

## Foundation Alert

### Freight charges from Shanghai to Ex-KHI crossed USD9,000

#### Event

- Freight charges for import from Port of Shanghai has crossed ~USD9,000 for 40 foot-equivalent unit or EFU according to freight forwarders.

#### Impact

- After 2021 Suez Canal obstruction, Freight forwarders came in line with increase in prices due to the back log caused by the Suez Canal blockage. Since then, freight charges have taken a toll due to shortage of space on carriers.
- Before COVID, a shipment of 40 foot-equivalent unit or EFU container imported from Shanghai to Karachi was charged USD400 that has now skyrocketed about ~USD9,000 including shipping guarantee.
- However, export to Shanghai is charged for USD600, because of shortage of containers in China.
- Moreover import/export from Southampton (UK) is charged for ~USD3,500/7,000 and export to LA (US) is ~USD22,000 for 40 ft container.
- Even on such high freight charges, freight forwarders are having difficulty in finding space on shipping lines because of trade demand from China and Port Congestion at LA with ~50 vessels stranded.
- As per freight forwarders, the prevailing prices are the new normal and will sustain at these levels.
- Around 80% of the Textile exports are on FOB terms hence would not have material impact on the sector.
- On cotton/yarn imports, 80-85% for the current year of the cotton has been procured by the companies for current fiscal year, however the remaining would take a beat on freight charges because of their FOB terms. Next year procurement is expected to start from Jan'22.
- Rice exporters have revised their contracts to FOB shipment from CFR terms to pass on the cost as well, as per the rice exporters.
- Other LSM including autos import their raw material and have regional contracts with freight forwarders that are revised annually/semiannually.
- Freight forwarders have retired 1-month contracts and now only offer 1-week to 10-days contracts.

#### Outlook

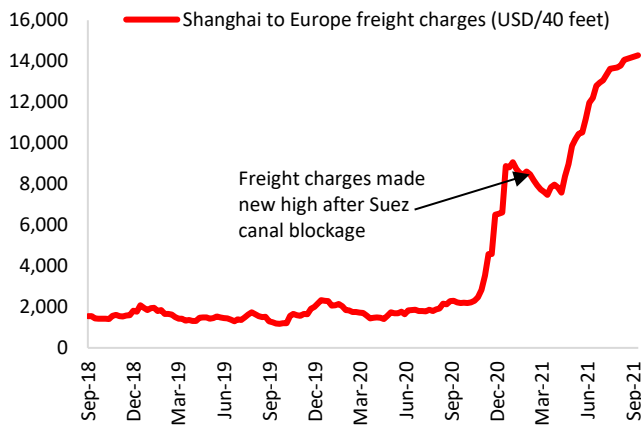
- The prevailing high freight charges are expected to revert to normal in the long run for the continuity of trade ease as Hapag-Lloyd and other shippers have ordered containers to ease of pressure from the industry.

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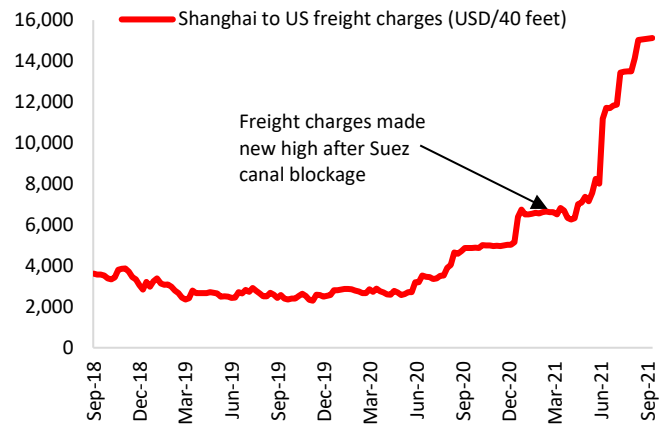
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Fig 01: Fright to Europe/US ↑ by 7.8/5.5x since...



Source: Bloomberg, FSL Research, September 2021

Fig 02:.....COVID outbreak declared pandemic by WHO



Source: Bloomberg, FSL Research, September 2021

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.