

**DHL Global Forwarding, Freight**



# OCEAN FREIGHT MARKET UPDATE

**October 2019**

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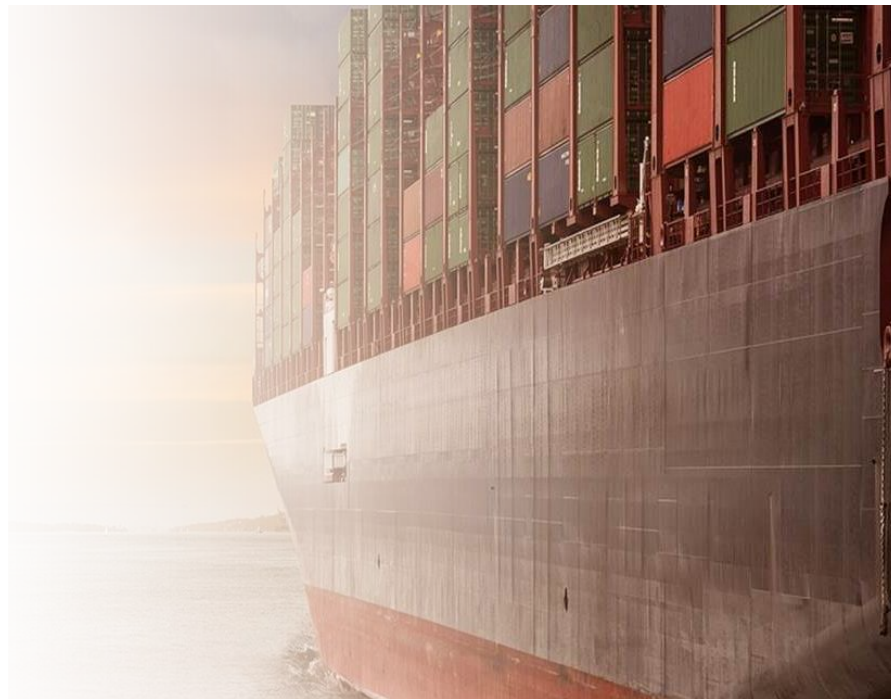


## REGULATIONS



## DID YOU KNOW?

Carrier Financial Results 6 Months 2018-19

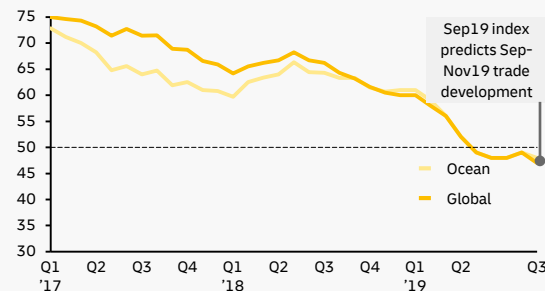


# High Level Market Development – Supply and Demand

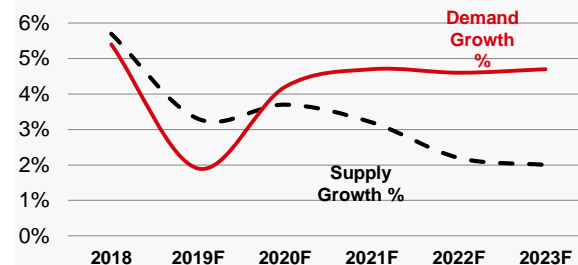
## ECONOMIC OUTLOOK GDP GROWTH BY REGION<sup>1)</sup>

	2019F	2020F	2021F	2022F	2023F	CAGR (2020-23)
EURO	1.4%	1.2%	1.4%	1.6%	1.6%	1.5%
MEA	1.9%	2.8%	2.9%	3.1%	3.3%	3.1%
AMER	2.4%	2.1%	1.8%	1.6%	1.6%	1.9%
ASPA	4.5%	4.3%	4.4%	4.4%	4.5%	4.4%
DGF World	2.7%	2.7%	2.8%	2.8%	2.8%	2.8%

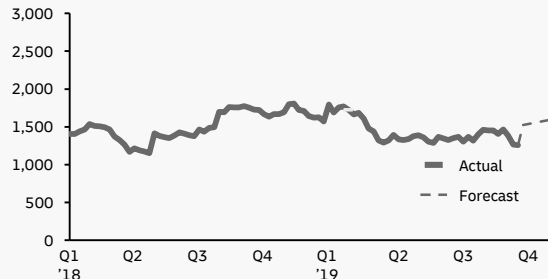
## DHL TRADE BAROMETER<sup>6)</sup>



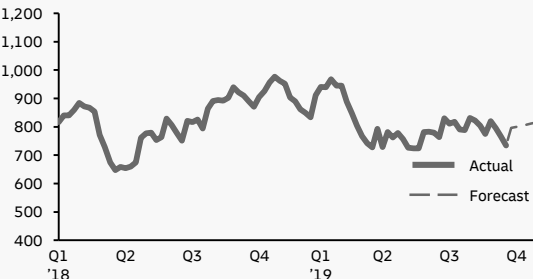
## SUPPLY/DEMAND GROWTH (ANNUALIZED), IN % <sup>2)</sup>



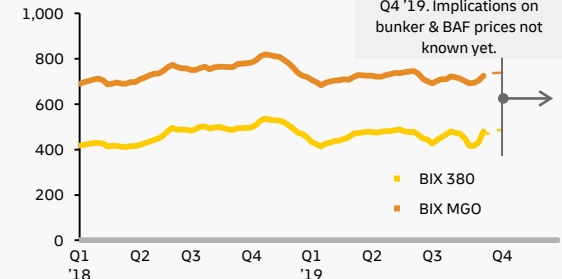
## WORLD CONTAINER INDEX (WCI)<sup>3)</sup>



## SHANGHAI CONTAINERIZED FREIGHT INDEX (SCFI)<sup>4)</sup>



## BUNKER PRICE INDEX<sup>5)</sup>



1) real GDP, Global Insight, Copyright © IHS, Q2 2019. All rights reserved. 2) Demand growth = Port-to-Port Container Traffic growth, Supply growth = Fleet Growth. Source: Drewry Maritime Research. 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 container & USD/40ft ctnr for US routes, 15 routes from Shanghai. 5) Bunker Index, in USD/metric ton, Bunker Index MGO (BIX MGO) = avg. Global Bunker Price for marine gasoil (MGO) port prices; (BIX 380 = avg. Global Bunker Price for all 380 centistoke (cSt) port prices; both index published on the Bunker Index website. 6) DHL Global Trade Barometer Jun19, 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.



# Market Outlook October 2019 – Major Trades

**Further blank sailing announced due the to lower demand during the Chinese Golden week holidays out of Asia**

EXPORT REGION1	IMPORT REGION	CAPACITY	RATE
 EURO	AMNO	=	=
	AMLA	=	=/-
	ASPA	-	=/+
	MENAT	-	=/+
	SSA	=	=

 AMNO	AMLA	=	-
	ASPA	=	-
	EURO	=	=
	MENAT	=	=
	SSA	=	=

KEY

Strong Increase

++

Moderate Increase

+

No Change

=

Moderate Decline

-

Strong Decline

--

Source: DGF

EXPORT REGION	IMPORT REGION	CAPACITY	RATE
 AMLA	AMNO	=	=
	ASPA	=	=
	EURO	=	=
	MENAT	=	=
	SSA	=	=

 ASPA	ASPA	-	=/+
	AMNO	-	=/-
	AMLA	-	-
	EURO	-	-
	MENAT	=	+
	OCEANIA	-	+

# Market Outlook October 2019 – Ocean Freight Rates Major Trades

Market outlook on smaller trades available in the back-up

## OCEAN FREIGHT RATES OUTLOOK

### ASPA – EURO

Carriers report weak utilization. Capacity has been sharply reduced for the first two October weeks. Rates levels are expected to drop for October.

### EURO – ASPA & MEA

Due to the golden week in Far East and several blank sailings (ongoing scrubber upgrades), space constraints are expected to come up mid/end of November (week 47/48). This will also affect the empty equipment situation throughout Europe, especially the hinterland availability and will have a cascading effect on the connected trades ie ME / IPBS and AU&NZ.

### ASPA – AMLA

Capacity has been reduced for the first two October weeks. Utilization remains moderate to strong. Rates levels have slightly dropped for 1st week of Oct but we expect a gradual climb across the next weeks.

### ASPA – AMNO

Carriers have announced blank sailing for the first two weeks of October. Rate levels are expected to be under pressure due to the lower demand during the China Golden Week.

### EURO – AMNO

space remains tight. However situation is expected to ease in the upcoming weeks.

### ASPA – MENAT

Rates are stable. Capacity utilization is still moderate to strong. Impact of the Golden Week holidays is yet to be seen. In general, demand is not expected to pick up immediately after the holidays.

### ASPA – ASPA

Most Intra Asia/IPBC services will have blank sailing within first two weeks of October, space is expected to be tight for rest of the month. Cargo-rolling at transshipment port on the Indian Subcontinent trade have eased a little but may worsen again with the China long holiday rush. Heavy rains and floods in South Asia have further affected port productivity and operations in Chittagong, further delays are to be expected.

### AMNO – EURO

US-EURO market rates remain flat – reduced capacity in week 41 ( no sailing for AL3 & Liberty Bridge ).

Source: DGF



# Economic Outlook & Demand Development

## Trade war & oil market disruption have increased the risk of recession



**EURO**

The slowdown in eurozone real GDP growth in Q2 is expected to be followed by a further deceleration in both Q3 & Q4 '19. Exports & manufacturing are the principal sources of weakness. IHS Markit predicts another quarter of decline in **DE** (a mild recession, so far), & many quarters of contraction in **IT**. The **French & Spanish** economies are expected to avoid recession. Meanwhile, the chaos around Brexit continues, as Prime Minister Boris Johnson and the **UK** parliament have clashed over the fate of a no-deal outcome and whether to hold an early election. The European Union has signaled its willingness to extend the Brexit deadline for a 3<sup>rd</sup> time. This signal increases the chances of avoiding a no-deal scenario with an associated deep recession.



**AMNO**

The Trump administration's announced new 15% tariffs on most goods imports from China that had previously escaped tariffs, & an increase in the tariff rate to 30% on imports from China that had been subject to a 25% rate. These tariff changes, being implemented in steps from 1 Sep to 15 Dec, are expected to boost US consumer prices & the cost of capital, softening the outlook for personal consumption expenditures, business fixed investment, & GDP.



**ASPA**

Front-loaded demand ahead of the consumption tax increase in **JP** from 8% to 10% on 1 Oct will modestly boost Q3. However, HIS Markit predicts a contraction in real GDP in Q4, as consumer spending falls back. July and Aug data on the **CN** economy point to a further loss of momentum. Industrial production & construction have led the deceleration. Even more troubling, automobile sales in Aug declined for the 14<sup>th</sup> time in 15 months.



**EMERGING  
MARKETS**

The extreme difficulties facing some economies (e.g., **AR & TR**, which are both in deep recessions) are a function of negative dynamics at both the global & local levels. Special factors such as sanctions affect others (e.g., **IR & RU**). While some will continue to see positive growth in the near term (e.g., **BR & IN**), they are losing steam. **IN** is of particular concern. Growth has been slowing since the beginning of 2018 & recently hit a 6-year low of 5.0%. Car sales have also been plummeting. Lack of reforms is a big part of the problem.

**DEMAND  
DEVELOPMENT**

Source: IHS Markit, IHS Purchasing

The key driver of the recent slowdown of the JPMorgan Global PMI has been a decline in global trade. In manufacturing, export orders fell at the sharpest rate since Oct'12, dropping for a 12<sup>th</sup> successive month in Aug. Although factory output stabilized after two months of declines, the performance was still one of the weakest seen in the past seven years.

# Capacity Development 1/2

## CAPACITY

Total **capacity** of the **world's cellular containership fleet** has **passed 23Mteu** mid September, following the delivery of two more 'Pegasus' class (23,000 TEU+ megamax ships) vessels to MSC. **Growth** of cellular fleet has **remained steady at around 4%** since May, with deliveries of new containerships adding 826,000 TEU to the overall fleet so far this year. In contrast scrapping has remained low with only 165,000 TEU removed from the fleet since January.

The **2M partners** Maersk and MSC are **to reduce** their **capacity between Asia and Europe** by **temporarily suspending** the **Far East-North Europe 'AE-2/Swan' service**. The 'AE-2/Swan' service is one of six loops offered by 2M between the Far East and North Europe representing an average weekly capacity of 18,000 TEU of 18% of the total 2M capacity on the route. The suspension will start from the first week of October due to the anticipated slowdown in demand after the Chinese 'Golden Week' holidays. MSC says it expects to resume the 'AE-2/Swan' service in mid-November, provided the market demand recovers. In addition to the suspension of the 'AE-2/Swan' loop, Maersk and MSC will also **skip three Asia-Europe sailings** in the **first half of October**. This concerns one sailing of the Far East-North Europe 'AE-7/Condor' service in week 40 and two sailings of the Far East-Med 'AE-20/Dragon' service in weeks 40 and 41.

The **2M partners** offer a **direct connection between Far East and New Orleans** with the insertion of this port on the rotation of their Asia – US Gulf 'TP-18/Lone Star' service end of September. It is the second direct Asia connection for the port of New Orleans, adding to the OCEAN Alliance 'AWE6' service. Mid September, the 2M also **added a call at Nansha** to the schedule of its **Asia – US East Coast service** 'TP-17/America'.

Further to the launch of direct Far East – US Gulf services covering Tampa, Mobile, New Orleans and Houston, **ZIM and MSC** will **terminate** at the end of September their **weekly US Gulf relay service** connecting the hubs of Caucedo and Kingston with these same four US Gulf ports. **This service**, branded 'CGX' by ZIM and 'US Gulf Feeder' by MSC **is made redundant by the direct services**.

**Maersk and MSC** have **re-launched** in mid-September their jointly operated **South China – Australia service**, branded respectively as 'Yoyo' and 'Panda'. The reboot will come with a slightly different rotation, since Taiwan is no longer part of the itinerary. The original service was suspended at the end of March and it was initially due to be restarted at the end of June. The temporary halt was termed as a 'slack season program', aimed at adjusting capacity in line with lower market demand.

**Hapag-Lloyd, ONE and Yang Ming**, cooperating under the scope of THE Alliance, have decided to deploy an **additional vessel** on their **North Europe – US Gulf 'AL4' service to improve schedule reliability**. With immediate effect, this service starts turning in seven weeks, compared to six weeks so far. Since the loop's port rotation remains unchanged, the alliance members gain seven days of buffer time to reduce the risk of vessel delays and subsequent port omissions. The 7,323 TEU AL HILAL will join the service mid-October as the seventh vessel.

Source: Alphaliner, Dynaliners, carriers



## Capacity Development 2/2

### CAPACITY

**CMA CGM** offers for the third consecutive year a **seasonal (fruit oriented) North Brazil – North Europe service** connecting Vila do Conde and Fortaleza with London-Gateway and Rotterdam. This service, dubbed 'UK Express', will cater primarily for the North Brazil fruit exports and is expected to be operated until early next year. .

**PIL and COSCO** have **added direct calls** at **Port Kelang** (Malaysia) and **Qinzhou** (South China) on the Northbound leg of the **Far East – East Coast South America (ECSA) service**. This service is jointly operated by PIL, COSCO, CMA CGM and Evergreen under the respective brands 'SSA', 'ESA2', 'SEAS2' and 'ESA3'. CMA CGM and Evergreen have not yet advertised the additional calls. Co-loader OOCL (COSCO Group) also participates on the new calls. **This move enables PIL and COSCO to offer the only direct container service from Brazil to Qinzhou**, a gateway to the Guangxi province. It also allows the Singapore and Chinese carriers to offer a **direct link from Brazil ports to Port Kelang**, a hub in the Straits that will provide **additional transshipment opportunities** in the region.

Source: Alphaliner, Dynaliner, carriers





# Carriers

## CARRIERS

**CMA CGM's heavy debt burden** has **forced the carrier to seek a buyer for terminal assets** held by its wholly-owned subsidiary CMA Terminals (CMAT). CMAT owns stakes in 32 terminals worldwide and it handled volumes of over 8.50 MTEU in 2018. Strategic assets in CMAT's portfolio are the 49% stake in the CMA CGM – PSA Lion Terminal at Singapore, a 30% stake in Rotterdam World Gateway terminal, and a 100% stake in the Kingston Freeport Terminal. China Merchants is reported to be the front runner to buy the CMAT terminals, which would allow the Chinese operator to further expand its global footprint. Continued negative results at CEVA Logistics, which posted a net loss of \$32M in Q2, 2019, are expected to have put a strain on CMA CGM's performance. The same goes for interest payments of over \$300M from CMA CGM's total debt of \$19.9Bn (as per end of March 2019).

**Maersk Line** is in the **process of gradually dropping the 'Line' suffix from its trading name**. Maersk already stopped using the brand name 'Maersk Line' at the beginning of the year and the far-reaching restructuring of the global shipping, ports and logistics group will be fully completed on **16 November** when the name of the legal entity Maersk Line A/S will be **changed to Maersk A/S**. Maersk will on 16 November also complete the rebranding of its regional trade subsidiaries MCC Transport (Asia), Seago Line (Europe) and Sealand (Americas). The three regional carriers have been operating since October 2018 already under 'Sealand – A Maersk Company' brand. The name of the legal entities behind will be changed mid-November to Sealand Asia Pte Ltd. (ex MCC Transport Singapore Pte Ltd) and Sealand Europe A/S (ex Seago Line A/S). The legal entity behind Sealand Americas will remain Maersk A/S.

One year after **COSCO Group** started the process to divest of Orient Overseas International Line's (OOIL's) **Long Beach Container Terminal (LBCT)** at the eponymous Californian port, the **sale has finally been approved** by the Long Beach Board of Harbor Commissioners. The Commissioners unanimously approved and finalized the transfer of the terminal from OOIL to the investment fund Macquarie Infrastructure Partners. To secure the approval, **OOCL has committed to an annual minimum volume at the LBCT for a period of 20 years**. According to details of the minimum volume commitment, OOCL will **upgrade two of its Far East – USWC services** and introduce **one new transpacific service** calling at LBCT within the next four years.

**Evergreen** has **officially announced orders for ten megamax containerships** of 23,000 TEU from Korean and Chinese yards. According to stock market disclosures, the new ships will cost between \$140-160M apiece. According to Alphaliner data, Evergreen is currently world's seventh largest carrier with a fleet capacity of 1,305,000 TEU. The new megamax orders now bring Evergreen's pipeline to 566,000 TEU – **the largest orderbook** of among all carriers.

**CMA CGM** and **Hudong Zhonghua Shipyard** are **expected to float out the world's first ever LNG-powered ULCS** this week. Named after the founder of CMA, Jacques Saadé, the 23,112TEU 'megamax' ship is scheduled for delivery in Q1, 2020. The CMA CGM JACQUES SAADÉ will be the lead ship in a series of nine LNG-powered sisters that Hudong Zhonghua and Shanghai Waigaoqiao will deliver to CMA CGM from about March 2020 to February 2021.

Source: Alphaliner, Dynaliners, carriers



# Regulations

## REGULATIONS

### **Australia: 2019-2020 Quarantine Seasonal Treatment Requirements for Brown Marmorated Stink Bug (BMSB)**

All goods shipped after 01 Sep '19 and will arrive before 31 May '20 in Australia, are within the scope of Brown Marmorated Stink Bug (BMSB) season 2019 / 2020. Non-compliance will cause penalties as well as the risk of shipments being refused for entry and return to origin or destroyed. Kindly note that the measures mandated by the Australian Government includes compulsory pre-arrival treatment for goods arriving from many countries. Please refer to this [link](#) for more information.

### **Benin: Implementation of Electronic Cargo Tracking Note Number (ECTN)**

Effective 01 Sep '19, it is a mandatory requirement to mention the Electronic Cargo Tracking Note (ECTN) on the Bill of lading. Failure to indicate the ECTN number on the BL will delay the import clearance process and will be subject to penalties.

Source: DHL



# Did you know?

## Carrier Financial Results 6 Months 2018-19

IFRS 16 accounting rule changes helped push the carrier's average operating margin up with some of the leased assets' costs now recognized as depreciation and interest expenses, instead of operating expenses

### CARRIER FINANCIAL RESULTS 6 MONTHS 2018-19 (US\$ MILLION)

Carrier	Revenue			Operating Profit			Operating Profit Margin		Net Profit		
	2018	2019	%	2018	2019	%	2018	2019	2018	2019	%
Maersk (Ocean business) <sup>5)</sup>	18'873.0	19'167.0	2%	2'093.0	2'593.0	24%	11.1%	13.5%	-464.0	50.0	111%
CMA CGM <sup>2), 4)</sup>	11'114.0	15'108.0	36%	155.0	434.0	180%	1.4%	2.9%	-54.0	-152.0	-181%
COSCO SHIPPING Holdings <sup>1), 4)</sup>	6'665.9	10'165.0	52%	40.4	456.4	1029%	0.6%	4.5%	-24.9	205.9	928%
Hapag-Lloyd <sup>1), 4)</sup>	6'579.1	7'064.4	7%	110.2	441.7	301%	1.7%	6.3%	-130.8	156.3	219%
OOCL (container transport & logistics) <sup>4), 7)</sup>	3'102.0	3'298.0	6%	-3.0	153.0	5200%	-0.1%	4.6%	-77.0	64.0	183%
Evergreen Marine Corp. <sup>1), 4)</sup>	2'548.2	3'002.6	18%	-88.1	74.9	185%	-3.5%	2.5%	-37.5	6.6	118%
Yang Ming <sup>1), 4)</sup>	2'192.3	2'441.8	11%	-189.6	-7.3	96%	-8.6%	-0.3%	-195.5	-63.0	68%
ONE <sup>3)</sup>	2'066.0	2'875.0	39%	n.a.	n.a.	n.m.	n.a.	n.m.	-120.0	5.0	104%
Zim <sup>4)</sup>	1'554.0	1'630.0	5%	-6.0	61.0	1117%	-0.4%	3.7%	-71.0	-21.0	70%
Wan Hai <sup>1), 4)</sup>	988.9	998.3	1%	10.1	46.7	361%	1.0%	4.7%	13.8	56.3	309%
HMM (container shipping business <sup>1), 4)</sup>	28.8	31.3	9%	-0.3	-0.2	-44%	-1.1%	-0.6%	n.a.	n.a.	n.a.
<b>Average <sup>6)</sup></b>			<b>17%</b>			<b>100%</b>	<b>4.0%</b>	<b>6.8%</b>			<b>-129%</b>

Source: Alphaliner; n.a. = not available, n.m. = not meaningful, 1) local currency numbers were converted into US\$ using the average exchange rate for relevant financial period, 2) CMA CGM include CEVA Logistics from 2019, 3) results are Q1 of Japanese financial year, i.e. Apr-Jun, not calendar year, 4) operating profit is "Core EBIT", 5) operating profit is EBITDA, 6) Average excluding ONE, 7) Long Beach Container Terminal (LBCT) are excluded from Jul'18 pursuant the decision to sell the terminal

PUBLIC

BACK-UP

## Market Outlook October 2019 – Ocean Freight Rates Additional Trades (1/2)

OCEAN FREIGHT RATES OUTLOOK	
<b>EURO – AMLA</b>	No capacity issues. Rates remain stable until end 2019.
<b>EURO – MENAT</b>	ME region shows same trend as ASPA; Additional blank sailings, combined with strong commodity demand put pressure on space and container availability. Space situation continues to be tight.
<b>EURO – SSA</b>	All South African ports are suffering with operational issues due to weather conditions, failure of cranes/equipment and structural issues. Rates remain stable for now, but might increase as of Q1, 2020.
<b>AMNO – MENAT</b>	Rates are stable. No changes since slight decrease in September. Space continues to be tight out of USEC & USGC Ports on services to Middle East & India Subcontinent, but slightly better than August - September. October bookings are 1-2 weeks out from USEC and 2 weeks out from Houston. No issues out of USWC.
<b>AMNO – SSA</b>	Rates to South Africa and West Africa unchanged since the beginning of 2nd Q 2019. No changes in capacity. Space is available
<b>AMNO – AMLA</b>	Overall soft market, driven by economic and political challenges in AR and BR, expected to hold through 2019. Rates are stable.
<b>AMLA Exports</b>	Equipment imbalance affecting drop off conditions in CO & CL. 13% VAT to be implemented on all haulage within Costa Rica. Space constraints w/weekly rolls at Callao Port. Carriers introducing service to Posorja EC(deep water port). Congestion continues at all t/shipment ports in Central America.
<b>AMNO – ASPA</b>	carriers are looking for additional cargo for TPWB and are very aggressive in pricing and terms.

Source: DGF



## Market Outlook October 2019 – Ocean Freight Rates Additional Trades (2/2)

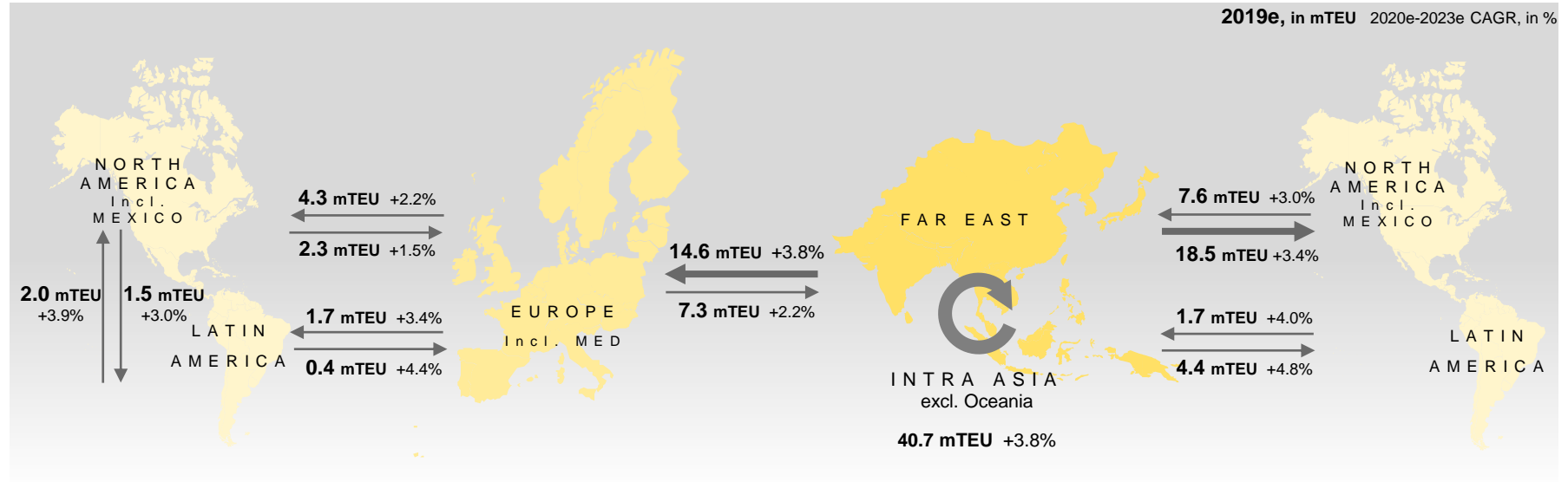
### OCEAN FREIGHT RATES OUTLOOK

<b>EURO MED – AMNO</b>	Slight rate increases expected on selected lanes during October
<b>EURO MED – AMLA</b>	Unchanged / stable
<b>EURO MED – ASPA</b>	Slight rate increase expected depending on the service.
<b>EURO MED – MENAT</b>	Slight rate increase expected depending on the service.
<b>EURO MED – SSA</b>	Unchanged / stable
<b>ASPA-SPAC</b>	Further blank sailing for week 40+41, will put pressure on space. Carriers have announced GRIs as of Oct 1 <sup>st</sup> .

Source: DGF



# Market Outlook – Volume Outlook in Main Trade Lanes, 2019 Estimate & 2020/23 Growth Forecast in %



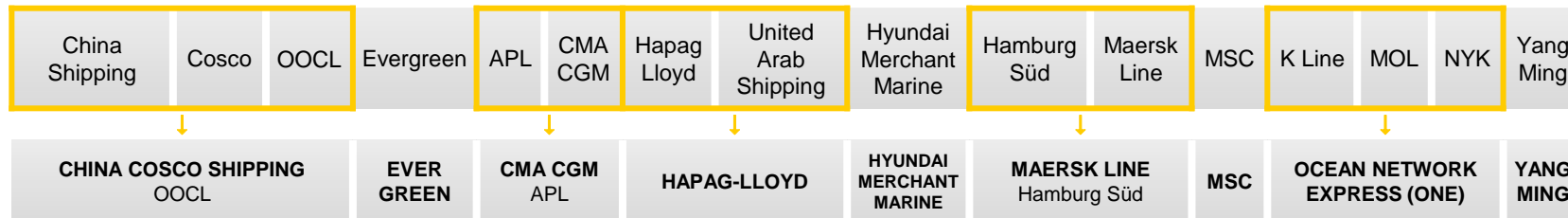
GLOBAL CONTAINER TRADE 2019e **151.2 mTEU** +3.9% CAGR 2020e-2023e

→ Mid-term growth is mainly driven by Asian tradelanes.

Source: Seabury Jun19 update

# Carrier Mergers, Acquisitions and Alliances

## M E R G E R S   A N D   A Q U I S I T I O N S



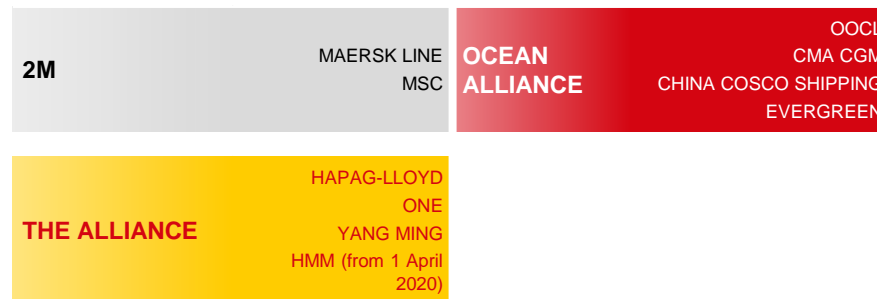
## A L L I A N C E S

### F O R M E R   A L L I A N C E S



\*Source: Carriers

### P R E S E N T   A L L I A N C E S





# Acronyms and Explanations

AMLA - Latin America	OVS - Overweight Surcharge
AMNO - North America	PH - Philippines
AR - Argentina	PNW - Pacific North West
ASPA - AsiaPacific	Ppt. - Percentage points
BR - Brazil	PSW - Pacific South West
CAGR - Compound Annual Growth Rate	QoQ - Quarter on quarter
CENAC - Central America and Caribbean	SAEC - South America East Coast
CNC - CNC Line (Cheng Lie Navigation Co. Ltd.)	SAWC - South America West Coast
DG - Dangerous Goods	SOLAS - Safety of Life at Sea
DWT - Dead Weight Tonnage	SPRC - South People's Republic of China – South China
EB - Eastbound	SSA - Sub-Saharan Africa
ECSA - East Coast South America (synonym for SAEC)	SSL - Steam Ship Line
EGLV - Evergreen Marine Corp	T - Thousands
EURO - Europe	TEU - Twenty foot equivalent unit (20' container)
GRI - General Rate Increase	TSA - Trans Pacific Stabilization Agreement
HMM - Hyundai	USGC - US Gulf Coast
HL - Hapag-Lloyd	US FMC - US Federal Maritime Commission
HSUD - Hamburg Süd	USEC - US East Coast
HWS - Heavy Weight Surcharge	USWC - US West Coast
IA - Intra Asia	VGM - Verified Gross Mass
IPBC - India Pakistan Bangladesh Ceylon (= Sri Lanka)	VLCS - Very Large Container Ship
IPI - Inland Point Intermodal	VSA - Vessel Sharing Agreement
ISC - Indian Sub Continent (synonym for IPBC)	WB - Westbound
MENAT - Middle East and North Africa	WCSA - West Coast South America (synonym for SAWC)
ML - Maersk Line	WHL - Wan Hai
mn - Millions	WRS - War Risk Surcharge
MoM - Month-on-Month	YML - Yang Ming Line
NOO - Non-operating (vessel) owners	YoY - Year-on-Year
OCRS - Operational Cost Recovery surcharge	YTD - Year-to-Date
OOCL - Orient Overseas Container Line	