

## Shipping - Global

## Key takeaways on car carrier outlook and Red Sea disruptions with Høegh Autoliners

Industry Overview

## Key takeaways from Red Sea call with Høegh Autoliners

We hosted Per Øivind Rosmo and My Linh Vu from Høegh Autoliners to discuss the 2024 outlook for car carriers. Red Sea disruptions are rising causing lost volumes for car carriers, although they should be able to passthrough higher costs to customers through surcharges soon. Average unit revenues could continue to move higher helped by contract repricing, and it could take a few years for the market to normalize given the scrapping linked to the ageing fleet. Chinese car carrier exports have been a clear tailwind in recent years, but Høegh is watching Chinese auto exports and EU regulation.

## Red Sea: Lost volumes, offset by new surcharges

Around 20% of the global car carrier trade uses the Red Sea, and diverting to the Cape of Good Hope adds extra 13 days of journey time. Høegh has already rediverted its vessels via the Cape of Good Hope given its priority is the safety of the crew and watch for more diversions in car carriers ahead given conflict risk and Suez transit costs. The main impact of the longer sailings for Høegh is lost volumes, and they are in the process of imposing surcharges to passthrough the higher cost of operation to contract customers. Høegh will not do a deal with the Houthis but will make a decision on a return based on the security situation including the start of naval convoys.

## Rates: Average rates trending higher on contract reprice

Spot car carrier rates are probably close to the peak with some car volumes shifting to container or car carrier given higher rates. But average unit revenues could still trend flat to up given majority of volumes are on contract with Høegh focusing on transforming good rates into longer term contracts. At some stage the extreme situation will normalize although it will take time to reach equilibrium with new deliveries not able to arrive for 2-3 years.

## Demand: Chinese auto exports looking robust

Chinese auto exports have significantly increased in the past few years but recent European litigation issues could represent some demand risk. And while Chinese owners are also entering the car carrier industry, Høegh believes there should be still space for foreign car carriers to carry Chinese auto exports given the experience around Chinese investment in container, bulk & tanker.

## Supply: Orderbook manageable given an ageing fleet

Supply looks manageable for now with the market currently under-supplied and new deliveries slated to replace the existing fleet. The average age of the car carrier fleet has increased to 16-17 years, and new environmental regulations and higher unit cost of smaller car carriers could result in an increase in scrapping ahead.

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