International Shipping Market Report

(Review of 2018 and Prospect for 2019)

International Container Liner Shipping Market

Shanghai International Shipping Institute

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Table of Contents

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Review of 2018 and Prospect for 2019

1. Review and Prospect of World Economic Development

1.1 Review of World Economic and Trade Development in 2018

◆ **Global economy maintains growth in 2018**

The world economy maintained overall growth in 2018, but showed signs of downside from the high level since Q2, with global manufacturing, trade and investment all witnessing a break in momentum. The United States provoked trade frictions against multiple countries and regions, undermining global trade growth and threatening world economy stability. Meanwhile, the economic and political situations in the world became more complicated, with prominent structural problems persisting and international competition getting fiercer. The impacts of adjustments of macro economic policies in major economies spread to other countries and regions, and geopolitical risks cropping up one after another, manifesting the unsteady foundation for world economic recovery. In October 2018, the International Monetary Fund (IMF) released 《World Economic Outlook》, tuning down the expected global economic growth in 2018 to 3.7% from the original 3.9%, specifically, that of developed economies being 2.4%, and that for emerging and developing economies being 4.7%.

Table 1-1 GDP Growth of Major Economies and Countries (Unit: %)

Economy/Country	2016	2017	2018 (P)
World Economy	3.2	3.7	3.7
Developed Countries	1.7	2.3	2.4
Emerging Markets and Developing Countries	4.3	4.7	4.7
United States	1.5	2.2	2.9
Euro Zone	1.8	2.4	2.0
Japan	1.0	1.7	1.1
China	6.7	6.9	6.6

Data source: IMF (October 2018), prepared by Shanghai International Shipping Institute

◆ **The United States maintains solid economic growth, and economic growth in euro zone loses steam**

Boosted by earlier tax reduction and infrastructure investment, the United States maintained solid economic growth with its manufacturing enjoying a steady rise, labor market improving and private consumption expanding. In the first quarters of 2018, the United States economy grew at an annualized rate of 2.0%, 4.2% and 3.5%, respectively, and its unemployment rate in September was 3.7%, hitting a historical low since 1969. Jobs increased and salaries improved, driving steady growth of household income and improving household balance sheets. Improvement in consumer income and financial status propped up consumption growth. In Q3, the University of Michigan Consumer Sentiment Index, a consumer confidence index published monthly by the University of Michigan, was on a rise overall. From 2016 to 2017, the euro zone economic recovery exceeded expectations and became an important contributor to global economic recovery. However, the delay in reaching an agreement on Britain's exit from the European Union and the simmering Italy budget deficit, coupled with other problems, crippled the confidence in the financial market. Consumer confidence index slumped, ad consumer spending growth slowed down. The weakened foreign demand from financial pinchin in emerging economies squeezed trade surplus in the euro zone. Moreover, despite the sluggish core inflation rate, the strong energy price managed to hold the headline inflation rate in the euro zone above 2%. Taking into account the weakened confidence in market and the rising risks of demand decline, the economic growth of euro zone in Q4 may further slow down.

- **ASEAN economic performance stands out with China’s economy forging ahead steadily**

The stable domestic demand and sustained improvement in investment and trade secured the economic boom in ASEAN economies. In 2018, the IMF projected a 5.3% GDP growth rate for the five ASEAN countries. Vietnam was expected to lead the pack across ASEAN. In view of the cost pressure from the US trade tariffs and labor cost advantages in local areas, an increasing number of factories in China, South Korea and Japan among others relocated to Vietnam and other ASEAN regions. Vietnam attracted a large amount of foreign direct investment (FDI). From January to August, foreign direct investment in Vietnam amounted to $11.25 billion US dollars, up by 9.2% year-on-year, with a majority of investment going to clothing, footwear, electronics and other industries. Since 2018, China has taken the initiative to get geared to the requirements in pursuit of high-quality development with deepening the supply-side structural reform as the main guideline. The national economy advances steadily, coupled with optimized economic structures and smooth transition of the old and new economic drivers, and development quality and efficiency have been steadily improved. In the first three quarters, China's GDP reached 65.1 trillion yuan, up by 6.7% year-on-year. China's total imports and exports valued 22.28 trillion yuan, up by 9.9% year-on-year, of which exports were 11.86 trillion yuan, up by 6.5%, and imports were 10.43 trillion yuan, up by 14.1%. In the international market, traditional markets consolidated presence while exports to emerging markets sustained rapid growth and the international market was further optimized. Specifically, the exports to BRICS countries and the countries along the "Belt and Road" increased by 9.7% and 7.7%, respectively, which were 3.2 percentage points and 1.2 percentage points higher than the average export growth, respectively. China, however, faces an increasing number of external challenges. Problems accompanying domestic structural adjustment surface one after another, with the economy operating steadily with mild changes and mitigating growth, mirroring the enhancing downside.

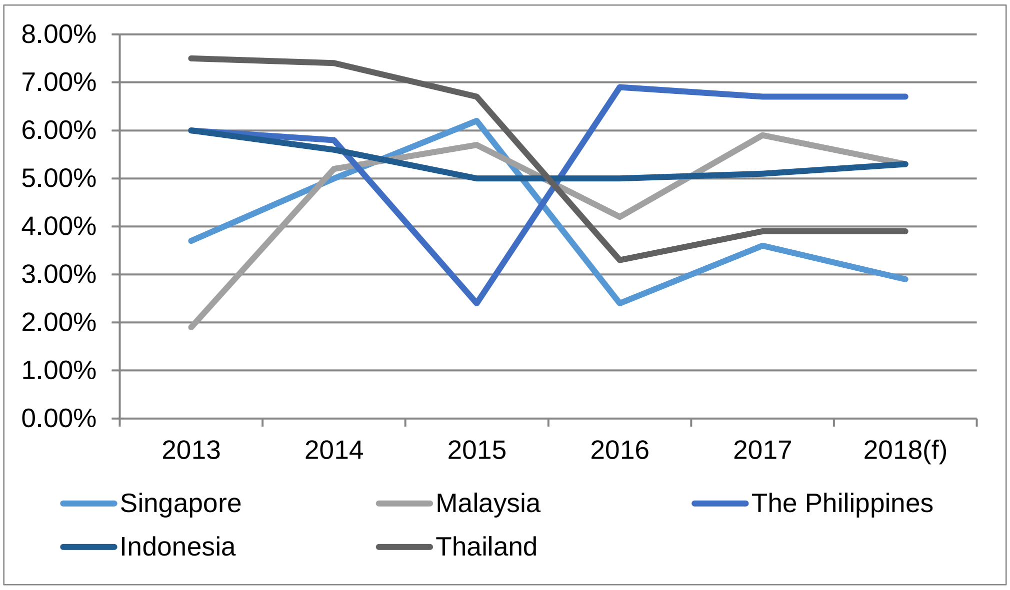

Figure 1-1 GDP Growth in ASEAN in 2014-2018

Data source: eastmoney.com, prepared by Shanghai International Shipping Institute

1.2 Prospect for World Economic Development in 2019

The world economy is facing an increasing risk of an abating momentum of cyclical recovery. From the cyclical point of view, major economies are seeing slowdown of major indicators such as industrial production index and manufacturing purchasing manager's index. The real estate market in developed economies slowed down growth, indicating a switch from rapid economic growth to steady growth. From the policy point of view, the stimulating effect of the US Trump administration's tax reduction policy is fading. Developed economies such as the United States and Europe tightened their monetary policies. The global macroeconomic policies are playing a more restraining role instead of a supportive role to economic growth. In particular, the economic vulnerabilities of some emerging economies emerged. At the same time, the spread of impact from monetary policies in developed economies placed the economic and financial situations at a grim position, becoming an important risk threatening the world economic growth.

Table 1-2 Projections of World Economy in 2019 by Major Organizations (Unit: %)

Organization	Developed Economies	Developing Economies	World Economy
IMF	2.1	4.7	3.7
World Bank	2.0	4.7	3.0

Data source: IMF and World Bank, prepared by Shanghai International Shipping Institute

◆ **Trade protectionism threatens stable growth of global trade**

The United States' trade protectionism gathered speed in 2018. According to Global Trade Alert statistics, from January to July 2018, the United States introduced 33% of all the trade restrictions in the world. Trade protectionism was also on a rise in other economies. The global trade policy environment is deteriorating. Levy of tariffs has a direct impact on product prices and sales and the impact on the consumption sector will gradually emerge. Enterprises are becoming more concerned about the uncertainty of trade prospects, coupled with increasing difficulties in maintaining stable trade growth. Many enterprises failed to transfer the rising cost of raw material resulting from the tariffs, and some of them became cautious in making new investment moves. Considering the status and influence of the United States in the global economy, the negative impact of trade frictions will spread to global economy, trade and investment, impairing the global supply chain and driving up production costs while undermining efficiency. According to IMF estimates, trade frictions are expected to continue to have repercussion across global economy in 2019.

◆ **Interest rate hike may become a mainstream monetary policy in major economies**

In developed economies, the U.S. Federal Reserve will continue to gradually increase interest rate. The Fed is expected to raise the interest rate once in December 2018 and 2 or 3 times in 2019. As stability is the focus of the euro zone, it may not raise the interest rate in the first half of 2019, but may do so in the second half if the economic situation is stable. However, taking into account the core inflation and the political and economic risks, the interest rate hike, even if introduced, will be in a cautious and gradual manner. Japan’s inflation fell short of expectations. It is expected that the Bank of Japan will slowly and moderately downsize bond purchases and its interest rate hike may be still a while off. Countries such as Canada, Britain, South Korea and Australia have introduced, or are planning interest rate increases. In emerging economies, several central banks (including Indonesia, the Philippines, Turkey, India, Mexico and Argentina) rolled out one or more interest rate hikes in 2018. As global liquidity strains continue, more and more emerging economies will have to passively raise interest rates in order to counter capital outflows or exchange rate depreciation.

◆ **Overexpansion risk lurks in global debt**

Repeated rises in interest rates in major economies moved up the one-year deposit interest rate globally, which poses a huge challenge for various entities conditioned to operate in a low-interest-rate environment in the past decade. At present, non-financial sectors in developed economies have high leverage levels which are still on a rise, and its aggregate liability already increased to 167 trillion US dollars (near 250% of its GDP) from the 113 trillion US dollars (200% of its GDP) in 2008. The rising cost of debt following the steps of interest rates will impair enterprises’ ability to make profits and repay the debt, leading to lower quality of credit and banks’ reluctance to lend money. The year 2019 also marks the year which will see the densest debt maturity in emerging economies, namely nearly 2 trillion US dollars of bonds and loans. In addition, the share of foreign currency debt by non-bank sectors is already as high as 14% in GDP, only slightly lower than the historical high of 17% in 1999. With the continued upvaluation of the US dollars, the rise of financing cost, and the fallout of investors’ risk preference, big loanees of foreign currencies will be subjected to heavier balance sheet pressure and rising repayment and refinancing difficulties. The persisting slowdown of global trade will further trim foreign currency earnings of emerging economies, expanding frequent account deficit and further pushing up the refinancing difficulty of the enterprises in high external indebtedness. As a result, they may be subject to higher debt burden and capital flight and a resulting vicious circle.

Table 1-3 Ratio of Government Debt-to-GDP in Major Economies from 2016 to 2020 (Unit: %)

	2016	2017	2018	2019	2020
United States	106.8	105.2	106.1	107.8	110.0
Euro Zone	88.8	86.6	84.4	82.0	79.8
Japan	235.6	237.6	238.2	236.6	235.8

Emerging Markets and Countries in Asia	47.2	49.6	51.7	54.2	56.2
Latin American Countries	59.1	62.5	66.9	67.1	67.7

Data source: IMF, prepared by Shanghai International Shipping Institute

2. Review of Global Container Liner Shipping Market in 2018

2.1 Review of Global Container Liner Shipping Market in 2018 – Volume

◆**Growth of global container shipping volume slows down.** In 2018, the world economy sustained growth overall. But since Q2, the growth rate started to decline from the high level. Global trade saw a break in growth momentum, and the growth rate of container shipping volume fell. According to the Clarksons, the world's leading provider of integrated shipping services, the global container shipping volume in 2018 was 201 million TEUs, an increase of 4.46% year-on-year, a slight decline compared with 2017.

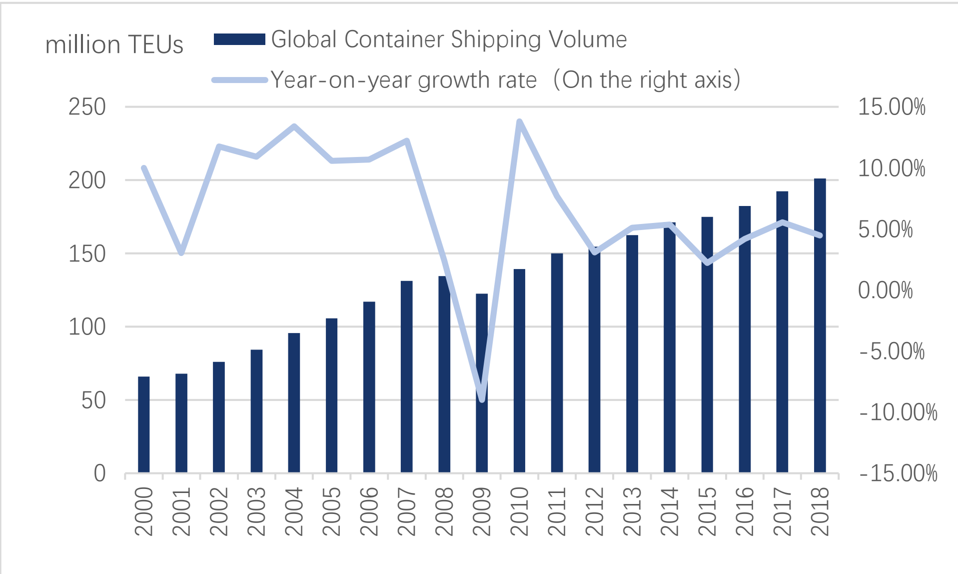

Figure 2-1 Global Container Shipping Volume in 2000-2018

Data source: Clarksons Research, prepared by Shanghai International Shipping Institute

◆**Shipping volume of Asia-Europe routes drops slightly, and the cargo volumes on intra-regional routes and North-South routes maintain robust growth.** The global container shipping volume maintained a growing momentum in 2018, but some shipping routes saw the shipping volume growth slowed. The weak economic growth in Britain and some other European countries adversely impacted trade transportation on the Far East – Europe routes which recorded 23.5 million TEUs of container throughput in 2018, a slight dip compared with 2017. Subject to the tariffs imposed by China and the US on each other, some cargo owners shipped their cargoes in advance. The shipping demand on the Pacific routes demonstrated a sharp rise, with the shipping volume growing fast at a rate of 5.88%. The shipping volume on North-South routes grew by 6.29% year-on-year, manifesting the continuously rising demand for shipping. The rapid economic development and brisk import and export trade in emerging economies in Asia drove up the shipping volume on intra-regional routes in 2018 by 5.98%. However, as newly built ships were delivered intensively in 2018, space utilization presented a downward trend overall.

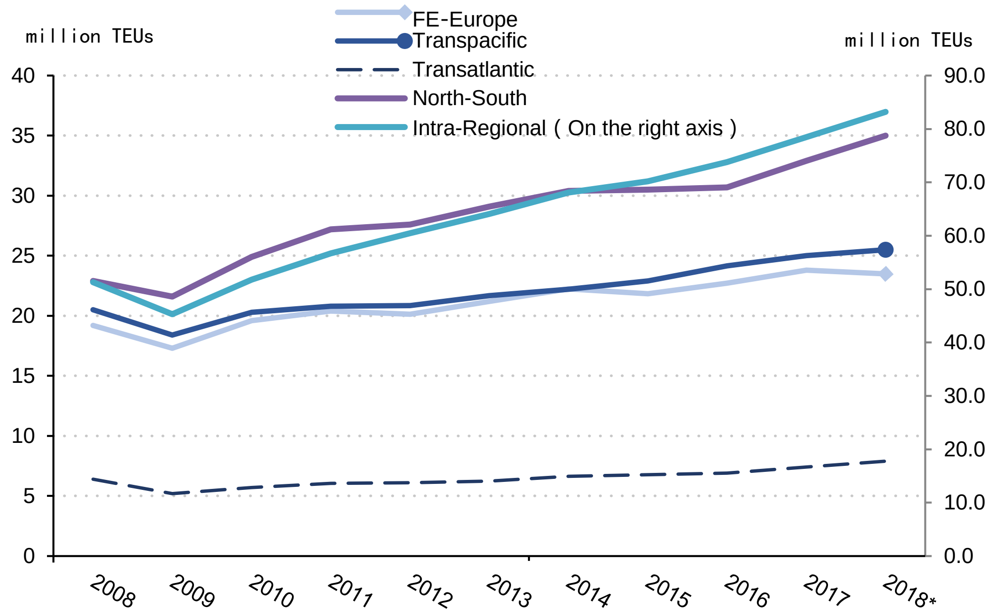

Figure 2-2 Container Shipping Volumes of Specific Routes in 2008-2018

Data source: Clarksons Research, prepared by Shanghai International Shipping Institute

2.2 Review of Global Container Liner Shipping Market in 2018 – Capacity

◆**Orders for large ships were delivered one after another, and average single-vessel size continued to grow.** Orders for ultra-large container ships by ship companies were delivered one after another in 2018. From newly signed orders, we can find that ship companies were increasingly favoring larger ships. The global container shipping capacity grew by a larger margin compared with 2017, and idle shipping capacity began to rise again. As of Q4 2018, the total container shipping capacity around the world hit 21.8 million TEUs, increasing by a remarkable margin of 5.55% year-on-year. The average size of individual ships of container fleets increased to 4,133 TEUs, with the ship upsizing trend aggravating. In terms of shipping capacity structure, the shipping capacity of ships of 100-2,999 TEUs increased by 3.4%, that of ships of 3,000-7,999 TEUs rose slightly by

0.3%. The shipping capacity of medium-sized and small ships changed moderately but that of large ships rose sharply, with ships of 12,000 TEUs or above surging by 18.9%.

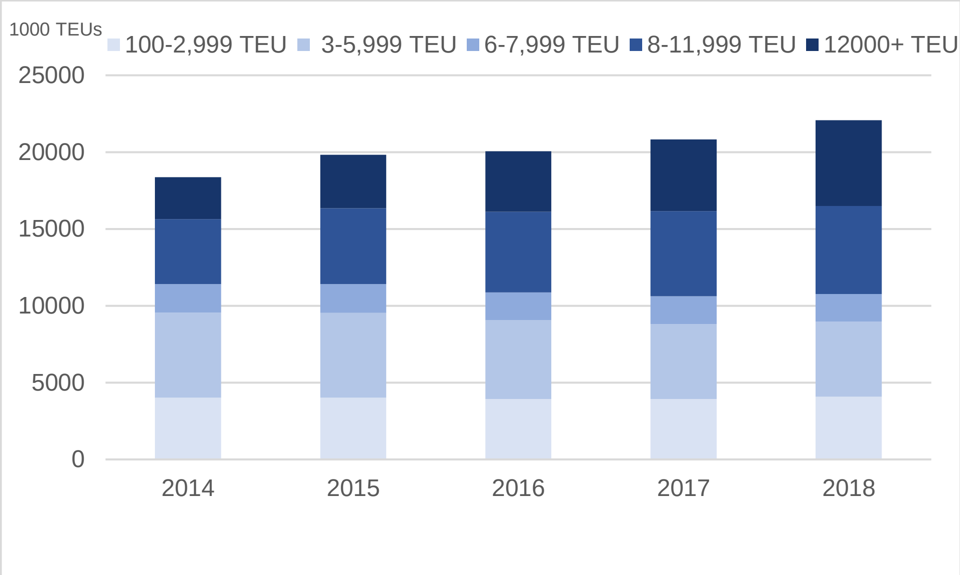

Figure 2-3 Global Container Shipping Capacity in 2014-2018 (by ship type)

Data source: Clarksons Research, prepared by Shanghai International Shipping Institute

2.3 Review of Global Container Liner Shipping Market in 2018 – Freight

◆Long-term-wise, the international container shipping freights are in recovery and adjustment

The international container liner shipping freights fell to a historical low in 2016. Following that came the stabilizing trend of global economic recovery, which drove up the demand for container trade and led to the stable growth of the container shipping market. In 2018, the global economy continued the recovery, but the accelerated launches of larger ships cast a negative impact on improvement of supply-demand fundamentals. Thanks to the exuberant demand and liners' additional fuel surcharges resulting from rising gasoline prices, the container freight was still upward. As of the end of December 2018, China Containerized Freight Composite Index was averaged at 818.43 points, almost running flat with that in 2017.

Figure 2-4 Container Shipping Freight Trend in 2010-2018 (CCFI)

Data source: Shanghai Shipping Exchange, prepared by Shanghai International Shipping Institute

◆**Short-term-wise, the containerized freight in 2018 presented an "M" curve**

In 2018, China Containerized Freight Index (CCFI) dropped and then climbed, following an M-shaped curve on the whole. The freights in Q1 first surged in a short period of time driven by the delivery peak before the Spring Festival, and then stepped down in the shipping slack season that followed. In Q2, the freights enjoyed a rally thanks to the freight boosting on some shipping routes. In Q3, some cargo owners shipped their cargoes in advance to minimize the adverse impact from the Sino-US trade frictions, leading to agglomeration of cargoes for shipping. The ship and space utilization in the market picked up apace, driving up China Containerized Freight Composite Index. In Q4, the impact of Sino-US trade frictions on import and export trade came visible, and the freights began to slide. As of December 28, 2018, China Containerized Freight Composite Index stood at 834.86 points, and Shanghai Containerized Freight Composite Index stood at 910.81 points.

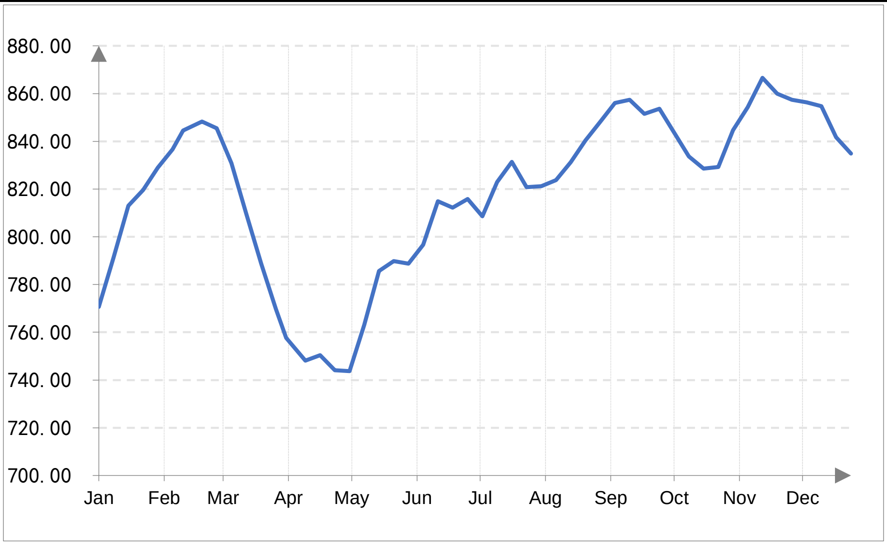

Figure 2-5 China Containerized Freight Trend in 2018

Data source: Shanghai Shipping Exchange, prepared by Shanghai International Shipping Institute

◆Freight trends differentiated among routes, and freights on Pacific routes surged

Freights on different routes differentiated to some extent in 2018 with wide fluctuations. Specifically, China-South America routes suffered exacerbated price competition because of the weak demand in the market overall, and hence witnessed wider slump in freights. Most of the ultra-large container ships delivered in 2018 were put to Asia-Europe routes, resulting in intensified competition among shipping routes and descending freights. The sagging economic performance in major economies in Africa caused a freight drop on China-Africa routes. On China-America routes, some cargo owners accelerated contract fulfillment and kept increasing their cargo shipping to avoid risks from the trade frictions, holding the shipping demand at a high level for a long time. In addition, some shipping service providers adjusted their shipping services for risk averse purposes, and the total shipping capacity in the market declined as a result, tensioning the supply-demand relations and leading to frequent overbooked space. The freights on China-America routes soared and became a major contributor to the rise of the composite index.

Table 2-1 Spot Freight by Shipping Route (SCFI)

Date	China-Europe (Base Port) ($/TEU)		China-Mediterranean (Base Port) ($/TEU)		China-West US (Base Port) ($/FEU)		China-East US (Base Port) ($/FEU)	
	Freight	Year-on-year Increase	Freight	Year-on-year Increase	Freight	Year-on-year Increase	Freight	Year-on-year Increase
2017	876.10	26.9%	817.25	19.5%	1485.33	16.8%	2457.22	17.3%
2018	821.76	-6.2%	797.29	-2.4%	1736.25	16.9%	2806.06	14.2%
Date	China-Southeast Asia (Singapore) ($/TEU)		Kansai, Japan (Base Port) ($/TEU)		Kanto, Japan (Base Port) ($/TEU)		The Persian Gulf (Dubai) ($/TEU)	

	Freight	Year-on-year Increase	Freight	Year-on-year Increase	Freight	Year-on-year Increase	Freight	Year-on-year Increase
2017	148.18	112.0%	214.61	14.7%	214.94	16.1%	618.27	54.8%
2018	146.14	-1.4%	222.80	3.8%	223.08	3.8%	463.16	-25.1%
Date	South America (Santos) ($/TEU)		Australia and Singapore (Melbourne) ($/TEU)		South Africa (Durban) ($/TEU)		West Africa (Lagos) ($/TEU)	
	Freight	Year-on-year Increase	Freight	Year-on-year Increase	Freight	Year-on-year Increase	Freight	Year-on-year Increase
2017	2679.45	62.7%	676.98	28.6%	1155.41	99.2%	1769.86	49.1%
2018	1702.63	-36.5%	827.33	22.2%	888.35	-23.1%	1920.33	8.5%

Data source: Shanghai Shipping Exchange, prepared by Shanghai International Shipping Institute

2.4 Business Performance of Liners

According to Alphaliner's shipping capacity data for December 2018, among the global top 20 liners, Maersk Shipping, Mediterranean Shipping and COSCO Shipping ranked the top three, contributing a total of 44.8% of the global shipping capacity. Some small and medium-sized companies, such as Islamic Republic of Iran Shipping Lines, TS Lines of Taiwan（China） and SM Line were among the global top 20 for the first time. Meanwhile, the gap between tier-1 liners and tier-2 ones gradually widened, indicating increasing industry concentration.

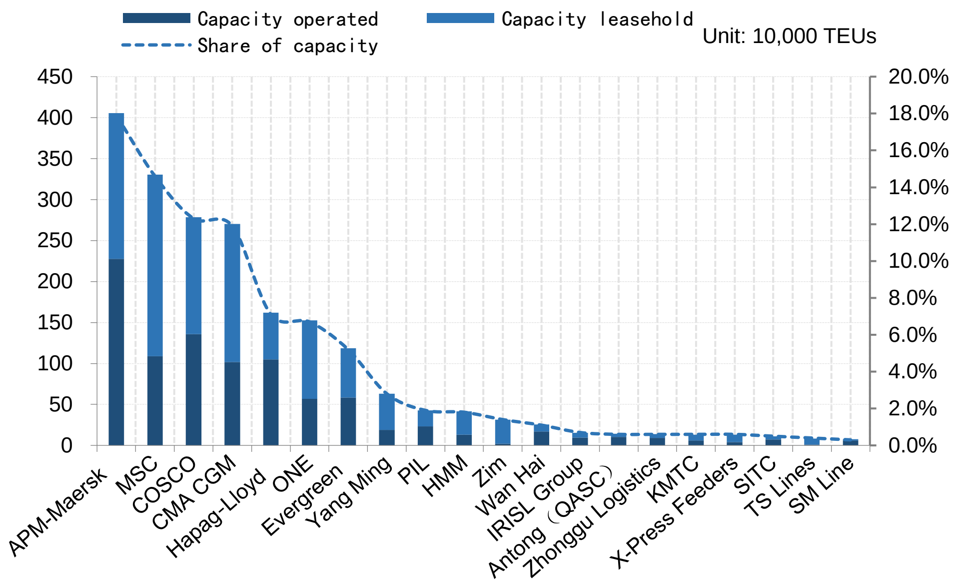

Figure 2-6 Rankings of Top 20 Liners by Shipping Capacity in 2018

Data source: Alphaliner (data as of December 2018), prepared by Shanghai International Shipping Institute.

The liner industry in 2018 underperformed 2017 in terms of profitability on the whole. Among the global top 20 liners, the profitability statuses polarized. Maersk Shipping, CMA-CGM and Hapag-Lloyd realized profits in the first three quarters of 2018, while ONE, Yang Ming Line and

Hyundai Merchant Marine (HMM) were still mired in loss.

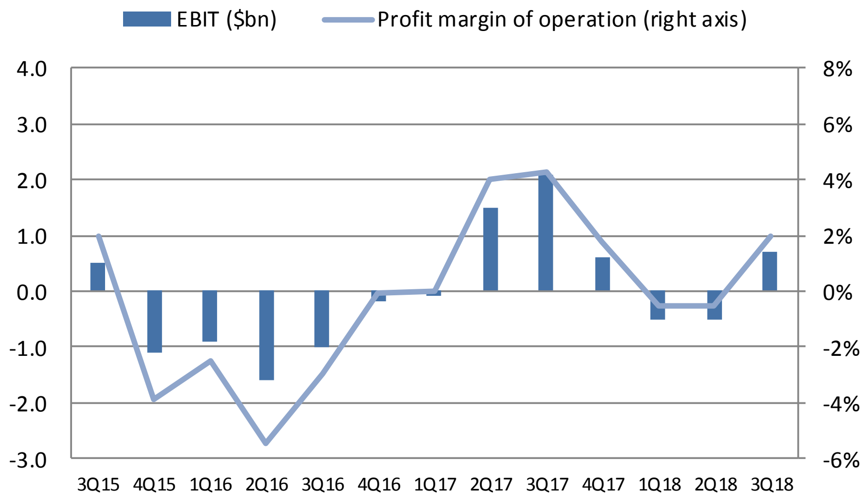

Figure 2-7 Quarterly Business Performance of Major Liners in 2015-2018

Data source: Drewry, prepared by Shanghai International Shipping Institute

Table 2-2 Financial Performance of Major Operators in Q1 - Q3 of 2018 (Unit: million US dollars)

Liner	Income			Net Profit		
	Jan - Sept 2017	Jan - Sept 2018	%	Jan - Sept 2017	Jan - Sept 2018	%
Maersk Shipping[1]	22771	28837	27%	-1550	3148	----
COSCO Shipping[1]	9931	12563	26%	671	326	-51%
CMA-CGM	15633	17176	10%	628	77	-88%
Hapag-Lloyd	8168	10072	23%	9	15	67%
ONE[23]	----	5030	----	----	-311	----
Evergreen Marine	3708	4008	8%	234	-34	----
Yang Ming Marine Transport Corporation	3250	2395	-26%	-3	-220	----
Pacific International Lines[3]	1878	2244	19%	11	-141	----
HMM[2]	2916	3049	5%	----	----	----
ZIM	2217	2395	8%	21	-74	----
Wan Hai Lines	1478	1614	9%	64	29	-55%
Matson	1182	1223	3%	----	----	----
SITC International[3]	646	693	7%	85	91	7%

Note: 1. All businesses are included; 2. Only container shipping and related businesses are included; 3. For the period from January to June 2018

Data source: Drewry, annual reports of companies, prepared by Shanghai International Shipping Institute

3. Container Liner Shipping Market in Southeast Asia

3.1 Imports and Exports Trade in Southeast Asia

◆ **Import and export trade values in Southeast Asia grow fast for two years in a row, with Vietnam standing out in import and export trade performance**

During the period from January to October 2018, the import and export trade values of major traders in Southeast Asia totaled 2,316.14 billion US dollars, up by 13.5% year-on-year. Although it was down by 1.5 percentage points from the growth rate of 15.0% in 2017, the rapid growth momentum remained, being 9.6 percentage points higher than the estimated global commodity trade volume growth (3.9%) by the World Trade Organization (WTO). This indicated that Southeast Asian countries are making more and more contributions to world trade development. Specifically, the growth rates of Indonesia and Malaysia were higher than 15%, and those of Vietnam and Singapore surpassed 13%.

Boosted by its economic reforms, low labor costs in recent years and the status as a destination of manufacturing industry transfer from China, Vietnam is the only one in the 11 Southeast Asian countries to achieve positive growth in import and export trade value for nine consecutive years. Its ranking among Southeast Asian countries in terms of import and export trade value rose from the fifth place in 2010 to the third place in 2018, an impressive performance.

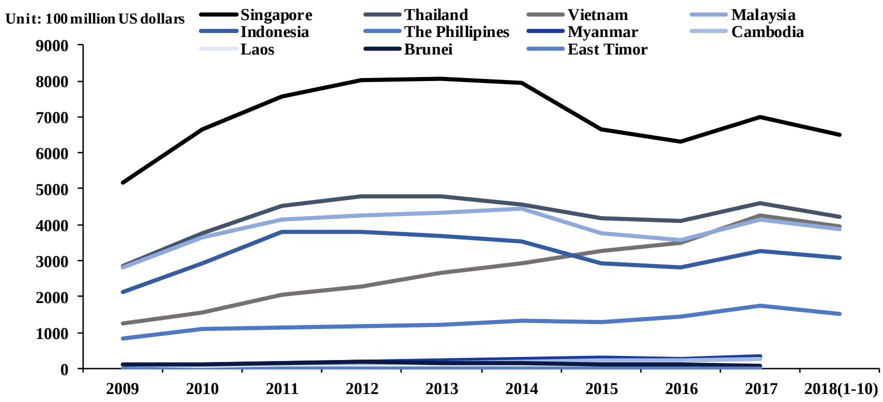

Figure 3-1 Import and Export Trade Values of 11 Southeast Asian Countries in 2009-2018

Data source: ASEAN database, WTO database and Vietnam customs, prepared by Shanghai International Shipping Institute

3.2 Shipping Market of Southeast Asian Routes[1]

3.2.1 Shipping trade volume

With the rapid development of the manufacturing industry in numerous Asian developing countries, and the increasing production facility investment in Southeast Asian countries such as Vietnam, Indonesia, Cambodia and Myanmar, the intra-regional container shipping volume in 2018 is expected to reach 83.2 million TEUs, rising by 6.0% year-on-year. Specifically, the container shipping volume in Asia is estimated at 59.4 million TEUs, or 29.6% of the global total, rising by 6.5% year-on-year and 2 percentage points higher than the global container shipping volume growth. This makes Asia an important player in global container shipping trade development.

Meanwhile, Southeast Asia is one of the regions with active import and export trade in Asia. In 2018, the trade values between China and Southeast Asian countries and foreign trade values of Southeast Asian countries grew fast at a year-on-year growth rate of 16.3% and 13.5%, respectively, laying a foundation for the growth of container liner shipping volume in Southeast Asia.

◆ **Growth of trade between China and Southeast Asia further accelerates as Vietnam keeps its status as the largest trade partner**

From January to November 2018, the import and export trade value between China and 11 Southeast Asian countries totaled 539.92 billion US dollars, a year-on-year increase of 16.3% and registering a further increase over the growth rate in 2017. Specifically, exports valued 291.29 billion US dollars and imports valued 248.63 billion US dollars, rising by 15.4% and 17.5% year-on-year, respectively.

Vietnam sustained its position as the largest trade partner of China and Southeast Asian countries. Its import and export trade value toped the local area by 135.09 billion US dollars (up by 25.1% year-on-year), followed by Malaysia (99.7 billion US dollars, up by 15.3% year-on-year), Thailand (80.97 billion US dollars, up by 11.1% year-on-year) %), Singapore ($76.08 billion, up by 6.4% year-on-year), and Indonesia ($71.17 billion, up by 25.2% year-on-year) in order.

[1]Southeast Asian routes: In this report, the routes with Southeast Asian ports of call are regarded as a Southeast Asian route.

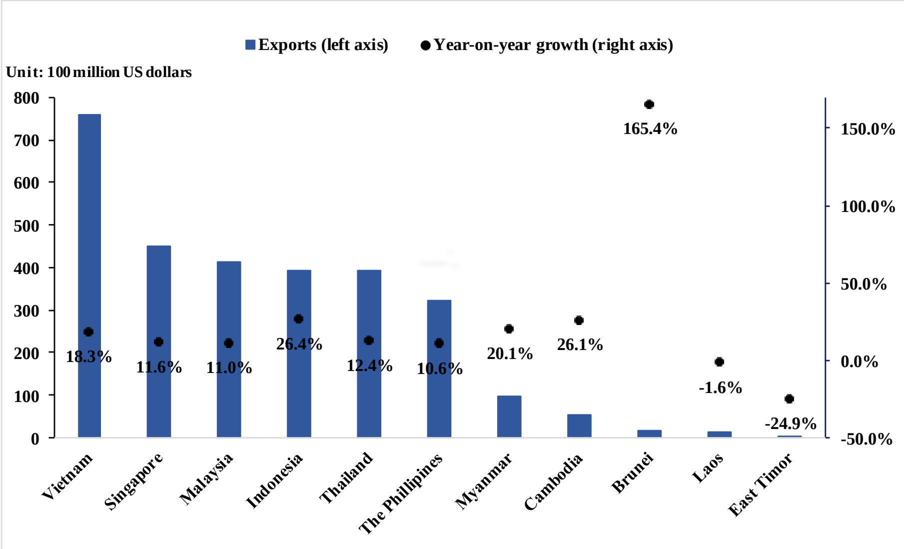

Figure 3-2 China's Exports to Southeast Asian Countries from January to November 2018

Data source: General Administration of Customs of China, prepared by Shanghai International Shipping Institute

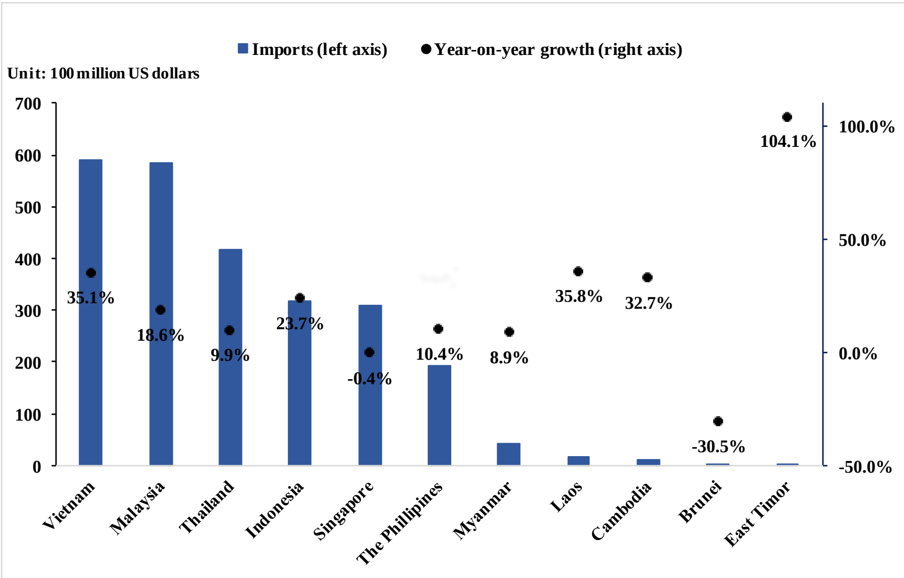

Figure 3-3 China's Imports from Southeast Asian Countries from January to November 2018

Data source: General Administration of Customs of China, prepared by Shanghai International Shipping Institute

3.2.2 Shipping capacity supply

◆ **Shipping capacity in Southeast Asian countries keeps increasing in 2018**

Major liners attached more importance to Southeast Asian shipping routes in 2018. The top four liners on Southeast Asian routes by shipping capacity were COSCO Container Lines, Wan Hai Lines, CNC Line and SITC International. They input a total of 1.67 million TEUs of shipping capacity in 2018, and the annual shipping capacity input was on a constant rise. The intraday total shipping capacity reached the annual maximum of 1.01 million TEUs on December 26, 2018, a surge of 595,800 TEUs over the 418,700 TEUs at the beginning of the year. In 2018, the top four liners on Southeast Asian routes input a total of 523 container ships, with the single-vessel capacity averaged at 3,196.4 TEUs, which is nearly 1,000 TEUs less than the averaged single-vessel capacity of global container fleets (4,133 TEUs). The average single-vessel age was 12.12 years, 0.82 years older than the average vessel age of global container ships.

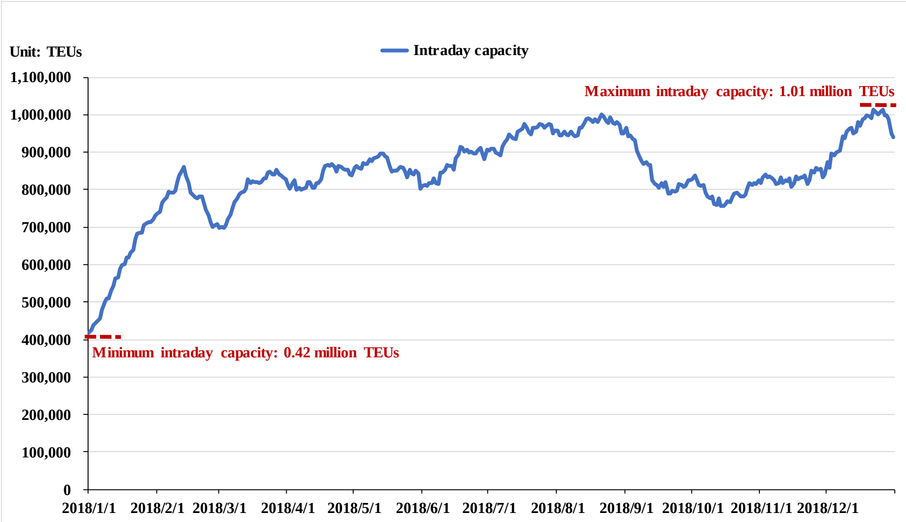

Figure 3-4 Intraday Total Shipping Capacity by Top 4 Liners on Southeast Asian Routes in 2018

Data source: sailing schedules of COSCO Container Lines, Wan Hai Lines, CNC Line and SITC International, prepared by Shanghai International Shipping Institute

- **Ship upsizing trend prominent on Southeast Asian routes, with ships of 4,000- 5,999 TEUs being dominant**

Ship upsizing trend was prominent on Southeast Asian routes. Among the 523 container ships run by top four liners, there were 190 ships of 4,000- 5,999 TEUs, accounting for 53.15% of the total shipping capacity and taking a safe lead ahead of other ship types as the dominant ship type on the routes. The average vessel age was more or less the same among different ship types. Ships of 6,000 TEUs or above have the youngest average age at 10.24 years, 2.49 years younger than the oldest ship type - ships of 500-1,999 TEUs.

Table 3-1 Ship Types of Top 4 Liners on Southeast Asian Routes in 2018

	500-1,999 TEUs	2000-3999 TEUs	4000-5999 TEUs	6,000+ TEUs
Vessel Count (vessel)	179	133	190	21
Share by Vessel Count (%)	34.2	25.4	36.3	4.0
Share by Shipping	14.64	21.82	53.15	10.39

Capacity (%)				
Average Single-Vessel Age (years)	12.73	11.38	12.28	10.24

Data source: sailing schedules of COSCO Container Lines, Wan Hai Lines, CNC Line and SITC International, prepared by Shanghai International Shipping Institute

3.2.3 Freight

- **Shipping freights see wild fluctuation on the whole with the average freights edging up**

The freights of the Southeast Asian container liner shipping market saw wild fluctuation in 2018, with the average freights edging up. The Southeast Asia Freight Composite Index (SEAFI) throughout the year was averaged at 783.55 points, rising slightly by 0.9% year-on-year. The yearly composite index changed dramatically by as high as 34.1%.

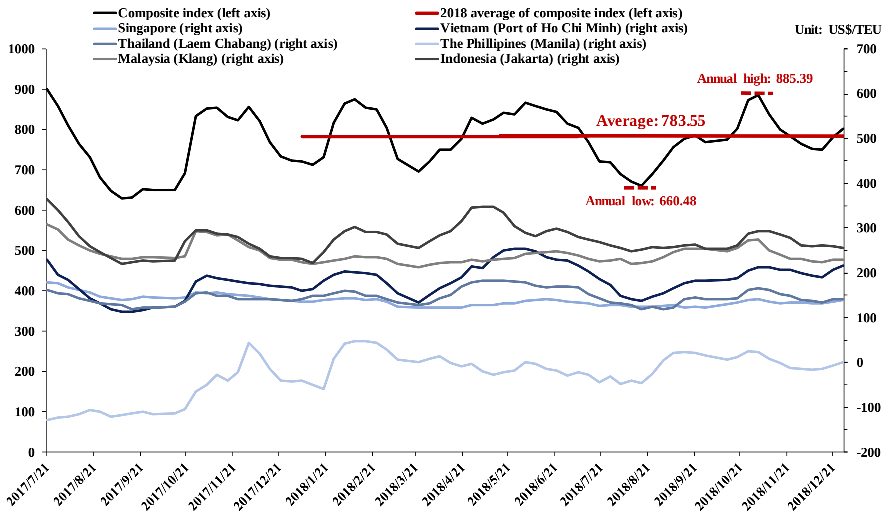

Figure 3-5 Southeast Asia Freight Composite Index (SEAFI)

Data source: Shanghai Shipping Exchange, prepared by Shanghai International Shipping Institute

- **Freights differentiated among shipping routes**

The spot freights for export container shipping from Shanghai Port to various base ports in Southeast Asia differentiated subject to the impacts of different reasons. Specifically, the freights of routes to the Philippines and Vietnam increased by the widest margin, and those of routes to Singapore and Malaysia went downward by varied degrees. The freights on routes to Thailand and Indonesia were stable in general.

Table 3-2 Freight Changes of Southeast Asian Routes in 2018

	Composite Index	The Philippines (Manila)	Vietnam (Ho Chi Minh)	Singapore	Malaysia (Kelang)	Thailand (Laem Chabang)	Indonesia (Jakarta)
Yearly Average	783.55	-5.18	192.94	131.92	234.80	150.14	278.02
Year-on-year Change (%)	+0.9	+92.1	+14.6	-13.7	-6.7	+0.1	-0.2

Data source: Shanghai Shipping Exchange, prepared by Shanghai International Shipping Institute

Route specific, the improved Sino-Philippine relations along with other positive factors, the trade volume between the two countries increased by 10.5% year-on-year. The average annual freight rate (marine shipping and shipping surcharges) in the spot market of exports from Shanghai to base ports in the Philippines was -5.18 US dollars/TEU, soaring by 92.1% year-on-year. From January to November 2018, Sino-Vietnamese trade volume increased by 25.1% year-on-year, with their shipping routes enjoying relatively large stocks of cargoes. The average annual freight rate in the spot market of exports from Shanghai to base ports in Vietnam was 192.94 US dollars/TEU, rising by 14.6% year-on-year. The growth of trade volume between China and Singapore was 7.9 percentage points lower year-on-year. Due to this, the average annual freight rate in the spot market of exports from Shanghai to Singapore presented a sharp dip, averaged at 131.92 US dollars/TEU for the year, a decline of 13.7% year-on-year. The freight rate of Shanghai-Malaysia routes decreased slightly, with their average annual freight rate in the spot market standing at 234.80 US dollars/TEU, down by 6.7% year-on-year. The freight rates of routes to Thailand and Indonesia were relatively stable, and the annual averages were 150.14 US dollars/TEU and 278.02US dollars/TEU, increasing by 0.1% and -0.2%, respectively.

3.2.4 Route readjustment

Container liners made significant readjustments to their routes to Southeast Asia in 2018, adding 16 new routes, including 11 from China and 5 from Japan or South Korea, and upgrading 7 routes. Affected by Sino-US trade frictions and the accelerated relocation of manufacturing plants from China to Southeast Asia, liners made active responses by increasing capacity input on Southeast Asian routes especially on routes to Vietnam.

Table 3-3 Adjustments of Southeast Asian Routes of Liners in 2018

Month	Liner	Adjustments of Routes	Details
February	CNC Line	Opened its China-Southeast Asia route	Launched 3 container ships calling at ports of Qingdao, Shanghai, Ho Chi Minh, Bangkok, Laem Chabang and Manila
March	Yang Ming Marine Transport Corporation	Added South Korea-Vietnam/Thailand routes KVX	Calling at ports of Inchon, Ulsan, Busan, Shekou, Ho Chi Minh, Laem Chabang, Bangkok, Laem Chabang, Ho Chi Minh and Inchon
March	SM Line, COSCO Shipping, Wan Hai Lines,Interasia Lines and X-Press Feeders	Opened East Coast India 2 Service	Launched several 4,300-TEU container ships calling at ports of Shanghai, Ningbo, Hong Kong, Shekou, Singapore, Kelang, Chennai, Kattupalli, Kelang and Singapore
March	Yang Ming Marine Transport Corporation	Added Japan-Singapore and Malaysia/Vietnam routes	Launched 4 3,200-TEU ships calling at ports of Osaka, Kobe, Nagoya, Yokohama, Tokyo, Hong Kong, Singapore, Kelang, Cai Mep and Shekou
April	APL	Upgraded China-Philippines route CP1	Added calls at Xiamen Port in China and Port of Batangas in the Philippines
April	Wan Hai Lines and IAL	Opened Japan-South Korea-Vietnam Haiphong route	Launched 3 1,800-TEU ships calling at ports of Hakata, Moji, Busan, Ulsan, Gwangyang, Keelung, Kaohsiung, Shekou, Hong Kong and Xiamen
April	Wan Hai Lines and Yang Ming Line	Added Singapore & Malaysia-Indonesia route	Launched 2 2,800-TEU ships calling at Klang Westport, Klang Northport, Singapore, Jakarta, Sishui and Panjang
April	X-PRESS	Opened "Hong Kong-Beibu Gulf-Haiphong" public route	----
April	China COSCO Shipping Corporation Limited	Opened CV3 route	Launched 1 1,300-TEU ship in the initial stage calling at "Quanzhou—Hong Kong—Nansha—Ho Chi Minh"
May	Orient Overseas (International) Limited	Added South Korea-Vietnam Haiphong route (JKH)	Called at ports of Shekou, Hong Kong, Xiamen, Hakata and Moji
May	Orient Overseas (International) Limited	Added Hong Kong-Vietnam route (KTX1-S)	----
June	APL	Launched China-Southeast Asian service (CS8)	Called at ports of Shanghai, Ningbo, Shekou, Jakarta, Sishui and Kaohsiung
July	Maersk	Added IA6 route	Called at ports of Pyeongtaek, Busan, Dalian, Newport, Hong Kong, Malaysia Kota Kinabalu and Bintulu

July	Maersk	Upgraded routes to Bangladesh	SH1upgraded to Shanghai-Chittagong, 9-day direct route IA7upgraded to SH2, with Ningbo Port added SH2added with a direct route to Klang Westport
October	Yang Ming Line, OOCL and RCL	Added North China-Vietnam CHX route	Launched 3 2,800-TEU container ships calling at ports of Dalian, Tianjin, Qingdao, Hong Kong, Shekou, Ho Chi Minh and Inchon
October	Yang Ming Line, COSCO Shipping, OOCL and Wan Hai Lines	Added North China-Thailand NCT route	Called at ports of Dalian, Tianjin, Qingdao, Hong Kong, Shekou, Laem Chabang, Xiamen and Inchon

3.3. Major Container Ports in Southeast Asia

◆ **Container throughput growth of Southeast Asian ports keeps rising**

The rapid growth of import and export trade values of Southeast Asian countries in the past two years drove up the growth rate of container throughputs of ports. It is estimated that the container throughput of Southeast Asian ports in 2018 will reach 113 million TEUs, an increase of 6.0% year-on-year, 0.4 percentage points higher than the last year against the general slowdown of container throughput growth of Asian ports.

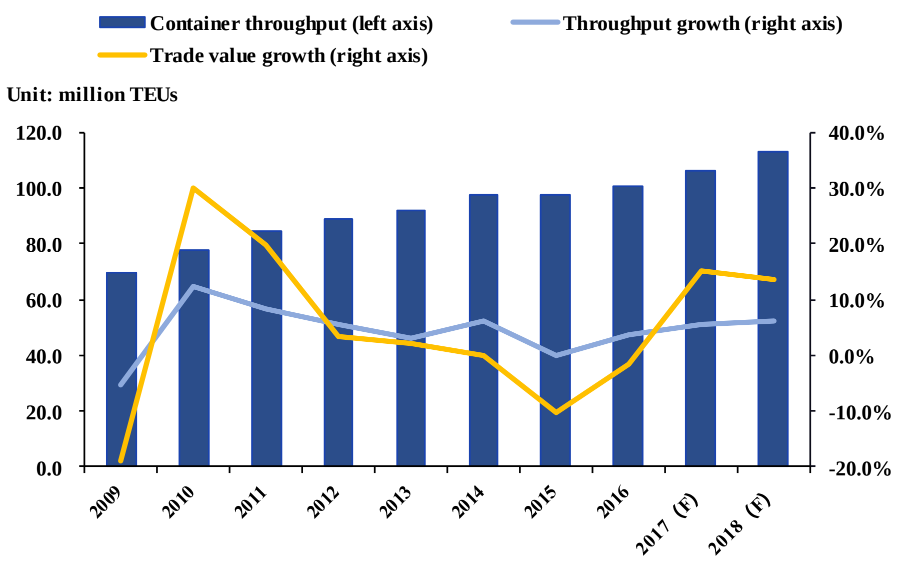

Figure 3-6 Container Throughput Growth and Trade Value Growth of Southeast Asian Ports in 2009-2018

Data source: Alphaliner, ASEAN database, WTO database and Vietnam customs, prepared by Shanghai International Shipping Institute

◆ **Port of Singapore and Port of Jakarta lead container throughput growth in Southeast Asian ports**

Boosted by the higher than 10% of growth in import and export trade values in the countries, Port of Singapore and Port of Jakarta recorded 27.30 million TEUs and 4.93 million TEUs of container throughputs, respectively, in the first three quarters of 2018, rising by 10.2% and 12.7%, respectively, leading Southeast Asian ports in terms of container throughput. Ports of Tanjung Pelepas, Laem Chabang, Ho Chi Minh and Manila were neck and neck with around 5% of growth. Subject to the impact from the route changes of Ocean Alliance and THE Alliance, Port Kelang failed to reverse the throughput slump since last year in the first quarters of 2018, recording -0.5% of growth year-on-year, yet the declining pace was much slower compared with last year.

Table 3-4 Throughputs of Major Container Ports in Southeast Asia in Past Two Years

Q1 - Q3 2018 Global Ranking	Port	Country	2017 (10,000 TEUs)	Q1 - Q3 2018 (10,000 TEUs)	Year-on-year Growth (%)
2	Port of Singapore	Singapore	3366.66	2730.02	10.2%
13	Port Kelang	Malaysia	1197.82	902.61	-0.5%
19	Port of Tanjung Pelepas	Malaysia	837.72	659.08	5.4%
20	Port of Laem Chabang	Thailand	778.45	599.21	4.0%
23	Port of Jakarta	Indonesia	607.98	493.39	12.7%
25	Port of Ho Chi Minh	Vietnam	592.67	468.38	6.3%
30	Port of Manila	The Philippines	482.41	374.81	6.0%
Total			7863.71	6227.50	----

Data source: Alphaliner, prepared by Shanghai International Shipping Institute

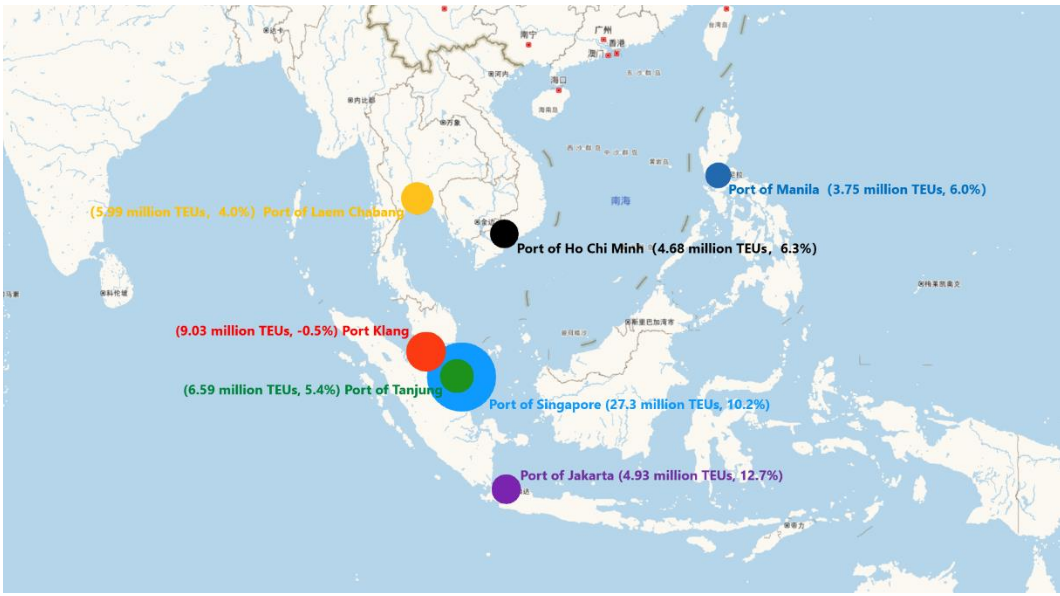

Figure 3-7 Geographic Locations of Major Container Ports in Southeast Asia

Data source: Alphaliner, prepared by Shanghai International Shipping Institute

4. Prospect for International Container Shipping Market in 2019

4.1 Prospect for International Container Shipping Market – Volume

The United States levied additional taxes on multiple imported products including steel, aluminium products as well as automobiles and parts in the name of national security starting from 2018, triggering countermeasures from other trade partners. This has led to escalated trade frictions on the world scale, coupled with grim trade environment and trade growth slowdown. Factors of uncertainty and lability including monetary tightening in major developed economies, tense trade environment globally and geopolitical risks will continue to cast a shadow on global trade in 2019. According to WTO, the global cargo trade volume in 2019 may grow by 4.0%, the growth slowing down for the second consecutive year.

The global container shipping volume may continue to slow its growth as a result. Comparing the growth rates of world economy, world trade and global container shipping volume, we can see that the shipping volume growth in the past few years was a little higher than that of world trade. Shanghai International Shipping Institute estimated that the global container shipping volume in 2019 may grow by 4.1% to reach 209 million TEUs. Specifically, the shipping volume growth on trunk shipping routes may slow down to some extent. The Pacific routes may see changes in its shipping volume in 2019 as some cargo owners shipped their cargoes in 2018 due to the Sino-US trade frictions. But the shipping volumes on intra-regional routes and North-South routes will maintain the rapid growth.

Figure 4-1 Trend of World Economy, World Trade and Shipping Volume Growth Rates in 2012-2019

Data source: IMF and Clarksons Research, prepared by Shanghai International Shipping Institute

4.2 Prospect for International Container Shipping Market – Capacity

As of December 2018, global container ship orders totaled 428 ships with 2.99 million TEUs, accounting for around 13.2% of the current fleet capacity. The percentage was about 0.3 percentage points lower year on year. In terms of delivery schedule, around 1.13 million TEUs is planned to be delivered in 2019, declining by around 13.7% year-on-year. If the aforementioned orders are fulfilled on schedule, the shipping capacity in 2019 may reach 22.94 million TEUs, rising by 5.2% year-on-year, without taking ship dismantling and delivery delays into account. However, with the introduction of the “Sulfur Restriction Order”, dismantling of old and outdated ships may be enhanced compared with 2018. Taken together, it is estimated that the shipping capacity of container fleets in 2019 will total 22.60 million TEUs at a growth rate of 3.3%.

Table 4-1 Global Container Shipping Capacity Projections

Year	Shipping Capacity (10,000 TEUs)	Year-on-year Increase (%)
2015	1981.9	7.8
2016	2006.6	1.2
2017	2083.4	3.8
2018	2180.3	5.5
2019 (excluding dismantled ships and delayed deliveries)	2293.6	5.2
2019 (including dismantled ships and delayed deliveries)	2260.4	3.3

Data source: Clarksons Research, prepared by Shanghai International Shipping Institute

4.3 Prospect for International Container Shipping Market – Freight

In summary, the international container shipping market is still undergoing recovery and adjustment, with the supply and demand situation improving, but the market may still face excess capacity. As of December 2018, China Containerized Freight Composite Index was averaged at 818.43 points. It is projected that the freight index in 2019 will be under pressure, and the annual average of CCFI will be between 750 and 800 points.

Route specific, intra-regional routes may outperform trunk routes in terms of freight rate. The Pacific routes have overdrawn much of their shipping demand affected by Sino-US trade frictions, and their freight rates are likely to decline in the first half of 2019. The ultra-large container ships to be delivered in 2019 will continue to be launched to Asia-Europe routes. In addition, the European economic growth slowed down, and China-Europe trains are booming. The synergy of these factors will slow down the shipping volume growth on Asia-Europe routes which may also be subject to freight declines. Although it is hard to overturn the international manufacturing industry chain in the short term, Southeast Asian economies are already taking over some transferred industry entities. Coupled with the improved port infrastructure in Southeast Asia, it is foreseeable that Southeast Asian routes may become a bright spot in the future.

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Review of 2018 and Prospect for 2019 of International Container Liner Shipping Market

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