PUBLIC

OCEAN FREIGHT MARKET OUTLOOK 2023

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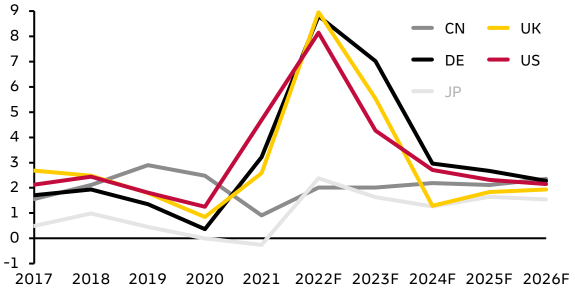
Economic Outlook & Demand Development

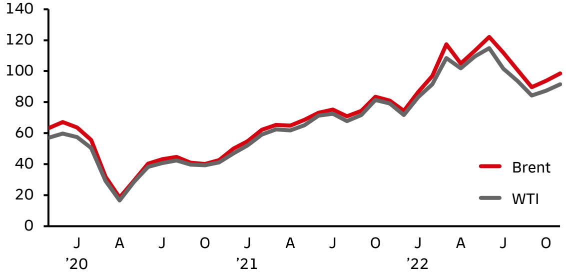
ECONOMIC OUTLOOK GDP GROWTH BY REGION[1)]

	2022F	2023F	2024F	2025F	2026F	CAGR (2023-26)
AMER	2.2%	0.2%	1.5%	2.0%	2.1%	1.9%
ASPA	3.4%	3.8%	4.6%	4.3%	4.3%	4.4%
EURO	2.3%	-0.6%	1.8%	2.1%	1.8%	1.9%
MEA	5.0%	3.1%	3.4%	3.3%	3.0%	3.2%
DGF World	**2.8%**	**1.4%**	**2.8%**	**3.0%**	**2.9%**	**2.9%**

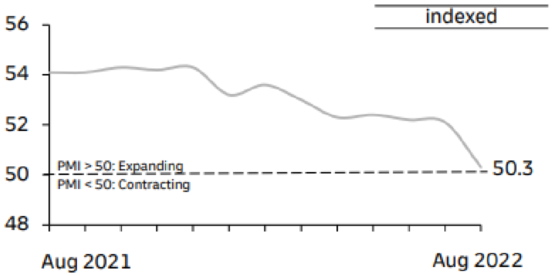
INFLATION (YOY IN %)



OIL PRICE (USD PER BARREL)



JP MORGAN GLOBAL COMPOSITE OUTPUT INDEX

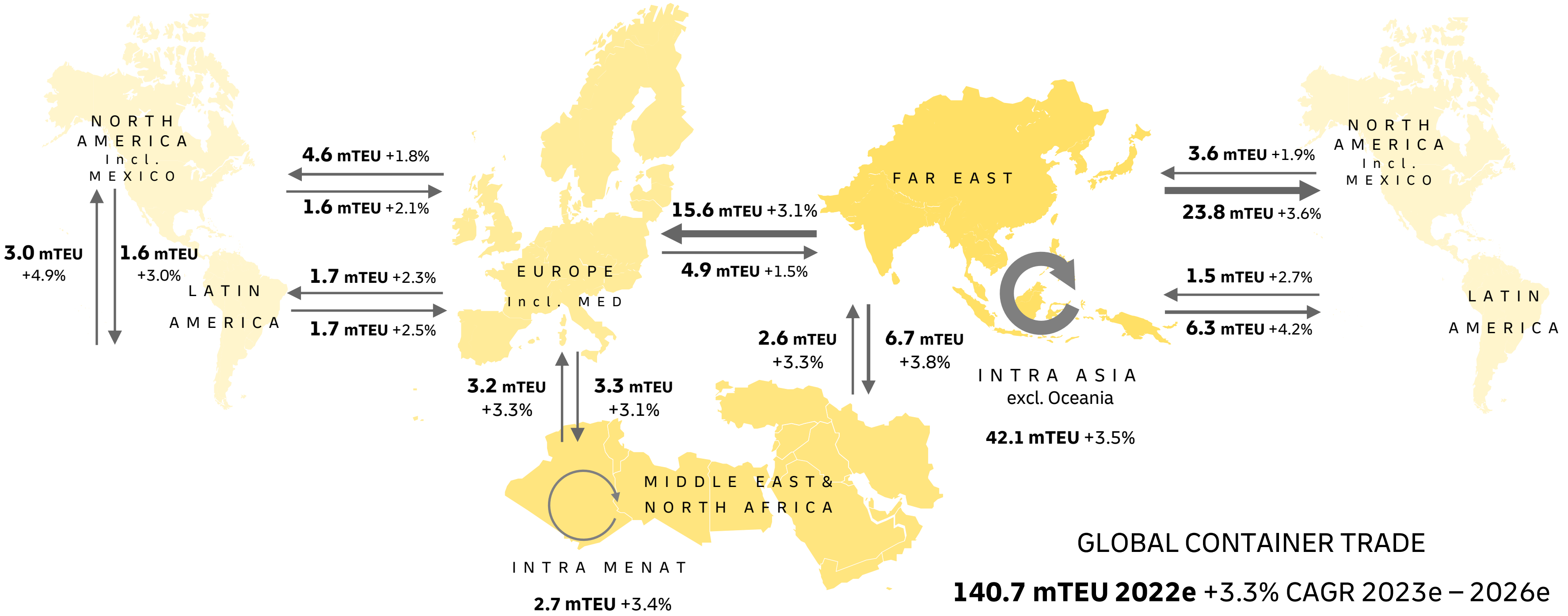


Observations

- In many parts of the world, **inflation** has peaked following supply shocks emanating from the COVID-19 pandemic, Russia's invasion of Ukraine, and rising **energy costs**.
- Major central banks are making a determined effort to subdue inflation through **interest rate hikes** and net asset sales. As a result, financial conditions are tightening.
- The result is a broad **slowdown** in household and business spending.
- Global **real GDP** growth is projected to slow from 5.8% in 2021 to 2.8% in 2022 and 1.4% in 2023.

Source: IHS Markit, now part of S&P Global, Q4 2022 Update 8 Dec '22 ; 1) Real GDP

Market volume 2022 – 2026



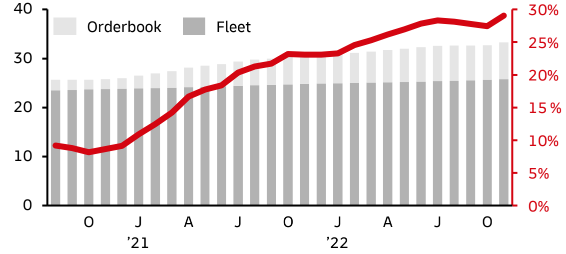
GLOBAL CONTAINER TRADE

140.7 mTEU 2022e +3.3% CAGR 2023e – 2026e

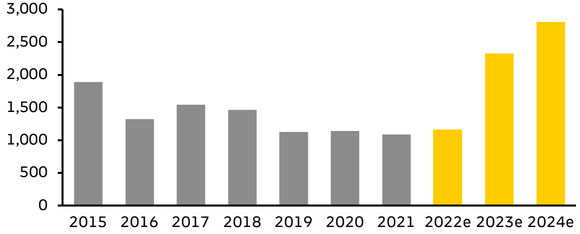
Source: Seabury Dec22 update

Capacity

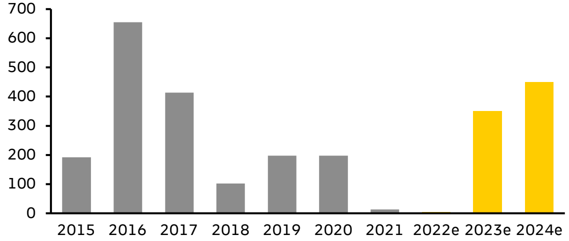
ORDERBOOK TO FLEET RATIO (IN mTEU, and AS % OF EXISTING FLEET)[1)]



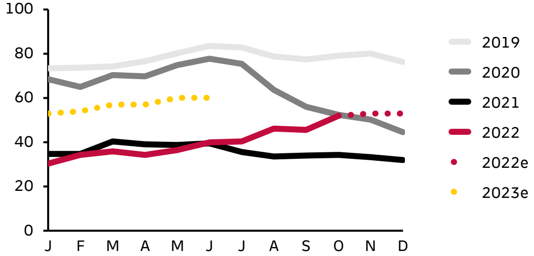
VESSEL DELIVERIES (mTEU)[1)]



SCRAPPING ('000 TEU)[1)]



OCEAN SCHEDULE RELIABILITY[2)]



Observations

- Carriers have spent a lot of their profits on new container ships. Some 7.5 m TEU are in the **orderbooks** and 2.3 m TEU of **new capacity** is expected to arrive next year.
- Capacity that has been blocked by **port congestion** is returning to the market as the bottlenecks ease.
- The new **IMO 2023 regulation** coming into force 1 Jan 2023 could reduce available capacity as vessels will be idle for **retrofit** and **slow steaming** will be the easiest way to make poorly rated ships compliant.
- Further **measures to control capacity** are expected to be implemented, such as blank sailings, slow steaming, idling, scrapping and the postponement of deliveries.

1) Alphaliner; 2) SeaIntelligence

IMO 2023: What is it all about?

IMO 2023 is the latest **set of regulations** on global shipping by the International Maritime Organization, the United Nations agency responsible for measures to improve the safety and security of international shipping and to **prevent marine pollution from ships.**
IMO 2023 is introducing **three new compliance measures** to curb carbon dioxide emissions for carrier's ships. These measures are part of the IMO's goals of reducing carbon emissions by 40% by 2030 and 70% by 2050 compared to 2008 levels.

EEDI Energy Efficiency Design Index	**EEXI** Energy Efficiency Existing Ship Index	**CII** Carbon Intensity Indicator

While the EEDI and EEXI are one-time certifications targeting vessel design parameters, the **CII addresses actual vessel emissions in operation**.

The **CII is a measure of how efficiently a ship transports goods** and it measures the emitted amount of CO2 per nautical mile and per cargo capacity. Ships will receive a grade from A (good) to E (poor) on their carbon dioxide emissions annually, **starting in 2023**. Ships with three years of D grades or one year receiving an E grade must put a **corrective action plan** into place to improve its CII rating through various measures such as :

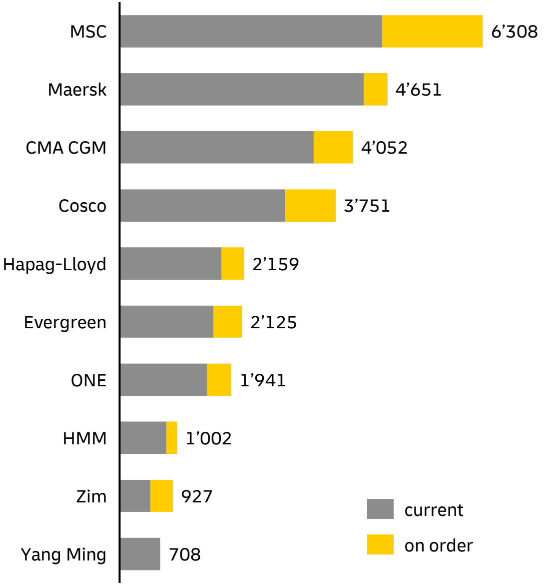
- Sailing speed reduction
- optimization of operations and logistics
- implementation of energy efficiency technologies
- use of alternative lower carbon ('blue') or zero carbon 'green' fuels

Potential Impact

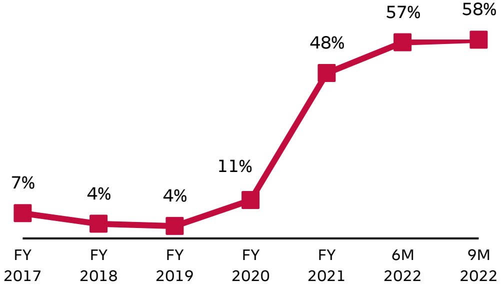
Per the consultancy group BV, only 30% of the container fleet will be EEXI compliant by 2023. 70% of 10K 14K TEU vessels, 35% of 14K 18K TEU vessels, and 29% of 18K+ TEU vessels are currently operating at a D or E CII level. These are the main vessels used on the Asia US and Asia Europe shipping lanes.
Both EEXI and CII could **negatively affect shipping capacity**, EEXI by requiring vessels to idle for modifications, and CII by incentivizing carriers to **slow steam as this is the easiest way to make poorly rated ships compliant.**

Carriers

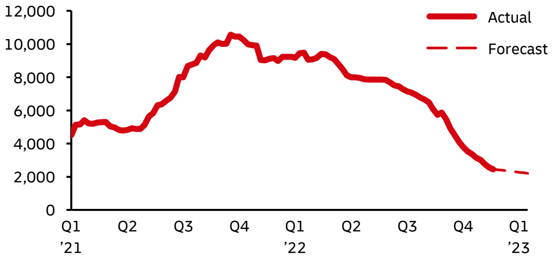
Top 10 Carriers by capacity ('000 TEU)[1)]



CARRIER OPERATING PROFIT MARGIN[2)]



WORLD CONTAINER INDEX (WCI)[3)]



Observations

- **Carrier profits** are forecasted to reach a record USD 275 bn in 2022. Slowing demand, excess capacity and falling rates will negatively impact future carrier earnings.
- Carriers are implementing countermeasures to **limit rate decreases** by reducing capacity in many trades and announcing General Rate Increases.
- After several years of severe supply chain disruptions the industry is repositioning itself and seeks to find a way to navigate through the new normal.

Source: 1) Alphaliner, 2) DynaLiners, 3) Drewry, in USD/40ft container, including BAF & THC both ends, 42 individual routes, excluding intra-Asia routes

Ocean Freight Market Outlook 2023

- Depressed consumer behavior continues to impact demand at least through H1 2023.
- A possible economic recovery would start earliest in H2 2023.
- Ocean carriers are trying to limit the capacity influx in order to stabilize rate levels.
- The schedule reliability will increase further as no serious disruptions are to be expected.
- First impacts of the new IMO environmental regulations will be noticed leading to longer lead times and increased costs.
- Initial signs of a reshuffled carrier landscape and/or new alliances could transpire.
- 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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