

### SOUTH AMERICA SUPPLY/DEMAND DEVELOPMENTS 2010-2012

Slight overcapacity issues. Major consolidation “war” expected before 2015

Through the past couple of weeks we have analyzed the supply and demand development on the two main east-west trades from Asia to Europe and North America. As we found, there is no doubt that those two trades are facing some serious challenges in relation to overcapacity, lack of demand and declining freight rates. The Asia-Europe trade will have to phase in the batch of new +10,000 TEU vessels as they are delivered from the shipyards, and the transpacific trade needs to absorb the vessels which are cascaded from the Asia-Europe trade.

As this outlook clearly is unsustainable, something has to change on these trades. One of the questions is whether emerging markets will be able to pick up the excess

emerging trades around the world?

This week we will analyze the supply/demand development from South America, with the focus being on the East Coast South America market to Europe, North America East Coast and Asia.

We have chosen the South American market, as this is a market which is often mentioned as an example of the emerging markets which might be able to absorb some of the excess capacity being cascaded from other trades.

The South America services we have included in this analysis calls at ports in at least one of the following countries: Argentina, Brazil, French Guinea, Surinam, Guyana or Venezuela.

### SUDDEN REBOUND

The final spot rates of 2011 from the Shanghai Shipping Exchange saw a very large rebound in freight rates – the largest ever in the SCFI history. Given our analysis of supply/demand fundamentals we do not see this increase to be founded in fundamentals. The increase is more founded in a seemingly newfound resolve by the carriers to at least increase the rates from highly loss giving to slightly loss giving. This is on the back of a string of new alliances which seemingly brought consolidation to the market. In reality no consolidation has taken place, and no capacity has been removed. Consequently the increases seen can only be maintained if the carriers stand firm, as fundamentals did not support such increases.