DHL Global Forwarding

OCEAN FREIGHT MARKET UPDATE

December 2020

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OCEAN FREIGHT MARKET UPDATE - DECEMBER 2020

CONTENTS

Container shortage in Asia

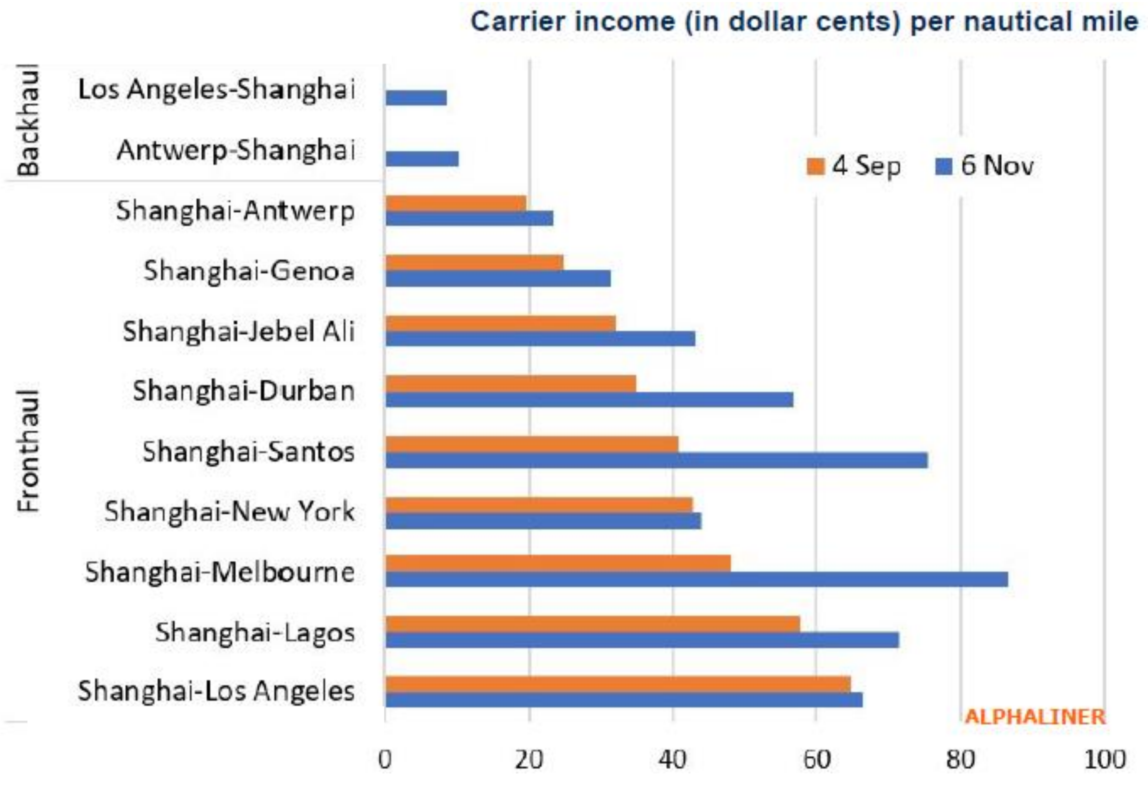
TOPIC OF THE MONTH

Box shortage on headhaul trades pushes up rates and starts to affect backhaul trades

A combination of very strong cargo demand in Asia and an increasing shortage of 40’ containers has seen spot rates for Chinese export rising sharply over the last few weeks. Carriers put **priority** on getting **empty 40’ containers in China** to take advantage of the lucrative rates on headhaul trades.

Carrying cargo at low rates on **backhaul trades** is obviously becoming **less interesting** as the inland transport and the stuffing and stripping of the boxes takes extra time. Some carriers seem to be willing to send empty containers immediately back to China for faster turnaround.

Therefore availability of empty containers might become restricted for backhaul trades as carriers want to re-position empty 40’ boxes to Asia as fast as possible. Obtaining empty containers from carriers for shipments on backhaul trades will be easier for exporters based in the immediate vicinity of ports, but it remains essentially an issue of rates. The **box shortage** in Asia is predicted to **last until Chinese New Year** (on 12 February 2021).



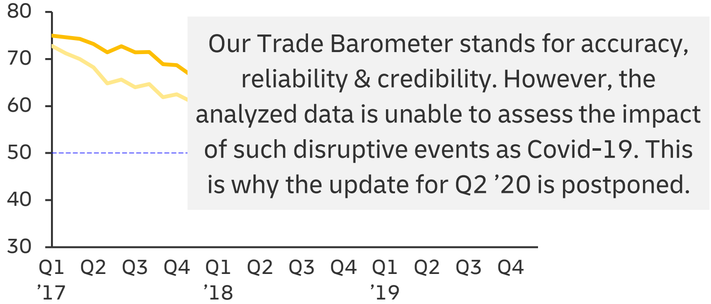
Source: Alphaliner, Dynaliners, carriers

HIGH LEVEL MARKET DEVELOPMENT

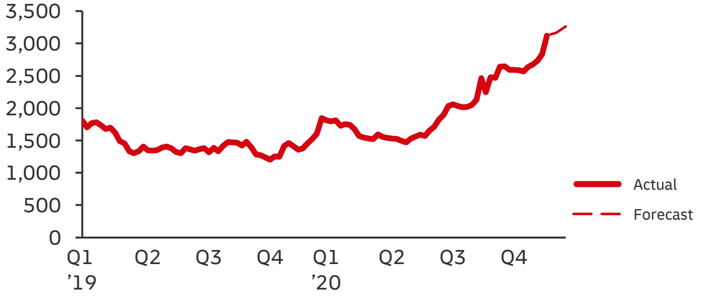
ECONOMIC OUTLOOK
GDP GROWTH BY REGION[1)]

	2021F	2022F	2023F	2024F	2025F	CAGR (2022-25)
AMER	3.7%	3.1%	2.7%	2.6%	2.6%	2.6%
ASPA	5.5%	4.5%	4.4%	4.5%	4.4%	4.4%
EURO	4.0%	3.3%	2.1%	1.8%	1.7%	1.9%
MEA	3.2%	3.6%	3.3%	3.3%	3.1%	3.3%
DGF World	**4.4%**	**3.7%**	**3.2%**	**3.1%**	**3.1%**	**3.1%**

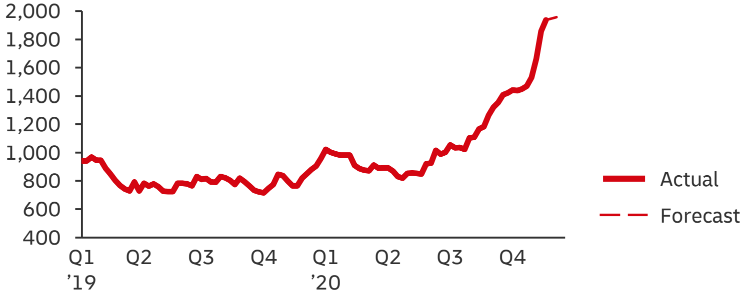
DHL TRADE BAROMETER[2)]



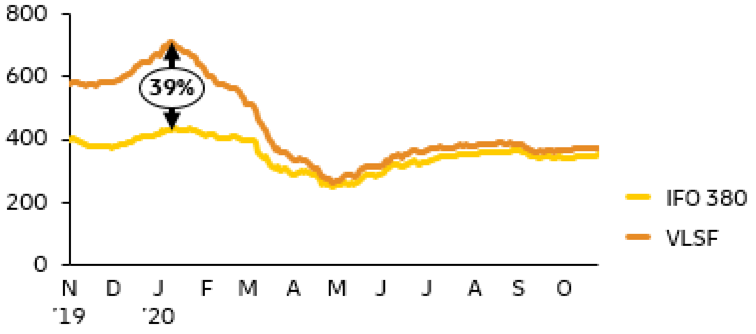
WORLD CONTAINER INDEX (WCI)[3)]



SHANGHAI CONTAINERIZED FREIGHT INDEX (SCFI)[4)]



BUNKER PRICES[5)]



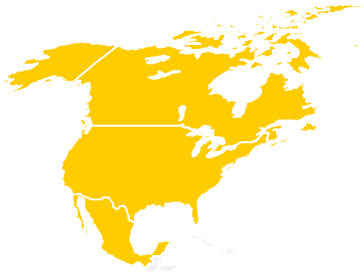
1) real GDP, Copyright © IHS Markit, Q3 2020 Update 26 Oct`20, Venezuela is excluded from aggregates due to hyperinflation. All rights reserved. 2) DHL Global Trade Barometer Dec19, index value represents weighted average of current growth and upcoming two months of trade, a value at 50 is considered neutral, expanding above 50, and shrinking below 50. 3) Drewry, in USD/40ft container, including BAF & THC both ends, 42 individual routes, excluding intra-Asia routes. 4) Shanghai Shipping Exchange, in USD/20ft container & USD/40ft ctnr for US routes, 15 routes from Shanghai. 5) Source: DHL.

MARKET OUTLOOK DECEMBER 2020 month-on-month development

MAJOR TRADES

EUROPE

Import region	Capacity	Rates
AMNO	=	+
AMLA	-	=
ASPA	--	++
MENAT	-	++
SSA	=/-	=/+



NORTH AMERICA

Import region	Capacity	Rates
EURO	-	=
AMLA	+	=
ASPA	-	+
MENAT	=	+
SSA	=	=

ASIA PACIFIC

Import region	Capacity	Rates
EURO	-	++
AMNO	+	+
AMLA	-	+
ASPA	=	++
MENAT	=	++
OCEANIA	=	++

SOUTH AMERICA

Import region	Capacity	Rates
EURO	=	=
AMNO	-	+
ASPA	=	=
MENAT	=	=
SSA	=	=

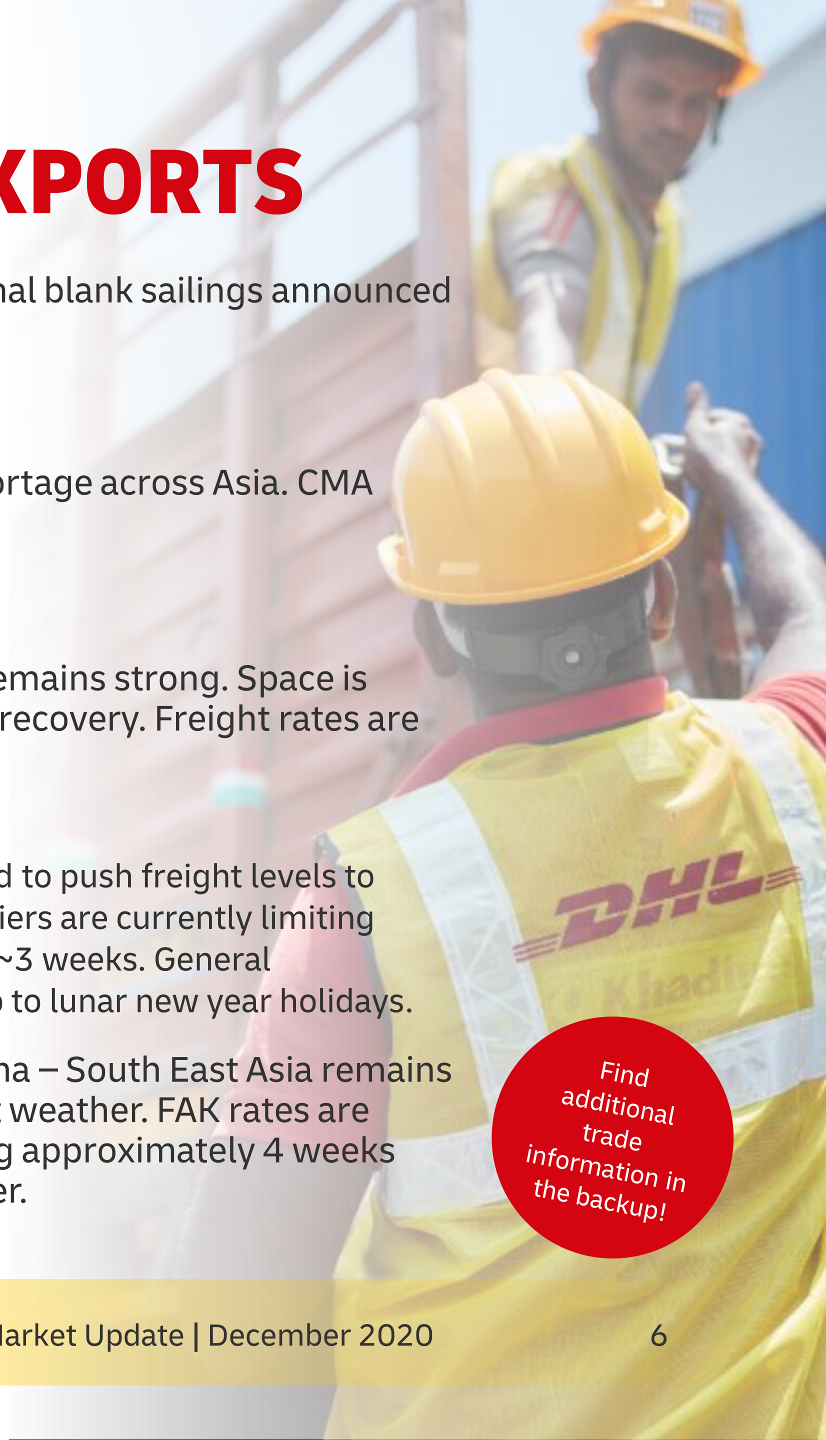
KEY				
Strong increase ++	Moderate increase +	No change =	Moderate decline -	Strong decline - -

Source: DHL

MARKET OUTLOOK DECEMBER 2020

OCEAN FREIGHT RATES – ASIA-PACIFIC EXPORTS

- **ASPA-EURO**: The tight space and equipment situation continue and drive the rates upwards. Additional blank sailings announced by the carriers in December.
- **ASPA-AMNO**: Outlook remains strong through Dec especially under current climate of equipment shortage across Asia. CMA deployed new Sea priority express service sailing ex Ningbo & Yantian into USWC.
- **ASPA-AMLA**: Outlook for ASPA-AMLA remains tense due to the lack of equipment and the demand remains strong. Space is expected to be continually tight especially for SAWC with blank sailing due to schedule recovery. Freight rates are expected to remain high throughout the whole of December.
- **ASPA-MENAT**: Combination of tight space and equipment shortage driven by sustained demand are expected to push freight levels to record highs in December. NAC space release is severely constrained for all bookings and carriers are currently limiting space release to acceptance on FAK plus only, existing roll pools across all carriers between 2~3 weeks. General expectation in the market is for current freight environment to persist thru January leading up to lunar new year holidays.
- **ASPA-ASPA**: Shortages of all container types across Asia continue to be a challenge. Space from China – South East Asia remains tight due to port omissions/schedule slide down from China base port due to inclement weather. FAK rates are strictly subjected to space and equipment availability. For IPBC, carriers reported having approximately 4 weeks rollover at transshipment ports. Carriers are still planning for blank sailings in December.



Find additional trade information in the backup!

Source: DHL

MARKET OUTLOOK DECEMBER 2020

OCEAN FREIGHT RATES – OTHER MAJOR TRADES

- **EURO-AMNO**
  Carriers are trying to take advantage of high demand, either by implementing PSS or increasing rate levels for new requests. 2M's TA4-Service will discontinue as already anticipated. Partly compensated by bigger vessels phasing into other services. CMA-CGM soon to replace 3 smaller vessels in the Victory Bridge service to provide stable capacity. Start date to follow.

- **EURO-ASPA +MEA**
  Asia: Several new blank sailings for December being announced, mainly by the Ocean Alliance & The Alliance. Space is very tight on all services. Space available earliest for weeks 52&53. Rates are increasing between USD 50 - 400 per 40', first carriers announced PSS and/or Equipment Imbalance Fees. For AU/NZ: space is tight, rates are increasing; congestions at POD's in AU & NZ still ongoing. Equipment becoming a serious issue. Blanks Sailings to Asia will also affect the ME and IPBC direct capacity. Rates increasing slightly. Equipment in north Europe getting tight.

- **AMNO-EURO**
  Rates remain stable while THE Alliance will have 2 blank sailings in December on the AL1 & AL4. The 2M TA4 service is removed through the end of the year.

- **AMNO-ASPA**
  Moderate decline in capacity as some carriers refuse to move low paying cargo and return empties back to Asia. Slight increase in rates due to GRI/Port Congestion charges and others.

- **AMLA Exports**
  AMLA – AMNO, EURO, MENAT & SSA : Service disruptions reported in MX (rail strike), Panama (port strike), Caucedo (transhipment congestion), CENAC (weather related port closures). Equipment shortages easing in some countries (BR), while still struggling for others (CO / PE / CL).
  AMLA – ASPA : Strong exports projected to continue through next couple of months, especially out of Brazil. Tight space situation continues to affect the market due to blank sailings. Hamburg Sud continues to reposition voids from other regions into Brazil to meet the demands of reefers, which remains heated. In view of the current demand vs. available inventory scenario, carrier is working with priority list on the 40'DC /HC releases. Some carriers will release 40´HC no more than 7 days before cargo´s cut-off due to lack of equipment in all Brazilian ports. Due to lower import volumes in WCSA are affecting equipment supply, with some countries like Colombia now imposing a 'pick up' charge at certain depots.

Source: DHL

Find additional trade information in the backup!

Ther renewed rise in infection rates threatens growth

ECONOMIC OUTLOOK & DEMAND EVOLUTION

EUROPE

Real GDP growth rates in Q3 ’20 surpassed expectations, in some cases by considerable margins, but output levels generally remain well below where they were before COVID-19. Among the larger Western European economies, net declines in real GDP from Q4 ‘19 to Q4 ‘20 have been smallest in NL, FR, & DE, and largest in ES & UK by some distance. The resurgence of COVID-19 virus cases across Western Europe from late summer onwards, & the related reintroduction of more stringent restrictions, point to contractions in real GDP in Q4, although smaller than those in Q2 ‘20. Given unfavorable carry-over effects, plus lagged increases in unemployment and business failures, market consensus expectations for 2021 economic growth rates continue to look overly optimistic.

AMERICAS

After the record Q3 “bounce” in the US, real GDP growth should fade for several reasons. Overshoots on housing starts & consumer spending on durables will unwind in the next several quarters. Fiscal support of the expansion dwindles entering 2021. COVID-19 virus infections are surging, which will discourage certain spending & encourage state and local authorities to impose new restrictions on economic activity. Facing budget constraints, state & local governments will limit spending heading into their new fiscal years.

ASIA PACIFIC

Monthly indicators signal strengthening economic activity in JP in Sep & Oct, reflecting improved external demand, easing social distancing guidelines, & domestic travel subsidies and other government stimulus measures. That said, real GDP projections for 2021 and 2022 are unchanged at 2.2% and 1.3%, respectively. Sluggish private machinery orders, reflecting moderate recoveries in industrial production & services, signal weak fixed investment. The resurgence of COVID-19 virus infections in the European Union and US could weigh on external demand, offsetting upbeat orders from mainland China and other Asian countries.

The demand side of the Chinese economy has recovered broadly. Fixed investment grew an estimated 12.2% YoY in Oct, up from 8.7% YoY in Sep. Goods exports rose 11.4% YoY in Oct, compared with 9.9% YoY in Sep. Most encouragingly, retail sales expanded 4.3% Yoy in Oct, up 1.0 percentage point from Sep’s pace. Underpinning mainland CN’s accelerating economic recovery is the effective containment of the COVID-19 virus pandemic.

LATIN AMERICA

Fiscal adjustments are in the outlook. Most countries in the region - except MX - have executed significant fiscal stimulus during 2020 to mitigate the adverse impacts of the COVID-19 virus pandemic on businesses & employment. The outlook calls for spending moderation, but not a drastic fiscal tightening. Most countries in the region acknowledge the need for fiscal adjustment, but it will be gradual and only possible with the expected availability of a vaccine for the COVID-19 virus in mid-2021.

DEMAND DEVELOPMENT

Global output rose in 22 of 26 subsectors covered by HIS Markit PMI™ surveys in Oct. Automobiles & parts, banks, chemicals, machinery & equipment, & real estate were the top performers. In contrast, output indexes for tourism & recreation services, construction materials, transportation, & telecom services signaled declines.

Source: IHS Markit, IHS Purchasing Manager Index Manufacturing, a PMI at 50 is considered neutral, expanding above 50, and business shrinking below 50.

CAPACITY

OOIL (Orient Overseas International Limited), parent company of the ocean carrier OOCL and part of the China COSCO Group since 2018, disclosed **another set of orders for 23,000+ TEU 'megamax' container ships**. According to a corporate disclosure, OOIL ordered 7 such ships from Chinese builders for a total cost of USD 1.104 bn, or about USD 157.7 M per ship. Adding to orders placed in March, the new deal now extends OOCL's megamax vessel pipeline to 12. Deliveries are scheduled to take place between Q3, 2023 and Q3, 2024, directly after the 5 ships that OOIL ordered in March. The 12 megamax ships for OOCL are currently the only ships in the newbuilding pipeline of COSCO Group – this new deal will take the group's oderbook to 276,000 TEU the 3rd largest after Evergreen (493,000 TEU) and CMA CGM (391,000 TEU).

Over the past weeks, the **inactive containership fleet** continued its **downward trajectory**. As per Alphaliner's latest survey, the headcount of inactive vessels fell bellow the 100 ships mark to reach 92 units for 346,740 TEU as per 9 November. Representing 1.5% of the total cellular fleet in terms of capacity. The number of ships kept immobilized for scrubber retrofitting (outside or beyond routine/class maintenance) has shrunk further to 8 ships which account for 77,674 TEU and represent 22% of overall inactive fleet.

Source: Alphaliner, THE LOADSTAR, Dynaliners, carriers

CARRIERS

Singpaore government arm **Heliconia Capital Management** is set to take a majority ownership stake in carrier **Pacific International Lines (PIL)** if investors approve a **comprehensive USD 600M equity and debt package** aimed at keeping the company **out of liquidation**.
Heliconia has so far provided USD 112M in emergency credit to the firm, which will be replaced by an alternative USD 600M finance package made up of debt and equity. If approved, Heliconia would take a **majority interest in the carrier**.
The company is appealing to investors, including the holders of its SGD 60M 8.5% bonds, to accept the proposal or face substantial value destruction in the event of a liquidation. PIL stated it did not believe it could secure a better proposal from any other investor, and in the absence of a comprehensive restructuring would likely face liquidation.

A **reorganization** of **assets** in the **COSCO family** will see COSCO Shipping Holdings subsidiary COSCO Shipping Lines (COSCO Shg) bareboat charter 74 boxships from COSCO Shipping Development (CSD). Effective 1 January, COSCO Shg will take over ships totaling 581,603 TEU, comprising 49 vessels bellow 9,000 TEU and 25 above 9,000 TEU. The arrangement is worth $4.62bn over a twenty year period. The average age of the ships is 12.2 years. According to COSCO statement, the deal will bring the carrier **increased economies of scale** with the aim of **reducing route costs** and **increasing competitiveness**.

Source: Alphaliner, Dynaliners, carriers

Weak bunker prices and stringent capacity management are boosting carriers' 9 months profits

CARRIER FINANCIAL RESULTS 9 MONTHS 2019-20

	Revenue			Operating Profit			Operating Profit Margin		Net Profit		
Carrier	**2019**	**2020**	**%**	**2019**	**2020**	**%**	**2019**	**2020**	**2019**	**2020**	**%**
Maersk Group [5), 8)]	18'448	17'749	-4%	3'311	4'337	31%	17.9%	24.4%	570	1'599	181%
CMA CGM [2), 5), 8)]	17'127	16'915	-1%	649	1'638	153%	3.8%	9.7%	-107	751	803%
COSCO SHIPPING Holdings [6), 9)]	10'428	15'700	51%	n.a.	n.a.	n.m.	n.a.	n.a.	126	567	3.5
Hapag-Lloyd [5)]	10'654	10'525	-1%	722	965	34%	6.8%	9.2%	333	605	82%
ONE [3)]	5'984	5'917	-1%	n.a.	n.a.	n.m.	n.a.	n.a.	126	682	441%
Evergreen Marine Corp. [1), 7)]	4'551	4'914	8%	120	579	383%	2.6%	11.8%	3	435	14400%
HMM	3'569	3'670	3%	-228	345	2.513	-6.4%	9.4%	-432	-11	97%
Yang Ming [1), 9)]	3'795	3'527	-7%	n.a.	n.a.	n.m.	n.a.	n.a.	-107	62	158%
Zim	2'473	2'631	6%	108	283	161%	4.4%	10.7%	-14	158	1211%
Wan Hai [1)]	1'749	1'807	3%	65	141	115%	3.7%	7.8%	78	120	54%
Average [4)]			**6%**			**75%**	**6.5%**	**10.7%**			**852%**

Source: Alphaliner, DynaLiners; n.a. = not available, n.m. = not meaningful; 1) local currency numbers were converted into US$ using the average exchange rate for relevant financial period; 2) container shipping segment only, excl. CEVA Logistics; 3) result is Q1 & 2 of Japanese financial year, i.e. Apr-Sep not calendar year; 4) Average excluding ONE; 5) operating profit is EBIT; 6) COSCO Shipping Lines and OOCL; 7) not consolidated for Evergreen Group;8) Net Profit is for the Group; 9) 2019 figures based on DHL analysis from last year

Did you Know?

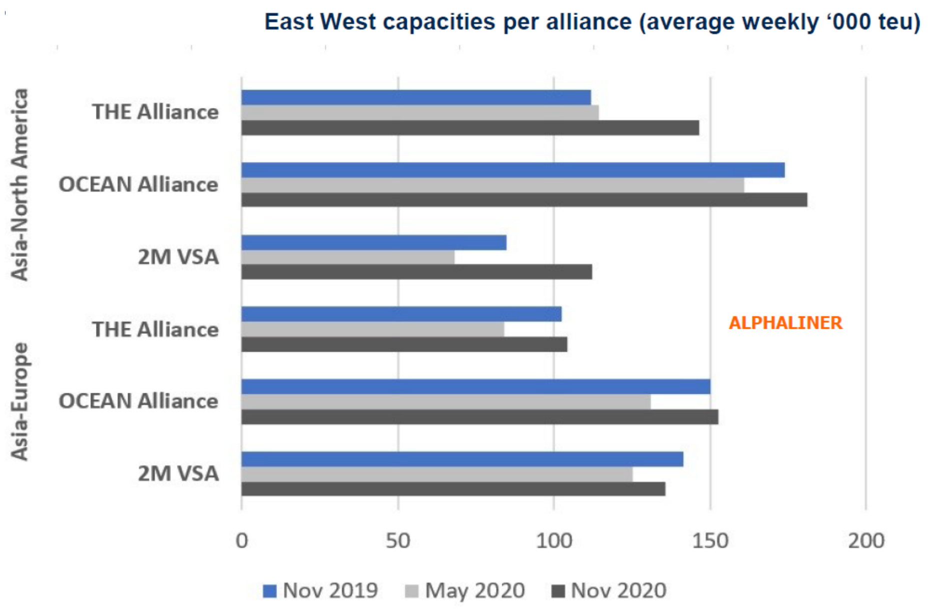
Carriers have given priority to capacity upgrades on the Transpacific

The main carriers have clearly given priority to capacity upgrades on the TP trade lately. The **2M-partners** Maersk and MSC have even **shifted capacity from the Europe - Asia trade to the Transpacific**, where they now offer 32.3% more slots than one year ago. The same comparison shows a capacity increase of 4% for the OCEAN Alliance, and of 31.1% for THE Alliance. The big capacity jump of THE Alliance cannot be compared to the Transpacific push of 2M as it is largely related to HMM joining THE Alliance on 1 April 2020.

Available capacity on this route remains at a **historical high** with an average weekly nominal capacity of 526'352 TEU on 1 Nov, **up 16.7% YoY**.

Whereas the capacity reduction measures on both East West trades were similar immediately after the COVID-19 outbreak, the re-introduction of capacity in response to the recovery in cargo demand varies largely. **Current available capacity on the Asia- America trade is 32.7% higher compared to May**, whereas the increase on **Asia - Europe was only 15.4%** over the same period.

Maersk and MSC have implemented by far the biggest capacity increases on the TP. The two partners of the **2M Alliance** have **increased their weekly capacity by 64.7% since May**. These considerable capacity upgrade came at the expense of the Asia - Europe route, where 2M has added only 8.4% of capacity since May.



Source: carrier, Alphaliner

BACK-UP

MARKET OUTLOOK DECEMBER 2020

OCEAN FREIGHT RATES ADDITIONAL TRADES (1/2)

- EURO-AMLA+MX: Ratewise no changes from last month, we are covered for December on all trades. AL4 blankings from THE Alliance continue, affecting cooperation to MX. On a more general note, extremely tight capacity on both AMLA and MX, with carriers confirming ETDs for last week Dec or even Jan 2021.

- EURO-MENAT: Blanks Sailings to Asia will also affect the ME and IPBC direct capacity. Rates increasing slightly. Equipment in north europe getting tight.

- EURO-SSA: Rates ex Europe to South Africa are remaining stable. Capacity is available. Space into West Africa is tight and several ports are congested with long waiting times for berthing and unloading, caused by high season, operational issues and Covid 19 related restrictions. Carriers are calling for PSS and Emergency Congestion Surcharges. Capacity is also very tight into East Africa. Carriers are facing heavy delays, caused by congestions in transshipment ports in Middle East or IPBC, as well as in East Africa main ports. Carriers are implementing PSS and congestion surcharges.

- AMNO-MENAT: Asian-based carriers (Cosco, OOCL, HMM, ONE and YML) have GRI's announced for early December from USA to Mideast destinations. Average levels are $80/$100 from ports and $160/$200 from inlands. Cosco has also announced a second GRI mid-December from USA to Mideast for $240/$300. Space remains tight for Mideast and we expect that it will worsen with Agri season coming. Rates to Turkey remain very competitive. Space wide open on EMA service (Cosco, OOCL, ONE & YML) and Hapag has two direct offerings.

- AMNO-SSA: Hamburg Sud has been removed from the direct MSC/Maersk USEC to South Africa service effective early November. No rate changes for SSA destinations.

- AMNO-AMLA: Two new services launched in the market: CMA (USA-Caribbean) + ZIM (USA – MX) during December. Sporadic increases announced for Q4, but not affecting NAC's.

Source: DHL

MARKET OUTLOOK DECEMBER 2020

OCEAN FREIGHT RATES ADDITIONAL TRADES (2/2)

- EURO MED-AMNO — Volumes are on an upward trend. Vessels' utilization is substantially increasing, together with equipment imbalance. EIS or PSS are expected to be implemented by selected carriers in December.
- EURO MED-AMLA — Nothing to be highlighted.
- EURO MED-ASPA and MENAT — blank sailings and therefore stable rather high rate level.
- EURO MED-SSA — Unchanged / stable.
- ASPA-SPAC — Rates continue to increase in Dec'2020, NEA-AU GRI USD300/TEU, SEA-AU GRI USD150-200/TEU, NEA/SEA-NZ GRI USD300-800/TEU. MSC has the highest GRI of USD1000/TEU in Dec'2020 from Asia – AU/NZ. Shortage of containers remains a challenge and equipment situation does not seems to ease anytime soon. FAK rates are subj. to space and equipment availability and fixed space protection would have to be on premium rates. Freight rates is expected to further increase till end March'2021. Carriers are only looking at new business from April'21 onwards.

Source: DHL

OCEAN CARRIER ALLIANCES

HAPAG-LLOYD
ONE
YANG MING
HMM

OOCL
CMA CGM
CHINA COSCO SHIPPING
EVERGREEN

MAERSK LINE
MSC

Source: Carriers

ACRONYMS AND EXPLANATIONS
OCEAN FREIGHT GLOSSARY

AMLA	-	Latin America
AMNO	-	North America
AR	-	Argentina
ASPA	-	AsiaPacific
BR	-	Brazil
CAGR	-	Compound Annual Growth Rate
CENAC	-	Central Amercia and Caribbean
CNC	-	CNC Line (Cheng Lie Navigation Co. Ltd.)
DG	-	Dangerous Goods
DWT	-	Dead Weight Tonnage
EB	-	Eastbound
ECSA	-	East Coast South America (synonym for SAEC)
EGLV	-	Evergreen Marine Corp
EURO	-	Europe
GRI	-	General Rate Increase
HMM	-	Hyundai
HL	-	Hapag-Lloyd
HSUD	-	Hamburg Süd
HWS	-	Heavy Weight Surcharge
IA	-	Intra Asia
IPBC	-	India Pakistan Bangladesh Ceylon (= Sri Lanka)
IPI	-	Inland Point Intermodal
ISC	-	Indian Sub Continent (synonym for IPBC)
MENAT	-	Middle East and North Africa
ML	-	Maersk Line
mn	-	Millions
MoM	-	Month-on-Month
NOO	-	Non-operating (vessel) owners
OCRS	-	Operational Cost Recovery surcharge
OOCL	-	Orient Overseas Container Line
OWS	-	Overweight Surcharge
PH	-	Philippines
PNW	-	Pacific North West
Ppt.	-	Percentage points
PSW	-	Pacific South West
QoQ	-	Quarter on quarter
SAEC	-	South America East Coast
SAWC	-	South America West Coast
SOLAS	-	Safety of Life at Sea
SPRC	-	South People's Republic of China – South China
SSA	-	Sub-Saharan Africa
SSL	-	Steam Ship Line
T	-	Thousands
TEU	-	Twenty foot equivalent unit (20' container)
TSA	-	Trans Pacific Stabilization Agreement
USGC	-	US Gulf Coast
US FMC	-	US Federal Maritime Commission
USEC	-	US East Coast
USWC	-	US West Coast
VGM	-	Verified Gross Mass
VLCS	-	Very Large Container Ship
VSA	-	Vessel Sharing Agreement
WB	-	Westbound
WCSA	-	West Coast South America (synonym for SAWC)
WHL	-	Wan Hai
WRS	-	War Risk Surcharge
YML	-	Yang Ming Line
YoY	-	Year-on-Year
YTD	-	Year-to-Date
THEA	-	THE Alliance

Source: DHL