



December 1, 2015

Transpacific Eastbound Market Update

To Our Valued Customers:

**Market Conditions:** As stated in previous market letters, space availability and spot rate pricing in the TPEB market through early December- especially to East and West Coast base ports - continues to reflect conditions of over-capacity. Despite significant capacity cuts in the market, rate level erosion has continued - mostly to the East and West Coast base ports.

**Idle Fleet Build-up Update:** According to Alphaliner (Weekly Newsletter: Volume 2015, Issue 47, Page 6), the global idle capacity as of mid-November, 2015 was at 1.24 million TEUs (the previous high was 1.52 million Teus in December, 2009 – which resulted in a capacity shortage and a sharp increase in spot pricing). Carriers continue to idle more capacity as the winter slack season approaches. This systemic reduction in market capacity is something we are watching closely, as once enough capacity is reduced to tip the balance between supply and demand, market conditions will change quickly.

**Winter Scheduling:** Carriers have accelerated their winter scheduling adjustments to rationalize capacity to the seasonal reduction in demand. The adjustments that we are seeing are primarily within the G6 Network of carriers (APL, Hapag Lloyd, NYK, OOCL, MOL, and Hyundai), CKYH+E, and Maersk/MSC. What is slightly different from years' past is that many of these skipped rotations are not being announced in advance, so planning for them has been difficult.

**General Rate Increases:** Carriers continue to attempt to mitigate the rate erosion in the marketplace by implementing periodic GRIs. The attempt by carriers to implement a GRI on December 1, 2015 was largely unsuccessful, with some carriers postponing it until December 15, 2015. In addition, carriers have announced a pre-Chinese New Year GRI effective January 1, 2016 as follows:

US West Coast and WC/IPI:	\$960/20'	\$1200/40'	\$1350/HQ	\$1520/45'
US East Coast/Gulf Coast AWE:	\$1440/20'	\$1600/40'	\$1800/HQ	\$2025/45'

**Peak Season Surcharge:** Yes, a PSS... Carriers in the TP trade have filed a PSS to be effective as early as January 1, 2016 in the amount of \$360/20', \$400/40', \$450/HQ, and \$510/45'. This would be in addition to the GRI stated above.

**Will These Rate Increases Go Through?:** There is no question that rate levels today are at their lowest point in decades, not just to the US, but Asia to Europe and Asia to South America as well. So the question really is whether capacity cuts that are underway will be enough to impact supply/demand. And with Chinese New Year fast approaching, we do expect space to tighten in January and in some areas, the remaining vessels will be overbooked. In fact, we are just now starting to see space tighten in some smaller markets and ports. The expectation is that as this happens, the rate levels in the spot market will climb.

**Lunar New Year 2016 Reminder:** The Lunar New Year will be February 8, 2016.

Our #1 priority as always is to help maintain our customers' competitiveness, to keep your cargo flowing as quickly and as consistently as possible, and to continue to communicate effectively along the way. It will be a while before we can get back to some sense of normalcy in our market – whatever normal is these days. And until that happens, we are 100% committed to navigating through this with you - as your partner.

We thank you for your continued support.

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