



TRANSPORT TRACKERS

INDEPENDENT TRANSPORT RESEARCH

Containers Gone Wild

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We spent a good part of the last three weeks looking at the renewed zeal for container shipping. Look at the positive news blitz, mostly in the press, in the last two weeks on higher container rates and container box shortages used as the support for rates holding firm. We have been asking people in the industry to moderate their views and do a reality check of drivers. We need to go no further than the MSCI US Retailing Index which is down 18.3% from 26 April 2010. Main issues:

- **Unquestionably Supply is better.** Ships have come back and forward overhang is now relatively lower. The orderbook is some 31% of fleet vs 45% about one year ago...This now represents about 5 years of gross demand, down from about 8 a year ago...And how can it not be when some 70% of the Asia-Europe is said to be doing slow steaming or extra slow steaming?
- **Demand is better.** We took a long time to get here. We flagged better than expected momentum Dec/Jan, which lasted until after Chinese New Year. But, initially, we still had seen a little weak data (for us) in Transpacific mixed in, though we agree May-July will be stronger before falling off, potentially, again after September. Europe has been stronger, and EUR weakness/Europe craziness impact not seen yet
- **Slow Steaming impact a mess though expedient.** Customers have been angry with the corner they've been pushed into. And slow steaming has wrecked havoc with container box availability as a result. We have had countless comments/queries on how some lines could not have seen this impact earlier. Vessels may have speeded up marginally but the liners fell into a good gimmick (lower fuel costs and lower capacity) at the expense of customer
- **Impact of no box.** As a result, customers have been put on a shorter leash with no box choices. And rate upward momentum is firmer as a result. But customers don't feel necessarily grateful if they get good equipment allocation. We think they have gotten the wrong end of the bargain
- **Industry practices and underlying strength.** Lines initially begged for higher rates as a result of their misinformed capex decisions of 2006-08, in addition to the drop off in demand and bailouts. Now this is getting forgotten by some and the customer is getting the bill. In January we understood the price hikes as mostly necessary, though poorly implemented, a result of a short squeeze on ships. But now the process has been codified and extended during a delicate period for retailers. Demand for volume, in the US at very least, is driven by deep discounting by retailers. We have several accounts of inventory build commitments by retailers, where the margin outcome is quite uncertain, although demand has been a little better overall as well. The point is the liner customer may be sandwiched more than in past between pressure from consumer for cheaper goods and a price rise from liners...
- **Populist stories rule the day.** We thought main press container updates two weeks ago were already an example not so much of misinformation but of misdirection. The impression is first that demand is back, though the analysis of demand drivers was almost non-existent (ie, what's demand and what's inventories?). Recent share buying now has looked like the second buying wave this year...
- **Whither demand and the sector.** A third wave of share buying in 2010 would have to come from actual underlying consumer demand going beyond a core +15% Asia to US growth rate for 2010, in our view. We think the market is around +15% TEU volumes, and, to get this, we need three months of 20% growth for Jun-Aug to get to 15% Asia to US growth in our monthly model.With our analyst hat on we can't support further upward trading just yet. The industry has learned little on how to improve, with current reduced capacity and box shortage a convenient short-term solution