DHL Global Forwarding

OCEAN FREIGHT MARKET UPDATE

February 2021

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OCEAN FREIGHT MARKET UPDATE – FEBRUARY 2021

CONTENTS

THE IMPACT OF COVID-19 TO GLOBAL SHIPPING

Recap 2020

- Carriers reduced capacity massively in Q1
- At the end of Q2 bookings started to pick up suddenly
- The demand continued to drastically increase as of Q3
- Available capacity in the market was not sufficient any longer
- Empty equipment became extremely short especially in Asia
- Port congestion mainly in the US started
- Freight rates climbed to an all time high

Status beginning 2021

- The demand from Asia continues to be very strong
- The lack of empty equipment remains a major issue
- Freight rates are still on a historical high level
- Schedule reliability is at an all time low
- Ocean carriers announcing record financial results
- The port congestion in the US creates a severe bottleneck
- No signs of a a softening market in Q1 visible

Outlook 2021

- The tight situation remains throughout H1
- Most likely the demand will start to decrease in Q2
- Additional capacity will be deployed in Spring
- The trade imbalance should get back to a normal state
- Ocean carriers will control capacity tightly
- Freight rates will remain on high level

The new normal

- Capacity will be managed very tightly and adjusted quickly
- As a result schedule reliability will remain a challenge
- Lead time calculations must include some flexibility
- A lack of forecasting ability will create supply chain disruptions
- Delivery against commitment will be essential to all
- Supply chain resilience will win over lowest costs

An Unusual Chinese New Year

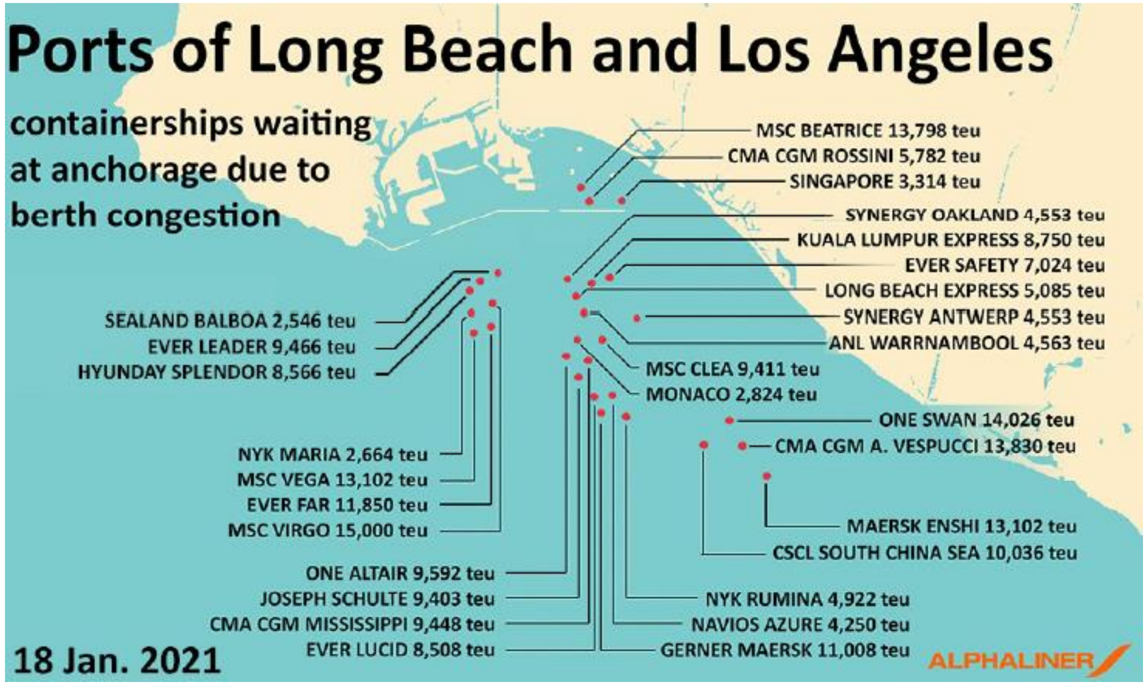
TOPIC OF THE MONTH

To clear backlogs and get empty containers back to Asia carriers are not implementing blank sailing programs after CNY

Chinese New Year on 12 February will be very different than in other years as carriers are not implementing their usual blank sailings programs in the weeks following Chinese New Year. They will need to keep their vessels moving especially to the US and Europe where empty 40ft containers, that are so much needed in Asia, are piling up.

The combination of high demand and COVID-19 mitigation measures have impacted and slowed down port operations. As a result, around 50 vessels were anchoring outside Los Angeles/Long Beach, more than 30 being container vessels.

Meanwhile the container congestion could build up in China as well and move inland as Chinese truck drivers are leaving for their Chinese New Year break although the government has urged Chinese citizens to refrain from travel this New Year. Since some local authorities have also implemented quarantine measures for people returning from other provinces, truck drivers are forced to leave earlier would they want to see their families this holiday.



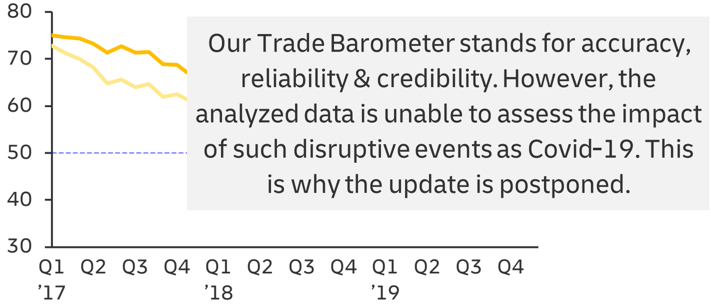
Source: DHL, Alphaliner

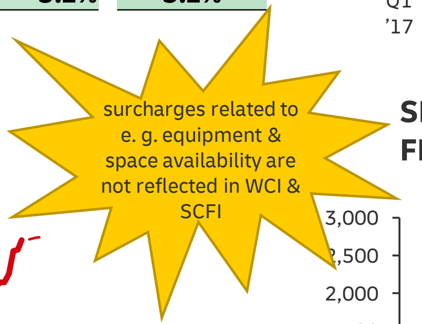
HIGH LEVEL MARKET DEVELOPMENT

ECONOMIC OUTLOOK
GDP GROWTH BY REGION[1)]

	2021F	2022F	2023F	2024F	2025F	CAGR (2022-25)
AMER	3.2%	2.6%	2.5%	2.8%	2.9%	2.7%
ASPA	5.5%	4.4%	4.4%	4.4%	4.4%	4.4%
EURO	3.5%	3.6%	2.2%	1.9%	1.7%	1.9%
MEA	3.3%	3.9%	3.7%	3.4%	3.2%	3.4%
DGF World	**4.1%**	**3.6%**	**3.2%**	**3.2%**	**3.2%**	**3.2%**

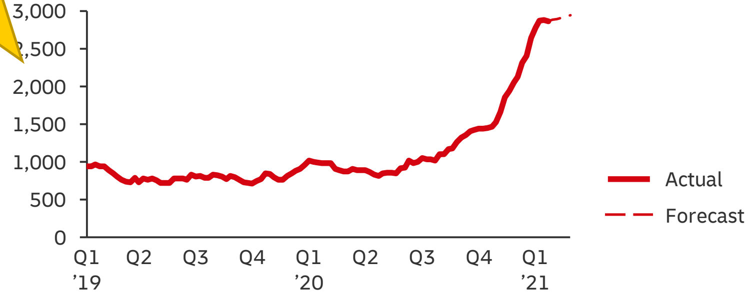
DHL TRADE BAROMETER[2)]



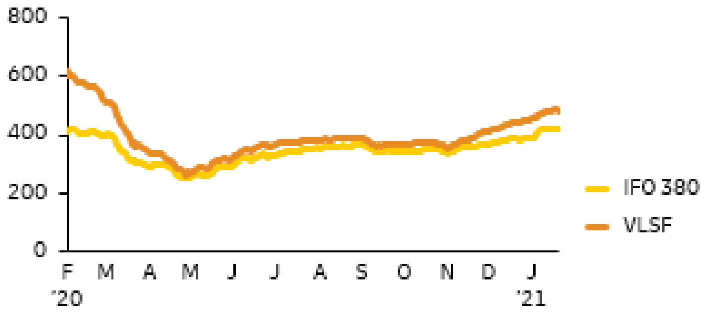


WORLD CONTAINER INDEX (WCI)[3)]

SHANGHAI CONTAINERIZED FREIGHT INDEX (SCFI)[4)]



BUNKER PRICES[5)]



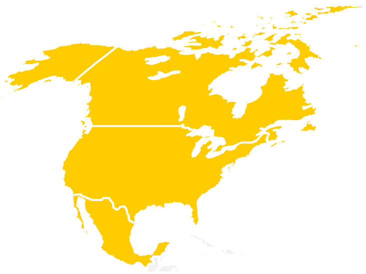
1) real GDP, Copyright © IHS Markit, Q4 2020 Update 4 Nov`20, Venezuela is excluded from aggregates due to hyperinflation . All rights reserved. 2) DHL Global Trade Barometer Dec19, index value represents weighted average of current growth and upcoming two months of trade, a value at 50 is considered 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 ctnr & USD/40ft ctnr for US routes, including BAF, EBAF, CAF, PSS, WRS, PCS & SCS/SCF/PTF/PCC, excl. THC, 15 routes from Shanghai. 5) Source: DHL.

MARKET OUTLOOK FEBRUARY 2021 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 FEBRUARY 2021

OCEAN FREIGHT RATES – ASIA-PACIFIC EXPORTS

- ASPA-EURO: The equipment situation continues to be critical before the Chinese new year holiday and combined with the strong demand the rates will remain at high levels.

- ASPA-AMNO: Equipment situation is getting extremely bad at most locations. The space situation continues to be tight prior CNY and there are minimal blank sailings from the carriers. Premium rates are expected to increase especially to the USEC.

- ASPA-AMLA: Shortage of equipment is expected to persist into Feb 2021 with no visibility on when it will improved currently. Freight levels are expected to extend across from Jan into 1st half of Feb. As the demand is expected to be continually strong for Feb, there are less seasonal blanks sailing for LNY this year, with only 2 strings for ECSA being announced for week 7 currently.

- ASPA-MENAT: Equipment shortage persists into February leading to possibility of space/equipment not meeting pre CNY export requirements, a quick recovery is expected post week 7 blank sailings. Rates show signs of stability towards mid February. Rate levels in March remains dependent on demand relative to recovery of equipment situation.

- ASPA-ASPA: Less seasonal CNY blanking is expected this year as demand remain strong and vessels are reported full or overbooked for 1st half Feb. All equipment types remain tight across Asia and rate restoration is expected in Feb coupled with slight adjustment on IMO2020 surcharge. Accurate forecast and 3-4 weeks advance booking remain a necessity in the current market.

Find additional trade information in the backup!

Source: DHL

MARKET OUTLOOK FEBRUARY 2021

OCEAN FREIGHT RATES – OTHER MAJOR TRADES

- **EURO-AMNO**: Carriers continue to apply Peak Season and/or Equipment Imbalance Surcharges, pushing on GRI in addition. St. Lawrence Low Water Surcharge in place with OOCL, COSCO and CMA-CGM. Equipment issues remain. High demand on all services continues. Early booking required.
- **EURO-ASPA +MEA**: Asia: Space is very tight on all services. Equipment is also tight, partly carriers are cancelling confirmed bookings due to lack of equipment. Rates are still on a high level. PSS and/or Equipment Imbalance Fees are still in place. For AU/NZ: space is tight, rates are increasing; congestions at POD's in AU & NZ still ongoing.
  MEA: Equipment same as Asia. Space is tight and rates are increasing slightly.
- **AMNO-EURO**: On-going blank sailings throughout February. Rates remain stable with no planned increases in the near future.
- **AMNO-ASPA**: Strong decline in capacity. Space is very limited. Strong increase in rates due to GRI every 15 days like TPEB.
- **AMLA Exports**: **AMLA – AMNO :** Blank sailings announced by carriers ex ECSA in efforts to manage capacity. Congestion surcharge introduced by ONE for WCSA-USWC route at $300/per box. Carriers evacuating empties back to Asia resulting in sporadic equipment shortages. Free time reductions is under scope for carriers given equipment crunch in the region. Congestion at transshipment hubs causing extensive increases to published transit times.
  AMLA – ASPA : Strong exports projected to continue through next couple of months, especially out of Brazil. Tight space situation continues to affect the market. Container imbalance impacting LATAM region and free time detention / demurrage. Maersk / Hamburg Sud continue 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.
  AMLA – EURO, MENAT & SSA : Carriers continue to focus on decreasing free times at origins and destinations (mainly Europe) due to global equipment shortages. Blank sailing programs continue and expected increased bottlenecks during February due to CNY blank sailings ripple effect.

Source: DHL

Rising nonperforming loans could threaten Europe’s post-pandemic recovery

ECONOMIC OUTLOOK & DEMAND EVOLUTION

EUROPE

Given the resurgence of COVID-19 and widespread imposition of stringent containment measures, a second wave of recessions is likely across most of Western Europe, albeit less severe than downturns in the first half of 2020. A consumer-led growth spurt should occur from spring•2021 as vaccinations facilitate a reopening of economies, although market consensus growth expectations remain overly optimistic.

AMERICAS

Assuming a higher winter peak in COVID-19 virus infections in the US but without fiscal stimulus, real GDP would contract at a 2% annual rate in the first quarter while real personal consumption expenditures (PCE) fall at a 5% rate; both would recover sharply during the second half of the year with a successful inoculation campaign. Even with front-loaded stimulus, the new forecast shows real GDP growth weaker in the first half than in the second half of 2021.

ASIA PACIFIC

After an estimated 5.4% contraction in 2020, the Japanese real GDP is projected to increase 2.3% in 2021. This forecast is down 0.3 percentage point, reflecting negative impacts from the state of emergency announced recently in response to surges of confirmed COVID-19 cases from late December 2020.

Monthly data indicate mainland China’s expansion remained strong exiting 2020. Industrial production grew 7.3% y/y in December, while service sector output rose 7.7%; both outpaced their pre-pandemic annual growth rates in 2019. Retail sales growth eased to 4.6% y/y in December, from 5.0% y/y in November, partly because of the new regional COVID-19 outbreaks.

LATIN AMERICA

Except for Guyana, all Latin American economies fell intorecession during 2020 because of COVID-19 restrictions and lockdowns. Guyana’s growth is an oil story where discoveries materialized in sizable increases in production during 2020. For the rest of the region, while the most visible and shocking decline has been observed in consumption, investment has suffered significantly and, in many cases, it continues to fall (even as a percent of GDP).

DEMAND DEVELOPMENT

Global economic growth diminished in December, as the•JPMorgan Global Composite Output Index (compiled by IHS Markit) fell 0.4 point to 52.7. Further waves of COVID-19 virus infections curtailed business activity and consumer demand. Manufacturing continued to outperform services: the global manufacturing PMI held steady at November’s 33-month high of 53.8, while the services PMI decreased 0.4 point to 51.8. In both sectors, growth in output, new orders, and employment slowed.

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

CAPACITY 1/2

The **2M** partners Maersk and MSC made some structural changes to their Asia – North America network in end of January by **dropping four Asian calls** as well as **two in Central America**. The shortening of the rotations should **enhance schedule reliability** in times of severe port congestion.

Australia is facing **severe empty container congestion** issues. According to local reports, more than 50,000 empty boxes crowded landside facilities in Sydney December 2020. Similarly, Melbourne and Brisbane also faced a significant build-up of empties. Australia has an inherent trade imbalance and, in addition to this, in some cases different container types are needed for incoming and outgoing cargoes. In recent months, the demand surge, bad weather and industrial actions have worsened port congestion down under. Disruptions of Australian exports to China, which has imposed ban on timber and wood products, wine and other from Australia worsened the situation further. According to liner lobby group 'Shipping Australia Limited', carrier have tried to reduce empties overflow by diverting ships to extra calls or deploying some extra loaders, just to evacuate empty boxes from the Australian continent back to the Far East. However these ships encountered long waiting times to berth as Australian ports. So far, the efforts only resulted in marginal improvements. It is yet to be seen when the situation will recover sufficiently.

After announcing its 2021 network on the Asia – Europe and Transpacific trades, the members of **THE Alliance** have now also released their **revised Transatlantic** 2021 network. Hapag-Lloyd, ONE and Yang Ming will **suspend** the **North Europe – ECNA 'AL1' service** and **adjust the rotations** of the **four remaining North Europe – ECNA loops**. The restructuring will commence in Q2. All ports will continue to be covered by the four other loops. It is not known yet if Hapag-Lloyd, ONE and Yang Ming are planning to introduce larger ships in the four remaining services to (partly) compensate for the suspension of the 'AL1'.

CMA CGM has taken **delivery** of the **LNG-powered 'megamax' container vessel** CMA CGM RIVOLI. The new ship is the fifth unit in a series of nine 23,112 TEU vessels that the French carrier will receive from China's CSSC shipbuilding group. CMA CGM's orders for the nine megamaxes from CSSC, are part of the carrier's **initiative** to have **two Asia – Europe and Med services** upgraded to (almost) **exclusively deploy LNG-powered tonnage.** The CMA CGM RIVOLI has been phased in into the carrier's flagship Asia – Europe service 'FAL1' in the 2nd half of January.

Source: Alphaliner, THE LOADSTAR, Dynaliners, carriers

CAPACITY 2/2

CMA CGM, Cosco Shipping Lines, Evergree and OOCL (COSCO Group) have reached an **agreement** on the **new 'Day 5 Product'** of their **OCEAN Alliance** on the major East West trades, which will be introduced in April 2021. The 'Day 5 Product' includes 39 liner services and will use 333 containerships. It will have an estimated fleet capacity of around 4.1 MTEU. This compares to a total of 38 liner services, 325 ships and a vessel capacity of 3.76 MTEU announced last for the current 'Day 4 Product'. The 'Day 5 Product' is **largely identical to the current offering**. The extra service included in network is the COSCO operated Indian Subcontinent – South East Asia – China – USWC 'AACI' service.

Source: Alphaliner, THE LOADSTAR, Dynaliners, carriers

CARRIERS

OOCL reported a **51% increase in revenue for the 4th Quarter** of the year to reach USD 2.4Bn, after realizing hefty double-digit volume increases on all four major trade lanes. The strong result brings total revenue for OOCL in 2020 to USD 7.46Bn, a rise of 19% compared to 2019's USD 6.2Bn. Volumes for the year rose 7.3% to 7.46M TEU, likely to be at higher end of the range for carriers. OOCL parent OOIL reported a net profit of USD 102M for the 1st half of 2020, which is likely to be dwarfed by results in the 2nd half.

Israeli shipping line **ZIM** Navigation is making a **fourth attempt to go public**, after filing preliminary prospectus with the US Securities and Exchange Commission to raise up to USD 100M on the New York Stock Exchange. ZIM, which posted a USD 144M profit for the 3rd Q, 2020, is expected to emphasize its participation in the booming Transpacific trades to convince investors it finally merits success on the public markets. ZIM currently operates 52% of its capacity on the Transpacific. The company said the main goal of the IPO was to add to working capital and enable the company to access equity markets in future. Proceeds would serve growth initiatives, including vessel and container investments, while also strengthening the company's capital structure. No timing has been given for the offering but it is reported the company has already started talks with potential investors.

Despite the boom in container markets since the summer, the carrier **Pacific International Lines (PIL)** is still over-leveraged and its capital structure unsustainable. PIL was able to negotiate reduced or standstill payment arrangements with many creditors since last year. However these agreements could be abandoned in March, if PIL's restructuring plan does not go through. The Singapore government arm Heliconia Capital is proposing a mix of equity and debt, including a USD 600M capital injection plus a USD 200M revolving credit facility for liquidity requirements. However, a USD 112M Emergency Credit Facility provided last year by Heliconia must be repaid in March. **Creditors** will **vote** on the **restructuring plan in February**. The noteholders would face significant value destruction in the event the plan stalls and the company is pushed into liquidation.

Source: Alphaliner, Dynaliners, carriers

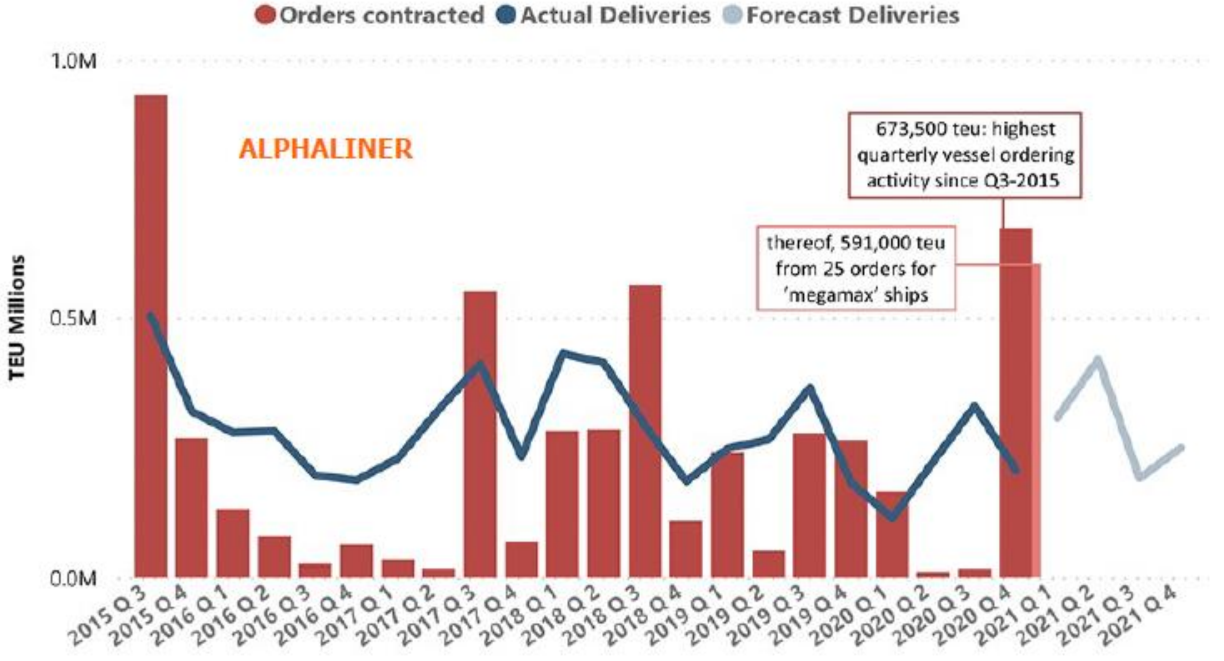
Did you Know?
Containership Orderbook

Megamax-wave pushes orderbook past 10% margin again

In the 2nd half of December, **megamax orders** at Korean yards (6 x Hapag Lloyd), Japanese yards (6 x Shoei Kisen for ONE) and Chinese yards (2+2+2 x BoComm for MSC) has added 430,000 TEU to the global pipeline.
These 18 deals were preceded by 7 orders for 23,000 TEU vessels that OOCL placed in October at the Nantong and Dalian yards of COSCO-KHI.

After several years of decline, the **container ship orderbook to fleet ratio** has finally **climbed back up to 10%** again and it now stands at 2.40 MTEU versus a world boxship fleet of 23.91 MTEU.

Containership Orders by Quarter : Q3 2015 – Q4 2020



Meanwhile the **mid-sized container ship** sector **keeps ageing** without direct replacement tonnage. Many mainline ships of 5,000 to 6,500 TEU (panamaxes and LCS) and even the first 8,000 to 10,00 TEU vessels (VLCS) are slowly but surely getting long in the tooth. So far there are only two firm orders for mid-sized ships with a set of two 5,980 TEU units that CMB ordered at Qingdao Yangfan. As per Alphaliner, 2021 will have to bring about more new orders, principally for ships in the 4,000 – 7,000 range as carriers will have to replace some of their ageing tonnage no later than mid-decade. This is especially true since environmental regulations are bound to tighten and carriers will need to replace older ships with more energy efficient tonnage too meet the industry's sustainability targets.

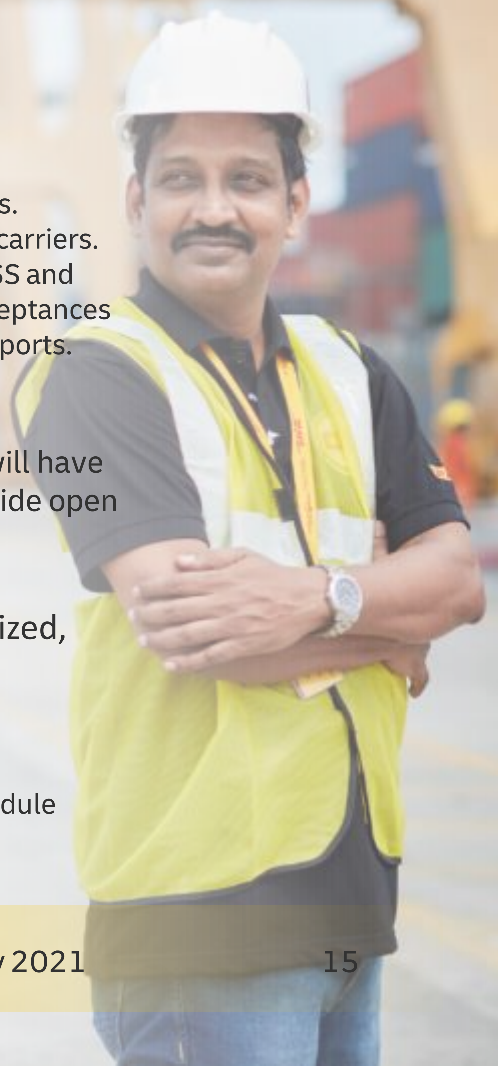
Source: Alphaliner

BACK-UP

MARKET OUTLOOK FEBRUARY 2021

OCEAN FREIGHT RATES ADDITIONAL TRADES (1/2)

• EURO-AMLA+MX	Rates remain relatively stable for Q1, with the exception of ONE (rate increase to MX), but equipment availability is an issue. Equipment Imbalance Surcharge has been implemented by various carriers.
• EURO-MENAT	Space is also an issue. Rates increasing slightly. Equipment in North Europe getting tight.
• EURO-SSA	Rates and capacity ex Europe to South Africa are quite stable with a tendency of a slight rate increase for mid and long term business. Capacity is available. Equipment Imbalance Surcharges are in place. West Africa services are highly utilized / fully booked across all carriers. Several ports are congested with long waiting times. Some carriers already announced booking stops. Carriers are implementing PSS and Emergency Congestion Surcharges and Equipment Imbalance Surcharges. East Africa services are fully booked, with some non-acceptances of new bookings (e.g. Port Sudan). Carriers are still facing delays, caused by congestions and service disruptions in East Africa main ports. Carriers have implemented PSS, Equipment Imbalance Surcharges and congestion surcharges.
• AMNO-MENAT	Third and fourth waves of GRI's set for early and mid-February to Mideast destinations. By that time, on average, rates will have increased around \$325/\$500 since early December to mid-February. Rates to Turkey remain very competitive. Space wide open on EMA service (COSCO, OOCL, ONE & YML) and Hapag has two direct offerings.
• AMNO-SSA	Increases in the form of congestion fees or PSS/GRI to the congested West Coast ports of Africa are being realized, with Nigerian destinations being the most heavily impacted.
• AMNO-AMLA	Vessel capacity and rates remain stable with no foreseen service changes for rest of Q1. Bottlenecks still felt through the region at transshipment hubs such as Panama & Colombia w/ some carriers. USWC congestion has led carriers to omit ports to maintain schedule integrity during past weeks and will continue throughout Q1.



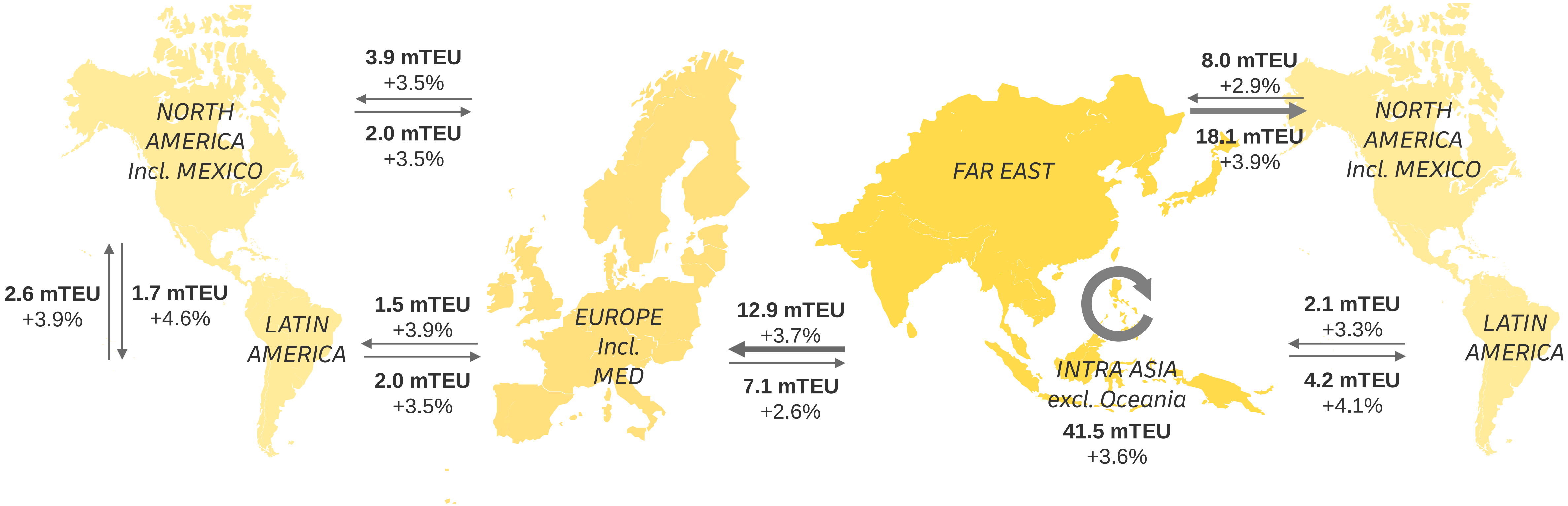
Source: DHL

OCEAN FREIGHT RATES ADDITIONAL TRADES (2/2)

- EURO MED-AMNO: In accordance with space constraints and equipment shortage, rates are increasing in January or as of beginning of February, depending on the carrier (Rates increases and / or EIS & PSS)
- EURO MED-AMLA: Unchanged / stable.
- EURO MED-ASPA and MENAT: Stable situation with rather high rate levels.
- EURO MED-SSA: Unchanged / stable.
- ASPA-SPAC: Demand remain strong before CNY, shippers are pushing boxes out before Jan to avoid further schedule delayed during holiday. Meanwhile shipping lines are using CNY to slide schedule for one week in order to catch up the delay. Equipment is still a concern in major Asia Pacific origins.

Source: DHL

MARKET VOLUME 2020 - 2024



GLOBAL CONTAINER TRADE

147.6 mTEU 2020e *+3.7% CAGR 2021e-2024e*

Source: Seabury Dec20 update

STATE OF THE INDUSTRY
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