NEWSLETTER

 # 25 – July 2011

CSAV drops NACSA service, its 3rd recent service loss

Chilean carrier Compania Sud Americana de Vapores (CSAV) has announced it is ending its NACSA service between Mexico and the US west coast, the third service it has dropped in recent weeks.

The rotation is Manzanillo, Long Beach, Oakland, Seattle, Vancouver, Oakland, Long Beach and Manzanillo, with connections to the Caribbean and South America. It ends with a last sailing from Long Beach on August 4. Citing "unfavourable economic environment affecting trade between North America west coast and South America west coast, Caribbean and Central America", CSAV also said it was in talks with Mediterranean Shipping Co (MSC) and CMA CGM to join services on several trades in Asia, South America, Africa, and Europe.

CSAV suffered a US$700 million operating loss in 2008 and 2009 before rebounding with a $218 million profit in 2010 on the back of a rapid fleet and network expansion in 2009 and 2010. But 2010's profit ranked only 14th of 15 lines analysed by American Shipper in its annual Who's Making Money report for 2010, a year in which every major container line made hundreds of millions of dollars of profit. The line performed worst out of 13 carriers examined in terms of profit per TEU carried in 2009 and 2010, according to the American Shipper survey.

Time to anchor container capacity ??

The container industry is in dire need of a correction on the supply side and even the realisation of a decent peak season demand surge this summer will not provide enough momentum to lift severely eroded freight rates in the key east-west trades.

Container operators will find it a very challenging environment this year in which to make money, but there is a major difference between this year and the recession-ravaged 2009. We are forecasting an 8.1% growth in global container traffic for 2011 and so, other than rising fuel costs, responsibility for the inability to run their business models profitably can only be laid at the feet of the carriers themselves.

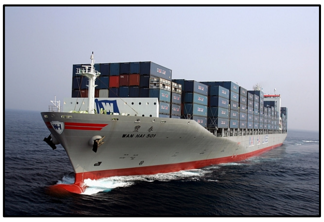
Ocean carriers have continued to launch new services in the key east-west trade lanes, many of them also upgraded with the latest 13,000 teu giants delivered from South Korean yards, but this has severely contributed to overcapacity with average load factors in the headhaul transpacific and Asia to Europe routes remaining at only 80-85%.

In this environment, freight rates have massively declined on the Asia to North Europe route where in some cases spot rates are not even covering quoted bunker surcharges of around $750 per teu. Planned rate restoration programmes have been postponed and there is little hope of carriers imposing meaningful peak season surcharges.

The industry knows that laying up ships is the answer and that attempts in withdrawal of limited capacity from the main east-west trades is not enough corrective surgery. The fact that many ships are just being recycled into other trade lanes is also merely transferring the pain elsewhere. Neil Dekker, editor of the Container Forecaster, said: "Contrary to what happened in 2009, there is currently no common strategy or discipline among carriers to lay up ships to redress the supply/demand balance."

The fuelling of the newbuild market is not helping current sentiment and we are running the risk of repeating the mistakes of the ordering frenzy of 2007/08 – the legacy of which the industry is still paying for now. Two million teu of capacity has been ordered in the last 12 months and 80% of this is in the 8,000+ teu sector. Despite fears of a lack of funding from the financial sector, this does not appear to be a problem and some Greek owners are even placing speculative orders.

Dekker commented: "The deilemma is that each carrier is aware that its top priority is to be cost-competitive, even if the collective impact of individual orders for lower unit-cost vessels is weakening the market." The outcome is that we are forecasting a 20.8% year-on-year decline in 2011 for average east-west freight rates (excluding fuel) – during a period when container volumes have remained strong.



Carriers have got it wrong this year and there has been an unwelcome and very quick return to the massive freight rate volatility so loathed by the shipper community. With current mid-year fundamentals in mind we forecast that the carrier industry could make significant losses in 2011. Maersk has highlighted that there needs to be a revolutionary way of thinking within the industry, but focusing on schedule reliability and environmental factors is not enough – carriers need to properly address the fundamental aspects of supply and demand.

The deployment of 13,000 teu ships, as is happening at the moment, into trades with load factors of 80-85% will not realise the savings and economies of scale that were envisioned when the orders were originally placed.

Highest level of deliveries ever recorded.

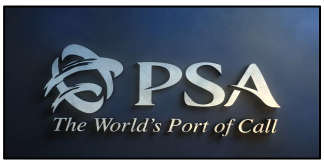
Deliveries of new containerships will reach over 200,000 teu in July, the highest level of deliveries ever recorded in a single month. The surge in new ships entering the market comes on the back of vessels totaling 747,000 teu, which have been delivered in the first half of this year. Total new ship deliveries for the first seven months of the year will reach 950,000 teu, or 7.3% of the fleet.

Alphaliner estimates that 1.45 Mteu will be delivered within the full year 2010. This represents 11.1% of the world fleet at January 2010, with slippage and cancellations limited to only a small part of the container ship orderbook. The July record will be achieved due to the deliveries of at least 8 units of over 10,000 teu. Only 7 units of this size were delivered in the first six months of the year. Deliveries of these large containerships are expected to continue, with 12 more units of over 10,000 teu planned for August and September.

These units are to be handed over to only four major operators - CMA CGM, Maersk, MSC and Zim (with Evergreen taking one of the Zim ships on charter). These VLCS/ULCS deliveries bring the average size of the new ships delivered in July to more than 6,000 teu. The previous monthly record was registered in April 2008 when 156,000 teu of capacity were delivered. At that time however, the average size of the new vessels was only 3,700 teu.

NOL parent doubling profit figures

Singapore's state-linked investment firm Temasek Holdings, who controles NOL, PSA, Singapore Airlines and others, said its net profit more than doubled in the year to March while the value of its global portfolio hit a record high.



Net profit for the year ended March 31 totalled Sg$13 billion ($10.6 billion), compared with Sg$5.0 billion the previous year. The company - which holds stakes in Singapore Airlines and other firms in telecoms, finance and real estate among others - also reported a record year-end portfolio value of Sg$193 billion, up from Sg$186 billion.

Net profit surged "due to higher contributions from Temasek investment activities and improved profits from it's portfolio companies," Temasek said in a statement.

Total shareholder return was 4.6 percent during the financial year. Total shareholder return stood at a compounded 7.0 percent over a five-year period and 9.0 percent over 10 years. "During the year, Temasek maintained its steady pace of investments and divestments," Temasek said. "It supported the recapitalisations of its portfolio companies, and stepped up its investments in the energy and resources sector, as well as in non-Asia growth economies such as Latin America. Temasek closed the year with net cash."

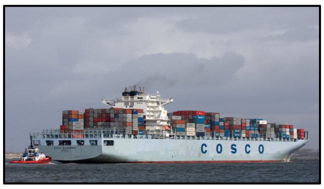
The profit rise is a sharp rebound for the state-linked investment company after a plunge of 26 percent in the previous financial year, which reflected heavy losses in the aftermath of the global financial crisis.

Temasek chairman S. Dhanabalan said the firm had performed well despite remaining challenges for the world economy. "While Asia rebounded swiftly in 2010, the USA and European economies continued to face uncertainties," he said in a statement. "Rising debt burdens, inflation risks and political upheaval in the Middle East tested the resilience of the global economic recovery," he added.

Temasek holds stakes in sectors ranging from telecommunications, financial services and transportation to life sciences, real estate and energy. The company said Asia accounted for 77 percent of its portfolio exposure, including 32 percent in Singapore. North America and Europe plus Australia and New Zealand accounted for 20 percent and Latin America and other non-Asia growth regions for 3.0 percent.

Temasek said it made investments of Sg$13 billion during the year, with divestments totalling Sg$9.0 billion. China remained the firm's largest investment destination. "We will continue to invest in the transforming economies of Asia and Latin America," said Temasek chief executive Ho Ching. "At the same time, we remain open and ready to participate in opportunities in mature markets such as our recent investments in the USA."

<u>Cosco Shipping plans to spend around Us$1.5 Bln to buy up to 40 ships</u>



Cosco Shipping Co. (600428.SH), the heavy-lift and project cargo unit of state-owned China Ocean Shipping (Group) Co., plans to spend around US$1.5 billion over the next four to five years to buy up to 40 new ships and replace older vessels, the South China Morning Post reported Tuesday, citing Cosco Shipping Chief Operating Officer Guo Jin.

The report cited Guo as saying that the company’s fleet renewal program will coincide with a revival in offshore oil and gas exploration by major energy companies.