SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

SEPTEMBER 2018

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OCEAN CARRIER UTILIZATION STATS

For late August to early September sailings, ocean carriers reported extremely high and mostly steady utilization ratios. Following the dramatic crescendo for July and August, the USWC surprised pundits by rising to an average of 130% fill factors. The Pacific Northwest continues to sit at 100-120% including back logs. Only the USEC showed a slowdown in momentum with carriers reporting an average vessel utilization of 100% (which indicates a diminishment in cargo back logs).

SEPTEMBER 2018: WINTER IS COMING AND CURRENT RATE ENVIRONMENT

WINTER IS COMING: TWO INTERPRETATIONS OF CARRIERS' ACTIONS THIS FALL

***Number One:* Future demand depression is forcing an industry beleaguered by escalating fuel costs to store their acorns early for a long hard winter.**

The arguments for interpretation Number One are as follows:

- Steamship profits were indeed miserable for the first two quarters of 2018, and ONE, Yang Ming, and Hyundai all lost over $100M in Q2 (with Hyundai setting off alarm bells as they reported a loss of $317M in Q2).
- Bunker fuel costs have risen by about 20% in 2018.
- At this point, the trade war with China shows no signs of mitigation or diminishment with an additional $240B in goods potentially in line for new tariffs.
- U.S. inventory levels are running high, and this is a strong sign that Transpacific demand will slump by October or so.
- For the steamship industry to break trust with thousands of BCOs and NVOs on contract commitments for space and rates, the winter of 2018 must be trending to be very bleak indeed.

<u>Number Two</u>: Having manipulated the supply side masterfully and having grown cozy in what amounts to three major alliances, the ocean carriers have entered into a new, more exploitative, market strategy.

The arguments for interpretation Number Two are as follows:

- The slashing of supply to the U.S. West Coast preceded the real meat of the trade war announcements. People forget that the timing of the capacity cull was after the steel phase but before the much larger populations of industrial and consumer products entered the trade war equation. The supply manipulation was all about profits.

- Once large back-logs of cargo and bookings hit every single major Chinese port, the steamship industry REFUSED to add extra loaders to provide any capacity relief. As of September 10th, there have only been THREE extra loaders put into service. To put this in perspective, this is a supply assist of less than 2% for the month of August with vessel utilizations (including backlog) reaching as high as 130%.

- Rates to the USWC reached a three-year high this August; rates to the USEC hit an 18-month high at the same time. It is difficult to misinterpret this result.

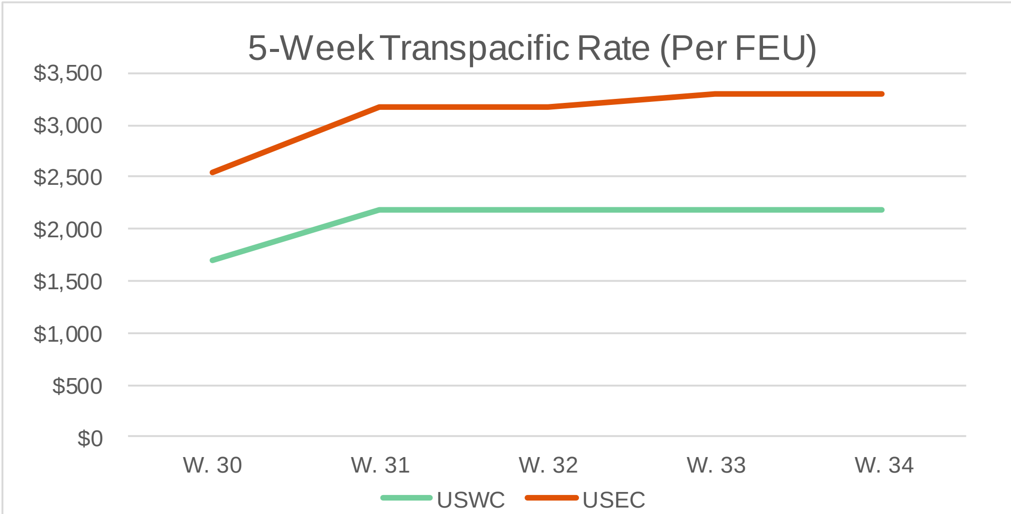
- Blank sailings for the rest of 2018 are currently being announced and are impressive, to say the least. THE has announced over 100,000 TEUs to be removed from service; The Ocean Alliance has reported 75,000 with more coming; 2M is the least aggressive to date and has only announced 30,000 TEUs. These announcements are not finished and as they stand now, they have already removed roughly an additional 6% of capacity for late fall and winter 2018.

- For the steamship industry to break trust with thousands of BCOs and NVOs on contract commitments for space and rates, the steamship industry MUST be changing their tactics and strategies for honoring (and dishonoring) service contracts. We have entered a new era of the "non-contract contract."

Like so many aspects of modern business life, the truth likely lies in between these two somewhat extreme interpretations of current steamship line practices. One thing is certain, however. The trust between the shipping public, especially the BCOs, and the steamship industry has reached a low point. It is impossible to predict costs when you don't understand the meaning or validity of contracts. In today's shipping environment, should we call our space and rate agreements "indications" or "estimates"?

September 2018 Rate Environment

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



We have also estimated future rates here: