SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

OCTOBER 2017

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2017 | OCTOBER

OCEAN CARRIER UTILIZATION STATS

For early October sailings, ocean carriers reported a fairly solid 92% overall vessel utilization factor for the U.S. West Coast and a very mediocre 85% for the U.S. East Coast.

The stories within the story: Volume cascading to the U.S. East Coast has created an almost 20% increase in capacity for that trade 2017 vs. 2016; demand was markedly more sluggish in the last two weeks of September and into early October. The extra loaders in play for the heavy August volumes hurt the carriers a bit in September by swelling overall capacity at just the wrong time.

Total U.S. volume sits at 7% higher YTD for 2017 vs. 2016, but analysts have down-graded the annual forecast to roughly a 5.5% gain.

For BCO's stuck in contracts at rates well above the spot, now is the time to investigate other options for a percentage of your containers.

OCTOBER 2017: RATE ENVIRONMENT AND OCEAN CARRIER NEWS

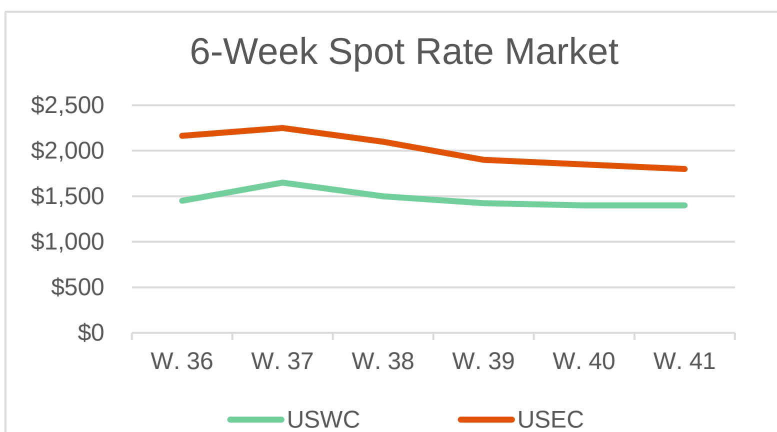
Rate Environment:

It's useful to remember that 7% of the capacity supply dropped out of the market on August 31, 2016 when Hanjin collapsed. This was what kept 2016 from being an unmitigated disaster for the steamship industry since Q4 demand has been weak for going on six years now.

For 2017, demand dropped quickly in the closing weeks of September. The Chinese government's crackdown on polluting manufacturers played a role, as did surging inventory levels for American importers. The problem for steamship lines is that they are scheduled to increase capacity further (although mildly, perhaps 2-3% in Q4) just as demand significantly weakens.

The industry is waiting to see if capacity rationalization (winter deployment) will begin early in 2017 and if blank sailings will be used aggressively as a means of suppressing capacity. Having watched the steamship industry vie more for market share than for spot rate profits, it is hard to imagine hugely aggressive capacity suppression to close out 2017.

Please note the 6-week rate trend per 40' container:



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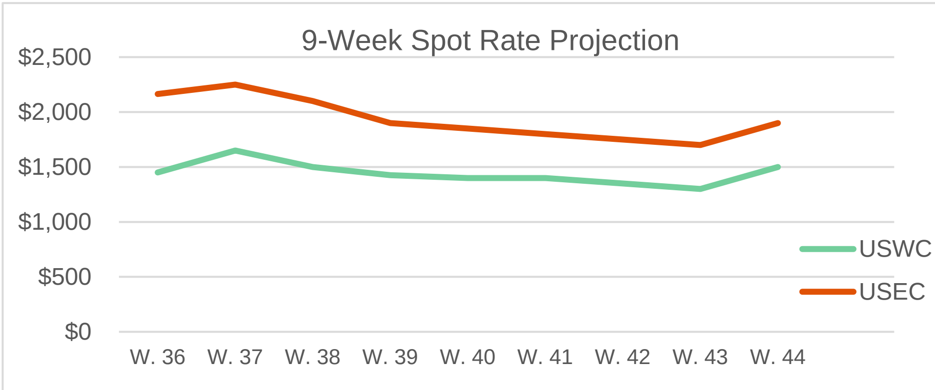
Here's a glance at the very near future:



Ocean Carrier News:

Cosco and PIL agreed to a charter swap of six vessels which further fuels speculation that Cosco may be targeting PIL for acquisition. PIL has a strong book of African business, and Africa is one of the few emerging markets out there. Many pundits believe that PIL is the last ocean carrier likely to be sold for several years.

Maersk received final approval from the Brazilian government for their $4.3B acquisition of Hamburg-Sud. Brazilian regulators were the final obstacle for Maersk in closing this landmark deal.

CMA CGM reported a 6-month profit for 2017 of $320M; the French line cited APL's excellent performance as a highly significant contributor. CMA CGA made headlines with their significant losses in 2016.

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