OCEAN FREIGHT MARKET OUTLOOK 2024

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Global Forwarding

Content

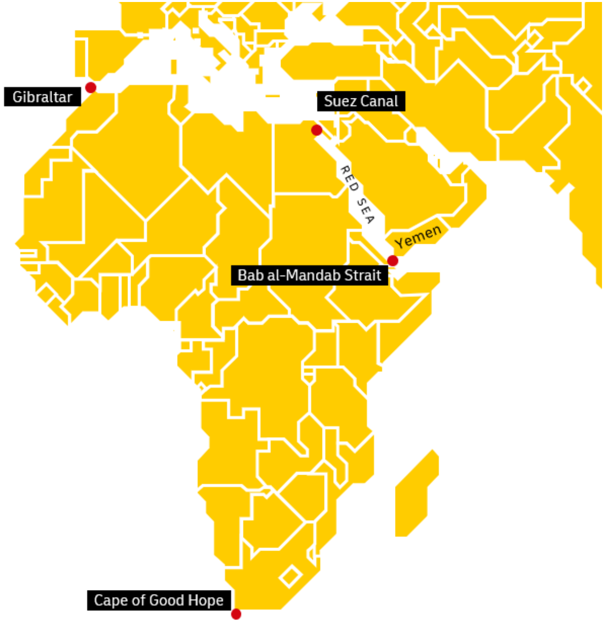
Situation in the Red Sea Following Houthi Rebel Attacks

Following Houthi rebel attacks against commercial shipping in the Bab al-Mandab Strait all carriers have suspended their services via the Red Sea and though the Suez Canal, rerouting most vessels via the Cape of Good Hope until a safe passage can be guaranteed.

In the meantime, the US-lead naval protection force 'Operation Prosperity Guardian' has been created in response to the attacks. Participating countries are Bahrain, Canada, France, Italy, the Netherlands, Norway, the Seychelles, Spain, UK and the US.

The rerouting significantly increases transit times between Asia and Europe by 10-15 days and absorbs capacity. It needs to be seen if carriers will deploy additional tonnage to compensate for longer tips or if they skip some sailings. Affected are services in and out of Europe and the Middle East and into Africa if Mediterranean ports are used as transshipment points. Sailings from Asia to the East Coast of the Americas may also be impacted as shipping lines have started to divert vessels to avoid congestion in the Panama Canal due to vessel transit limitations resulting from low water levels. We expect this situation to have ripple effects to all global shipping routes as capacity is redeployed and equipment shortages starts to happen due to the delays. Only a few days into the situation we are seeing significant cost increases being passed on by carriers.

DHL is in close contact with its partner carriers and expects the situation to carry into Q1 2024 at least.

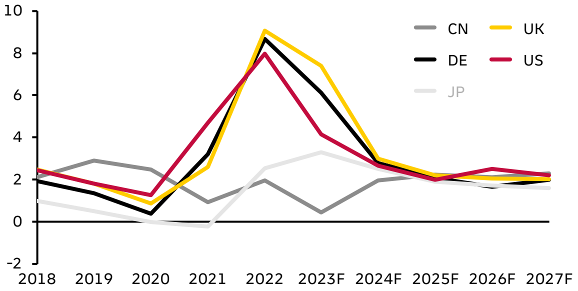


Economic Outlook

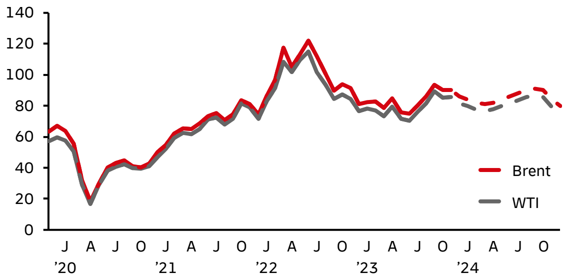
ECONOMIC OUTLOOK GDP GROWTH BY REGION[1)]

	2023F	2024F	2025F	2026F	2027F	CAGR (2024-27)
AMER	2.3%	1.4%	1.6%	1.9%	1.9%	1.8%
ASPA	4.3%	4.1%	4.1%	4.1%	4.0%	4.1%
EURO	0.8%	0.9%	1.7%	1.8%	1.7%	1.7%
MEA	1.9%	2.7%	2.9%	3.8%	3.5%	3.4%
DGF World	**2.5%**	**2.3%**	**2.6%**	**2.7%**	**2.7%**	**2.7%**

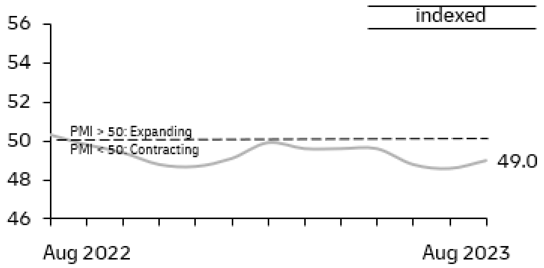
INFLATION (YOY IN %)



OIL PRICE (USD PER BARREL)



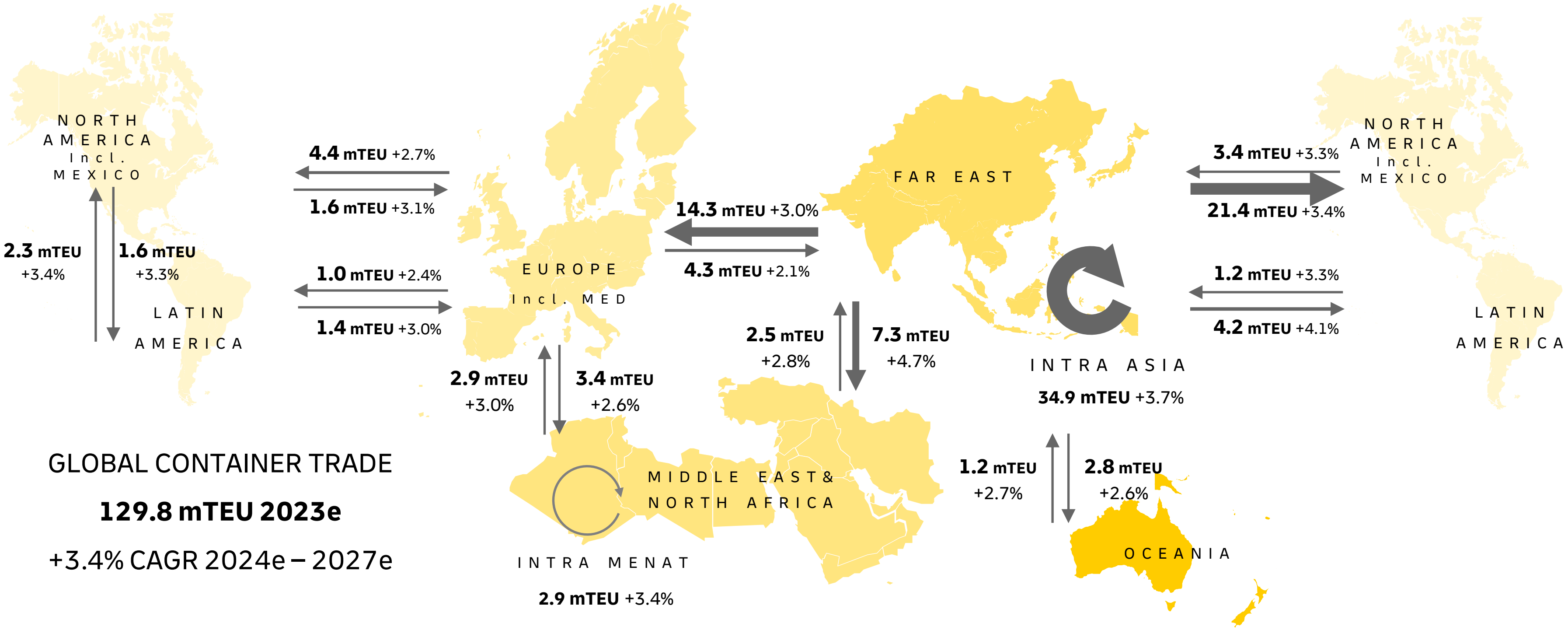
JP MORGAN GLOBAL MANUFACTURING PMI[2)]



- Compared to 1st half of 2023 a marked slowdown of quarterly **GDP growth** is expected in 2024.
- Recent news on **inflation** are more encouraging than expected.
- **Crude oil** prices have fallen back from their recent conflict-related peaks.
- Headline **PMI** fell to 50.0 in October, its lowest level since February, led by falling developed world output.

Source: IHS Markit, now part of S&P Global, Q4 2023 Update 4 Dec '23 ; 1) Real GDP, 2) Purchasing Manager Index Manufacturing

Demand Development 2023 – 2027



GLOBAL CONTAINER TRADE

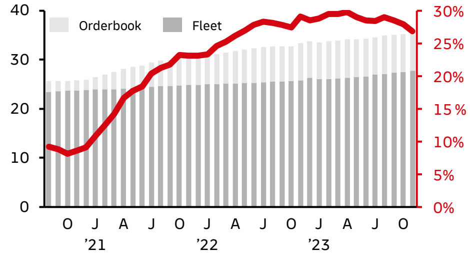
129.8 mTEU 2023e

+3.4% CAGR 2024e – 2027e

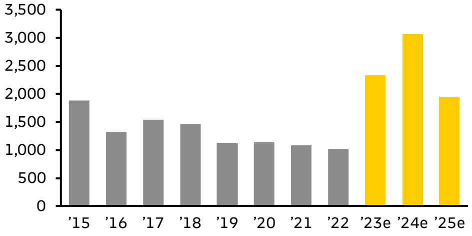
Source: Accenture Cargo Dec23 update

Capacity

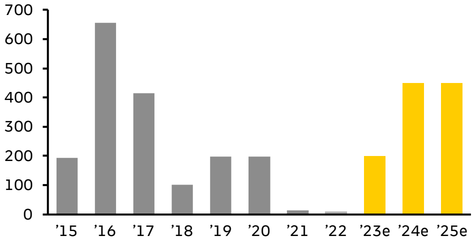
ORDERBOOK TO FLEET RATIO (IN mTEU, and AS % OF EXISTING FLEET)[1)]



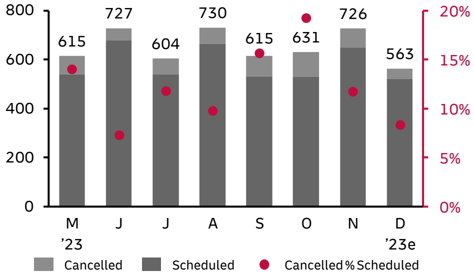
VESSEL DELIVERIES (mTEU)[1)]



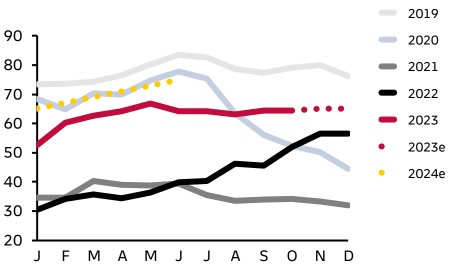
SCRAPPING ('000 TEU)[1)]



CANCELLATIONS MAJOR EAST-WEST TRADES (NUMBER OF SAILINGS, and CANCELLED AS % OF SCHEDULED)[3]



OCEAN SCHEDULE RELIABILITY (IN %)[2)]

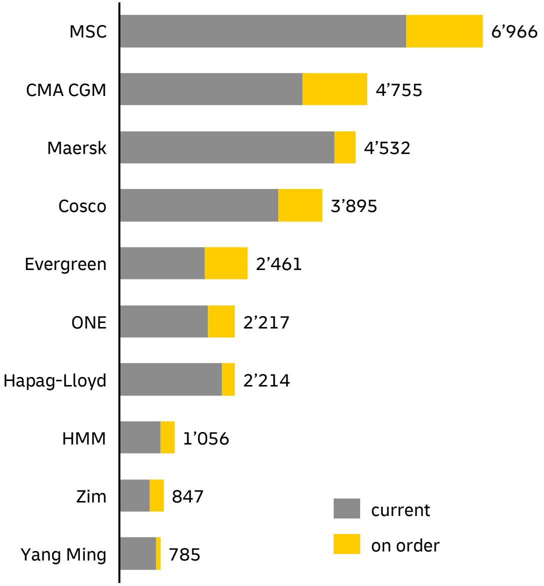


Source: 1) Alphaliner, 2) Sea-Intelligence, 3) Drewry; cancelled = complete round voyage skipped, excl. intra-regional and feeder services

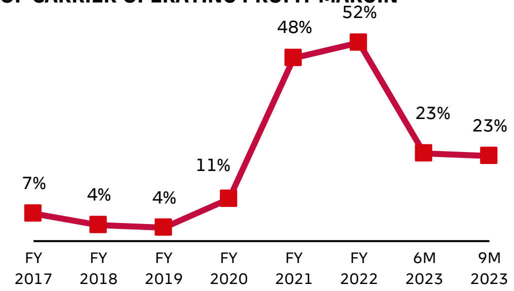
- 1.8 mTEU across 268 vessels have been **delivered** so far this year. Another 7.5 mTEU of new capacity are in the **orderbooks,** while **scrapping** has been minimal.
- The number of **cancelled sailings** has been lower this year than a year ago.
- Supply chain bottle necks are clearing up and **schedule reliability** is slowly increasing. The threat of disruption remains, as can be seen with draft restrictions at the Panama Canal.

Carriers

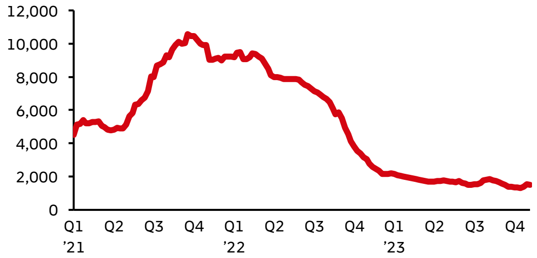
TOP 10 CARRIERS BY CAPACITY ('000 TEU)[1]



TOP CARRIER OPERATING PROFIT MARGIN[2]



RATE DEVELOPMENT WORLD CONTAINER INDEX (WCI), IN US$)[3]



Source: 1) Alphaliner, 2) DynaLiners, 3) Drewry, in USD/40ft container, including BAF & THC both ends, 42 individual routes, excluding intra-Asia routes, surcharges related to e.g. equipment & space availability are not reflected in WCI

- MSC has the largest **orderbook**, followed by CMA CGM that has placed the largest orders this year of all carriers.
- Carrier's average **profit margins** in Q3 '23 fall to 1.5% and with this to below pre-Covid levels
- **Fuel costs** are expected to remain elevated due to elevated political tensions and new environmental legislations.
- Carriers are facing difficulties to maintain recent **freight rate** hikes.

EU Emissions Trading System

- ETS places a cap on the total quantity of green house gases that may be emitted by shipping goods in, out and within Europe. The cap decreases each year in accordance with the EU's climate target.

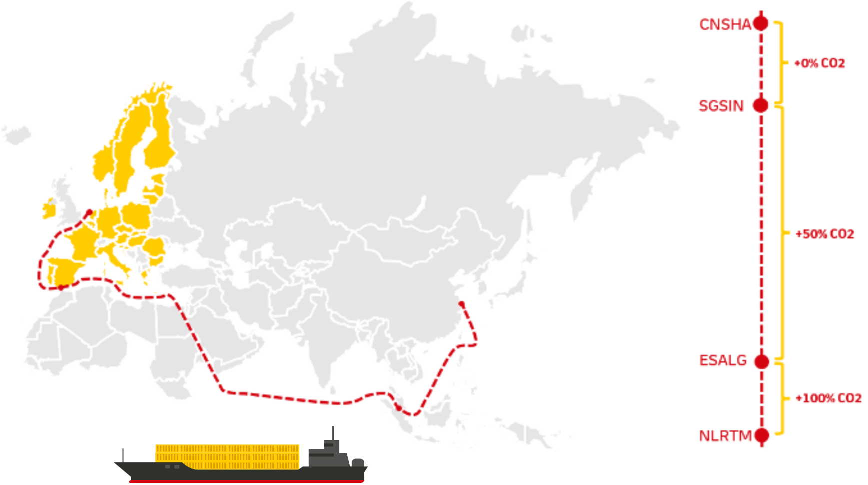
- The cap is expressed in emission allowances. One allowance gives the right to emit 1ton of CO2eq (carbon dioxide equivalent). Every year, companies must submit enough allowances to fully account for their emissions, otherwise penalties will be incurred .

- The system covers CO2 emissions from journeys within EU waters as well as between the EU and third countries, specifically from large ships above 5000 gross tonnage.

- This mandatory regime will directly impact the maritime sector as of **January 1st 2024**, always depending on the port pair combination.

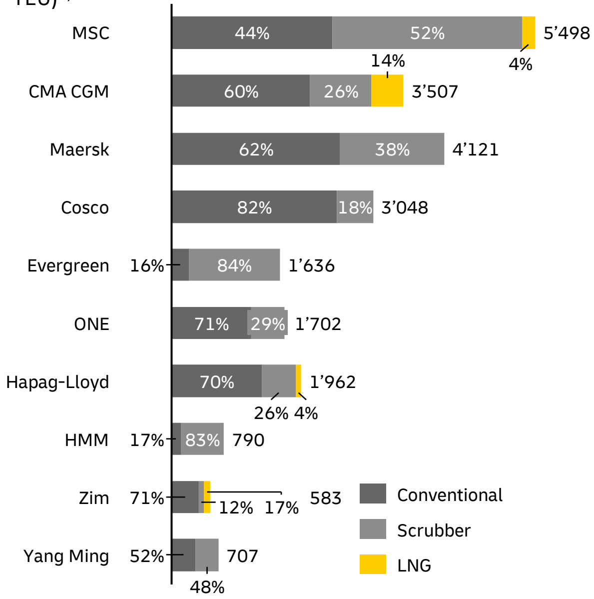
Emissions covered by EU ETS on a multi-stop journey

- 50% of the emissions from ships that start or finish their journey outside of the EU
- 100% of the emissions from intra-EU journeys
- 100% of emissions for docking in the EU

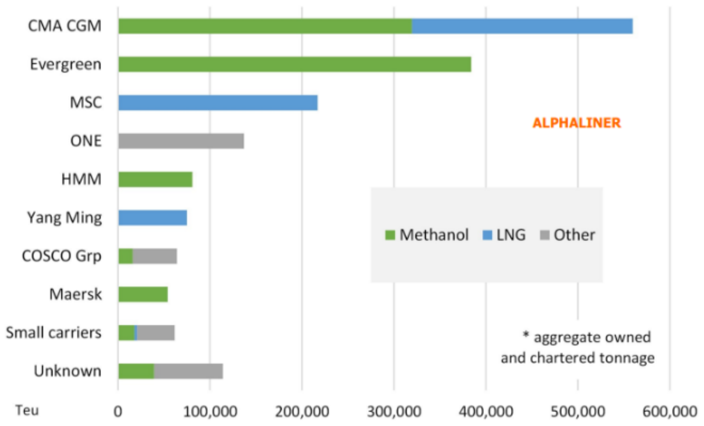


Alternative propulsion technologies to reduce greenhouse gas emissions from maritime shipping

TOP 10 CARRIERS CAPACITY BY ENGINE TYPE ('000 TEU)[1)]



ORDERS PLACED IN 2023 (in TEU)[2)]



Source: 1) DGF analysis based on Alphaliner data, 2) Alphaliner, 3) International Maritime Organization (IMO), 4) Handelsblatt, 5) DVZ

- **Revised IMO greenhouse gas (GHG) strategy**[3)]**:**
  - 20% reduction of total annual GHG by 2030
  - 70% reduction of total annual GHG by 2040
  - Net-zero GHG emissions by or around 2050
- **LNG** seems to be one of the **first alternative, non-drop-in fuels** chosen by carriers to reduce CO_2 in the near term, however, **reaching net-zero is not possible with LNG**[4)]
- In the **mid- to long term**, alternative technologies / fuels seem to be **either green methanol or green ammonia**[2),4),5)]

Ocean Freight Market Outlook 2024

- A gradual return of spending and inventory replenishment could lead to increased demand in 2024.
- Ocean carriers will continue to manage capacity influx in order to increase rate levels away from loss making territory.
- Various events will continue to create supply chain disruptions e.g. Panama Canal drought, disruption in the Middle East, war in Ukraine etc.
- The schedule reliability continues to be low and be problematic due to the management of capacity and unforeseen events.
- ETS and other environmental regulations being implemented which leads to increased cost and continue to require focus.
- 2M (Maersk & MSC) alliance in its last year and continues to break up.
- An increased focus on sustainable logistics will drive decision making.

Recommendations

- Forecast accurately
- Balance between short term and long term commitments
- Chose a partner who can offer carrier and mode flexibility
- Allow for sufficient lead times in case of disruptions
- Support electronic data exchange
- Consider to select sustainable logistics offerings
- Foster long term partnerships with your provider of choice

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