SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

JUNE 2018

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TRANS-PACIFIC OCEAN U.S. IMPORTS

2018 | JUNE

OCEAN CARRIER UTILIZATION STATS

For May and early June sailings, ocean carriers reported somewhat variable utilization ratios, depending on the service/vessel string. The average vessel "fill factor" for the US East Coast and the Pacific Northwest sat near 92%; though again, the scores ranged from 80-100% depending on specific port pairs. The Pacific Southwest (in essence LA/Long Beach) showed stronger and steadier demand with an average of 96% utilization for May.

JUNE 2018: OCEAN NETWORK EXPRESS (ONE) IS NEW MARKET LEADER FOR TRANSPACIFIC | INDUSTRY EYES MAERSK LINE STRATEGIC VISION | MAY RATE ENVIRONMENT

OCEAN NETWORK EXPRESS (ONE) IS NEW MARKET LEADER FOR TRANSPACIFIC

Despite having perhaps the most annoying name in the business, the merged carrier operations of K-Line, MOL, and NYK (ONE) is now the Transpacific market share leader with 15.8% of the traffic from Asia to USA. The percentage is roughly 5% higher than COSCO (2nd place) and Evergreen (3rd place). Global giants Maersk and CMA CGM round out the top five Transpacific carriers.

INDUSTRY EYES MAERSK LINE STRATEGIC VISION

On May 17th, Maersk Line announced poor Q1 financial results and faced their investors in a shareholder meeting. Historically, such meetings have been highly focused on talk of market share domination and the weakness of Maersk's competition. In a somewhat radical shift in tone and strategy, the May meeting emphasized the following talking points:

A. Maersk has not and does not plan to order new vessels in 2018
B. Deep focus on integration between ocean carrier, port, and logistics operations (previously viewed and managed as three separate business units)
C. Commercial and operational emphasis of end-to-end/door-to-door solutions
D. Pared down and more efficient feeder designs and service offerings
E. Continued commitment to blockchain technologies

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In the simplest terms, Maersk wants to be the ocean shipping "integrator," the UPS or Fedex of container logistics. Interestingly, Maersk believes that they must become a smaller company to achieve their vision and to fight off increasing competition from the on-line giants we all talk about obsessively (you know the ones whose names start with an 'A').

As the port-to-port ocean container business becomes an increasingly commoditized business, Maersk's integration strategy sounds like a logical emphasis on profits and a potentially simplified purchase for shippers.

It will be fascinating to watch Maersk since short term costs for vessel chartering, US trucking, and fuel across the supply chain are all spiking. These cost increases and their resulting poor financial performance have caused Maersk's share price to tumble by 30% in the past ten months. Thus, Maersk's longer-range vision is in many ways at odds with the shorter-term profit picture.

The industry will watch the other major carriers closely to better understand if Maersk's vision is a broader trend or if their competitors will see this as an opportunity to pounce on market share.

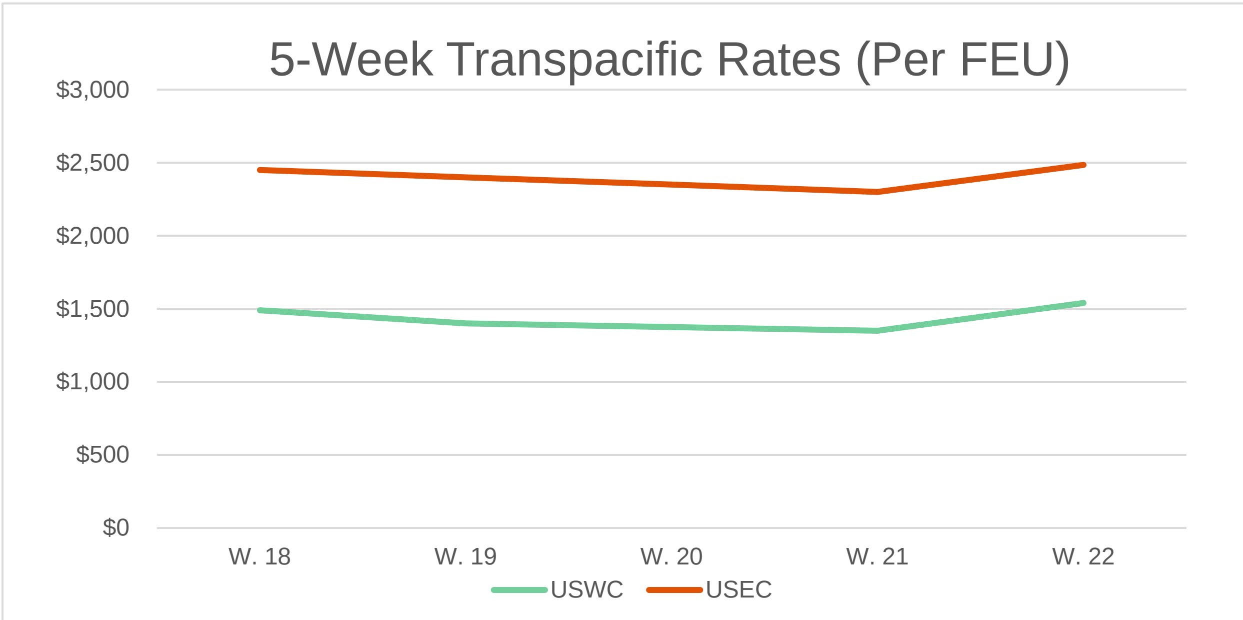
May 2018 Rate Environment:

When you look at 2018 as a whole, Transpacific container pricing has been significantly more stable than any year in the last five. Demand has been roughly 10% better than expected in April and May, and that has helped carriers manage rising capacity.

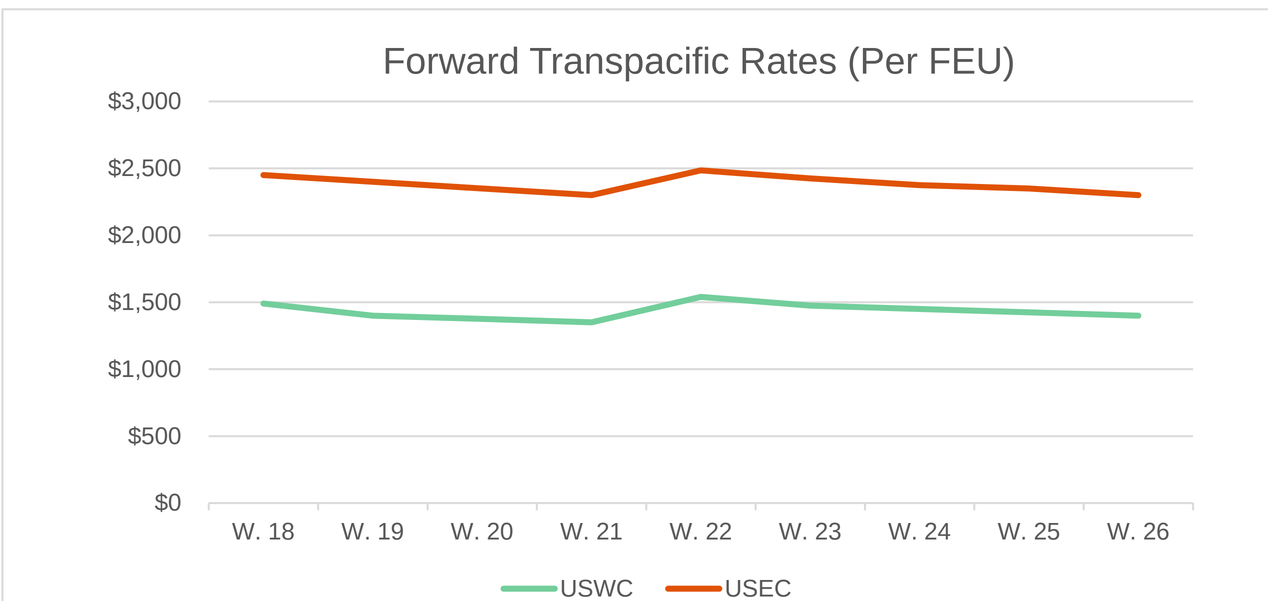
Many industry pundits point to trade war fears as a short-term demand stimulus though it seems more likely that the strength in the US housing market is the real "culprit." Household goods and building materials imports are both up over 15% YTD, 2017 vs. 2018. These segments combined represent as much as 20% of total import volume at a given time.

CMA CGM, Hyundai, Maersk, MSC, and Zim all announced Emergency Bunker fees for July 1, and many shippers and forwarders see this as a means of generating a GRI without calling it such. The steamship industry has struggled mightily to generate profits in 2018, largely due to unexpectedly high increases in bunker and US trucking costs. So, it looks unlikely that shippers will see large decreases in total ocean shipping costs even if demand slackens a bit before the holiday shipping surge in August-September. That said, base ocean rates certainly could fall a bit in the coming weeks.

Please have a look at the rate picture for the recent past here:



We have also estimated future rates here:



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