SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

SEPTEMBER 2017

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OCEAN CARRIER UTILIZATION STATS

For August sailings, ocean carriers reported a robust 97-98% vessel utilization factor for the US West Coast and just about 95% for the US East Coast. To protect recent market share gains and to bolster overall service for US retailers, many carriers have deployed "extra loaders" on a lease basis to manage weekly volume surges; this charter space can be acquired at very low relative cost after historically low recent demand for charter vessels. Many analysts see the injection of extra loaders as a key reason rates have been so stable for almost three months now.

As shippers prepare for the Golden Week holiday beginning October 1, it is expected that many ocean carriers will flirt with 100% utilizations with cargo rolling a real possibility in mid to late September.

Additionally, the final Christmas volume push will take shape in the next several weeks. Expectations from ocean carriers are that the demand for space will outstrip capacity for at least a month beginning in September.

Total global volume sits at 6% higher YTD for 2017 vs. 2016, and the volume spike on the Asia-US trade is closer to 10% (which nearly mirrors the uptick in the value of Asia-US imports for the same timeframe).

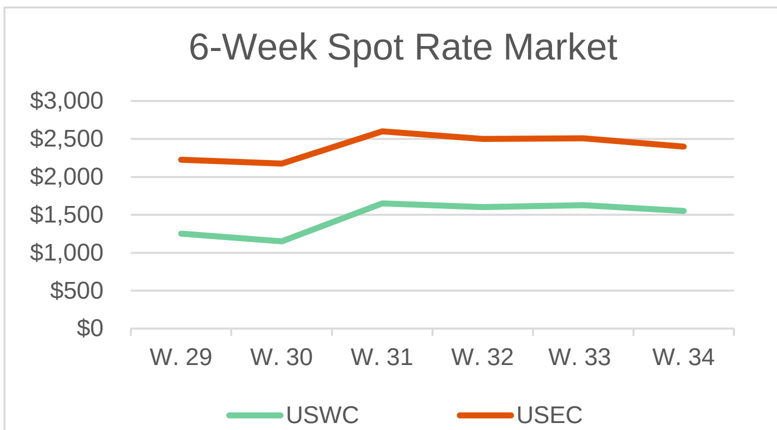
Shapiro/M&R will keep a close eye on vessel utilization factors/market demand as we enter the heart of the Peak Season. Despite utilizations, the ocean carriers very high much have their eyes on market share, and this often gives us smart buy opportunities.

SEPTEMBER 2017: RATE ENVIRONMENT AND MOTHER NATURE

Rate Environment:

It almost defies logic, but the overall spot rate trending indicates a modest drop in rates as demand surged in August. While this can be partially explained by the expectation of a 7% global expansion in capacity for 2017, it is much more about market share. Having pulled in the Hanjin cargo while witnessing a global demand increase of 6% (the best in six years), the carriers then pulled some cargo away from Maersk while that carrier struggled with its infamous cyber-attack.

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



The name of the game in August and early September is protection of market share gains. It also seems clear that per unit cost numbers are in decline as larger, more-efficient vessels are operated more strategically within better-managed alliances. This combination of factors allows carriers to remain content with spot rates hovering at about $100-200 above contract rates. From a buyers' perspective, it doesn't hurt that Maersk is fighting back to reclaim lost market share by offering aggressive rates.

All eyes are on the September 15th GRIs and Peak Season Surcharges. It feels unlikely that the current near-equilibrium between demand and supply can continue.

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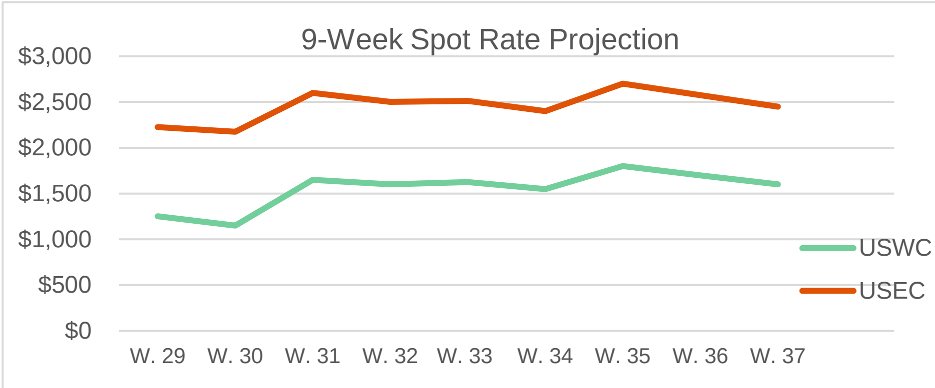
The combination of Golden Week supply chain disruptions and the final US holiday cargo push will likely push spot rates up by $200-$800 in the near future. If the current greed for market share dominates the market, we'll be closer to $200-300 increases.

Here's a glance at the very near future:



Mother Nature:

Hurricane Harvey made landfall on August 26th and overstayed his welcome by almost a week as Houston's massive transportation gateway was completely shut-down. The airports, sea terminals, rail hubs, and roadways were rendered utterly useless in the aftermath of historic flooding. As steamship lines scrambled to re-route vessels to alternate ports, there were many rumors of resulting rate increases. To date, the carriers have only imposed fees on re-routed containers to cover additional transportation costs. The trucking industry, however, is expecting equipment and capacity shortages for months as 10% of US truck power is expected to be deployed in Texas and Louisiana.

Hurricane Irma follows just behind Harvey and is expected to make landfall in Puerto Rico on September 6th and in Florida by the 9th. As of today, Irma is a Category 5 storm with sustained winds of 180 mph. The combination of Harvey and Irma will cripple the US trucking industry and could easily cause huge price hikes for domestic freight. From the ocean cargo perspective, transit times, port congestion, imposition of surcharges, and likely cargo dislocations will create tremendous costs for importers. The longer-range effect on ocean rates is currently unknown.

Rest of 2017 Rate Outlook

Since the end of contract season in May, the Transpacific ocean market has been relatively stable and nearly flat in July and August (with the usual pattern of rates declining after GRIs).

It was almost exactly one year ago that Hanjin collapsed (August 31, 2016). While the short-term chaos and costs hurt importers and exporters, it seems that the bankruptcy caused a "reality check" to help bring the market to more sustainable rate levels, more effective alliances, and more reasonable capacity management.

While it remains to be seen if the ocean carriers can maintain discipline, global capacity is slated to grow by 7% again in 2018 but only 1.4% in 2019. These numbers include 78 vessels of 14,000 container capacity or more coming on-line between now and 2019; this shows the tremendous power of scrapping, cascading, and the extreme slowdown in new vessel orders for just one year. Overall, the capacity stats are a hopeful sign that market equilibrium is a reasonable hope for carriers and shippers alike. Obviously, it will help if global demand can hit 2017's 6% or higher.

For the remainder of 2017, we do expect some increased rates, especially in late September and perhaps all of October. However, there is no current reason to expect a bankruptcy or further mergers in the sector. And, somewhat quietly, the steamship industry is forecast to make $5B in 2017. Prosperity should allow the carriers to emphasize market share gains over short term cash grabs on the spot market. With any luck, this means that the rate increases for the rest of 2017 will be relatively modest with a strong chance of rate erosion in December.