SAVINO DEL BENE®
Global Logistics and Forwarding Company

CARGO MOVEMENT UPDATE

Date: 21 October 2022

Key Notes

- The strike's cumulative impact has rung up a logistics cost of **~R7 billion**, as goods worth **R65,3 billion** stood idle, with a significant portion likely never to be recovered. As operations gradually return to some semblance of normality, the industry is set to recover by early 2023, barring any further disasters. The estimated wage increase of a mere **R1,5 billion** is insignificant by comparison with the damage inflicted.
- An average of **~1 703 containers** was handled per day, with **~8 160 containers** projected for next week.
- Rail cargo handled out of Durban amounted to **491** containers, **↑21%** compared to last week.
- Cross-border queue times were **↓1,1 hours**, with transit times **↓24 hours**, SA borders **~7,5 hours** (**↓75%**).
- TNPA stats for Sept: containers **↑14%** (m/m) & **↑1%** (y/y), but still down YTD (**↓1%**). Total cargo is **↑35%** (m/m) & **↓1%** (y/y), mainly due to reductions in the bulk sectors – a worrying number for our BoP.
- The "*WCI*" decreased for the *34th consecutive week*, with spot rates down **↓3%** (**$100**) to **$3 383** per 40ft.

i. Port operations - General

- As with last week, this week's central talking point revolves around the strike action, which has fortunately ended.
  - However, the reality is that the real work will only start now, as clearing the backlog will be a significant and challenging undertaking.
  - Apart from the strike's impact, port operations were characterised by equipment breakdowns and shortages, adverse weather conditions, backlogs, and congestion as we slowly began to return to full operations.
  - Operations at most of our national ports returned to some sort of normality as both UNTU and SATAWU accepted Transnet's latest wage offer, concluding the strike action that took place.
  - In addition, the Eastern Cape ports experienced adverse weather conditions during the latter stages of the week, leading to extensive delays, while equipment breakdowns and shortages plagued the rest of our ports.
  - Furthermore, the crane situation in Durban is continuously a cause of concern, while Transnet reported that the Durban helicopter should start conducting night shift operations from November onwards.
  - No sooner had the strike come to an end than the South Easter started blowing in Cape Town, closing the container terminal there.

ii. Port operations – Performance metrics

- CTCT stack occupancy for GP containers was **19%**, reefers **8%**, and empties **25%**.
- Cape Town MPT recorded zero vessels at anchor and zero at berth on Thursday
- DCT Pier 1: Stack occupancy was **64%** for GP containers and **15%** for reefers, with **2 096** imports on hand, **53** reefers and **75** unassigned units.
- DCT Pier 2: Stack occupancy was **56%** for GP containers and **10%** for reefers.
  - The terminal had between **79 and 86 straddles** in operation throughout the week, operated by nine gangs. On Thursday, there were 1 611 gate moves on the landside with an average TTT of 73 minutes and a staging time of 21 minutes.
- In the last week (15 to 21 October), rail cargo handled out of Durban was reported at **491** containers, up by **↑21%** from the previous week's **387** containers.

iii. The opportunity cost of the Union strikes:

Cost:

- As mentioned last week, research shows that depending on the magnitude (i.e., an idle hour – versus an idle day), logistics delays to the supply chain cost our economy around **R530 million per day**. However, there is a cumulative effect as the system clogs up. Therefore, the strike has rung up excess logistics costs of nearly **R7 billion** across the ten days of delays.
- However, when calculating the **total economic cost**, the devastating final impact is far higher than that, as – besides the delay in moving some goods – lost orders and cancelled contracts are gone and gone forever.
- Therefore, according to our latest calculations, the opportunity cost ran to a total of **R63,5 billion** during the strike, as many industries involved in international trade came to a complete standstill.
- When one considers that the final cost of the wage agreement – if adopted across the board for all workers at Transnet – is, relatively speaking, a mere **R1,5 billion**, we need to understand the ultimate consequences of actions by all the parties involved.

iv. Local and cross-border road:

- Last week, clearing times at South African borders decreased substantially and averaged **~7,5 hours** (**↓75%** w/w).
- Last week, Kasumbalesa developed some long queues due to the ongoing issues in the DRC after drivers said they would no longer go into the DRC due to the lack of security.
- Kazungula had some issues with parking on the Zambian side last week, as the increased traffic congested the control zone. However, the primary reason appears to be trucks without completed documents clogging up the yard. Drivers are therefore encouraged to communicate with their agents ensuring documentation is in order before entering the control zone.
- Lastly, there was an incident at Beitbridge when a truck carrying granite crashed into the new bus terminal. Thankfully no one was injured, but significant infrastructure damage was caused.
- In summary, cross-border queue time has averaged **~2,0 hours** (down by **~1,1 hours** from the previous week's **~3,1 hours**), costing the transport industry an estimated **$2,9 million** (**R59 million**). Furthermore, the week's average cross-border transit times hovered around **~15,7 hours** (down by **~24,3 hours** from the **~40 hours** recorded in the previous report), costing the transport industry **$24 million** (**R478 million**). As a result, the total cost for the week amounts to an estimated **~R537 million** (down by **~R641 million** or **↓54%** from **R1,18 billion** in the previous report).

v. Global shipping industry:

- The strike actions at our ports have had a ripple (albeit small) effect across the global container network (especially Europe), as global port congestion saw a slight uptick in the last week[1].
    - For example, in South African ports, container vessels typically spend three to four days at the terminal; however, the strike has nearly doubled.
- The supply chain visibility platform anticipated that shippers would hold orders being imported until the dispute was resolved, causing dwell times to increase and with a short-term impact on holding costs for goods.

[1] Lennane, A. 17/10/2022. Transnet unions reject new offer and South African port delays lengthen.

Business Sensitivity: General

- Elsewhere, global port congestion continues to ease, according to Clarkson[2], but remains above average.
- Fortunately, scheduling is not as cumbersome as just a few months ago.
- Nevertheless, as a proxy for managing current capacity, Drewry's "*Cancelled Sailings Tracker*" remains high, currently hovering around an **11% cancellation rate**[3] - as last-minute cancellations are causing chaos in supply chains and confusion within liner offices [4].
- Furthermore, the idle cellular fleet is set to surge as the number of carrier-controlled container vessels in lay-up increases exponentially, with line operators mitigating against the expected significant downturn in demand[5] with the supply/demand balance remaining under much pressure.
- Moreover, *Sea Intelligence*[6] confirmed this week that vessel utilisation remains low:
    - For the market to maintain the ultra-high spot rate levels, a nominal utilisation above 92%-93% needs to be sustained on the Transpacific, with the threshold on Asia-Europe being 85%.
    - On the Transpacific, utilisation dropped below 90% for much of 2022, providing a driver for the continued freight rate drop.
    - In August, utilisation crossed the 90% mark but still fell short of the 92% threshold, indicating a rate increase. In Asia-Europe, utilisation has been dropping even further.
    - Asia-Europe has been consistently below the 85% threshold to trigger a rate increase, and although the utilisation improved in August to 74% from 72% in July, the rolling 2-month average saw a further decline from 76% to 73%.
- Transpacific capacity has fallen **↓10%** with no end in sight, as scheduling sees supply rerouted with four more Transpacific loops removed, but three new Transatlantic initiatives implemented (Kalypso, CMA CGM, and COSCO).
    - The changing focus of the big carriers on the three East-West trades is already reflected in Alphaliner's calculations of weekly nominal capacities currently offered, as capacity between Europe and North America on 18 October was up **↑13,3%** since the start of 2022.
    - The current offering between the Far East and Europe remains relatively stable, with almost **442 000 TEU** of weekly nominal capacity available. However, the current weekly capacity between Asia and North America is already down **↓10%** since its peak in April 2022.
- Container spot rates have continued their descent for the 34th week in a row, as Drewry's "*World Container Index*" decreased by **↓3%** (**$100**) to **$3 383** per 40-ft container this week.
    - The composite index is **↓66%** below the spot prices quoted this time last year and continues to trend below the five-year average (**↓10%**) of **$3 740**.
- Additional developments of note included **(1)** an increase in grain exports out of Ukraine and **(2)** additional funding for the US twin ports Los Angeles/Long Beach.

vi. Local air industry

- South Africa's international air cargo volume increased significantly this week (**↑21%**), as domestic volumes are also up (**↑2%**), albeit only slightly.
- The daily average volume of air cargo handled at ORTIA the previous week amounted to **592 464 kg** inbound and **319 222 kg** outbound, resulting in an average of **911 686 kg per day** or **~107%** compared with October 2021. Also, the level is currently at **~128%** compared with the same period in 2020.

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[2] Bartlett, P. 17/10/2022. Port congestion easing but still above average.
[3] Drewry. 07/10/2022. Cancelled Sailings Tracker - 21 Oct.
[4] Wackett, M. 20/10/2022. Ocean carrier voyage blankings causing chaos and confusion for shippers.
[5] Wackett, M. 19/10/2022. Idle containership fleet set to surge as liners rationalise networks.
[6] Murphy, A. 20/10/2022. Vessel utilisation remains low.

Business Sensitivity: General

- The average domestic air cargo moved last week was **~59 102 kg** per day, which is **↑2%** compared with the previous week and **~95%** compared to October 2021.

vii. International air industry

- Internationally, after the pandemic, preighter cargo operations are finally fading away, as the twofold reality of decreasing demand and increasing capacity through passenger flights has rendered preighter flights unnecessary[7].
    - As a result, preighter operations have nearly vanished among European and North American airlines, while for airlines from Asia/Pacific, such operations still represent **~11%** of the region's total cargo tonne kilometres (CTKs) as per August 2022.
    - Dedicated freighter operations increased in 2020 and 2021 thanks to new acquisitions and aircraft conversions.
    - As passenger traffic approaches 2019 levels, the rise in belly capacity has led to a drop in CTKs flown by freighters in 2022, with Europe being the most affected.
    - The war in Ukraine is a factor in Europe.
- In other air cargo news, MSC is continuing to grow its new air cargo business by appointing a head of cargo operations, compliance, and governance for its air cargo division[8].

[7] IATA. 21/10/2022. The Preighter Cargo Operations are Fading Away.
[8] Jeffrey, R. 14/10/2022. MSC continues to grow air cargo team.

Business Sensitivity: General