



# TRANSPORT TRACKERS

INDEPENDENT TRANSPORT RESEARCH

## The Rebound in Container Vessel Demand and Charters

25 February 2010

The purpose of this note is not to walk through the entire market but to anecdotally test and summarize comments from a range of ship owners, operators and brokers from discussions in recent weeks. We noted in December and January the recovery and frenzy for freight out of China pre-Chinese New Year (CNY), also representing a “short squeeze” in the physical market from insufficient ships to cover a spike in outbound China/Asia volumes. In other client notes, we also noted the parallel problems of insufficient equipment (or rather equipment positioning dislocations) to pair up with the insufficient vessel slots, and many other similar stories. Post-CNY sentiment remains strong (despite some weak Euro and US data this week...) and reports of cargo rolling are numerous. Maersk, a company which was fully exposed to raising the blood pressure of many a shipper out of China pre-CNY, went so far in early February as to make an apology (in a vein a little similar to a Goldman Sachs letter to clients Jan-10 clarifying that some of its own trades could sometimes conflict with client orders related to recommendations/trading ideas made<sup>1</sup>...). ... That charters now should be firming a little is a natural progression, which is welcome, but which must be monitored as a test of underlying market strength where there still exists a healthy over-supply of vessels. This will be a good test of industry discipline.

### A few examples:

- Alphaliner and others have noted vessels coming out of lay-up, with the 10% of fleet in lay-up mark breached
- Our anecdotal sweep shows a mini-flood of vessels coming out of lay-up, with one broker suggesting most could be out of lay-up in short order. This will pair-up with new service and loop start-ups. The risk is too much too soon, of course
- Large owner-operators such as Maersk have been aggressive in chasing early charter deals. The idea of course was to lock in lower charter levels over longer time periods
- Issue of charter rate and longer period charter is key to start-ups like TCC. Brokers appear to be urging longer periods
- Mid-size container vessels are tougher to locate, with 4500TEU types rising to \$9,000/day and owners trying for tough Year 2 options at \$25,000/day levels. We think it will be easier to agree to the option initially. The exercise will be tougher
- Vessel order cancelations are moving well beyond the CMA type cancelation for Korean yards, with others now joining

**CONCLUSION:** We are happy to see containers getting some relief from cancelations catching up a little to bulk cancelations, while the container orderbook shrinks relative to fleet size toward 35% of fleet (4.6m TEU over 13.0m TEU), leaving the bulk orderbook (about 60% of fleet) a bigger headache (adjusted for demand growth) for future owner-operator profitability. This has helped container owner-operators and their share prices make some well deserved gains relative to bulk. But a rush to bring too much tonnage back to market and some memory loss on excess of vessels to demand ex the short squeeze effect could come back to cause pain relapses very quickly.

<sup>1</sup> <http://dealbook.blogs.nytimes.com/2010/01/12/goldman-executive-discloses-conflicts-policy> ... The admissions are in fact representations of problems that often occur in the course of normal business when a company engages in multiple and potentially conflicting activities. A container operator may service customers directly and/or through a freight forwarder. The problem has been who gets what service at what rate, and is the playing field level. A forwarder acts on behalf of customers and typically is more efficient and objective at servicing customers than a shipping line that often faces intra- and extra-organizational issues. Long story short, our recommendation has long been that a streamlining and overhaul of customer service procedures is needed. For large banks, the issues are similar, as opposed to smaller agency brokers who focus on client service more exclusively. Large banks tend to trade their own book, market primary and secondary transactions on behalf of corporates and others, while servicing both institutional and private clients at the same time (while “the client” can also include themselves). The problems are, of course, more complex than this simple summary.

We have sourced stories from market reports and every effort is made to reflect news items fairly and accurately. However we can make no warranties of any kind as to the contents of reports and we shall not be held liable for damages. Our views represent our current opinions with respect to available data and information. **Transport Trackers** © is a subscription-based service for paid clients, therefore re-transmission of our reports is not permitted. For more information please contact us at [sales@transport-trackers.com](mailto:sales@transport-trackers.com)