Air Market Update

2nd Quarter 2023

Main Trends / Q2 2023

WorldACD comments
Rate levels have dropped considerably YoY but still above pre-Covid levels overall. However, notable differences on specific trades where spot buying can benefit customers in Q2 and Q3.

Customer Confidence
Low customer confidence as per the OECD but growing and will have a positive effect on transport volumes.

Fuel
Jet fuel prices have gone back to pre-UA war levels as is the USD ROX compounding to dropping rates overall.

Reliability by transport mode
During the pandemic and start of the Ukraine war, the reliability of ocean freight, combined with highly increased rates, lead to shift from ocean to reliable, fast and, in comparison, more affordable air freight services. Lately, the reliability for ocean freight has much improved and rates have reduced thus reversing the trend.

Inflation and transport costs
Inflation – driven by energy and food price bumps – is expected to drive labor costs (as compensation) and local transportation prices up for 2023. However, the reduced drop in pure airport to airport costs is more than off-setting this effect.

Supply and demand development
Dropping market volumes in a market with increased (belly) capacity leading to strongly reduced quarter on quarter rates. This is most strong on the (North) Trans Atlantic trade lanes.

Some optimism by Purchase Managers
As the market seems to have hit the bottom in terms of prices, the Purchase Manager Index (PMI) shows a positive trend.

Warehouses are still full
Driven by various factors, warehouses are still full and until there is sufficient customer demand, the throughput pace is still slow meaning that stock replenishment is not high (driving transportation needs).

So What?

NIPPON EXPRESS

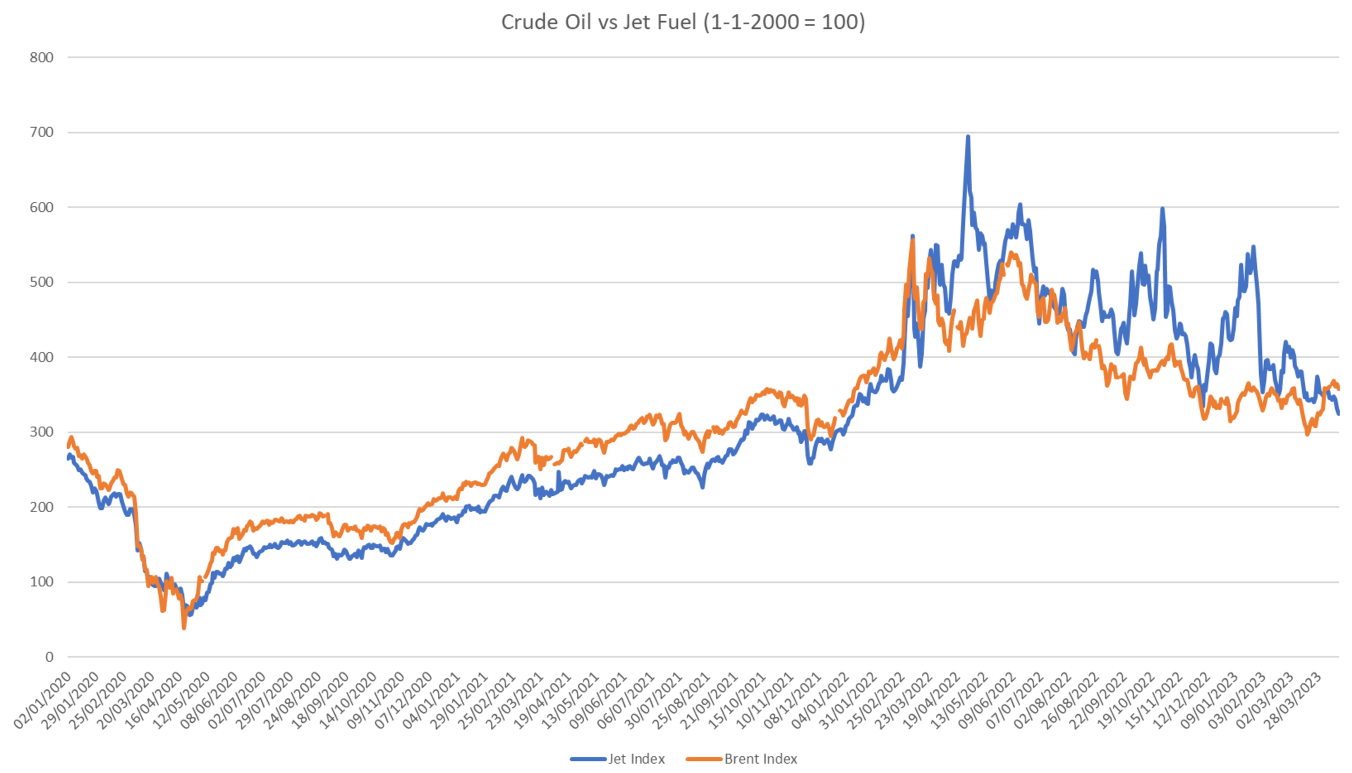
Development	What does that mean for you	How will Nippon Express Act
WorldACD	• Simply put; you will see reduced airfreight costs depending on the route. • On very weak routes, carriers are already adjusting full freight capacity meaning less choice and higher costs on maindeck cargo.	• We have adjusted our fixed allocations to the market conditions to use the spot market more to reflect our pricing towards customers.
Customer Confidence	• A spot of hope on the horizon for our customers. We're aware that our customers feel the brunt of the economic times and need growth to recover.	• We have started the process for our Winter Schedule allocations where we will factor in the need for more space for our customers at a time where capacity – especially on the trans Atlantic route – will be reduced again.
Fuel	• More options to buy all-in rates and less uncertainty for your budgeting.	• Where carriers applying (fuel) surcharges still, we will push relentlessly to adjust those to changing market conditions.
Inflation and transport costs	• As for any party in the market, there is a drive – in some cases at mandatory government set levels – to increase salaries to compensate for the high inflation. This is reflected mostly in local charges (handling, trucking etc.).	• Much as possible, Nippon Express will try to cushion the effect for customers by looking for efficiencies. However, up to 10% salary increases are all but impossible to off-set by efficiency gains so increases are inevitable.

So What?

Development	What does that mean for you	How will Nippon Express Act
Supply and Demand	• Good news on short term; air-freight rates are largely driven by load factors on airplanes and since these are downs, so are rates. • On the longer term; pure freighter airlines will adjust capacity or routing to look for the necessary revenues to support their network which will drive costs back up again	• Unfortunately Nippon Express In the current market we've reduced our fixed allocations where possible. Key to Nippon Express is to keep providing a reliable service always to our customers so we will not trade cost for reliability. To reflect the need for lower costs by our customers we do more business on spot basis as long as there is ample capacity to do so.
Optimism by Purchase Managers	• Purchase Managers looking at order books and most likely to customer confidence display some optimism and as we can see historically see there is a direct relations to transportation.	• As we expect the effect on transportation volumes to kick in earliest for Q4 2023, we are factoring in a slightly higher demand for this period. No true peak is expected outbound Europe for now but there might well be a spike in demand (and prices) from the Far East.

Development	What does that mean for you	How will Nippon Express Act
Full warehouses	• You will probably see this yourself; warehouses are chock-a-block full and before stock replenishment is necessary (or even possible), demand has to go up first. • At the same time, when demand would go up sharply in Q4 and you're short in supply, there is a need for more direct services, bypassing your warehouses to get goods in time to your customers.	• Nippon Express is full catered to provide various services to split cargo upon arrival and do direct deliveries to customers rather than shipping to a warehouse. • In addition, we can quickly help in any last minute request to change from Ocean to Air transportation to shorten lead times.
Reliability by transport mode	• With ocean freight becoming more reliable again and at the same time highly reduced rates, it's save to rely on these services again.	• Nippon Express offers the same high quality of ocean and air-freight services so is flexible in switching from ocean to air and back when needed.

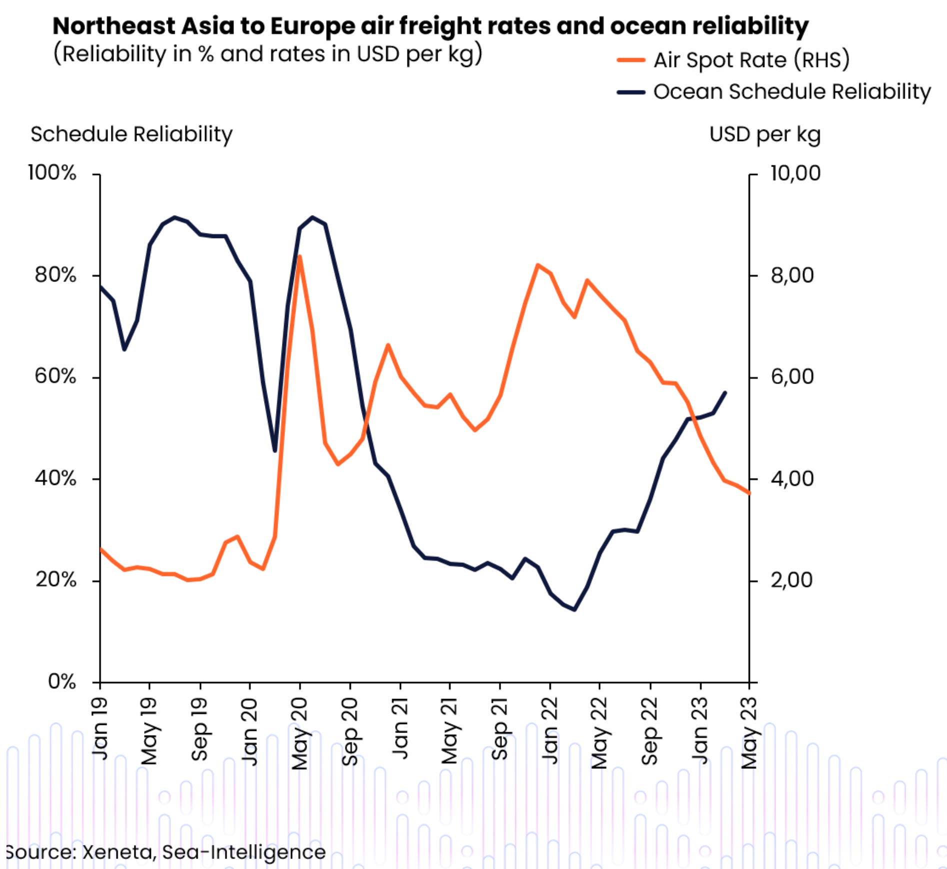
Fuel cost levels

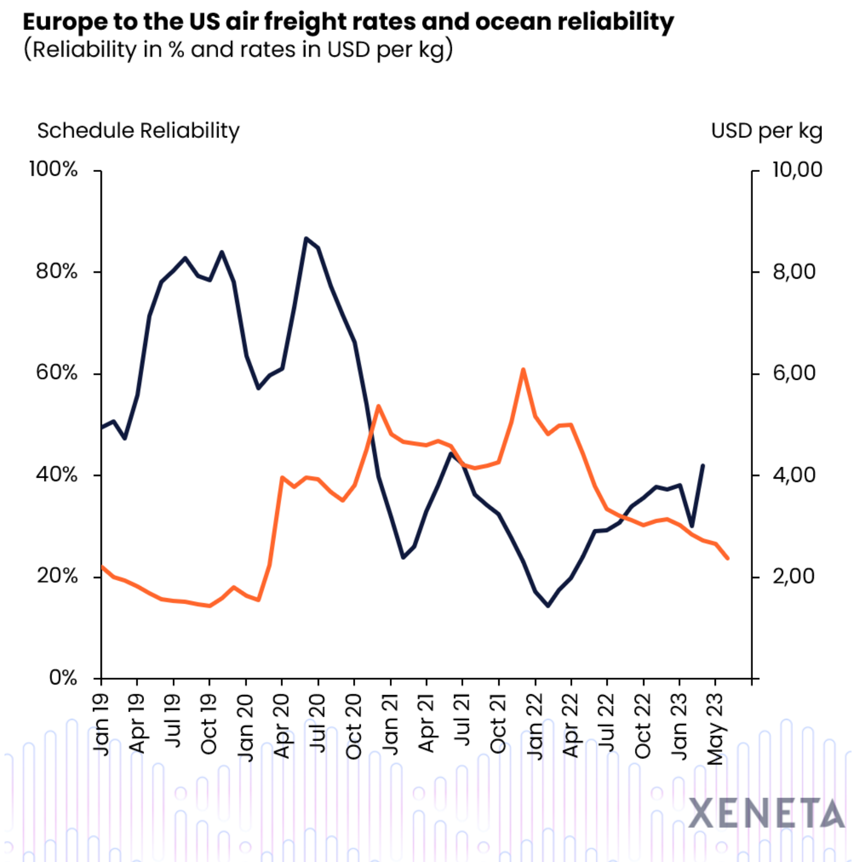


https://www.eia.gov/dnav/pet/hist/eer_epjk_pf4_rgc_dpgD.htm

- The US Jet Fuel (USD/Gallon) based index is showing the same trend as the IATA/Platts index
- Even if stabilizing, still an upward push and remaining uncertain
- For longer routes – bypassing Russian airspace – the fuel cost effect is still strong
- The Jet Fuel index is now under the Crude Oil (Brent) index again
- SAF is still short in supply, hence high costs
- Look at SAF not as a transportation cost but as means to reduce your ecological footprint
- Nippon Express is about to sign a SAF deal with a major European carrier for considerable volumes

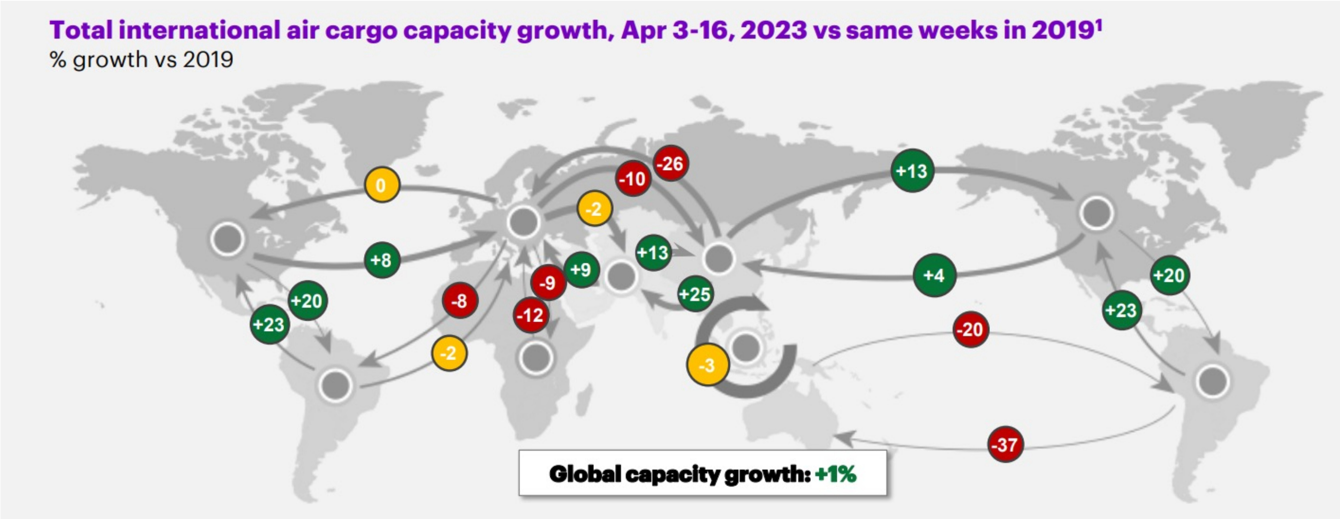
Ocean reliability vs airfreight rates





- During the pandemic, Ocean Liner companies paired high rates to a less reliable service which caused many companies to change to a more reliable airfreight option even at higher costs
- Data from Xeneta shows a relation that in times of dropping reliability on ocean there is a (delayed) effect on increasing airfreight rates
- Now that schedule reliability for Ocean services is trending upwards, air prices are dropping again
- A resulting push back to ocean from air is seen for above reasons but much lowered air rates, combined with consisting schedule reliability for airfreight overall mean that certain flows are remaining to be shipped by air longer than expected

Capacity and Load Factors; what do they bring

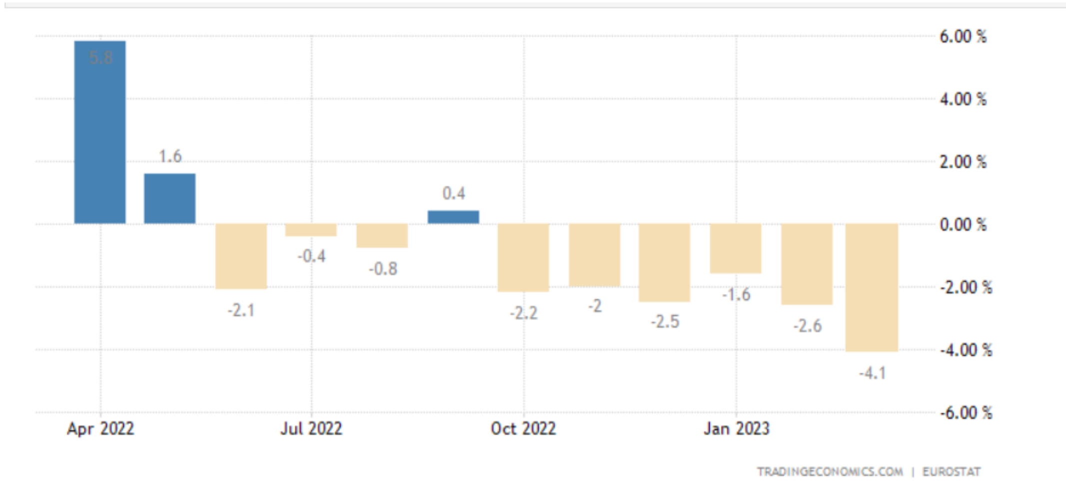


At -3% versus 2019, air cargo capacity intra-Asia (the world's largest trade lane) is the closest to 2019 levels since the onset of COVID

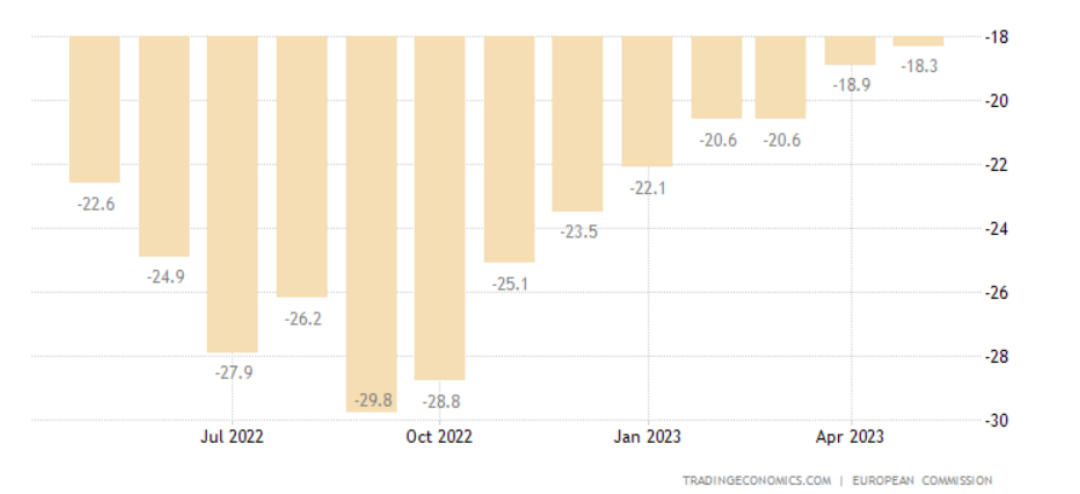
- With a gap between increasing capacity and reduced volumes, there is downward pressure on rate. EU-APAC vv is still down
- However, differences by region where EU-Asia vv are still seeing elevated freight levels compared to pre-Covid
- Airlines look at contribution per position; if under a certain level, capacity will be adjusted to keep prices high(er). However, full passenger capacity at (much) higher prices will enable airlines to keep accepting freight at lower prices initially

Retail sales as an indication of economic times

Year of Year retail sales Year of Year retail sales



Consumer confidence development



Source; https://tradingeconomics.com

- A strange pattern with the customer confidence development improving since January whereas Retail Sales is still down
- A combination of full warehouses, low consumer index and reduced retail sales does not spell an imminent surge in demand
- As a result, we are not seeing a quick overall turn-around for the airfreight market before Q4 2023
- On the Transatlantic trade, the traditional Winter Schedule with decreased capacity and higher volumes may however well lead to a rate spike

Load factors and rate development; Trans Atlantic

Western Europe - Northeast US — Qtr2

	Dynamic LF (%)	Volume LF (%)	Capacity (1,000 M3)	Cargo (1,000 M3)	Weight LF (%)	Capacity (T)	Cargo (T)
All	56% - 10%	53% - 11%	1,112	584	39% - 5.6%	229,230	89,835
You	0.0% 0.0	0.0% 0.0	0.0	0.0	0.0% 0.0	0.0	0.0

Western Europe - Northeast US (Rates In USD/Kg) — Qtr2

	Average Rate	Spot Rate	Seasonal Rate	Spot Share (%)	Spot Rate -500Kg	Spot Rate +500Kg	Spot Rate +1,000Kg
All	$2.48 - 39%	$2.34 - 42%	$2.62 - 36%	51% + 1.8%	$3.05 - 37%	$2.68 - 41%	$2.27 - 42%
You	$0.00 0.0	$0.00 0.0	$0.00 0.0	0.0% 0.0	$0.00 0.0	$0.00 0.0	$0.00 0.0

Northeast US - Western Europe — Qtr2

	Dynamic LF (%)	Volume LF (%)	Capacity (1,000 M3)	Cargo (1,000 M3)	Weight LF (%)	Capacity (T)	Cargo (T)
All	46% - 9.5%	44% - 8.8%	1,044	462	26% - 7.1%	216,296	56,385
You	0.0% 0.0	0.0% 0.0	0.0	0.0	0.0% 0.0	0.0	0.0

Northeast US - Western Europe (Rates In USD/Kg) — Qtr2

	Average Rate	Spot Rate	Seasonal Rate	Spot Share (%)	Spot Rate -500Kg	Spot Rate +500Kg	Spot Rate +1,000Kg
All	$1.26 - 27%	$1.19 - 33%	$1.29 - 22%	36% - 6.5%	$1.63 - 32%	$1.39 - 36%	$1.13 - 32%
You	$0.00 0.0	$0.00 0.0	$0.00 0.0	0.0% 0.0	$0.00 0.0	$0.00 0.0	$0.00 0.0

Source: Xeneta

- A clear relation between declining load factors and reduced rates
- Rates Westbound are almost twice as high as Eastbound rates which cannot be only explained from differences in load factor levels

Main trends / summary; YoY development

Western Europe - Japan — Qtr2

	Dynamic LF (%)	Volume LF (%)	Capacity (1,000 M3)	Cargo (1,000 M3)	Weight LF (%)	Capacity (T)	Cargo (T)
All	67% - 20%	64% - 21%	107	68	52% - 20%	17,769	9,233
You	0.0% 0.0	0.0% 0.0	0.0	0.0	0.0% 0.0	0.0	0.0

Western Europe - Japan (Rates In USD/Kg) — Qtr2

	Average Rate	Spot Rate	Seasonal Rate	Spot Share (%)	Spot Rate -500Kg	Spot Rate +500Kg	Spot Rate +1,000Kg
All	$2.79 - 54%	$2.54 - 63%	$3.08 - 38%	53% - 5.2%	$3.36 - 57%	$3.11 - 58%	$2.53 - 62%
You	$0.00 0.0	$0.00 0.0	$0.00 0.0	0.0% 0.0	$0.00 0.0	$0.00 0.0	$0.00 0.0

Japan - Western Europe — Qtr2

	Dynamic LF (%)	Volume LF (%)	Capacity (1,000 M3)	Cargo (1,000 M3)	Weight LF (%)	Capacity (T)	Cargo (T)
All	70% 0.0	62% 0.0	90	56	66% 0.0	11,422	7,550
You	0.0% 0.0	0.0% 0.0	0.0	0.0	0.0% 0.0	0.0	0.0

Japan - Western Europe (Rates In USD/Kg) — Qtr2

	Average Rate	Spot Rate	Seasonal Rate	Spot Share (%)	Spot Rate -500Kg	Spot Rate +500Kg	Spot Rate +1,000Kg
All	$3.86 - 55%	$3.55 - 63%	$4.19 - 45%	51% + 1.5%	$5.46 - 52%	$4.94 - 53%	$3.44 - 63%
You	$0.00 0.0	$0.00 0.0	$0.00 0.0	0.0% 0.0	$0.00 0.0	$0.00 0.0	$0.00 0.0

- Load factors in either direction almost equal
- Rate levels still imbalanced but showing a similar drop in % year on year
- For Q2 we see a soft spot market, especially for lower deck shipments (less so for main deck)
- To support a round trip on a B747/400 freighter, total revenue needs to be some USD 650-700k meaning that further dropping rate levels will make that unfeasible
- Some carriers will reduce pay-load by not flying via Anchorage (Western route) but rather via Almaty (Eastbound route)

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Contact your local NX agent representative for more information.

" You have previously been included in our professional corporate contacts. If you no longer wish to receive marketing emails from us please send an email to: NEEU-Info@nipponexpress.com"

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