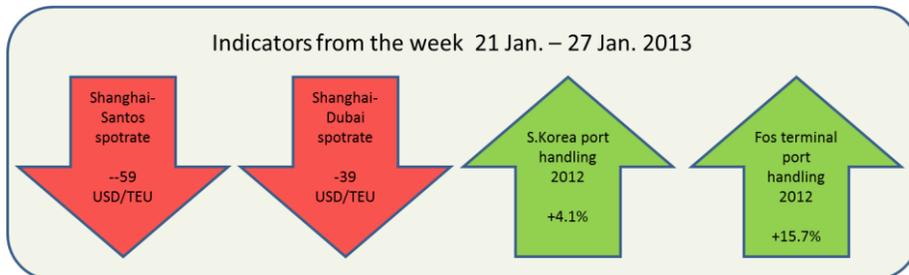


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THE CURRENT UPTURN IN RATES

Asia-Europe rates about to surge – but the cycle time is rapidly reduced, setting the stage for a fast downturn

Everyone who has attended basic education in economics has been exposed to the relationship between supply, demand and prices. At heart it is excruciatingly simple. If demand exceeds the production capacity, prices will increase until demand is reduced to the point of matching the capacity.

Conversely, if production capacity vastly exceeds demand, the producers can choose between reducing capacity to match demand, or they can lower the price to stimulate more demand.

The problem with an economic “law” is that - unlike the law of gravity – it is not an unchangeable fact. Economics is at heart an exchange between people, and is as such subject to peoples’ behavior. This is an issue we have covered in depth on previous occasions – particularly from a game-theoretic viewpoint – and we will not do so in this article. We will merely point out that this is indeed a fact.

Additionally, it is important to note that – unlike the simple economics example above – container shipping is an industry where a change in price does not change demand. It might stimulate changed patterns in outsourcing, but not in the short term. Alas, behaviour is the key and carrier behaviour is now clearly pointing to a repeat of previous upturns – and

More vessels?

We have previously stated our expectation as to the future ordering of super-post-panamax vessels. However this is not the only vessel segment where we expect to see additional orders placed. We also expect a raft of newbuild orders in the small segment around roughly 1000-4000TEU. The reason would be the same as for the mega-vessels: fuel efficiency. And in this segment combined with the fact that the existing vessels are older and the orderbook is not (yet) very large. PIL is the latest example having just ordered eight 3900 TEU vessels

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