
TRANSBALTICA 2016



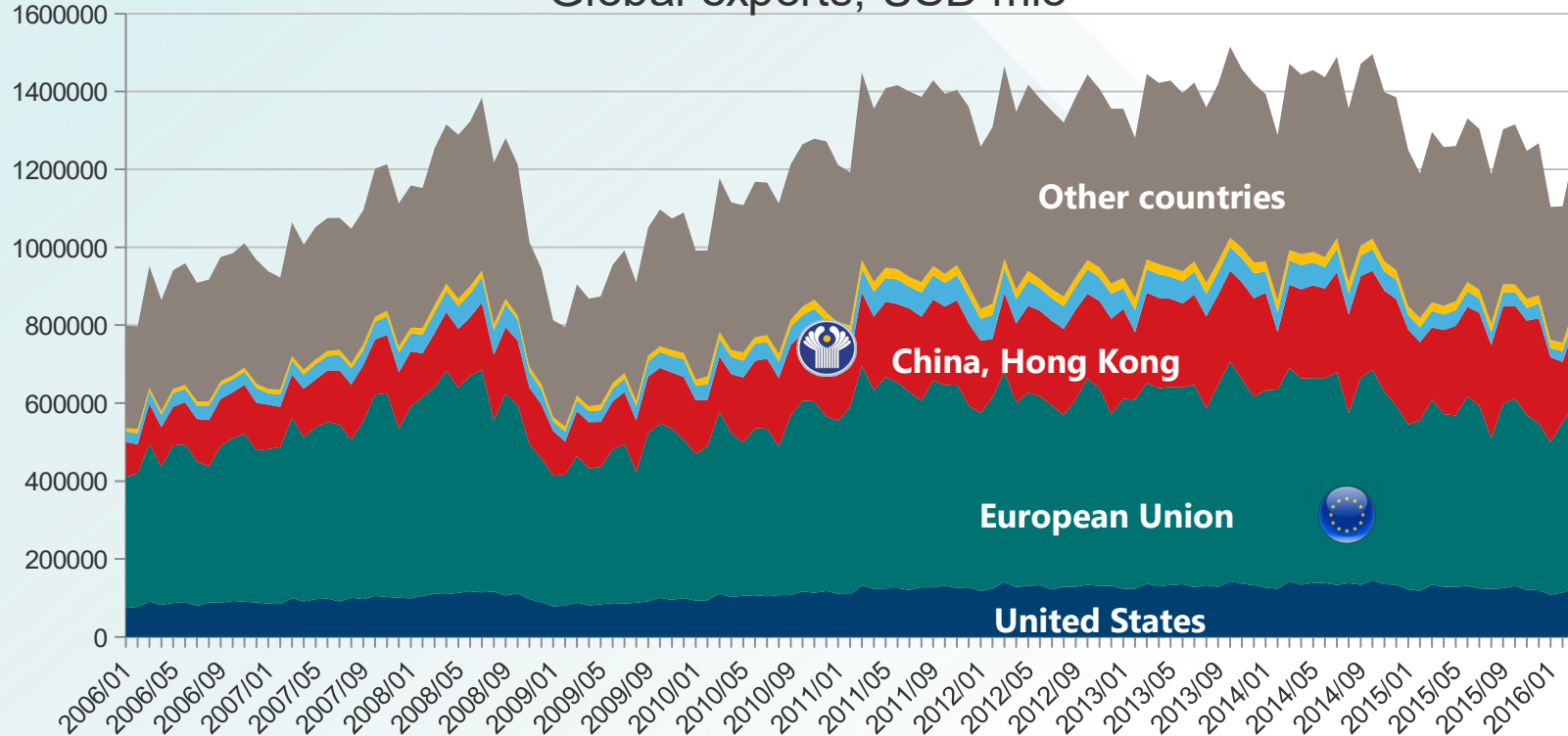
DNB

Transport and Logistics: resisting the gravity rules

Jekaterina Rojaka
Chief Economist for the Baltics | DNB Markets
June 2-3, 2016

Global international trade volumes point to economic weakness

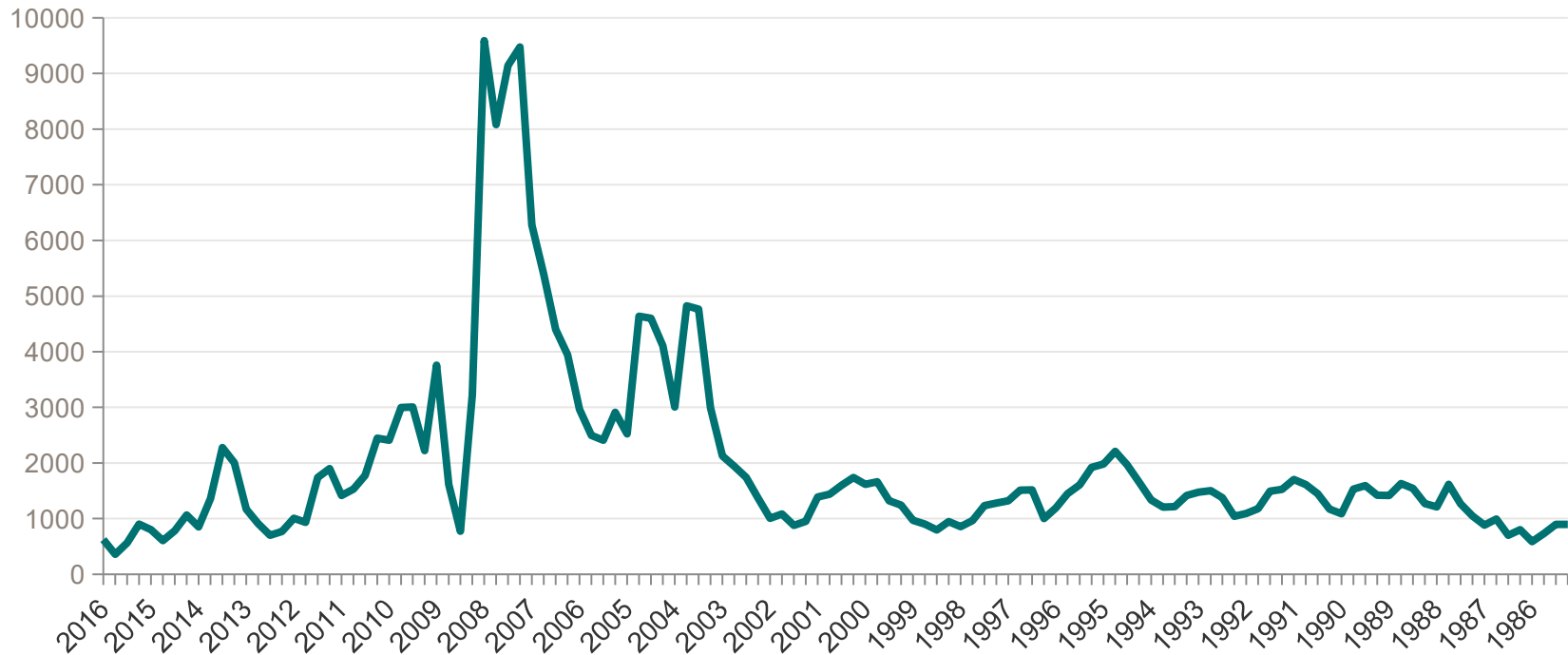
Global exports, USD mio



Source: CPB Netherlands Bureau for Economic Policy Analysis, WTO, Reuters, EIU

Massive investments into vessels resulted into record rates for chartering raw materials

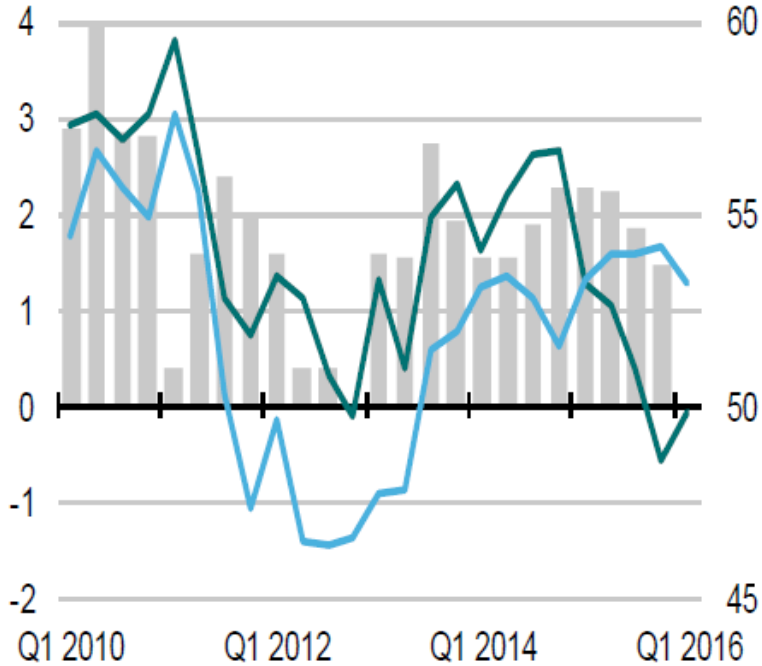
Baltic Dry index



Source: Bloomberg

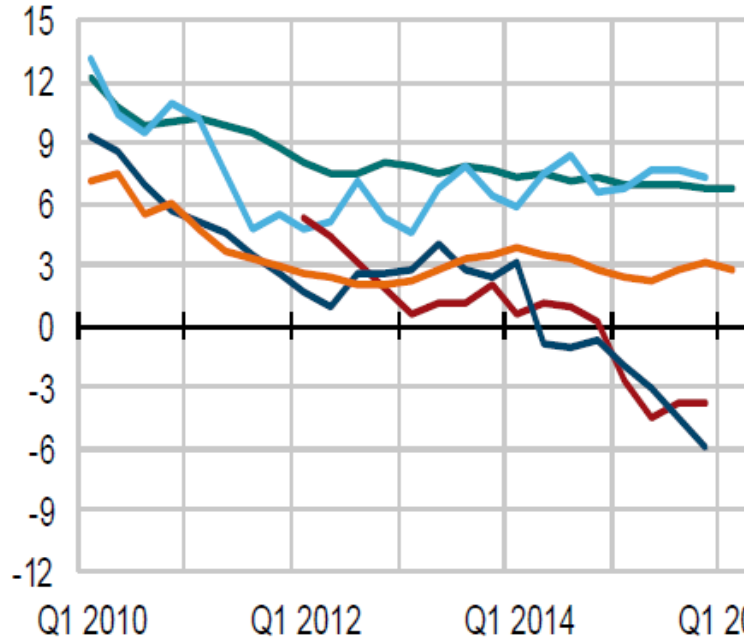
Global expansion continues basing on key trends...

OECD-GDP and PMI-indices



■ GDP qq sayr. (rha) ■ USA: ISM ■ EZ-PMI

GDP Percent change y/y

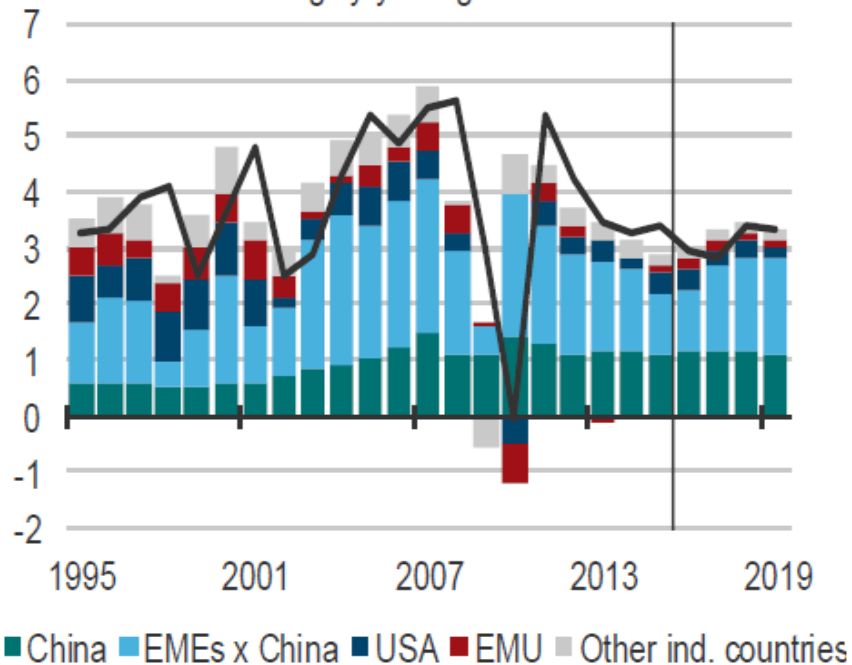


■ China ■ India ■ Russia ■ Brazil ■ Korea

Slow growth outside EMEs and higher oil price

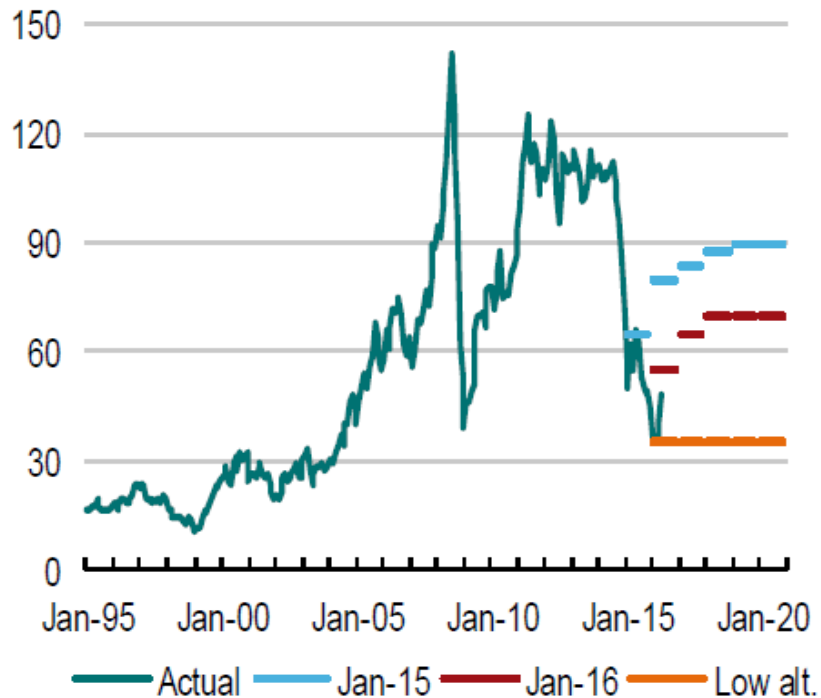
GDP

Per cent change y/y and growth contribution



Oil price

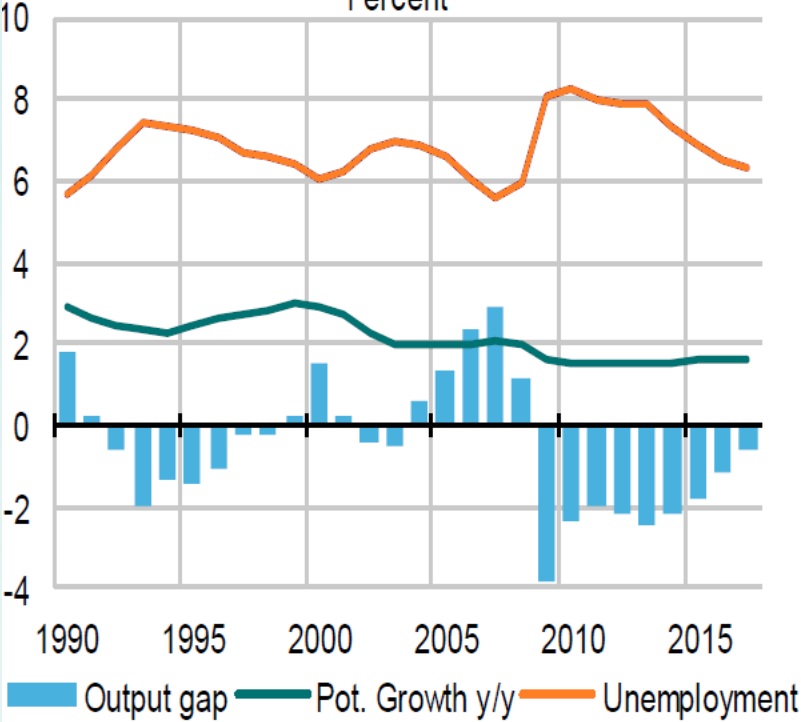
Brent Blend, USD/barrel



Significant slack and low wage growth

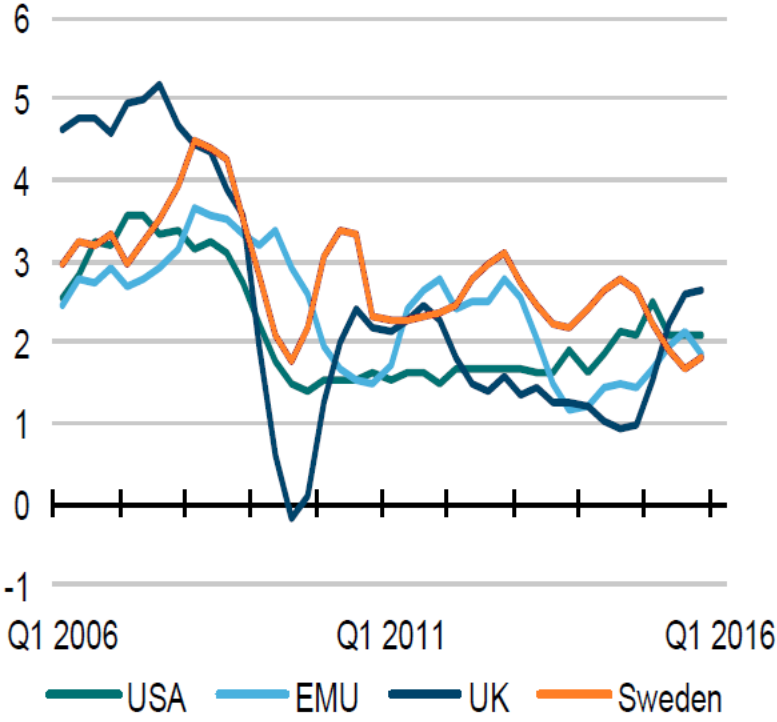
OECD: Capacity utilization

Percent



Wages

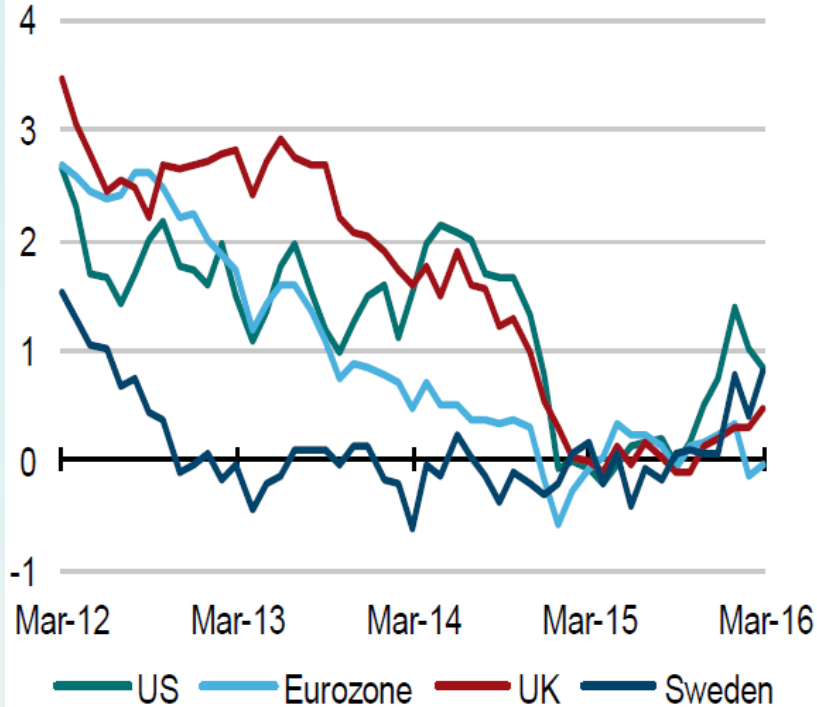
y/y in %. Some series are smoothed



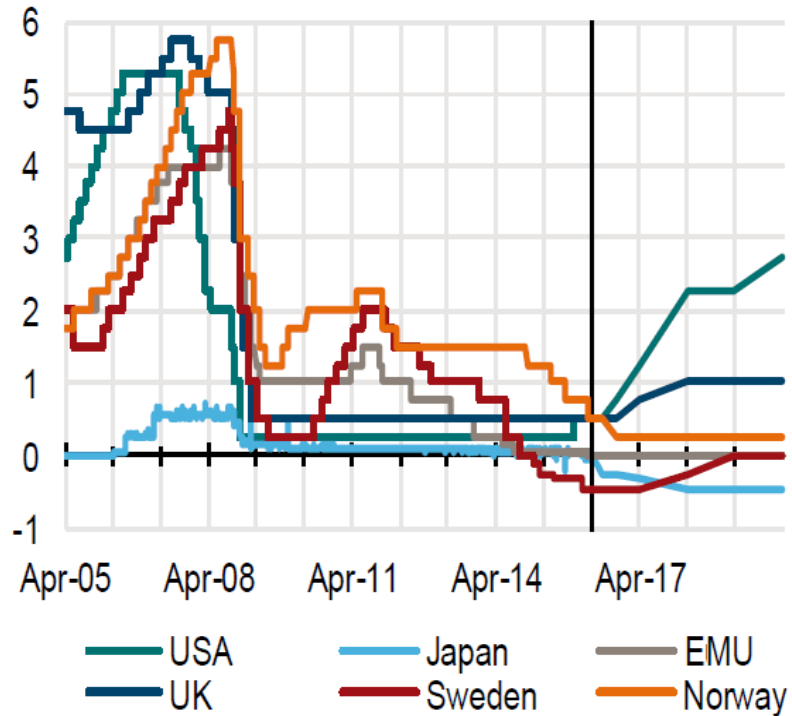
Source: OECD EO, Thomson datastream, DNB Markets

Low inflation and low rates

Consumer prices
Percent change y/y



Signal rates
Actual/forecast 02.05.16





What are key risks to global growth?

EU political fragmentation

China long term risks

Weaker demand from trade partners

Lower costs of commodities

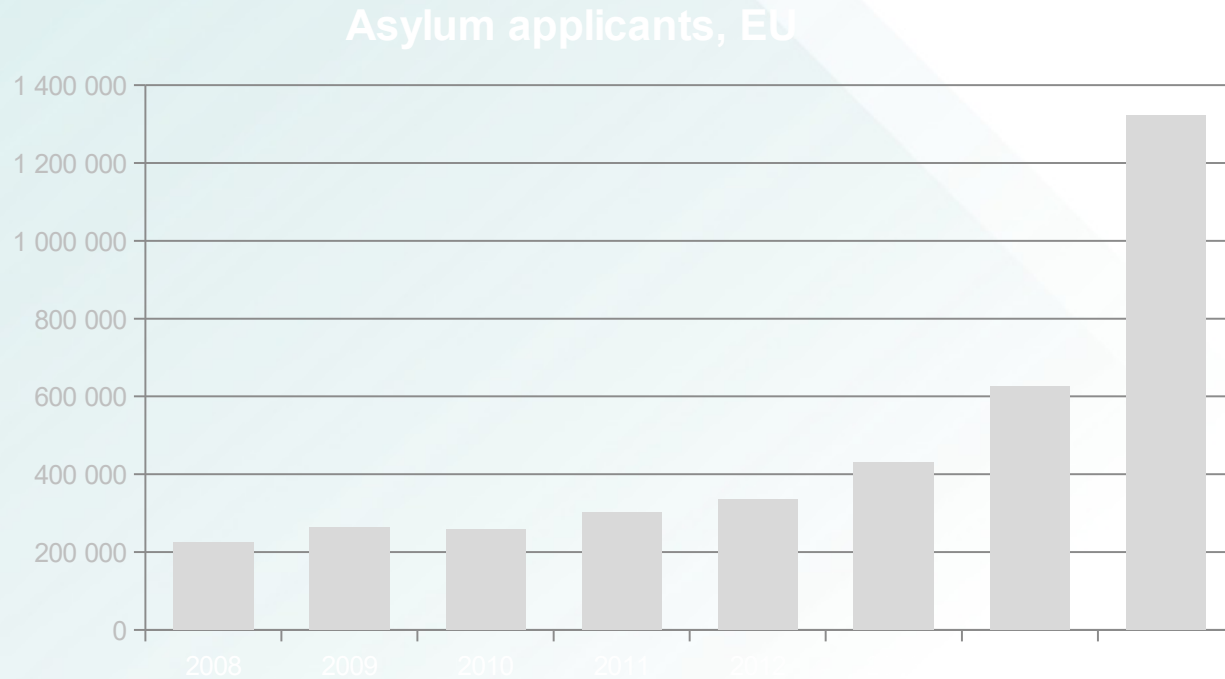
Weaker EM currencies, competition, high debt

Protectionism, higher tariffs

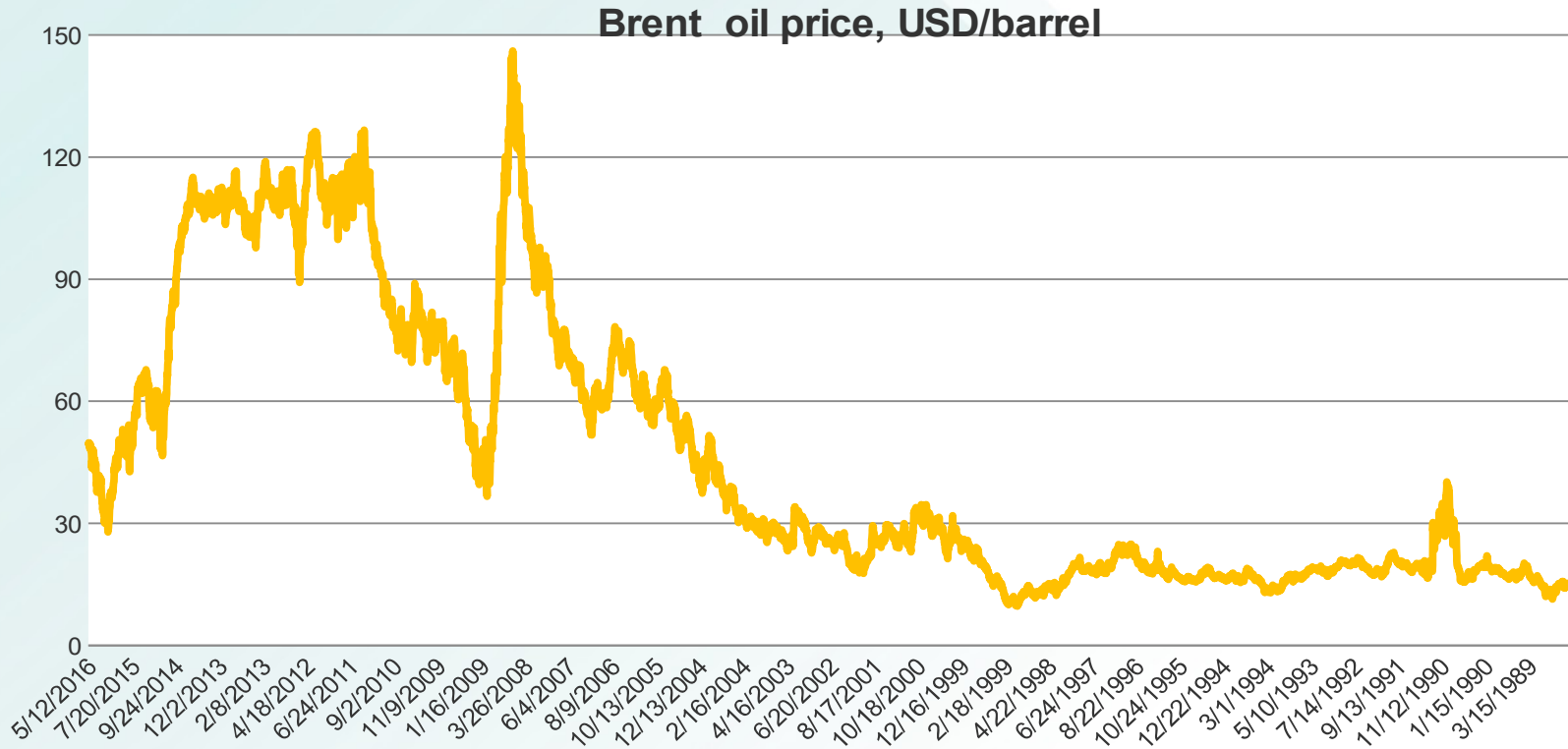
Monetary policy – out of ammunition?



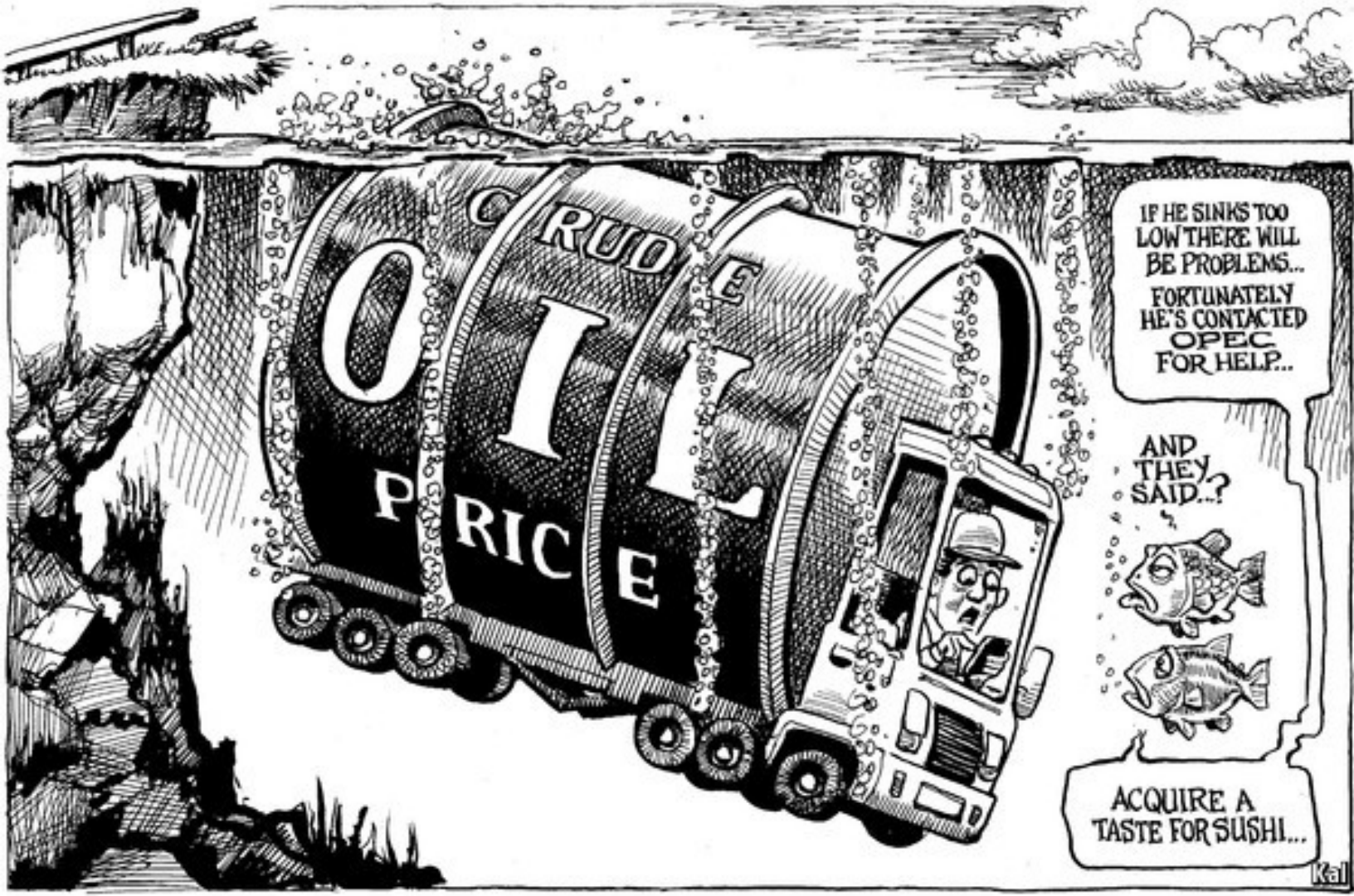
... And threats are increasing



Oil price is holding above this years lows

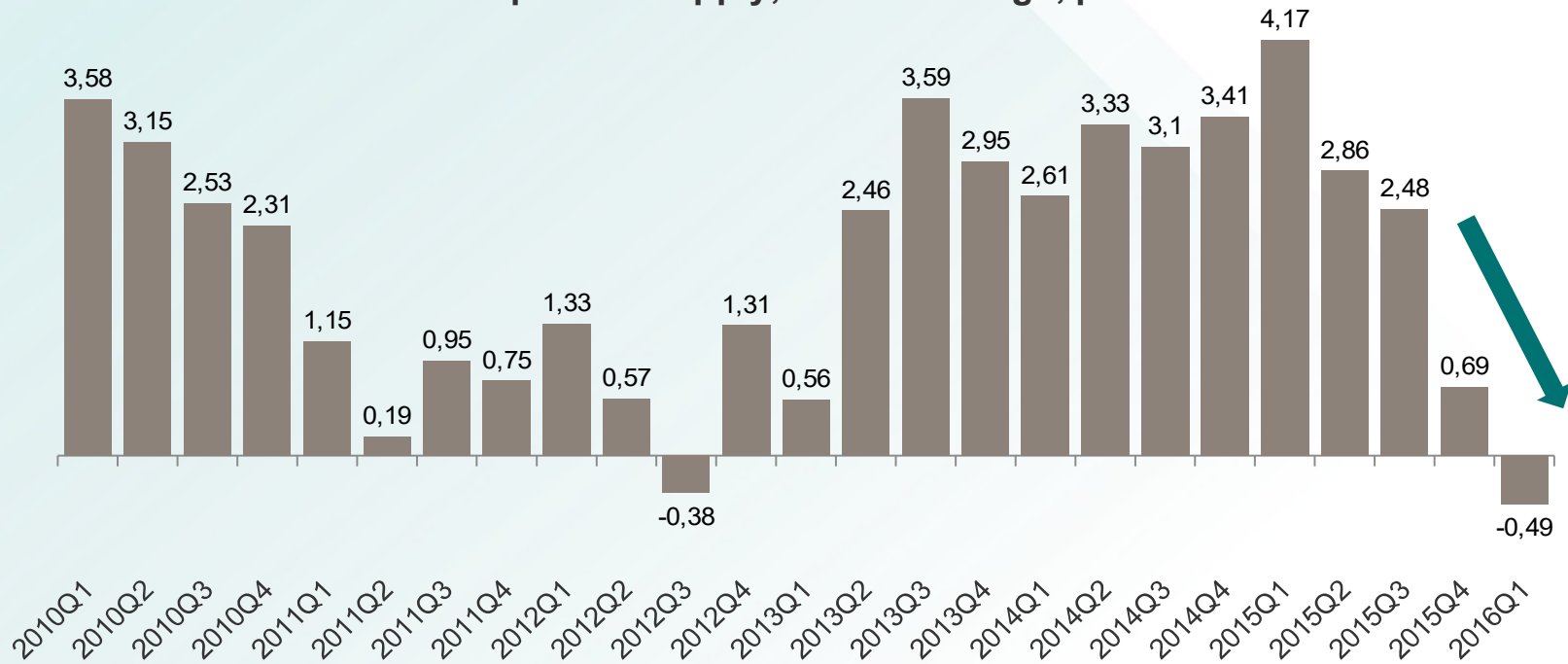


Source: Bloomberg



As market rebalances, oil price will slowly pick up

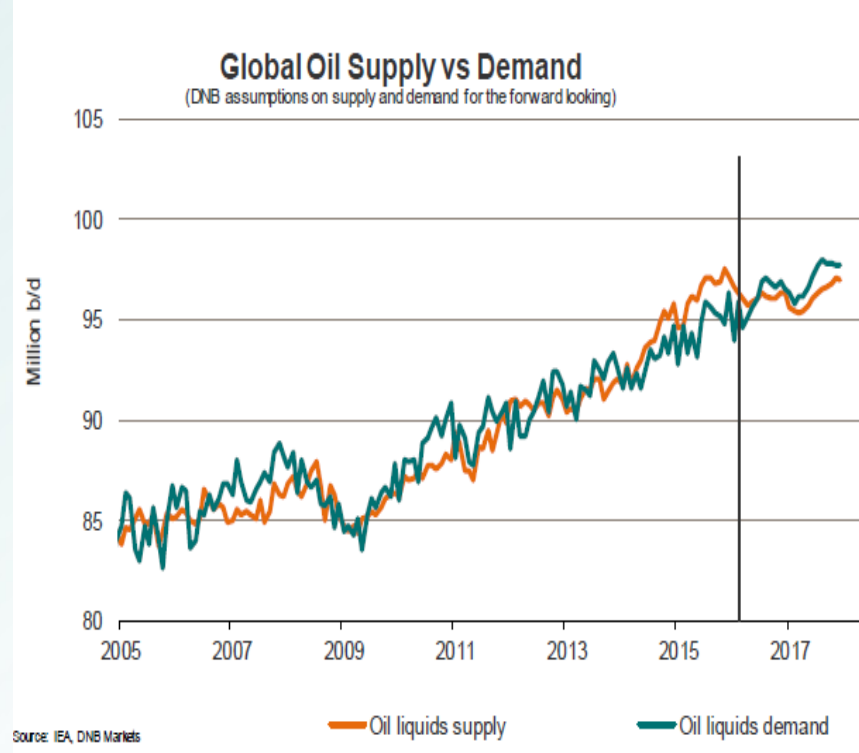
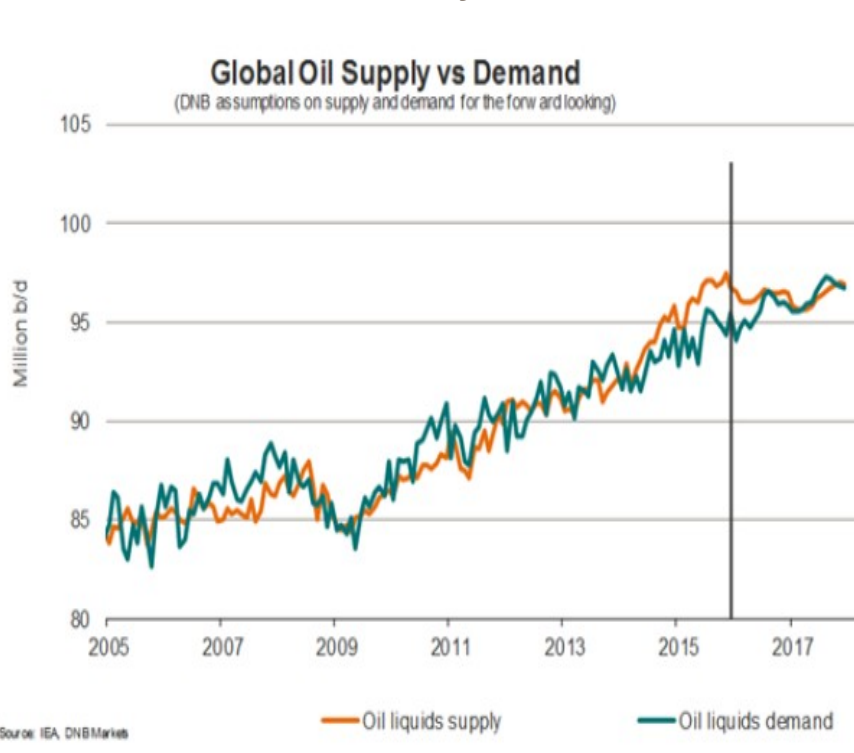
Non-Opec Oil Supply, annual change, percent



The starting point for the rebalancing has improved

February

March





Guys, we've decided it's best for all of us to stay right where we are for an indefinite period, so just hold your position, OK?

**OIL
OUTPUT
PEAK**

OPEC MOUNTAIN

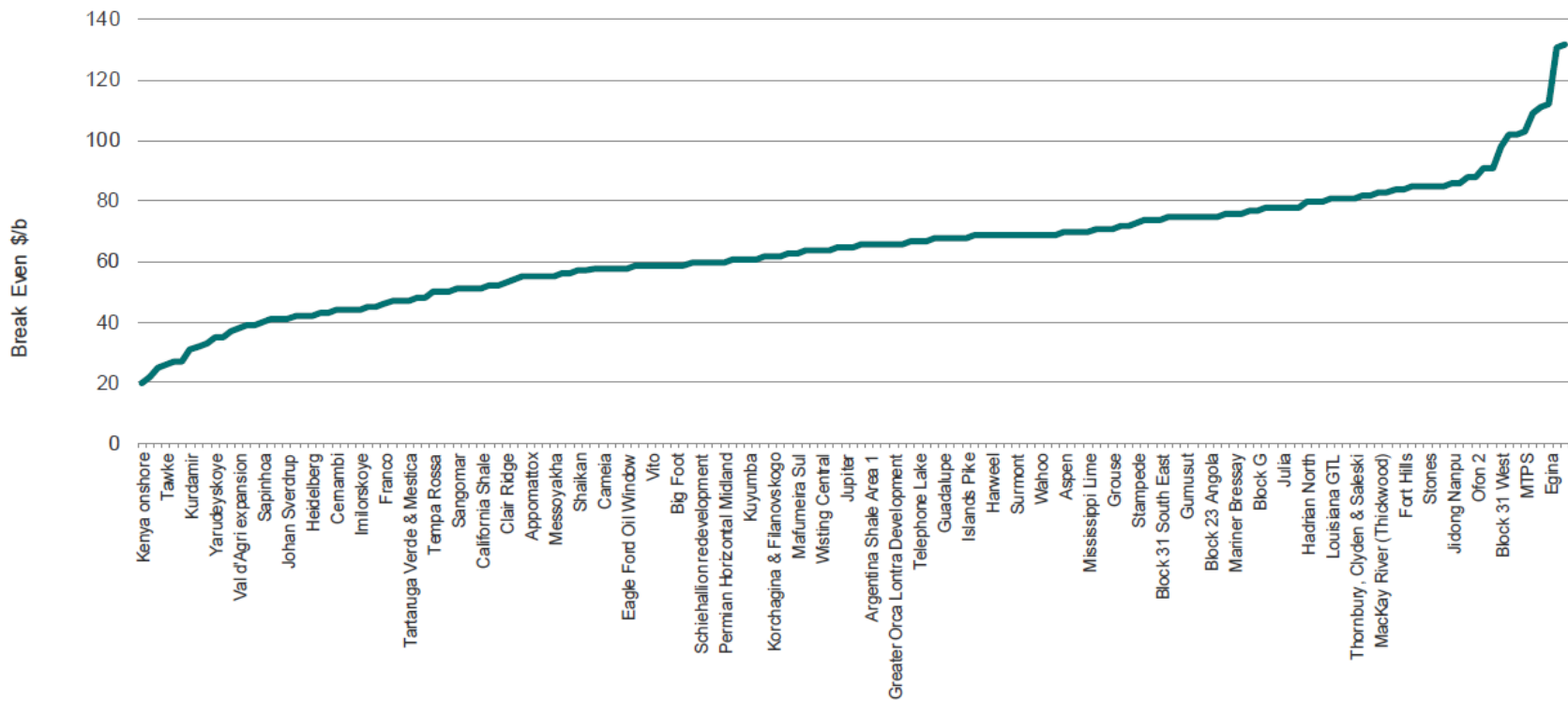
Iraq

Iran

Global Oil Industry set to collapse at 30 USD/b

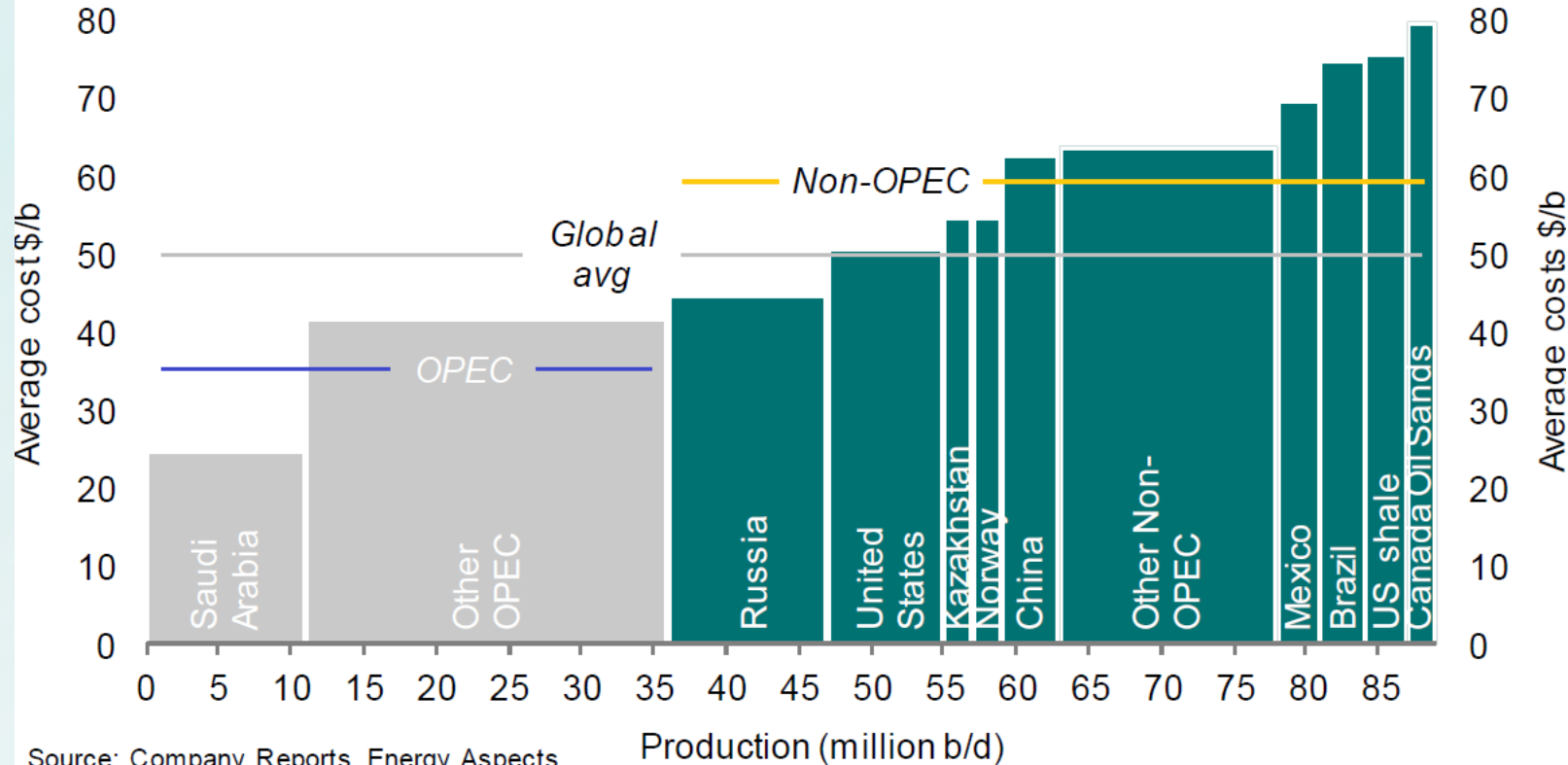
Break Even By Project

(Cost of capital 11% in OECD - 15% in non-OECD)



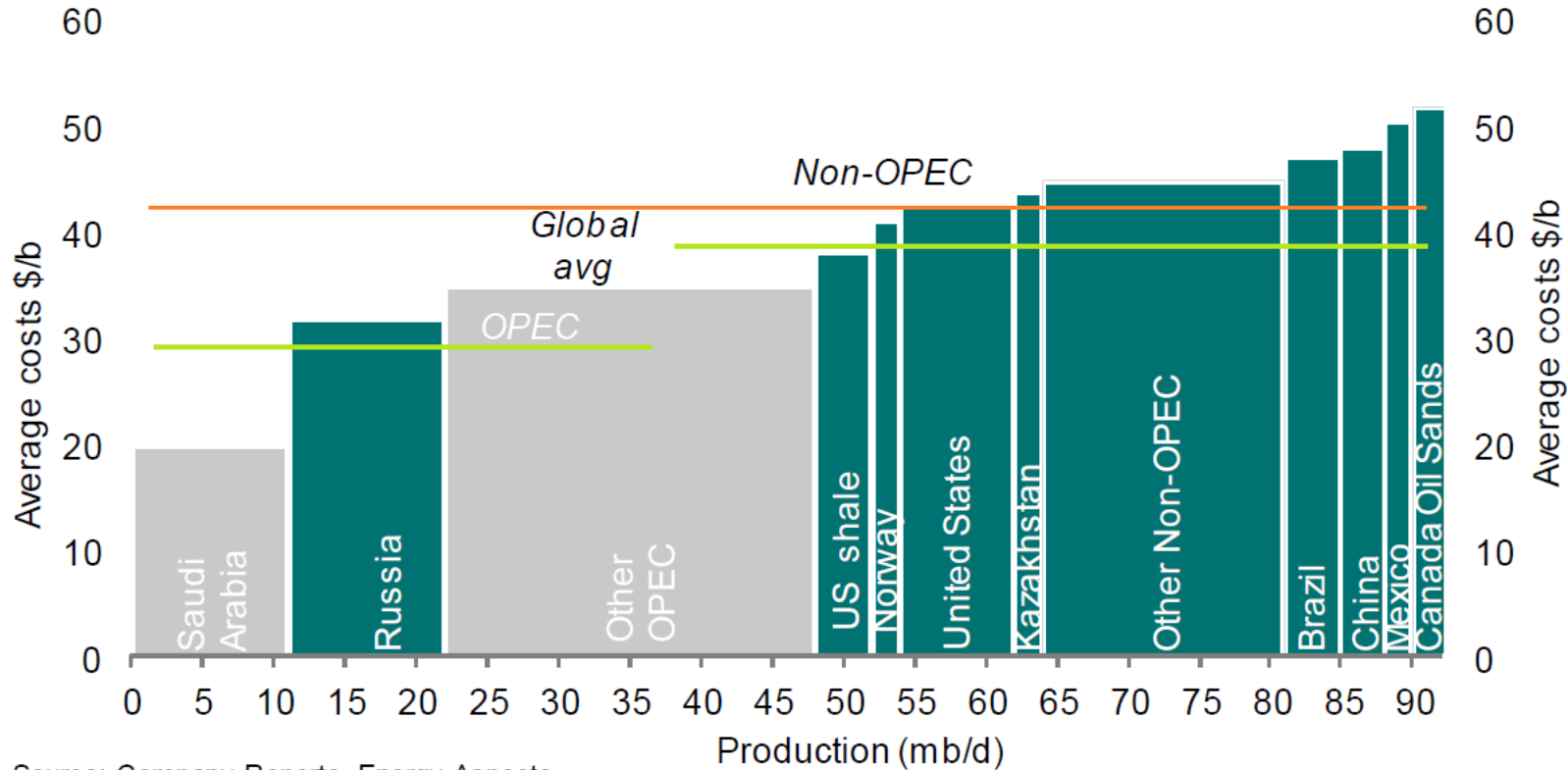
Break-even cost on average went down by 20 percent

Average Break Even Costs 2014



Global average was 50 USD/b, now about 40 USD/b

Average Break Even Costs 2016

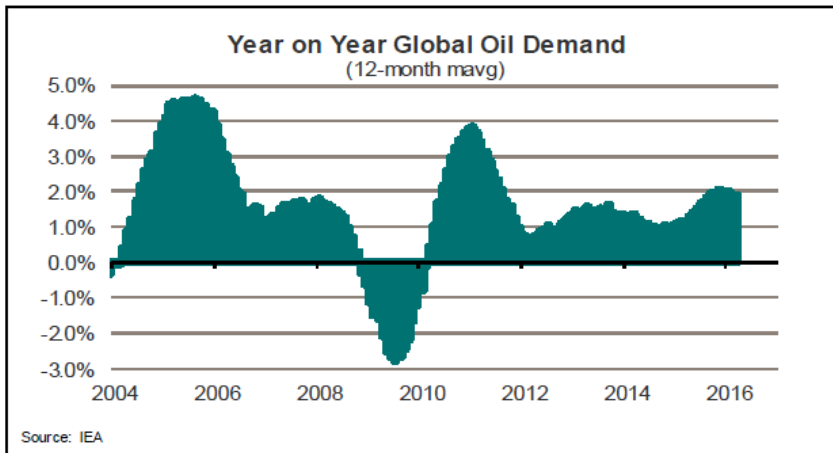
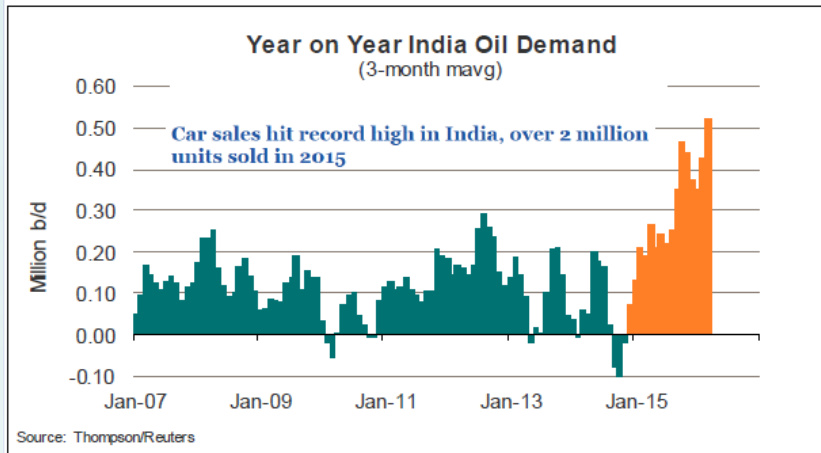
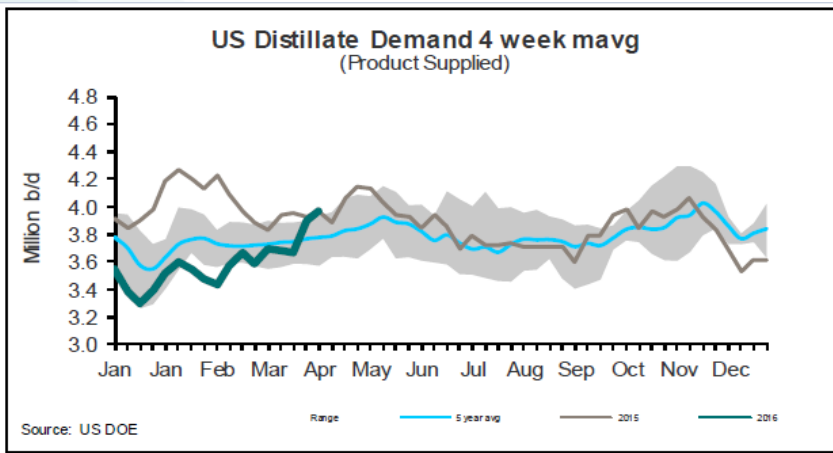
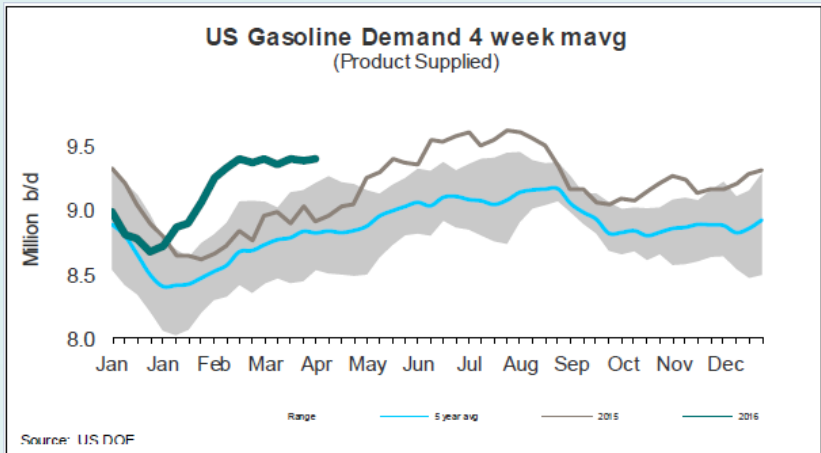


Source: Company Reports, Energy Aspects

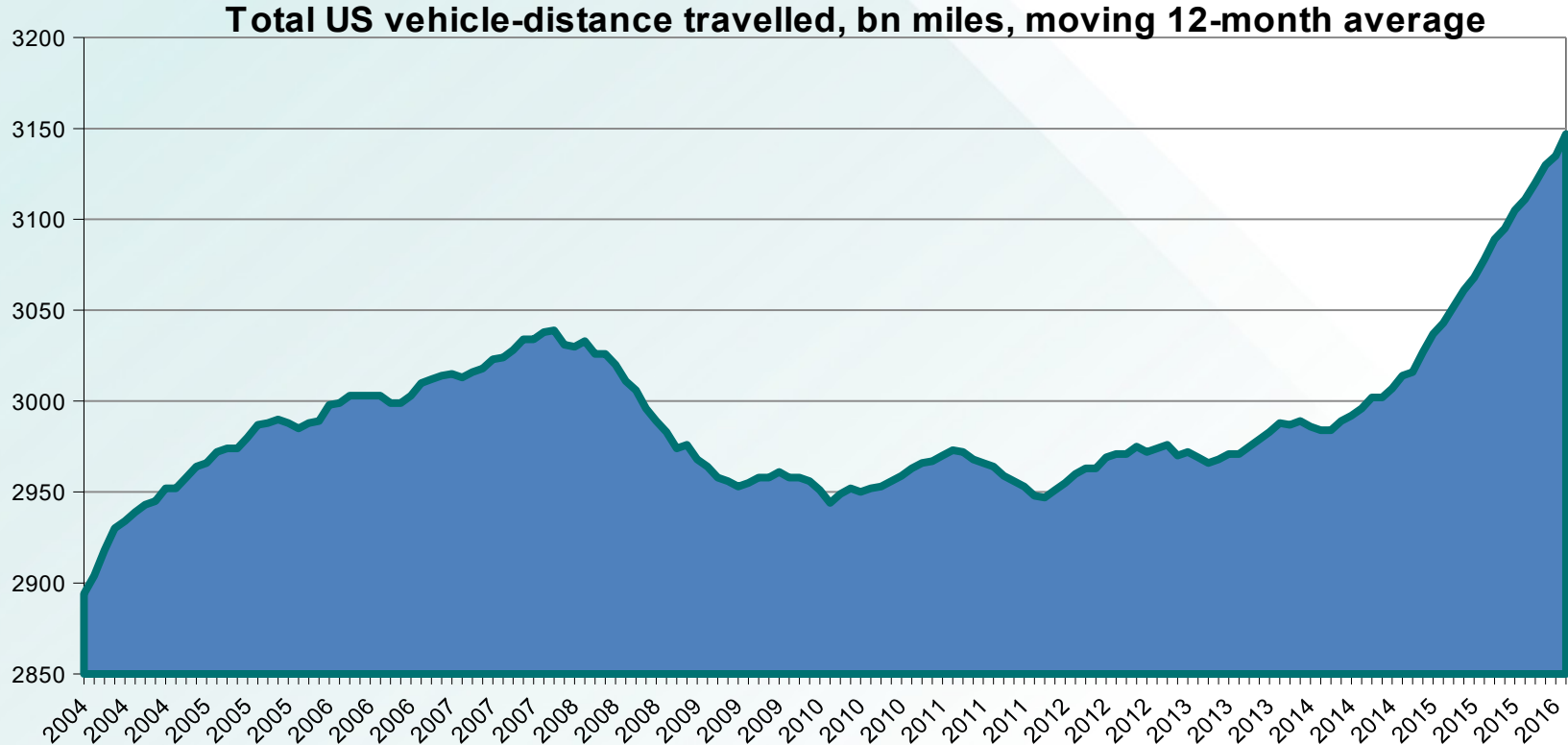
Demand for cheaper oil is strong in key countries

| Demand change in Million b/d | Change 2011 | Change 2012 | Change 2013 | Change 2014 | Change 2015 | YoY Last 3 mts | forecast 2016 |
|--|--------------|--------------|--------------|--------------|--------------|----------------|---------------|
| North America (Canada, Mexico) | 63 | 34 | -38 | -63 | -86 | -51 | -49 |
| US | -227 | -457 | 472 | 147 | 292 | -74 | 275 |
| Europe | -474 | -413 | -215 | -168 | 262 | 30 | 29 |
| Australia, New Zealand, Japan, Korea | 32 | 332 | -115 | -215 | -17 | -209 | -170 |
| Total OECD | -606 | -505 | 104 | -299 | 452 | -304 | 85 |
| Europe/Africa Med & FSU | 273 | 113 | 10 | 266 | 30 | 317 | 155 |
| Middle East AG excl. Iran and Saudi | 76 | 173 | 79 | -28 | 65 | 90 | 79 |
| Iran | 10 | 40 | 35 | -16 | -68 | 46 | 52 |
| Saudi Arabia | 115 | 192 | -17 | 177 | 144 | 90 | 50 |
| Asia Pacific/East Africa excl. China and India | 223 | 236 | 381 | 225 | 341 | 397 | 376 |
| China | 400 | 422 | 345 | 380 | 674 | 349 | 312 |
| India | 169 | 175 | 47 | 75 | 214 | 368 | 366 |
| West Africa | 42 | 53 | 56 | 16 | 31 | 17 | 17 |
| Latin America (excl. Mexico) | 135 | 262 | 153 | 153 | -38 | -143 | -176 |
| Total Non-OECD | 1,441 | 1,666 | 1,089 | 1,248 | 1,392 | 1,531 | 1,231 |
| North America | -164 | -423 | 435 | 84 | 207 | -126 | 226 |
| Europe/Africa Med & FSU | -201 | -301 | -205 | 98 | 292 | 347 | 184 |
| Middle East AG/Asia Pacific/East Africa | 1,024 | 1,570 | 755 | 597 | 1,352 | 1,131 | 1,066 |
| Middle East AG | 201 | 405 | 98 | 134 | 141 | 226 | 181 |
| Asia Pacific/East Africa | 824 | 1,165 | 657 | 464 | 1,211 | 905 | 885 |
| West Africa | 42 | 53 | 56 | 16 | 31 | 17 | 17 |
| Latin America (excl. Mexico) | 135 | 262 | 153 | 153 | -38 | -143 | -176 |
| Total World | 835 | 1,161 | 1,193 | 948 | 1,844 | 1,227 | 1,317 |

Distillate has been weak, but Gasoline - strong

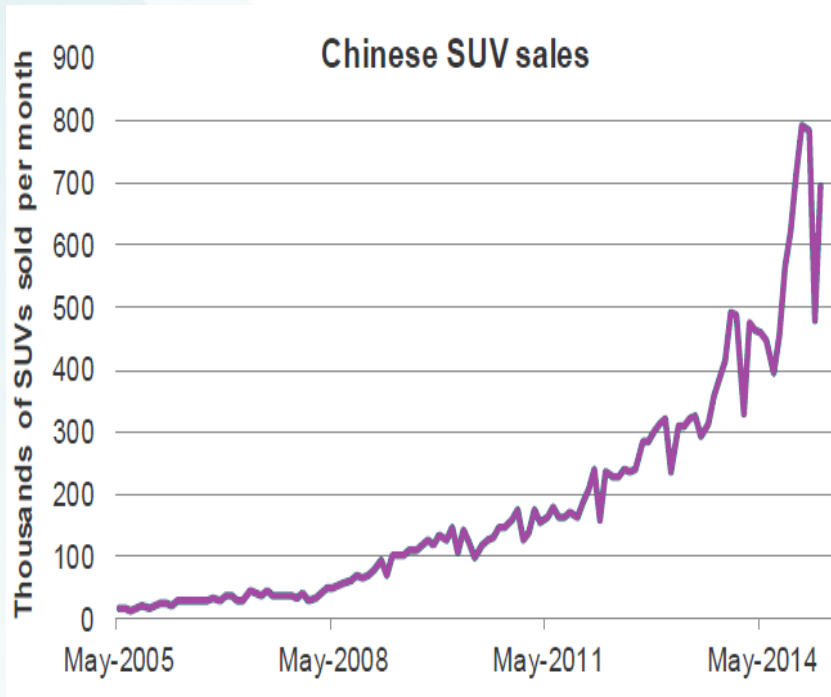
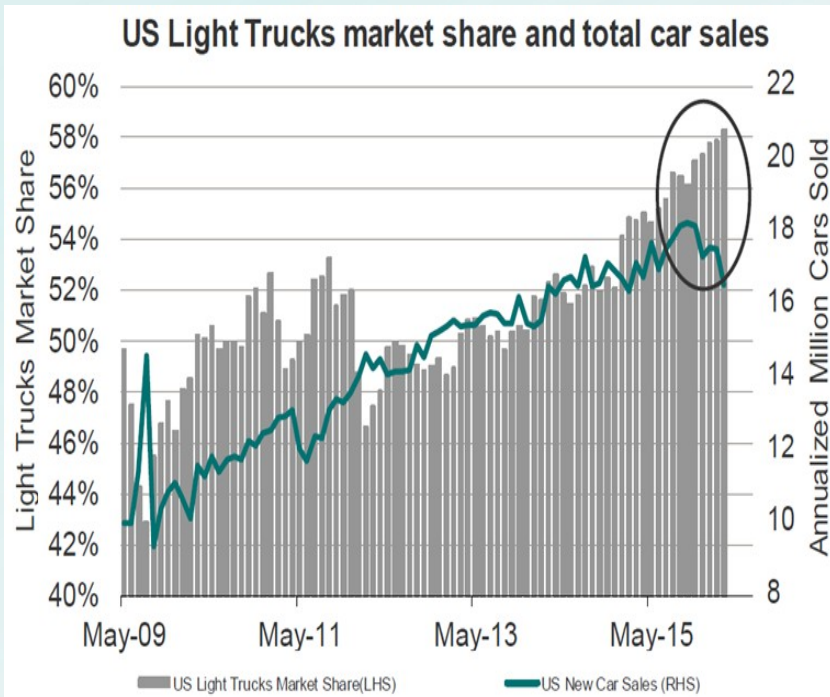


Lower oil prices are incentivizing more driving



Source: US Federal Highway Administration – traffic from 4000 roads

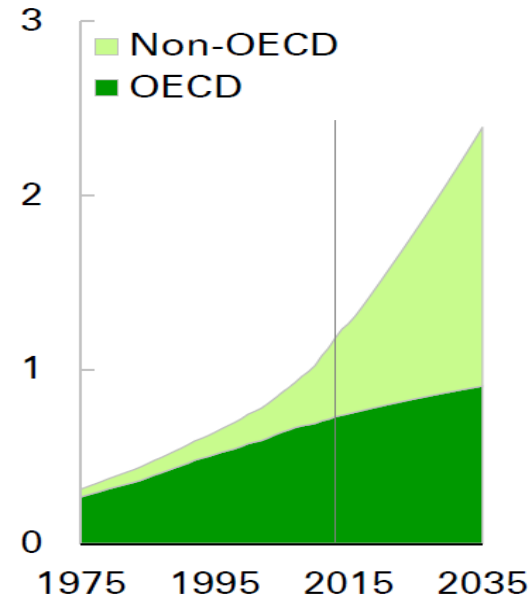
SUV market is expanding... again



The global vehicle fleet more than doubles in 15 years

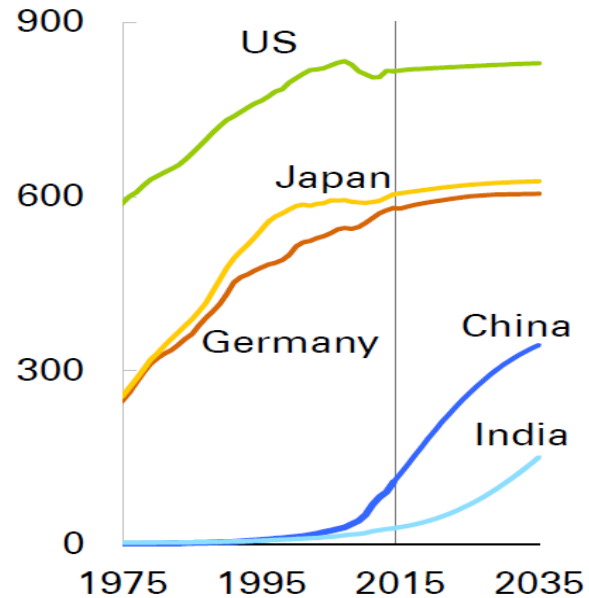
Vehicle fleet

Billion vehicles



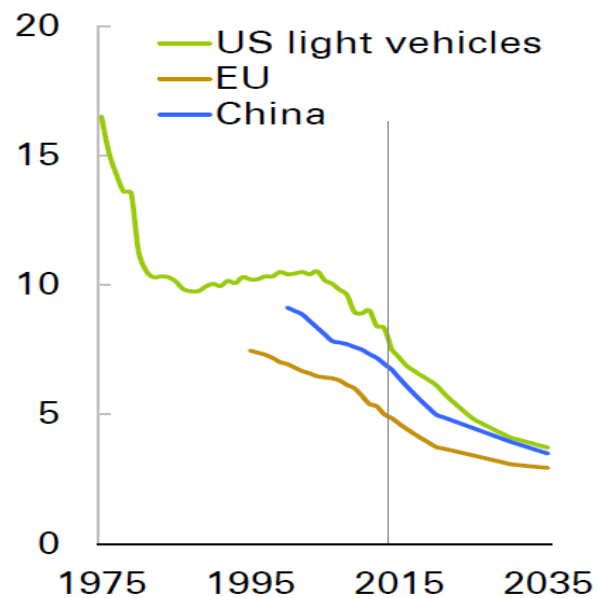
Vehicle ownership

Vehicles per 1000 people

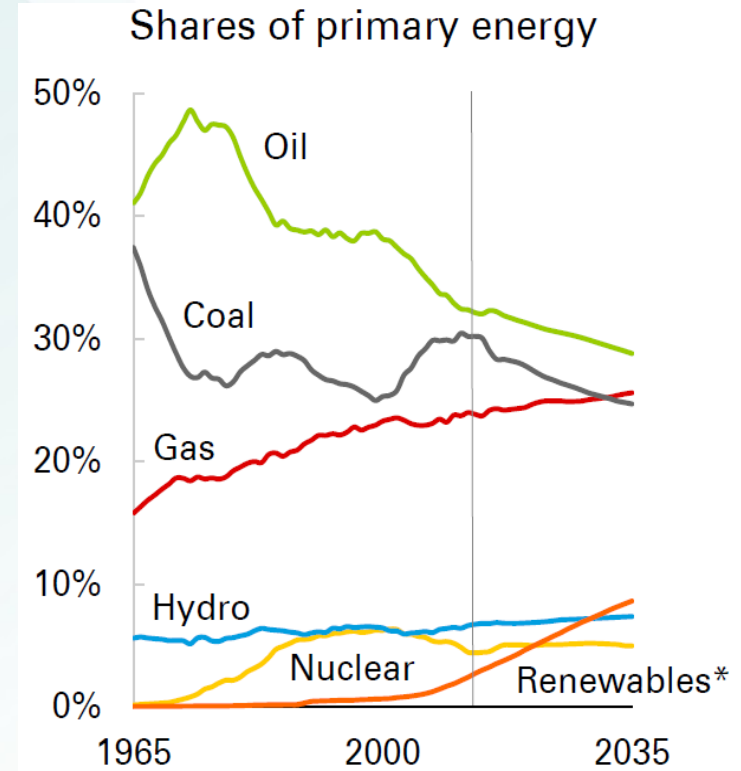
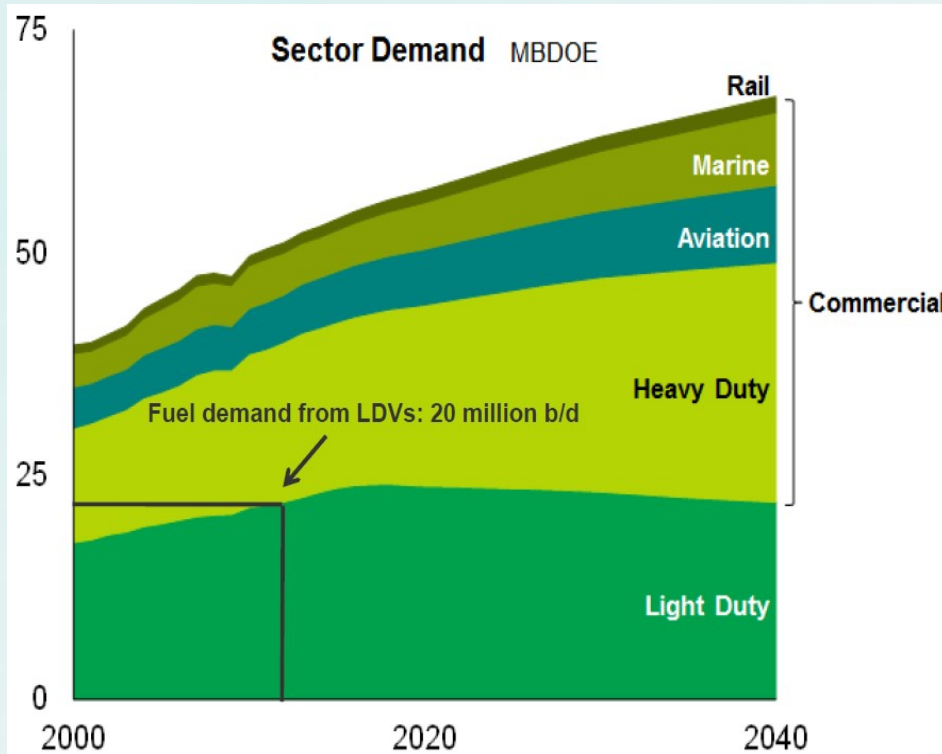


Fuel economy of new cars

Litres per 100 km



Current Fuel Demand from LDVs – about 20 mio b/d



Long term oil price outlook – the new normal?

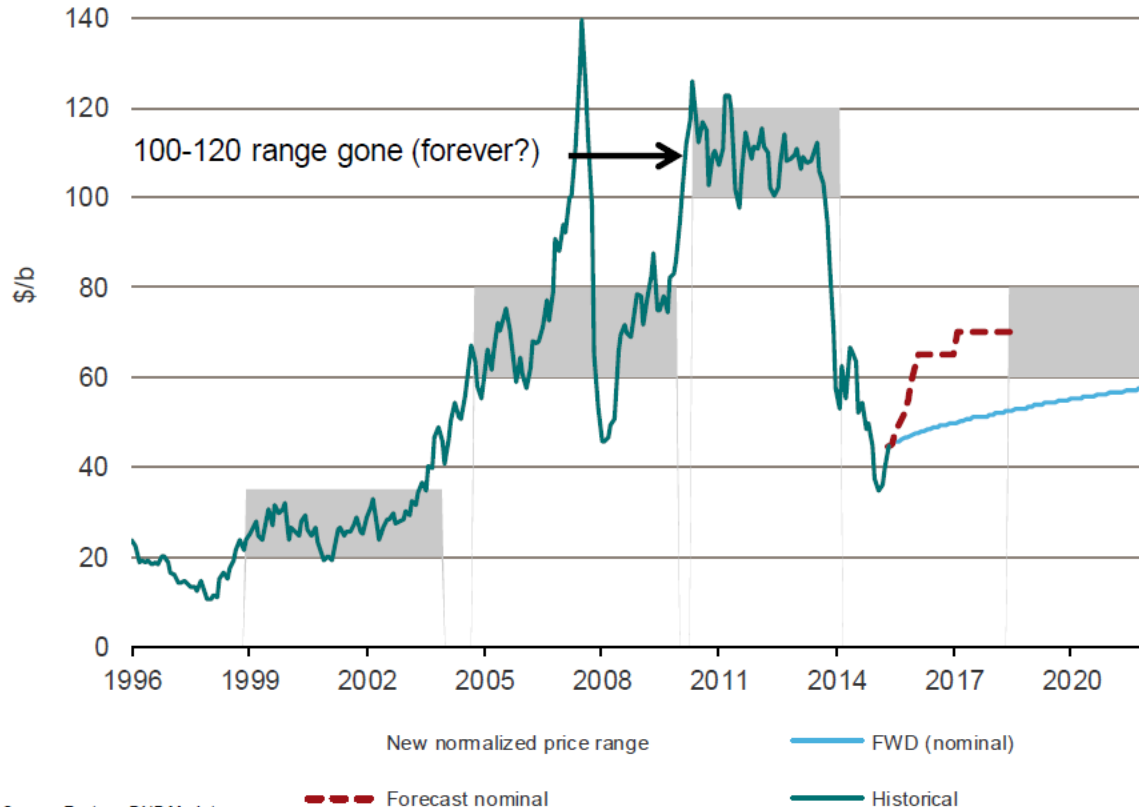
Historical Nominal \$/b

| | |
|------|-------|
| 2001 | 24.4 |
| 2002 | 25.0 |
| 2003 | 28.8 |
| 2004 | 38.3 |
| 2005 | 54.5 |
| 2006 | 65.1 |
| 2007 | 72.4 |
| 2008 | 97.3 |
| 2009 | 61.7 |
| 2010 | 79.5 |
| 2011 | 111.3 |
| 2012 | 111.7 |
| 2013 | 108.7 |
| 2014 | 99.5 |
| 2015 | 53.6 |

Price target Nominal \$/b

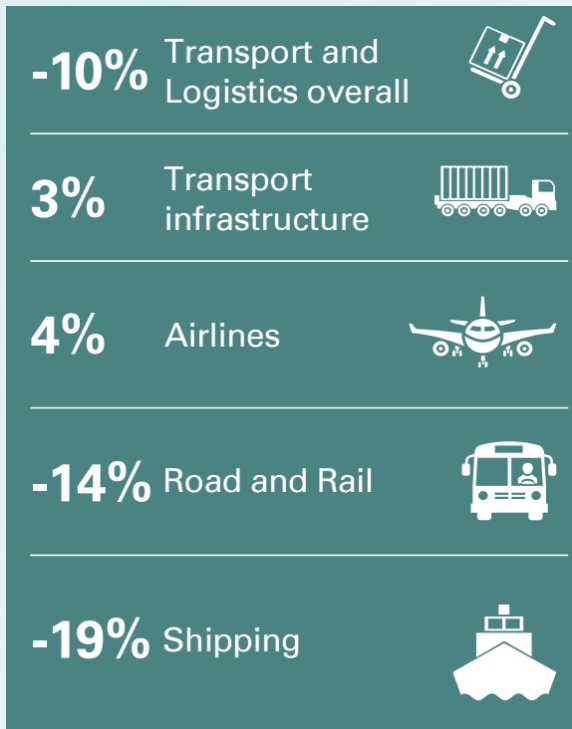
| | |
|-----------|-------|
| 3 months | 45 |
| 6 months | 55 |
| 12 months | 65 |
| 24 months | 70 |
| 2019-2023 | 60-80 |

Spot Brent History & FWD looking



Source: Reuters, DNB Markets

Implications on the transport sector



- The world is stuck in a low-growth trap, global foreign trade is fragile and demand for services remain weak
- Additional risks from refugee crisis, defragmentation, stronger protectionism movement, geopolitical barriers
- Widening supply-demand imbalances and competition
- Transport firms shares are falling, exc. for airlines and infrastructure firms
- From supply chain fragmentation to merges and acquisitions and restructuring efforts

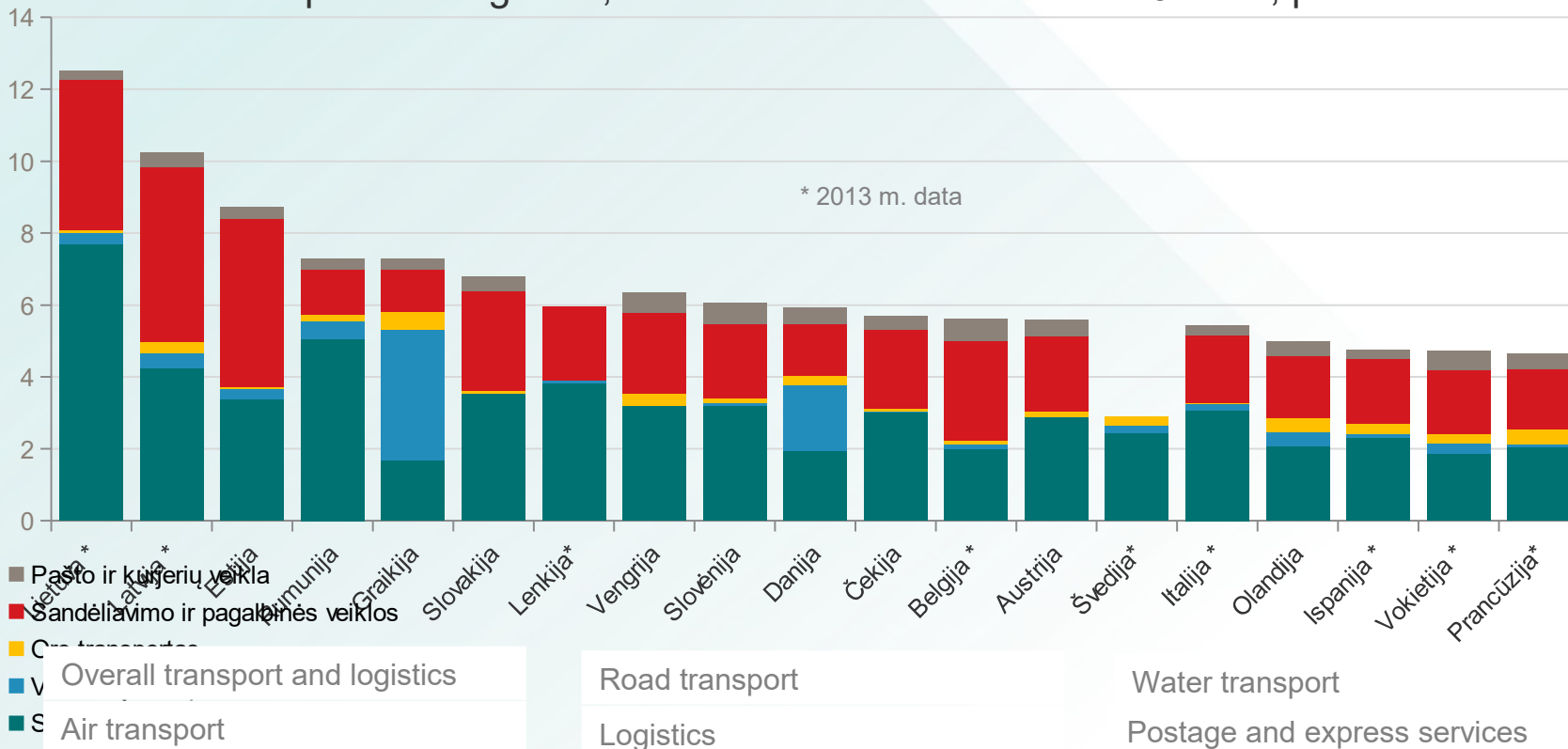
TRANSPORT AND LOGISTICS IN THE BALTICS

DNB



The importance of the sector in the Baltics is the highest among EU countries

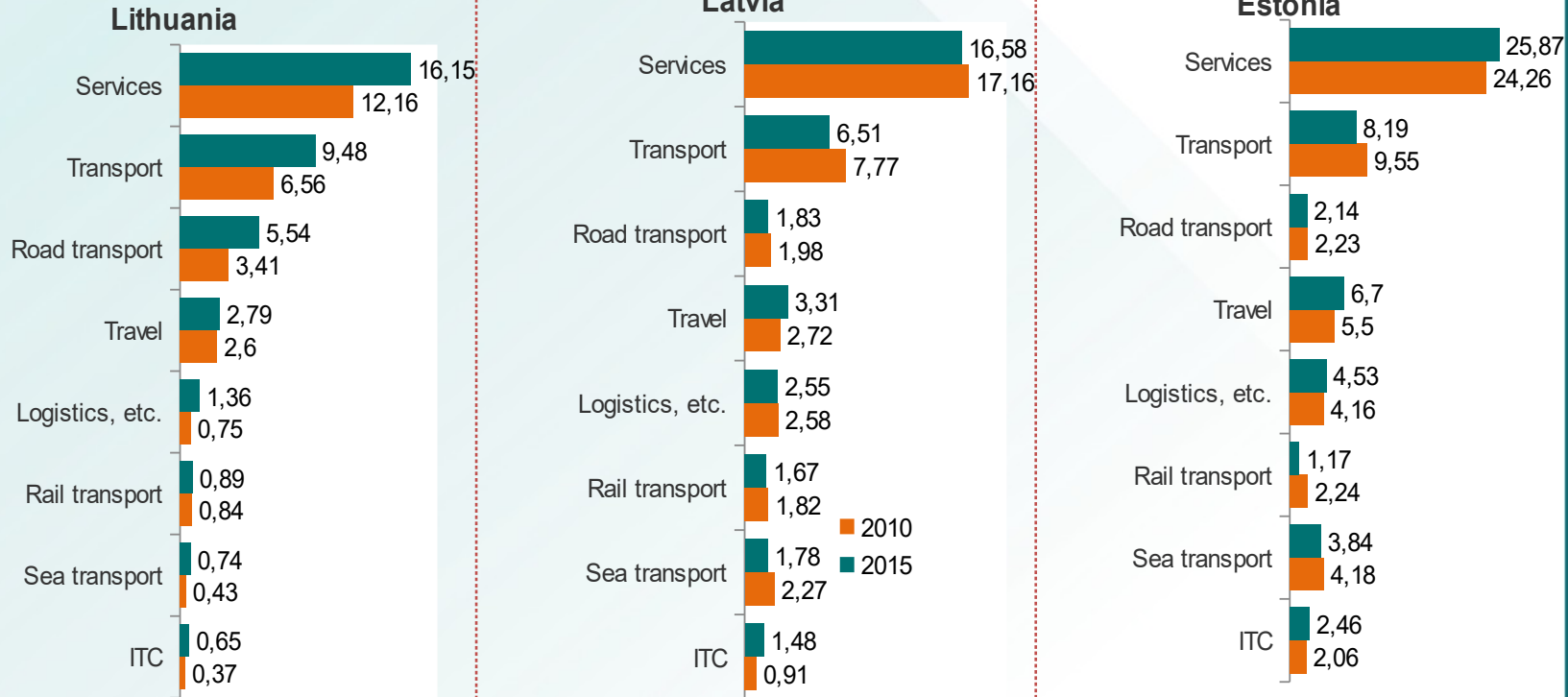
Transport and logistics, share in total value added in 2014 m., percent



Source: Eurostat

Transport and logistics sum up to more than half of all service exports

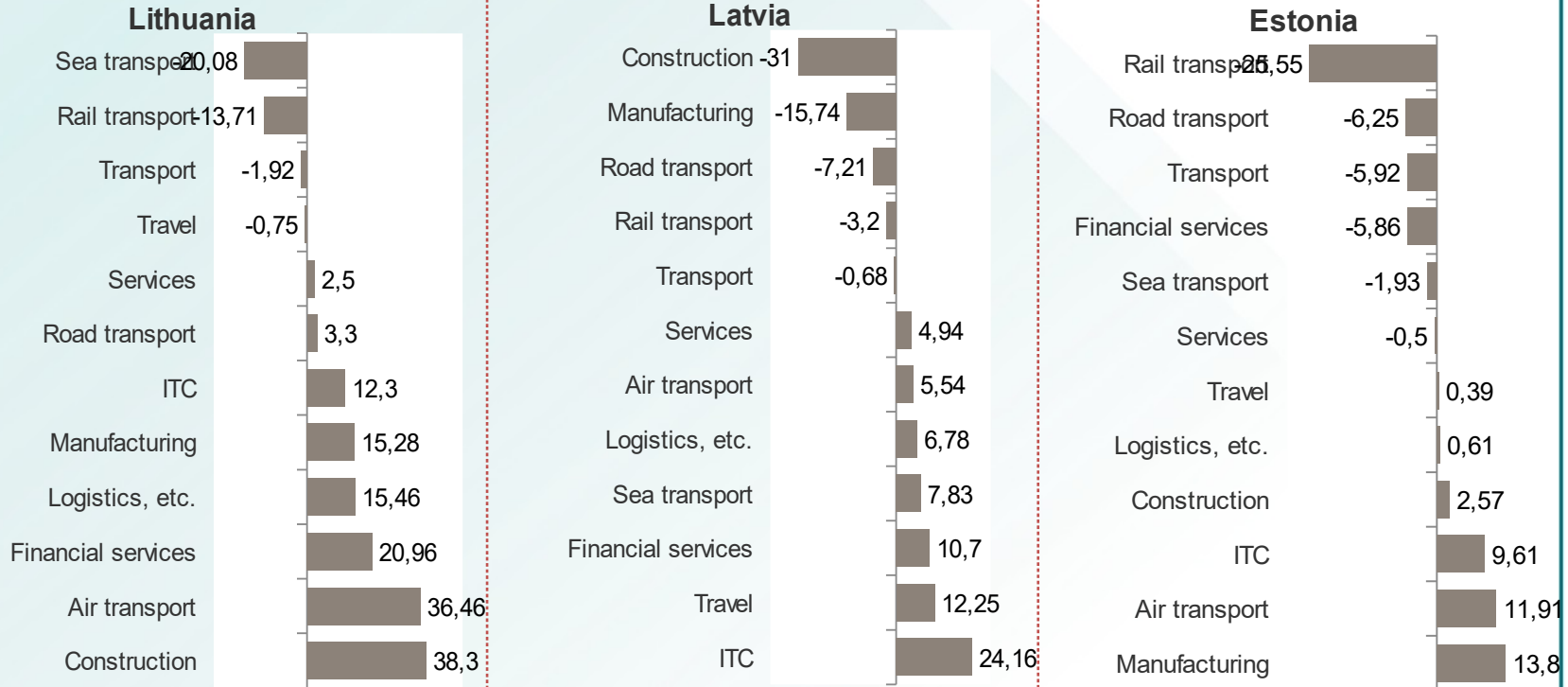
Invisible exports, percent of GDP



Source: Eurostat, national central banks

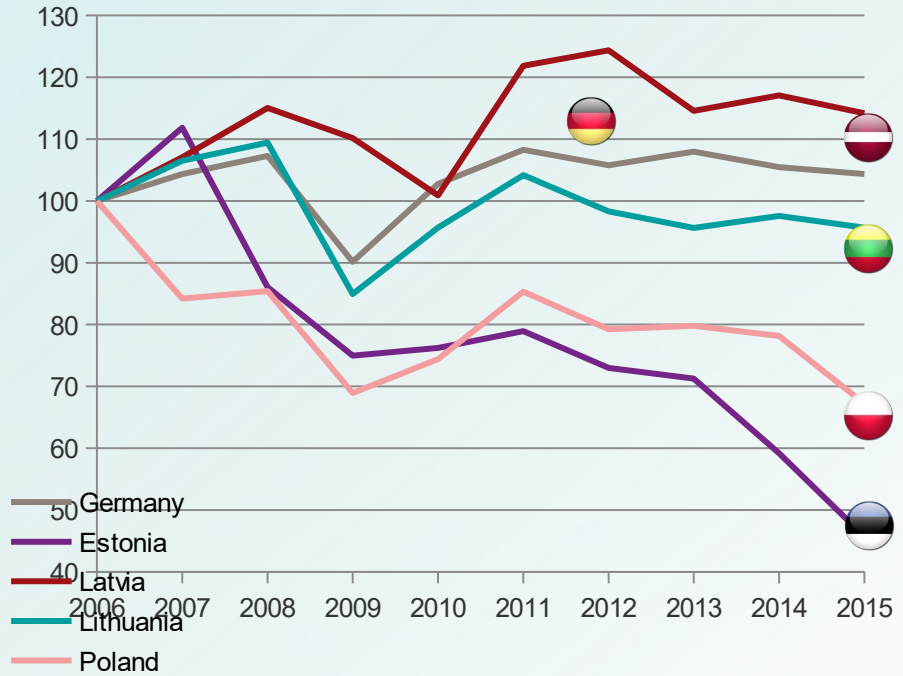
Harsh year for sea, road and rail transport...

Invisible exports in 2015, annual change, percent

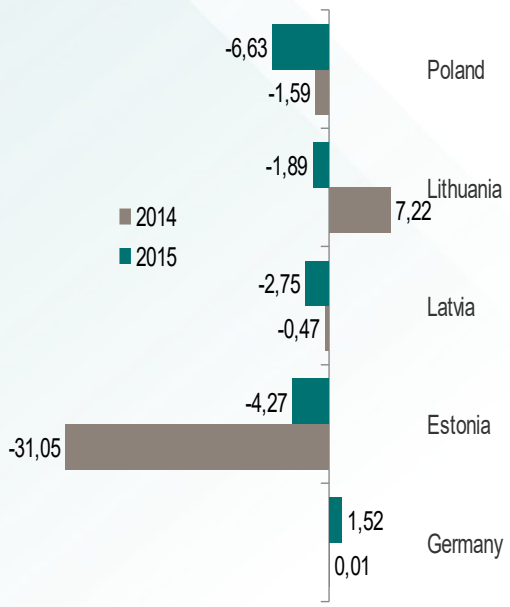


Last year were challenging for railways

Goods transported by railway, 2006=100

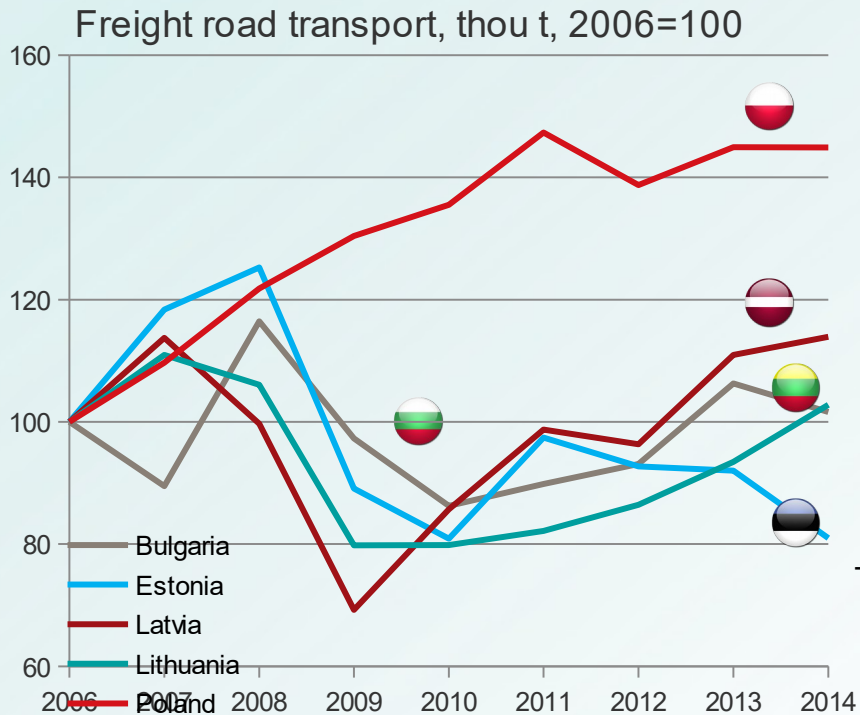


Goods transported via railway, million tkm, annual change, percent

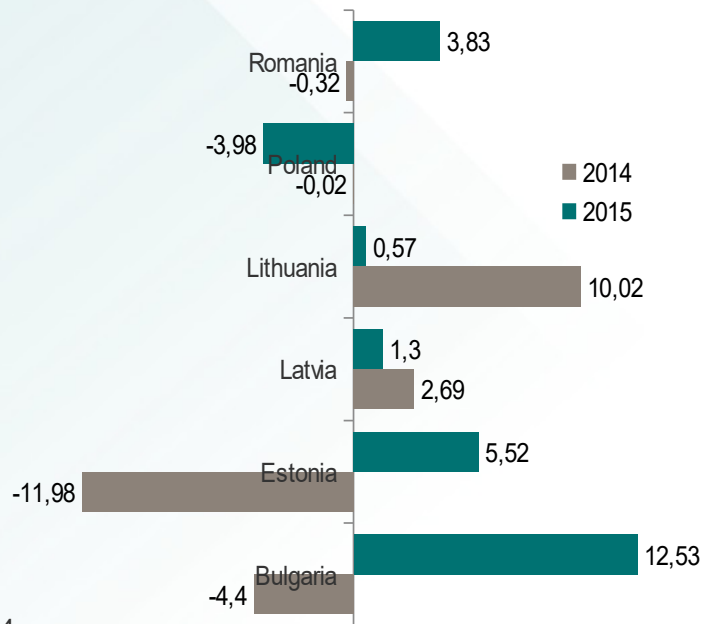


Source: Eurostat, national central banks

Road transport shows exceptional resilience

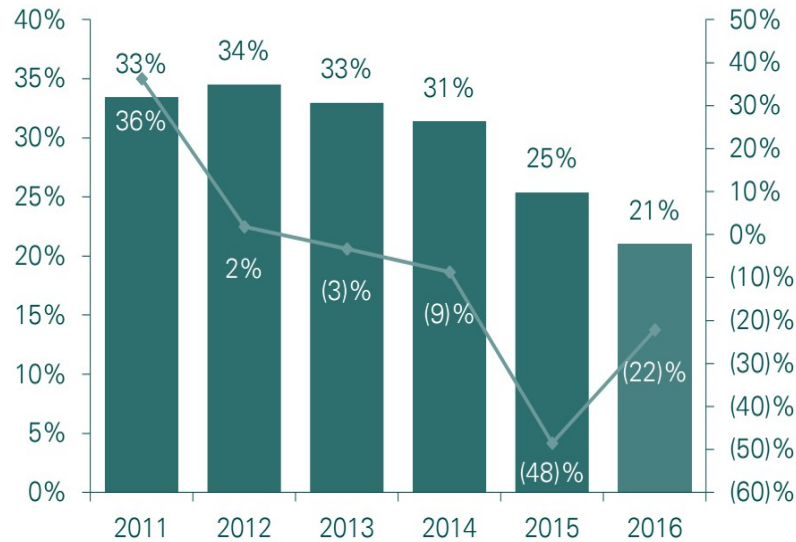


Goods transported by road, thou t, annual change, percent



Strong momentum for global air passenger, not freight traffic

Fuel prices as percentage of airlines expenses

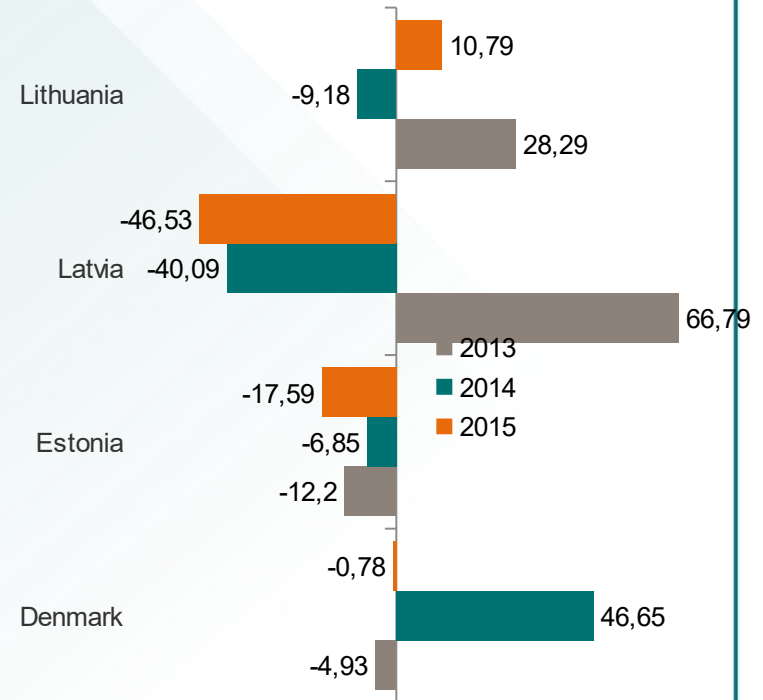


Fuel as % of expenses
 Fuel price % change YoY

Note: Financial assessment is based on a subset of global airlines and does not represent individual performance

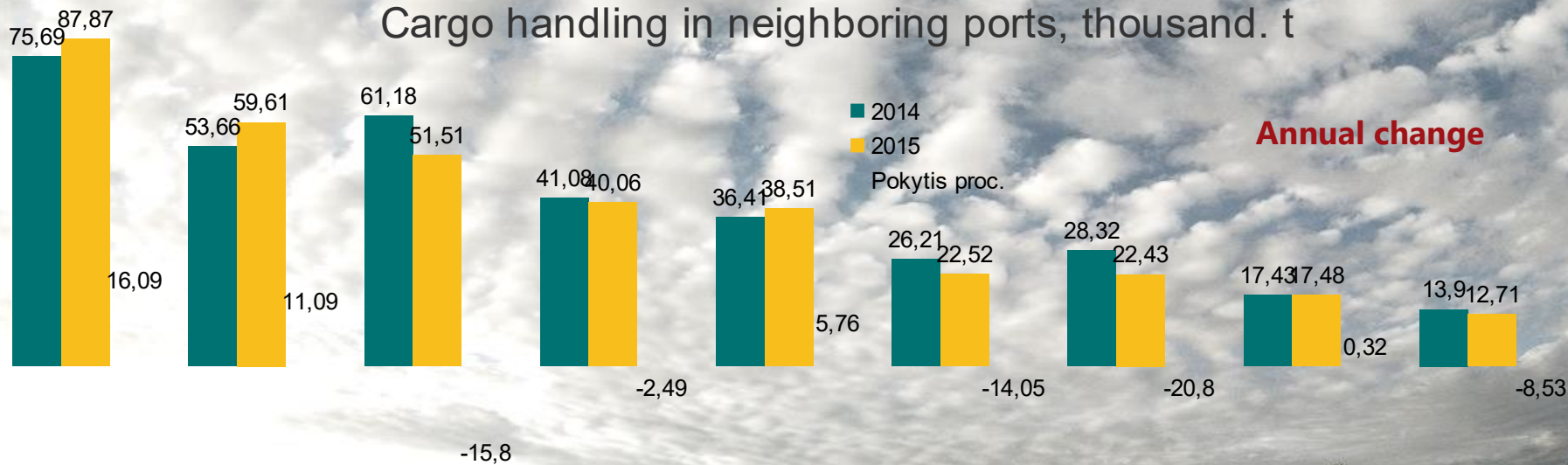
Source: KPMG Analysis, The Airline Analyst, OPEC, IATA

Air freight/mail in t, annual change, percent



Russian ports put a lot of pressure on Baltic peers

Cargo handling in neighboring ports, thousand. t



Challenges and opportunities

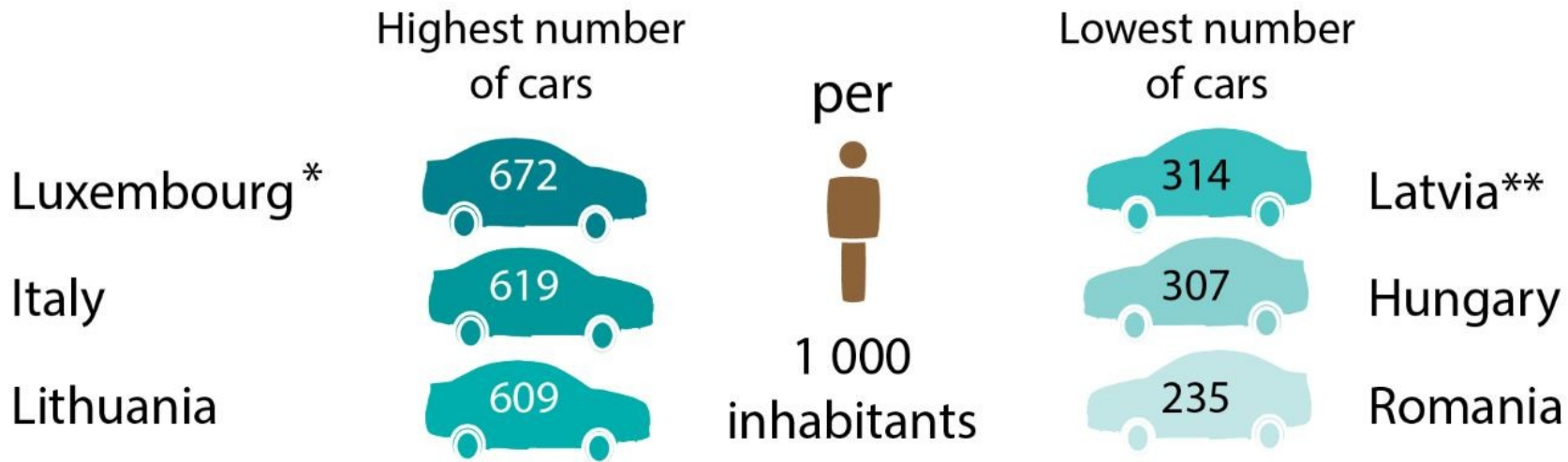
Challenges:

- **The unfavorable external environment:** after several years of continuing growth, world trade is entering a new phase. Redeployment of forces in the global market and lower oil prices do not promise a quick recovery in oil-exporting countries.
- **Fierce and increasing competition,** particularly in the field of shipping, **excess investment.**
- **Rising costs, incl. labour costs and tight labour market.**

Opportunities:

- **Gradual recovery.** Accommodating ECB's monetary policy stirred loan market and contribute to increasing domestic consumption in the region, globalisation of services. Russia is bottoming out.
- **The oil market does not promise quick fuel price hikes.** Cheaper commodities require smart investment and higher efficiency.
- **Growing online / mobile commerce, Big data** will contribute to growth and higher productivity.

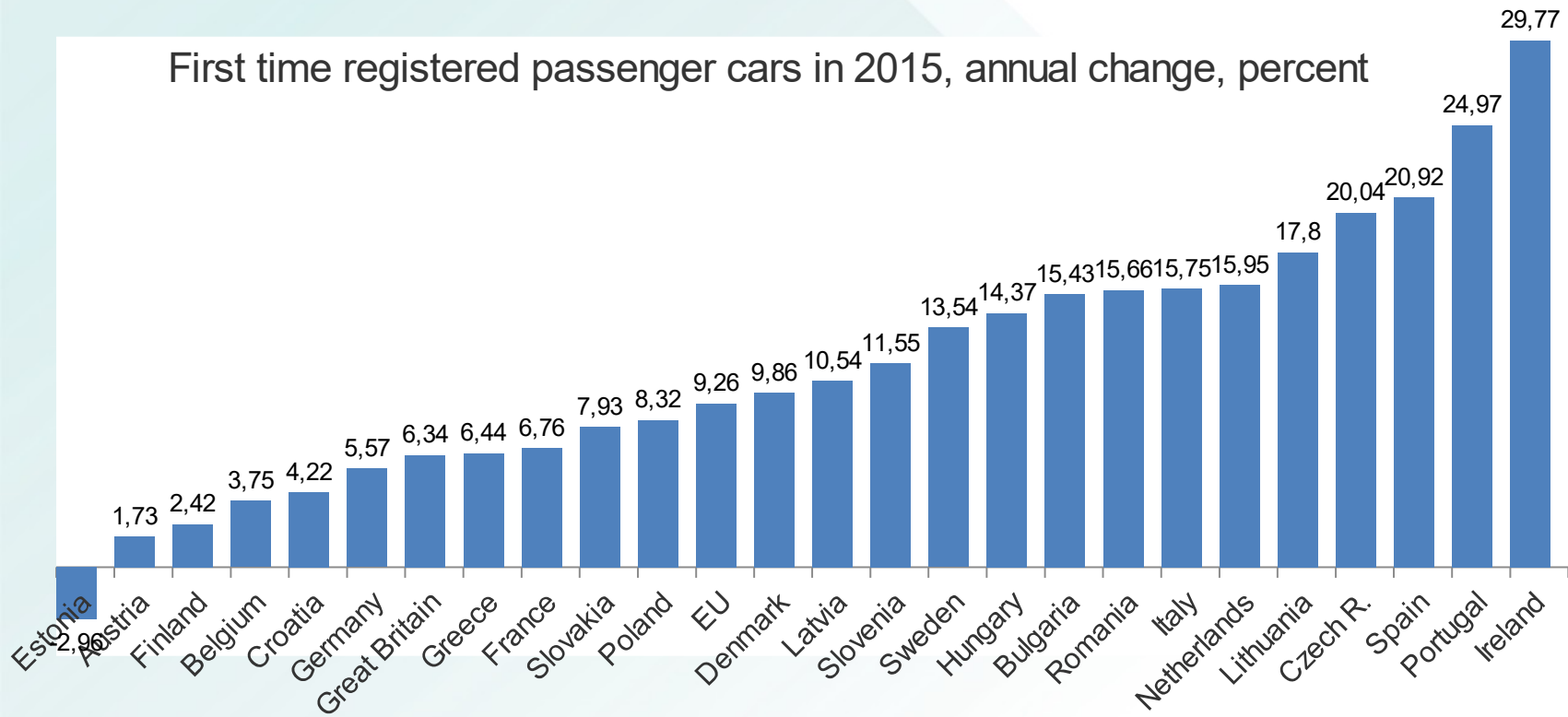
Motorisation level in the Baltics diverse



* Įskaitant kitų šalių piliečių automobilius įregistruotus šalyje ** neįskaitant automobilių, nepraėjusių tech. aptarnavimo per pastaruosius 5 m.

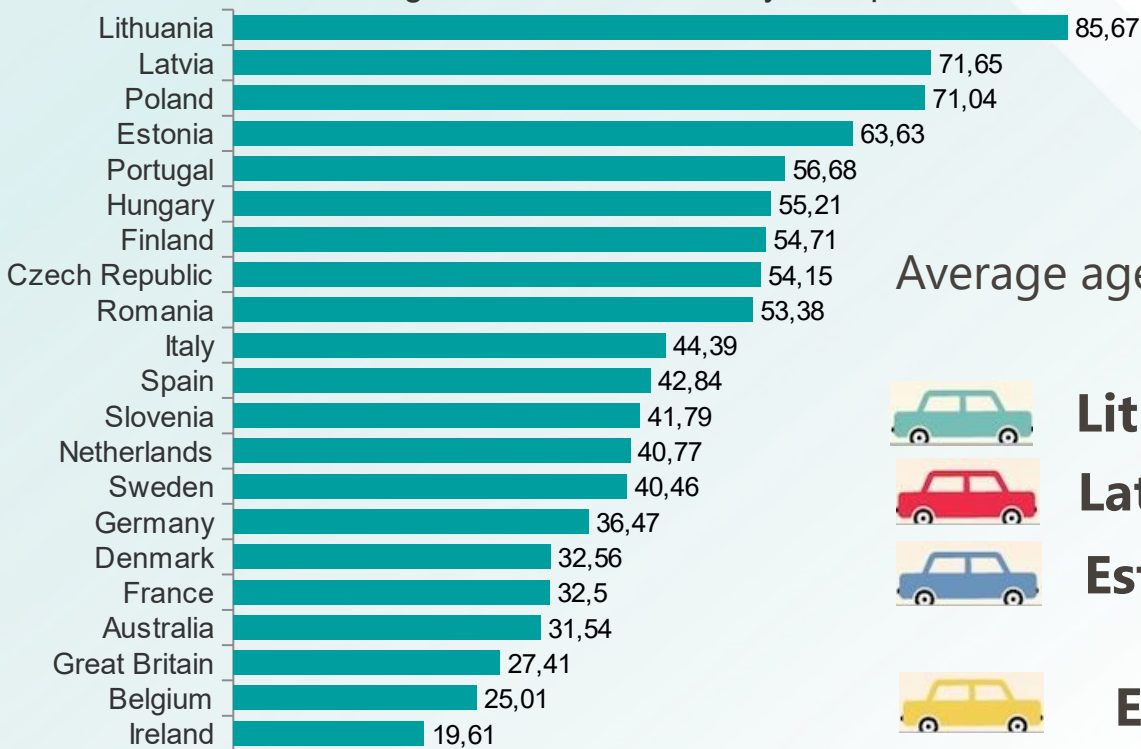
The number of cars was rising last year, except for EE

First time registered passenger cars in 2015, annual change, percent



However, the quality of the fleet is sour

Passenger cars older than 10 years, percent



Average age of passenger cars fleet



Lithuania – 15 years



Latvia – 13.5 year



Estonia – 12 years



EU – 9.6 year

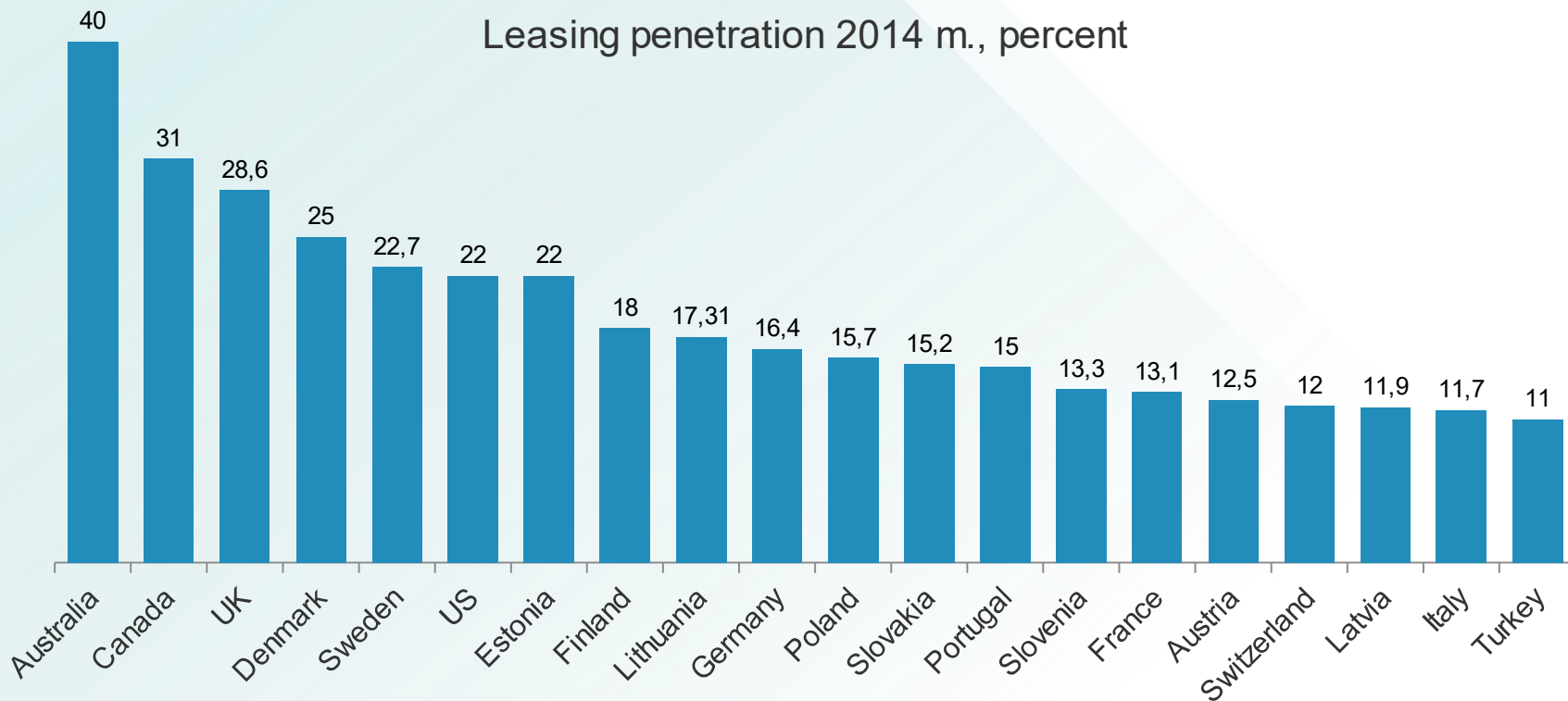
AČIŪ už dėmesį!



DNB banko analitikų apžvalgas galite rasti:

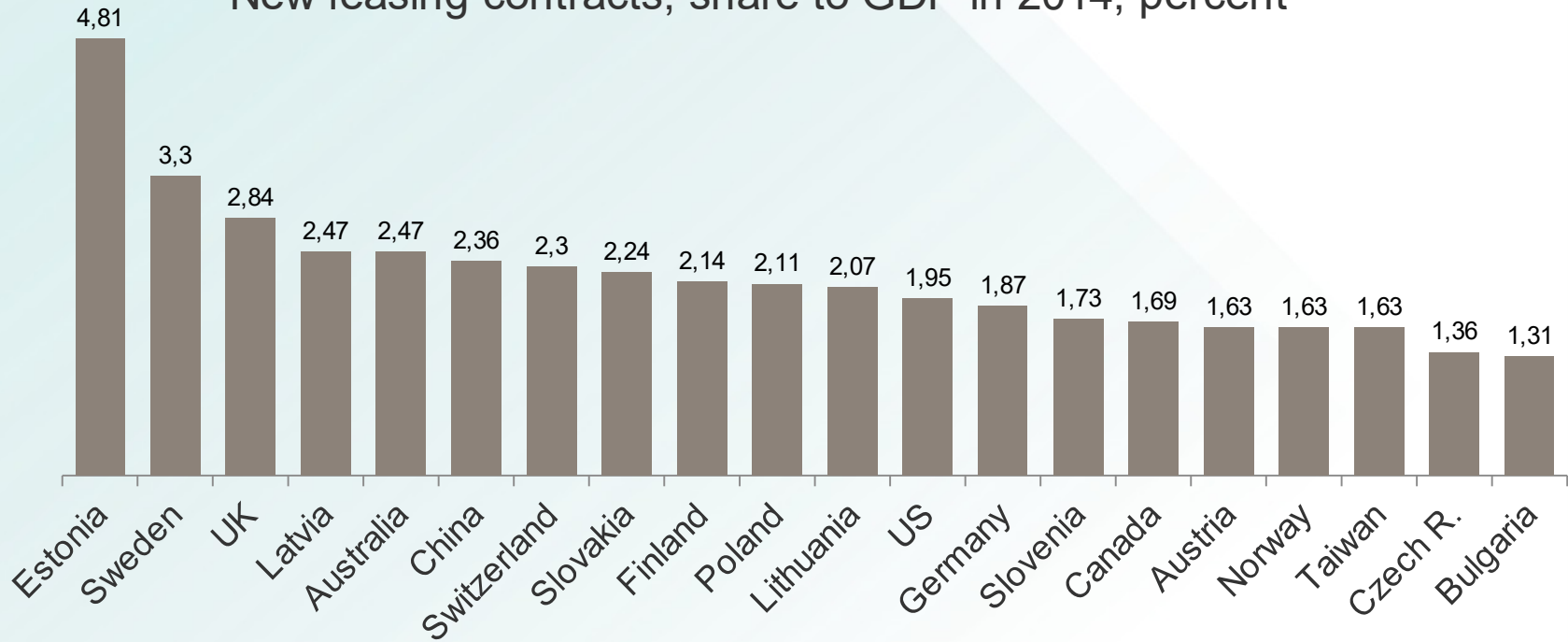
www.dnb.lt/apzvalgos

Estonia has 7th world highest leasing penetration level

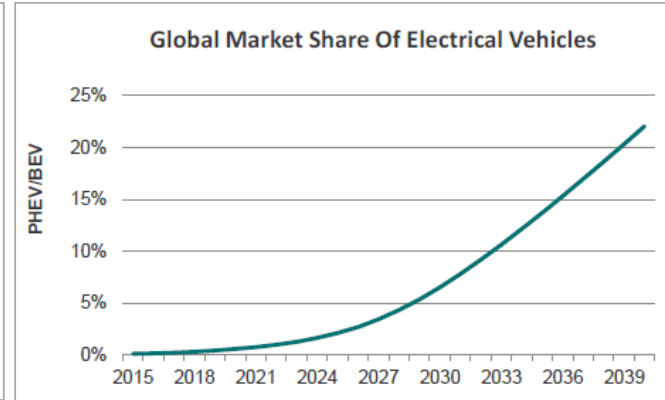
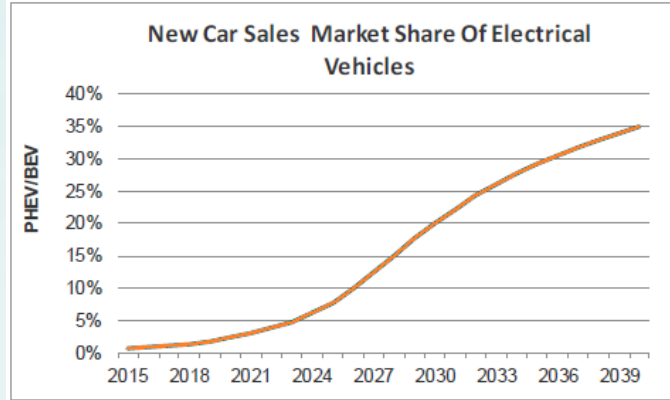
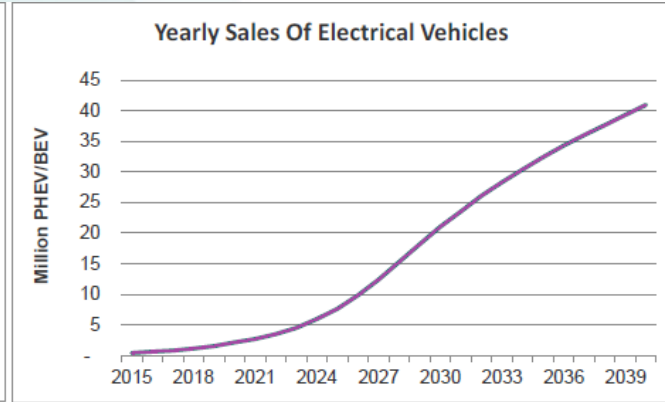
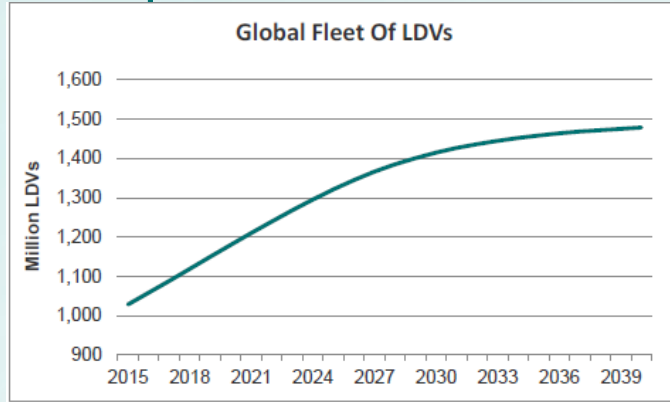


High leasing to GDP ratio shows the maturity of the service

New leasing contracts, share to GDP in 2014, percent



Aggressive sales of electrical vehicles, yet the share still below 7 percent in 2030



Some important obstacle for quicker uptake of EVs

