

Excess leads to freight falling

Trend Rating:

EC: Bearish

Report Date:

December 31, 2024

★Demand prospects reverting weak

With rates cutting advances in 2025, normalization of saving behaviors is expected to appear as rates reduction, and the consumption trend will gradually converge towards disposable income. However, trade tension will increase the uncertainty of the economy, and concerns about the future will be the main constraint on the recovery of consumption. With demand advanced and restocking exhausted, demand on Europe service lack of support.

★Oversupply despite uncertainties

The first uncertainty is the timing of resumption in the Red Sea. The impact of rerouting has largely been mitigated, and new ship deliveries will drive supply towards excess. The second uncertainty is the shipping alliance reorganization. The third uncertainty is the potential pressure from a tariff-driven rush to transport and strikes at US East Coast ports, with a possibility of spilling over to Europe routes. The fourth uncertainty is disturbance from ports.

★Freight keeps falling

Surplus may emerge in Europe service, leading to a downward shift in freight. The march of oversupply mainly depends on the pace of new ship deliveries. Seasonality will still be reflected in freight rates. MSC's share in Europe routes rising will exacerbate the fluctuations in freight. If the Red Sea resumes, supply pressure will surge immediately and seasonality will no longer be significant. Freight will start to trend downward steadily, eventually reaching cost levels and then fluctuating.

★Risk Warning

The resumption in the Red Sea, the prolonged strike at US, and European consumption exceeding or falling short of expectations, etc.



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EC futures market trend

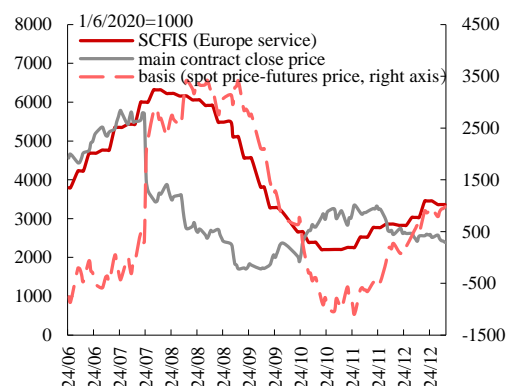


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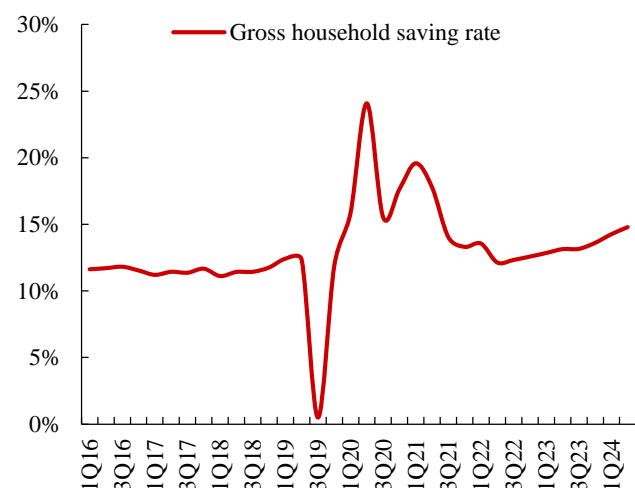
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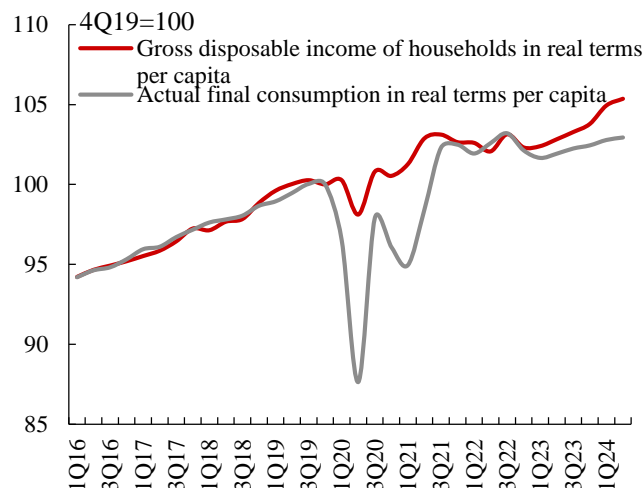
1. Demand prospects reverting weak

The stimulus effect of rate cutting on consumer consumption in Europe falls short of expectations. European Union voted to pass the Stability and Growth Pact in April 2024, marking the EU's back to a tight fiscal environment again. According to the pact, a state's budget deficit cannot exceed 3% of GDP and national debt cannot surpass 60% of GDP. With fiscal constraints combined with the drag of the Russian-Ukrainian war, rate-cutting failed to boost the European economy effectively. The stagnation of industrial development under high energy costs lays the tone for a slow recovery. Rates rising progress in 2022 and 2023 pushed up the ECB's deposit rate to a rare high level. On the eve of the rate cutting, the deposit rate was as high as 4%, the highest rate record since the millennium. The high deposit rate level kept stimulating saving willingness and suppressing consumption, which explains the divergence of disposable income and consumption trends. The ECB has cut interest rates four times since June 2024. The latest December interest rate meeting cut the deposit rate by 25bp to 3.0%, which is still at a high level and continues to suppress consumption in the short term.

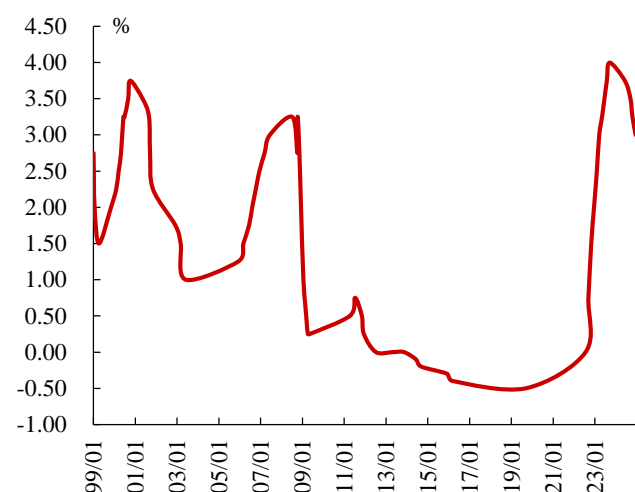
With rates cutting advances in 2025, personal income will keep pace with economic growth, and normalization of saving behaviors is expected to appear as rates reduction. Thus, the consumption trend will gradually converge towards disposable income. However, we should not be overly optimistic about consumption while trade disputes rise. Trump won the US election and trade protectionism has returned. He has publicly stated many times to impose tariffs on all foreign goods, and European goods are also included in the trade blow. The US is the main export region for Europe, and exports to the US account for about 20% of the EU's total exports. Potential trade friction between the US and Europe will slow down the pace of economic recovery. Tariff policies may cause a 1% decrease in the EU's GDP, according to Goldman Sachs' forecasts. Moreover, trade tension will increase the uncertainty of the economy, and concerns about the future will be the main constraint on the recovery of consumption.

Chart 1: Saving rate improved


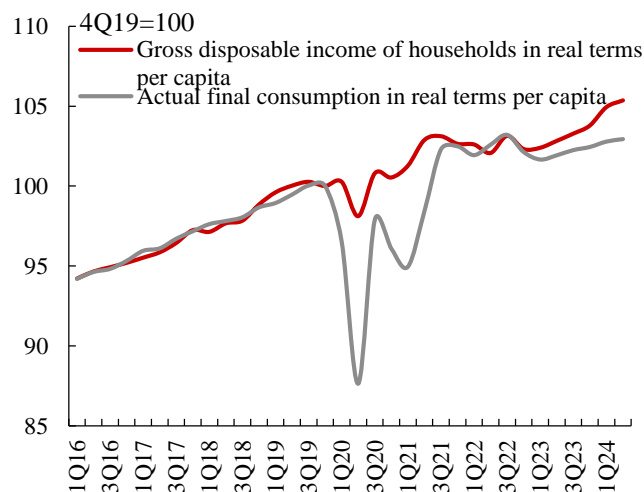
Source: iFind, Research Institute of Orient Futures

Chart 2: US and China in total exports


Source: Bloomberg, Research Institute of Orient Futures

Chart 3: Deposit rate level of the EU


Source: iFind, Research Institute of Orient Futures

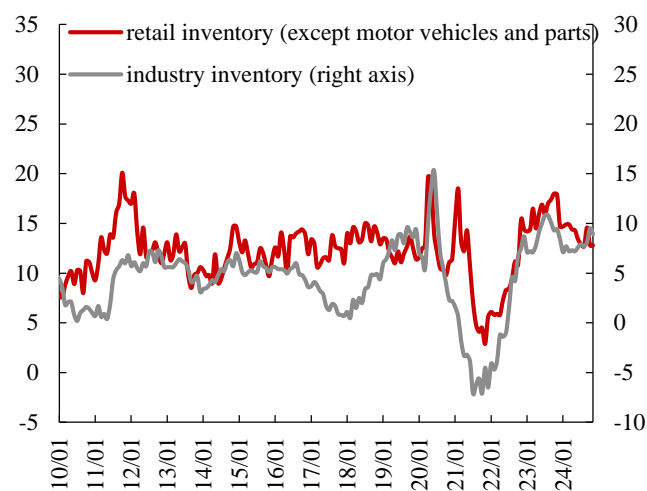
Chart 4: Consumption falls behind disposable income


Source: Bloomberg, Research Institute of Orient Futures

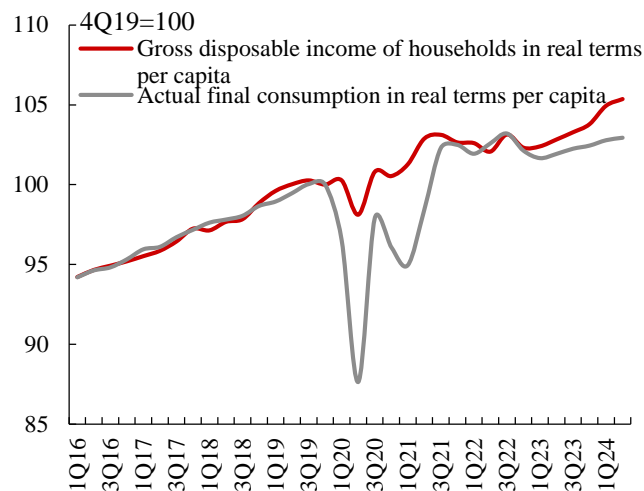
Commodity inventories in Europe reached a temporary low point at the end of last year and the beginning of this year. Inventory replenishment and supply disturbances caused demand to be brought forward, and container shipping trade increased in volume in the first three quarters. However, the bottom of this round of inventory cycle is high and the momentum for restocking is insufficient. At the end of November, industrial inventory levels rebounded significantly and retail inventory levels improved slightly. Financial reports show that large European retail traders saw significant increases in inventory at the end of the second or third quarters. Since the fourth

quarter, demand for Europe service has begun to show signs of fatigue. It is expected that the support for Europe service from restocking will gradually fade in 2025.

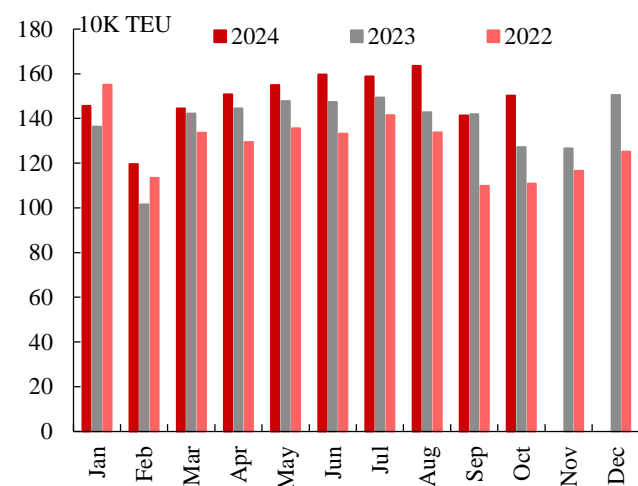
Affected by extended route distance, insufficient supply, and increased demand, the seasonality of demand for Europe service was disrupted in 2024. The traditional peak season in July and August was moved forward to May and June, and the trade volume exceeded expectations. However, with the replenishment of shipping capacity and overdraft of demand, demand quickly turned sluggish in late August. Seasonality performance returned to normal in the fourth quarter. Though the seasonal recovery is partial because the peak season at the end of a year does not require the timeliness of arrival as much as in the middle of a year, seasonality will gradually return to a normal rhythm as demand weakens and the supply gap turns to surplus. Even if rerouting continues next year, the seasonality of seasonal disruption will be greatly reduced. Although shipping distance is still extended, the shift of peak season in the middle of the year will not be too long, at most half a month.

Chart 5: Inventory level in Europe


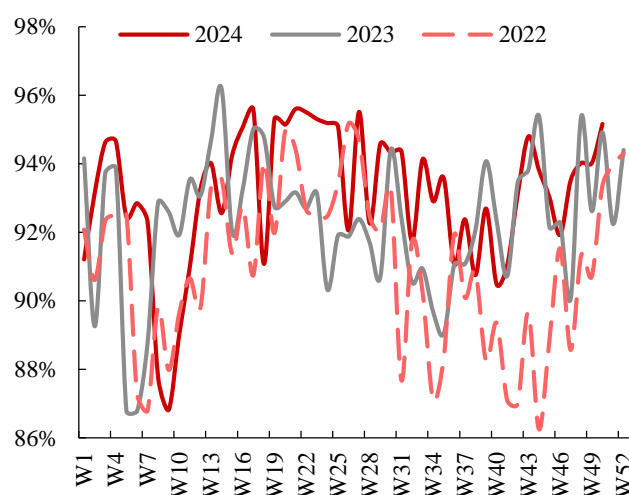
Source: Bloomberg, Wind, Research Institute of Orient Futures

Chart 6: Inventory levels of the main retailers


Source: Bloomberg, Research Institute of Orient Futures

Chart 7: Asia to Europe container trade volume


Source: Bloomberg, Research Institute of Orient Futures

Chart 8: Europe routes load rate departure from China


Source: Chuanshibao, Finoview, Research Institute of Orient Futures

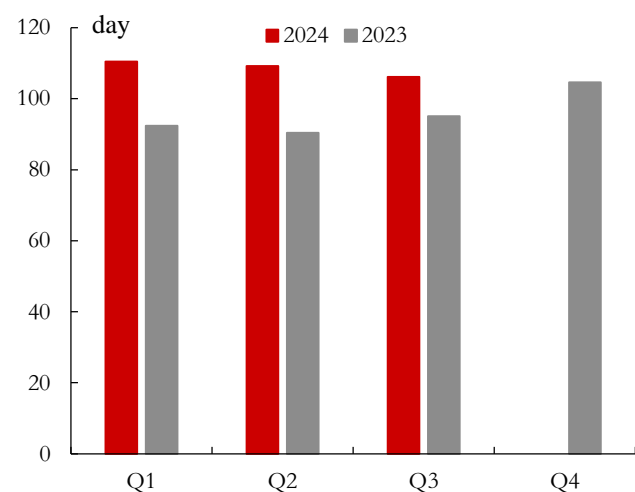
2. Oversupply despite uncertainties

2.1 Geopolitical uncertainties determine the level of excess

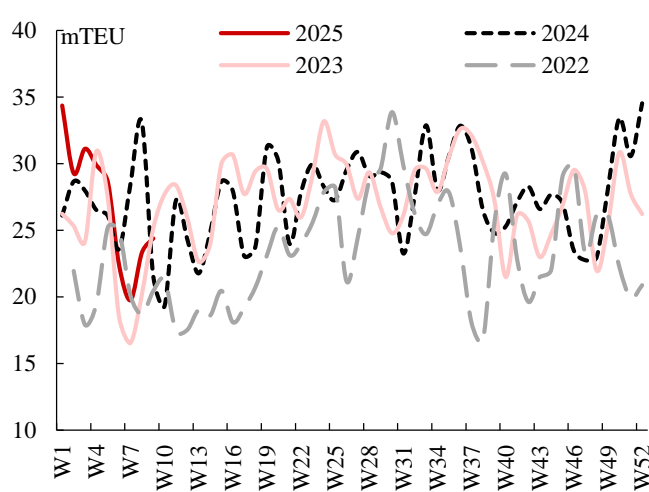
Whether and when Red Sea sailing will resume next year is hard to say, as chaos in the Middle East remains. The outbreak of geopolitical conflicts blocked the normal navigation in the Red Sea, and the fleet of Europe service was almost completely rerouted around the southern tip of Africa. Demand for the fleet increased sharply after the detour. However, the process of replenishing ships from delivery or dispatch was very slow. In the first three quarters of 2024, the supply shortage of Europe service was prominent. There are two forms of gaps. One is the gap in fleet number, which is manifested as a problem of shipping schedule continuity. Another is the gap in the average size of the fleet. The proportion of ship types added to Europe service changes the original structure of the fleet, leading to a contraction in the average size.

At the end of the year, the supply shortage has improved significantly. Although the continuity of some routes cannot be guaranteed and the structure of the fleet has not yet recovered, the impact of the gap on the market could be ignored. Furthermore, deliveries next year will push supply and demand into a surplus status. The peak of large ship deliveries has passed, but the number of large-size ships to be delivered next year is still considerable. Ships over 17k TEU to be delivered next year is 13, and the fleet growth rate of this type of ship is nearly 6%. Ships between 12k and 17k TEU to be delivered is 80, with an annual growth of 16%. Assuming that ships over 17k TEU are fully deployed and ships between 12k and 17k TEU at a ratio of 15%-20% will be deployed on Europe service, the number of the fleet on Europe service will increase by 10%-13% next year.

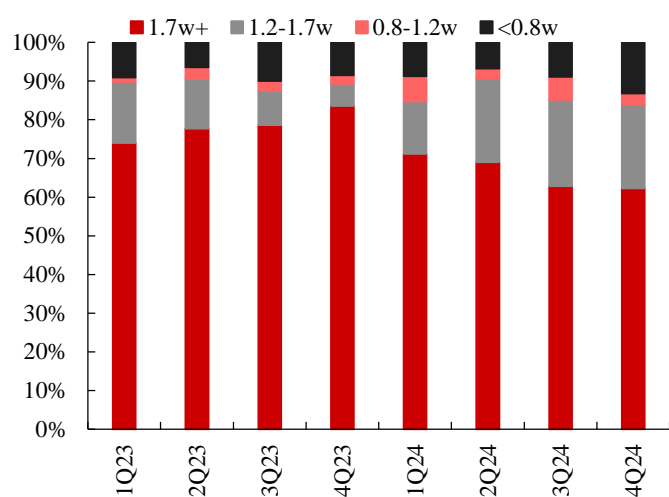
without considering ship dispatches with other routes. The static capacity growth of fleet in TEUs on Europe service is estimated to be 9%-11%.

Chart 9: Rotation days of fleet on Europe routes


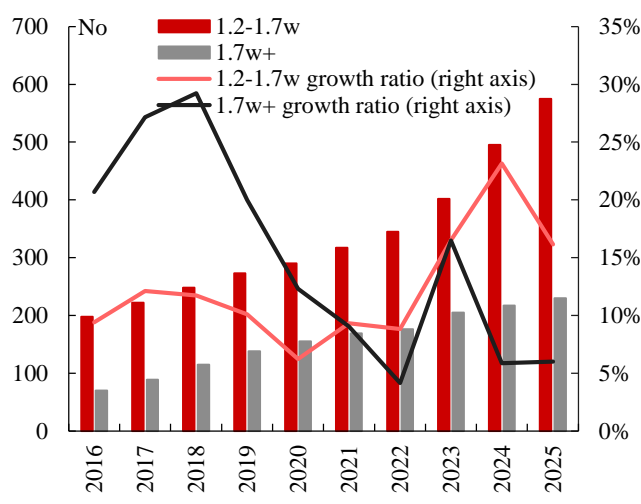
Source: Finoview, Research Institute of Orient Futures

Chart 10: Weekly capacity of NWE with smoothing


Source: Finoview, Research Institute of Orient Futures

Chart 11: Ship type structure of fleet on Europe routes


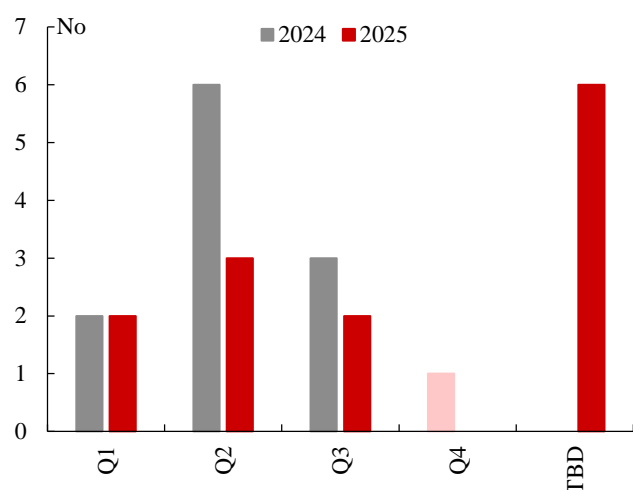
Source: Finoview, Wind, Research Institute of Orient Futures

Chart 12: Fleet over 12k TEU development


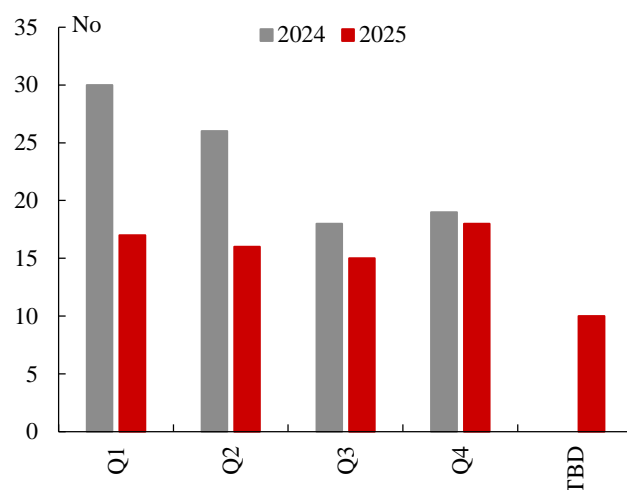
Source: Clarksons, Research Institute of Orient Futures

South Korean shipyards account for a large proportion of the ship orders to be delivered in 2025, with 77% of orders over 17k TEU and 44% of orders between 12k and 17k TEU. The efficiency of shipbuilding is affected by the lack of skilled workers in South Korea. The extension of the

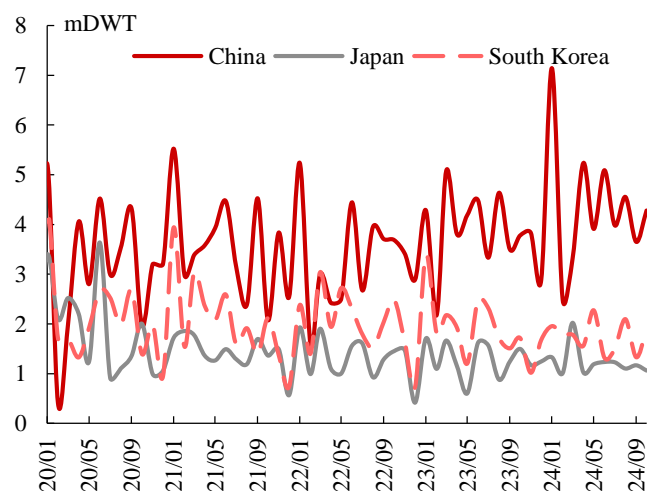
shipbuilding period leads to lower-than-expected deliveries in the containership market. The pace of fleet growth will slow down. The estimated growth rate of the number of the fleet on Europe service next year shall be revised to 7%-11%, and the static capacity growth rate is revised to 6%-9%.

Chart 13: Actual and estimated deliveries of 17k+ ships


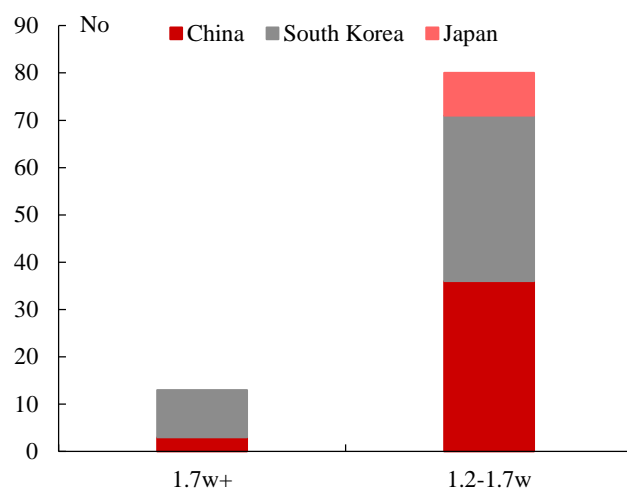
Source: Clarksons, Wind, Research Institute of Orient Futures

Chart 14: Actual and estimated deliveries of 12-17k ships


Source: Clarksons, Research Institute of Orient Futures

Chart 15: Ships delivered by main shipbuilding countries


Source: Clarksons, Wind, Research Institute of Orient Futures

Chart 16: Deliveries of 12k+ vessels in 2025 by countries


Source: Clarksons, Research Institute of Orient Futures

The capacity absorbed by rerouting will be released again if Red Sea sailing resumes next year, causing a huge impact on the capacity of Europe service. The capacity will increase by at least 30% in additional excess. Besides, the supply of Mediterranean service is more affected by rerouting, and some of the ships serving on this route were dispatched from Europe service in the first half of the year. Once the detour ends, the supply pressure on Mediterranean service will be significant, potentially creating a spillover effect on Europe service. On the other hand, general acceleration among large vessels is common due to supply shortages in 2024. If the detour ends, there is potential for a decrease in speed, but the room for such a decline is limited and it can hedge 8%-10% of the excess capacity at most, which is not enough to reverse the serious oversupply. Moreover, there's currently no serious shortage among other routes, and relocating the fleet of Europe service to others is limited on scale. Even if reallocated, it is challenging to deploy large vessels on other routes. Furthermore, when the fleet structure is restored, it will also pull up the weekly capacity level.

2.2 Reorganization determines the capacity ceiling

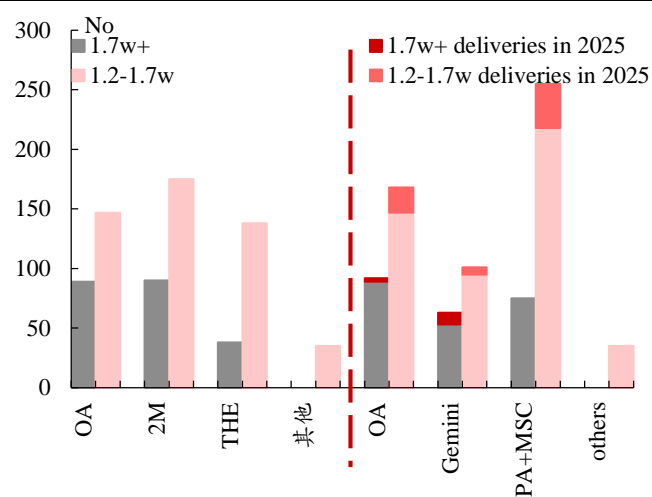
Chart 17: Ports called by Europe service in 2025 (China to Europe)

Gemini		port No
AE1/NE2	Shanghai-Yantian-Tanjung Pelepas-Rotterdam-Hamburg-London Gateway-Tangier	7
AE2/NE1	Ningbo-Shanghai-Tanjung Pelepas-Tangier-Wilhelmshaven-Bremerhaven-Rotterdam	7
AE3/NE3	Shanghai-Ningbo-Tanjung Pelepas-Algeciras-London Gateway-Rotterdam	6
AE5/NE4	Qingdao-Yantian-Tanjung Pelepas-London Gateway-Bremerhaven-Hamburg-Rotterdam	7
MSC+PA (including MSC independent routes)		port No
Albatros (MSC independent)	Xingang-Dalian-Gwangyang-Ningbo-Shanghai-Yantian-Singapore-Felixstowe-Bremerhaven-Gdansk	10
Lion	Qingdao-Busan-Ningbo-Shanghai-Yantian-Singapore-Sines-Antwerp-Rotterdam-Le Havre-London Gateway	12
Swan	Ningbo-Shanghai-Xiamen-Singapore-Le Havre-Rotterdam-Gothenburg-Aarhus-Hamburg-Antwerp	10
Britannia (MSC independent)	Shanghai-Ningbo-Yantian-Vung Tau-Felixstowe-Antwerp-Gdansk-Gdynia-Klajpeda-Le Havre-London Gateway	11
Griffin	Tokyo-Kobe-Shanghai-Ningbo-Yantian-Singapore-Tangier-Southampton-Antwerp	9
Condor	Qingdao-Busan-Shanghai-Xiamen-Singapore-Algeciras-Rotterdam-Hamburg-Southampton	9
Silk	Shanghai-Ningbo-Kaohsiung-Yantian-Vung Tau-Damietta-Rotterdam-Hamburg-Le Havre-Algeciras	11
OA		port No
FAL2/AEU3/NE3	Dalian-Qingdao-Shanghai-Ningbo-Singapore-Rotterdam-Hamburg-Antwerp	9
FAL6/AEU5/CEM	Qingdao-Shanghai-Ningbo-Taipei-Yantian-Singapore-Rotterdam-Felixstowe-Hamburg	10
FAL1/AEU2/FAL1	Shanghai-Yantian-Singapore-Tangier-Le Havre-Hamburg-Gdansk-Rotterdam	9
FAL3/AEU6/FAL3	Shanghai-Ningbo-Yantian-Singapore-Dunkirk-Rotterdam-Southampton-Antwerp-Le Havre	10
FAL5/AEU1/NE1	Shanghai-Ningbo-Yantian-Xiamen-Singapore-Felixstowe-Zeebrugge-Gdansk-Wilhelmshaven	10
FAL8/AEU9/CES	Ningbo-Shanghai-Yantian-Singapore-Colombo-Antwerp-Hamburg-Rotterdam	9

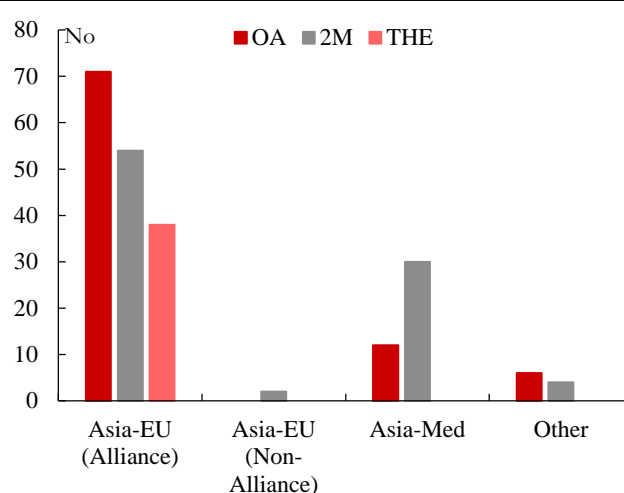
Source: Official website, Research Institute of Orient Futures

The reorganization of the shipping alliance in 2025 will increase the uncertainty of this market. 2M Alliance cooperation will expire in February 2025, and Maersk will join forces with Hapag-Lloyd to launch Gemini Cooperation. ONE, HMM, and Yang Ming will be renamed as Premier Alliance (referred to as PA), to cooperate with MSC by vessel sharing on Europe service. New alliances

have already published their new routes and shipping schedules for February on the website, so how will the supply pattern on Europe service change? There are several aspects to answer this, assuming services for 2025 offered by Ocean Alliance will continue as in 2024, for OA has not yet issued any product changes for 2025.

Chart 18: Changes in fleet over 12k TEU by operators


Source: Clarksons, Research Institute of Orient Futures

Chart 19: Fleet over 17k TEU deployed by routes


Source: Clarksons, Research Institute of Orient Futures

Chart 20: Changes in numbers of Europe routes

China-North West Europe								
	before Feb 25				after Feb 25			
	OA	2M	THE	Total	OA	Gemini	PA+MSC	Total
Alliance operation	6	5	3	14	6	4	5	15
Non-alliance operation		2	1	3			2	2

Source: Official website, Research Institute of Orient Futures

As for service numbers, the number of shipping routes from China to Europe after the reorganization is the same as in 2024. However, the number of services offered by alliances or services with vessel-sharing cooperation increases by one, and there are only two independent service routes operated by MSC in 2025. Secondly, in terms of fleet deployment, both Gemini and OA tend to use ultra-large vessels over 17k TEU on Europe service. However, due to fleet constraints, OA deploys relatively more vessels between 12k and 17k on route FAL8 to ensure service continuity, and Gemini's existing ships of over 17k TEU plus new deliveries in 2025 are sufficient to run Europe service stably. But Gemini seems to deploy some ultra-large vessels on one of its Mediterranean routes, namely Route AE11. Though the proportion of ultra-large vessels used in Mediterranean service is not clear, it will affect fleet deployment in Europe service. Route

AE1 of Europe service has a mixed deployment of vessels between 12k and 17k TEU and over 17k TEU, lowering the average capacity configuration scale of this route.

Our previous report published on November 8th discussed that the current fleet of MSC and PA serving on Europe routes might struggle to meet the need for new routes, with a significant shortage of vessels. To ensure the stability of their services, MSC and PA choose to sacrifice the capacity of some routes on one hand. For example, route GRIFFIN operated by PA will use smaller vessels, primarily less than 12k TEU, and route SWAN operated by MSC deploys vessels between 12k and 17k TEU.

On the other hand, MSC has invested more in its independent routes' capacity. Routes ALBATROS and BRITANNIA are respectively deployed with vessels over 17k TEUs and between 12k and 17k TEUs, which is a significant upgrade compared to MSC's fleet deployment on the two independent routes—SWAN and BRITANNIA—in 2024. Four routes are under MSC's leading in 2024, with two routes of vessels over 17k TEU vessels and two routes of vessels between 12k and 17k TEU. After reorganization, the total route number led by MSC remains the same, while the number of routes with vessels over 17k TEU increases by one.

Chart 21: Lead liners and fleet deployment of Europe service

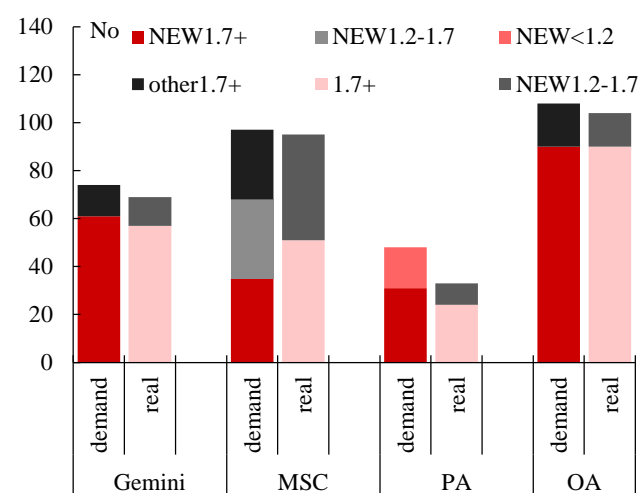
2024			2025 (estimated)		
Main Operator	Routes	Ship Size	Main Operator	Routes	Ship Size
MSC	AE6/Lion	1.7k+	MSC	Albatros	1.7k+
	AE55/Griffin	1.2-1.7k		Lion/FE5	1.7k+
	Swan	1.2-1.7k		Swan/FE6	1.2-1.7k
	Britannia	0.8-1.5k		Britannia	1.2-1.7k
MSK	AE5/Albatros	1.7k+	MSK	AE3/NE3	1.7k+
	AE7/Condor	1.2-1.7k		AE5/NE4	1.7k+
	AE10/Silk	1.7k+	MSK+HPL	AE1/NE2	1.7k+
CMA	FAL1/AEU2/FAL1	1.7k+	HPL+MSK	AE2/NE1	1.7k+
	FAL3/AEU6/FAL3	1.7k+	CMA	FAL1/AEU2/FAL1	1.7k+
COSCO	FAL2/AEU3/NE3	1.7k+		FAL3/AEU6/FAL3	1.7k+
OOCL	FAL5/AEU1/NE1	1.7k+	COSCO	FAL2/AEU3/NE3	1.7k+
Ever	FAL6/AEU5/CEM	1.7k+	OOCL	FAL5/AEU1/NE1	1.7k+
	FAL8/AEU9/CES	1.2-1.7k	Ever	FAL6/AEU5/CEM	1.7k+
HPL+ONE	FE2	1.2-1.7k		FAL8/AEU9/CES	1.2-1.7k
ONE+HPL	FE3	1.7k+	HMM	Condor/FE3	1.7k+
HMM	FE4	1.7k+	ONE	Silk/FE4	1.7k+
HPL	CGX	<0.8k	YM	Griffin/FP2	<1.2k

Source: Official website, Research Institute of Orient Futures

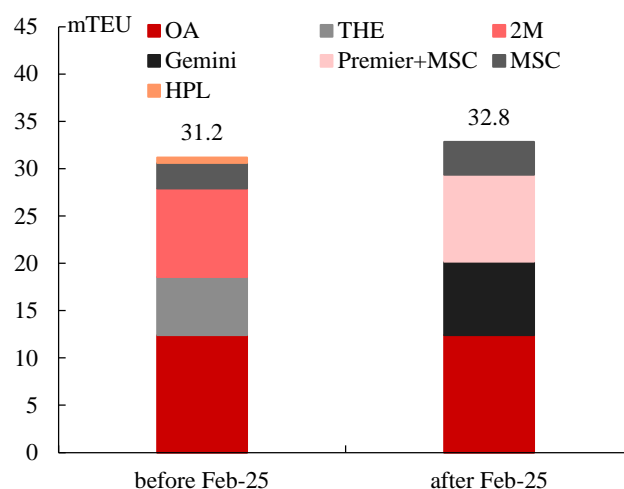
Despite PA's additional investment of smaller vessels, the stability of MSC and PA's services remains a concern without further vessel arrangement. To solve this, MSC withdraws some ultra-large vessels from Mediterranean service to Europe service. Previously, MSC had two Mediterranean routes with vessels over 17k TEU. After reorganization, it is expected that only

Route JADE will use ultra-large vessels totally, and TIGER will retain only part of ultra-large vessels while primarily using vessels between 12k and 17k TEU. The withdrawal rate of ultra-large vessels from Mediterranean service needs more schedule information to confirm. In summary, the potential structural issue MSC and PA might face is expected to be resolved through vessel dispatch, and the risk of schedule instability is reduced.

As for weekly capacity, the average weekly capacity on the Europe service after reorganization can reach 328k TEUs, under the premise of no blank sailings and no extra voyages, higher than the average of 312k TEUs before reorganization, with an increase of 5.3%. The capacity ceiling of Europe service is raised, enhancing the difficulty for liners to maintain prices in the future. And once the Red Sea resumes, the rebound in the proportion of ultra-large vessels will further push up the weekly capacity ceiling, increasing supply pressure even more.

Chart 22: Demand and actual fleet deployment of Europe


Source: Clarksons, Research Institute of Orient Futures

Chart 23: Weekly capacity of Europe service in average


Source: Official website, Research Institute of Orient Futures

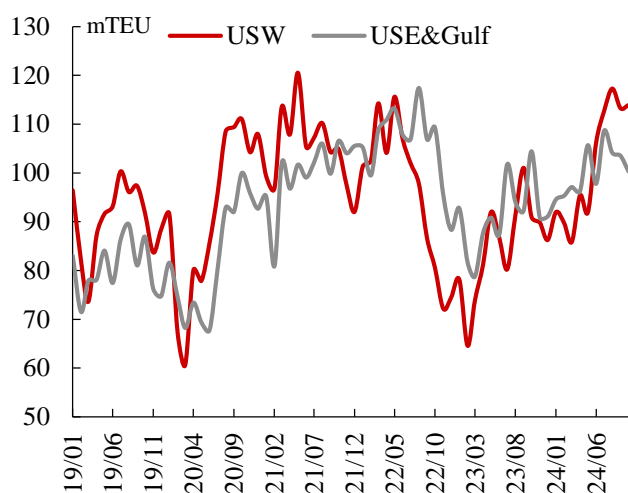
2.3 Spillover effects from US routes

Another disturbance in 2025 comes from America service. Potential changes in the supply and demand of US routes may have a spillover effect on Europe service. First is the labor dispute at the US East Coast, i.e. USMX-ILA negotiations, and second is the rush of trade due to tariffs.

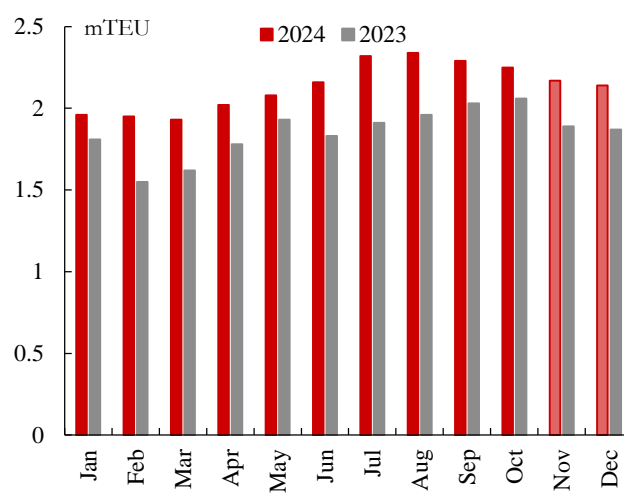
The three-day strike at the US East Coast terminals in October came to a temporary end with the preliminary agreement on wages and the extension of the main contract. The contract has been extended until January 15, 2025. As the deadline approaches again, there is still significant dispute

on the issue of automation. USMX has already made significant concessions on the compensation package. Recently, the USMX has taken a tough stance on the automation issue, making it uncertain whether they will make concessions again. The possibility of negotiation breaking down and ILA striking again is rising. Trump has lately expressed support for the ILA and opposed the construction of automated terminals in the United States. If a strike occurs as expected, there's uncertainty about whether the White House will intervene and in what form, for the time coincides with Trump's inauguration. USMX covers all workers and terminals in the US East Coast and Gulf Coast. A strike will lead to a complete paralysis of the ports. Ship turnover will be affected, and the effective capacity will decrease sharply. Normally, the backlog of goods accumulated in one day of a strike on terminals in US East Coast and Gulf Coast will take at least 4-5 days to clear. The longer the strike lasts, the more time is needed to digest the chain reaction in the supply chain. At that time, supply issues of US routes may be transmitted to Europe service by ship dispatches.

The potential strike is approaching the Spring Festival, during which there's a trend of reducing trading volume. Coupled with blank sailings, advanced shipping, and the diversion to the West Coast, port pressure may not be as high as expected. In the off-season, the fault tolerance of the supply chain is relatively high. If the strike lasts more than two weeks, the probability of supply chain risk spillover will increase significantly. In addition, supply pressure conduction takes time from America service to Europe service due to the inflexibility of ship rotation. Europe service won't be greatly impacted at least before the second quarter of next year if the strike occurs. It is difficult to predict the probability of the strike, its duration, and how it will be resolved under too much uncertainty. Considering the significant impact on the supply chain and social stability if the strike occurs, the possibility of government intervention is not low. Therefore, the influence of the labor dispute on the East Coast terminals and the potential disturbance to Europe service shall be temporarily assessed as controllable, and keep on watching the dynamics of USMX-ILA negotiations.

Chart 24: Port throughput of loaded containers in US


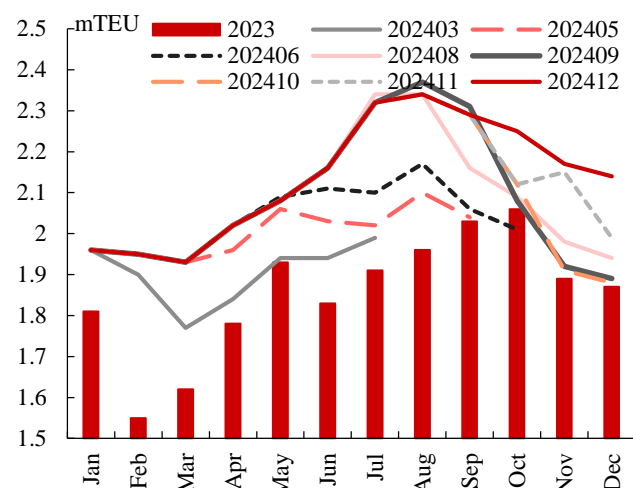
Source: Public information, Research Institute of Orient Futures

Chart 25: Imported containers of US estimated by NRF


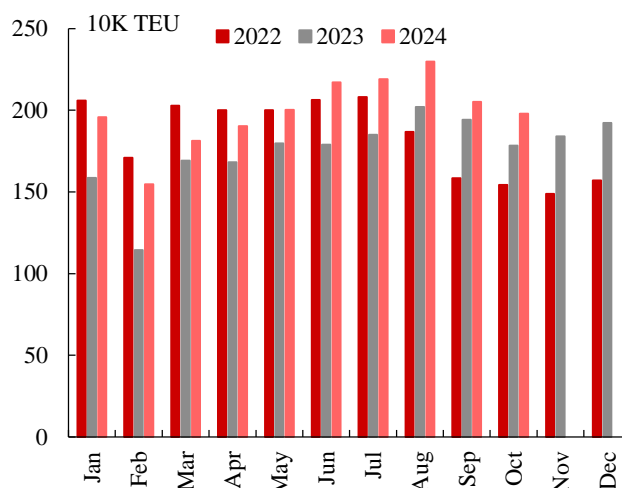
Source: NRF, Research Institute of Orient Futures

Trump is expected to increase tariffs on all imported goods after taking office. The market is concerned about a rush of transportation before policy implementation. Advanced demand and a surge in volume have a chance to cause a supply shortage, which may further transmit pressure to European routes.

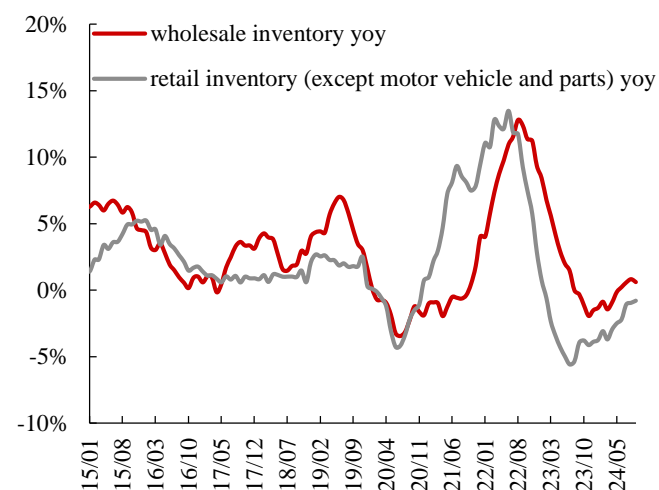
The potential impact of the rush to transport is controllable. On one hand, the rush of imports or exports has occurred since the second quarter of the year, and the demand for US imports has continued to perform out of expectations till the end of the year. The inventory level of US goods has significantly rebounded since then. Secondly, implementing tariff policies needs time, and the earliest node may be at the beginning of the second quarter. So the time window for rushing to transport is relatively ample and the pressure to rush will be smoothed out. The normal shutdown of Chinese factories during the Spring Festival makes it difficult for the potential rush demand to reverse the traditional seasonality. In addition, there has been a noticeable increase in capacity in the US routes in 2024. The likelihood of the rush to transport causing a supply crunch and affecting Europe service further is low.

Chart 26 :Reversions of NRF estimations on US imports


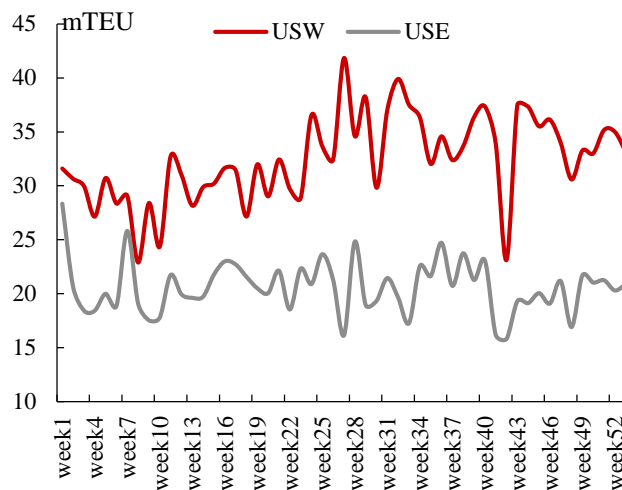
Source: NRF, Research Institute of Orient Futures

Chart 27: Asia to North America container trade volume


Source: Bloomberg, Research Institute of Orient Futures

Chart 28: Inventory levels of the US


Source: Bloomberg, Wind, Research Institute of Orient Futures

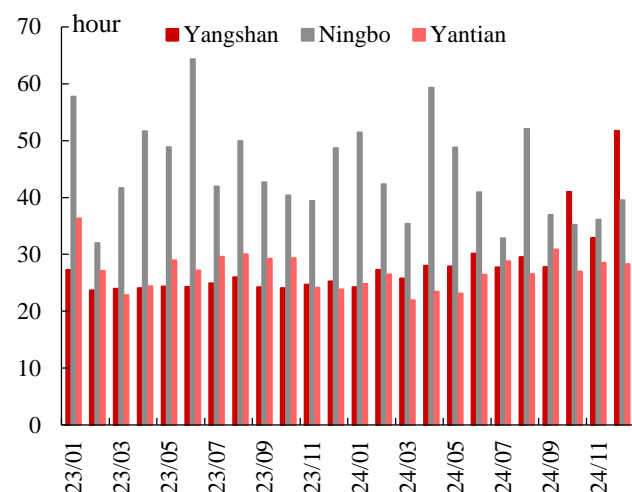
Chart 29: US routes weekly capacity


Source: Public information, Research Institute of Orient Futures

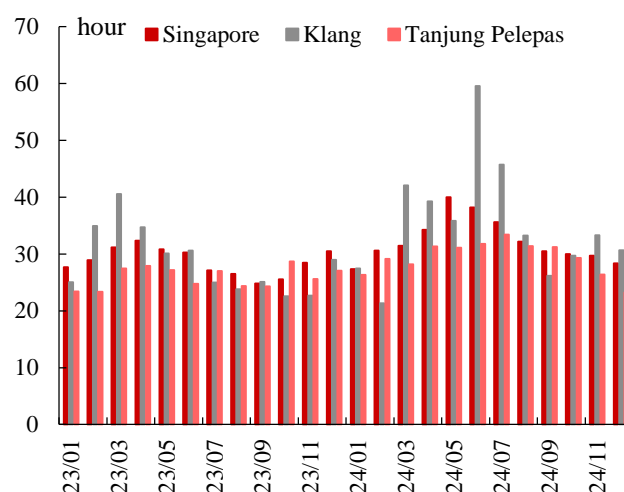
2.4 Disturbance from ports is hard to estimate

Schedule disruptions, labor disputes, and extreme weather have continuously disturbed ports, slowing vessel turnover and challenging schedule reliability. Port issues have magnified the gap in ship voyages. With the rise in supply and the narrowing of the gap, the impact of port disruptions

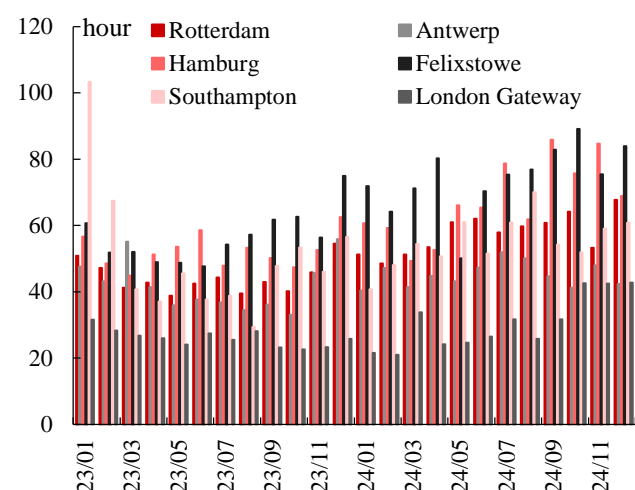
on capacity is progressively easing. However, factors causing port disturbances are always uncontrollable, and cannot be eliminated completely, keeping challenging schedule stability. On the other hand, alliance updates and service changes may impose additional pressure on port operations, especially on the core hub ports of Gemini. For example, Gemini's mainline calls at ports including Shanghai, Ningbo, and Yantian in China, the rising Southeast Asian port of Tanjung Pelepas, and European gateway ports such as Rotterdam and London Gateway. The service pattern combining mainline and feeder of Gemini undoubtedly increases operational pressure on mainline hub ports. European ports have a low level of automation and are frequently disturbed by strikes, resulting in relatively poor adjustment capabilities. Once congestion arises, it takes longer to digest than in Asia ports. Both mainline and feeder transport stability will be disturbed in such conditions. Meanwhile, whether Tanjung Pelepas can meet Gemini's need for rotation efficiency is worth noting, as a span-new core hub port for Europe service. As for Chinese ports, short-term pressure may also affect shipping stability, even with advanced facilities and fast rotation. The timeliness of Europe service still faces significant challenges in new service pattern. Whether punctuality and efficiency can be followed through by Gemini and how to deal with port disturbances on schedules, remain to be further observed.

Chart 30: Containership average port staytime in China


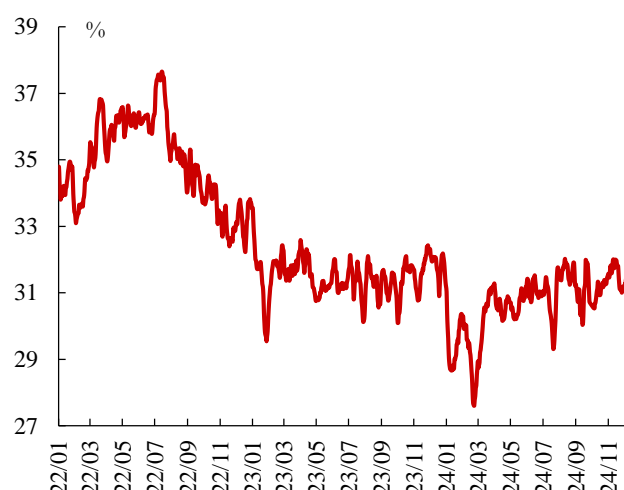
Source: Chuanshibao, Research Institute of Orient Futures

Chart 31: Containership average port staytime in SEA


Source: Chuanshibao, Research Institute of Orient Futures

Chart 32: Containership average port staytime in NWE


Source: Chuanshibao, Research Institute of Orient Futures

Chart 33: Containership in port, %fleet capacity


Source: Chuanshibao, Research Institute of Orient Futures

Chart 34: Lead liners and fleet deployment of Europe service

Asia ports				Europe ports			
before		after		before		after	
Ningbo	16	Shanghai	16	Rotterdam	12	Rotterdam	12
Shanghai	14	Ningbo	15	Antwerp	10	Hamburg	9
Yantian	13	Singapore	12	Hamburg	9	Antwerp	6
Singapore	9	Yantian	11	Felixstowe	6	Le Havre	6
Qingdao	7	Qingdao	7	Le Havre	6	London Gateway	5
Tanjung Pelepas	6	Tanjung Pelepas	4	Gdansk	4	Felixstowe	4
Xingang	5	Xingang	3	Wilhelmshaven	4	Gdansk	4
Xiamen	3	Xiamen	3	Southampton	3	Tangier	4
Busan	3	Busan	2	Tangier	3	Southampton	3
Colombo	3	Dalian	2	London Gateway	3	Bremerhaven	3
Dalian	2	Kaohsiung	2	Algeciras	3	Algeciras	3
Nansha	2	Vung Tau	2	Bremerhaven	2	Wilhelmshaven	2
Kaohsiung	2	Tokyo	1	Zeebrugge	2	Zeebrugge	1
Vung Tau	2	Kobe	1	Gothenburg	1	Gothenburg	1
Taipei	1	Gwangyang	1	Aarhus	1	Aarhus	1
Gwangyang	1	Colombo	1	Sines	1	Sines	1
		Taipei	1	Gdynia	1	Gdynia	1
				Klajpeda	1	Klajpeda	1

Source: Official website, Research Institute of Orient Futures

3. Freight keeps falling

Surplus may emerge in Europe service, leading to a downward shift in freight. The pace of freight changes is subjected to two factors. One is the rhythm of supply and demand, and the other is the pricing strategy of the liners.

The surplus will not suddenly appear with the premise of rerouting. The march of oversupply mainly depends on the pace of new ship deliveries. Seasonality will still be reflected in freight rates. Supply pressure is still hard to overwhelm peak-season demand. In recent years, the increase in the proportion of long-term contracts has enhanced liners' ability to control peak season freight. The possibility of the usual peak season increases and their implementation remains high. Blank sailings are still an effective means for liners to cope with the decline in freight during off-seasons. The average level of long-term contract prices for 2025 is around \$2,500/FEU (corresponding index around 1,700 to 1,800), and the probability of freight falling below cost is low with the support of long-term contracts. As long as shipping profits are considerable, the possibility of liners competitively lowering prices to attract cargo during off-seasons is higher than tacitly increasing blank sailings to maintain high freight rate. Freight decline in off-seasons will not be too gentle, but the chance of freight falling below cost is relatively low. The possibility of freight falling below the long-term contract rates still exists. Besides, the volatility of freight in 2025 will not be too small. MSC's share in Europe routes after the reorganization rises, potentially exacerbating the fluctuations in freight.

If the Red Sea resumes, supply pressure will surge immediately and seasonality will no longer be significant. On the contrary, freight will start to trend downward steadily, eventually reaching cost levels and then fluctuating. During this, the distinction between peak and off-peak seasons will only be reflected in the steepness of the freight rate decline. Long-term contract prices might need a second round of negotiations as well. The support for spot freight rates will also shift downward with the adjustment of long-term contracts until freight moves down to the cost level without detour—\$1,000-1,200/FEU (corresponding index around 700 to 850).

4. Risk warning

The resumption of shipping in the Red Sea, the prolonged strike at US East Coast ports, and European consumption exceeding or falling short of expectations, etc.

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Bullish	+5 to +15%	+5 to +15%	+5 to +15%
Volatile	-5% to +5%	-5% to +5%	-5% to +5%
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