

China's Shipping Industry in Full Recovery, Dry Bulks Shipping Under Challenge in Q4

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Shanghai International Shipping Institute released the *China Shipping Prosperity Report of Q3 2020* on October 9, 2020. According to the report, China Shipping Prosperity Index in the third quarter of 2020 was 118.40 points, rising by 29.03 points quarter-on-quarter to the relatively prosperous interval; China Shipping Confidence Index was 115.63 points, rising by 50.84 points quarter-on-quarter to the relatively prosperous interval. The confidence indexes of all enterprises rose substantially, signaling **an overall recovery of China's shipping industry from the pandemic**.

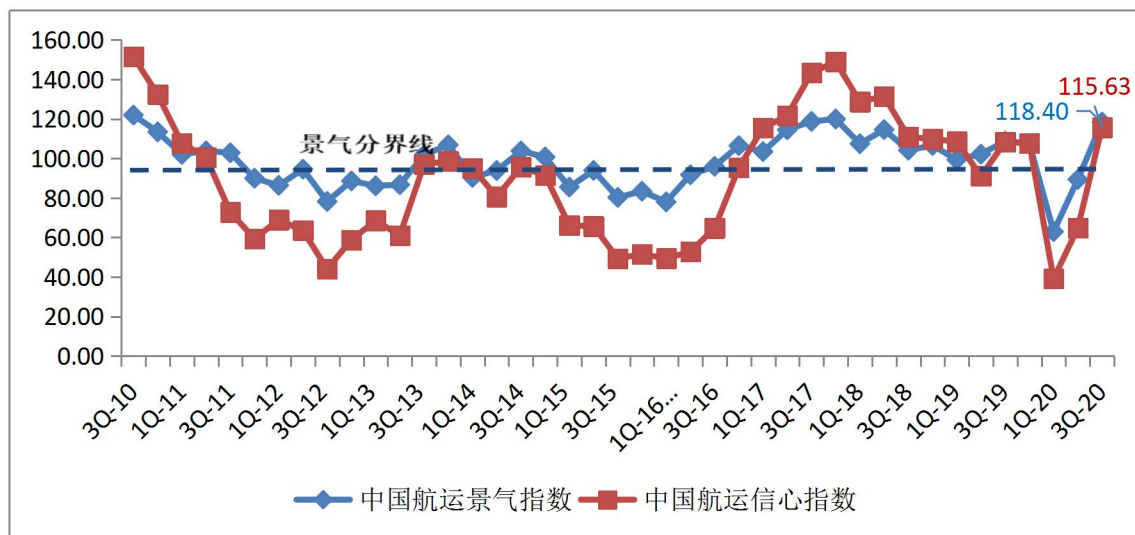


Figure 1 Trends of CSPI and CSFI

1. Shipping transport enterprises resume prosperity

In the third quarter of 2020, the prosperity index of shipping transport enterprises was 125.27 points, rising by 32.02 points quarter-on-quarter to the prosperous interval; the confidence index of shipping transport enterprises was 119.38 points, soaring by 51.58 points quarter-on-quarter back to the relatively prosperous interval. Despite the rising operating costs, shipping transport enterprises augmented shipping capacity input, with

the space utilization, freight income, and profitability improved significantly. Meanwhile, their loan liability decreased against the rising labor demand. Shipowners' willingness to invest in shipping capacity picked up, with abundant current funds and easy access to capital. Enterprises' risk resilience was on a steady rise, and almost all business indicators of shipping transport enterprises improved.

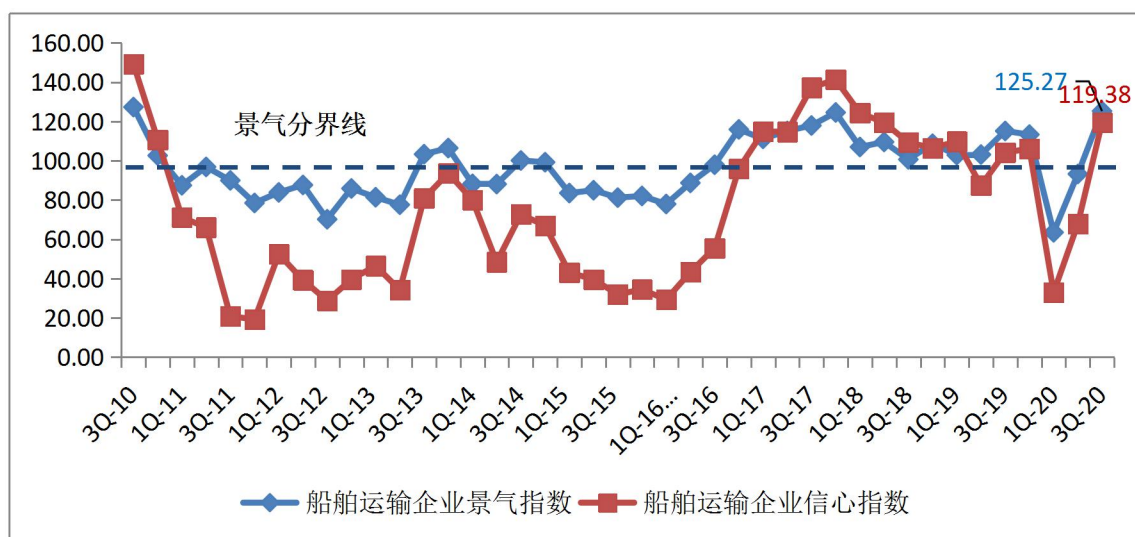


Figure 2 Trends of Prosperity and Confidence Indexes of Shipping Transport Enterprises

Prosperity index of dry bulks shipping enterprises continued to rebound. In the third quarter of 2020, the prosperity index of dry bulks shipping enterprises registered 109.22 points, rising by 24.38 points quarter-on-quarter, from the relatively stagnant interval to the slightly prosperous interval; the confidence index of dry bulks shipping enterprises registered 104.33 points, rising by 55.94 points quarter-on-quarter to the slightly prosperous interval. Dry bulks shipping enterprises embraced sound business performance overall, and entrepreneurs' confidence in market operations rebounded dramatically. In terms of business indicators, enterprises' shipping capacity, ship turnover, and operating costs all rose. However, their unit freight income soared, driving up the profitability significantly. Despite the higher labor demand and lower loan liability, enterprises' access to capital was relatively difficult due to the current fund strains, and enterprises' willingness to invest in shipping capacity decreased.

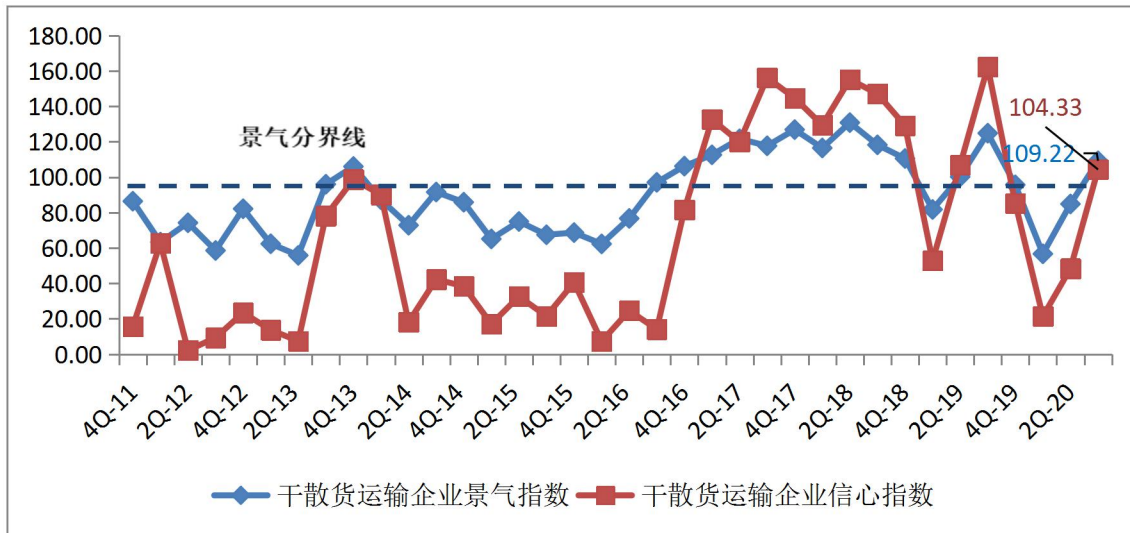


Figure 3 Trends of Prosperity and Confidence Indexes of Dry Bulks Shipping Enterprises

Both the prosperity and confidence indexes of container shipping enterprises rose substantially. In the third quarter of 2020, the prosperity index of container shipping enterprises registered 146.75 points, rising by 56.27 points quarter-on-quarter to return to the prosperous interval; the confidence index of container shipping enterprises stood at 153.32 points, soaring by 96.4 points quarter-on-quarter to enter the highly prosperous interval. The overall business performance of container shipping enterprises improved rapidly, and entrepreneurs showed increased confidence in the overall development of the industry. In terms of business indicators, container shipping enterprises increased their shipping capacity dramatically and the space utilization went up significantly. Despite the rise in operating costs, the profitability was greatly improved due to the freight hikes. Enterprises still enjoyed relatively abundant current funds, with easy access to capital and lower loan liability. The enterprises' willingness to invest in shipping capacity rose sharply, and their labor demand also increased.

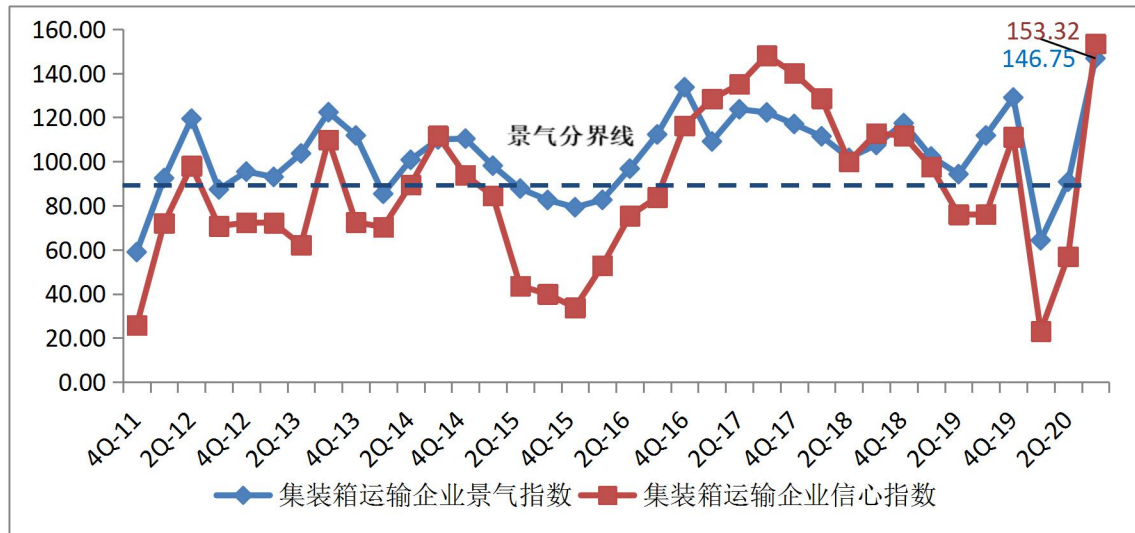


Figure 4 Trends of Prosperity and Confidence Indexes of Container Shipping Enterprises

2. China's port enterprises have sufficient confidence

In the third quarter of 2020, the prosperity index of port enterprises was 126.55 points, a sharp rise quarter-on-quarter to the prosperous interval, indicating the overall improving business performance of port enterprises; the confidence index of port enterprises was 129 points, soaring by 72.00 points quarter-on-quarter to the prosperous interval as well, indicating the full confidence of port entrepreneurs who were optimistic about the overall business performance of the industry. In terms of business indicators, port throughput and berth utilization soared, and port charges were also on a rise. Despite the higher operating costs, profitability still welcomed a substantial increase. Port enterprises still enjoyed relatively sufficient current funds with easier access to capital. Port enterprises' asset-liabilities continued to go down, and labor demand rose. Their newly-added berth and machinery investment also increased quarter-on-quarter.

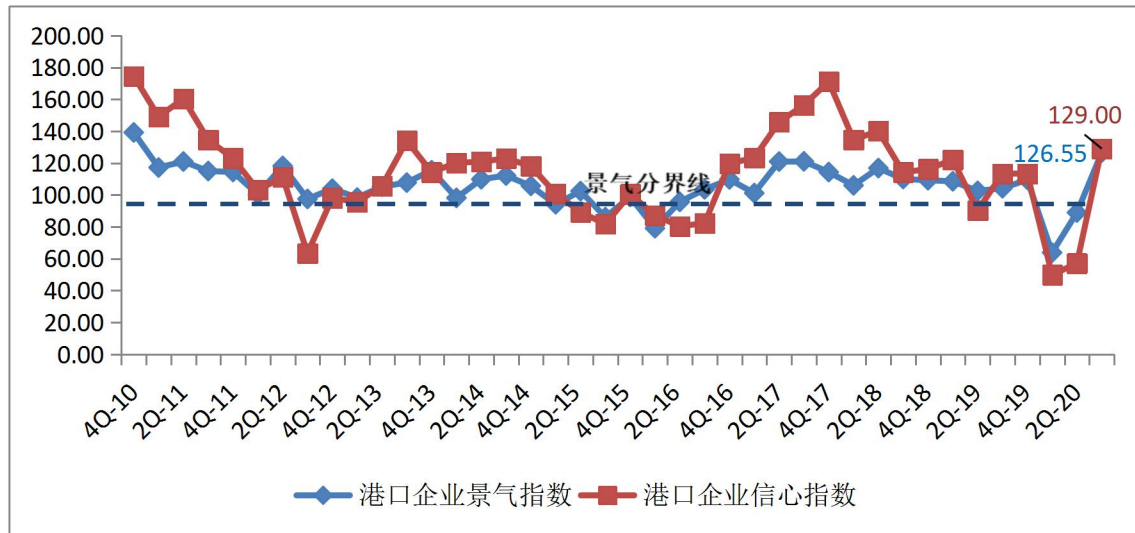


Figure 5 Trends of Prosperity and Confidence Indexes of Port Enterprises

3. Confidence index of shipping service enterprises remains stagnant

In the third quarter of 2020, the prosperity index of shipping service enterprises recorded 101.09 points, a rise of 16.42 points quarter-on-quarter, from the relatively stagnant interval to the slightly prosperous interval. However, the confidence index of shipping service enterprises was 97.26 points, a rise of only 28.70 points quarter-on-quarter, from the stagnant interval to the slightly prosperous interval. Both the prosperity and confidence indexes of shipping service enterprises increased quarter-on-quarter, but the confidence index remained below the demarcation line, indicating that shipping service entrepreneurs still lacked confidence in the development of the industry. In terms of business indicators, the business orders and business volume of the shipping service industry rebounded greatly. Although the operating cost stayed high, the charging rates increased, improving enterprises' profitability. However, shipping service enterprises were still confronted with current fund strains, more difficult financing and increasing loan delinquency. As a result, enterprises' willingness to invest in fixed assets declined, dragging down their labor demand.

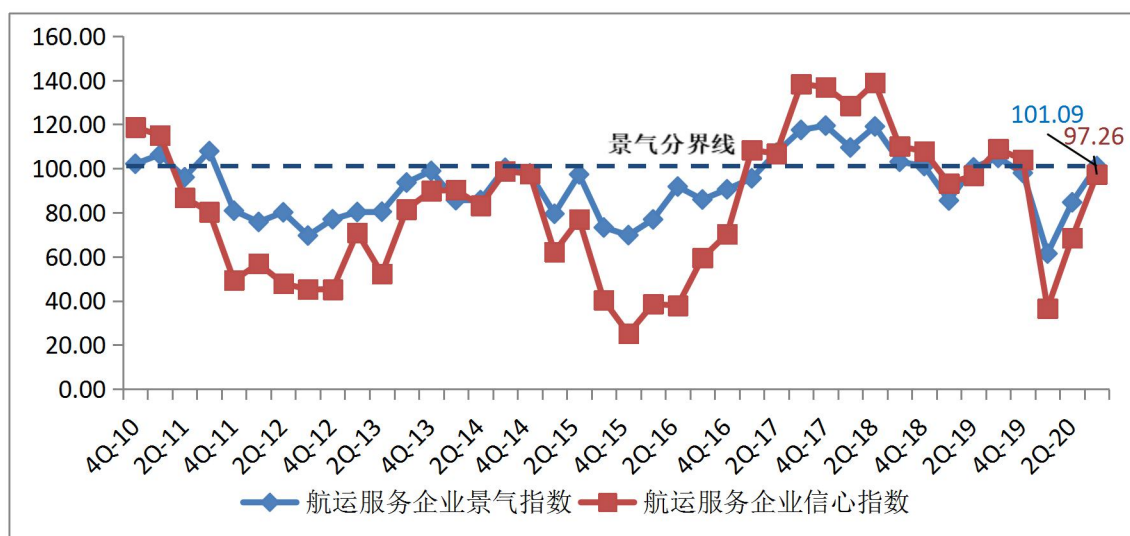


Figure 6 Trends of Prosperity and Confidence Indexes of China's Shipping Service Enterprises

4. China's shipping industry to see divergence next quarter

In the fourth quarter of 2020, China Shipping Prosperity Index is expected to touch 110.88 points, down by 7.52 points quarter-on-quarter but still in the relatively prosperous interval; China Shipping Confidence Index is expected to be 117.96 points, up by 2.33 points quarter-on-quarter and still in the relatively prosperous interval. Although the prosperity indexes of container shipping enterprises, port enterprises and shipping service enterprises will all remain above the demarcation line, the confidence index of shipping service enterprises may stay below the demarcation and that of dry bulks shipping enterprises will also drop to the slightly stagnant interval, showing a divergence in market trends.

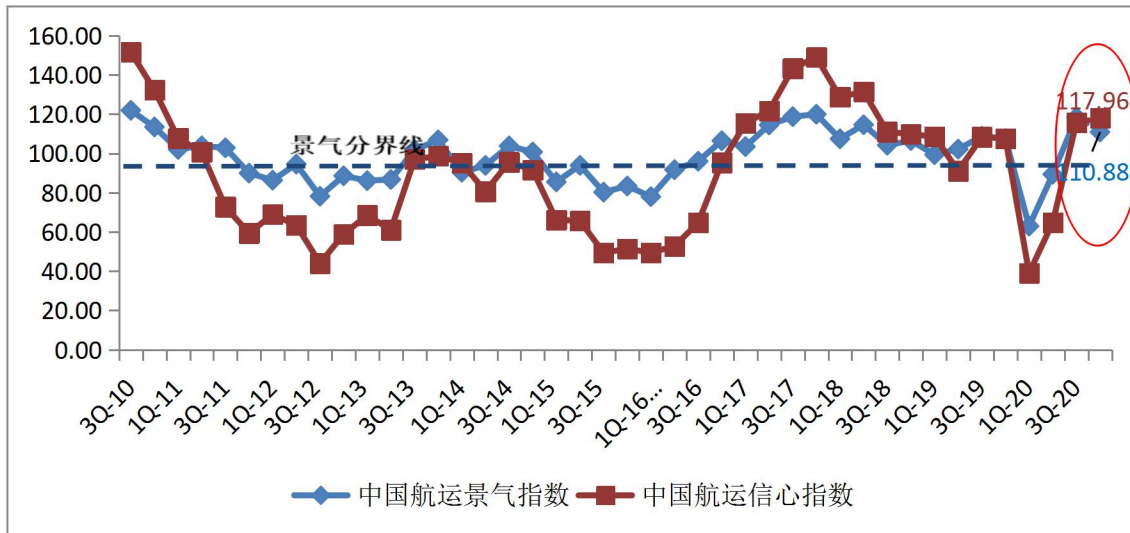


Figure 7 Trend Forecast of CSPI and CSFI

In the fourth quarter, dry bulks shipping enterprises will face a worrying market. According to China Shipping Prosperity survey, in the fourth quarter of 2020, the prosperity index of shipping transport enterprises may hit 114.25 points, a drop of 11.01 points quarter-on-quarter but remaining above the demarcation in the relatively prosperous interval. Specifically, **the prosperity index of dry bulks shipping enterprises is expected to be 97.56 points, down by 11.66 points quarter-on-quarter, to the slightly stagnant interval, with a worrying prospect looming;** the confidence index of shipping transport enterprises is expected to be 123.75 points, up by 4.37 points quarter-on-quarter, from the relatively prosperous interval to the prosperous interval. On the whole, it is expected that the business performance of shipping transport enterprises will continue to improve in the fourth quarter of 2020, and entrepreneurs' confidence will be relatively sufficient.

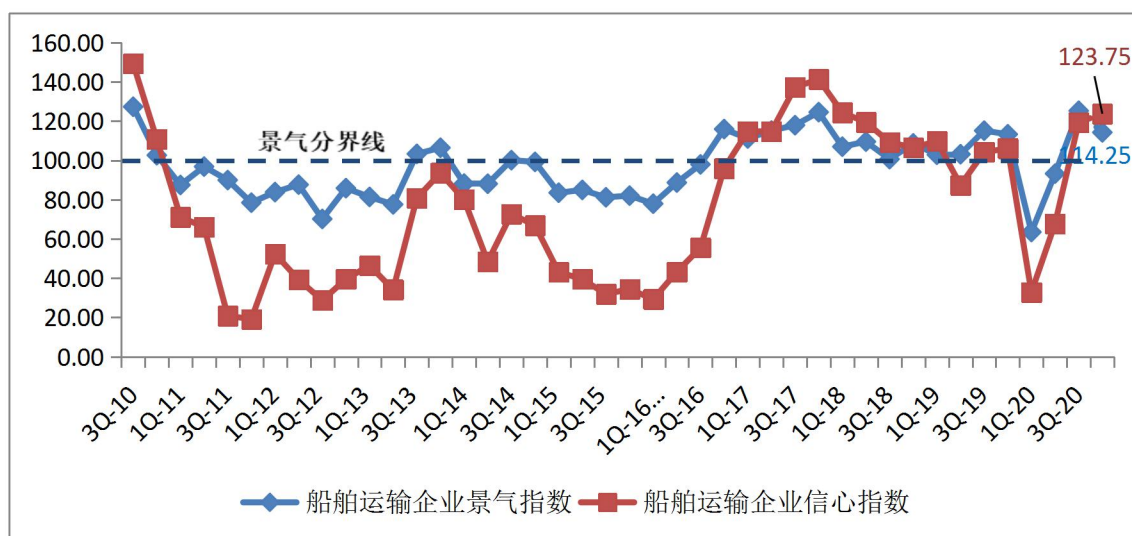


Figure 8 Trend Forecast of Prosperity and Confidence Indexes of Shipping Transport Enterprises

Port enterprises are expected to remain fully confident. According to the China shipping prosperity survey, in the fourth quarter of 2020, the prosperity index of port enterprises is expected to stand at 122.95 points, down by 3.6 points quarter-on-quarter and remaining in the prosperous interval, indicating improving business performance; the confidence index of port enterprises is expected to stand at 130 points, up by 1 point quarter-on-quarter and remaining in the prosperous interval. Overall, China's port enterprises will enjoy sound business performance, and port entrepreneurs are optimistic about the prospect of the industry.

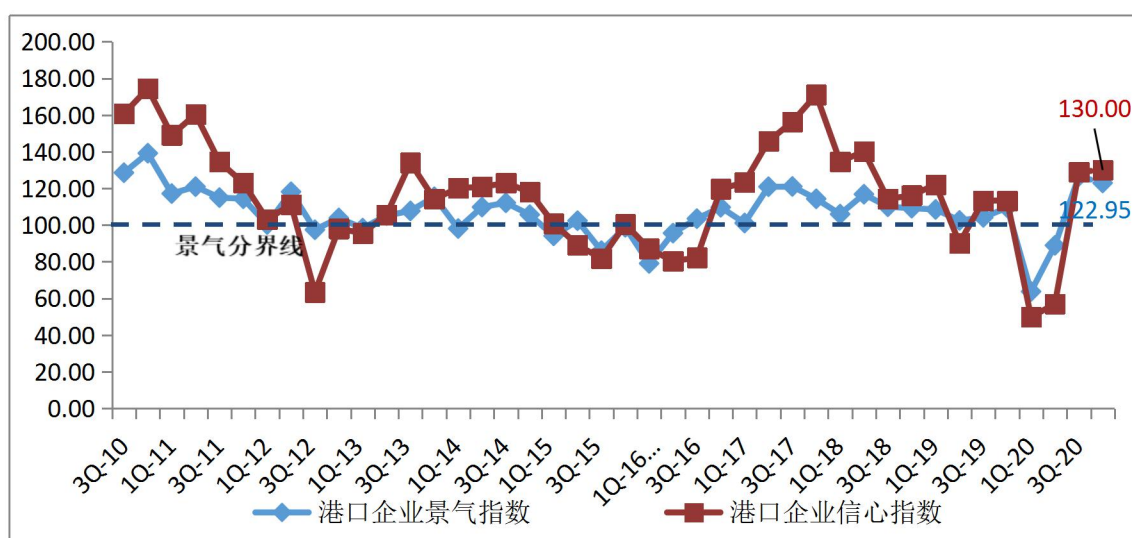


Figure 9 Trend Forecast of Prosperity and Confidence Indexes of China's Port Enterprises

Shipping service enterprises are expected to become stagnant again. In the fourth quarter of 2020, the prosperity index of shipping service enterprises is expected to be 94.31 points, down by 6.78 points quarter-on-quarter to fall into the slightly stagnant interval once again; the confidence index of shipping service enterprises is expected to be 98.21 points, up by 0.95 points quarter-on-quarter and remaining in the slightly stagnant interval, indicating the continuous lack of confidence among shipping service entrepreneurs. On the whole, the prosperity and confidence indexes of shipping service enterprises will stay below the demarcation line, and shipping service entrepreneurs are pessimistic about the overall situation of the industry.

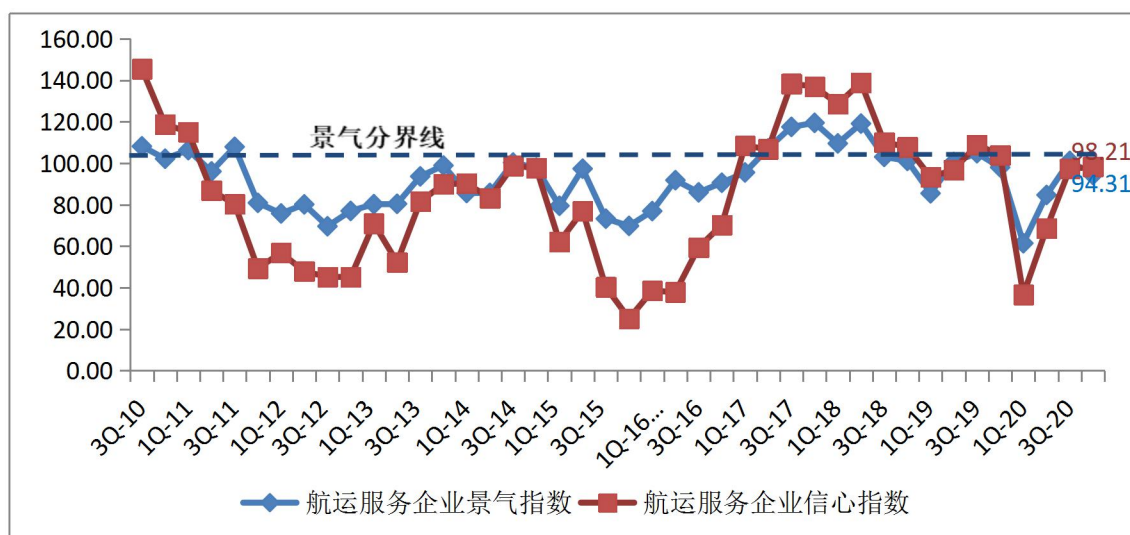


Figure 10 Trend Forecast of Prosperity and Confidence Indexes of Shipping Service Enterprises

5. Nearly 70% of shipping transport enterprises impacted by shipment delays due to changes of shift

The crew shift problem has emerged following the COVID-19 outbreak at the beginning of this year. Crew members, crew dispatching agencies and ship management enterprises have been facing various challenges since March. According to the China shipping prosperity survey, 69.57% of the shipping transport enterprises said that the crew shift had caused shipment delays. Specifically, 6.52% said that more than 20% of their ships suffered shipment delays, 32.61% said that 10%—20% of their ships suffered

delays, and 30.43% cited less than 10%. Only 30.43% of the surveyed shipping transport enterprises said that their ships did not suffer shipment delays.

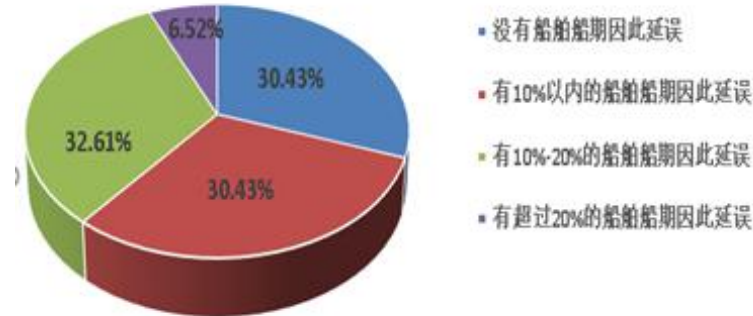


Figure 11 Shipment Delays Caused by Changes of Shift of Shipping Transport Enterprises

6. "Retaliatory" rebound of market demand and shipping capacity control of ship enterprises after the pandemic are main reasons for freight hikes

According to the latest data from FREIGHTOS briefing, since last week, the container freight rates on shipping routes from China to the west coast of the United States have increased by 11%, hitting a record high of US\$3,058/FEU, and the freight rates on Asia—Europe routes have also skyrocketed. According to the China shipping prosperity survey, 37.5% of surveyed container shipping enterprises believed that the reason behind this container freight hike is the "retaliatory" rebound of local market demand after the pandemic, and 37.5% considered that the shipping capacity control of ship enterprises led to the tight supply of shipping capacity, especially the tight supply of shipping capacity for China—U.S. routes, which may further drive up the overall freight rates. Another 16.67% held that the reason is the structural shortage of container equipment, while 8.33% believed that it was caused by the joint price inflation of major liner companies.

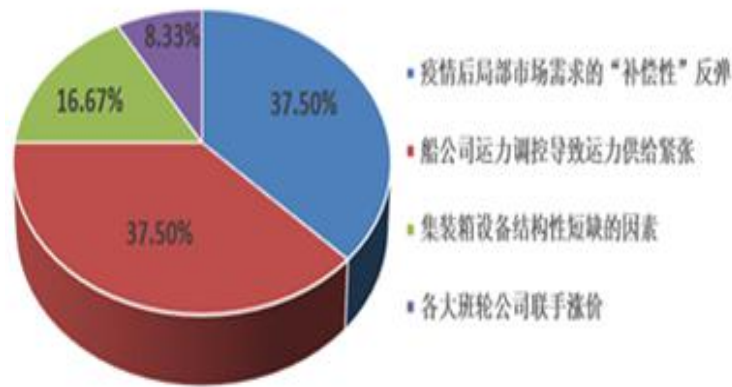


Figure 12 Analysis of Reasons for Container Freight Hikes

7. More than 70% of container shipping enterprises to maintain existing shipping capacity

Although container freight rates are rising, the shipping capacity allocated by container shipping enterprises on major routes remains under control. According to the China shipping prosperity survey, 75% of surveyed container shipping enterprises said they would maintain the existing shipping capacity, while only 25% said they would increase their shipping capacity resources by 10%. Compared with large and small container shipping enterprises, more medium-sized container shipping enterprises tend to maintain the existing shipping capacity. According to the above survey, more than 70% of the surveyed container shipping enterprises will not increase their shipping capacity in response to the soaring shipping demand. In the second half of this year, the container shipping capacity will not increase significantly, which will continue to exert an impact on the freight rates.

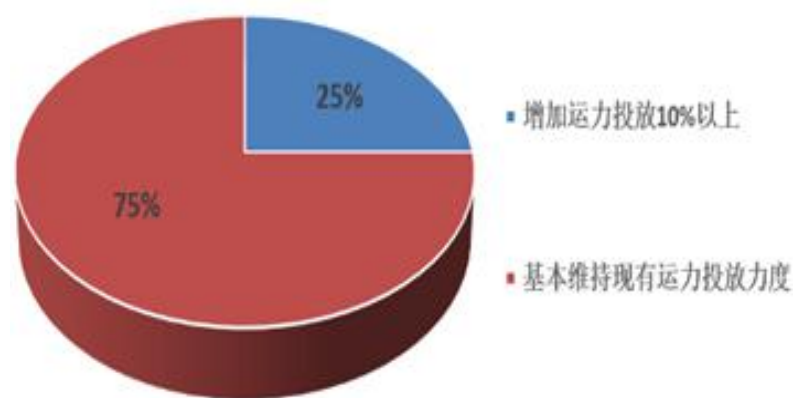


Figure 14 Shipping Capacity of Container Shipping Enterprises in the Next Quarter