PUBLIC

STATE OF THE INDUSTRY JULY 2022

Hillebrand GORI

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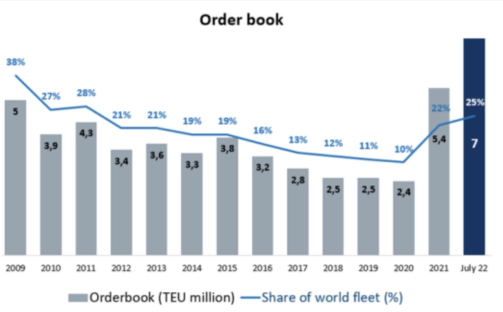
WITH RECORD CAPACITY AHEAD,

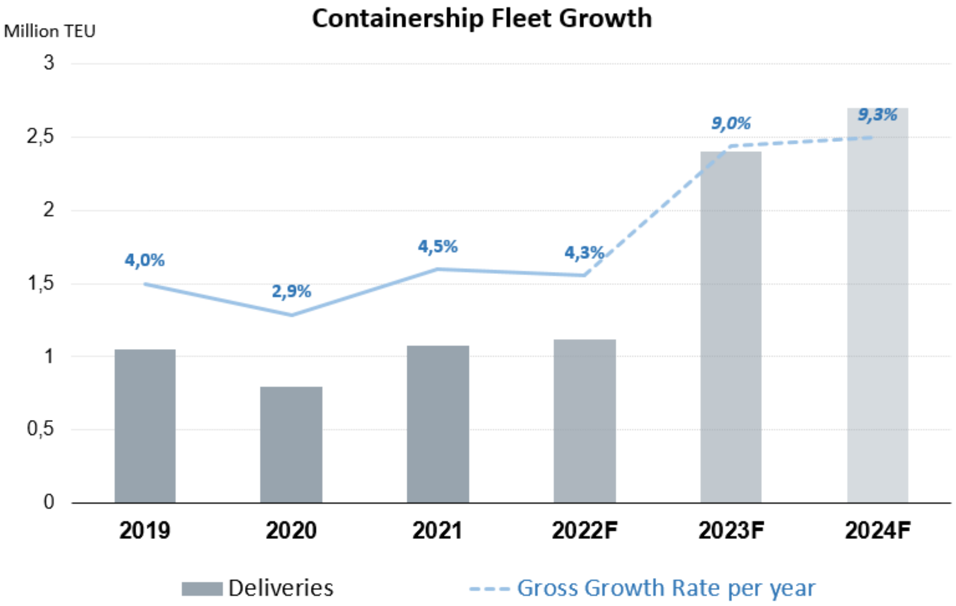
25 million TEUs!

By June 1, the World capacity topped 25 million TEUs, up 3% year on year, and should see an increase of around 3,5% by year end, net of scrapping.

Meanwhile, the order book accounts for 7 million TEUs of fresh capacity, for delivery in 2023 & 2024. This is the equivalent of **27% of the existing fleet**, an unprecedented ratio since 2011, when capacity was then “only” 15m TEUs!

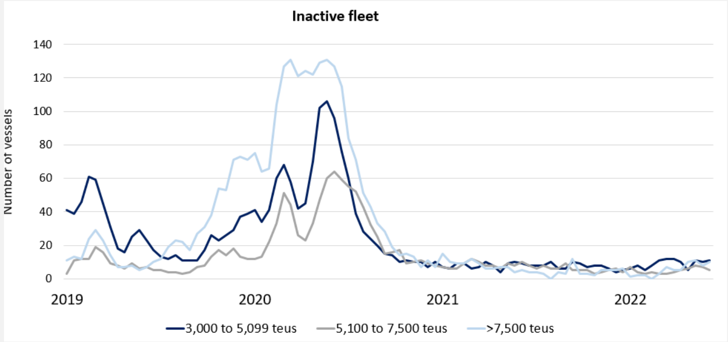


Excluding slippage or scrapping, nominal fleet is expected to grow 8% in 2023, and over 9% in 2024.

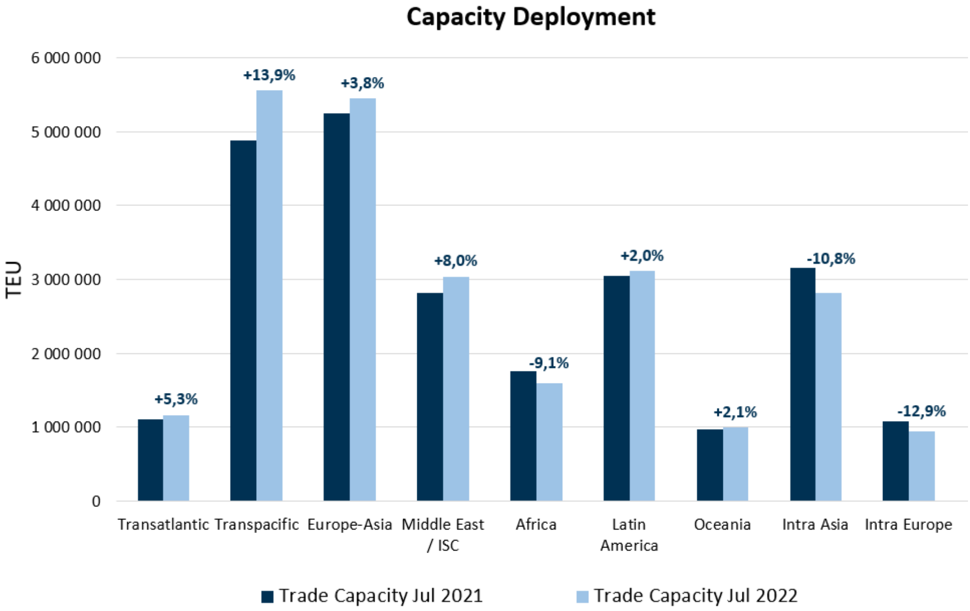


Close to no idle tonnage,

For now 18 months in a row, the idle fleet was kept at a bare minimum - today around 3% - meaning **every single vessel available**, whether charter or carrier owned**, is effectively in operation.**



Indeed, to cope with demand and congestion issues, carriers have deployed all available tonnage on the water. Capacity has only retracted on the African and Intra Asia & Intra Europe trades, as less remunerative routes.

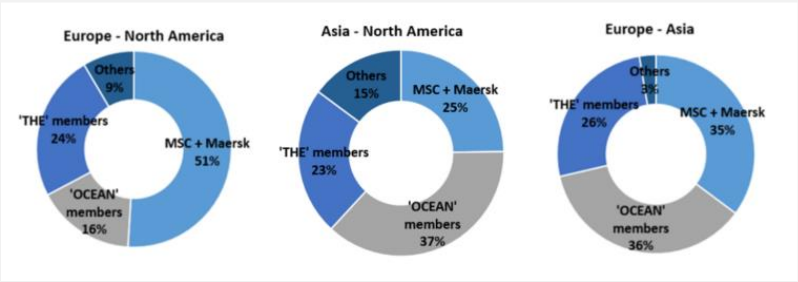


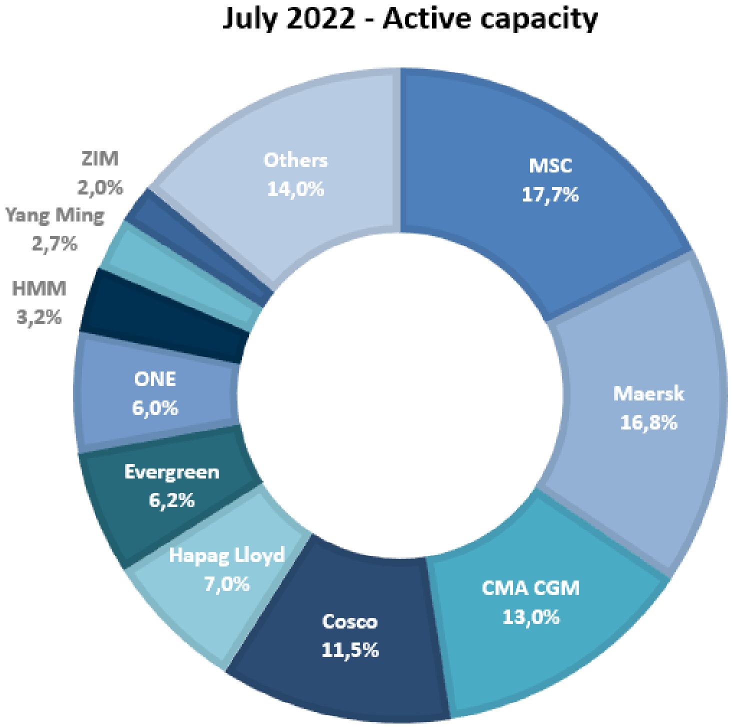
And severe capacity concentration !

With an order book of 1,5m TEU - the equivalent of the current entire Evergreen fleet - MSC continues to be the most active carrier in terms of growing their capacity. Including said order book, **MSC's global market share increases from current 17,7 to just above 19%** !

Meantime, the **top 7 shipping lines groups still control in about 80%** of the available capacity.

On the main East – West lanes, concentration is fiercer, whereby capacity is operated by the three alliances groupings (2M, Ocean Alliance and THE Alliance).



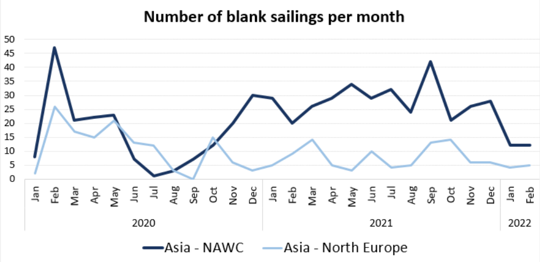


BUT SLOWING GLOBAL CONTAINER DEMAND…

Relative lower container demand in Q1 2022,

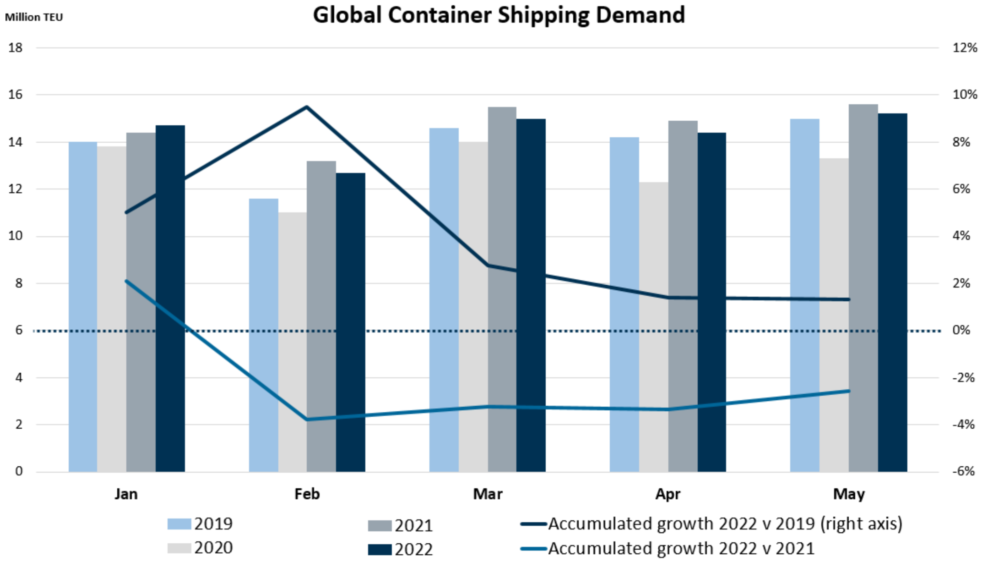
After record container growth throughout 2021, global container demand is proving negative yoy in early 2022.

The lack of capacity available to shippers, (ports congestion, blank sailings…), and volumes pushed from one month to the next, contributed to the apparent slow Q1.



Meanwhile, YTD volumes, are "only" down 2% at end May, and **still 2% higher than in 2019**, ie pre-Covid times.

Indeed, whilst head-haul (-0,4% yoy) and regional (-1,4% yoy) container volumes (usually the drivers for rates trends) were down in March 2022, they however still remained 11,0% and 1,8% up vs March 2019 !



Continues over Q2 2022, yet uneven from one route to the next!

However, in a context where the World's economy is impacted by the Russian invasion of Ukraine and China's zero-Covid policy, global **container demand retracted around 4% in April.**

The year to date global demand (-1,5%) drop remains however somewhat modest, Africa being the most hit region, when North America still shows positive patterns.

And whilst the Asian trades, whether to Europe or to North America, are indeed weaker, Transatlantic Westbound as an example, boosted by a favorable USD / Euro parity, still showed a healthy growth in April and May.

Port Throughput Indices (Base 100 : Jan-2012)

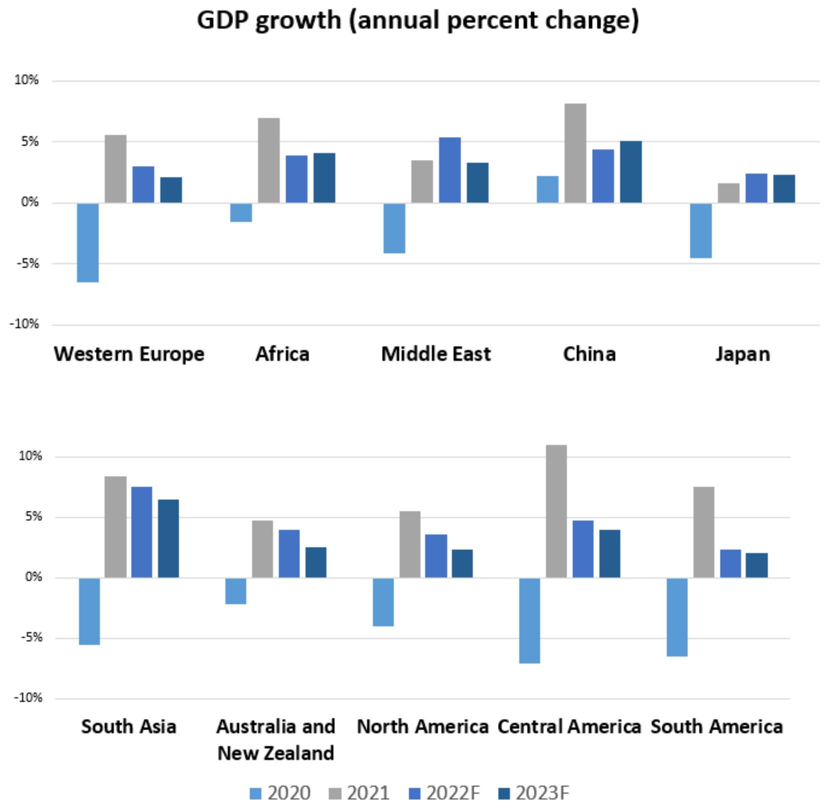
Index	Apr-21	Mar-22	Apr-22	Monthly change (%)	Annual change (%)
Global	143,1	138,8	**141,1**	1,7%	-1,5%
Greater China	151,6	146,3	**150,1**	2,6%	-1,0%
Asia (excl. China)	137,7	130,9	**132,0**	0,9%	-4,1%
Middle East & South Asia	136,9	136,3	**136,4**	0,1%	-0,4%
Europe	128,0	119,7	**124,2**	3,8%	-3,0%
North America	162,3	171,1	**170,1**	-0,6%	4,8%
Latin America	128,2	125,4	**126,2**	0,7%	-1,5%
Africa	119,4	103,8	**101,3**	-2,5%	**-15,2%**
Oceania	139,3	135,1	**140,0**	3,6%	0,5%

And demand uncertainties remain ahead…

In April, the International Monetary Fund (IMF) lowered its World GDP growth forecast to 3.6% for 2022 and 2023.

Meanwhile, the same IMF also estimates GDP for the G7 countries actually shrunk by 0.1% for Q1 2022… **suggesting a further downwards forecast revision in the weeks ahead** given latest indicators?

- US retail inventories in March 2022 up 27% from June 2021.
- No sign of inflation coming under control, interest rate increases accelerate, impacting consumer spend.
- US inflation at it's highest since the 1980s.
- Shift back of spending from goods to services, as needs and appetite for manufactured goods decreases.
- OECD Consumer Confidence Index (CCI) at its lowest since 2011.
- China's initiatives to curtail COVID infections, and further lockdowns ?



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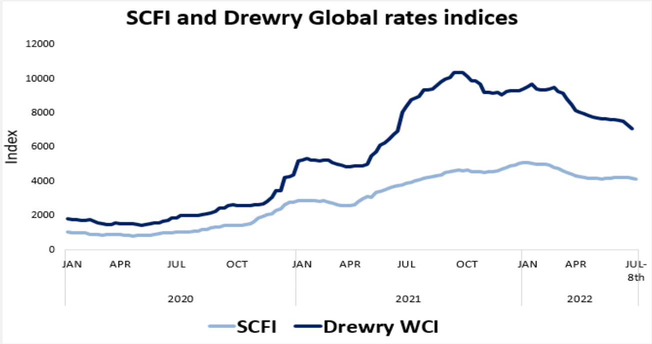
SPOT OCEAN RATES ARE EASING UP!

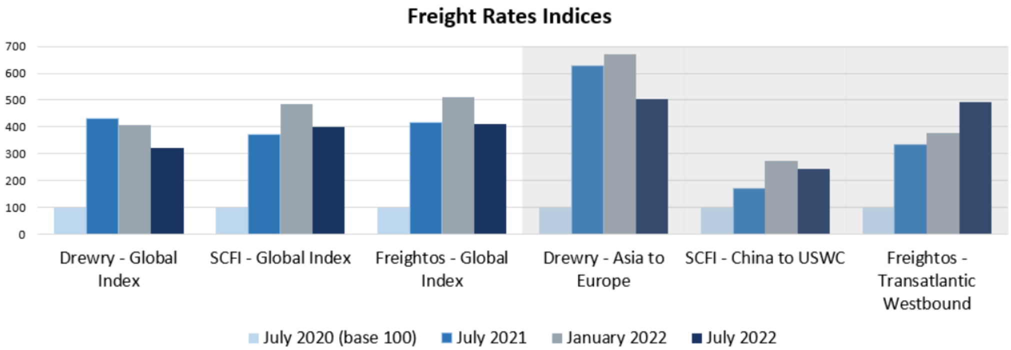
Short term and spot rates softening…

According to Drewry's World Container freight index, rates this July are down 17% vs January, **yet still 300% higher than in January 2020**, and **5% higher than in June 2021**.

Yet, spot rates on the Asian export & import lanes have softened recently, and SCFI reports July rates are down 8% to USWC or 13% to Latin America vs January.

Meanwhile, the Transatlantic Westbound (+14% since January), Oceania to USA (+65% year on year) or Europe to Latin America (+50%), still show very healthy levels.



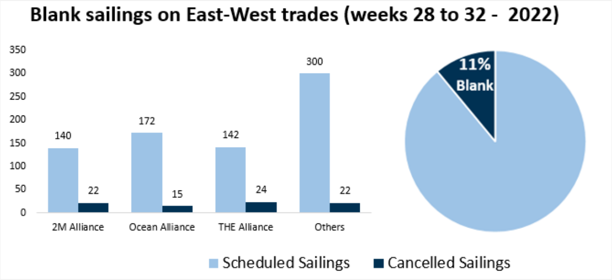


And may remain “softer”!

As demand may mute on head-haul trades, spot and short term rates, especially Asian lanes, **are likely to remain “softer” in the weeks ahead.**

With further disruption emerging (summer labor availability, labor unrest / strikes, China’s Covid policy…), and the likelihood carriers will closely manage capacity to maintain profitability, one should not expect ocean rates to collapse.

And indeed, 10% of scheduled sailings are now blanked for July on the three main East – West routes…



Meanwhile, service integrity remains a major concern as global disruption is hardly easing up.

Trends in Spot Container Rates

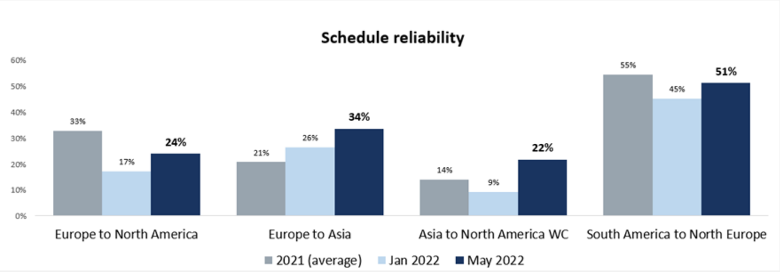
Trade Route	Recent Trend	Short-term Forecast
Transpacific Eastbound	↓	↓
Transpacific Westbound	→	→
Asia to Europe	→	↓
Europe to Asia	↓	→
Intra Asia	→	→
Middle East Exports	→	→
Middle East Imports	↑	→
Transatlantic Westbound	↑	→
Transatlantic Eastbound	→	→
South America Exports	→	→
South America Imports	↑	→
Africa Exports	→	→
Africa Imports	→	→
Oceania Exports	→	→
Oceania Imports	→	→
Intra Europe	→	→

YET, DISRUPTION, HENCE HIGH COSTS, WILL LAST

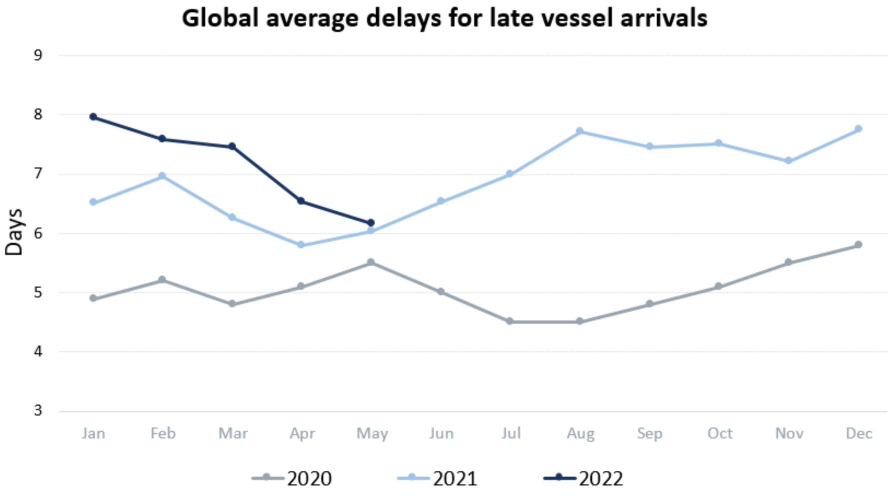
No schedule integrity improvement to speak of,

Whilst volumes have somewhat reduced lately, ports & intermodal networks still struggle to cope with incoming flows and with the backlog accumulated over past months.

Global Schedule integrity is still sub 35%, with no real sign of improvement in sight.



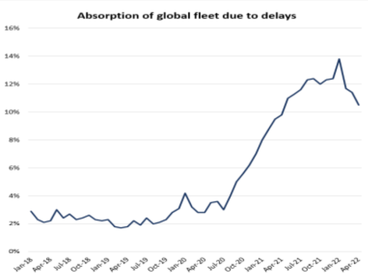
Truck drivers & chassis deficit, labor shortage & unrest keep on affecting ports productivity, hence causing delays, which continue to feed erratic schedules and to exacerbate ports congestion.

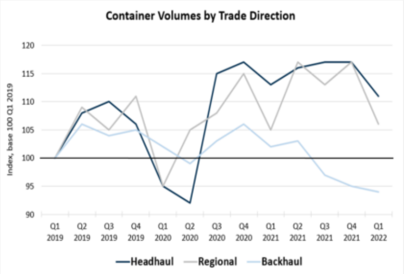


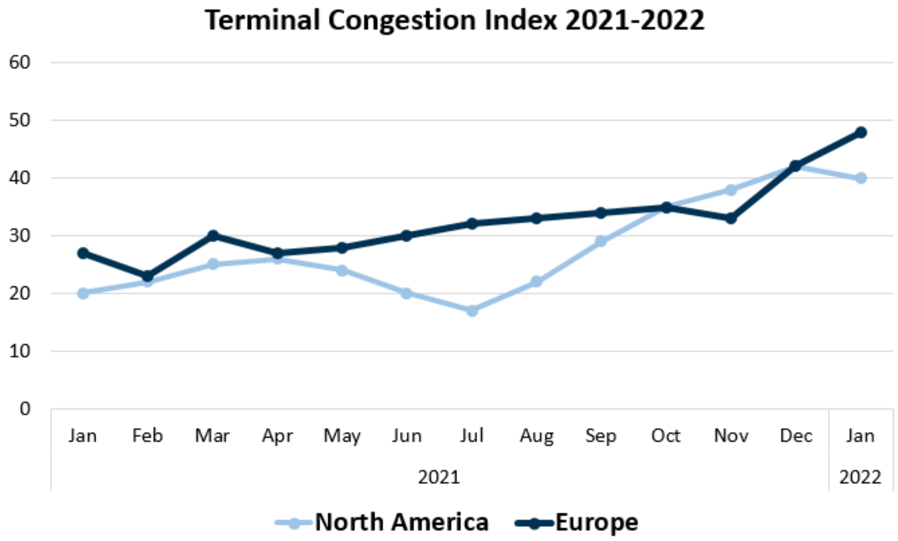
Ports congestion eating up capacity,

Besides waiting times at ports have somewhat reduced lately, and even the situation on the US West Coast has eased up, **congestion continues to seriously deteriorate in Europe and USA East coast**.

- Rotterdam, Antwerp, Southampton or Hamburg report yard utilizations over 90%...
- Some 10% of the capacity is still made ineffective due to delays.
- Head-haul trades (the most affected by delays, due to stronger demand) require yet more capacity injection to cope…
- To the detriment of back-haul routes, as carriers skip port calls to evacuate empties faster. All adding to congestion.



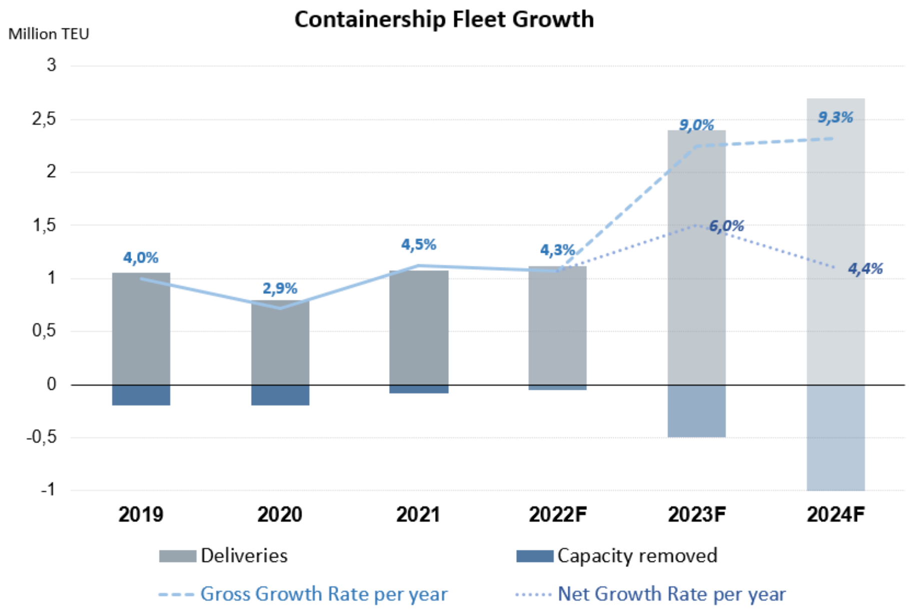




Which capacity will NOT grow that much…

Besides inflation and economic outlooks are suggesting a possible demand slowdown, besides new vessels deliveries will accelerate in the months ahead, **the actual capacity growth ahead is likely much lower** than what the order books suggest…

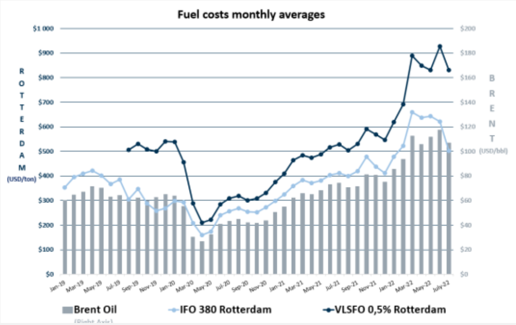
- Lack of labor and relative ports productivity are a challenge.
- The capacity rendered ineffective (still over 10%) by waiting times and congestion remains a serious factor.
- Risks of new “Covid waves” and restrictions remain high, as in China again just now.
- Scrapping will accelerate due to IMO 2023 regulations.
- Drewry estimates IMO 2023 and disruption will still remove up to 8% of the actual capacity, with among others slow steaming and necessary vessels maintenance.



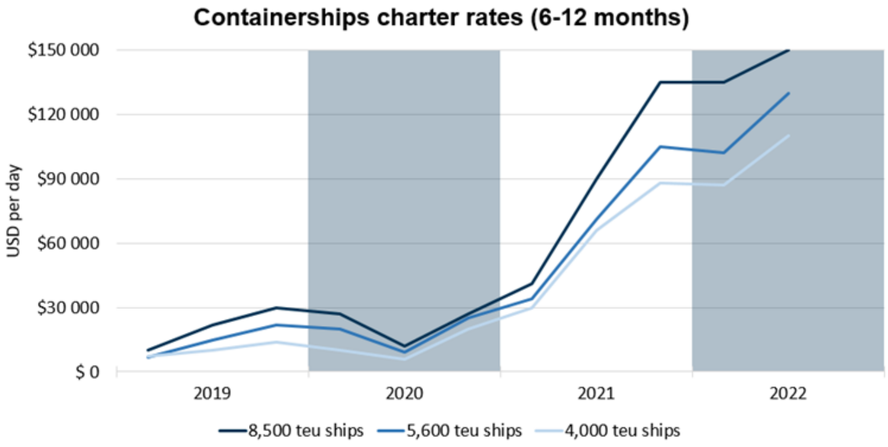
Hence, rates expected to remain high,

On the longer run, most indicators are **calling for freight rates to remain high:**

- Ports congestion and costs increases
- Schedule disruption, costs for additional capacity needed
- Ports and intermodal labor unrest
- Fuel costs not reducing
- IMO 2023 costs uncertainties at the horizon



- Empty containers availability also hit by congestion
- Charter rates holding firm !



Especially with IMO 2023 at the corner!

From 2022 onwards, most of the 6,000 existing vessels will need to drydock for technical changes (replace propellers, bulbs, engine power limitations…), **as 100% of the fleet has to be EEXI compliant in 2023, and is the responsibility of the ship owner.**

CII's compliance is the charterer's responsibility. Vessels will need to reduce speed to meet the CO2 targets, hence more ships will be needed to maintain schedules, reducing further global capacity and transit times will be extended.

All markets and vessels sizes will be impacted by a more restrictive regulation every year (-2% per year)

Actual costs of the regulation still unknown, and carriers hardly communicating… yet.

PUBLIC

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