

Global Market Report

Significant News

Shutdowns in China leave things open-ended for supply chain stakeholders

The ongoing Omicron variant-driven issues that have been plaguing key manufacturing and port hubs in China continue to raise supply chain concerns. As previously reported, these issues are having a significant downstream impact on import patterns in other countries. China's largest city, Shanghai, is under a full lockdown, which has been extended indefinitely, due to the ongoing increases in positive cases. Chinese officials continue to implement zero-Covid policy, with many of China's largest industrial cities fighting outbreaks. This is impacting its factory and transportation networks, referred to as the backbone of China's manufacturing, as well as the global economy.

Since Omicron infections have picked up in China, a number of cities with major manufacturing operations and presences have closed down, including: Dongguan and Shenzhen in southern China near Hong Kong; Changchun and Jilin City in Jilin Province; and Langfang, next to Beijing. Also, some smaller cities have also gone into lockdowns, like Suifenhe and Manzhouli on China's border with Russia.

There are increasing signs that China's economy is slowing sharply because of the lockdowns. Activity in China's services sector contracted at the steepest pace in two years in March as the surge in cases restricted mobility and weighed on demand. The closely watched Caixin purchasing managers' index (PMI) dived to 42.0 in March from 50.2 in February. A drop below the 50-point mark separating growth from contraction.

Impact:

Closure of manufacturing will lead to delay and shortage on orders and parts from China. This might lead to indirect delays in other countries that are dependent on parts pending from China. Replacements and change orders to manufacture in other regions, if possible, will be expensive and lead to significant increase in cost of purchase goods.

Source:

[Shutdowns in China leave things open-ended for supply chain stakeholders - Logistics Management \(logisticsmgmt.com\)](https://www.logisticsmgmt.com/news/shutdowns-in-china-leave-things-open-ended-for-supply-chain-stakeholders)

[Shanghai's 'grim' Covid outbreak threatens more global supply chain disruption | Chinese economy | The Guardian](https://www.theguardian.com/economy/2022/mar/23/shanghai-covid-outbreak-threatens-global-supply-chain-disruption)

Logistics:

Carriers forced to juggle schedules as congestion returns to North Europe

Congestion at North Europe's container ports is on the rise again, causing ocean carriers to juggle their schedules and restrict import and export operations at terminals. Vessels are arriving at North European ports already delayed by supply chain disruptions in China, and with sanctioned Russian cargo remaining on board. Many of the main container terminal hubs are suffering from terminal and landside congestion, attributed to the bunching of ultra-large container vessels (ULCVs) and quaysides becoming overwhelmed with containers that require relaying to ports which have been omitted from schedules. Container terminals at Zeebrugge and Wilhelmshaven are being used extensively by carriers to discharge containers from omitted ports, but there have been anecdotal reports that their facilities there are filling up fast with overlanded cargo.

Maersk also advised this week that its Samba service, between North Europe and Latin America, would omit the port of Le Havre for a further eight weeks, due to the "severe operational bottlenecks that we continue to observe across all main North European ports". Furthermore, Maersk and others have today been forced to halt export loads from the MTL container terminal on Dublin's South Bank, due to chronic congestion.

Impact:

Expected delay in clearance of shipments from European ports. Even ports that are not currently congested might become so due to redirection of ships from other ports. Unless capacity is increased, or sweeping optimization is implemented by port operators, the congestion is expected to increase and last for up to two months. Freight forwarders need to plan ahead and reroute shipments when needed to ensure on time delivery.

Source:

[Carriers forced to juggle schedules as congestion returns to North Europe - The Loadstar](#)

[You win some, you lose some: vessel calls at Felixstowe - The Loadstar](#)

[Barge congestion in Europe results in new surcharges – the 'Ukraine effect'? - The Loadstar](#)

China's Lockdown Impact on Global Shipping

The two-phase lockdown in Shanghai that was meant to end recently is being extended indefinitely as the latest outbreak is not contained and a massive testing campaign continues. The extension of the Shanghai shutdown is resulting in a larger disruption than anticipated. Though Shanghai's air and ocean ports remain open, labor shortages are slowing operations. In addition, the availability of goods has dropped significantly as manufacturing and warehouses are closed, and trucking is increasingly limited due to quarantine rules and travel restrictions.

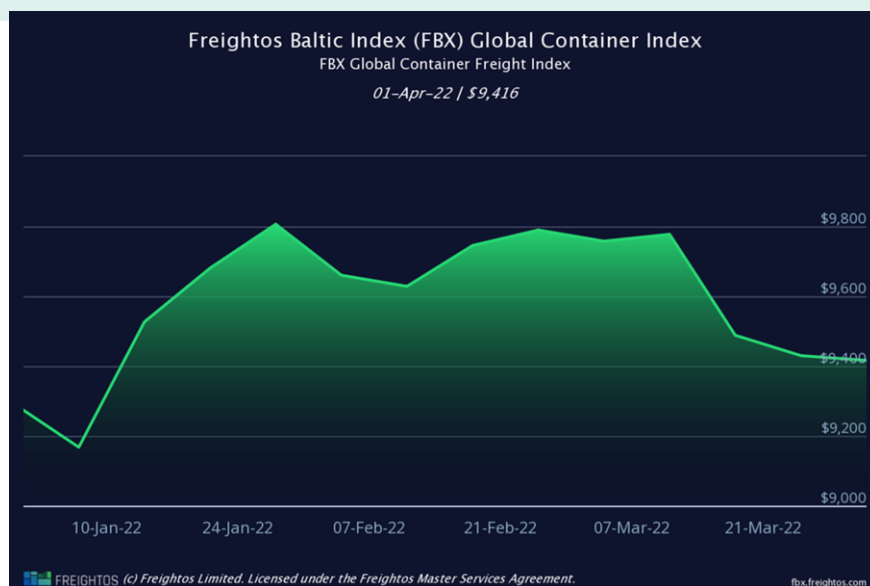
With limited goods available to ship, air cargo demand out of Shanghai is decreasing quickly. In response, air carriers are canceling flights. Despite the drop in demand, the reduction in ground handling and capacity appear to be enough to push rates up. For example, air freight to Europe increased last week 43% compared to just before the recent outbreaks and well above the pre-pandemic norm.

In ocean logistics, Shanghai ports like Yangshan are reportedly operating at only 50% capacity both because of labor shortages and a lack of available goods. As a result, some shippers are shifting to alternate ports like Ningbo when possible, and there are reports of carriers omitting Shanghai port calls. These developments are resulting in growing backlogs of ships not only in Shanghai, but in Ningbo as well.

Last year's outbreak at Shenzhen's port of Yantian slowed operations by more than 70% there for nearly a week, and resulted in a 20% spike in ocean rates to the US and Europe. So far, ocean rates to the US have remained stable, down by just 3% since the outbreaks began. This dip could be due to the drop in available goods. When operations rebound, we can expect some surge in shipments and possibly an increase in rates – though in the Yantian example ocean prices began to climb shortly after the shutdown began.

Impact:

Shipping prices are currently stable, or decreasing for certain routes, but are expected to increase again in near future. Also, there will be shortage in capacity in shipping once lockdown is lifted and manufacturers ramp up production to fulfil backlog orders, recoup losses due to downtime, and expedite orders to clients. The impact will be negatively related to the length of the lockdown.



Source:

[Shippers redirect Shanghai cargo to other airports amid mass quarantine - Freight Waves](#)

[Shanghai extends lockdown timeframe - Splash247](#)