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Drewry's view on Container Market and Outlook

Mediterranean Ports and Shipping, Athens 2023

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1. Developments in container shipping
2. Trends in port sector
3. Mediterranean – regional highlights

Agenda

Macro trends in liner shipping

Mounting headwinds for container lines – UPDATE to 2022 slide

Risk	Level of uncertainty	Implications for carriers	Carrier upside/ downside
Geopolitical power plays	High	A prolonged Russia-Ukraine war will drag on global economic growth and container demand, and potentially expedite container supply chain recovery (leading to lower freight rates and profits).	Downside
~~Covid-19~~	High	China's zero-Covid policy could either worsen container logjams by restricting logistics capacity, and/or reduce manufacturing production and subsequently container shipments. The former would act as inflationary for freight rates, the latter deflationary. In rest of world, the easing of social restrictions will drive more consumer spending towards services instead of goods.	Both
Inflation / global economy	High	Geopolitics and Covid-related risks are combining to dampen consumer and business confidence. Fast-rising inflation, to some extent driven by supply chain issues, will reduce goods consumption.	Downside
Regulatory scrutiny	Medium	Super-profits have put carriers in the political spotlight. Some regulatory change imminent in the US, but significant alterations to liner operations are not expected to be imposed. Extra attention may be putting off carriers from seeking full value in freight rate markets.	Downside
Bunkers / rising opex	Medium	Geopolitical risk has significantly increased fuel costs (carrier appetite to pass on costs to customers potentially influenced by regulatory pressure), while the red-hot container market has done the same to the vessel charter market. High freight rates are easily covering the current level of additional opex.	Downside
Decarbonisation	Medium	New IMO regulations require significant capex to modernise carrier fleet and operations. Removal of older, less fuel-efficient ships will mitigate against new capacity additions in a small way.	Both

Source: Drewry Maritime Research

Estimated industry-wide earnings before interest and tax of $290 billion (with an average EBIT margin of 49%) in 2022

Between 2020-22 the industry's rolling EBIT profit was approx. $535bn

Drewry is projecting an EBIT profit of $15bn (7% margin) in 2023

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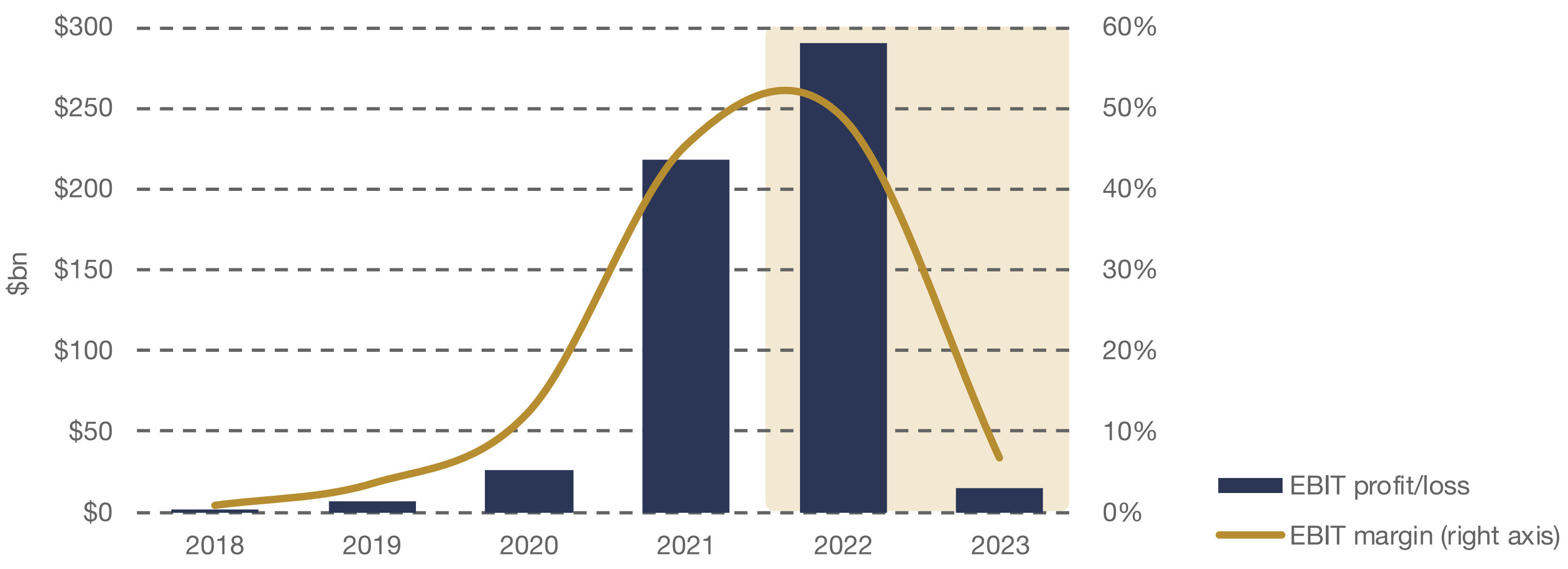
Its over… but what a party it was!

Estimated carrier industry EBIT profit/loss and EBIT margins

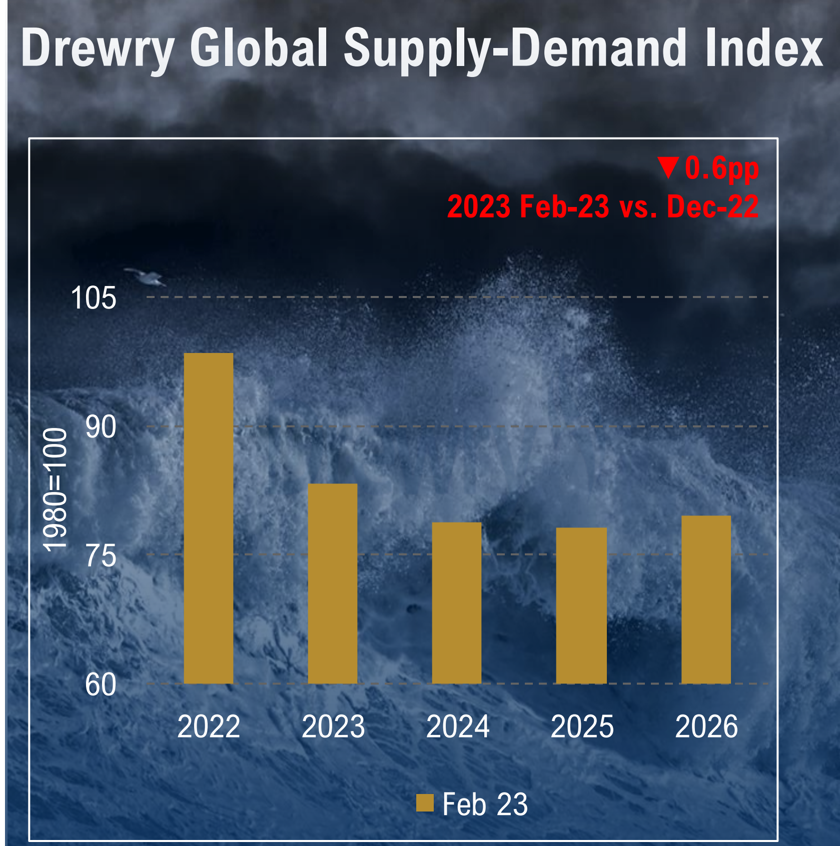


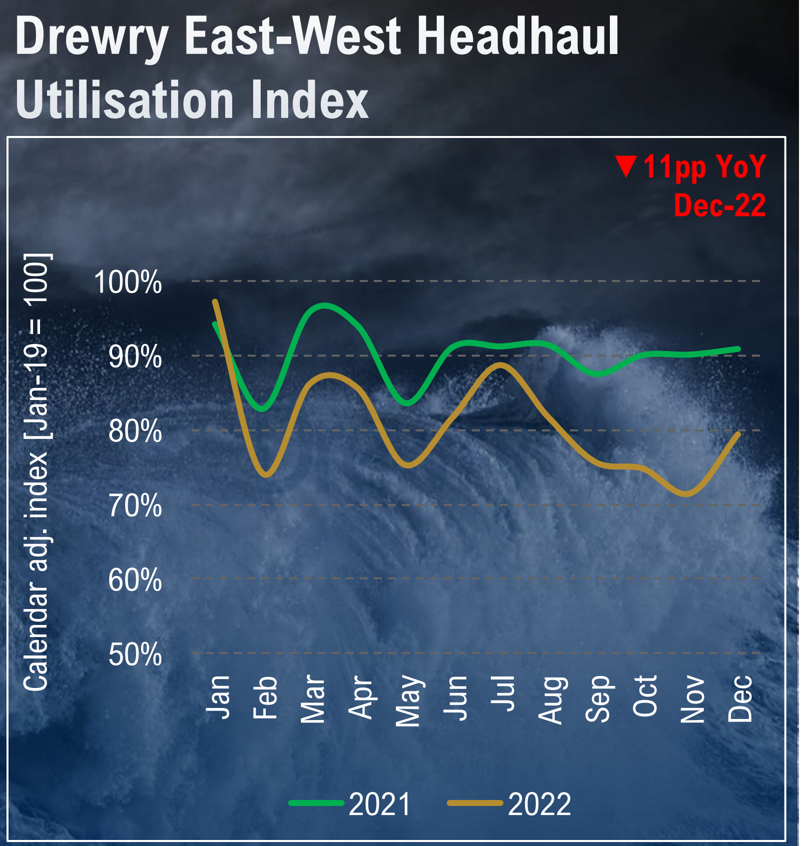
Source: Drewry 4Q 22 Container Forecaster

- Drewry's World Container Index dropped by 77% over the course of 2022.
- This was despite reductions to headhaul East-West capacity from the 2H – mainly in the form of blank sailings.
- Return to the chronic oversupply…
- Oversupply to remain a feature in foreseeable future
- Utilisation on main trades down, prompting careful management by operators. Will it work?

Stormy weather in the liner world

Decline of freight rates, lower utilisations and overcapacity



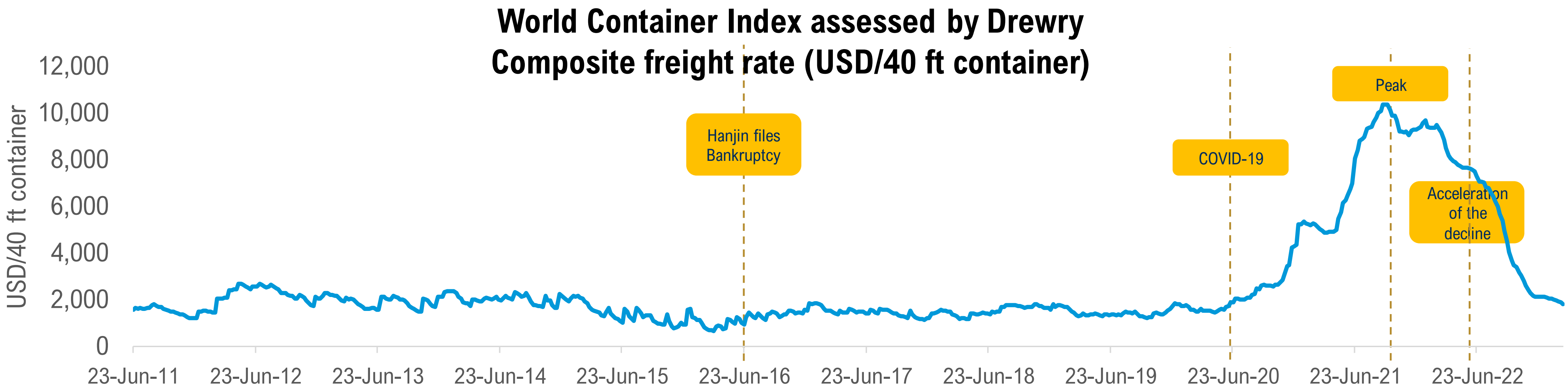


Note: 100 represents market equilibrium, below 100 indicates overcapacity, above 100 under supply

Source: Drewry

Freight down, but… how bad?

Despite the modest improvement to the container demand outlook, the industry is still facing a sizeable challenge matching supply with demand. As a consequence freight rates suffer.



Analysis of liner networks in pandemic and beyond

Severe supply chain disruption spread during COVID throughout the global networks. Effective capacity management by the Lines in response to the COVID-19 pandemic, and a subsequent unexpected surge in demand (and container equipment) shortage drove freight rates up during pandemic.

Port congestion and slow container turnaround continued to reduce effective capacity, pushing rates up further in 2021/2022. Freight rates experienced historic highs in the pandemic period but peaked in September 2021 but then started to decline.

Port congestion, shortness of container equipment and strong demand are clearing now so the current picture of liner networks is the result of a supply / demand imbalance.

- More supply
- Static demand
- Higher productivity
- Lower costs
- Change in carrier behaviour

2M divorce

- Maersk will end 2M alliance in 2025 at the latest. Drewry believes that the separation may be finalised earlier
- Maersk said that it will not join another alliance
- Maersk and MSC will no longer pool their fleet/resources on the East-West routes.
- According to Maersk, 2M worked for Maersk in 2015 as the company had many new big ships that it needed help filling. But the focus has shifted from scale economies towards end-to-end solutions and Maersk needs to control its own network.

IMPACT:

- The major East-West routes will move from 3 big alliances (2M, Ocean, THE) to 4 multi-carrier or single-carrier “networks” (MSC, Maersk, Ocean, THE) plus several smaller carriers outside alliances with low market shares.
- Maersk and MSC are expected to provide lower frequencies on the East-West routes.
- Maersk is expected to have fewer weekly departures than the other 4 networks.
- But Maersk and MSC will also be able to differentiate their services more than in the past

In 2023

2M Alliance*

Established in 2015 for 10 years to 2025, when it will terminate.
*Zim participates on Asia-USEC/GC services, having previously partnered on Asia-USWC and Asia-Med services since March 2019; HMM was a partner from April 2017 to April 2020; SM Line briefly had a slot-swap agreement on Transpacific services from 2020 through to early 2022.

MSC MEDITERRANEAN SHIPPING COMPANY — MAERSK LINE

Ocean Alliance

Established in April 2017, initially for 5 years. Extended in 2022 for another 5 years until 2027.

CMA CGM — EVERGREEN — COSCO SHIPPING

THE Alliance

Founded in April 2017. HMM joined in April 2020 when the four members extended the cooperation until 2030.

Hapag-Lloyd — ONE OCEAN NETWORK EXPRESS — YANG MING — HMM

By 2025 at latest

MSC

MAERSK LINE

To 2027

To 2030

Macro trends in container port sector

Macro trends in the global port sector

Drewry identifies six key long term trends that are critical considerations when mapping out the development path for ports and terminals.

Mature Trade Growth

Slower growth in key markets will make business case for port investment more challenging

Regionalisation replacing globalisation

The pandemic disrupted global supply which led to seeking more resilient procurement strategies. Mutation into a new world economy with shorter and more diversified supply chains

Labour costs & technology

Disparity of labour costs by geographies

Labour unrest –increase since 2020, exacerbated by rising inflation. Strike action can result in loss of business

Macroeconomic + geopolitical instability

Pandemics, wars, trade wars

Impact in trade patterns → cargo flows and revenues

Importance of resilience

More capex, more opex

Capex for port construction / expansion projects has risen post-pandemic

Inflation drives opex up

Decarbonisation / Net Zero / Energy transition

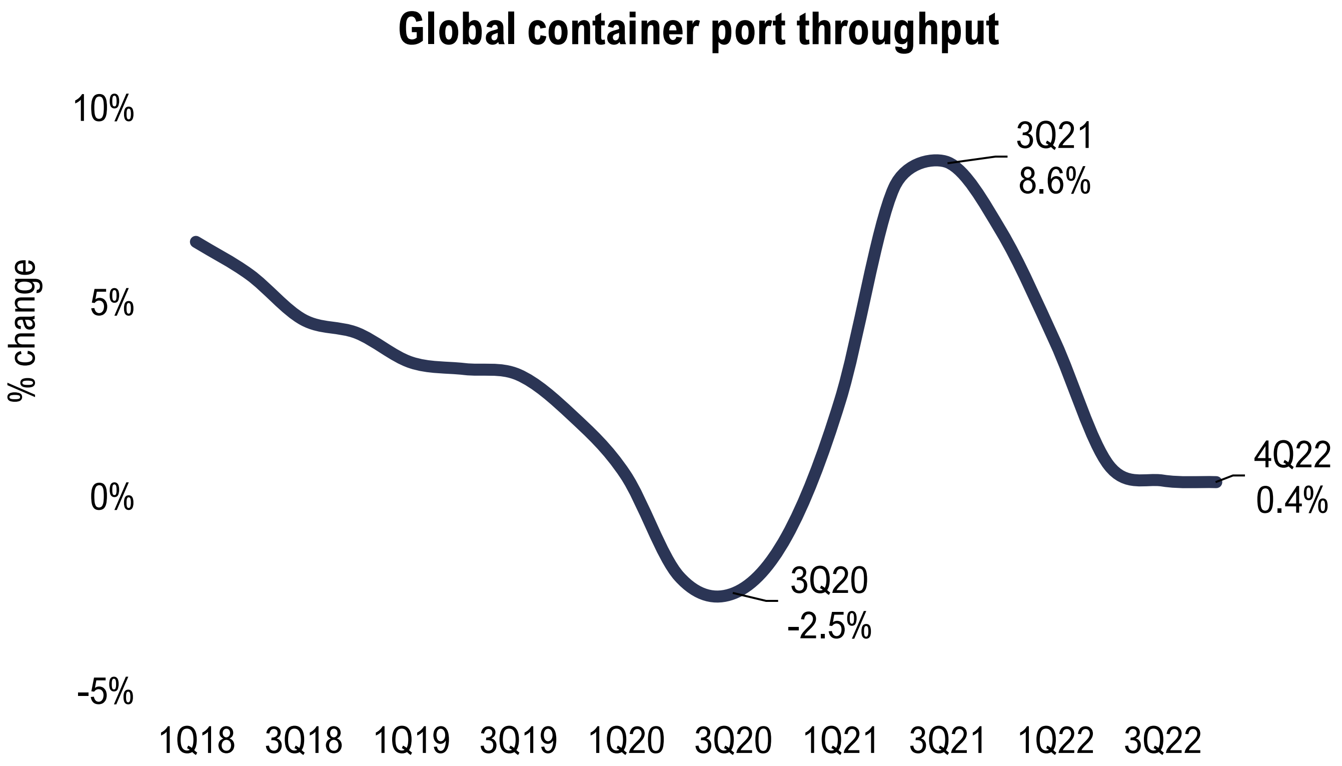
Less demand for fossil fuels →↓ bulk shipping trades but alternative fuels to drive demand in other cargo sectors

Reduced emissions for shipping

BCOs ensure that supply chains are sustainable / supply-chain partners are contributing to net-zero objectives

How are global container port volumes looking

The rolling four-quarter average growth in global container port throughput stabilised at 0.4% in 4Q22. The North American port market slowed further in 4Q22, and the European market continues to struggle.



- Mature trade growth
- Diversified / shorter supply chains

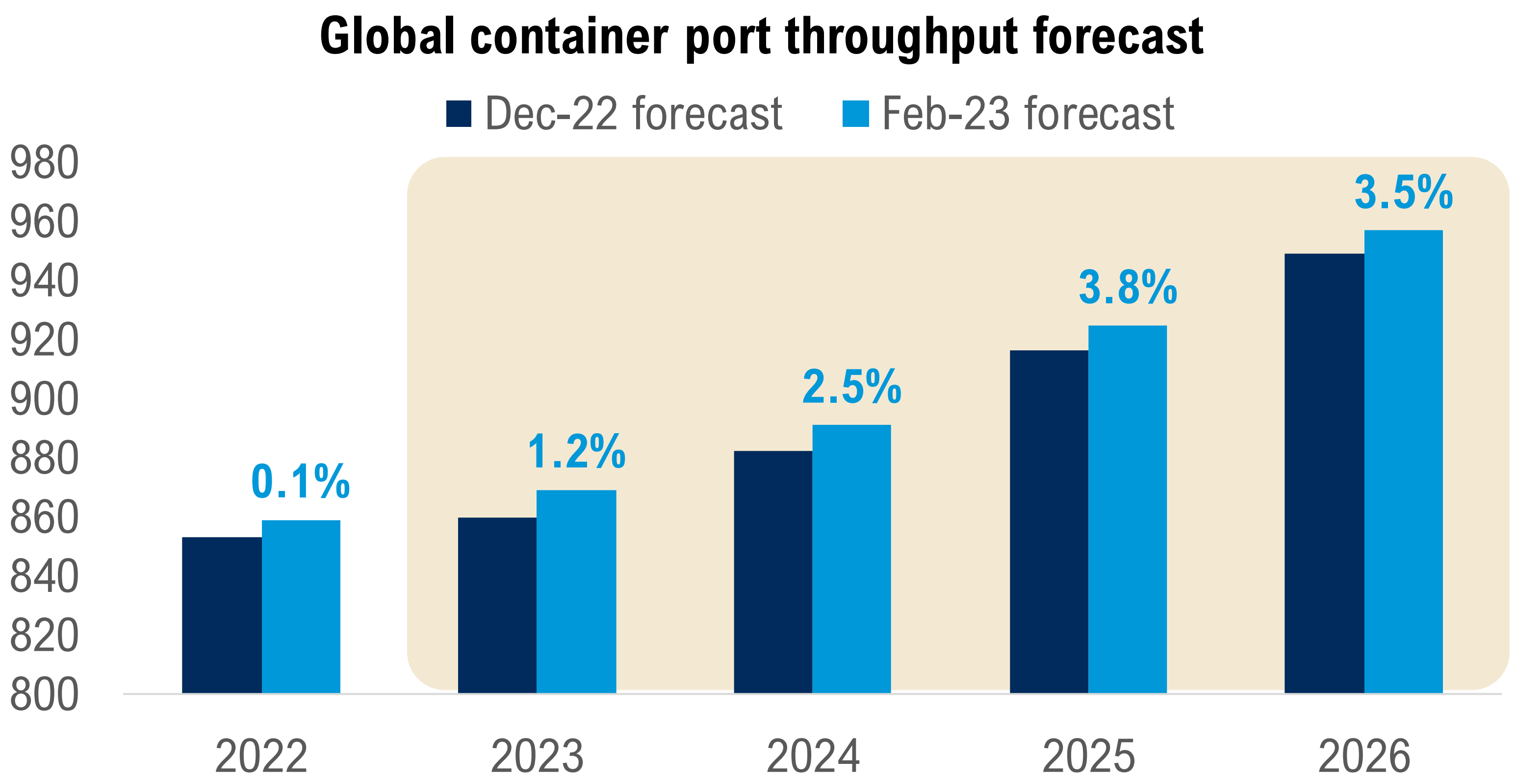
Flat growth factors:

- Geopolitical –handling at Russian ports in Baltic and Black Sea in 4Q22 was down by over 50% (0.5 mteu) compared to 4Q21.
- Economic - High inflation continues to drag the European economy down → major gateway ports (Antwerp Bruges ↓ 6.0% YoY in 2022, Bremerhaven ↓ 7.9% YoY. Traffic down on Algeciras, Barcelona and Valencia.

Despite 2022 having been a challenging year, there have been some pockets of outstanding growth across the market.

- strong growth in North American consumer demand – East coast ports and Houston
- supply chain diversification drives port volume growth in Southeast Asia, Northwest India and Mexico

Drewry's latest port throughput forecast



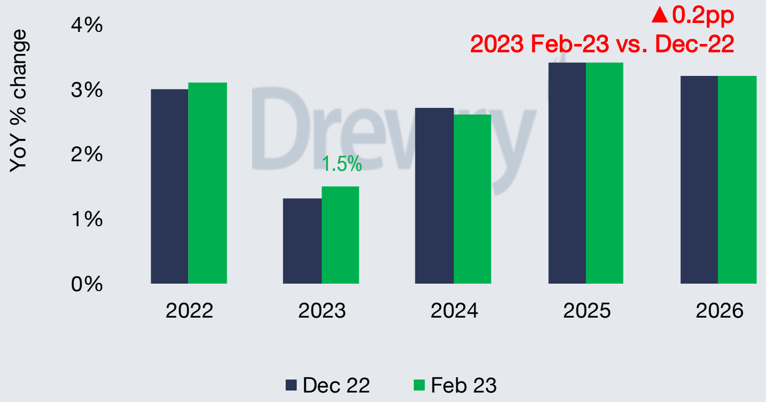
Source: Container Forecaster Monthly – February 2023

Given the change of direction in the GDP outlook and general sentiment, we are now anticipating an uplift of 1.2% (0.8% previously) for world port handling in 2023. Our assumptions include a cooling down in inflation, a weaker US dollar and some inventory replenishment.

Drewry's new monthly supplement to Container Forecaster report

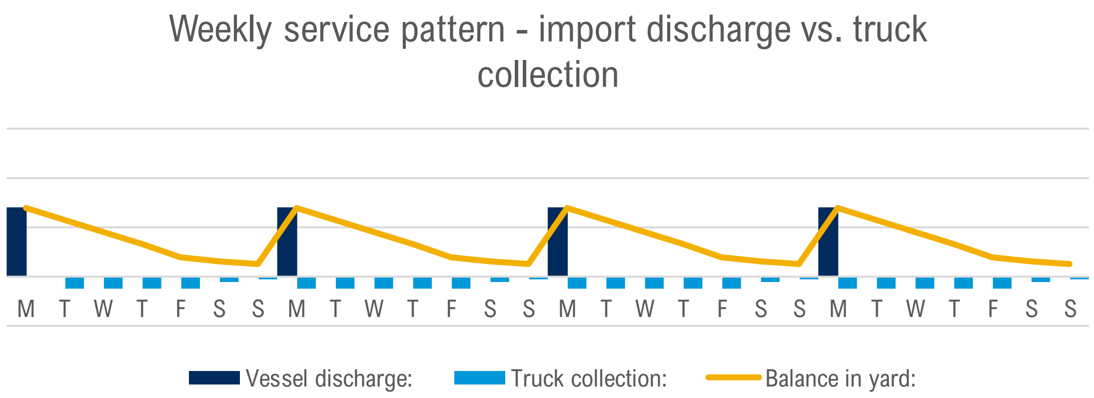
Economists do seem to be a little more optimistic than they did at the end of 2022, which has fed through to an uplift in Drewry's forecast for world port handling in 2023.

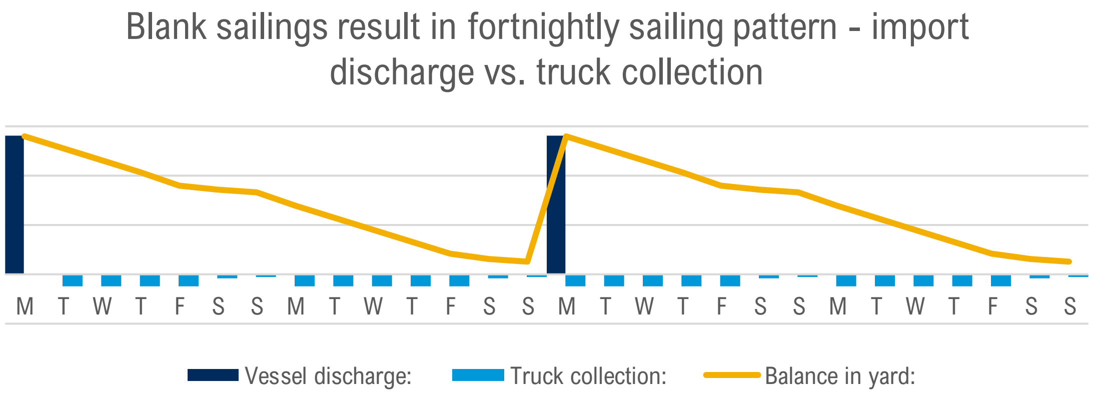
Our source for economics data, Oxford Economics, bucked the trend in February by raising its real GDP growth outlook for 2023 by 0.2 percentage points to 1.5%.

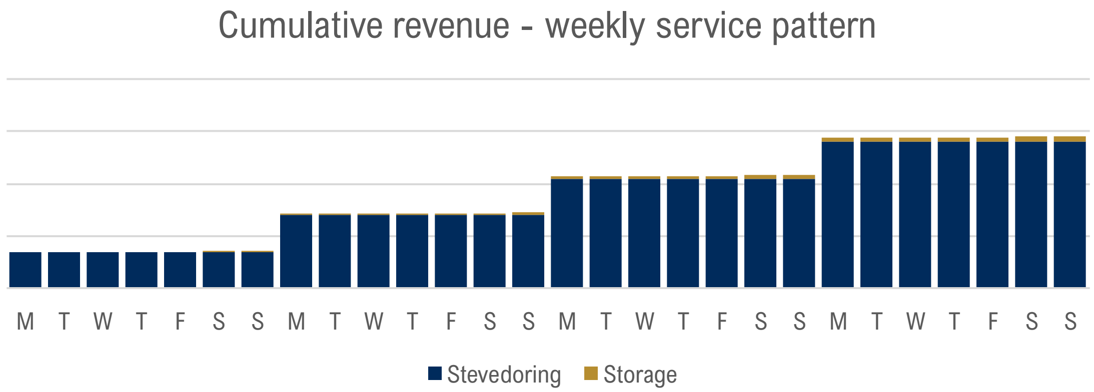


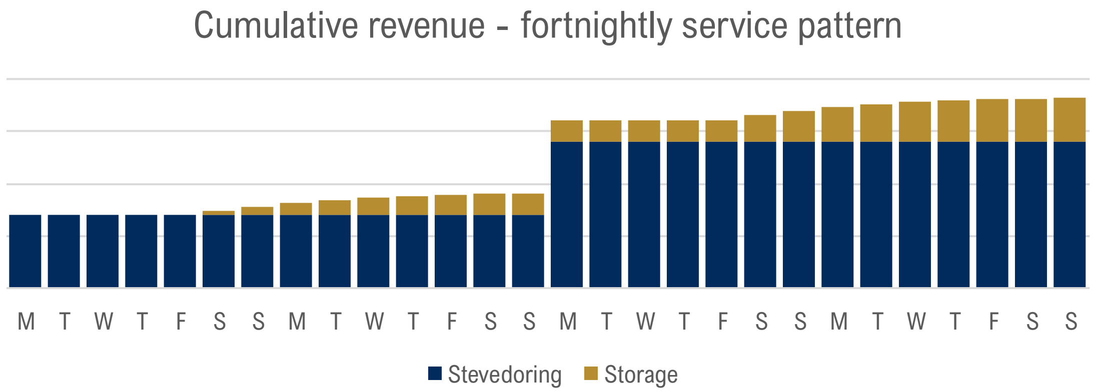
Blank sailings result in higher peaking factors which drive up revenue per teu

- **Blank sailings / port omissions result in higher peaking factors in yard.**
- **Relatively fixed capacity of landside transport results in longer dwell times and drives up storage revenue.**
- **This underpins recent increases in revenue per teu**









Terminal revenues – 2023 outlook

- Uncertain outlook for 2023 as several (contradictory) factors in play

INFLATION

- Inflation-linked uplifts will be evident from 1Q23 onwards
  - *Terminal operators negotiating position assessed to be relatively strong vs. carriers in 2H22 (i.e. when negotiations underway)*
  - *High carrier profits continued in 2022 (limited sympathy for poor outlook given size of profits in 2021/22)*
  - *Terminal operators facing steeply rising costs (fuel / wage inflation plus supply chain disruption)*

STORAGE

- Supply chain disruption is easing so demand for storage starting to ease.
- **BUT** in the face of falling demand carriers are continuing to implement blank sailings / port omissions to manage capacity and schedules.
- **AND** labour strikes (port / inland transport) likely to result in continued disruption.

REGULATION

- Impact of FMC regulation on Detention & Demurrage remains uncertain – will terminal operators be as aggressive in respect of storage charges with carriers as they have been with shippers.

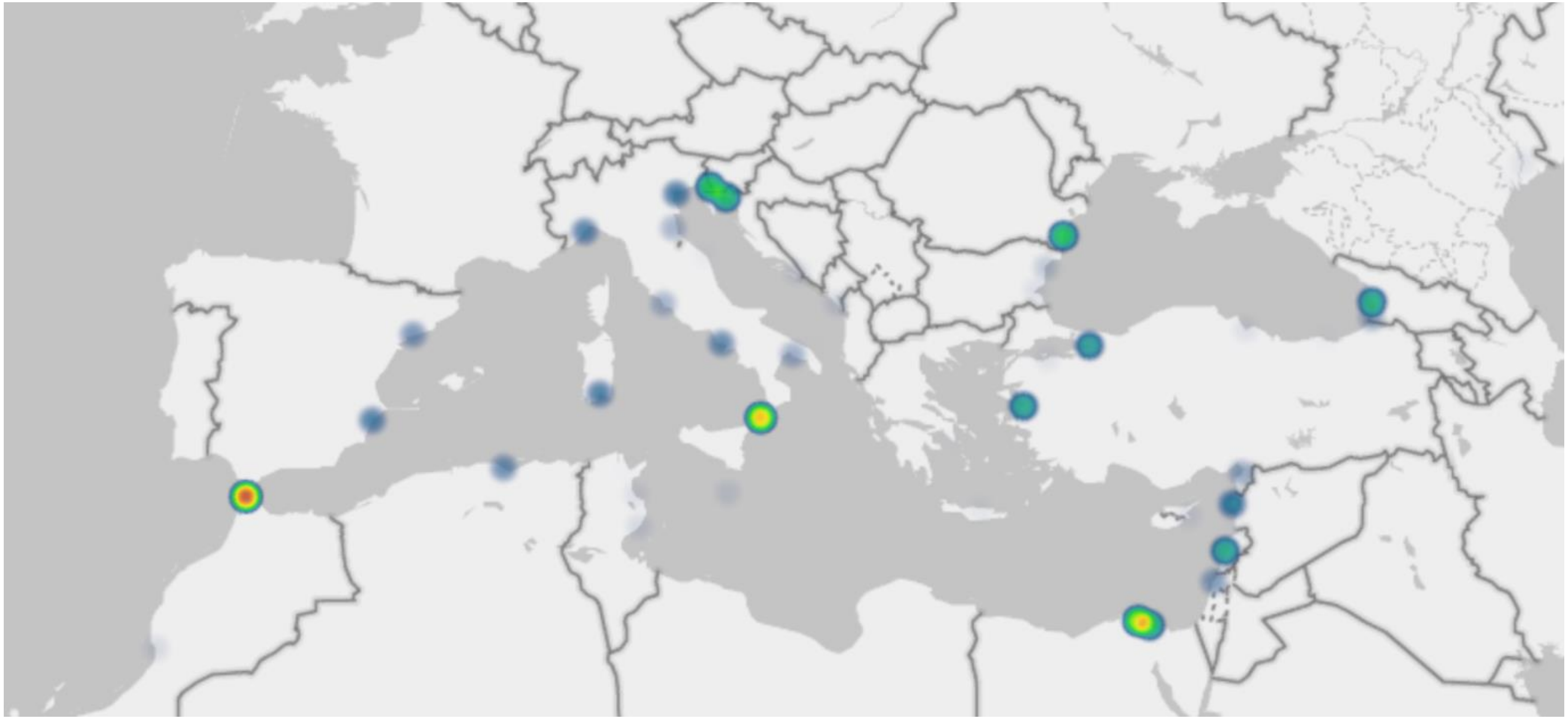
Developments in the Mediterranean

Largest container ports in the Mediterranean

Total container market ~73 mteu, with transhipment accounting for ~46% of regional throughput

Growth hotspots

Tanger Med, Gioia Tauro, Damietta, North Adriatic



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Drewry's Carbon Tax and New Fuel Forecast Report

BENEFITS

Identify suitable providers with whom to work on sustainability plans: Understand the main sustainability strategies and investment plans of major ocean carriers and forwarders - and who the leaders are

Understand the impact of new fuel types and fuel taxes: Inform internal stakeholders/management about medium-term container freight cost increases resulting from regulatory fuel changes

DELIVERABLES

Carrier Decarbonisation Guide (PDF Report)
Overview and comparison of the carrier fleet / Orderbook decisions as well as their carbon targets / roadmap

Carbon Tax and New Fuel Forecasts (MS Excel)

- Forecasted incremental cost (USD per TEU), per trade route and per Service of the different fuel alternatives (LNG, Methanol and Green Ammonia) and the EU's ETS system.
- Method and assumptions for full visibility

For further information please contact us at carbonfuture@drewry.co.uk

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