

Big ship orders to cause supply/demand balance concern

Drewry warns that the influx of 10,000+ teu ships in 2010/11 will lead to a softening of the future supply/demand balance

London, UK, 10th October 2007: Drewry Shipping Consultants, one of the world's leading global maritime consultants, has today published its eighth Annual Container Market Review and Forecast 2007/08, the authoritative tool for both global and individual trade lane supply, demand and pricing analysis.

Drewry Shipping Consultants, warns the liner shipping industry that too much emphasis may be being placed on the strength of the Far East/Europe trade lane in view of the raft of recent new orders for ships.

Drewry's unique headhaul east/west trades supply/demand Index forecast for 2009 denotes an expected weakening of the balance of the core trades at that time. The industry should be wary of underlying economic factors which may undermine the balance even further by 2010 when the first of the new 10,000 teu ships are deployed in the Far East/Europe trade.

Neil Dekker, Editor of the report, commented, "By the time many of these vessels are delivered in 2010 and 2011, the Far East/Europe boom would have had to last for 5-6 years and to continue to do so while the new ships bed in. With the inherent weakness displayed by the transatlantic and transpacific trades now and in the short to mid-term at least, this is a great deal of pressure for one trade lane to bear – and this is not even factoring in the huge trade imbalances which are increasing year-on-year."

At present, the liner industry is optimistic on the back of very buoyant demand growth in the Far East to Europe and Mediterranean headhaul trades. This has helped to fuel the recent investment surge in super post-Panamax vessels. The 20%+ headhaul trade growth in evidence for the first half of 2007 has led to a significant firming of freight rates and has contributed to an improved profitability performance for many ocean carriers. The report outlines how there are no real signs that the situation will change in the short-term.

Dekker warns, "the industry should remain concerned that the transpacific and transatlantic trades are not performing well. Current weaknesses in the US economy serve as a warning that double-digit demand growth in the transpacific trade is not permanent. Ocean carriers need to remain wary of their costs and the management of the cascading of big ships from the main east/west trades to the smaller north/south trades. Additionally, both the ILWU and transpacific

shipper contract negotiations in 2008 will be crucial in determining the health of many of the major global players looking forward.”

The Drewry Annual Container Forecaster 2007/08 is the eighth in an annual series, researched and written by a team of highly professional container market analysts, and provides those involved in the liner shipping industry with detailed analysis and interpretation of trends and issues together with historic development and five-year projections on supply, demand and pricing matters.

Key analysis in the 2007/08 report includes:

- World container trade growth to 2012
- Structure of the containership fleet
- Global supply/demand balance to 2012
- Individual analysis of the major east/west trade and north/south trade lanes
- Freight rates and forecasts
- Carriers’ strategies and financial performances
- The current deployment and future orderbook of 8,000 teu+ vessels
- The impact of bunker costs on the liner industry

Report highlights

The current strength of the Far East/Europe and Mediterranean headhaul trades continues to exceed expectations and the 15%-25% growth is showing no signs of weakening. However, it is propping up a stuttering transpacific trade and a distinctly lacklustre transatlantic trade. The weak US economy remains a real fear for the future.

Ocean carriers continue to push through their Far East/Europe westbound rate restorations and have extended this year’s peak season surcharge through until February 2008. Other trade lanes are showing positive signs, but transpacific players will be disheartened by their lack of progress made with shippers.

Our revised estimate of global port handling for 2006 was 440.4 million teu, equating to a world container traffic figure of 128.3 million teu. The 2007 figure is expected to reach 142.9 million teu on the back of very strong growth indeed at Far East and north European ports and 158.3 million teu in 2008.

Global cellular fleet capacity increased by 3.6% in Q2 and for the full year 2007 is expected to be 15.4% bringing the fleet total to 10.9 million teu. For 2008, a 13.4% increase is forecast. The level of ordering, particularly in the 10,000+teu sector has significantly increased during Q2 and Q3 and total contracting reached over 1.4 million teu for the first half of 2007. The investment is being driven by the exceptionally strong Far East/Europe trade and perhaps, carriers’ fear of being left behind. However, risks of this investment strategy are considerable and if the market is not to be destabilised, will require the Asia/Europe trades to continue to lead the way for global growth.

Despite attempts to tighten the supply/demand balance in the transpacific trade, ocean carriers have not been able to improve freight rate levels. The May 2008 shipper contract negotiations will be crucial for the future of this trade as will the outcome of the ILWU discussions in July.

The North/South trades are a mixture of strong and weak, with in many cases, container imbalances continuing to widen. Freight rates are strengthening on many of the headhaul legs, but ocean carriers have a problem filling ships on the weak legs. Some of the established

European markets are being weakened as sourcing is switched to the Far East.

Ocean carrier profitability has improved for 1H07 with forecast global carrier income expected to reach \$205 billion for the year, up 9.9% on 2006. With ocean carrier Far East/Europe rate restorations very effective, weighted east/west freight rates are expected to rise 2.6% this year to \$1,438 per teu and remain stable in 2008 – no mean achievement given the situation on the transpacific and transatlantic trades.

Port congestion may well become more of an issue at some north European ports next year as annual double-digit growth continues - some early warning signs are already there in 2007.

The end of the European liner conference structure in October 2008 will lead to many changes and from a shipper viewpoint, ocean carriers will be applying their own freight rate structures and more importantly their own surcharges. The impact of this on the market place remains an unknown quantity.

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“Annual Container Market Review and Forecast 2007/08” is published by Drewry Shipping Consultants Ltd. Individual copies of the report are priced, including postage to any part of the world.

Internet: www.drewry.co.uk