SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

NOVEMBER 2017

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2017 | NOVEMBER

NOVEMBER 2017: RATE ENVIRONMENT AND OCEAN CARRIER NEWS

OCEAN CARRIER UTILIZATION STATS

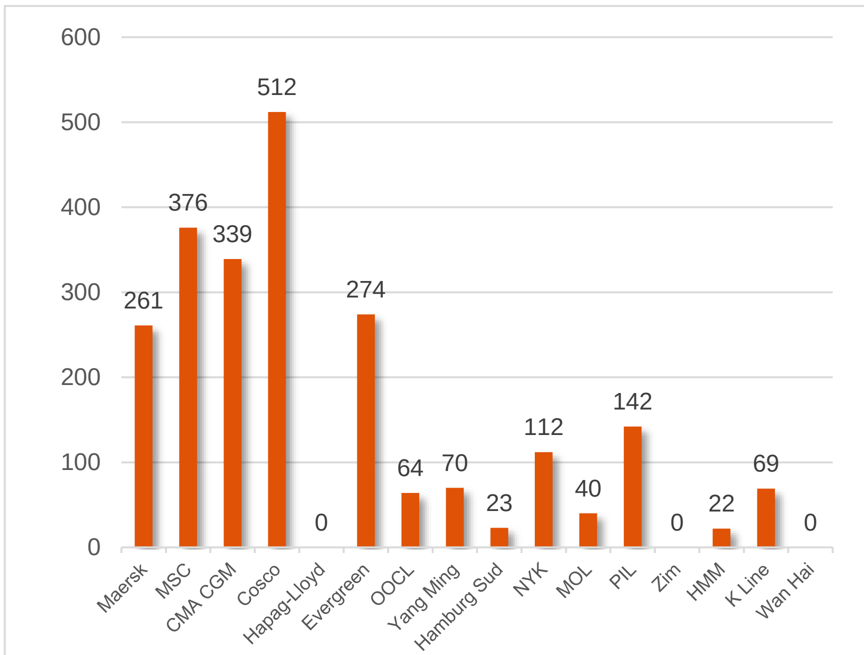
For late October/early November sailings, ocean carriers reported a robust 95% overall vessel utilization factor for the US West Coast and a widely variable 85-92% for the US East Coast, which enjoyed a nice uptick the last week of October.

The following broad measures of demand are all up for 2017:

- Global GDP Forecast: 3.7% increase
- Global Shipping Volume: 6.0% increase
- Chinese Export Volume: 9.1% increase
- US Import Volume: 7.1% increase

While demand recovery in 2017 has created moderate optimism for ocean carriers, the supply overhang and scheduled vessel deliveries have left the carriers vulnerable on the rate side of the equation.

Orderbook by Carrier as of September 2017 (in TEU Thousands)



Rate Environment:

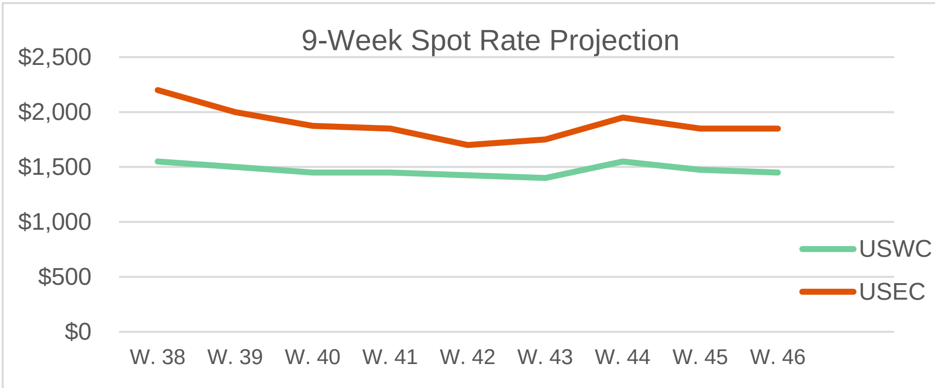
October witnessed an unexpectedly sharp plunge in spot rates, especially to the US East Coast. This highlighted the carriers' excess capacity woes. Despite an overall increase of 6% for global volume (demand), even small reductions in that demand create tremendous and prompt downward pressure on rates. Remember that the overall capacity increase globally is estimated at 8-9% for 2017.

In a pleasant surprise for carriers, demand rose significantly to close October, and this allowed carriers to boost spot rates by roughly $450 to the US East Coast and roughly $350 for the US West Coast. The presumption is that US retailers created this spike as they eyed arrivals just before Black Friday. It remains to be seen if the typical Q4 demand slippage will be as dramatic as it has been in recent years.

Interestingly, ocean carriers have all but ignored the use of blank sailings to quickly adjust market supply. It feels quite likely that ocean carriers are holding this weapon in reserve should demand weaken again in the coming weeks. Also, the industry continues to watch winter deployment configurations to best understand potential shipping windows and supply chain disruptions.

Overall, most experts expect the recent uptick in US spot rates to be short lived. While November doesn't look so bad for ocean carriers, December could easily push us back to early October's spot market which would create $300-$500 savings per container for many US importers.

Here's a glance at the very near future:



Ocean Carrier News:

MSC bested CMA CGM's purchase of 9 x 22,000 TEU new build vessels by ordering 11 of their own. Perhaps fortunately for the market, the vessels will not be launched until 2019-2020. Industry pundits had lauded the steamship industry for slowing purchase pace for mega-vessels in 2017; overall capacity growth has slowed considerably despite the MSC news.

Cosco received the green light from the Federal Maritime Commission on their acquisition of OOCL. The company still awaits approval from Chinese and European authorities.

Hyundai Merchant Marine (HMM) has lost $183M (on -9.5% margins) in the first six months of 2017, despite the industry's strong rebound. As a result, the company announced a rights issue to attract over $600M in new investment. The Korean Development Bank currently holds over 13% of HMM, and it appears clear that that percentage will only increase.

In a similar move, Hapag-Lloyd raised over $400M from a rights issue to their investors. It is believed that the lion's share of the proceeds will be used to repay debts.