TVK CONSULT

MARKET UPDATE SEAFREIGHT

June 2023

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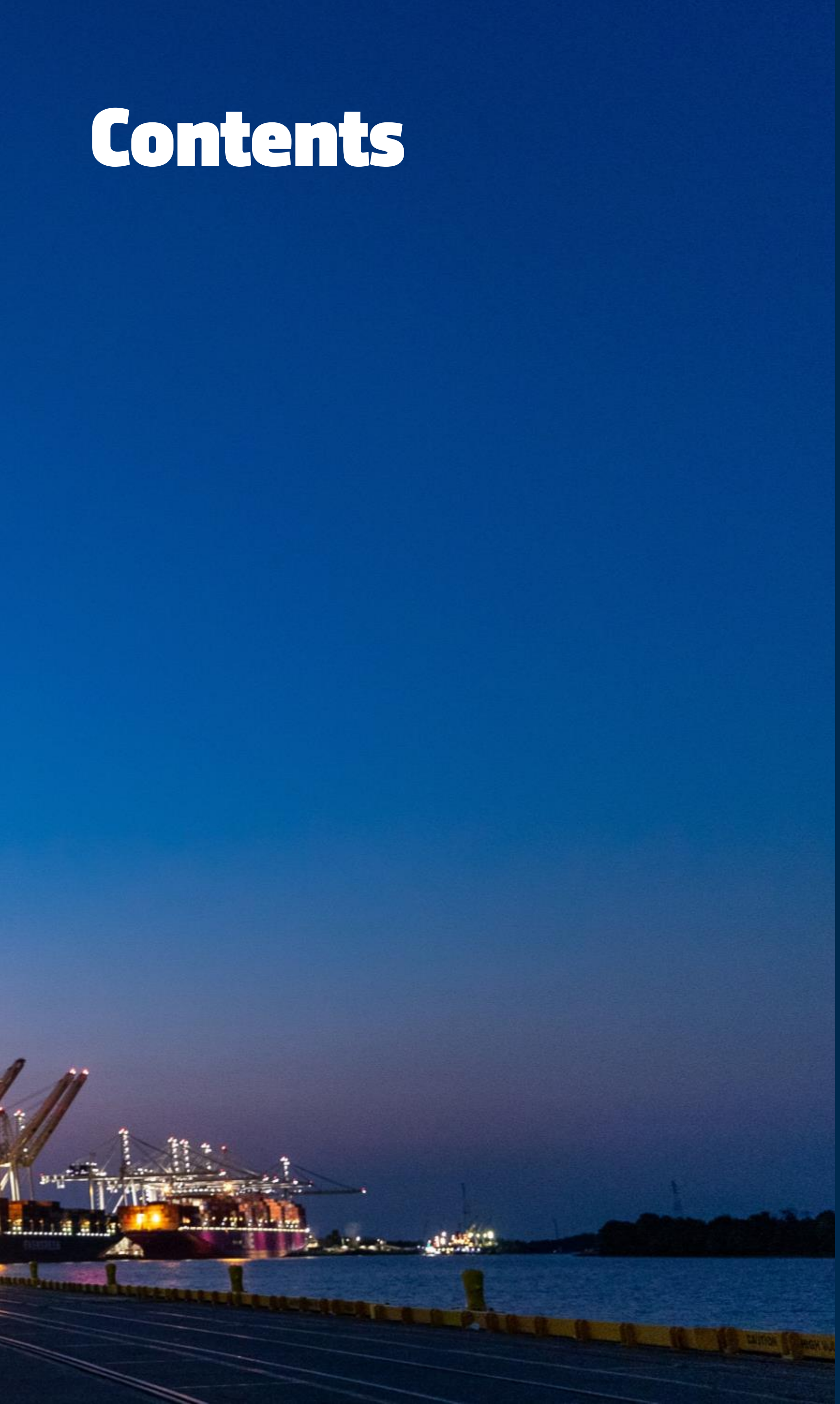
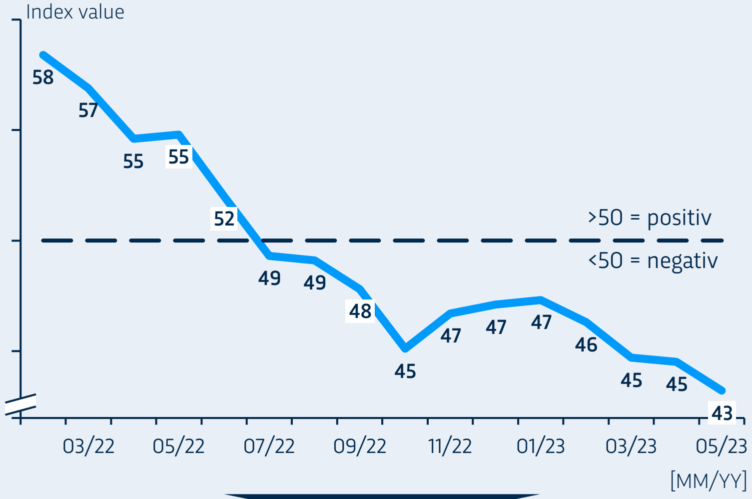


Economic indicators with consistent but moderate negative movement in May

1 Facts & Figures

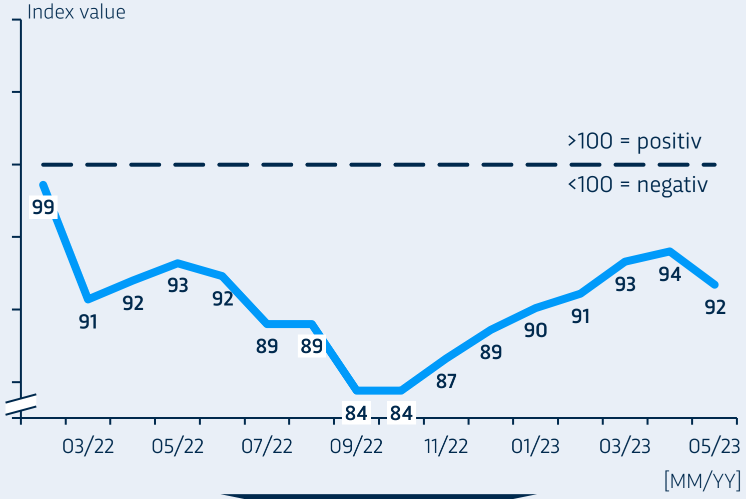
Purchasing Managers' Index

Diffusion index, seasonally adjusted



ifo Business Climate Index

Index values, 2015 = 100, seasonally adjusted



ifo Import Climate

Index values, seasonally adjusted

The Purchasing Managers' Index is an important economic indicator. Purchasing managers are surveyed on the development of business, employment, orders, inventories and prices in the manufacturing industry.

If the value is above 50, the development compared to the previous month is positive and vice versa.

The ifo Business Climate Index is a monthly survey-based leading indicator of economic development. The expected business development of companies is surveyed.

If the value is above 100, the sentiment is positive and vice versa.

The ifo Import Climate is the first leading indicator for forecasting German imports. For the calculation, the expected export developments of the 38 most important German trading partners are surveyed and weighted according to their relative share.

A value >0 implies the expectation of an increase in Germany's imports.

*all indices refer to the Federal Republic of Germany

Sources: Destatis, ifo Institut, BME, TvK Analysis

A recession in the USA does not have to lead to the prevention of peak season

❷ Topic of the month

Bloomberg Analyst expects US recession to occur, but at the same time expects demand for freight volumes to increase as inventories are sold off

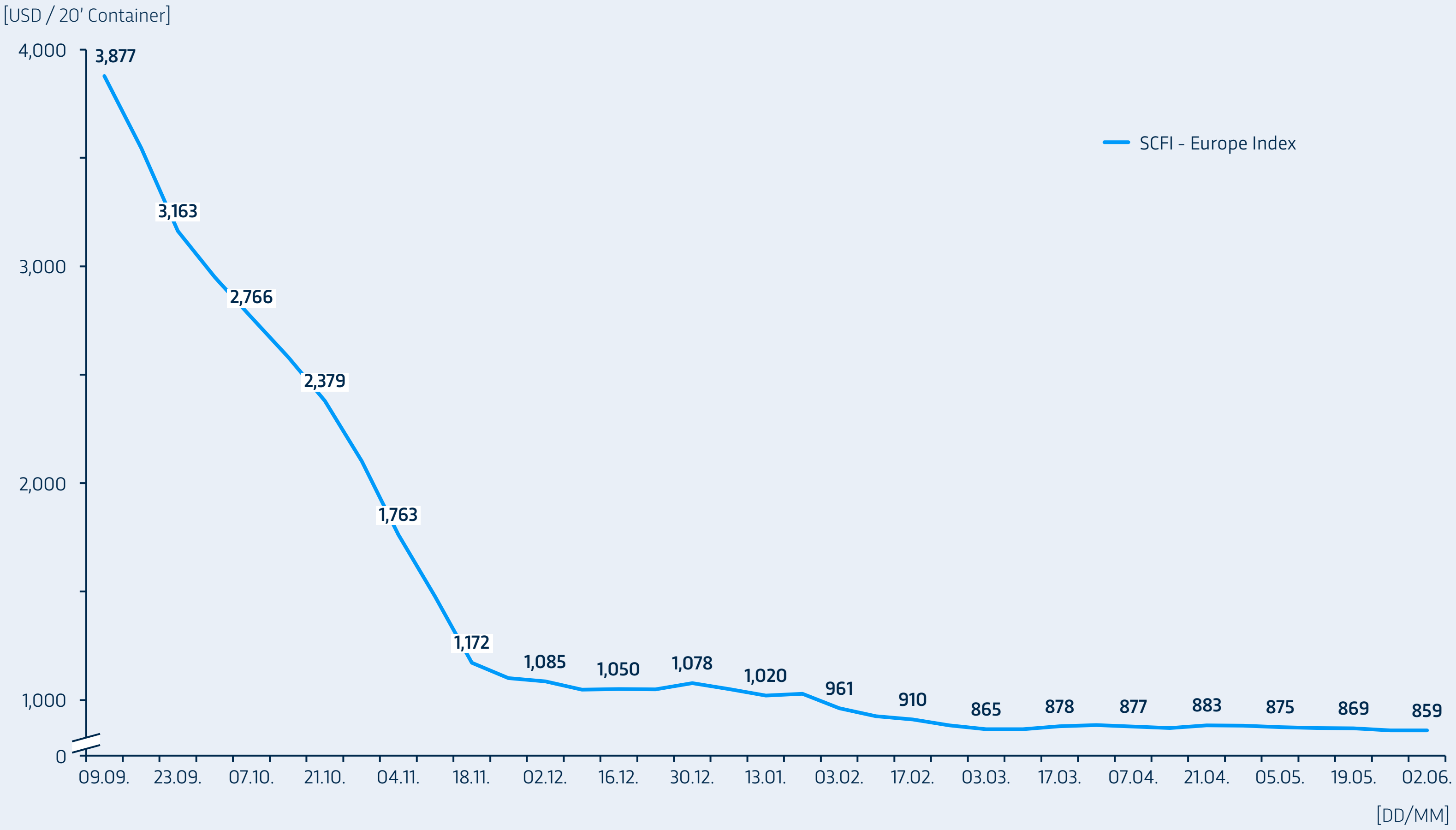
- Normal volume fluctuations in sea freight, e.g. due to the build-up of stocks before the Christmas trade, were disrupted by the pandemic and could soon return
- According to Lee Klaskow, Senior Logistics Analyst at Bloomberg, consensus estimates put the US recession probability at about 65%. However, Klaskow does not expect a market-wide recession to hit everyone within the next 18 months
- The reduction of increased inventories has led to a generally low demand for freight volumes for some time now and thus to a drop in prices on the freight market. The increasing normalisation of these inventories could already have a major effect on shipping volumes in the coming peak season. The announcements in the earnings calls of many companies support this forecast

Sources : Container-News, Drewry, TvK Analysis

The SCFI Europe has been moving sideways for 3 months with low volatility at low level / Inflation data with positive development

3 Recent development of the sea freight rates (1/2)

Average weekly freight rates – Shanghai Container Freight Index (SCFI)



Sources : Eurostat, DSV, TvK Analysis

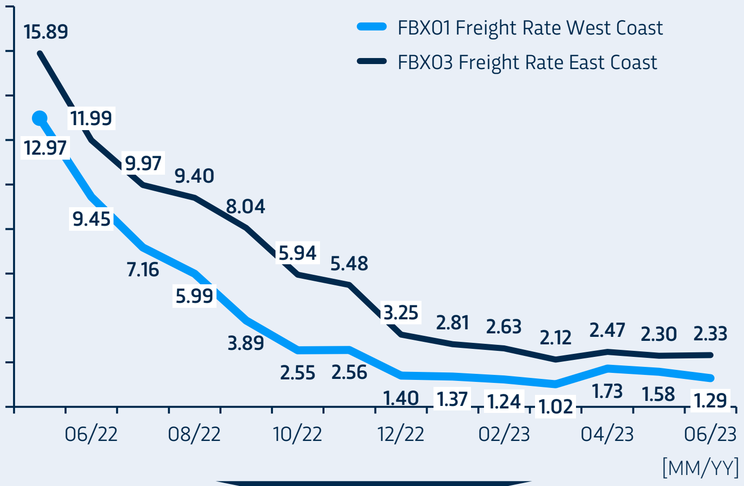
Freight prices still in sideways phase

- The strong correction phase until mid-November 2022 was followed by a first sideways phase in the range of around USD 1,200-1,000. After the Chinese New Year, a further downward movement followed. Since the beginning of March, the SCFI has been moving in a range of USD 880-860
- An uncertain economic outlook and inflationary pressures continue to slow consumer behaviour. This ultimately affects the purchasing behaviour of companies
- Inflation (Harmonised Index of Consumer Prices, HICP) in the euro area has been on a downward trend since the record high in October 2022 (10.6%); in March it was 6.9%, and in April it rose again to 7.0%. Most recently, inflation fell again significantly in May to 6.1%
- Core inflation, which strips out prices that are prone to volatility and is indicative of the costs passed on by businesses to consumers and future developments, also fell to 5.3% in May from 5.6% the previous month

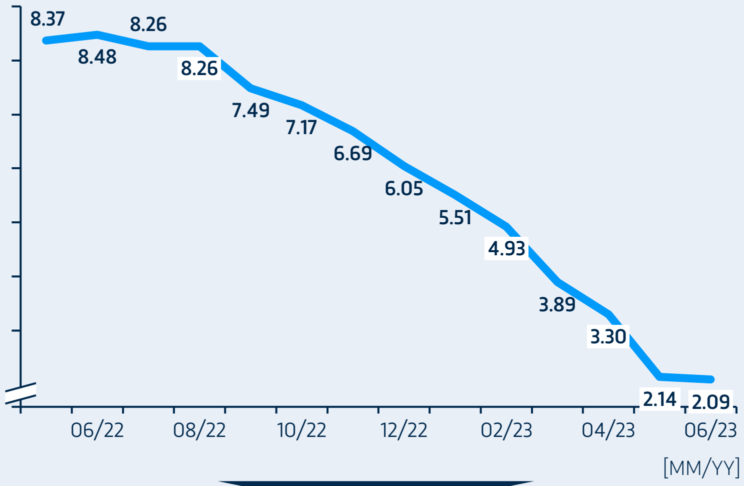
Northern Europe-USA Freight rates stabilize around pre-Covid levels

3 Recent development of the sea freight rates (2/2)

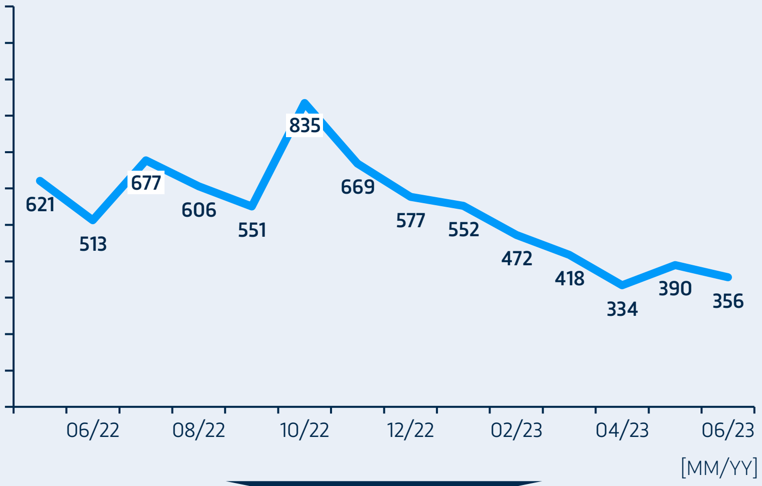
China/East Asia to North America



Northern Europe to East Coast-USA



East Coast-USA to Northern Europe



After a temporary sharp rise in freight prices from China/East Asia to North America in April, freight costs on the two Pacific routes were lower again in May.

The chart has been pointing to a bottoming out since December 2022.

Current freight rates on the route from Northern Europe to the East Coast of the USA are increasingly approaching the pre-Corona level of around USD 2000.

The dynamic downward movement of freight rates since December 2022 has been broken and the pace of price decline has slowed.

On the Atlantic route from the east coast of the USA to northern Europe, freight prices recorded an interim increase in May - after several months of cheapening. The first indication for June points to a levelling out of this interim increase.

Sources: Freightos, TvK Analysis

Reduced empty runs with stable sea freight rates in May

4 Vessel capacities & shipping routes

After many ad-hoc blank sailings in April, there were fewer empty sailings in May

In April there was an increased volume of blank sailings, which served to increase spot rates. In May, on the other hand, there were far fewer blank sailings. This is due, among other things, to changes in services. For example, many shipping companies have changed weekly services to regular fortnightly services.

Market experts suspect that the regular service changes will further support the bottoming out of freight prices

The empty runs in May in figures:

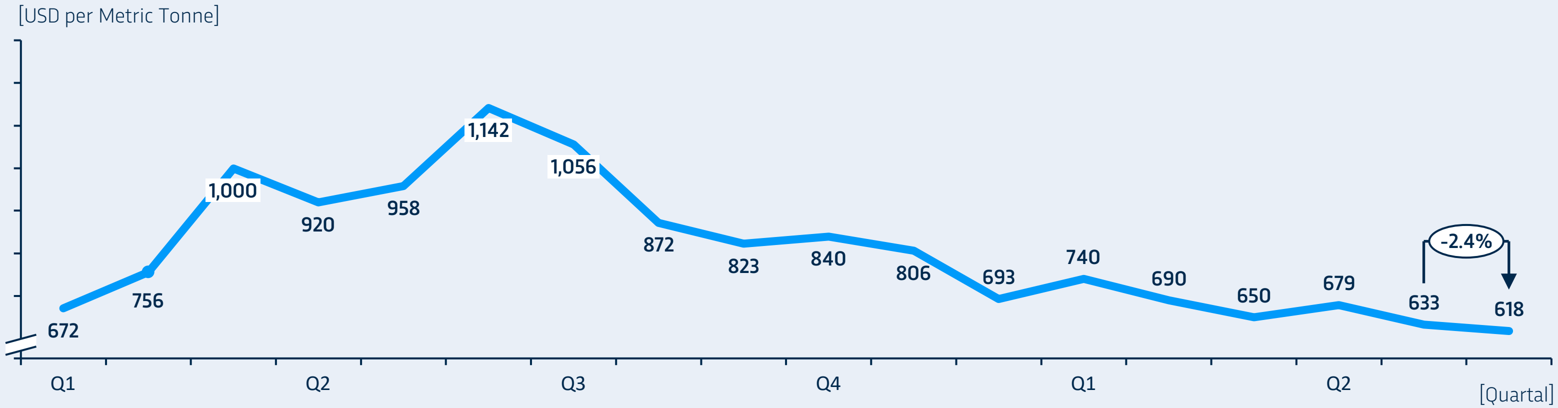
32 Blank Sailings ≙ **286k TEU** Capacity

Sources: Seatrade Maritime News, CGTN, TvK Analysis

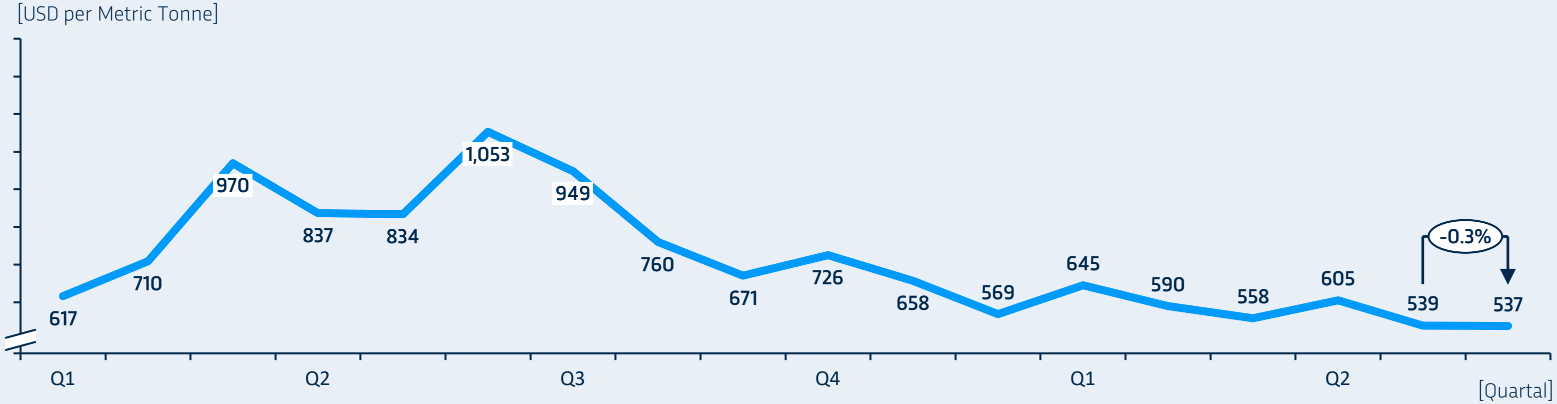
Recessionary economic trends continue to lead to falling bunker prices

5 Bunker prices

Global Average Bunker Price (VLSFO)



Global 4 Ports* Average Bunker Price (VLSFO)



*Linear average of the ports of Singapore, Rotterdam, Fujairah and Houston (together representing about 25% of global bunker volume).

Sources: Ship & Bunker, TvK Analysis

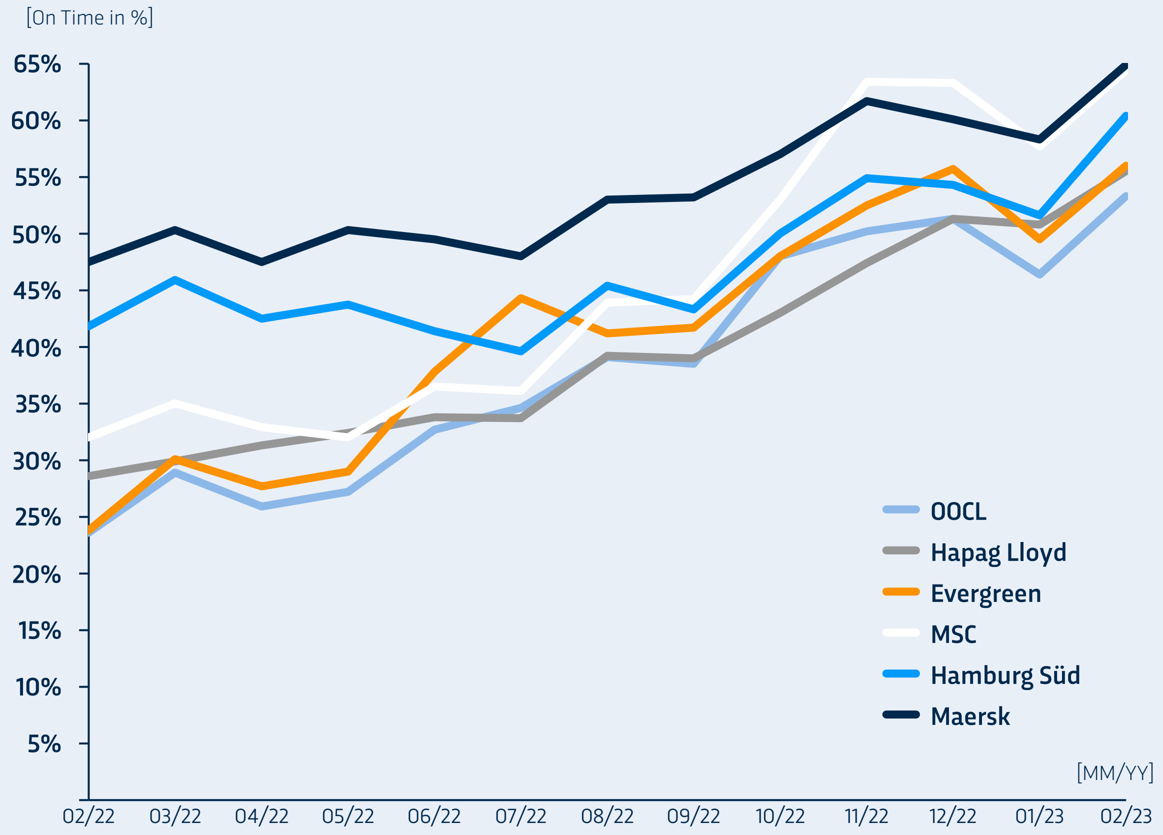
Bunker prices continue to fall

- Although the downward movement is visibly losing pace, the price decline due to recessionary economic trends is continuing. At the beginning of June, the Global Average Bunker Price stood at USD 618 and the Global 4 Ports Average Bunker Price at USD 537.
- After global bunker prices almost doubled as a result of the massive oil price increases from January to June 2022, the current global bunker price is again below the level of January 2022.
- After marking the high in June 2022 (USD 1,142), a significant correction followed, the momentum of which has weakened since September 2022, but has continued unbroken overarchingly. Meanwhile, bunker costs have almost halved from the high in June 2022.

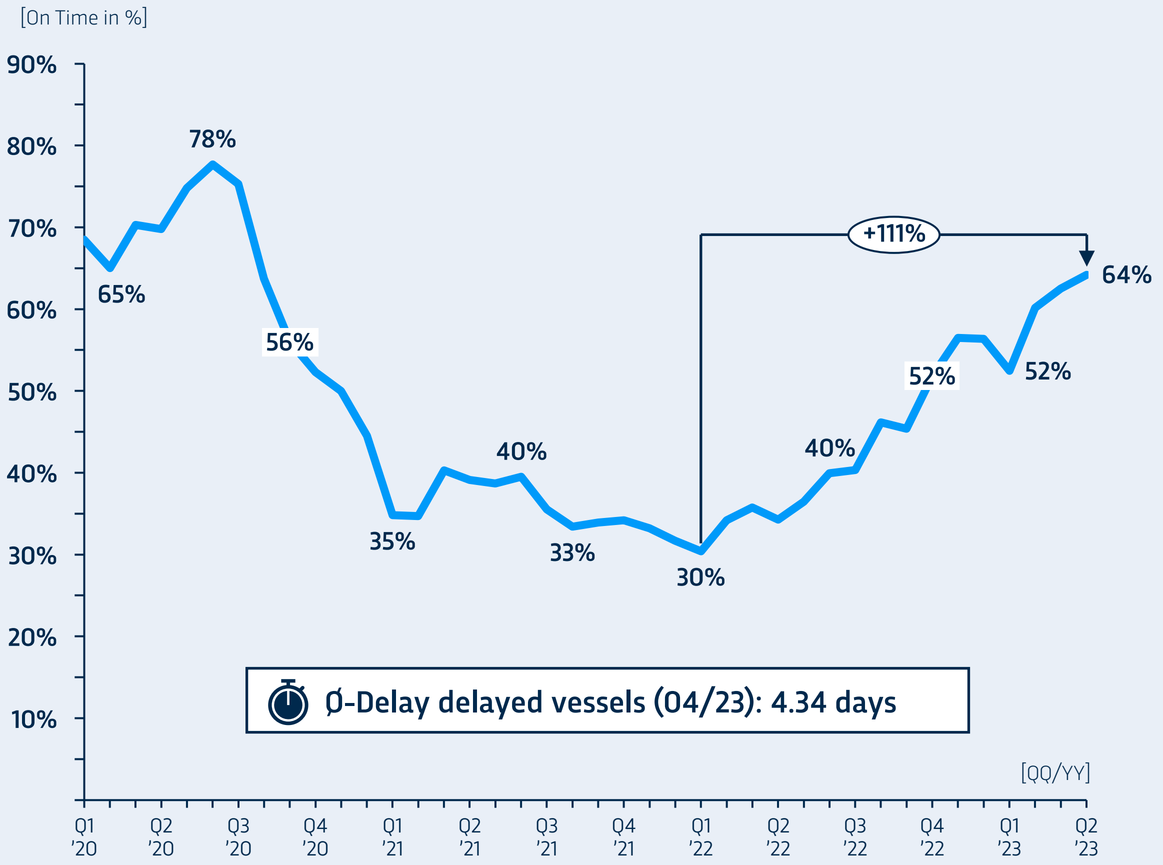
Average adherence to deadlines approaching pre-Covid levels. Punctuality up 111% since low point

6 Schedule reliability

Average adherence to schedules by major shipping companies



Average adherence to deadlines of large container ships globally



Sources: Sea-Intelligence, Statista, TvK Analysis

Only 4% of global container capacity handled automatically

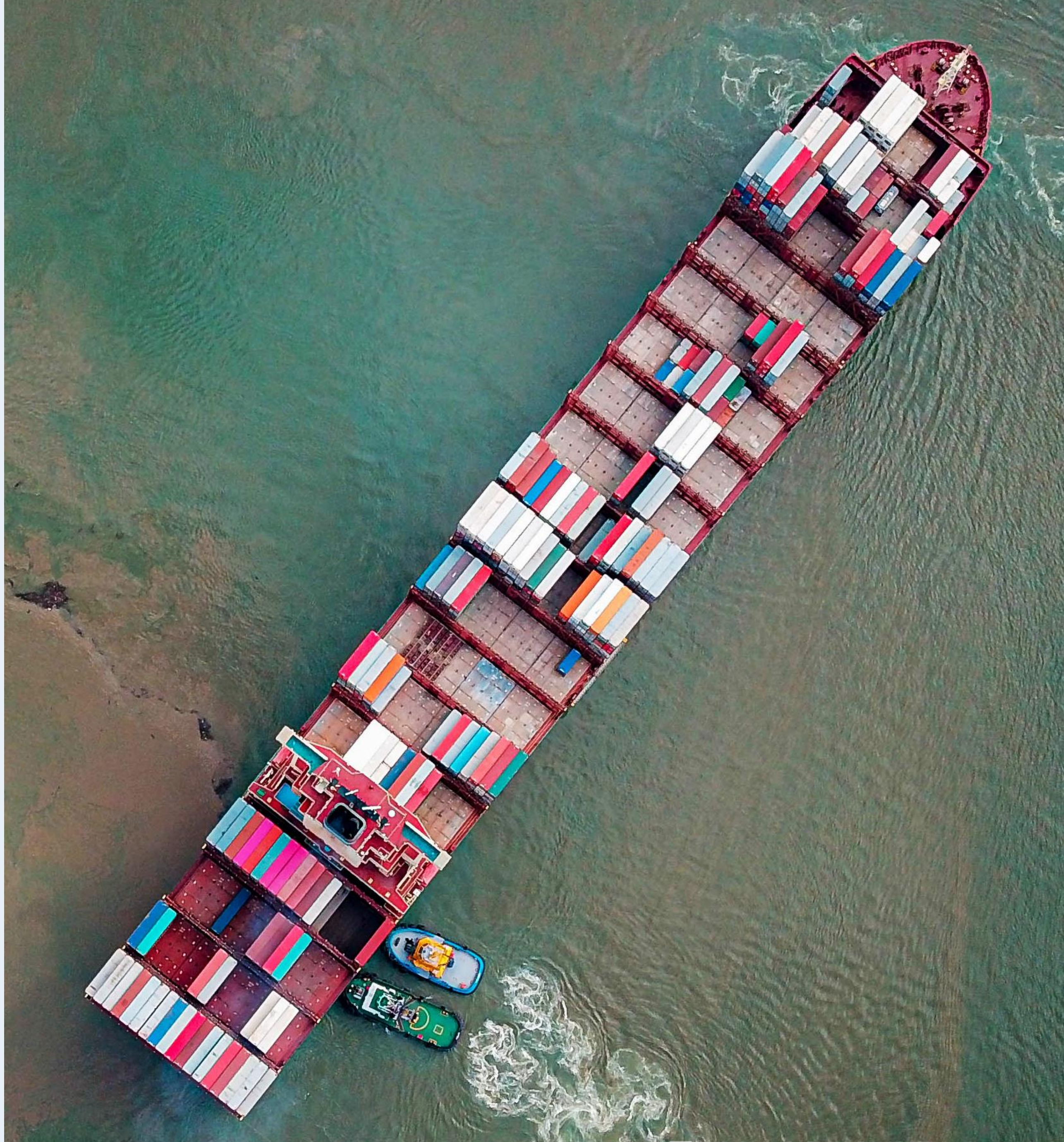
7 Newsroom

From the completely manual system to the automated port terminal

- Tomi Tuulkari, Head of Product Management at Kalmar, sees terminal automation on the rise, although fully manual systems still clearly predominate
- Currently, only around 4% of container capacity worldwide is handled by semi- or fully-automated systems. Reasons for sticking to manual systems include real constraints (terminal size, existing IT systems, ...) discourage the introduction of automation in addition to the deterrent of presumed high requirements for personnel

Yang Ming orders five LNG-fuelled container ships from HHI

- Yang Ming Maritime Transport has signed a contract with Hyundai Heavy Industries (HHI) for the delivery of five 15,000 TEU container ships with LNG dual-fuel propulsion. Delivery is scheduled for 2026
- The order is made in accordance with the latest environmental regulations and is a building block of Yang Ming's zero-emissions target, which the company aims to achieve by 2050
- The current Yang Ming fleet consists of 94 vessels with a total capacity of 715,000 TEU and will be expanded by 77,500 TEU with the order



Sources: Seatrade Maritime, Handelsblatt, Container-News, TvK Analysis

Taking advantage of the current: Secure favourable freight rates for the long term

8 TvK Outlook

TvK Consult currently recommends hedging with long-term freight contracts. The negative economic sentiment, in combination with the struggle for market share among logistics companies, is leading to advantageous long term conditions

- Current freight rates are at the pre-Corona level and have been moving largely sideways for weeks. The savings potential from further declining freight rates is low - at the same time, the risk of countermovements to the upside is increased
- Reasons for rising freight prices in the medium term could be the end of "destocking", i.e. the reduction of increased inventories, and a general recovery of the economy - accompanied by falling inflation rates and key interest rates. The return to normality in China as part of the abandonment of the previously strict zero-covid policy also acts as a potential driver
- A direct comparison of the risk/reward ratio of a freight solution with e.g. monthly prices versus long-term contracts at current freight prices paints a clear picture: short-term contracts could temporarily benefit from slightly further declining freight rates in the blue sky scenario. However, the probability of occurrence is low in view of the pessimistic economic development that has been priced in. A long-term hedge at a pre-Corona level, on the other hand, offers protection against stronger increases with a higher probability of rising freight prices in the medium term. The current sideways trend in freight prices supports this forecast

Source: TvK Analysis

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