

Global Market Outlook

by

John Fossey
Managing Editor
WorldCargo News

November 5-7, 2019 – Hamburg, Germany

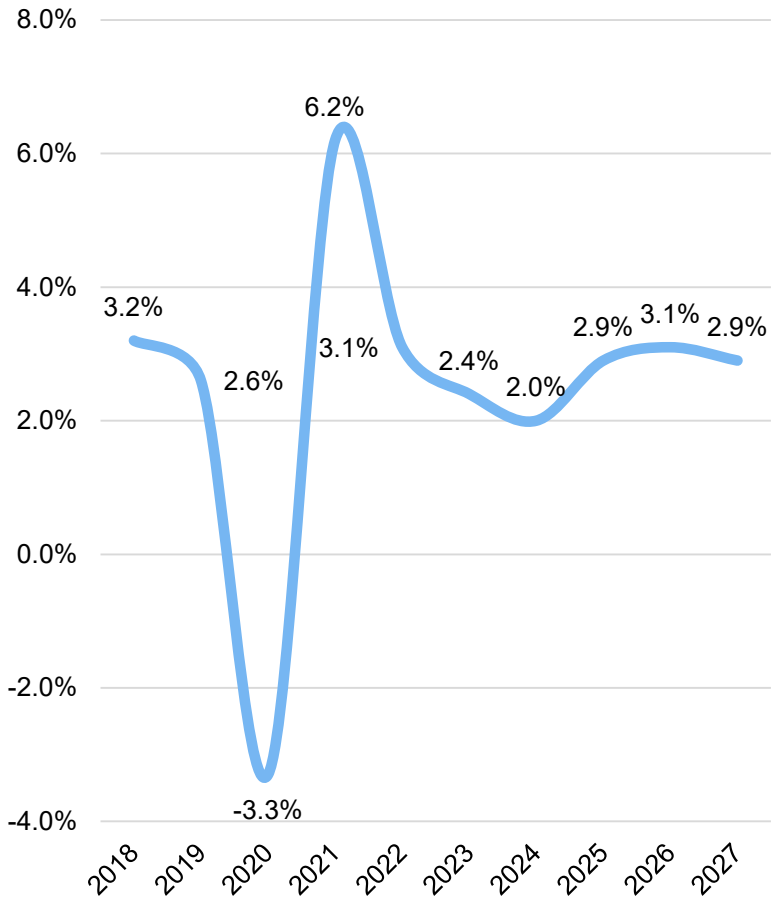
WorldCargo
news

AGENDA

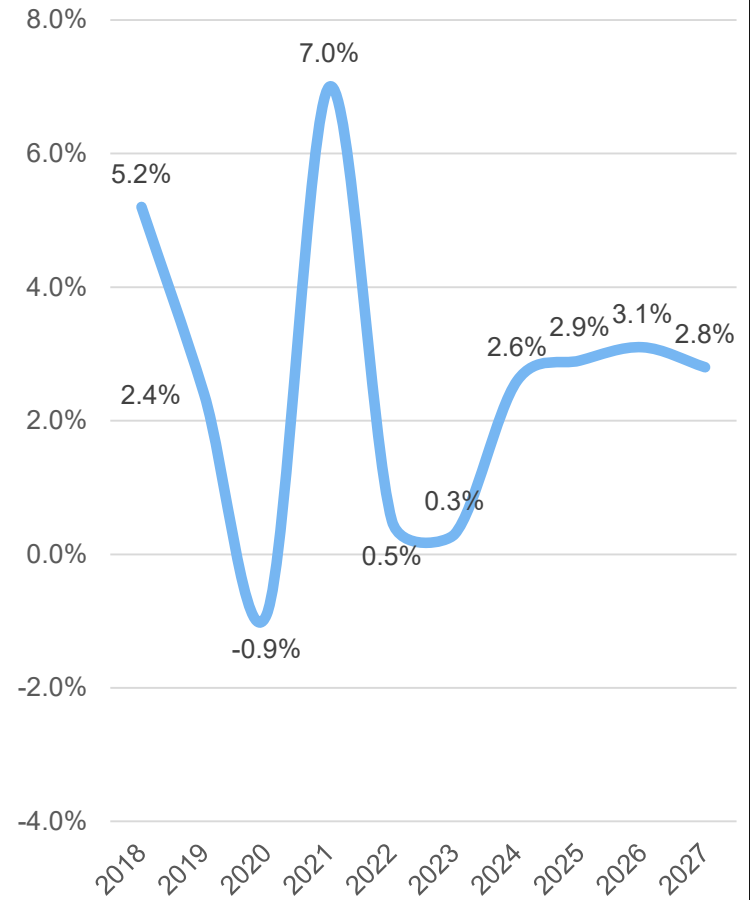
- Historical, present & outlook for demand
- Historical, present & outlook for supply
- Development of Container equipment pool
- Freight rates, charter rates and leasing rates
- Summary of trends and conclusions

GLOBAL DEMAND

Global GDP growth



Growth in container handling throughput



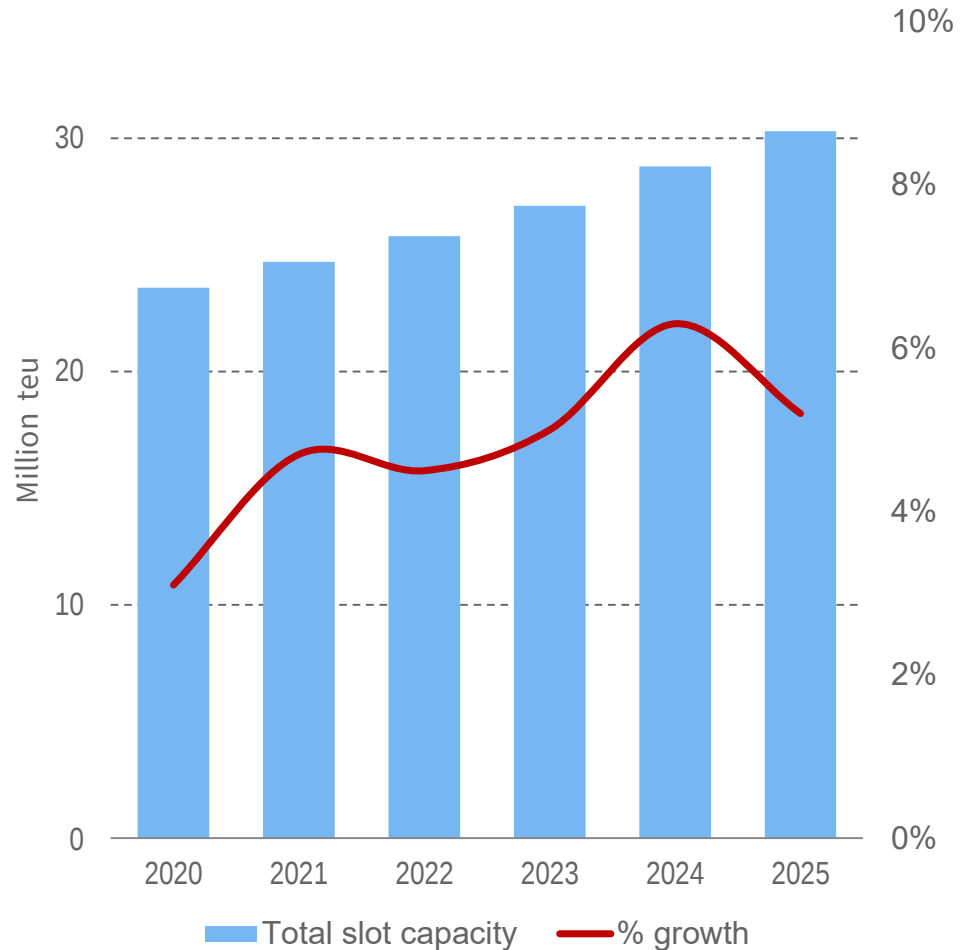
GLOBAL SUPPLY

Vessel slot capacity grew by 4.5% in 2022 and is forecast to expand by 5% in 2023 and 6.3% in 2024

Despite slowing trade, interest in ordering new ships has remained strong

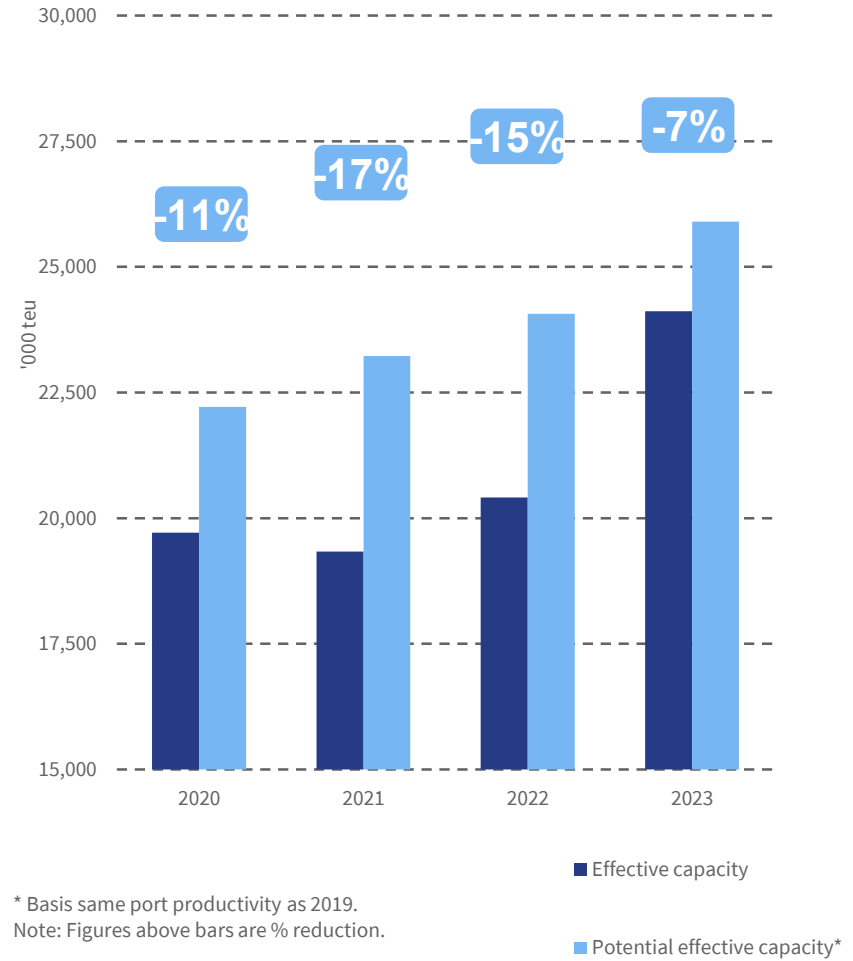
Over 80% of vessel orders placed in 2023 have been for dual-fuel tonnage and a large number have been for neo-panamax ships

Scrapping has been extraordinarily low in recent years with less than 30,000 teu sold to shipbreakers in 2021 and 2022. But this will change.



EFFECTIVE SLOT CAPACITY

- Effective container ship capacity was some 17% below its potential in 2021 and 15% in 2022.
- In 2023, significant improvements have already taken place and this forecast figure of 7% is likely to be considerably lower
- Over the past two years the availability of capacity has had the most significant impact on freight rates, hence carrier profitability



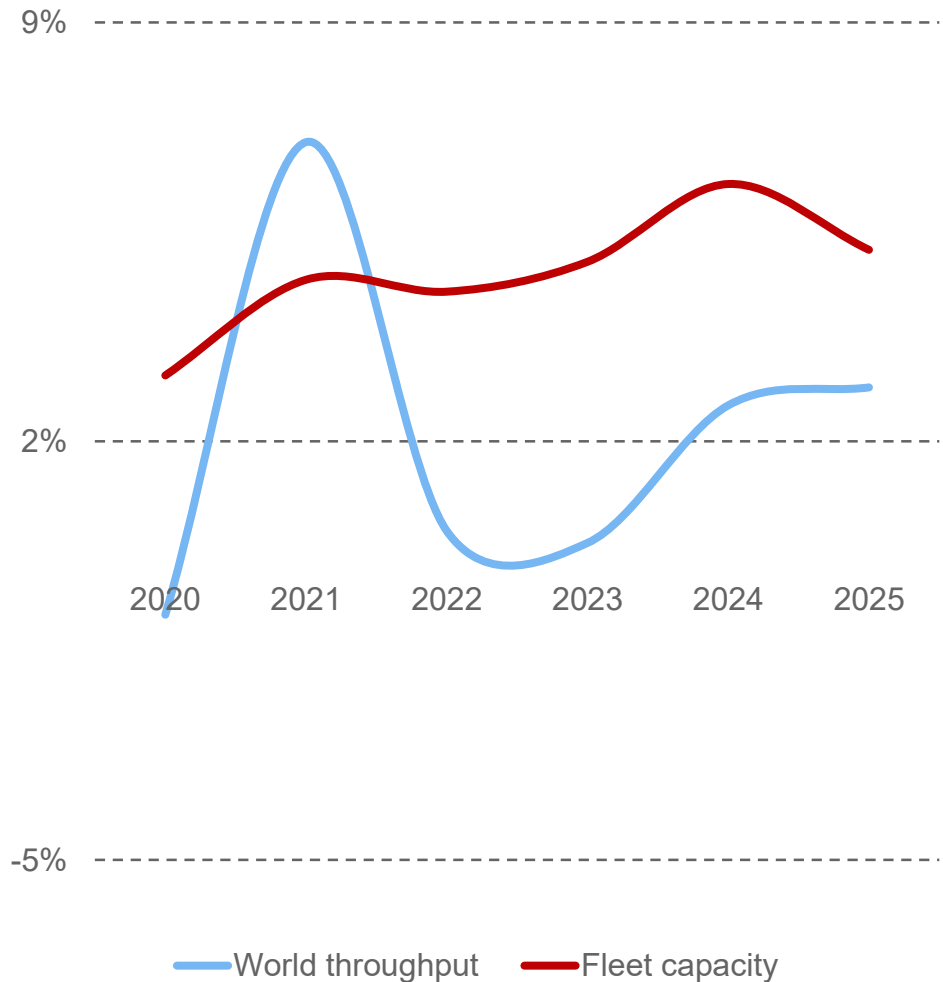
SUPPLY-DEMAND BALANCE (2020-2025)

The balance between supply and demand has fluctuated considerably and widened in 2022 and 2023 as trade growth slowed

It is expected to narrow from 2024 as a higher number of ships are retired

Drewry estimates that approximately 30% of existing containership fleet is non compliant with the IMO's latest emissions directives

Ocean carriers are super-slow steaming and adding additional vessels to loops to help absorb surplus tonnage



FREIGHT RATES

Freight rates have collapsed over the past 15 months

Reflection of falling demand, lack of discipline on part of ocean carriers

Hope of a recovery during peak season seen shortlived

In US, warehouses still being destocked

Some hoped for stability in 2024, but a lot of capacity to still come into service



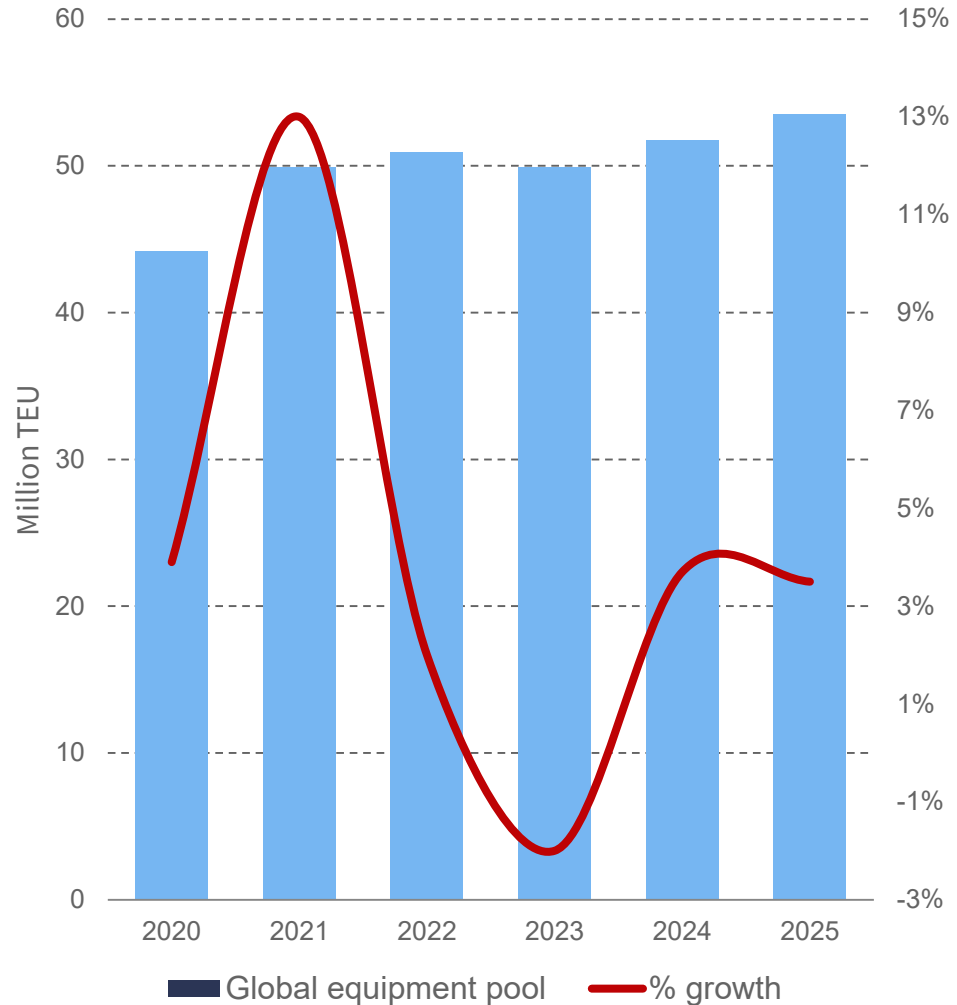
CONTAINER EQUIPMENT POOL

The pool of container equipment is expected to dip slightly this year – 50.9 mteu to 49.9 mteu

The fleet will then increase YoY to 2025 when 53.5 mteu is expected to be in service

The number of ageing containers replaced in 2021 and the first eight months of 2022 was much smaller than expected as congestion in supply chains meant they were needed for maritime trading purposes

An overhang of equipment still exists in the fleet and is being removed as the trading situation continues to return to normal



DRY FREIGHT CONTAINER PRODUCTION (2019-2025)

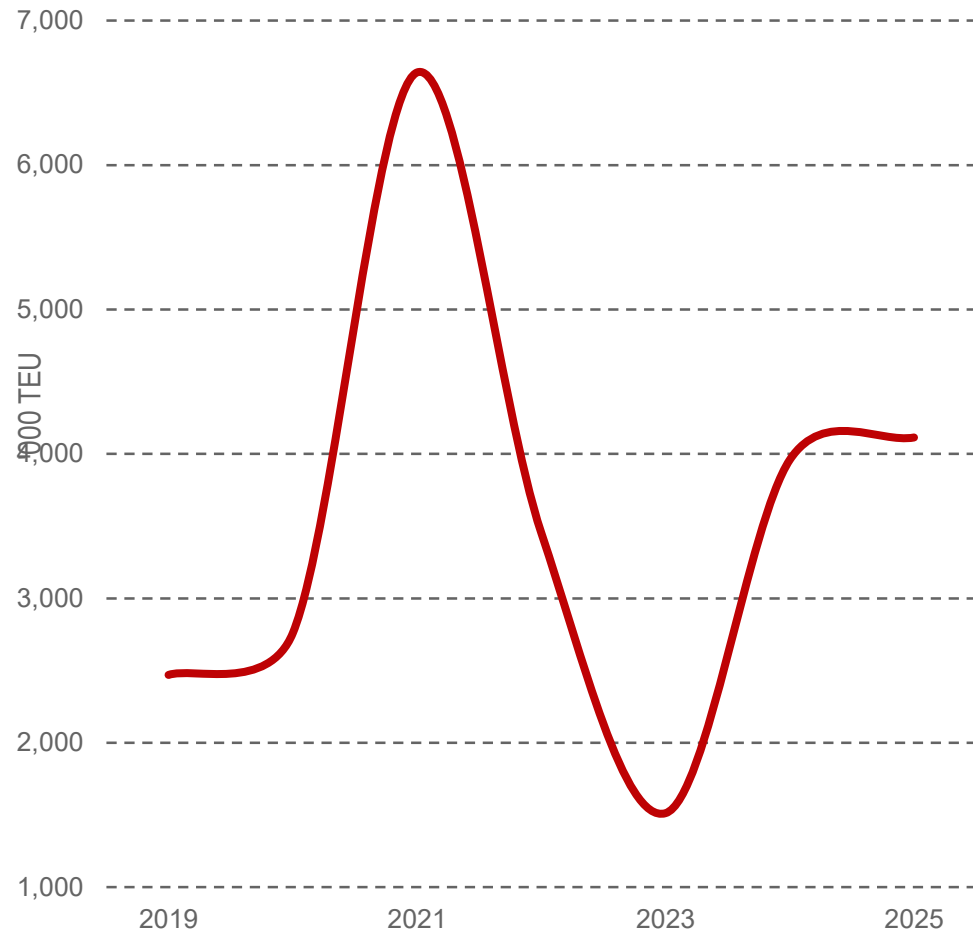
Over 6.6 mteu dry freight containers were produced in 2021. This fell to 3.45 mteu in 2022

40ft high cube containers were dominant, accounting for over 85% of dry freight production in 2021 but less than 65% of output in 2022

Production has slowed again this year as ocean carriers and lessors, in particular, have cut capital expenditure programmes

Production will increase in 2024, largely on the back of replacement needs

More competition will arise from new factories in Vietnam



REEFER CONTAINER PRODUCTION (2019-2025)

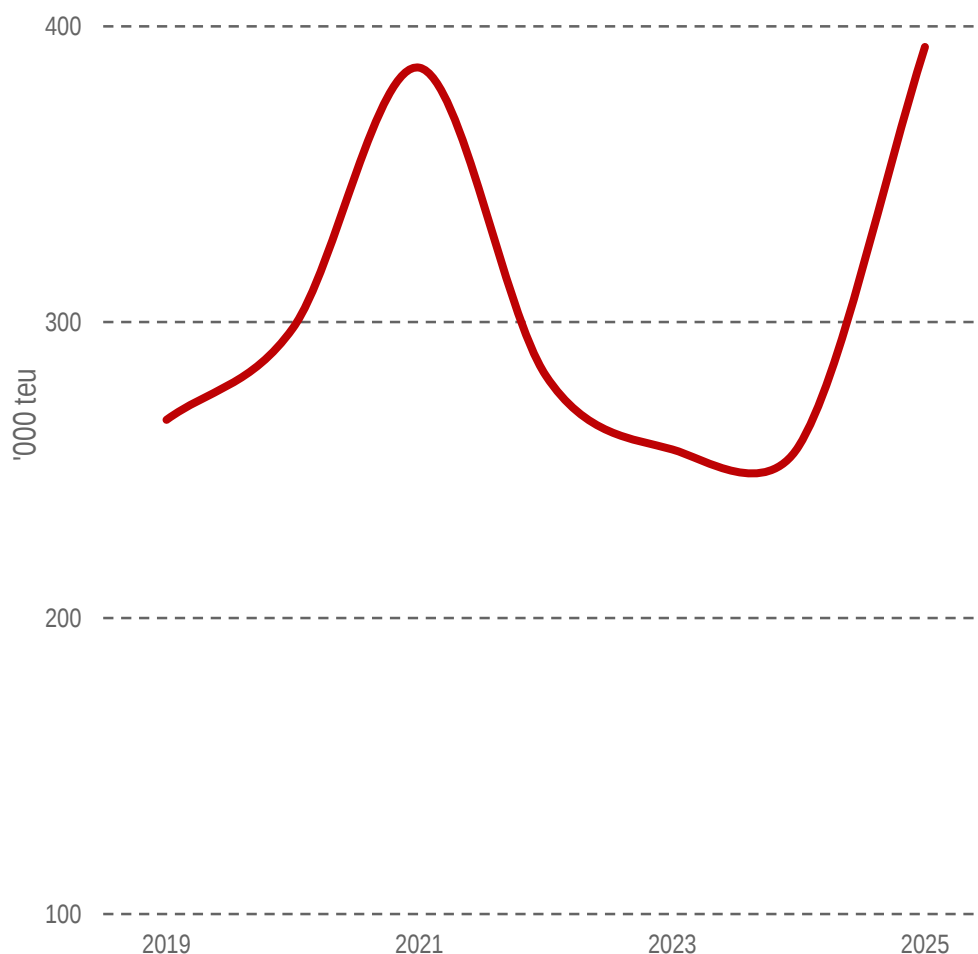
The production of reefer containers also declined in 2022, with the 282,000 teu output comparing with 386,000 teu in 2021.

This year output is forecast at 257,000 teu with a similar volume expected to be produced in 2024.

All reefers are constructed in China and approximately 96% are 40ft high cube units

The reefer market remains resilient and a combination of new cargoes and market share gains from specialised reefers and the air cargo suggest strong increases in annual production from 2024

There is also a growing need to replace reefers built in the late 2000s

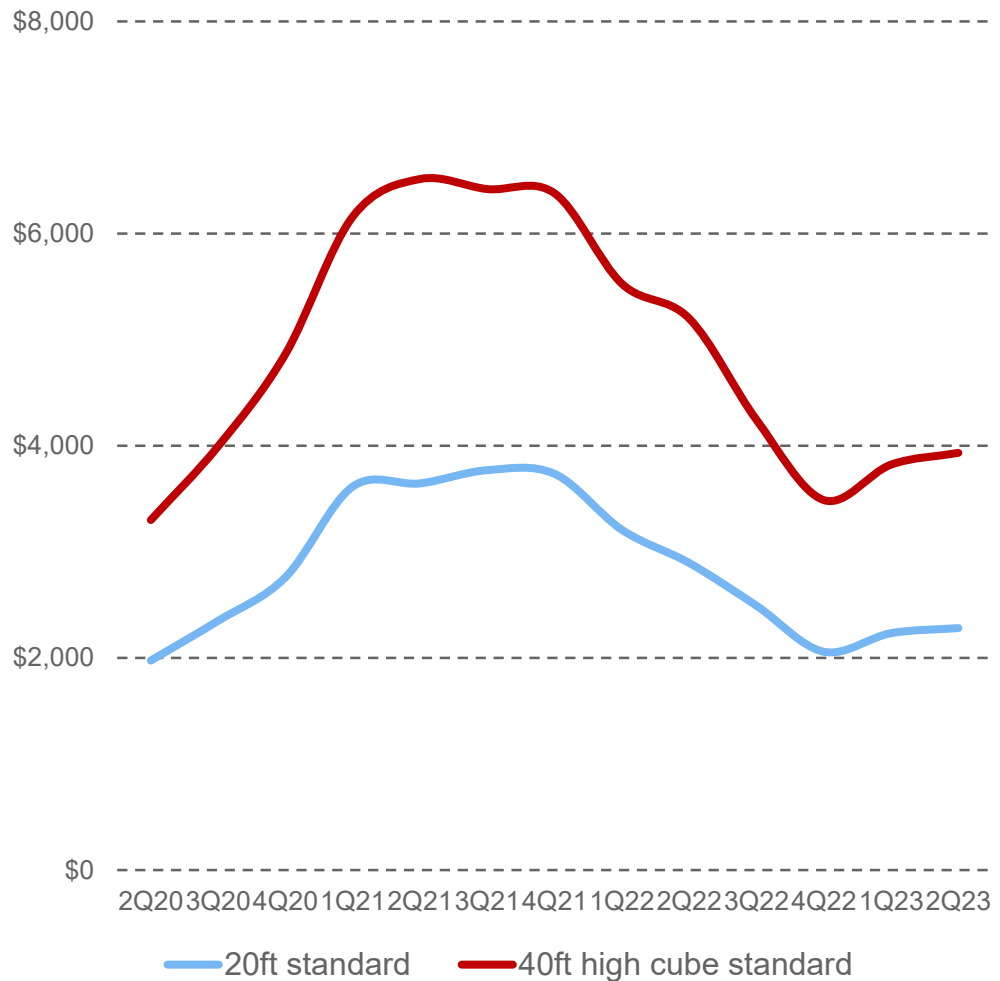


DRY FREIGHT STANDARD NEWBUILD PRICES

Newbuild prices increased strongly until the late summer early autumn 2021 with a 20ft standard dry freight container costing over 35% more at the end of the year than it was at the beginning.

Prices softened throughout 2022 with 40ft high cubes lower than end 2020 prices and 20ft standards on a par with the end of 2020.

Prices rose slightly in the first half of 2023 and a marginal increase in standard dry container prices is expected for the rest of the year. But demand is very soft.



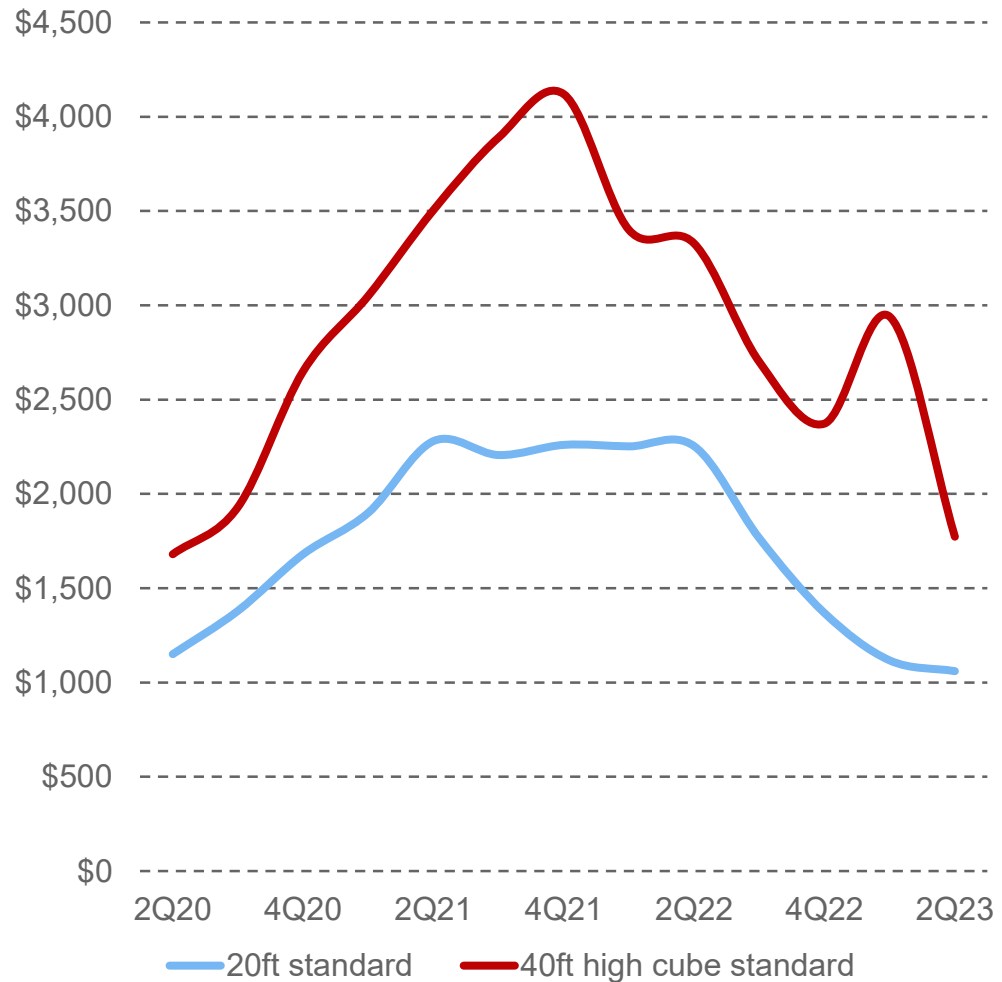
SECOND HAND PRICES (DRY FREIGHT STANDARD CONTAINERS)

Second-hand prices track newbuild prices closely.

Second-hand prices started to increase in 3Q20 and for 40ft High Cubes rose strongly throughout 2021, peaking at US\$4,120 in 4Q21.

In 2021, prices were also pushed up by robust demand but a lack of equipment to sell as it was needed for maritime trading purposes.

Prices will generally soften for the rest of this year and into 2024



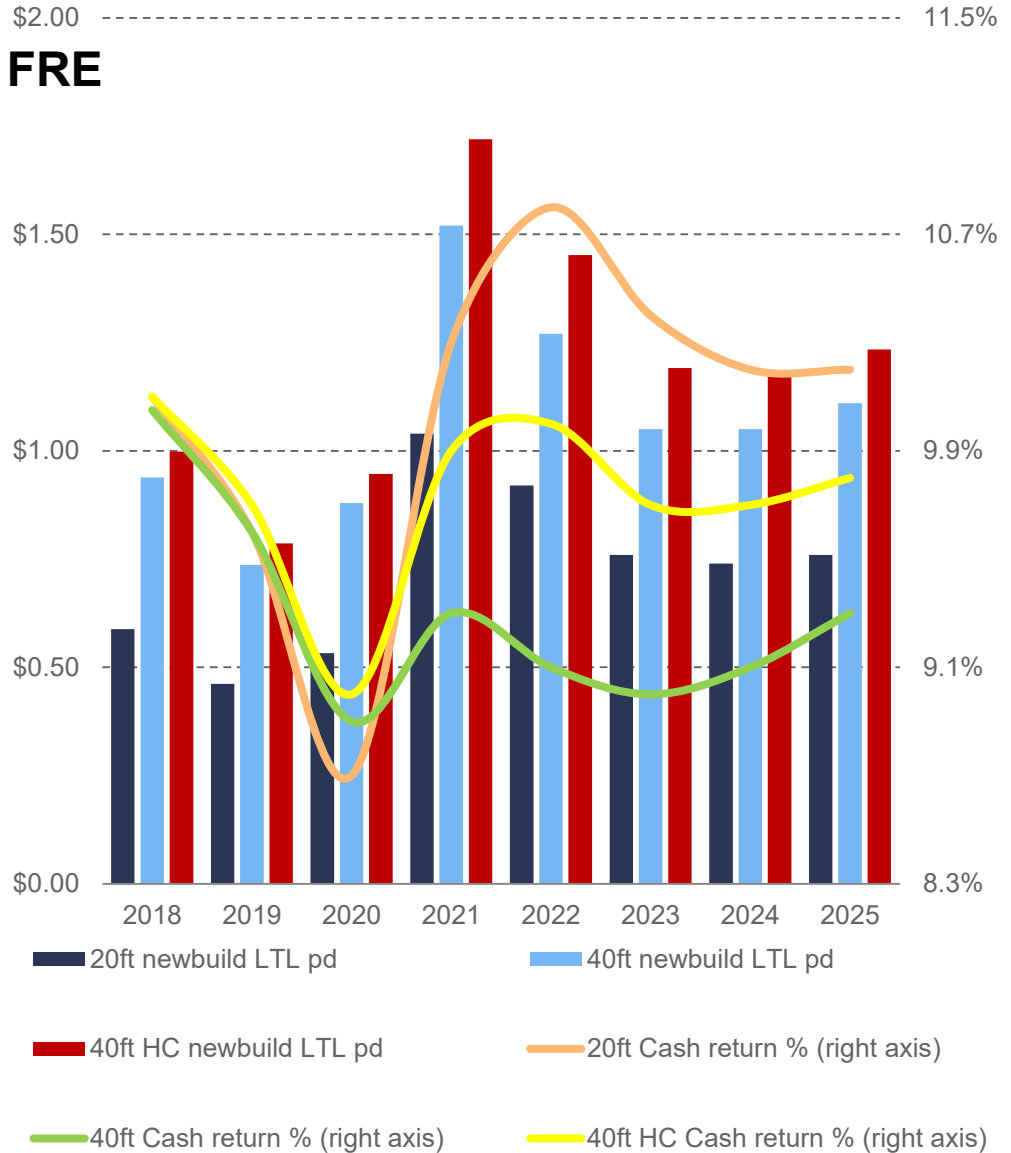
SECOND HAND PRICES (DRY FRE

Initial Cash Returns, particularly for 20ft dry freight containers, improved markedly in 2021 and this continued into 2022

ICRs have softened slightly this year, but a recovery is expected during 2024 which will continue in 2025

Both ocean carriers and lessor have cut back on purchased this year, but lessors at a faster pace than ocean carriers

Longer terms ICRs for 20ft containers are expected to hover between 9.8% and 10%



CONCLUSIONS

- Trade growth has slowed further this year and is expected to increase just 0.3% this year and then rallying to rates in the 4% to 5% range up to 2025
- Economic and geo-political uncertainties will continue to affect markets while the increasingly mature nature of the container shipping sector itself means poorer growth prospects and increases very close to changes in GDP
- Vessel slot capacity is set to rise strongly over the next three years, but there is hope that the supply/demand will narrow from 2025
- Slower trade growth and an easing of congestion across supply chains has meant slot capacity and container availability have improved and to the extent that there is considerable oversupply, particularly on the vessel front, in the industry.
- Drewry expects the box pool to decline by about 2% this year and total manufacturing output is unlikely to exceed 1.9 mteu, well below the 7.2 mteu and 3.8 mteu produced in 2021 and 2022, respectively.
- Latest data suggest that newbuild prices, like freight rates and spot rates, may have bottomed out. But any rises this year will be modest
- Carriers' profits are disappearing rapidly and uncertainties surrounding the future of the alliances and compliance with tougher environmental regulations will challenge behaviour and strategies
- After seeing their share of the global pool of equipment decline since 2020, Drewry expects a recovery to take place from 2024 and for the sector to have the lion's share in 2025 and for this to rise until the end of the decade