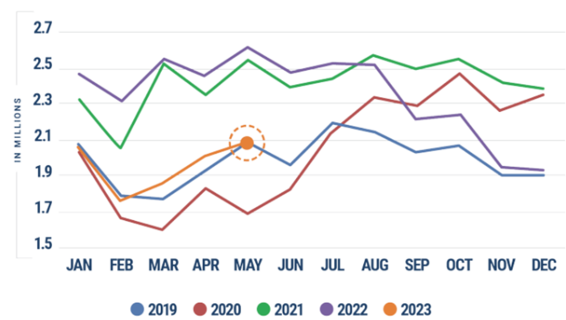
OCEAN MARKET UPDATE

JUNE 2023

CURRENT STATE

- Cargo operations at West Coast ports returned to normal on June 13th following a cooling-off period agreed upon by the International Longshore and Warehouse Union (ILWU) and maritime employers. The joint meeting, which included Julie Su, the nominee for Labor Secretary in the Biden administration, aimed to break the deadlock in contract negotiations, particularly regarding wages. The job actions taken by ILWU locals in the Pacific Northwest and Southern California were temporarily halted for the night shift on June 12th, allowing West Coast ports to operate without disruptions on June 13th. Terminal operations in Los Angeles, Long Beach, Oakland, Seattle, and Tacoma were reported to be back to normal, with no major issues encountered. Some terminals in Los Angeles and Long Beach were shorted key workers last week by ILWU locals, causing a vessel backlog because ships could not leave port. However, the situation improved after the cooling-off period was initiated. Finally, on June 14th, maritime employers and the ILWU announced they had tentatively agreed on a new six-year contract covering all 29 ports along the US West Coast. However, the parties would not release details of the tentative agreement.
- BNSF Railway launched regular intermodal service from the Port of Houston to Dallas and Denver on June 2nd. The service will operate from Houston's Barbours Cut container terminal to BNSF's Alliance facility in Dallas and its Denver intermodal facility. Initially, the service to Alliance will have twice weekly cutoffs, with container availability scheduled for the following Thursday and Sunday. The Denver service will be offered once a week. BNSF stated that the frequency of these intermodal services may increase based on the demand at the Port of Houston. While no ocean carrier currently provides inland intermodal service from Houston, BNSF has reportedly been in discussions with Mediterranean Shipping Co., Maersk, Hapag-Lloyd, and Ocean Network Express regarding such a service offering. The new intermodal service fills the gap left since Union Pacific ended its weekly service to Dallas in March 2019 due to low demand.
- May 2023 U.S. container import volumes increased 3.8% from April 2023 to 2,097,313 Twenty-foot Equivalent Units (TEUs). Comparing volumes to May 2022, TEU volume was down 20.0%, but up 0.5% from pre-pandemic May 2019. As with the first four months of 2023, the growth in import volume in May continued to track to 2019 volumes with a difference of 1.3% for the same period in each year.

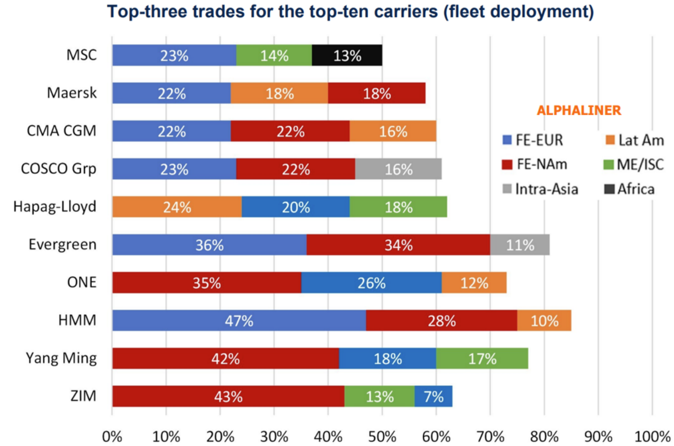
2019-2023 U.S. CONTAINER IMPORT VOLUME (TEUs)



MARKET FORECAST

- In 2018, the International Maritime Organization (IMO) adopted a Greenhouse Gas Strategy (GHG) aligned with the Paris Agreement, a legally binding treaty on climate change. The strategy aims to address climate change and its impact on the environment through global cooperation. As part of this strategy, the IMO introduced regulations in 2023 to reduce carbon emissions from international shipping. The goal is to achieve a 40% reduction by 2030 and a 70% reduction by 2050 compared to 2008 levels. The European Commission has expanded the scope of the EU's Emissions Trading System (ETS) to include CO2 emissions from large ships, regardless of their flag, exceeding 5,000 gross tonnage. The implementation of the IMO 2023 regulation may have implications for the current operating speeds and fleet capacity of ocean-going vessels. The maritime industry expects increased operating costs to ensure compliance with the IMO regulations. While the exact cost of implementation and compliance is not yet known, it is anticipated that some of the additional expenses will be passed on to shippers and merchants.
- U.S. ports covered by Global Port Tracker handled 1.78 million in April, the latest month for which final numbers are available. That was up 9.6% from March but down 21.3% year over year. Ports have not yet reported May final numbers, but the month is projected to be at 1.84 million TEU, down 23% year over year. June is forecasted to be 15.3% down from last year's. That would bring the first half of 2023 to 10.5 million TEU, down 22.3% from the first half 2022. Moreover, July is expected to be 8.8% less year over year; August is likely to be down to 10.5%; September down to 4%. And October down to 2.7%. Import cargo volume at the nation's major container ports is expected to be 22% lower during the first half of 2023 than the same time last year despite increased consumer spending. Even though cargo retailers are entering the busiest shopping season of the year bringing in holiday merchandise, cargo volume is lower than last year. Finally, the third quarter is expected to total 5.97 million TEU, down 7.9% from last year.
- The return to 'normal' trading conditions after the COVID-19 pandemic, which saw record port congestion, a shortage of ships, and sky-high rates for Chinese export cargo, has prompted some carriers to re-adjust their trading portfolios. Although the top 10 liner operators are global carriers, their trading profiles differ significantly. Asian carriers tend to allocate more of their fleets to Transpacific and intra-Asia services. At the same time, European-based operators usually have a stronger presence on North-South routes. When comparing the trading profiles on a year-on-year basis, it is evident that most carriers have reduced the proportion of their fleets engaged in trade between Asia and North America. Asian carriers have been more cautious in their approach. In contrast, the major European carriers have significantly changed their fleet allocations.

Top-three trades for the top-ten carriers (fleet deployment)



Sources: Alphaliner, Container-News, Decartes, Freightwaves, Global Port Tracker, Journal of Commerce (JOC), Sea-Intelligence