

Monday, August 3, 2020

Coronavirus Information - 17

Dear Customer,

In addition to our customer advisories dated January 29, 31, February 03, 10, 14, 20, 27, March 05, 13, 18, 23, April 06, 27, May 19, June 08 and July 06, 2020, you will find further information below:

Status Quo at Leschaco:

After COVID-19 measures were slowly reduced in many countries around the world, we began to allow our employees in APAC and EMEA offices to return to their offices cautiously and gradually and in strict compliance with the necessary security measures. Increasing numbers of cases are currently making it necessary in some countries to reverse these measures to protect our employees and reintroduce working-from-home arrangements.

Our employees are still requested not to undertake any business trips to other countries and to limit business domestic trips to the absolute necessary. In addition, our employees are asked to avoid face-to-face meetings as far as possible and to use digital communication channels wherever possible.

It is our goal to protect our employees and to do everything possible to support the further containment of the virus. At the same time, it is our responsibility to ensure that we continue to provide the best possible service to our customers.

With the attachment you will receive our Leschaco Group Matrix, which provides a general global overview of the impact of the coronavirus on the respective logistic infrastructure in the countries of our subsidiaries. For more detailed country specific information about the developments and limitations of the logistic infrastructure in our worldwide subsidiaries, please consult your known contact person in the Leschaco Group.

Please note that our information about the country specific impact of Covid-19 on the supply chains is based on the subjective perception of our Leschaco employees in the respective countries. This perception may change at any time under the given circumstances and does not claim to be complete or accurate.

General developments:

Seven months after its first outbreak in China, the world is still firmly in the grip of the novel coronavirus. Since mid-July, the COVID-19 pandemic has been gaining momentum again in all regions of the world. Nearly 40 countries reported a record increase in infections in a single day last week, about twice as many as the week before.

The number of cases has increased not only in countries such as the United States, Brazil, India and Russia, which dominate the global headlines with major outbreaks, but also in Australia, China, Hong Kong, Japan, Indonesia, Vietnam, South Africa, France, Spain and Belgium, among others.

In the face of these growing coronavirus infections, many countries are tightening up measures against the pandemic and forcing them once again into partial lockdowns.

Sea freight:

With several economies now beginning to open and with China on the way back to normality, the level of demand seems sufficient for carriers to increase capacity on key service routes. Trade between Asia and the West Coast of the US in particular has experienced a strong surge in demand.

However, there are still considerable concerns as to whether the uptrend represents the beginning of a recovery at the wholesale level or a peak after lockdown.

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According to Sea-Intelligence, carriers have re-instated 30 previously announced blank sailings on the Asia-North America west coast, on Asia-North Europe 11 sailings were 'un-blanked' and a total of 49 sailings were re-instated on transpacific and Asia-Europe in the third quarter. "What we can see is that from week 29 (13 July) onwards, virtually no blank sailings are scheduled on the trade lane, bar a few in week 36, with the year-on-year capacity growth suggesting that from the carriers' deployment considerations, coronavirus is no longer as big a challenge," said Alan Murphy, CEO of Sea-Intelligence.

Currently container traffic from India is becoming more and more problematic. It is facing increasing congestion due to a combination of blank sailings, equipment shortages and the clearance of booking backlogs. Carriers have adopted the same strategy of blanking sailings that prevails in almost every other trade, which they say was a response to reduced demand. According to liner database eeSea, this month carriers have withdrawn 24% of capacity on the India-Far East trade, blanking 23 out of 120 scheduled sailings. Next month, a further 17% capacity is expected to be withdrawn - with 17 blankings already announced.

It can be expected that ocean carriers will continue their practice of tactical sailing cancellation in the foreseeable future due to the still uncertain outlook for trade and the global shipping network.

In contrast, the latest data on the reliability of ocean liners are encouraging, showing that service standards have improved over the course of the second quarter as demand has risen, although they are still well below those of 2019. According to Sea-Intelligence's monthly Global Liner Performance report, global schedule reliability increased by 3.1 percentage points month-on-month in June 2020 to 77.9%, although it still trailed the June 2019 figure by 5.6 percentage points.

Air freight:

According to the data published by the World ACD, air freight throughput shrank by more than 18% in the first half of 2020, but on the other hand, the revenue from airline cargo operations increased by almost 21% as the shortage of available aircraft led to significantly higher rates. This survey is consistent with a June estimate by the International Air Transport Association.

World ACD data further indicate that outbound traffic from the Asia-Pacific region to Europe and North America was the least affected by the coronavirus crisis, with decreases of 6% and 11%, respectively, compared to the first half of 2019. Air exports from the region to the Middle East and South Asia decreased by 15%. The average rate for transporting a kilogram by air rose by 48% worldwide, with the largest jump of 76% for shipments from the Asia-Pacific region. The lowest increase, 10%, was for exports originating in Latin America. In other regions of the world, the original volume fell by 32% from the Middle East and South Asia and by 22% from Europe, according to the Amsterdam-based information services company.

On a month-on-month basis, global airfreight volumes in June rose by almost 3.5% compared to May. However, earnings fell by 21% last month, resulting in a 19% drop in airline revenues - an indication that the capacity crisis has calmed down over the past two months.

Lower unit revenues explain why some passenger airlines on transpacific lanes have reduced the use of substituting aircraft for special cargo services. The so-called "ghost" flights cannot make as much money as a pure cargo freighter to cover their operating costs because they do not have the same space for income-generating payloads, industry specialists say.

Currently, prices for air freight shipments from China and Hong Kong are rising again, and it is expected that the increased demand for medical and other goods will put pressure on capacities again in the coming weeks.

The World ACD warned that the air freight market has not yet fully normalized, noting that June volumes were still 20% lower year-on-year on an annual basis, while per-unit revenue was 76% higher. And early July data show that revenues have only fallen by 2.4% since the last week of June.

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Contract logistics:

In a recent article published by the German DVZ it is predicted that the global contract logistics market could shrink by ten percent this year. However, the effects of the corona crisis would vary greatly from sector to sector. The corona virus has placed the global contract logistics market in a state of uncertainty.

In line with the findings of Transport Intelligence we see three major trends in the market:

1. **Higher Inventories:** The more uncertain the market, the greater the need for safety stock. An economic downturn will also mean fewer volumes overall in the short term, but the metric of inventory to economic activity will rise.
2. **Increased demand for highly flexible 3PL:** manufacturers and retailers will be more likely to regard large numbers of warehousing staff on their payroll as a risk as much as an asset, especially with the ever present possibility that Coronavirus may return at some point. Hence, there is an increasing demand for on-demand ad-hoc warehouse operations with short set up times, and shorter-term contract lengths.
3. **From global to local:** politicians call for the re-shoring of the production of essential goods (such as PPE and medicines). This argument has also been extended to the introduction of much broader industrial strategies. Hand-in-glove with this policy is protectionism. Relations between the world's largest trading partners are as bad as they have been for many decades. Accordingly, there will be a migration of warehousing away from major shipping gateways to locations which are geographically more central and nationally based.

Further developments and effects remain to be seen. We will monitor the situation closely and keep you informed.

We hope that our Customer Advisory provides you with a useful insight into the latest developments. If you have any feedback, or if you miss any topics, please let us know:

corporate.communications@leschaco.com

If you have any questions regarding your shipments, please get in touch with your known contact person in the Leschaco Group.

Kind regards

Leschaco (Lexzau, Scharbau GmbH & Co. KG)

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Disclaimer

Please note that all information reported in the Customer Advisory is to the best of our knowledge at the time of writing, but we cannot guarantee its correctness or accuracy.