

SOUTH AMERICA AND AFRICA RATE DEVELOPMENT

Some emerging markets now poised for rate declines

With the Asia-Europe and Transpacific markets exposed to low, and at times negative, demand growth, combined with a de-facto war on freight rates, it is only natural that carriers are looking for more profitable trades in which to deploy their assets.

Two of the trades which have been mentioned as high-growth trades, with more attractive rate levels, are the South American and African markets.

We therefore decided to take a closer look at the freight rate statistics available in these trades, to analyze the developments in these emerging markets.

With the Asia to Europe container transport demand having grown only 5% year-to-date, and Asia to US showing

more attractive. As an example, we have seen the South America to Europe trade grow 13% year-to-date, and in some months the growth has been in excess of 20% compared to same period last year.

We find that these markets have indeed seen a significant strength in the freight rate development in 2011 – however, we also find that this strength seem to have come to an end, and the rates are now under significant pressure, with rate declines already very visible.

Methodology

The challenge associated with analysis of these emerging markets is the availability of freight rate data. We have chosen to only analyze markets where we have credible and consistent time series of data.

PREPARING FOR PRICE WAR?

During 2011 we have heard numerous carriers state their intentions to focus on emerging markets – and seen even more carriers launch new services into these markets, either by deploying new vessels or getting space onboard existing services. The effect is now showing in some of the South America and Africa trades in terms of falling freight rates. We see this as a direct result of increasing competitive pressure in the emerging markets – and this is an effect which will likely increase over the next 12 months. Maersk Line's closure of management and back-end functions in Safmarine might be seen as a cost-cutting preparation for such a coming price