Dear Reader,

The team at SILA understand that we are in in unpredictable times.

There is a considerable amount of information (too much to continually share) but we are sharing with you some published industry information which helps to explain some of the COVID-19 effect on the supply chain. We hope you find this informative.

SILA is focused on our *"Together We Achieve"* business ethos and we encourage our customers to reach out to us for assistance or advice - even if you have a need in the supply chains we don't manage.

Ocean shipping services continue to deteriorate

Greg Miller, Senior Editor _ Wednesday, April 1, 2020

It's getting even uglier out there in the ocean trades.

Not only are "blank" (cancelled) container-ship sailings surging — spiking from 45 to 120 in the past three days — but schedule reliability for non-cancelled sailings is poised to deteriorate.

Demand from cargo buyers in the U.S. and Europe is collapsing at an alarming pace. Hopes for a second-half V-shaped rebound are dwindling. Containers already delivered to import terminals are piling up, prompting at least one major carrier to launch a stopgap storage plan.

Schedule reliability to worsen

Global schedule reliability statistics are compiled by Copenhagen-based Sea-Intelligence, with the latest data through February.

According to Sea-Intelligence CEO Alan Murphy, February reliability fell to 65.1%, "the lowest recorded global score since Sea-Intelligence introduced the score in 2011."

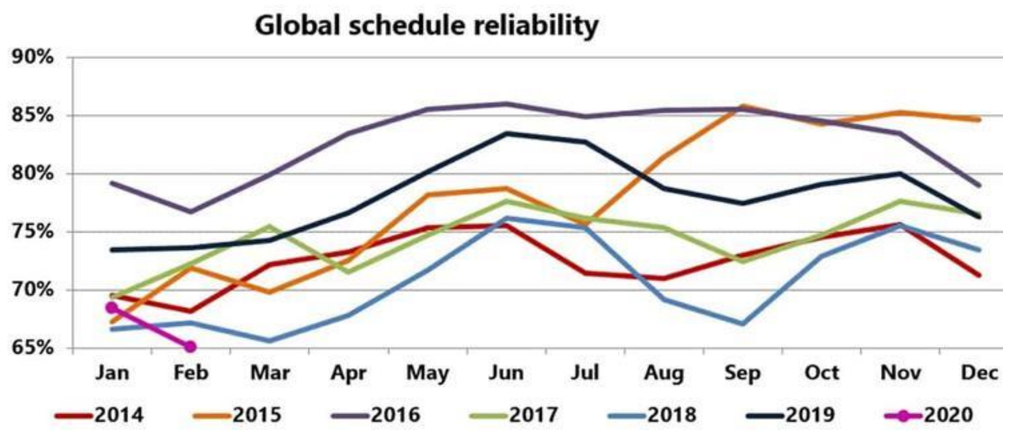

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Chart credit: Sea-Intelligence

Global Liner Performance (GLP) Report – March 2020

Furthermore, the average delay for late vessel arrivals rose to five days in February, the highest number seen “outside of the U.S. West Coast labour dispute in early 2015.”

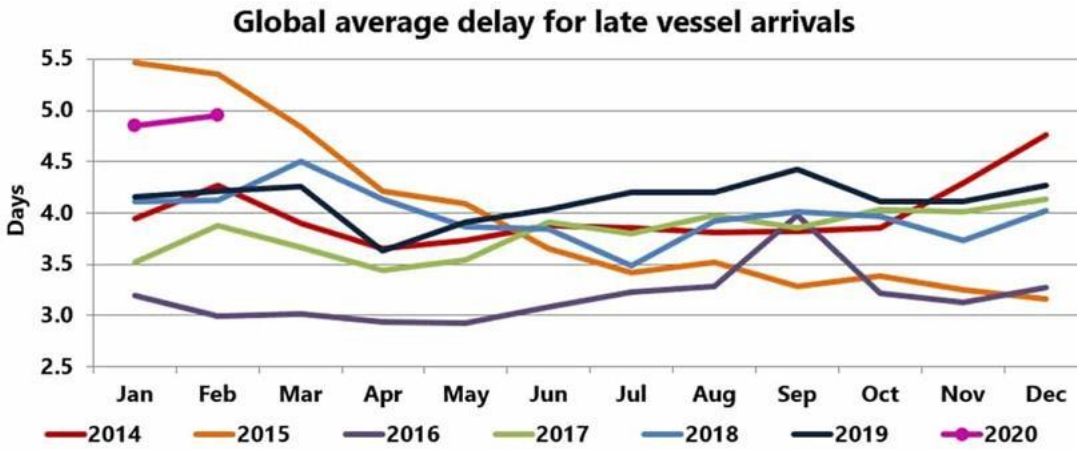

Chart credit: Sea-Intelligence Global

Global Liner Performance (GLP) Report – March 2020

Asked by Freight Waves whether reliability would worsen, Murphy replied, “Yes, I would expect schedule reliability to be very poor in the months ahead and probably drop further.”

The reliability benchmark covers scheduled sailings and does not factor in blank sailings. Nevertheless, the rising number of blank sailings has an effect.

“The disruption from blank sailings impacts the schedule reliability of the sailings that are still in operation, as inducement calls and other tactical measures are hard to do within the existing schedules,” Murphy explained.

“On top of this, everyone is focusing on retaining cash flow, including carriers, and even though bunker [marine fuel] prices are incredibly low, and thus schedule recovery — speeding up — is now much cheaper, I strongly doubt there is any willingness to blow cash on marginally improving schedule reliability when it is already extremely poor and boxes are piling up inland.”

Lars Jensen, CEO of Copenhagen-based Sea Intelligence Consulting (a different company than Sea-Intelligence), also believes reliability is likely to deteriorate. “It will get worse,” he affirmed to Freight Waves.

Could reliability actually improve?

“I cannot say for certain that it [reliability] will get worse,” Murphy conceded, noting that “it is quite possible that the carriers may completely reschedule their networks, and if their new schedules include sufficient buffers to handle the coronavirus challenges, schedule reliability could technically improve — although the 'new' product being sold, now with considerable buffer, would be inferior to what would have been promised without such buffers.

"It could also be argued that lower demand could in turn lead to higher schedule reliability, a pattern we have seen in recent years in the Africa trades, as lower demand leads to fewer boxes which leads to fewer vessels, which can mean less congestion where congestion is a main cause of poor schedule reliability."

Boxes piling up at ports

"That said," Murphy continued, "I think that hoping for such a silver lining is a little too optimistic. I think congestion will increase in the coming months as importers will be struggling to pick up their containers, even if there will be less of them, and carriers may have to tranship in unfamiliar ports and terminals.

"The massive amount of blank sailings will lead to inland supply-chain disruptions, which will lead to pileups and challenges in container repatriation, and thus to equipment shortages," Murphy added.

Jensen said in an online post, "The speed of the [demand] drop is bound to create significant problems because you already have a large amount of cargo on the ships. When it arrives at the destination, it arrives into a reality where it is not needed or wanted by anyone."

The container pileup concern is becoming so acute that Mediterranean Shipping Co. (MSC) created the Suspension of Transit (SOT) program on Tuesday. To better accommodate containers shipped from Asia that are delayed on the import side, it has set up special yard storage at six transhipment hubs: Bremerhaven, Germany; Busan, South Korea; King Abdulla Port, Saudi Arabia; Lomé, Togo; PSA International Panama, Panama; and Tekirdag Asyaport, Turkey.

Blank sailings 'worse than expected'

Sea-Intelligence reported on Sunday that the number of pandemic-induced blank sailings had risen to 45 from two. Just three days later, the tally had skyrocketed.

Jensen calculated that the number of blank sailings had reached 120 as of Wednesday. He called the latest round of cancellations "worse than expected" and "staggering," adding, "I don't think anyone has any experience with this magnitude of a sudden drop." He believes the severity of service cancellations in the past few days implies that the drop in cargo demand "has escalated."

U.S. importers 'scramble' to cancel

The latest step-down comes on top of a pronounced U.S. import decline in the first quarter. According to SONAR data on the seven-day moving average of the number of customs filings, U.S. filings for imports from China to all U.S. ports (SONAR: CSTM.CHNUSA) are down 42% year to date and filings for imports (regardless of origin) to the Port of Los Angeles (SONAR: CSTM:LAX) are down 18%. The data sets also confirm a turn for the worse in recent days.

Eytan Buchman, chief marketing officer of Freightos, pointed to a "scramble" by shippers to cancel orders.

He specifically highlighted fallout from Amazon's mid-March decision to stop accepting nonessential goods to its warehouses from third-party "Fulfilled by Amazon" (FBA) sellers.

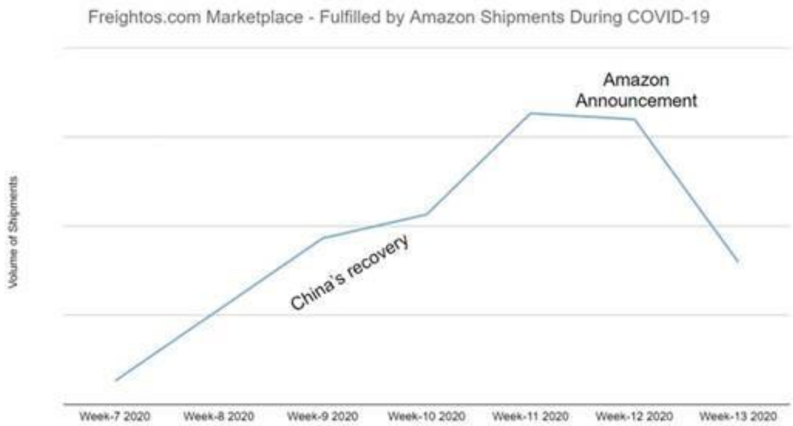

Chart credit: Freightos

"Shipments booked by FBA sellers using the Freightos.com marketplace … reached a peak three weeks ago only to sink by nearly 50% last week after the change in Amazon's policy," Buchman said.

"Given that over a third of U.S. e-commerce relies on Amazon, this is likely a lead indicator of the severe inventory gaps on America's most popular e-commerce channel," he said.

Long road ahead

Jensen offered a pessimistic view on the timing of a rebound of containerized import demand. "My view right now is that the rebound will not happen until 2021," he warned.

"Even if we are wildly optimistic and assume all lockdowns are removed in two to three months, that does not mean consumer confidence returns that fast. And more importantly, importers will be wary about ramping up imports quickly after summer because of the lingering worry about the second wave [of infections] late in 2020. If the second wave goes OK, then we will see a very sharp rebound in 2021."

More Freight Waves/American Shipper articles by Greg Miller