Hillebrand

FORWARDING PASSION

STATE OF THE INDUSTRY
MARCH 2021

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SUDDEN AND UNEXPECTED CONTAINER DEMAND GROWTH

UNFORESEEN AND LASTING CONTAINER DEMAND…

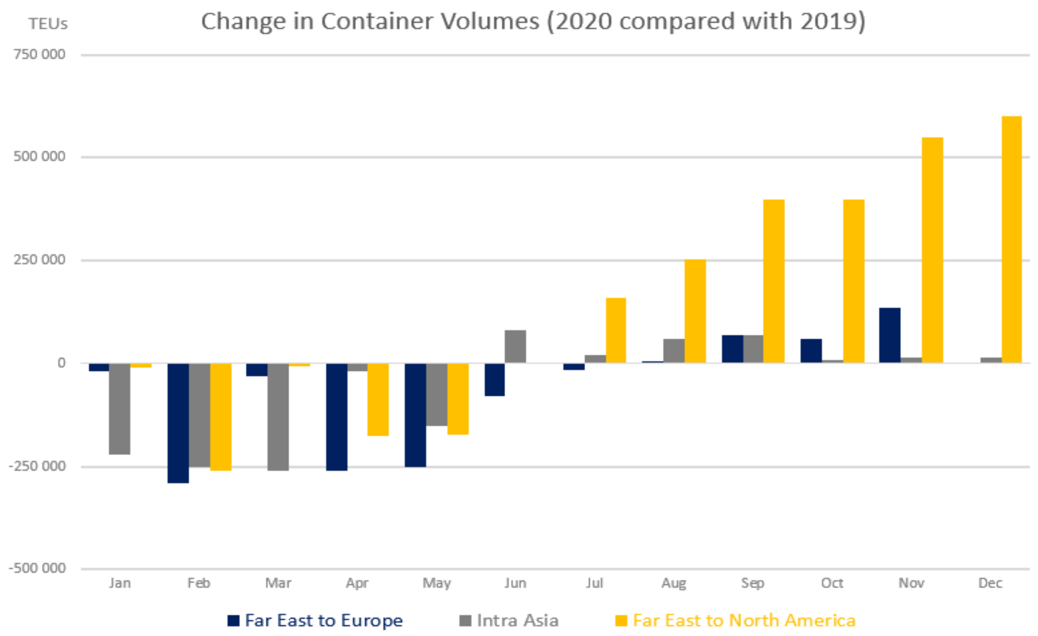
In August 2020, the IMF did forecast that in 2020 World GDP would retract 5%, mature economies lose over 8%, and container volumes would decline 7 to 10%.

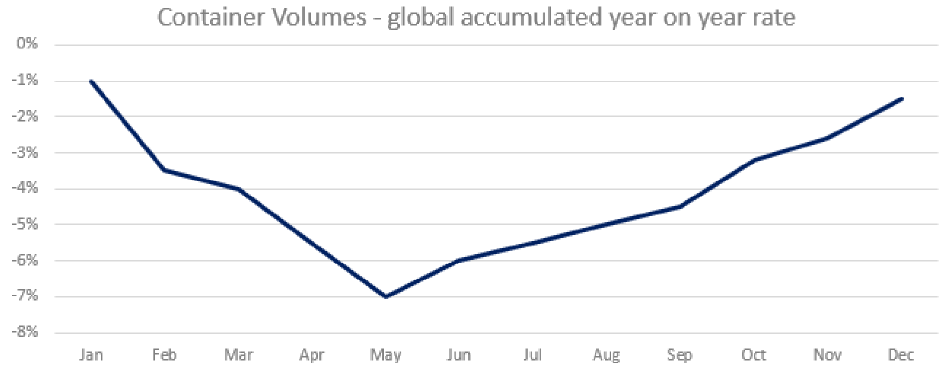
However with the pandemic, consumer spend on goods vs services kept on increasing, and pushed container demand to unexpected levels after the summer.

Overall, container volumes eventually declined « only » about 1% for the full year, on the back of a very strong fourth quarter.

In Q4, with volumes up 400,000 to 525,000 TEUs per month vs Q4 2019, the Transpacific posted YoY growth of no less than 30% !

A trend that has continued over January and February this year.





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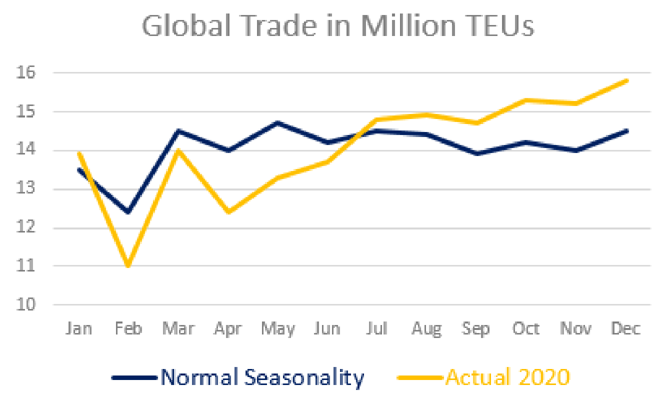
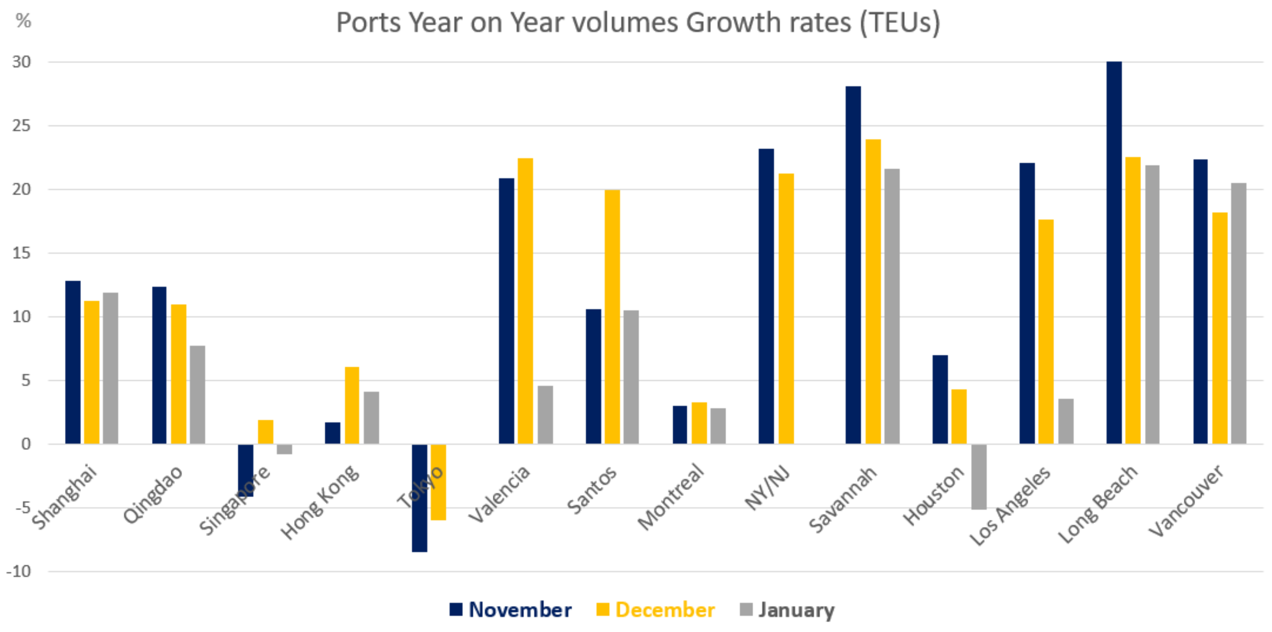
GROWTH EXPANDING ON ALL WORLD ROUTES…

If global container demand started to peak up from August onwards, it accelerated in Q4, with around +7% growth in October and November, over +10% in December !



2021 has so far shown no sign of slow down, and whilst the Transpacific has proved the strongest of all, all trades, all regions and all ports in the World continue to record serious YoY growth…



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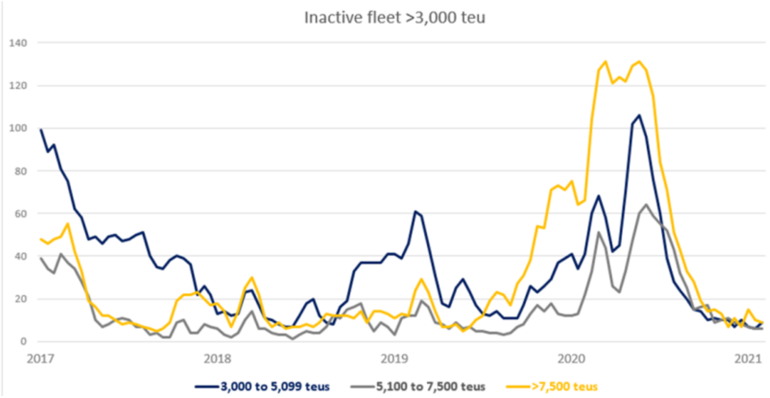
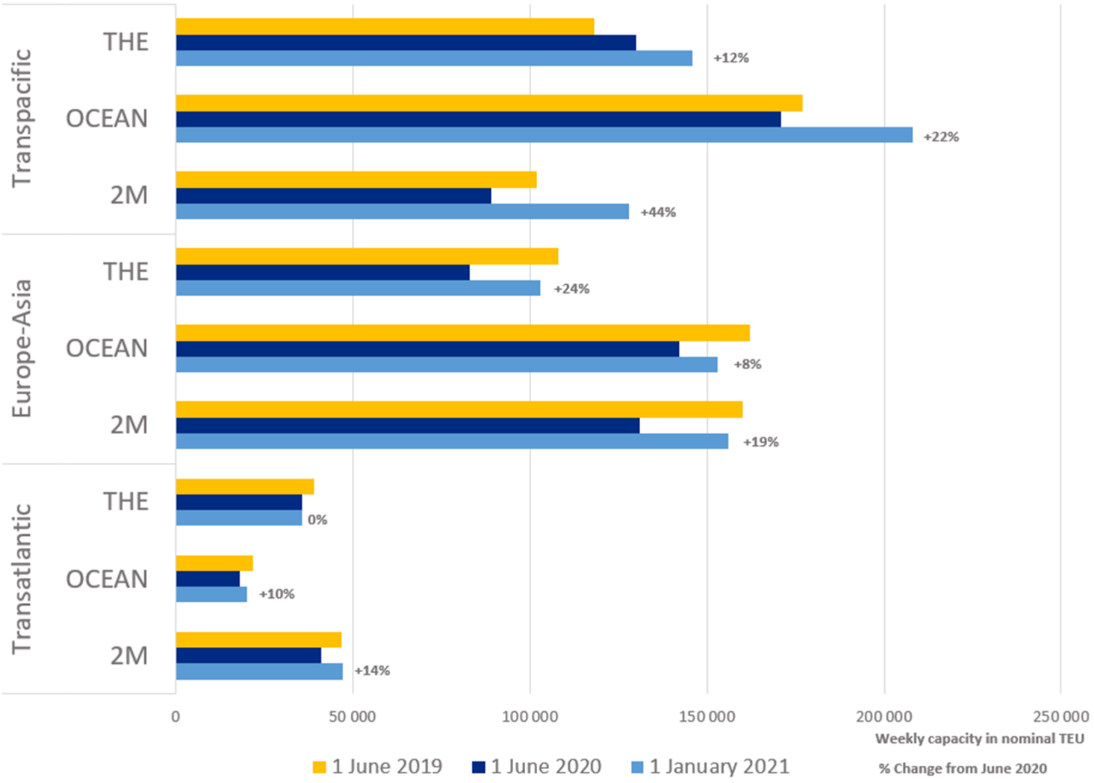
LEADING TO RECORD RATE LEVELS

WHILST CARRIERS DID REDEPLOY CAPACITY

To meet with demand, carriers have redeployed in the last months all and any capacity available… to the point that the so called « idle fleet » reached its lowest in 10 years.



And indeed all key trades (Asia Europe, Asia North America, Transatlantic, or again Asia to Latin America) are today showing strong positive YoY capacity evolution.



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DEMAND HAS PUSHED RATES TO RECORD LEVELS

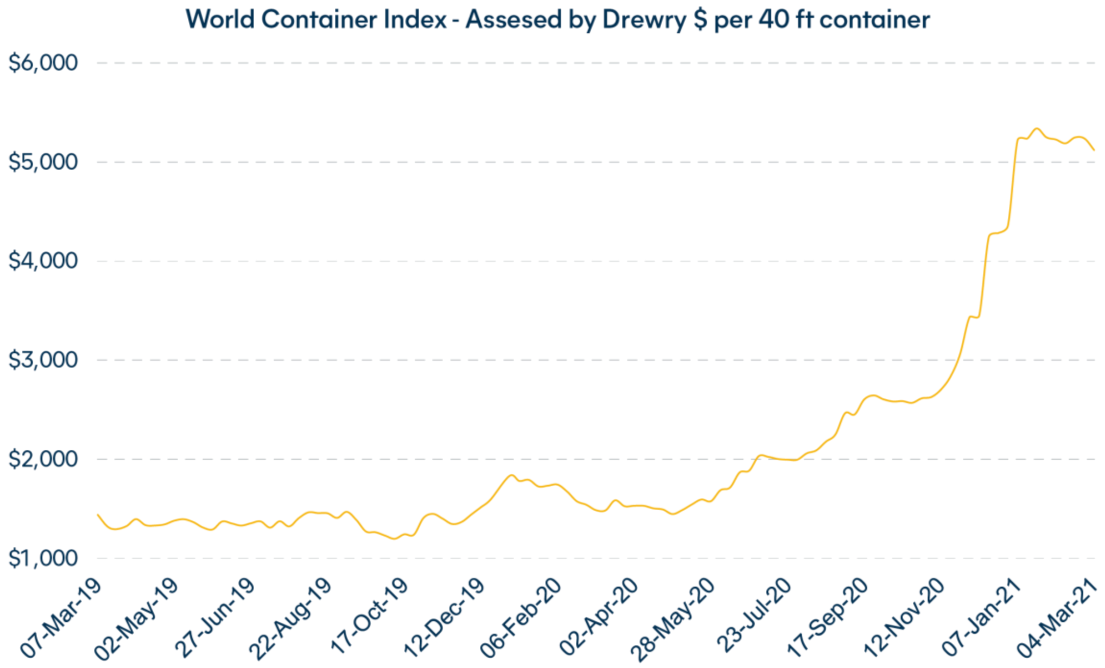
In no time, the supply / demand ratio has totally reversed, with literally all trade routes showing relative undercapacity.

Spot rates have exceeded USD 10,000 per container on the Transpacific, on Asia Europe and on the Latin America trade.

Contract rates this year have recorded very high 2-digits percentage increases vs 2020, and with very strict allocations caps. On all routes.

Trends in Spot Container Rates by Major Trade Route/Region

Major Trade Route	Recent Trend	Short-term Forecast
Transpacific Eastbound	↑	↑
Transpacific Westbound	↑	↑
Asia-Europe/Med Westbound	↑	↑
Asia-Europe/Med Eastbound	↑	↑
Intra-Asia	↑	↑
South Asia Exports	↑	↑
South Asia Imports	↑	↑
Middle East Exports	↑	↑
Middle East Imports	↑	↑
Transatlantic Westbound	↑	↑
Transatlantic Eastbound	↑	↑
South America - Northbound	↑	↑
South America Southbound	↑	↑
Africa Northbound	↑	↑
Africa Southbound	↑	↑
Oceania Northbound	↑	↑
Oceania Southbound	↑	↑
Intra-Europe	→	→



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BUT CHALLENGING SUPPLY CHAINS

HOWEVER, PORTS CONGESTION IS EXACERBATING,

With Covid regulations, reduced manpower has affected ports and intermodal networks productivity over the past months. And with the current demand trend, the situation is only getting worse, in a catch 22 trap:

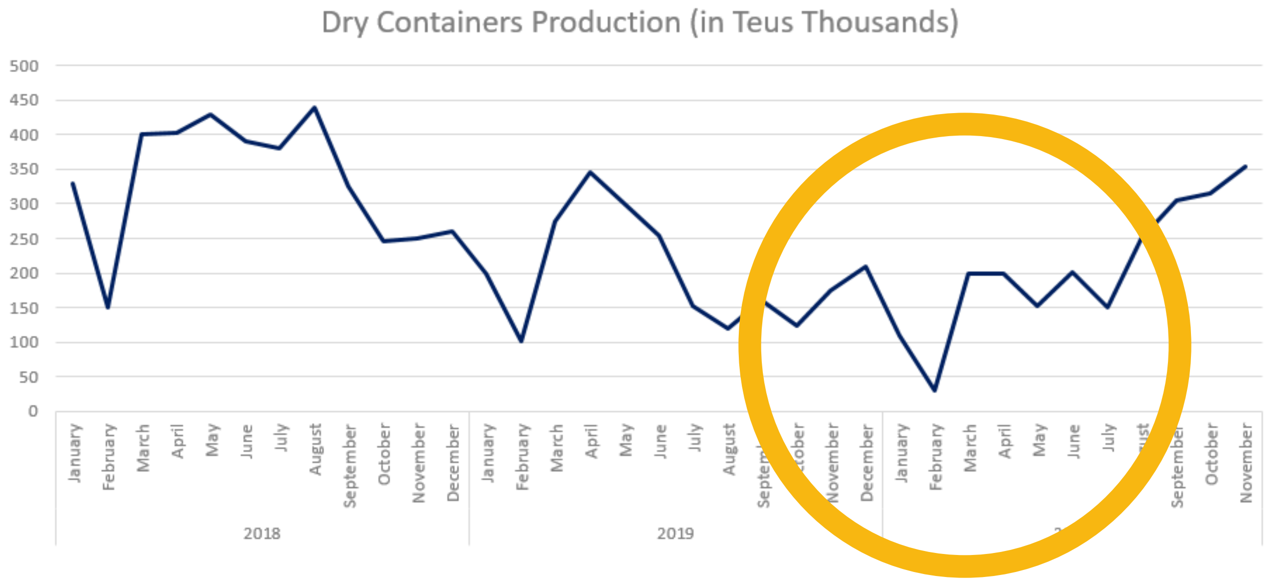
- Ports cannot cope with the volumes…
- Ships get delayed with very long waiting times (up to 14 days in Oceania or USA…)
- Ships miss berthing windows, have to omit ports or cancel voyages altogether, so to catch up with schedule…
- Which omissions and blank sailings worsen congestion at ports of loading.
- Labor unrest is growing due to working conditions - Terminal negotiations and strikes threats in Oceania, USA, Canada...

IMPACTING EQUIPMENT AVAILABILITY,

New containers production slowed down in H2 2019, in a context of low container demand and overcapacity. With Covid, many factories closed down in Q1 2020, further reducing production.

When demand started to peak, the impossible equation to fix rapidly included:

- Low fleet capacity available
- Carriers focusing on sending containers to Asia due to demand and rate levels…
- Ports congestion affecting containers dwell time…
- Per carriers sources, container average usage time increased by up to 5 days in January… further impacting empties availability.



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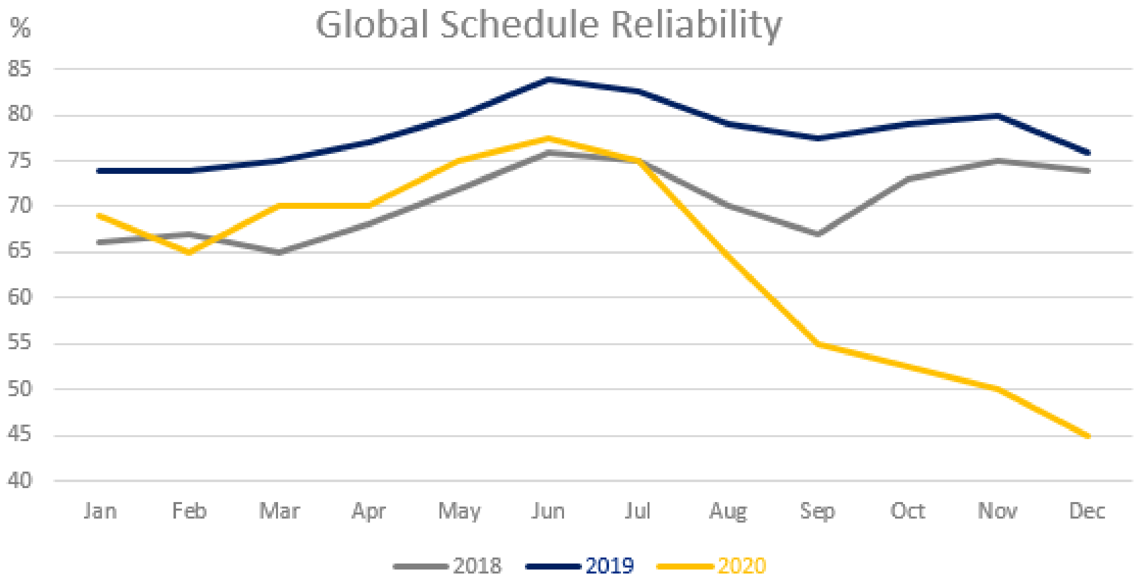
AND DETERIORATING SERVICE INTEGRITY

In the context, service levels from shipping lines continue to break poor performance records month after month.

Ports congestion, fed by demand, as well as capacity and equipment shortage, imply:

- Waiting time at ports increasing…
- Last minute vessel rotation changes, port calls cancelled, terminal changes…
- Covid related cases on board forcing ships to change rotation for medical reasons.
- Carriers imposing « booking stops » for several weeks…

According to SeaIntelligence overall schedule integrity had reached a low 45% in December! A record ever, and a serious blow to supply chains…



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WHERE NEXT?

WITH VERY CONCENTRATED SUPPLY,

67% of the total world capacity is controlled by the top 5 carriers, over 81% by the top 8!

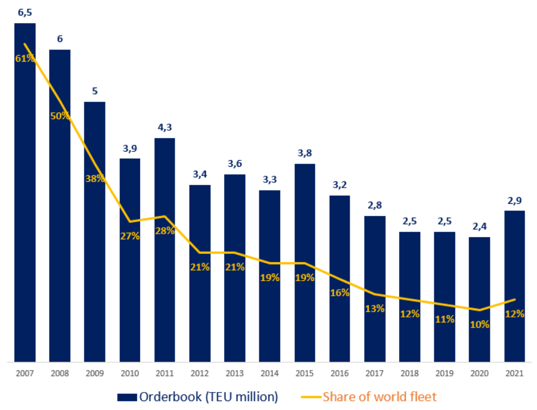
Yet further industry consolidation is still possible ahead:

- Safmarine as a brand has now disappeared.
- ZIM issued an IPO late last year, looking for fresh capital.
- PIL temporary rescued as creditors agreed refinancing plan. However PIL remains as a possible takeover target.

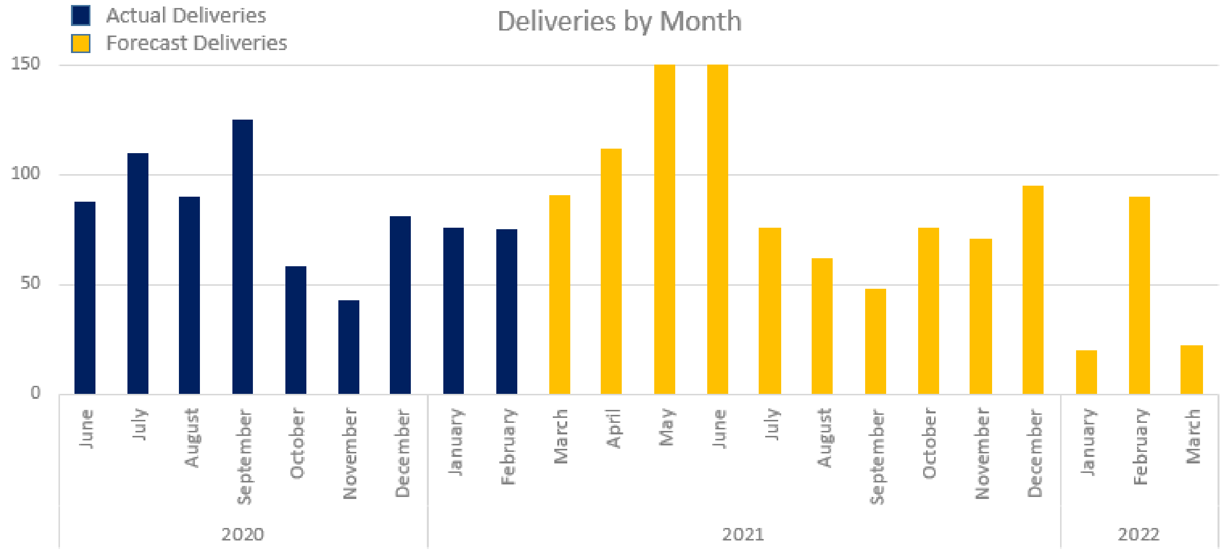
LOW CAPACITY GROWTH AHEAD,

Capacity will grow 2,5% in 2021. Not enough to cope with current demand patterns…

The global order book is at a record low, and that trend continues, besides the recent very large vessel orders from Hapag or Evergreen for instance.



Bottle necks will remain, and carriers have learnt how to manage capacity if demand slows down.



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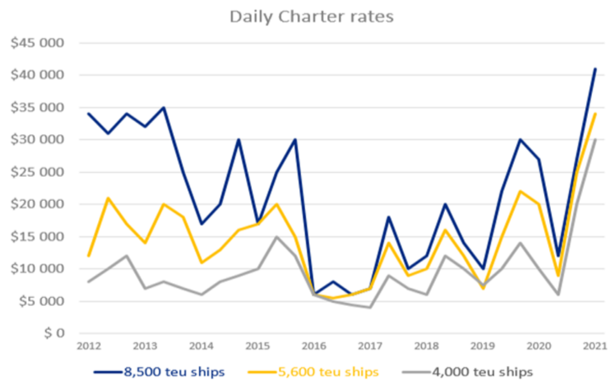
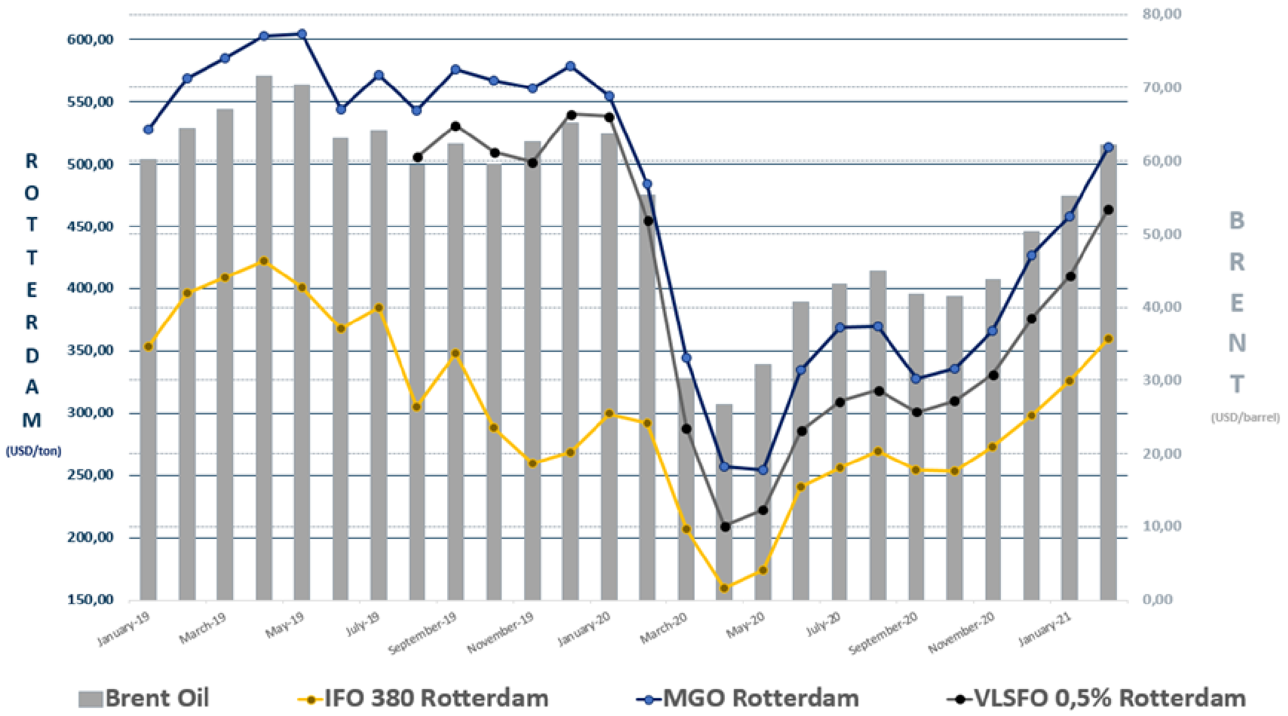
AND HIGH OPERATIONAL COSTS…

Overall operational costs also for shipping lines, are increasing all over:

- Ports and intermodal congestion costs…
- Ports demurrage,
- Equipment leasing fees,
- Steep increases of vessels charter rates… with daily costs four times up from last Sept.



- Last but not least, fuel is at its highest in a year…



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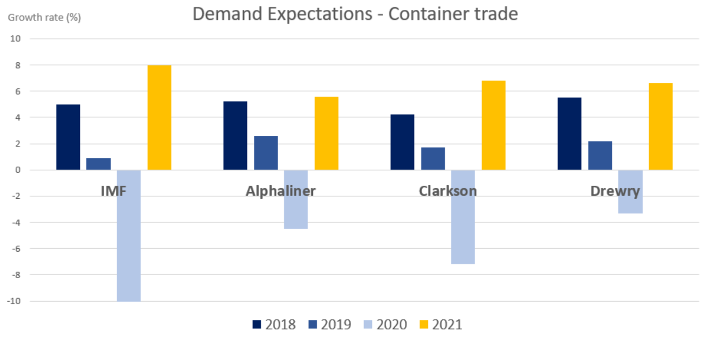
FREIGHT RATES WILL CONTINUE TO INCREASE

All industry sources agree that high container demand will remain for the months ahead…



Demand is inevitably leading to pressure on ocean rates whereby allocations come at a premium. The undercapacity is also pushing surcharges all over…

- Congestion fees
- Terminal handling charges
- Peak season charges
- Equipment imbalances…

Route	18-Feb-21	25-Feb-21	Annual change
Composite Index	$5,250	$5,238	233% ↑
Shanghai - Rotterdam	$8,608	$8,474	348% ↑
Rotterdam - Shanghai	$1,374	$1,418	121% ↑
Shanghai - Genoa	$8,622	$8,611	311% ↑
Shanghai - Los Angeles	$4,348	$4,391	189% ↑
Los Angeles - Shanghai	$554	$554	22% ↑
Shanghai - New York	$6,558	$6,628	142% ↑
New York - Rotterdam	$750	$753	43% ↑
Rotterdam - New York	$2,299	$2,339	6% ↑

THE WAY FORWARD?

In the context, certainly opportunistically so, ocean carriers will continue to prioritize…

- Contributions and higher paying cargoes,
- Yield management
- Reducing free time provisions…

But also…

- Shippers loyalty
- Honoured commitments

Moving forward, shippers therefore have to ensure they concentrate on:

- Secure space and allocations.
- Early forecasts and early bookings.
- Anticipate / adapt to reduced free times.
- Deliver commitments to protect allocations.

THANK YOU