Garrets

Market and business update

February 2023

Energy prices and shortages in market supplies keep commodity prices elevated

Oil prices, freight rates and transit times have fallen in the second half of 2022, but remain considerably higher than average pre-pandemic and pre-inflationary levels. Also, prices of agricultural commodities are still highly influenced by lower agricultural supplies due to the Russia-Ukraine war and extreme weather in certain parts of the world, still maintaining the prices of certain provisions on a high or even increasing level.

This market and business update intends to give you an indication of the expected price development of the most important commodities, freight rates, supply chain challenges, the additional effects of labor shortages, and challenges in major ports.

Transit times	Freight rates	Oil prices	Commodity prices
Down	Down	Down	Elevated

Continuous downturn in transit times

TPEB and FEWB transit times fell even further in January 2023. According to The Flexport Ocean Timeliness Indicator, TPEB dropped to 67 days and FEWB to 72 days. The continuous downturn reflects the lessening of pressure along the supply chain and the debottleneck of Asian ports, though transit times still remain well above pre-pandemic levels.

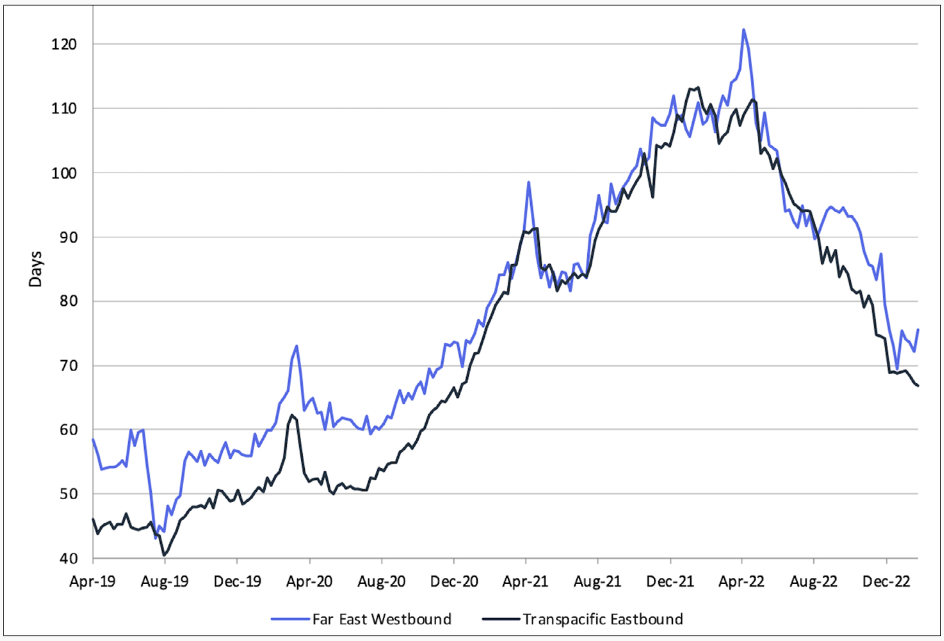
The Flexport Ocean Timeliness Indicator (OTI)

Transpacific Eastbound (TPEB)

- October 2019: 48 days
- October 2020: 60 days
- October 2021: 102 days
- October 2022: 82 days
- January 2023: 67 days

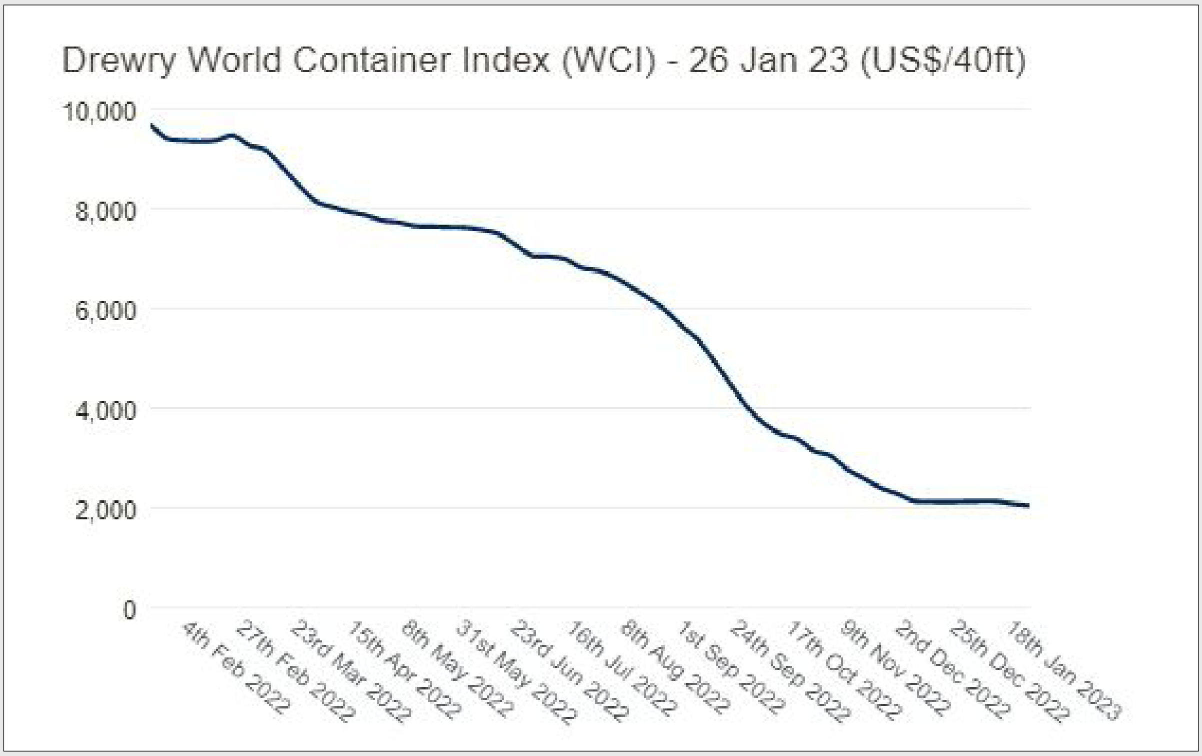
Far East Westbound (FEWB)

- October 2019: 57 days
- October 2020: 67 days
- October 2021: 103 days
- October 2022: 89 days
- January 2023: 72 days



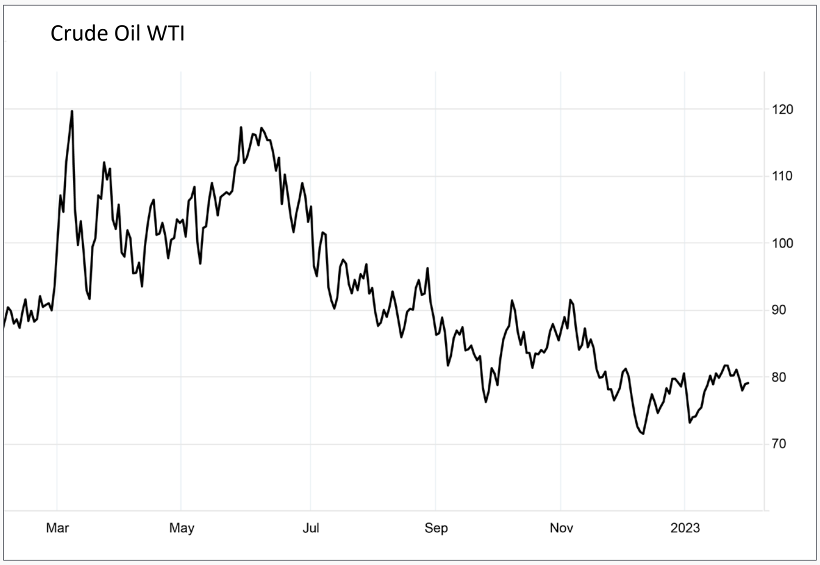
Freight rates now 80% below peak reached in September 2021

According to the Drewry World Container Index, a 40-feet container has dropped 80% since its peak in September 2021, indicating a return to more normal price levels. However, the container index still remains 46% higher than average pre-pandemic rates in 2019. According to Freightwaves, freight rates are estimated to further drop in 2023 due to a decline in consumer demand and oversupply, primarily driven by demand for durable goods brought forward during pandemic era and inflationary effects. On January 25, Maersk and MSC announced the termination of the M2 alliance to take place in 2025, which is not expected to impact the freight rate cycles at short sight.



Oil prices dropped for the sixth month in a row, but estimated to increase next 12 months

Driven by expectations of an economic slowdown, the crude oil prices saw the sixth consecutive monthly decline, reaching its lowest pre-pandemic level in December 2022 at around USD 72 per barrel. However, by the end of this quarter, crude oil is expected to trade at around 84.91 USD per barrel, and in 12 months' time, oil prices are estimated to be traded at around USD 95.46 due to tighter global supplies (Source: Trading Economics)



Inflationary impact on commodities, up 19% since beginning of 2022

According to the CRB Index, the commodity prices increased by 46.57 points or 19% since the beginning of 2022, elevating also the price level of certain provisions and stores. However, due to the intermediate downturn of the commodity index from July 2022 to January this year, other provisions and stores have stabilized or decreased slightly from the record-high levels. Also, other factors, including high energy prices, shortages in agricultural supplies related to the Russia-Ukraine war, and adverse weather patterns, will maintain the high commodity price level in 2023.

Due to high increases in coal production, putting UN climate-goals at risk, energy prices are expected to decline by 11% in 2023, after a 60% increase in 2022 (Source: World Bank), however energy markets are expected to remain high throughout 2023. Global rice production is expected to decline by 5% due to, among others, the drought in China causing lower crops, and the flooding in Pakistan and India bringing destruction to rice crops (Source: The Worldbank Commodity Markets Outlook, October 2022). Especially, the price of Indian rice has increased significantly over the last month because of low supplies due to flooding.

Inflationary impact on provisions on short and medium term

On short term, we do not foresee any major shortages on provisions as our existing contracts are still honored by our suppliers, giving high priority to large customers. However, this situation might change any time due to volatility, forcing us to substitute certain products with comparable products.

According to the FAO Food Price Index, food prices continued to drop in December 2022, however, they increased significantly on a yearly basis. The FAO Food Price Index averaged 132.4 points in December 2022, down 2.6 points or 1.9% from November 2022, marking the ninth consecutive monthly decline. Still, the FAO Food Price Index for 2022 as a whole increased by 14.3% on an average compared to 2021.

Inflationary impact on provisions on short and long term

Due to the inflationary effects, we expect certain price increases within the provision categories on short and long term. The list is not exhaustive.

Category	**Name**	**Price expectation - short term**	**Price expectation - long term**
Meat	Beef	Decrease	Increase
Meat	Pork	Decrease	Decrease
Poultry	Chicken	Stable	Increase
Seafood	Salmon	Increase	Increase
Dairy and eggs	UHT milk	Increase	Decrease
Dairy and eggs	Cheese	Increase	Increase
Dairy and eggs	Eggs North America	Increase	Increase
Dairy and eggs	Eggs rest of the world	Decrease	Decrease
Butter, Margarine & Oil	Butter	Decrease	Stable
Butter, Margarine & Oil	Sunflower oil	Decrease	Decrease
Butter, Margarine & Oil	Canola/rapeseed oil	Decrease	Decrease
Butter, Margarine & Oil	Soyabean oil	Increase	Increase
Butter, Margarine & Oil	Olive oil	Increase	Increase
Juice	Juice	Increase	Increase
Rice and Oats	Rice	Increase	Increase
Sugar	Sugar	Increase	Increase
Pasta and Noodles	Pasta	Decrease	Stable
Flour	White all-purpose flour	Decrease	Increase
Potato product	Potato product	Increase	Increase

Inflationary impact on stores on short and medium term

On short and medium term, we do not foresee any shortages on technical consumables and stores. However, this situation might change any time due to volatility.

The raw material of several commodities has been decreasing during recent months, for which reason we expect the prices of the following stores categories to decrease or stabilize on short and medium term. However, according to Bloomberg, there is a tendency that the commodity prices for certain metals are increasing which might also impact certain stores on long term. The list is not exhaustive.

Category	**Name**	**Price expectation - short and medium term**
Tableware and Galley Utensils	Paper- Plastic and Bags	Stable/slight decrease
Tableware and Galley Utensils	Paper Pulp	Stable/slight decrease
Rigging and General Deck	Lifting Equipment	Slight decrease
Rigging and General Deck	Oil Funnels and Oil Sample Cans	Stable
Rigging and General Deck	Waste and Rags	Stable
Petroleum Products	Aerosol Lubricants	Stable
Petroleum Products	Charcoal	Stable
Petroleum Products	Grease	Stable
Petroleum Products	Molybdenum disulfide lubricant	Stable
Petroleum Products	Silicone Grease and Compounds	Stable
Petroleum Products	Misc. Petroleum Products	Stable
Metals	Aluminum Materials	Decrease
Metals	Brass and Bronze Materials	Stable
Metals	Copper Materials	Stable
Metals	Gratings	Decrease
Metals	Lead and Zinc Materials	Decrease
Metals	Stainless Steel Materials	Decrease
Metals	Steel Materials	Decrease
Metals	Misc. Metal Sheets- Bars- Etc.	Decrease
Pipes and Tubes	Pipes	Stable
Pipes and Tubes	Tubes	Slight decrease
Pipes and Tubes	Misc. Pipes and Tubes	Slight decrease
Pipe and Tube Fittings	Ermeto High Press. Steel Coupl.	Slight decrease
Pipe and Tube Fittings	Fittings	Slight decrease
Pipe and Tube Fittings	Flanges	Slight decrease
Pipe and Tube Fittings	Flexible Pipe Couplings	Stable
Pipe and Tube Fittings	HP pipes and fittings	Stable
Pipe and Tube Fittings	Misc. Pipe and Tube Fittings	Stable

Inflationary and other macro impacts on major ports

HOUSTON	› The Port of Houston and Container Freight Stations are backlogged, seeing anywhere from two to three week delays on inbound containers, experiencing similar congestion that has plagued Southern California. › We have seen new closures in China due to COVID-19 that have created backorders, therefore not everything was shipped before the Chinese New Year. Celebrations started January 22nd, and we are estimating shipments to resume after February 15th. There are new requirements on hazardous items (such as oxalic acid, washing detergent, and other chemicals) that no longer are allowed to be consolidated on the same container. These items must be purchased and shipped on separate containers. › Additionally, all aerosols are no longer allowed to be shipped out of Europe on the containers. Due to various supply chain issues, several large manufacturers (such as Kellogg's, Coca Cola, and WD-40) have started to shorten quantities once again. Other manufacturers, such as Kikkoman, are still on allocation only due to labor shortages, COVID-19, and raw material shortages. › There is a selected group of products, including Atta flour and sawdust, that is currently not available on the market due to production and raw material disruptions. › Packing material costs have started to stabilize. Additionally, the cost and availability of pallets have stabilized; even seeing a slight decrease in cost. All of these costs are still dramatically higher than pre-COVID-19, but we feel that we are past the peak from a cost and availability perspective. › In Corpus Christi, TX; Phase Four of the Port Expansion Project is underway. Once complete, large vessels will be allowed into the port. In the interim, it will cause delays (particularly in Ingleside) but has huge benefits once completed. There is more information on the project available at https://harborbridgeproject.com/ › The US Gulf is in the midst of severe and inclement weather season. This leads to channel closures, delays in traffic, and additional congestion. Inclement weather started earlier than what we have historically seen in the Western Gulf with some sort of channel closure hindering part or all of over 50% of the days in December of 2022, and we have continued to see that so far in January 2023
NEW ORLEANS	› Warehouse – almost 17 months after hurricane Ida, New Orleans office has completed all building and roof repairs. It was a 6 month process once all building materials were received to complete repairs on the side wall, roof, and exterior damages. This also includes a warehouse lighting upgrade that produces 3 times the brightness / lumins. › Drought update: Due to early winter rains, conditions on the lower Mississippi is easing. We are seeing bulk traffic somewhat back to normal levels, but there are concerns over a potential repeat drought in 2023 due to global climate change.

Inflationary and other macro impacts on major ports

LONG BEACH	› Port of Los Angeles (2nd highest in year 2022; best in 115-year history): Source: Port of Los Angeles › Port of Long Beach (2022 was 2nd busiest year): Source: The Port of Long Beach › Port of Oakland (Continued decline in Dec 2022): Source: Port of Oakland › AAA assessment in 2023 Cruise lines demand: Sources: Newsroom & Travel Tomorrow › The congestion in the port(s) is starting to get better as the terminals are now operating 24/7 so instead of container vessels being in the anchorage for 2 months and then alongside for 5-7 days, they are only in anchor for 1-2 weeks and alongside for 4-5 days. › Staffing: We are fully staffed in Sales, Purchasing and Operations team. We are fully operational and no issues with our normal day to day business operations.
NEW YORK/ NEW JERSEY	› East coast ports including New York, are winning domestic trade. Several factors accounted for the shift. Memories of supply-chain bottlenecks during the pandemic, business were diversifying their supply chains to reduce their reliance on "one country and one port". › Labor issues are the immediate reasons behind the eastward push. Dock workers at the LA port have worked without contracts since July.
JACKSONVILLE	› We have seen a high level of inflation in the United States over the past year › Our Global Procurement teams continue to evaluate our internal purchasing cost to the key benchmarks in the each category using the USDA and FDA indices › We are continuing to implement mitigation strategies in our Procurement process to reduce the net increase to customers. › We are experiencing an exponential increase in our Operating Cost due to the fuel, insurance and maintenance fees going up. › The cost for new assets continues to increase and the availability remains bleak. › The labor market continues to be the most challenging that I have seen. We continue to face driver shortages and we have been forced to increase wages by over $5 per hour just to retain the great talent we have. We continue to face warehouse associate shortage and we have been forced to increase wages by $3- $5 per hour just to retain the people we have. We still struggle to find people that want to work and the hiring is still very difficult. › Port congestion in the South East continues in certain ports (Savannah and Charleston the highest) Over 40 vessels currently sitting at anchorage outside of Savannah. › Cost of drivers having to stay overnight continue to see high rates at hotels.

	› Steel prices continue to remain high and we don't see that changing anytime soon. › Potatoes have seen a 100% increase in price over the last 4 months. › This time of season has caused our produce prices to increase up to 30% based on availability and the vendor having to source from other areas in the US as well as foreign markets. › Eggs and the dairy market in the US continues to sky rocket prices and shortages with bird flu, creating issues to produce. › Chinese New Year will slow our business down for the 2 week period in late January and beginning of February › Airfreight is experiencing severe delays due to lack of labor and equipment which is impacting Spares. Customers need to understand they need to send spares well before the berthing schedule, it can land here on Monday but with the shortage of staff at the airports, they may not clear the package until Friday of that week. They are in no hurry and will let you know that as well. › There is a pallet shortage both locally and throughout the country, causing rates to continue to rise.
MONTREAL	› Labor market: It continues to be a very difficult labor market with some potentially historic increases for Quebec year over year. The Quebec Council of Employers Vice President Ms. Norma Kazhaya states: "Considering that there is a shortage of labor and a record number of vacancies, the momentum of historical wage in-creases is not surprising. Employers must be attractive in their compensation of-fer. This situation intensifies from year to year. Of course, inflation adds a layer." (Source: Conseil du patronat du Québec) › Fuel prices: Diesel fuel has remained overall at about the same high level since August of 2022. The average price in August in Montreal was at $2.33 CAD / LTR. The price in December was at $2.28 CAD / LTR. The price of diesel fuel in June 2021 was $1.25 CAD and then in December it was $1.49 CAD. (Source: Statistics Canada) › Port congestion: We are seeing some slight port congestion in surrounding ports of Montreal, IE) Port Alfred, Sorel, Etc. However, the port of Montreal has been running smooth recently. Here is a link to the weekly port congestion report.
VANCOUVER	› Avian flu: The avian flu has now recently spread to the farms in Canada and caused a shortage of chicken and eggs, which has led to an increase in prices. › Weather: Western Canada has been affected by Arctic air invading Canada for the second time in the last 60 days leading to cold and snowy weather causing delays at the ports.
PORTLAND	› We are not experiencing any obstacles/issues to supply.
SEATTLE	› We are not experiencing any obstacles/issues to supply.

PANAMA	› Eggs: Certain locally produced products like eggs are in short supply, driving prices up. › Imported products: On imported products, we see a tendency to import smaller batches, resulting in stocks running out for some suppliers.
DUBAI	› N/A
SINGAPORE	› Chinese New Year: Has consequences for various fresh products. There will be a short import stop which often results in fresh fruit and vegetables having reduced freshness upon delivery. Wrist will continue to do the utmost to fulfil all orders.
DALIAN, SHANGHAI & SHENZHEN	› For all Chinese ports: Many vendors will take an extended CNY holiday, causing low availability of stores in the market. › Logistic/transportation costs will be up around 100% as well. Expect all business back to normal around mid-February.
ROTTERDAM	› Labor shortage: Still a big challenge. On January 17, the big national newspaper (called AD) shared again the big concern of huge labor shortage for the Port of Rotterdam and related industries. › At this moment, there are 8,000 vacancies, and the need will grow in the coming years to 15,000 extra people. Main reason for the extra need is the expected changes the port will have to go through, especially because of the energy transition. › To work on this huge challenge, the Port of Rotterdam, the City of Rotterdam, schools, and universities of Rotterdam and Deltalinqs (the association for port related companies) have bundled their strengths into the so-called Human Capital Coalition. › Needless to say, shortage of labor increases the costs.
ALGECIRAS	› N/A
AALBORG	› FCL costs: continue to decrease. › On imports from Asia: Prices and demand are stabilizing. › Pricing: Prices in general continue to stabilize, but we still see increases due to inflation and high energy prices on regional products.

What our main supplier continuously does to reduce and mitigate price increases and other inflationary impacts:

Analysis and commodity index reporting

- We do in-depth analysis of the raw material cost impact on our products/categories.
- We link products/categories to official commodity index reports to evaluate if our prices are within fair correlation.

Long-term vendor relationships and network extensions

- We extend our agreements with existing suppliers when possible.
- We fend-off price increases or delay price increases, utilizing our long-term vendor relationships.
- We continuously search the markets to investigate better options, also extending our supplier network.

Consolidation and large volumes

- We consolidate volumes into our Global Assortment to utilize our purchasing power
- We source in full loads in LCC (eg. China, India, Pakistan, Vietnam, Egypt, Germany, Cyprus, Poland, Czech etc.), increasing our inventories and consolidating in our sourcing offices from where we distribute to branches
- We forecast, secure, and contract large volumes to avoid shortages of products

Warehouse capabilities

- We combine and optimize our global warehouse capabilities to leverage scale and store the right products

Supply chain shortening

- We shorten our supply chain where possible by shifting from whole sellers to manufacturers.

Inhouse specialization and market intelligence

- We leverage our global and local network of procurement specialists to optimize purchases and contracts.
- We utilize our market intelligence and purchasing power as well as expertise in negotiations.

Alternative product offerings

- We actively propose lower quality products to customers who cannot work with quality products impacted by price increases.