

2016 CONTAINER SHIPPING OUTLOOK: ASSESSING THE FUNDAMENTALS

TPM Conference, February 29, 2016

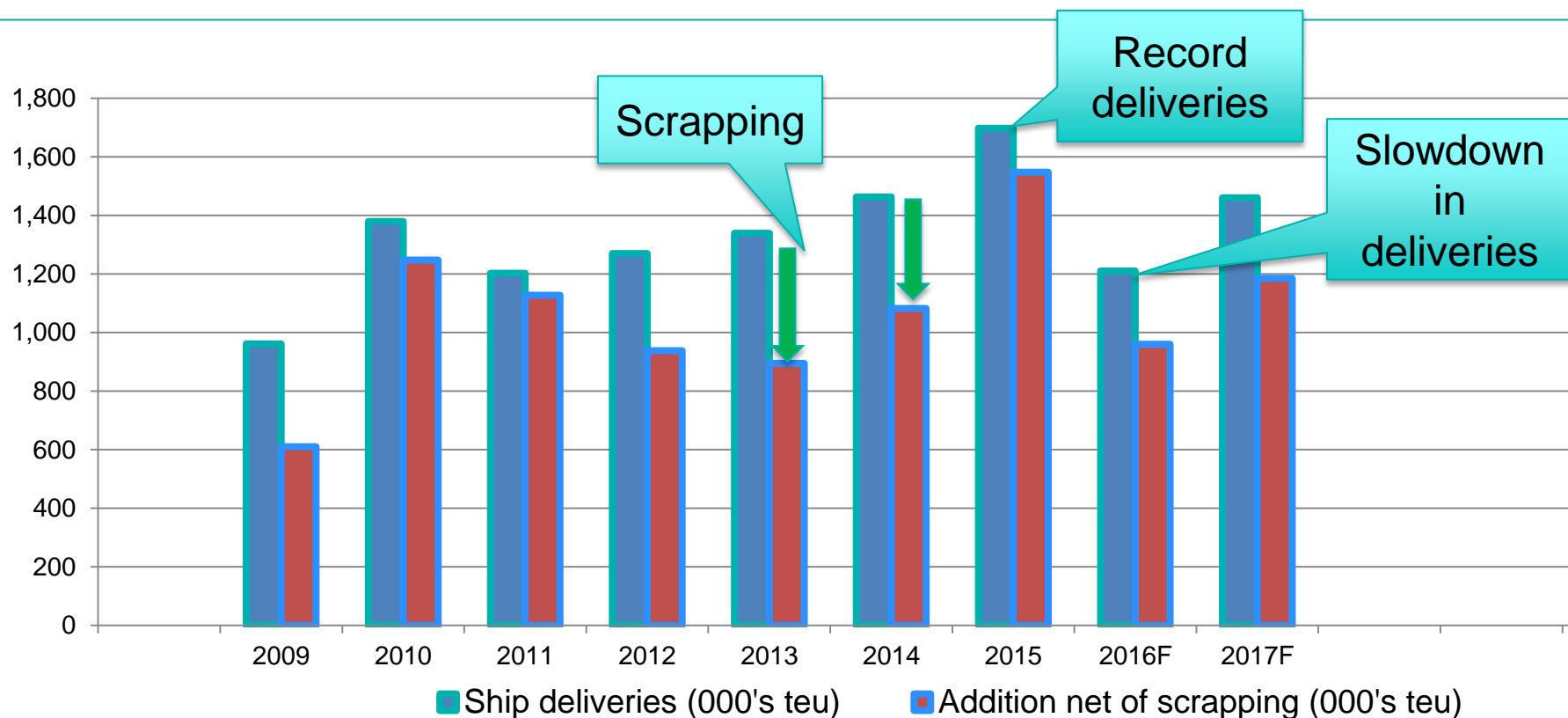
Philip Damas, Director, Drewry Supply Chain Advisors

Agenda

- Global container shipping supply: fleet and order book
- Effect of canceled sailings
- Effect of idle fleet
- Global supply-demand (im)balance
- Impact on average east-west freight rates
- Impact on BCO contract freight rates

Global container shipping supply: fleet and order book

2015 saw record ship deliveries; 2016 and 2017 will see fewer deliveries

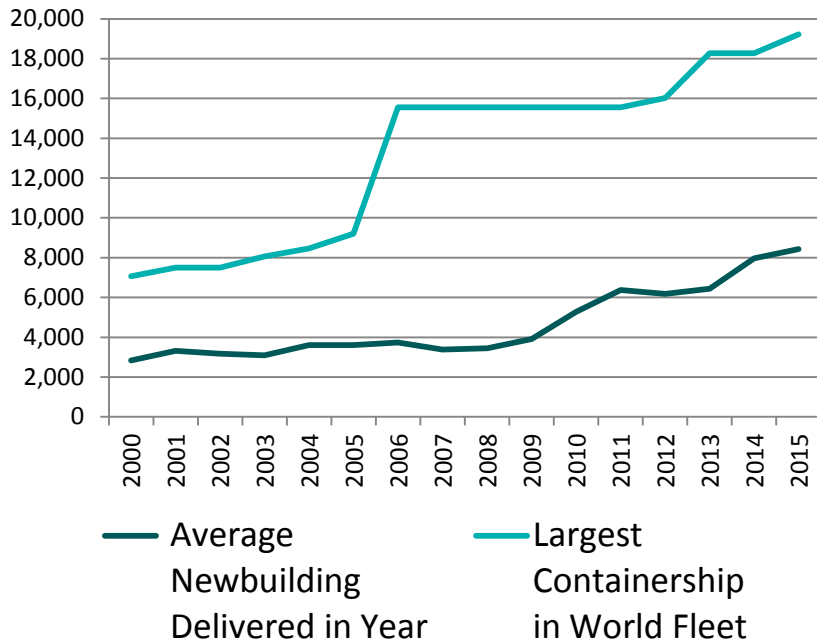


- Supply growth CAGR 2010-15 = 5.8% (vs. demand growth 4.6%)
- Drewry estimates that there is now 2 million TEUs of excess capacity
- Large-scale ship demolitions in 2009, 2013 and 2014 helped contain fleet growth, but not anymore

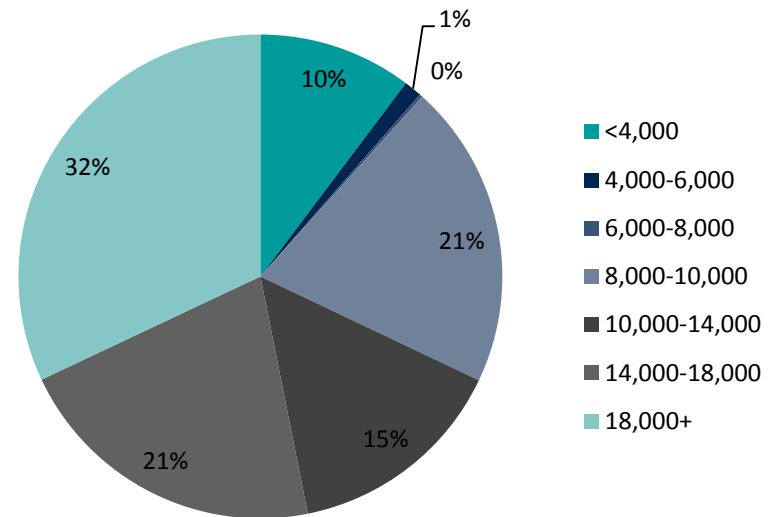
Global container shipping supply: fleet and order book

Rapid move toward bigger ships; upsizing a major driver of fleet growth

Average size of the current fleet



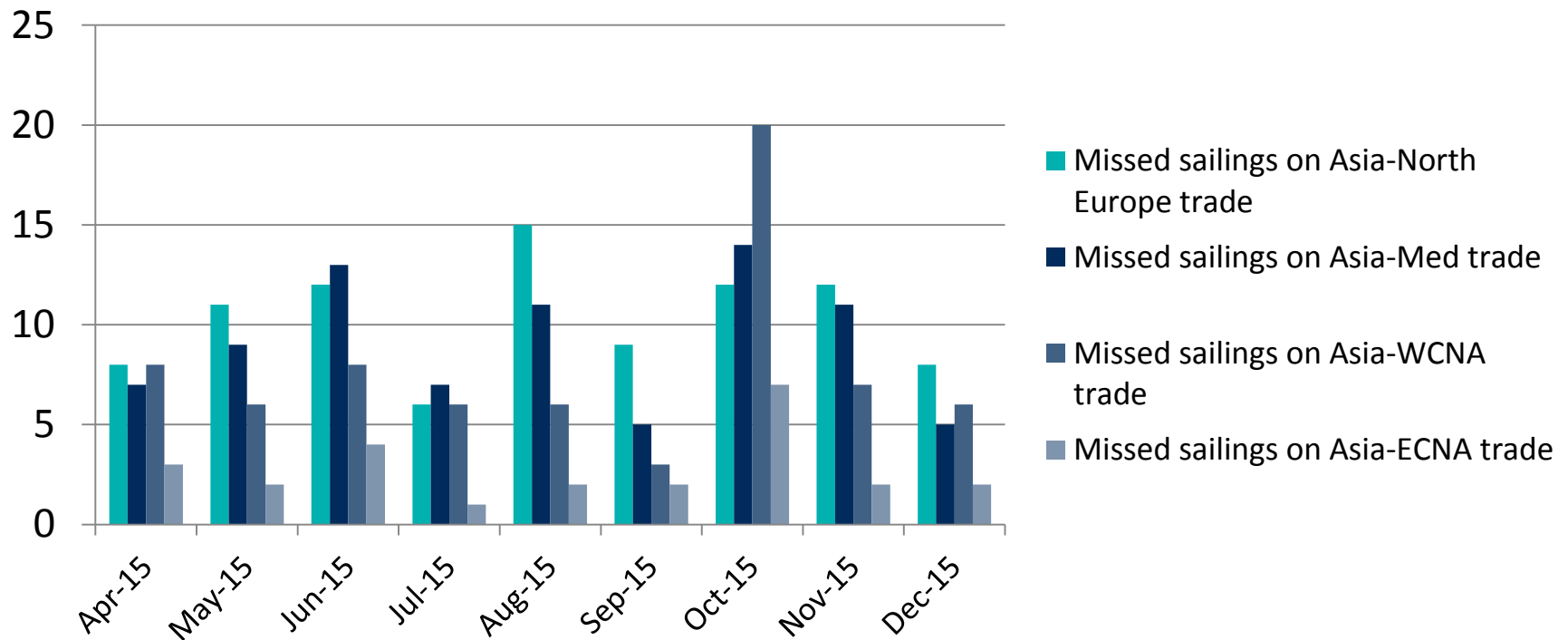
Current orderbook by vessel size (share of TEU)



- ▶ The largest containership in the fleet has nearly tripled since 2000.
- ▶ The average size of new ships has doubled since 2009 to 8,000 TEUs
- ▶ 89% of the current order book is made up of vessels that are larger than the current average of 8,000 TEUs

Effect of canceled sailings

Canceled sailings have become common on the east-west trades and result in reducing (over-)capacity



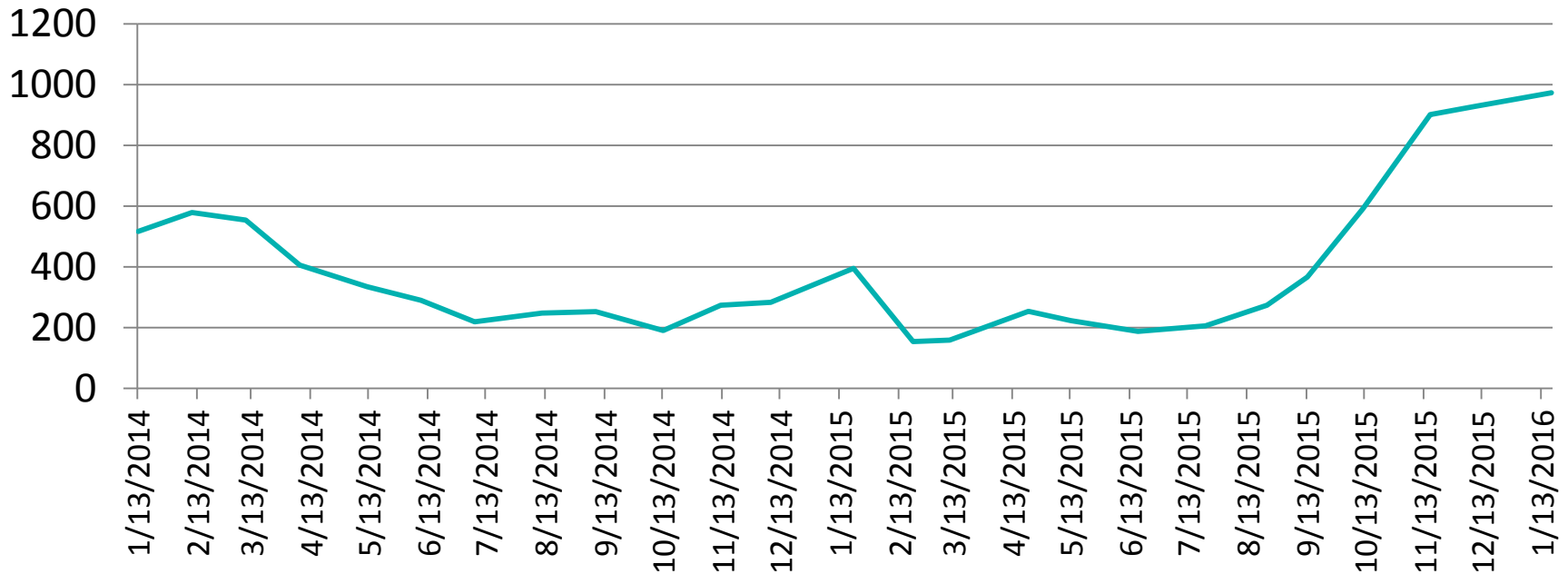
- Up to 53 canceled sailings per month on the 4 major east-west routes
- Missed sailings in October 2015 resulted in the reduction of monthly capacity of 2% to 7%, depending on the trade

Source: Drewry Container Forecaster 4Q 2015

Effect of idle fleet

Some 5% of containerships are idle. Owners must choose between scrapping the ships and parking them until the market improves.

Idle fleet (000's TEUs)

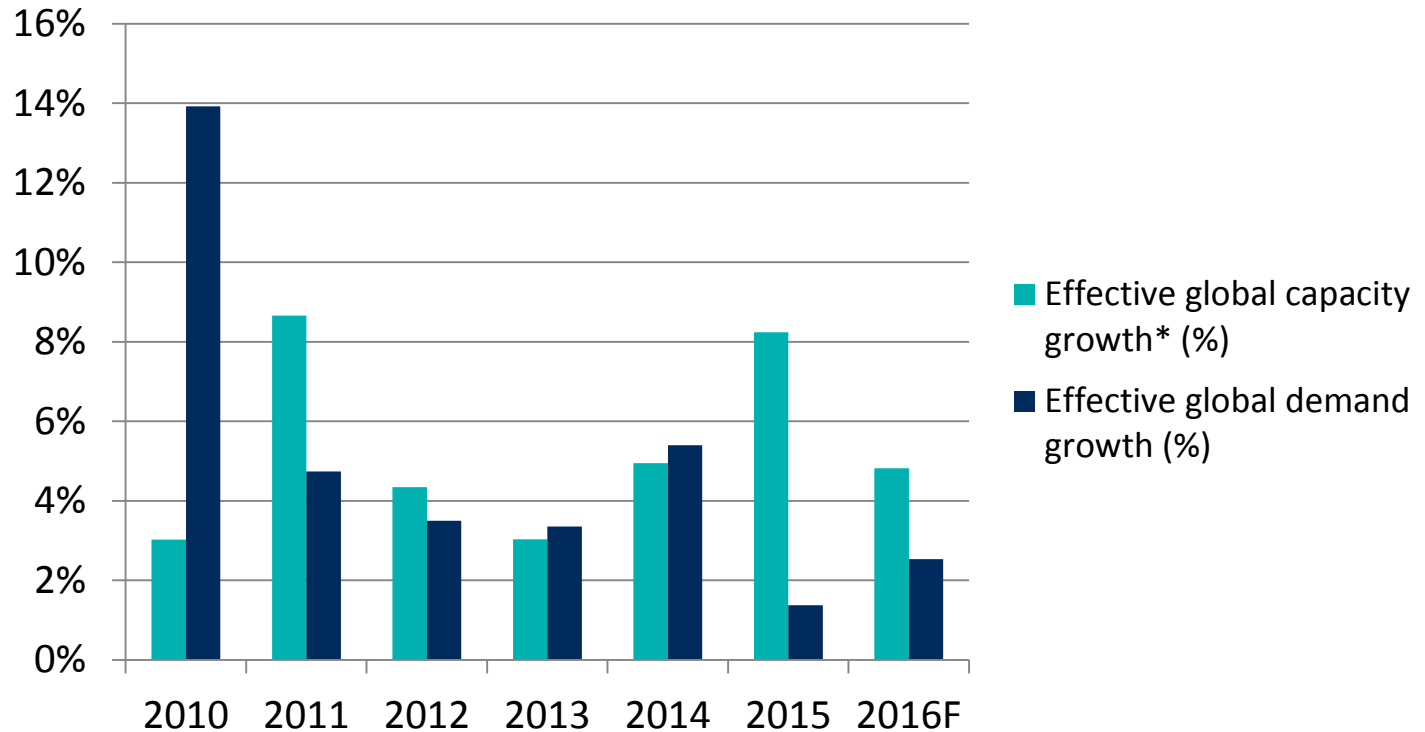


- Global idle fleet close to 1 million TEUs
- Today's idle fleet still accounts for only about 5% of the global fleet of 20 million TEUs.
- In 2009, the idle fleet accounted for 11% of the global fleet.

Source: Drewry Container Insight Weekly

Global supply-demand (im)balance

2015 saw a 7% excess of supply growth over demand growth; Drewry does not forecast a return to balance during 2016



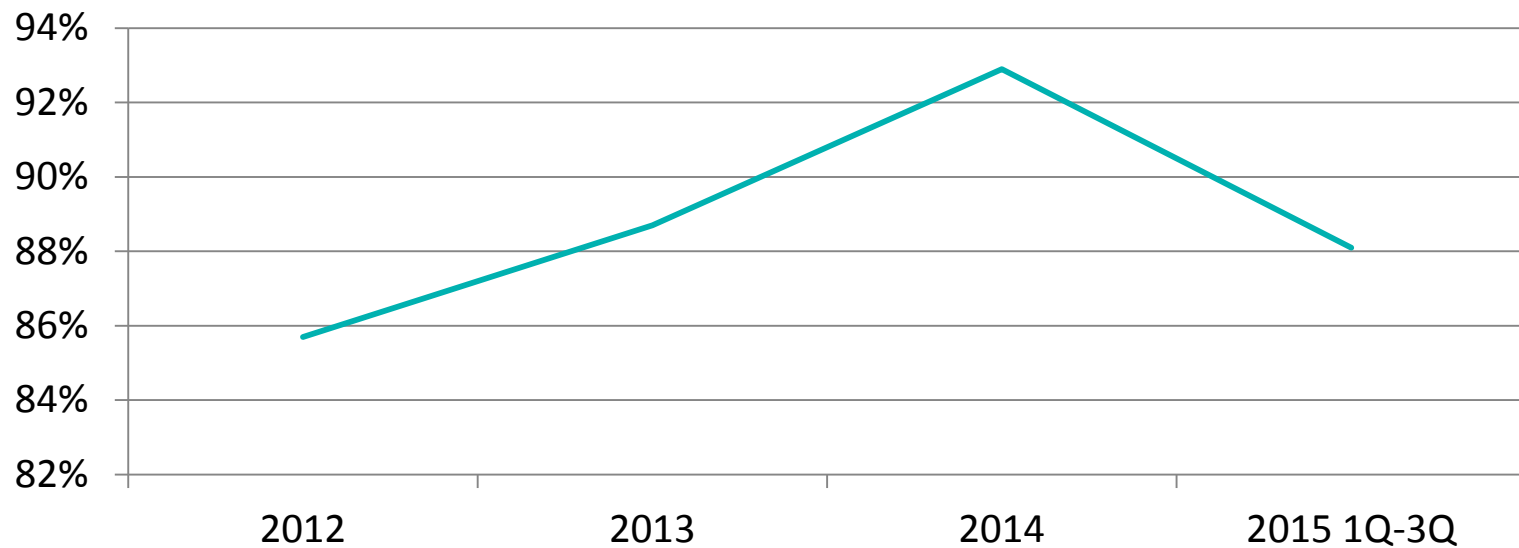
* Not taking into account canceled sailings and idle fleet

Source: Drewry Container Forecaster 4Q 2015

East-west supply-demand balance

Despite canceled sailings and the increased idling of ships, ship load factors declined in 2015

Utilization of ships on east-west headhaul routes

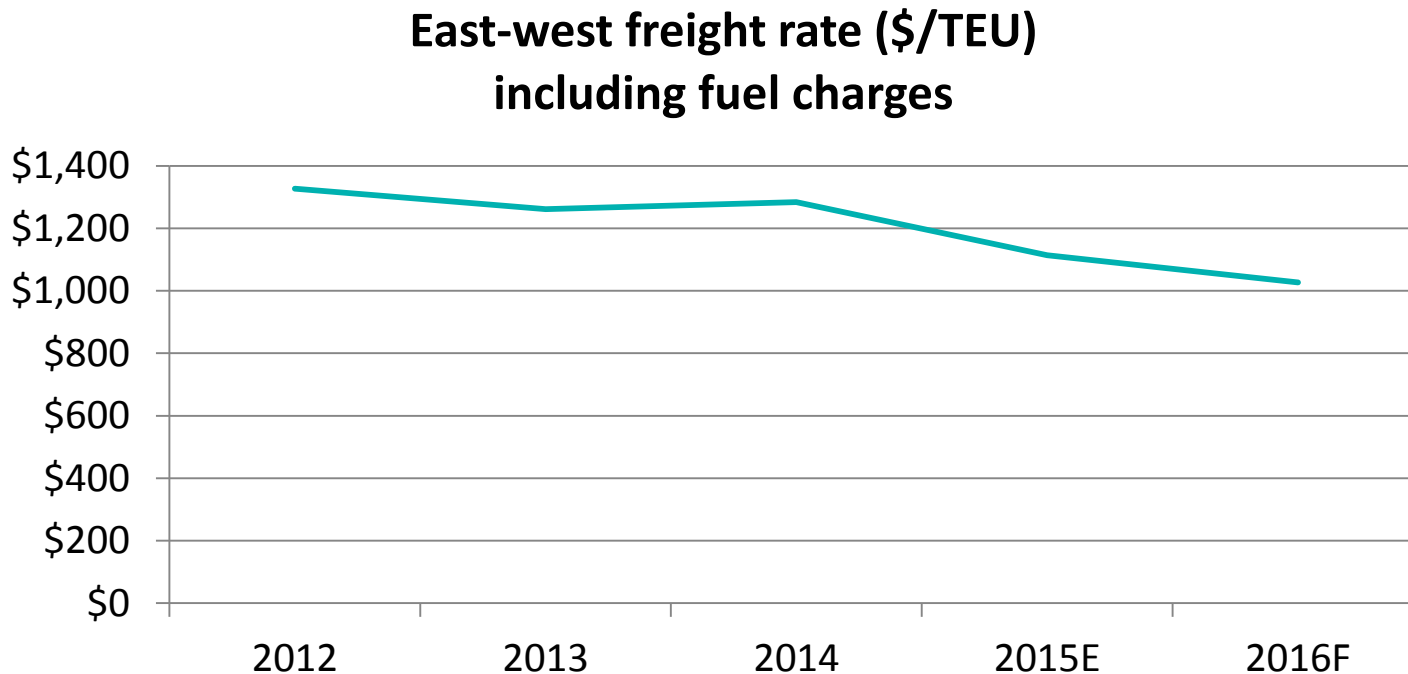


East-west trade routes include Asia-N. Europe, Asia-Med, trans-Pacific and N. Europe-N. America

Source: Drewry Container Forecaster 4Q 2015

Impact on average east-west freight rates

Lower ship load factors and reductions in carrier unit costs will lead to lower average rates in 2016



East-west trade routes include Asia-N. Europe, Asia-Med, trans-Pacific and N. Europe-N. America

Source: Drewry Container Forecaster 4Q 2015

Impact on BCO contract freight rates

We see further downward pressures on BCO port-to-port contract rates in 2016

- Recent trend:
 - Contract freight rates declined 14% between Feb. and Nov. 2015
 - 5% fall between Aug. and Nov.
 - Based on contract freight rate data
 - Provided by Asian, American and European retailers and manufacturers
 - Across Paper & Pulp, Industrial, Chemical and FMCG/retail sectors
 - Shipping annual volumes from 3,000 to 300,000+ TEUs
- Outlook:
 - Further reduction in fuel costs
 - Surplus capacity

What are the business benefits of joining Drewry's Benchmarking Club?

Drewry's Benchmarking Club comprises several key features to support your freight procurement needs:



Container Freight Rate Benchmarking

Allows members to share their contract container freight rates confidentially with Drewry and to compare these with the average, minimum and maximum rates submitted by other members via customised reports.



Drewry Outlook Briefings

Provide members with Drewry's expert analysis on the latest industry trends as well as our forecasts for future freight rate development via regular webinar briefings.



Best Practice Forums

Enables members to share best practice in freight transport procurement through a series of interactive webinars hosted by Drewry consultants.

For more information on Drewry's Benchmarking Club please contact Martin Dixon or Philip Damas on tel: **+44 20 7538 0191** or email: **supplychains@drewry.co.uk**

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