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Liner Market Outlook - Next 12 months

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Flashback from TPM Asia Oct 2012 : Predictions for 2013

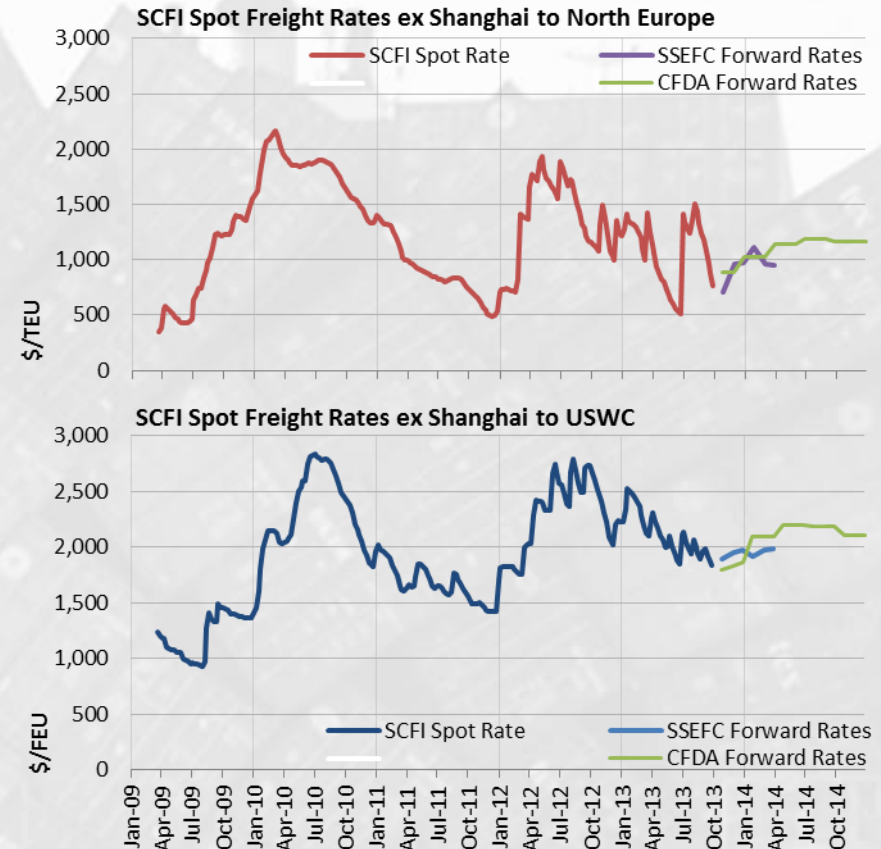
- Rate volatility will continue
 - Supply overhang will continue to dictate rates cycle in 2013
 - NVO rates will be less volatile than 2012 - 3Q base rates 28% higher than 2011
 - BCO rates will rise in 2013 but quantum probably lower than carrier targets
- Carriers will continue to shoot themselves in the foot
 - Carrier discipline only when suffering from losses or when utilisation levels are high
 - Nov GRI on FE-Europe will be followed by rate undercutting if load factors remain weak
- None of the main carriers will exit the market
 - Excessive competition will continue
 - Predictions of industry consolidation are premature

2013 rate trends followed the same 2012 trend

Predictions for 2014

3 Main Themes remain:-

- Rate volatility will continue – supply overhang remains
- Carrier behavior will dictate freight markets – fight for market share continues
- Industry consolidation still far off – focus on Alliance arrangements and its implications

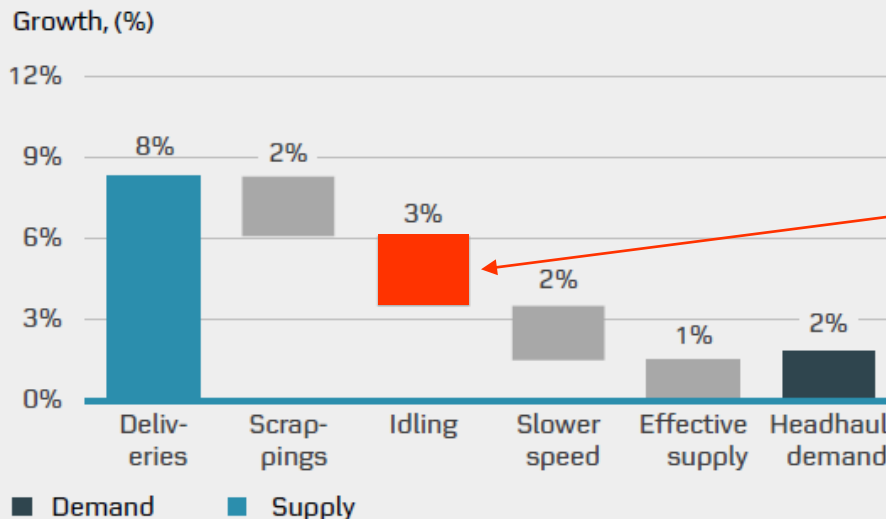


Carriers options are limited

- According to Maersk ...

Adjusting capacity is the right response to low utilisation – not reducing rates

2012 industry capacity management

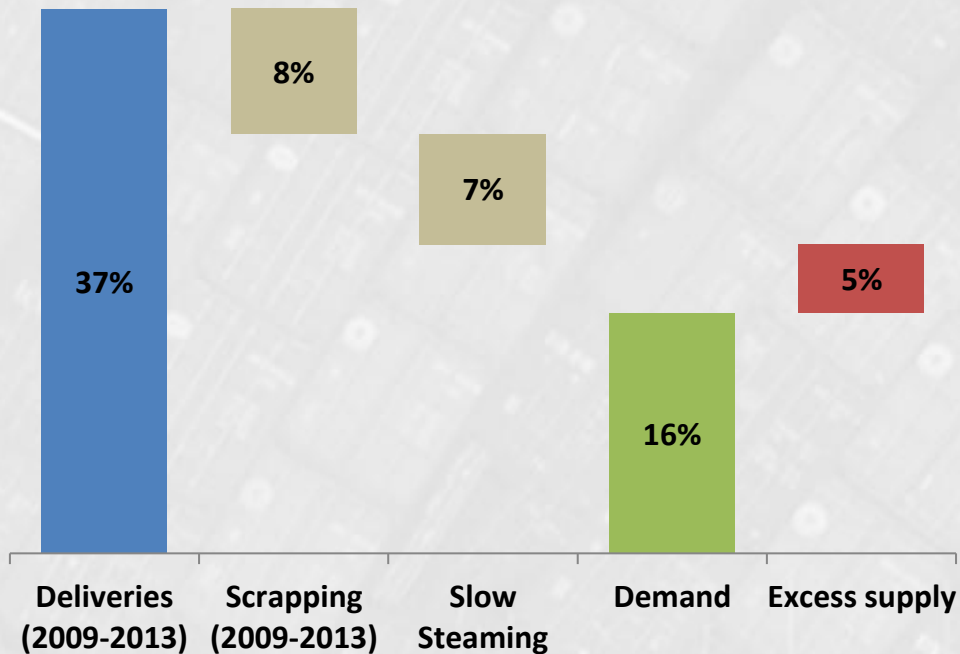


If only it was that simple ...

- Scrapping to new ship deliveries ratio at
 - 1:4 (2012)
 - 1:3 (2013)
- Slow steaming will reach upper limit
- Idling is the residual of supply over demand
 - Market volatility will remain as long as supply overhang remains

Surplus capacity have been accumulating since 2009

- Demand vs Supply Growth in last five years (2009-2013)**

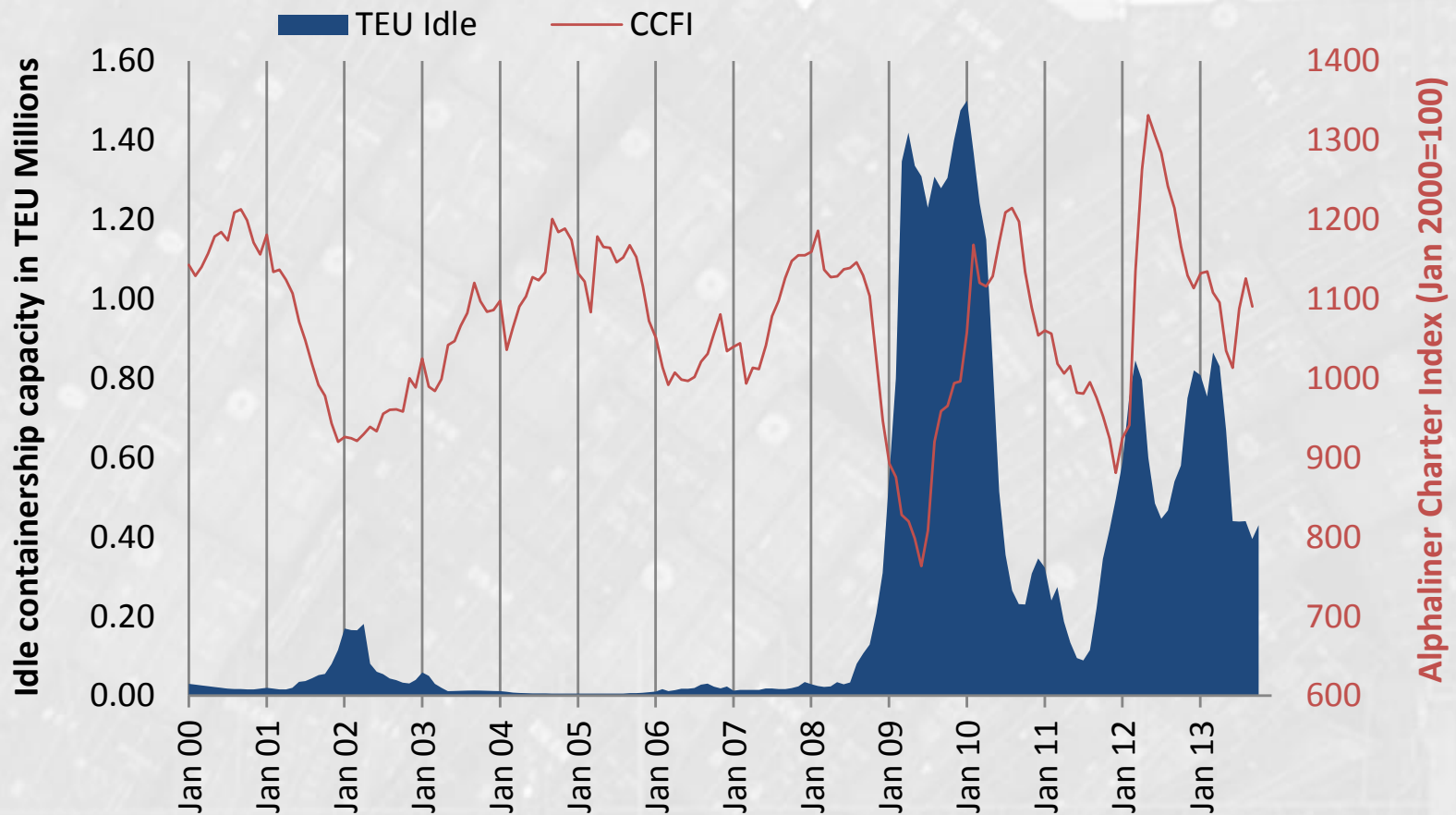


Capacity as at end Dec 2013 (F)
= 17.37 m TEU

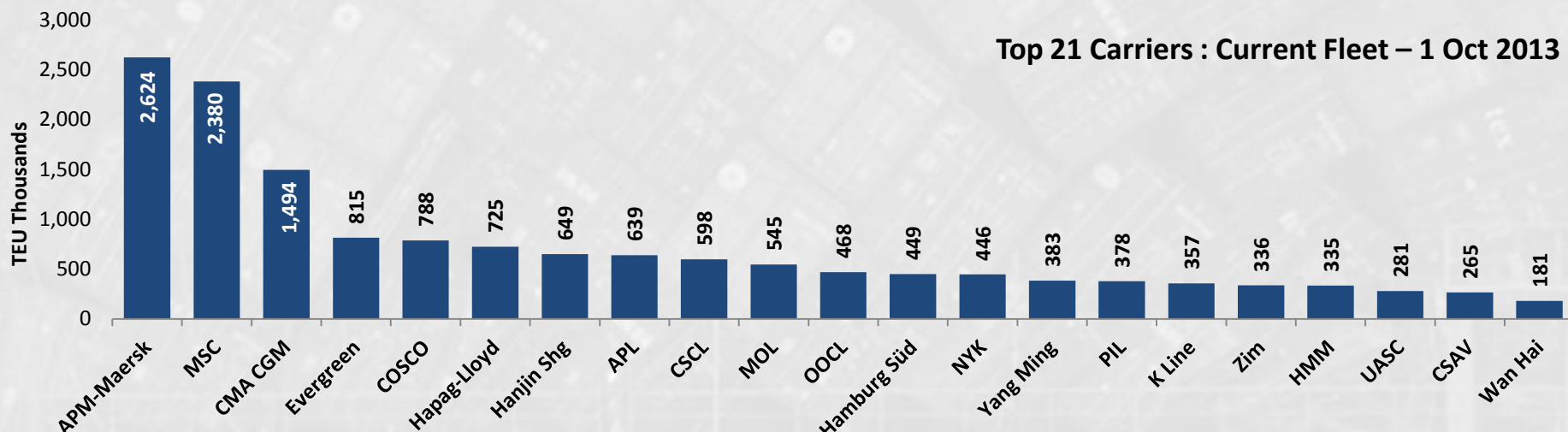
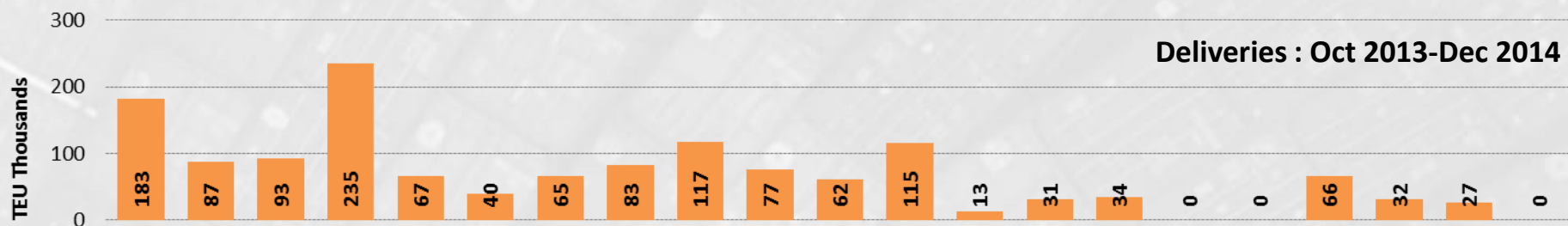
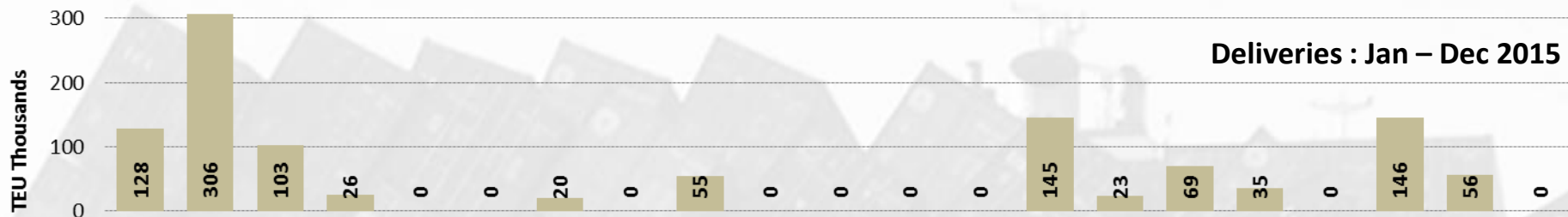
- Deliveries 2009-2013
 - 6.42 m TEU (37%)
- Scrapping 2009-2013
 - 1.47 m TEU (8%)
- Capacity absorbed by slow steaming
 - 1.30 m TEU (7%)
- Demand Growth
 - Est 2.84 m TEU (16%) or 4.2%p.a.
- Excess supply
 - 0.81 m TEU (5% current fleet)

Idle capacity most severe in history

- 850,000 teu idle in Jan 2012 & Jan 2013
- Current idle capacity 450,000 teu & rising

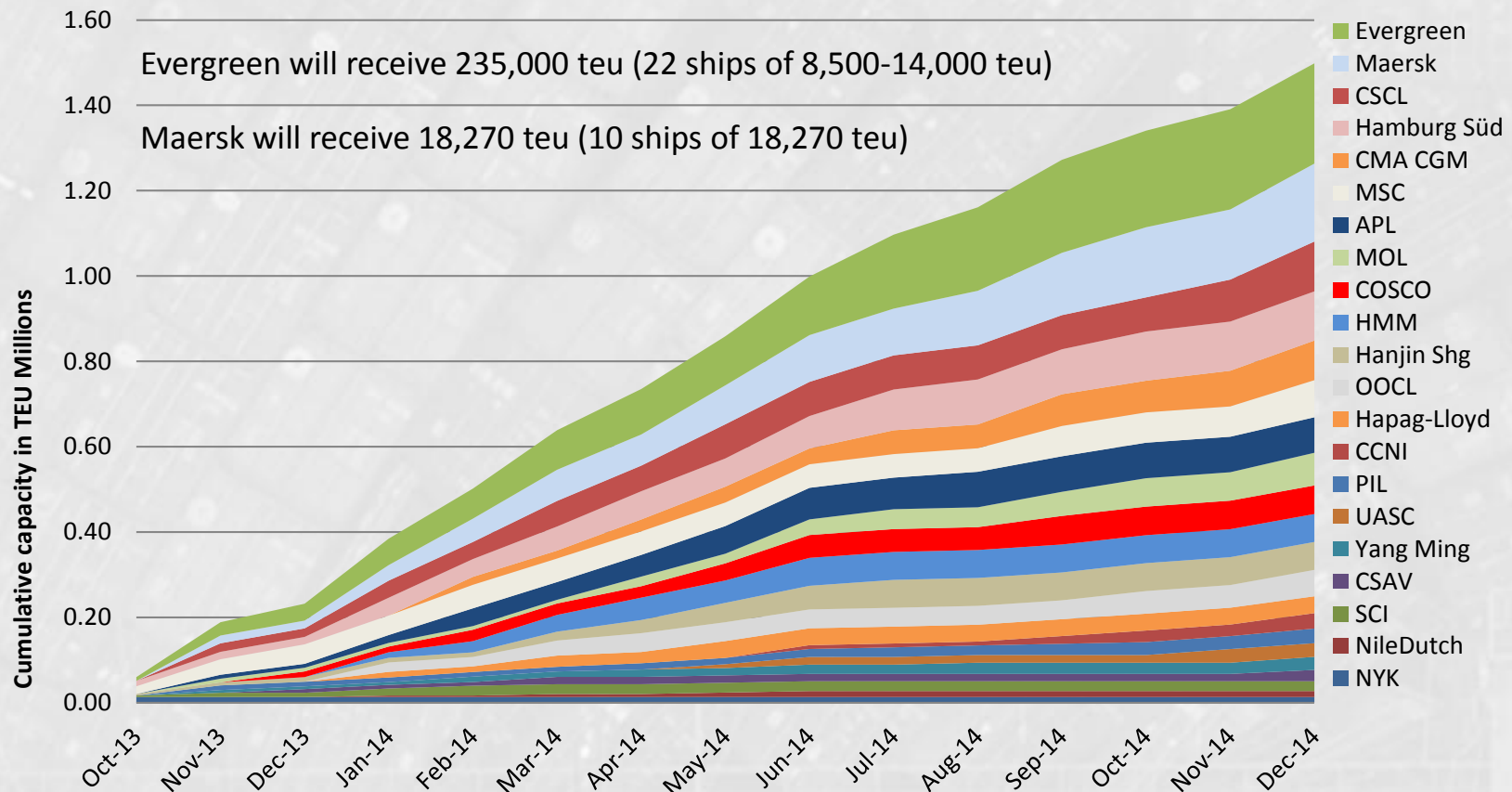


Significant new capacity coming in 2014 and 2015



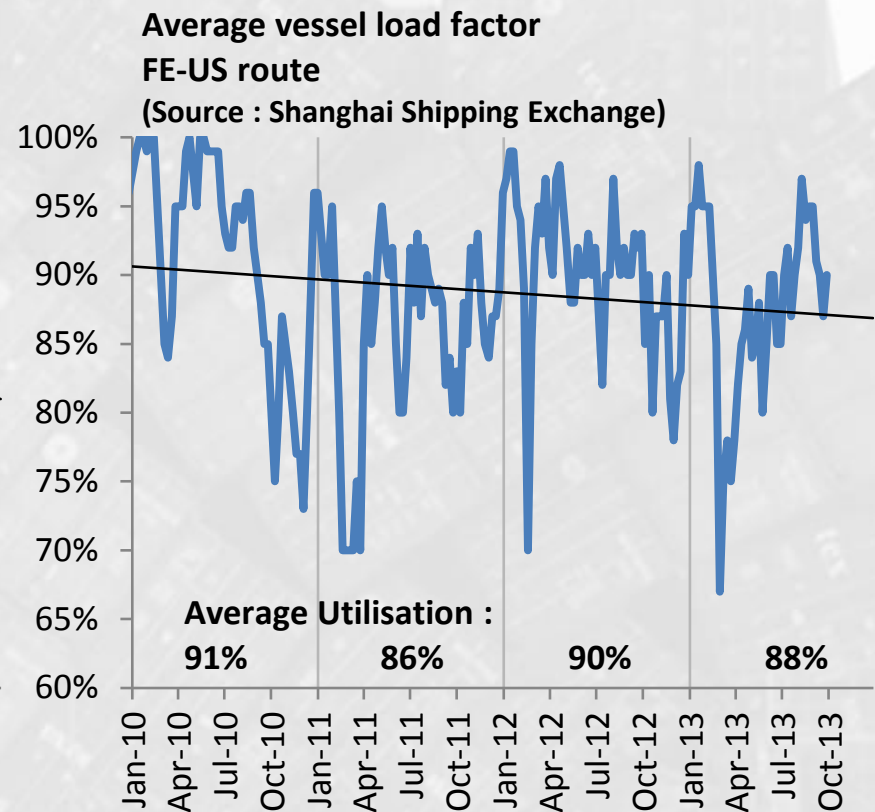
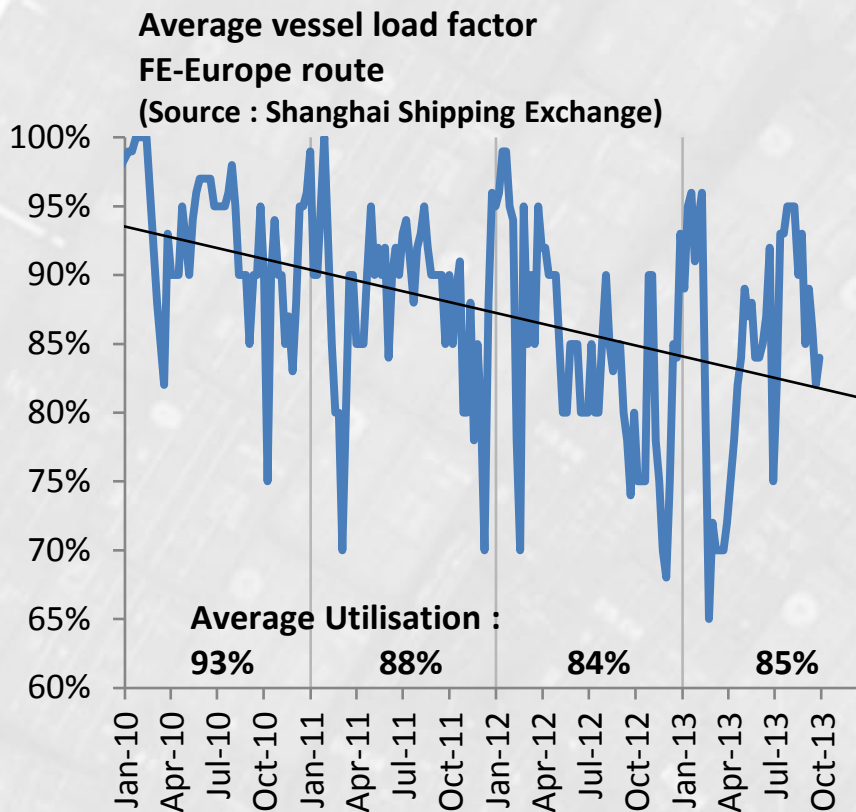
New vessel deliveries : Oct 2013-Dec 2014

- Over next 15 months, total of 1.9 Mteu new capacity will be delivered (11.1% of current fleet).
- 21 carriers will receive 1.5 Mteu of new capacity (8.7% of current fleet)



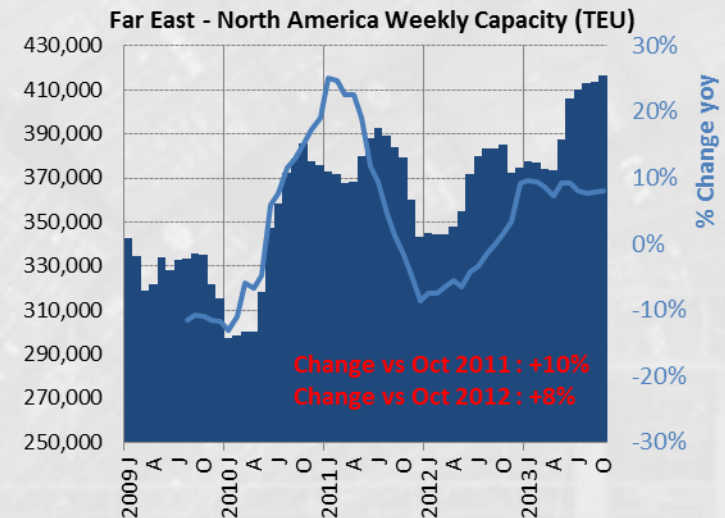
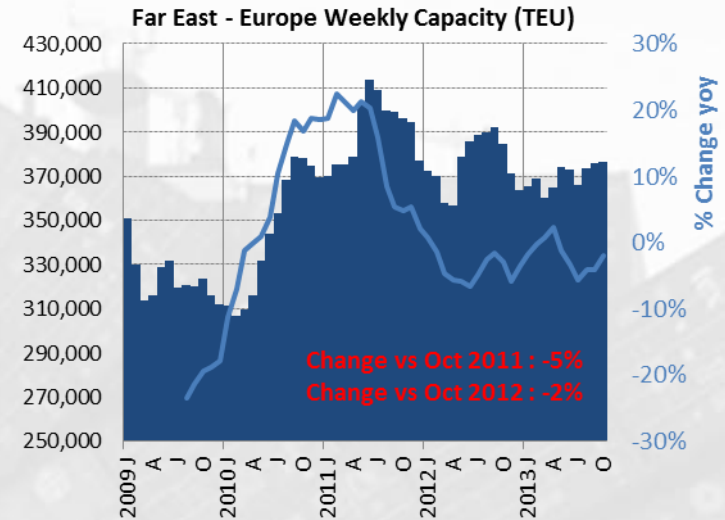
Utilisation levels declining

- Threat of capacity & equipment shortage, rollovers (remember 2010) low
- Stronger peak season observed in 2013 but duration was short



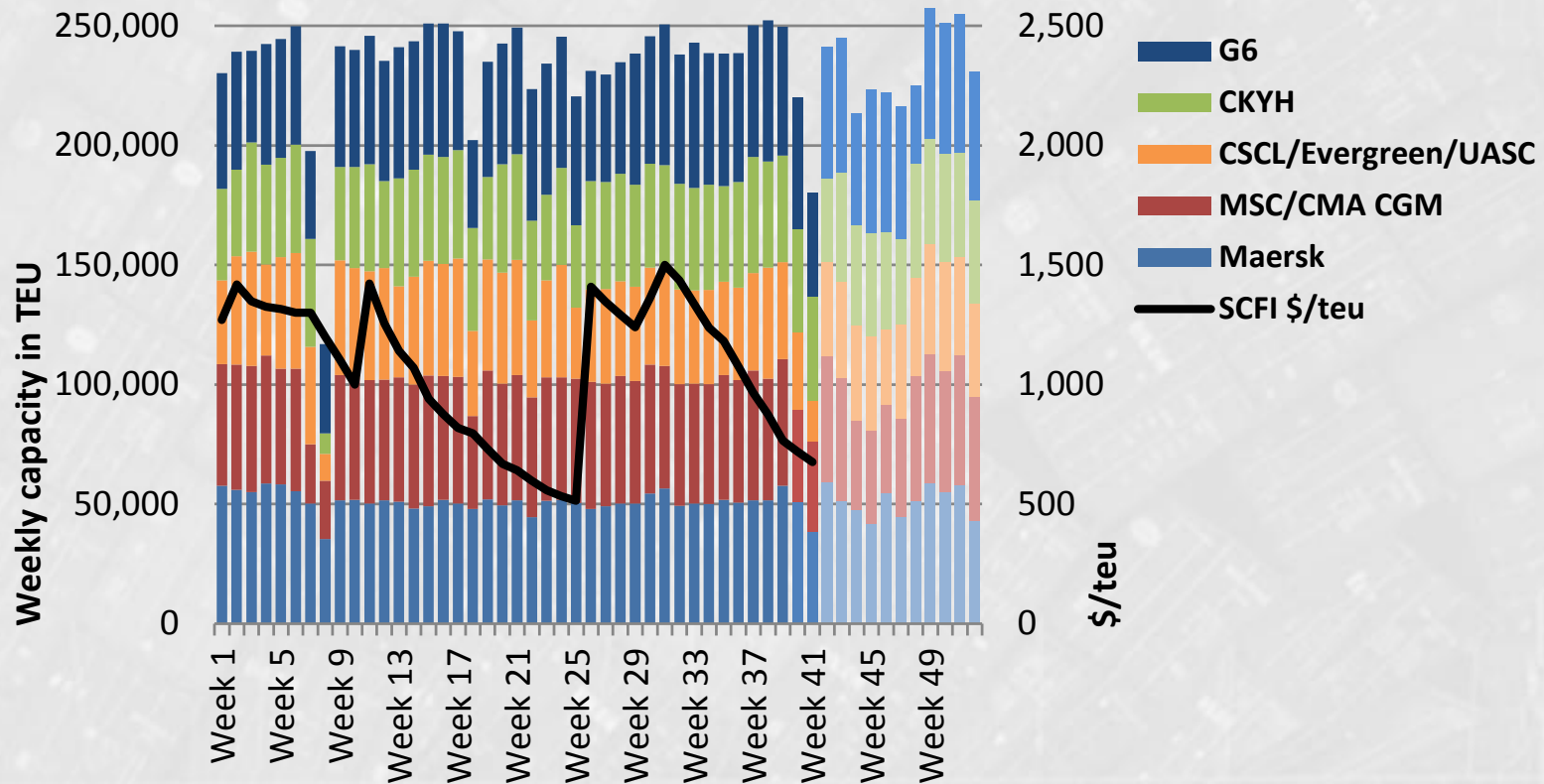
Carriers are still adding capacity

- FE-Europe capacity is down -2% in 2013
- But average size of ships on FE-Eur is now at
 - 10,020 teu (Oct 2013) vs
 - 9,395 teu (Oct 2012)
 - 8,409 teu (Oct 2011)
- No more service withdrawals expected on FE-Europe,
- Carriers will rely on skipped sailings to manage capacity in November but skipped sailings ineffective in preventing rate reductions
- FE-N America capacity is up +8%
- Cascading & new capacity additions into FE-North America trade will continue in 2014



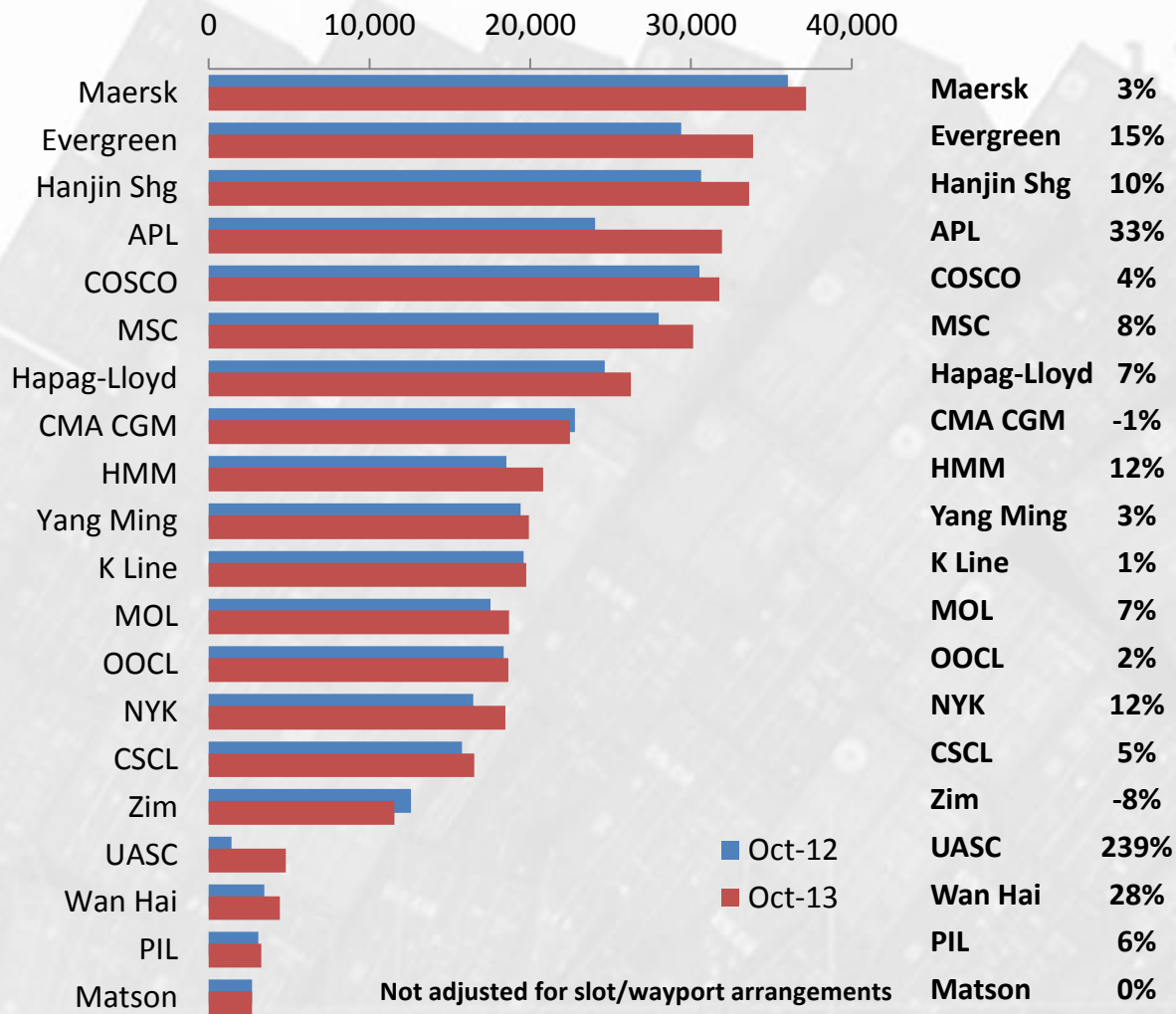
Difficulty in managing capacity

- Reluctance of FE-Europe carriers to pull out services in 4Q 2013
- 11 skipped FE-North Europe sailings in November (12% of capacity)
- But withdrawals are short term, rate increase likely to be short-lived



Transpacific capacity is up 8% yoy

FE-North America weekly capacity by carrier (TEU)



- P3 formation not expected to change competitive landscape
- Operational alliance only, commercial competition remains
- No major carrier exits foreseen in 2014
- Expect more cross-alliance partnerships in the wake of P3 involving
 - G6 (NWA + GA)
 - CKYH + Evergreen
 - CSCL + UASC

Predictions for next 12 months

3 Main Themes remain:-

- Rate volatility will continue – supply overhang remains
- Carrier behavior will dictate freight markets – fight for market share continues
- Industry consolidation still far off – focus on Alliance arrangements and its implications
- Difficult for carriers to secure increase on 2014 contract rates
- Benefits of cost savings will be passed on to shippers
- Nov GRI difficult to sustain
- NVO/Spot rates will be subject to significant fluctuations
- Carriers to watch in 2014
 - Evergreen
 - Maersk
 - CSCL
 - Hamburg Sud
- P3 could lead to more volatility
 - MSC prices with Maersk service

End

Please send any queries to hjtan@liner-research.com

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