December 8, 2015 **Transpacific Westbound Market Update**

To Our Valued Customers:

Market Conditions: Rate levels in the US export market continue to be driven by supply overcapacity – in virtually every trade lane. While this long term pattern may continue for some time, there are near term changes that are possible that we would like to communicate to all of you.

Idle Fleet Build-up Update: According to Alphaliner (Weekly Newsletter: Volume 2015, Issue 49, Page 4), the global idle capacity as of November 30, 2015 was approximately 1.4 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 are expected to idle even more capacity (1.5 million TEUs expected by the end of December) as the winter US import 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. Conditions in early 2010 are quite similar to conditions today, and should carriers continue to cull capacity and services, we expect export rate levels to rebound somewhat, even if temporarily, in early 2016.

Winter Scheduling and Chinese New Year: Carriers have accelerated their winter scheduling adjustments to rationalize capacity to the seasonal reduction in demand – primarily driven by US import 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.

When Will I Be Most Affected? Much of the capacity decision making on the carrier side is driven by import demand. So what we are seeing now in the skipped rotations and increased idle fleet won't impact the US export market fully until late December and last potentially through March, 2016.

General Rate Increases: General Rate Increases have been planned and mostly postponed all year in the US export market. And more have been announced for early January by many carriers.

Will These Rate Increases Go Through?: There is no question that average rate levels today are at their lowest point in years, not just from the US, but in all global markets. So the question really is whether capacity cuts that are underway will be enough to impact supply/demand. And if they are, we expect space conditions in the US export trades to deteriorate and for rate levels to rebound in Q1 and Q2 of 2016.

What Should I Do About It?: As we have communicated in the past, whenever there is a possibility of space and equipment disruption in the US export markets, we implore our customers to share projections with us in advance and to book early – as much as 3 to 4 weeks in advance. Many of you who are reading this today have navigated through similar markets (2010, 2012, even early 2015 with the port strike) and so this is not new.

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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