

# SeaIntelligence Consulting

## *Liner Shipping Uncharted Territory*

October 2020

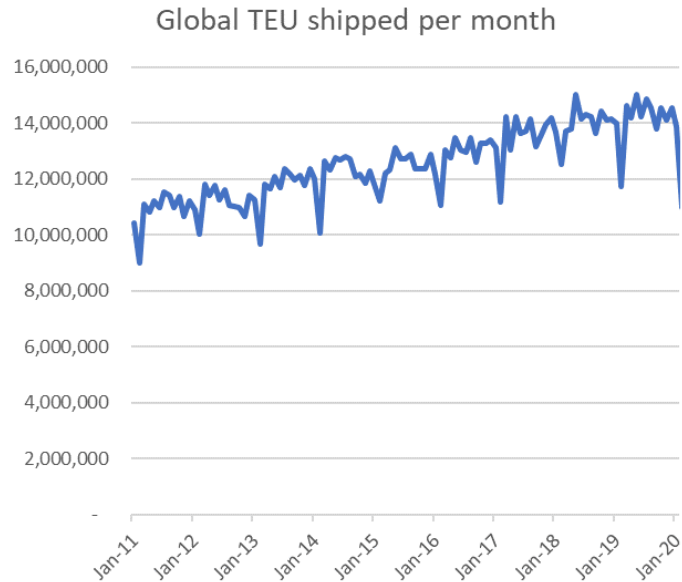
Lars Jensen  
*CEO, Partner*

SeaIntelligence Consulting

Lars.Jensen@Seaintelligence-Consulting.com

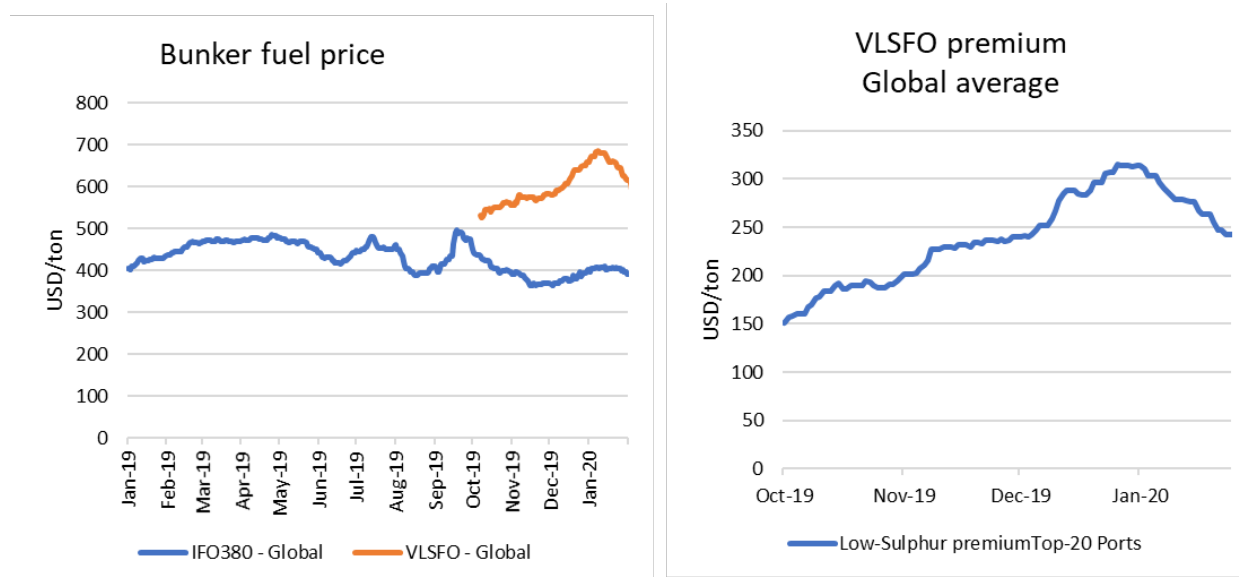
# Starting point: Pre-Corona, January 2020

- Demand growth was on a declining trend



# Starting point: Pre-Corona, January 2020

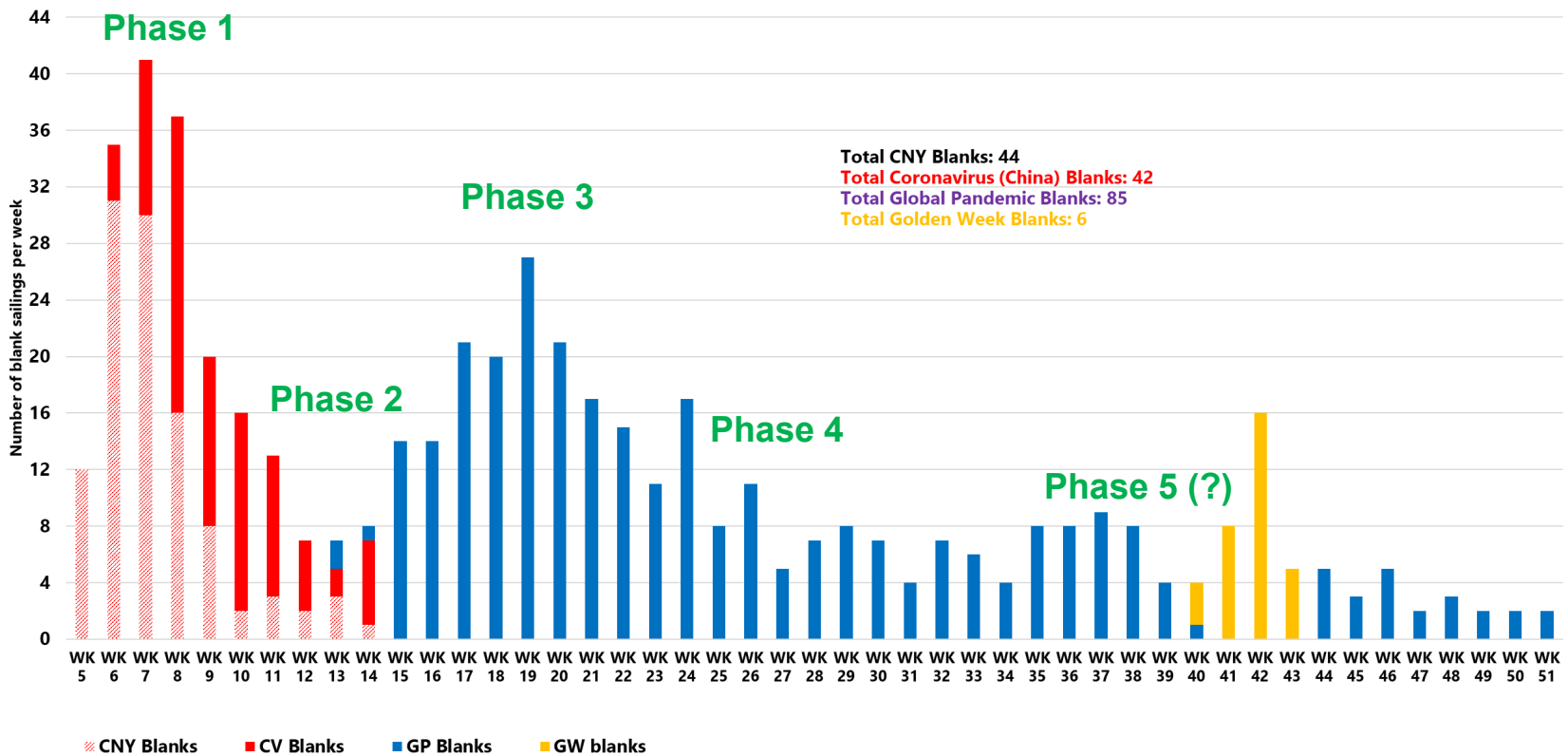
- Main worry for 2020: Very high cost of IMO2020 low-Sulphur rules
- Pre-2020 expectation was for a 200 USD/ton premium which might equal a 10 Billion USD additional cost for the carriers



Yet, despite the weak state of demand, carriers had mainly been successful in implementing the low-sulphur surcharges by end-January

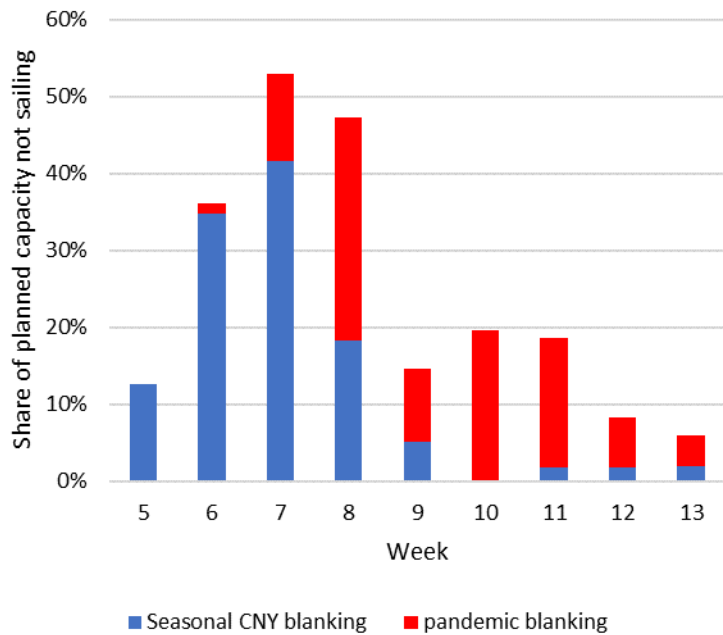
# The phases of the corona impact

Transpacific and Asia-Europe combined

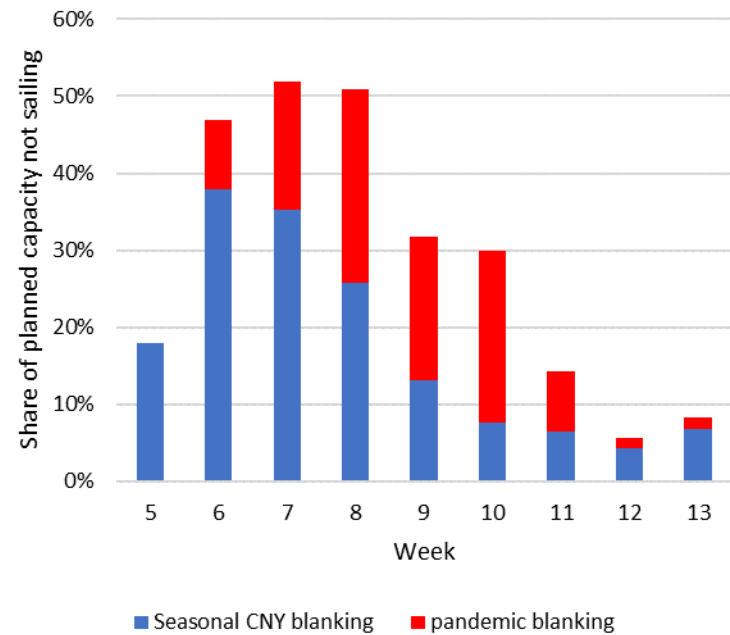


# The key was rapid uptake in blank sailings

## Transpacific: Blank capacity Phase 1-2



## Asia-Europe: Blank capacity Phase 1-2



# Phase 2

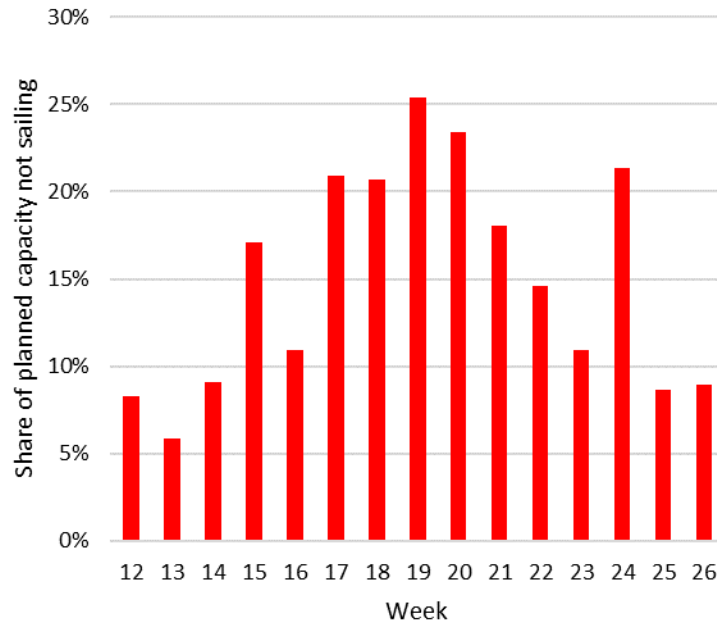
---

- Chinese manufacturing gets back in operation
- Cargo backlogged in China gets loaded and blank sailings revert back to normal low levels
- Full vessels depart China
- ..... Only to see destination regions shut down before the cargo arrives
- This caused major disruptions to equipment flows

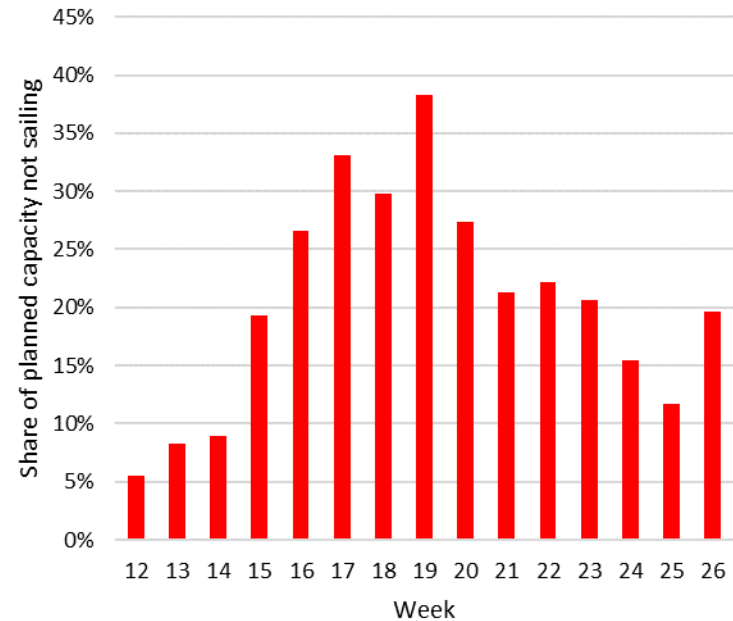
# Phase 3 – second round of blank sailings

- Carriers react within one week of realizing what is happening

Transpacific: Blank capacity Phase 2-3



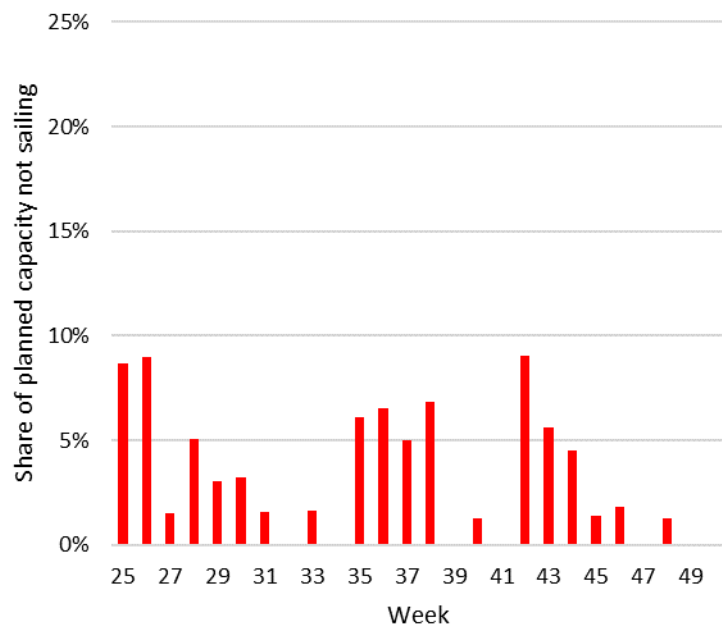
Asia-Europe: Blank capacity Phase 2-3



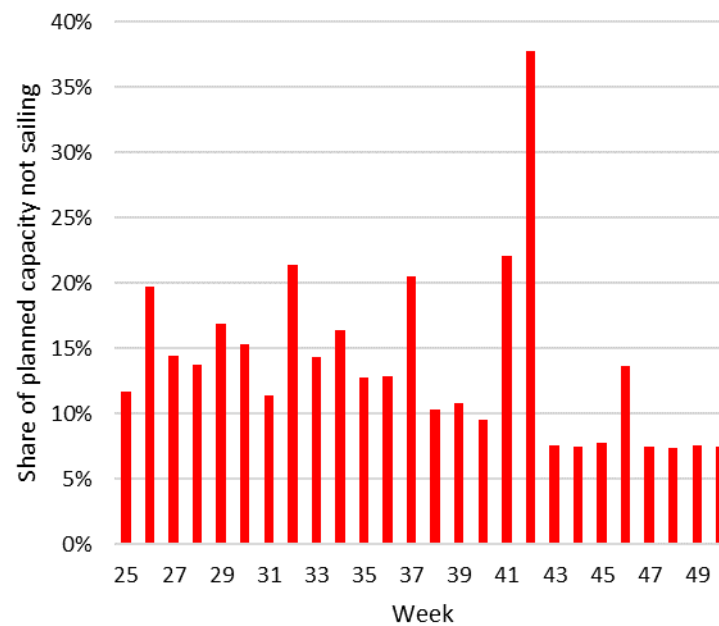
# Phase 4-5(?)

- ”Blanking of blankings”
- De-coupling between Transpacific and Asia-Europe

Transpacific: Blank capacity Phase 4-5



Asia-Europe: Blank capacity Phase 4-5

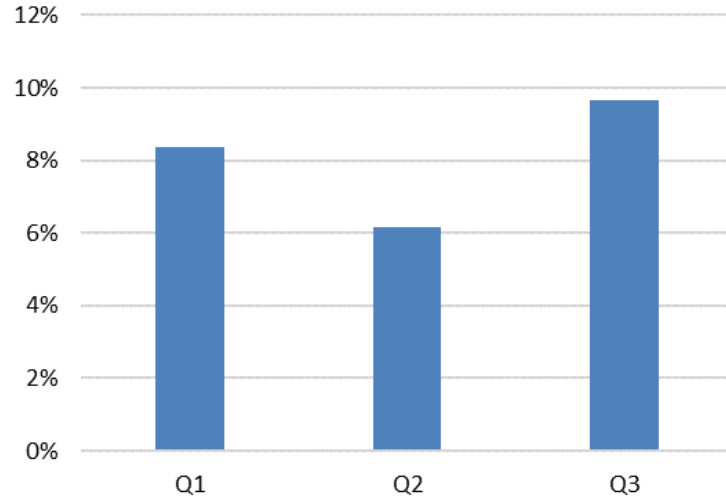




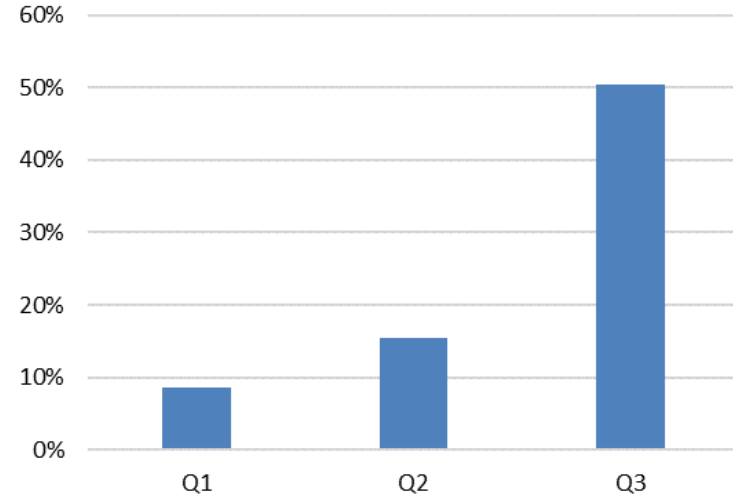
# Phase 4-5(?)

## Rate levels strengthen sharply

CCFI year-on-year  
contract rate increase



SCFI year-on-year  
spot rate increase

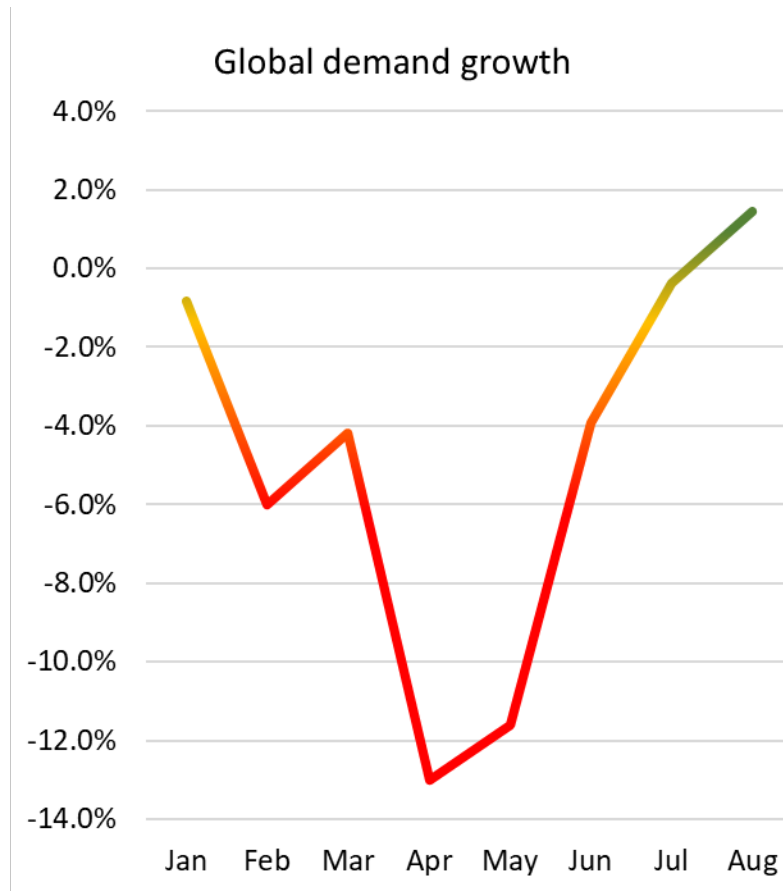


# Capacity discipline: Unprecedented

---

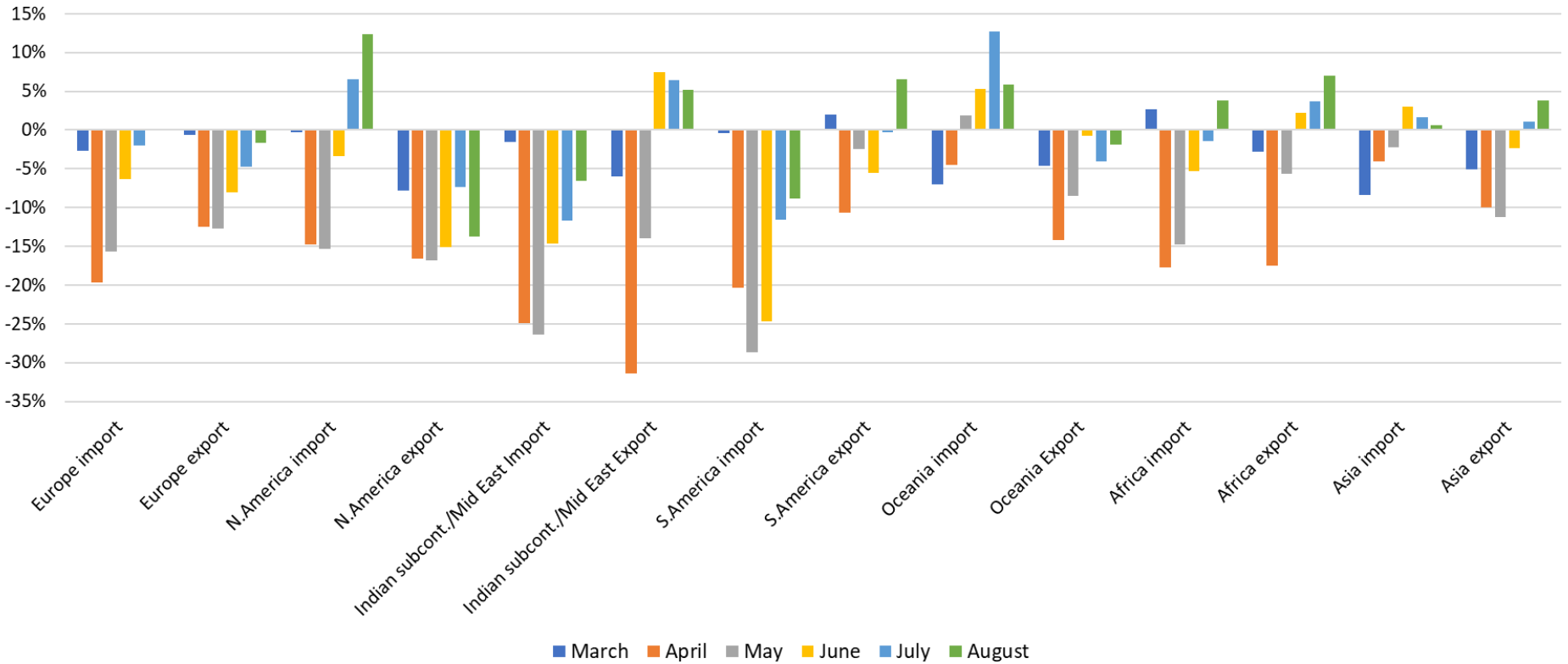
- In the financial crisis carriers took 3-4 months before effectively removing capacity
- This time they reacted within 1 week in both Phase 1 and in Phase 3
- Consolidation is the main factor
- **Larger networks allows carriers to instantly get the benefits of own capacity reductions**
- **Larger networks allows a more granular adjustment of capacity**
- This should be seen as a shift to a “new normal” – and carriers have gradually increased the usage of blank sailings in 2018-19 even with “dedicated” strings for ad-hoc blank sailings
- This signals a larger shift in market power in favor of the carriers going forward

# Demand: Rebound (?)



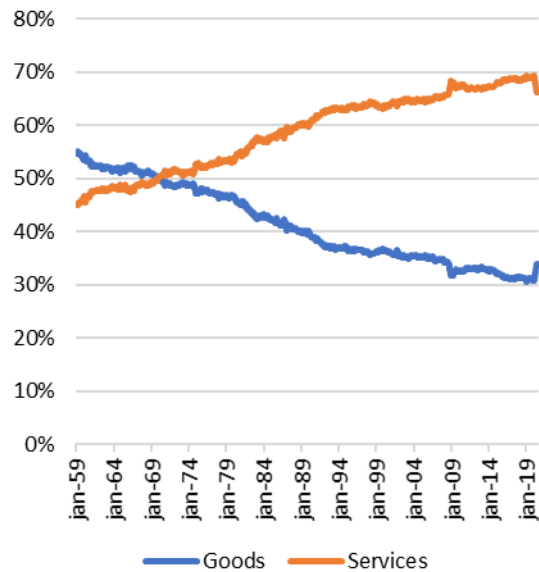
# Demand: Rebound (?)

Year-on-Year volume growth

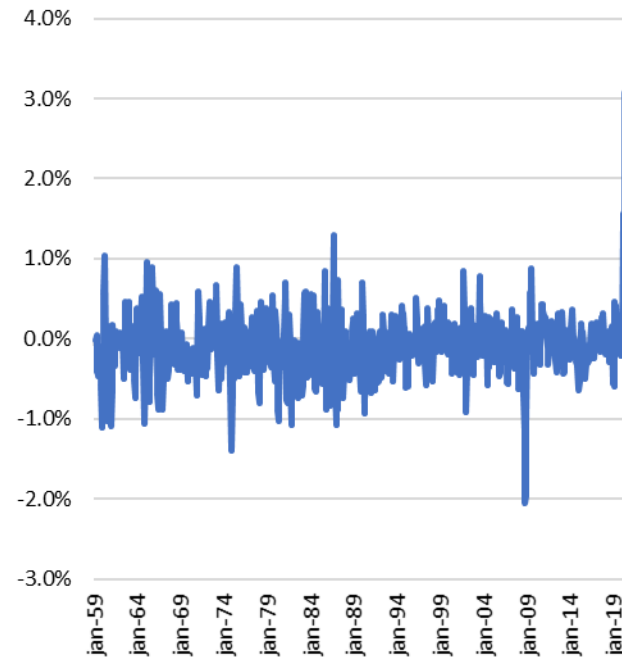


# US: Unprecedented consumption shift

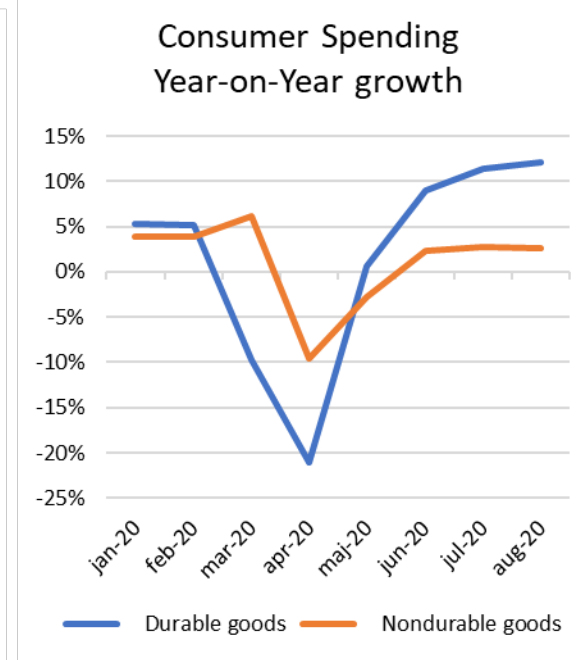
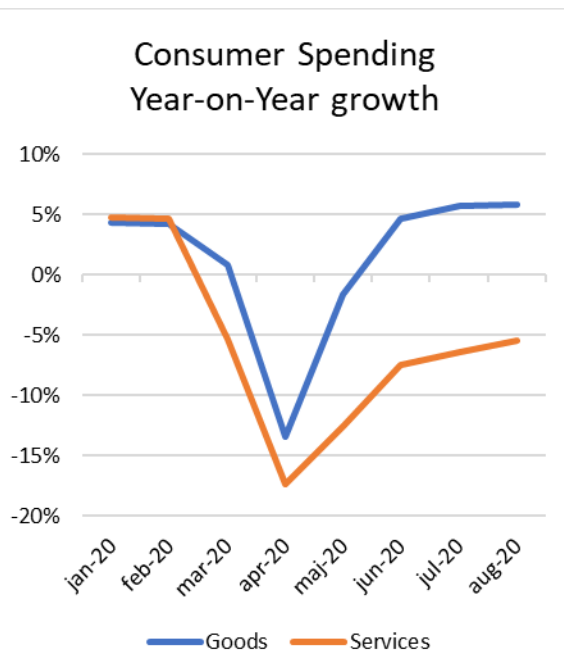
## Goods versus Services consumption



## Change in Goods' share of consumption from 3 months ago



# US: Unprecedented consumption shift



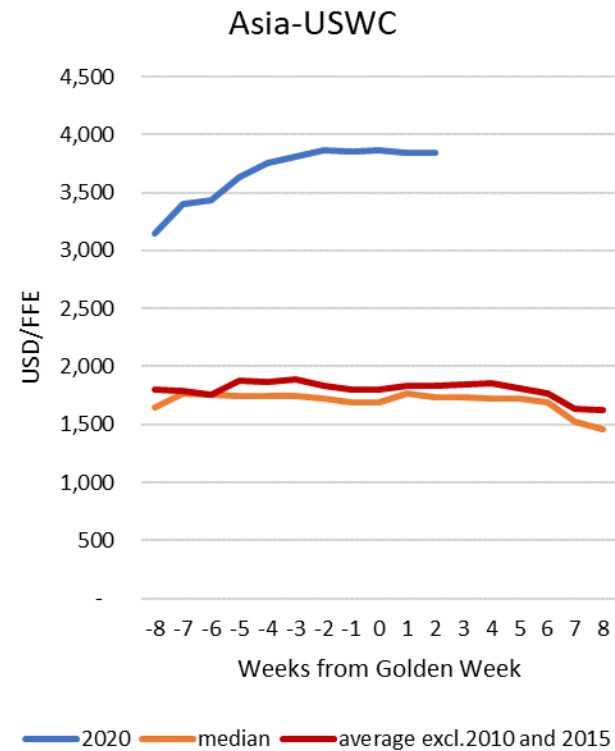
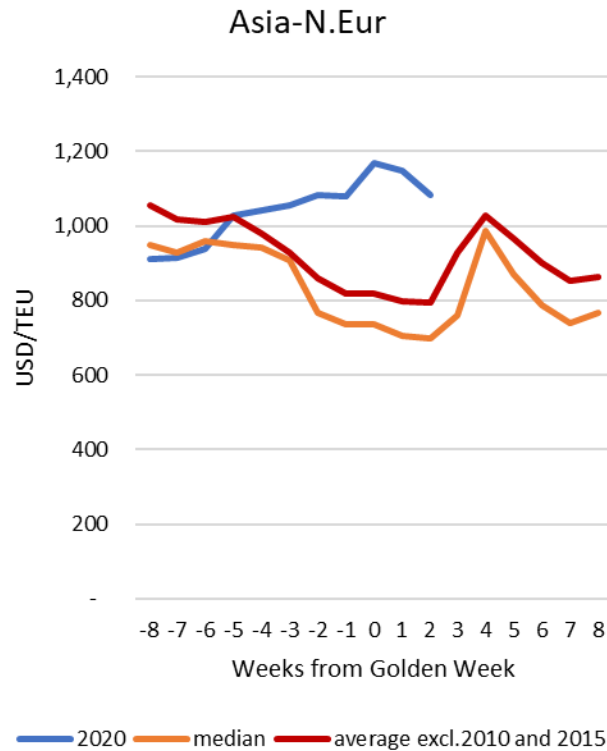
# Record-low fleet orderbook

- And bulk of orders right now shifting down a size level

TEU Size Range	In Service No	In Service TEU	On Order 2020 No	On order 2020 TEU	On Order 2021 No	On Order 2021 TEU	On Order 2022+ No	On Order 2022+ TEU	Total No	Total TEU	%Total Fleet
0-2,999	2,903	4,107,400	193	358,461	53	75,913	4	5,491	250	439,864	10.7%
3,000-4,999	796	3,274,910	21	72,128	0	0	0	0	21	72,128	2.2%
5,000-10,999	1,108	8,312,333	9	48,900	0	0	0	0	9	48,900	0.6%
11,000-13,999	224	2,852,350	23	271,320	15	173,500	2	23,700	40	468,520	16.4%
14,000-17,999	130	1,908,899	15	225,528	15	227,784	12	178,256	42	631,568	33.1%
18,000+	122	2,454,688	20	441,530	6	137,000	10	232,176	36	810,706	33.0%
Total	5,283	22,910,580	281	1,417,867	89	614,197	28	439,623	398	2,471,686	10.8%

Source: Lloyds List Intelligence

# No normal seasonality at Golden Week





# Extreme uncertainty in the near-term future

## Permanent long-term changes

---

- Demand growth extremely uncertain – depends on shifts in consumer spending, stimulus packages and inventory changes more than economical fundamentals. We are in unprecedented territory.
- Carriers have twice shown extremely high capacity discipline and they stand to gain significantly from making this the new norm. It would appear this is indeed the new norm, but we are in unprecedented territory.
- Spot rates now increasingly driven by bottleneck constraints:
  - Equipment shortages
  - Port congestion
  - Chassis shortages
- Cyberattacks in the maritime transportation sector has been on the increase – not unlikely we will see more successful attacks
- Major uncertainty surrounding future orders of new vessels due to IMO 2050 CO2 targets and currently unknown EU-driven "carbon tax" on shipping. Again we are in unprecedented territory.