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SEAINTEL MARITIME ANALYSIS

HIGHLY VOLATILE MARKETS AHEAD

Structural changes in the market likely to amplify market volatility

Looking at the key drivers which have been boosting the container shipping industry for the past 3 decades, we find that we are now undergoing a shift in fundamental structural factors.

A consequence of this shift is that we expect the development in market supply/demand balance to be highly volatile in the coming 3-4 years before possibly settling down into a more standard cyclical pattern.

This also means the industry needs to plan for the distinct possibility that the volatile market swings seen in

2009 (down), 2010 (up) and 2011 (down again) can continue with the same ferocity in the coming 3-4 years.

As we will explore this week, the

impossible as they include a confluence of macroeconomic developments and game-theoretic aspects of carriers' decision making processes.

The main factors on the stage in the coming years are 10.000+TEU vessels, declining trade imbalances, vessel lay-up processes, inventory corrections, cascading, near-sourcing and carriers' ordering habits.

These factors pull in different directions, but with significant strength. This point towards very volatile markets in the coming years.

We have in the following devoted a small section to each of the different forces which will shape the coming volatility in the market.

THE CURRENT VOLATILITY WILL CONTINUE IN THE COMING YEARS

LOST IN THE FOG?

The number of surcharges is only getting larger. Seemingly this is a result of a mechanism pushed by carriers and shippers alike. In down markets – like now - shippers are unwilling to accept price increases, except if they are specific surcharges clearly linked to costs not under the carriers' control. Conversely carriers seem to find it easier to “sell” a rate increase if they label it as a cost surcharge. The latest example is CMA CGM announcing a “fog surcharge” on services from Qingdao to North Europe due to dense fog, and therefore delays. The rationale seem sound – but why are the 4 other CMA CGM services from Qingdao to the Americas and Russia not subject to it? Presumably these services are operated with vessels which are not

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