MARKET REPORT

Q4 2012

Bonn, February 2013
The global recovery is proceeding at three very different speeds. Japan and most of Southern Europe is in recession. Others like much of Northern Europe, the United States, Canada, and Brazil are growing at a modest pace. The emerging markets continue to grow faster than the rest.

Despite the weak demand situation, the global orderbook still contains large “eco-ships” which are expected to drive carrier costs downwards. This supply infusion from the global orderbook would substantially offset demand in the next few years, resulting in volatile and depressed container rates.
ECONOMIC AND TRADE OVERVIEW

OCEAN FREIGHT MARKET

AIR FREIGHT MARKET
World GDP growth expected to be below 2012 with Europe still in recession and slower growth in the US; Stronger growth expected in key Asian economies

Global GDP: The recent acceleration in trade activity in key regions of the world indicate that 2013 might see the economic growth picking up as the year progresses. That said, the world economy is proceeding at three different speeds with some economies in recession, some growing at a modest pace and a third group of mostly emerging markets, growing much faster than the rest.

US: The fiscal cliff deal has averted most of the tax increases that otherwise would have kicked in at the beginning of 2013, but did not address the spending cuts nor raise the debt ceiling. A deal is expected on these items soon, but due the uncertainties, only a moderate level of growth is forecasted for the year.

Europe: The ECBs recent bond-buying plan and the Greek debt agreement has reduced the risk of a Greek exit in 2013, but the Greek economic and political situation is unsustainable and unless the EU allows serious debt relief, an exit is likely in the next few years. Meanwhile, the Eurozone recession continues driven by austerity, tight credit conditions, rising unemployment and muted global growth along with political uncertainty in Germany and Italy.

Asia-Pacific: Growth is starting to return in the key economies in the region with Japan and China showing positive economic trends. The new stimulus package announced recently is expected to turn Japan from its current recession towards positive territory in 2013. China meanwhile has seen growth return with double digit growth in exports in December 2012. While the export surge may not be sustainable, it does suggest that the drag on exports from the global slowdown has diminished.

Latin America: The good news for most emerging markets is that many of the headwinds of 2012 have either moderated or turned into mild tailwinds. The worst of the global “soft patch” seems to be over. World credit conditions are still very supporting of growth. Moreover, the recent upward move in commodity prices bodes well for the export earnings of Latin American economies.

Changes to economic outlook 2012 since last market report

<table>
<thead>
<tr>
<th>Upgraded Outlook</th>
<th>Downgraded Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ China +0.4</td>
<td>- World -0.1</td>
</tr>
<tr>
<td>+ EURO +0.5</td>
<td>- USA -0.7</td>
</tr>
<tr>
<td>+ SSA +0.1</td>
<td>- Brazil -0.6</td>
</tr>
<tr>
<td></td>
<td>- Eurozone -0.2</td>
</tr>
<tr>
<td></td>
<td>- Japan -1.1</td>
</tr>
<tr>
<td></td>
<td>- AMNO -0.4</td>
</tr>
<tr>
<td></td>
<td>- AMLA -0.2</td>
</tr>
<tr>
<td></td>
<td>- Asia Pacific -0.1</td>
</tr>
<tr>
<td></td>
<td>- MENA -0.1</td>
</tr>
</tbody>
</table>

Source: Global Insight, Copyright © Global Insight (Deutschland) GmbH, 2013
FURTHER ECONOMIC INDICATORS

Business confidence seen picking up towards the end of 2012 indicating optimism; Still no reason to worry on inflation with continued moderation expected in 2013

Purchasing Managers Indices for manufacturing dropping for key economies

Consumer Price Inflation expected to ease with concerns of an economic slowdown

Brent Crude Oil price to average $100 in 2013 but expected to weaken due to slower economic growth

Comments to Indicators

• Business sentiment: Recently, business sentiment has improved in many of the world’s key economies. In the United States, despite worries about the fiscal cliff, businesses in both the manufacturing and services sectors have become more optimistic. Most economies in Asia have also seen an improvement in the mood of businesses. The closely watched Chinese PMIs point to a further acceleration in growth, albeit modest.

• Inflation: Recent news on inflation around the world points to continued moderation. The slight increases seen in some countries in 2012 were mostly the result of increases in food and energy prices, which have since moderated.

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ECONOMIC AND TRADE OVERVIEW

OCEAN FREIGHT MARKET

AIR FREIGHT MARKET
2012 growth estimate downgraded to 1.9% due to weak peak season; 2013 forecast slightly higher at 3%, as nations deal with sovereign-debt issues

Comments

- The failure of peak season to deliver any strong gains due to the slowdown in the European trades and the slower growth in the US meant that the full year 2012 growth estimate was downgraded further to 1.9%
- As nations deal with the sovereign-debt issues in 2013 driving consumer expenditure lower, containerized trade growth is expected to be slow at around 3%
- For 2013, the back haul trade lanes are expected to drive growth as key emerging economies show renewed signs of growth after a year of slower growth

Source: Global Insight, Copyright © Global Insight (Deutschland) GmbH, 2013; Drewry; Seabury Cargo 2013
Trade with Asia the key driver of global volume growth for 2013

<table>
<thead>
<tr>
<th>Region</th>
<th>Size in mn TEUs</th>
<th>Growth in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>128.3</td>
<td>3.0%</td>
</tr>
<tr>
<td>Americas</td>
<td>22.4</td>
<td>2.9%</td>
</tr>
<tr>
<td>APAC</td>
<td>72.1</td>
<td>3.6%</td>
</tr>
<tr>
<td>EMEA</td>
<td>30.4</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Source: Global Insight, Copyright © Global Insight (Deutschland) GmbH, 2013
Capacity growth continues to out-pace demand; With further new deliveries expected, carriers expected to increase slow steaming and scrapping

**Underlying factors and implications**

- Despite the weak demand expected for 2013 in the key East West trades, there are significant new orders of primarily 10,000+ teu vessels that are scheduled for delivery in this year.
- The industry will be dominated by supply-side pressures for the next two years based on this supply that is expected to come into the market.
- To accommodate the new deliveries, it is expected that scrapping volumes will increase considerably, but most of this supply removal is expected to be from the smaller trade lanes, thereby not solving the excess supply issue in the core East-West trade.
- Most of the new orders are for eco-friendly, fuel efficient vessels that will enable operators to cut costs. However, it remains to be seen how operators manage their excess supply by balancing slow-steaming, scrapping and return of chartered vessels to accommodate this supply increase.

**Effective Capacity Growth vs. Net Cargo Slot Moves Growth**

- **Global View**
  - 2011: 8.7%
  - 2012: 4.9%
  - 2013: 6.3%

- **East-West View**
  - 2011: 14.7%
  - 2012: -3.1%
  - 2013: 4.0%

**Supply vs. Demand Growth**

- **Global**
  - 2008: 15%
  - 2009: 5%
  - 2010: 0%

- **East West Head Haul**
  - 2011: 5%
  - 2012: 1%
  - 2013: 0%

Source: Drewry: Data above is after adjustments for market factors – i.e. Box supply, differential vessel productivity, deadweight/slot ration, vessel routing factors, vessel design and operating speed/slow steaming, trade distance, high cube slot-loss and port productivity.
Due to the uncertainties in the market, OFR rates are expected to remain volatile in 2013, similar to the previous year.

**Shanghai Containerized Freight Index (SCFI):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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<tbody>
<tr>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
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</table>

**Drewry Global Container Freight Rate Index (USD per 40ft container):**

- Rates are all inclusive BAF (Bunker Adjustment Factor) and THC (Terminal Handling Charge) both ends per 40ft container, based on 42 individual routes, excl. Intra Asia. Index reading Jan ’11 is USD 2,415 per 40ft container.

**Underlying factors and implications:**

- Despite GRI announcements, the supply-demand imbalance has continued dragging rates downwards.
  - In the Asia Europe trade lane, carriers have reduced rates to attract cargo for the Chinese new year, thus driving down the index in January.
  - According to carriers, the recent round of rate increases was to prepare for negotiation for contracts in the New Year. But the price-cutting competition for cargo brought down the rate. To maintain rate on a steady level, many carriers have announced plans to levy peak season surcharges.

- East-West rates to climb even higher.
  - East-West index jumped 57% in the eight months to the end of August 2012, but has since dropped due to the tumbling of the Asia-Europe trades.
  - Due to the weakening head haul demand and a continued influx of new build capacity, particularly of 10,000+ teu, spot markets are expected to remain weak for year 2013.

Source: Shanghai Shipping Exchange, Drewry
ECONOMIC AND TRADE OVERVIEW

OCEAN FREIGHT MARKET

AIR FREIGHT MARKET
Air freight volumes fell in 2012 due to weakness in demand for goods; 2013 forecasts are positive driven by improving consumer confidence.

### Annual Volume Development in Mio Tons & CAGR %

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>18.8</td>
<td>19.9</td>
<td>19.4</td>
<td>17.1</td>
<td>21.3</td>
<td>21.4</td>
<td>20.9</td>
<td>21.2</td>
<td>22.1</td>
<td>23.0</td>
<td>24.0</td>
</tr>
</tbody>
</table>

### Air Freight Cargo Growth in %

#### Annual growth in %

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.9</td>
<td>-2.3</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>-1.5</td>
<td>1.4</td>
<td>4.9</td>
<td></td>
</tr>
</tbody>
</table>

#### Monthly growth in %

<table>
<thead>
<tr>
<th>Month</th>
<th>Jul '11</th>
<th>Aug '11</th>
<th>Sep '11</th>
<th>Oct '11</th>
<th>Nov '11</th>
<th>Dec '11</th>
<th>Jan '12</th>
<th>Feb '12</th>
<th>Mar '12</th>
<th>Apr '12</th>
<th>May '12</th>
<th>Jun '12</th>
<th>Jul '12</th>
<th>Aug '12</th>
<th>Sep '12</th>
<th>Oct '12</th>
<th>Nov '12</th>
<th>Dec '12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>-0.4</td>
<td>-3.8</td>
<td>-2.7</td>
<td>-4.7</td>
<td>-3.1</td>
<td>-8.0</td>
<td>-0.7</td>
<td>-4.2</td>
<td>-1.9</td>
<td>-3.2</td>
<td>-0.8</td>
<td>-3.5</td>
<td>0.2</td>
<td>5.2</td>
<td>0.8</td>
<td>0.6</td>
<td>1.6</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

**Comments**

- Weakness in developed economies was the key driver for the falling air freight demand, with important markets linked to Europe showing the most decline.
- Demand drivers are weak overall for 2013 as well, but a positive development however is the improvement in US and emerging market consumer confidence over recent months.
- The forecast for 2013 is positive, although much would depend on the economic environment and on the developments in Europe.

Source: Global Insight, Copyright © Global Insight (Deutschland) GmbH, 2013; Seabury Cargo 2013, IATA
Asian exports the key driver of global volume growth for 2013

### Air Freight - Volumes & Growth on Key Routes

#### Source: Seabury Cargo, 2013

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<thead>
<tr>
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<th>Size in mn Tons</th>
<th>Growth in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>20.7</td>
<td>1.3%</td>
</tr>
<tr>
<td>Americas</td>
<td>5.2</td>
<td>0.9%</td>
</tr>
<tr>
<td>APAC</td>
<td>8.8</td>
<td>2.3%</td>
</tr>
<tr>
<td>EMEA</td>
<td>6.7</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Size in mn Tons
Growth
12-13
Capacity continues to outstrip demand in the market, putting further downward pressure on load factors and freight rates

### Supply vs Demand Growth in %

- Air freight capacity has remained relatively stable through most of 2012 driven by the weak demand environment that was forecasted in the market.
- However, the decline in traffic demand was greater than expected, leading to a fall in load factors in 2012 compared to the previous year.
- The increased passenger traffic forecasted for 2013 is expected to push supply upwards driven by the higher belly hold capacity that will be available. Carriers are expected to manage this by withdrawing freighter capacity in the market.

### Cargo Fleet Composition in number of units

- Freight load factors continued its drop through 2012 driven by the increased capacity from the belly holds of wide-body aircrafts. Freighter capacity has remained relatively stable through the year.
- Further new Wide-body aircraft deliveries, driven by increasing passenger traffic, are expected to increase the market capacity further. This is expected to put higher pressure on load factors and freight rates in the short term.

Source: IATA
Feeble demand and excess capacity exerts pressure on rates; Improved consumer demand in the US results in inbound freight rates increase

- Airfreight rates slipped in December as the trade returned to business as usual following the volume boost of earlier new product launches. However, some evidence is emerging of stability returning to the air cargo market after several months of declining year-on-year traffic volumes.
- Airfreight pricing remains low by historical standards as the Index has now fallen back to levels last seen in the low months of the summer of 2012.
- In 2013, despite the weak demand situation and the forecasted capacity increases, carriers are expected to maintain rates at current levels in key trade lanes to limit losses

- The US inbound air freight index has seen increases since mid 2012 driven by increasing fuel prices and stronger pricing on the trade from Asia
- US Outbound rates remained relatively stable in the second half of the year despite the increased exports to Asia in the second half of the year
- The improving consumer confidence and spending has increased demand for inbound air freight. This trend is visible from the increasing inbound air freight rates seen in towards the second half of the year

BACKUP
FURTHER ECONOMIC INFORMATION YOU CAN FIND:

Additional resources are available online: http://quicklink.intra.dpwn.net/intelligence

• *Trends in World Economics & Trade* by Global Insight
  – pdf file
  – published quarterly
  – overview on economic development per region
  – extensive section on developments in containerized trade

• *Executive Summary* by Global Insight
  – pdf file
  – published monthly
  – overview on economic development globally
  – key macroeconomic developments and forecasts

*Note: Regional executive summaries are available and can be provided on demand*

• *Key Macroeconomic Indicators* by Global Insight
  – Excel file
  – published monthly
  – Contains key macroeconomic indicators by country and region
FURTHER INDUSTRY INFORMATION YOU CAN FIND:

Additional resources are available online: http://quicklink.intra.dpwn.net/intelligence

• *Monthly Traffic Analysis Reports* by IATA
  – pdf file
  – published monthly
  – overview on air cargo market development and growth

• *Container Forecaster Report* by Drewry
  – pdf file
  – published quarterly
  – extensive report on container sea freight market including historic data and forecasts

• *Freight Shipper Insight* by Drewry
  – pdf file
  – published monthly
  – report on current trends in air, sea and road freight market including historic data