Dear Valued Customer – July 21, 2021

Due to unforeseen circumstances created by the COVID-19 pandemic and corresponding economic recovery, we are alerting our customers that effective immediately lead times (see attached) will increase on all new orders. The extent of logistical delays, via ocean, rail and freight in the supply chain has caused massive disruptions to all businesses – *see attached Ocean Shipment Market Snapshot 07*. Specifically, the backlog in container rail freight is nearly at a breaking point. The new average lead times will be extended by 4-6 weeks and will be noted on all new quotes and purchase order confirmations.

For existing orders in our backlog, we will do our best to honor current commitment dates, however, many line items or orders will be impacted. These impacts are outside of our control and due to significant logistical backlogs. Our Customer Service Team will contact you on specific changes to your current orders and the anticipated new delivery schedule.

Although we are extending our lead times, we believe this change will provide you with the improved visibility and enable you to better manage your material stream.

Actions that our customers can take to remedy this situation:

- Providing us with enough orders well beyond the current lead-time.
- Increasing your stocking levels over time to have buffer inventory levels.
- Reviewing options for MP to support you by quoting air-in costs – *preferred option*. NOTE: MP does NOT accept third party billings.*
- Ex-Works Hong Kong pickup – your named carrier or routing – *not a preferred option*.*

  ** Consideration is given to MP paying the import tariffs & duties vs. MP customer's paying for these at the higher price which would effectively negate any freight savings. The result is less out of pocket cost for our valued customers for MP to coordinate the consolidated (numerous customers shared) air in freight.*

This information will aid us in our ability to plan and maintain an adequate material stream for our customers.

We thank you for our patience and understanding. We are working hard to get your parts to you as quickly as possible. Thank you for choosing Mechanical Products. Please let us know if you have any questions.

**Tammy Walsh**
Customer Service Advocate
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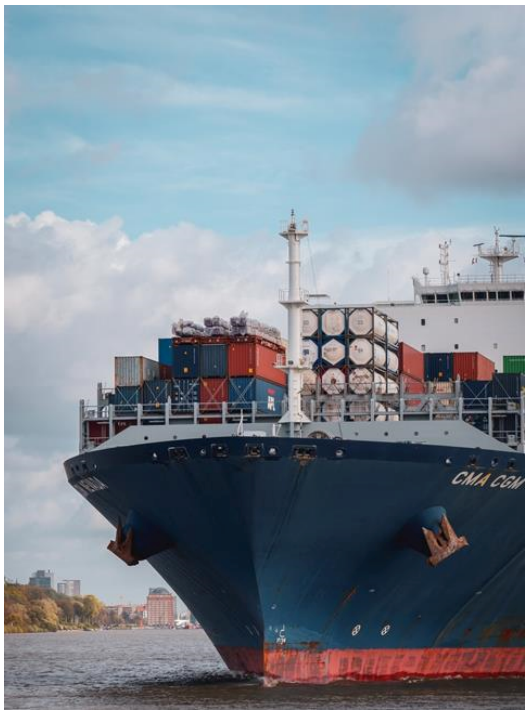
Lead-times – as of July 15, 2021

| Series | Manufacturing Lead-Time | Ocean Transit # of weeks* | Total # of weeks | COO |
|---|---|---|---|---|
| 12, 14 & 15 | 10-11 | 13-15 | 24-26 | China |
| 16 | 10-11 | 13-15 | 24-26 | China |
| 1601, 1681, 1648 | 15-16 | 13-15 | 29-31 | China |
| 17, 18, 19, 53 | 12-13 | NA | 12-13 | USA |
| 24 | 17-18 | 13-15 | 31-33 | China |
| 32 | 20-21 | 13-15 | 34-36 | China |
| 600/252 | 10-11 | 13-15 | 24-26 | China |
| 152, 155, 752, 762 | 10-11 | 13-15 | 24-26 | China |

** Will be updated as additional information is gathered on inbound freight.*

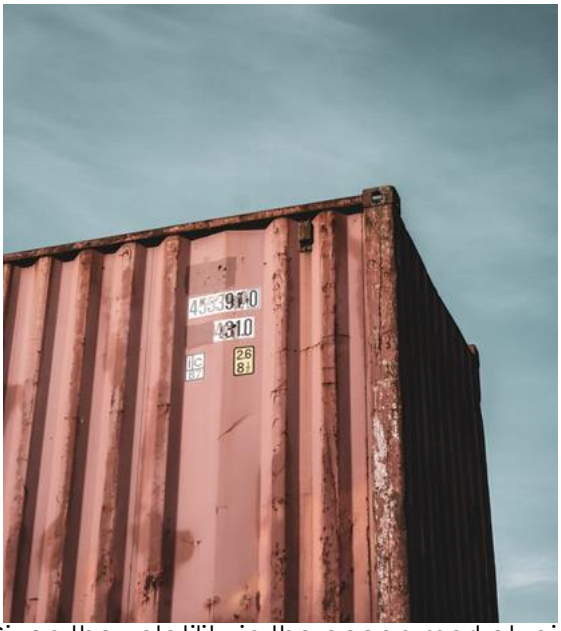
## Market Snapshot | July 14th, 2021




1. **Container Availability and Vessel / Air Capacity at a glance**
2. **Port / Terminal / Rail Updates**
3. **Trade lane Updates | Status of Market Factors in the Trade lanes**

## Container Availability and Vessel / Air Capacity

- Significant shortages of containers remain in China, mainly in Ningbo, Qingdao, Xiamen and Shanghai. Equipment availability is improving at an extremely slow pace.
- Quarantine protocols remain in place on terminals in South China, which are delaying driver and truck entry to port terminals in Yantian, Nansha and Shekou.
- Australia is experiencing a COVID-19 outbreak since late June. Large cities, such as Sydney, and their metro areas are in lockdown. This will impact and contribute to delays for all



Given the volatility in the ocean market, air freight is expected to be vigorous to fill the gap, and a peak season is expected to help offset the limitations seen along the

air and ocean freight in and out of Australia.

- Several ocean carriers continue to give priority to PORT-PORT bookings over IPI (inland) bookings in order to return containers back to Asia more quickly.
- Carriers have announced Peak Season Surcharges (PSS) into August, on top of already record-high rate levels.
- ***Ocean***: All available vessel capacity is currently deployed in the TPEB, US EXPORT and TAWB Trades. Vessel utilization is at capacity in all East-West Trades.
- ***Air***: Expect LIMITED available capacity: CAN-JFK, CAN-ORD, HKG-LAX, HKG-ORD, ICN-ORD, SZX-ORD, HKG-DFW, PVG-ORD, PVG-LAX, TPE-ORD and SZX-LAX
- A very high demand for 40' and 45' high cubes remains in effect throughout China, Vietnam and India. Non-operating Reefers (NORs) are generally not available in most China port locations.
- Equipment shortages and voided sailings are anticipated well through August in all trade lanes.
- Carriers are charging cancellation fees for bookings not completed at this time.
- Load premiums may apply for both FCL and LCL bookings for urgent / time-sensitive shipments.

Consumer demand saw double-digit growth since the economic recovery

supply chain when moving ocean in this market.

The statistics for June port numbers are not yet in, but the NRF is projecting approximately 2.15 million TEUs, which would be a 33.8% increase over June of 2020. The resulting total for the first half of 2021 would be approximately 12.8 million TEU, or a 35.6% increase over the first part of 2020.

Regulators in the US and Europe are expected to pay closer attention after record-high container rates continue to plague global trades, mainly in the Asia-US and Asia-Europe trade lanes. In the US, the Federal Maritime Commission (FMC) is expected to act, in part, on a presidential order issued by President Joe Biden to investigate fair rate practices, with a focus on detention and demurrage charges. The European Union (EU) anti-trust arm is closely monitoring the shipping industry to identify any potential for intervention that can return the industry to normal operations.

Increasing pressure throughout the shipping community, in both the US and Europe, due to extremely high freight rates moving with priority outside of ocean freight contracts between importers and carriers has gained the attention of regulators. It is yet to be seen how much intervention will occur to pressure carriers to reduce rates and how the ocean carriers will react to any potential action by the governing bodies in the US and Europe.

Carriers on the Transpacific Eastbound trade continue to capitalize on the existing

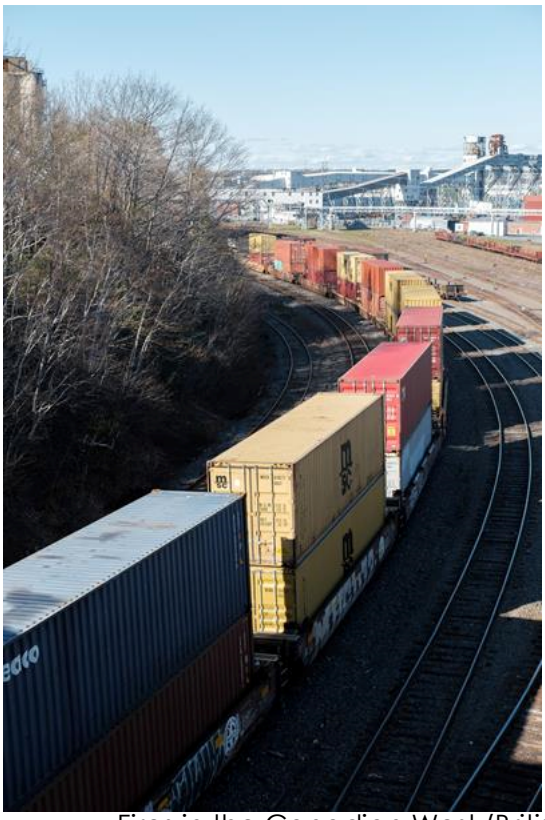
began earlier this year. According to the National Retail Federation (NRF), the top U.S. ports for containerized retail cargo handled 2.33 million TEU during the month of May. This number represents an 8.6% increase from April and a 52.2% increase over the same period in 2020. This was a new record for containers imported during a single month since the National Retail Federation began tracking imports back in 2002.

The retail association continues to see strong growth, since stores began to reopen last year, and shows the strong demand from consumers. The challenges remain as disruptions throughout the supply chain and congestion, infrastructure challenges (terminal space), shortages of drivers and equipment will continue to put demands on the entire supply chain, especially for domestic providers in the USA; they are already feeling the pinch, with backlogs for delivery and pick up of containers. Keeping stores stocked, as well as preparing for the holiday season, will be extra challenging this year and a shortage of certain "high demand" goods may be expected.

market factors of limited available container supply. Port congestion has improved at origins, such as Yantian; however, we are starting to see a slight increase in the amount of vessels waiting to berth at USA ports, which had been improving over the past few weeks. Be advised that hot spots exist for congestion or shortage of railcars at ports such as Seattle-Tacoma and Oakland. While air freight remains an alternative to ocean, especially for urgent and time definite cargo, it's critical to remember there remains in certain markets, such as Chicago, occasional congestion and delays for pick-ups and deliveries of both air and ocean freight.

## Port / Terminal / Rail / Intermodal Updates

- Dwell time on terminal at Los Angeles-Long Beach has been decreasing since January; however, container rail dwell time (for containers destined for IPI points such as Chicago, Dallas, and Memphis)



- Fires in the Canadian West (British Columbia) are impacting cargo movement between Vancouver and IPI points, such as Chicago. The fires have impacted two railroads servicing the inland points. The CN Rail has temporarily stopped rail services in and out of the Port of Vancouver until further notice while ground crews assess the situation, while the CP rail line has been cleared and approved for operation with limited speed and train length.
- Expect congestion at ports, especially Los Angeles/Long Beach and New York / New Jersey. Chicago is experiencing ongoing congestion at the UP Global 4 Ramp, BNSF Logistics has increased from roughly 8 days to approximately 11 days.
- Railcar availability, or lack thereof, in Los Angeles/Long Beach, Oakland and Seattle may contribute to increased dwell time and delays for IPI cargo destined for the Midwest. Transloading containers for cargo bound to IPI locations is a viable alternative to improve delayed IPI bound cargo.
- Dwell times continue in some cases are currently over 7 days at the CN Terminal in Vancouver, with other terminals running over 7 days dwell time due in part to wildfires in British Columbia. Dwell time is expected to remain high through peak season, especially while wildfire conditions exist in Western Canada.
- Expect continued spikes in truckload and drayage rates in key markets such as Chicago. Related delays due to limited available chassis and truck power at Los Angeles/Chicago/New York/Atlanta/Dallas will last well into the fall.
- As of July 14th, Oakland has over 12 vessels waiting to berth. 17 container vessels remained at anchor to berth at Los Angeles / Long Beach. The number of vessels at anchorage has remained over 20 for the past two weeks; however, average wait time at anchorage waiting for berth at Los Angeles is

Park and the CSX which is adding dwell time of up to 15-20 days to standard transit times. This is expected to continue through peak season, as the demand for available chassis, truck power and drivers far exceeds the currently available supply.

- The Port of Savannah is currently experiencing a shortage of available chassis, congestion and truckers at this time as well as several vessels awaiting to berth. The situation is expected to last well into August.

currently 5.2 days, which is down from the month of June. Work continues to clear these backlogs into peak season and reports of quicker turnarounds at the report are helping terminal efficiency.

*For updated visibility to vessels waiting to berth in Los Angeles / Long Beach, look for the **green** dots on the live Marine Traffic map. Check it out **here**.*

## Trade Lane Update

### Transpacific Eastbound (ASIA to USA)

- Yantian, Nansha and Shekou in South China remain under extreme congestion conditions due to the late May COVID-19 outbreak with slightly improving conditions. Sailings may be voided or alternative routings may occur.
- Rates up over 129.8% on a port/port basis between China and the US West Coast and up 211% between China and the US East Coast over the same period last year.
- Chronic equipment shortages of all types remain. Consider equipment substitution when possible.
- LCL shipments are averaging a 2-to-3 week backlog. LCL remains a solid alternative for smaller time definite shipments that may normally move via FCL. Currently, FCL transit times can take over 75 days currently from China Base Ports to inland points like Chicago.
- Carriers continue their use of FAK rates and spot market, plus premiums outside contracts in order to maximize revenue.
- Air freight rates in the spot market continue to moderate for the past six weeks. Rates from HKG to ORD and LAX have stabilized near the $10.00 per kg range. Rates from HKG to DFW have started to increase since Mid-June. Air capacity continues to be a viable alternative to ocean freight, especially as peak season is expected to last through November, if not longer, this year.

- The COVID-19 outbreak in Taiwan is subsiding, but delays for air and ocean shipments from Taiwan remain.

## US Exports (USA to World)

- Equipment shortages persist, as empties are getting load priority back to Asia.
- Refrigerated containers (REEFERS) are in very high demand, expect additional time for availability of reefer containers (over 4 weeks).
- Rates again are at record-high levels. USA to Asia rates are up 156.5% and USA to Europe rates are up 118.2 % over the same period one year ago.
- Currently a four-to-six week backlog for available bookings to Asia and Europe.
- Consider booking premium or air freight alternatives.
- Booking cancellation fees will apply on "no show" bookings.

## Transatlantic Westbound (EUROPE TO USA)

- Rotterdam and Antwerp remain significantly congested due to labor shortages relating to COVID-19 and the after effects of vaccinations. European ports will remain under congestion strain at least through August as volumes from Asia remain strong. UK Ports remain congested at this time.
- Peak season surcharges or "Equipment Imbalance Surcharges" may apply in the trade.
- Low Water Surcharges are being implemented for several German ports.
- Westbound spot rates are up 125.2 % during Mid-June compared to the same period in 2020.
- Allow six weeks for first available bookings. Voided sailings are contributing to the delays.
- Carriers are requiring forecasts including container, size and type forecasts for shipments to help secure freight, whether freight is transactional or weekly/regular.

## Other Trades / Cross Trades

- Chronic equipment shortages of all types. Consider equipment size or type substitution (i.e. 2 x 20' STDs, in lieu of 1 x 40'HC).
- Hazardous cargoes and heavy cargoes may not be given priority as they may restrict vessel utilization.
- Asia-Europe (FEWB) trade rate levels remain at record highs. Carriers are charging congestion fees in this trade in addition to premium surcharges.

- Expect all trades between Australia and New Zealand for both air and ocean to be impacted by the recent COVID-19 outbreak and lockdowns, especially for freight bound for major markets like Sydney.
- European and UK ports continue to grapple with congestion and delays. Expect port productivity and delays to continue throughout the summer as this trade was already under strain prior to March.

## Relevant Articles

### RECORD HIGH SPOT RATES / SUPPLY AND DEMAND FACTORS

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- https://www.freightwaves.com/news/container-lines-are-set-to-topple-quarterly-profit-records-again
- https://gcaptain.com/container-ship-rates-eu/
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- https://theloadstar.com/as-box-rates-leave-some-shippers-very-badly-hurt-others-see-an-opportunity/
- https://theloadstar.com/air-cargo-market-expects-a-healthy-peak-season-as-rates-and-volumes-rise/
- https://theloadstar.com/quiet-air-cargo-market-confident-of-strong-demand-and-a-peak-season-this-year/
- https://gcaptain.com/shipper-fury-as-container-freight-rates-soar/

### CONTAINER - CHASSIS EQUIPMENT AND SPACE LIMITATIONS / ROLLED BOOKINGS

- https://www.joc.com/maritime-news/container-lines/more-supply-chain-woes-ahead-us-retailers-boost-import-forecast_20210708.html
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- https://www.freightwaves.com/news/container-shippings-stranger-than-fiction-first-half-of-2021
- https://theloadstar.com/the-end-looms-for-passenger-freighters-and-some-in-air-cargo-wont-be-sorry/
- https://www.supplychaindive.com/news/fmc-audit-ocean-carrier-detention-demurrage-congress-house/601885/

- https://www.freightwaves.com/news/chassis-and-labor-shortages-stymie-ocean-carriers-class-i-railroads
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## CONGESTION AND DELAYS

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- https://www.joc.com/port-news/us-ports/port-new-york-and-new-jersey/fmc%E2%80%99s-bentzel-urges-container-lines-help-more-ny-nj-empty-returns_20210628.html
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- https://www.freightwaves.com/news/dredging-project-temporarily-slows-vessel-activity-at-port-of-savannah
- https://www.freightwaves.com/news/yantian-port-back-at-full-speed-box-recovery-could-take-a-month