Market Insights

FEB 2024
EDITION

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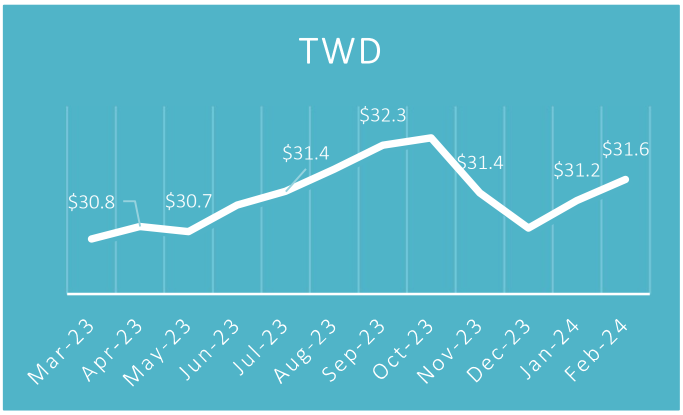
Content

CURRENCY OVERVIEW

Most key currencies have stayed within +/-1% band in the last month showing a stabilization in greenback against other currencies. The exchange rate volatility is gradually cooling down towards the end of Q1, there are talks regarding the fed pivoting and reducing the interest rates. The USD index which comprises of EUR, JPY, GBP, CAD, CHF and SEK is expected to further strengthen in the next one year.

Exhibit 1

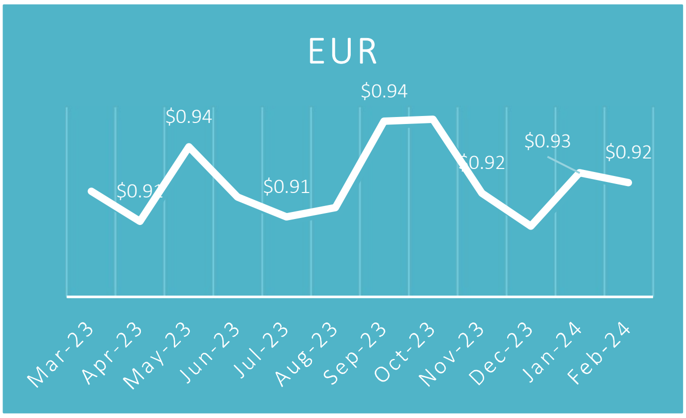


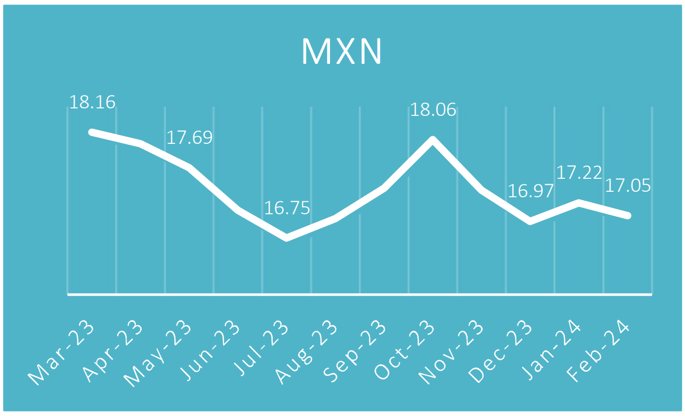
The trailing-12 months record shows that the USD has strengthened by:

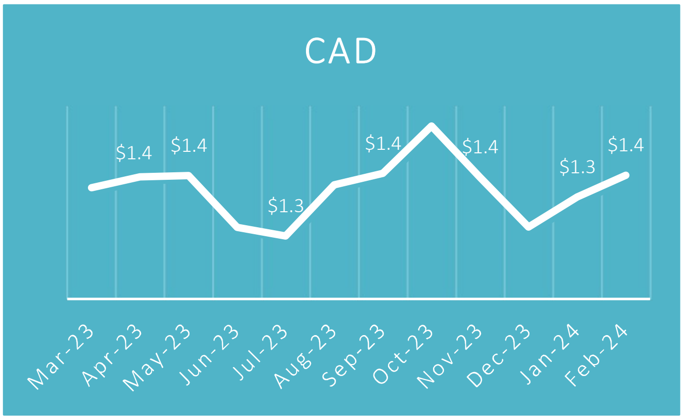
1. 3.03% against Taiwanese Dollar
2. 3.66% against Chinese Yuan
3. 3.38% against Vietnamese Dong

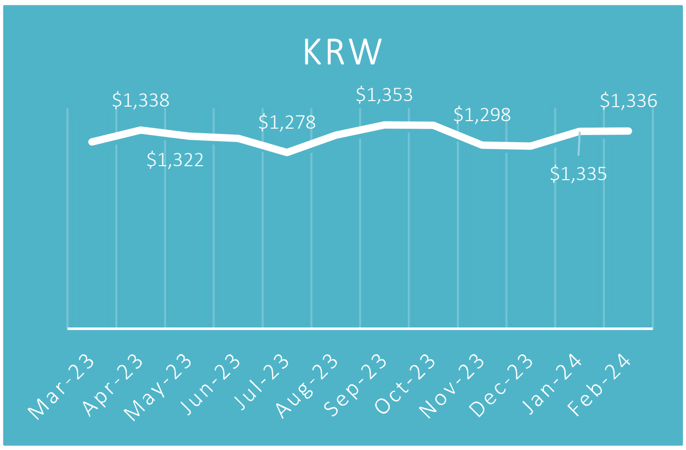
The USD has weakened by:

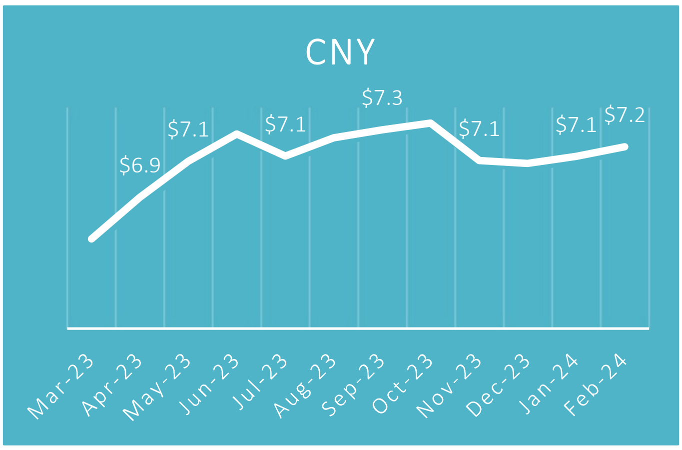
1. 6.83% against Mexican Peso
2. 2.43% against Euro











Business Update

Exhibit 2 presents the Average Cost per TEU (Twenty-foot Equivalent) for FCL (Full-Container Load) and BCN (Buyers Consolidation) shipments for the business. Freight rates reflected a relatively stable performance over the last 6 months. However, an uptick has been observed in the average global Cost/TEU from Dec'23 to Jan'24 of about 14%. This increase in freight numbers is due to the increase in the carrier cost owing to the disruption in the red sea (which we have covered in detail in the next 2 sections).
(Note: Both 40' & 20' Container as 1 TEU unit. Previously 40' Container was considered equivalent to 2 TEUs and 20' Container as 1 TEU for calculating Average Cost/TEU)

Exhibit 2

Shipment distribution for March 23 to February 24 showing the most billed shipments are discharged at Savannah Port. These includes LCL, FCL, BCN, OBC shipment counts

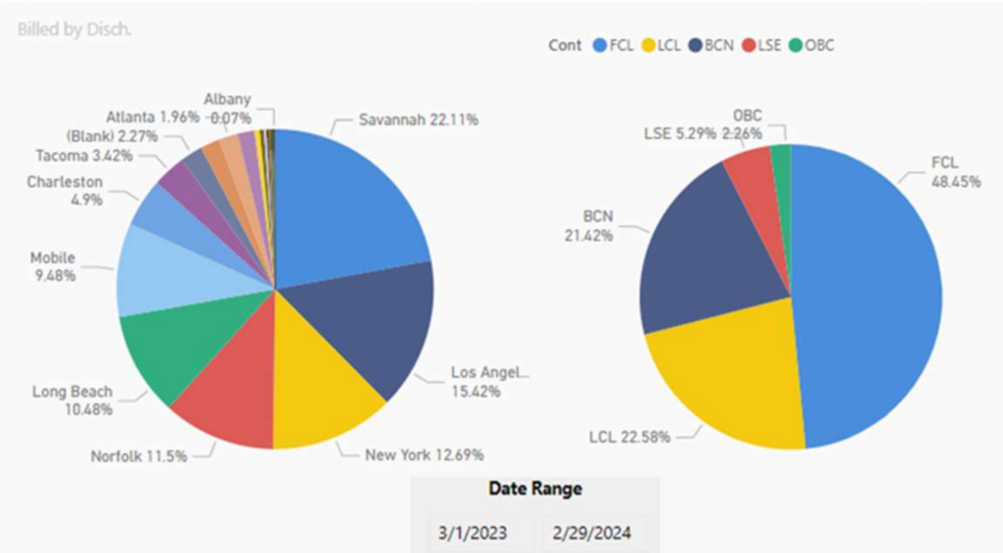
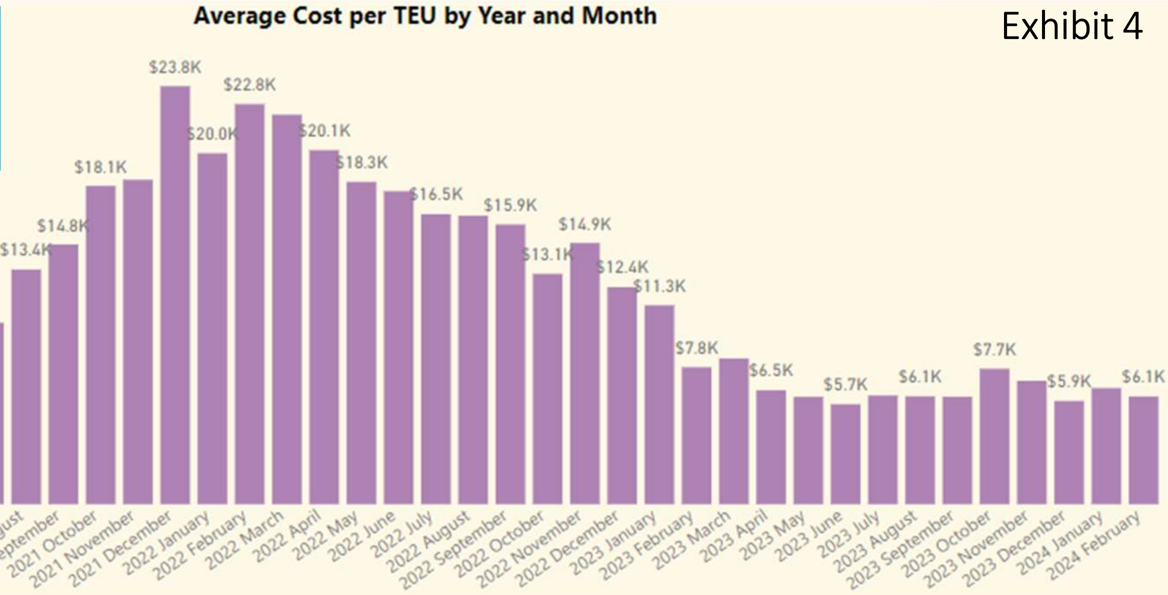


Exhibit 3

Shipment distribution by Shipment Type from March 23 to February 24

Average Cost/kg increased slightly from last month while steel about 58% lower than same time last year.

Exhibit 4



Business Update

Global Container Freight Monthly Recap Commentary

Global container markets peaked in January from the exponential hikes witnessed across most trade lanes in the first half of the month, owing to the chaos caused by the re-routing of ships from the Red Sea to around the Cape of Good Hope. In January, a slew of surcharges were imposed by carriers owing to operational uncertainty on vessels stemming from the Red Sea shipping crisis, which has led to the rerouting of significant numbers of ships away from the Suez Canal and around the Cape of Good Hope. As a result, a number of markets touched a new high, a level not witnessed since the gradual normalization in rates from the COVID-19 pandemic.

In the US markets, similar implications were seen. As Asia origin shipments already implicated from reduced capacity at Panama Canal transit had opted for the Cape of Good Hope route instead of the Red Sea, carriers capitalized early on the lower capacity. *Platts Container Rate 5 North Asia to East Coast North America jumped to as high as $6,800/FEU on Jan. 30, from $3,800/FEU on Jan. 3. Platts Container Rate 25 Southeast Asia to East Coast North America hit a high of $6,500/FEU Jan. 23, up from $4,100/FEU on Jan.3. In India markets, Platts Container Rate 39 Indian subcontinent to East Coast North America was assessed at $4,700/FEU Jan. 31, up $1,700/FEU month on month.*

Red Sea turmoil shakes up global trade routes

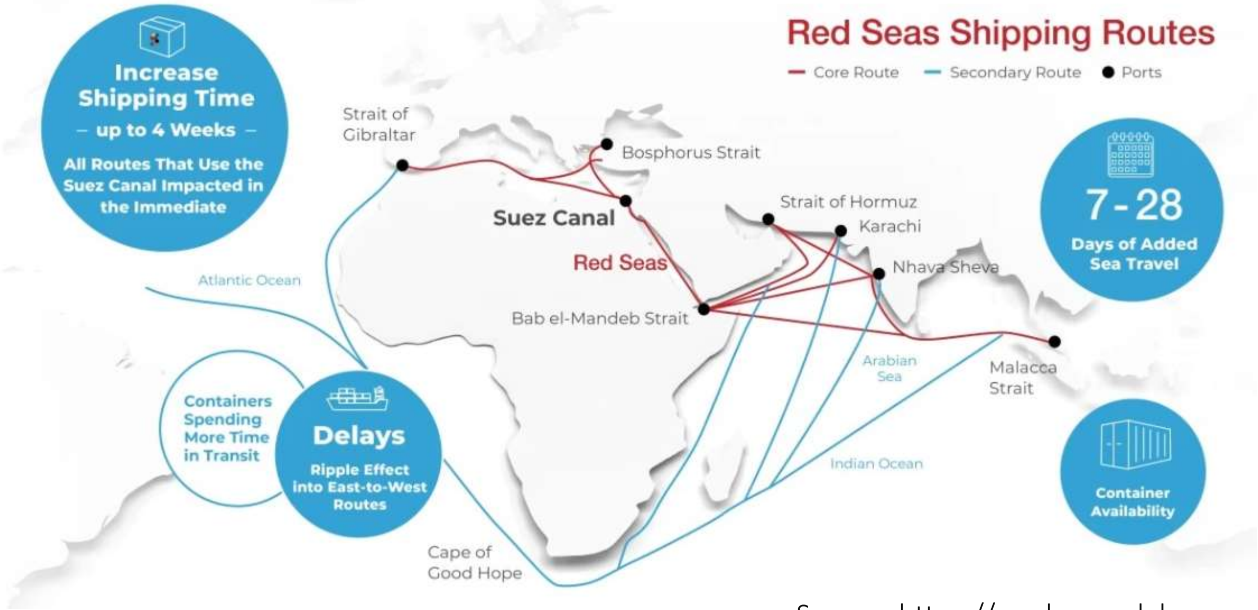
Shipping transiting the Red Sea has dropped by more than half since early December, S&P Global Commodity Insights data shows, as vessel travel via the Cape of Good Hope to Avoid Houthi Attacks in the strategic trade route. Container shipping has been most affected with the longer voyager boosting freight cost and displacing bunker demand.

Asia-US container freight rates climbed throughout much of January amid continued schedule, equipment and space hurdles created by the ongoing Red Sea vessel attacks. Carriers continued to reroute ships away from the Red Sea and subsequent Suez Canal passage during the month forcing vessels to navigate the longer, more expensive journey around the Cape of Good Hope. During the month, North American import freight rates climbed to the highest levels seen since fall 2022.

According to maritime intelligence company eeSea, the weekly average congestion in Houston surged from 11% to 20%, while Savannah remained at approximately 40%, and Charleston experienced an upward trend in congestion ranging from 20% to 30%. The eeSea update noted the possibility of vessels encountering a one-day delay at both Savannah and Charleston.

Container freight in the Asian market experienced heightened volatility in January due to escalating tensions in the Red Sea persisting throughout the month. However, with the onset of the Chinese New Year in the first half of February, many routes witnessed a reversal in their previous upward freight trend as January came to a close. Reflecting on the pandemic, which affected the entire world simultaneously, it's anticipated that disruptions in 2024 will likely be more localized, impacting each market differently.

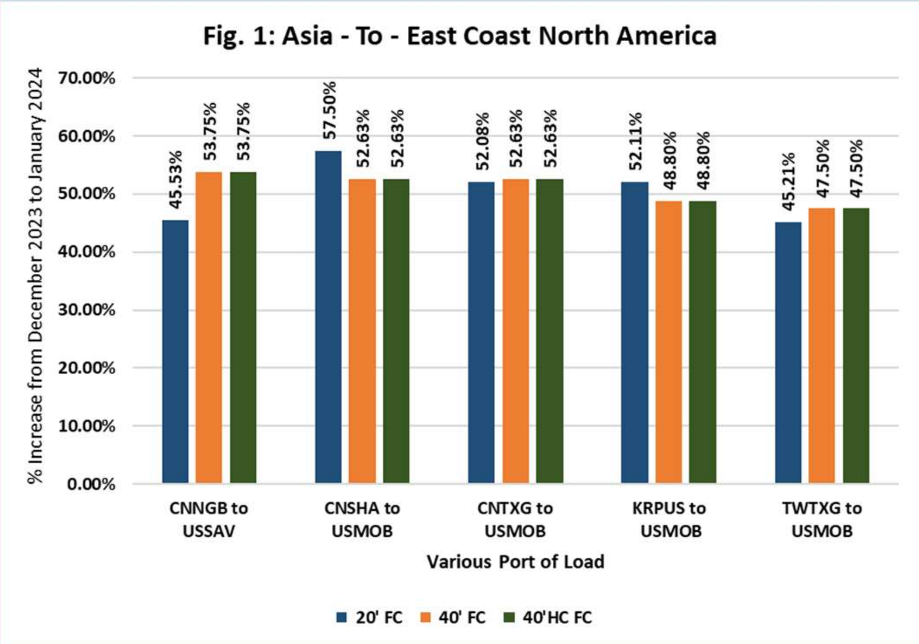
Exhibit 5



Source: https://medsourcelabs.com

Business Update – Freight Rate Increases

This sea freight issue has also impacted Gexpro services significantly. Our service providers have increased the rates on various routes significantly. Presented a report below:

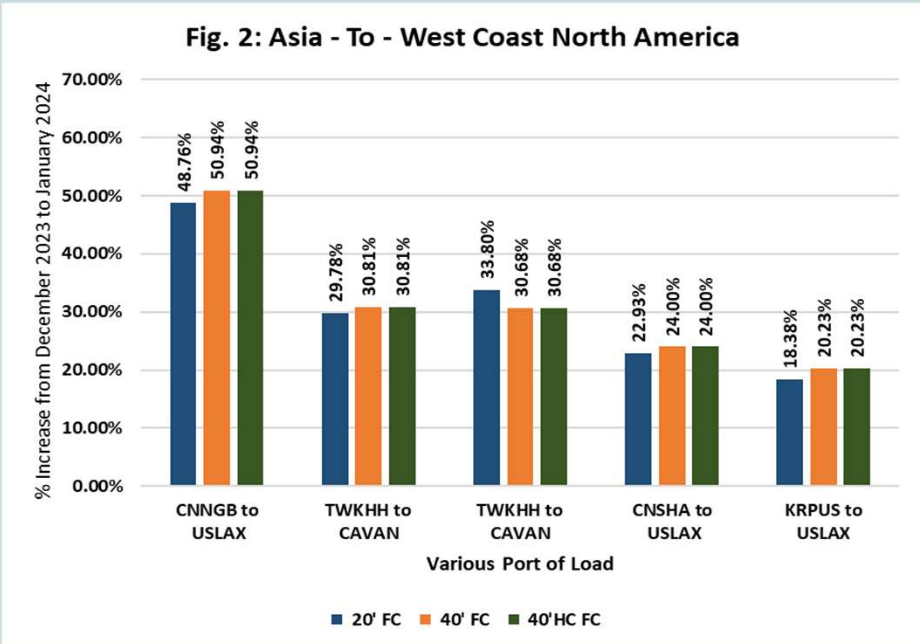


The global freight rate has surged significantly following the Houthi attack in the Red Sea, necessitating ships to take longer routes. This increase, as depicted in Figure 1, exceeds 50%, attributed to the extended voyages. The percentage fluctuates based on the Port of loading and discharge, with an average increase of 50% observed for routes to the East Coast of North America.

Exhibit 6

Exhibit 7

The impact on freight rates from Asia to the West Coast of North America is relatively lower compared to the East Coast due to the utilization of different routes. Ships traveling from East Asia to the West Coast of North America often take a separate route, distinct from those affected by the Red Sea situation. Consequently, while some vessels adhere to the Red Sea route, others opt for alternative paths. Figure 2 Shows the divergence results in an average increase of 30% for this specific route.



Supply chain challenges

- Although carriers have shown flexibility in adjusting services, shortages of empty containers are anticipated in Asia because vessels are scheduled for longer transits on their regular routes, necessitating rerouting around the Cape of Good Hope.
- Costs have already risen significantly, as evidenced by the World Container Index, a comprehensive gauge of global shipping costs, which has more than doubled since late last year. Utilizing the Red Sea route now demands expensive war risk insurance.
- As a result, disruptions in supply chain logistics are likely to occur, leading to shortages at the point of origin, which will have an impact on services.

Freight Update

Houthi Rebels' Impact on Red Sea Shipping

Houthi rebels' disruptions in the Red Sea have had a relatively modest impact on the global economy. Despite the attacks, the industry is adapting to new shipping routes around southern Africa instead of relying on the Suez Canal. Hidden complexities include shifts related to overcapacity and regional trade flows, influenced by geopolitical realities. Economic data readings show marginal effects on global production and consumer disinflation due to Red Sea-driven delays. Manufacturers faced temporary plant closures, but this disruption did not significantly affect global input and output prices. Sustained 100% container rate increases would be necessary to significantly impact consumer prices.

Platts Containers update

Overall Trends: Container markets experienced further decline in February due to an anticipated slowdown in demand from shippers after the Lunar New Year period. Newbuild deliveries helped alleviate pressure on schedule reliability caused by Red Sea diversions.

Exhibit 8

Source: www.spglobal.com/commodityinsights

Platts Americas Container Freight Monthly Commentary for February:

- Market Volatility: The Americas container market experienced volatility in February. The Lunar New Year holiday caused delays in downward market shifts that were evident in the second half of the month.
- Rerouting Around the Cape of Good Hope: Most carriers rerouted ships around the Cape of Good Hope during the month. This decision was influenced by the risk of Houthi rebel attacks on vessels traversing the Red Sea.
- Normalization of New Route: Although initial reroutes in December and January had significant operational impacts, the new route has now been mostly normalized. Carriers have solidified their intentions to continue using this alternative route.
- Avoiding the Red Sea and Suez Canal: Despite being a longer and more expensive journey, carriers opted to avoid the Red Sea and subsequent Suez Canal transit due to safety concerns.
- Volume Uptick Expectations Unmet: Some sources expected a volume uptick after the Lunar New Year, reflecting delayed shipments and elevated rates before the holiday. However, market participants agreed that this increase did not materialize.

Container Rates:

- North Asia-to-US West Coast Lane: Platts Container Rate 13 fell by $800 during the month, reaching $3,700 per FEU.
- East Coast Imports: Rates for East Coast imports landed at $5,600 per FEU on February 29, with a reduction of $1,200.
- Despite seasonal low demand in March, rates remain elevated compared to the same time in 2023.
- Rate Outlook: While rates are expected to slide slightly after the Lunar New Year, carriers will resist this decline.

Freight Update

Asian Markets

Exhibit 9

Decline from last month:

Southeast Asia witnessed a sharp drop-off in container rates for routes diverted through the Cape of Good Hope to East Coast North America.

The Platts Container Rate 25, tracking container rates on the Southeast Asia-to-EC North America route, fell by $800/FEU to $5,000/FEU.

Indian Subcontinent:

Rates experienced less prominent drop-offs.

Attempts to raise general rates were unsuccessful.

The Platts Container Rate 39, which tracks container rates on the Indian Subcontinent-to-East Coast North America route, settled at $4,600/FEU on Feb. 29, down $100 from January.

Americas Markets:

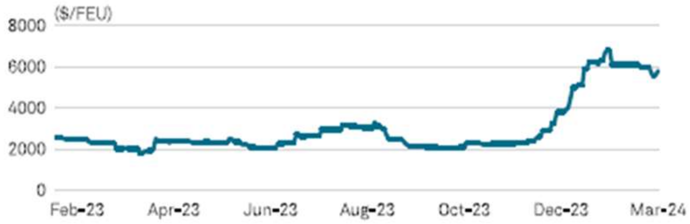
The Platts Container Rate 13, covering container rates on the North Asia-to-US West Coast route, fell by $800 in February, reaching $3,700/FEU.

Platts assessed rates for East Coast imports at $5,600/FEU on Feb. 29, reflecting a drop of $1,200.

These fluctuations highlight the complex dynamics of container trading and leasing rates worldwide during this period12.

Source: www.spglobal.com/commodityinsights

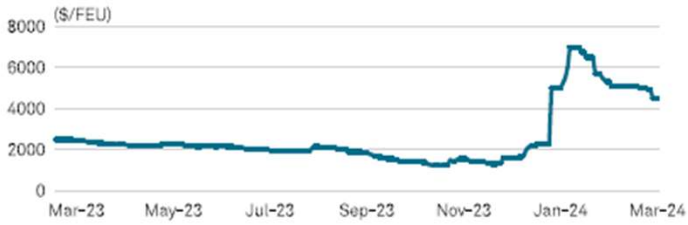
PCR 5 north Asia-east coast North America



PCR 13 north Asia-west coast North America

PCR 1 north Asia-north continent

PCR 3 north Asia-Mediterranean



Latin American

West Coast South America (WCSA):

Imports to WCSA were assessed at $2,600 per FEU on February 29, representing a $700 increase.

- Carriers are raising rates in response to increased costs, but demand remains low during the first quarter of the year.
- Customers are exercising caution in this market.

East Coast (Ex-Asian Imports):

- Rates on the East Coast experienced a $50 reduction to reach $2,450 per FEU by the end of February.
- Earlier in the month, they dipped to $1,900 per FEU due to low demand.
- The rates recovered in the second half of the month due to capacity constraints and equipment issues.

Equipment Challenges in ECSA (East Coast South America):

- The primary challenge in ECSA, particularly in Brazil, is the lack of equipment.
- Carriers may raise rates to compensate for this shortage, or Brazil could incentivize better rates to attract equipment back into the country.
- Despite weak demand, vessel utilization remains high on this route, with a focus on Mexico-bound cargo.

European Market

Despite a slowdown in activity during the first half of February, westbound Asian cargoes held steady. However, significant downturns occurred in the second half of the month.

The Platts Container Rate 1, which tracks container rates on the North Asia-to-North Continent route, fell from $4,300/FEU on Feb. 14 to $3,800/FEU on Feb. 29

Market participants wholly expected pressure, recognizing that capacity utilization was not going to be filled as broadly as the start of the year, when increased demand and service disruptions from Red Sea diversions were more pervasive.

Source: www.spglobal.com/commodityinsights

Freight Update

Air Freight Update

The global air freight demand was up by +13% in the first two months of this year, compared with the equivalent period last year. This growth can be attributed to various factors, such as the delayed onset of Chinese New Year in 2024 and the ongoing disruptions in the Red Sea, underscoring the need for air freight solutions to address logistical challenges efficiently.

Despite higher demand in January, rates fell by 22% to $2.35 per kg due to increased capacity and higher rates last year. However, rates are still 32% higher than pre-COVID levels in 2019.

WorldACD Said that some of the increase in demand may reflect a switch to air or sea-air due to vessels diverting around the Cape of Good Hope as a result of attacks on ships passing through the Red Sea.

Source: www.worldacd.com

Road Freight Update

Currently, doesn't expect disruptions in domestic surface transportation in Q1 due to situations in the Red Sea and Panama Canal. The truckload market remains oversupplied, with no imminent demand increase to stress it. However, localized drayage on the West Coast could pose challenges.

In the second half of 2024, the U.S. surface transportation market, especially truckload, is expected to tighten as capacity exits. This tightening will vary by region, notably in California during produce season. Shippers should consider this when deciding between East and West Coast ports.

Shippers should prioritize total cost and transit time when adjusting transportation plans. Switching from the U.S. East Coast to the West Coast after Q2 may speed up ocean transit but could increase overall transit time and costs. Truckload rates are expected to rise in the second half of 2024, so rates from California in Q1 may not be the same in Q3.

Source: https://www.chrobinson.com

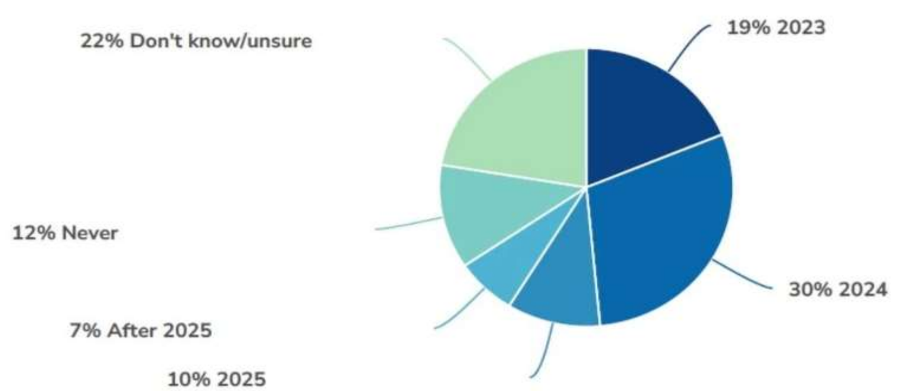
The global freight recession will continue in 2024

Soft pricing in the shipping sector will continue in 2024 and could linger into 2025, according to Alan Baer, CEO of OL USA, as capacity in the logistics sector continues to outstrip weaker demand.

The trucking sector, already facing extreme financial stress, expects lower freight orders and revenue this holiday season.

Supply chain Predictions

Exhibit 10



Source: https://www.cnbc.com/

According to a recent CNBC survey, over half of logistics managers at major companies and trade groups don't anticipate the supply chain returning to normal until 2024 or later. Currently, 61% of respondents reported that their supply chain is not operating normally, while 32% indicated it is functioning as usual. Looking ahead, 22% were uncertain about when normalcy would return, 19% said 2023, and 30% said 2024. Additionally, 29% predicted a return to normalcy in or after 2025 or believed it might never fully recover.

FROM AROUND THE WORLD

Worldwide manufacturing returns to growth

February's PMI surveys revealed a positive turn for manufacturing from 50.0 in January to 50.3 in February, marking the first improvement in business conditions in 18 months. This suggests a potential recovery for the goods-producing sector, which had faced challenges following the post-COVID-19 shift in global demand towards services. Companies are now starting to refill their warehouses. Manufacturers' stocks of raw materials rose globally, albeit marginally, for the first time in 16 months in February.

Despite this positive trend, the manufacturing sector is grappling with higher shipping prices, which are adding to the upward pressure on average global selling prices. Survey respondents also noted rising wages as a contributing factor to price hikes.

China's Energy Transition: Boosting Nonferrous Metals Demand

China's plans to offer stimulus measures aimed at supporting its energy transition efforts are anticipated to benefit sectors such as electric vehicles (EVs) and photovoltaic panels in 2024, leading to increased consumption of nonferrous metals like aluminium, copper, and lithium.

However, concerns persist regarding oversupply in battery and lithium chemicals despite the proposed measures. Due to rising demand from EVs, photovoltaic panels, and lithium battery sectors is projected to drive aluminium and copper demand in China this year, according to state-run research agency Antaike.

US Wage Inflation Moderates, Increasing Likelihood of Soft Landing

US wages increased at the slowest rate in two years in February, signaling that the US might steer clear of the long-anticipated recession. According to the US Bureau of Labor Statistics, the average hourly wage for US workers rose by just 5 cents to $34.57 in February, marking the smallest gain since February 2022.

The surge in wages seen in January had sparked concerns about higher inflation and potential tightening of monetary policy by the Federal Reserve. However, the cooling of wage growth in February could strengthen the argument for rate cuts by the Fed later this year. This could increase the likelihood of a "soft landing," where the US avoids a recession despite a significant interest rate hike cycle.

New satellite launched to expose large polluters of methane

A satellite aimed at monitoring methane emissions from oil and gas production sites was successfully launched on March 4. MethaneSAT's key feature is its ability to accurately measure methane levels across wide areas, including small, diffuse sources that are major contributors to emissions in many regions. According to Steven Hamburg, EDF's chief scientist and MethaneSAT project leader, understanding the sources and changing rates of methane emissions is crucial.

Methane is a potent climate pollutant, estimated to be over 80 times more powerful than CO2 over a 20-year period. The energy sector, encompassing oil, natural gas, coal, and bioenergy, is responsible for almost 40% of human-related methane emissions.

The data gathered by MethaneSAT will aid companies and regulators in monitoring emissions. Additionally, it will provide stakeholders with free, near-real-time access to data, enabling comparisons against emission goals and obligations, as stated by EDF.

Source: https://www.spglobal.com

Exhibit 11

The *Purchasing Price Index*, which is a measure of the average change in the prices paid by the consumers for a market basket of goods and services, has shown stability in Asian and European market compared to last month whereas it has dropped an average 6% in North American Market. The PPI, however, has increased 3% in North American market since last year, whereas it is dropped 11% and 13% in European and Asian market respectively in the same time period.[Exhibit 11]

Flat Products:

United States:

Destocking Focus: Service centers in the US are actively destocking their inventories, anticipating further price reductions to avoid holding inventory at higher costs.

Purchasing Managers' Attitude: Purchasing managers are adopting a "wait and watch" approach, impacting mills' inbound order books, increasing supply, and reducing lead times.

Surprising Demand: Despite challenges, demand in the US has either risen or remained flat, allowing manufacturers to maintain pricing.

Production Considerations: Most mills are contemplating production cuts to exert upward pressure on prices.

Current Scenario: Lower-than-normal prices persist, lead times are shrinking, and a pro-customer environment prevails.

Europe:

Downward Price Pressure: European markets experience downward price pressure due to service centers' destocking strategies, leading to oversupply and cheaper imports.

Asia:

Mixed Trends:

Raw Material Price Impact: Rising raw material prices apply upward pressure on prices.

Construction Developments: Recent developments in the construction sector impact price dynamics.

China vs. Rest of Asia:

China: Experiencing price increases due to material costs.

Rest of Asia: Subdued demand and elevated inventory levels.

METALS MARKET OVERVIEW

Exhibit 12

Long Products:

United States:

Tamer Market Environment: Similar to short products, long products have seen either stagnant or slightly declining prices over recent months.

Upward Price Pressure Ahead: Scrap shortages may lead to upward price pressure in the future.

Asia:

China:

Material Cost Impact: Rising material costs contribute to price increases.

Construction Segment: Recent developments in construction have not fully offset downward price pressure.

Rest of Asia:

Subdued Demand: Demand remains subdued.

Elevated Inventory Levels: Inventory levels remain high.

Europe:

•Similar to US: European long product markets face a comparable environment to the US.

•Upward Price Pressures: Increasing raw material costs impact prices.

•Challenges Passing Costs: Unlike China, European mills struggle to pass these cost increases to customers.

Base Metal- Click on the links below for each index	% Change prior 3 Years, same period	% Chg. V from last year, same period	% Chg from prior month
Steel Coil Hot Rolled	-31.90%	-17.39%	-20.32%
Import - Steel HR Coil	-21.61%	-6.02%	-4.29%
Steel Coil Cold Rolled	-11.43%	16.98%	-5.34%
Scrap-Midest Index #1 Heavymelt'	-0.49%	1.11%	-2.52%
Scrap #1 Busheling	0.00%	7.87%	-5.88%
Steel wire rod (mesh)-China	-19.00%	-15.99%	-1.74%
Copper	8.92%	-7.71%	0.57%
Aluminum 6061	-1.67%	-20.81%	-1.67%
Import - Steel Medium Plate	18.75%	-10.24%	0.00%
Silver Engelhard United States	-14.52%	0.00%	-0.63%
Steel Rod - High Carbon	32.98%	-0.78%	0.00%
Import LC Wire Rod	-0.58%	-5.56%	0.00%
Nickel	-1.67%	-29.75%	8.51%
Wire Rod, Cold Heading Quality	38.14%	4.69%	0.00%
Cobalt	-31.77%	-2.50%	3.08%
Aluminum	-18.19%	-13.03%	0.00%
316L Stainless Steel	23.62%	-27.65%	0.82%
304 Stainless	8.41%	-24.21%	-2.33%
Ferromolybdenum	72.28%	-48.60%	2.22%
Gold Engelhard United States	9.82%	7.08%	-0.24%
Chromium-AluminoThermic	64.18%	-8.33%	0.00%
Special Quality Steel Bar 4100 Series (Round Bar High Carbon)	44.66%	-5.10%	-0.67%
Nylon PA6/6	-24.76%	-11.43%	3.33%
Molybdenum	73.06%	-16.29%	0.25%
Steel Reinforcing Bar	-16.42%	-15.15%	0.00%
China Steel C1022	24.58%	-0.53%	0.00%
Cotton N. America	12.48%	15.26%	16.41%
Plastic products - PPI -WPU072	29.56%	-1.80%	0.37%
Steel bar cold-finished 1-inch round 4140 (alloy), fob mill US, $/cwt	36.00%	0.45%	-0.67%
316 MEPS China Steel		-31.35%	-0.49%

Mills operating Electric Arc Furnaces (EAFs) in China's north and northeast provinces have chosen to maintain their existing domestic bids for all grades of ferrous scrap. Their decision stems from several factors:

- High Scrap Inventory Levels: These mills have ample scrap inventory, which reduces the urgency to secure additional supplies for March production.
- Lower Steel Production Targets: The mills are not aiming for aggressive steel production targets, contributing to a lack of urgency in procuring scrap.
- Scheduled Maintenance Work: Maintenance activities are underway, diverting attention from immediate scrap procurement.
- Weak Finished Steel Demand: The demand for finished steel remains sluggish, impacting the need for scrap inputs.
- Negligible Profit Margins: Profit margins from current domestic steel selling prices are minimal.

NEAR TERM FORECAST

“Foreseeable Price Change World Average (from Jan’24 Baseline)” for various types of steel products over the period from February to July 2024. Let’s break down the information:

Types of Steel Products:

The graph includes several types of steel products: Hot Rolled Coil, Hot Rolled Plate, Cold Rolled Coil, HD Galvi Coil, EZ Coated Coil, Wire Rod, and Sections & Beams. Each type is represented by bars of different colors.

Percentage Change in Price: The y-axis represents the percentage change in price. Positive values indicate an increase in price, while negative values indicate a decrease. Most types of steel have experienced both price increases and decreases during this period.

Global Trends:

In the US, demand has been higher than expected, allowing foundries to either raise or at least hold their pricing. Globally, however, we are not seeing the same trend. In Europe, demand remains weak, and foundries are having to push prices down to match import prices. The new CBAM emissions reporting is believed to help by limiting the amount of import suppliers’ buyers are allowed to source from.

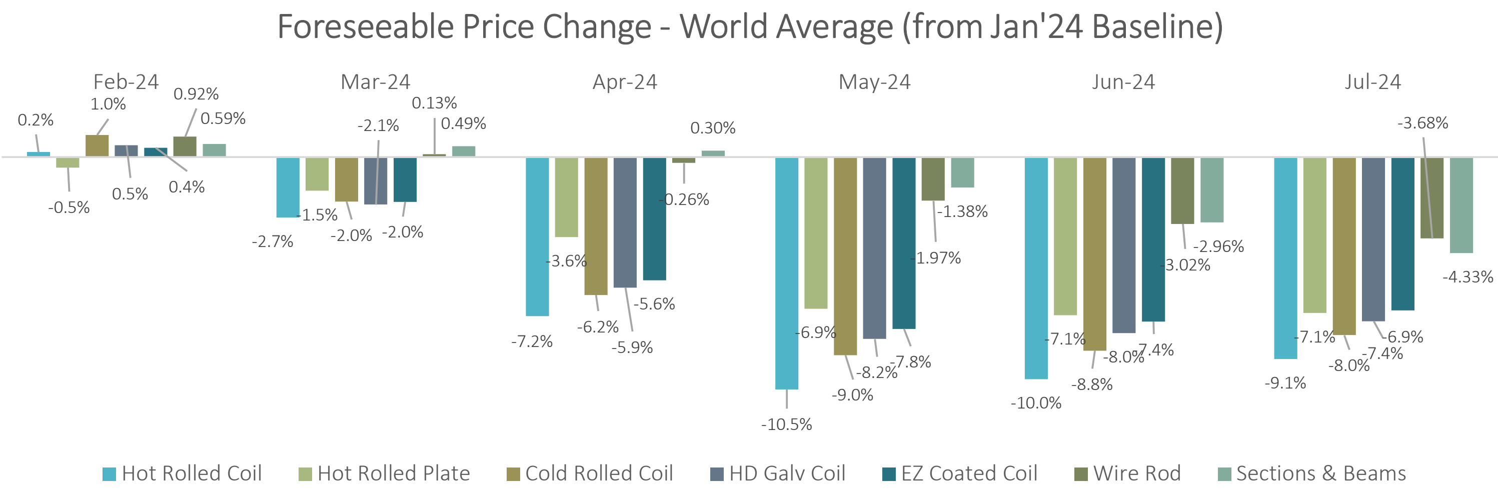
Overall, the graph illustrates the fluctuating prices of steel products globally, with variations depending on the specific type and market conditions. The situation is complex, influenced by factors such as demand, interest rates, and import restrictions

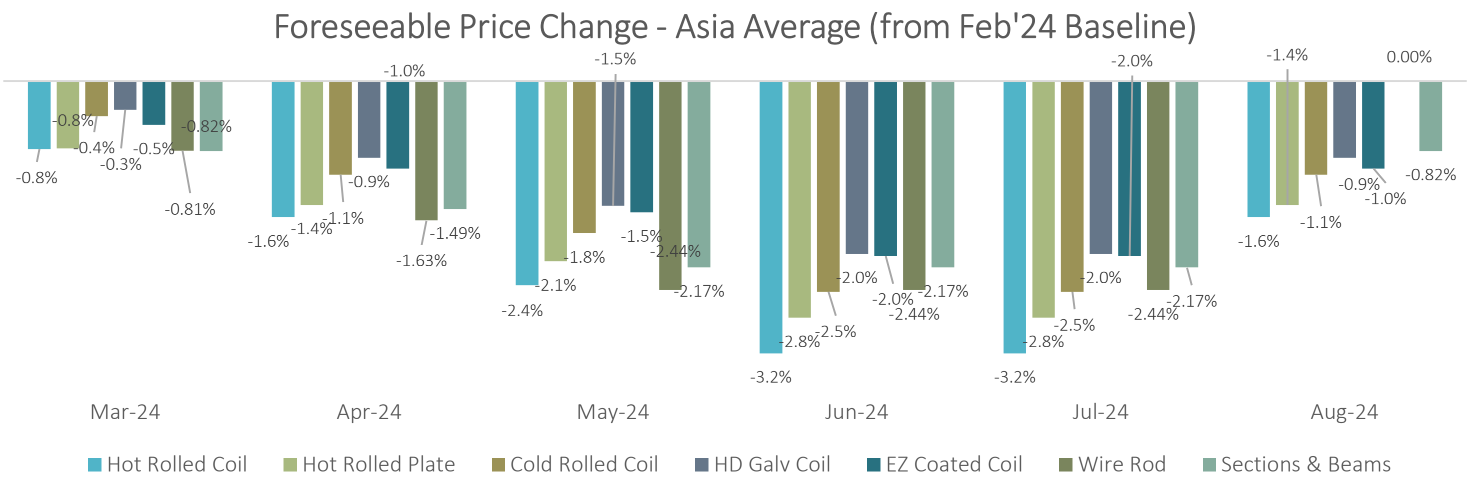
Specific Observations shows that July 2024 stands out with the most significant drop, particularly for **EZ Coated Coil**, which experiences a **-3.72%** price change. **Sections & Beams** show a slight increase of **0.07%** in August 2024.

Overall Context: The graph aligns with the information from your reference. Despite attempts to raise pricing, **Asian foundries** are facing downward price pressures due to **low demand** driven by the **degrading Chinese construction sector**. The **increasing cost of raw materials** has further impacted Asian foundries’ margins. However, experts believe that we are at the **bottom of this business cycle**, and demand is expected to **recover** by **Q1 2024** due to **Chinese Government Stimulus measures**.

Additionally, **production cuts** by US mills and manufacturers worldwide are planned to **lower the supply of steel**, which should contribute to **upward pricing pressures** in early 2024

Exhibit 13





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