Blank sailings and omissions are expected to impact the market as of the beginning of June. This is announced as an effort to restore schedule integrity, though many consider it a means of holding record rate levels.

Free-time reduction remains commonplace across carriers as terms become much more rigid.

With congestion in Europe reaching inland waterways, additional surcharges are expected in the coming weeks.

Two schools of thought exist between carriers, those that wish to deploy capacity to meet demand on major trade lanes, thereby attempting to ease backlogs from Asia and those wishing to take advantage of the ability to generate record profits and recover from years of nominal margins by voyage profits being almost guaranteed given the costs in the market.

Shippers’ focus remains on equipment and space as no signs of relief have been seen.
All deployed capacity is being absorbed in the market. Inactive fleet stands at approximately 2.4% of global capacity or 587,510 TEU.

Blank sailings are expected in the coming weeks on head haul trades with a major impact to FEWB voyages. This will keep capacity limited and ensure rate levels remain elevated.

Charter market rates for vessels remain high and therefore tonnage is deployed. The largest type of inactivity currently is due to vessels in shipyards.
Forecasts are for levels of 30% more cargo in June than last year. Backlogs, rail congestion and clearing port congestions is not expected to improve.

Rates are indexed at elevated levels; however, additional “premium rates” are still the norm to ensure cargo is loaded.

Backlogs with carrier bookings are typically ranging from two to four weeks, depending on the origin. Yantian is to be closed for 3 days which will impact backlogs further.

Blank sailings have been announced to impact schedule integrity by the carriers. This is anticipated to keep capacity limited and rates at high levels on the head haul trades.

Peak season is expected to formally begin early this year, so conditions will remain challenging.

### Trade Lane Status

<table>
<thead>
<tr>
<th>Trade Lane</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPEB to USEC</td>
<td>Utilization 100%</td>
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<tr>
<td>TPEB to USWC</td>
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<tr>
<td>CBP to N Eur</td>
<td>Blank Sailings announced</td>
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<tr>
<td>N Eur to ISC</td>
<td>Rates expected to increase</td>
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Available space, Quick booking turn time.
Capacity well utilized; some space available.
Demand higher than supply. Space agreements challenged.
Asian lines have recorded the largest gains since January 2020, reflecting the financial turnaround achieved by many Asia-Pacific-based carriers.

Carriers in all alliances are seeing continued rise in share performance. Shippers globally are beginning to call for intervention to prevent “gouging” as carriers consider how to recover from years of losses.

There are no indications that conditions will change in the next two quarters.
**Transborder Crossings**

**Tijuana and Mexicali** – No impacts. Current crossing times SB one hour and NB two hours.

**Juarez** – Impacts due to demand on capacity for FTL exports. Currently not enough equipment into the Mexico market. Current crossing times SB one to two hours and NB three to four hours.

**Laredo** – Backlogs and capacity delays from the recent storm impacting Laredo/Nuevo Laredo have been cleared.

**Ocean**

Equipment demand in Europe and the Asia-Pacific region into Mexico ports is impacting service and carriers are starting to charge extra to secure equipment.

New services are being announced by some shipping lines, including Wanhai AS1’s new weekly service from Kaoshiung to Ensenada and Manzanillo, operated by ten 2,200 TEU vessels.

Manzanillo Port continues to report the highest congestion. The SSA and Contecon terminals at Manzanillo have the highest volume of containers. April numbers show a 10.7% increase of containers received.

The Ensenada and Manzanillo ports are seeing a small backlog in import operations, but no major impacts. We are seeing more traffic through these two ports with transfer service into the United States due to backlogs in the U.S. ports. Demand into Mexico from Europe and the Asia-Pacific region is high, with carriers advising no more NAC contracts until Q3, and limiting FAK and premium services to currently booked levels.
Capacity is still 14% less than pre-COVID-19 levels, with airlines focused on yields as a result.

Pressure due to modal shift to airfreight is expected to continue. Record rates and charter rates will likely increase in the coming weeks.

Passenger capacity (belly space) is expected to see some return to the market over the summer months; however, it will not likely be a major contributor to cargo FTKs until mid 2022.
TRADE LANES

- Carriers are releasing passenger capacity into select trade lanes as summer travel demand increases. This is going to impact popular vacation regions between North and South America as well as Europe as COVID restrictions ease.

- Passenger capacity is not expected to surge, but rather increase gradually over the summer months and into the peak season.

- Blank sailings in the already congested ocean market are expected to continue to shift demand to airfreight. This is expected to drive rates up as the market approaches peak season and continue through to 2022.

Air cargo capacity growth by trade lane

Source: Seabury Intel
Pressure from ocean markets converting to air has driven demand to higher levels. This has driven rates upwards and the trend is expected to continue.

Premium rates are required in order to reduce cargo transit times, as airlines are prioritizing higher-yielding cargo.

BSA procurement is possible; however, allocations of space are not commonplace due to volatility and the airlines’ continued focus on yield.
By June 30, 2021, the ICAO requires all Member States ensure that 100% of international air cargo transported on commercial aircraft is either (1) screened to a level intended to identify and/or detect the presence of concealed explosive devices or (2) under appropriate security controls throughout the cargo supply chain to prevent the introduction of concealed explosive devices. This requirement offers shippers opportunities:

- Priority handling
- Preferred cut-off times
- Priority for capacity
- Future allocations
- Cost effectiveness
CURRENT STATE
- India remains highly congested at all airports for import and export cargo. This is expected to continue as COVID issues persist.
- Demand continues to outpace capacity. Capacity has increased by 67% since May 2020, but overall, capacity is still less than pre-COVID levels.
- Charters are still the preferred means of Asia-Pacific exports.
- The North American lumber shortage has started impacting cargo handling with pallet supply shortages. This has caused airlines to implement exchanges and shippers also having to arrange fumigation due to a lack of compliant pallet availability.

FUTURE STATE
- With COVID policies changing and summer travel demand increasing, passenger capacity will be introduced. Passenger fares are anticipated to be higher than pre-pandemic levels and the impact is expected to be gradual.
- The surge in demand caused by ocean shippers requiring air freight is not expected to decrease until into Q4.
- Charter demand continues to surge through 2021. June capacity has been fully booked and will continue to be pre-purchased through the end of the year.
- Rates are estimated to continue to rise through 2021.
China Railways have announced cuts to all subsidies in June

Departures from China will be reduced for all platforms beginning in June

Westbound Rates are expected to increase by up to 15%

Capacity to remain tight on Eastbound Services

<table>
<thead>
<tr>
<th>Direction</th>
<th>Capacity Development</th>
<th>Rate Trend</th>
<th>Equipment Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe to China</td>
<td>Yellow</td>
<td>↓</td>
<td>Green</td>
</tr>
<tr>
<td>China to Europe</td>
<td>Red</td>
<td>↑</td>
<td>Yellow</td>
</tr>
</tbody>
</table>
Tendered volumes have flattened over the past month, but demand is not easing.

Current spot market pricing will remain elevated and increase into July and August as imports are projected to be heavy due to producer capacity increases to match an aggressive recovery.

Big box retailers are experiencing increased “in store” purchases indicating a post-pandemic economy; however, final mile deliveries remain strong with e-Commerce purchases.

Alternative capacity is increasing with the airlines as passenger demand influences the addition of flights to high-volume destinations.
Produce season is in full swing across the southern states, increasing reefer demand. Higher pricing is luring dry van drivers, which decreases the capacity for consumer commodities.

Reefer pricing continues to climb faster as the food service industry re-opens and food consumption increases the demand for capacity.
CUSTUMS BROKERAGE

- This table from the U.S. Bureau of Labor Statistics details the increase in trade between the United States and Mexico over the last three years.

- Forced labor and withhold release orders continue to be a priority trade issue for U.S. Customs and Border Patrol. Malaysian gloves, as well as textile/cotton products continue to be heavily reviewed.

- Aluminum import licensing will be required on imports starting June 28.

- The U.S. Food and Drug Administration has discontinued the portal for importer and consignee DUNS# lookups.

- The U.S. Federal Emergency Management Agency has removed restrictions for export on some medical supplies and equipment but continues to restrict some items. Please review the FEMA link for full details.

For more information on U.S. imports or questions pertaining to the list of exemptions, please contact chicagochb@aitworldwide.com
Order backlogs are building and new orders are continuing as production is still expanding.

The PMI shows a slight decline, but not due to lack of demand. Commodity shortages are systemic and price increases are making their way upstream from the supply chain.

Employment issues remain persistent throughout the supply chain.

Growth recovery is strong around the world and reflects an increase in consumer consumption.

Forward indicators for 2022 predict manufacturers will catch up to consumer demand and an inflation uptick will ease consumer spending.
TURN INSIGHTS INTO ACTION WITH AIT

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Now that you know what’s on the horizon for the coming month, it’s time to strategize. But you don’t have to do it alone. Let us put our 40+ years of experience across every industry, mode and region to work for your organization.

North American Domestic Product
Dale Grosso
dgrosso@aitworldwide.com

Customs Brokerage
Emily Faulkner
efaulkner@aitworldwide.com

International Air and Ocean
Kent Thompson
kthompson@aitworldwide.com