MED AMERICA
Shippers Association inc.

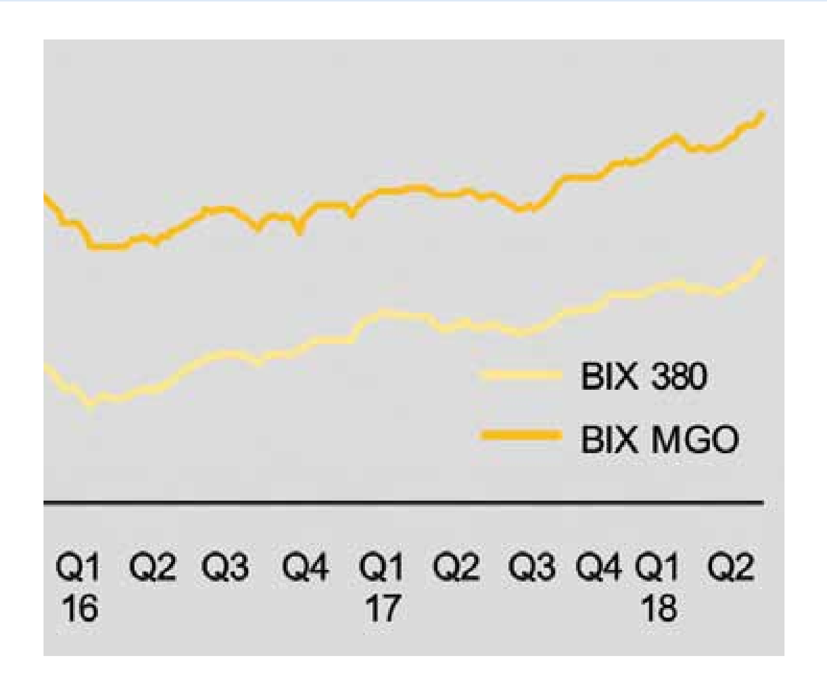
www.medamericashipper.com

July 2018

Topic of the first half

Rate increases due to higher bunker costs

Following **very disappointing Q1 results** and a **negative outlook for the year** many **carriers** are **implementing substantial rate increases.**



Various terminologies are being used to describe the surcharges:

EBAF (Emergency Bunker Adjustment Factor)
EBS (Emergency Bunker Surcharges)
EFL (Emergency Fuel Charge)
FAF (Fuel Adjustment Factor)
OCR (Operations Cost Recovery)
PSS (Peak Season Surcharge)

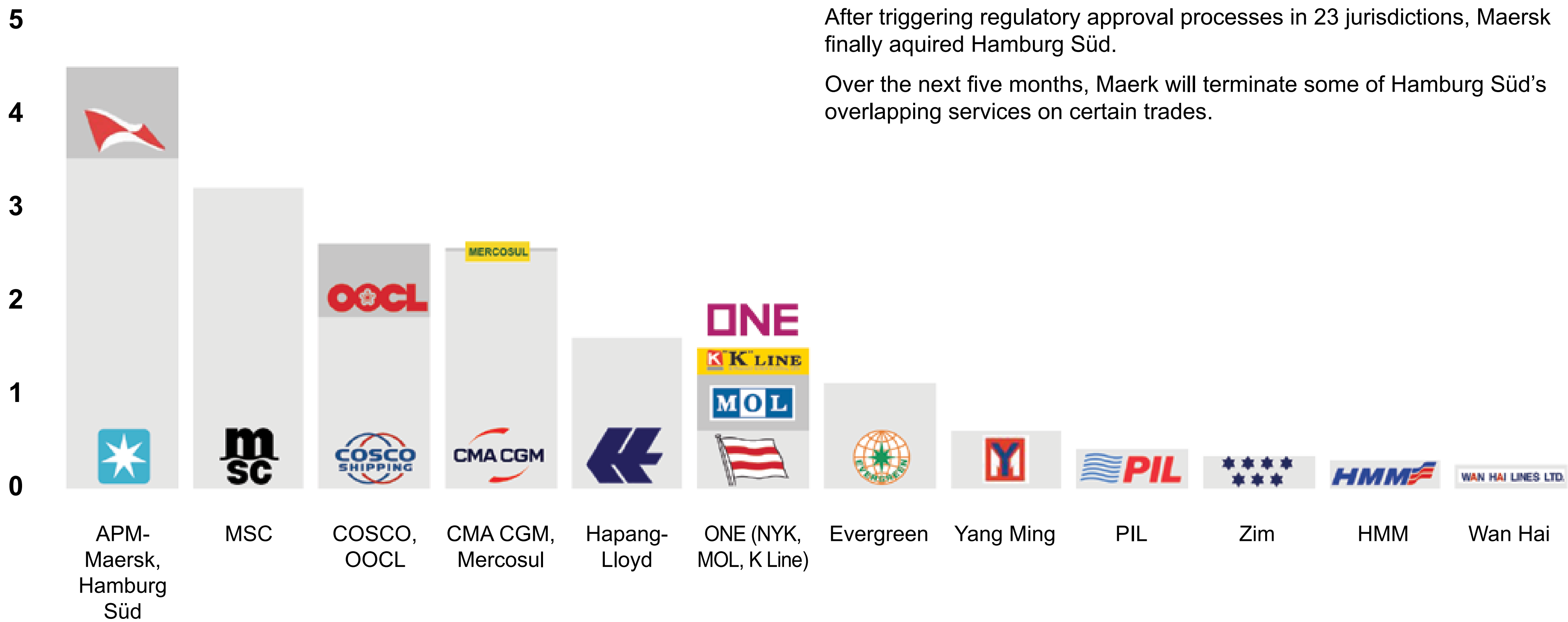
Med-America is in constant dialogue with its partner carriers and doing its outmost to **mitigate the impact** for the **customers** and the **business**. However, **we expect that agreements** with carriers and customers **will need to be reviewed**.

Given the developments, the **industry needs to be prepared** for floating **BAF agreements going forward.**

Topic of the Month
Top 12 Carriers by Operated Capacity (in Mil. TEU), December 2017

After triggering regulatory approval processes in 23 jurisdictions, Maersk finally aquired Hamburg Süd.

Over the next five months, Maerk will terminate some of Hamburg Süd's overlapping services on certain trades.



Ocean Freight Rates Outlook

EURO – AMNO	Space is the discussion and more or less all carriers are fully booked. HMM decided to withdraw from the Trade and Ocean Alliance have cancelled the newly launched service to South East Coast.
AMNO – EURO	Capacity will decrease in July with the Ocean Alliance cancelling one of their string.Rates are going up due to higher bunker costs.

Economic Outlook & Demand Development
Steady growth amid gathering storm clouds

Recent weakening service-sector data, rising oil prices, weaker foreign trade & industrial production data hint to an underlying slowdown. Potentially unstable governments in IT & ES promise stormy times ahead. Consequently, real GDP growth is now projected to slow from 2.6% in 2017 to 2.1% this year, 1.7% in 2019 and 1.6% in 2020. Likewise, UK growth ahs been revised down to only 1.1% this year and 1.2% net year.

Estimated Q2 GDP growth has been raised roughly a full percentage point to 4.1% as reports on trade balance and personal consumption expenditures are indicating much firmer momentum for output early in Q2, leading to a higher GDP growth forecast of 3.0% for this year, and 2.8% and 1.8% for the following years.

DEMAND DEVELOPMENT

Although business sentiment remains below the highs seen earlier in the year, the survey data are consistent with global GDP rising at a solid rate in Q2. All indexes remained in positive territory and matched or bettered the averages of 2017. The major development in recent months has been the extent to which the US sentiment has risen and Eurozone sentiment has fallen.

Capacity Development

The **OCEAN Alliance members** (CMA CGM – APL, COSCO Shipping, Evergreen and OOCL) **suspended** sailings of their newly launched **North Europe – US East Coast TAT4 service in June**, just two months after the loop was introduced. The service was part of the OCEAN Alliance's 2018 'Day Two' network implemented in April. It was to turn in five weeks deploying five 4,200 – 5,000 TEU ships.

Hyundai Merchant Marine (HMM) will leave the Transatlantic trade as it is to cease to buy slots on two North Europe – US East Coast loops of Maersk Line and MSC operated within the frame of their 2M Vessel Sharing Agreement. **HMM** will therewith **lose its 'global carrier' status**, which is defined by a participation in the three main East-West trades, on top of other trades. The Korean carrier states that "market conditions have driven HMM to concentrate its efforts to service its customers in other core trades". The final westbound sailings from Europe is offered in the last week of June, while the last eastbound sailings from US ports will be from Norfolk on 13 July and from Savannah on 31 July. **HMM's withdrawal** is **not expected to affect overall trade capacity** as the 2M carriers are expected to retake all of the slots currently used by HMM, without any changes to existing 2M services.

Maersk Line is to launch a **weekly Med – Canada service**, branded 'Mediterranean-Montreal Express' (MMX). The new loop will directly connect Italy, France and Spain with the Montreal and Halifax gateways, and it will act as a relay service for Asian, African, Middle East and Eastern Med cargoes. The first sailing is planned on 2 July from La Spezia. Maersk Line currently serves the Med – Canada route through slots on the 'MCA' service of Hapag Lloyd.

The **idle containership capacity has dropped to only 0.9%** of the fleet, with 93 units, aggregating a total capacity of 205,331 TEU recorded to be idle as at 11 June 2018. The idle fleet would have fallen even lower if not for the forced idling of several large carrier-controlled units. They include the fire damaged MAERSK HONAM (15,282 TEU) which has docked at Jebel Ali on 27 May, some three months after fire broke out aboard the ship.

CMA CGM has received the **CMA CGM JEAN MERMOZ (20,965 TEU)**, second of three 20,954 TEU megamax container ships from HHIC's Subic Bay Shipyard in the Philippines. The CMA CGM JEAN MERMOZ joined on 4 June the OCEAN Alliance Asia-Europe 'NEU4' loop, branded 'FAL 1' by CMA CGM.

Carriers

Hapag Lloyd issued a **profit warning** based on its accounts for the first five months of trading, causing its shares at one stage to drop 21%. The German carrier has **downgraded its EBIT guidance** from 'clearly increasing' the € 410 M recorded in 2017, to between €200 M and €450 M. Hapag Lloyd stated "the **reason** was an unexpectedly **significant and continuing increase in operational costs** since the beginning of the year, especially with regard to fuel-related costs and charter rates. These developments cannot be fully offset by cost-saving measures that have already been initiated".

CMA CGM has reported a **net loss of -$77 M in Q1, 2018**. The company said the poor results were due mainly to the rise in bunker expenses which increased to $757 M compared to $564M in the same quarter last year. Bunker costs now account for 14.6% of CMA CGM's total operating expenses, compared to 13.3% a year ago.

ZIM has reported a **net loss of -$36 M in Q1, 2018**, while core EBIT dropped to a loss of -$2 M as operating margins slumped to -0.3%. The first quarter net loss erased all of ZIM's net profits of $6 M recorded in the full year 2017. Apart from the increase in bunker costs, ZIM is **particularly exposed to the rising charter market** as its **chartered fleet** currently accounts for **93% of the total capacity operated by the company** – the highest chartered fleet ration among the top 13 main carriers.

US trucking, pricing, and the new shipping reality

Capacity is tight not just in the truckload market, but in the drayage, less-than-truckload (LTL), intermodal rail, and warehousing markets. Most sources say this current contraction is more like what the industry saw in 2004 to 2005 than in 2014. Sustained economic growth is leading to sustained capacity problems. The good news is manufacturers and retailers are producing or selling and importing or shipping more. The bad news is that it is harder and more costly to bring goods to market. Shippers are being asked to move goods more quickly, while tight capacity slows them down.

This is not an ordinary market cycle in transportation. The industry has seen cycles, but this time **1) the endemic lack of qualified truck drivers, 2) tighter enforcement of driver work rules, and 3) the economic and operational changes wrought by e-commerce are three factors** creating new challenges for shippers. The problems the industry is facing in early 2018 will probably be around for some time to come.

Regarding truck pricing, truckload contract rates apparently are rising by anywhere from the high single digits to double digits. Spot market rates are still up 30 percent or more year over year. And this is before the real peak season hits the market. Intermodal rates are rising too. Tellingly, large truckload carriers began to report they were consistently overbooked, some by as much as 130 percent before the day even starts.

As tight as capacity was last automn, it got even tighter after Dec. 18, when the electronic logging devide (ELD) mandate took effect. The ELD mandate is having a bigger impact on trucking and supply chains than expected. On lanes of 450 to 550 miles, transit times increased 16 percent post-mandate, a four-hour gain. That is enough to make a one-day trip a two-day trip!!!

Because of a lack of drivers, and service issues in other modes, the ability of shippers to move freight from one mode to another is effectively limited. Intermodal still requires a drayage driver at each end of the track.

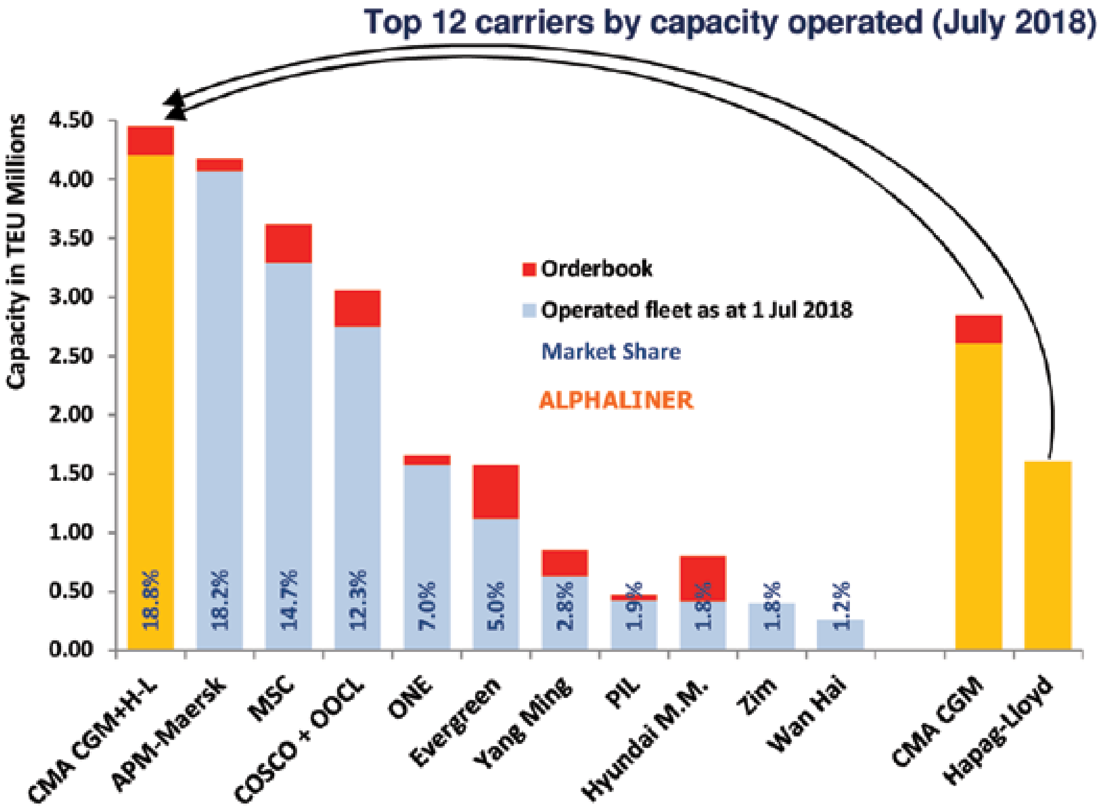
There have been reports that record new truck orders will soon restore equilibrium in truck capacity, bringing rates down. **This is unlikely.** Trucks ordered now will not shop up until much later this year – and how many of them will go into specialized services rather than general over-the-road work?

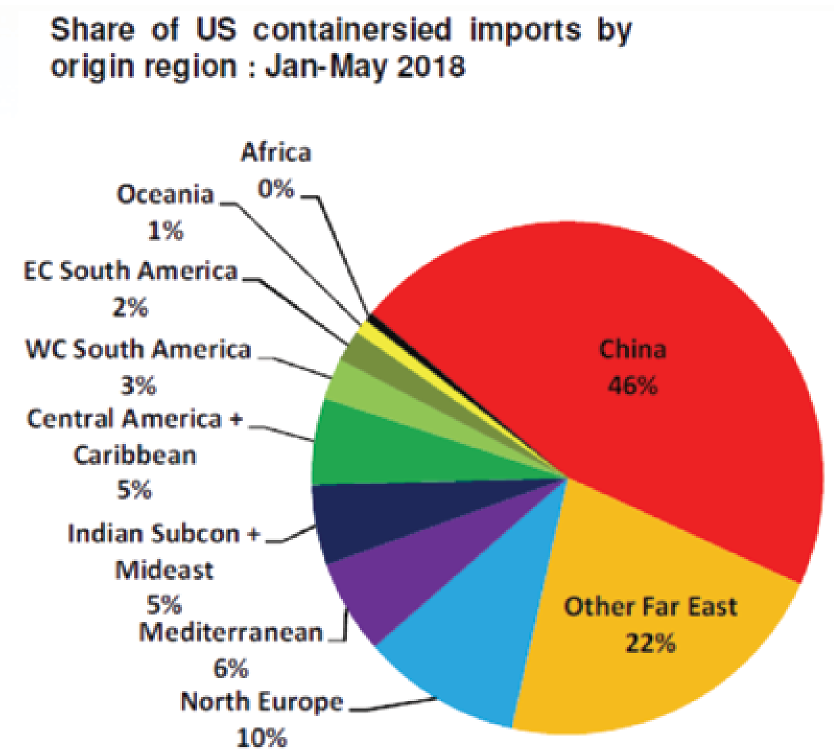
Time is a key element of capacity. It has been ignored as the industry focuses on drivers, trucks, and containers and builds leaner, more efficient, faster supply chains that suck time out of everything driving. So now, when a driver comes up short on hours, the impact on the supply chain is greater than expected.

CMA CGM and Hapag-Lloyd

Reuters claimed that the shipping line CMA CGM had proposed a merger between CGM and Hapag-Lloyd.

A combination of CMA CGM and Hapag-Lloyd would create the largest container shipping line in rhe world, with a joint fleet of 4.2 Mteu, surpassing Maersk's current fleet of 4.1 Mteu, according to Alphaliner'slatest carrier rankings.





The **escalating trade tensions** between the **United States and China**, triggered by President Trump's tariff measures against Chinese imports, are **expected to hit container volumes** between the two countries.

China is by far the largest origin for containerized cargo into the US, accounting for 46% of all container imports during the first five months of this year. Imports from China reached 4.14 MTEU during the period from Jan to May, based on data obtained from PIERS.

It is **too early to determine the final impact** of the **new tariff measures** and **counter-measures** that will take **effect on 6 July**, but, since China accounts for 68% of total transpacific container volumes from the Far East, a 10% reduction in imports from China **could affect some 6.8% of transpacific volumes**, if the goods are not replaced by imports from other Fare East origins.

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