

DSV Air Freight Market Update Q3 2024

# Air Freight Pulse



Global Transport and Logistics



# Intro

Welcome to the inaugural edition of our air freight quarterly newsletter – **DSV Air Freight Pulse!**

We are delighted to embark on this journey with you as we delve into the intricate dynamics of the global air freight market. Through this publication, we aim to provide invaluable insights that illuminate the trends shaping our industry.

In this edition, we will analyze key factors such as demand patterns, capacity fluctuations, and rate developments. Our goal is to furnish you with a comprehensive understanding of the opportunities and challenges that await in the realm of air cargo. The underlying tone of this newsletter is a forward-looking perspective, particularly geared towards Quarter 4 and the anticipation of the upcoming peak season.

As we ascend to new heights together, consider this newsletter your trusted compass, navigating the vast expanse of the air freight landscape.

Thank you for choosing DSV.

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# Demand

## A Strong Forecast Ahead

As we enter the second half of the year, the outlook for demand in the air cargo industry appears robust and outpacing capacity. Although this concentrated growth is around Asia, other markets are impacted due to capacity re-shuffling as the freighter airlines are chasing the higher yields from the APAC market.

E-commerce from China and Southeast Asia is the main demand driver, and platforms like SHEIN, Temu, and recently TikTok Shop are all eyeing exceptional air tonnage growth, which is impacting global air demand to record numbers.

Another driver for increased demand from APAC is a result of the Red Sea situation, extending ocean freight transit times around the Cape of Good Hope in cycle times no longer acceptable for certain time-sensitive commodities. This results in multi-modal or straightforward air freight conversions, creating a constant uptrend in demand from the Indian Subcontinent and Southeast Asia.

These two main demand drivers are setting the tone for continued pressure on capacity and yields for the second half of 2024, impacting not only APAC outbound but also other markets.

### Key Indicators

Currently trending above the 50-point threshold, the APAC Manufacturing PMI reflects a resounding vote of confidence among industry leaders in ramping up production activities. This upward trajectory is not only indicative of economic recovery but also serves as a reliable predictor of heightened demand for air freight.

### EXPERT INSIGHT

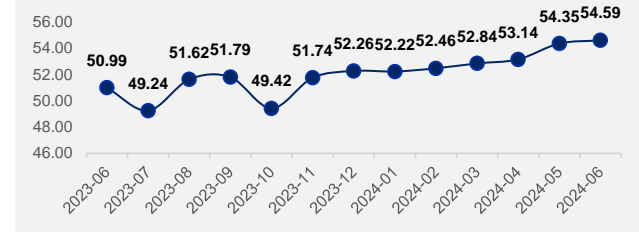


**Claus Nicolajsen**  
Vice President,  
Air & Ocean Products APAC  
DSV

*“The APAC/Indian Subcontinent air freight market continues to demonstrate robust growth, not only by e-commerce, but also more traditional verticals such as automotive and tech shipments.*

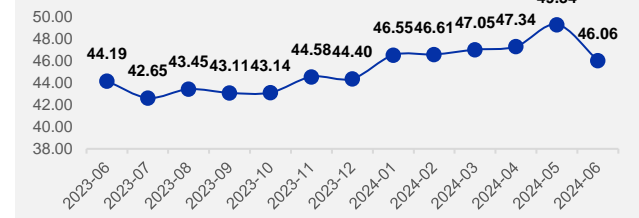
*The APAC air market is expected to grow by 7.3% YoY until 2028 and the growth underscores the region’s pivotal role in global logistics and supply chain dynamics.”*

#### Asia Pacific



PMI  
by S&P Global

#### Europe



PMI  
by S&P Global

#### USA



PMI  
by S&P Global

# Capacity

## Balancing the Supply Equation with Foresight

The air freight industry is currently experiencing a stark contrast in how capacity is managed across different markets. On the Trans-Atlantic routes, there is an overcapacity situation. This surplus is primarily driven by the extensive operation of passenger planes, which provide ample belly space for cargo. As a result, freighters on these routes are no longer profitable and are being repositioned to operate on routes from Asia where higher yields can be achieved.

However, this shift is not the only driver. The global air freight capacity is under pressure due to a slowdown in the delivery of large freighters. This issue is compounded by several factors:

### Boeing Delivery Delays

There have been significant delays in the delivery of new Boeing 777-200F aircraft during the first half of 2024.

### Regulatory Hurdles

U.S. aviation authorities have not yet approved conversion programs to turn 777-300 passenger aircraft into freighters.

### Next-Generation Freighter Hesitation

With the Boeing 777-8F and Airbus A350F scheduled for delivery starting in 2026, operators are hesitant to

order current models, preferring to wait for the next generation of freighters.

Adding to the complexity is the impending retirement of many older freighters. This will result in flat capacity growth for the remainder of 2024 and a bleak outlook for 2025. The combination of slow freighter deliveries, regulatory delays, and the retirement of aging aircraft underscores the challenging environment facing the global air freight market.

In conclusion, while some markets experience overcapacity and the redeployment of freighters, the overall picture for air freight capacity remains challenging. The industry must navigate these hurdles to meet global demand effectively.

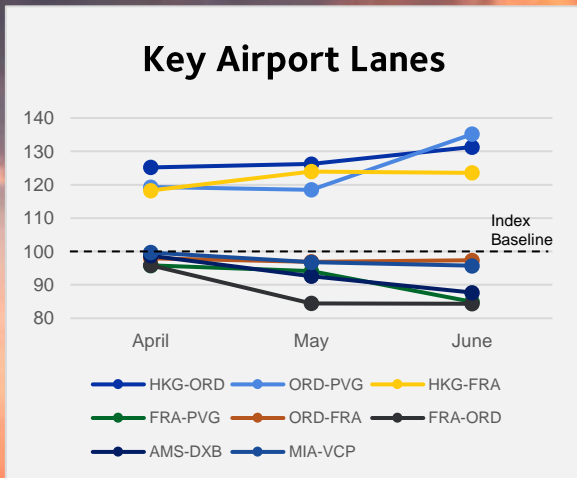
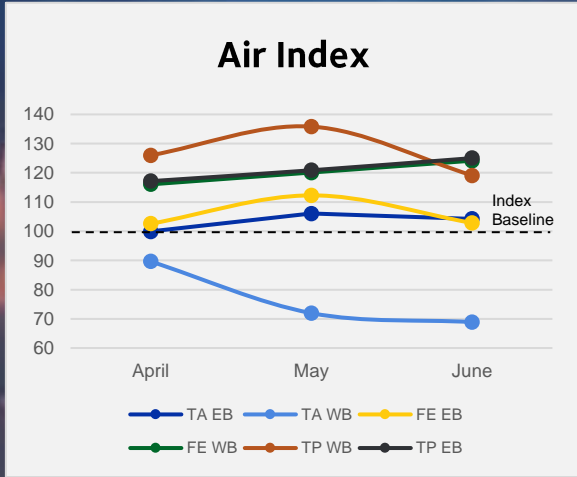


# Air Index

## Navigating Trends with Precision

Updated monthly, the DSV Air index serves as a reliable barometer of market dynamics, with Quarter 1 of 2024 serving as the anchor point at 100 points. This baseline provides a reference for tracking fluctuations in rates, offering a comprehensive overview of how market conditions are evolving over time.

On the Trans-Atlantic, with the onset of the summer schedule in April, marked by passenger airlines augmenting belly-hold capacity, the Trans-Atlantic market witnesses' discernible effects. While rates remain stable from Europe to the US, a notable reduction of 10 points is evident in the US to Europe direction.



### Take-aways

Analyzing trade-lane specifics reveals a noteworthy deviation from typical market trends: rates are on an upward trajectory originating from APAC. Particularly striking are the double-digit increases observed in both FEWB, standing at 124 points, and TPEB, at 125 points. Delving deeper into granularity, indices for HKG-ORD and HKG-FRA stand at 131 and 123 points, respectively.

These upward shifts are predominantly fueled by heightened demand. However, they're also influenced by unique circumstances. Passenger demand to and from APAC remains limited, with restrictions on US/CN passenger flights further constraining the typical influx of belly capacity experienced during the summer season.



# Fuel Index

## Navigating the Jet Fuel Landscape: Implications for Air Freight

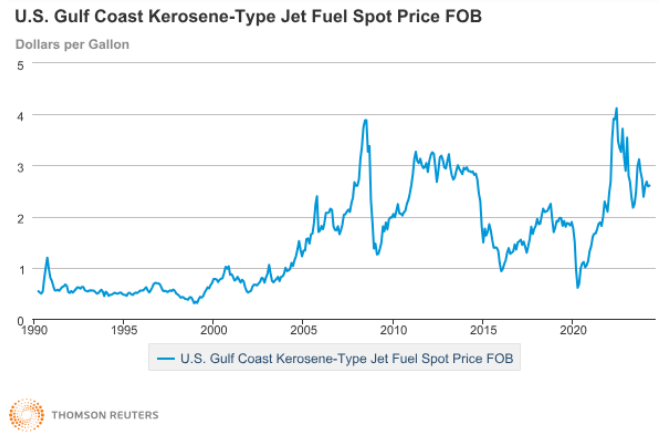
Jet fuel, a significant determinant in the air freight ecosystem, continues to wield its influence over market dynamics. Since mid-2022, we've observed a remarkable downward trend in jet fuel prices, a trend worth noting given the prevailing geopolitical uncertainties.

This prolonged downturn is primarily attributed to the normalization of global production post-COVID and a subdued economic outlook. However, it's essential to recognize the inherent volatility of economic forecasts; the landscape can shift swiftly.

Amidst the prevailing calm, it's crucial to remain vigilant. Any further escalation in the Middle East, for instance, could swiftly propel jet fuel prices beyond the \$3.50 USD/US-gallon threshold. Such a development would undoubtedly reverberate across the air freight sector, exerting upward pressure on pricing.

As stakeholders in the air freight industry, it's imperative to stay attuned to these fluid dynamics. By monitoring jet fuel trends and their potential impacts, we position ourselves to navigate uncertainties effectively and make informed decisions in an ever-evolving landscape

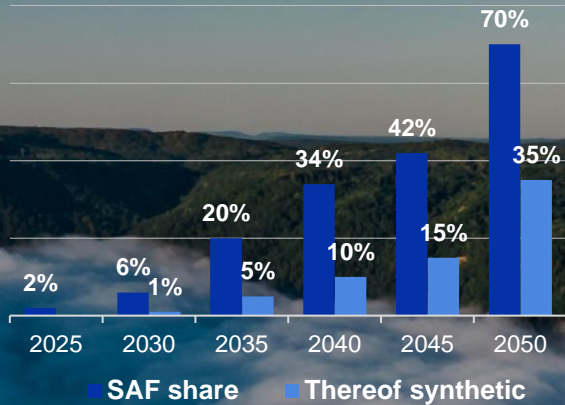
**DID YOU KNOW?**  
Jet fuel for freighter airlines accounts for over 50% of the airline operating cost.



## How to deal with fuel in long-term air freight contracting

1. Apply a fuel surcharge methodology in fair correspondence with the market.
2. Apply a source linked to the jet fuel price. Sources linked to oil are no longer a good source due to crack-spread change over the last 3 years.
3. Do not over-complicate it. Jet fuel models do not have to be complex and an operational burden to deal with. Easy models result in correct billing and taking the fuel argument out of the discussion when negotiating long-term air freight contracts.

## ReFuel EU Aviation



ReFuelEU Aviation provides ramp-up SAF share across EU, UK & Switzerland from 2% in 2025 to 6% in 2030

Penalties are due for the distributors if a blend is not provided, and the missing volume must be produced in the addition to the installment upcoming year

In order to avoid the so-called 'tankering', airline operators are obliged to refuel at least 90% of the required fuel volume for outgoing flights at EU airports (based on an annual average)

Source: Smart Freight Center

# Sustainability

## As of 2025 Several Legal Requirements Will Influence the Aviation Sector

The aviation industry contributes approximately 3% of global CO2 emissions and plays a crucial role in achieving the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement's Greenhouse Gas (GHG) targets.

However, global regulations are inconsistent, varying by region. Our goal is to keep you informed about these legal parameters, starting with the European Union, which currently has the strongest regulations.

Two major EU requirements impact the aviation sector: the EU Emission Trading System (ETS) and ReFuel EU, with the latter expected to have the highest impact on the air freight market.

### What is ReFuel EU?

ReFuel EU mandates fuel producers to ensure at least 2% of their fuel deliveries to European airports are sustainable aviation fuel (SAF) by 2025, with this share set to increase over time. SAF is currently 4-5 times more expensive than regular fossil fuel, which will lead to significant cost increases for airlines. Presently, the SAF share is just 0.2%.

Given that air freight is predominantly used for intercontinental flights and the mandate applies only to flights departing from the EU, it will impact just one leg of a round trip for airlines connecting Europe with other parts of the world.

With fuel typically accounting for over 50% of an airline's operating costs, the additional cost per kilogram of air freight is expected to rise by a few cents in 2025, escalating to double-digit cents per kilogram in subsequent years.

The advantage of SAF is that the current infrastructure is used and no new one is needed. However, it remains uncertain how fuel producers will secure the required quantities for each European airport.



# Industry Leader Q & A

## The Future of Technology

### What major trends or innovations will shape the future of logistics in the technology industry?

Where technology around us becomes smaller, quite the opposite is happening with the machinery that is needed to make it. The equipment that goes into the production of this technology is becoming increasingly complex to transport. We also need to prepare ourselves for the phasing out of the Boeing 747 jets, which will impact large markets. This creates challenges in accessing capacity for oversized freight by sea, air, and road. Our warehouses must adapt with larger dock doors and heavy-duty forklifts, and we need specialized trucks like high-cube trailers and flatbeds. The most important thing is to be prepared and keep our clients informed.

### What innovations or protocols has DSV developed to ensure the safe and efficient transport of technology products?

Within DSV, there is a specialized Quality, Health, Safety, and Environmental (QHSE) team that focuses solely on improving a safe, health-driven, and quality-focused supply chain. To properly handle technology

shipments, we require the completion of an E-learning program and conducting in-person training at all global semiconductor control towers. We plan to continue and expand these initiatives in the coming years.

### How is DSV integrating technologies into its logistics solutions to enhance efficiency and reliability?

Ensuring safe and quality shipping is our main goal for all our clients. One of the services DSV provides to clients shipping high-value semiconductor equipment is physical in-person supervision on every touchpoint through a mobile application. Previously, our supervisors completed physical check sheets at each touchpoint; now, we are transitioning our largest clients to a digital system. This mobile application allows truck drivers, warehouse staff, and airport personnel to perform the same supervisory tasks and upload all information electronically. This transition has streamlined the reporting process, significantly reducing the time required for supervisors to file reports. The integration of this app provides our clients with easy access to real-time data, creating more transparency and allowing for more efficient tracking and management of their shipments.

## Industry Leader



**Wietze Cnossen**  
Vice President,  
Global Accounts - Technology  
DSV

Wietze leads the Global Technology vertical at DSV, serving a diverse array of tech clients. Throughout his ten years at DSV, Wietze has excelled as the global point of contact for major semiconductor and chip manufacturing clients.

His specialized insights and exceptional communication skills have fostered strong partnerships, driving worldwide initiatives and advancements in both the technology and logistics industries.

Wietze holds a bachelor's degree in Logistics from the University of Amsterdam.

## Executive Corner



**Stefan Krikken**  
Head of Air Freight, Global  
DSV

As we move into the second half of 2024, the airfreight market continues to demonstrate its dynamic nature. Shifting demand patterns, changes in capacity, and a range of challenges are shaping the landscape in ways that require us to remain agile and forward-thinking.

Aside from the demand and capacity drivers influencing the industry is the ongoing geopolitical tensions and new regulation in relation to sustainability. Both dynamics although relevant before are taking a more prominent place in the industry as to how supply chains operate and the logistic spend for air freight.

These varied drivers and influencers underscore the complexity of the air freight market. Navigating this environment demands strong partnerships and collaboration across the entire supply chain. Our goal with this newsletter is to provide you with a deeper perspective on the air freight market and strengthen those partnerships.

We hope this first edition offers valuable insights and helps you understand the current state of the industry. Future quarterly newsletters will continue to inform and educate, enabling your business to make well-informed decisions in this ever-evolving market.

Thank you for your continued trust and partnership.

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# Thank you



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