INVESTOR ALERT

Issue 29

DAVENPORT
LAROCHE

FOCUS ON TRANSPORT
CHINA'S TRANSPORT

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It has been a busy few months for the transport industry across China, with strong expansion in global trade helping boost the world's largest exporting nation. Underpinned by comprehensive investment and openness to globalisation, the Chinese transport sector is booming. This month's Investor Alert will keep you up to speed with the latest developments.

11.3%
YEAR-ON-YEAR

$42.8 billion

The latest figures highlight the strength in Chinese trade. Over June, the country's total exports grew 11.3% year-on-year, representing a strong uptick in activity. China's trade surplus over the month was $42.8 billion, higher than expected. Chinese trade has been steadily building steam over 2017 as international activity picks up. This is supporting the transport sector and China's economy widely.

Recent months have seen yet more progress for China's high-profile One Belt-One Road (OBOR) project. Spanning road, rail, and sea and air, China's Ministry of Transport has announced that the scheme has heralded more than 130 bilateral and regional transport agreements over the past three years. Overall, the country has opened over 350 international road routes, facilitating previously unimaginable trade opportunities.

The ambitious OBOR project was given another timely boost with Japanese Prime Minister Shinzo Abe announcing his intentions to cooperate with the strategy. Speaking in July at a talk with the Chinese President Xi Jinping, Abe spoke positively of a bilateral trade agreement. This gives more support for the project which has driven infrastructural spending across the region.

China has also been investing heavily in Europe, aiming to strengthen trade ties with the world's largest trading bloc. China has funded key gateways to the European market, including the Greek port of Piraeus, operated by Chinese shipping firm Cosco. China has also backed investment in the modernisation of the Belgrade-Budapest railway and the construction of the Bar-Boljare motorway. While such investments might seem far from home, they represent key corridors for Chinese trade and are likely to pay dividends over the coming years.

Another exciting project stemming from China is the $1 billion deepwater megaport and container terminal along the Panama Canal. Construction has now begun on the high-tech deepwater port, owned by Chinese firm China Landbridge. When completed, the port will help deliver China's goal to double the capacity of the Panama Canal, currently able to handle 14,500 TEU (twenty-foot equivalent units). The move is yet more evidence of China spreading its trading network and integrating more nations into its bold plans; such investments can only be positive for international trade.

X2 PANAMA CANAL'S CAPACITY

Tapping into demand chains through central Asia, a Chinese seafood distributor has opened a new supply line through a port in Pakistan. The firm, Yufei, is taking advantage of considerable Chinese investment into the port of Gwadar, situated on the Arabian Sea in Balochistan, Pakistan. While the port currently excels in food shipping, the large capacity of the hub means greater diversity may be on its way. Such infrastructure boosts both Chinese trade activity and the freight shipping sector.

PROFIT FROM CHINA TRADE BOOM BY TRADING CONTAINERS

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These Chinese megaprojects and many others have created a spike in the demand for shipping containers, particularly from Chinese container lines and leasing companies. This has caused shipping companies to frantically search for unused, available containers at ports worldwide. One such region where containers are waiting for redeployment is Brazil in South America.

Just a few years ago, Brazil was heralded as one of the fastest growing BRIC [Brazil, Russia, India, China] economies. The emerging market was selling vast quantities of raw materials and commodities to China, and establishing strong economic growth. Moreover, there was bustling trade between Latin America and other emerging areas, where there was a demand for some perishable exports from Brazil. At the beginning of 2016, container spot freight rates between Shanghai (China) and the Port of Santos (Brazil) languished at a sub-market rate of US$600 (or less) per FEU. This forced carriers to reassess their participation in South American trade. The challenges were attributed to falling demand, thanks to the deepening Brazilian recession. In fact, according to Drewry, demand for Brazilian exports has declined by approximately 28% year-on-year. This has left a surplus of empty shipping containers at South American ports.

The situation in Latin America and China is an ideal opportunity for investors to capitalize on China trade boom and Brazilian surplus by trading containers. Below Davenport Laroche explains how.

BUY LOW
IN SOUTH AMERICA

DEMAND LOW

Check the article

The trade declined year-on-year by around 28%

SUPPLY HIGH

Panama Canal containers

PRICE LOW

$2000

SELL HIGH
IN CHINA

DEMAND VERY HIGH

Check the video

China's Future Mega Projects (2016-2050's)

SUPPLY LOW

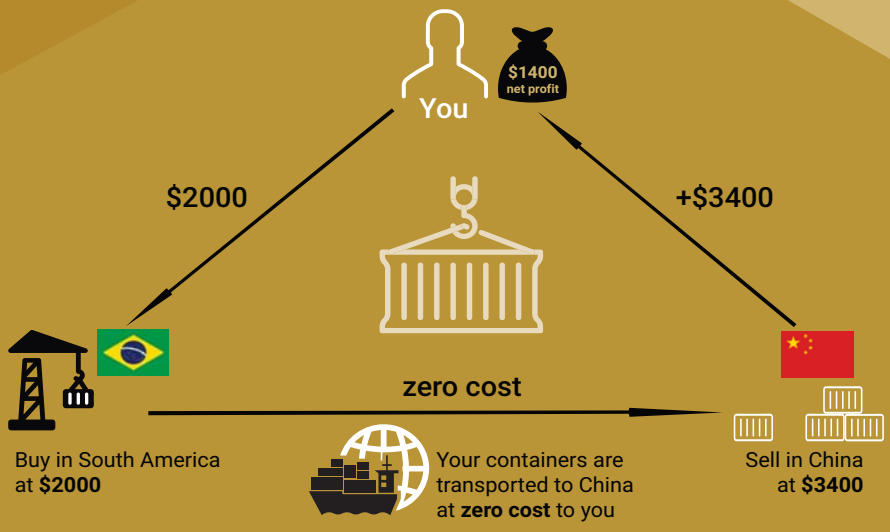
Check the article

70% of container production capacity in China has been shut down due to the factories' retooling

PRICE HIGH

$3400-$3550

YOUR CAPITAL CYCLE



LATEST TRADE DEALS

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Recent months have not only seen China's trade picking up pace, but the country has also been proactive in promoting future growth. A number of high-profile agreements highlight China's bold ambitions to further strengthen their rapidly expanding transport sector. As a key regional and global trade base, such policies are likely to reinforce the freight industry worldwide.

Perhaps most prominently, in recent days, Chinese shipping giant Cosco have agreed a takeover of Hong Kong's Orient Overseas Shipping Line (OOIL). OOIL had previously been the seventh largest global shipping firm, holding around 3% of the worldwide market. The deal, worth around $6.3 billion, will see Cosco become the world's third largest shipping company, with more than 400 vessels. Just months earlier, OOIL revealed the world's largest container ship, the OOCL Hong Kong, and the takeover is a signal of the growing Chinese shipping sector. Corrine Png of Crucial Perspective said "in a few short years, Cosco could be the largest player in the world".

China's global trade ambitions are also higlighted by ongoing talks for a free trade agreement with Mexico. Qiu Xiaoqi, China's ambassador to Mexico, has spoken in the country about a potential deal. Such an agreement would embolden an already strong relationship with Mexico, currently China's second-largest trading partner in Latin America. With Mexico keen to cut ties with the increasingly protectionist USA, such a deal may be mutually beneficial to both countries.

As well this, China recently launched a huge $10 billion co-investment strategy with the Russian Direct Investment Fund. The project is aimed at progressing transport infrastructure to meet China's trade goals and promote interaction across the Asian-European region. President Xi's visit to Moscow in July underlined joint-opportunities to open new trading corridors to China's landlocked northeast provinces. Analysts predict these shorter routes could save freight transporters up to $700 million a year.

Finally, in another promising move, Airbus penned a $23 billion deal to sell 140 aircraft to China. The multinational aerospace giant said the terms were agreed during a recent meeting between Airbus CEO Tom Enders and Xi Jinping. The deal will strengthen China's aerospace sector, a timely move as air freight continues to grow strongly in 2017. According to the latest data from IATA, air freight rose annually by 12.7% in May, more than three times the average growth over the last five years.

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and this video to know more.

Container owners who position their units in the area of Tianjin Port will reap high benefits.

Chinese infrastructure projects
Check Businessinsider.com
and this video to know more.

China is in the midst of a construction spree unparalleled in human history these are the mega projects that will lift China into the future.

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