



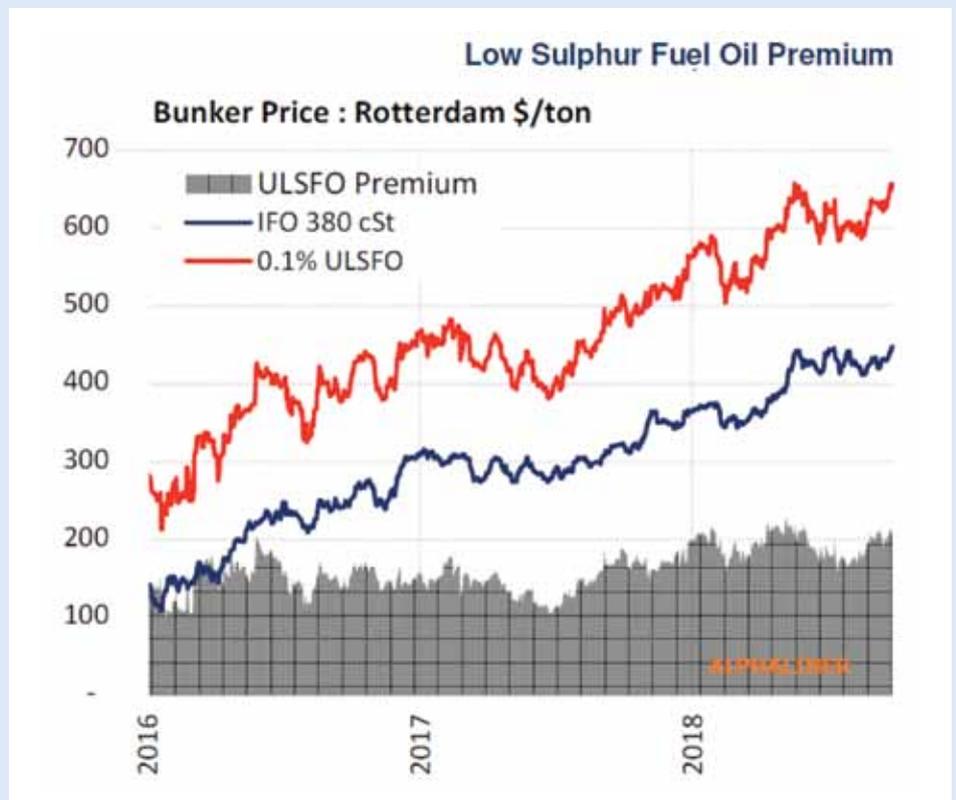
MED AMERICA
Shippers Association inc.

www.medamericashipper.com

November 2018

World Shipping Outlook: Managing for the Future

In the last few years, carriers have not been able to take advantage of low oil prices because of weak demand and overcapacity that exaggerated a competitive environment. It was only in 2017, after six straight years of losses, that some carriers finally managed to turn a profit. But while demand has recovered, so have oil prices, rising to their highest level in four years, and there is risk about prices reaching \$ 100 a barrel as a consequence of tensions.



So what will the supply-demand balance be in 2019, and what does a high fuel price future look like for container shipping lines?

Carriers situation continues to be serious.

Despite clear signs of oversupply since the mid of 2017, they have been unable to remove excess capacity.

In addition, in the first half of this year, carriers introduced new vessels capacity in few important trade routes...

Their results in the 3rd quart of the year have been poor, also because of bunker price increases not fully recovered.

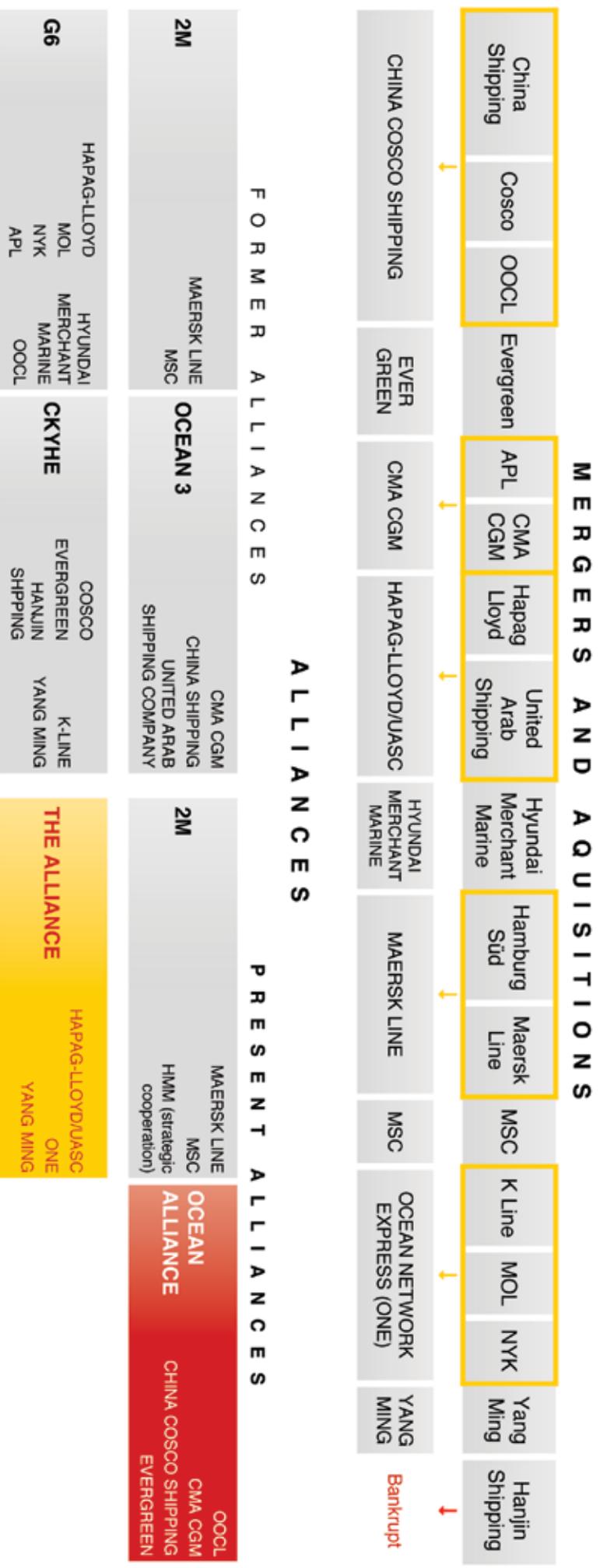
Many attempts to restore the business results have been made with uncertain results but now, with the year-end approaching, Shipper sare facing lots of pressing requests by Carriers... Service Contracts protection, from a formal stand point, is losing its "appeal" once the minimum commitment has been reached...

In specific trade-lanes such as transatlantic westbound and Amla/AMNO Carriers merging and alliances seem to be in position to give the Carriers' arm good power and convincing arguments to succeed in their requests to implement GRI, recovery measure, and/or rate adjustment, anyhow they will be called.

Under such demanding business conditions, the cooperation with your partners is more important than ever and measures to control all the steps of transportation are of fundamental importance to give value to your supply chain which must be flexible and in position to maintain value for your products for such as precision, temperature and humidity control, product rotation, optimization of lead time, reliability visibility.



Carrier Mergers, Acquisitions and Alliances



Source: Carriers

Topic of the Month Top 12 Carriers by Operated Capacity (in Mil. TEU), December 2018



After triggering regulatory approval processes in 23 jurisdictions, Maersk finally acquired Hamburg Süd.
Over the next five months, Maersk will terminate some of Hamburg Süd's overlapping services on certain trades.

Source: Alphaliner, incl. pending mergers

Topic of the Month – Supply-Demand Balance Postponed

Gloomier world economic outlook & rising trade tension have forced Drewry to downgrade its forecast for container demand over the next 5 years

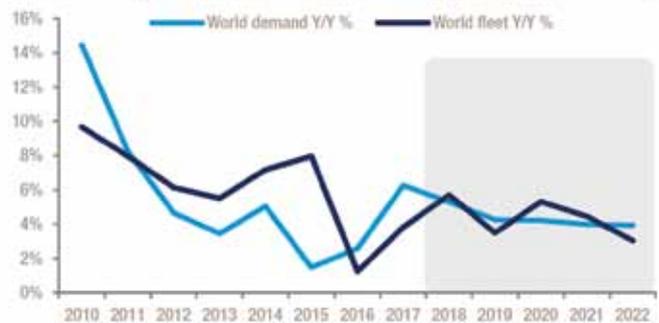
Previously Drewry had forecasted their supply-demand index would go up through 2022, by which year they estimated that the industry would be close to equilibrium.

Following a downgrade to the demand expectations, along with slightly upgraded supply forecast, the expectation is that industry will be confronted with the current oversupply for several more year.

No-one knows at the moment how much demand in Q3 '18 was artificially stimulated by fears coming from the latest round of tariffs issued US & CN and therefore how hard the come down will be in the last quarter this year.

With new ship deliveries where than expected and together with fewer demolitions in Q2 '18 Drewry has marginally raised the fleet growth rate to 5.7% instead of 5.4% this year.

World Throughput & Fleet Forecasts (%Change on Previous Year)



High Level Market Development – Supply and Demand

ECONOMIC OUTLOOK GDP GROWTH BY REGION¹⁾

	2018F	2019F	2020F	2021F	2022F	CAGR (2019-22)
EURO	2.2%	2.0%	1.9%	1.8%	1.8%	1.8%
MEA	3.5%	3.8%	3.9%	3.6%	3.5%	3.7%
AMER	2.7%	2.8%	2.2%	1.9%	1.9%	2.0%
ASPA	5.0%	4.9%	4.7%	4.8%	4.8%	4.7%
DGF World	3.4%	3.3%	3.1%	3.0%	3.0%	3.0%

BUNKER PRICE INDEX⁵⁾



Economic Outlook & Demand Development More growth erosion



Rising oil prices could significantly hamper growth. **Deceleration** in much of the rest of the world is also taking the wind out of exports. The drag is even bigger owing to the **ongoing impact of trade tensions & the rise in the EUR & GBP against** emerging-market currencies, including the CNY. The standoff between the EU & bond markets, on the one hand, & the **populist IT government**, on the other, over the latter's aggressive budget is sending tremors through eurozone financial markets. At the same time the **risk of a "no deal" Brexit** is on the rise.



IHS Markit believes, that **higher tariff** rates will reduce **demand for imports from CN**, but two factors will mitigate these effects: CN exporters will temporarily reduce the pre-tariff price to preserve market share, & some imports will be re-sourced outside of CN to avoid paying the tariff. They also expect **higher post-tariff import prices** to pass through to domestic prices & weight on real income & wealth, reducing domestic demand. Net effect will be **slower US GDP growth & more domestic inflation**.

Ocean Freight Rates Outlook

EURO – AMNO Ocean rates are strong and still increasing; inland carriages in US remain problematic.

AMNO – EURO Some carriers have announced a rate increase to Europe (Hapag, EISU, YML, Cosco) and CMA CGM to the MED.

Capacity Development

HMM has finalized its order for 20 containerships.

Ocean Network One broadens its **Centram & US Gulf** coverage.

CMA CGM has received the **CMA CGM LOUIS BLERIOT (20,954 TEU)**.

Hapag-Lloyd and ONE, both are members of THE Alliance, have announced the conclusion of a '**Bilateral Strategic Feeder Network Cooperation Agreement**' which is already effective on several loops. In the Baltic & Scandinavia ONE takes slots on 5 Hapag-Lloyd loops. In the Med ONE continues to take slots on the Hapag-Lloyd Adriatic feeder serviced. In Asia, Hapag-Lloyd continues to take slots on the ONE-operated feederservice.

Carriers

Ocean Network Express, the JV formed by K Line, MOL & NYK on 1 Apr '18, has announced a **sharp fall in the earnings forecast for FY2018**, ending on 31 Mar '19. ONE is **expected to record a net loss of USD -600m**, compared to an initial estimate of a net profit of USD 110m. The sharp drop includes a drastic deterioration in the projected performance in Q3 '18 and the negative performance is expected to continue into Q4 '18 & Q1 '19. ONE blamed the loss on lower than expected capacity utilization, higher equipment repositioning costs due to decreased backhaul liftings on the TP & Asia-Europe routers, as well as higher bunker costs. The company also failed to capitalize on the surge in freight rates on the TP route during Q3. Although ONE said that the initial problem related to its booking & documentation process during Q2 '18 has been addressed, the negative effects have piled into Q3 with liftings & utilization remaining unsatisfactory.

MSC to lease 5,000 new reefers with controlled atmosphere technology

MSC has become the latest carrier to make a significant investment in controlled atmosphere (CA) technology, inking an order for 5,000 units from Carrier Transicold yesterday.

Carrier Transicold's CA technology manages oxygen and carbon dioxide levels within refrigerated containers, reducing oxygen levels and increasing carbon dioxide at the same time. This removes ethylene, slowing the ripening of produce and helping to preserve its quality beyond what can be achieved by refrigeration alone.

MSC began experimenting with the technology in June, and conducted a trial shipment of melons from Spain to Asia.

DP DHL Group Macroeconomic Outlook

ONE announces sharp plunge in earnings forecast for FY2018. The loss is due to lower than expected capacity utilisation, higher equipment repositioning costs well as higher bunker costs.

First containers at Calata Bettolo starting in 2019. Gianluigi Aponte, founder of the ocean carrier MSC, promised to expedite the development of Genoa's new Calata Bettolo container terminal. Mister Aponte was quoted 'We are aiming to speed up the launch of operations of Calata Bettolo and it could be ready, at least in part, within four months'.

Ocean Alliance: AWE6 upgrade brings record ship to New Orleans. The Port of New Orleans last week welcomed its largest container ship ever when the CMA CGM operated PUSAN C, a 9,572 teu vessel, called at the Napoleon Avenue Container Terminal operated by Ports America. The Danaos-managed PUSAN C is trading in the Ocean Alliance's AWE6 service.

OCEAN/THE Alliance cooperation on Med-USEC route to start on end November. The Med-US East Coast Vessel Sharing Agreement (VSA) involving six members of the OCEAN and THE Alliance will get underway at the end of November. The new joint service will employ six ships of 8,000-8,500 teu, of which three will be operated by Hapag-Lloyd, two by CMA CGM and one by OOCL.

Top seven carriers to control 80 percent of market

Niche carriers are being squeezed by their larger intercontinental counterparts.

Container shipping is a giant inverted pyramid and the leading seven carriers will soon control 80 percent of the active container shipping fleet once OOCL becomes part of Cosco Shipping and the three Japanese lines bring their container divisions together under Ocean Network Express.



Ocean Freight Market Update

The price of bunker fuel has nearly tripled since 2016, but freight rates are still languishing. Shippers should expect a freight rate increase of between 13% and 20 % next year if carriers are to make up for the increasing price of bunker fuel, according to analyst SealIntel. Fuel prices have increased from an average of \$ 159 per ton in February 2016 to \$ 474 per ton last month.

"From the market nadir to August 2018 the oil price has therefore increased by 187% - almost a tripling". It said. "In the same period, global freight rates have increased a scant 6%, and even if we use the slightly higher rates recorded in July 2018, the freight rate increase remains a modest 8%". This indicates that current freight rates should be up to 20% higher than what is currently the case. Shippers who are preparing budgets for 2019 should therefore take into account the likelihood of freight rate increases of up to 13%-20% seen from a global average perspective.

Market Outlook – Major Trades

Multiple blank sailings announced for 1st half November will impact space situation.

EXPORT REGION	IMPORT REGION	CAPACITY	RATE
EURO 	AMNO	=	+
	AMLA	=	+
	ASPA	=	--
	MENAT	=	--
	SSA	=	=
AMNO 	AMLA	=	+
	ASPA	-	=
	EURO	+	=
	MENAT	=	=
	SSA	=	+
AMLA 	AMNO	=	+
	ASPA	+	+
	EURO	+	+
	MENAT	=	=
	SSA	--	++
ASPA 	ASPA	-	=
	AMNO	-	=
	AMLA	=	+
	EURO	-	=
	MENAT	=	=
	OCEANIA	=	+

KEY	Strong Increase ++	Moderate Increase +	No Change =	Moderate Decline -	Strong Decline --
------------	--------------------	---------------------	-------------	--------------------	-------------------