaways from call](#)). Air freight rates decline slowed to -4% in July, driven by weak demand, while capacity increased 10% y-y in June as belly capacity returned.

## Ocean: charter rates showing weakness

Ocean rates improved in July, +5% m-m as liners were successful with July GRI and rates to the USWC increased 50% m-m. Charter rates have shown weakness in recent weeks, extending into larger tonnage and intensifying in smaller sizes, after holding up better than expected earlier in the year. Global container volumes declined -3% y-y in May, worse than the -1% decline in April. Port congestion remained stable at 6.7% of the fleet, well below the peak of c15%. Liners continue to add more capacity, having ordered additional 1.5m of TEU in the past 6 months and less than 1% of the fleet remains as idle (ex-shipyards), which suggests lack of discipline by liners. Shipping speed has started to decrease again after hitting a previous low in February.

## Air: volumes down -3% y-y in June, rates -4% in July

Air freight rates were down c4% m-m in July due to weak demand. Shanghai to N. America rates were up c1% m-m and Shanghai to Europe rates were up c6% in July. Global air freight volumes declined -3% y-y in June as per IATA data, an improvement from -5% in May. Global air cargo capacity was up 10% y-y in June, as belly capacity continued to recover. June capacity was c4% above 2019 levels, down from +6% in May. Global loads increased 1.6ppt m-m to 43.2% in June (down c6ppt y-y).

## Demand trends remain lacklustre; Muted peak season

BAC US aggregated credit and debit card data shows card spending per household picked up slightly in July, driven by holiday period spending. See latest [BofA on USA](#) report for limitations, disclosures and methodology in connection with BAC card data. Retail inventories are 33% higher than 2019 levels in May. Furniture, building materials and general merchandise inventory to sales ratios were above 2019 levels while clothing and autos were below. Kuehne + Nagel CEO doesn't expect a peak season this year and has seen no clear signs of re-stocking yet (see KNIN note, 25 July 2023). DSV said that inventory levels are improved, but the expectation for a peak season is low this year (see DSV note, 25 July 2023). Matson Inc (not covered) in their preliminary Q2'23 results noted that they expect a muted peak season, with a gradual improvement in TP over rest of the year.

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Refer to important disclosures on page 18 to 20.

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Timestamp: 27 July 2023 12:30AM EDT

27 July 2023

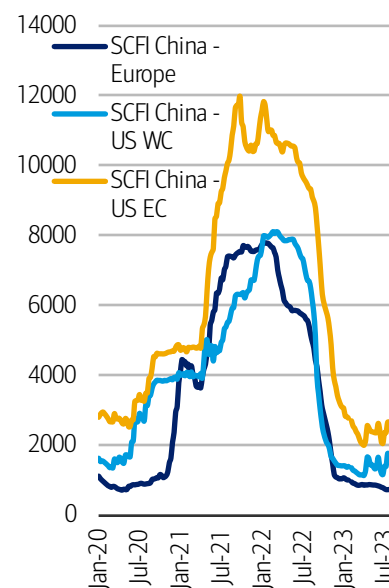
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### Exhibit 1: SCFI indices by trade lane

Asia-USWC rates higher by 50% m-m in July



Source: Clarksons

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### Definitions:

**USWC:** US West Coast

**USEC:** US East Coast

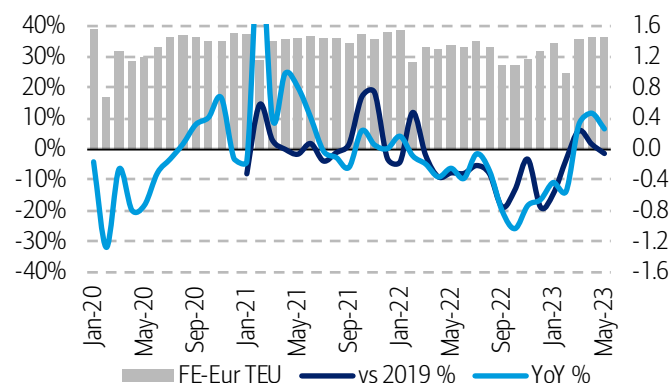
**SCFI:** Shanghai Containerized Freight Index

# Container shipping data

## Shipping Volumes

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

Asia to Europe volumes were up c7% YoY in May 2023

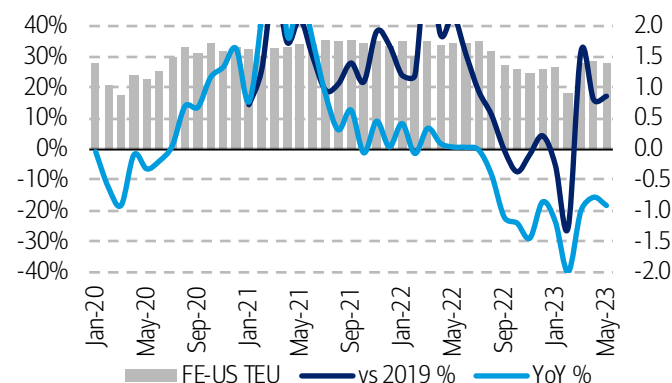


Source: Alphaliner

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

Transpacific volumes were down c18% YoY in May 2023

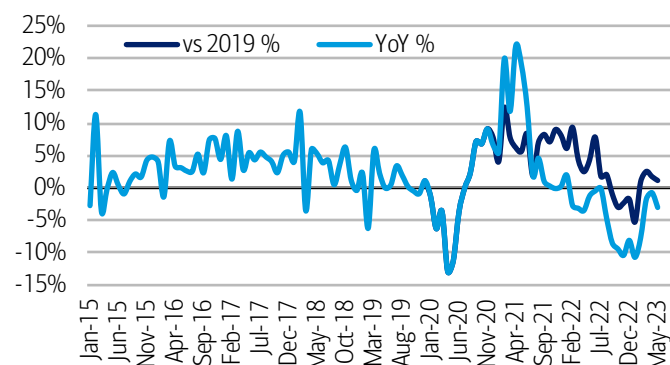


Source: Alphaliner

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

Global container volumes declined c3% YoY and were up 1% vs 2019 in May 2023

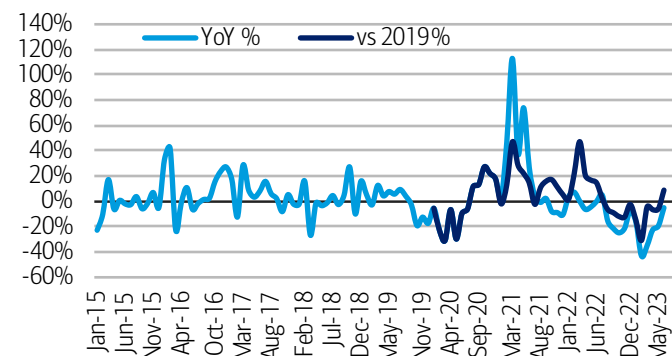


Source: Bloomberg

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### Exhibit 5: Container shipping volumes at Port of Los Angeles (YoY and vs 2019 %)

Container volumes at the Port of Los Angeles were down 5% YoY and were up 9% vs 2019 in June 2023



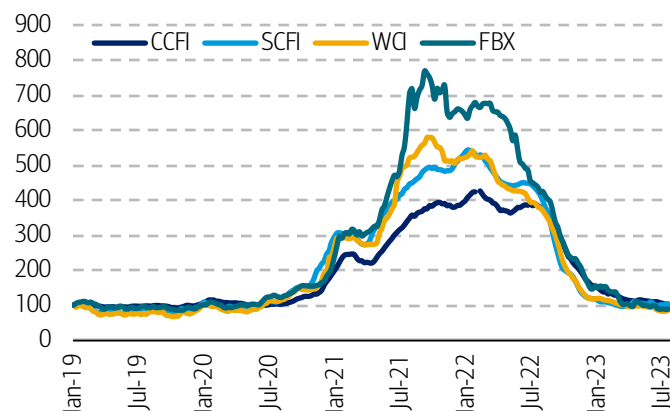
Source: Port of Los Angeles

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## Shipping rates

### Exhibit 6: Container shipping freight rates, indexed to January 2019

SCFI improved 5% month-on-month

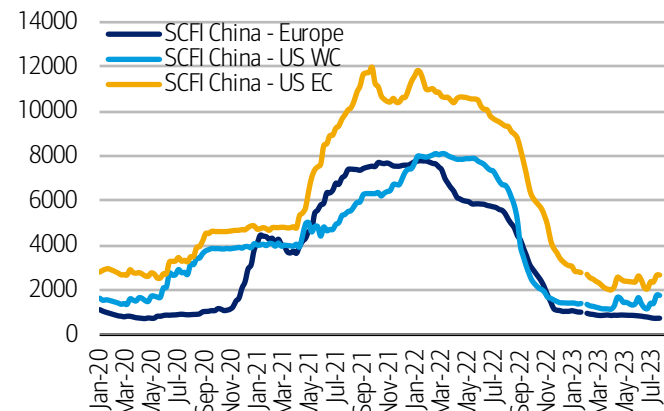


Source: Refinitiv Eikon, Drewry, Bloomberg

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### Exhibit 7: SCFI indexes by trade lane

Asia-USWC rates are higher by 50% month-on-month



Source: Clarksons

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### Exhibit 8: CCFI quarterly average (2022-23)

CCFI is -7% lower QoQ so far in 3Q23

		1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
CCFI	CCFI	3,444	3,157	2,950	1,615	1,087	938	872
	CCFI Europe	5,526	5,060	4,738	2,497	1,411	1,154	1,053
	CCFI USWC	2,596	2,502	2,331	1,079	781	707	661
	CCFI USEC	2,682	2,796	2,844	1,746	1,161	886	804
% YoY	CCFI	78%	46%	-1%	-51%	-68%	-70%	-70%
	CCFI Europe	81%	45%	-7%	-53%	-74%	-77%	-78%
	CCFI USWC	96%	69%	14%	-53%	-70%	-72%	-72%
	CCFI USEC	81%	59%	23%	-31%	-57%	-68%	-72%
% QoQ	CCFI	6%	-8%	-7%	-45%	-33%	-14%	-7%
	CCFI Europe	5%	-8%	-6%	-47%	-43%	-18%	-9%
	CCFI USWC	12%	-4%	-7%	-54%	-28%	-9%	-7%
	CCFI USEC	6%	4%	2%	-39%	-34%	-24%	-9%

Source: Clarksons

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### Exhibit 9: SCFI quarterly average (2022-23)

SCFI is -2% lower QoQ so far in 3Q23

		1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
SCFI	SCFI	4,851	4,211	3,279	1,375	969	984	959
	SCFI Europe	7,435	5,959	4,656	1,490	926	848	740
	SCFI USWC	8,032	7,773	5,278	1,627	1,265	1,419	1,646
	SCFI USEC	11,008	10,409	8,557	4,126	2,438	2,366	2,569
% YoY	SCFI	74%	29%	-24%	-71%	-80%	-77%	-71%
	SCFI Europe	81%	15%	-36%	-80%	-88%	-86%	-84%
	SCFI USWC	100%	68%	-8%	-76%	-84%	-82%	-69%
	SCFI USEC	130%	47%	-19%	-62%	-78%	-77%	-70%
% QoQ	SCFI	3%	-13%	-22%	-58%	-30%	2%	-2%
	SCFI Europe	-3%	-20%	-22%	-68%	-38%	-8%	-13%
	SCFI USWC	18%	-3%	-32%	-69%	-22%	12%	16%
	SCFI USEC	2%	-5%	-18%	-52%	-41%	-3%	9%

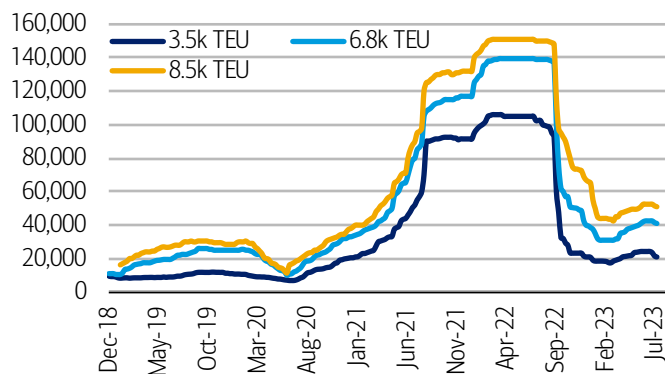
Source: Clarksons

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**Exhibit 10: 6-12 month Timecharter rates**

Short-term charter rates declined in July...

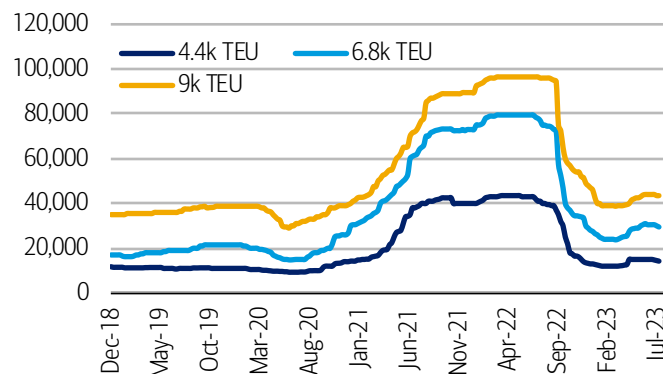


Source: Clarksons

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**Exhibit 11: 3-5 years Timecharter rates**

... with medium-term rates decreasing in July

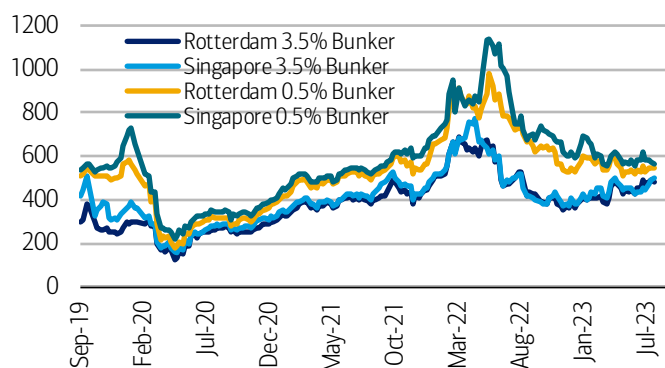


Source: Clarksons

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**Exhibit 12: Bunker fuel prices (\$ per tonne)**

Bunker fuel prices were volatile over the past month...

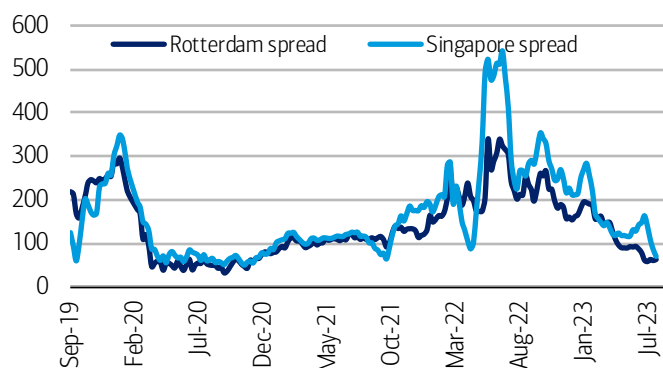


Source: Clarksons

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**Exhibit 13: Rotterdam and Singapore 0.5% to 3.5% spread (ppts)**

... while the high and low sulphur spread narrowing

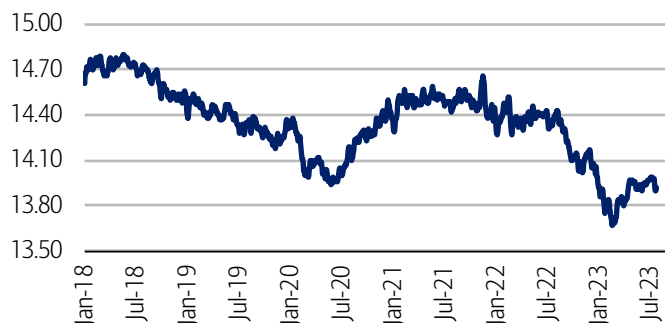


Source: Clarksons

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**Shipping speed****Exhibit 14: Containership speed (Daily average speed Knots)**

Average speed has started to decrease again post hitting a low earlier this year



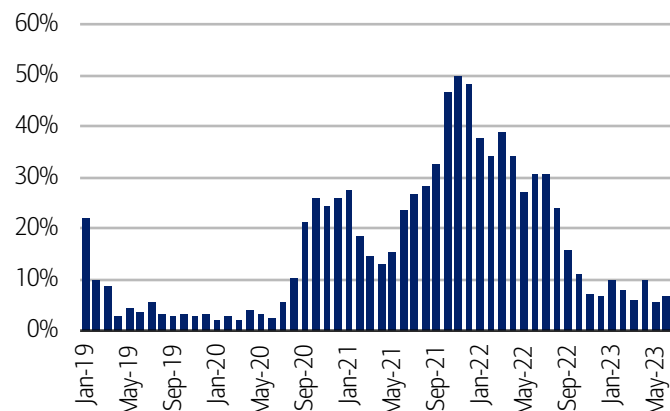
Source: Clarksons

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## Port disruption

### Exhibit 15: US West Coast container dwell time (% > 5 days)

USWC containers dwelling >5 days increased to c7% in June 2023

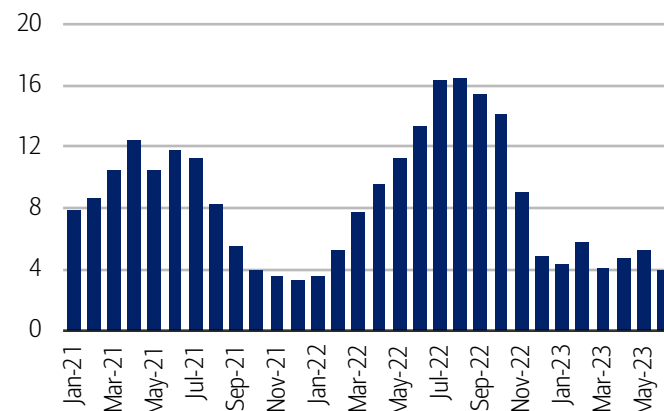


Source: PMSA

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### Exhibit 16: US West Coast rail dwell time in days

USWC average rail dwell times decreased to 4 days in June 2023

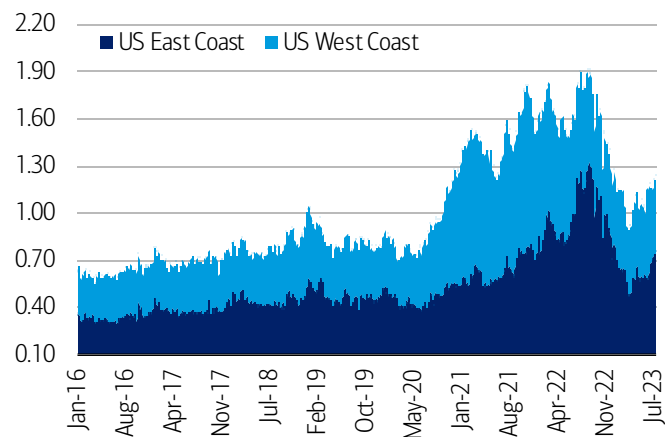


Source: PMSA

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### Exhibit 17: Vessels in port – US East Coast & West Coast (TEU)

US East Coast port congestion rising while West Coast is easing in July



Source: Clarksons

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### Exhibit 18: China to USWC average containership duration (days)

Transpacific transit times decreased in July 2023

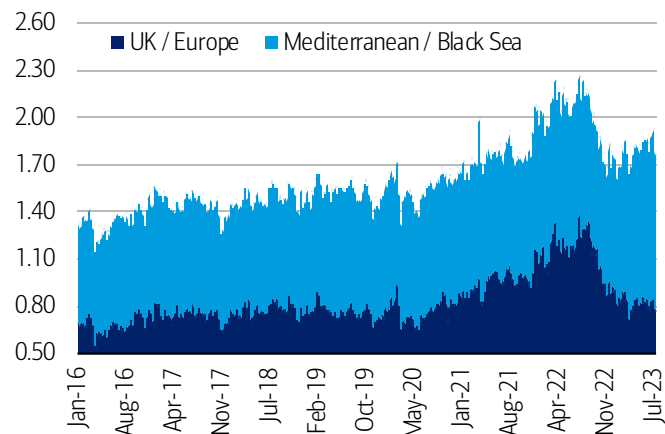


Source: Clarksons

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**Exhibit 19: Vessels in Port – UK/Europe & Mediterranean (TEUm)**

Port congestion in UK and Mediterranean is easing

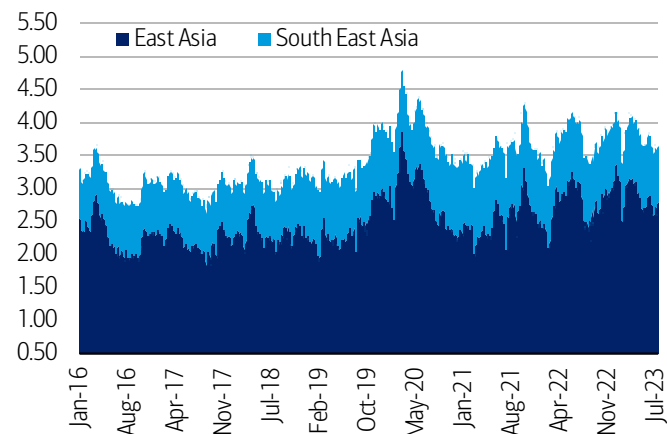


Source: Clarksons

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**Exhibit 20: Vessels in port – East and South-East Asia (TEUm)**

Port congestion in East Asia is increasing while South-East Asia is decreasing

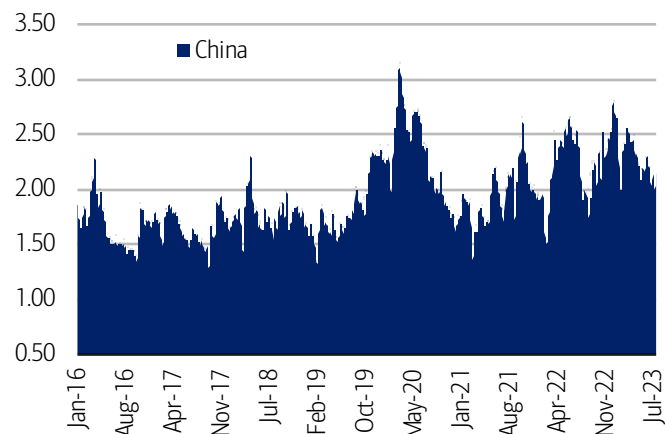


Source: Clarksons

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**Exhibit 21: Vessels in port – China (TEUm)**

Chinese port congestion has increased over the past month

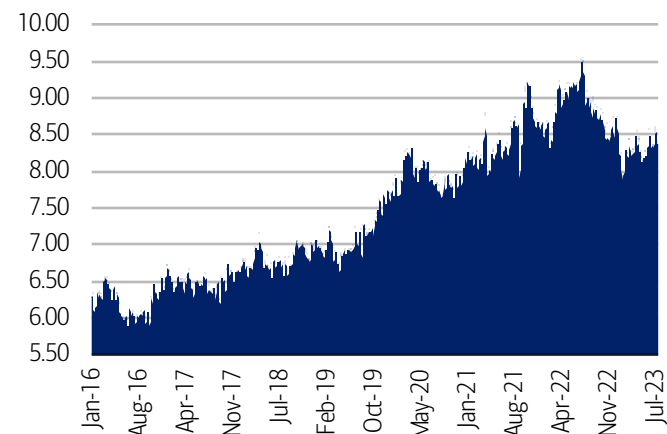


Source: Clarksons

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**Exhibit 22: Vessels in port - Global (TEUm)**

Global port congestion elevated but remains well below peak levels



Source: Clarksons

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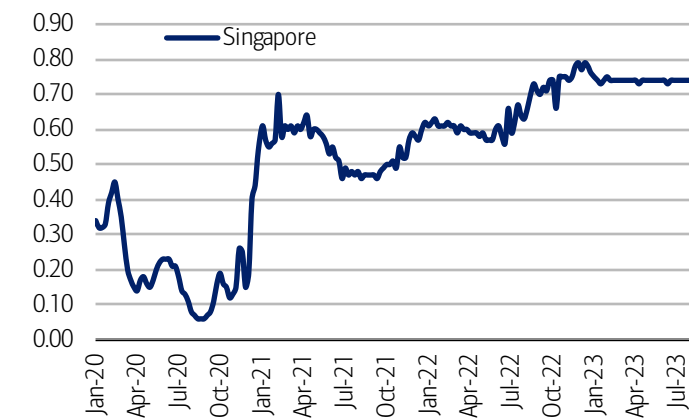
Container boxes

**Exhibit 23: Box Availability in Shanghai (CAx)**  
Container box 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 24: Box Availability in Singapore (CAx)**  
... and have also recovered in Singapore



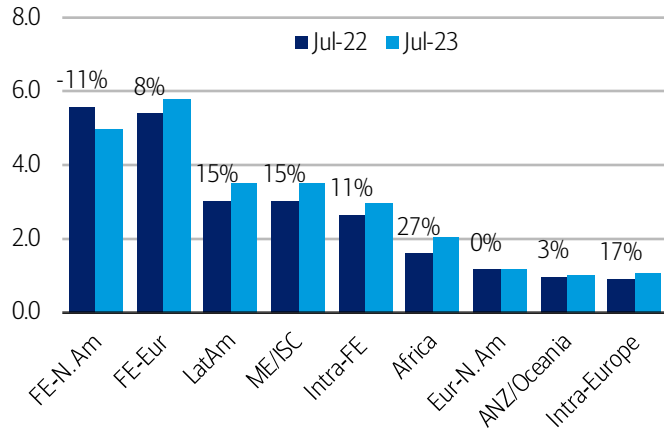
**Source:** Container xChange  
**Note:** value of >0.5 means more boxes enter than leave and <0.5 means more boxes leave than enter. A low value reflects a deficit of containers.  
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## Capacity deployment

**Exhibit 25: Global deployment by cellular TEU capacity (TEUm)**

Asia to N. America has seen the biggest YoY cut in capacity at -11%

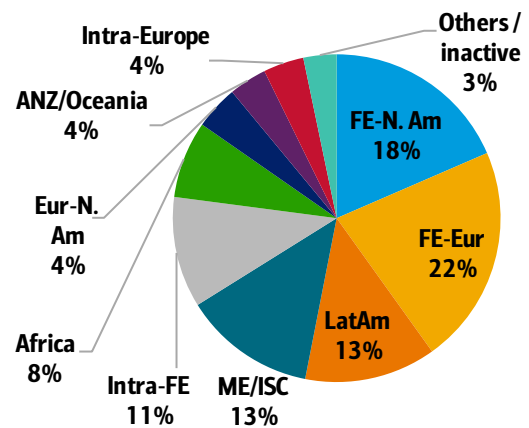


Source: Alphaliner

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**Exhibit 26: Global deployment by TEU capacity in July-23 (% of total)**

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



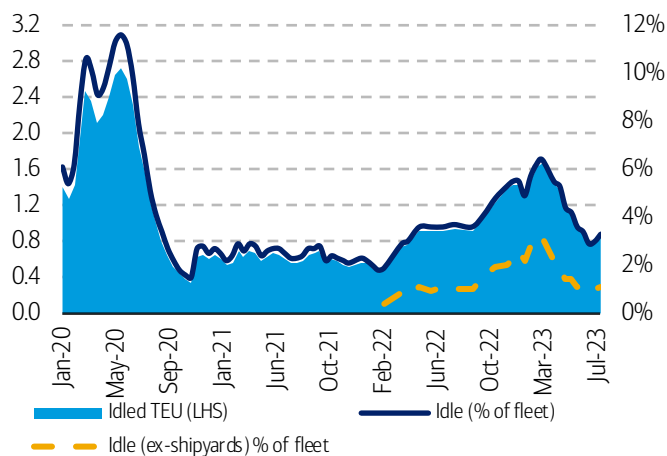
Source: Alphaliner

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## Idle capacity

**Exhibit 27: Idled TEU (and % of global fleet)**

Idling (excluding capacity at shipyards) has increased to c1.1% of global fleet

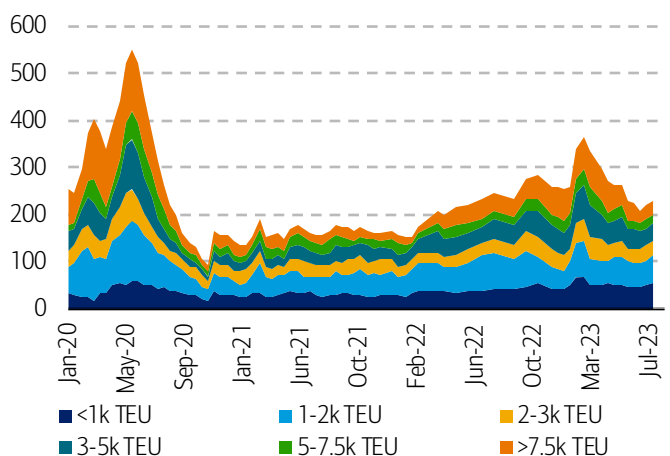


Source: Alphaliner

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**Exhibit 28: Idled TEU breakdown by vessel size (number)**

Inactivity increased across size segments



Source: Alphaliner

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New orders

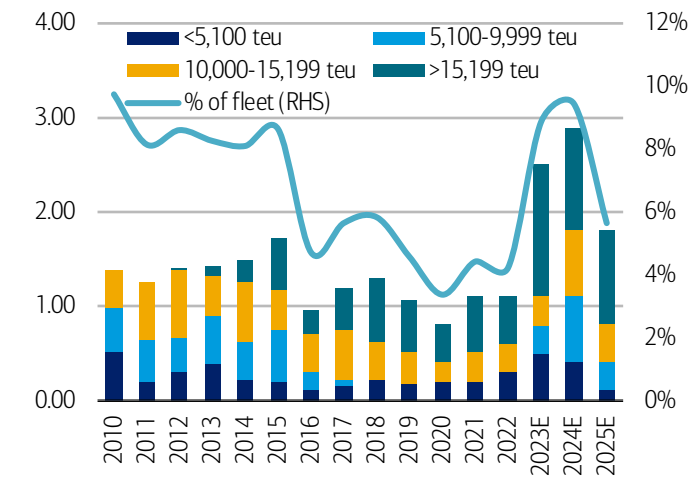
**Exhibit 29: Global orderbook to fleet (%)**  
The global orderbook to fleet ratio broadly steady at c28%



Source: Clarksons

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**Exhibit 30: 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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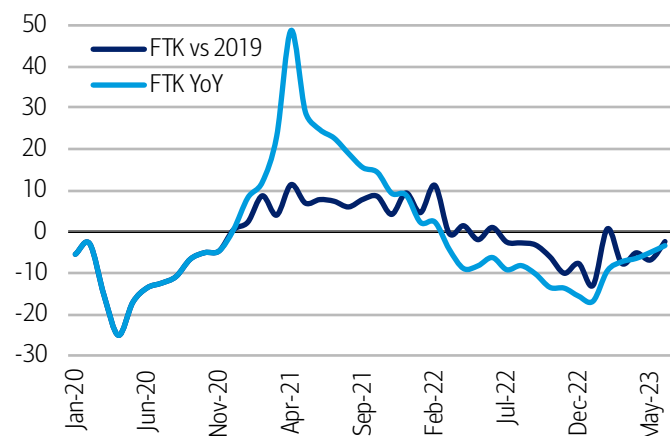


# Air freight data

## Air Freight Volumes

**Exhibit 31: Global FTK (% vs 2019 and % YoY)**

Global air cargo volumes were down c3% YoY in June 2023

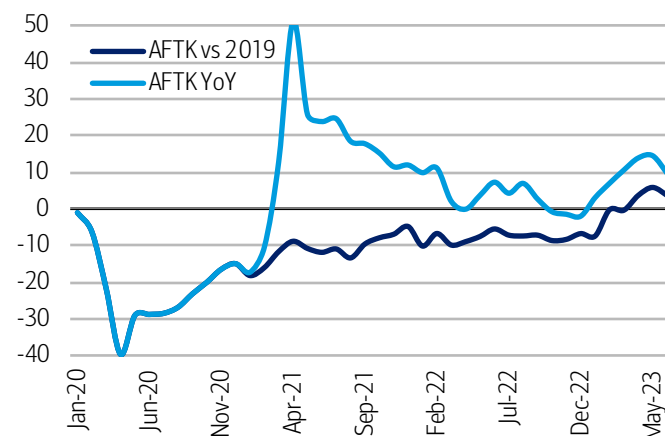


Source: IATA

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**Exhibit 32: Global AFTK (% vs 2019 and % YoY)**

Global air cargo capacity was up c10% YoY in June 2023

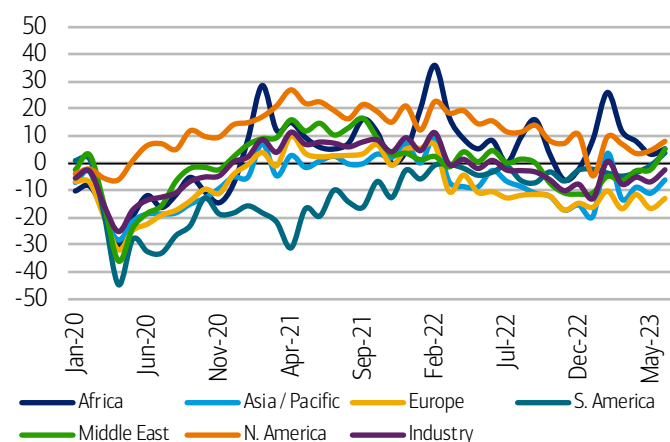


Source: IATA

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**Exhibit 33: FTK growth by region (% vs 2019)**

Volumes improved the most in Middle East vs 2019 levels in June 2023

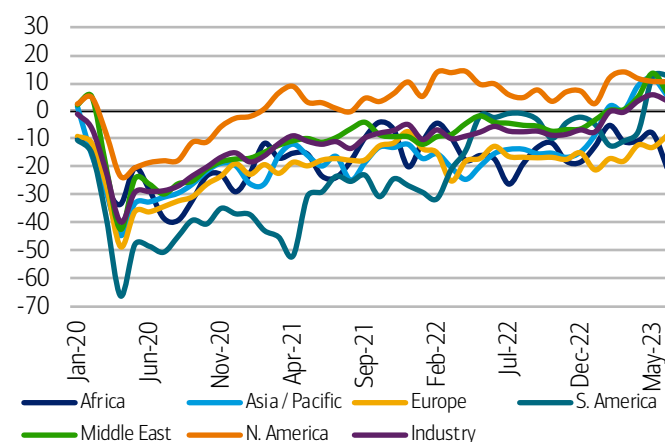


Source: IATA

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**Exhibit 34: AFTK growth by region (% vs 2019)**

Capacity was mixed across regions' vs 2019 levels in June 2023

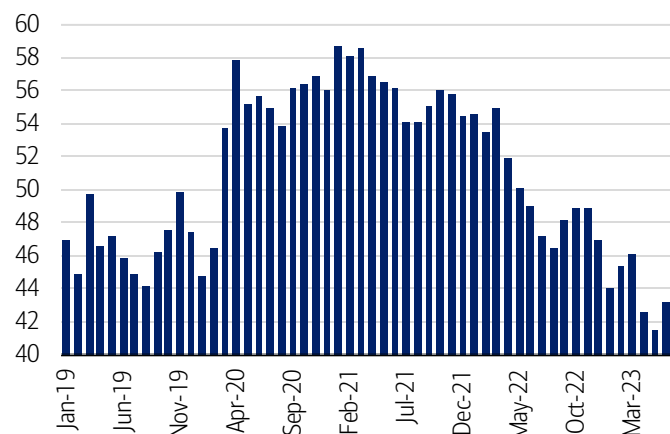


Source: IATA

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**Exhibit 35: Global air freight load factor (%)**

Load factor increased M-o-M to c43% in June 2023

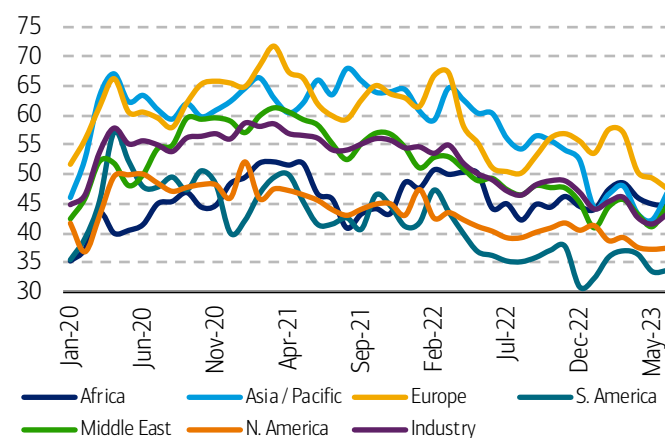


Source: IATA

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**Exhibit 36: Air freight load factor by region (%)**

Load factor improved M-o-M the most in Asia Pacific in June 2023



Source: IATA

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**Air Freight Rates****Exhibit 37: Shanghai to Europe Air Cargo Index (USD per kg)**

China to Europe air freight rates were up +c6% M-o-M in July

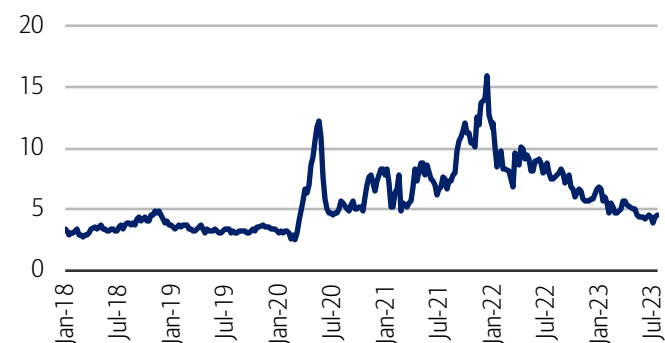


Source: Refinitiv Eikon (Baltic Air Freight Indices powered by TAC data)

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**Exhibit 38: Shanghai to North America Air Cargo Index (USD per kg)**

China to N. America air freight rates were up by +c1% M-o-M in July



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

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**Exhibit 39: Baltic Exchange Air Freight Index**

Global air freight rates were down -c4% M-o-M in July



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

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# European road freight rates

## Exhibit 40: Europe road freight rates (indexed to January 2019)

European road freight rates were 40% above 2019 levels in Jun'23



Source: BofA Global Research, Transport Intelligence, Upply. Note: average of selection of routes.  
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## Exhibit 41: Road freight rates out of Germany (indexed to January 19)

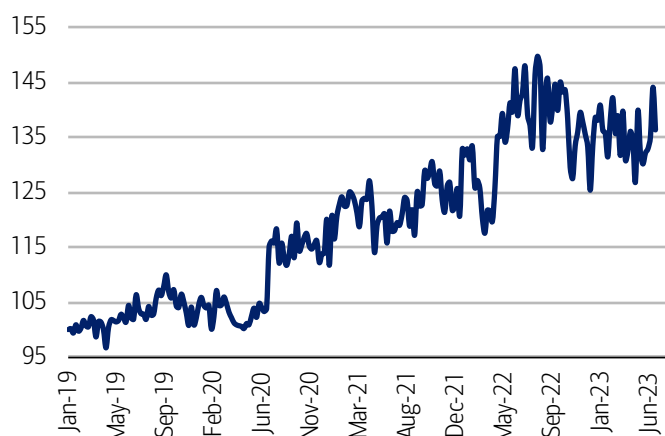
German outbound road freight rates were 39% above 2019 levels in Jun'23



Source: BofA Global Research, Transport Intelligence, Upply. Note: average of selection of routes.  
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## Exhibit 42: Road freight rates out of France (indexed to January 19)

French outbound road freight rates were 34% above 2019 levels in Jun'23



Source: BofA Global Research, Transport Intelligence, Upply. Note: average of selection of routes.  
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## Exhibit 43: Road freight rates out of UK (indexed to January 19)

UK outbound road freight rates were 40% above 2019 levels in Jun'23



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

## PMI indicators

### Exhibit 44: US ISM Manufacturing

US PMI declined to c46 in June 2023



Source: Datastream, Institute for Supply Management

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### Exhibit 45: Eurozone Manufacturing Purchasing Managers Index (PMI)

Euro area PMI declined to c43 in July 2023



Source: Datastream, IHS Markit

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## US consumption trends

### Exhibit 46: US retail (ex. Auto) spending based on BAC aggregated daily card data (% YoY)

US retail (ex. auto) spending was down c1% YoY in the week ending July 15

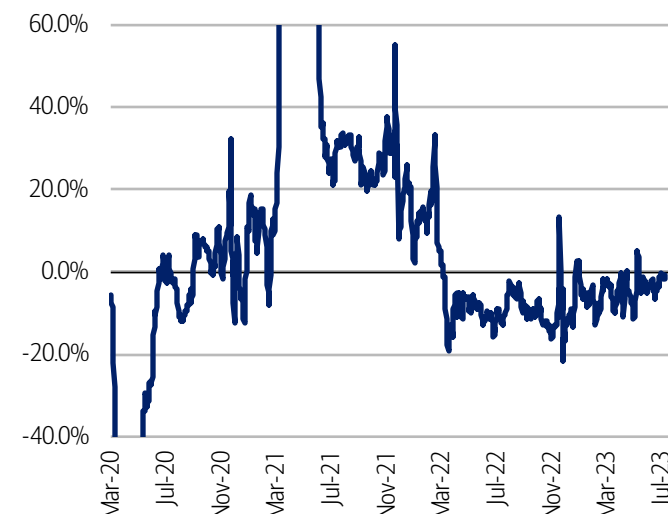


Source: BAC internal data.

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### Exhibit 47: US clothing spending based on BAC aggregated daily card data (% YoY)

US clothing spending was down c1% YoY in the week ending July 15

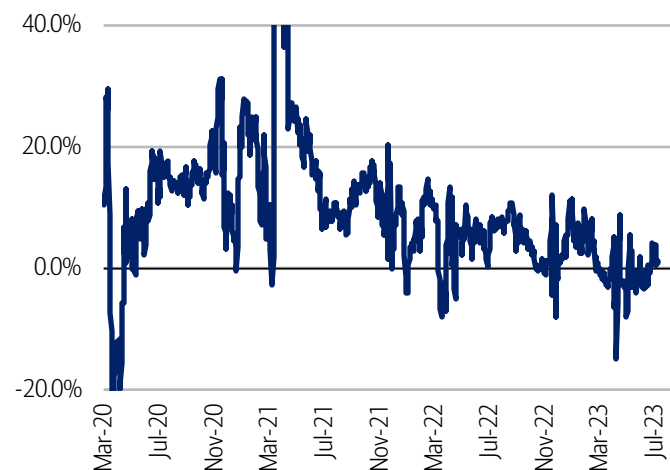


Source: BAC internal data.

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**Exhibit 48: US general merchandise spending based on BAC aggregated daily card data (% YoY)**

US general merchandise spending was up c1% YoY in the week ending July 15

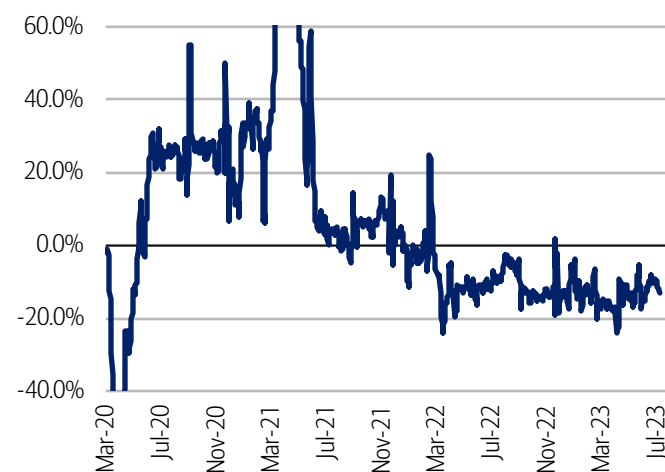


Source: BAC internal data.

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**Exhibit 49: US furniture spending based on BAC aggregated daily card data (% YoY)**

US furniture spending was down c13% YoY in the week ending July 15

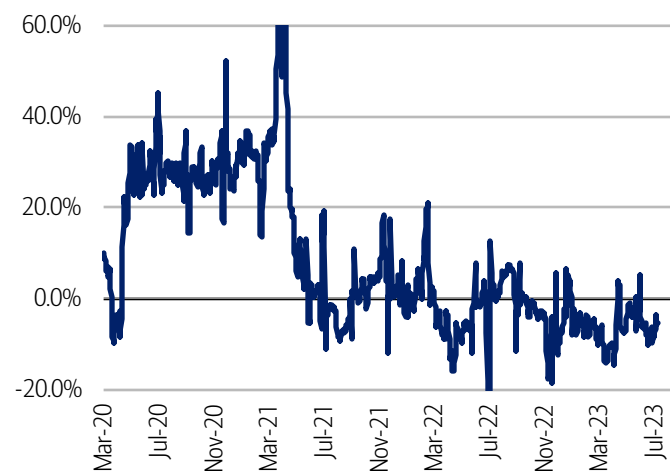


Source: BAC internal data.

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**Exhibit 50: US home improvement spending based on BAC aggregated daily card data (% YoY)**

US home improvement spending was down c6% YoY in the week ending July 15



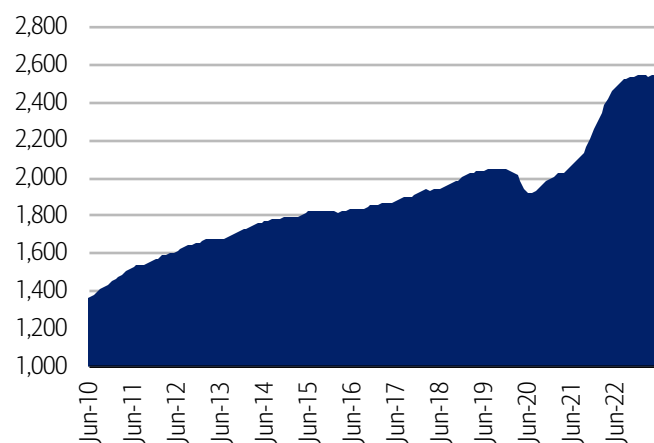
Source: BAC internal data.

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## US inventories

### Exhibit 51: US total manufacturing and trade inventories (\$bn)

US manufacturing & trade inventories were 25% above 2019 levels in May

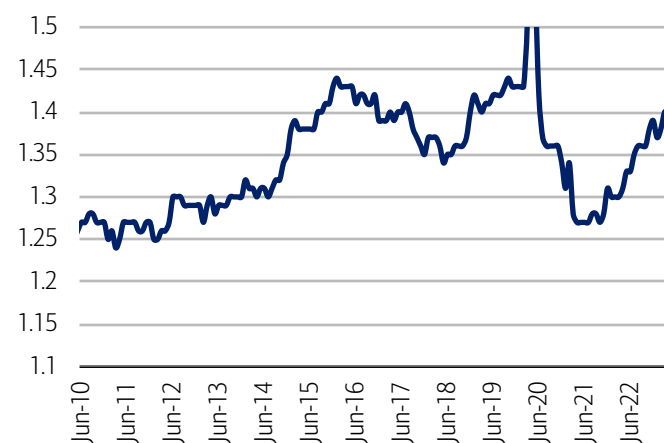


Source: US Census Bureau

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### Exhibit 52: US total manufacturing and trade inventory to sales ratio

US total inventory to sales ratio remained flat at 1.4 in May

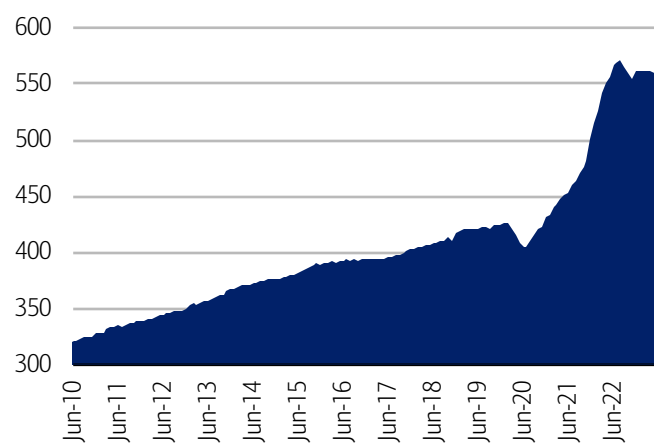


Source: US Census Bureau

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### Exhibit 53: US retail (ex-auto) inventories (\$bn)

US retail inventories were 33% above 2019 levels in May 2023

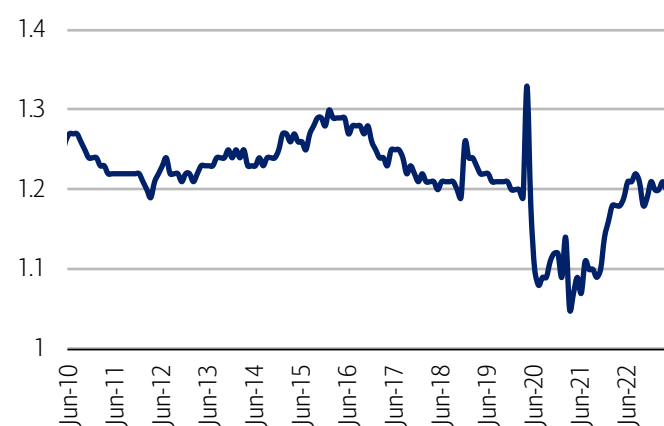


Source: US Census Bureau

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### Exhibit 54: US retail (ex-auto) manufacturing and trade inventory to sales ratio

US retail inventory to sales was steady at 1.2 in May 2023

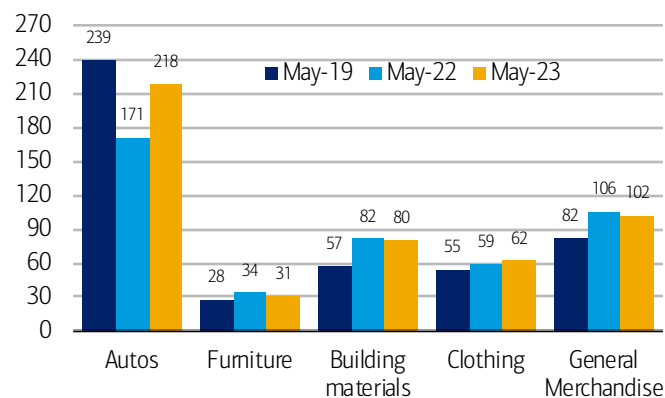


Source: US Census Bureau

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**Exhibit 55: US retail inventories by product category (\$bn)**

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

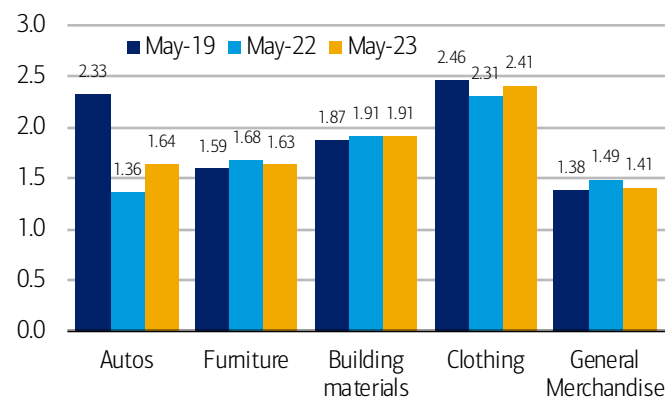


Source: US Census Bureau

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**Exhibit 56: US retail inventory to sales ratio by product category**

.. while most inventory to sales ratios were near 2019 in May

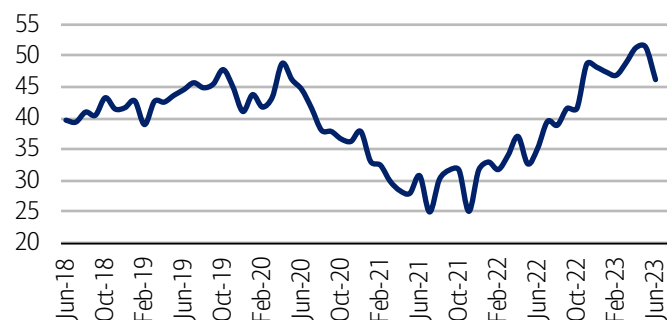


Source: US Census Bureau

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**Exhibit 57: US ISM Manufacturing Customers' inventories Index**

Customer Inventory Index declined to c46 in June 2023



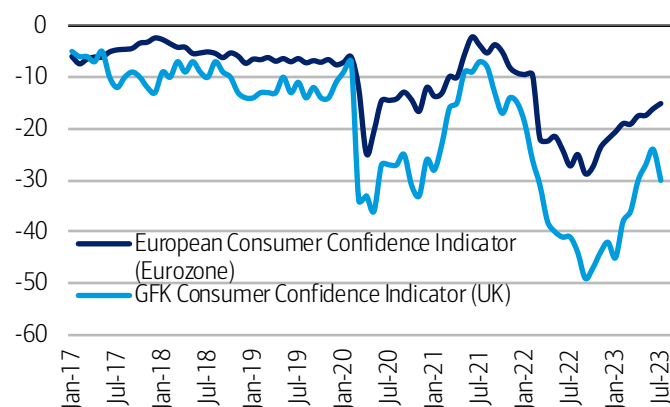
Source: Refinitiv Eikon

Note: A reading of 50 means breakeven levels

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**Consumer sentiment****Exhibit 58: Consumer confidence indicators (Eurozone & UK, monthly)**

Eurozone consumer confidence improves while UK plummets in July

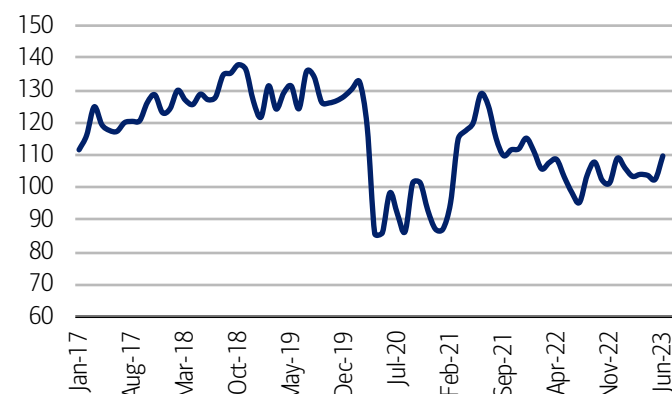


Source: Datastream

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**Exhibit 59: US consumer confidence indicator**

US consumer confidence improved in June



Source: Datastream, The Conference Board

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# Disclosures

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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