THE EUROPEAN ROAD FREIGHT RATE DEVELOPMENT BENCHMARK

Q2 2020

upply

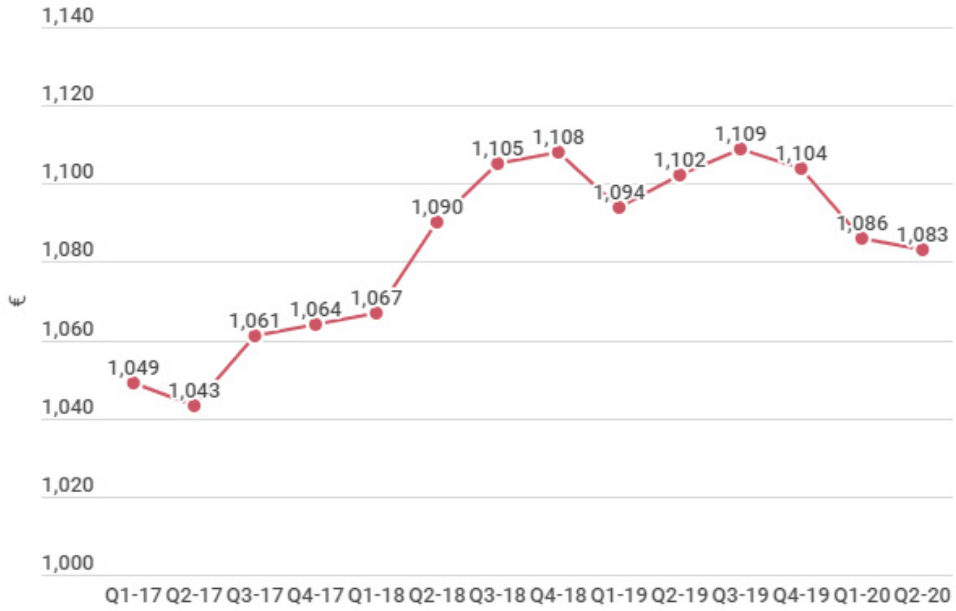
Ti

Contents

The European Road Freight Rate Benchmark

The Ti & Upply European Road Freight Benchmark rate was €1,083 in Q2-2020, marking a drop of 0.3% quarter-over-quarter and 1.8% year-over-year. This is the benchmark's lowest rate since Q1-2018.

Ti & Upply European Road Freight Benchmark - Average European Road Freight Rates, Q2-2020



Note: The impact of COVID-19 has caused disruption to data collection and reporting throughout Q2. As such, the rates benchmark for Q2 may be subject to revision as more data becomes available.

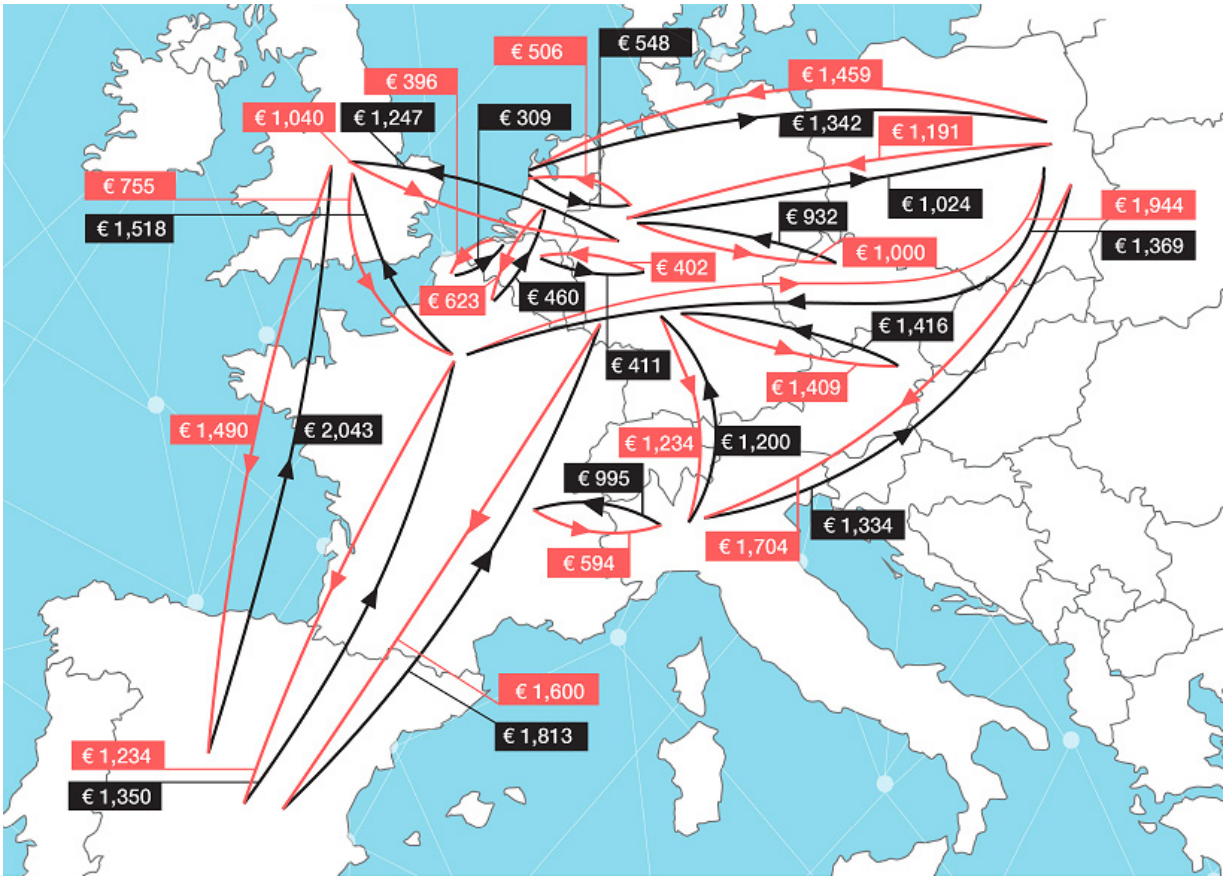
The pandemic has rapidly changed the demand, supply and cost dynamics in European road freight. After the first effects were felt in February and early March, the falloff in demand for road freight services was substantial. Data from Verizon Connect that studies readings from tachographs shows total driver operating hours fell by an average of 50% across Europe from Mid-February to early April. Virtually all areas of activity were harmed, although it appears healthcare/pharma and e-commerce volumes were strong.

Although volumes were dramatically lower than normal, carriers were not willing to accept loads at any price. Carriers were able to utilise government support schemes and/or reduce work schedules for drivers. This meant that the effective available capacity fell drastically, causing rates to stay relatively firm.

As the outbreak receded and countries relaxed lockdown restrictions, economic activity began to return but export growth still appears weak. Carriers have redeployed capacity (albeit slowly) and this appears to have kept rates low towards the end of the quarter too.

On the cost side, carriers faced an increase in some operational costs, due to factors such as border controls and investments in PPE. On the contrary diesel prices across Europe fell by 8.2% compared to the previous quarter. This softened the blow for carriers that were losing revenue, but these savings were not fully passed on to shippers.

Q2-2020 European Road Freight Rates



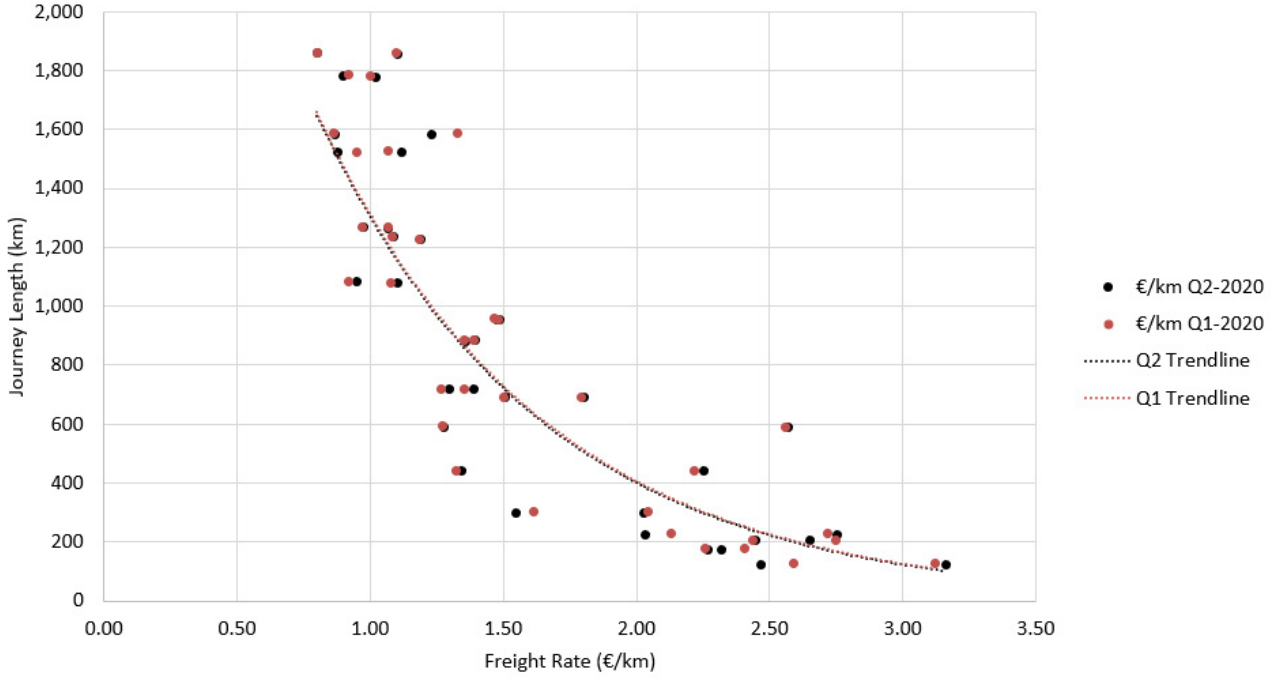
Rates per Kilometer

Shippers paid an average rate of €1.58/km for road freight services in Q2-2020. In line with the overall average price change, this represents a 0.3% decline from the previous quarter.

The variation in this cost between different lanes is largely dependent on the length of the lane. Longer routes create cost efficiencies, diminishing the significance of fixed and variable costs associated with road transport operations and lowering €/km prices. For shorter routes, the opposite is true. The trendline fitted to both Q2 and Q1 data shows how stable this market characteristic is.

Birmingham-Madrid remains the cheapest lane relative to its journey distance, at €0.80/km (Q1: €0.80/km). Antwerp-Lille rates remained the most expensive at €3.16/km (Q1: €3.12/km).

Freight Rates in €/km



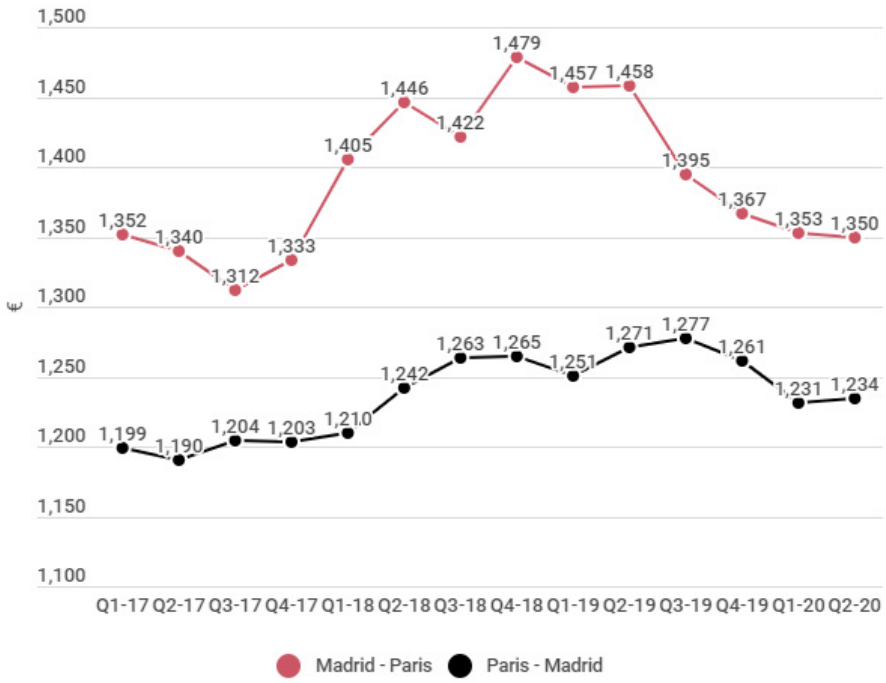
Rate Development on Europe's Major Trade Lanes

France-Spain

Rates on the Madrid-Paris trade lane sit relatively steady, having shown continuous falls over the last few quarters. On the fronthaul to Paris, rates were down 0.3% q-o-q, whilst backhaul rates were up 0.3%. However, this should not be mistaken for a stable macroeconomic situation. Trade continues to be weak, although both France and Spain are showing signs of recovery.

A survey from the Spanish Confederation of Freight Transport (CETM) suggested 18% of freight transport workers had been directly affected by the pandemic, approximately half in the form of government schemes (including furloughing or redundancy) and half through alterations to or suspension of their work activity. Spanish hauliers account for approximately 80% of the volumes transported on this lane and this reduction in usable capacity has helped prop rates up in spite of weak trade volumes.

Madrid - Paris Road Freight Rates



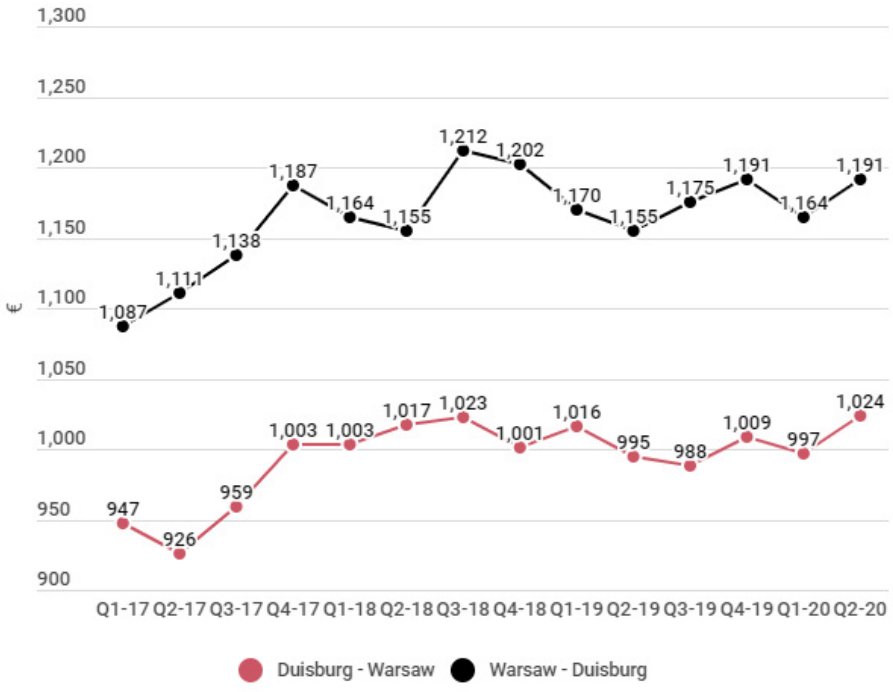
Poland-Germany

Poland-Germany freight rates were strong throughout the second quarter, with increases in prices q-o-q to (+2.3%) and from (+2.7%) Duisburg respectively. This trade lane saw a number of bottlenecks spring up due to controls imposed at the border. Carriers appear to have reacted by pushing up prices.

The shock to the Polish economy has been milder when compared against many of its Western European neighbours. This appears to have kept demand relatively steady for goods imported from Germany.

On the fronthaul to Duisburg, rates only recovered in June, where they increased a sizeable 11.2% month-on-month. This appears to be as a result of factories in Germany's industrial heartlands ramping up again, with suppliers in Poland reacting to follow suit. Although April was a dismal month for German manufacturing, May saw a recovery and early indications for June show further improvement. Existing inventory levels that had built up earlier in the crisis appear to have been worked through in April and May, causing a need for replenishment in June and leading to stronger demand for road freight. Rates from Prague-Duisburg, another lane highly exposed to the German manufacturing sector, saw a similar increase in rates in June.

Warsaw - Duisburg Road Freight Rates

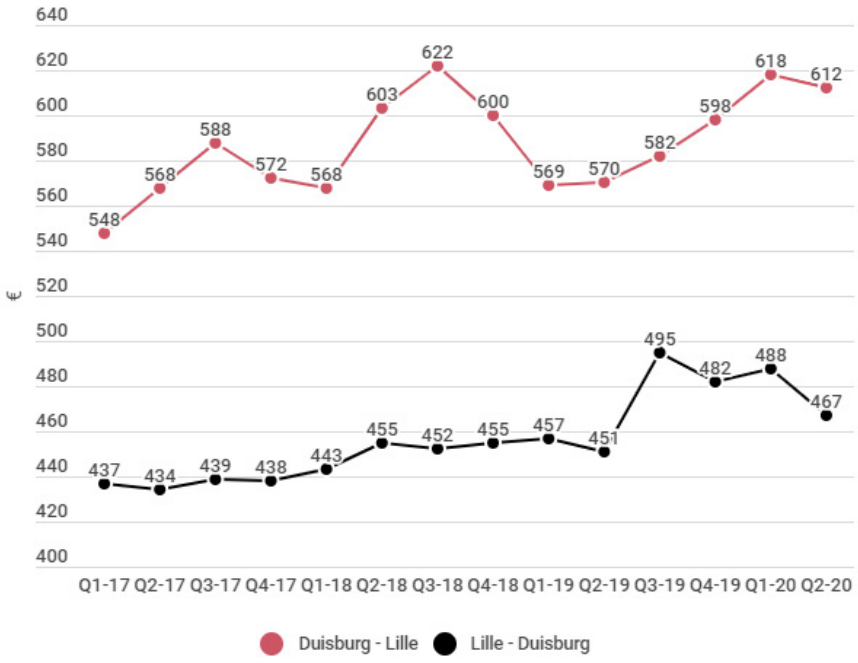


Germany-France

Rates on the Duisburg-Lille lane sit higher than in Q2-2019. On the fronthaul to Lille, rates are 7.5% higher, whilst on the backhaul rates are up 3.6%. However, both sets of prices fell when compared against Q1-2020. Fronthaul prices fell 0.9%, whilst backhaul rates fell 4.2%.

After suffering early on, both economies started to show more promising signs towards the end of the quarter. However, export activity remains very weak and this appears to have reduced prices compared to the start of the year. Double-digit percentage rate falls in diesel prices in both countries have also been a factor contributing to softer prices.

Duisburg-Lille Road Freight Rates

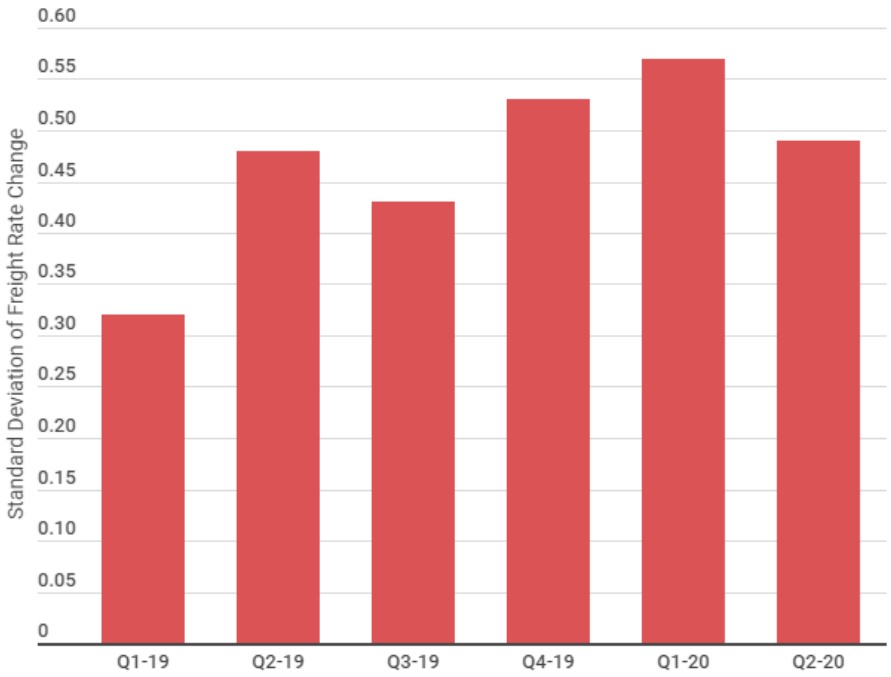


Volatility

The vastly different landscape in European road freight in Q2-2020 had a relatively modest effect on prices at a Europe-wide level. However, the supply and demand side effects have led to increased volatility in road freight prices on a number of lanes, as measured by the standard deviation of quarterly figures. Here, the size of the standard deviation, or "σ", signifies how different weekly rate changes were from their average weekly change throughout the relevant quarter.

At a Europe-wide level rates do not appear that volatile, with a standard deviation of σ = 0.49%, down from Q1-2020 when σ = 0.57%. This is perhaps because the virus hit economies at different times, whilst lockdowns were also relaxed at different rates. This means that although strong rate changes did occur, they happened at different times to one another. At a benchmark level, the fact that these changes happened at different times has a weaker effect on σ than if all rates were changing sharply at the same time.

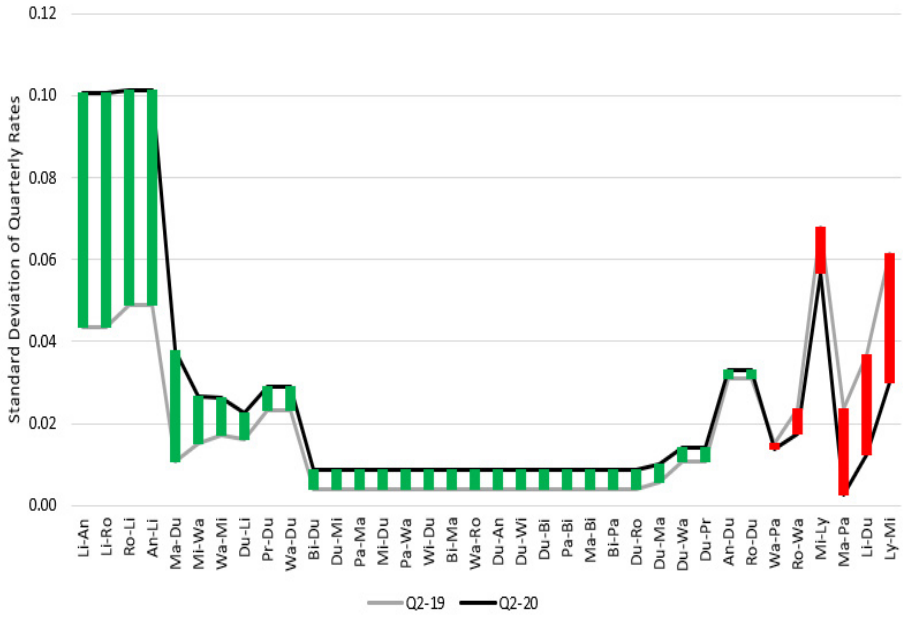
Quarterly Volatility in Weekly European Freight Rate Changes



Note: A σ value of zero would imply weekly freight rates changed at the same percentage each week throughout the quarter. A higher σ value represents higher volatility, and there is no upper limit to this figure. However, the size of the standard deviation is best viewed in like-for-like comparisons, such as quarterly measures of the same variable.

However, stronger and more volatile rate changes did occur and this is clear when looking at individual lanes. Of the 36 covered, 27 lanes showed greater volatility in Q2 versus Q1. Similarly, 30 lanes were more volatile than in Q2-2019 as seen below.

Standard Deviation of Freight Rate Changes on Individual Lanes

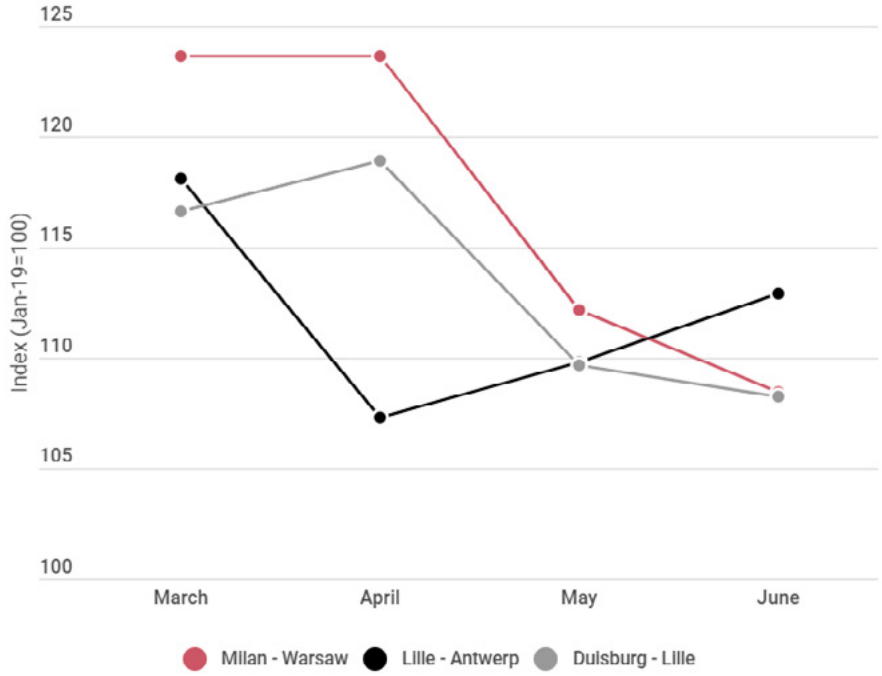


Supply-Side Effects

The restrictions imposed due to COVID-19 led to sharp falls in demand, but the story in capacity has been complex. On the face of it, available capacity across Europe appears to have increased substantially. Only a few sectors appear to have seen demand at or above pre-COVID levels, implying the majority of Europe's road freight fleet has been underutilised.

The increase in available capacity was a factor that saw prices fall across a number of trade lanes over the course of the quarter. On the Milan-Warsaw lane, rates stayed steady in April before falling 9.2% month-on-month in May and a further 3.3% in June. On the Lille-Antwerp lane, rates fell initially 9.2% before recovering slightly. From Duisburg-Lille, rates initially stayed steady, but eventually lost 7.8% in value into May.

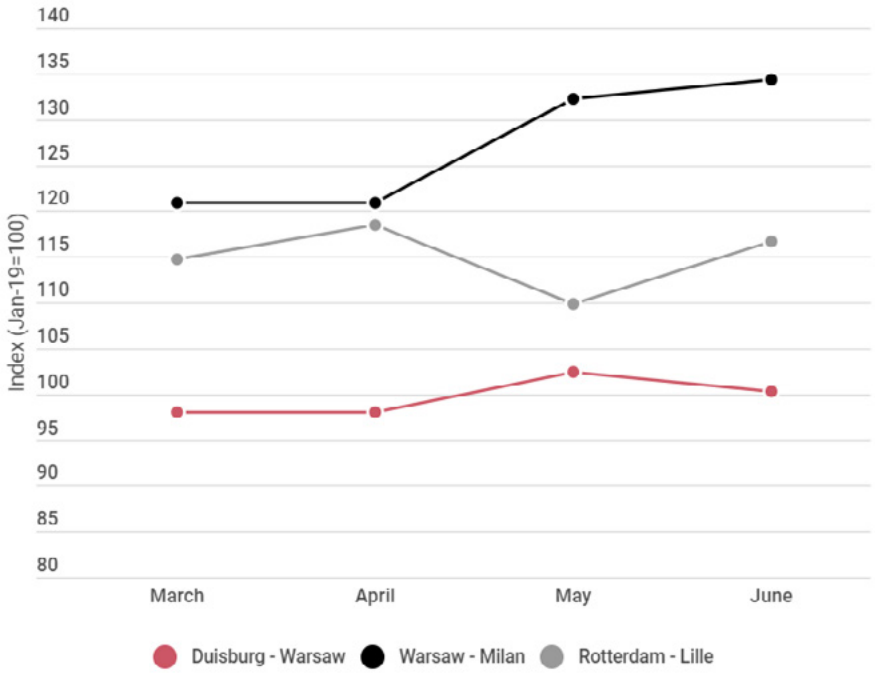
Sharp Rate Declines (Index Jan-19=100)



However, the question of how much available capacity there was anywhere in the market at any one time has been complicated by a number of factors. Generous government retention schemes allowed companies to furlough drivers, taking capacity out of the market. Many companies themselves opted to reduce the working hours of drivers, whilst some Eastern European hauliers returned home following the plummet in demand, making re-deploying them later to re-emerging lanes more difficult. According to Sixfold, at the peak of the crisis, one fifth of active capacity was essentially offline.

In addition to border delays providing additional costs, carriers unwilling to lose much of their already thin margins and some areas seeing very strong demand (such as pharmaceuticals and e-commerce), this meant the overall net increase in available capacity was not seen in the freight rates on a number of lanes. From Warsaw-Milan, rate changes were flat in April before jumping 9.8% in May. From Rotterdam-Lille, rates initially jumped 3.3% in April, before declining in May and recovering in June. On Duisburg-Warsaw, no changes were recorded in April, but May rates increased 4.5% before falling slightly in June.

Strong or Stable Rate Increases (Index Jan-19=100)



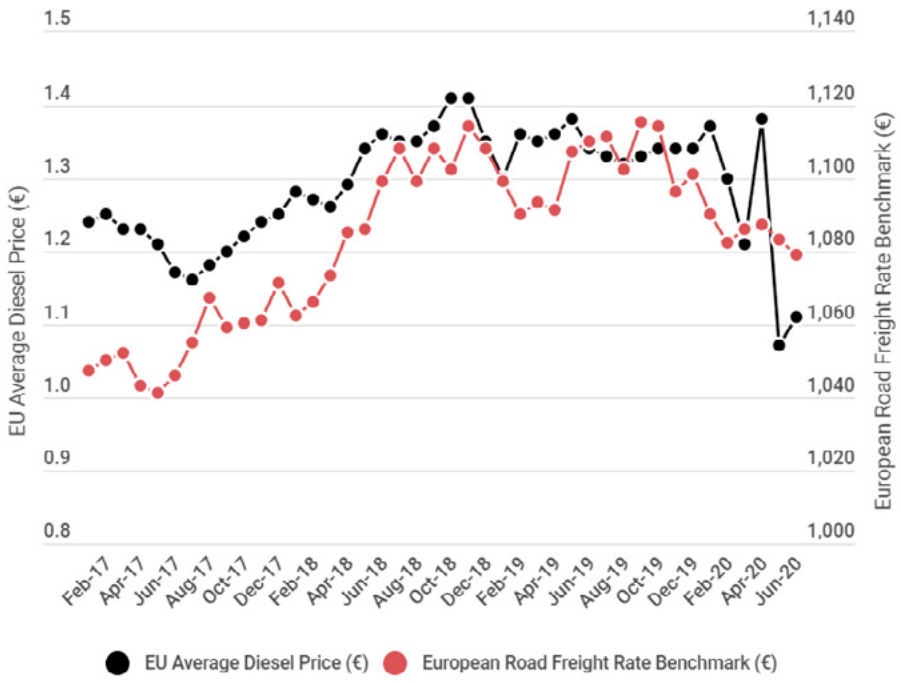
Fuel Prices and Rates

The latest quarter saw oil prices dip to record lows. On May 1, OPEC recorded the basket price of oil at just $13.36, down around 80% on levels seen in January. Diesel prices have subsequently dipped too. European Commission data suggests prices have fallen 8.2% against Q1. Road freight prices meanwhile have fallen just 0.3%.

Looking at historical data, there is a reasonably strong correlation between diesel prices and freight rates. Comparing datasets, the R coefficient* measuring such a correlation is 0.70. It follows that a drop in diesel prices tends to lead to a drop in rates.

However, this only tends to take place to a limited extent and there are a few reasons for this. A significant portion of the top-end of the market buys fuel on futures contracts, limiting their ability to pass on rates to shippers. Also, whilst diesel prices are a key proportion of the cost component of road freight (typically 20%-40%), supply and demand factors play an important role in shaping price. In Q2, the ability for the supply-side to react to the drop off in demand appears to have been the key factor affecting prices. Carriers did not fully pass on the extent of the diesel price drops to shippers.

European Diesel Prices Versus Rates



** An R coefficient of 1 indicates two datasets move perfectly in sync with one another. A value of zero indicates the datasets move completely independently of one another. A value of -1 indicates that the datasets move perfectly in opposition to one another.*

Biggest Price Change

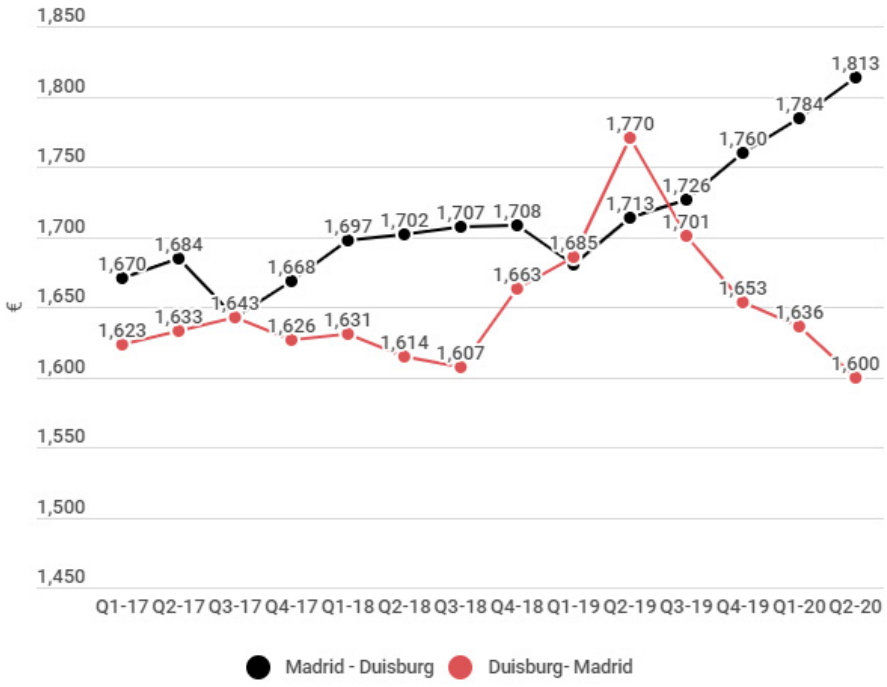
Rates from Duisburg to Madrid fell 9.6% y-o-y, the biggest price change witnessed this quarter. On the backhaul route, rates are moving in the opposite direction and are 5.8% higher y-o-y.

The continued slowdown in the automotive sector is influential for this lane. As Europe's two largest carmakers, automotive trade is understandably significant, accounting for over 20% of bilateral trade by value. However, this has been in decline over the last year and the situation has been further exacerbated by COVID-19 pandemic.

The mismatch in the demand situation also appears to have influenced rates. Spain's economy has fared worse than Germany's throughout the pandemic. Across Europe it has been apparent that countries which have been hit hardest have imported less goods. Germany's quicker recovery has enabled prices on its import lane to stay high, whilst Spain's weaker recovery has led to prices slumping.

As a particular example, perishable and food exports from Spain have remained steady whilst other sectors have been damaged. However, with uncertainty over a backhaul load due to the macroeconomic environment, carriers have opted to push up prices on the headhaul to account for those backhaul losses.

Madrid-Duisburg Road Freight Rates



Lane to Watch

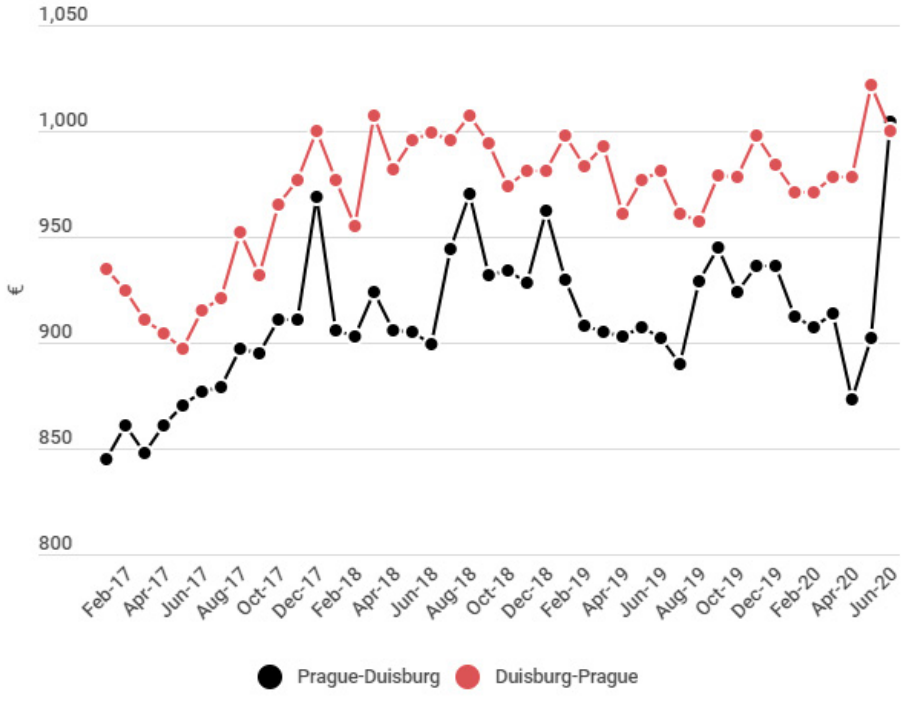
Prague-Duisburg rates surpassed the usual headhaul price for the first time in June 2020. It is also the first time that rates into Duisburg exceeded €1,000 and follows a turbulent couple of months. In April, rates slipped to €873, the lowest price since May 2017.

This rate appears to have tracked the picture in demand very closely and that is linked to the importance of the automotive sector to this lane. The industry accounts for one tenth of Czech economic output. The majority of Czech automotive factories closed down through April, with overall output falling to one tenth of prior year levels.

The country's early lockdown appears to have allowed it to start re-opening much quicker. Major plants run by Hyundai and Continental returned to work by the end of April, whilst Toyota-Peugeot re-opened in early May. With production ramping up further in June, higher associated transport volumes appear to have led to a spike in prices. Furthermore, with much of the continent returning to work, Czech drivers appear to have been re-deployed across Europe, lowering overall supply. Meanwhile Lithuanian drivers, which are the other main nationality for hauliers on this lane, have encountered issues returning to work, with strict border checks on the Polish border hampering efforts to increase supply.

The rate reversal between headhaul and backhaul appears to have been as a result of the pandemic. However, the Czech automotive sector proved resilient through the global downturn in the sector in 2019 and this poses the possibility that the reversal will be more than just a one-off.

Prague-Duisburg Road Freight Rates



Methodology

The rates are the result of Upply's own econometric and statistical modelling, which is based on the analysis of more than 250 million prices. Upply provides Full Truck Load (22 000 kg) weekly rates estimations for each major European trade lanes, associated with a confidence rate. These rates are computed from Upply's key partners and users data. To complete the analysis presented here, Ti selected a representative sample of the largest European road freight corridors by volume. Ti then used the median rates provided by Upply on each corridor, averaging weekly rates over each quarter. Ti's team of senior analysts provide additional insight into the drivers and trends behind price movements with support from Upply. Note that data is subject to re-statements from one quarter to the next.

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Upply is a digital marketplace which directly connects road carriers, freight forwarders and verified shippers throughout France and simplifies transportation operations. Upply also provides freight price transparency (incl. past data and future trends estimations) to manage market volatility with its unique *Compare & Analyze* solution. Users can compare up to 100,000 freight rates in a few minutes.

To implement its unique solution, the company employs data scientists, Logistics professionals, information technology, and digital experts. Launched in 2018, the company is headquartered in Paris.

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