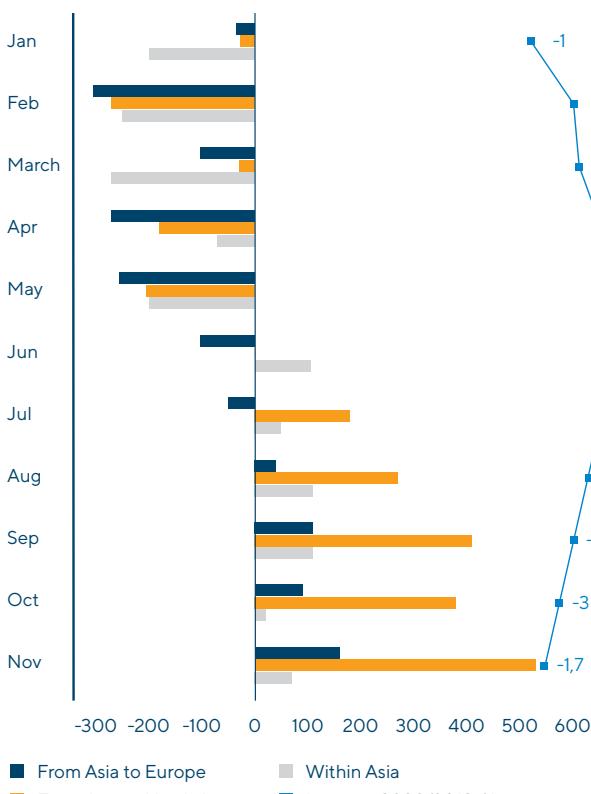


MARKET OVERVIEW

GLOBAL CONTAINER TRANSPORTATION MARKET

Change in Container Transportation Market Volumes Across Major Geographic Segments in 2020 Year-on-year

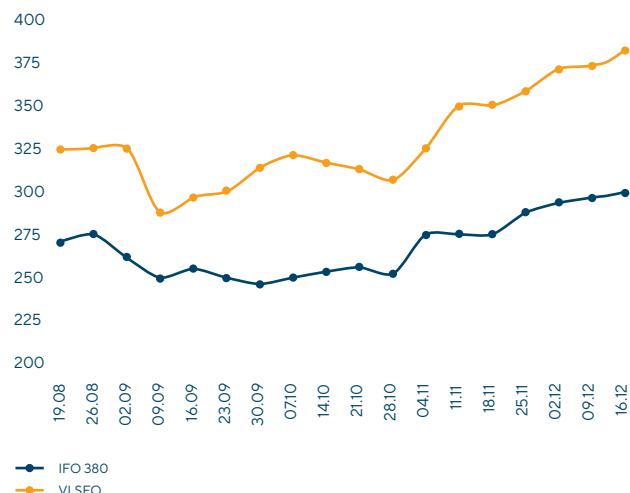


Source: Container Trade Statistics / BIMCO

Despite the discouraging forecasts at the beginning of the pandemic in the spring of 2020, by the end of the year, the market almost completely made up for the H1 losses in terms of volumes. As of the end of November, the volumes were only 1.7% (or 2.6 mln TEUs) less year-on-year.

According to BIMCO preliminary estimates, the volume of the global container market in total in 2020 is down by 1.5% year-on-year. Effective capacity management in the context of falling demand allowed carriers to minimise losses, with low bunker prices also reducing their costs.

Bunker Prices, Rotterdam (USD /t)



Source: Drewry

In H1 2020, a major reduction in volumes prevailed, forcing carriers to cancel an unprecedented number of transports. In H2, demand rebounded sharply, and the pace of this recovery came as a surprise to everyone, including large cargo owners. According to Drewry estimates, the global container transportation market contracted by 6% in H1 and then grew by more than 10% year-on-year in H2.

Among the drivers behind the dynamic growth of volumes for Q3, Alphaliner names the effect of deferred demand, the problems of the air transport market and therefore, reassignment of part of the volume to ocean transportation, substantial growth in demand for hygiene and respiratory protection products and an increase in consumption of goods owing to the budget saved due to inability to travel and unavailability of a whole range of services under quarantine restrictions.

SERVICE QUALITY

The container service reliability (i.e. carrier schedule reliability) fell to a record low last year.

According to the latest release of the Sea-Intelligence monthly report covering the container service reliability for November 2020, the global average quality of container line service decreased to 50.1%. This is the lowest value of the index since the monitoring report release in 2011 (down by 80% year-on-year). In the Asia-North America corridor, less than 30% of ships arrived at ports on schedule.

Sea-Intelligence Container Service Reliability



Source: Sea-Intelligence

PORTS

In 2020, the largest ports in Asia and the United States faced congestion. The world's largest container port of Shanghai handled 43.5 mln TEUs in 2020, up 200 thousand TEUs year-on-year. Congestions at Chinese ports were reported regularly since summer and increased in the last quarter of the year. The shortage of outlets for refrigerated containers was acute due to increased control over food imports to prevent the import of products contaminated with COVID-19.

The port's turnover declined year-on-year from December 2019 to June 2020, growth resumed from July, and double-digit volume growth in the last three months of the year fully compensated for the losses in H1. In October and November, Shanghai became the first port in the world to handle 4 mln TEUs per month.

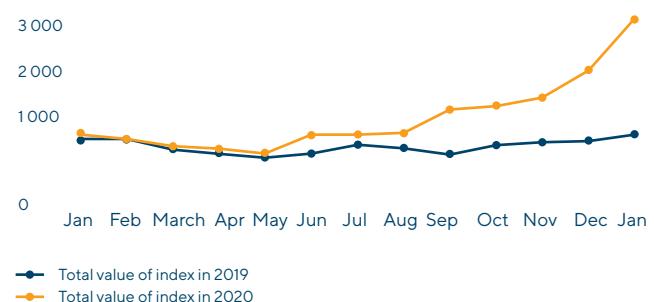
The turnover of Los Angeles/Long Beach, the largest container port complex in the United States, in 2020 also exceeded the volume of 2019, despite a sharp decline in H1. In the first 11 months, the complex handled 15.63 mln TEUs, up 0.5% year-on-year.

The congestion situation has gradually deteriorated since September. In November, 12 container ships were idle to enter the port, in December 2020 and in the second decade of January – 34 already. The container turnover of the port complex in November amounted to 1.67 mln TEUs, increasing 26% year-on-year.

RATES

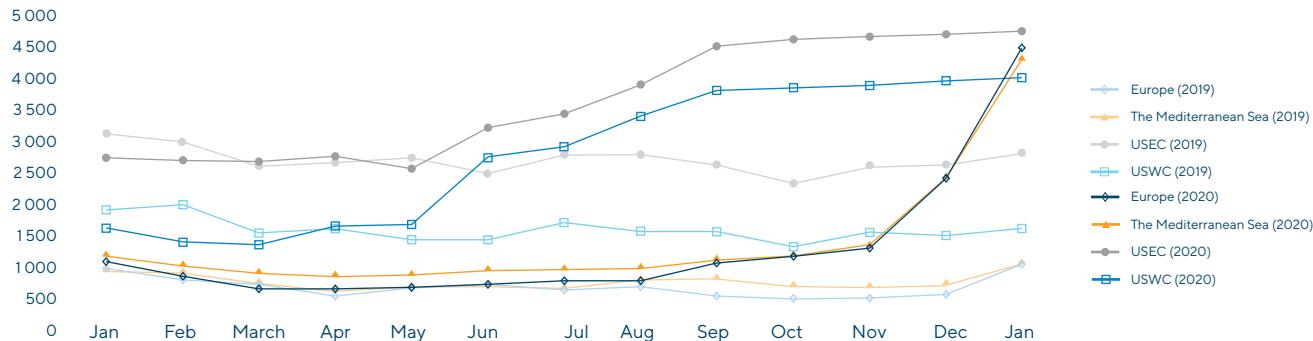
Despite the declining quality of service, the demand growth and the shortage of capacity led to an unprecedented increase in rates.

SCFI Spot Rate Index in 2010–2020



Source: Shanghai Shipping Exchange

SCFI Subindices for Main Container Transportation Corridors in 2019–2020



Source: Shanghai Shipping Exchange

The average value of the Shanghai Stock Exchange spot rate index (SCFI) as at 31 December 2020 exceeded 2,700 points, which is almost three times higher than before the outbreak of the pandemic in February.

The cost of shipping a 20-foot container to ports in Europe rose beyond USD 4,000. Amid the shortage of containers, the rates on the European trade have grown 3.5 times over the last three months of the year.

CONTAINER FLEET

Drewry estimates that by the end of 2020 the global fleet of shipping container equipment amounted to 39.9 mln TEUs, down 1.1% year-on-year. Since the volume of the port container transhipment market reduced by 3.3% last year compared to 2019, the supply-demand balance should not have deteriorated.

However, despite the huge demand, due to the acute shortage of empty containers in November, some ships were not fully loaded from Asia to Europe.

Meanwhile, much-needed empty containers were scattered in warehouses and depots across Europe, particularly in the UK, where catastrophic congestions forced the lines to restrict empty equipment returning to ports.

The boom in demand for container shipping led to increased investment in new container equipment. Global container production has already fully recovered after a 35% decrease in Q1 2020 and, according to Drewry estimates,

will amount to 2.67 mln TEUs at the end of the year, down 5% year-on-year. At the same time, demand remains high, and manufacturers report fully booked capacities for Q1 2021 in the portfolio of orders. According to analysts, production in 2021 will grow by 40% and the upward trend will continue in the subsequent years.

World Port Container Turnover Index



Source: Drewry

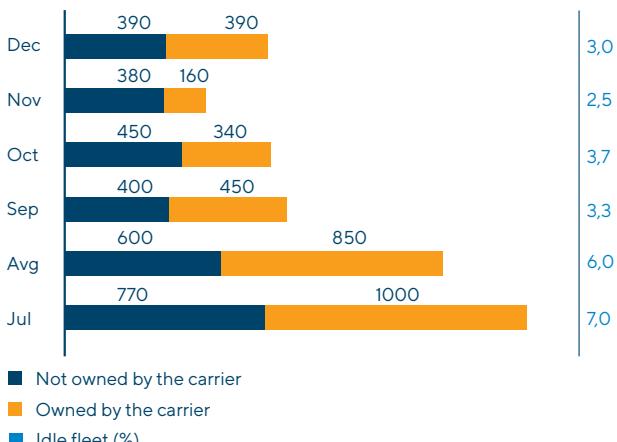
The increasing equipment production volume will certainly contribute to reducing the shortage. However, it is of primary importance to normalize the demand for transportation and the shipping schedules, as the negative impact due to the pandemic diminishes.

FLEET

DATA ON THE CAPACITY OF THE GLOBAL CONTAINER SHIP FLEET IN 2020

At the peak of the pandemic in Q2 2020, the drop in demand, rates and the inability to predict the further development of the situation urged the lines to abandon the construction of new ships. This period also saw a peak in demand for the disposal of obsolete ships and a record amount of idle fleet. Massive cancellations of transports meant that more than 2.7 mln TEUs of capacity (about 12% of the global container fleet) were idle by the end of spring, according to Alpahliner. This is an absolute record high over the entire history of the industry. By the end of the summer, the capacity of idle tonnage decreased to about 1 mln TEUs, in September - to 650 thousand TEUs, or only 2.7% of the operating fleet.

Idle Fleet ('000 TEU)



Source: Drewry

However, by the autumn the container ship recycling market slowed to a minimum, while the lines resumed orders of new tonnage.

OUTLOOK FOR 2021

Analysts are cautious in their forecasts. Despite the reached compromise in the trade war between China and the United States, experts note that the reached truce is very fragile, and the probability of a resumption of "hostilities" is very high – the existing contradictions are almost insoluble.

The coronavirus pandemic has driven profound transformations in the shipping industry and related supply chains. To cope with the disruptions caused by the pandemic, the participants of the shipping market had to review their business and financial processes, labour safety and health protocols, and amend the formats of labour organisation.

The beginning of 2021 for the container market was marked by large imbalances in the availability of container equipment among suppliers and consumers, resulting in a considerable increase in the shipping rates.

Maersk predicts normalization of the container transportation market in 2021. It is noted that, despite the challenges due to the global pandemic, the Company expects container transportation volumes to normalize in 2021.

Danish transport and logistics company A.P. Moeller-Maersk AS observes the imbalance in the global container shipping market amid a shortage of containers in China and expects it to recover in 2021. Analysts anticipate the key factors affecting freight rates to mitigate (shortage of containers, chartered ships and free warehouse space in ports).

According to the UNCTAD forecast, the market will grow by 4.8% in 2021. UNCTAD notes that the shipping industry has been very successful in dealing with the crisis. At the height of the pandemic, when a sharp drop in demand exacerbated the traditional structural imbalance of the market, the container transportation market players showed great discipline by reducing capacity and cutting costs to ensure profitability without trying to take a market share. As a result, despite the drop in demand, it was possible to ensure the stability of freight rates. For shippers, however, these strategies meant a serious supply shortage and delays in delivery.