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Drewry Container Market Review and Outlook

Mediterranean Ports and Shipping, Portorož 2022

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1 Trends and risks

2 Demand factors

3 Supply developments

Agenda

Mounting headwinds for container lines

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

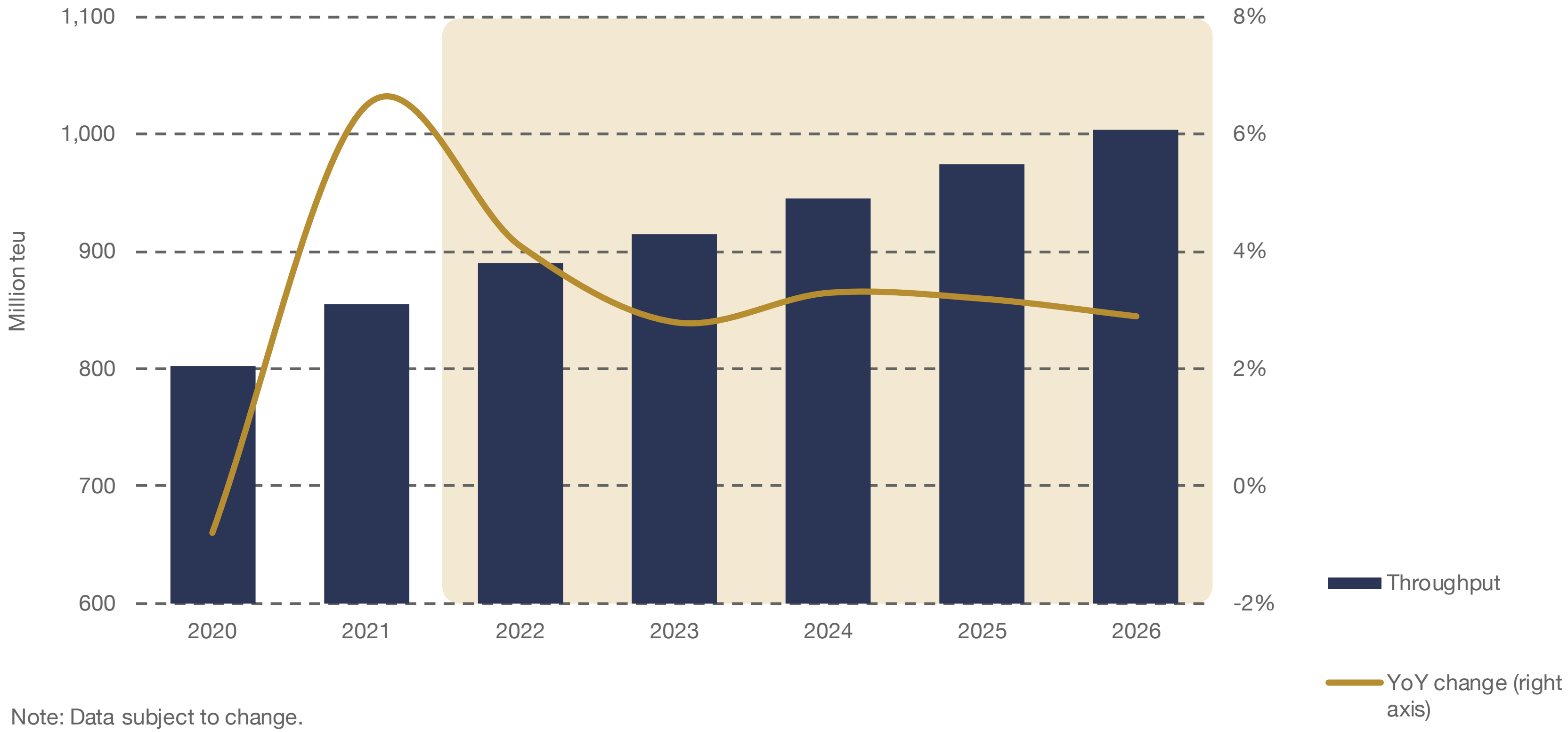
Source: Drewry Maritime Research

World port handling increased by an estimated 6.5% in 2021.

For 2022, we have downgraded our previous guidance to 4.1%, (from 4.6%).

Drewry's outlook for 2023 also lowered to 2.8% (from 3.5%).

Global Container Shipping Demand Outlook



Note: Data subject to change.

Continued poor schedule reliability through 2021 often prompted intermodal operators to switch from scheduled to ad hoc services.

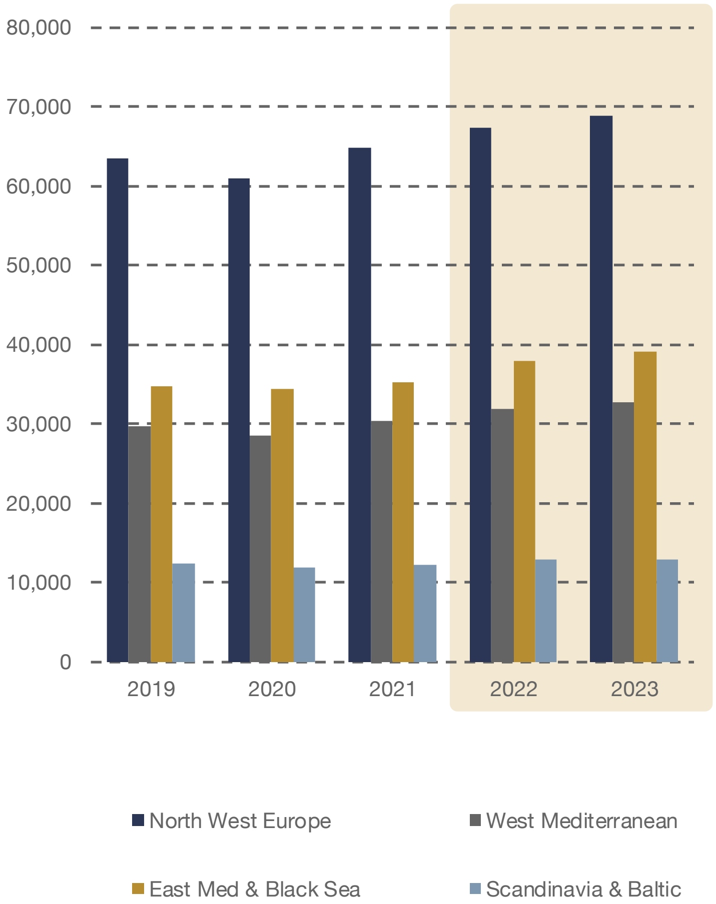
The best performing subregions were NW Europe and West Med, increasing throughput by 6.2% and 6.7%, respectively.

A major market still. But its global throughput share has eroded from ~20% in 2008 to ~17% in 2021

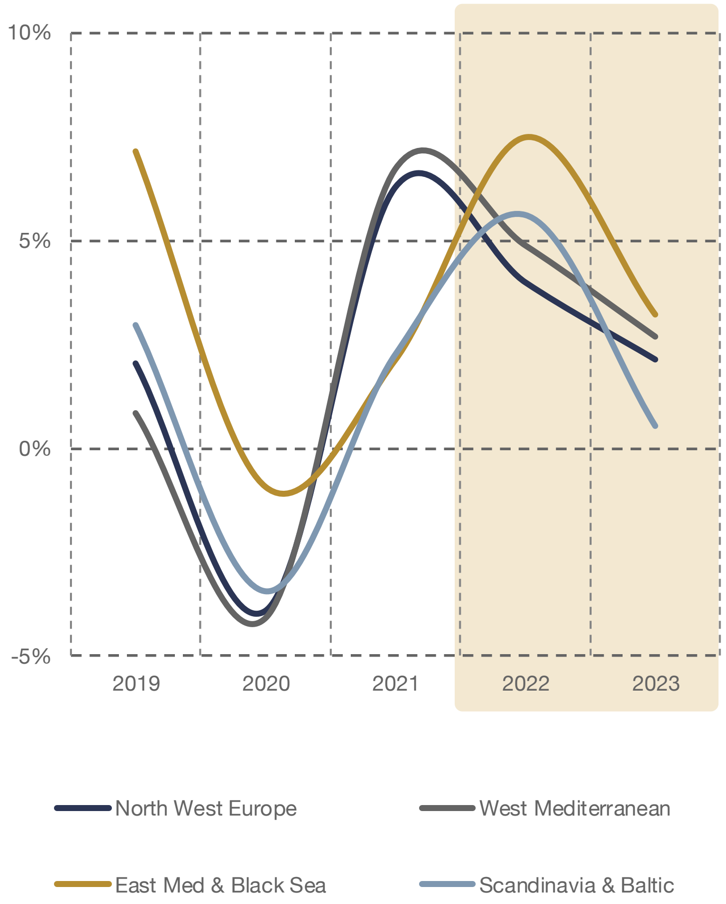
Rotterdam's new record of 15.3 m teu in 2021

Ports in Europe collectively handled ~143 m teu in '21, growing 5%.

European port regions 2019-2023



European growth by region to 2023



The immediate impact is initially limited, but will become more severe the longer the conflict lasts

9 out of 10 global container lines suspended bookings

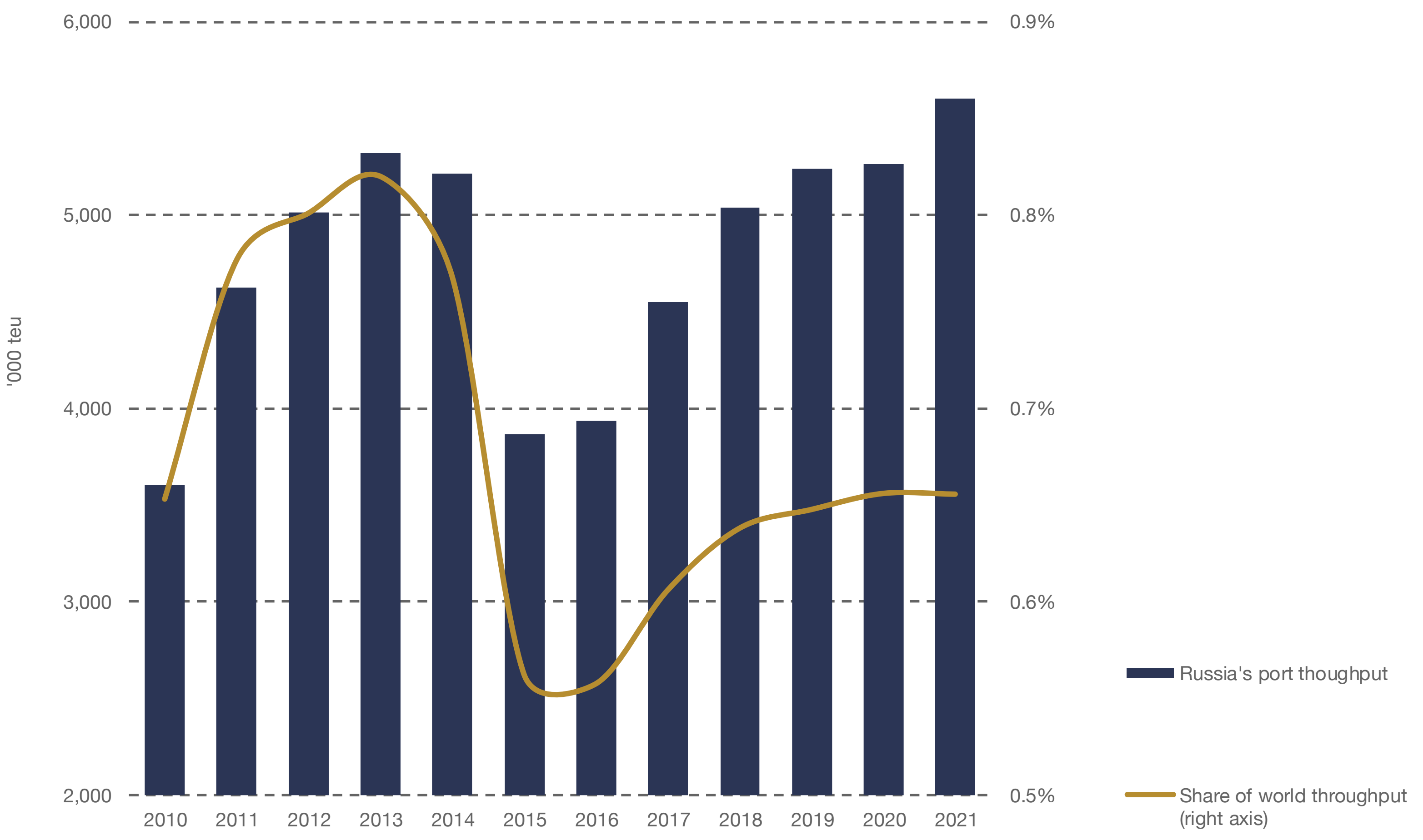
Russia's share of world port handling is very small in comparison to its position in the geopolitical power ranks

Neither Russia or Ukraine were deeply embedded in liner networks

Ukraine container market has doubled in size since 2015

Russia invasion of Ukraine

Limited immediate impact



Capacity grew 4.5% in 2021

Only 12 vessels sent for scrap in 2021

No fear over external events as newbuild order spending at ~$11 bn in 1Q22

Recent orders have pushed the orderbook-to-fleet ratio to 26%, highest since 2012

Seeking supply chain certainty, large shippers move to ship ownership

Active newbuild contract re-sales and even shipyards building on spec hoping to cash in on the ‘want it now’

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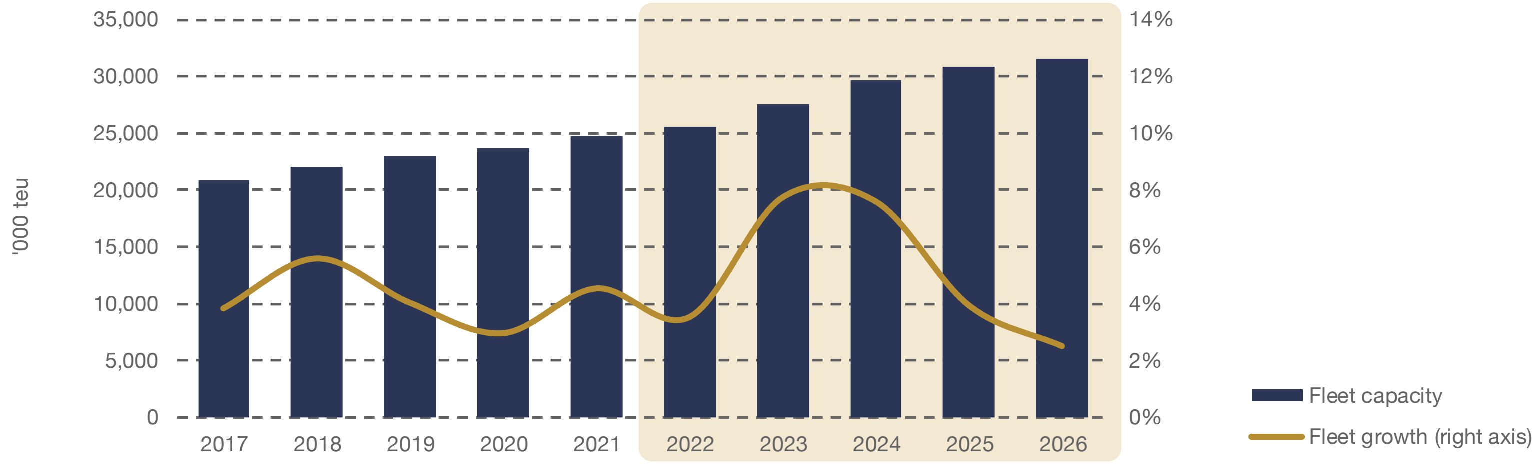
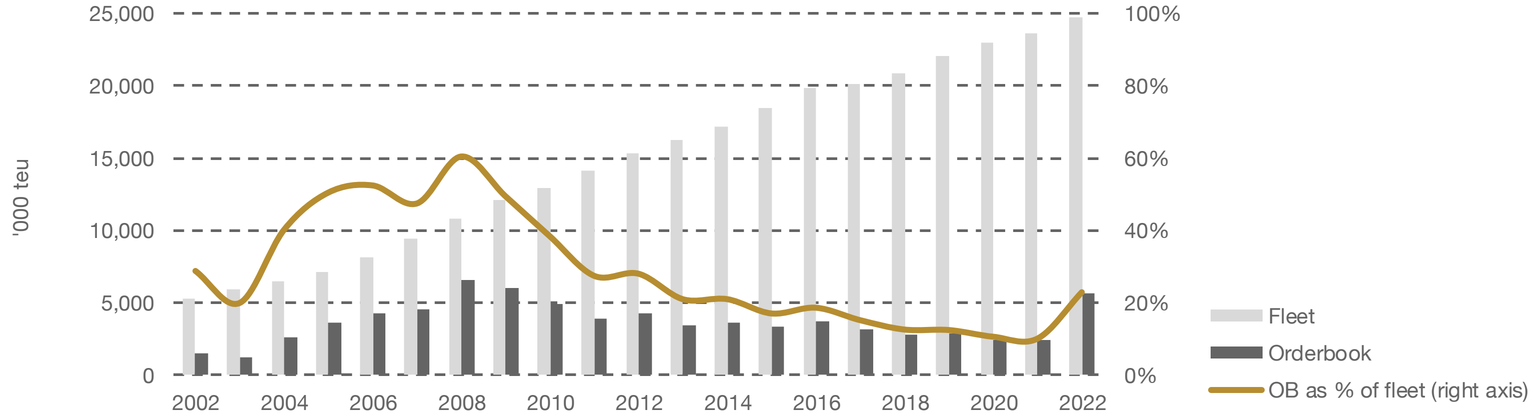
Containership capacity

Newbuild contracts set a new record in 2021 at 4.3 m teu, at an ~$34 bn



Orderbook to fleet ratio development



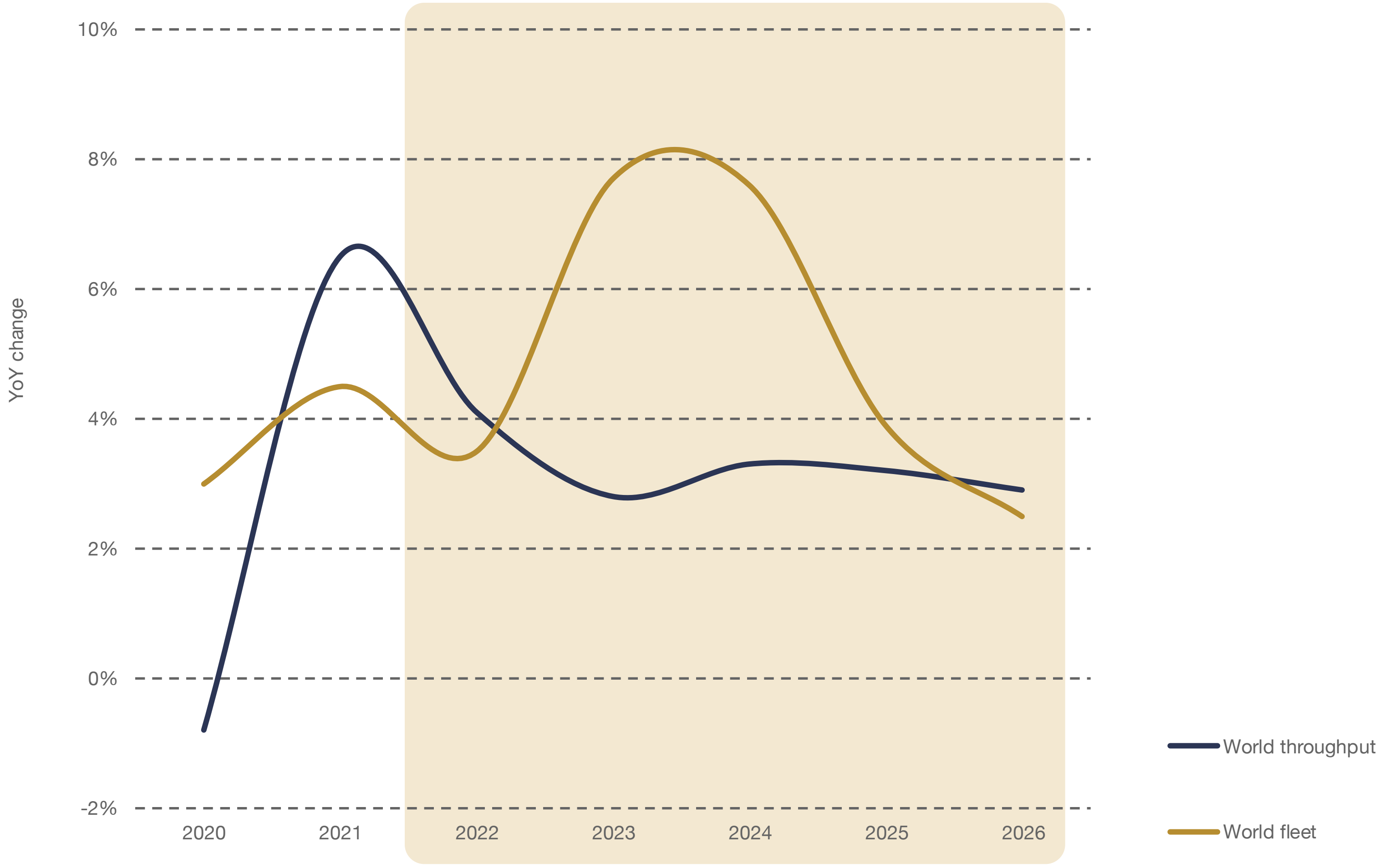
It is unknown at this stage what form of disruption will be caused by the Russia-Ukraine war and ongoing lockdowns in China

New environmental regulation expected to have limited impact on container supply-demand

Drewry estimates that ~30% of existing fleet currently non-compliant, but only ~11% of capacity

Shippers will have to wait until 2023 for any relief from extreme freight rates

Outlook for market balance



Over the past two years the dominant drivers of freight rates (and carrier profits) have been container system inefficiencies, disruptions and port congestion.

Drewry estimates that effective container ship capacity was some 17% below its potential in 2021 and similar is expected for 2022.

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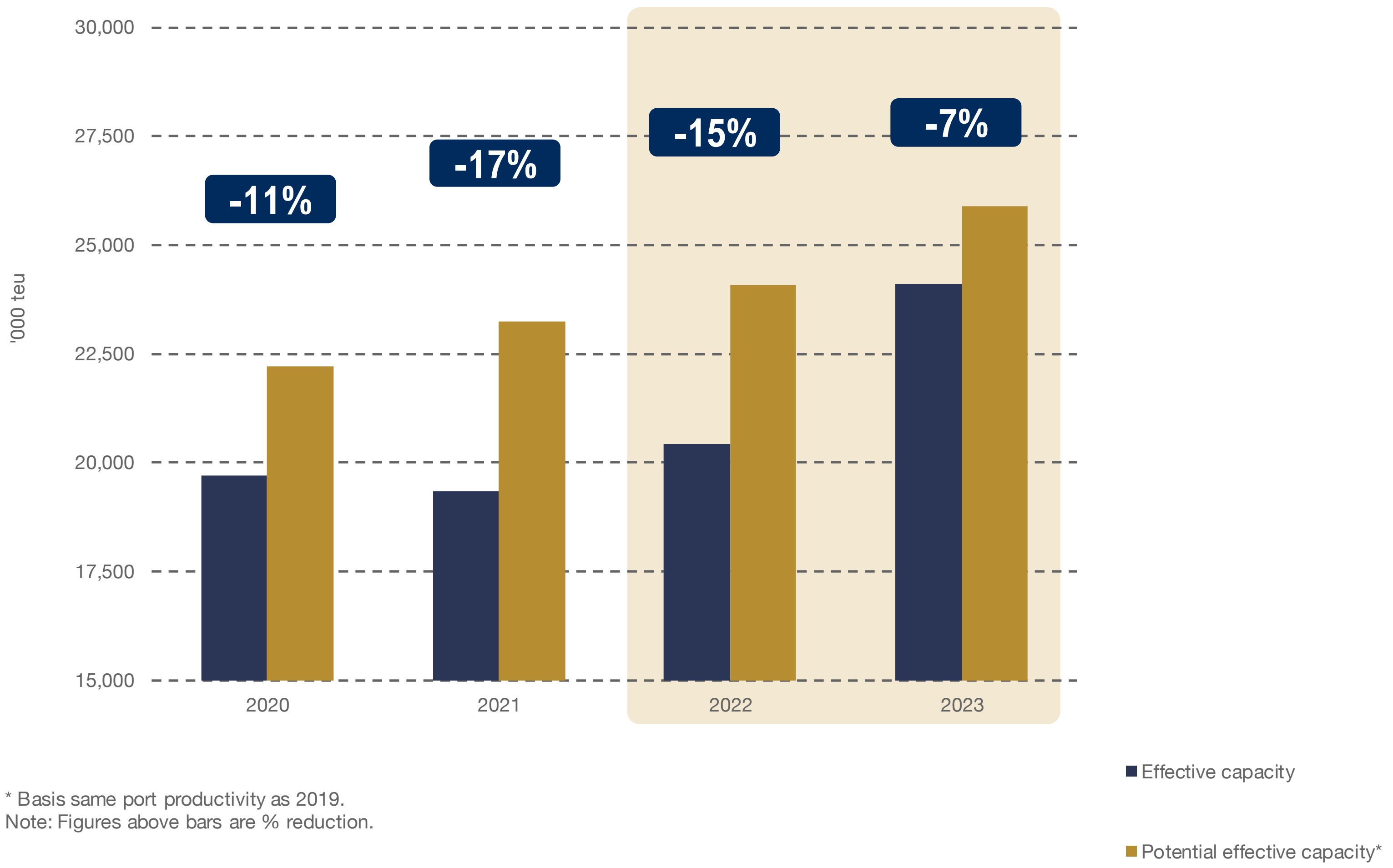
Estimated impact of lower port productivity on effective capacity



* Basis same port productivity as 2019.
Note: Figures above bars are % reduction.

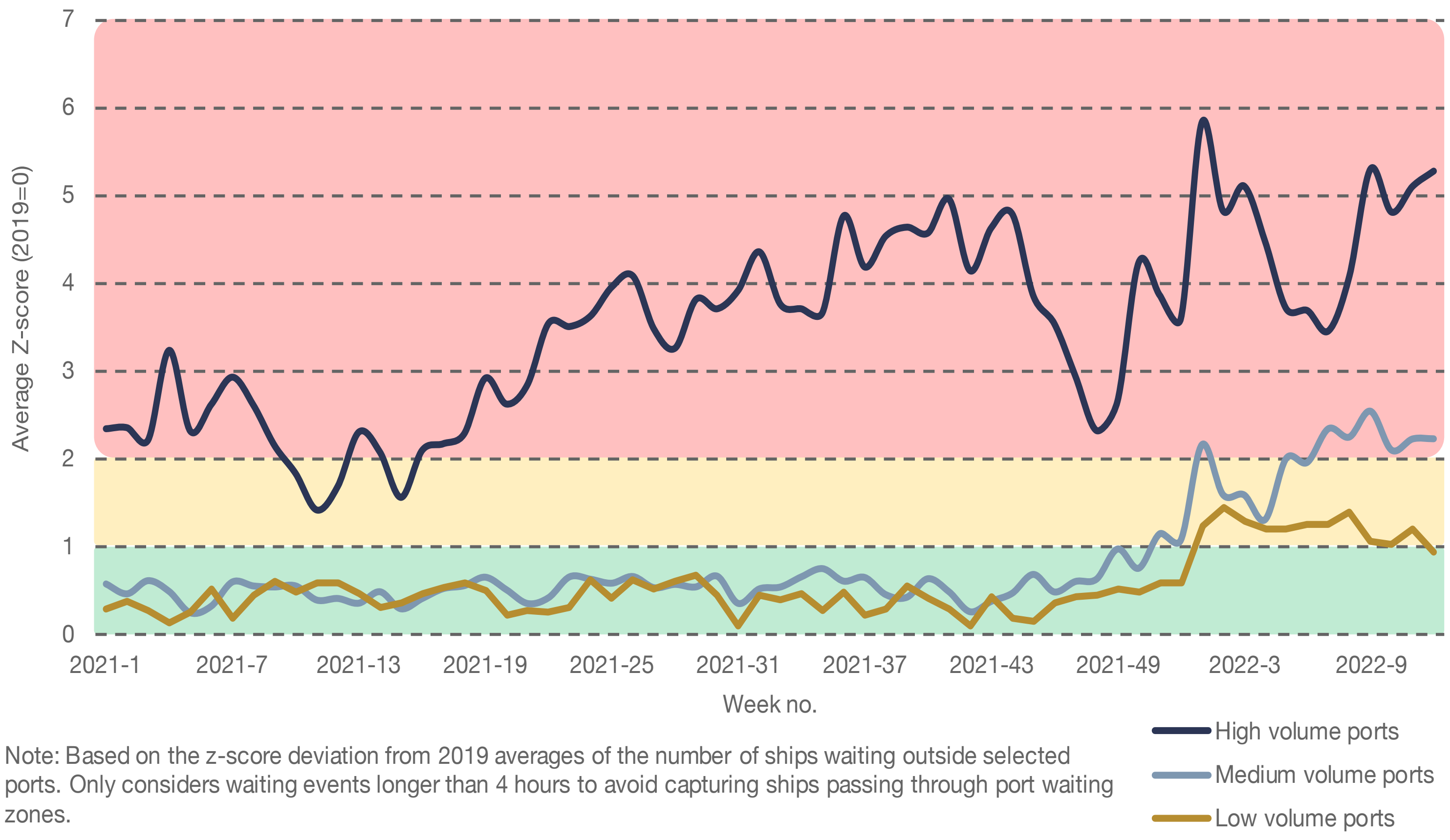
AIS ship tracking data shows significantly more waiting events outside high-volume ports during 2021 and 2022 to date.

The problem is now spreading to medium and low volume ports too.

Impact on availability of container equipment

Manufacturers reacting with building over 7 million teu of new boxes in 2021

Drewry Port Congestion Indicator (number of ships waiting)

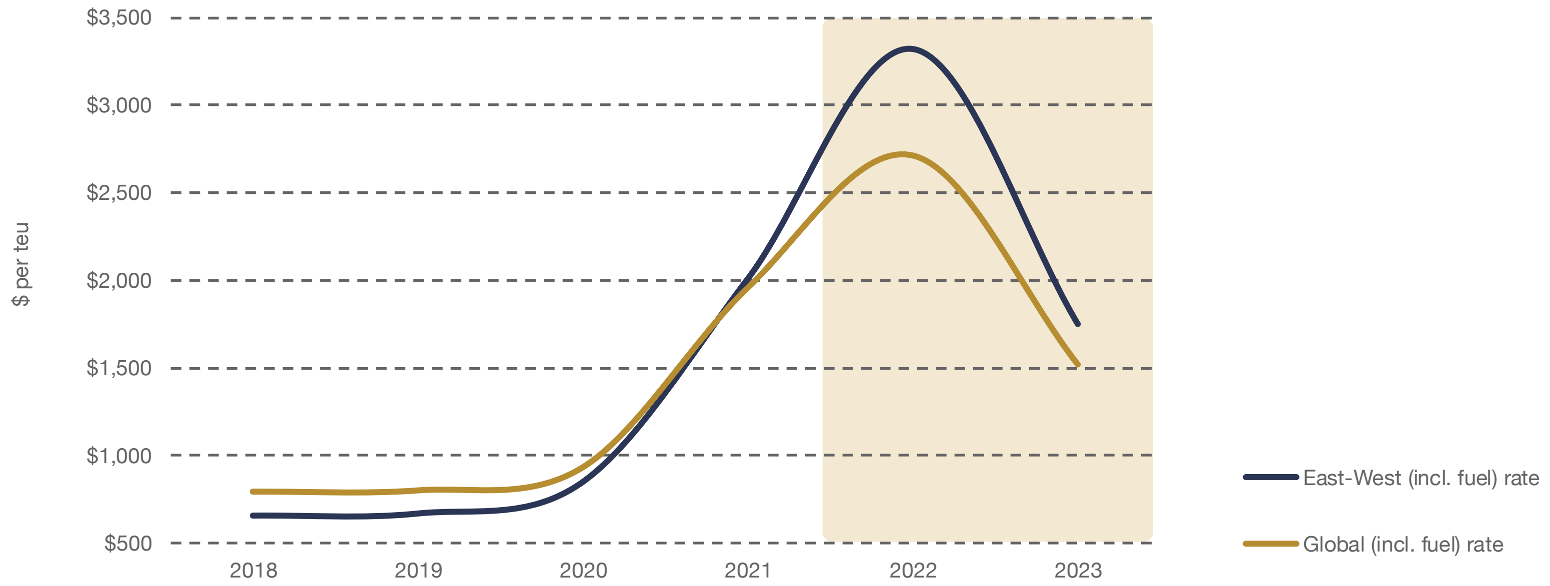


Note: Based on the z-score deviation from 2019 averages of the number of ships waiting outside selected ports. Only considers waiting events longer than 4 hours to avoid capturing ships passing through port waiting zones.

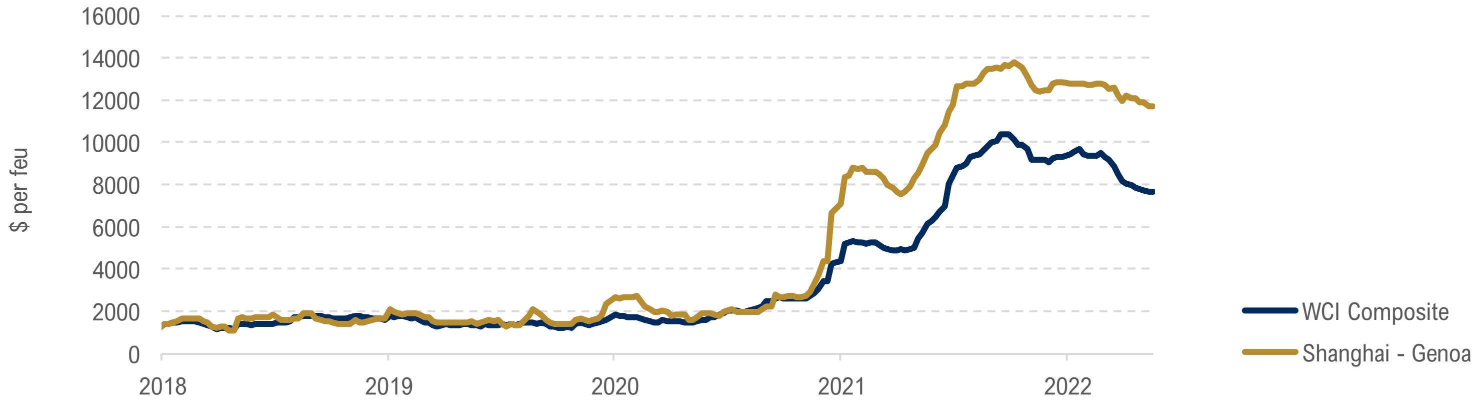
Following a 110% hike in 2021, we are expecting average global freight rates (spot + contract) to rise by a further 39% in 2022.

Continued supply chain disruption will support further freight rate rises this year but easing port congestion and fleet expansion will soften pricing in 2023

Drewry annual freight rate forecast



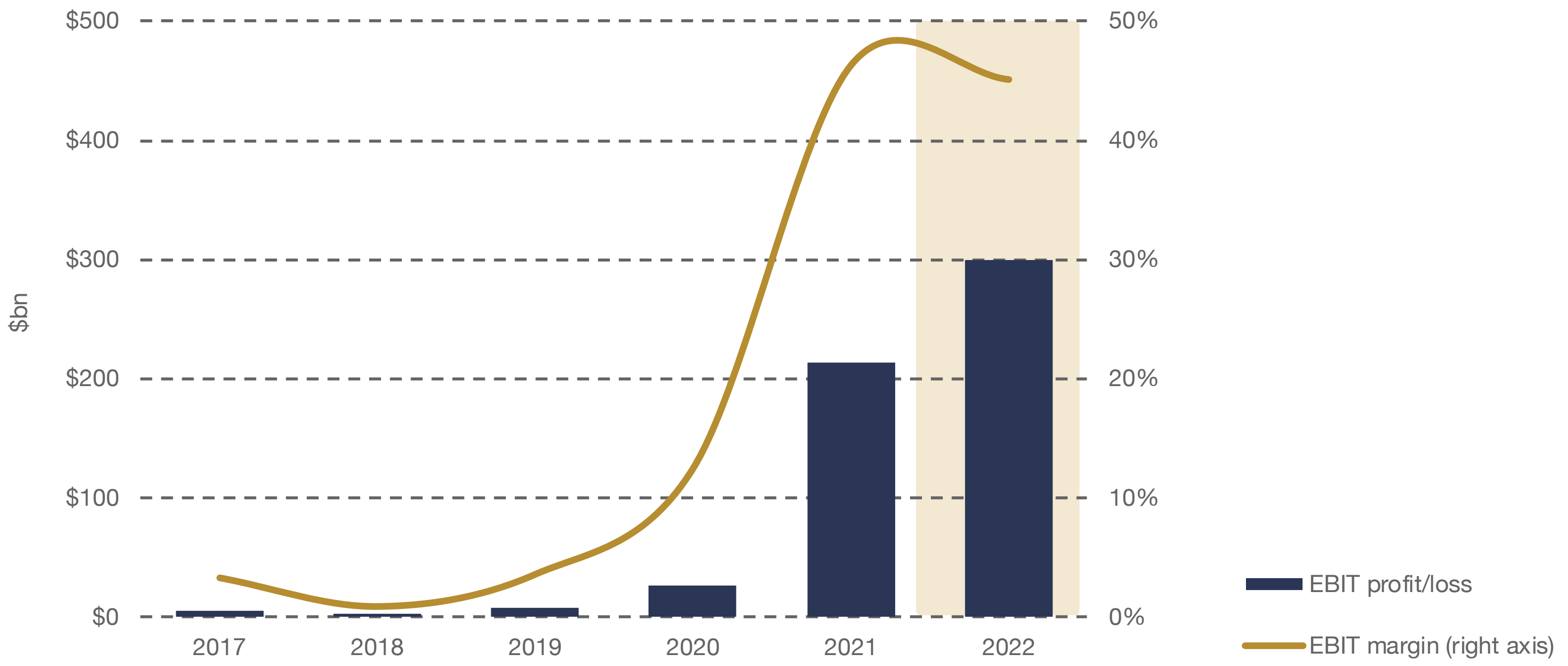
World Container Index, spot rate assessment



Drewry estimates that carrier EBIT profitability reached $214 billion in 2021.

More disruption-driven freight rate gains in 2022 should more than compensate for rising costs and deliver even higher profits in 2022, although this forecast is subject to numerous risks.

Container shipping industry profit outlook



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5 things to take away

1	World port handling to rise by 4.1% in 2022	2	Global freight rates to increase by 39% this year	3	Container supply chain logjams to last until 1H23	4	Newbuild contracting up by more than 200% in 1Q22	5	Carriers profits to soar to $300 billion this year

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