

Friday, August 28, 2020

Coronavirus Information - 18

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 July 06 and August 03, 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:

The coronavirus continues to spread worldwide, with more than 23 million confirmed cases in 188 countries. In many countries, the number of cases continues to rise, while in others, where the first outbreaks have apparently been suppressed, infections are now increasing again. Latin America and Asia are the continents that currently have the highest number of daily confirmed cases. Brazil currently has the second highest number of cases worldwide after the USA. They are followed by India, Russia, South Africa, Peru, Mexico, Colombia, Spain, Chile, Iran, Argentina and the United Kingdom. The cases in Indonesia, South Korea, Japan and Australia are also on the rise again.

Africa has recorded more than one million confirmed cases, although the true extent of the pandemic on the continent is not known. Test rates are reported to be low, which could distort official estimates. South Africa and Egypt have experienced the largest outbreaks ever recorded, with South Africa being one of only eight countries in the world to have more than 500,000 confirmed cases.

In Europe, too, cases of coronaviruses are on the up again. In recent days, France, Spain, Italy and Germany recorded the highest daily case numbers since spring, and the World Health Organization (WHO) warned of a return of the pandemic in Europe. Hans Kluge, Director-General of the WHO Office for Europe, said the increase in cases was "partly due to the relaxation of public health and social measures ... people are becoming less careful".

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Several countries have reintroduced localized barriers in their worst-affected regions, and there have been renewed calls to wear face protection and follow rules of social distancing.

Sea freight:

Economic research institutes see signs of a recovery in world trade. The Container Handling Index of the RWI - Leibniz Institute for Economic Research and the Institute of Shipping Economics and Logistics (ISL) rose significantly in July, seasonally adjusted by six points to a value of 116.2, thus reaching a level only slightly below the previous year's value of 117.1 points. According to the institute, the economic recovery is reaching more and more regions. This shows that the upswing in world trade is gaining in momentum. In the Chinese ports, cargo handling has risen to an all-time high.

The declining number of blank sailings on the most important east-west routes in the third quarter is also an indication of an expected increase in volume. According to Sea-Intelligence Maritime Consulting, carriers have announced only three blank sailings to the west coast from August 1 to mid-September and three blank sailings to the east coast in the same period due to the strong demand in the transpacific region. In Asia-Europe, where demand is not as strong as in the transpacific region, 18 of 189 planned blank sailings have been reactivated since the beginning of June.

This development is also underlined by the latest Alphaliner survey: As carriers continue to reinstate blanked sailings and add extra loaders on routes around 90 container vessels found employment last month, corresponding to a capacity of over 600,000 TEU. The idle containership fleet amounted to 223 vessels with a capacity of 969,000 TEU on August 17, which corresponds to 4.1% of the global cellular fleet. At the end of May, at the peak of the pandemic, Alphaliner recorded an all-time high of 551 laid-up ships with a capacity of 2.72 million TEU, or 11.6% of the world fleet.

Despite these positive signals, rollovers in trans-Pacific shipments continue to hamper their smooth handling, and the lack of slots on services from Asia continues to put upward pressure on freight rates. Shipping analyst MSI says it is not clear how lasting the current recovery in volume on the main lanes will be, noting "significant risks associated with the withdrawal of employment and income support later in the year". The analyst added, however, that "overall it seems demand for containerised goods has weathered COVID-19 in a stronger manner than initially anticipated" and now expects global primary container trade to shrink by only about -5% in 2020 compared to the previous year.

Air freight:

World ACD, a market data company, said air freight volumes in July were 8.2% higher than in June. But on an annualized basis, July 2020 was 18.5% worse than the previous year - an indication of how much more the industry needs to do to return to normality. Prices were still 62% higher on average for the year but fell by 9% from June onwards and airlines experienced their first slightly drop in freight revenue since the pandemic began.

However, the lack of transport capacity continues to dominate the airfreight market and "normality" still seems to be a long way off. The gap between the decrease in capacity - measured in available ton kilometers (ATK) - and the smaller decrease in transported freight - measured in freight ton kilometers (FTK) - was only 1 percentage point MoM, but more than 20 percentage points compared to the previous year. The MoM change of the worldwide load factor was +1%, but with significant differences between freighters (+3%) and passenger aircraft (-8%). While the overall difference indicates a fairly balanced change in both capacity and traffic volumes between June and July, the overall gap still points to a global market that is trying to find a new normal.

Air freight revenue in USD increased MoM by 10% for business from Europe, by 9% from Africa, by 6% from Middle East & South Asia, by 3% from Central and South America, but fell by 1% from North America and by 9% from Asia Pacific. An initial estimate of August by WorldACD predicts that August will see a weekly volume decline of -0.3% and a 2% decline in global prices. However, prices from China appear to be rising again, while prices from South Asia are falling.

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Contract logistics:

In an 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.