



Distant thunder

Maritime sector business environment

25th April, 2024

Maritime Advisors

ESPO Conference 2024

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Maritime Advisors

Rigorous analysis – Practical advice



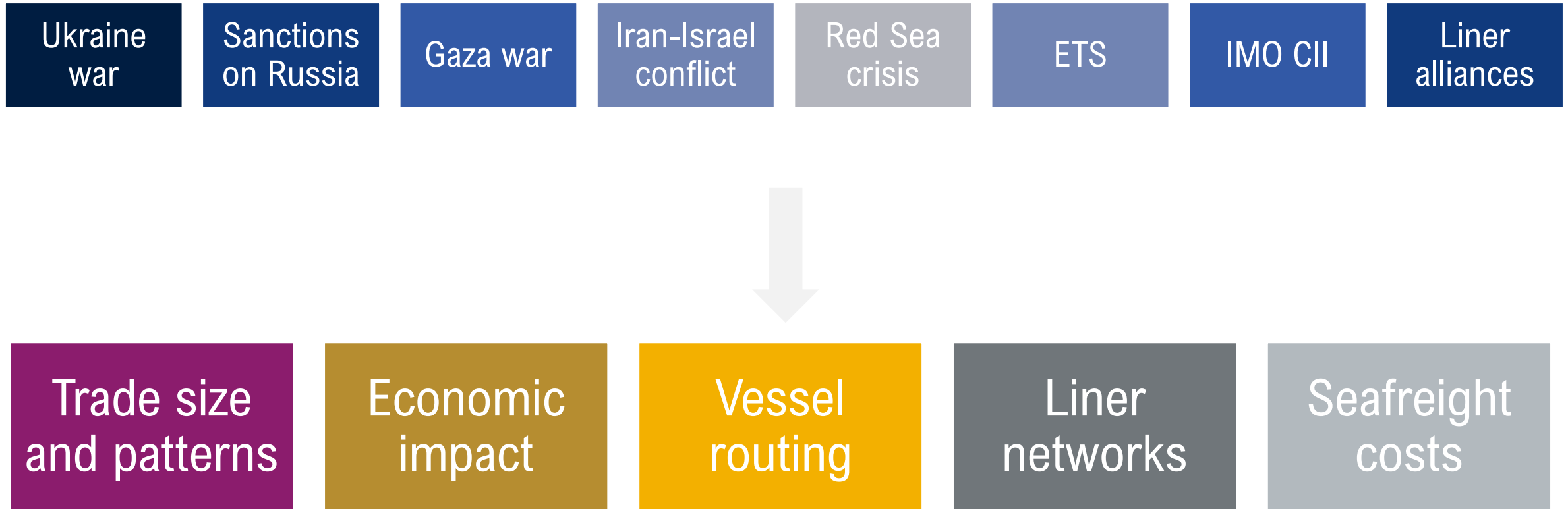
1. Introduction

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Wars, bottlenecks and regulation - disruptors

Multiple conflicts and regulatory changes are affecting seaborne trade, vessel itineraries and costs. A shake-up in liner alliances will change networks in 2025.





2. Macroeconomics

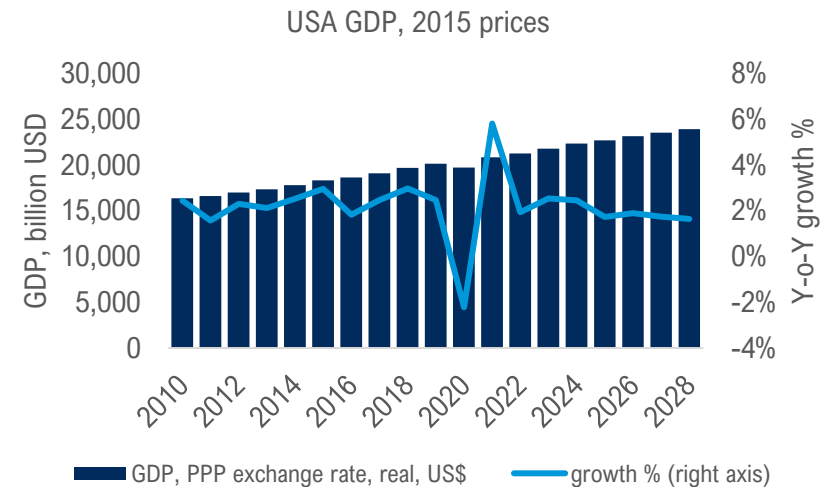
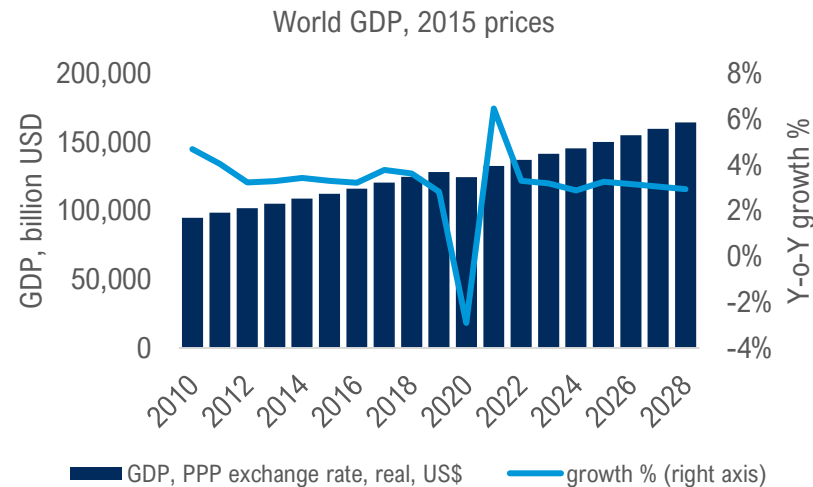
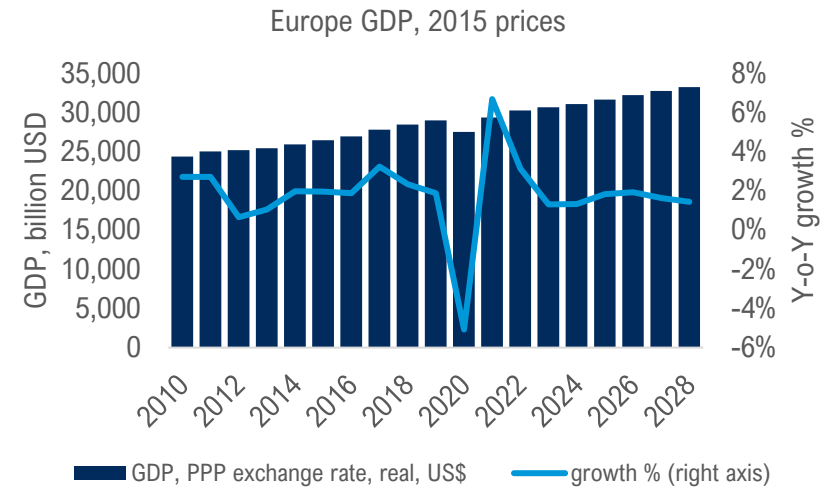
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- World GDP growth of 3%
- China's GDP growth softening
- US growth of 2.4% in 2024, softening from 2025
- European growth strengthening slightly

Economic growth forecast

World GDP growth of 3%. China slowing. European growth to pick up.



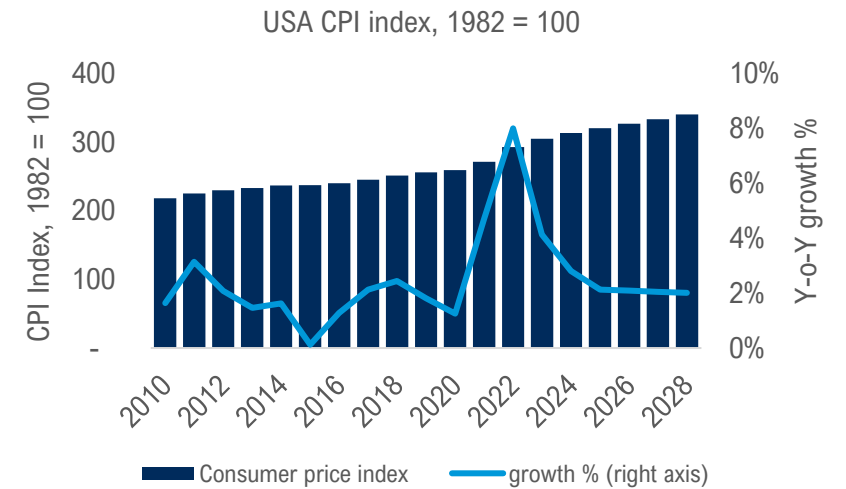
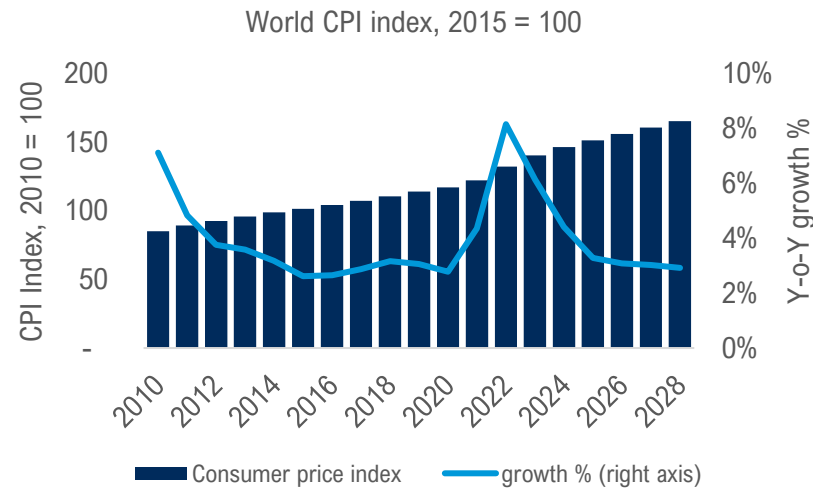
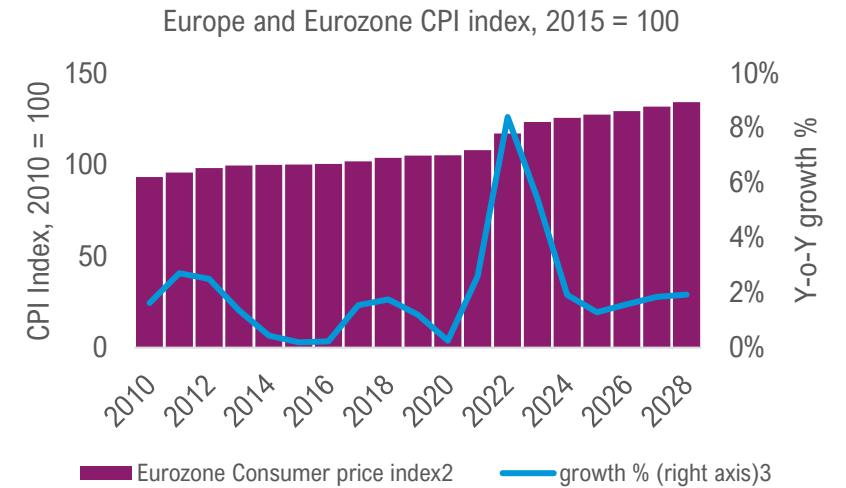
Source: Oxford Economics, data from March 2024

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- Global inflation easing
- Slightly higher than pre-pandemic levels

Inflation – Consumer Price Index

Inflation moderating everywhere

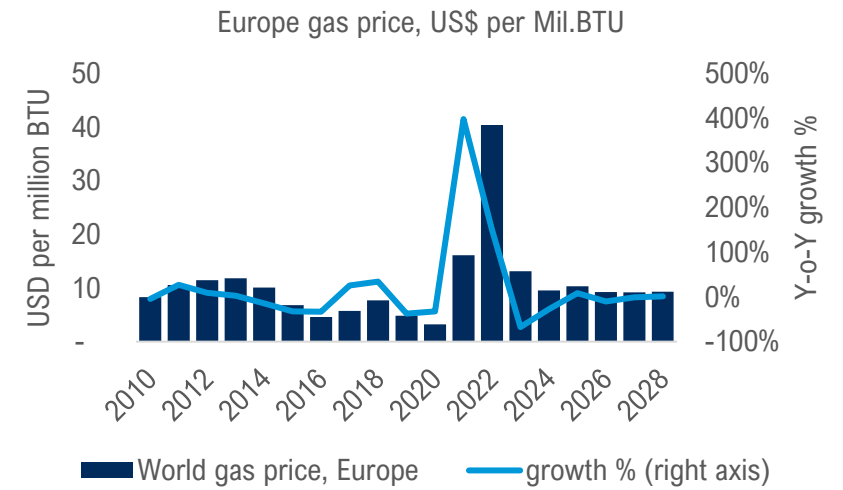
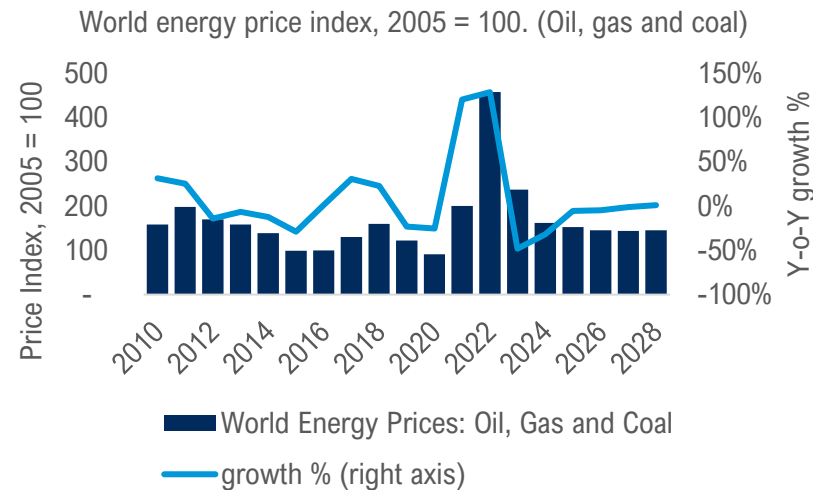
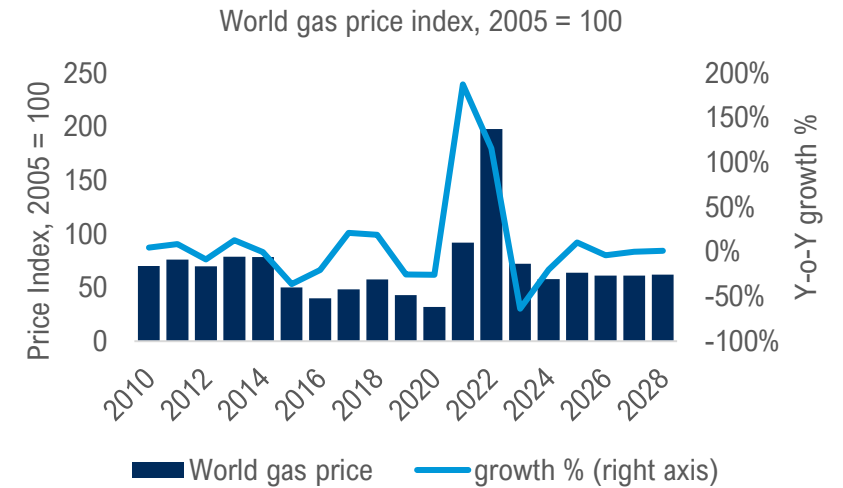
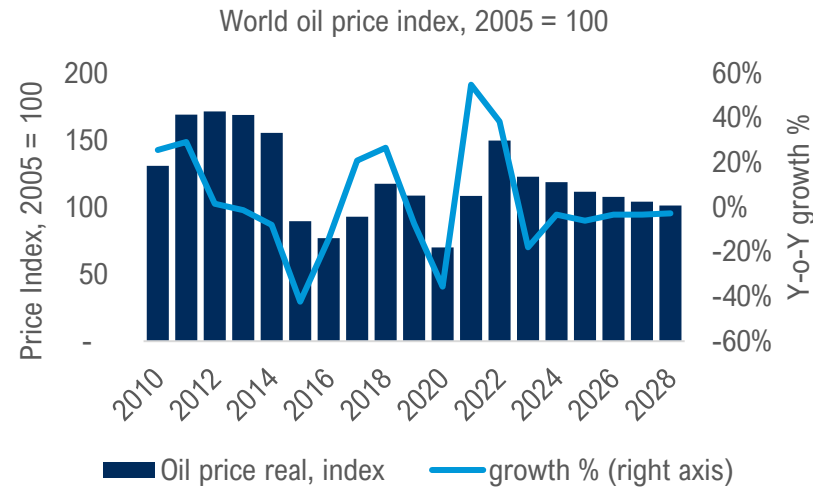


Source: Oxford Economics

- Spike in energy prices seen in 2021 now over
- Sharp fall in gas price in 2023 and 2024
- Oil price at US\$85/bl on 15/4; was US\$121 in June 2022
- This forecast was made before Iran's attack on Israel
- Any disruption to Straits of Hormuz will drive oil and gas prices up sharply

Energy prices

Energy prices projected to normalise (unless Straits of Hormuz are affected)

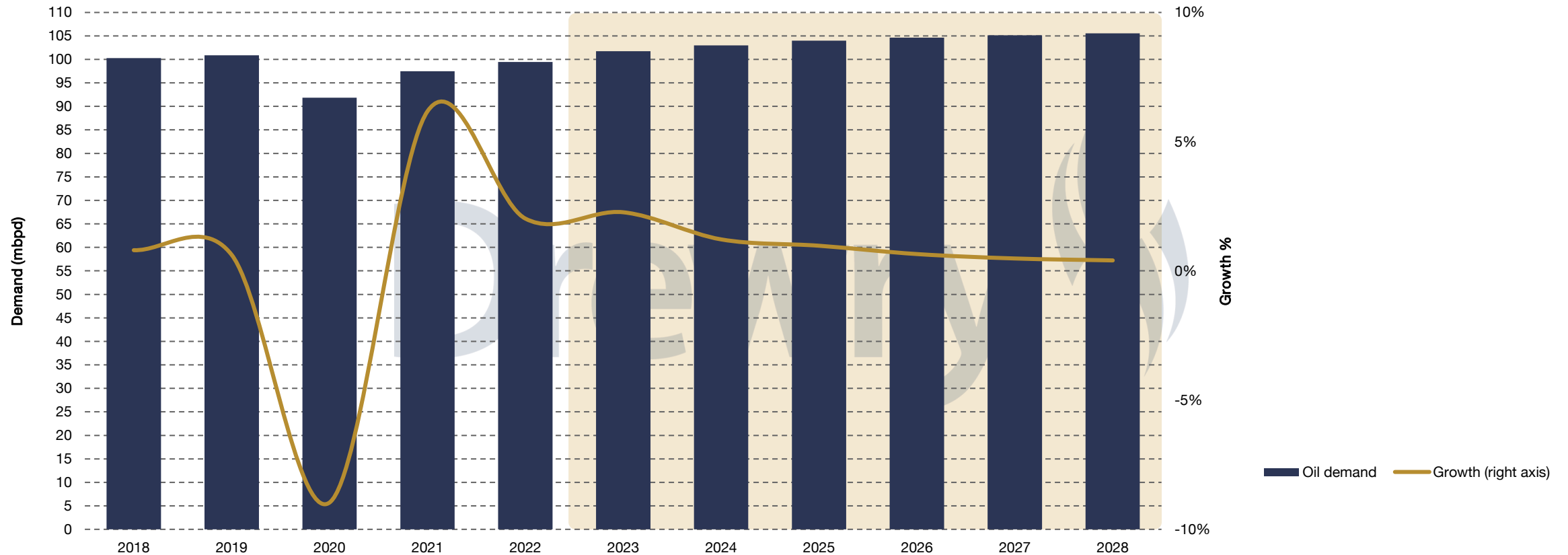


Source: Oxford Economics

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Crude oil demand

After a sharp contraction during the pandemic, crude oil demand surpassed 2019 level in 2023. Mid-term growth will be 1% p.a.





3. European seaborne trade

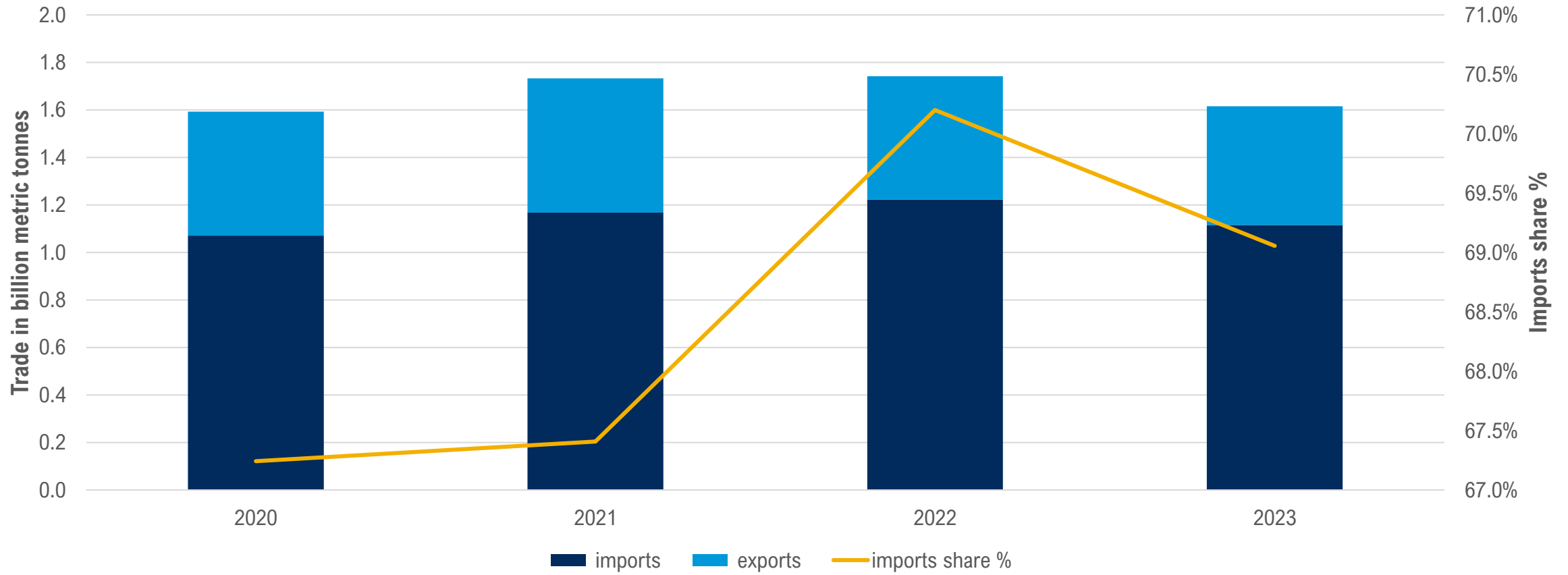
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EU 27 seaborne trade

EU seaborne trade contracted in 2023 after the post-COVID recovery

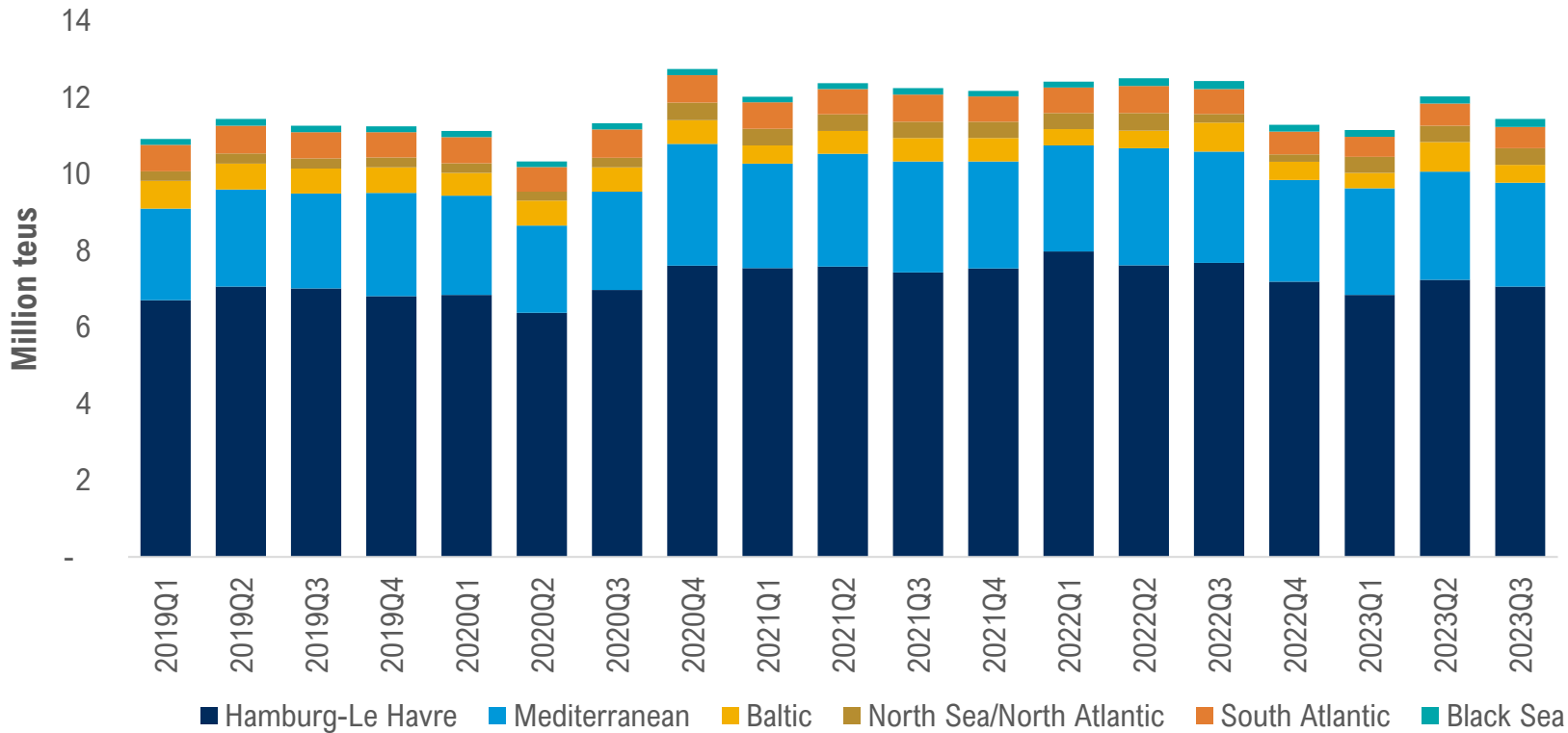
EU 27 trade



Container gateway full and empty

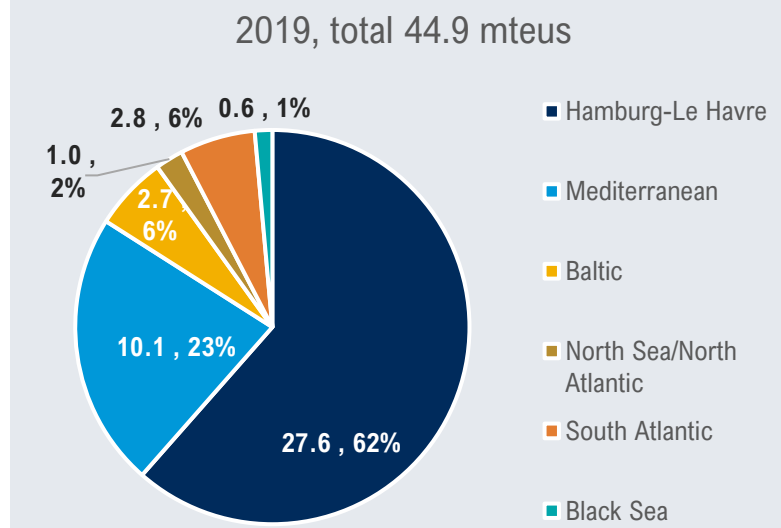
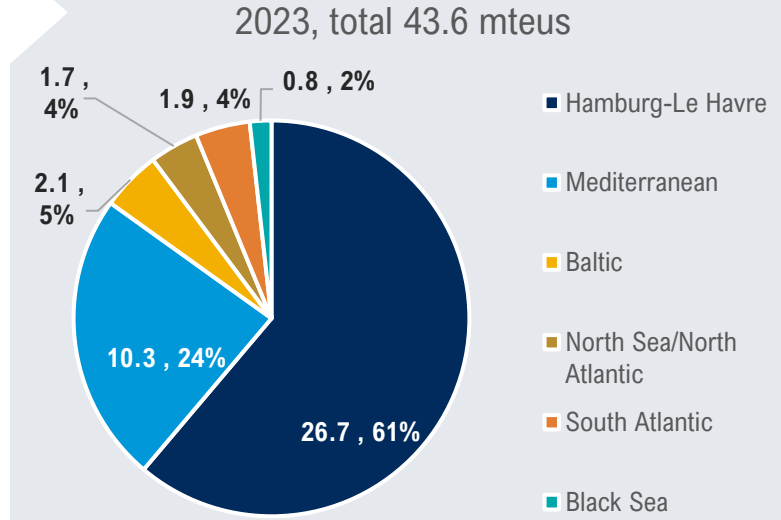
PortinSights data shows container gateway volumes dropped from 44.9 to 43.6 mteu in 2019-2023. The gateway market has been stagnant, weakened to 10.3 mteu in 2Q20 (pandemic), peaked in 4Q20 at 12.7 mteu. Volumes have weakened since 4Q 2023.

Gateway containers by region in Europe



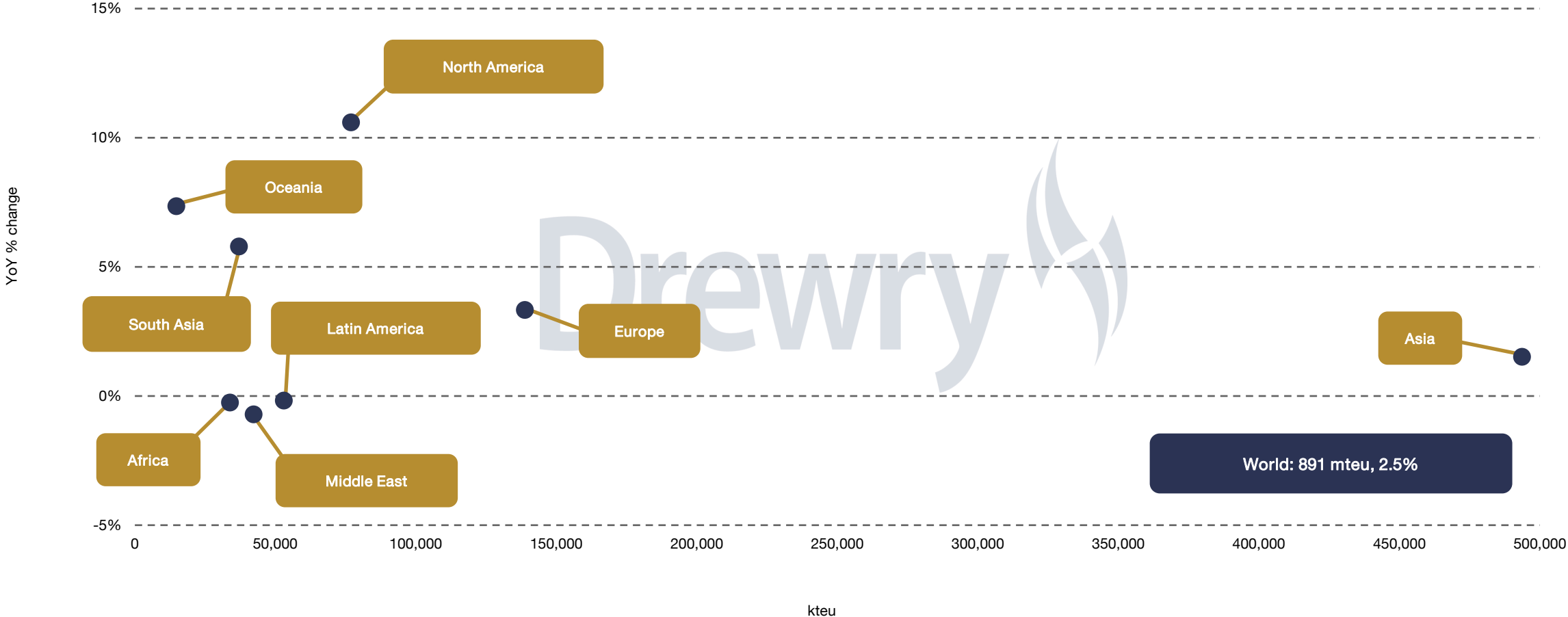
■ Hamburg-Le Havre ■ Mediterranean ■ Baltic ■ North Sea/North Atlantic ■ South Atlantic ■ Black Sea

CAGR 2019-2023



Container volume growth 2024

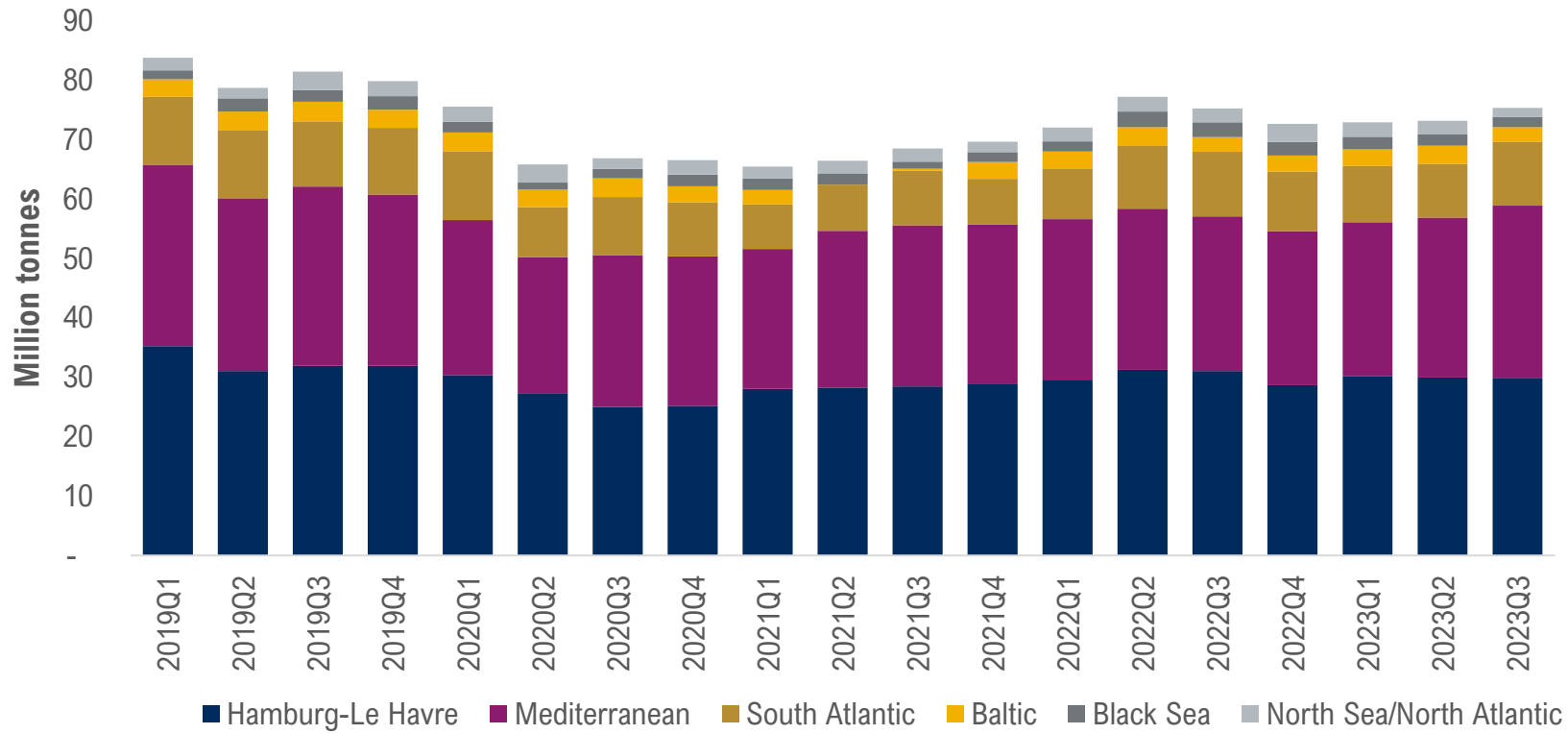
Very strong recovery underway in N. America. European growth is 3%.



Imports – crude oil

Crude oil imports dropped during the pandemic and recovered in 2022, peaking in Q2 2022. Flat in 2023.

Crude oil imports by region in Europe

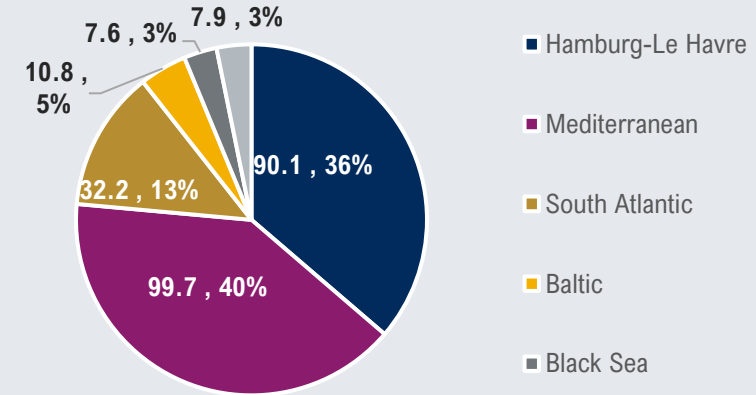


■ Hamburg-Le Havre ■ Mediterranean ■ South Atlantic ■ Baltic ■ Black Sea ■ North Sea/North Atlantic

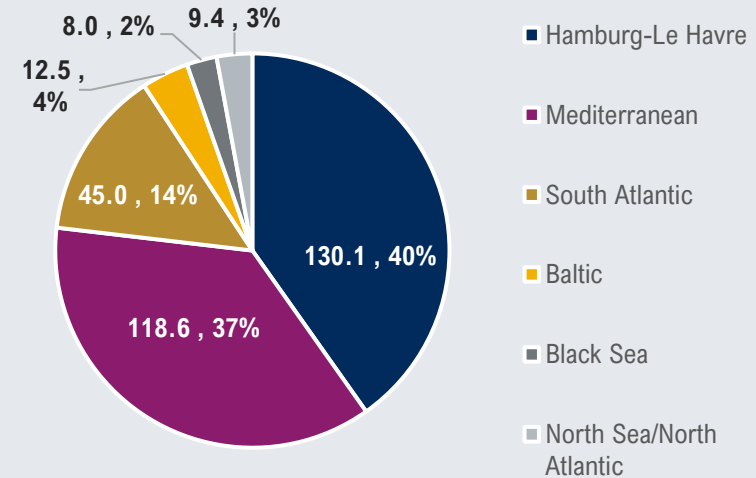
CAGR 2019-2023



Q3 YTD 2023, 248 million tonnes



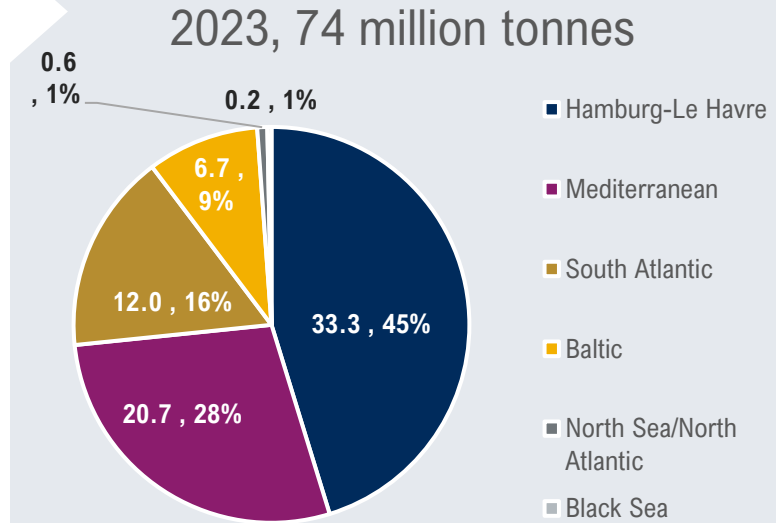
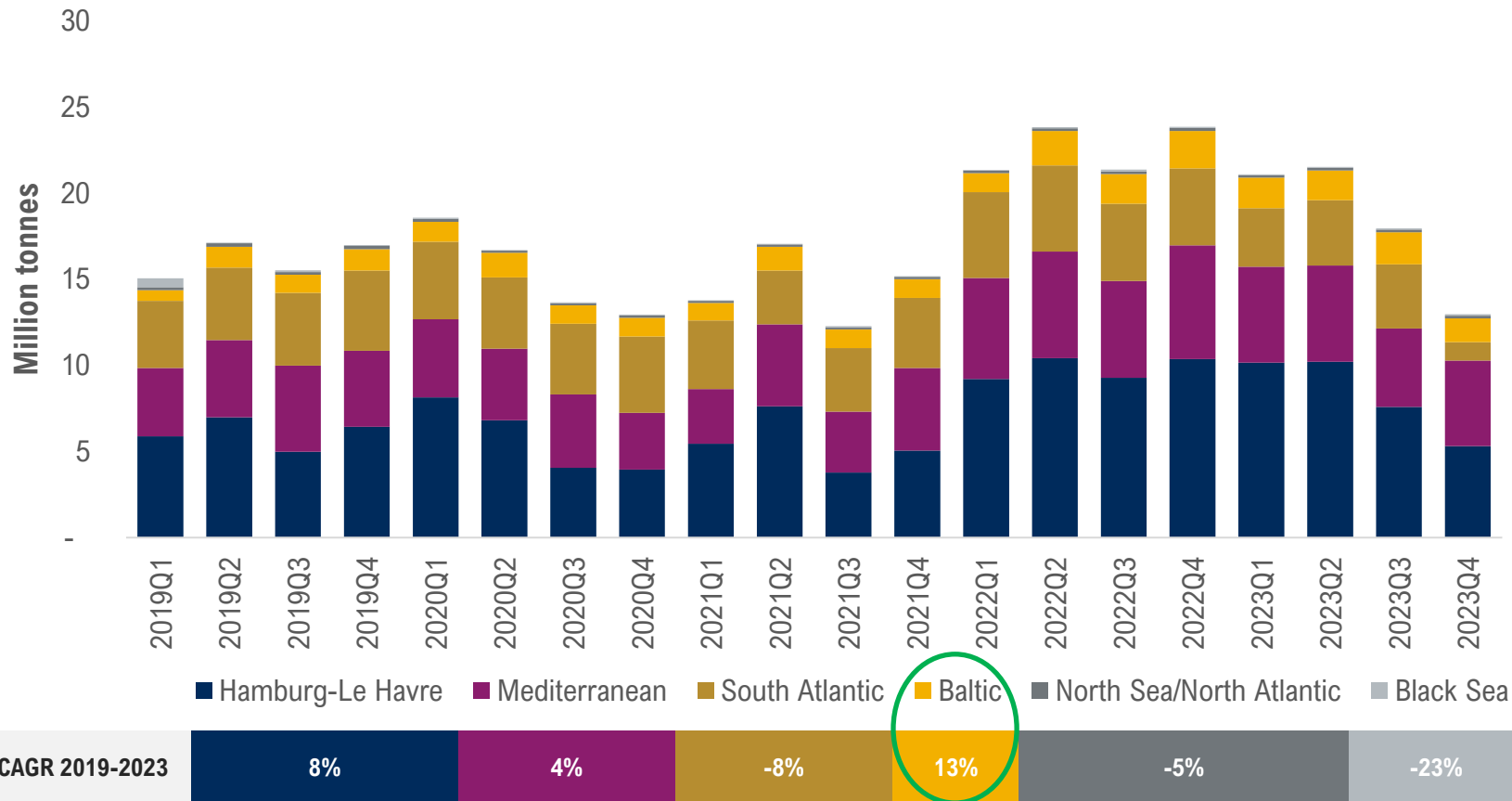
2019, 324 million tonnes



Imports - LNG and LPG

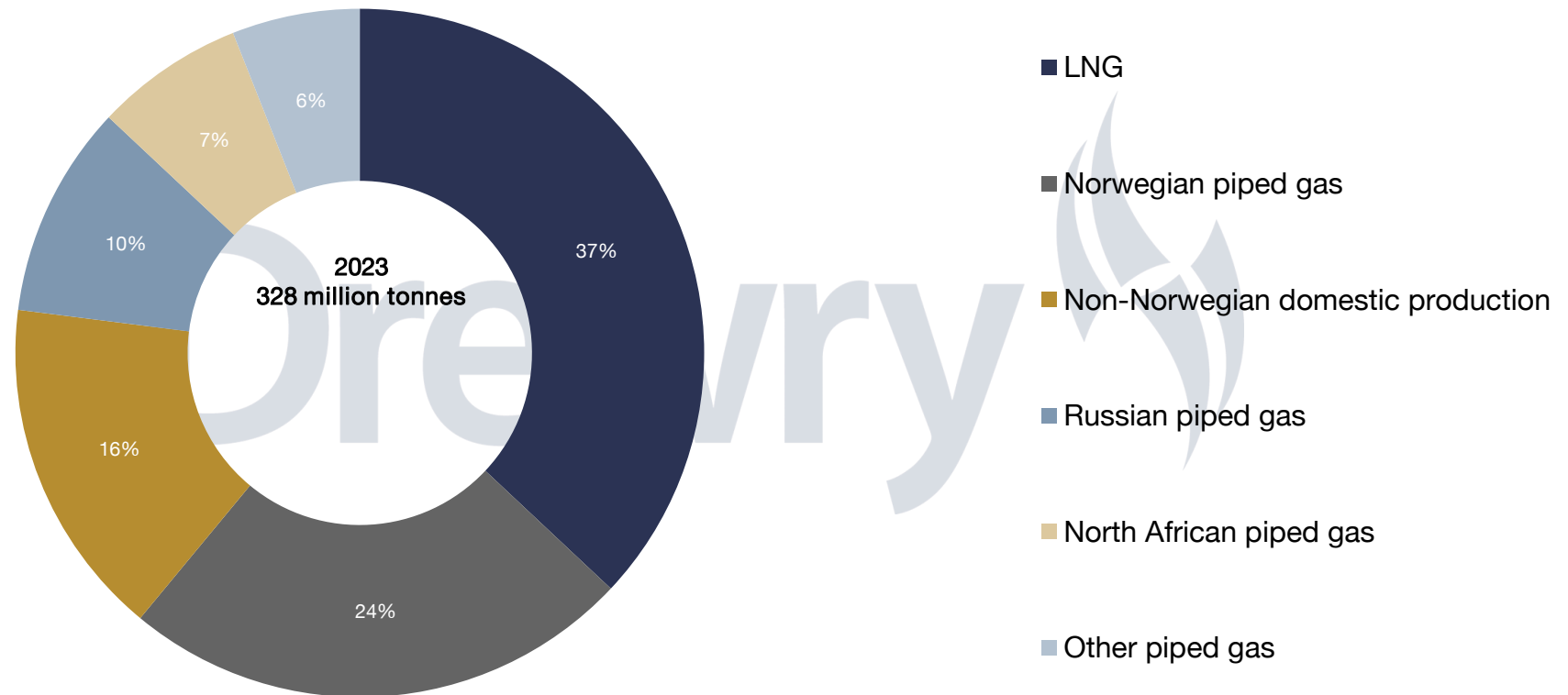
LNG and LPG imports stepped up in 2022, but eased in 2023. The Hamburg-Le Havre range is the biggest region for LNG and LPG imports (45%), followed by the Med. (28%) and South Atlantic (16%). However, the fastest growing region has been the Baltic with a 13% CAGR in 2019-2023.

LNG and LPG imports by region in Europe



Europe gas sources - 2023

LNG comprised 37% of European gas supply in 2023, the largest element. 10% of gas still coming from Russia





4. Disruptors

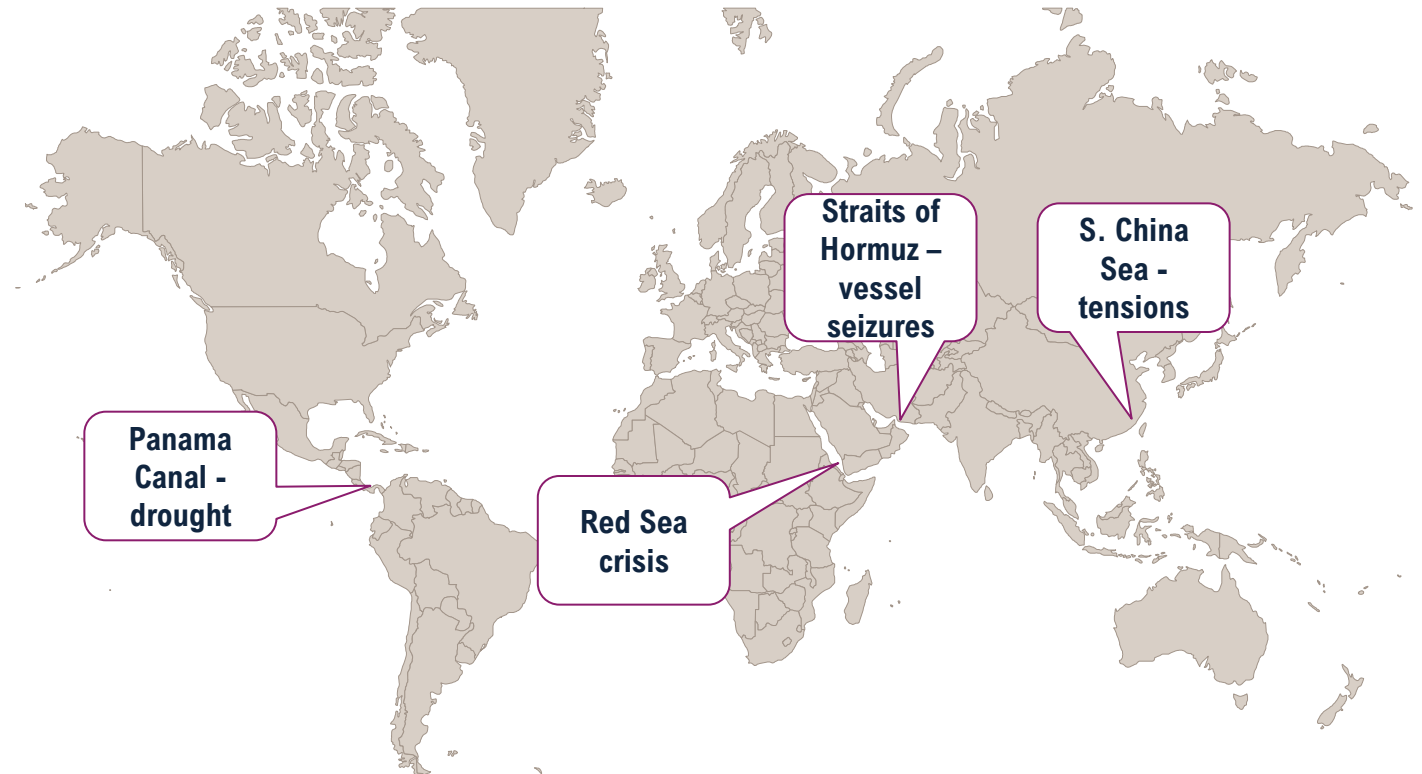
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Four of the key arteries of maritime trade are at risk:

Key maritime arteries at risk

- Panama Canal: drought has led to reduction in transit capacity and allowed vessel draught (rainfall now resolving)
- Red Sea: Houthi attacks on shipping have dramatically reduced traffic through the Bab-el-Mandeb (Gate of Tears) and the Suez Canal
- Strait of Hormuz: Iran has seized the MSC vessel Aries. More disruption may follow
- S. China Sea: There are continuing tensions between China and its neighbours in the S. China Sea and the risk of military conflict in the Taiwan Strait



Global container fleet position 14th April

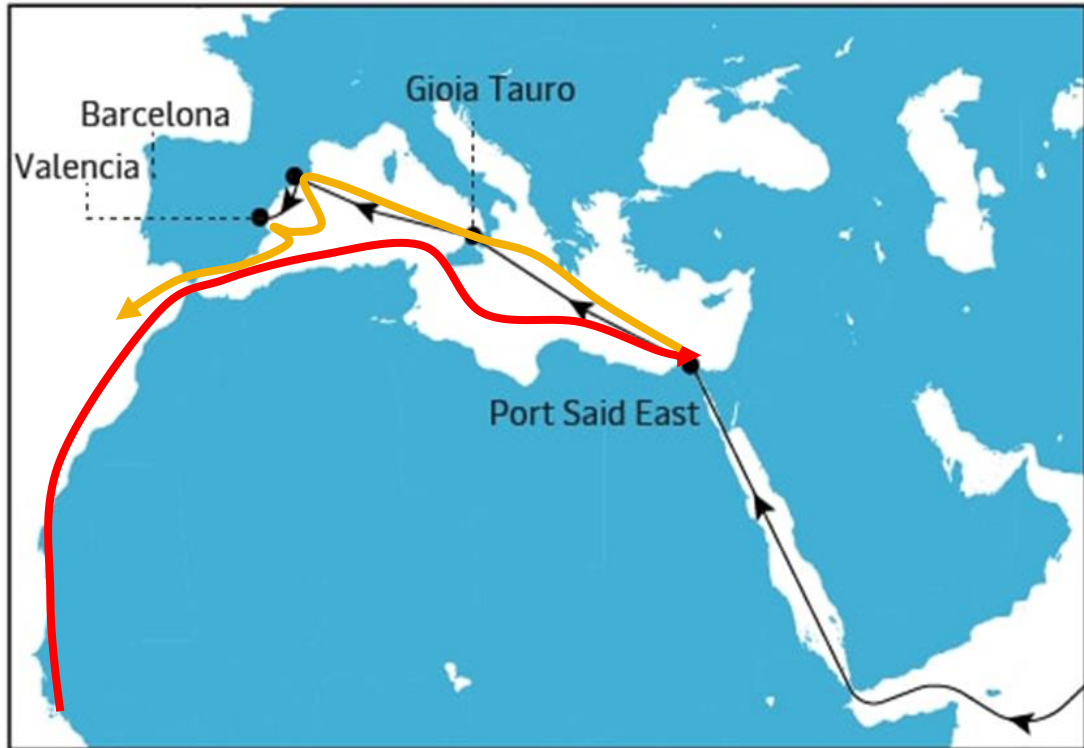
Containerships >5,000 teu have abandoned the Red Sea



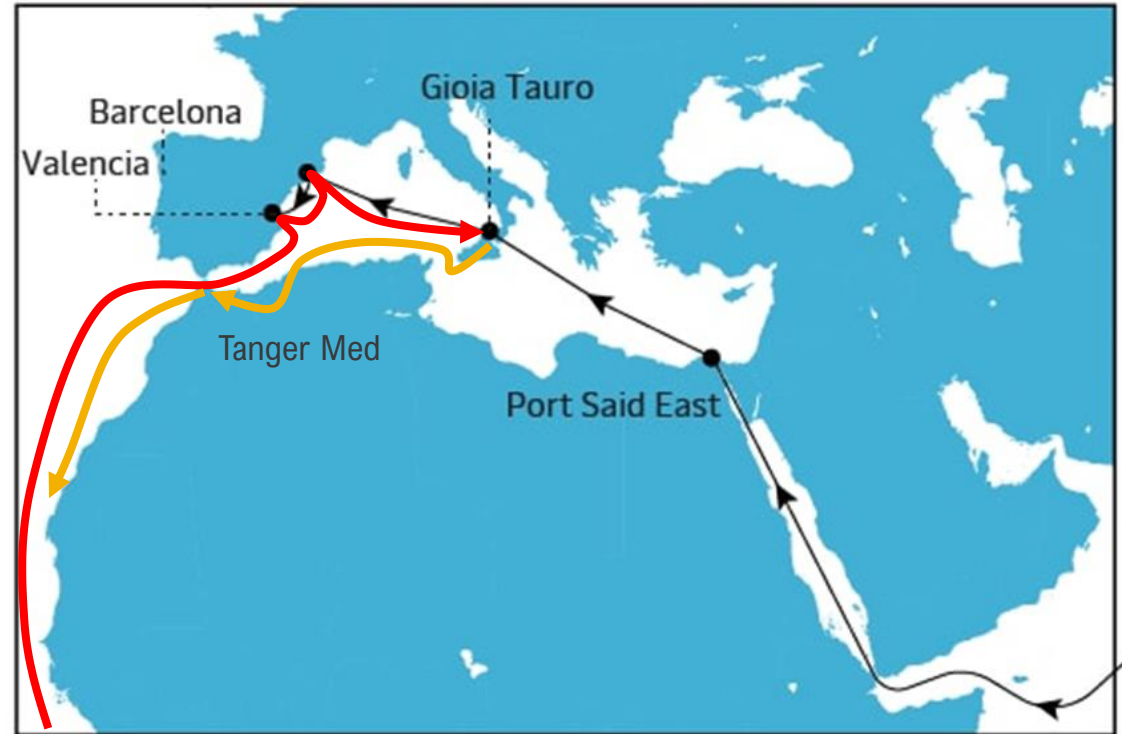
- No containerships >5,000 in the main body of the Red Sea
- All vessels operating on trades from Asia to N. Europe, Med and East Coast N. America are routed via Cape of Good Hope
- West Coast India and Arabian Gulf operating normally now, but at risk
- Major issue for Med services and ports
- Sharp decline in use of Suez Canal will be damaging for Egypt

Phased adjustment to Asia-Med services

Initial diversion phase (Dec-Jan): port rotation in Med continued to run East to West



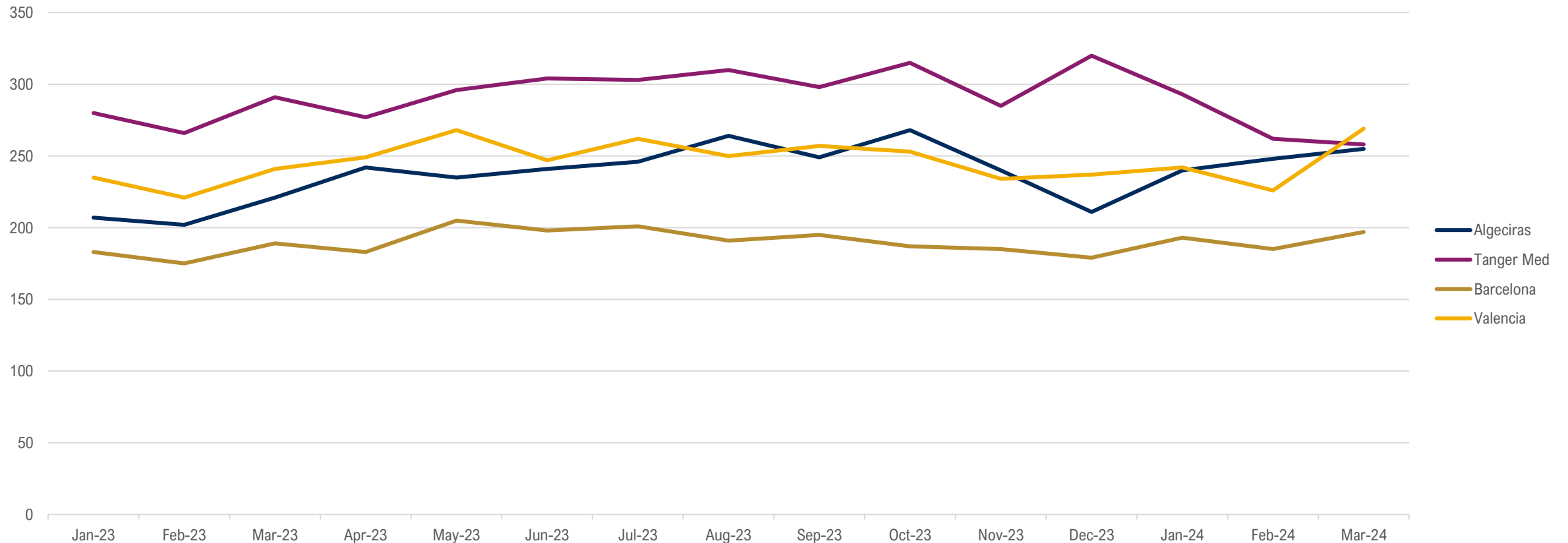
Established diversion phase (Feb ->): port rotation in Med switches to run West to East



West Med containership calls

Little effect on the major gateways of Barcelona and Valencia; Algeciras stable. Tanger Med calls down significantly since January 2024 but average terminal time per call has increased steeply which suggests cargo higher exchanges per call.

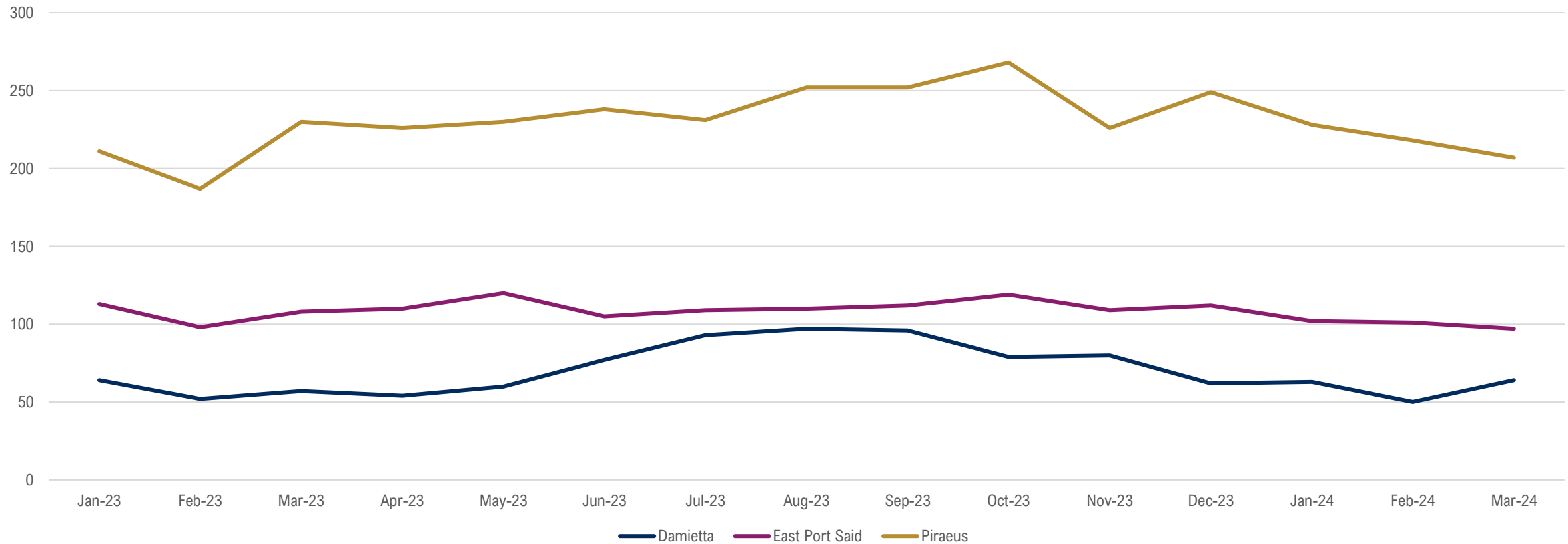
West Med containership calls 2023-24



East Med containership calls

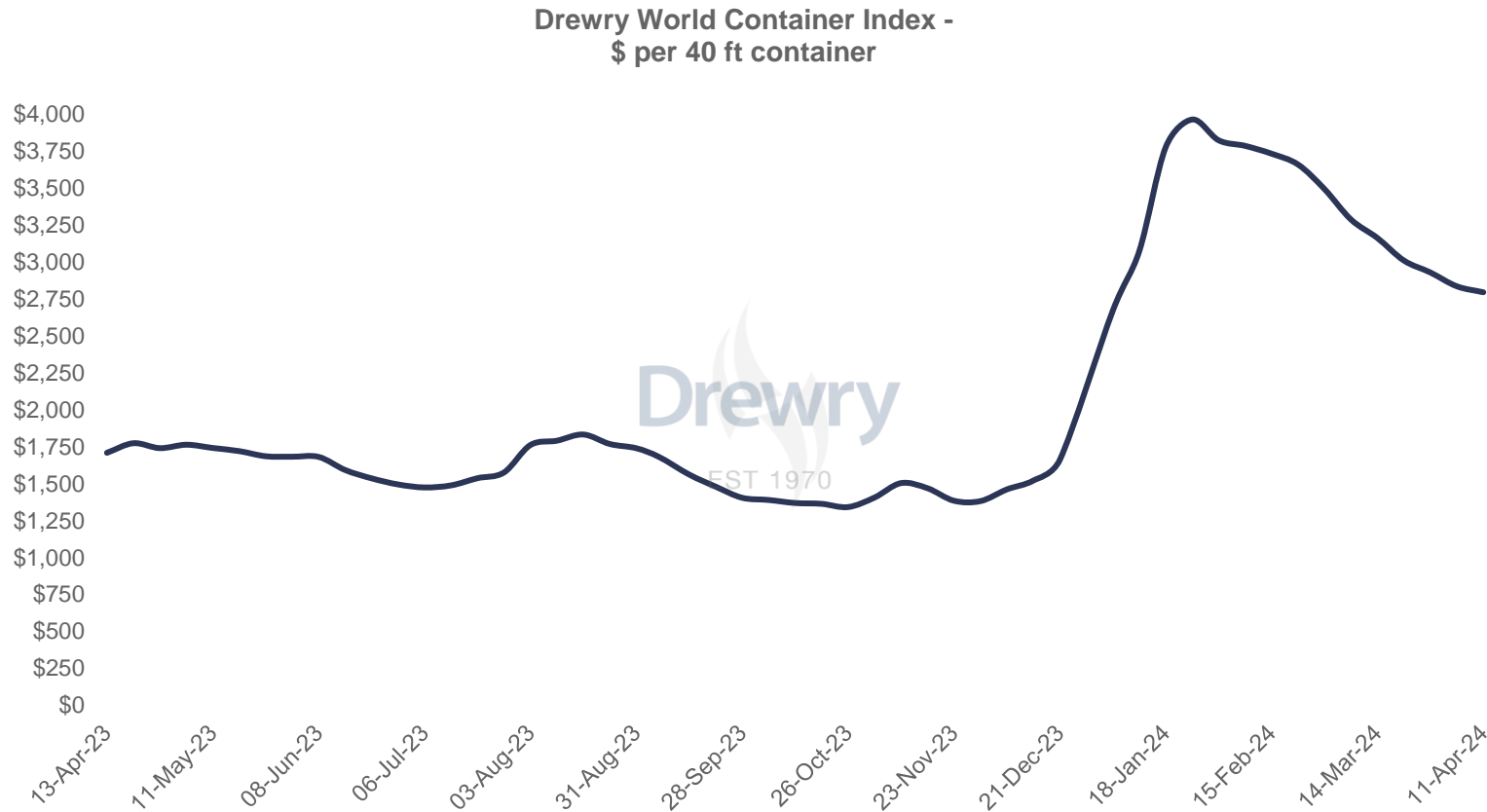
Calls at all East Med hubs have declined since November 2023. Cosco Shipping Ports report 11% YoY drop in volumes at Piraeus in 1Q24, and AIS data shows steep decline in average vessel size (Piraeus being bypassed by mainline vessels); however volumes up 4% at East Port Said in 1Q24 and less of a drop off in vessel calls – suggesting this terminal continues to be used as a hub for mainline cargo

East Med containership calls 2023-24



Container freight rates

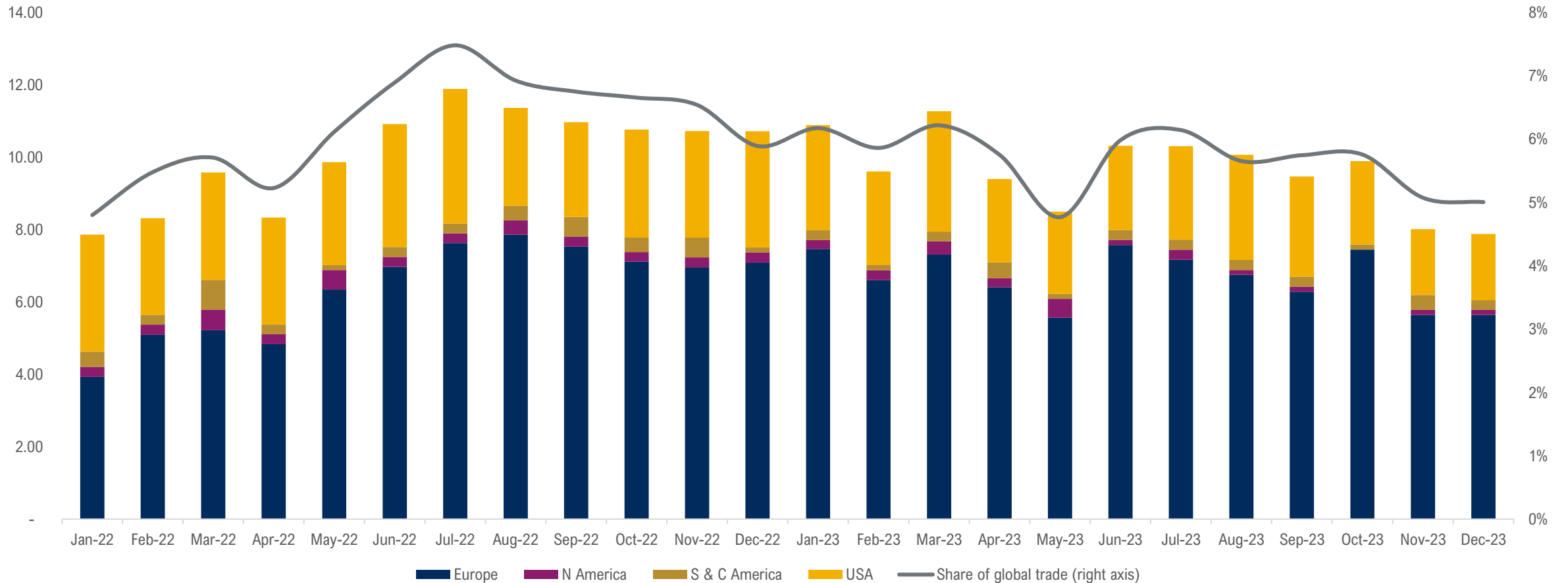
Rates soared at the outset of the crisis but are eroding as networks normalise.



- Container freight rates soared at the start of the Red Sea crisis due to disruption to liner networks and temporary shortages of capacity
- Strong US demand in the Transpacific trades have also played a role
- As additional capacity is introduced and networks normalise, rates are falling steadily. On their current trajectory, they would be back at 2023 levels by end-August

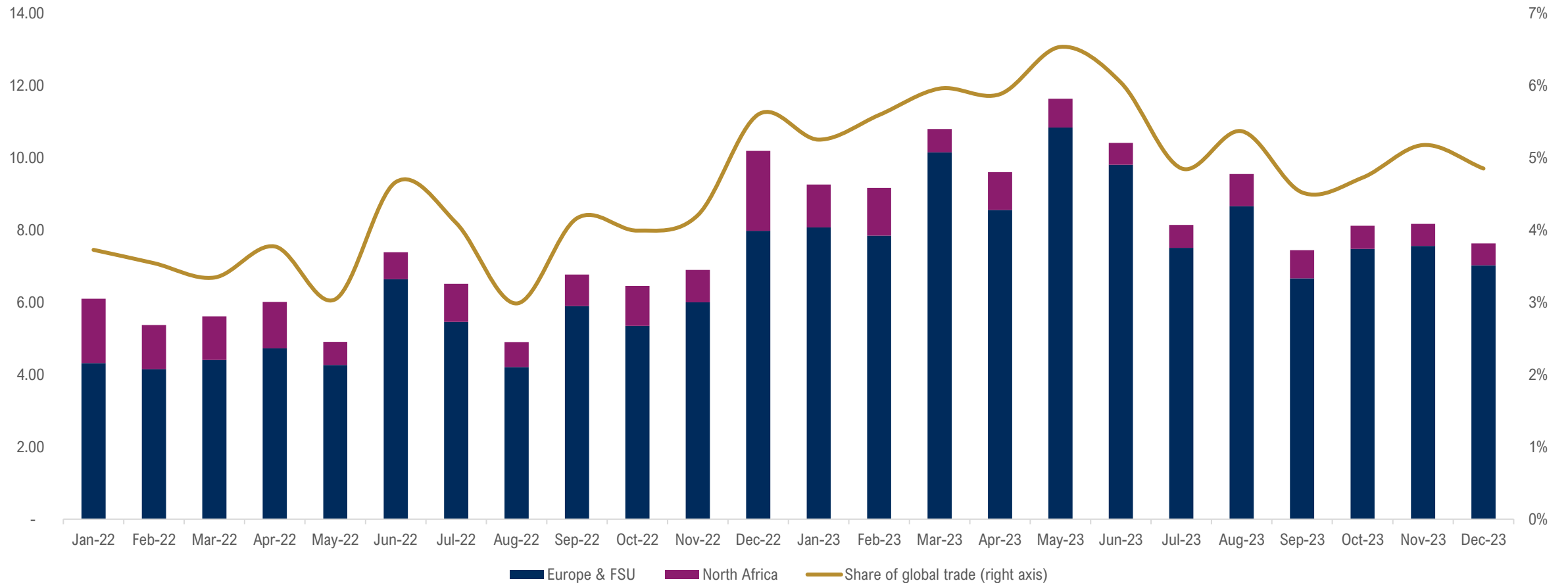
Middle East crude trade via Suez - westbound

The trade to Europe is the most important moving from the Middle East westbound. At its peak it comprised 7% of global crude oil trade



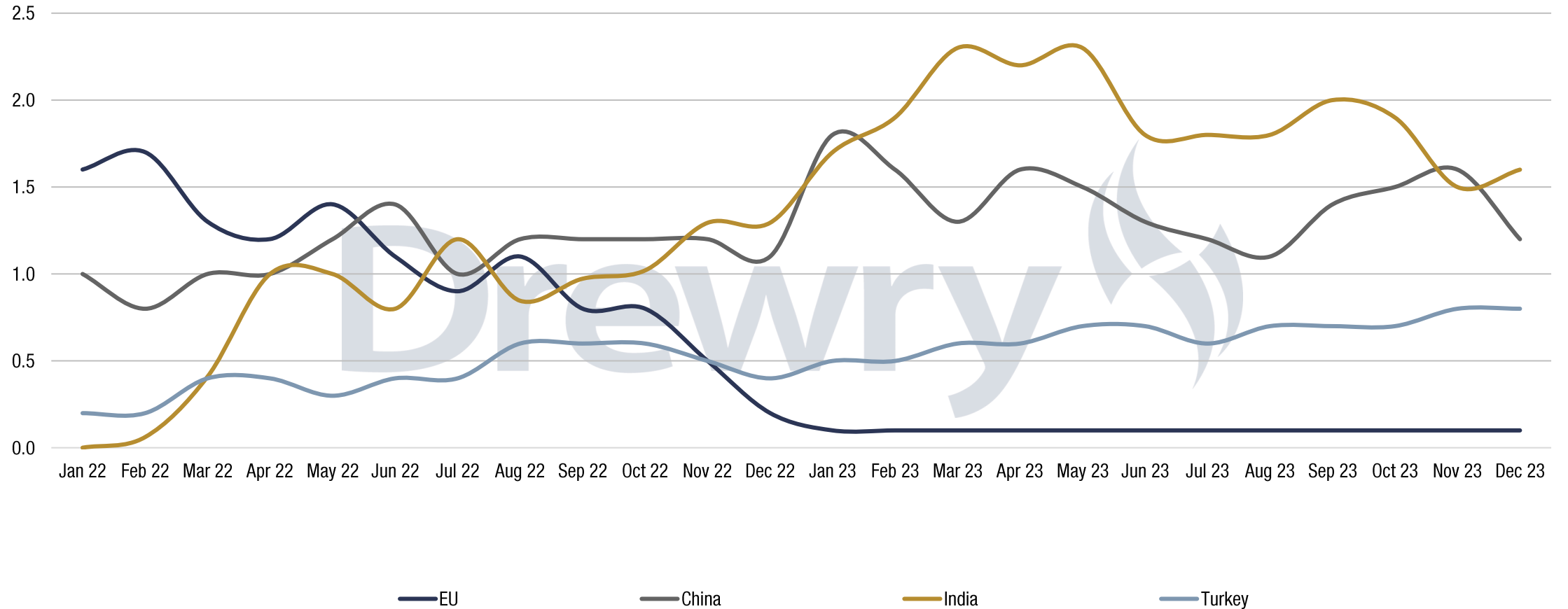
Europe, FSU and Africa crude trade - eastbound

The Eastbound trade is principally from Russia and to Asia. Global trade share peaked at 7% in May 2023.



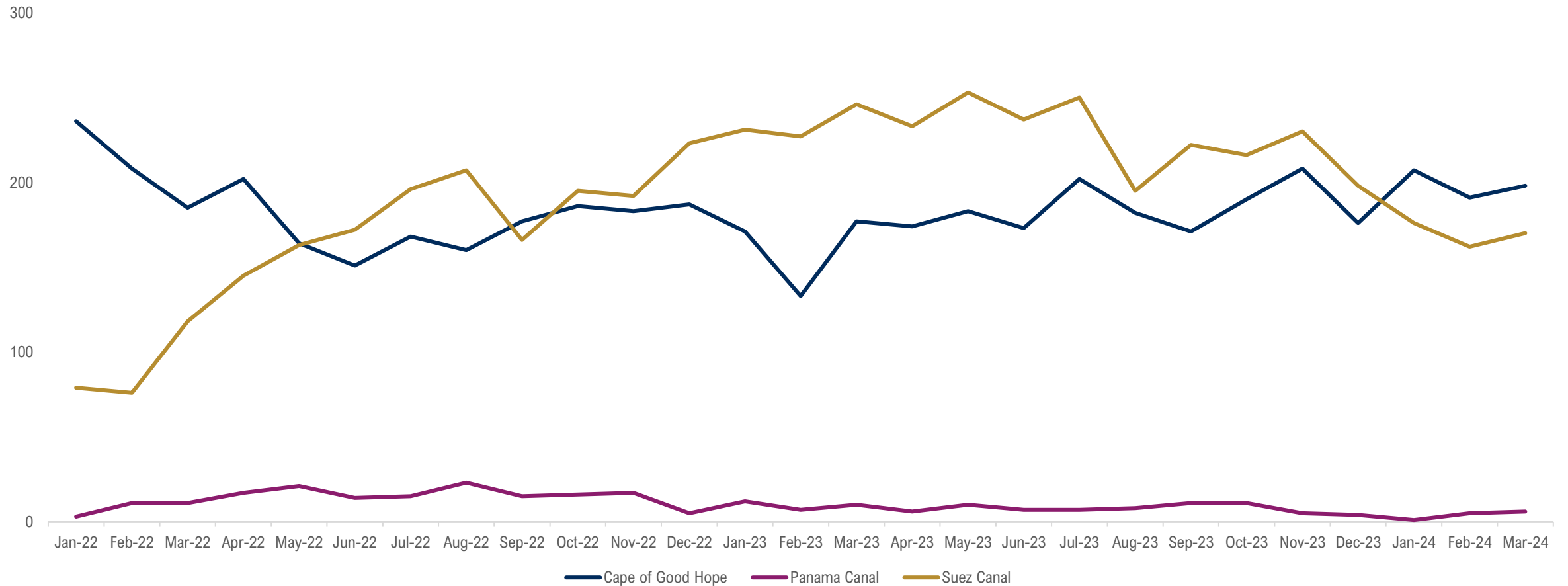
Russian crude exports

Russia's crude oil exports peaked in May 2023 mainly on account of higher exports to China and India. The decline thereafter was due to voluntary production curbs by Russia and other OPEC+ members.



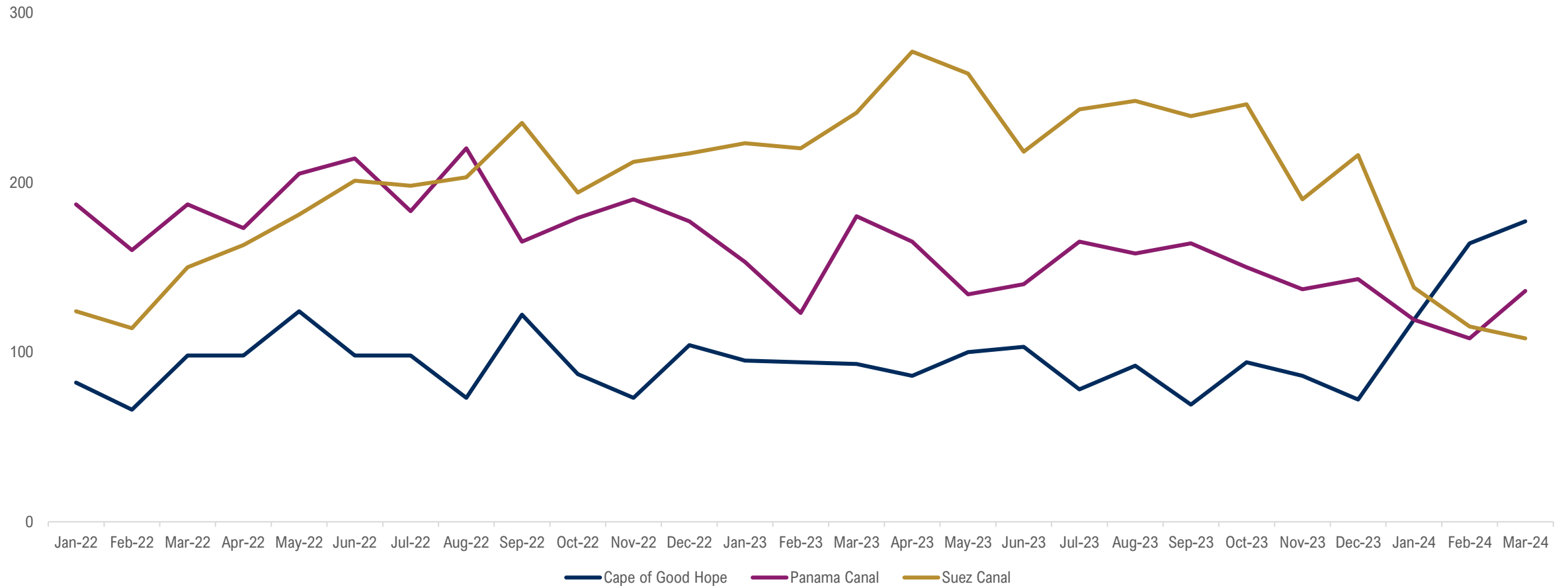
Crude tanker transits

Crude tanker Suez transits were 253 in May 2023, driven by increased movement of Russian crude to Asia. Most of these vessels transiting Suez Canal are old vessels carrying Russian oil to India and China. Transits fell to and 170 in March 2024. Cape transits rose from 173 to 198 in the same period.



Product carrier transits

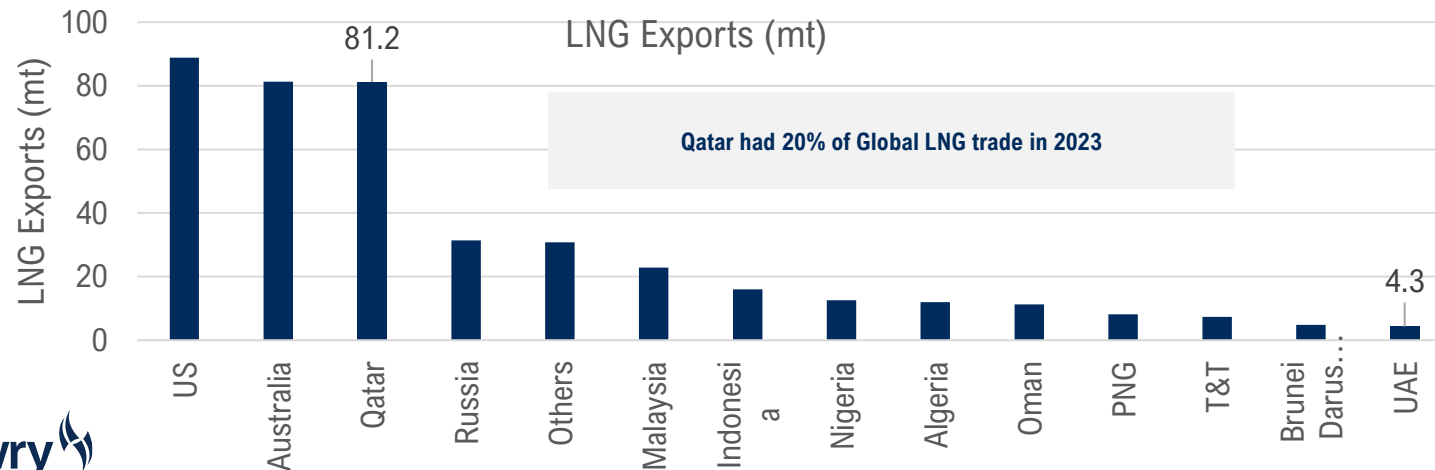
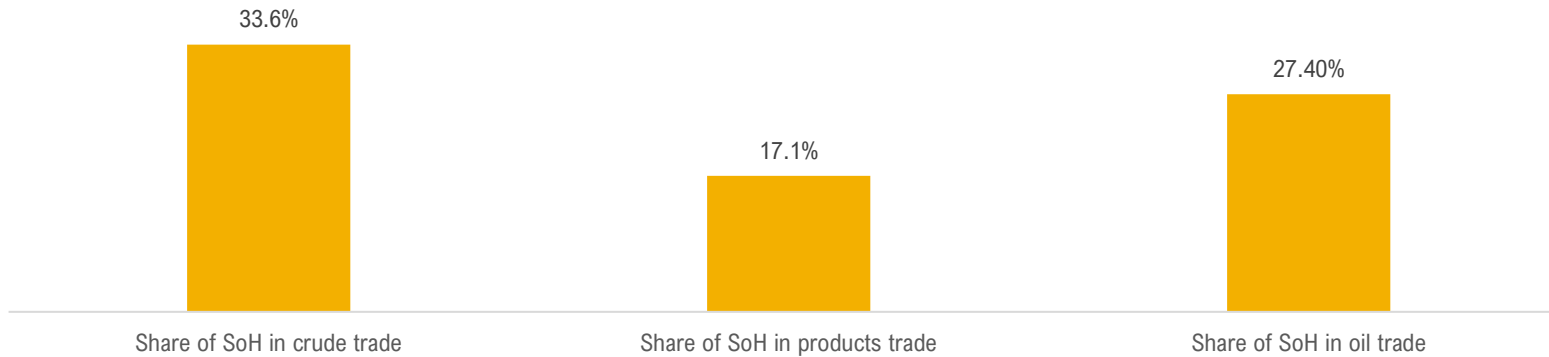
264 product tankers transited Suez in May 2023; only 108 in March 2024. Cape transits rose from 100 to 177 in the same period.



Arabian Gulf

The Straits of Hormuz serves 34% of global crude and 17% of global products trades. The world economy will not be able to function if it is closed.

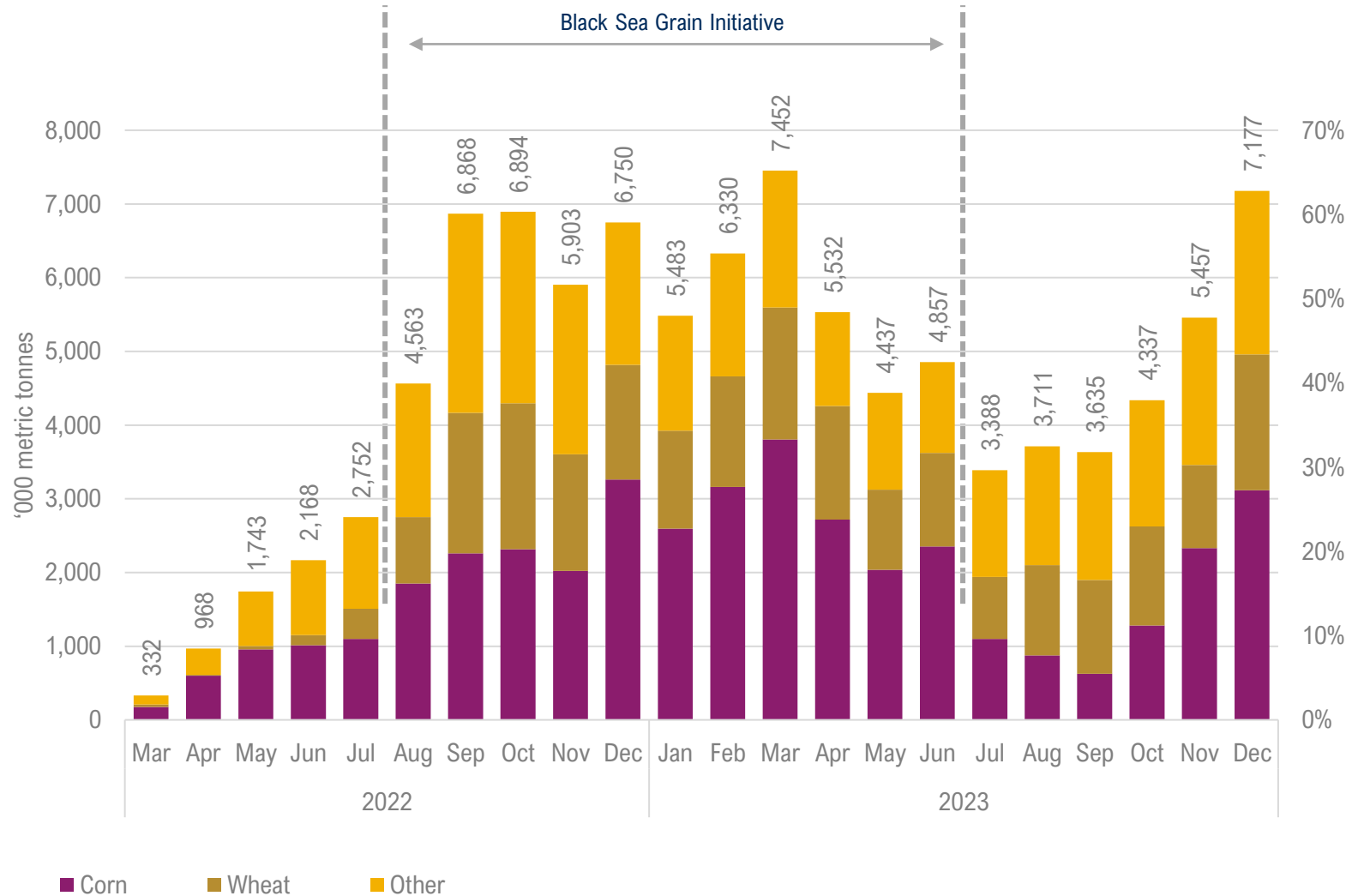
Share of Straits of Hormuz in global oil trade 2023



- The Arabian Gulf is a very large supplier of both crude oil and products:
- 34% of global crude trade
- 17% of global product trade
- East-West pipeline of Saudi Arabia has a capacity of 5 mbpd, of which about 1.7 mbpd is currently being used; 3.3 mbpd spare capacity.
- Abu Dhabi Crude pipeline, which carries UAE crude to Fujairah, has capacity of 1.5 mbpd. 0.6 mbpd is currently in use, leaving spare capacity of 0.9 mbpd.
- There is no pipeline alternative for products
- Qatar had a 20% share of LNG market in 2023. 60-70 LNGC loadings from Qatar pass via the Strait of Hormuz per month
- The world economy would not be able to function if the Straits were closed

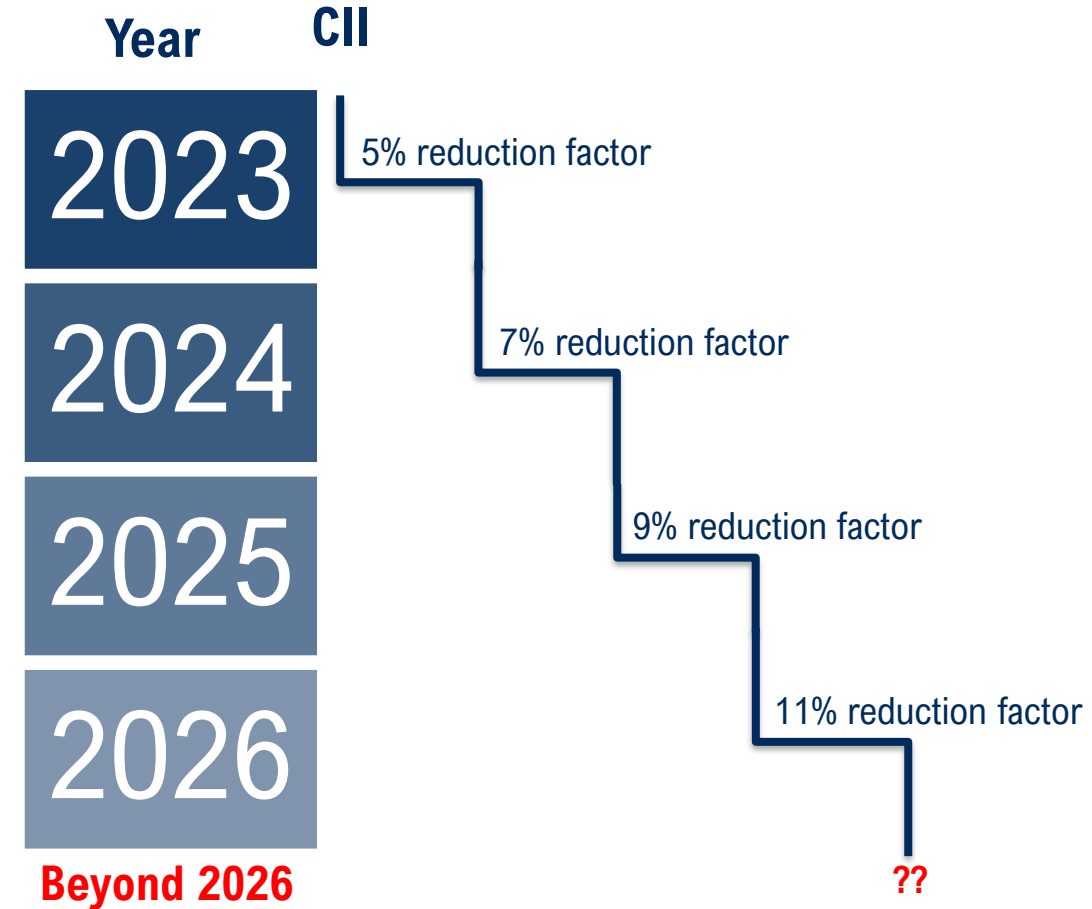
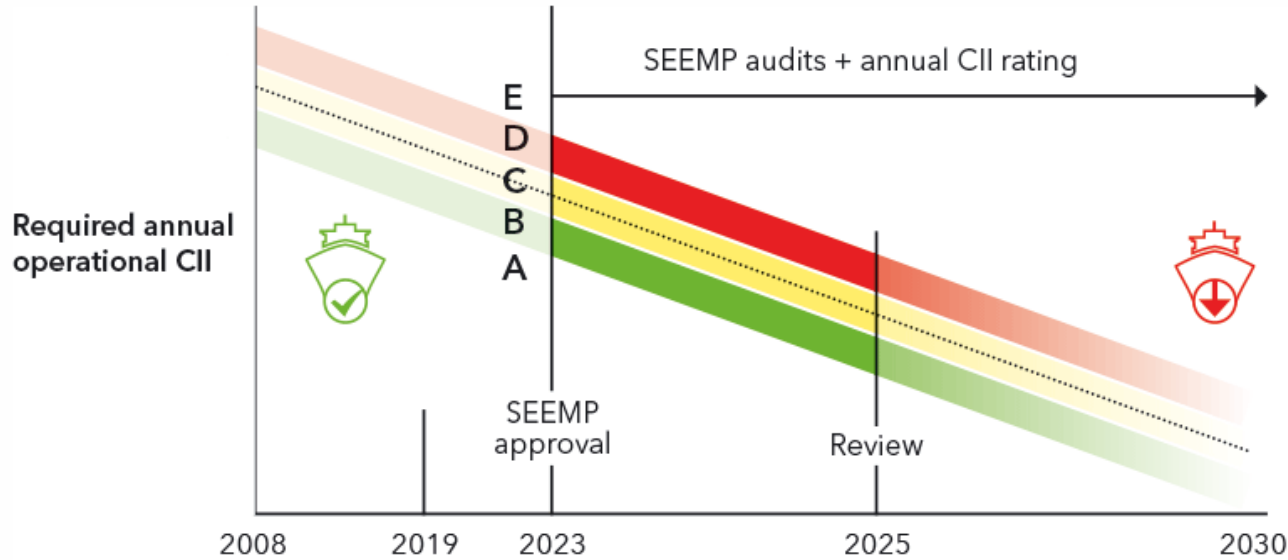
- Through the “Grain Deal” or Black Sea Grain initiative, exports of Ukrainian grains and manufactured agricultural produce ramped up and averaged around 6 mt per month.
- Over 1,000 vessels have loaded grain and agriproducts from Ukrainian ports through the deal period
- Despite the Initiative ending in July 2023, in total around 61 mt were exported in 2023, with volumes growing toward end of the year.
- Around 13 mt of grain were shipped since July-December 2023
- Exports continuing in 2024

Ukraine Grains and Agriproducts exports



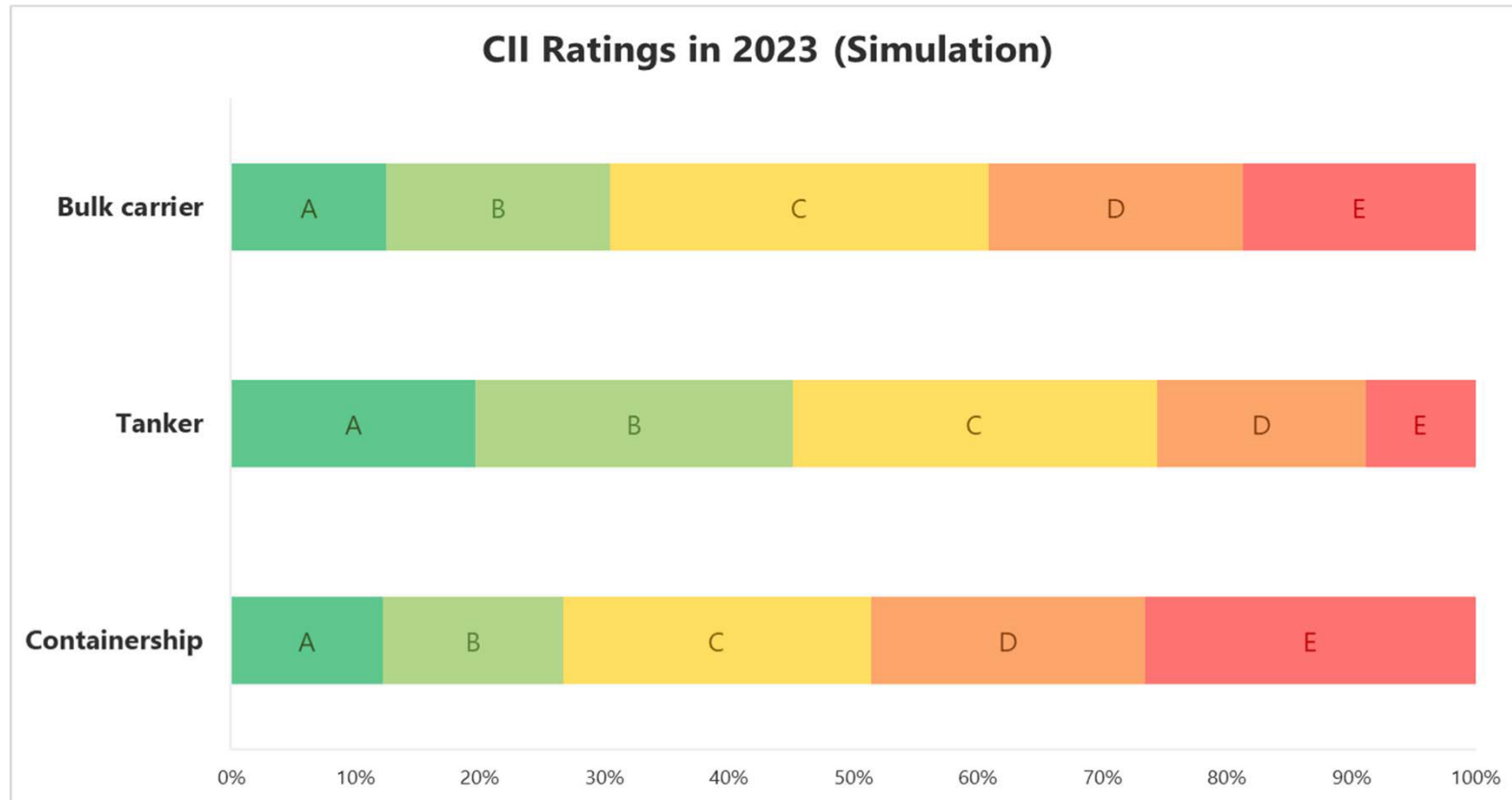
Emissions regulation: CII

Vessels will be assessed every year based on the data submitted to IMO Data Collection System (DCS) and categorized as A to E. Every year the requirement gets stringent as the required reduction in 'carbon intensity' increases every year.



Emissions and regulation: CII

CII ratings in 2023



Source: IMO DCS 2022 data (verified by ClassNK only) and EU MRV 2022 data

Average (in 2022)

Speed

11.1 knots

Age

11

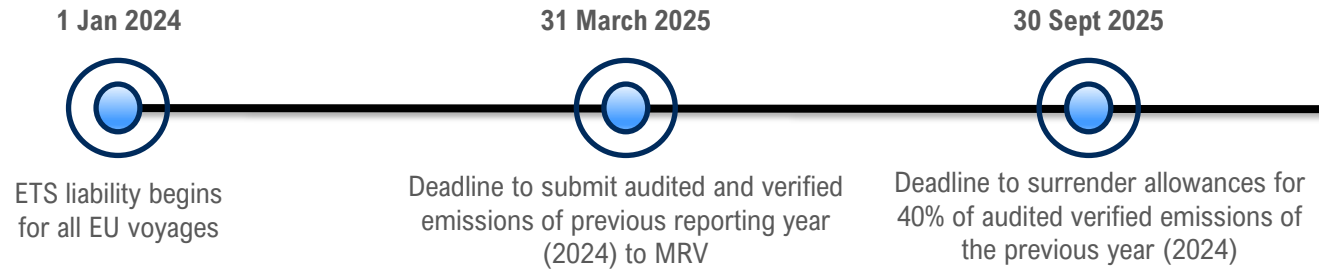
11.1 knots

11

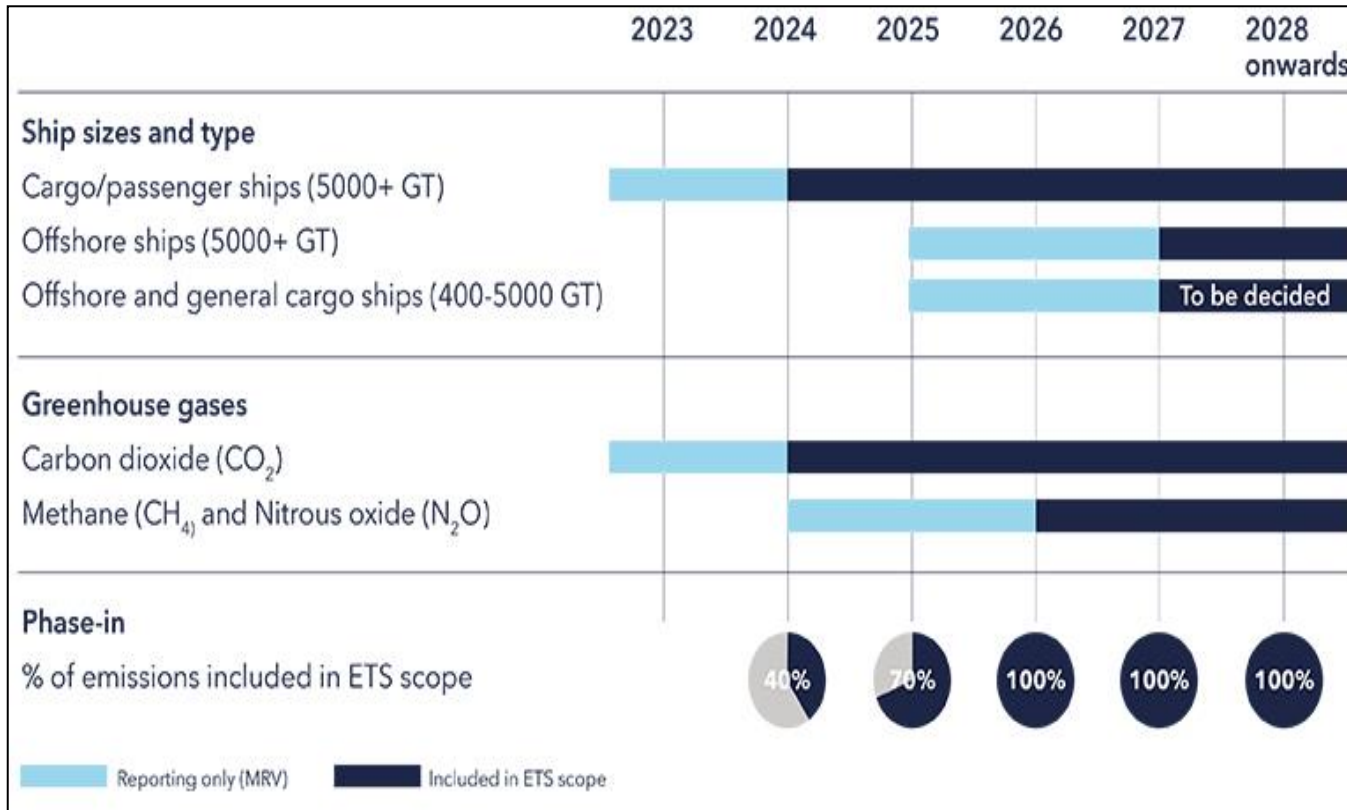
13.5 knots

14

Emissions regulation: EU ETS



The same cycle is to be continued for subsequent years with 70% and 100% of allowances required to be surrendered for 2025 and 2026 respectively.

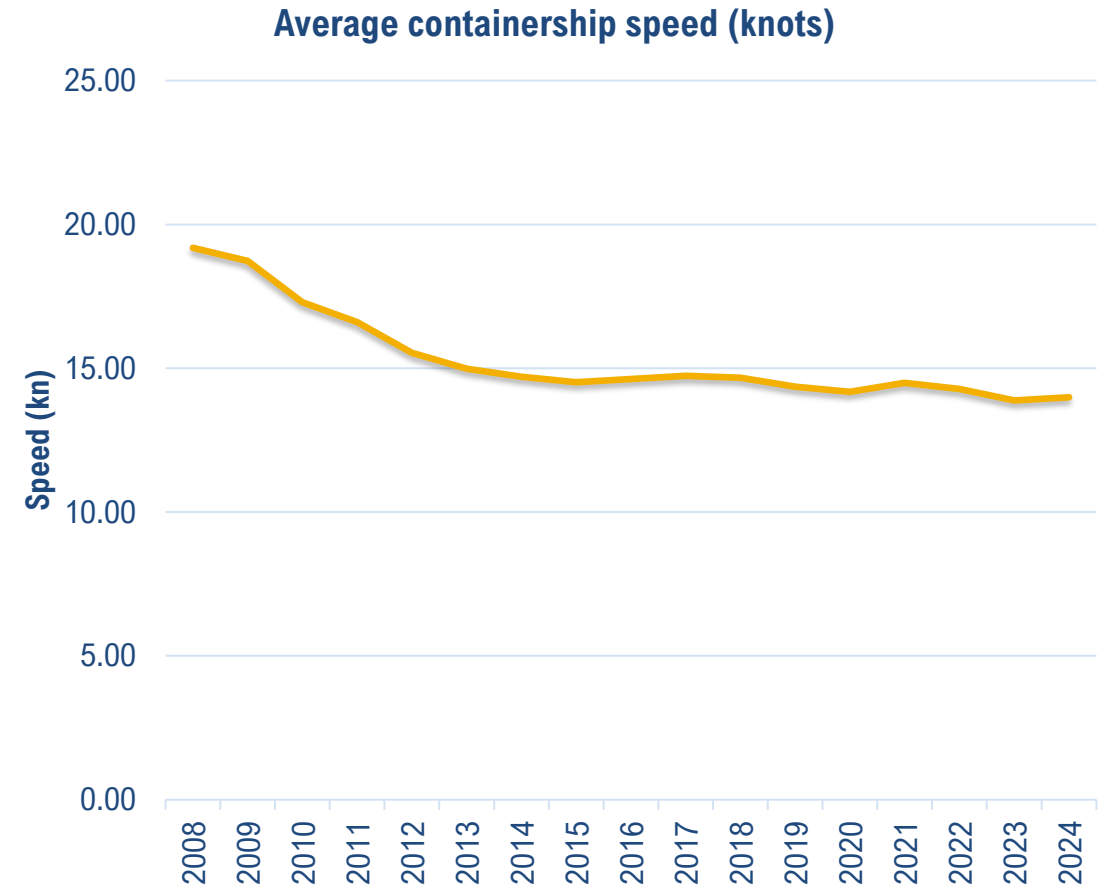


Emissions regulation: EU ETS

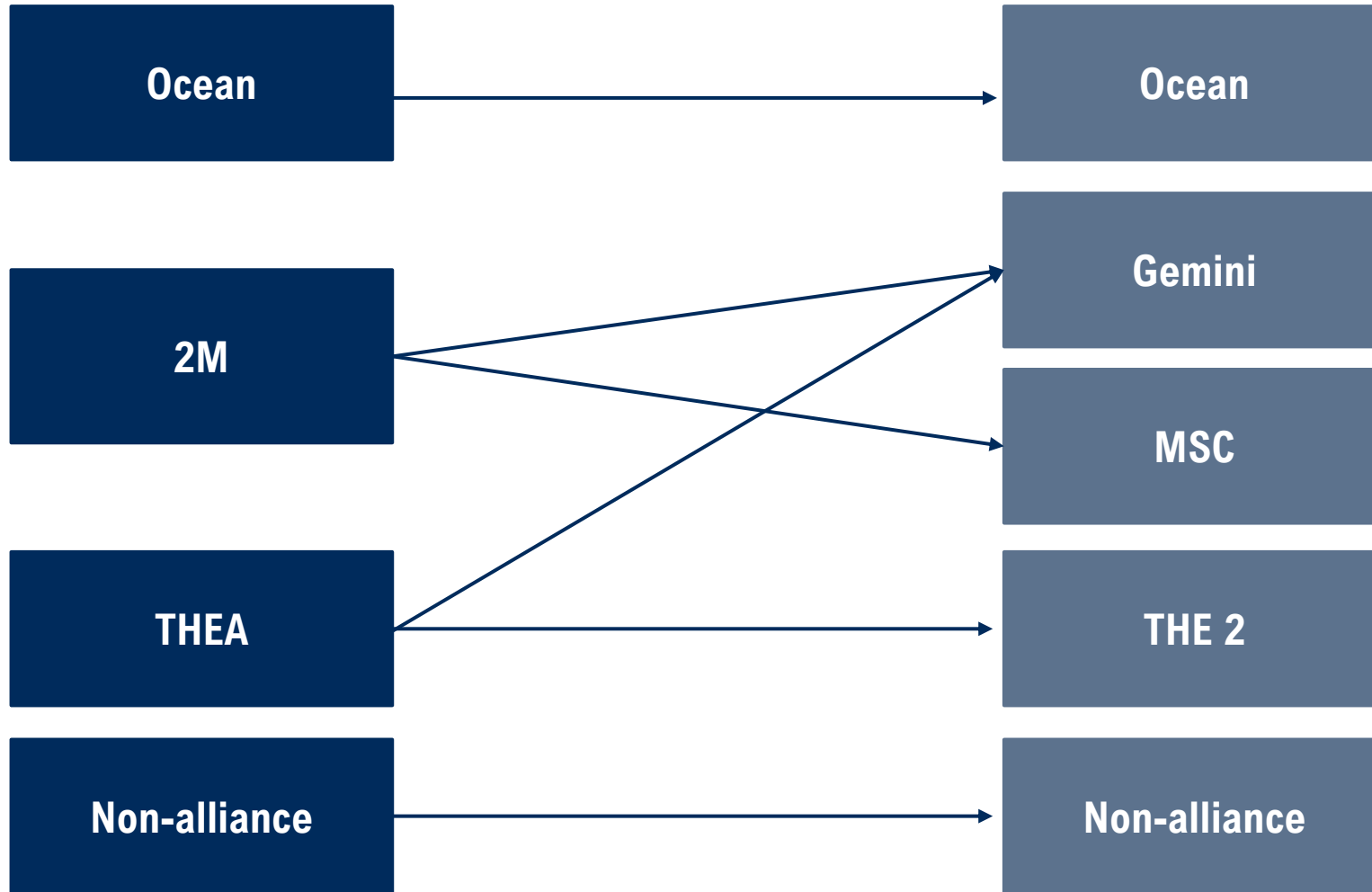
Shipping is now included in the EU ETS. The introduction of the EU ETS has been completely overshadowed by the Red Sea attacks which have driven decisions on vessel speed, routing and port calls.

Effects of EU ETS on container shipping

- There has been no slow down of ships (global average) since ETS was introduced – the reverse has happened
- In practice, the introduction of the EU ETS has been completely overshadowed by the Red Sea attacks which have driven decisions on vessel speed, routing and port calls – much more than the new ETS policy
- We expect the costs to run into billions of dollars at the industry level
- Lines are passing on the bill: the average ETS surcharge paid by shippers is estimated to be \$60/40ft and \$30/20ft, based on Drewry data



Liner Alliances: goodbye 2M; hello Gemini



Summary

- Macroeconomic outlook looks more stable
- High risk to energy prices arising from Middle East conflict
- Shipping is coping with the Red Sea crisis, but costs are higher
- Instability in the Straits of Hormuz would be very damaging
- Environmental regulations starting to affect shipping now; will become much more demanding
- Re-alignment of liner alliances will be disruptive and have significant effects on liner networks



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