SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

MARCH 2018

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OCEAN CARRIER UTILIZATION STATS

For late February to early March sailings, ocean carriers reported a very sluggish return to manufacturing operations and shipping after Chinese New Year. Utilization averages for both US coasts plummeted by 10% or greater with the US West Coast exhibiting a particularly poor performance. Some carriers reported vessels loading at 70-75% capacity, the lowest numbers in over a year. Utilization numbers are expected to remain depressed through most of March, just as the steamship industry prepares to negotiate with BCOs and then NVOs in April and May.

MARCH 2018: ONE BIG STEAMSHIP LINE TO THE US, REVISITING SUPPLY SIDE MR. HYDE, IS HYUNDAI THE NEXT HANJIN? AND MARCH RATE ENVIRONMENT

ONE BIG STEAMSHIP LINE TO THE US

Having cleared her final regulatory hurdles in January, the Ocean Network Express (ONE) is on schedule to begin combined operations in April 2018. As all of you will remember, ONE is the merged entity comprised of the three major Japanese lines, NYK, K-Line, and MOL. To celebrate ONE's launch, but with a cautionary eye on the competitive playing field, please note the members of each major alliance with an approximation of US market share below:

Ocean Alliance: 33.7%	
CMA CGM (includ. APL):	12.8%
Cosco/OOCL:	12.8%
Evergreen:	8.1%
2M: 28.4%	
MSC:	12.3%
Maersk (includ. Hamburg Sud):	11.9%
Hyundai (slot-charterer)	4.2%
The Alliance: 25.6%	
Ocean Network Express:	13.0%
Hapag Lloyd (includ. UASC):	8.5%
Yang Ming:	4.1%

When you add Zim, the largest fully independent carrier at 2.3%, the world's top 10 steamship lines will control 90% of the US market by April.

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Revisiting Supply Side Mr. Hyde

In our February Freight Report, we noted that the steamship industry must contain their hunger for new capacity despite the highly attractive build rates and terms in the shipbuilding market today. The appetite for larger replacement vessels proved too great for the Taiwanese big boys, Evergreen and Yang Ming. Both carriers announced the purchase of 20 vessels with capacity of 11,000 TEUs or greater slated for launch from 2019-2021.

APL, a CMA CGM brand, announced the summer 2018 deployment of its new Eagle Express X service, which boasts 11-day transit from Shanghai to Long Beach and includes guaranteed chassis and priority dock availability for a 15-20% rate premium. APL will operate this product outside the Ocean Alliance, and the service will add new capacity to the Transpacific.

Is Hyundai the Next Hanjin?

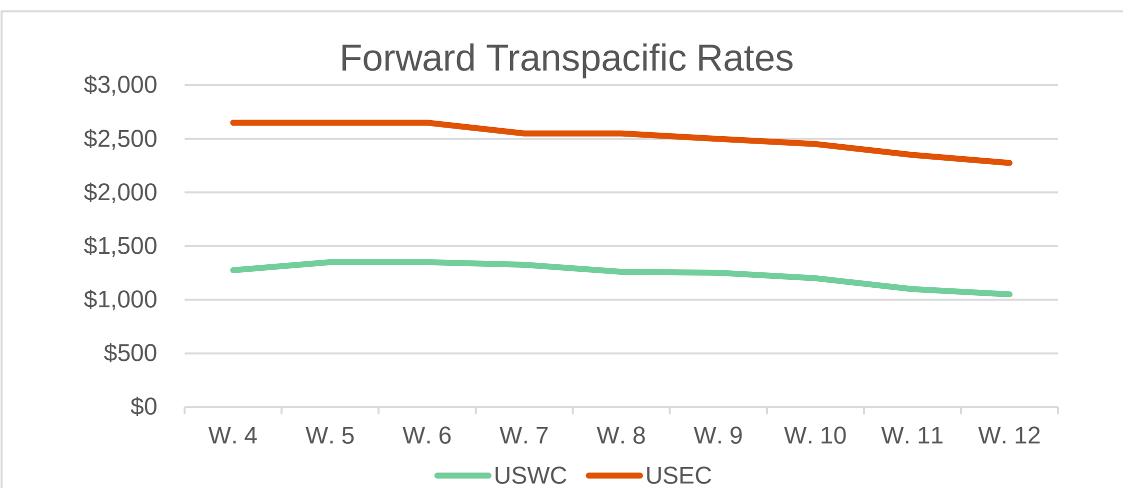
Unlike most of the industry, Hyundai Merchant Marine could not turn a profit in 2017; the Korean carrier announced 2017 losses of US $1.1B. Despite the poor result, Hyundai has purchased 30,000 new containers and is rumored to be ready to purchase 20 new vessels, each with capacity between 13,000 and 22,000 TEU's, in the short term.

March 2018 Rate Environment:

Spot rates have tumbled after Chinese New Year due to a highly sluggish return of demand for space. For the US West Coast, rates have now fallen 19% during the first weeks post CNY, a period that has averaged a decline of only 9% over the last 5 years. The East Coast has not fared much better for the carriers, with reductions in the 10-15% range and continuing to fall.

We expect carriers to struggle to stem rate erosion throughout March, with all eyes on the critical month of April as annual contract negotiations take shape.

Please note forward rate projections for the Transpacific here:



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