AMERICAN SHIPPING COMPANY

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"News Flash"

July 9, 2019

Transpacific Eastbound Rates Increase, Blank Sailings are Exercised and Peak Season is Primed to Begin

July appears to be a turning point for the Transpacific Eastbound trade. During the first two months since the new contracts were put in place, rates remained in lower territory with lower volumes and uncertainty of the China/USA trade war. It felt very similar to a spot market environment and blank sailings were implemented, but did not appear to have too much impact early on. As space started to tighten the last two weeks of June and advanced bookings for July stayed on track, the steamship lines took the opportunity to increase rates using a modest General Rate Increase on July 1st. While the steamship lines report that the vessels are full and they are receiving increased bookings for the coming weeks, their confidence is high with regards to the market conditions and have positioned the market for a potential increase on/after July 15th.

Blank (Void) Sailings To Come

As we have previously reported, the steamship lines continue their effort to maintain tight capacity levels by implementing Blank Sailings and will do so throughout the shipping season. These are scheduled and announced "skipping" of certain ports of call within a vessel string along its route. This can be implemented by a single carrier that operates their own vessel, or an entire Alliance that is sharing a vessel on that string. In addition to capacity control, this practice also maintains or increases rate levels when there is a greater demand for space. Please note some announced Blank Sailings:

Blank Sailing (TP Trade)			
Week	**27**		
Alliance	2M (Maersk / MSC) + ZIM	THE Alliance (O.N.E. / HPL / Yang Ming)	Ocean Alliance (CMA / OOCL / Cosco / EMC / APL)
Service			PNW
Vessel name			APL HOUSTON
Port rotation			YTN/XIA/NBO/SHA/PUS/SEA
Week	**28**		
Alliance	2M (Maersk / MSC) + ZIM	THE Alliance (O.N.E. / HPL / Yang Ming)	Ocean Alliance (CMA / OOCL / Cosco / EMC / APL)
Service		PN1	
Vessel name		MOL CELEBRATION	
Port rotation		TAO/SHA/NBO/PUS/TCM	
Total Capacity			
Week	**29**		
Alliance	2M (Maersk / MSC) + ZIM	THE Alliance (O.N.E. / HPL / Yang Ming)	Ocean Alliance (CMA / OOCL / Cosco / EMC / APL)
Service			PNW
Vessel name			CC MUSCA
Port rotation			YTN/XIA/NBO/SHA/PUS/SEA
Service			PSW
Vessel name			APL SENTOSA
Port rotation			FUG/NSA/HKG/YTN/XIA/LAX

Space vs. Rates & Peak Season

As learned in the 4th quarter of 2018, the steamship lines had to put revenue and profitability over commitments of space at very low rate levels. This left much of the BCO (Beneficial Cargo Owner) community, which can negotiate lower than market rates in exchange for large volume commitments, struggling to get their containers loaded while the actual market rates increased to levels around $1000 per 40' container. This was a result of the China/USA tariff war that peaked and quickly changed strategies for many shippers to import as much as possible before the then noted January 1st deadline. Many larger shippers even took advantage of front loading 1st quarter inventories, with the concern of higher tariffs. As the containers started to roll from intended vessels to later sailings, and many large shippers not willing to negotiate and pay the Peak Season Surcharges, the approach to this season's contracts were significantly different. This season's contract negotiations were focused on SPACE over rate and the willingness to pay higher rates or agree to a Peak Season Surcharges when implemented by the steamship lines. With many of the BCO's learning from last season's mistakes, the majority have conformed. This means midlevel and smaller shippers will also have more pressure to adapt and pay the higher costs of ocean transportation to achieve the space and timelines they require.

Whether the steamship lines have helped to create an "artificial" peak season at this stage; volumes naturally begin to increase again after a few flat months in order to replenish inventory; or some strategize to take advantage of a current impasse in the trade negotiations between China and the USA, the time has come that **space will reign over rate**. This means that shippers that continue shopping around for the lowest rate or jumping around from forwarder to forwarder and/or steamship line to steamship line in this environment, could find themselves waiting long periods to get loaded or continuously rolled at a low rate level. Such shippers taking such risks can simply lose space options waiting too long to place a booking based on the market conditions and rate levels at the time.

Peak Season also calls for a time where **bookings need to be made further in advance** to avoid the risk of late cargo arrivals to the final destination. We suggest that during periods of tight space, bookings be made **between two (2) and three (3) weeks in advance**, which will significantly improve the chances of making an intended Departure Date from origin. Shipper ready dates and container cut-off dates at the terminals need to be made as booked, or there is a high risk of being rescheduled to a vessel that is much later should the next vessel or two already be fully booked.

Panama Canal Transit Draft Update

The water levels continue to be monitored in Gatun Lake during a dry season that has seen a significant drop in its levels and impacting passage through the Panama Canal. Increased rainfall can improve the situation, but lack of recent rains continues to force the steamship lines to observe weight restrictions to maintain the transit draft limits. This will impact All Water Services from Asia to the USA Gulf and East Coast ports. Space and weight constraints can continue to cause booking rejections until the levels normalize or force the steamship lines to offload cargo to meet the maximum authorized draft at the time of passage.

Low-Sulfur Surcharge Reminder

As a strong reminder and as we have been actively reporting the past few months, the IMO (International Maritime Organization) has implemented an initiative called IMO2020 to improve environmental protection. On **January 1, 2020**, steamship lines and all modern commercial ships will be required to use low-sulphur compliant fuel oil and must reduce emissions by use of exhaust gas cleaning systems such as scrubbers. The cost to manage and maintain compliance will be significant and is being passed on to customers and the trade in the form of a surcharge. An estimated USD 24 billion will be spent by the container shipping industry to meet these requirements. Such **low-sulphur surcharges** have already been established by the carriers as part of their list of surcharges that are built on top of the ocean freight rates. These have been minimal so far and upon contract negotiations for the May 1, 2019 to April 30, 2020, the steamship lines have made the **low-sulphur and/or emission control surcharges** part of their **"floating"** rate levels that will adjust up and down based on market conditions. This is not to be confused with a standard bunker charge **like BAF (Bunker Adjustment Factor)**, which represents the recovery from the fluctuation in oil prices. As the IMO2020 is implemented, the combined cost of Bunker and Low-Sulphur surcharges will represent a significant amount on top of the ocean freight rates. Should the carriers fail to pass through enough cost, relative to these factors, the withdrawal of capacity would be very likely. **UNOFFICIAL** ranges of the increase that could be expected per container are very vague and have been suggested by various analysts to be between **$250 to $500** per container. This is NOT the official notification by American Shipping and we will advise as soon as we have official announcements from the steamship lines directly, which is not expected until a time closer to the implementation date.

Steamship Line Announcements

Hyundai Merchant Marine (HMM) has announced that it will join THE Alliance in April of 2020 (subject to regulatory approval) as a full member. HMM will represent the fourth carrier within the alliance that is currently made up of Ocean Network Express (ONE), Hapag Lloyd, and Yang Ming Lines, which just renewed their partnership until 2030.

ZIM Lines, together with their strategic cooperation with the 2M Alliance (Maersk & MSC), which joined services as of September 2018 to expand sailings between Asia and the US East Coast, have officially announced further expansion, with two new direct lines to support both Eastbound and Westbound trade, between Asia and the U.S. Gulf region. This service will begin this August, with sailings to and from Pusan, Xiamen, Yantian, Houston, Mobile and Tampa.

Our NVOCC American International Cargo Service Expansion

We have further expanded our network and improved our global presence. **American International Cargo Service (AIC)**, our NVOCC division of American Shipping Company, has officially branded more AIC offices with key partners in **India, Vietnam, Cambodia, Taiwan, Pakistan, Bangladesh, Indonesia and Rotterdam**. Should you need assistance in these areas, please do let us know.

Should you have any questions, need assistance, or desire more information regarding our services or rates, please do not hesitate to contact your account representative or local handling office. For pricing, you can send your requests to: QUOTES@shipamerican.com