

Webinar presentation

Rising sea freights: the onset of a new trend?

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Presenters

Carolina Pereira

Director

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- During her time with CW Group, she has lead several research and consulting projects for a wide array of global clients in several industries, from cement to chemicals.
- She holds a degree in Management from Coimbra Business School and is currently a Director at CW Group and based in Lisbon, Portugal.

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- Responsible for providing qualitative and quantitative analysis for CW Research. Manages BD for research and consulting projects in Middle East, Asia, and Africa.
- Bachelor's Degree in International Business and Economics from Saint Peter's University, New Jersey, US and a Master of Science degree in International Business from Seton Hall University, New Jersey, USA

Agenda

- Introduction to CW Group
- Macro economic overview
- Sea freight analyses

About the CW Group

Advisory

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- Strategic advisory
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- M&A advice
- Transaction support
- Due diligence

Research

BUSINESS DECISION SUPPORT

- Syndicated market / industry study reports
- Reference forecasts
- Data and chart-books
- Commodity price assessments

Media

MEDIA & MEETINGS

- Market reporting services
- Newsletters
- Online data access
- Publications
- Meetings

Seasoned experts



CEMENT, BUILDING MATERIALS & CONSTRUCTION

Business & technical



STEEL, METALS & MINING

Network & access



CHEMICALS

Proprietary data

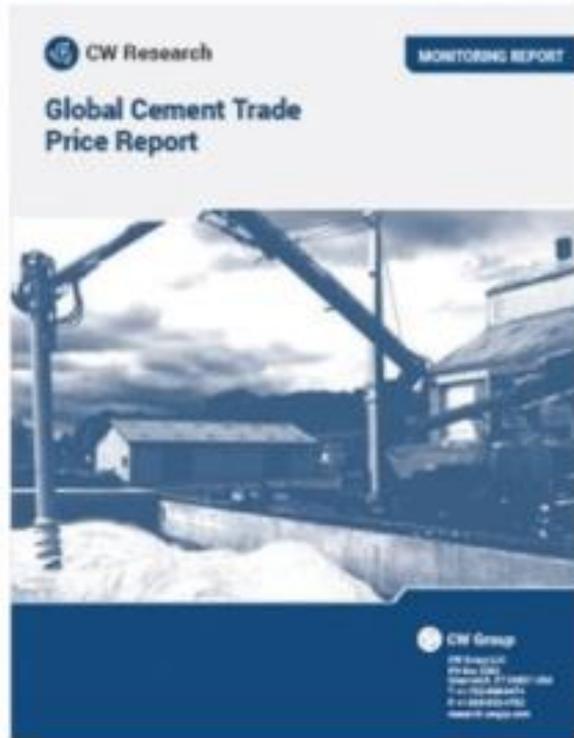


POWER, ENERGY AND SOLID FUELS



DRY BULK CARGO, PORTS AND INFRASTRUCTURE

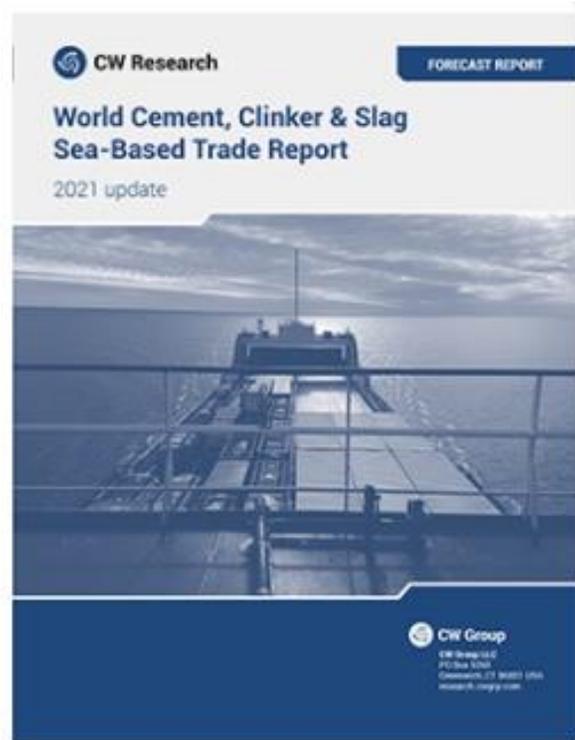
CW Research – relevant reports



Global Cement Trade Price Report



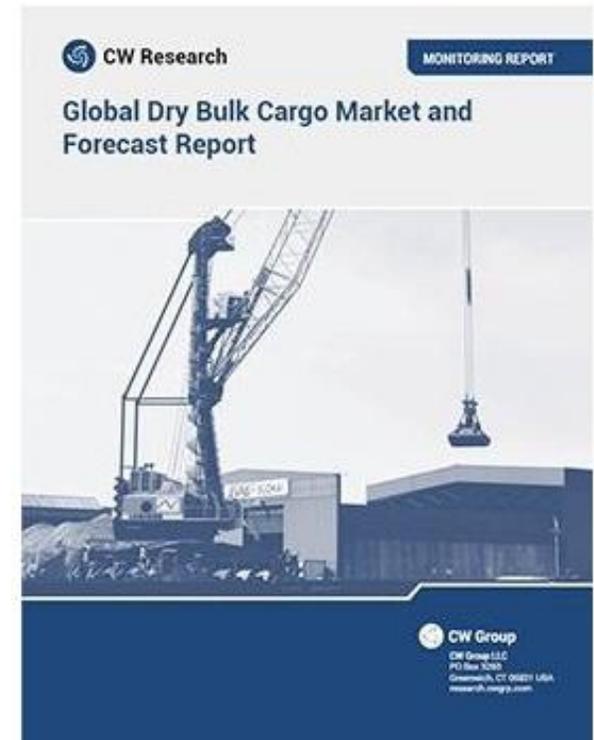
<https://www.cwgrp.com/cemweek-reports/product/1-global-cement-trade-price-report>



World Cement Clinker & Slag Sea-Based Trade Report



<https://www.cwgrp.com/bulkweek-reports/product/328-world-cement-clinker-slag-sea-based-trade-report-2021-forecast-through-2026>

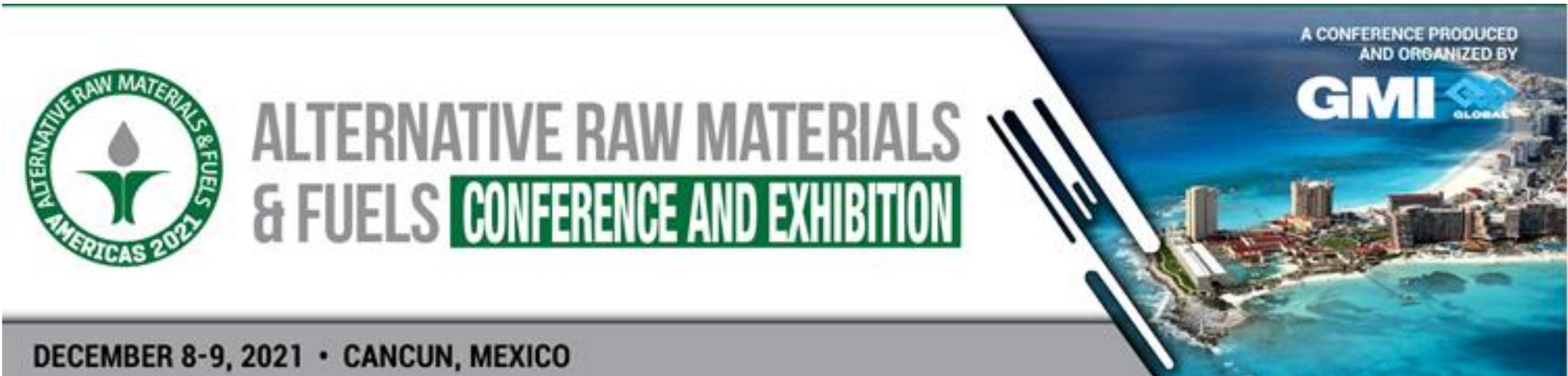


Global Dry Bulk Cargo Market and Forecast Report



<https://www.cwgrp.com/cemweek-reports/product/331-global-dry-bulk-cargo-market-and-forecast-report-2021-edition>

Upcoming meetings



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<https://www.gmiforum.com/conferences/afarmamericas2021>

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CW Group has secured 2 speaking opportunities:

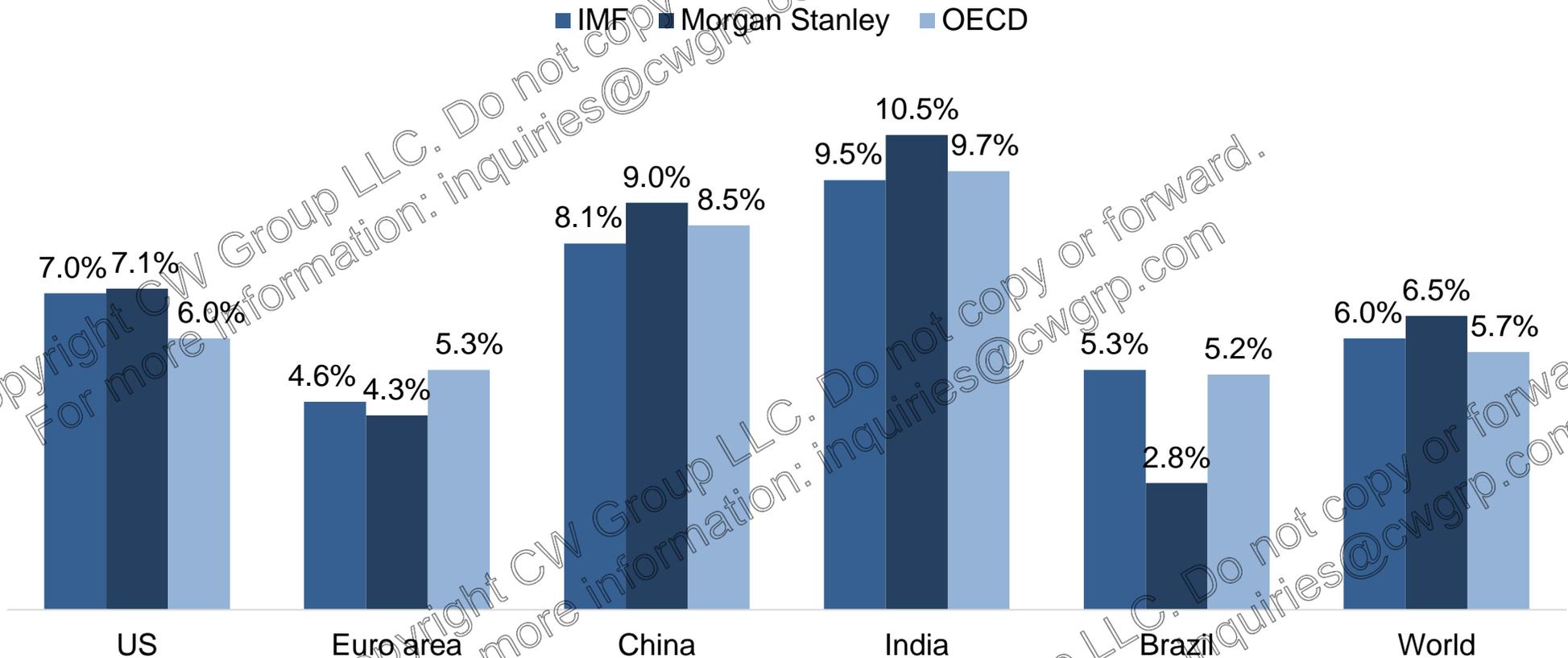
- **Robert Madeira** – Managing Director and Head of Research
- **Carolina Pereira** – Director

Macroeconomic overview



Global economy witnessing a strong recovery, however, variants of Covid-19 continue to cause economic disruption

World Economic Outlook 2021 (% GDP)



- According to the IMF's July update on the World Economic Outlook, an increase of 6 percent is expected for the global economy
- Meanwhile, the OECD latest outlook predicts a smaller growth of 5.7 percent for the global economy as many countries still struggle with the pandemic's effects on their economies

The new “Delta” variant poses concerns across the globe even with the vaccine rollout

Global Covid-19 cases



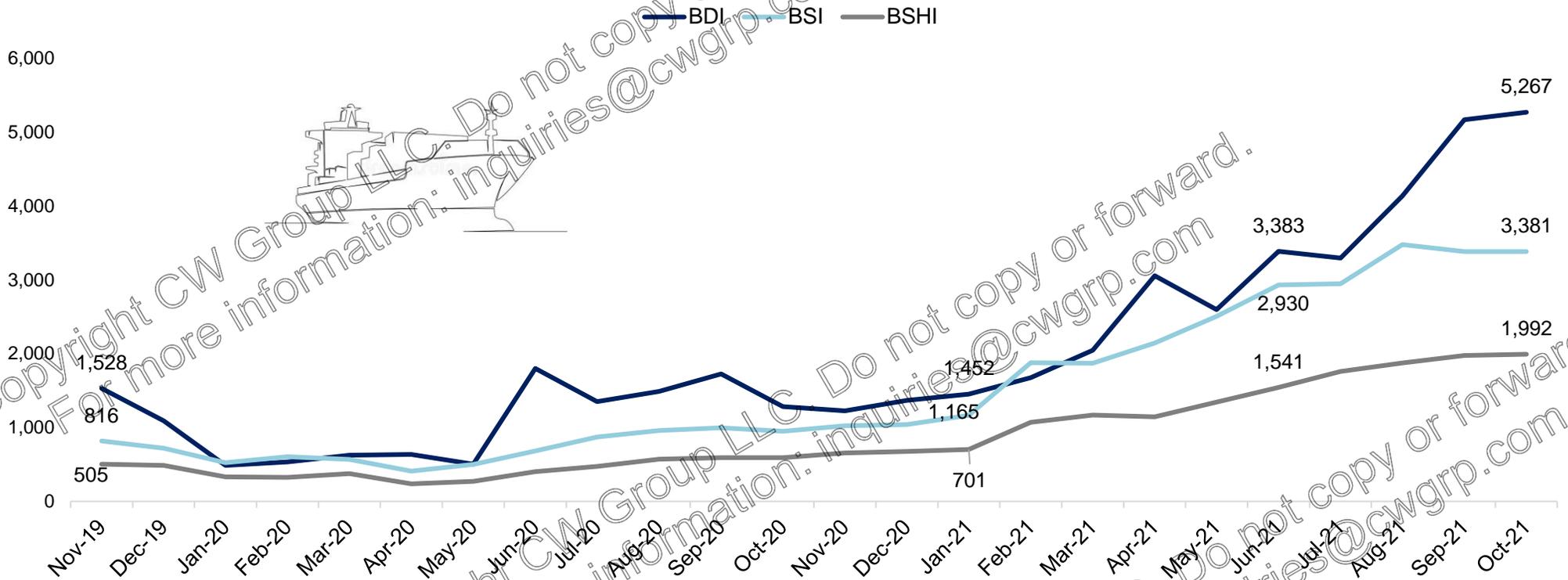
- Globally, as of October 7th, there are 237.2 million cases of Covid-19
- Around 6.41 billion doses have been given until October 7th
- An estimated 41.7 percent of the world population has been fully vaccinated against Covid-19
- Only 4 percent of people in low-income countries have received at least one dose

Sea freight analyses



The BDI index has been accelerating since March; since May its increase has been unrelenting

Global Freight Indices



- After multiple falls last year due to the pandemic and oil prices decline, the BDI started to have a strong recovery in the beginning of the year
- Since then, a surge in demand for commodities, including iron ore have not only lifted the bulk carrier market but also fueled stronger volumes for dry bulk freight as economic recovery strengthens globally

Sharp rebound in global manufacturing activity, port backups and lack of sufficient container capacity are contributing to rising costs

- Global trade collapsed in 1H 2020 as the pandemic struck
- In November 2020 imports had reached their pre-crisis levels

This led to increased demand for Chinese exports and for container shipments

- Shortages of containers at Asian ports exacerbated supply bottlenecks resulting in further increased shipping costs

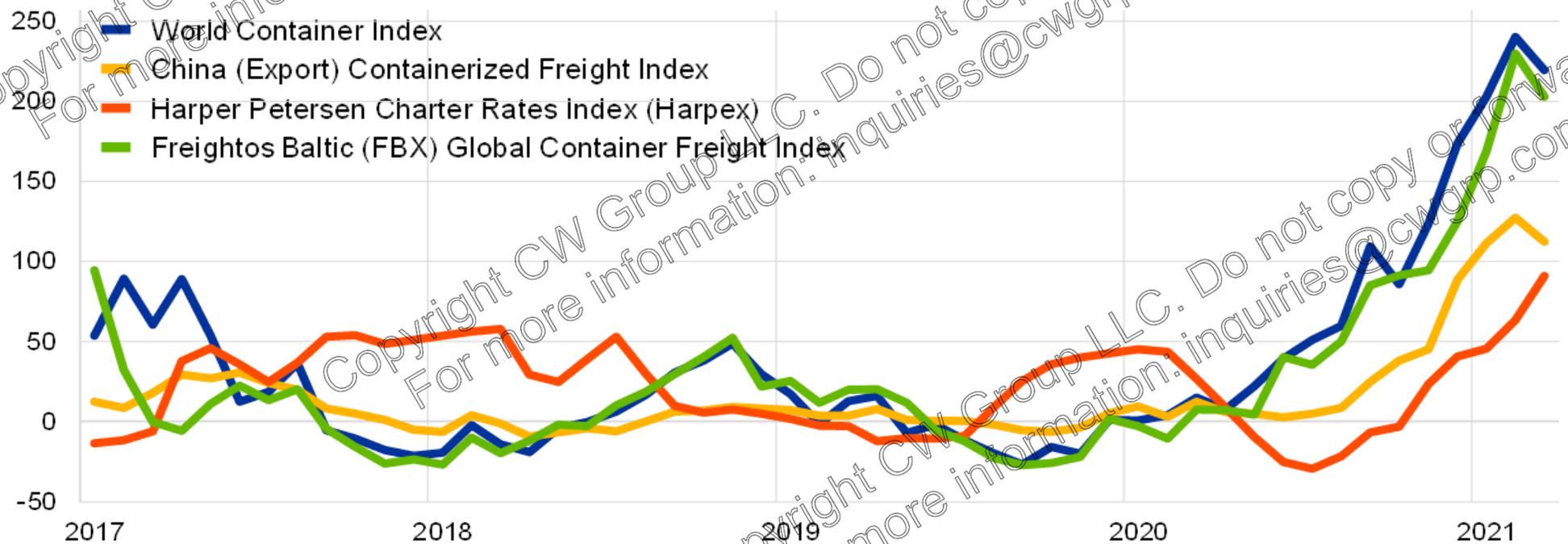


Containers at Ningbo port, Zhejiang Province in China, on Aug. 15. Photographer: Suo Xianglu/VCG/Getty Images

- Port backups were among the issues at the onset of the pandemic, and they continue to persist, limiting the number of containers ports can accommodate

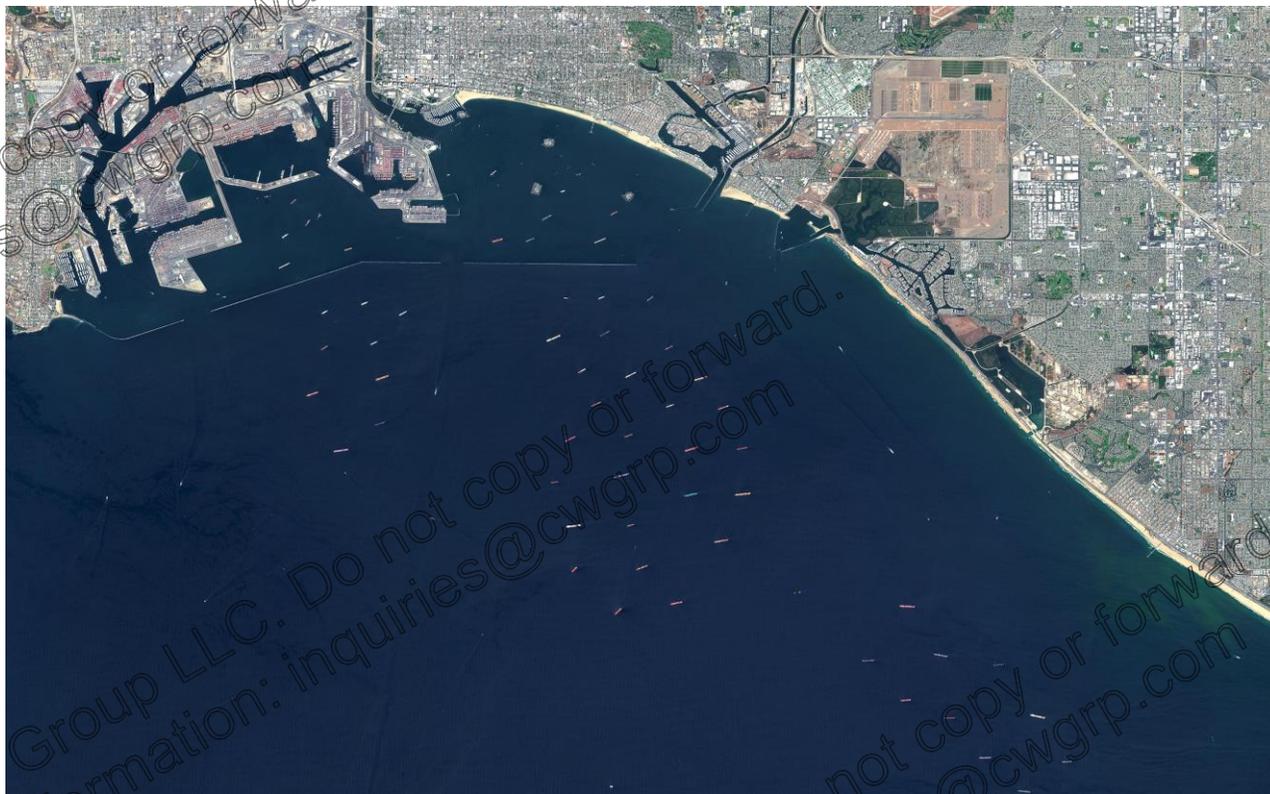
With China's position as the global manufacturing hub remaining unchallenged, capacity will continue to be under pressure

- The rise in shipping costs has been further aggravated by limited air freight capacity since international flights remain limited due to travel restrictions
- Another persistent issue has been that carriers have intentionally cut capacity on major routes
 - The container shortage caused by backups escalates the problem and contributes to the vicious cycle of lack of sufficient capacity pushing rates to stratospheric levels
- It is important to note that this is an issue across the supply chain as reliance on China's manufacturing capacity is now showing its disruptive potential



Divergent regional growth patterns and tougher environmental regulations will shape the shipping industry over the coming years

- Global container demand growth is expected to remain robust on the back of strong economic recovery in the US, China and the EU
- Container demand continues to outpace supply in 2020 and into 2021, but the true drivers of high freight rates continue to be congestions in ports and supply-chain bottlenecks
- Capacity at ports: Vessel waiting time has increased requiring more ships per string to lift same cargo volume
- Returning empty containers back to Asia is challenging. All major shipping companies are trying to redirect the flow back to Asia to ensure adequate capacity
- However, turn-round times continue to increase driven by landside and seaborne delays

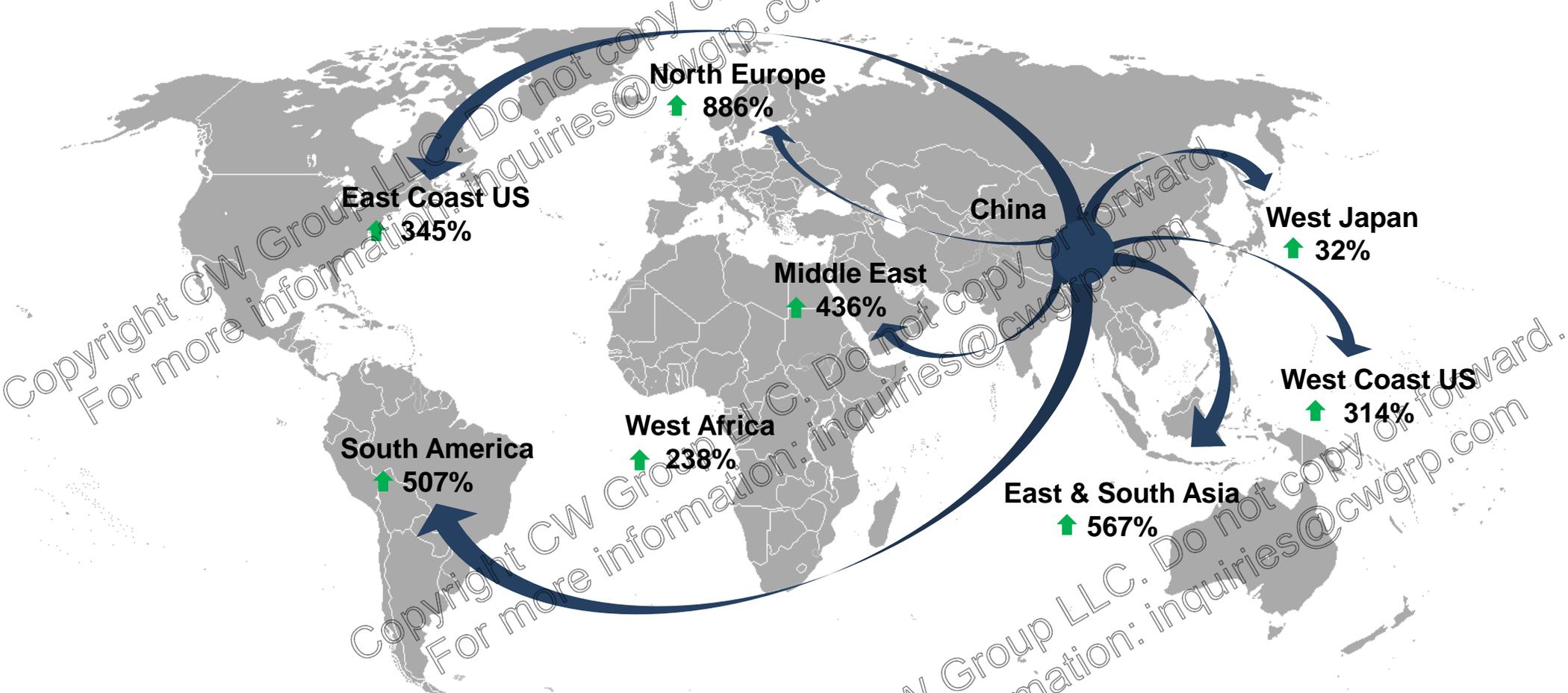


Satellite image of congestion at Los Angeles and Long Beach ports, on August 26. Photographer: Gallo Images Editorial/Getty Images

- At LA/long beach the waiting time has risen with 70+ vessels anchored in mid-September. Covid-19 led shutdowns have delayed vessels from Asia
- Warehousing capacity has been reduced due to port and landside congestion

Container freight rates continue to be impacted by the supply challenge from China

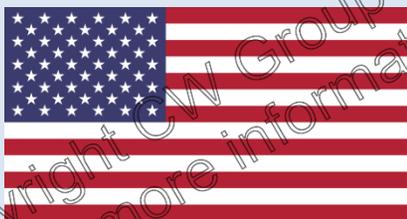
Spot container-freight rates



- In summer of 2022, should negotiations between the West Coast Ports (US) and the International Longshore and Warehouse Union be contentious, this could again add to backup delays on all major US west coast ports including Los Angeles and Long Beach

Divergent regional growth patterns and tougher environmental regulations will shape the shipping industry over the coming years

- G20 Merchandise exports and imports increased by 4.1 percent and 6.4 percent in the Q2 2021 compared to the previous quarter
- Economies more reliant on exports of primary commodities saw strong export growth in Q2 2021, on a combination of rising prices, limited global supply and strong demand from East Asia



U.S. exports grew 6.8 percent in Q2 2021 driven by aircraft, pharmaceuticals and semiconductors, while Canadian exports were up 4.7 percent on energy and forestry products



The European Union had exports grow by 2.8 percent in the quarter primarily by China and the U.S., while U.K. exports jumped by 12.3 percent



Exports from Japan and Korea grew by 2.7 percent and 2.2 percent respectively, while China's exports declined by 2.5 percent

The potential impact of a slowdown in the Chinese economy in light of recent challenges in the property market and rising tensions across the Taiwan Straits could materially impact trade flows in the short to medium term

The pandemic's impact continues to be felt unequally, with only some regions bouncing back quickly

- In the first seven months of 2021, cargo volumes between Asia and North America were up by 27% compared with pre-pandemic levels, according to bimco, a shipowners' association
- Port throughput in America was 14% higher in the second quarter of 2021 than in 2019 while throughput in northern Europe is 1% lower
- The industry, flush with profits, is reacting customarily, setting an annual record for new orders for container-ship capacity in less than eight months of this year with a two-to- three-year wait, this release valve will not start to operate until 2023
 - **“Just in time”** may give way to **“just in case”**, as firms guard against supply shortages by building inventories far above pre-pandemic levels
 - Shipping firms may be preparing for more regionalized trade. The order book is bulging for ships of 13,000-15,000 TEU, smaller than the mega-vessels that can only be handled at the biggest ports
 - Vietnam opened a new deep-water terminal in January 2021, which can handle all but the largest ships

Closing remarks

- Economic growth is expected for the next five years, as major economies start recovering from the pandemic
- Major markets including China, US, and several European countries could see increases
- Rise in sea freights is likely to persist longer than just the next couple of quarters
- If high costs and delays persist, some will judge that the benefits of proximity to suppliers outweigh the costs of bringing in goods made far away

About CW Research

CW Research is a leader in syndicated and data-driven market research solutions. The company offers independent perspectives on multiple industrial market segments (e.g., cement, metals & minerals, and specialty chemicals) and deep functional expertise in market intelligence, sourcing intelligence, commodity pricing intelligence.

CW Research also provides custom industry and competitive research programs for operating companies, financial analysts, consultants, governments, suppliers and many others as well as tailored studies together with CW Advisory. For more information: research.cwgrp.com.

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