

# A story of over- supply : lessons to learn



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# Agenda

1. Over-supply and the orderbook
2. Cascading
3. Analysis - trades to/from ECSA
4. Freight rates
5. Conclusions



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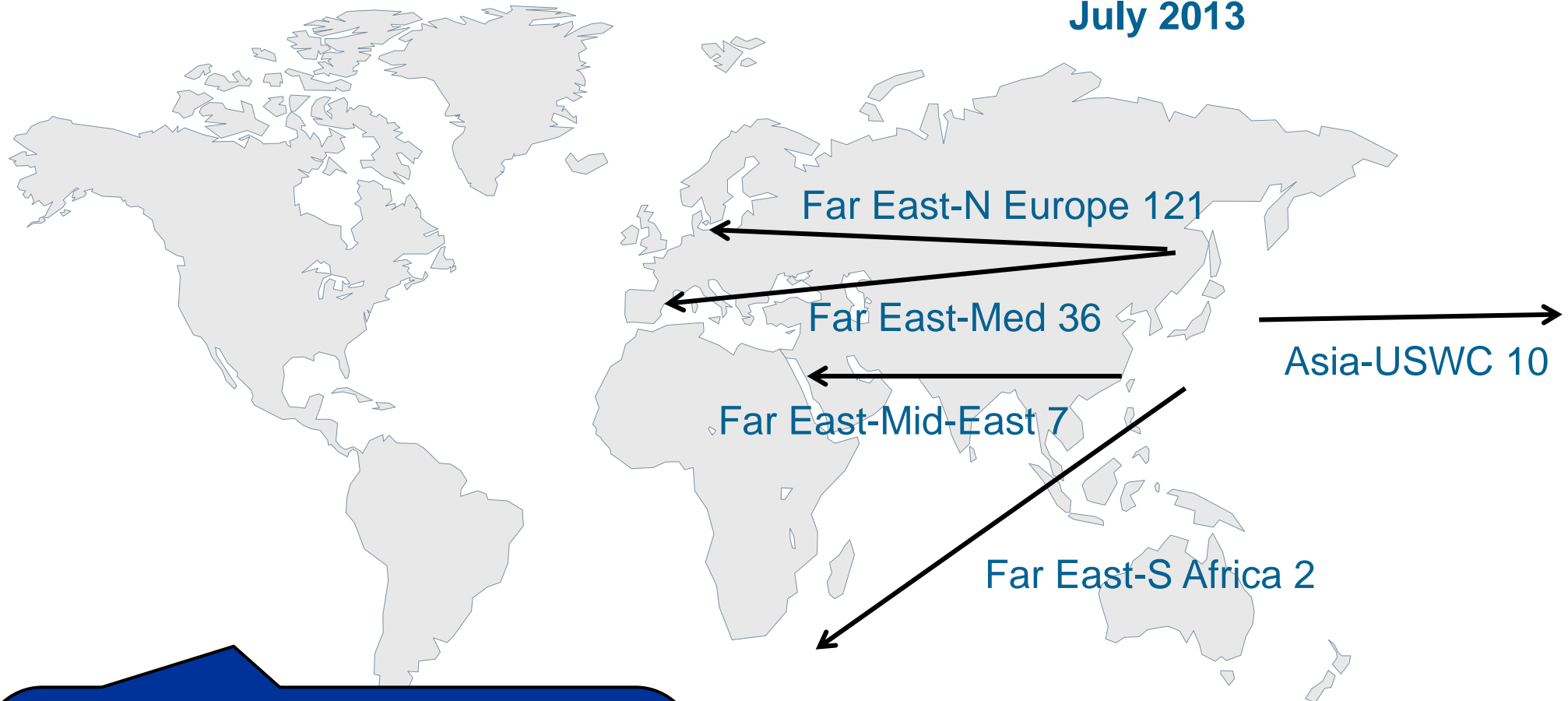


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# Where are the ULCVs deployed?

July 2013



- In July 2013, 108 vsls currently deployed on Asia-N Europe trade were at 7,000-10,000 teu level.
- All of these vessels will need to be cascaded elsewhere by end 2015/early 2016

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# Cascading

## Largest deployed vessels, Sept 2013:

**Asia-N Europe:** Maersk Mc-Kinney Moller (18,270 teu)

**Asia-Med:** MSC Bari (14,000 teu)

**Asia-USWC:** MSC Altair (13,100 teu)

**Asia-ECSA:** Cap San Nicolas (9,669 teu)

**Europe-ECSA:** MSC Agadir (8,762 teu)

**Asia-WCSA:** MSC Candice (9,178 teu)

**Asia-Mid-East:** CSCL Neptune (14,074 teu)

Largest vessels now deployed across all global trade lanes – there will eventually be a tipping point and scale economies will diminish



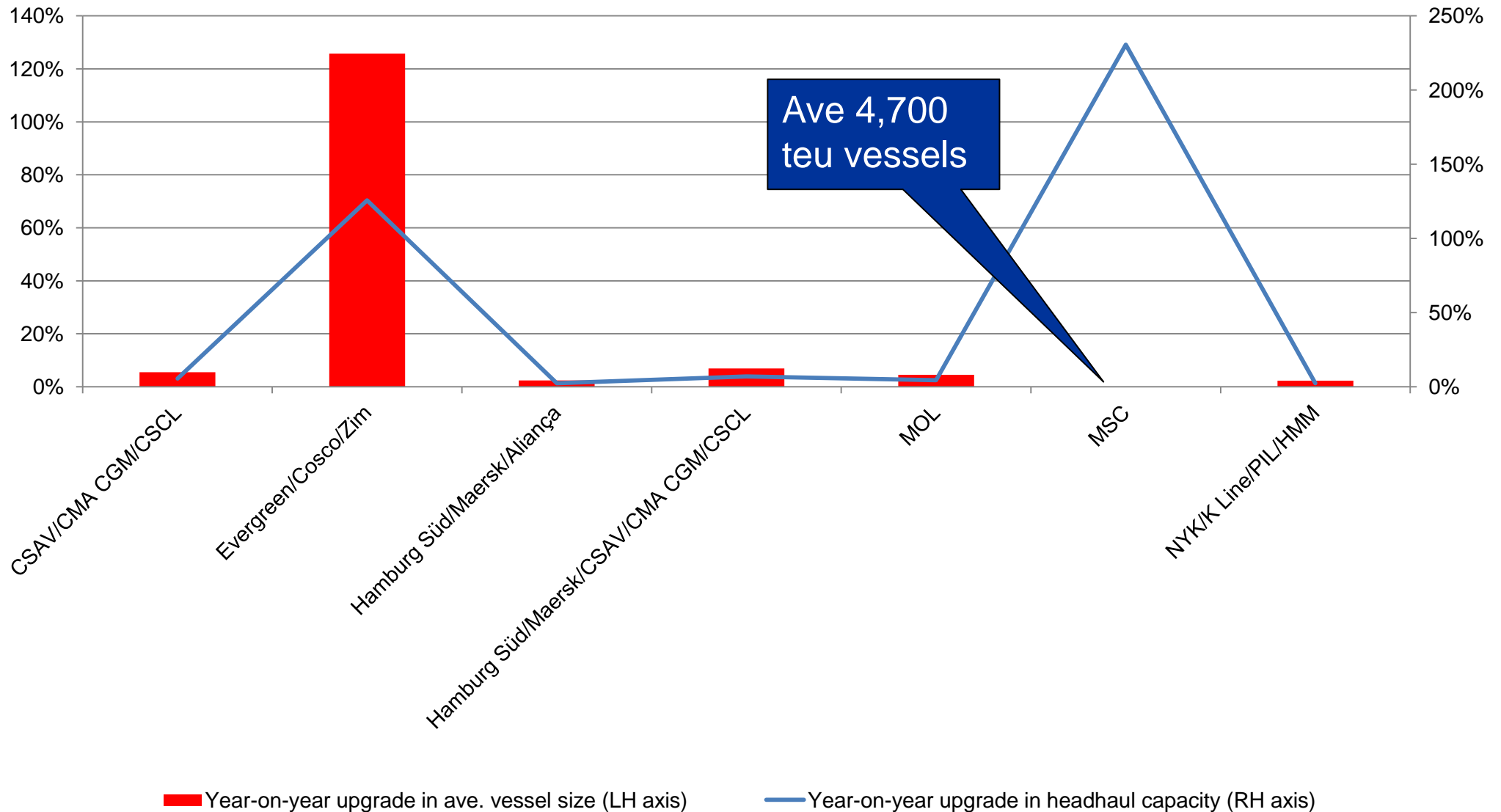
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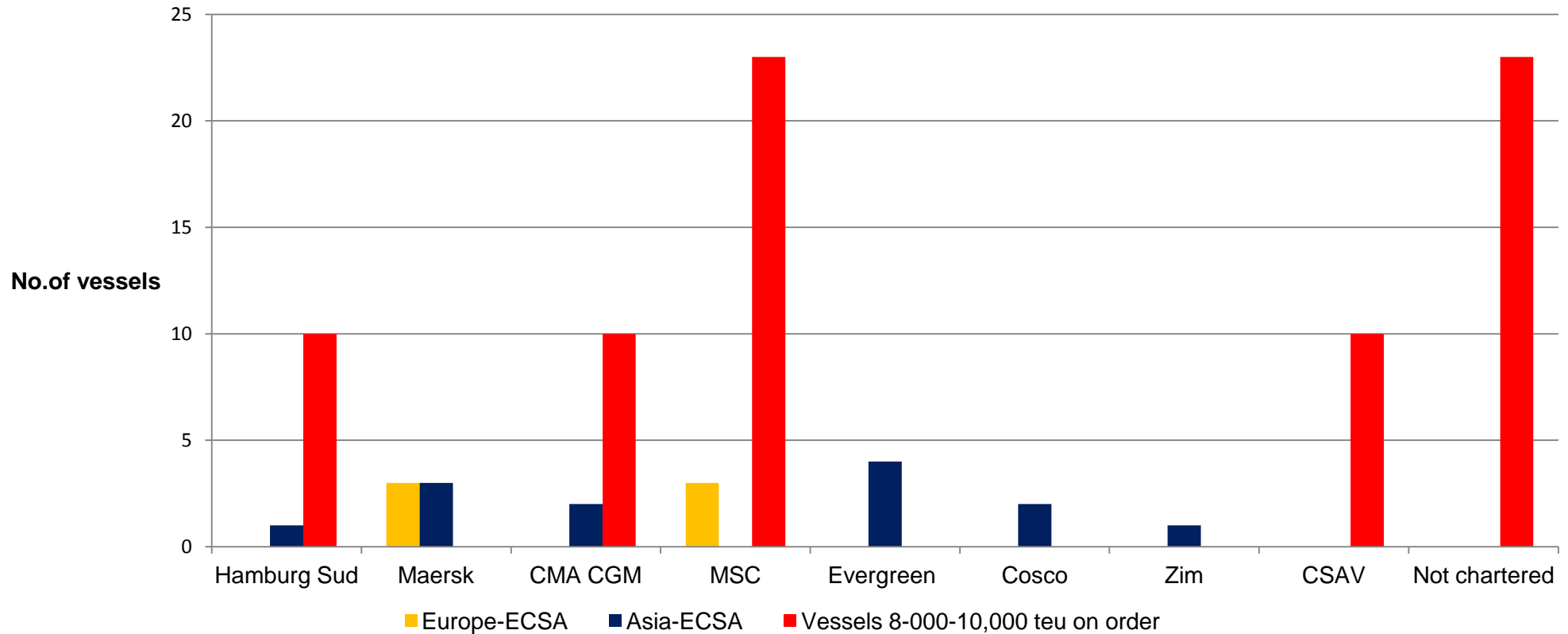
# Why is the Asia-ECSA trade out of synch?

July 2013 versus July 2012



# Big ship deployment on the ECSA trades

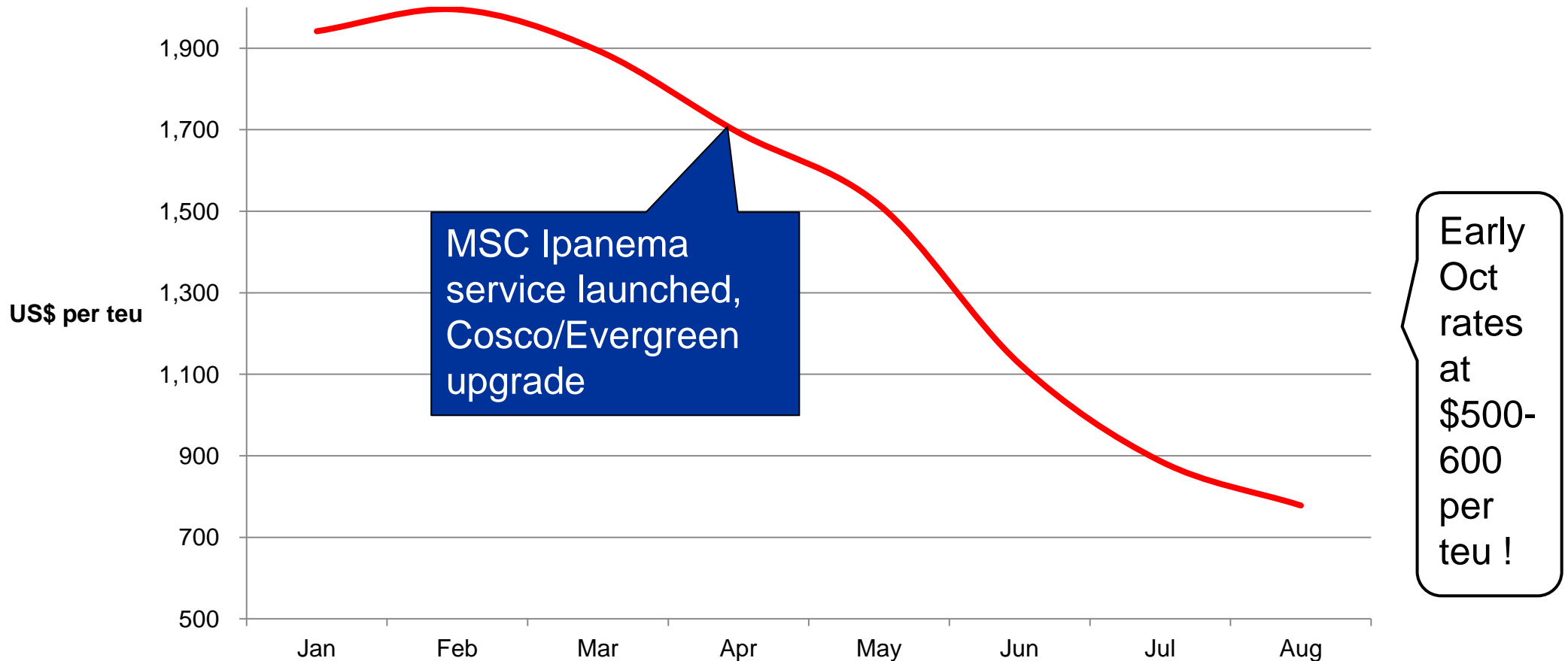
Vessels of at least 8,000 teu



Asia-ECSA trade hit from two sides – cascades and newbuild deliveries of wide beam vsls with high reefer intake

# Damage to spot freight rates 2013: Asia-Brazil

A simple story of too much capacity all at the same time...



- Headhaul capacity up by 17.9% between 1 Jan and 1 July
- Cargo volumes increased by 4.1% yoy
- Est. \$152 million in carrier revenue lost 1H 2013

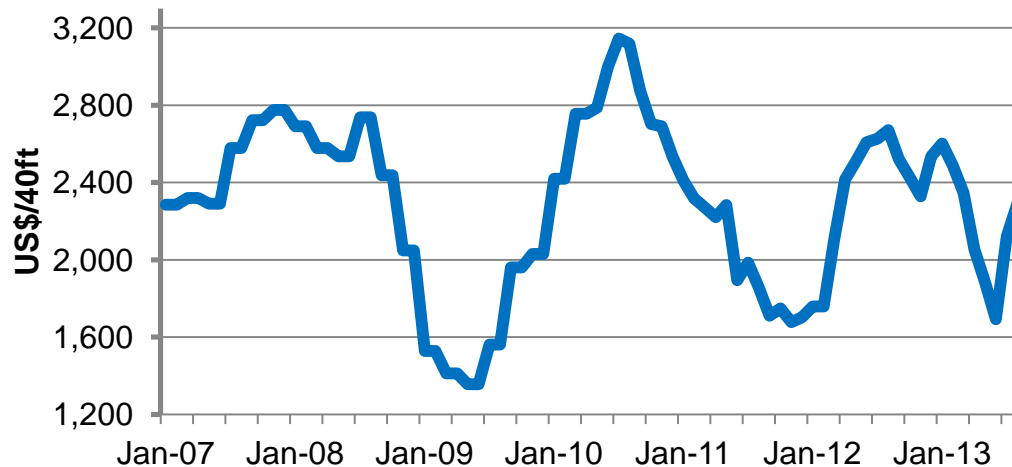
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# Container Freight Rate Volatility

## Volatility Drivers

### Drewry's East-West Container Freight Rate Index (US\$/FEU)

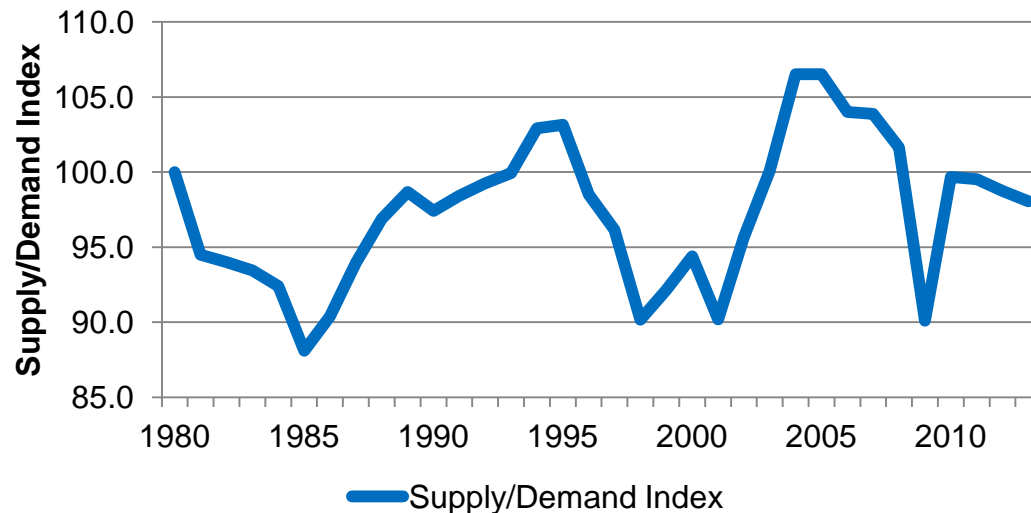


Source: Drewry's *Container Freight Rate Insight* ([www.drewry.co.uk/cfri](http://www.drewry.co.uk/cfri))

### Container freight rate volatility has increased for three primary reasons:

- Macroeconomic & geopolitical uncertainty
- Step change in ship size
- Carrier market behaviour

### Drewry's Global Supply/Demand Index (1980=100)



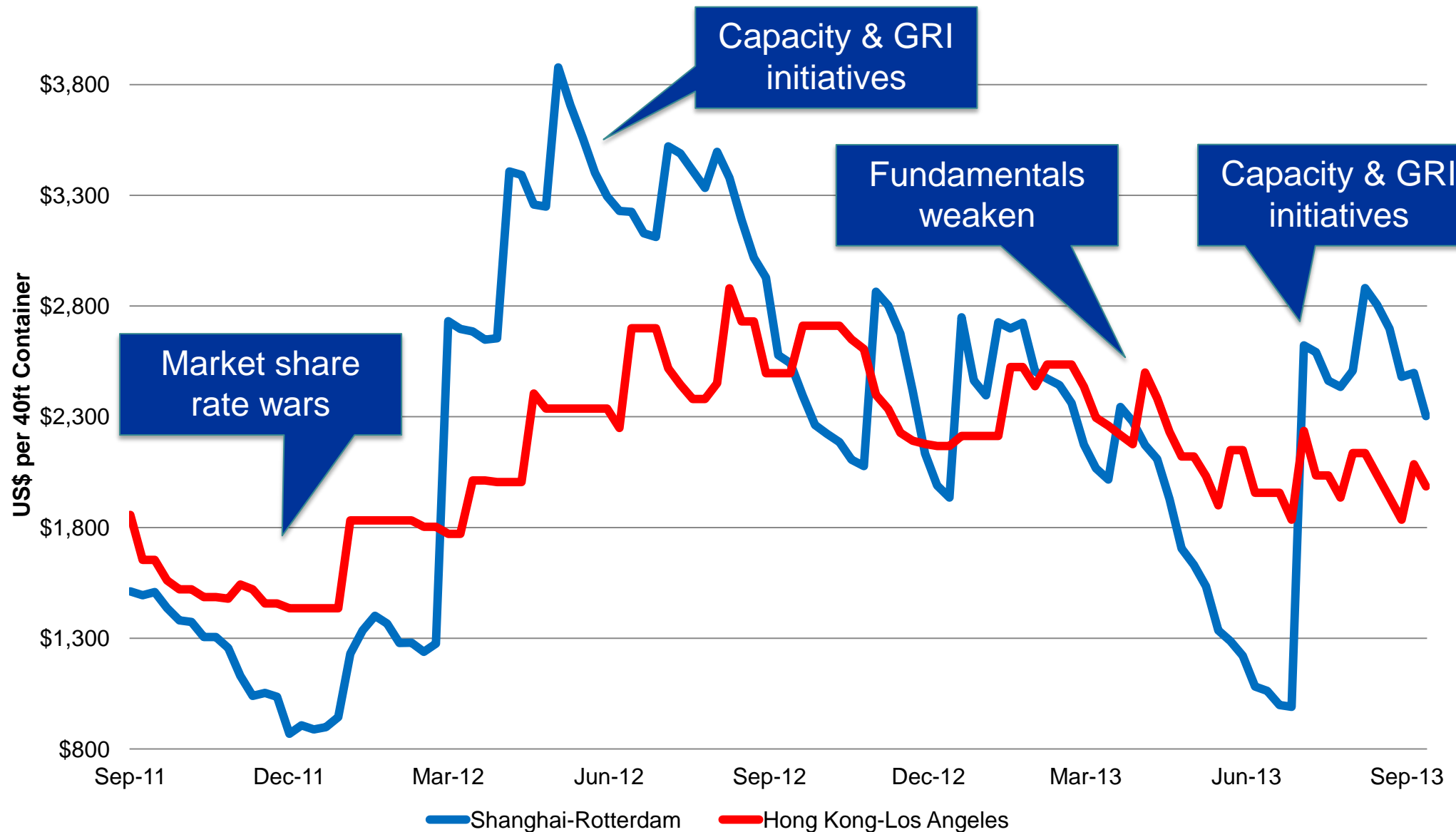
Source: Drewry's *Container Forecaster*

### Freight rate volatility is not a short term phenomenon:

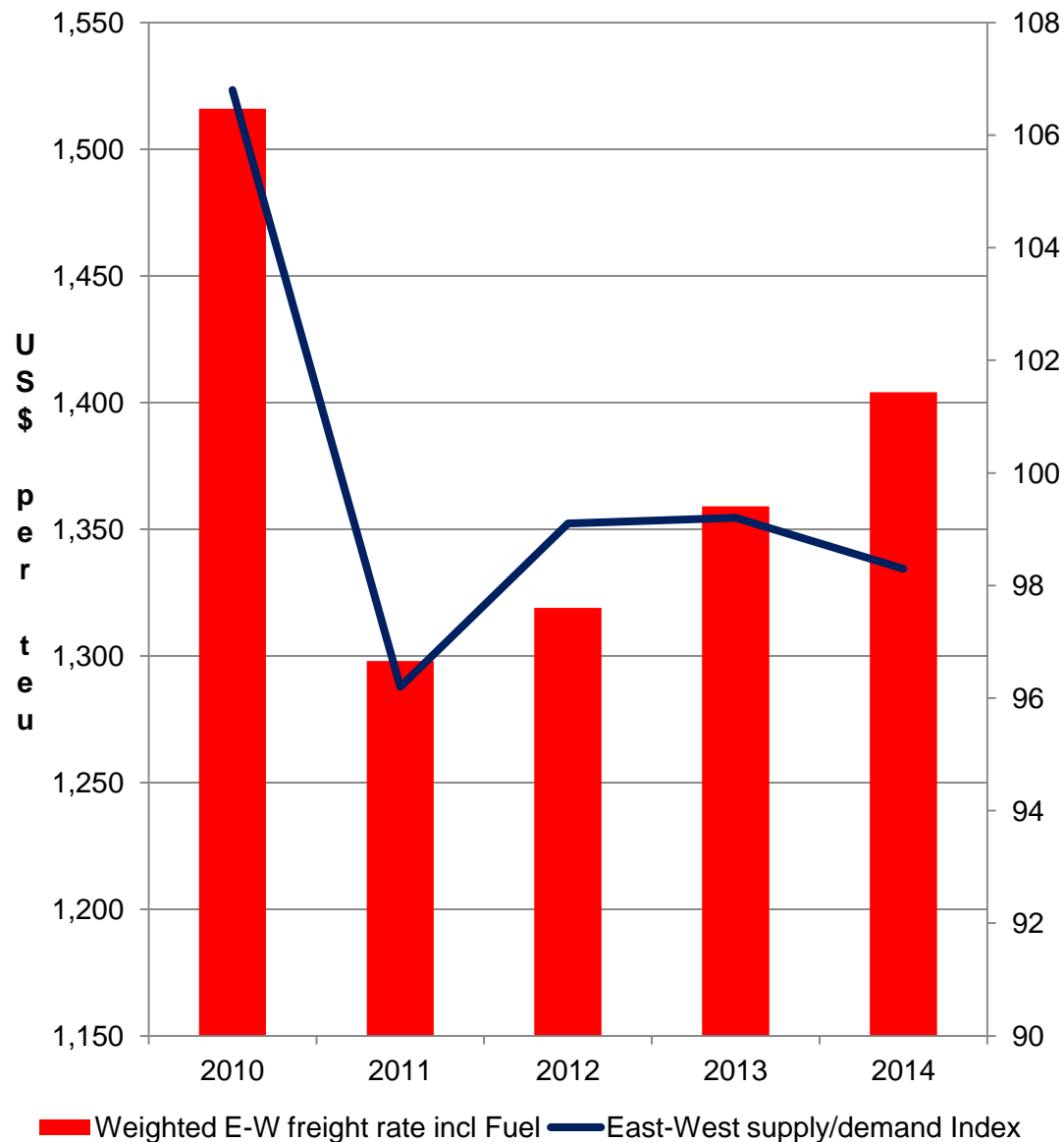
- Defining feature of the decade
- Industry must adapt
- Impact on shipper-carrier relations and contracts
- Spot market becomes VIP for some carriers

# Recent Container Freight Rate Trends

## Europe & US Imports from Asia (US\$ per 40ft)



# Freight rate forecasts



## East-West rates may rise slightly in 2014

- Weak market but capacity management
- Forecast for 2014 of +3% rise

## Global rates to rise at slower pace

- 2H 2013 seeing price war on some North-South routes
- Forecast for 2014 +2% rise in all-in rates

## Freight rate volatility to continue

- Carrier short term behaviour
- Skipped sailings & frequent GRIs

## Risks

- Rate hikes (for shippers)
- Carrier debt risk less worrying than in 2009/10 (better cost management)
- No risk of capacity shortages on the horizon, but frequent skipped sailings

# The good, the bad and the downright ugly

**Ugly** – carriers destroying supply/demand balance of the better performing N-S trades

Carriers stealing cargo from each other in weak markets

**Bad** - Unprecedented levels of container freight rate volatility

Overcapacity, cascading & weak demand is driving container freight rates down – a lethal cocktail

**Good** – VSA operational deals and careful capacity management are a must. We like the P3, this equals better stability

Grow capacity in line with the market only

Carriers should focus on customer service



Providing maritime intelligence for over 40 years  
Unique expertise of shipping industry senior executives and knowledge base



*Our services include:*

Maritime research and publications

Bespoke consultancy

Investment advisory

Maritime Equity research

World Container Index

# Thank you!