

Global: Transportation: Air, Surface & Logistics

Equity Research

Further signs of life on the ocean waves: What the global transport markets say

Containerized volumes brightening up

Our freight data began to show increased activity levels at the end of 2011, and these trends appear to have continued into 2012. Our US indicators look particularly bright, showing the best yearly increase in rail freight traffic since January 2011, West Coast port throughput is turning positive again after eight consecutive months of negative growth and air freight volumes at the three largest US carriers are bottoming out.

Container and tanker rates up, bulk down

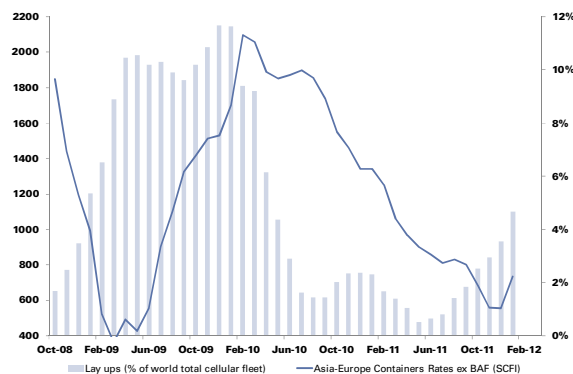
Asia-Europe/US container rates have increased sharply following an acceleration in supply adjustments. Interestingly, despite these increases, capacity cuts continue at a fast pace, as evidenced by the rise in lay-ups to c. 5% of the fleet from 3.5% at the turn of the year. Crude tanker rates have also moved up, driven by fears of potential geopolitical tensions in the Strait of Hormuz. The exception to this is dry bulk rates, which have weakened in January due to lower iron ore shipments to China following a strong restocking phase in November and weather disruptions.

Best Buy ideas: Maersk, HHLA, Fraport, Panalpina; Best Sell idea: Golden Ocean

We reiterate our CL Buy on Maersk, as we expect positive momentum in freight rates and further market share gains to start drive earnings upgrades for the group. Strong intermodal shipments in Northern and Central Europe in 4Q provides earnings upside risk to CL-Buy HHLA.

Capacity adjustments have started to lift container rates again.

Level (LHS), yoy change (RHS, blue line)



Source: SSE, Alphaliner, Goldman Sachs Research estimates

RELATED RESEARCH

Golar LNG Ltd (GOL.OL): Down to Neutral from Buy following outperformance; January, 11th, 2012

A.P. Moeller-Maersk (MAERSKb.CO): Buy: Capacity Down = freight rates up, reiterate Conviction Buy: January 6th, 2012

HHLA (HHFGn.DE): Early indicators in the green, reiterate CL Buy with 38% upside, January, 6th 2012

A.P. Moeller-Maersk (MAERSKb.CO): Buy: For a few dollars more: reiterate Conviction Buy: December, 2, 2011

Groupe Eurotunnel SA (GETP.PA): Remove from Buy List, we prefer HHLA: November 29, 2011

HHLA (HHFGn.DE) Buy: Onto Conviction Buy List, 56% upside potential: November, 29, 2011

COVERAGE VIEW: NEUTRAL

Edouard Baldini
+44(20)7774-5715 edouard.baldini@gs.com Goldman Sachs International

Nick Edelman
+44(20)7552-3625 nick.edelman@gs.com Goldman Sachs International

Hilary Burke
+44(20)7552-5993 hilary.burke@gs.com Goldman Sachs International

Oliver Neal
+44(20)7552-2834 oliver.neal@gs.com Goldman Sachs International

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The prices in the body of this report are based on the market close of January 23, 2012.

Further signs of life on the ocean waves: What the global transport markets say

Our freight data bounced back at the end of 2011 and seems to have maintained that positive trend as we enter 2012. Our US indicators look particularly bright, with December showing the best yoy increase in rail freight traffic since January 2011: West Coast port throughput is turning positive again after eight consecutive months of negative growth and air freight volumes bottoming out.

Key highlights this month:

- **Container throughput growth rates on the Asia-Europe/US trade lanes have improved.** Los Angeles/Long Beach have lifted 2% more TEUs in December compared to the previous year, from a 6% drop in November. Chinese ports data showed international trade gaining momentum in December, up 6% yoy from a flat development in November.
- Despite better yearly growth rates, the number of TEUs shipped/day remained fairly stable over November. Rather, **container carriers were able to push utilization and spot rates higher thanks to important supply adjustments**, again evidenced in the latest idle fleet numbers.
- In hinterland transport, **volumes data is also improving, particularly in the US.** US rail freight traffic grew at a solid 7.3% yoy in December, the largest yoy increase since January 2011. In Europe, Orensbrund truck bridge volumes grew at a strong 8% in December, while German truck data remains positive.
- **US air freight volume growth, although still negative, leveled off, while Europe remains weak.** The three largest US airlines reported a drop in cargo traffic of close to 5% in December, an improvement from the double-digit drop witnessed earlier in the year.
- **Crude tanker rates have risen to US\$40K/day from US\$5K/day in October**, as charterers stepped up imports anticipating potential military activity in the Strait of Hormuz.
- **The BDI collapsed** close to its historical trough as Chinese steel mills built up inventories at the end of the year to benefit from lower prices. Also, floods in Brazil and Australia plus supply growth did not help.

Around the world in 80 charts

We have built indices from the plethora of data we receive across the transportation universe. We have data on: the Panama and Suez Canals; what is happening at the world's biggest ports; what shipping rate futures are forecasting; how investment bank travel is faring; and what developments have taken place in US railroads. This offers a 'planes, trains and automobiles' kaleidoscope from the four corners of the globe. We track all the major industries – shipping, ports, airlines, airports and rail – and turn this data into an index of both value (i.e. freight rates) and volumes. In constructing each index, we try to reflect each industry's relative importance and size. We publish this data and update individual charts as and when data is refreshed.

Exhibit 1: Some improvement particularly across our US data points

Key data points we track (figures are % yoy change unless stated otherwise) – text in brackets indicates previous position

| Value | Volumes | Value | Volumes |
|---|---|--|---|
| <p>Containers (prev. worse): Container spot rates have rallied significantly in December and January following the acceleration in supply adjustments.</p> | <p>European Truck (prev. better): Truck bridge traffic data in Northern Europe remained solid in December, up mid to high single digit. German road volumes have stabilized and remain positive.</p> | <p>Air pax (prev. worse): Air France and Lufthansa said the December pricing environment was stable, in line with commentary from November.</p> | <p>Air freight (pre. better): Freight traffic improved in the US but remained sluggish in Europe.</p> |
| <p>Tankers (prev. worse): VLCC rates moved significantly over the past months.</p> | <p>US Rail (prev. better): US Rail volumes were strong in December, up 7% yoy, the largest yoy monthly increase since January 2011.</p> | <p>Bulk rates (prev. better): The BDI is now back close to its historic trough mainly due to the collapse in capesize rates.</p> | <p>Air pax (prev worse) Flag traffic growth was distorted by weather disruptions in the previous year, but IAG commented that market conditions remained unchanged</p> |
| | <p>Hotels (prev. better): Underlying European occupancy grew at c.3% over the last month vs. c.2% during Q4 while US occupancy grew at 4%, in line with the Q4 growth rate.</p> | <p>Air cargo (prev. worse): After a sharp rally in October, air freight rates have fallen again in December.</p> | |
| | <p>US Truck (prev. better): Cass freight data was up 1% yoy in December and flat mom, after a sharp yoy fall in November.</p> | <p>Hotels (prev. worse): US rates remained strong at 4% last month but Europe remains weak (at 0.9%).</p> | |
| | <p>Sea freight (prev. better): Containerized volumes bounced in December after a weak November on all trade lanes.</p> | | |
| | <p>Crude oil tankers (prev. worse): Crude oil imports have risen recently as some countries rushed to secure oil supplies on fears of a potential closure of the Strait of Hormuz.</p> | | |

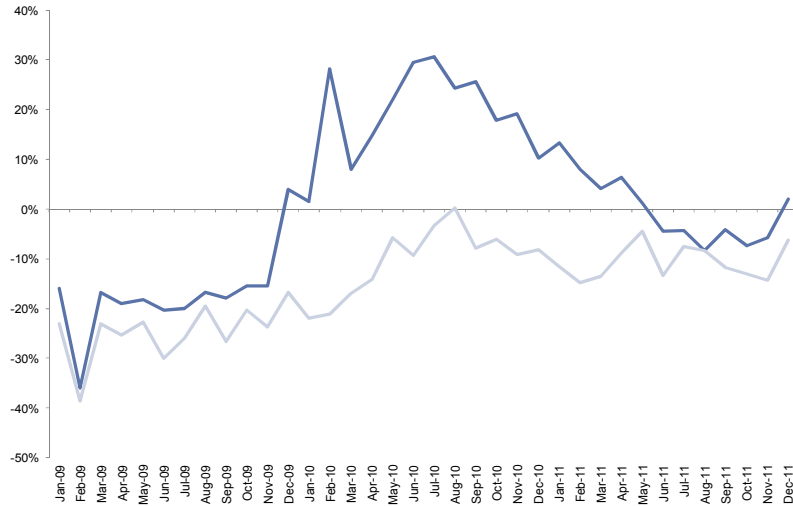


Signs in brackets indicate previous position

Source: Goldman Sachs Research estimates.

Exhibit 2: US West Coast port activities improved significantly in December and even turned positive for LA (January 2009-December 2011)

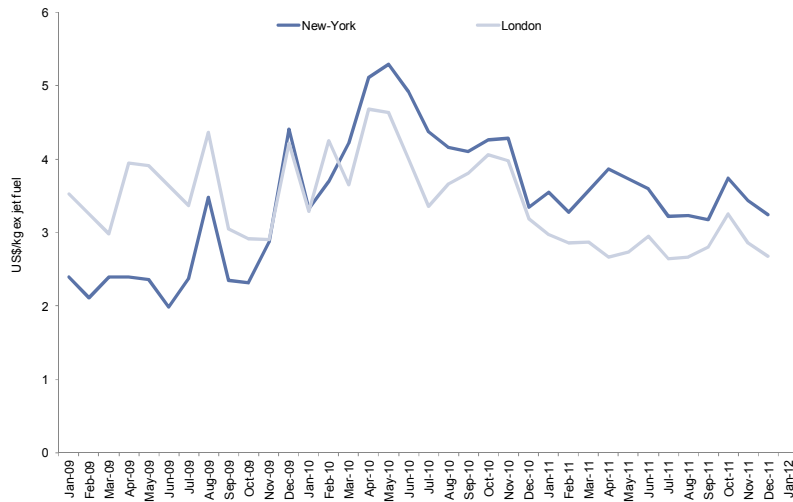
Long Beach/Los Angeles combined port throughput yoy percentage change



Source: Port of Long Beach, Port of Los Angeles.

Exhibit 4: Air freight rates (ex fuel) came down in December after an October rally

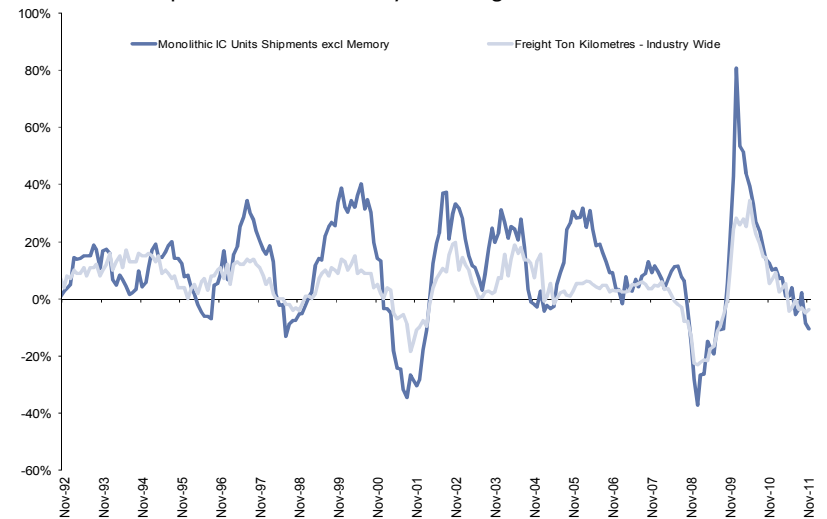
Air freight rates out of Asia to New York and London (US\$/kg ex jet fuel costs)



Source: IATA, Datastream, Goldman Sachs Research estimates.

Exhibit 3: As expected semi conductors shipments have corrected their recent rise and were down 10% in November.

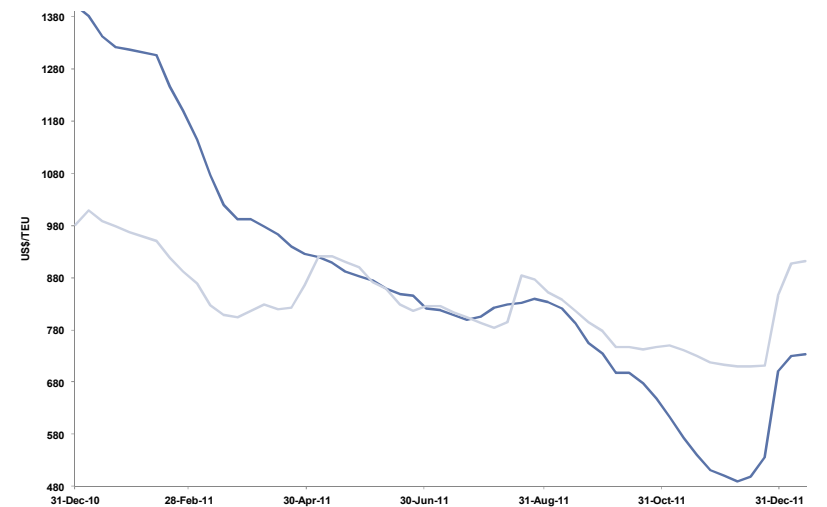
Semiconductor shipments (excl memory) vs. freight ton kilometers (Nov 2011)



Source: IATA, STA.

Exhibit 5: Container rates close to trough levels

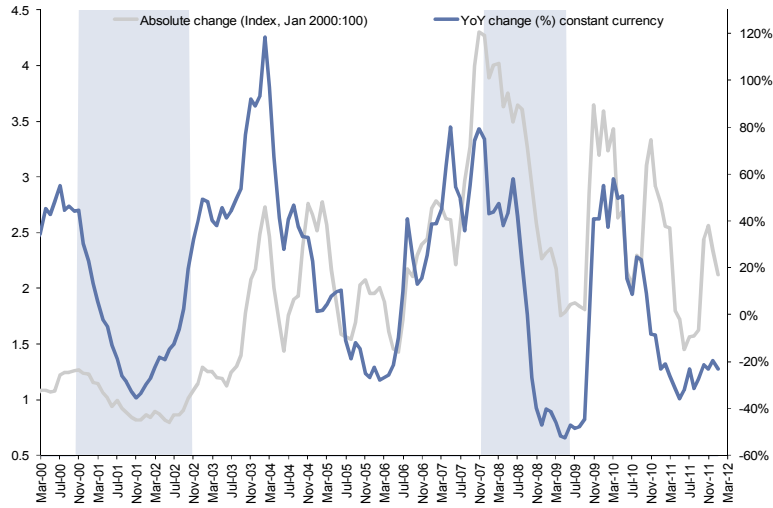
Asia-Europe and Transpacific container rates – ‘All-In’



Source: SSE, Containerization international, Goldman Sachs Research estimates.

Exhibit 6: GS Transportation Value Index: Collapse in bulk has outweighed the rise in containers and tankers

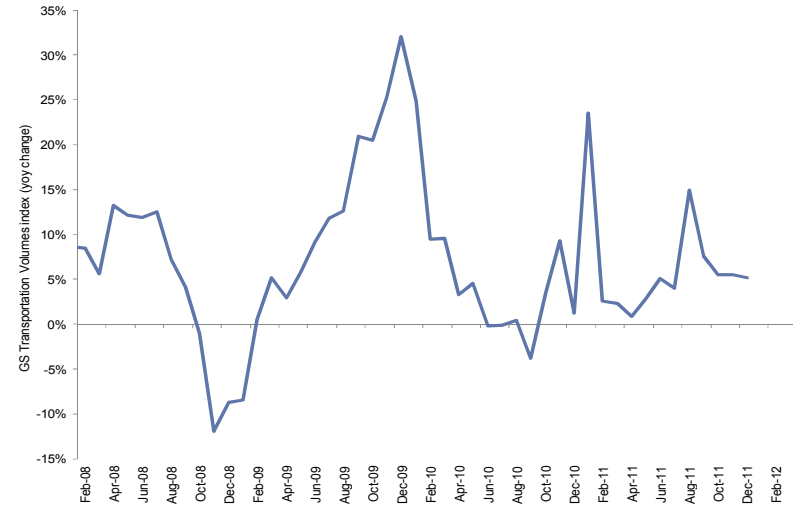
Yoy percentage change and absolute level



Source: Goldman Sachs Research estimates.

Exhibit 7: The GS Volumes Index remains positive but its rate of growth is slowing

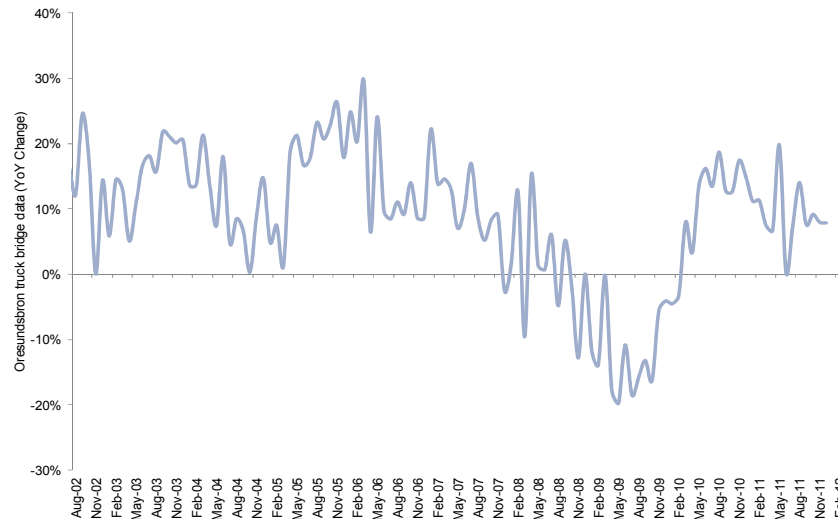
GS Transportation Volumes Index yoy percentage change (to December 2011)



Source: Goldman Sachs Research estimates.

Exhibit 8: Still robust: North European truck remained solid in December

Oresundsbron bridge truck traffic data, yoy percentage and absolute levels



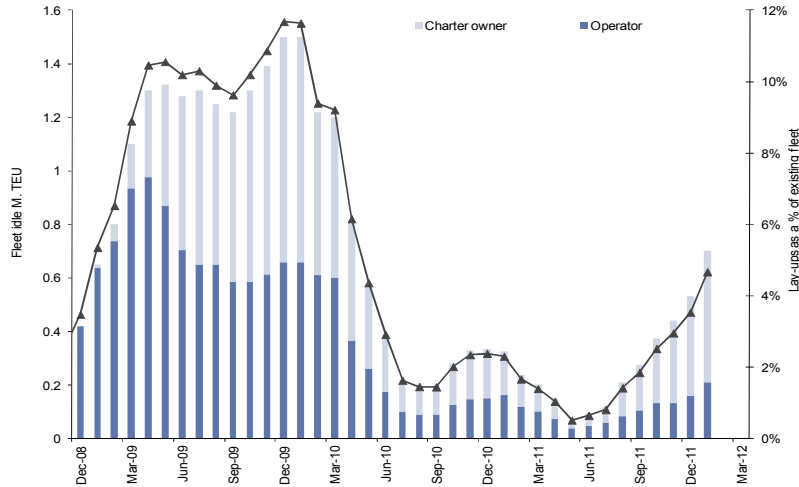
Source: Oresundsbron Traffic.

Freight: A new year ray of hope?

Containers: Supply down = Freight rates up

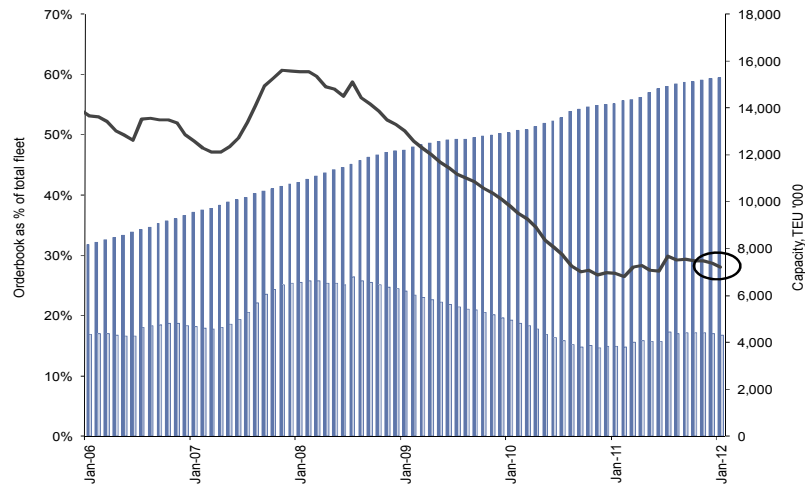
Exhibit 9: Self-healing: Number of lay-ups has gone from less than 1% to 5% of the fleet in the past few months...

Idle fleet (charter owners and liners) in TEU mn and % of the existing fleet



Source: AXS-Alphaliner, Goldman Sachs Research estimates.

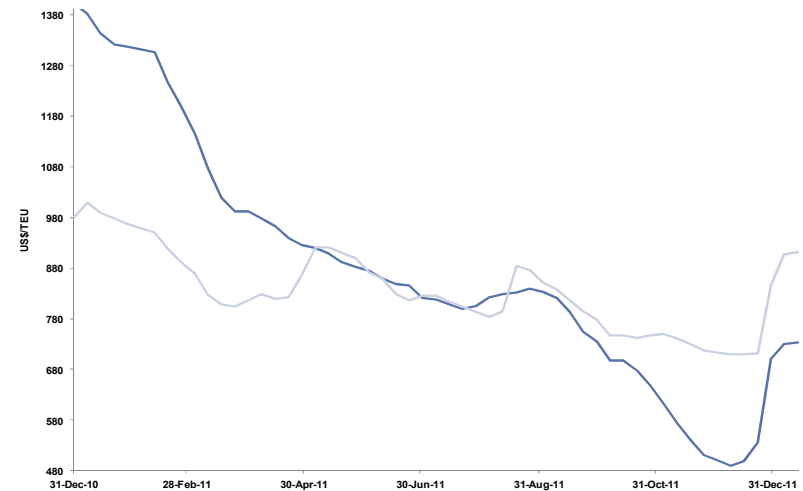
Exhibit 11: Order book going down again as no new orders have been placed (January 2006-January 2012)



Source: Clarksons.

Exhibit 10: ...helping, among other capacity adjustments, to see spot rates rally significantly

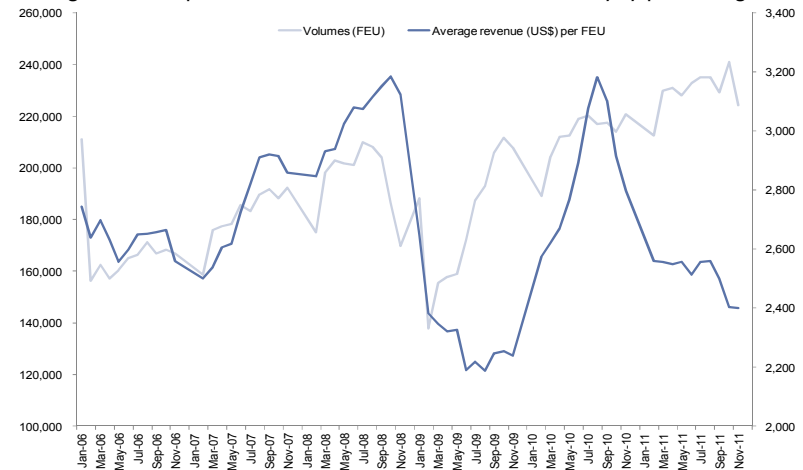
Asia-Europe and Transpacific container rates – “All-in”



Source: Containerization International.

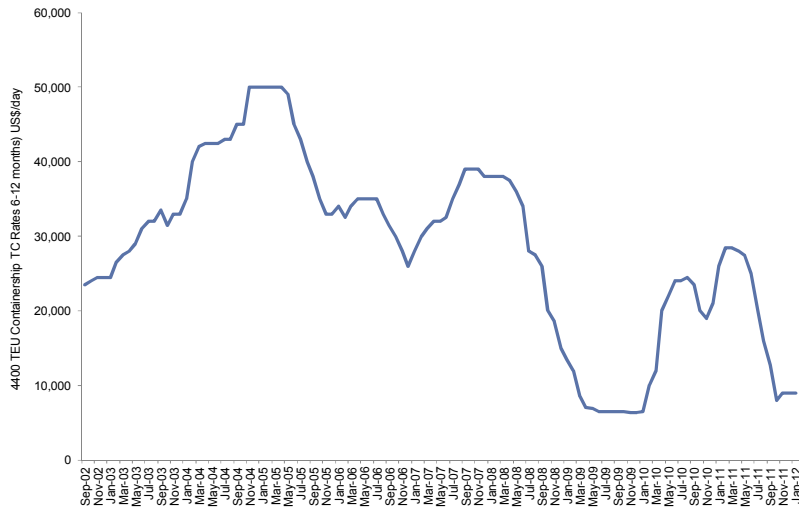
Exhibit 12: APL freight rates started to stabilize in November and should see improvement in December and January

APL average revenue per TEU (US\$/TEU) and volumes carried (yoy percentage change)



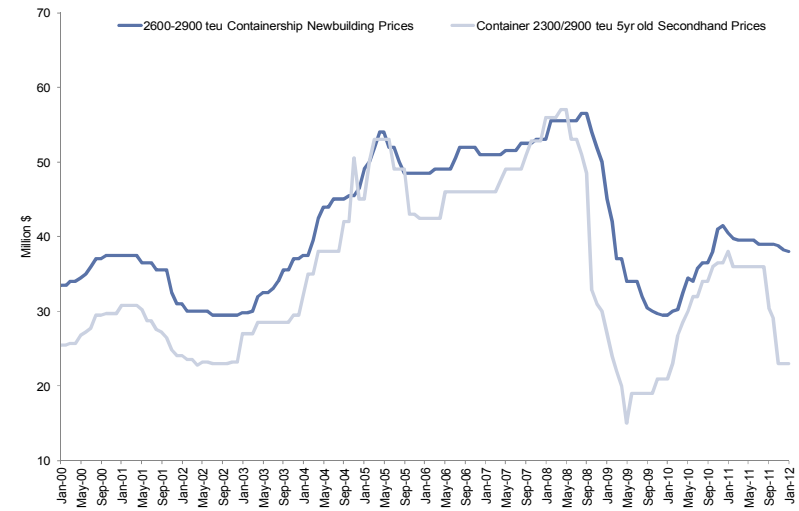
Source: Company data.

Exhibit 13: Charter rates close to 2009 levels and flattening...
 Time charter rates in US\$/day (as of January 2012)



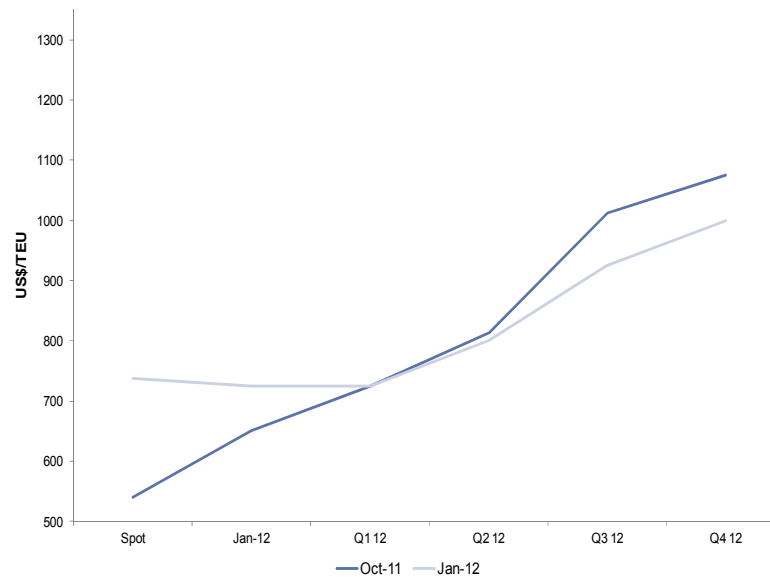
Source: Clarksons.

Exhibit 14: Second-hand prices follow a similar move



Source: Clarksons.

Exhibit 15: Market still in contango but less so following the rise in spot rates
 Spot rate forward curve Shanghai – NW Europe (US\$/TEU)

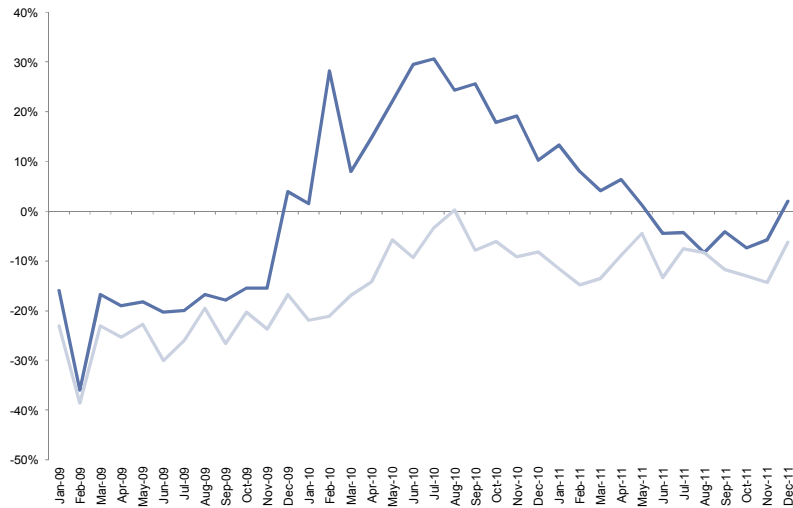


Source: GFI.

Sea freight: It's brightest in the US

Exhibit 16: US West Coast port activities show significant improvement in December turning positive again (January 2009-December 2011)

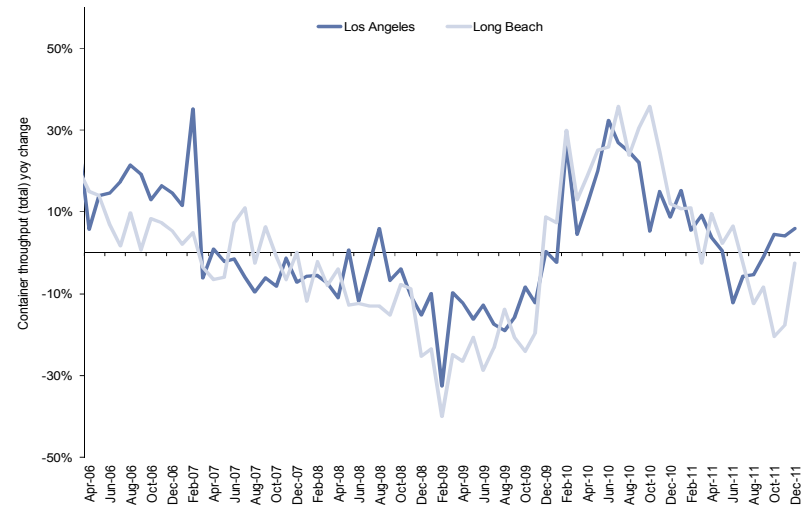
Long Beach/Los Angeles combined port throughput yoy percentage change (light blue) and growth versus 2007 levels (dark blue)



Source: Port of Long Beach, Port of Los Angeles.

Exhibit 17: Los Angeles gaining market share vs. Long Beach

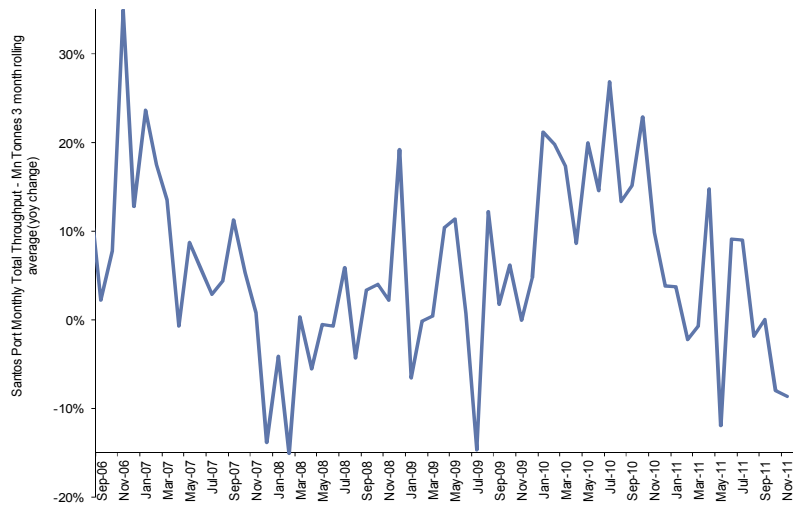
Container throughput at Long Beach and Los Angeles (total) yoy change



Source: Port of Long Beach, Port of Los Angeles.

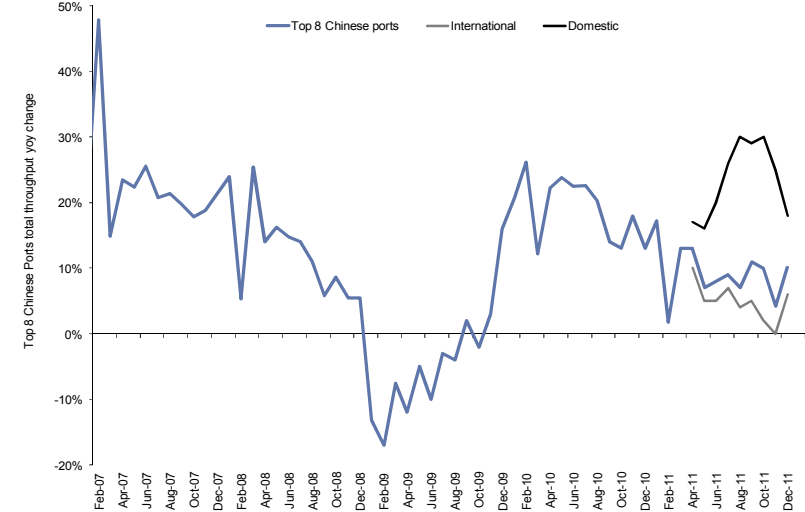
Exhibit 18: Brazilian box exports turned negative....

Total TEUs handled (November 2011)



Source: Port of Santos Authority.

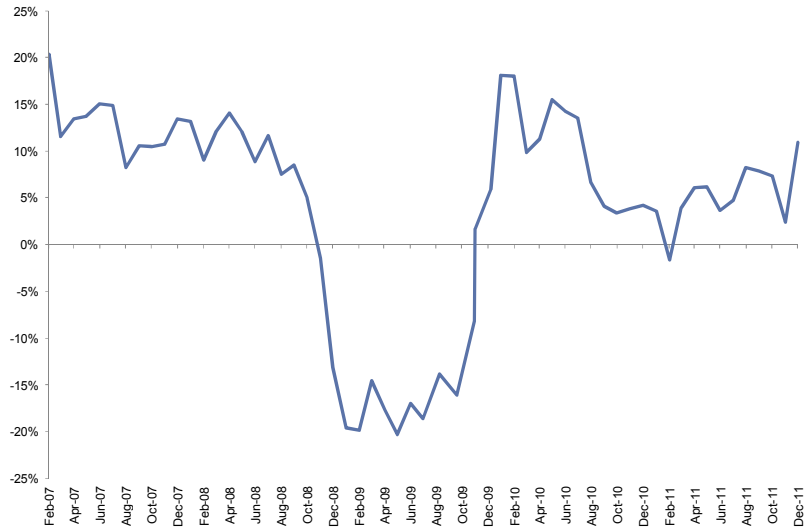
Exhibit 19: ... and Chinese ports show renewed international growth.



Source: China port authorities.

Exhibit 20: Singapore ports reaching the double digit bar again (December 2011)

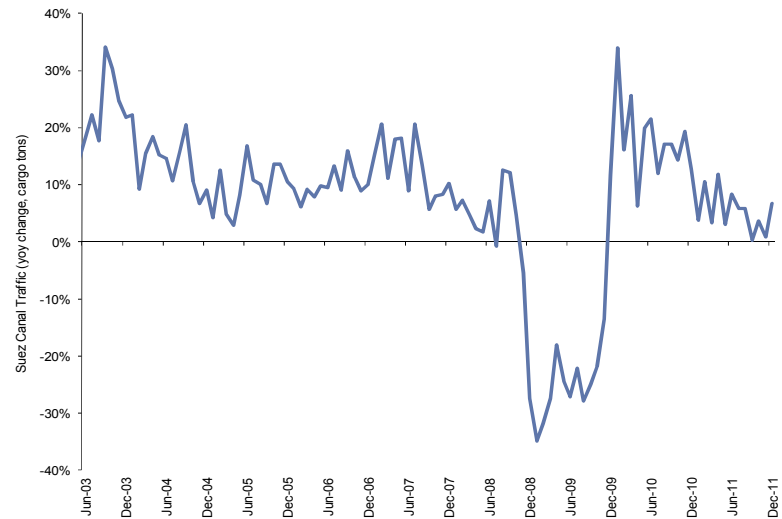
Singapore port throughput (yoy change, %)



Source: Singapore Port Authority.

Exhibit 21: Suez Canal volumes also improving on higher tanker traffic

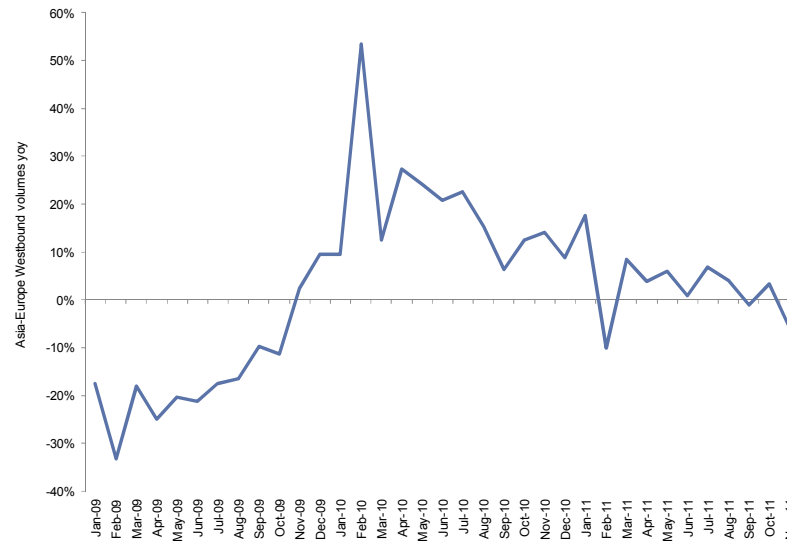
Yoy change, cargo tons



Source: Suez Canal Authority.

Exhibit 22: Asia-Europe sea freight volumes dropped in November but should have improved in December.

Asia-Europe sea freight volumes (TEUs, November 2011)

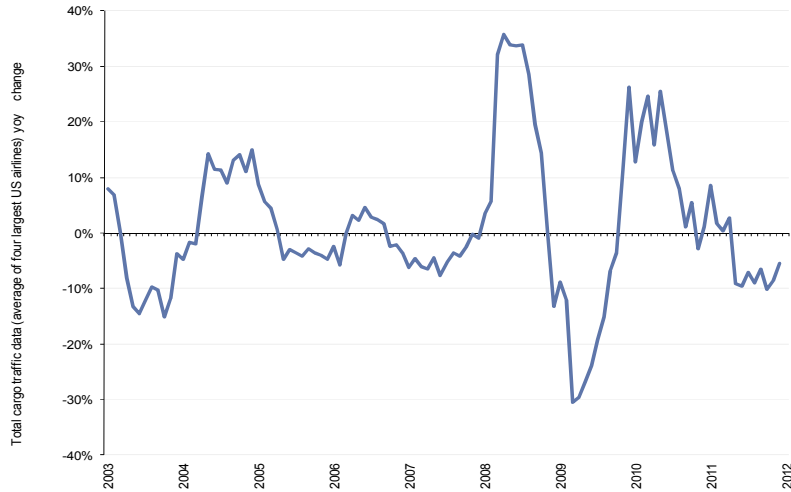


Source: CTS.

Air freight: US bottoming out, Europe remains weak.

Exhibit 23: US big three airlines' cargo traffic was better in December, although still negative ...

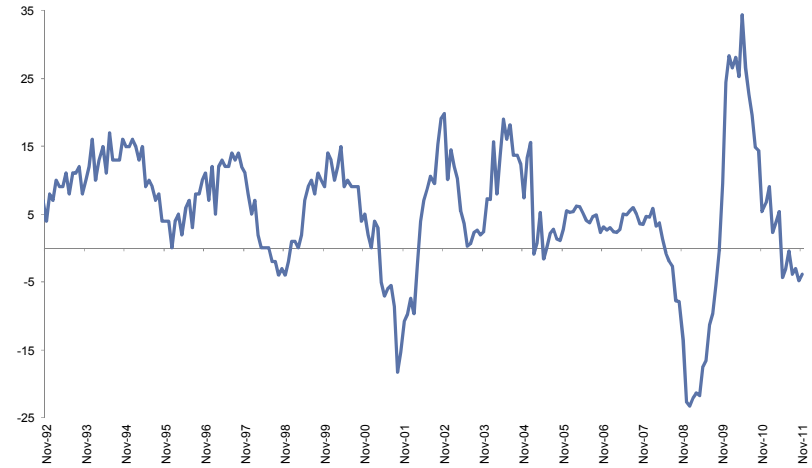
Total air cargo handled by US three largest airlines (Dec 2011)



Source: Company data.

Exhibit 24: ... which should be seen in the January IATA data as

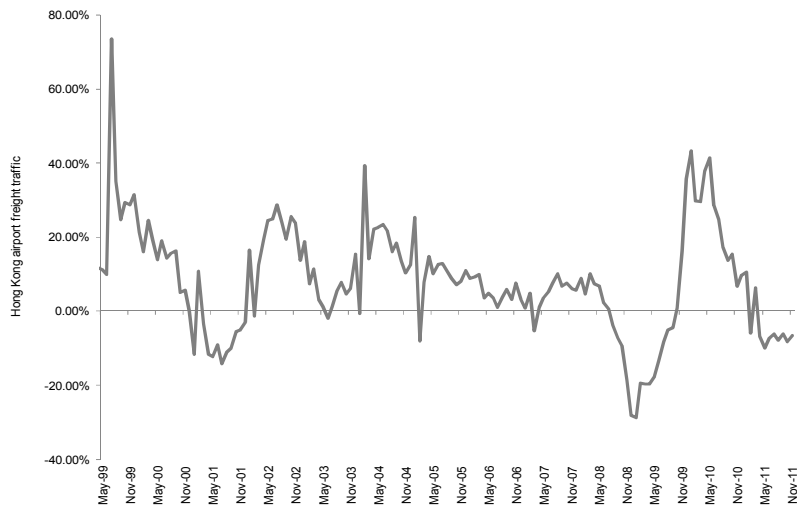
IATA Air Cargo Traffic, Industry Wide FTK (yoy change, Nov 1992-Nov 2011)



Source: IATA.

Exhibit 25: Hong Kong Airports' air cargo traffic, however, leveling off

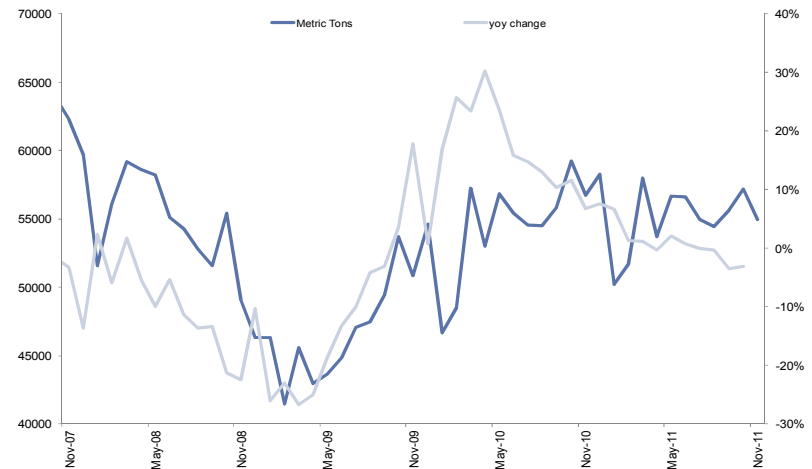
Tonnes (yoy change, May 1999 – November 2011)



Source: Hong-Kong Airports.

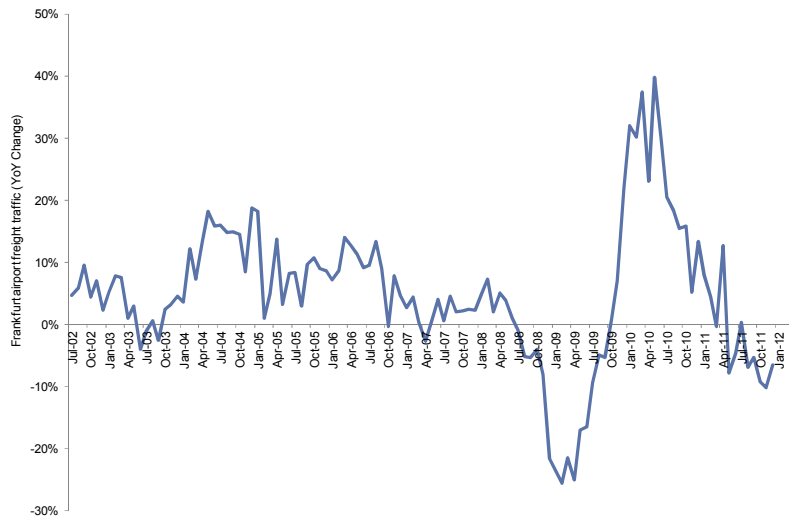
Exhibit 26: Atlanta is stabilizing close to zero

Atlanta Airport; yoy change, November 2007- November 2011



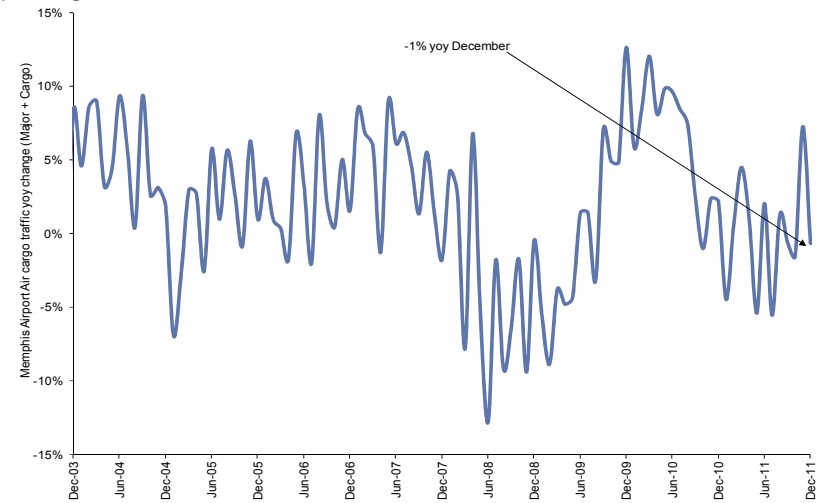
Source: Atlanta Airports.

Exhibit 27: Frankfurt December numbers affected by the weather in 2010.
 Yoy change July 2002- December 2011



Source: Fraport.

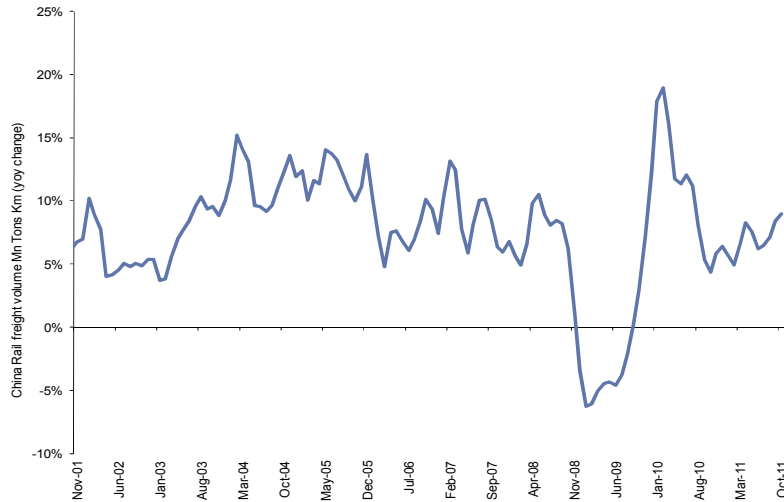
Exhibit 28: Memphis air cargo flat in December after a strong November
 Yoy change December 2003- December 2011



Source: Memphis airport.

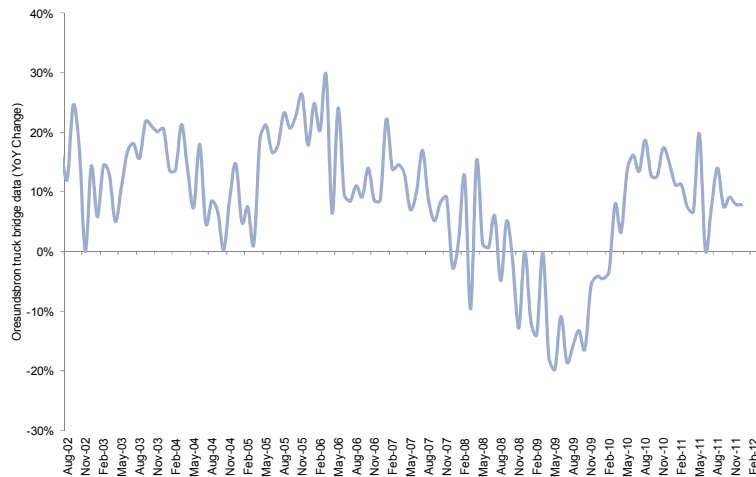
Road and rail: US and (Northern) Europe taking the lead

Exhibit 29: Chinese rail freight back up
Million tons km (yoy change), October 2011



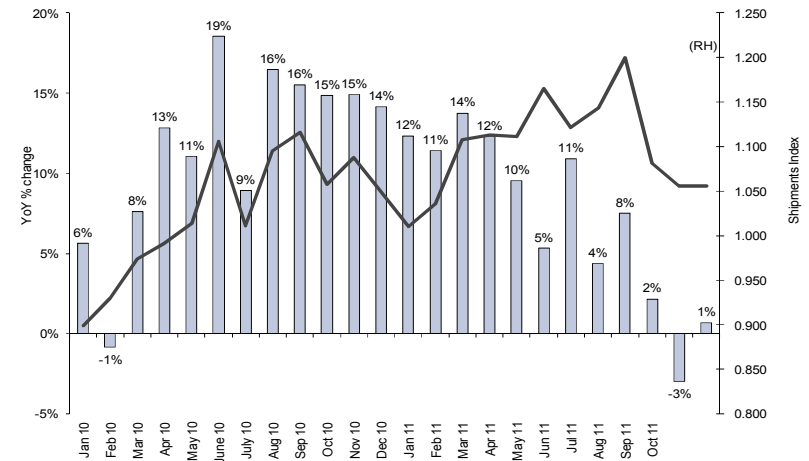
Source: Chinese National Bureau of Statistics.

Exhibit 31: North European truck traffic remained strong in December (+9% yoy) ...
US Oresundsbron bridge truck traffic data, yoy percentage and absolute levels



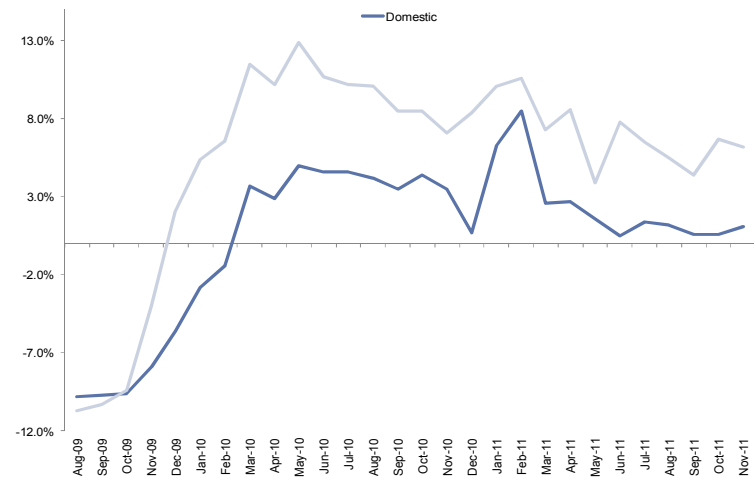
Source: Oresundsbron Traffic.

Exhibit 30: US truck freight shipments turned positive again in December and were flat mom, stopping the steep fall witnessed since October
Cass freight shipments index, yoy percentage change



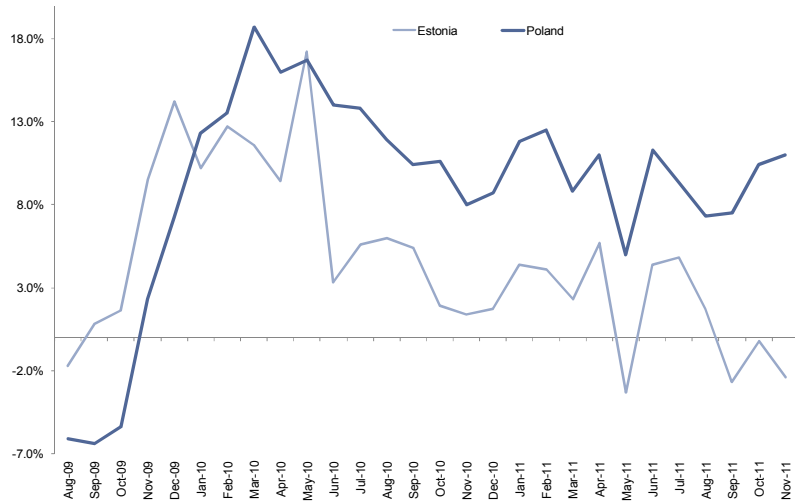
Source: ATA (June 2011).

Exhibit 32: ... while German highway traffic remains positive
Domestic vs International August 2009-November 2011 (%)



Source: Bundesamt für Güterverkehr.

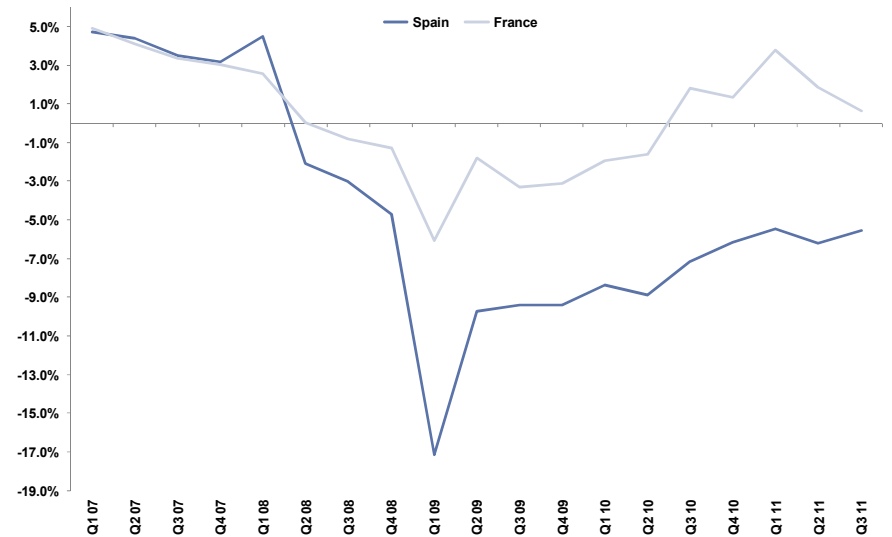
Exhibit 33: Trade with Central and Eastern Europe is mixed
 Road freight traffic between Germany and Estonia/Poland August 2009-November 2011 (%)



Source: Bundesamt für Güterverkehr.

Exhibit 34: Road traffic slowing in France, Spain trending higher but still negative

French and Spanish toll roads traffic YoY

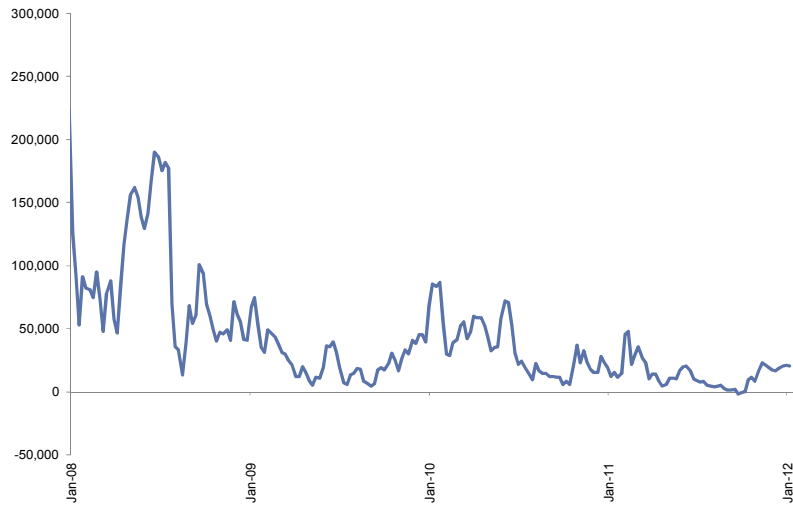


Source: Abertis.

Tankers: Back afloat?

Exhibit 35: VLCC rates have turned positive again and are back above breakeven levels on Iranian tensions

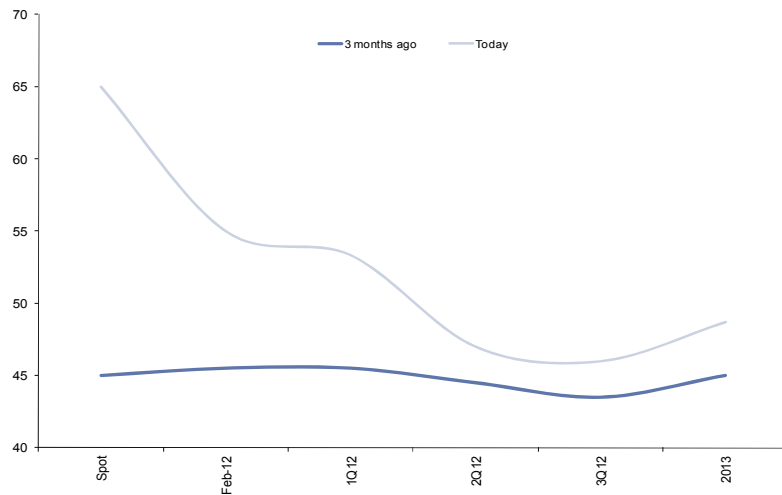
Ras Tanura to Chiba (TD3 VLCC) average earnings (US\$/day)



Source: Clarksons.

Exhibit 37: Spot moved up but the forward curve barely moved

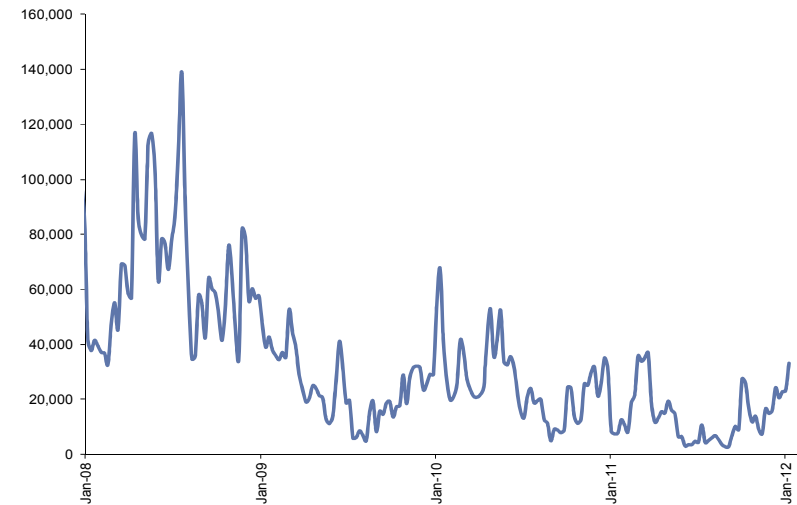
VLCC front-month and one-year freight forward agreements (Tanker Dirty Route 3, Ras Tanura-Chiba) World-Scale



Source: Bloomberg, Imarex.

Exhibit 36: ... same for SuezMax rates.

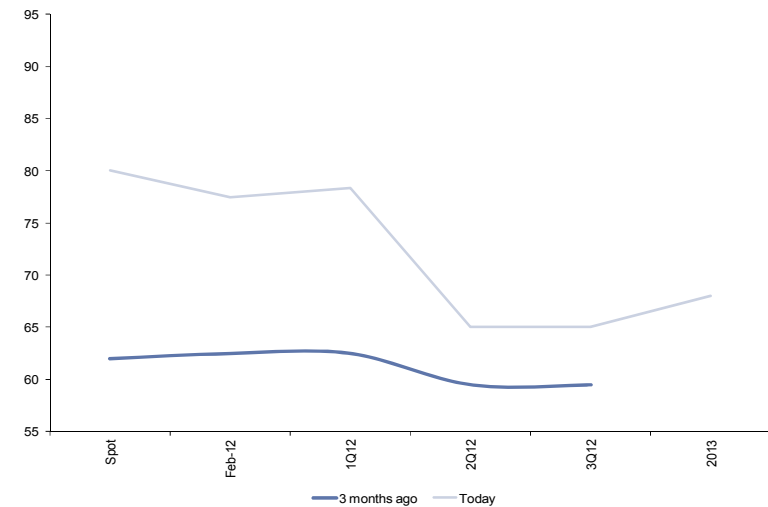
Bonny Island to Philadelphia (TD5 SuezMax) average earnings (US\$/day)



Source: Clarksons.

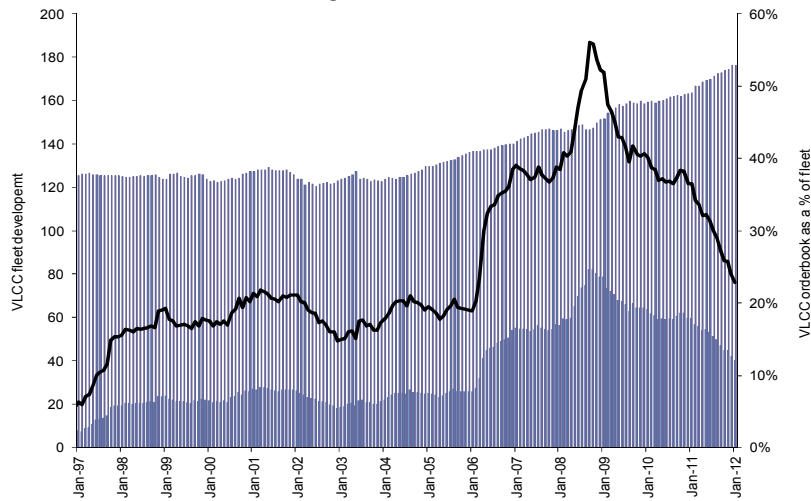
Exhibit 38: ... same for SuezMax

SuezMax front-month and one-year freight forward agreements (Tanker Dirty Route 5, Bonny Island-Philadelphia) World-Scale



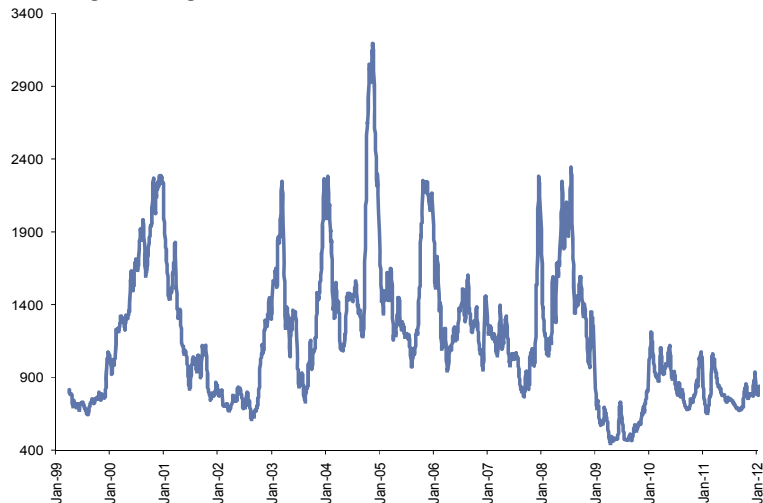
Source: Bloomberg, Imarex.

Exhibit 39: Coming down and fast approaching its long-term average...
 VLCC order book as a % of existing fleet (black line, rhs)



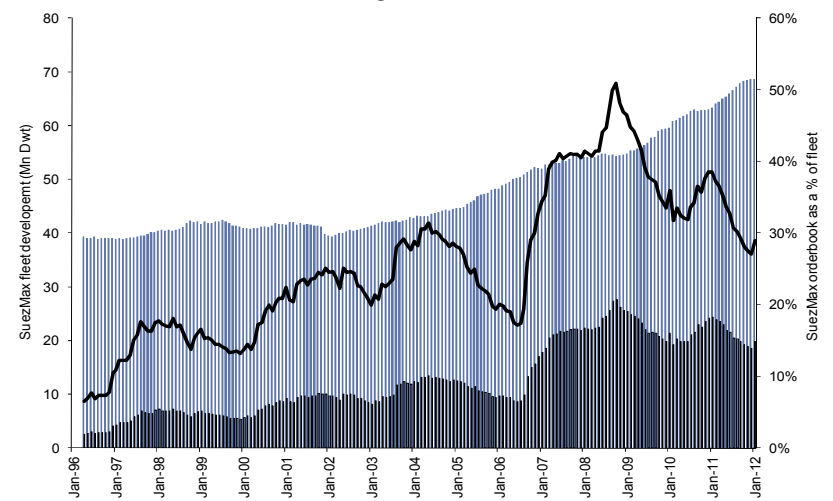
Source: Clarksons.

Exhibit 41: Baltic Dirty Tanker index has stabilized between increased VLCC rates and drop in SuezMax
 (Index; average of freight rates assessment on 19 tankers crude oil routes)



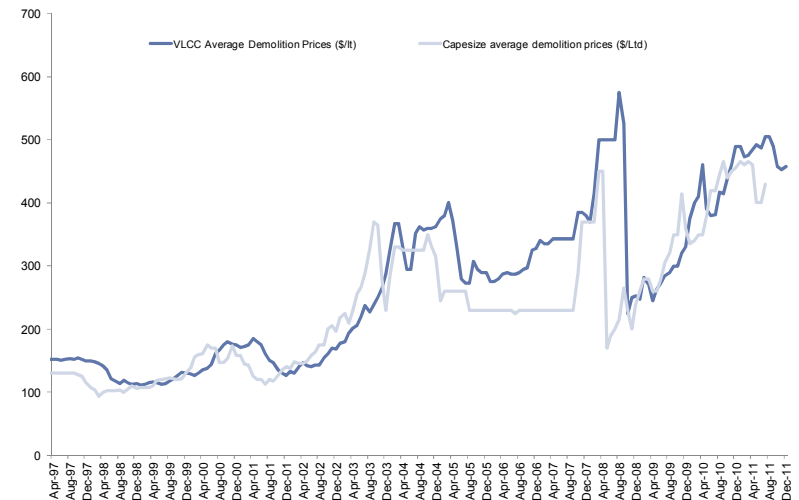
Source: Clarksons.

Exhibit 40: Same on the SuezMax side
 SuezMax order book as a % of existing fleet (black line, rhs)



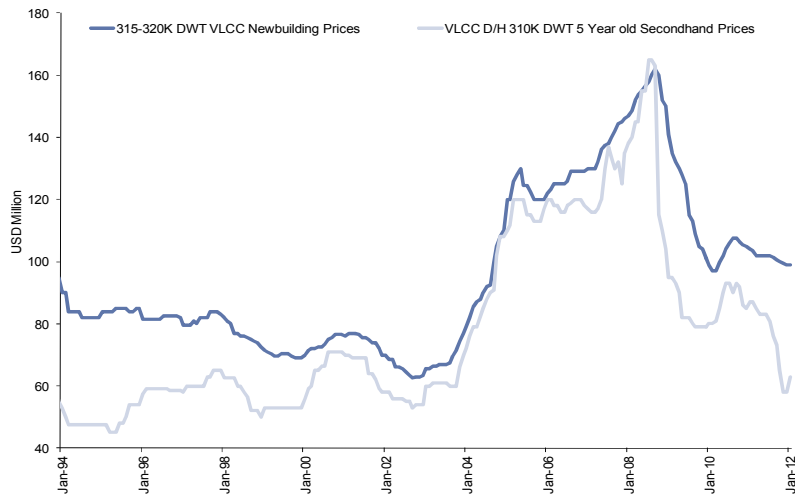
Source: Clarksons.

Exhibit 42: VLCC and Capesize demolition prices remain high as demand is strong



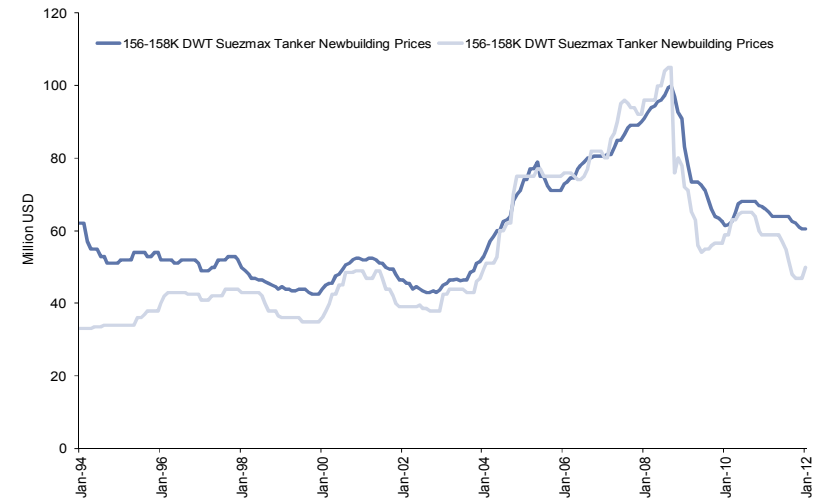
Source: Clarksons, Compass Maritime.

Exhibit 43: Asset prices have dropped, mirroring the move in rates...
VLCC newbuilding and second-hand prices (US\$ mn)



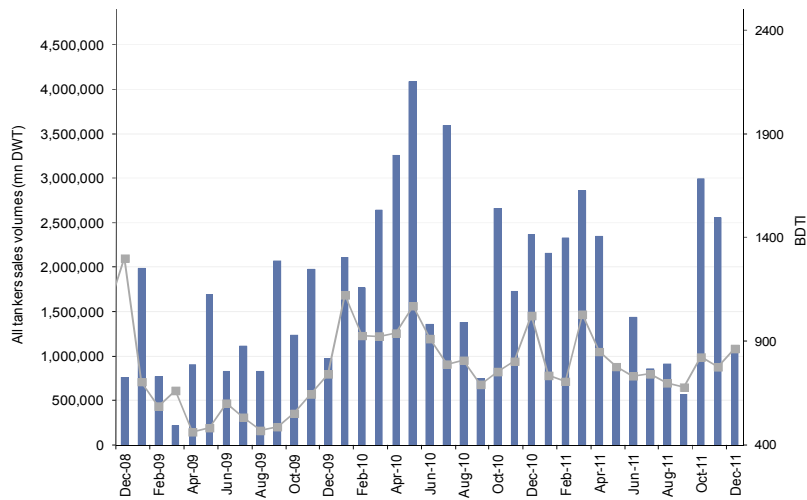
Source: Clarksons, Goldman Sachs Research estimates.

Exhibit 44: ...same for SuezMax
SuezMax newbuilding and second-hand prices (US\$ mn)



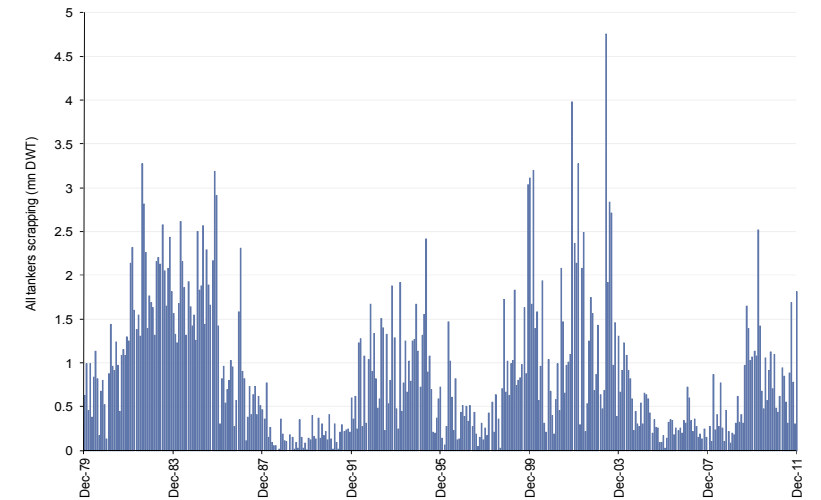
Source: Clarksons, Goldman Sachs Research estimates.

Exhibit 45: Distressed buyers meet distressed sellers
All tankers sales volumes vs. BDTI (grey line, rhs)



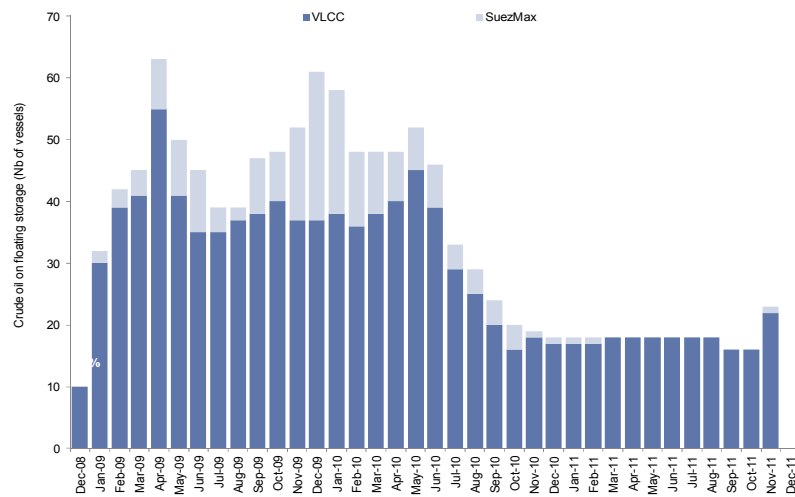
Source: Clarksons, Datastream.

Exhibit 46: Scrapping is high, but not high enough
All tankers scrapping (mn DWT)



Source: Clarksons.

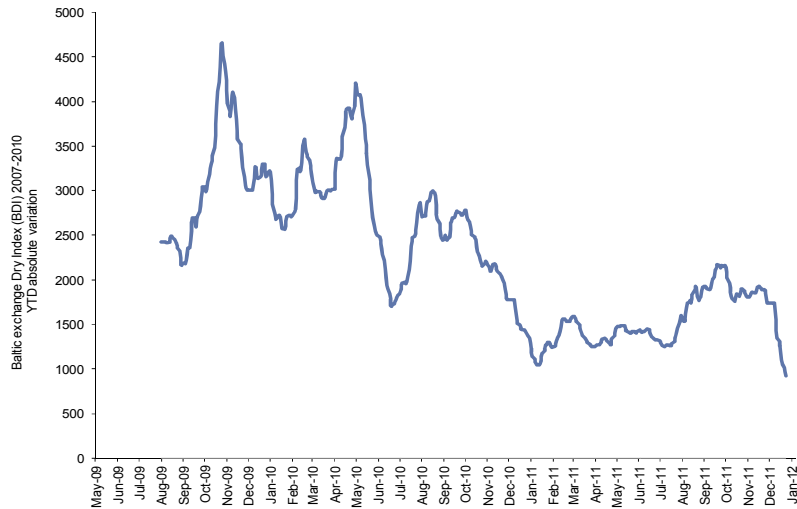
Exhibit 47: Crude oil on floating storage up again, as Iran struggles to sell its cargoes
 Crude oil on floating storage ('000 barrels)



Source: Bloomberg, various ship brokers, Goldman Sachs Research estimates.

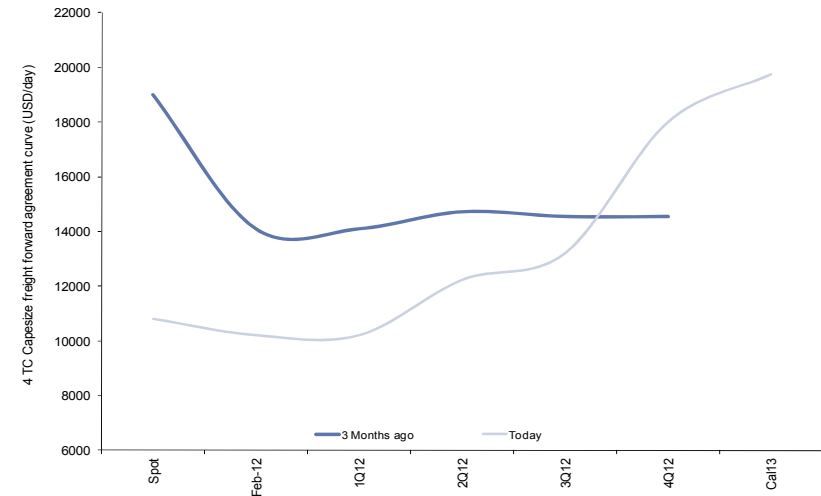
Dry bulk: Rebound proved short-lived

Exhibit 48: The BDI is back to historical lows ...
Baltic Dry Index (2011 YTD)



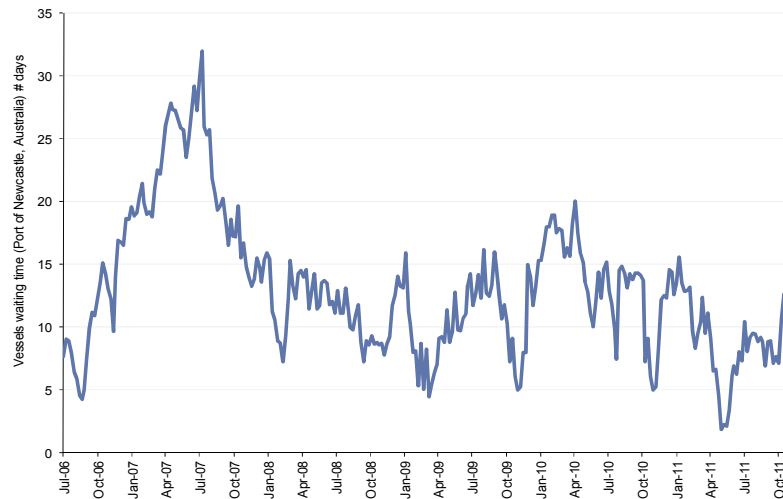
Source: Datastream.

Exhibit 49: ... but the forward market expects it to recover
Capesize freight forward agreements – average of four TimeCharter routes



Source: Bloomberg, Imarex.

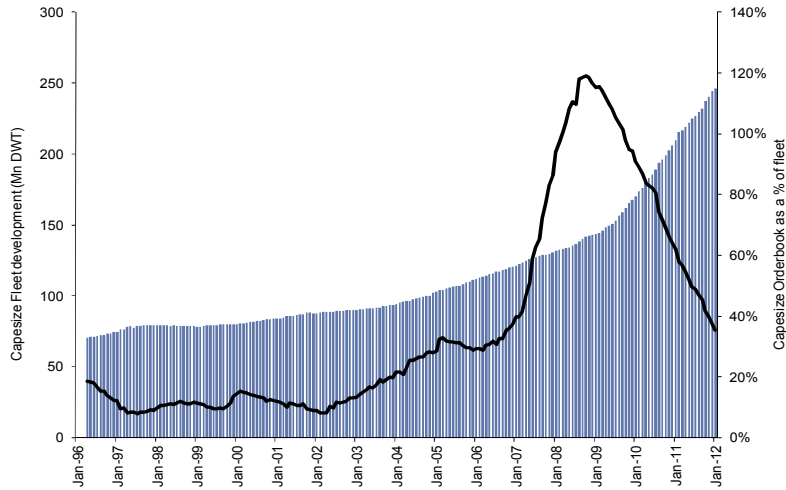
Exhibit 50: Dry bulk port congestion increased again; ports got busier as shipments catch up after the floods
Port of Newcastle (Australia) vessels waiting time (number of days)



Source: Port of Newcastle.

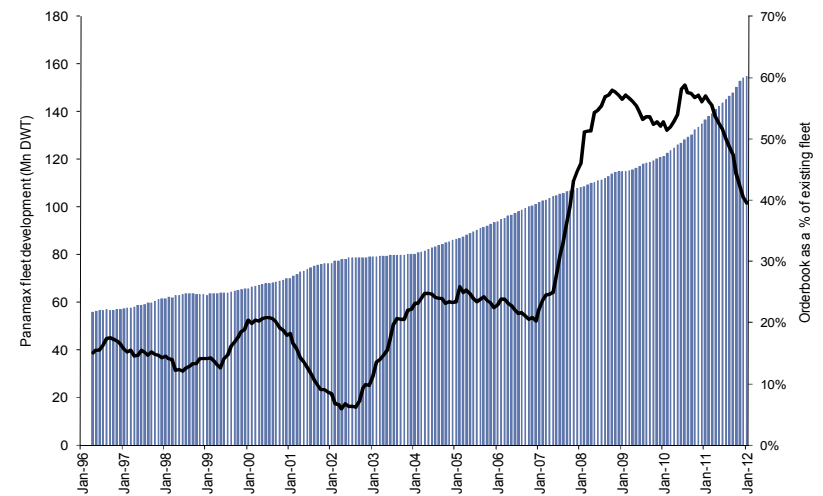
Exhibit 51: Capesize order book as a % of fleet coming down fast, but remains too high...

Capesize order book as a % of fleet (black line, rhs)



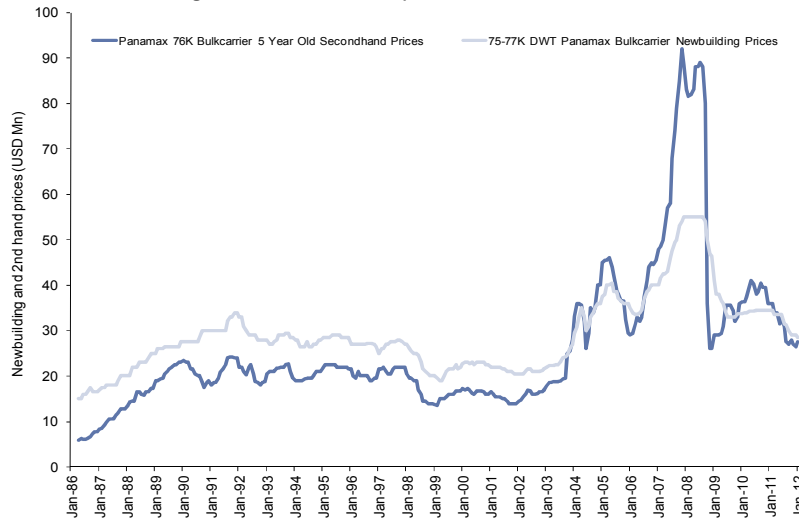
Source: Clarksons.

Exhibit 52: ...same for Panamax
Panamax order book as a % of fleet



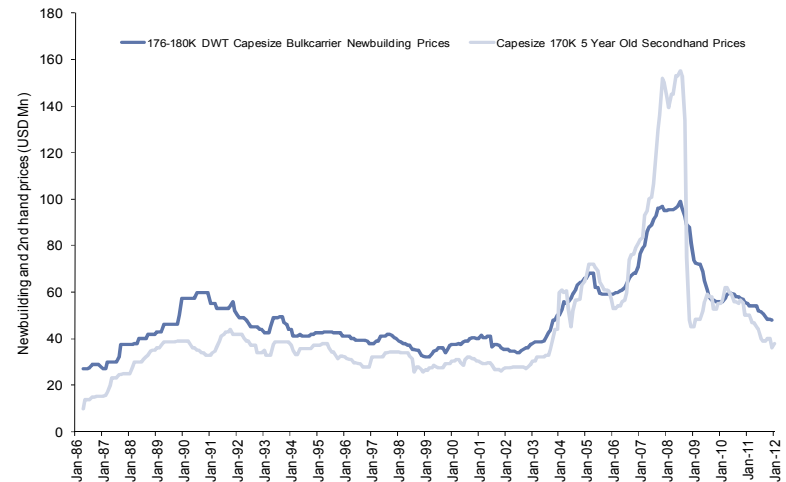
Source: Clarksons.

Exhibit 53: Trending down again...
Panamax newbuilding and second-hand prices



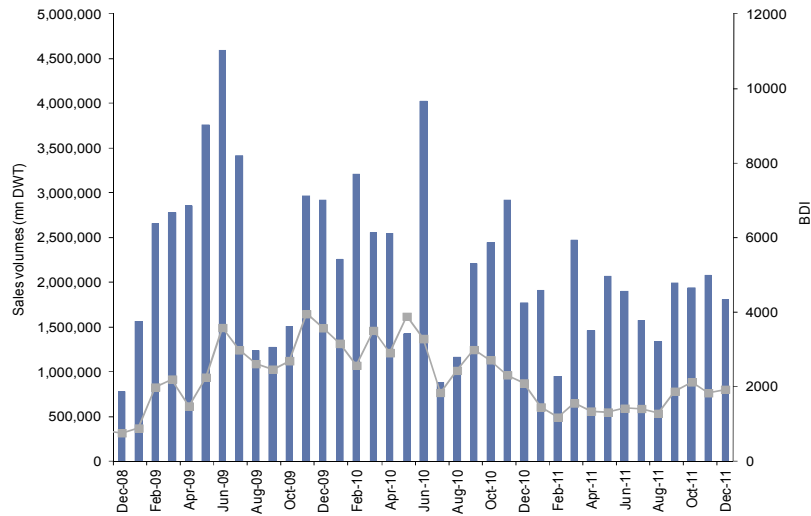
Source: Clarksons, Compass Maritime, Goldman Sachs Research estimates.

Exhibit 54: ... particularly in Capesize
Capesize newbuilding and second-hand prices



Source: Clarksons, Compass Maritime, Goldman Sachs Research estimates.

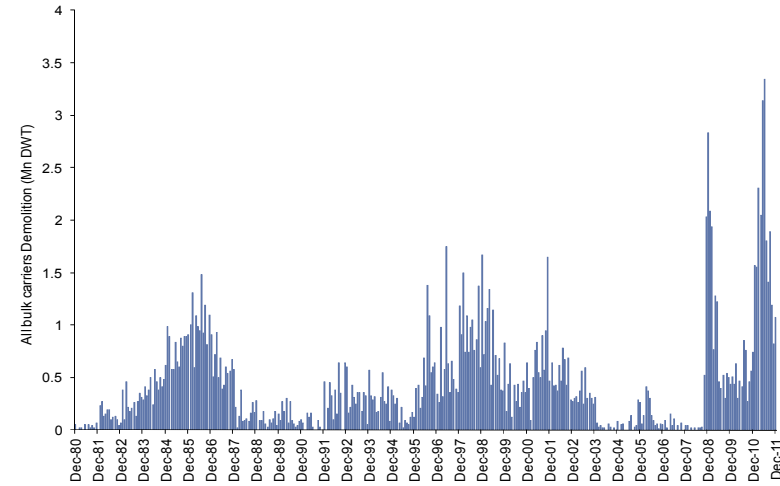
Exhibit 55: Bulker sales volumes have weakened due to lower rates...
 Baltic Dry Index vs. all bulkers sales volumes



Source: Clarksons SSY, Datastream

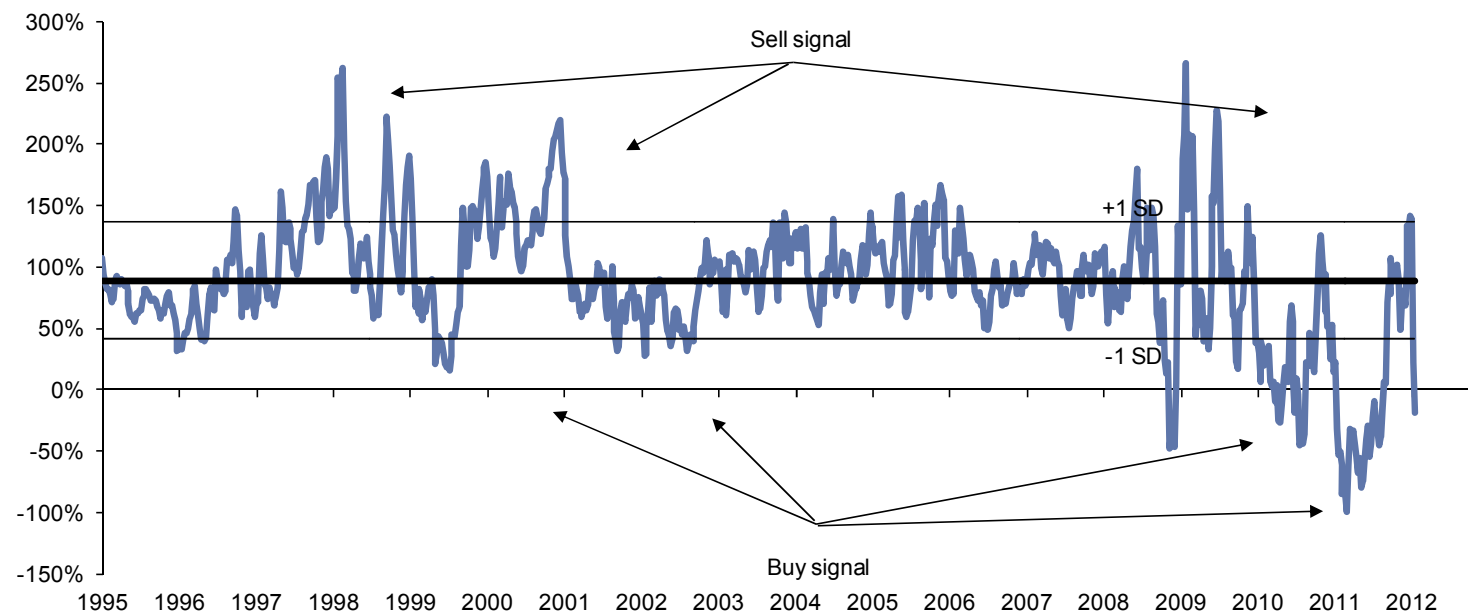
Exhibit 56: ... supply-side response to lower rates: scrapping is rising sharply again

All bulk carriers demolition (mn DWT)



Source: Clarksons SSY, Datastream.

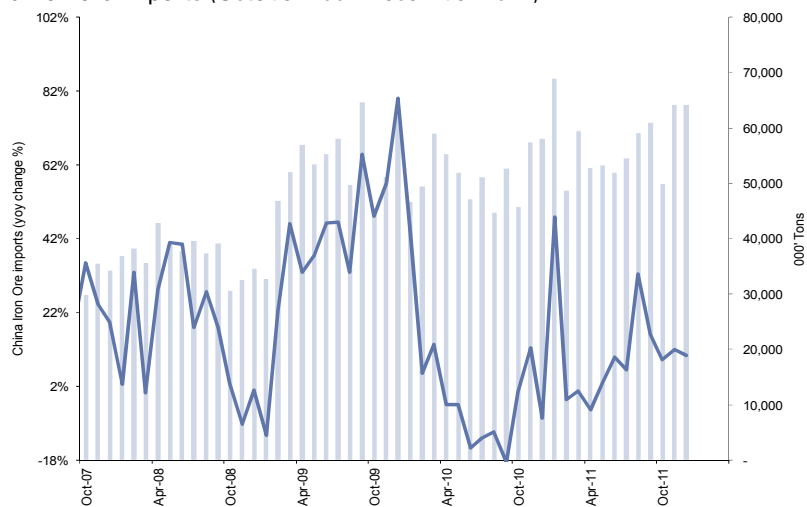
Exhibit 57: Capesize rates have collapsed again, possibly soon offering another arbitrage opportunity
 Panamax versus Capesize spread



Source: Clarksons.

Exhibit 58: Chinese iron ore imports have improved in October/December thanks to low prices...

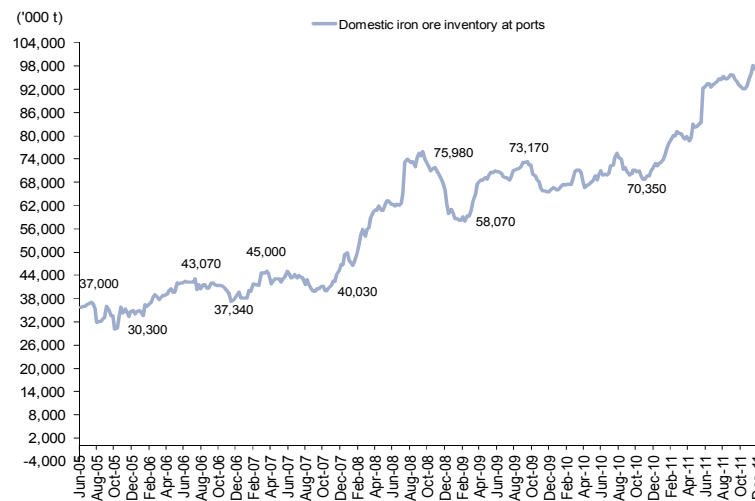
China iron ore imports (October 2007-December 2011)



Source: CEIC, China Customs.

Exhibit 59: ... iron ore inventories in China remain well above peak

Domestic iron ore inventories at ports (July 2005- December 2011)

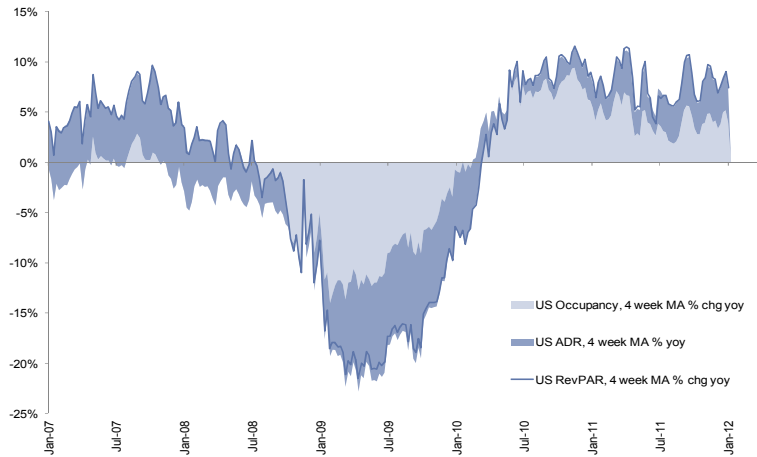


Source: CEIC, China Customs.

Passenger: Europe & US continue to decouple

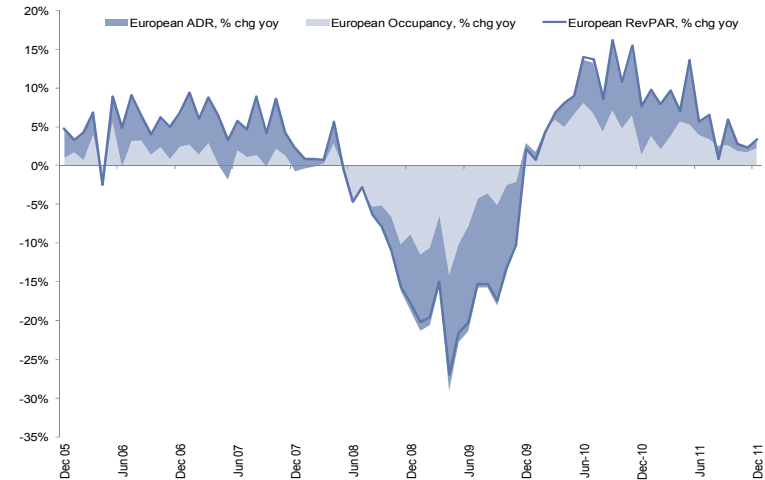
Hotels: Strong RevPAR growth in US, Singapore and London - Millennium & Copthorne's key markets

Exhibit 60: US RevPAR still going strong in January...



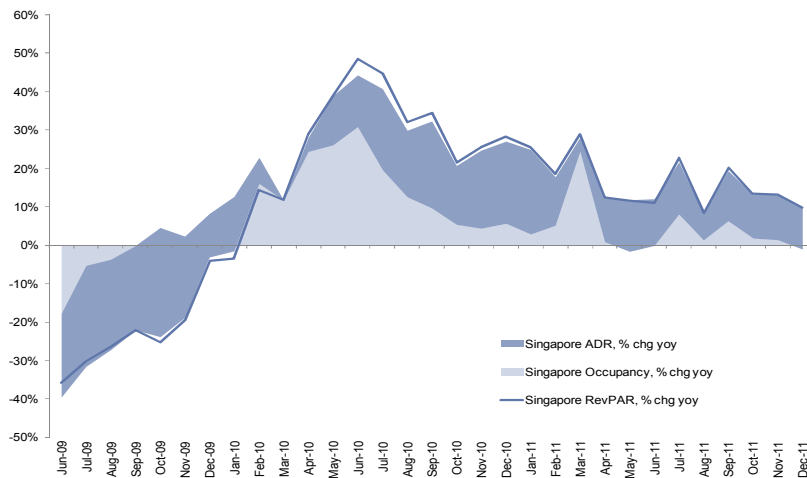
Source: Smith Travel Research.

Exhibit 61: While European RevPAR growth remains in low single digits...



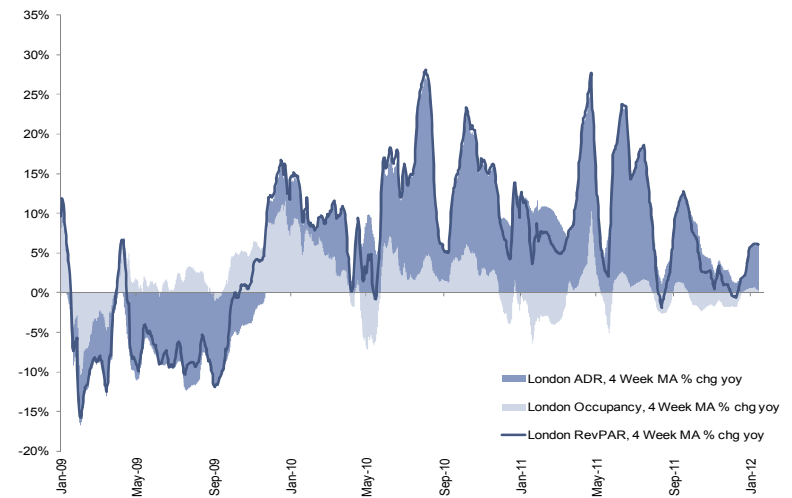
Source: Smith Travel Research.

Exhibit 62: ...Singapore RevPAR grew 9.8% in December... Millennium & Copthorne earned 32% of its 1H11 EBIT from Singapore...



Source: Smith Travel Research.

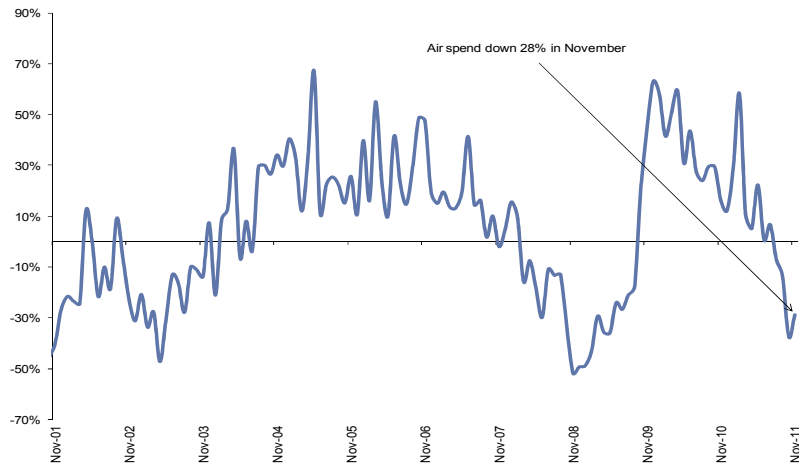
Exhibit 63: ...London has also bounced back to grow 6% over the last month...it contributed 31% of Millennium & Copthorne's 1H11 EBIT



Source: Smith Travel Research.

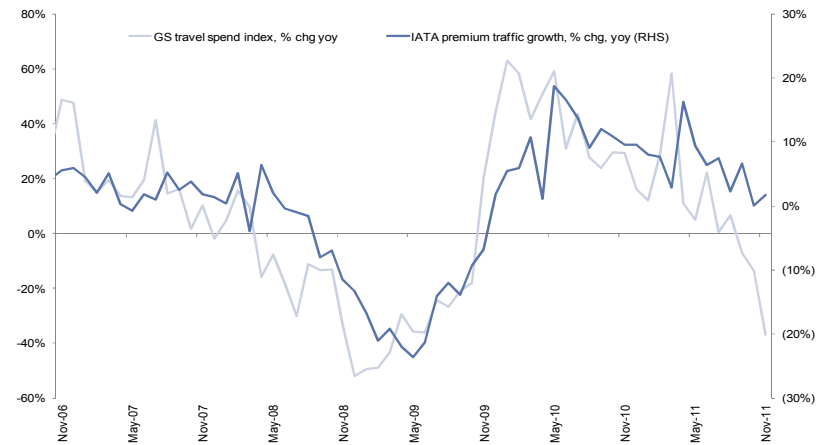
Air passenger: Growth slowing but positive (December data distorted by winter 2010 disruption)

Exhibit 64: GS travel spend down 28% in November...
GS Travel index (yoy change, November 2011)



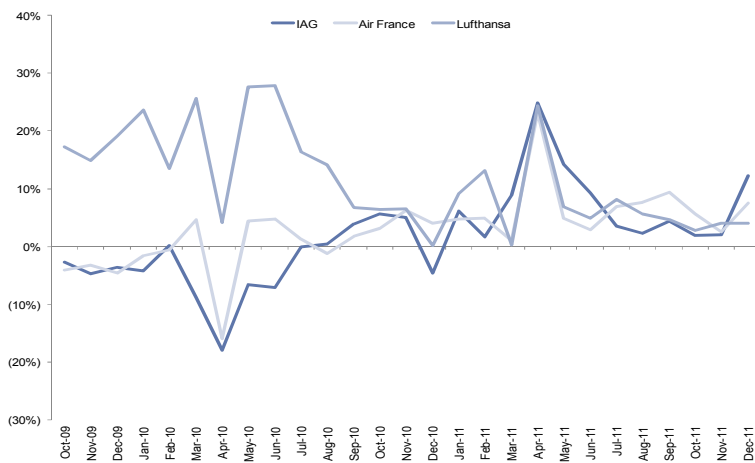
Source: Goldman Sachs Research estimates.

Exhibit 65: ...and has historically proved to be a leading indicator for the broader premium market



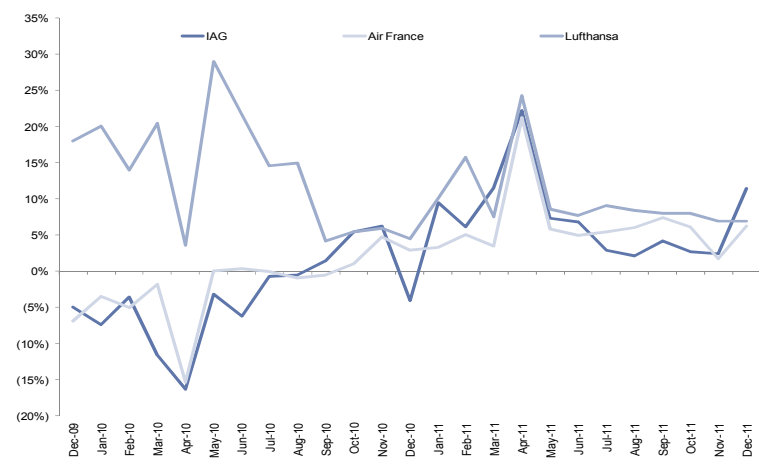
Source: Company data.

Exhibit 66: European flag carrier traffic growth remained in the low single digit region in December on an underlying basis...
RPK growth, % chg yoy



Source: Company estimates.

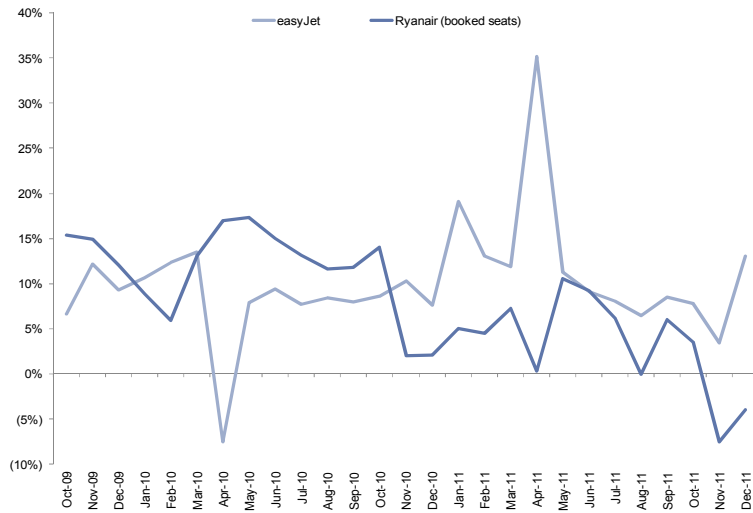
Exhibit 67: ...as did flag carrier capacity...
ASK growth, % chg yoy



Source: Company estimates.

Exhibit 68: The low-cost segment has cut capacity in the first half of the winter season...

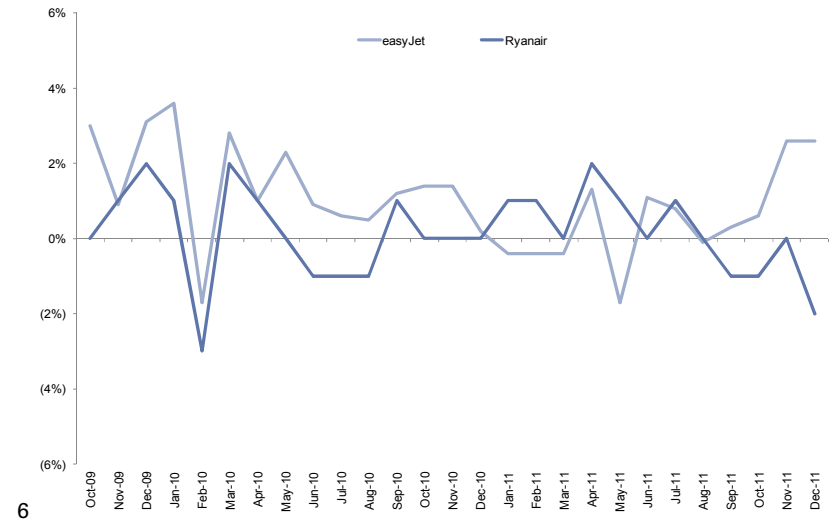
Booked seats flown (easyJet) and booked seats (Ryanair), % chg yoy



Source: Company estimates.

Exhibit 69: The low-cost load factor performance was mixed – easyJet is outperforming on load factors

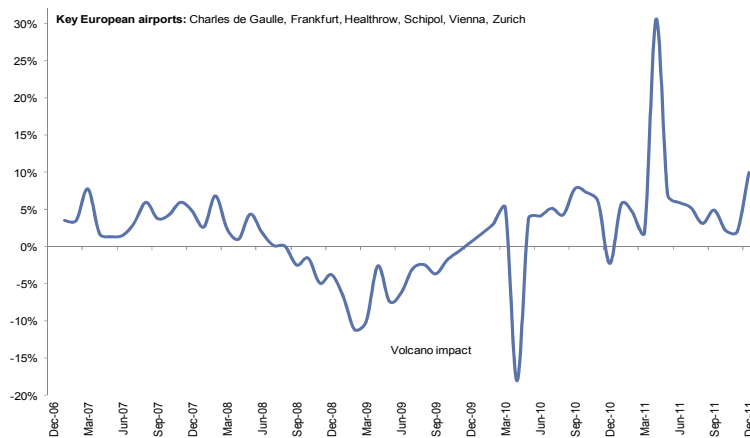
Passenger load factor, pp chg yoy



Source: Company estimates.

Exhibit 70: Growth in total passenger numbers through key European airports slowed in November...

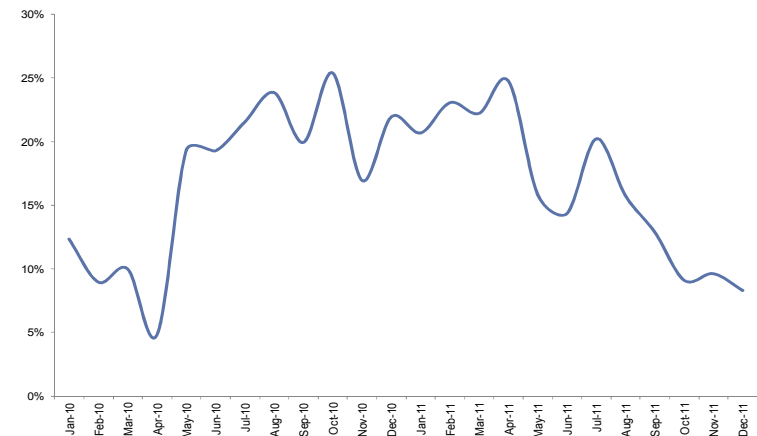
% chg yoy



Source: Company data.

Exhibit 71: ...and Lima airport passenger traffic growth continued to slow (but from a higher base)

% chg yoy



Source: Company data.

Ratings and share prices

Panalpina (PWTN.S, Buy, SFr99.45), A.P. Moeller-Maersk (MAERSKb.CO, Buy (CL), Dkr39,300), HHLA (HHFGn.DE, Buy (CL), €23.73), Fraport AG (FRAG.DE, Buy, €44.40), Golden Ocean Group Ltd (GOGL.OL, Sell, Nkr4.80).

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