



# TRANSPORT TRACKERS

INDEPENDENT TRANSPORT RESEARCH

## Containers – Reaching the Other Side of the January Short Squeeze

31 May 2010

We referred to Pandemonium in container freight out of China in January and the impact on demand for ships. We were even seen as too positive by some on the demand recovery, which was a bit of a first for us... Alphaliner has documented improvement (reduction) in the container ship over-supply situation. Our view was that ships would flow back to the market rapidly. Now this has happened, the market will need to shift from excitement at rebound to caution towards a return of too many ships, as some also note. But much of press and some market participants could continue too positive. Market participant reversals will not be advertised. We find it difficult to expect Europe to magically keep up a strong demand in the face of a massive need for austerity following a long period of Debt Gone Wild (the US too, but perhaps differently). Shorter term, the US does appear to have a little more demand to build on, on the other hand.

- **Idle fleet down big time (1+m TEU):** According to Alphaliner, the idle boxship fleet has fallen to 263 ships or 549,000 TEU of capacity, a 17-month low, after 75 vessels or another 358,000 TEU of capacity has been re-activated in last few weeks. The reduction of almost 1m TEU of idle tonnage, since the peak of 1.52m TEU recorded in December 2009, was largely driven by the shortages in the 4,000+ TEU size ships, given also that many new services (with 4,000+TEU) were recently launched for summer peak season
- **New deliveries (1+m TEU):** In addition to re-activation of idle ships, NB deliveries over the past 12 months also exceeded the 1m mark to 1.12m TEU, with 27 ships with a total 125,000 TEU capacity have been delivered so far in May alone. An additional aggregate capacity of 270,000 TEU from 30 NBs not yet financed is also sitting on sidelines once/if owners can resolve financing issues
- **2010 fleet growth 9-10% before adjustments:** Clarkson's available FCC fleet is about 13.2m TEU currently, and Alphaliner still has penciled in 9.5% fleet growth to 14.3m TEU end-10 from 13.06m end-09, with slow steaming expected to take out a few percent. Looking at fixtures, reported chartering rates for 4,250 TEU ships were recently over \$21,000/day. Separately, according to latest CCFI figures, freight rates from China to USWC were +6.1% MoM, while rates to Europe, fell 1.4% MoM. And the How Robinson Index (charters) is making weekly highs not seen for many moons. Last week the index was +3.7%, though from 1-year ago the index is still -61%
- **What next:** The opportunistic window that gave us a period of recovery in advance of expectations is closing, in our view. A lot of good news is in the market, even if it will be repeated more in the press. We need an acceleration of good news to break out of trading ranges, and yet new data has actually been mixed or worse than consensus would have expected in the last few weeks. So, while we suspect the supply side for containers is looking a lot better – as expected – and that the precipice has been pulled back from for now, and while we think the supply picture is better than bulk shipping should China slow “a little” too much, we also think we have reached a level of full dissemination of good industry news. And we thus think excess equity performance for containers in general, mostly seen up to Apr 10, is generally over. This is not to say we can't find value and trading opportunities at times either. We have had so much volatility come back that some shares in last few weeks have traded -30% ... Some trading and investing opportunities have been apparent, but we need to keep shares as close as our enemies...

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