SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

DECEMBER 2017

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OCEAN CARRIER UTILIZATION STATS

For late November/early December sailings, ocean carriers reported a robust 95% overall vessel utilization factor for the US East Coast after months of 85-90%. West Coast numbers actually dropped to 90% after a long run at approximately 92-95%. Despite these unexpectedly strong demand numbers, the ocean carriers seem content to continue to play for market share as 2017comes to a close.

Year in Review

Demand Highlights for 2017:

Global GDP Forecast: 3.8% increase

World Trade Volume: 4.4% increase

Global Shipping Volume: 6.0% increase

Chinese Export Volume: 9.1% increase

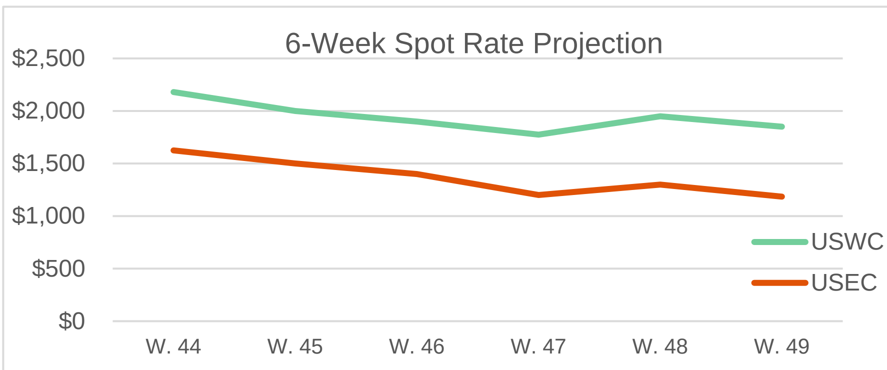
US Import Volume: 6.3% increase (closer to 7% for Transpacific)

There is no doubt that the fundamentals are currently solid for global trade, and 2017 was a better year than most analysts forecasted. In fact, many steamship executives have called 2017 the best year for containerized freight in a decade. Less optimistic industry pundits fear that the steamship industry will view 2017 as the "year that got away." They posit that the overhang in container and vessel supply led to rather modest improvement, from an overall market rate perspective, after a 2016 that was truly bleak for ocean carriers. That said, the steamship industry will end the year with an average Transpacific container rate that is up 15% over 2016.

DECEMBER 2017: RATE ENVIRONMENT AND OCEAN CARRIER NEWS

Rate Environment:

At the risk of adopting an unprofessional tone, let's just say that the current rate market is BORING! The ocean carriers have implemented two tiny GRIs in the last several weeks, and both crumbled immediately. This occurred, in part, because a couple of carriers not only postponed their winter capacity programs but actually launched new larger vessels in the trade in Q3. While these moves seem eccentric to outside observers, it is becoming clearer and clearer that cost-sharing and operating inside carrier alliances provide the carriers with tremendous cost savings and operational efficiencies.



A Glimpse at 2018 Rates:

Because of the extremely low rate levels on the current spot market, it seems very likely that the steamship industry will score some moderate increases in mid-January and into February as shippers scramble to get ahead of Chinese New Year (CNY). However, the reluctance of the industry to play the winter deployment game may well keep rates fairly stable despite the short peak created by CNY.

As economists and global trade experts peek at 2018, most forecasts are calling for a modest decrease in world trade volume, with growth of perhaps a decent 3.9% after 2017's 4.4%. As they isolate global containerized trade, early forecasts project growth of 4.5% while capacity is slated to grow 5.5%. This disparity may be slightly alarming to steamship executives, though the 1.0% spread is the smallest since 2014 (and much smaller even than 2017, despite the nice demand increases). Early indications from the Asia-Europe contract negotiations are not positive for ocean carriers with rates likely a bit lower than 2017 contracts. We'll have to see if that is an early indicator for the Transpacific negotiations for Spring 2018.

Ocean Carrier News:

Alphaliner has stated that, of the 16 carriers who reported results for the third quarter of 2017, 11 announced operating margins of 5% or better. This compares to an average 2.8% margin in the second quarter of 2017 and a miserable -7.8% in the third quarter of 2016. The third quarter of 2017 marks the best collective result by the industry since the first quarter of 2015. Strong demand during the third quarter powered the results, with volumes surging by 10% compared to Q3 2016; Q3 2017 revenues grew by an even more impressive 21%.

Having received so much bad press in recent years, Zim, MOL, and Yangming were quite pleased to report operating profits between $19-42M for the third quarter. For MOL, this was the first quarter in the last 25 for which the carrier reported a profit!

Beleaguered Hyundai Merchant Marine (HMM) reported a $6M loss as they continue to struggle overall. In an industry that is scheduled to produce $5B in profits for 2017, HMM is the outlier and has now lost $180M this year.

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