

NEWSLETTER

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Japanese carriers facing larger losses than expected

The three Japanese carriers MOL, NYK and K-line have adapted their previous profit/loss reporting since they have faced heavier losses at the end of last year than originally budgeted. MOL reported three months ago a loss of us dollar 52 million. Today however they have launched an estimate of no less than us dollar 376 million based on the figures realized over the 3th quarter of last year.

The first nine months of 2011 they have faced a dramatic performance with a loss of us dollar 326 million already. NYK had estimated a loss of us dollar 234 million for their financial year ending in March 2012. However new calculations have revealed that the shortage will most probably be amounting to us dollar 326 million. During their first nine months of their financial year, up to December 2012, NYK was already confronted with a negative performance of us dollar 223 million.



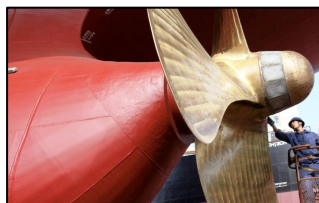
Also K-Line is not able to avoid the downwards results since they have forecasted a loss of more than us dollar 700 million for their current financial year. Last October K-Line had still foreseen to loose only us dollar 415 million but regretfully they have achieved a loss of us dollar 560 million after their first nine months. Although the loss figures per carriers are substantially different, their explanations for this performance are similar. In both bulk and container shipping the freight rates are down caused by a substantial overcapacity of the trade.

Also bunker charges have increased due to the global oil prices. This year the average price bunkers is us dollar 655 per ton, which is an increase of 38.6% on an annual basis. Three more reasons are little more obvious. The Japanese car export was hit by the earthquake and also the floods which hit Thailand had a negative impact on the volumes shipped on the Japanese car carriers. Last but not least, the strong position of the Japanese currency is contra productive for the shipping lines to keep their costing under control.



More idling required as slow steaming reaches limit

The total capacity absorbed through additional slow steaming has increased slightly during the last six months with rising bunker prices, but the positive effects on overall fleet employment have been nullified by the closure or suspension of several long haul loops that were already operated in Extra Slow Steaming mode. During most of 2011, the capacity absorbed by ESS oscillated between 650,000 and 730,000 teu.



Slow steaming is now firmly rooted and practiced on almost all long haul routes, currently absorbing 750,000 teu or 4.9% of the total containership fleet. Of the long haul services which are not on ESS, most are on first step slow steaming, usually achieved through port omissions while retaining the same number of ships deployed. Rising fuel prices have prompted carriers to stretch 25 long haul loops by a week longer transit time since September 2011.

However this rise in absorbed capacity has been overshadowed by a rise of the idle fleet. Numerous service withdrawals on long-haul routes since July have resulted in an increase of the idle fleet from 330,000 teu at the end of September to 680,000 teu currently. Further capacity withdrawals will be required in the next few months to address the over-supply challenge, as additional capacity absorption through slow steaming is expected to remain limited.

The potential to slow down further is limited. The application of Super Slow Steaming (SSS), consisting in reducing the speed of large ships from 18 to 15 knots, does not bring the same benefit than a reduction from 21 to 18 knots, as the fuel consumption curve is exponential. Slowing down an already slow ship does not bring the same fuel saving potential than slowing down a faster ship.

Hanjin ending 2011 in red

Korean shipping operator Hanjin Shipping has reported as first global container carrier their financial results for 2011. The loss calculated is us dollar 436.7 million. This does not really comes as a surprise since quarterly reporting's of most carriers had already projected severe losses last year. Therefore it's expected by analysts that Hanjin will only be the first one in a long row to follow.



Nevertheless Hanjin transported 4.17 million teu during 2011 which is an increase with 12.4%. Same parameters as other carriers have caused the occurred losses being high bunker prices and low freight rates. Both reasons have been worsening throughout the year resulting in an even worse Q4 then the previous quarters. The total negative result announced for the liner activities is amounting to us dollar 487 million. This was slightly improved by the small profit realized by the bulk department.

During 2010 the Korean shipping line could still achieve a positive result of us dollar 563 million. According to a Hanjin statement, the operator expects the container freight tariffs will remain under pressure during 2011 because of the deliveries of a huge number of ulcs and vlcs units. Therefore the shipping lines will be forced to further optimize their present services. The Korean carrier also expects the bunker costs will be rising further during 2012.



Hanjin will be taking measures to turn around the occurred losses by increasing the freight tariffs and improving their liner operations and network. There will be no further internal cost saving program. Hanjin expects the bulk division will further improve their performance by benefitting of the increased demand of the Chinese economy for iron ore.

Increased demolishing of container vessels

Ship brokers are predicting an important increase of demolishing older container tonnage during 2012. Braemar Seascope, one of the largest chartering and purchase shipbrokers in the world, stated they had sold last year around sixty container vessels for demolition. The total capacity involved was 80.000 teu. For this year the brokers expect there will be disappearing another 120.000 teu.



This prognosis is quite close to the one announced by Maersk Broker. They are predicting some 115.000 teu will disappear from the scene. Maersk Broker mentions however they expect this forecast is rather conservative. When the liner situation would be worsening during 2012, the increase of older tonnage being offered for demolition will increase. During 2009 at the top of the liner crisis, 380.000 teu were being knocked down.

Because of the situation in 2009, many of the older tonnage has already been withdrawn from the trade. The average vessels age of last year demolished fleet was reported to be 29 years old. Mainly vessels with older engines, and thus high fuel consumption and bad emission reports, are targeted today. Braemar Seascope stated they had seen an increase in demand for demolition of container vessels during Q4 of 2011. Also at the beginning of this year an increasingly demand was noticed.

The MSC Mahima has reached the beaches of Alang to be dismantled. The vessel was originally built by the Chargeurs Réunis back in 1985 at the ship yard of Saint-Nazaire in France. It was named "CR Paris" and has a 2.500 teu capacity. The French carrier originally ordered the vessel to be employed in the Europe/Asia trade where it had a working relationship with Belgian CMB.



The service was operated under the name of "FBS - Franco Belge Services". The ms "CR Paris" was renamed "Maersk Tacoma" when Maersk Line acquired the rights of FBS, Later on the vessel was also chartered by Hapag Lloyd, Cosco, Sealand, Zim and the Shipping Corporation of India. Since 2007 it was operated by MSC.

MSC #1 for USA-trade

During the first nine months of 2011, the import and export volumes to the United States amounted to 21.65 million teu. This is an increase of 5% compared to 2010. The ten largest container carriers counted for 65% of the total volume. MSC transported 2.44 million teu during this period and can consider itself as the largest container operator of the US-trade lanes.



The figures include all loops to and from Northern America, including the Transpacific services which are representing already 50% of the total volumes. Thanks to a growth of 16%, the Swish container operator was able to enlarge their market share. Competitor Maersk Line transported 2.23 million teu during the same period. For Maersk Line this was a decrease of their volumes with 2%. Only French carrier CMA CGM could compete with MSC in relation to growing figures.



They also achieved 16% plus on their trade last year with a volume of 1.2 million teu. They are ranked six thanks to this result, just before the Korean operator Hanjin Shipping. After MSc and Maersk, Hapag Lloyd, APL and Evergreen are the next ones in line with volumes transported to/from USA. Hapag Lloyd achieved an increase with 3% more volumes, while APL had a small decrease of 1%. Evergreen ranked five could also achieve a small profit of 1% more containers.