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HOOGWEGT group

Market Matters

Shipping Snarl-Up and Driver Shortages Persist

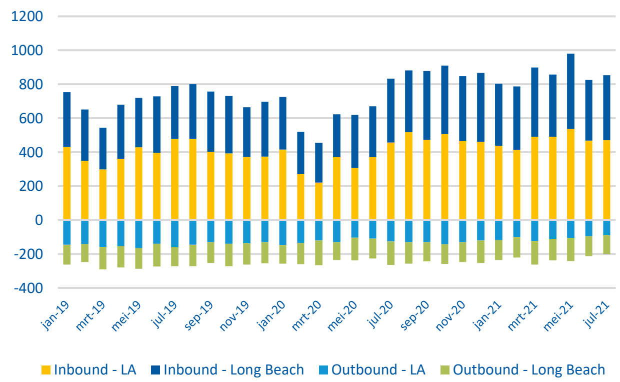
The United States is the epicenter of the supply chain disruptions rippling through the global economy. While Europe and Asia are also struggling, the U.S. situation is more acute. Last year provided a unique challenge to the world economy as the foodservice, hospitality, and travel industries collapsed and business accelerated for other sectors, including home improvement, consumer products, and agriculture. That left many U.S. consumers with unexpected disposable income.

This changing economy increased U.S. and EU demand for consumer products. Along with rising demand, the number of inbound shipping containers increased to the highest volume on record, with just two U.S. ports, Los Angeles and Long Beach, handling 820,000 containers per month or 40% of all U.S. inbound containers, according to Bloomberg. The rapid increase resulted in backlogs of ships anchored in harbor, increasing transportation time, and skyrocketing costs.

Shipping Containers Remain Adrift
In early October, approximately 60 ships were waiting to dock. That equated to 400,000 containers waiting to be offloaded. Prior to the pandemic, only one or two ships would be anchored at sea, waiting to offload. The average wait time for these ships has increased to 8.7 days. In addition, the transportation time from China to Long Beach has climbed to 71 days, up from 40 days two years ago. Wait times have reduced the number of containers available for loading, which further constrains the system and creates significant issues for exporters. The limited supply of containers has increased shipping costs from China to Los Angeles from $4,000 two years ago to $20,000 this fall.

The U.S. government has taken steps to relieve bottlenecks by working with port operators to increase operations to 24 hours per day seven days a week. But that only addresses the first issue. Currently, the United States is 60,000 truck drivers short of what's needed, and Europe is 400,000 shy. This shortage began in 2015 as the average age of a driver began to escalate, indicating that without new entrants, retirements would soon reduce total driver numbers. In addition, the U.S. implementation of the electronic logging device system in 2017 accelerated retirements and reduced driver time by 10-15%. While the trucking industry predicted a problem, the driver shortage exploded along with last year's large increase in consumer demand.

U.S West Coast container traffic, thousands of TEUs



Source: Pacific Merchant Shipping Assoc., West Coast Trade Reports

Globally, supply chain issues are causing significant shortages in the construction, packaging, and ingredient sectors, where costs have increased 20-40%. Fuel and energy costs are also rising due to supply chain issues in Europe and an energy crisis in China. With labor also short, many dairy processors are concerned about intermittent supply-side disruptions—unrelated to milk—arising in the coming year. For example, the United States struggled with 640-pound-block packaging this spring that worsened into summer. That caused issues with product mix and shortages for some processors that were unable to package consumer cheese.

Most analysts believe the supply-chain situation will abate when consumers revert to spending on travel and entertainment and reduce purchases of consumer products. For that to happen, though, more progress will need to be made on the global pandemic. Vaccination rates will need to increase throughout much of the world, and the number and severity of outbreaks will also need to subside.

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Hoogwegt Forecast

	U.S. average prices			EU average prices			Oceania average prices		
	$/t	$/lb	Trend	$/t	$/lb	Trend	$/ton	$/lb	Trend
SMP	3.460	1,57	Stable	3.700	1,68	Firm	3.750	1,70	Firm
FCMP/WMP	4.300	1,95	Firm	4.520	2,05	Firm	4.075	1,85	Firm
Butter	4.960	2,25	Firm	5.925	2,69	Stable	5.650	2,56	Firm
Cheddar	3.970	1,80	Stable	4.600	2,09	Firm	5.250	2,38	Firm
SWP	1543	0,70	Firm	1.350	0,61	Stable			
Lactose	880	0,40	Weak						

U.S. prices stated ex-works/including expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week $1,126

Did You Know?

Brexit has been named one of the primary reasons for the United Kingdom's 100,000-person shortage of heavy goods vehicle drivers, a contributor to the current UK fuel and energy shortage.

The median time a container spends in a port is up 11% compared to pre-pandemic levels, according to the United Nations Conference on Trade and Development.

U.S. inflation climbed to 5.4% at the end of September, a 13-year high.

West Texas Intermediate crude oil prices have more than quadrupled since the April 2020 low.

World Comment

Global milk production is clearly deterioration compared to the start of this year. New Zealand is reporting a disappointing month of October with -3,1% YoY on milk solid basis. The hopes are that November will make up for this loss, but the first signals are not pointing in that direction. EU is a repeating story, no growth since the month of May. US has been the positive sidenote in 2021, but October showed a decline as well, in line with the other major exporting regions. This negative or disappointing growth is quite remarkable, given the high farmgate prices all across the globe. The exact reason seems to be a combination of environmental restrictions and increased feed prices. The high feed prices also seem to lead to the strong import performance of China. Since the costs of importing feed for Chinese dairy farms sky rocketed as well. Other regions are fairly behind on their usual importing figures. South East Asia has experienced severe lock-downs, and the Middle East is just buying hand to mouth for quite some time now due to the high prices. The question is, when and how strong will this demand return?

Bring it Home

Disruptions to Last Well into 2022

Exporters continue to feel the pressure of the current supply chain situation despite most problems being inbound. As one U.S. exporter put it, "One day you have a truck and no ship, the next day a ship but no truck." Trying to get everything coordinated on the same day is a struggle. And an increase of 30 days of transportation time from China to the U.S. West Coast has reduced the number of containers available to agriculture.

For shipping companies, an economic incentive exists to ship empty containers back to Asia to speed up the turnaround time for them to refill and ship more consumer goods to Europe and the United States rather than send the container to be loaded with agricultural goods. Loading ag goods could add another five to seven days to the overall shipping time.

The U.S. Transportation Administration has stepped in to limit this activity, but it is still happening. Moreover, the cost to ship goods from the United States or Europe to Asia has also escalated, with little end in sight. That, along with the increased shipping time, has changed the calculus for global dairy buyers as current landed costs are higher than they were two years ago.

Nothing has been challenged more than just-in-time inventory. To combat supply chain delays and potential shortfalls, global buyers accumulated larger safety stocks compared to 2019. While appropriate, it has temporarily created a greater strain on the system. However, this stock building has also increased world dairy trade, and likely has added to current demand for milk products, supporting, and in some cases, lifting prices.

These changes have left many wondering whether buyers will reduce current stockpiles, possibly slowing dairy demand sometime next year. Given the current situation, that seems more likely to occur in late 2022 than early 2022.

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