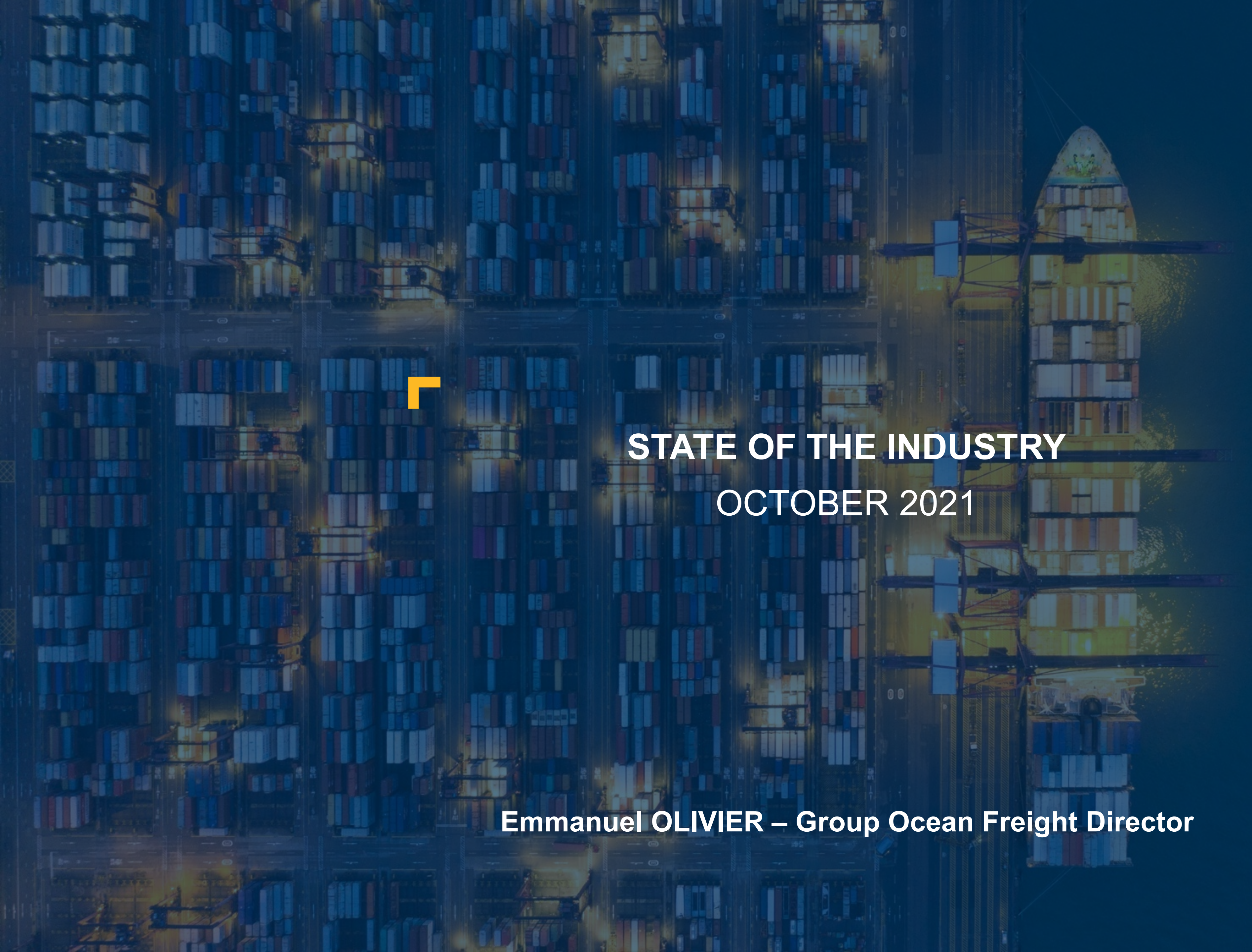
Hillebrand

FORWARDING PASSION



STATE OF THE INDUSTRY

OCTOBER 2021

Emmanuel OLIVIER – Group Ocean Freight Director

UNPRECEDENTED…

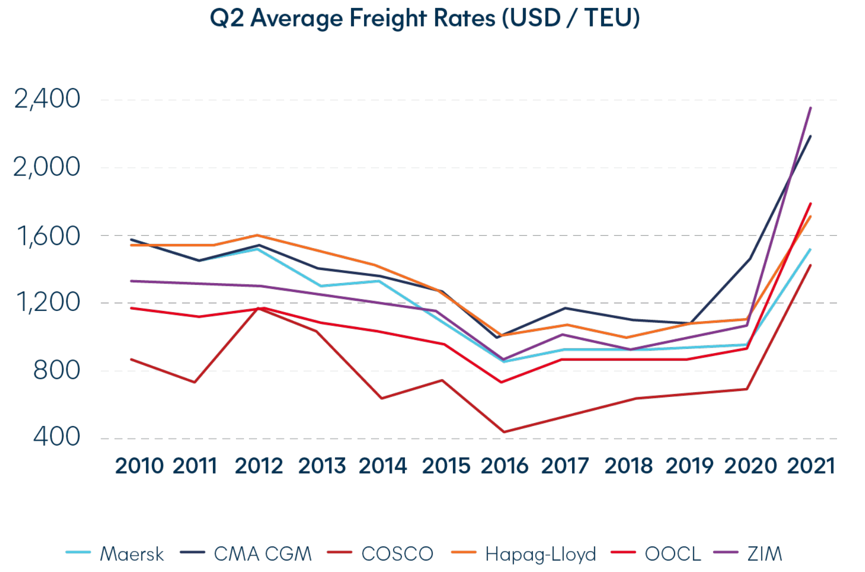
RECORD OCEAN FREIGHTS,

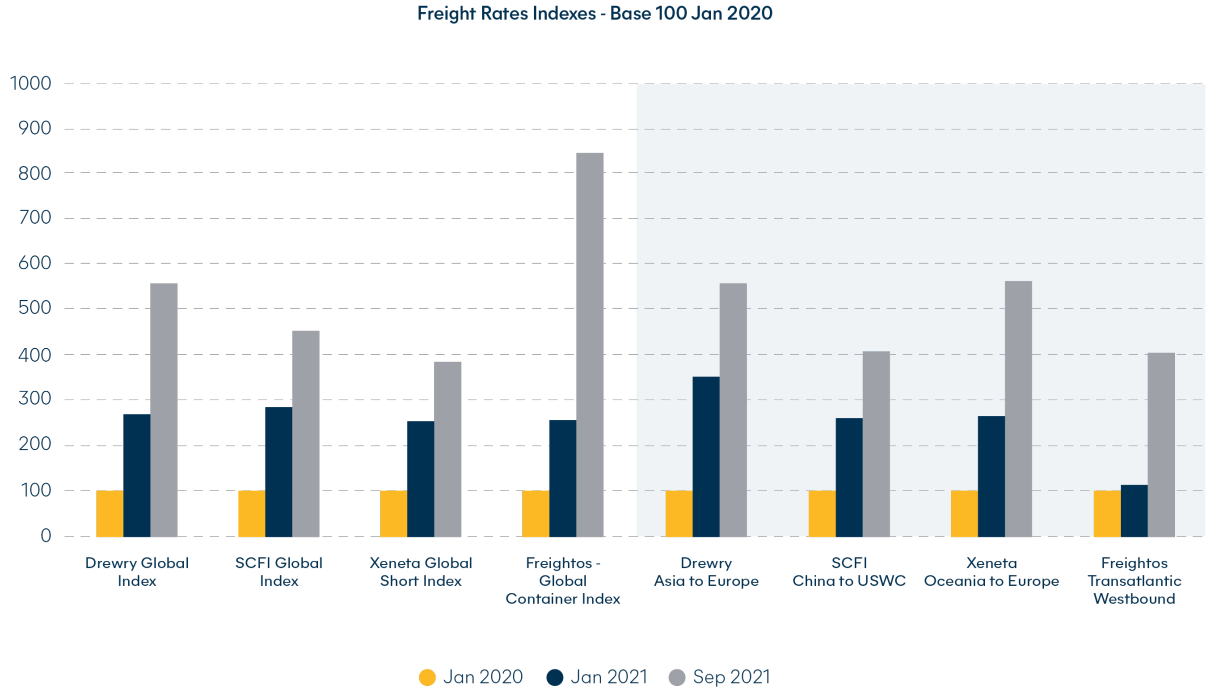
In September, the industry main global ocean freight indexes reported a sixth month of consecutive rate increases.

For the first time ever, the Drewry index broke the $10,000 a 40ft mark, whilst Xeneta short term rates index was four times higher than in Jan 2020.

If the Transpacific and Asia Europe lanes continue to prove the most buoyant of all, the trend is expanding to all maritime routes.

A trend ascertained by the average ocean rates as published by shipping lines this year…





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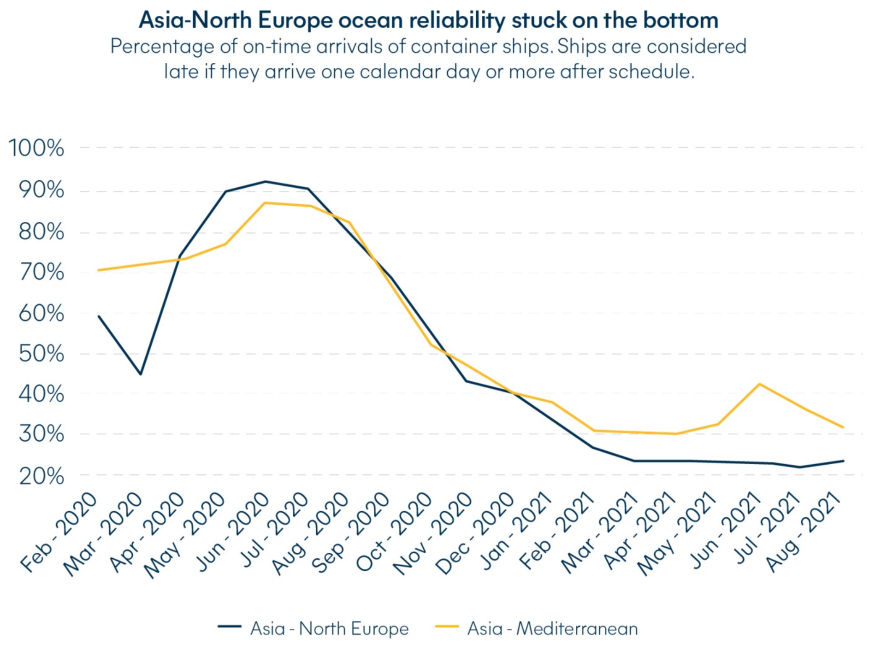
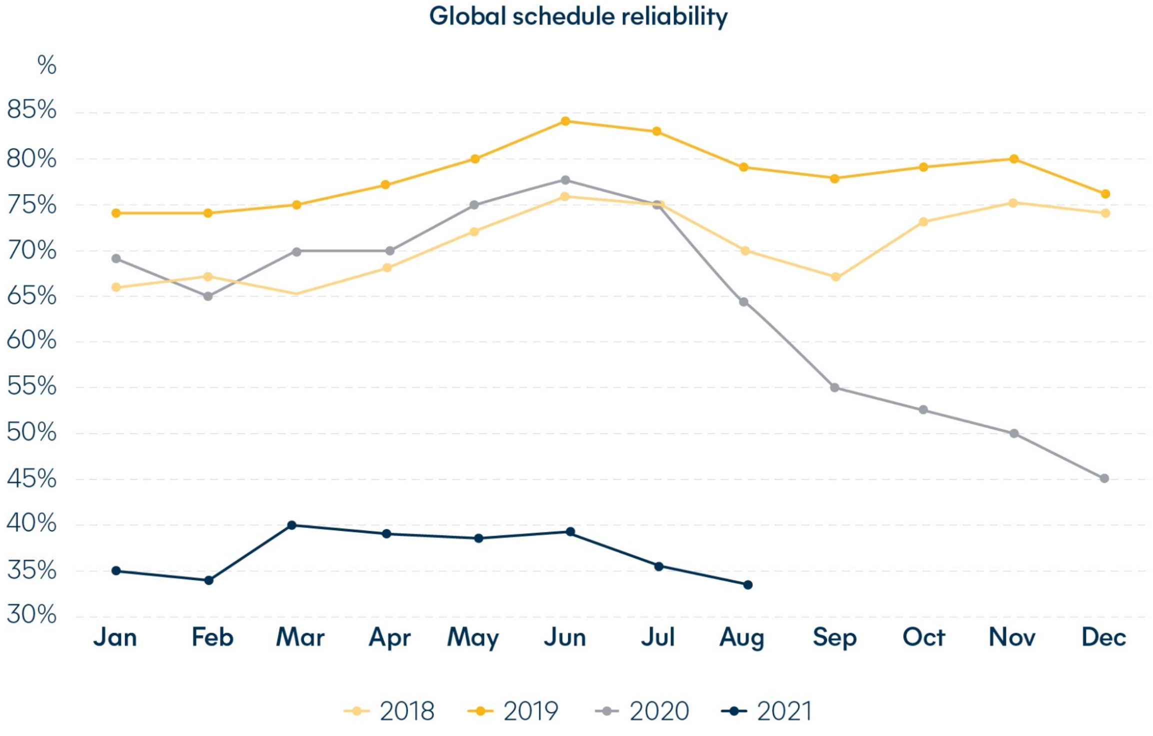
RECORD POOR SCHEDULE RELIABILITY,

Meanwhile, global on-time performance was below 35% in July and August !

Dramatic ports congestion, combined with unpredictable events (the Suez Canal blockage, industrial actions, bad weather) or Covid situations (Yantian and Ningbo ports closing down…), have all added up to disrupt schedules…

If only one illustration, in August, only 20% of ships were on time on the Europe Asia trade. A record low.



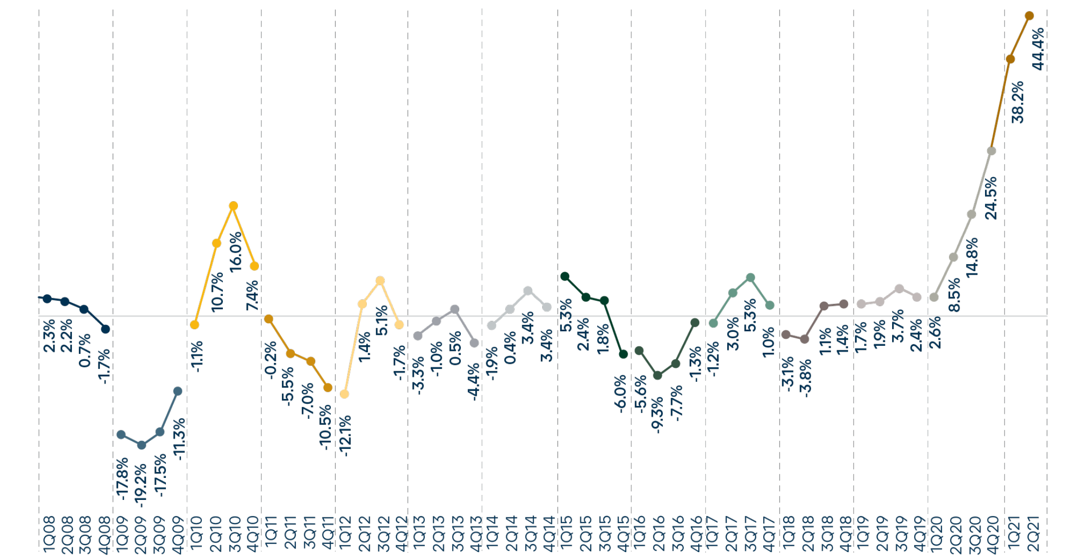


RECORD PROFITS FOR CARRIERS,

On Sept 16th, Maersk published its 2021 full year EBITDA expectation at USD 22-23bn !

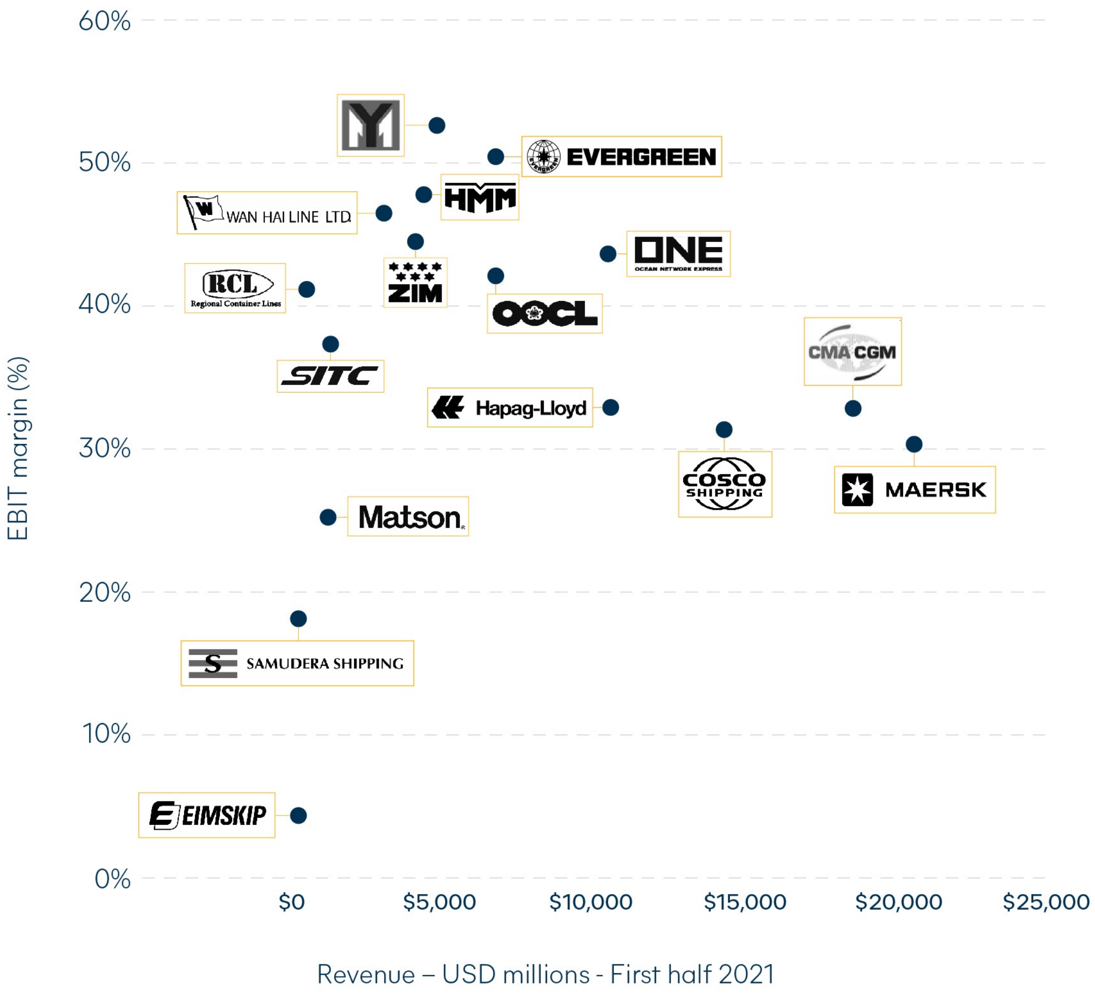
Besides steep operational cost increases (fuel, equipment, waiting times, charter…), carriers are also benefiting from the supply chain disruption.

Main carriers: Average core EBIT margin by quarter



Average of CMA CGM (incl APL to 2Q 2016), COSCO Shg (since 1Q 2019), CSCL (to 1Q 2016), EMC, Hanjin (to 3Q 2016) Hapag-Lloyd (incl CSAV to 2014), HMM, Maersk, ONE (from 2Q 2018, formerly KL, MOL, NYK), WHL, YML, Zim

Making up for all losses accumulated in past years, (which led to consolidation and the Hanjin demise in 2017) carriers now re-invest into new fleets as well as into the next generations of IMO compliant vessel energies…



HOW DID WE GET THERE?

A LONG LASTING CHALLENGE…?

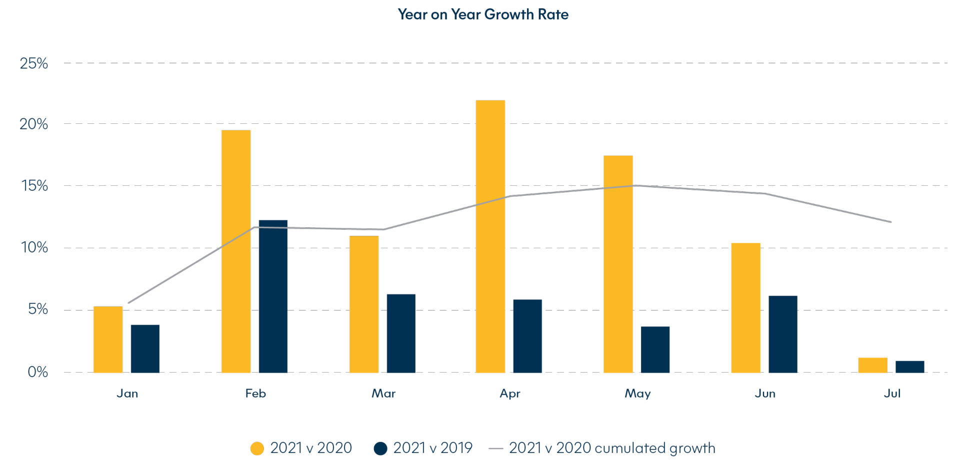
With the Covid outbreak late 2019 and subsequent lockdowns and demand drop, carriers pulled out phenomenal capacity from the seas. Up to 2,7 million TEUs were idled in May 2020.

The sudden US strong demand rebound that followed in the third quarter 2020, when shipping lines were hesitant to redeploy their assets with all uncertainties around, initiated the market disruption that the industry is still unable to exit today…

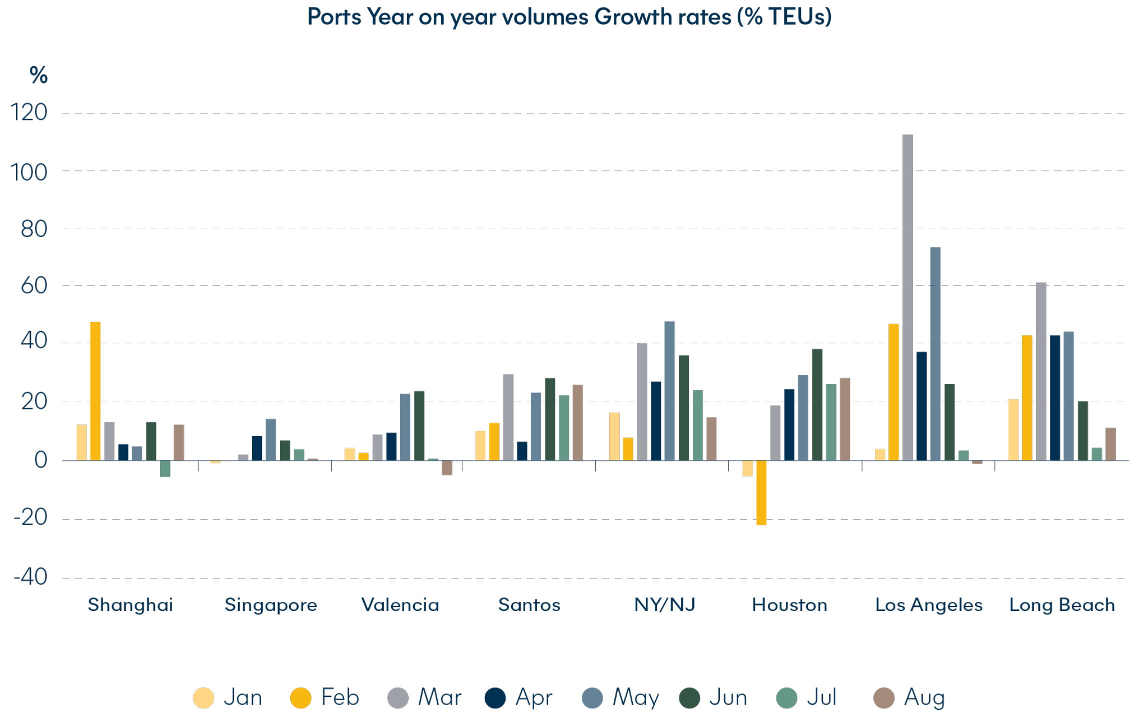
IN DETAILS : CONTINUOUS STRONG CONTAINER DEMAND,

Besides a slow down in the summer, by end September YoY container demand grew +13%, and still 6% vs 2019. A growth witnessed by all regions in the World.

The relative growth slow down in July August is also the consequence of much lesser sailing solutions for shippers.

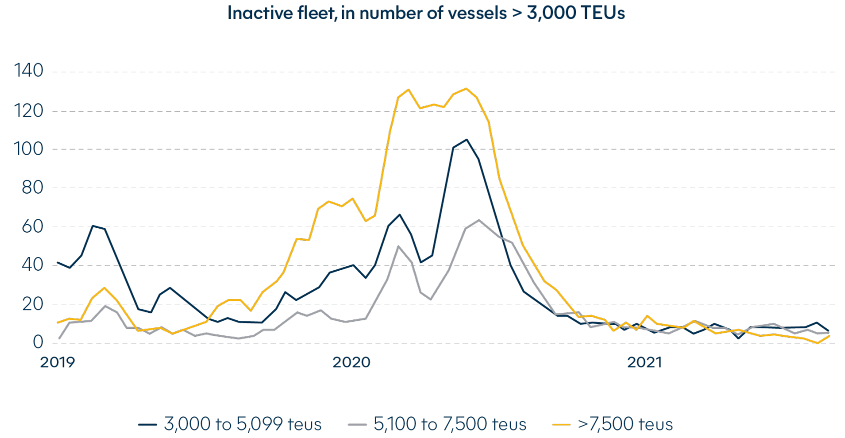


Certainly though, US ports are far ahead, recording best volume performances ever, on the back of still very low inventory levels and very high demand for goods manufactured in Asia.



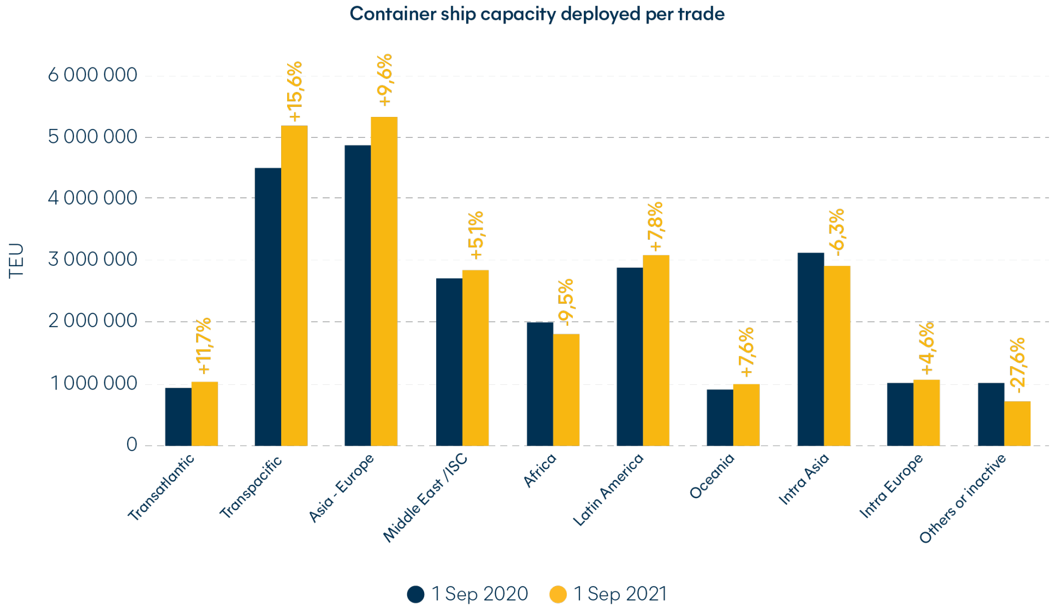
SUPPORTED BY SOLID CAPACITY INJECTION,

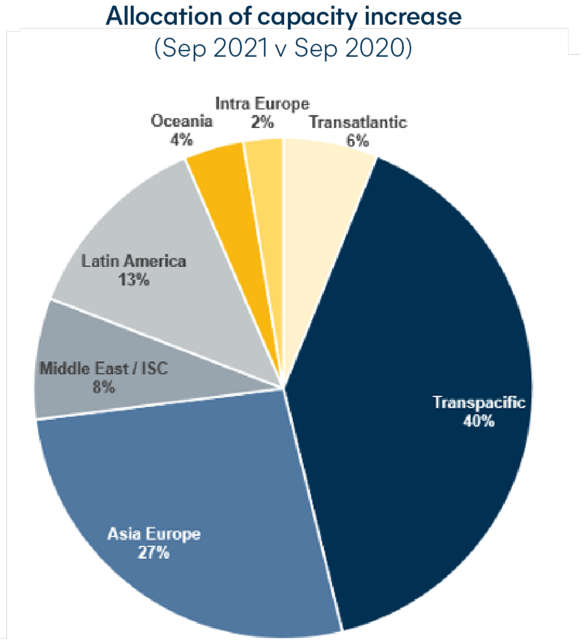
While nominal capacity “only” increases around 4% this year, the actual growth hits around 15% vs June 2020, taking into account all the reinjected so called “idle fleet”, ie vessels parked in the second quarter 2020…



Even focus has been on Asia Europe and the Transpacific, the strongest and most remunerative of all, relatively higher capacity has been deployed on most World routes.

Carriers have injected all available vessels not only to meet demand, but also to fend off port delays that disrupt schedules...





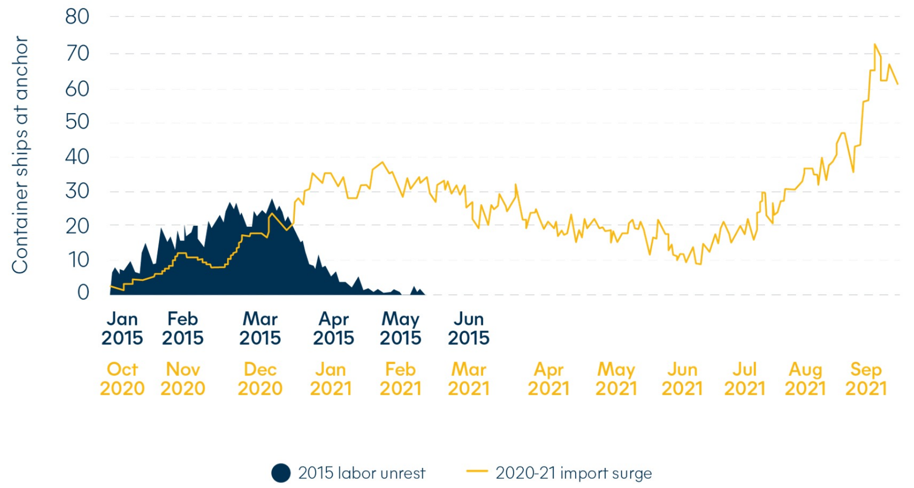
BUT INFRASTRUCTURES CANNOT COPE!

Indeed, port delays are at their highest ever in the US, and as domino effect congestion has severely expanded - or remains strong - in Europe, Asia, Oceania, Latin America…

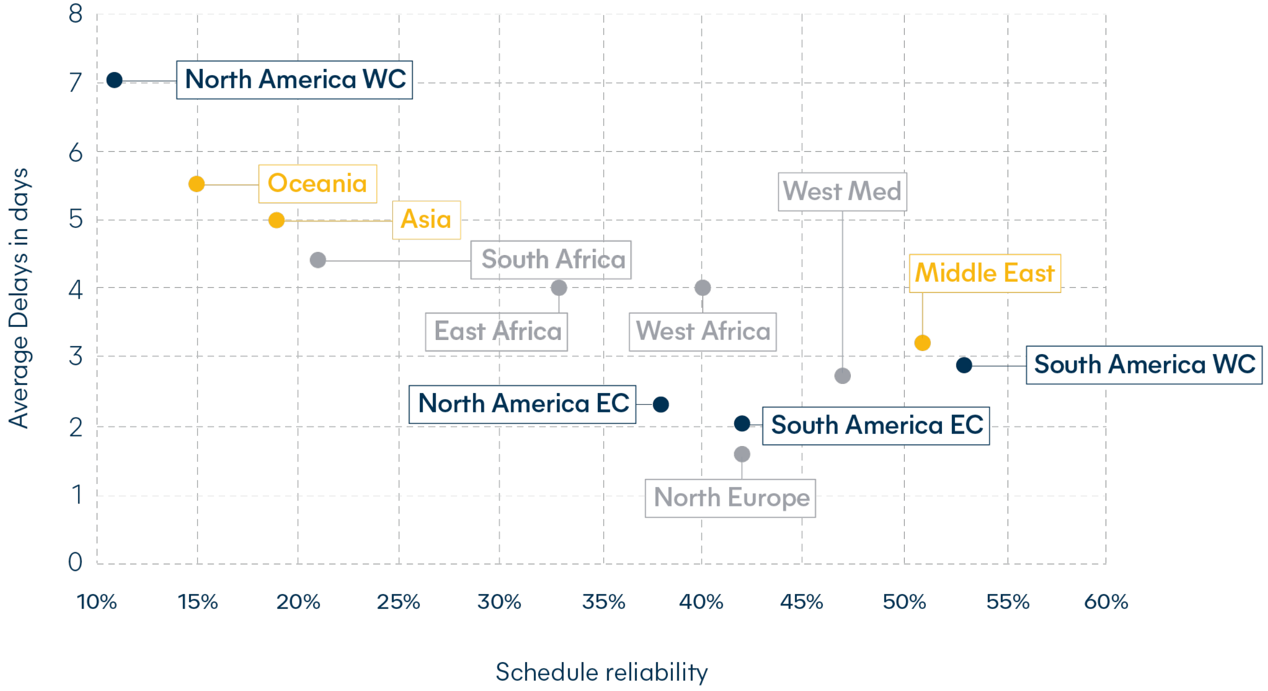
The average waiting time at ports for vessels being late now exceeds 7 days, whilst close to 70% of vessels are effectively late on schedule. Delays in California, China or Oceania, are at times exceeding two weeks…

As of October 10th, in excess of 300 vessels were reported queuing at ports around the Globe, waiting for access. Close to 60 in Los Angeles / Long Beach only!

Los Angeles/Long Beach congestion: 2015 vs 2020-21



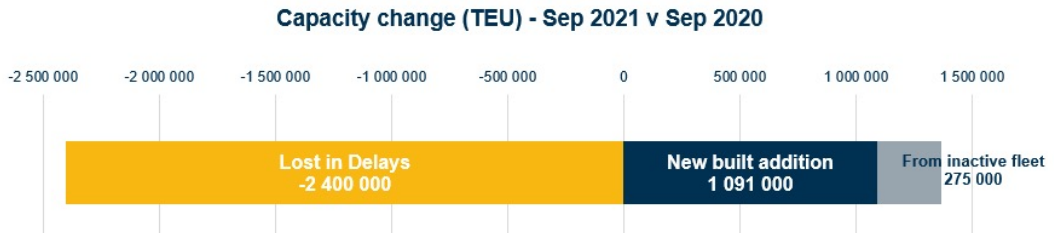
Reliability and Delays in July 2021



AND PORTS DELAYS NEGATE THE CAPACITY INFLUX!

In August, **an estimated 13% of the World capacity** was absorbed by delays: which is like removing the entire fleet of a CMA-CGM or a Cosco from the seas.

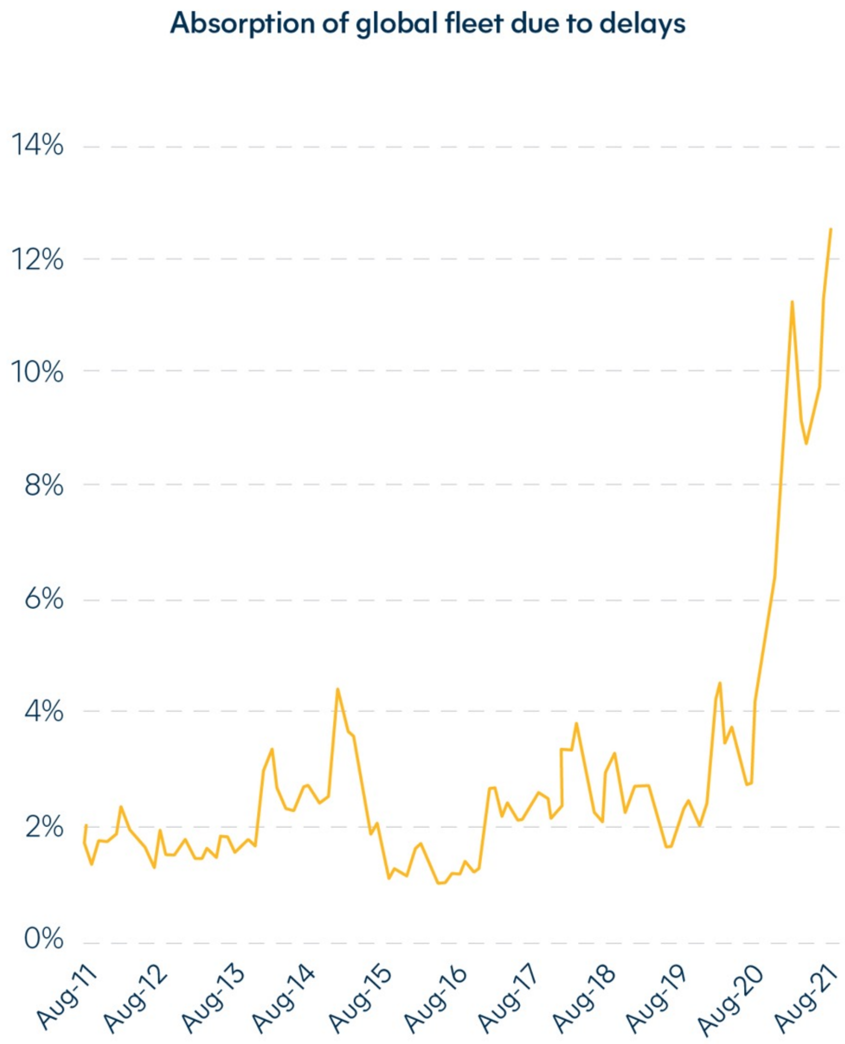
Including delays, the actual effective capacity is probably down one million TEUs vs September 2020…



Strained networks, weather, industrial actions… are forcing carriers to:

- Modify schedules and rotations without notice,
- Omit ports or cancel voyages altogether,
- Cancel sailings besides lack of capacity…

All further deteriorating services integrity…

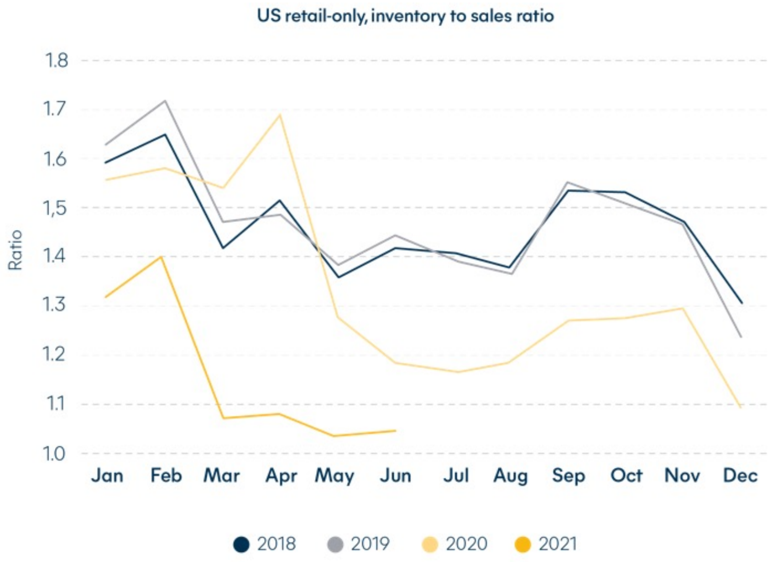


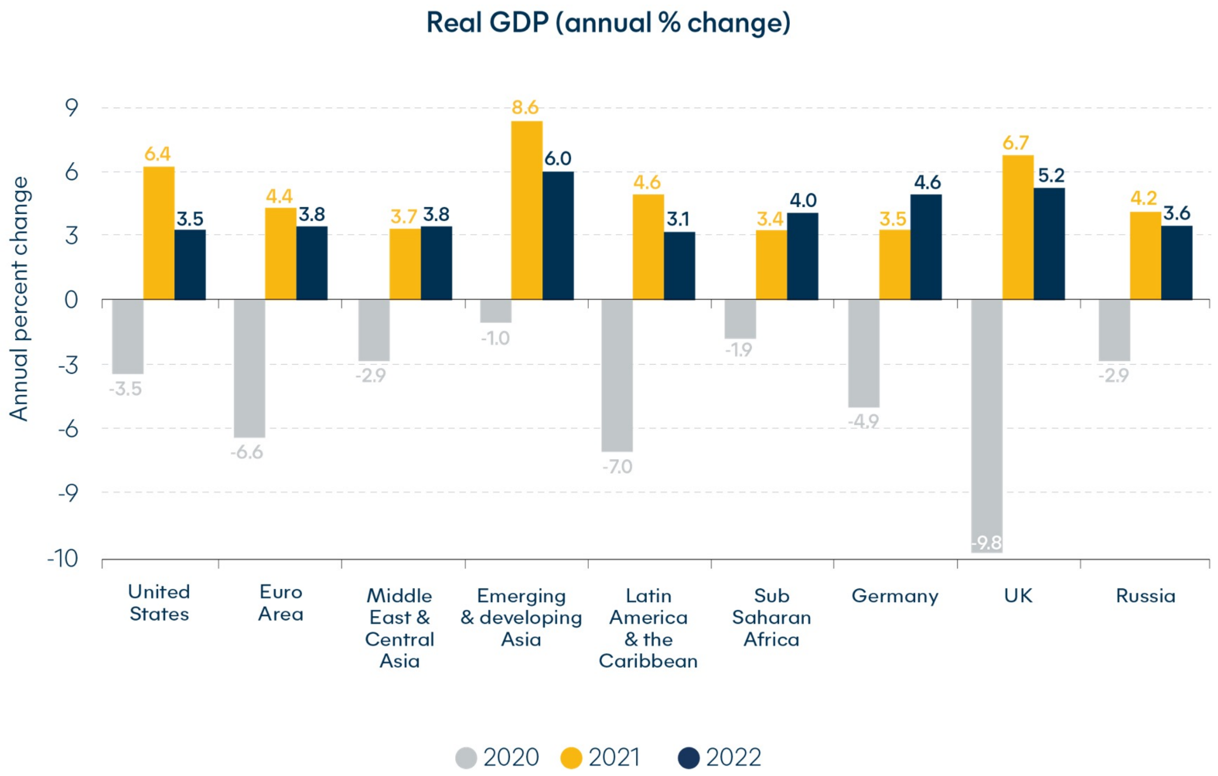
COMING NEXT

WITH POSITIVE CONTAINER DEMAND OUTLOOK AHEAD,

US demand continues to account for the largest share of the global container demand growth. In the first half of the year, **North American imports** were **up 33%** vs last year, and still a staggering 23% increase vs 2019 !

Year to date, consumer spend on goods is about 10% higher than in… 2019, and inventory levels are still low…

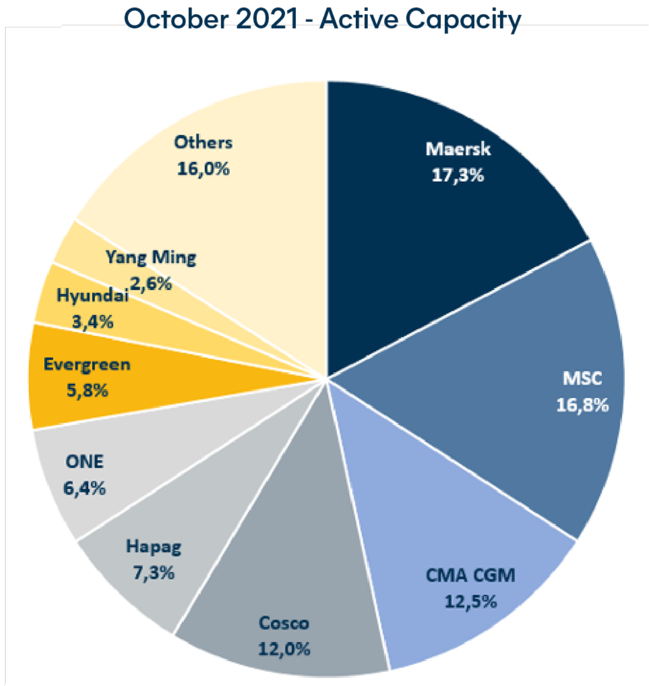




On the back of higher vaccination rates and a likely easing of the Covid crisis, consumer confidence indexes and GDP forecasts are enthusiastic.

BUT LIKELY UNDER-CAPACITY IN 2022,

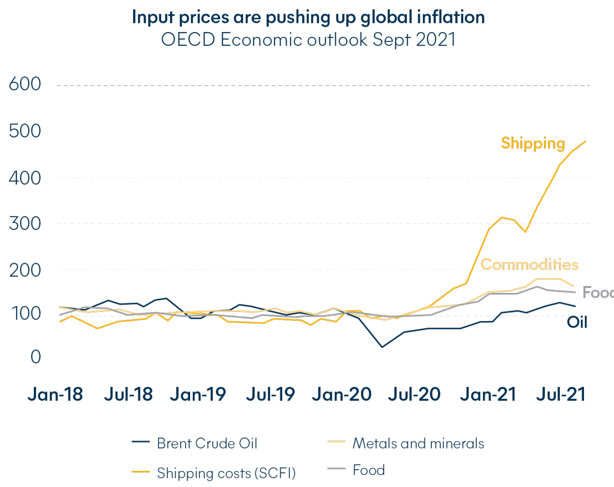
Including their order book, the top **8 shipping lines,** organized in 3 alliances, still control **close to 85% of the World's capacity**: a larger than ever concentration that makes for a powerful supply control by carriers.

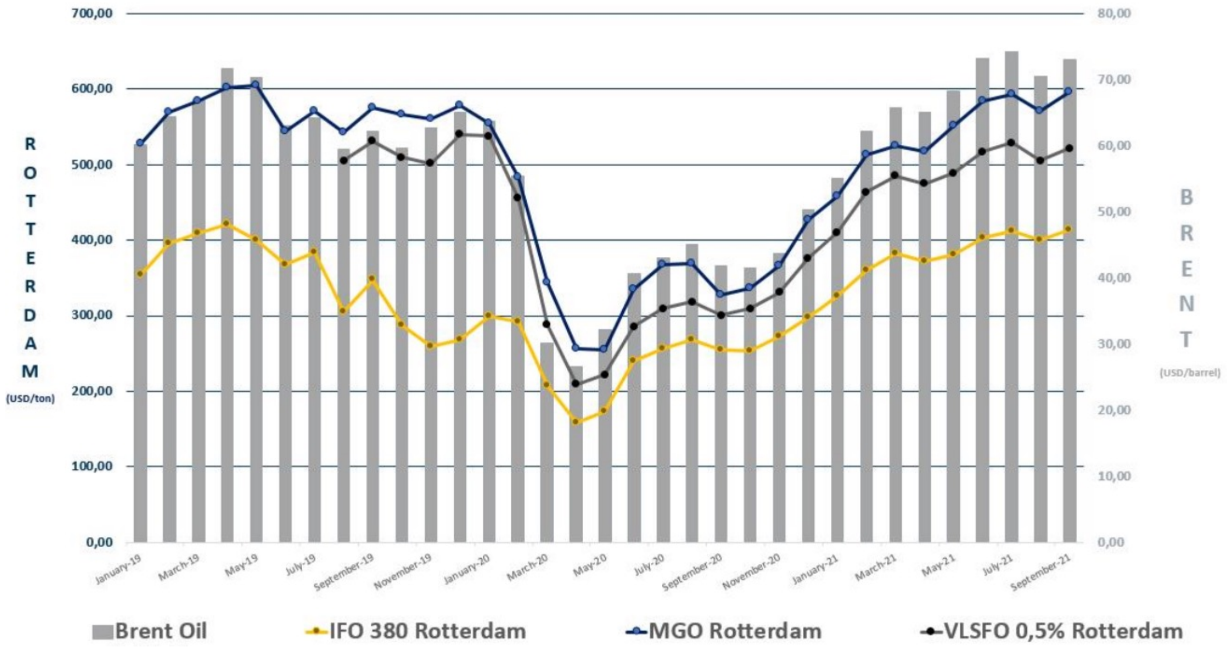


The expected capacity influx remains somewhat (very) low in 2022, actually still lower than in 2021, and certainly lower than container demand growth expectations.

DISRUPTION AND HIGH TRANSPORT COSTS WILL LAST…

Unless the impact on inflation proves too detrimental to specific goods retail prices, or regulatory bodies intervene to control freight rates practices, then ocean rates will remain high…





Meanwhile, even demand was to slow down at some point, ports will still need months to ease congestion. And operational costs remain high:

- Ports costs, equipment positioning,
- More vessels needed, and speeding up to catch up delays…
- Charter costs at record levels: a 8,000 TEU vessel costs now $140,000 a day for a three years contract…

And fuel is at its highest in three years…!

THE WAY FORWARD?

Arguably opportunistically so, ocean carriers will continue to prioritize:

- Remunerative trades & contributions
- Shippers loyalty and engagement
- (Very) long term commitments.

Shippers need to focus on…

- Increase inventories, anticipate and allow for longer lead times.
- Adapt to reduced container free times.
- Provide reliable forecasts to help with equipment needs.
- Prioritize long term contracts.
- Deliver commitments to protect allocations.
- Pay the right price.
- Consider groupage / LCL solutions
- Consider air freight alternatives for urgent flows.

THANK YOU