FREIGHTWAVES SONAR

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SONAR highlight reel: Freightos takes its ocean rates to repair shop

AUGUST 2021

WHITE PAPER

SONAR highlight reel: Freightos takes its ocean rates to repair shop

This "SONAR highlight reel," which we publish every other week, is intended to concisely hit data highlights and trends in truckload, intermodal and maritime.

Accepted truckload tender volumes hit a new data series high in the past week while the nationwide tender rejection rate declined to its lowest level in more than five months. The declining tender rejection rates reflect rising truckload contract rates that have been renegotiated to their highest levels in recent years.

Intermodal service continues to impair intermodal volume as volumes of loaded intermodal containers post year-over-year (y/y) declines despite import volumes continuing to trend higher compared to year-ago levels. Intermodal spot rates have risen only modestly in the past month with intermodal spot rates already within shouting distance of dry van rates in many lanes.

Meanwhile, import volume remains well above year-ago levels and ocean capacity constraints have put tremendous pressure on ocean rates, particularly from China to North America. To our good fortune, Freightos revamped its methodology for assessing daily ocean rates from China to the U.S. East Coast and the U.S. West Coast to more accurately reflect ocean rates in the currently tight market.

Dry van spot all-in rates per mile[1] (w/w chg.)

LAX-DAL	\$3.33 (+\$0.02)
CHI-ATL	\$3.14 (+\$0.19)
PHL-CHI	\$2.17 (+\$0.02)
ATL-PHL	\$3.30 (Unch.)
DAL-ATL	\$2.55 (-\$0.01)
DAL-LAX	\$1.59 (+\$0.15)
National	**\$3.32 (+\$0.05)**

Freight volume index (weekly change)

Atlanta	656.34 (+4.5%)
Ontario, CA	652.09 (-1.3%)
Dallas	529.09 (+5.3%)
Los Angeles	475.53 (+16.7%)
Harrisburg, PA	455.25 (+1.6%)
Elizabeth, NJ	363.49 (-3.6%)
National	**15,439.08 (+1.20%)**

Tender rejection rates (weekly change)

Atlanta	21.1% (-268 bps)
Ontario	17.82% (+20 bps)
Dallas	23.67% (+10bps)
Los Angeles	17.82% (+20 bps)
Harrisburg	22.47% (+12 bps)
Elizabeth	16.26% (-142 bps)
National	**20.53% (-89 bps)**

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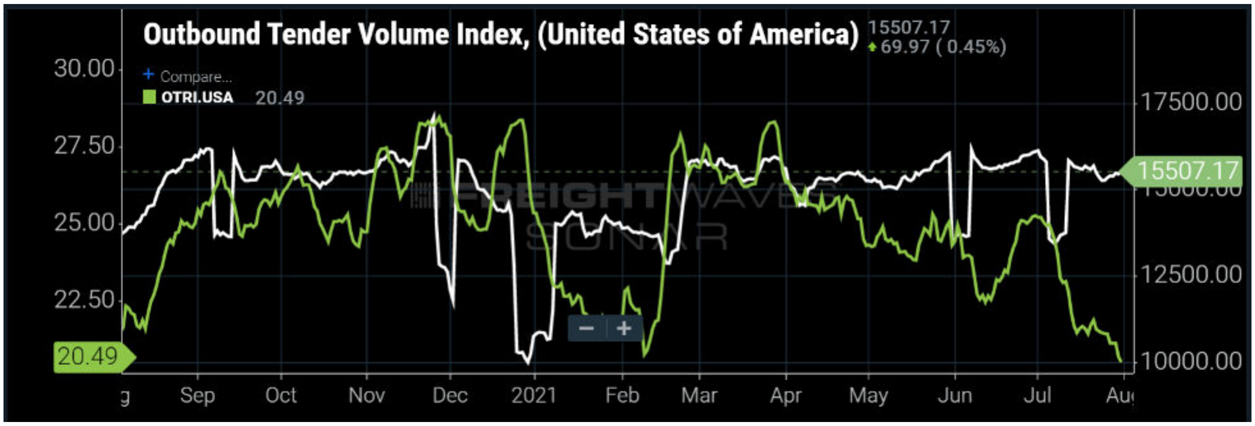
[1] Truckstop.com all-in per-mile rate

The truckload market is in a lull to begin August

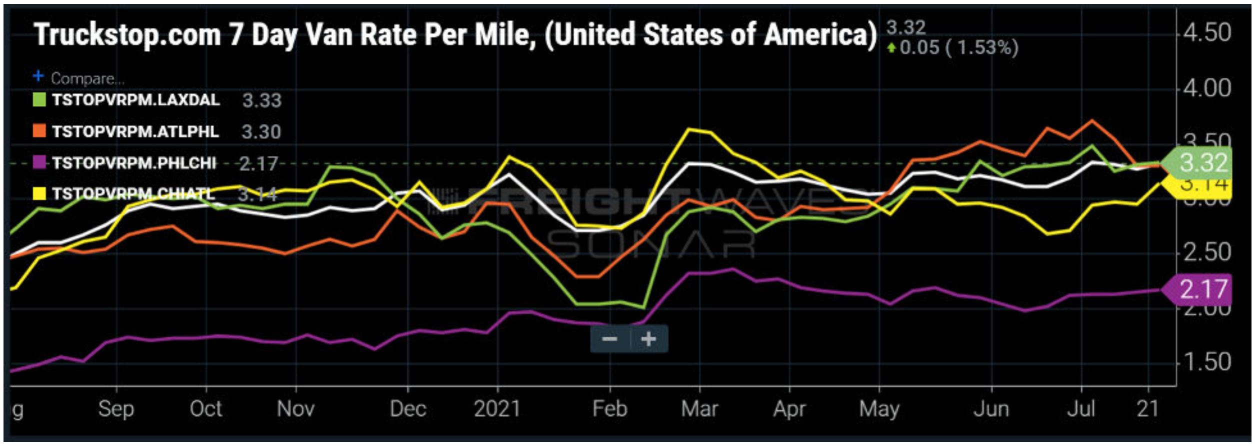


(Chart: FreightWaves SONAR, Outbound Tender Volume Index {white} and Outbound Tender Reject Index {green})

The truckload market has entered a lull as August begins. The Outbound Tender Reject Index (OTRI), a measure of relative capacity based on the percentage of tendered requests for capacity that are being rejected, has fallen to the lowest level of 2021, reaching sub-21 percent levels for the first time in a year. Over the past month, rejection rates have fallen by nearly 500 basis points (bps), though the rate at which rejection rates have pulled back has slowed over the past two weeks. OTRI has fallen by ~120 bps in the past two weeks to 20.49% and with the difficult comps that lie ahead in August, it is likely that the y/y comps will turn negative early in August and likely stay there for the foreseeable future.

Though rejections are likely to turn negative y/y, the ability to secure capacity is still plaguing the overall truckload market as freight volumes have maintained strength throughout July. The Outbound Tender Volume Index, a measure of freight demand through tendered requests for capacity, has fallen by 2.3% over the past month and just 0.5% over the past two weeks. Volumes compared to a year-ago have been trending downward for the better part of three months now as comps became increasingly difficult. But even with the difficult comps, OTVI on an absolute level is still running up 14% y/y.

When accounting for tender rejections, accepted tender volumes are maintaining strength as freight demand continues to outpace any capacity that is being added to the market. That strength as well as the difficulty of securing capacity is shining through the national average spot rate according to Truckstop.com's load board.

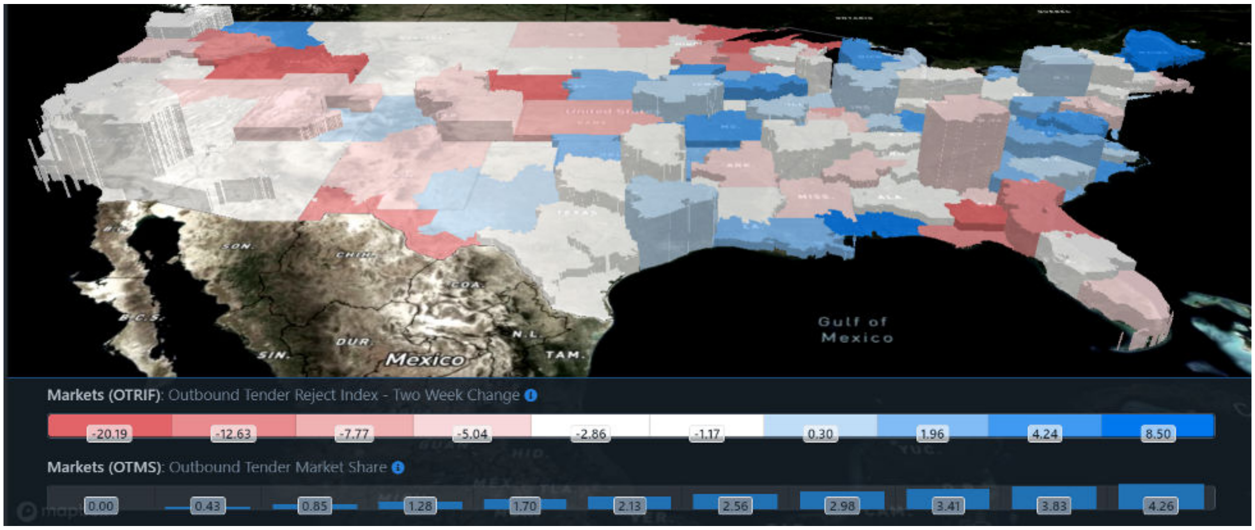


(Chart: FreightWaves SONAR, Truckstop.com's spot rate: U.S.A. {white}, LAX-DAL {green}, ATL-PHL {orange}, PHL-CHI {purple}, CHI-ATL {yellow})

The current spot rate, which includes fuel surcharges and other accessorials, sits at $3.32/mi, just one cent per mile off the all-time high set during the Fourth of July holiday week. The current spot rate sits nearly 40% higher than year-ago levels and more than 65% higher than 2019 levels, which was a notoriously tough year for trucking.

Though capacity has been added to the market, the overall spot rate is staying elevated as contract rates continue to close the gap. The initially reported dry van contract rate currently sits at $2.60/mi and excludes fuel surcharge and the other accessorials included in the spot rate calculation. The inflation pressure on contract rates has slowed over the past couple weeks as they have remained around the $2.60/mi since the beginning of July.

As freight demand is likely to maintain its strength while capacity is being added, spot rates are likely to go higher from here, and will maintain the elevated level for the foreseeable future. Additional catalysts, like hurricanes, which tend to cause a starvation of capacity in certain areas, could drive rates higher for a short period of time, but are obviously harder to predict than seasonal patterns around holidays.



(Chart: FreightWaves SONAR, Outbound Tender Reject Index - two week change {color} and Outbound Tender Market Share {height})

Across the country, freight volumes in the two large southern California markets, Los Angeles and Ontario, are mixed as volumes in Ontario have fallen more than the national average, falling 3.1% over the past two weeks, while volumes in Los Angeles are up 8.6%. At the same time, rejection rates have fallen similarly to the national level, down 114 bps over the past two weeks. The slowdown in freight volumes outpacing the fall in rejection rates signifies that overall volumes out of Ontario have slowed down. However, because of an influx of freight destined for the ports of Los Angeles and Long Beach in coming weeks coupled with congestion at the ports and on the railroads, there is likely recovery in overall volumes a few weeks away.

Requests for capacity in the Atlanta market, the largest market in the eastern half of the country, have increased by 2.84% over the past two weeks. At the same time, rejection rates have pulled back by over 300 bps as relative capacity is the loosest it has been in the Atlanta market since mid-February when the winter storm hampered transportation networks across the country.

Little Rock, Arkansas is showing signs of life as OTVI has increased by over 30% in the past two weeks, the sixth-largest increase of any of the 135 markets within SONAR. Little Rock, which is a large producer of poultry, is keeping reefer volumes strong as produce season starts to wind down. Over the past two weeks, reefer volumes in Little Rock have increased by over 90%, though difficult comps have kept reefer volumes negative y/y. Volumes are currently down 38%, though reefer volumes were down by more than 70% y/y just a few weeks ago.

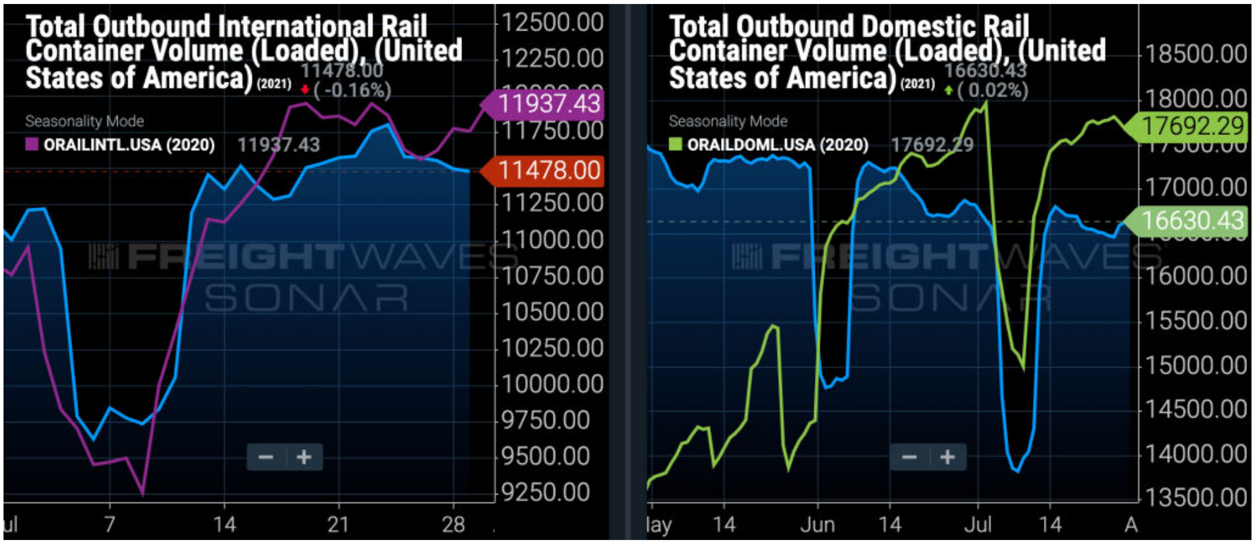
Intermodal service issues constrain intermodal volume

Intermodal service issues are clearly hitting intermodal volumes. Intermodal is underperforming both import volume and long-haul truckload volumes when comparing those data across modes in SONAR.

As we highlight in our discussion of maritime below, the volume of import shipments clearing U.S.Customs is up 23% y/y. In contrast, loaded international intermodal and loaded domestic intermodal volume are down 4% and 6%, respectively. Loaded international intermodal volume is down y/y in six of the nine densest international intermodal lanes, while loaded domestic intermodal volume is down y/y in 10 of the 11 densest domestic intermodal lanes. Chicago to Dallas is the only major domestic intermodal loane where loaded volume is up y/y.

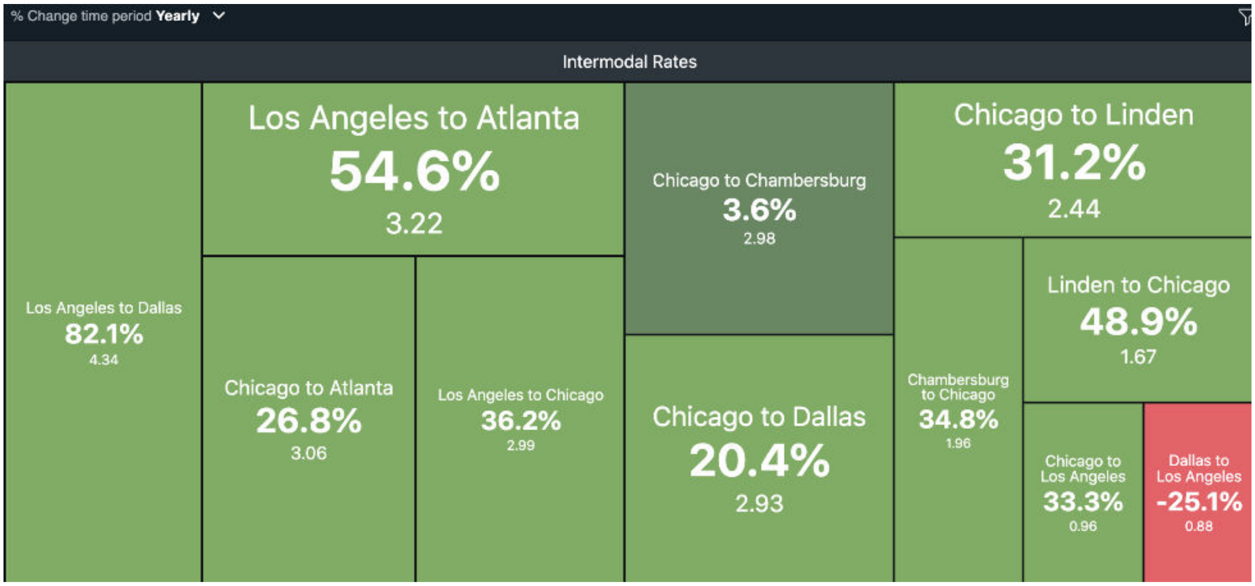
We believe that contrast reflects congestion at or near the ports, congestion at inland intermodal terminals (which has caused carriers to meter service or suspend service altogether), and the lack of value that shippers are currently seeing in intermodal. One comment that we have heard from shippers recently is that not only is intermodal service poor, it provides little savings when difficult-to-manage detention and demurrage charges are included.

Loaded international intermodal volume and domestic intermodal volume are both down y/y.



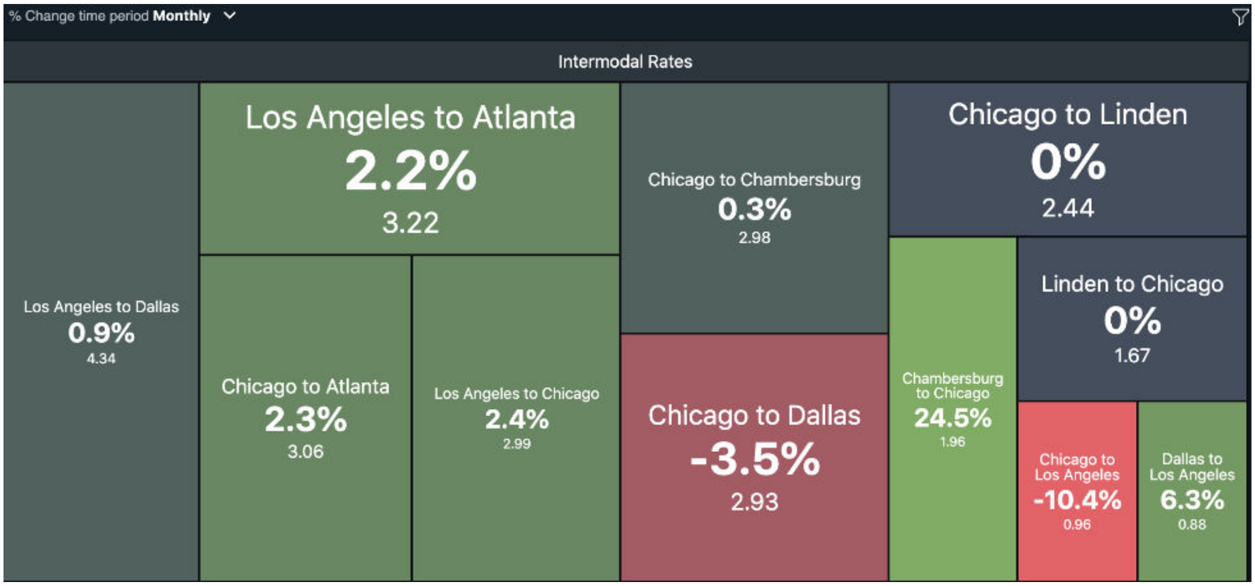
(Chart:FreightWaves SONAR – loaded international intermodal volume y/y comparison on the left above and loaded domestic intermodal volume y/y comparison on the right above.)

Intermodal spot rates are sharply higher y/y, but have been relatively flat in recent weeks.



(Chart:FreightWaves SONAR – domestic door-to-door intermodal spot rates to move 53' containers, and their y/y changes, are shown for the 11 densest domestic intermodal lanes.)

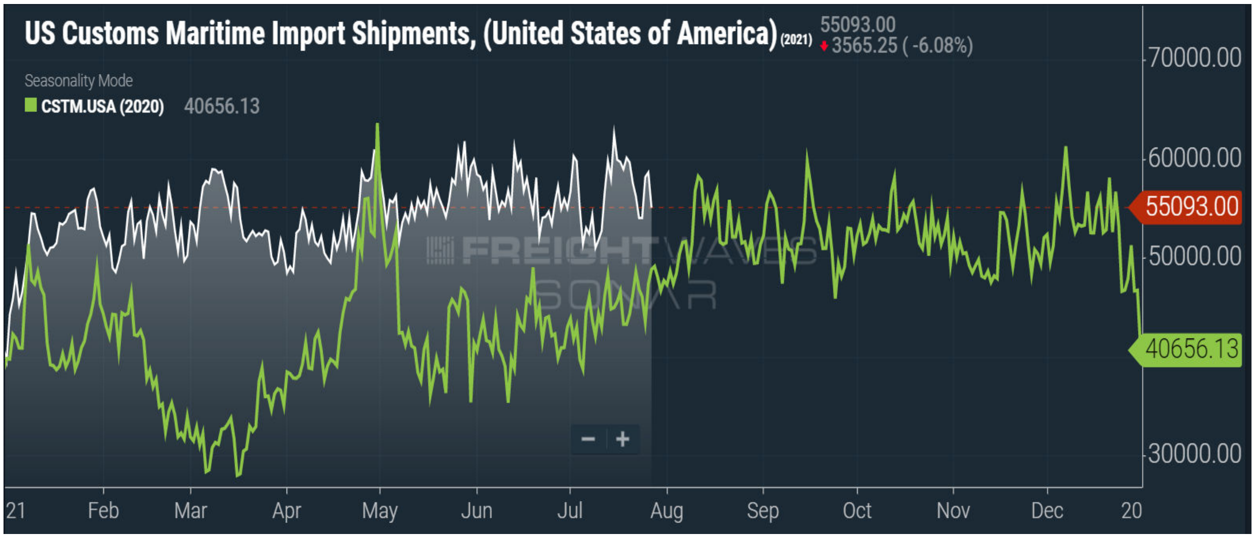
The door-to-door domestic intermodal spot rates are higher compared to one year ago in 10 of the 11 densest domestic intermodal lanes. However, during the past month, intermodal spot rates have increased modestly, on average, with most lanes rising in the 0%-3% range. We believe the lack of spot rate changes, relative to one month ago, reflects that the railroads had already increased their spot rates in recent weeks to close to, or above, the truckload rates in the same lanes in an effort to protect capacity for contracted shippers.



(Chart:FreightWaves SONAR – domestic door-to-door intermodal spot rates to move 53' containers, and their m/m changes, are shown for the 11 densest domestic intermodal lanes.)

Shippers are altering course as the urgency to replenish inventory intensifies

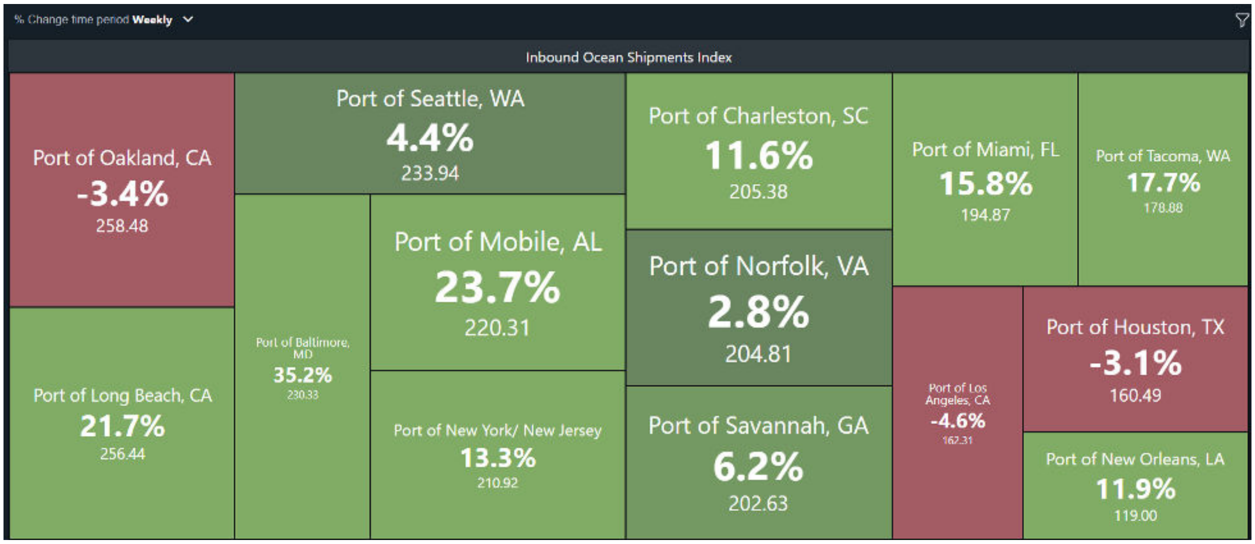
Over the course of the past week, the supply side of the maritime sector has progressively deteriorated. Port congestion is flaring up again on the West Coast, the global container and chassis shortage is persistent, and rail service has decayed. Given the current freight environment, U.S. importers are resorting to alternative measures to secure peak season capacity. Diversifying ports of entry and adjusting inventory replenishment timing has become all but required to fulfill holiday inventory requirements.



(Chart: FreightWaves SONAR – U.S. Customs Maritime Import Shipments to the United States YTD {White Line} as compared to 2020 full year {Green Line})

Demand for containerized and non-containerized imports has remained white hot. While down 8% in the most recent week, U.S Customs maritime import shipments remain elevated by 12% when compared y/y. Comps will become increasingly difficult as we move through the near term. While the ports of Los Angeles and Long Beach grapple with increasing congestion, we have noticed an uptick in shipments to auxiliary ports of entry along the East and Gulf coasts of the U.S.

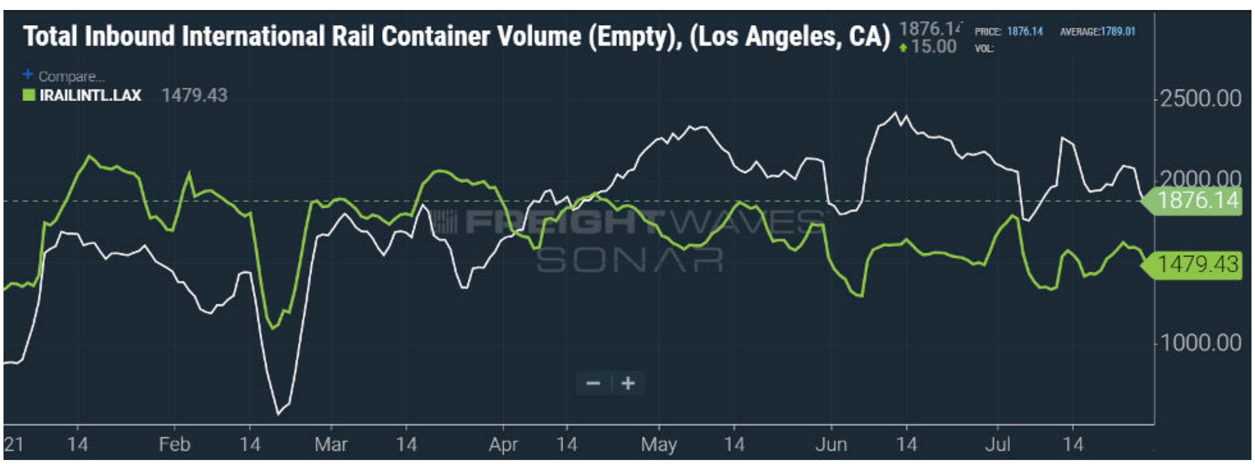
Inbound ocean shipments departing for the port of Baltimore increased by 35% over the most recent week. The port is a major gateway for e-commerce markets and has access to two Class I railroads that maintain capacity to the congested Midwest. At the beginning of July, Maersk also launched a new 13-vessel Southeast Asia/Vietnam service which calls upon the port. The port of Mobile is also a significant gateway to the Midwest, with five Class I railroads making daily departures. Inbound shipment volumes to the port increased a substantial 24% when compared to the prior week.



(Chart: FreightWaves SONAR – Inbound Ocean Shipments Index for the highest volume U.S.-based ports of entry, shown with their w/w changes)

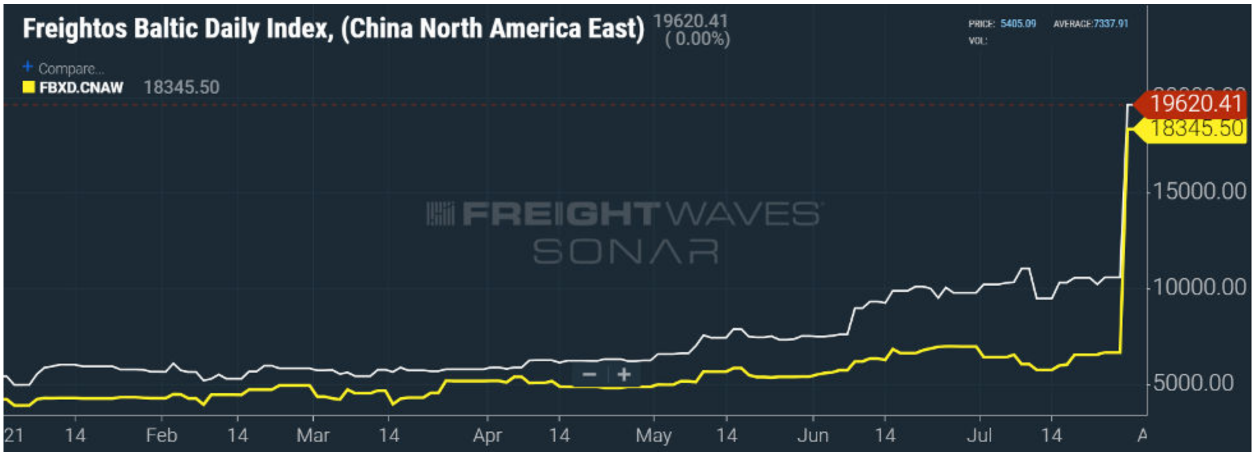
Maritime disruptions are not exclusive to the import market. Exporters, especially those that export agricultural products, are facing an increasingly difficult time securing outbound shipments. The Port of Los Angeles, which is the largest containerized agricultural exporting location in the U.S., exported ~75% empty containers in the month of June. This comes as no surprise, as headhaul trans-Pacific rates are nearly six times higher than the backhaul.

The container crunch can be seen in inbound international rail container volumes to the Los Angeles market, where Inbound empty containers currently exceed inbound loaded containers by 27%. This highlights the willingness of ocean carriers to forgo backhaul revenue in an effort to race back to higher margin generating export shipments.



(Chart: FreightWaves SONAR – Inbound international rail container volumes to the Los Angeles market - Empty containers {White} compared to loaded containers {Green})

Freightos and the Baltic Exchange alter calculation on Eastbound Tran-Pacific Indexes.



(Chart: FreightWaves SONAR – Average rate per 40-foot container from China to the North American East Coast {White} and China to the North American West Coast {Yellow})

The Freightos Baltic Daily Index on eastbound trans-Pacific lanes skyrocketed late last week. The significant increases seen in the index from China to the East and West coasts of the United States occurred as a result of an internal calculation investigation. Following scrutiny over not accurately reflecting the market, Freightos and the Baltic Exchange altered their formula to exclude outliers that blatantly omitted premiums and surcharges.

Premiums have become a significant part of maritime pricing on the trans-Pacific, as many shippers fight to secure elusive vessel capacity. While not considered part of the traditional rate structure, space premiums and surcharges can add a substantial amount to ocean rates.. By excluding the outliers, Freightos believes the new index paints a more accurate representation of the current tight market conditions. The revamped calculation resulted in a drastic increase to the index, with rates to the East Coast jumping 85% and rates to the West Coast increasing by 176%.

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