

**DHL Global Forwarding, Freight**



# OCEAN FREIGHT MARKET UPDATE

**July 2019**

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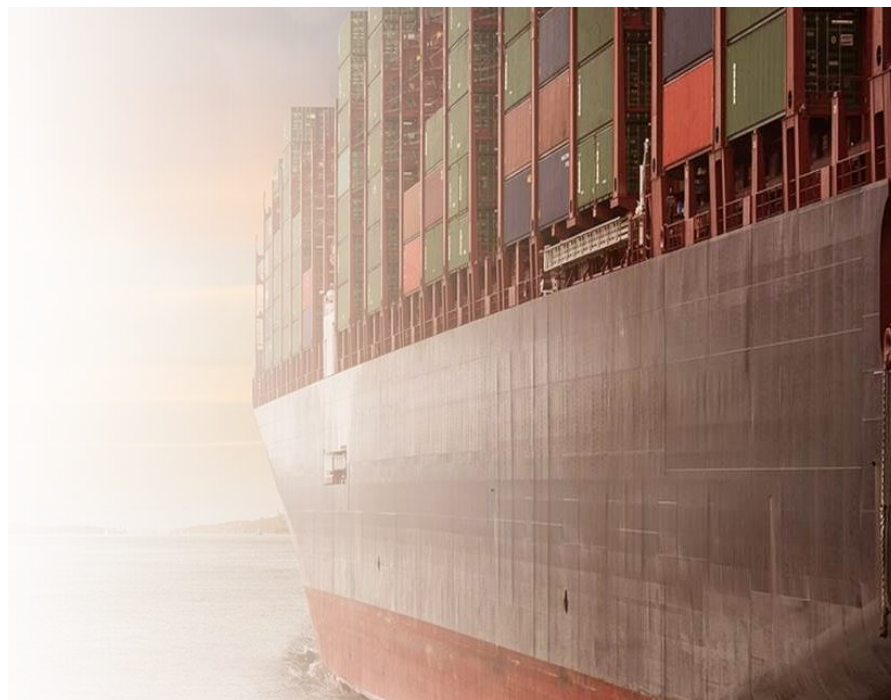


## REGULATIONS



## DID YOU KNOW?

New IFRS 16 Lease Accounting Standard, Effective 1 Jan 2109



# Topic of the Month 1/2

## US - China Trade Dispute Hits China Exports to US

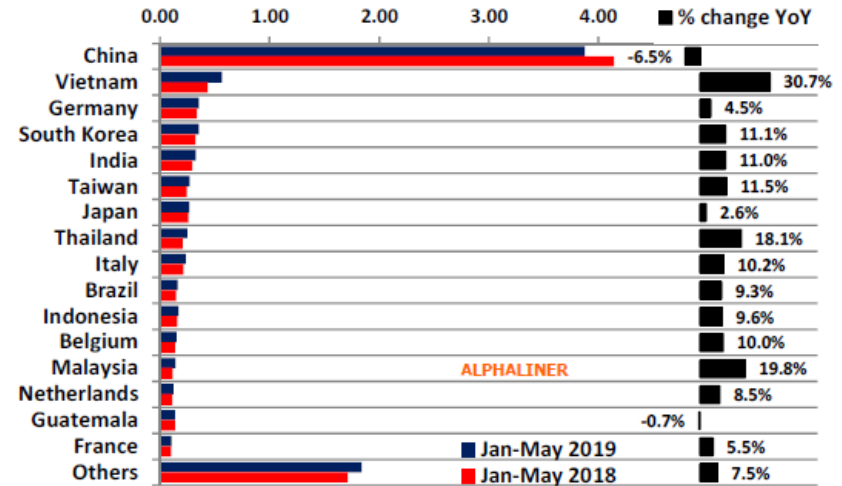
### US import from China dips while Vietnam surges

The Sino – US trade dispute has hit container volumes from China to the United States and, compared to the same period last year, numbers for the first five months of 2019 show a **6.5% reduction in Chinese exports to US ports**.

Although China remained by far the largest origin of US containerised imports, its share has reduced from 46% in 2018 to 42% this year. **Overall US container imports during the period still grew by 2.8%, as most other cargo origin countries recorded volume increases.**

**Vietnam** recorded the **largest increase at 30.7%**. Its total exports to the US increased from 431,890 TEU to 564,420 TEU and the country emerges as the main beneficiary of the Sino – US trade dispute. Transpacific carriers have reacted on the increased volumes from Vietnam, adding two new direct calls at Northern Vietnam's Haiphong port (HICT) this year to complement twelve existing calls at Southern Vietnam's port of Cai Mep.

US containerised imports: Jan – May 2018 vs 2019



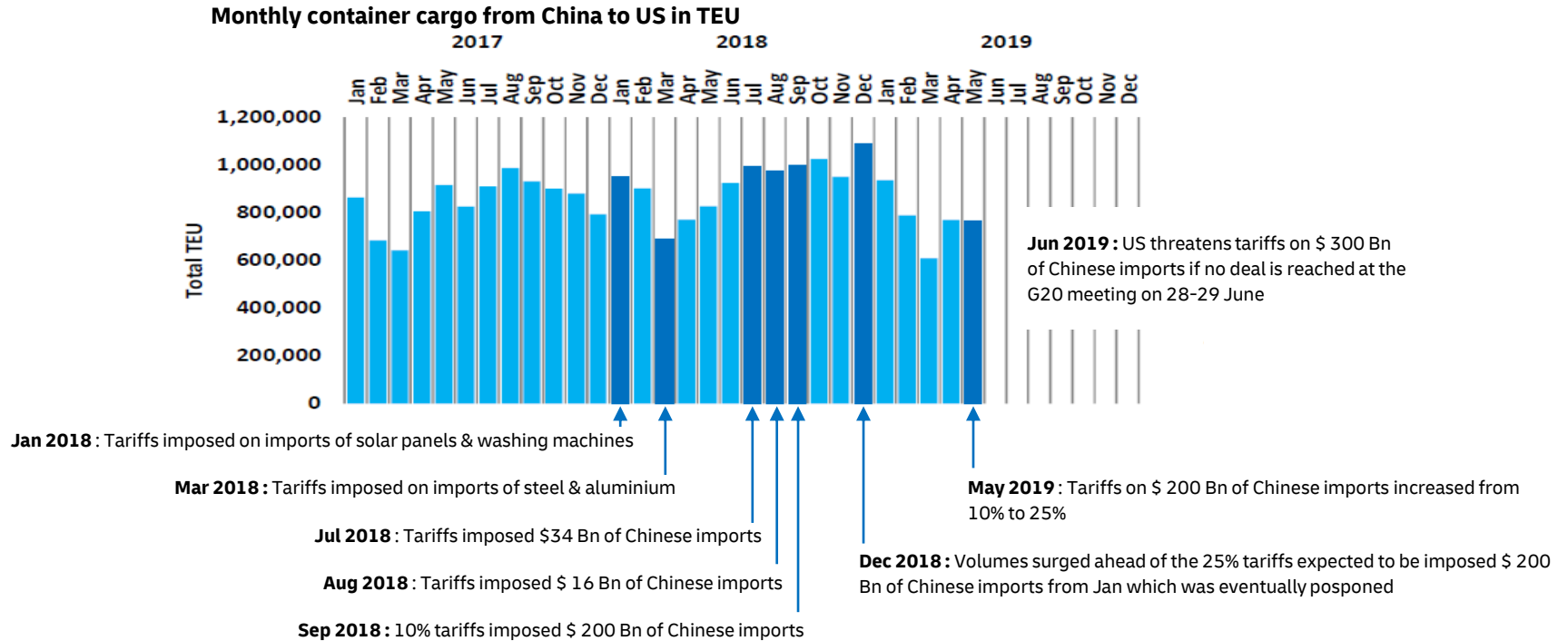
Total containerised inbound cargo in TEU Millions

Source: Alphaliner based on analysis derived from PIERs data



# Topic of the Month 2/2

## US-China Trade Dispute - Development



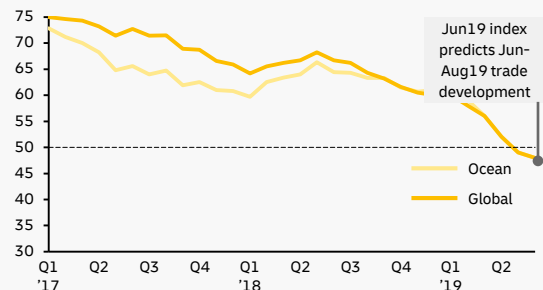
Source: Alphaliner based on analysis derived from PIERS data

# High Level Market Development – Supply and Demand

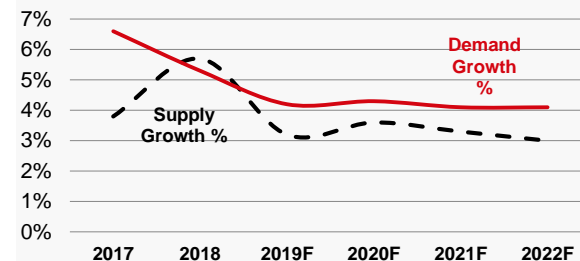
## ECONOMIC OUTLOOK GDP GROWTH BY REGION<sup>1)</sup>

	2019F	2020F	2021F	2022F	2023F	CAGR (2020-23)
EURO	1.4%	1.3%	1.5%	1.6%	1.6%	1.6%
MEA	2.1%	2.9%	3.0%	3.2%	3.4%	3.2%
AMER	2.4%	2.1%	1.8%	1.6%	1.6%	1.7%
ASPA	4.5%	4.5%	4.5%	4.6%	4.6%	4.5%
DGF World	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%

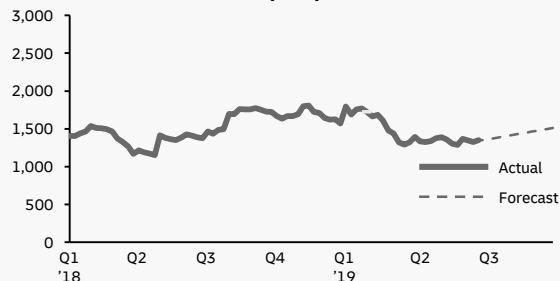
## DHL TRADE BAROMETER<sup>6)</sup>



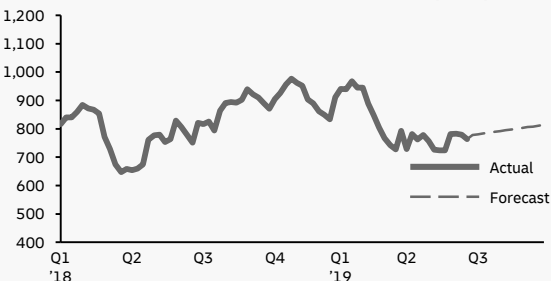
## SUPPLY/DEMAND GROWTH (ANNUALIZED), IN % <sup>2)</sup>



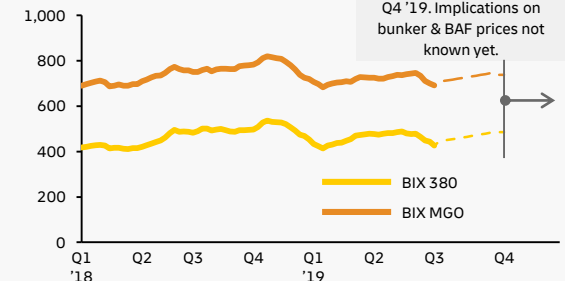
## WORLD CONTAINER INDEX (WCI)<sup>3)</sup>



## 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 July 2019 – Major Trades

## Blank Sailing program continues in July with carriers announcing rate increases

EXPORT REGION	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 July 2019 – Ocean Freight Rates Major Trades

Market outlook on smaller trades available in the back-up

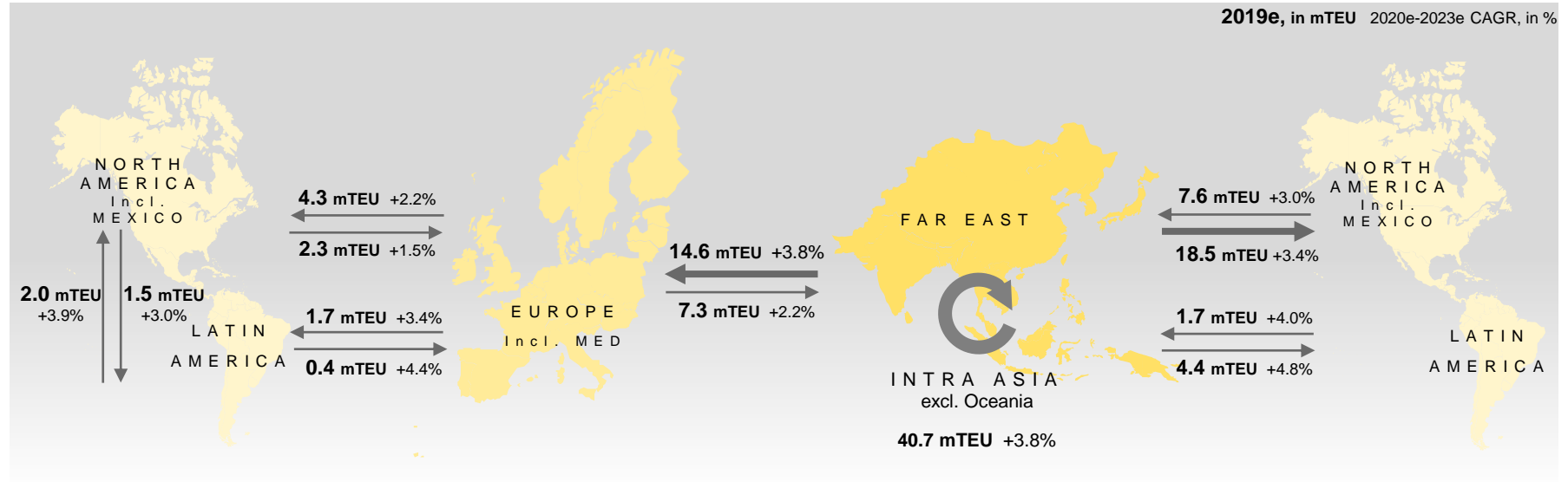
## OCEAN FREIGHT RATES OUTLOOK

<b>ASPA – EURO</b>	Space manageable. Next round of GRI's announced for July.
<b>EURO – ASPA &amp; MEA</b>	Additional blank sailings, combined with strong commodity demand put pressure on space and container availability. Space situation continues to be tight.
<b>ASPA – AMLA</b>	Space is getting tighter and rates are trending up. Carriers have confirmed no injection of capacity during this upcoming peak season.
<b>ASPA – AMNO</b>	The space situation is getting tight to the USEC as the draft issue on the Panama Canal continues. Carriers will apply a GRI in July and some have also announced a PSS to be implemented on 15 <sup>th</sup> July.
<b>EURO – AMNO</b>	Tight space situation unchanged.
<b>ASPA – MENAT</b>	MIDDLE EAST: Volatile market into Middle East. Rates increasing. EMED: Carriers are still trying to implement GRI on monthly basis. GRI was successful in June. AFRICA: Market remains flat and with no big changes; Overall space is still at a manageable level
<b>ASPA – ASPA</b>	Space continues to be tight on the IPBC trade. Situation is expected to continue at least till mid-July.
<b>AMNO – EURO</b>	Rates are stable. USEC to Euro NC capacity will decrease significantly in week 27 – No change from USWC to Euro NC.

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



# Economic Outlook & Demand Development

## Deceleration in international trade and manufacturing is leading the 2019 slowdown



**Political uncertainties** in Europe, with worsened political fragmentation of the European parliament and a deeply divided UK public which will make achieving any consensus on Brexit even more difficult, thus raising the likelihood of a non-deal Brexit, are adding to caution, resulting in **1.4% growth** during 2019.

AMNO

The **US** had a **strong start into 2019**, but the robust first quarter growth is expected to be temporary. Nevertheless, the forecast for North America improved from 2.4% to **2.6%**

ASPA

**Asia Pacific** region is expected to grow at **4.5%** in 2019, 0.2pp lower than in previous forecast. **US trade restrictions, deleveraging, and excess capacity** are slowing China's growth, but **government stimulus** provides some offsetting support.



**Middle East & Africa** economic outlook is revised down from 2.2% to **1.8%** in 2019, with **economic contraction in Turkey** and **muted oil GDP in Saudi Arabia and UAE**.

2019 **Latin American** GDP outlook is disappointing at **1.5%** (-0.4pp from previous forecast), growth in **Brazil and Mexico** is only slightly above 1%, while **Argentinian GDP is shrinking**.

DEMAND  
DEVELOPMENT

**IHS Markit PMIs** eased to their **weakest levels in three years**. The survey data are indicative of worldwide GDP growth slowing significantly. **Manufacturing again lead the slowdown**, reflecting a **substantial inventory correction** after excessive accumulation in late 2018 & early 2019. **Falling export orders**, down for a ninth successive month in May, contributed the factory malaise.

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



# Capacity Development 1/2

## CAPACITY

Several **extra loaders** are being deployed on the **transpacific route**, as carriers seek to take advantage of sailing withdrawals by their rivals in early June and capitalize on an **expected cargo rush** by shippers who are aiming to pre-empt a new round of tariffs that may be imposed on Chinese imports to the US. Maersk has deployed the 4,822 TEU MAESK GATESHEAD on a trip to the US East Coast on 24 May. MSC also deployed the 1,162 TEU newbuilding SPIRIT OF CHENNAI on a positioning trip to the USEC on 16 June. Cosco has deployed the 4,360 TEU NAVIOS FELICITAS on 8 June and a second extra loader is planned in late June. CMA CGM will also send an extra loader to the USEC on 6 July.

**MSC** is to deploy the first of **two 23,000+ TEU vessels** of its eleven-strong 'megamax 24' newbuilding program on the **North Europe – Far East 'AE-10/Silk'** service offered within the framework of the 2M Vessel Sharing Agreement of Maersk and MSC. The MSC GÜLSÜN is to join the 'AE-10/Silk' service on 8 July and MSC MINA will follow on 29 July. Both series of MSC's ships are fitted with SOx scrubbers and they will share the honor of being the **largest containerships in the world**. The new MSC jumbo vessels will take the place of existing ships in the MSC and Maersk network that are to be temporarily phased out to be retrofitted with SOx scrubbers.

**Hapag-Lloyd, CMA CGM and COSCO Shipping** will be the **first carriers** to include **direct calls** at the new greenfield port of **Posorja, near Guayaquil**. Posorja will be added to the rotation of Europe – NCSA – WCSA service operated by the three shipping lines under the respective brandings 'Eurosail XL', 'SWX' and 'EWX'. The 'new' port will be served in both directions at the expense of the current northbound call at Buenaventura. The new call will provide the three carriers with **direct North Europe – Ecuador connections**. The revised rotation is planned as of August. The Posaja export call will allow in particular to cater for Ecuador banana shipments to Europe that are currently covered through transshipments on feeder services due to Guayaquil draft constraints.

The 'Megamax' container vessel **MONACO MAERSK** in 1 June left the port of Tanjung Pelepas, Malaysia, with a **cargo load** that marks a **new world record**. Carrying **19,284 TEU**, Maersk Line and its second-generation EEE-2 class vessels have thus re-claimed a record that was set in 2018 by the MUMBAI MAERSK, and which stood until earlier this year, when it was beaten by Ocean Network Express. The new record holder, MONACO EXPRESS, has a nominal capacity of 20,568 TEU and she is deployed on the North Europe – Far East 'AE-5/Albatross' service offered within the context of the 2M Vessel Sharing Agreement of Maersk and MSC.

The **idle containership fleet** has continued its downward trend at the end of May, after rising briefly two weeks earlier, with heavy demand for replacement ships for those going for scrubber retrofit work. The latest Alphaliner fleet survey as at 10 June 2019 shows 123 idle units for 351,325 TEU, representing **1.5% of the total fleet**. The strong vessel demand is expected to last for the next few months, but the outlook remains cloudy as carriers may be forced to cancel more transpacific sailings when the US-China trade war starts taking its toll.

Source: Alphaliner, Dynaliners, carriers



# Regulations

## REGULATIONS

### India: Import of “Solid plastic waste/Plastic scrap” restricted

The Ministry of Environment, Forest and Climate Change has amended the Hazardous and Other Wastes (Management & Transboundary Movement) Rules, 2016 vide notification G.S.R. G.S. R. XX (E), dated 1 March 2019 through which “Solid plastic waste” (B3010- Polymethyl methacrylate) has been prohibited from import into the country including in Special Economic Zones (SEZ) and by Export Oriented Unites (EOU).

Source: DHL, carriers



# Carriers

## CARRIERS

**Hapag-Lloyd** has announced its plan to **redeem** the **EUR 280 M 6.75% senior note** due 2022 on 24 June 2019 at a fixed redemption price of 103.375%. The redemption will be funded by the company's cash reserves together with EUR 100 M from a drawdown of a 'Credit Default Swap' (CDS) based credit facility. Hapag-Lloyd said that the repayment ahead of the notes' maturity is part of its deleveraging **efforts to optimize its capital structure** and **reduce the cost of its debt**. According to Hapag-Lloyd's financial statements at the end of March 2019, its total financial debt stood at \$ 7.8 Bn which included \$ 1.1 Bn of additional lease liabilities due to the application of new IFRS 16 lease accounting rules.

**MSC** has formally signed an agreement **to acquire a 49% stake** in **Italian niche carrier Linea Messina** on 13 June. The transaction remains subject to the approval of the Italian anti-trust authorities and of the Western Ligurian Sea Port Authority, which jointly manages the ports of Genoa, Savona and Vado Ligure. Messina currently operates eleven ships for 26,373 TEU, including seven conro units with a combined container capacity of 20,440 TEU. The fresh deal may pave the way for joint MSC-Messina liner services in the Med, Africa, Red Sea and Middle East trades, where Messina currently operates.

Source: Alphaliner, Dynaliners, carriers



## Did you know?

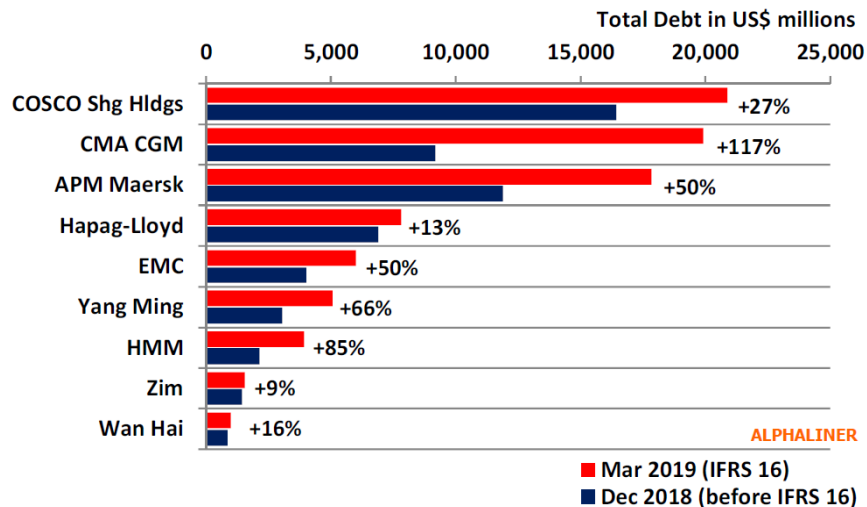
### New IFRS 16 Lease Accounting Standard, Effective 1 Jan 2109

New rule has increased total debt of main container lines by 50%

The **new IFRS 16 lease accounting rule** has been applied on **1 Jan '19**. It requires **long-term leases** for vessels, equipment, and other assets to be **capitalized**, whereas operating leases could **previously be kept off the balance sheet**.

All of the nine main container carriers that have published their Q1 '19 financial statements reported **significant increases in their debt obligations**. Their aggregated **financial debt rose by 50% to USD 84bn** at the end of Mar19 compared to their Dec18 financial statements.

**CMA CGM** reported the **largest jump** in its total debt, with an **increase of 117%** from USD 9.2bn to USD 19.9bn. The initial application of IFRS 16 on 1 Jan '19 accounted for USD 6.8bn of the rise, while the acquisition of CEVA Logistics added a further USD 2.8bn.



Source: Alphaliner, carriers

PUBLIC

BACK-UP

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

OCEAN FREIGHT RATES OUTLOOK	
<b>EURO – AMLA</b>	Rates and capacity remain stable
<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>	Rates remain stable. Congestion / PSS surcharge for PODs in Nigeria from all carriers still in place.
<b>AMNO – MENAT</b>	Rates in the market are stable. Space continues to be tight again out of USEC & USGC Ports on services to M.East & India Subcontinent. May-July bookings are min. 2 weeks out.
<b>AMNO – SSA</b>	Despite the GRI announcements, rates to South Africa and West Africa remained unchanged. No rate increase expected for July. Capacity unchanged and space is available.
<b>AMNO – AMLA</b>	US to WCSA direct services suspended by HL/HS. All services US to WCSA now transship. Space and rates are stable and trending soft on US-Exports.
<b>AMLA Exports</b>	Major service changes within INTRA America services. Increasing transit times vs transshipment. Equipment imbalances continue to drive up costs in Colombia inland depots. Congestion in T/Shipment ports within CENAC continue.
<b>AMNO – ASPA</b>	Stable rates. No GRI's announced for remainder of Q2. Bunker component will be broken out of ocean base by Q3 for those carriers who have not adjusted the traditional all-inclusive pricing.

Source: DGF



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

### OCEAN FREIGHT RATES OUTLOOK

<b>EURO MED – AMNO</b>	Except for few exceptions, rates are being extended till mid-July. Possible increases to materialize as of mid-July.
<b>EURO MED – AMLA</b>	Unchanged / stable. Nothing to be highlighted
<b>EURO MED – ASPA</b>	Unchanged / stable. Nothing to be highlighted
<b>EURO MED – MENAT</b>	Unchanged / stable. Nothing to be highlighted
<b>EURO MED – SSA</b>	Unchanged / stable. Nothing to be highlighted
<b>ASPA-SPAC</b>	Rate increase expected due to blank sailings in the North (CAT service) and South Asia (AAX2).

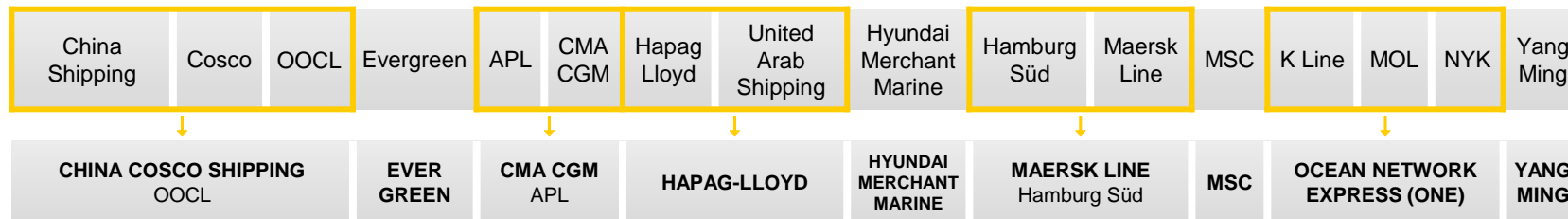
Source: DGF





# 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



### P R E S E N T   A L L I A N C E S



\*Source: Carriers

# Carrier Financial Results 2018, as at 24 May 2019

Only six of the 11 top carriers who publish their financial results ended in the black, often with marginal net profits.

## CARRIER FINANCIAL RESULTS FULL YEAR 2017-18 (US\$ MILLION)

Carrier	Revenue			Operating Profit			Operating Profit Margin		Net Profit		
	2017	2018	%	2017	2018	%	2017	2018	2017	2018	%
Maersk (Ocean business) <sup>5), 6)</sup>	22'023	28'366	29%	2'777	3'007	8%	12.6%	10.6%	n.a.	n.a.	n.a.
CMA CGM <sup>2), 4)</sup>	21'116	23'476	11%	1'575	610	-61%	7.5%	2.6%	701	34	-95%
COSCO SHIPPING Holdings <sup>1), 5), 8)</sup>	12'814	17'376	36%	267	342	28%	2.1%	2.0%	264	252	-5%
Hapag-Lloyd <sup>1), 5), 6)</sup>	13'414	15'583	16%	1'419	1'540	8%	10.6%	9.9%	44	63	43%
OOCL (container transport & logistics) <sup>5), 9)</sup>	6'078	6'547	8%	105	210	100%	1.7%	3.2%	-12	55	558%
Evergreen Marine Corp. <sup>1), 5)</sup>	4'933	5'626	14%	223	6	-97%	4.5%	0.1%	229	10	-96%
Yang Ming <sup>1), 5)</sup>	4'294	4'715	10%	17	-191	-1236%	0.4%	-4.0%	11	-219	-2184%
ONE <sup>3)</sup>	n.a.	8'054	n.m.	n.a.	n.a.	n.m.	n.a.	n.m.	n.a.	-491	n.m.
Zim <sup>5)</sup>	2'978	3'248	9%	162	34	-79%	5.4%	1.0%	6	-126	-2200%
Wan Hai <sup>1)</sup>	2'045	2'182	7%	106	32	-70%	5.2%	1.5%	86	37	-57%
HMM (container shipping business <sup>1), 5)</sup>	3.9	4.2	8%	-0.28	-0.45	62%	-7.2%	-10.8%	n.a.	n.a.	n.a.
<b>Average <sup>7)</sup></b>			<b>19%</b>			<b>-16%</b>	<b>7.4%</b>	<b>5.2%</b>			<b>-92%</b>

Source: Alphaliner, DynaLiners; 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 NOL/APL, 3) results are full Japanese financial year, i.e. Apr18-Mar19, not calendar year, 4) operating profit is "Core EBIT", 4 May 17, 7) including Hamburg Sued from 1 Dec 17, 6) operating profit is EBITDA, 7) Average excluding ONE, 10) incl. OOCL from 7 Aug 18, 11) excl. Long Beach Container Terminal in 2018 & real estate investments

# Acronyms and Explanations

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