



Volatility in Container Shipping

TPM Asia 2013, Shenzhen

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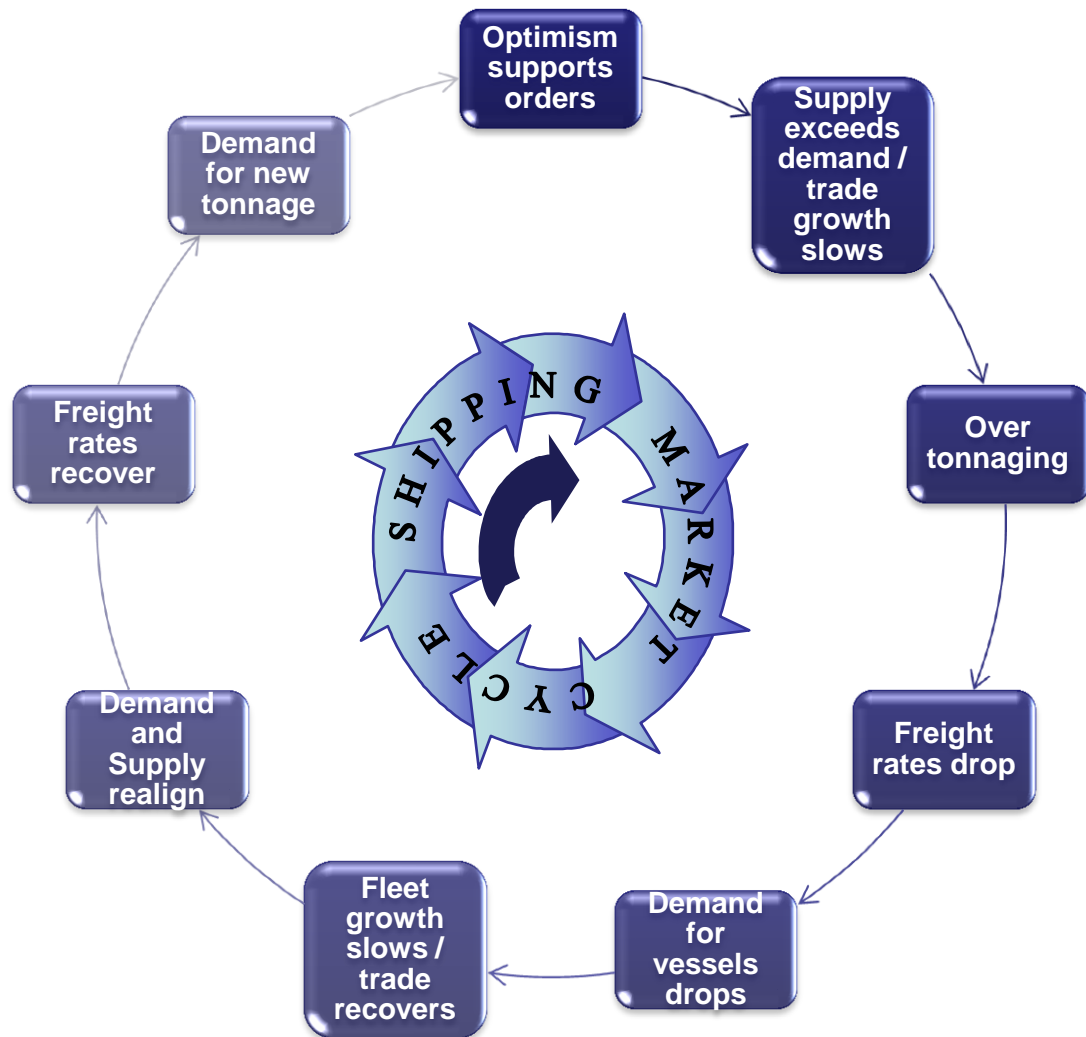
16-17 October 2013

Agenda

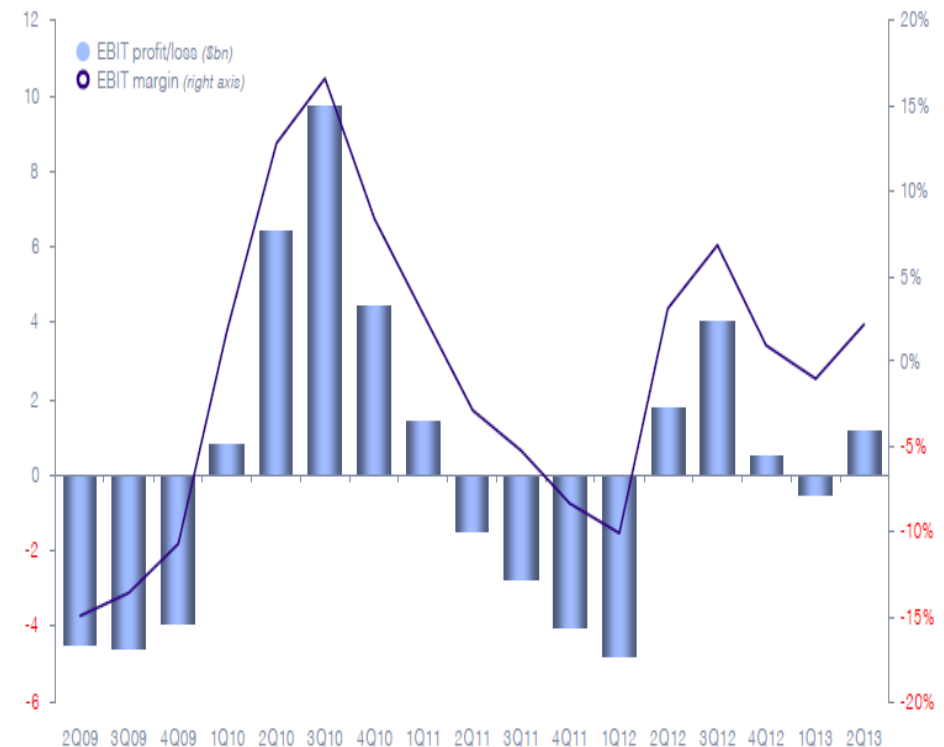
1. Volatility in container shipping's DNA
2. Recent container freight rate trends
3. Impact on container services
4. How can carriers and shippers protect themselves from volatility?
5. What chance stability?

Volatility in container shipping's DNA

Liner shipping is a cyclical industry; cycles driven by cash balances and utilisation



Estimated carrier industry EBIT profit/loss 1Q09-2Q13



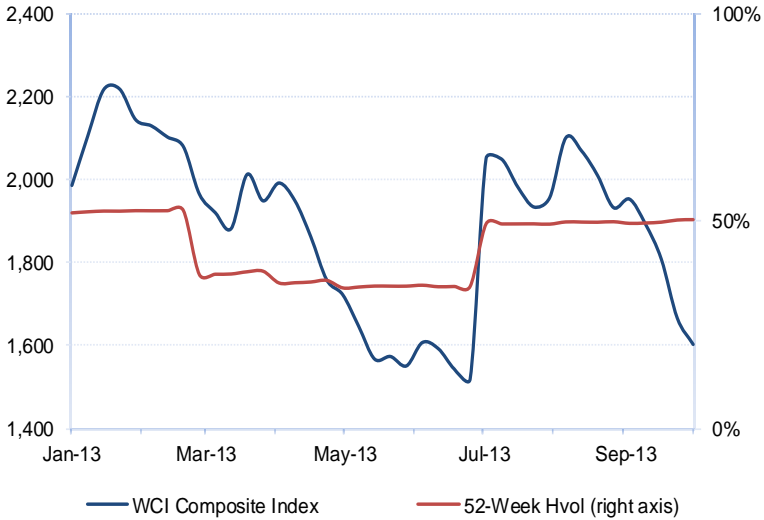
Note: EBIT margins based on average of sample carriers after currency conversion to US dollars when necessary. Sample consists of Maersk Line; APL; CMA CGM; CSAV; Hanjin Shipping (container); Hapag-Lloyd; HMM (container); NYK (liner, calendar year basis); Wan Hai; Yang Ming and Zim

Source: Drewry's Container Forecaster

Recent Container Freight Rate Trends

Historic volatility in the World Container Index, *assessed by Drewry*

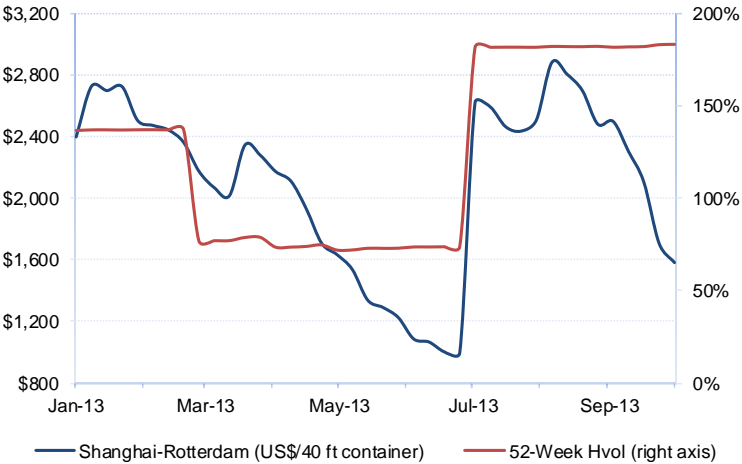
World Container Index – Composite Index



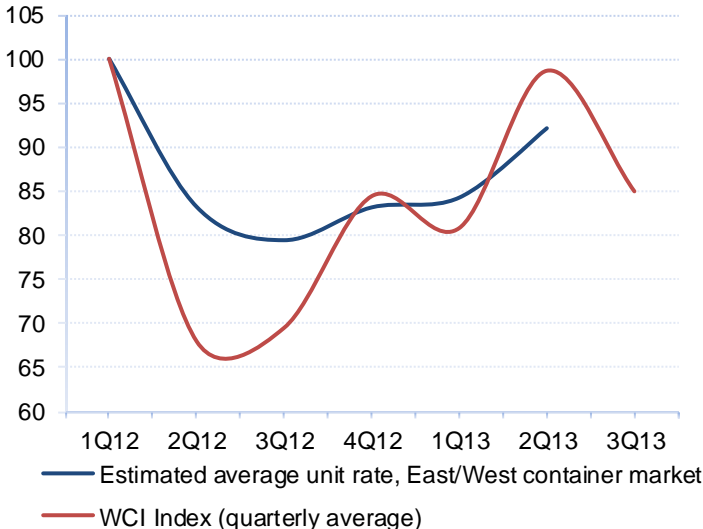
Container freight rate volatility has increased for three primary reasons:

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

World Container Index – Shanghai to Rotterdam



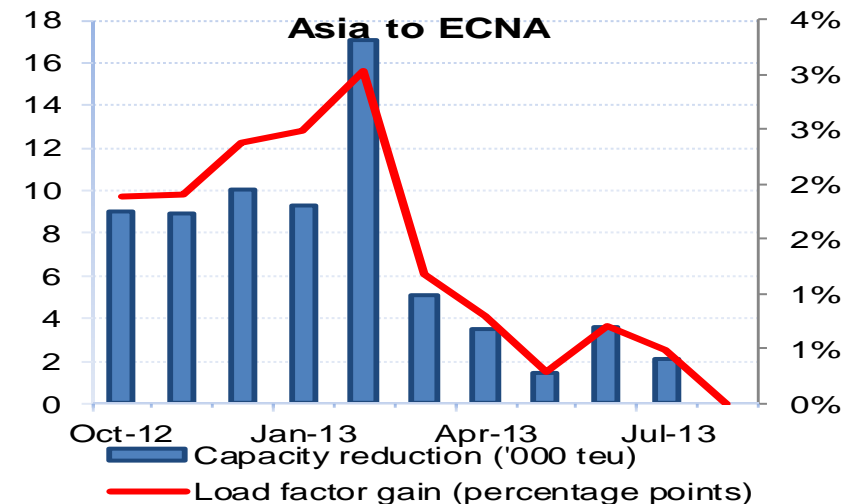
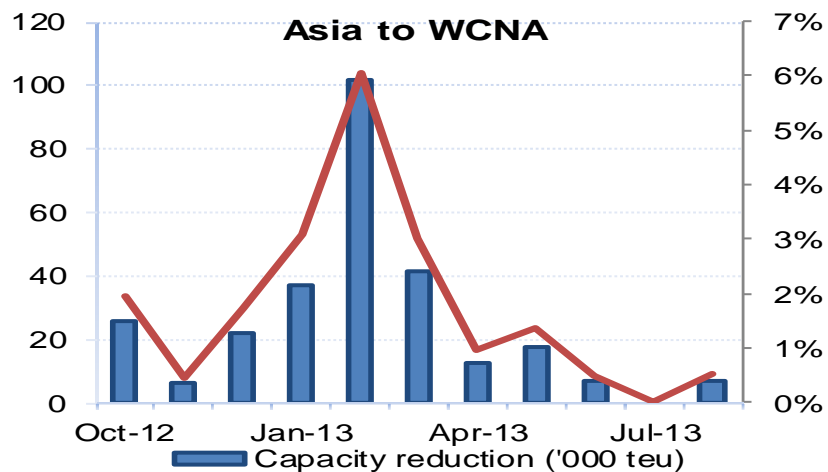
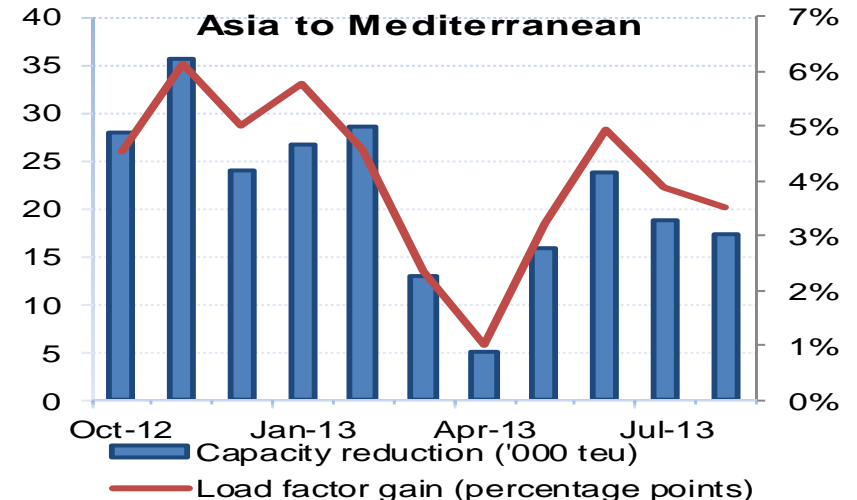
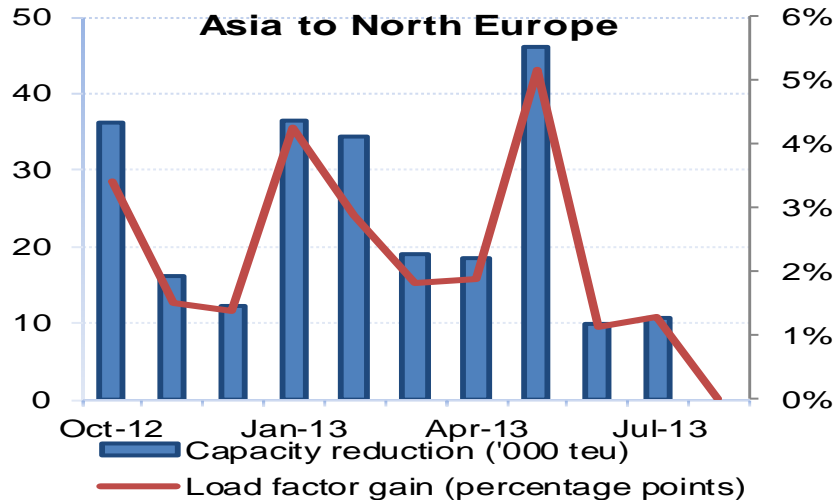
Estimated average E/W unit rates versus spot market (1Q12=100)



Sources: Drewry Maritime Research, World Container Index assessed by Drewry (www.worldcontainerindex.com)

Missed sailings only scratching the surface

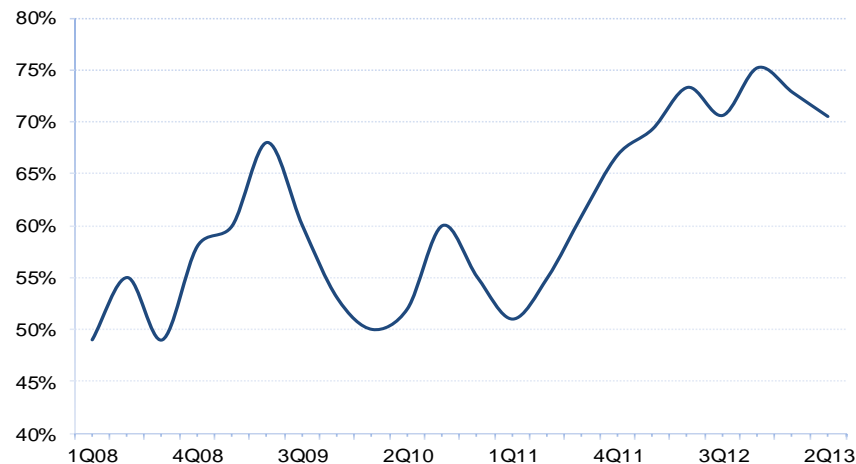
Estimated monthly capacity reductions from missed voyages and impact on trade utilisation



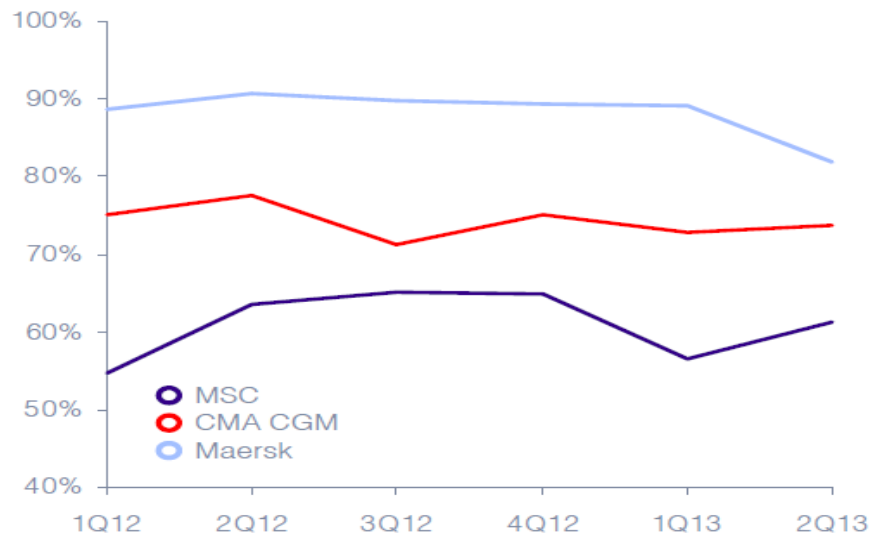
Source: Drewry Maritime Research

Containership reliability weakening slightly

Drewry containership on-time reliability 1Q08-2Q13



On-time reliability of P3 carriers



Source: Drewry Carrier Performance Insight

Containership reliability down in 2Q13

- Dropped for two consecutive quarters
- Asia trades hit by Hong Kong strike

Not all carriers are the same

- Wide gaps between most and least reliable carriers
- VSAs are grouping carrier results and lessening differentiation

P3 Network to raise standards

- Maersk expected to enforce high reliability on partners

Risks

- Shippers need to keep eye on carrier partnerships to avoid putting all eggs in one basket

Shippers need to stay vigilant with market intelligence



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Best Practice Forums

Enables members to share best practice in freight transport procurement through a series of interactive webinars hosted by Drewry consultants.

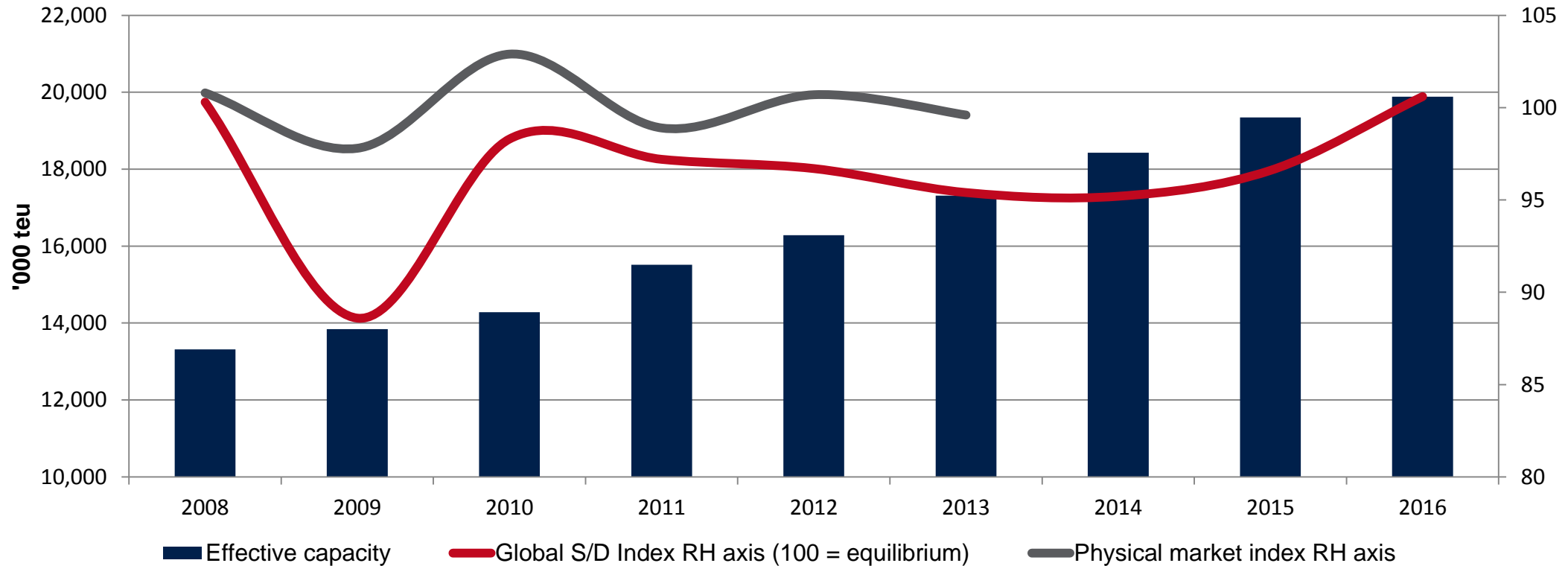
For more information on Drewry's Benchmarking Club please contact Martin Dixon or Philip Damas on tel: **+44 20 7538 0191** or email: supplychains@drewry.co.uk

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Container Market Balance 2013-2016

Global supply/demand balance



Note: Effective capacity allows for deadweight, high cube and slow steaming adjustments; Physical market index allows for estimated Idling activity
Source: Drewry's *Container Forecaster*

Global supply/demand balance will not reach equilibrium until 2016

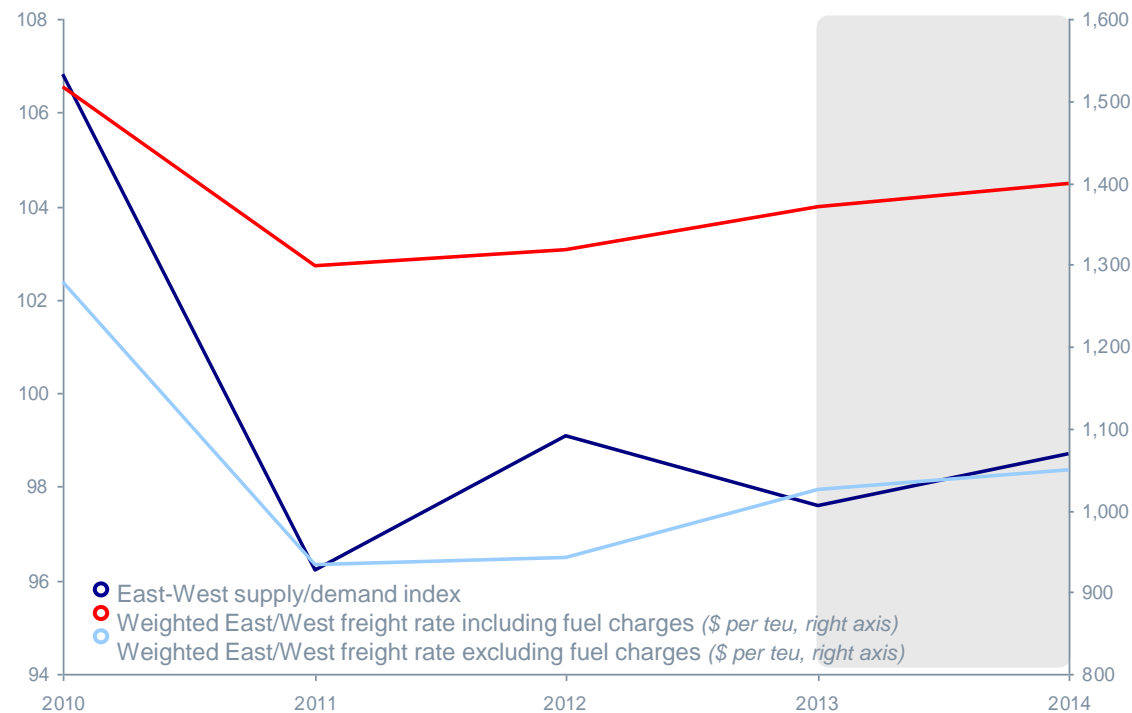
Carriers will be forced to cull services & use more short term capacity management

- Expect more missed sailings
- Expect more frequent GRI attempts

Freight Rate Forecast

East-West & Global Trades

Weighted freight rates and supply/demand index comparison on East-West trades



Source: Drewry's *Container Forecaster*

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
- Carrier debt risk less worrying than in 2009/10
- No risk of capacity shortages on the horizon, but frequent skipped sailings

Conclusions

Container freight rate volatility not new, but very high currently

Overcapacity & weak demand is driving container freight rates down

Carriers are reacting by adjusting capacity and pooling resources

Shippers need to remain vigilant and gather market intelligence

Global & East-West freight rates will remain under pressure

Volatility to remain without longer term carrier-shipper partnerships

Drewry was founded in 1970 as a provider of independent information and advice to the global maritime industry. Since then we have worked with over 4,000 clients in more than 100 countries.

We are privately owned with research and advisory teams in London, Delhi, Singapore and Shanghai.

Check out Drewry's new Container Freight Rate Insight web site at www.drewry.co.uk/cfri



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