

Sea-Intelligence Maritime Analysis

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Sea-Intelligence Sunday Spotlight

January 27, 2019 – Issue 397

Executive Summary

IMF: world trade to grow 4% in 2019-2020

Global economic growth has been revised marginally down to 3.5% and 3.6% for 2019-2020, while World trade growth has plateaued at 4.0% for 2019-2020. With the 90-day trade war truce between the US and China currently in effect, there is still the possibility of escalating trade tensions as we head into 2019-Q2.

Schedule Reliability in 2018

Global schedule reliability in 2018 was the recorded-lowest in eight months of the year, with the 2018 average of 70.8% the lowest in 2012-2018, and down -3.7 percentage points Y/Y. Wan Hai was the most reliable carrier, and Ocean Alliance the most reliable carrier alliance. Both Transpacific trade lanes recorded double digit Y/Y declines, while Asia-NEUR was the only major East-West trade to see a Y/Y improvement, albeit a marginal 0.3 percentage points.

Asia-Europe best for tactical spot "games"

The Asia-Europe spot rates are the most statistically skewed around rate increases, and hence lend themselves better to tactical price speculation by spot shippers than Transpacific or Asia-South America.

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Weekly Indicators

21-27 Jan 2019

Port of Singapore

December 2018
Container
volumes

3.13M TEU
+5.9% Y/Y

Port of Nhava Sheva

December 2018
Container
volumes

445,521 TEU
+6.9% Y/Y

Ports of Seattle/Tacoma

December 2018
Container
volumes

349,055 TEU
+11.6% Y/Y

Port of Houston

December 2018
Container
volumes

221,358 TEU
+7.9% Y/Y

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Editorial: Scrubber concerns mount

With only 11 months to go until the low-Sulphur rules coming into place, the liner shipping industry is (finally) busy preparing for the implementation. As is probably well-known by most, one of the ways in which to comply with the regulation is to install scrubbers on the vessels. This is a solution which some are indeed planning to use, most recently with MSC receiving financing for more than 400 Million USD to install scrubbers on 86 of their vessels.

But the scrubbers themselves are generating quite a bit of discussions as well. Fujairah became the latest port to ban the use of open-loop scrubbers in port. A move which caused the Clean Shipping Alliance to basically accuse ports banning their use, to be unreasonable and unfounded as well as of spreading factually incorrect information.

As open-loop scrubbers have much lower cost and complexity than closed-loop scrubbers, it is clear that ports banning their use becomes a problem. We do not want to “take sides” in this debate, but merely point out that such banning has more to do with politics than facts, and hence lines should not be surprised if more ports follow suit with the banning of open-loop scrubbers in port.

Mind you, open-loop scrubbers will still work just fine in open water out of the ports (disregarding the environmental impact), and hence vessels with open-loop scrubbers therefore merely need to carry enough compliant fuel to cover the part of the journey subject to the ban.

But closed-loop scrubbers are not ideal either. They are expensive and time-consuming to install, more complex to maintain and – worst of all – take up much more space which can reduce the effective cargo intake of the vessel. Closed-loop scrubbers also face the challenge of where to get rid of the collected sludge, as few ports appear to be ready with facilities to handle the toxic residue collected by the closed-loop scrubbers.

Given the magnitude of the cost impact on the industry, this debate over pros and cons of various scrubber types and – importantly – a usage ban of them in some places, is likely to continue throughout 2019. With these challenges. Most vessel owners are likely to play the “waiting game”, and primarily use Marine Gas Oil (MGO) or similar low-sulphur fuels when the new IMO regulations come into effect on January 1st, 2020, rather than investing in scrubbers, even if they are more economical in the long term.

SCFI Spot Rates - Courtesy of Shanghai Shipping Exchange													
		Long-Term Average		Last Week: 18/01/2019		This Week: 25/01/2019							
N.EUR	MED	USWC	USEC	MEA	ANZ	WAF	SAF	ECSA	W-JPN	E-JPN	SEA	KOR	
USD/TEU	USD/TEU	USD/FEU	USD/FEU	USD/TEU	USD/TEU	USD/TEU	USD/TEU	USD/TEU	USD/TEU	USD/TEU	USD/TEU	USD/TEU	USD/TEU
970	960	2,114	3,187	778	542	2,627	828	1,506	226	227	158	146	
960	957	2,039	3,137	736	536	2,600	835	1,468	228	230	156	145	
-1.0%	-2.1%	-3.5%	-1.6%	-5.4%	-1.1%	-1.0%	0.8%	-6.5%	0.9%	1.3%	-1.3%	-0.7%	

IMF: World trade to grow 4% in 2019-2020

Global economic growth has been marginally revised down to 3.5% and 3.6% for 2019 and 2020, while World trade growth has plateaued at 4.0% for 2019-2020. With the 90-day trade war truce between the US and China currently in effect, there is still the possibility of escalating trade tensions as we head into 2019-Q2.

The International Monetary Fund (IMF) recently published the January 2019 update to their October 2018 World Economic Outlook (WEO) report which was titled "*Challenges to Steady Growth*". We covered the October 2018 WEO report in *Issue 384* of the *Sunday Spotlight*. Global growth projections for both 2019 and 2020 were revised downwards in October, with the risks to global growth tilted on the downside, partly due to the negative effects of the US-China import tariffs that came into effect in the second half of 2018.

In this week's *Sunday Spotlight*, we will review the January WEO update, and examine whether economic activity in the major advanced and emerging economies in 2018 has resulted in any changes to the overall growth projections for 2019 and 2020. These macro-economic trends, although not directly comparable to the container shipping industry, are good indicators of

the general health of the global economy and can provide a guide to the direction that global trade is headed in.

Readers with a keen interest in the underlying assumptions, arguments and conclusions can find the original WEO report and updates on the IMF website, at <http://www.imf.org/en/publications/weo>

Methodology

The WEO report is a financial report, which means that global trade growth is measured in monetary terms rather than in terms of container volumes or weight, which would have been more relevant for the container shipping industry. However, as we analysed in *Issue 383* of the *Sunday Spotlight* in the article titled, "*Merchandise Trade vs. CTS Demand*", there is a highly significant positive relationship between trade and container demand, although the strength of the relationship varies by trade lane.

Furthermore, it is important to know that the outlook in the WEO report is based on certain assumptions, and if they are not met, the economic projections will be affected, and so will the impact on the container shipping industry.

The report also highlights key aspects of individual economies, both advanced and emerging, delving into the driving forces behind certain assumptions and growth projections. The report also stresses on key economic indicators, gauging the health of the economy, and on the perceived risks to the current economic recovery, such as the recent trade war between the US and China.

Please note that all mentioned revisions, unless stated otherwise, are relative to the October 2018 WEO report published by the IMF.

Lastly, below are a few abbreviations used in the charts:

- AE: Advanced Economies.
- EMDE: Emerging Markets & Developing Economies.
- MENA (Figure A5): Middle East and North Africa, including (but not limited to) UAE, Saudi Arabia, Egypt, Morocco, Djibouti, and Pakistan.

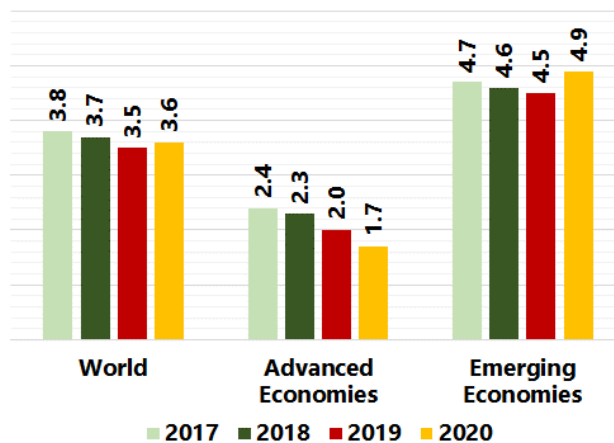
- SSA (Figure A5): Sub-Saharan Africa, including (but not limited to) Nigeria and South Africa.

Figures

All figures show IMF’s projections for the relevant economic growth (global, trade, or country-wise) for 2019 and 2020, as well as the recorded growth figures for 2017 and 2018. Additionally, figure A3 shows the revisions to the world trade growth figures made by IMF relative to the October 2018 publication.

Global economic developments

Fig. A1: Global Economic Outlook



The latest WEO figures show that not only was global economic growth slower in 2018 than 2017, it is expected to grow even slower in 2019, with 2020 currently projected to arrest the slide. The global economy is projected to grow by 3.5%

and 3.6% in 2019 and 2020, respectively, revised downwards by -0.2 and -0.1 percentage points relative to the October 2018 report. In comparison, global economic growth in 2018 was 3.7%, which was what was projected for the year in the October 2018 report.

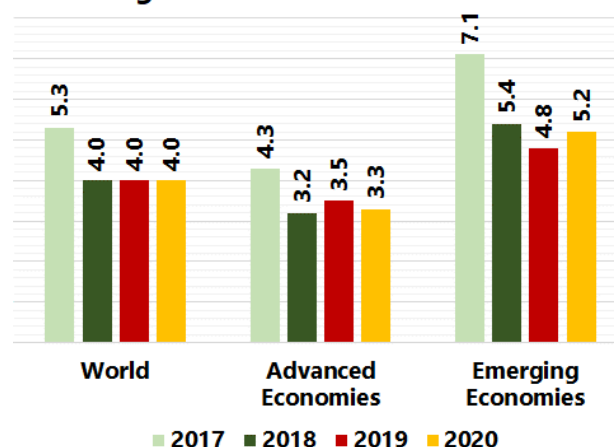
While the escalating trade tensions (at that time) between US and China were the cause of downwards revisions in October, according to IMF, the further downwards revisions in January are due to, “[...] carry over from softer momentum in the second half of 2018 [...]”, due to disappointing third-quarter growth in some economies, amidst a weakening financial market sentiment and trade policy uncertainties.

Economic growth is also projected to slow down in the advanced economies all the way through to 2020, with the 2019 and 2020 growth projections at 2.0% and 1.7%, respectively. While the growth projection for 2019 was revised down by -0.1 percentage points, there was no revision to the 2020 economic growth projection. If the IMF projections hold, growth in economic activity in the advanced economies will have slowed for three consecutive years.

The emerging economies are also expected to see a slowdown in economic growth. Economic growth in 2018 was in stark contrast to the strong growth of 7.1% in 2017, with the 2018 growth rate dropping by a sharp 1.7 percentage points Y/Y to 5.4%. Economic growth for 2019 is projected to slow down even further to 4.8%, while the projections for 2020 are 0.4 percentage points higher at 5.2%. Growth projection for 2019 was revised down by -0.2 percentage points, while there was no change in the projected economic growth for 2020.

Developments in World Trade

Fig. A2: World Trade Outlook



World trade grew by 4.0% in 2018 and is expected to grow at the same pace in 2019 and 2020. While the 2019 growth projection was not revised, the 2020 projection was marked down by -0.1 percentage points (as illustrated in

figure A3). The WEO report noted that the risks to global growth tilt on the downside, as "An escalation of trade tension beyond those only incorporated in the forecast remains a key source of risk to the outlook".

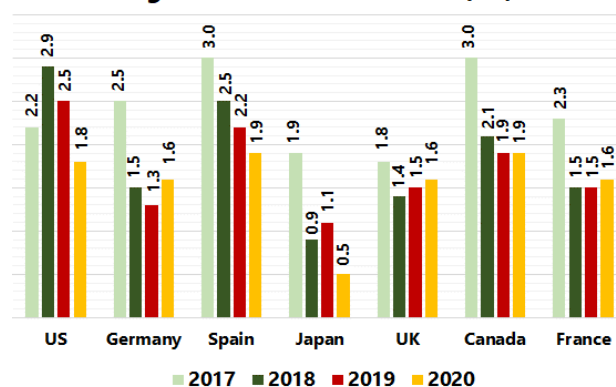
As we have noted in many previous *Sunday Spotlight* articles, the front-loading of Transpacific 2019-Q1 volumes into 2018-Q4 in an effort to get ahead of the expected January 1st tariff hike (which is currently on hold due to the trade war truce between US and China), will have artificially lifted the trade figures for the year, which is also what the IMF notes in the report saying that, "The true underlying impetus could be even weaker than the data indicate, as the headline numbers may have been lifted by import front-loading ahead of tariff hikes [...]".

Trade in the advanced economies is slated to grow by 3.5% in 2019 and 3.3% in 2020, with both years' projections having been marked down by -0.1 percentage points. Trade growth in the emerging markets is projected to slow down from 5.4% in 2018 to 4.8% in 2019. In 2020 however, trade growth is projected to improve to 5.2%. The

downwards revisions in both economies is a result of tightening financial conditions and the subdued outlook of world trade due to trade tensions, especially between China and the US.

Updates on individual countries

Fig. A4: Economic Outlook (AE)



The growth forecast for the US has not been revised. That said, economic growth is expected to slow down, with growth projected to drop from 2.9% in 2018 down to 2.5% in 2019 and even further down to 1.8% in 2020. Economic activity is also projected to slow down in Canada, with growth projections for 2019 and 2020 at 1.9% for each year. Canada's 2019 economic growth projection for 2019 was marked down by -0.1 percentage points, while their

Table. A3: Revisions in World Trade Projections

	2018	2019	2020	Diff. From October 2018 update	
				2019	2020
World Trade Volume*	4.0	4.0	4.0	0.0	-0.1
Advanced Economies*	3.2	3.5	3.3	-0.1	-0.1
Emerging Economies*	5.4	4.8	5.2	0.0	0.1

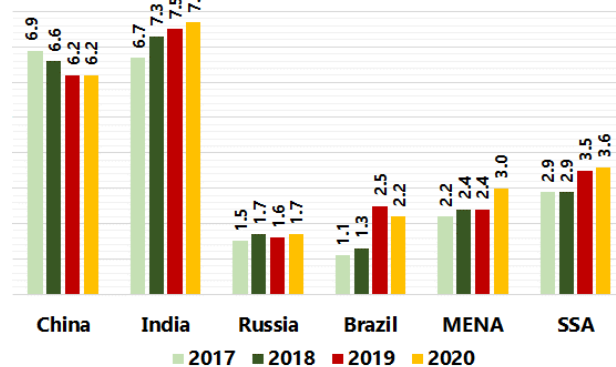
* Simple average of growth rates for export and import volumes (goods and services)

2020 growth projection was marked up by 0.1 percentage points.

Of the Euro area economies, Germany’s projected economic growth for 2019 was marked down heavily by -0.6 percentage points to 1.3%, while their 2020 projection remains unchanged at 1.6%. the downwards revision for Germany was due to, “[...] *soft private consumption, weak industrial production following the introduction of revised auto emission standards, and subdued foreign demand.*”

The Japanese economy’s 2020 growth projections in October 2018’s WEO report were only 0.3%, which have been marked up in the January update by 0.2 percentage points to 0.5% following “[...] *additional fiscal support to the economy this year, including measures to mitigate the effects of the planned consumption tax rate increase in October 2019.*” UK’s growth projections for 2019 and 2020, of 1.5% and 1.6% are based on the assumption that a Brexit deal is reached in 2019 and there is a gradual transition to the new regime. However, IMF also acknowledges that at present, it is uncertain what shape the Brexit deal will take.

Fig. A5: Economic Outlook (EMDE)



The impact of the US-China trade war on China’s economic growth projections for 2019 and 2020 were already accounted for in the October 2018 WEO report, and despite the announcement of a 90-day cool-off period between the two countries, there has been no revision to the projected growth, which is still at 6.2% for both years.

Growth in the MENA region was marked down by -0.3 percentage points in 2019 to 2.4%, due to varying factors such as trade sanctions on Iran, tightening fiscal conditions in Pakistan, and weak oil output growth in Saudi Arabia. India on the other hand has benefitted from lower oil prices, with its economy now projected to grow 7.5% in 2019, marked up by 0.1 percentage points, and 7.7% in 2020 (unchanged from October WEO).

The SSA region has seen the largest downwards revisions across the

emerging countries, with a -0.3 percentage point downwards revision in both years, for a projected 2019 and 2020 economic growth rate of 3.5% and 3.6%, respectively. That said, the report notes that there is significant variation in the economic performance of the countries in that region, with “[...] *over one-third of sub-Saharan economies expected to grow above 5 percent in 2019-20*”.

Brazil’s economy is also expected to continue to recover from the 2015-2016 recession with an upwards revision to the 2018 forecast of 2.4%. Russia’s growth projections for 2019 and 2020 were revised down by -0.2 and -0.1 percentage points, respectively, to 1.6% and 1.7%.

Conclusion

The January update to the WEO report is cautiously optimistic. While world trade is expected to grow by 4.0% in each of 2019 and 2020, there are several risk factors apart from escalating trade tensions that may derail this growth, including, “[...] *a ‘no deal’ withdrawal of*

the United Kingdom from the European Union and a greater-than-envisaged slowdown in China.”

Furthermore, while the US and China announced a 90-day truce on December 1st, there is still the possibility of trade tensions escalating in the Spring as we head towards the critical peak season. If this is the case, we may see another phase of front-loading volumes, only this time the impact would be greater on carriers, as shippers would front-load peak season Q3 volumes into the slack season Q2, where freight rates are lower.

While the global economy is projected to grow by 3.5% in 2019 and 3.6% in 2020, economic growth has been disappointing in some economies, with Germany’s economy revised downwards by -0.6 percentage points in 2019, while Japan’s economy is only expected to grow by 0.5% in 2019. China and India’s economy on the other hand is projected to grow by 6.2% and 7.5% in 2019, respectively, with the Chinese economy’s growth projections receiving no revisions.

Schedule Reliability in 2018

Global schedule reliability in 2018 was the record-lowest in eight months of the year, with the 2018 average of 70.8% the lowest in 2012-2018, and down -3.7 percentage points Y/Y. Wan Hai was the most reliable carrier, while Ocean Alliance was the most reliable carrier alliance. Both Transpacific trade lanes recorded double digit Y/Y declines, while Asia-NEUR was the only major East-West trade to see a Y/Y improvement, albeit a marginal 0.3 percentage points.

With the January 2019 issue of the Sea-Intelligence Global Liner Performance (GLP) report now published, we now have schedule reliability measurements for all deep-sea liner vessel arrivals in 2018, and we are now able to do an in-depth review of the schedule reliability trends of 2018, and compare them with those over the past few years.

In this article, we will analyse in detail how global schedule reliability in 2018 shaped up, and how it compared to the earlier years. We will also look across the individual carriers and carrier alliances to see how they have performed in 2018 in terms of schedule reliability, and how it compares to their schedule reliability scores in the past two years.

In the end, we will shift our focus towards the six main East/West trade lanes (as outlined in the methodology) and the schedule reliability trends since 2013 in

each of them. We will also highlight the carriers in each trade lane with the best/worst schedule reliability in 2018.

Methodology

The data for this analysis is sourced entirely from Sea-Intelligence's industry-leading Global Liner Performance (GLP) database, where each month we benchmark the schedule reliability of more than 60 named carriers, across 34 different trade lanes, based on more than 12,000 monthly vessel arrivals.

According to our methodology, "on time" is defined as actual vessel arrival within plus or minus one calendar day of the scheduled arrival. Each carrier's schedule reliability is based on the schedule reliability of all the deep-sea services that the carrier offers to their customers, including services where the carrier operates some or all vessels themselves,

services operated in alliances, through slot charter agreements, or in vessel sharing agreements (VSAs).

This analysis focuses primarily on the monthly developments in schedule reliability in 2018, compared to that of the past years, covering schedule reliability from four different perspectives: global, carrier, alliance, and a trade lane perspective.

Figure B1 of the **global** section shows the monthly global schedule reliability for the 2013-2018 period, while figure B2 shows the Y/Y changes compared to both 2016 and 2017.

In the **carrier** section, figures B3 and B5 show the schedule reliability of the carriers for 2018, broken down into 'top-15' and 'niche' carriers, respectively. In Figure B3 we have excluded K-Line, MOL, and NYK as they were only operational until April 2018, while for both charts, we have excluded carriers that did not have a vessel arrival in 2018. Figures B4 and B6 on the other hand show the Y/Y changes in schedule reliability compared to 2016 and 2017, with both charts sorted in descending order of the carrier scores in 2018.

Figure B7 in the **alliance** section shows the schedule reliability of the major

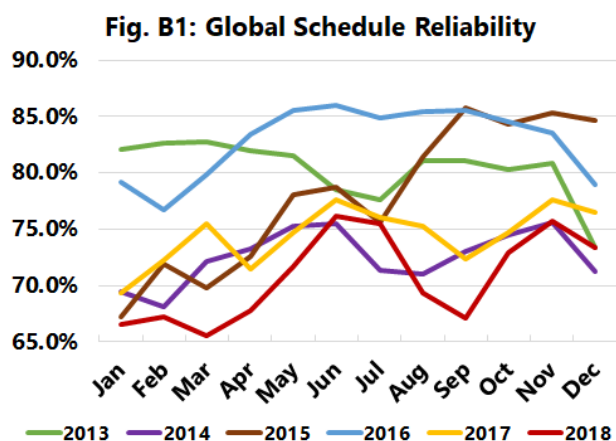
carrier alliances and covers the period from February 2015 to December 2018, broken down monthly for better visibility. Furthermore, the alliance scores are based on the six major East/West trade lanes (mentioned in the trade lane section), while the industry score is based on all services (alliance and non-alliance) that are offered in these six trade lanes. Furthermore, all scores are based on a two-month running average to ensure enough data points for the scores to be representative. Lastly, we have labelled 'CKYHE' as 'CKYE' for ease of analysis even though it includes scores for Hanjin vessels whilst the Korean carrier was still operational.

The **trade lane** section covers the six main East/West trade lanes, namely: Asia-North America West Coast (Asia-NAWC), Asia-North America East Coast (Asia-NAEC), Asia-North Europe (Asia-NEUR), Asia-Mediterranean (Asia-MED), Transatlantic Westbound (TATL WB), and Transatlantic Eastbound (TATL EB). While naming the top carriers within each trade lane, we have ignored those with less than 100 arrivals across 2018 in order to make the comparison fair and representative. Please note that the trade lanes industry score includes all carriers and is not affected by this methodological choice. Please also note

that the trade lane scores are calculated on a running two-months basis as well, to ensure that there are enough vessel arrivals for the scores to be representative.

Readers interested in the full scope of our schedule reliability analysis are referred to our monthly 116-page Global Liner Performance (GLP) report, which covers schedule reliability and vessel delays from both a global perspective, and across 34 trade lanes in depth.

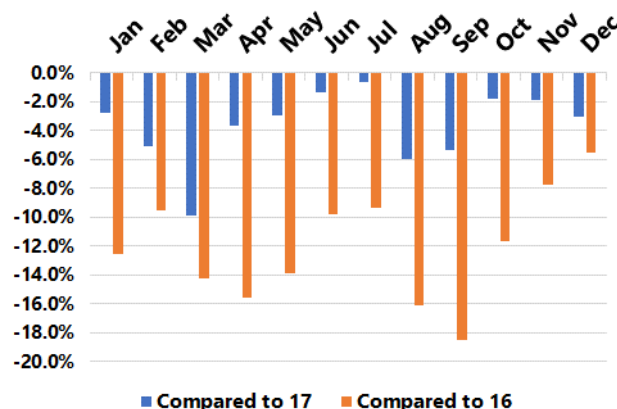
Global schedule reliability



Global schedule reliability has been very poor in 2018, with the lowest schedule reliability across the analysed years in 8 out of the 12 months of 2018. The average schedule reliability across the year was 70.8%, which is not only the lowest in the analysed period, but is also 3.7 percentage points lower than the 2017 average (74.5%), and 1.8

percentage points lower than the previous lowest schedule reliability of 72.6% in 2014. Even though schedule reliability improved in December 2018, it was still the joint second-lowest schedule reliability in the analysed years, of 73.4% (lowest: 71.3% in 2014). Furthermore, schedule reliability in March 2018, of 65.6%, dropped to the lowest point across any month since Sea-Intelligence starting measuring schedule reliability in mid-2011.

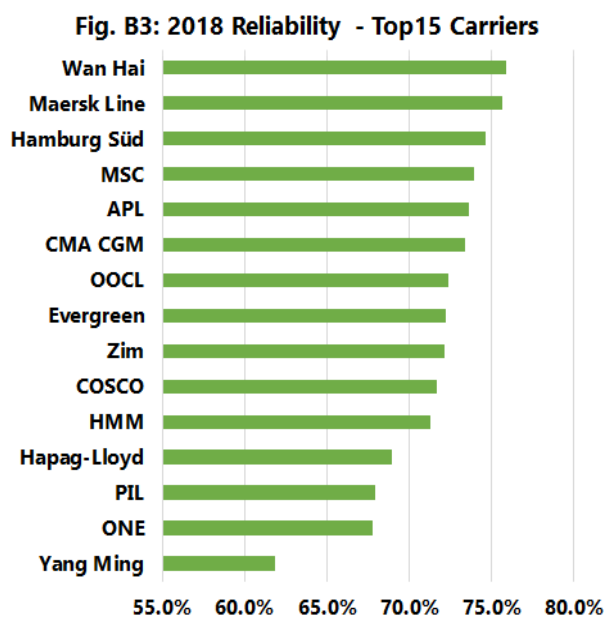
Fig. B2: Schedule Reliability Y/Y



A Y/Y comparison with both 2016 and 2017 shows that for every month of the year, schedule reliability in 2018 was not only lower than in 2017, but also considerably lower than that in 2016. The closest that the 2018 schedule reliability has come to that of 2017 was in June and July, when the difference dropped down to -1.4 and -0.6 percentage points, respectively. On the other hand, schedule reliability levels in 2016 were some of the

highest in the analysed years, and on average, schedule reliability in 2018 was -12.1 percentage points lower than in 2016.

Schedule reliability across top-15 carriers



Wan Hai had the highest recorded schedule reliability in 2018 of 75.9%, achieving the top place in 5 out of the 12 months in 2018. Wan Hai was followed closely by Maersk Line with an average schedule reliability of 75.6%. Recent Maersk Line acquisition and long-term high performer in schedule reliability, Hamburg Süd, followed with 74.6%, while Maersk Line’s 2M alliance partner, MSC, scored 73.9% for a fourth-place ranking in 2018. APL and CMA CGM rounded off the top six with 2018 schedule reliability of 73.6% and 73.3%, respectively.

On the other end, all three THE Alliance members were in the bottom four, with Yang Ming recording the lowest 2018 schedule reliability of 61.8%, followed by ONE with 67.7% (although their score is only recorded from their launch in April 2018 and onwards). PIL had the third-lowest schedule reliability of 67.9%, with Hapag-Lloyd the fourth-lowest with schedule reliability of 68.9%.

Fig. B4: Y/Y comparison of schedule reliability of top-15 carriers

Carriers	2016	2017	2018	Y/Y to 2017	Y/Y to 2016
Wan Hai	88.2%	81.0%	75.9%	-5.2%	-12.4%
Maersk Line	84.5%	76.6%	75.6%	-1.0%	-9.0%
Hamburg Süd	86.6%	79.7%	74.6%	-5.1%	-12.0%
MSC	84.3%	76.8%	73.9%	-2.9%	-10.4%
APL	82.9%	76.8%	73.6%	-3.2%	-9.3%
CMA CGM	83.1%	77.2%	73.3%	-3.9%	-9.7%
OOCL	83.3%	77.5%	72.4%	-5.1%	-11.0%
Evergreen	83.8%	79.1%	72.2%	-6.9%	-11.6%
Zim	84.9%	76.1%	72.1%	-4.0%	-12.8%
COSCO	82.9%	77.3%	71.6%	-5.7%	-11.3%
HMM	82.2%	77.2%	71.2%	-5.9%	-10.9%
Hapag-Lloyd	84.0%	75.0%	68.9%	-6.0%	-15.0%
PIL	83.8%	72.6%	67.9%	-4.7%	-15.9%
Yang Ming	82.1%	71.9%	61.8%	-10.1%	-20.3%

While none of the carriers recorded a Y/Y improvement in schedule reliability compared to both 2016 and 2017, we will focus more on the Y/Y comparison with 2017. Maersk Line recorded the smallest Y/Y decline in schedule reliability, of -1.0 percentage point, with the next five carriers all recording Y/Y declines within 5.0 percentage points. Not only did Yang Ming see the highest Y/Y decline in schedule reliability, they were also the only carrier to record a double-digit Y/Y decline, of -10.1 percentage points. Wan

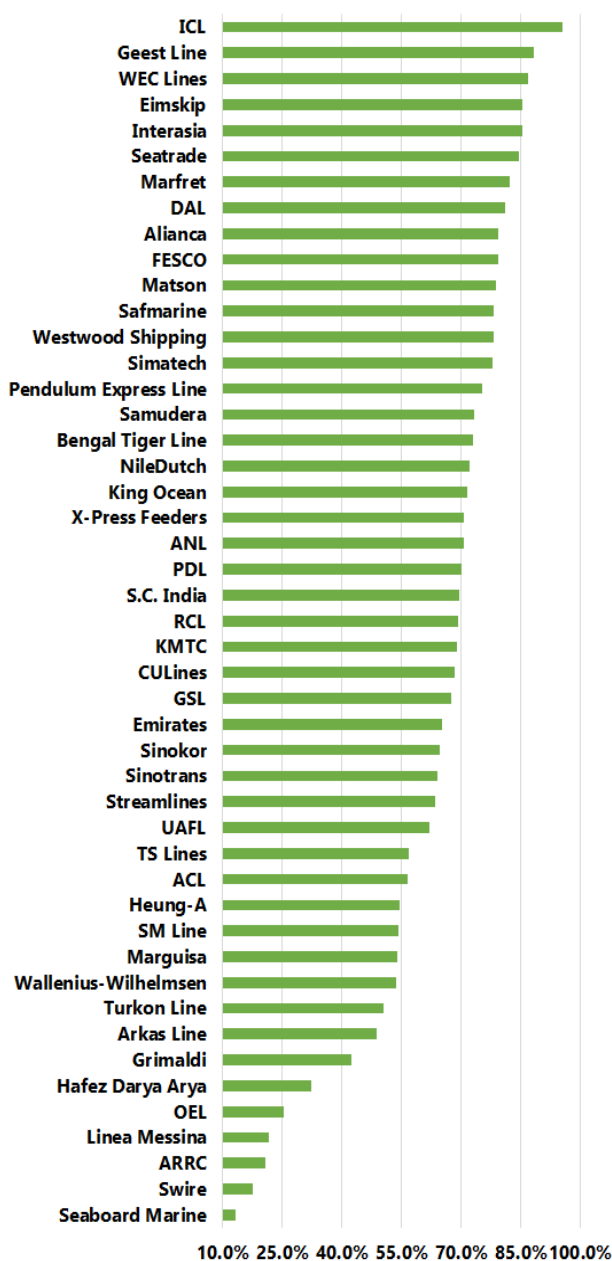
Hai, which was the most reliable carrier in 2018, achieved the top spot despite seeing a Y/Y decline in schedule reliability of 5.2 percentage points.

Schedule reliability across niche carriers

Operating a single service on the Transatlantic trade, ICL was the most reliable niche carrier in 2018, recording a very high average schedule reliability of 95.5% over the course of the year. Furthermore, ICL also recorded an impeccable schedule reliability of 100% in 6 out of the 12 months in 2018. ICL was followed by Geest Line with schedule reliability of 88.5%, with the next six carriers all scoring higher than 80.0% in 2018. On the other end of the scale, Seaboard Marine had the lowest schedule reliability in 2018, of 13.2%, followed by Swire and ARRC with schedule reliability of 17.7% and 20.7%, respectively.

Partly due to fewer number of vessel arrivals each month, and partly due to the exposure to different markets, schedule reliability for the niche carriers tends to fluctuate considerably more than the top-15 carriers.

Fig. B5: 2018 Reliability - Niche Carriers



As we can see in figure B6, there were 20 niche carriers which recorded a Y/Y improvement in schedule reliability over 2017, with Wallenius-Wilhelmsen and ACL both recording a Y/Y improvement in schedule reliability of 22.0 and 21.6 percentage points, respectively. While five more carriers recorded a double-digit

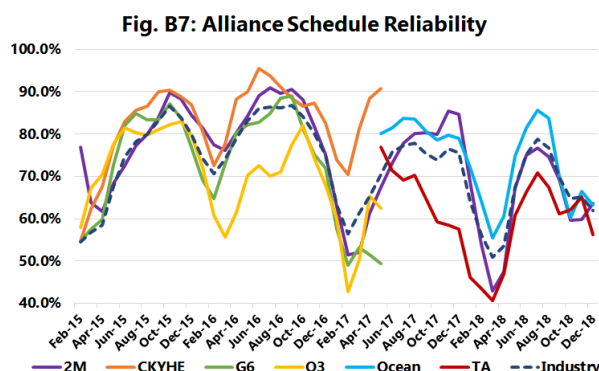
Fig. B6: Y/Y comparison of schedule reliability of niche carriers

Carriers	2016	2017	2018	Y/Y to 2017	Y/Y to 2016
ICL	97.3%	97.8%	95.5%	-2.3%	-1.8%
Geest Line	94.1%	83.7%	88.5%	4.7%	-5.6%
WEC Lines	89.8%	91.8%	86.8%	-5.0%	-3.0%
Eimskip	N/A	70.6%	85.4%	14.9%	N/A
Interasia	91.0%	85.7%	85.4%	-0.2%	-5.6%
Seatrade	91.5%	81.7%	84.5%	2.8%	-7.0%
Marfret	92.6%	90.1%	82.2%	-7.9%	-10.4%
DAL	79.5%	69.3%	81.0%	11.7%	1.5%
Alianza	88.1%	81.9%	79.5%	-2.5%	-8.6%
FESCO	73.0%	72.1%	79.3%	7.2%	6.4%
Matson	85.6%	71.5%	78.8%	7.3%	-6.8%
Safmarine	80.3%	73.8%	78.4%	4.5%	-1.9%
Westwood Shipping	75.8%	72.6%	78.1%	5.5%	2.3%
Simatech	85.6%	82.4%	77.8%	-4.6%	-7.8%
Samudera	91.1%	89.9%	73.3%	-16.6%	-17.8%
Bengal Tiger Line	89.4%	70.0%	73.0%	3.0%	-16.4%
NileDutch	78.8%	68.9%	72.0%	3.1%	-6.8%
King Ocean	85.2%	63.3%	71.6%	8.3%	-13.6%
X-Press Feeders	88.4%	83.5%	70.8%	-12.7%	-17.6%
ANL	84.3%	80.6%	70.6%	-10.0%	-13.7%
PDL	96.1%	87.2%	70.2%	-17.0%	-25.9%
S.C. India	86.4%	84.4%	69.5%	-14.9%	-16.8%
RCL	86.1%	78.3%	69.2%	-9.2%	-17.0%
KMTC	84.7%	72.3%	68.9%	-3.3%	-15.8%
CULines	89.6%	73.5%	68.4%	-5.1%	-21.2%
GSL	87.0%	76.4%	67.5%	-8.8%	-19.5%
Emirates	82.1%	69.3%	65.1%	-4.1%	-16.9%
Sinokor	90.9%	89.8%	64.6%	-25.2%	-26.3%
Sinotrans	86.2%	83.5%	64.0%	-19.5%	-22.2%
Streamlines	92.8%	76.0%	63.4%	-12.6%	-29.4%
UAFL	73.7%	45.5%	62.1%	16.6%	-11.6%
TS Lines	84.2%	73.5%	56.7%	-16.7%	-27.5%
ACL	41.9%	34.9%	56.6%	21.6%	14.7%
Heung-A	85.1%	76.2%	54.5%	-21.8%	-30.7%
SM Line	N/A	71.9%	54.1%	-17.8%	N/A
Marguisa	34.0%	41.2%	53.8%	12.6%	19.8%
Wallenius-Wilhelmsen	38.5%	31.8%	53.8%	22.0%	15.3%
Turkon Line	32.2%	45.6%	50.5%	4.9%	18.3%
Arkas Line	51.7%	38.3%	48.8%	10.5%	-2.9%
Grimaldi	44.2%	36.0%	42.5%	6.5%	-1.7%
Hafez Darya Arya	N/A	35.1%	32.3%	-2.8%	N/A
OEL	31.8%	33.1%	25.5%	-7.5%	-6.2%
Linea Messina	29.8%	20.9%	21.8%	0.9%	-8.0%
ARRC	23.9%	15.4%	20.7%	5.3%	-3.2%
Swire	60.9%	21.3%	17.7%	-3.6%	-43.2%
Seaboard Marine	41.1%	33.0%	13.2%	-19.8%	-27.9%

Y/Y improvement in schedule reliability, only two of these seven (Eimskip and DAL) were amongst the ten most reliable niche carriers in 2018. At the other end, Sinokor and Heung-A both recorded Y/Y declines in schedule reliability that were higher than 20.0 percentage points – of -25.2 and -21.8 percentage points, respectively – and were followed by ten

other carriers with double-digit Y/Y declines in schedule reliability.

Alliance schedule reliability



Although figure B7 starts from February 2015, which is when the 2M and Ocean Three alliances were launched, the period until April 2017 is there mostly for a historical perspective. What we are really interested in is the schedule reliability performance of the three current carrier alliances, especially in the past year.

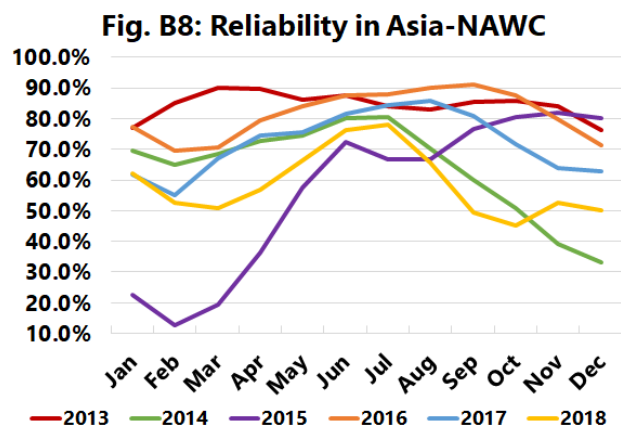
From May 2017 and up until September 2018, Ocean Alliance was the only carrier alliance to have had a higher monthly schedule reliability than the industry average in each individual month. In October 2018, Ocean Alliance slipped below the industry average for the first time, following a sharp M/M decline of 9.9 percentage points.

Furthermore, Ocean Alliance had the highest schedule reliability in 15 out of the

20 months in the aforementioned period, with Ocean Alliance being surpassed by 2M on four of these occasions. On the fifth occasion, in October 2018, THE Alliance came out on top, in what was also the only month in which THE Alliance had the highest schedule reliability of the three alliances.

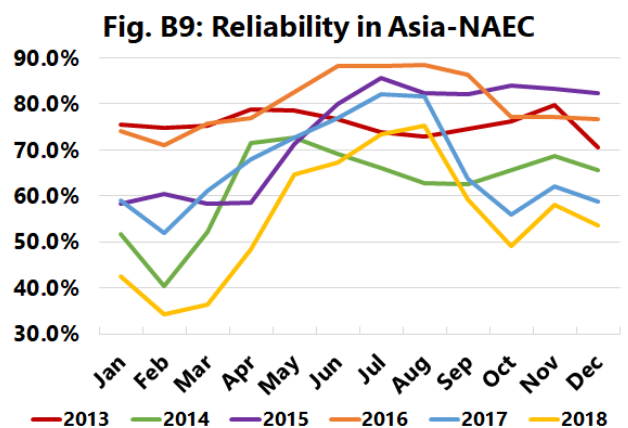
Over the entire past year, Ocean Alliance had an average schedule reliability of 70.1%, a Y/Y decline of -10.9 percentage points. 2M had the second-highest schedule reliability in 2018, of 63.6%, a Y/Y decline of -8.5 percentage points. Even though THE Alliance recorded the smallest Y/Y decline of -7.3 percentage points, it still had the lowest schedule reliability in 2018, of 57.9%.

Trade lane schedule reliability



On the Asia-North America West Coast trade lane, the average 2018 schedule reliability was 59.1%, which was a

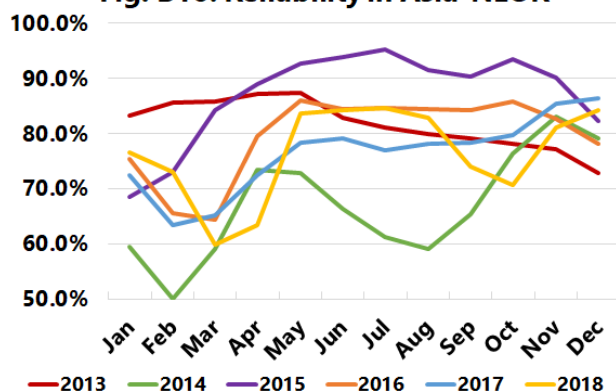
considerable -13.1 percentage points lower Y/Y. Even with the US West Coast port labour dispute causing schedule reliability to plummet in early 2015, the average 2018 schedule reliability on the trade lane was the lowest annual average across the analysed years. Westwood Shipping had the highest 2018 schedule reliability on the trade lane, of 80.8%, followed by Matson with 75.5%. PIL, Hapag-Lloyd, and Yang Ming had the lowest schedule reliability on the trade lane, of 47.7%, 48.9%, and 50.0%, respectively.



Similar to the Asia-North America West Coast trade lane, schedule reliability was very poor throughout 2018 on the Asia-North America East Coast trade lane as well. The average schedule reliability on the trade lane was 55.5% for 2018, which was -10.8 percentage points lower than in 2017, and was the lowest average yearly schedule reliability across the entire analysed period. ZIM and Hamburg

Süd were the most reliable carriers on the trade lane with schedule reliability of 63.0% and 61.5%, respectively, followed by Maersk Line and MSC with 60.8% each. All three THE Alliance carriers had the lowest schedule reliability on this trade lane in 2018, with Hapag-Lloyd and Yang Ming scoring 45.4% each, with ONE having slightly better schedule reliability of 50.4%.

Fig. B10: Reliability in Asia-NEUR



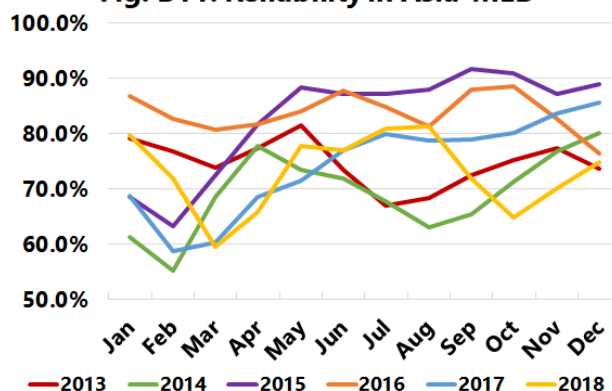
The Asia-North Europe trade lane was the only one of the six major East/West trade lanes to see schedule reliability improve Y/Y in 2018, albeit only marginally by 0.3 percentage points. The average 2018 schedule reliability on the trade lane was 76.8%, which is the third-lowest in the analysed period (lowest: 67.1% in 2014).

While all six East-West trade lanes saw schedule reliability improve as we got closer to the peak season, none of the trade lanes saw that level of schedule reliability sustained for more than a

couple months, with the peak seasons recording the lowest schedule reliability. The Asia-North Europe trade lane was the only trade lane to see the pre-peak level of schedule reliability maintained for the four months between May and August.

FESCO, notably not operating a single vessel in the trade lane but purely offering a single slot charter service, recorded the highest schedule reliability on the trade lane in 2018, of 93.1%, followed by Evergreen and OOCL with 85.3% each. Yang Ming had the lowest schedule reliability on the trade lane, with 69.2%, followed by Hapag-Lloyd with 70.3%, and Hamburg Süd with 73.5%.

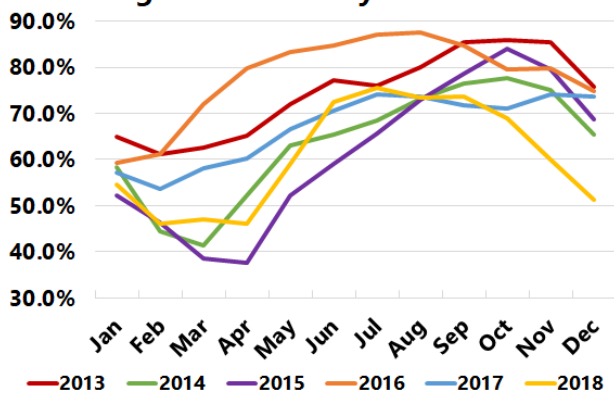
Fig. B11: Reliability in Asia-MED



The average 2018 schedule reliability on the Asia-Mediterranean trade lane was 73.1%, -1.5 percentage points lower than 2017, and the second lowest in the analysed period (lowest: 69.3% in 2014).

Much like the Asia-North Europe trade lane, carriers on the Asia-Mediterranean trade lane managed a relatively higher level of schedule reliability from June to August, before seeing a sharp decrease in September and October 2018 to levels reminiscent of the early part of the year. Safmarine was the most reliable carrier on the trade lane with schedule reliability of 88.0%, followed by ANL and CMA CGM with 83.3% and 80.1%, respectively. All three THE Alliance carriers were at the bottom of the ranking, with ONE having the lowest schedule reliability of 49.3%, followed by Yang Ming with 51.6%, and Hapag-Lloyd with 56.8%.

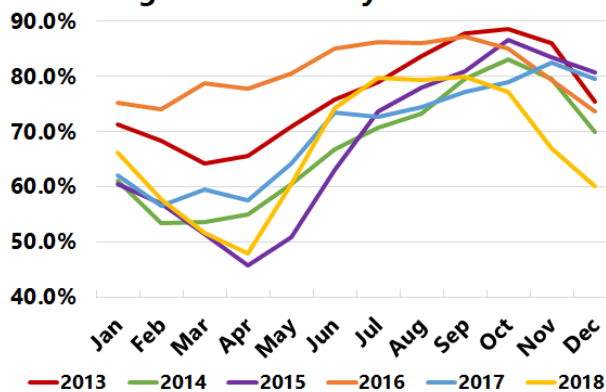
Fig. B11: Reliability in TATL WB



On the Transatlantic Westbound trade lane, we recorded average 2018 schedule reliability of 60.9%, which was -6.4 percentage points lower than the 67.3% recorded in 2017. While the December schedule reliability scores on the trade lane from 2013 to 2017 were fairly close together, December 2018 saw schedule

reliability drop to considerably lower levels, with the difference from the previous lowest in 2014 a staggering 14.0 percentage points. ICL had the highest schedule reliability in 2018, of 94.7%, followed by Eimskip with 91.4%. Turkon Line, Streamlines, and COSCO were the bottom three carriers with schedule reliability of 40.3%, 49.6%, 53.0%, respectively.

Fig. B12: Reliability in TATL EB



The Transatlantic Eastbound trade lane had an average 2018 schedule reliability of 66.9%, which was -3.4 percentage points lower than the 70.3% that we recorded in 2017. Nearly all of the analysed years have followed the same pattern with poor schedule reliability in the winter months due to adverse weather conditions. In 2018 however, the December schedule reliability was not only the lowest in December across the analysed years, but was also almost 10.0 percentage points lower than previous lowest in 2014.

Three carriers – Safmarine, ICL, and Marfret – had schedule reliability of more than 90% in 2018, with Safmarine recording the highest schedule reliability on the trade lane, of 97.1%, followed by ICL with 96.1%, and Marfret with 92.7%. On the bottom end we have HMM with 43.4%, although their score is based on only the first half of the 2018, when they were still offering a product on the Transatlantic trade. Grimaldi, Wallenius-Wilhelmsen, and Turkon Line were the other three carriers at the bottom with schedule reliability of 51.5%, 51.5%, and 52.8%, respectively.

Conclusion

In terms of schedule reliability, and especially from the perspective of shippers, 2018 has been a year to forget. Average schedule reliability across the

entire year has been the lowest since Sea-Intelligence introduced this benchmark in mid-2011, with no carriers, none of the three carrier alliances, and only one of the six major East/West trades recording a Y/Y improvement in schedule reliability.

Wan Hai had the highest schedule reliability of the top-15 carriers, while ICL had the highest schedule reliability of the niche carriers. Ocean Alliance had the highest schedule reliability for most of 2018, while only dropping below the industry average in October 2018. Of the six major East/West trade lanes, both Transpacific trade lanes recorded double-digit Y/Y decreases, while Asia-North Europe was the only trade lane to record a positive Y/Y change, albeit of only 0.3 percentage points.

Asia-Europe best for tactical spot “games”

The Asia-Europe spot rates are the most statistically skewed around rate increases, and hence lend themselves better to tactical price speculation by spot shippers than Transpacific or Asia-East Coast South America.

This week we continue our analysis into price-formation in the various markets, and the topic of our interest this week is the changes in spot rates in a given week, as a consequence of the change seen in the past week.

In other words, we wish to explore questions such as whether a high increase is often followed by a decrease, whether a large decrease is followed by stability etc.

If – statistically speaking – there is a skewed likelihood of such developments, such statistical bias can be utilized by those spot shippers who have the ability to hold back cargo for a week given a specific development in the spot rates.

The underlying data for this analysis is the SCFI spot rate index from March 2009 to January 2019. We have used the data to first calculate the weekly change in the spot rate from week 1 to week 2.

Then we calculate the spot rate change in the subsequent week – i.e. the change in rate from week 2 to week 3.

With this dataset we can then explore whether there is a link between the rate change in first week and the subsequent week, and if there is such a link, what does it consist of and how to take advantage of it from a shipper perspective.

Asia-North Europe

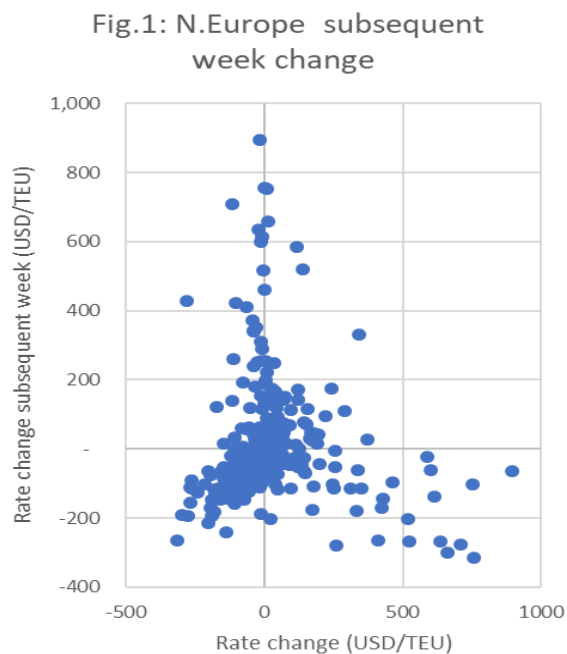


Figure 1 shows a scatter plot where the x-axis shows the weekly rate change

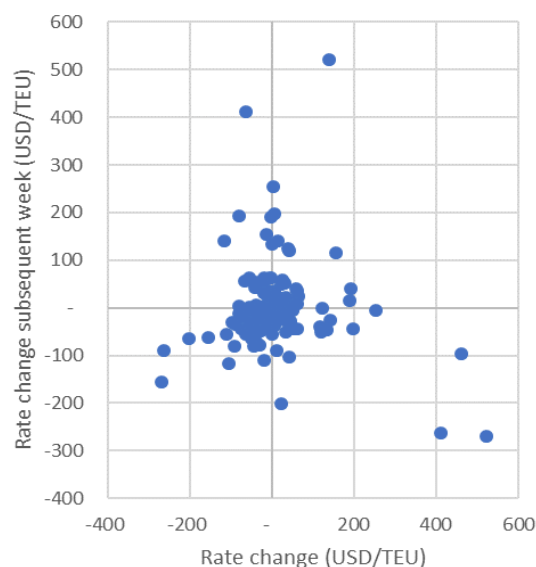
from week 1 to week 2 and the y-axis shows the rate change in the subsequent week, i.e. from week 2 to week 3.

From figure 1 we can see that the pattern is clearly not symmetrical. The asymmetric nature in itself tells us that – statistically speaking – the rate change from week 1 to week 2 does at times contain information for week 2 to week 3.

Before proceeding, it is worth exploring whether the pattern seen in figure 1 remains valid in 2019. After all, last week’s Sunday Spotlight did show that the volatility in Asia-Europe had declined sharply in the wake of the market crash in 2016. Potentially this could also have impacted the pattern seen in figure 1.

Therefore figure 2 show the same concept as figure 1, with the difference being that we have now narrowed the dataset to only include spot rates from the period January 2016 to January 2019.

Fig.2: N.Europe subsequent week change
Jan '16 - Jan '19



Clearly the data set is smaller, but elements of the same pattern remains visible.

The key takeaway from the Asia-North Europe trade is therefore the following:

In weeks where the spot rate increases more than 300 USD/TEU, we invariably see a subsequent decline in rate levels in the following week. This rate decline is typically on the order of 100-300 USD/TEU.

We also see that large rate increases most often follow a week with very limited rate change – in essence almost all major increases are seen to “cling” high on the y-axis of the graph.

The final pattern to see is that for larger rate declines, these are most often followed by additional rate declines. For a spot shipper who has the opportunity to withhold cargo and wait until the next week, this asymmetric pricing behaviour can be utilized for financial gain.

The premise is that we are looking at a shipper which not only has the ability to shift his cargo a week, but also has the philosophy that it is OK to make a spot booking with a carrier, only to a be no-show for that booking at the last moment and shift the cargo to the subsequent week.

For such a shipper, here is how the information can be used:

If the shipper is suddenly subjected to a very large successful GRI, the best course of action will be to not show up for the booking and wait a week. Almost always will this result in a lower rate.

If a shipper has experienced a substantial declines in rate, the statistics favour waiting for the next week, as there is a high likelihood for the rate to decline further.

If the rate has not changed materially, and the carriers have announced a GRI, it would be prudent to ship on the

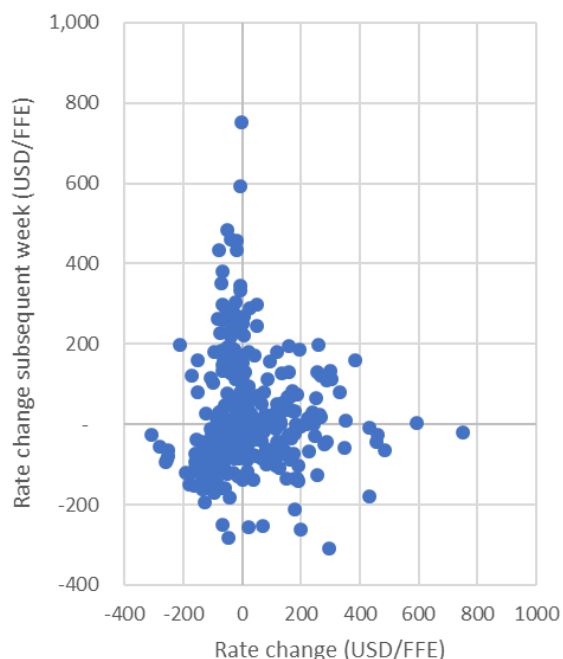
prevailing rate, and possibly even move additional cargo for early shipment, as this is the case with the highest likelihood of the GRI being successful.

In all 3 cases do we see the shipper have the ability to take advantage of the asymmetric rate developments

We will not present the specific data for the Asia-Mediterranean trade, as it is in essence almost identical to the developments on the Asia-North Europe trade.

Transpacific

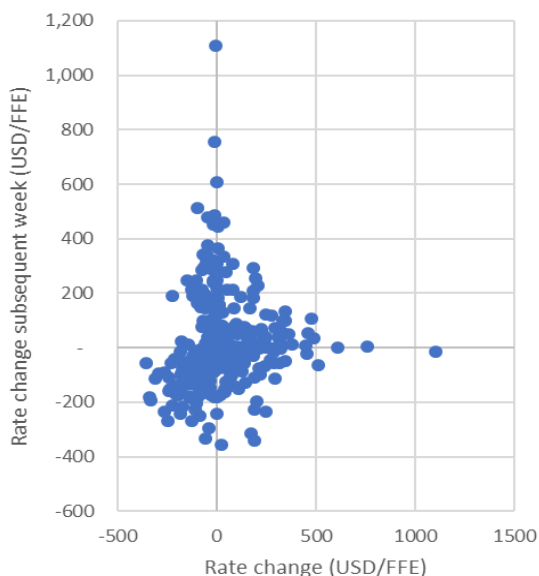
Fig.3: USWC subsequent week change



Figures 3 and 4 show the developments for the trades from Asia to US West Coast (USWC) and US East Coast

(USEC), similar to the ones shown for Asia-Europe. We have made the test looking only at data from 2016-2019, and here again we find that the pattern remains stable.

Fig.4: USEC subsequent week change



We do not find quite the same degree of asymmetry as for Asia-Europe, and hence the Transpacific is less susceptible to such tactical price optimization from spot shippers.

However, we do find some patterns which can be utilized.

Very large rate declines are most often followed by an additional decline in rate levels. In the case of a very large rate decline, the best move is to not show up for the booking, and wait until the next week if possible.

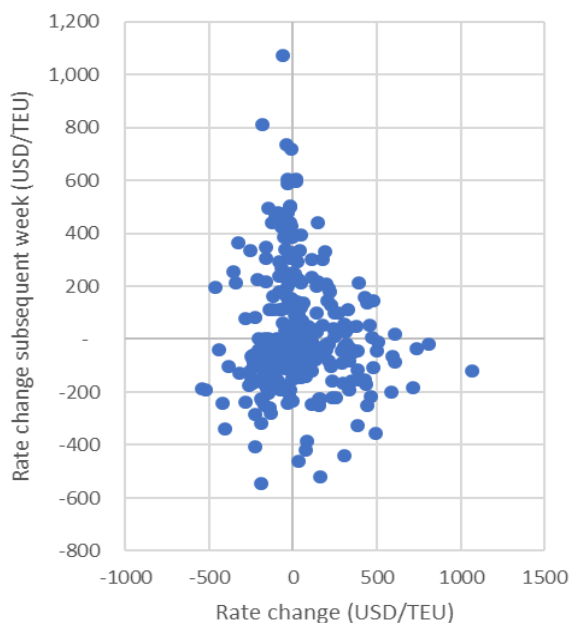
Very large rate increases always happen in the week after a relatively small change in rate levels. Hence – similar to Asia-Europe – a spot shipper who are seeing only a minor change in rates this week and is facing a GRI the next week, are better off not waiting and getting his goods moved right away.

But if the same shipper faces a GRI following either a very large increase of a very large decrease in rate levels, should anticipate that the GRI is highly likely not to be successful.

Asia-ECSA

Figure 5 shows the development for the Asia-East Coast South America (ECSA) trade.

Fig.5: ECSA subsequent week change



This trade lane is seen to exhibit a much more symmetric pattern than the main east-west trades from Asia.

This means that the Asia-ECSA is not particularly susceptible to the kind of “games” shippers can play on the Transpacific or on Asia-Europe. There is still a minor element of seeing high increases followed by decreases, as well as GRIs being more successful after a stabilization. But these elements are much less pronounced, and hence less likely to be exploitable.

Conclusion

Overall, the conclusion is that shippers who have the ability to shift cargo by a week, and at the same time have the willingness and temerity to not deliver in accordance with their bookings, can obtain a financial advantage over the carriers due to the pricing dynamics.

This by extension also leads to the conclusion that a higher degree of contract adherence, possibly through a renewed interest in enforceable contracts, would be a mechanism through which the carriers could counter such pricing games performed by the shippers.

Carrier Service Changes

Ocean Alliance announces a revised service network from April 2019 – changes on the Transpacific trade

In issue 396 of the Sunday Spotlight, we introduced the planned changes in Ocean Alliance's Day 3 product for the Asia-Europe trade, effective from April 2019. In this issue of the Sunday Spotlight, we take a look at the changes planned for the Transpacific trade. For each service with a planned change, we have listed the future service rotation, and ports that will be removed from the rotation have been marked with a **strikethrough**, while ports that will be added to the rotation have been **underlined**.

Asia-North America West Coast trade

Bohai/CC2/CEN/PCN1/AC3: the revised port rotation of the service is expected to be as follows (*8 port calls*):

Tianjin/Xingang – Qingdao – Shanghai – **Ningbo** – Prince Rupert – Los Angeles – Oakland – Tianjin/Xingang.

GEX/AAS3/HTW: the revised port rotation of the service is expected to be as follows (*7 port calls*):

Taipei – Xiamen – ~~Hong-Kong~~ – Shekou – Yantian – Los Angeles – Oakland – Taipei.

Columbus

PNW/NP1/MPNW/PNW2/AN2: the revised port rotation of the service is expected to be as follows (*8 port calls*):

Yantian – Xiamen – Ningbo – Shanghai – Busan – Seattle – Vancouver – **Nakhodka** – (Asia-Middle East leg of the pendulum) – Yantian.

CIMEX

7

TPX/PE2/PNW4/CPNW/ANS:

currently an Asia-Middle East-Asia-North America West Coast pendulum service, this service is expected to be split up into two separate services: one serving the Asia-Middle East trade, and one serving the Asia-North America West Coast trade.

Asia-North America West Coast service – TPX/PNW4/PE2/CPNW-service: this service is expected to offer the following port rotation (*9 port calls*):

Hong Kong – Yantian – Ningbo – Shanghai – Prince Rupert – Vancouver – Yokohama* – Shanghai* – Hong Kong.

*Remark: The Eastbound port call at Shanghai is only displayed in COSCO's service change announcement, while the Eastbound port call at Yokohama is currently only displayed in OOCL's and COSCO's service change announcements for this service. Neither one of these port calls is displayed in CMA CGM's announcement. Evergreen and APL have not so far made a service change announcement that is broken-down to port rotations.

Asia-Middle East service – WA2/CIMEX7/ME5/MEX-service: the service is expected to offer the following port rotation (*12 port calls*):

Qingdao – Shanghai – Ningbo – Nansha – Singapore – Jebel Ali – Abu Dhabi – Ad Dammam – Abu Dhabi – Port Kelang – Shanghai* – Qingdao.

*Remark: The Eastbound port call at Shanghai is only displayed in COSCO's service change announcement.

For the rest of the Asia-North America West Coast services, currently no port rotation change is expected.

Asia-North America East Coast trade

PEX3/Pacific Express
3/GME2/GCC1/PG6: the revised port

rotation of the service is expected to be as follows (*12 port calls*):

Singapore – Hong Kong – Shekou – Ningbo – Shanghai – Busan – Houston – Mobile – New Orleans – **Tampa** – Miami – **Jacksonville** – Singapore.

In the rest of the Asia-North America East Coast services, currently no port rotation change is expected.

APL leaves Asia-South America West Coast service

APL will no longer charter slots on the ASA/WS2/WSA2/SA6/QEX-service, which connects Asia to South America West Coast. The service is operated by Wan Hai (ASA), PIL (WS2), Evergreen (WSA2) and COSCO (WSA2), while Yang Ming and APL are slot charterers, and brand the service "SA6" and "QEX", respectively. There are currently ten vessels deployed on the ASA/WS2/WSA2/SA6/QEX-service, with an average vessel capacity of 6,000 TEU.

The port rotation of the ASA/WS2/WSA2/SA6/QEX-service is as follows (*13 port calls*):

Kaohsiung – Shekou – Hong Kong – Ningbo – Shanghai – Manzanillo (Mexico) – Lazaro Cardenas – Puerto Quetzal – Callao – Guayaquil –

Manzanillo (Mexico) – Busan – Kaohsiung.

Based on APL's announcement, the last vessel with APL on board the service is "Agios Minas", which departed from Kaohsiung on January 19th.

PIL revises the port rotation of Asia-East Africa service

PIL has revised the port rotation of its EA2-service, which connects currently connects North, East, and South East Asia to East Africa, by dropping all of the port calls in East Asia, as well as in Colombo and Davao, so the service in the future will only service South East Asia to East Africa. In total, the following port calls will be removed: Dalian, Tianjin/Xingang, Ningbo, Shantou and Nansha, Davao, Shanghai, Singapore (only the Eastbound port call) and Colombo (only the Eastbound port call). In addition, an eastbound port call at Port Klang will be added to the service.

The service is operated by PIL (EA2). COSCO, a slot charterer on this service (EAX2), does not display any future schedules for the service with the revised rotation, indicating the carrier has left the service simultaneously to the port rotation change.

The new service rotation will take 5 weeks to complete a round-trip, but at present we can only find two vessels deployed by PIL, the KOTA GEMBIRA and the KOTA GANTENG, which means that at present, the service is scheduled to run on a 3-week frequency, rather than the traditional 1-week frequency. We assume that the remaining 3 vessels have yet to be scheduled, and that the service will resume a weekly frequency once these vessels have been named and scheduled.

The revised port rotation of the EA2-service will be as follows (*6 port calls*):

Dalian – Tianjin/Xingang – Ningbo – Shantou – Nansha – Singapore – Colombo – Mombasa – Dar Es Salaam – **Colombo – Singapore – Davao – Shanghai – Dalian – Port Klang** – Singapore.

The first vessel with the revised port rotation indicated above is "Kota Ganteng", which departed from Singapore on January 18th.

APL/Gold Star Lines/TS Lines/Yang Ming launch a new Intra-Asia service

In late February 2019, APL, Gold Star Lines, TS Lines and Yang Ming will launch a new Intra-Asia service, which

will connect Northeast Asia to Southeast Asia. The service will be operated by APL, Gold Star Lines, TS Lines and Yang Ming, and all carriers will brand the service “CMS”. There will be four vessels deployed on the CMS-service, with an average vessel capacity of 4,250 TEU.

The port rotation of the CMS-service will be as follows (*11 port calls*):

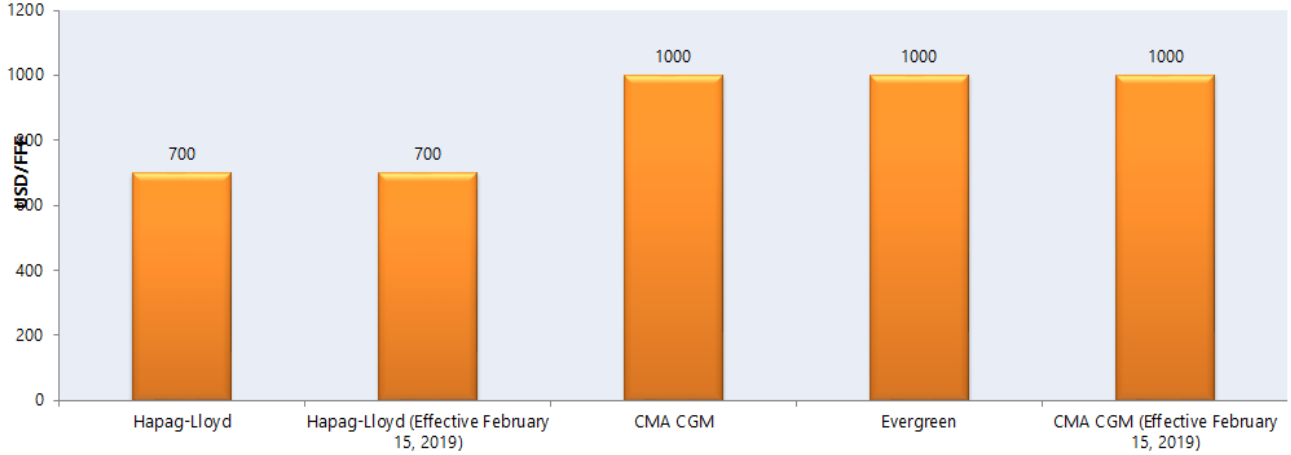
Qingdao – Shanghai – Xiamen – Nansha
– Port Klang – Penang – Port Klang –

Pasir Gudang – Shekou – Hong Kong –
Qingdao.

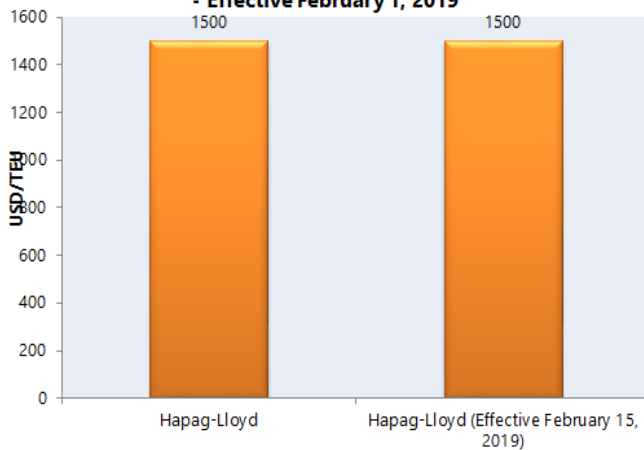
The first vessel sailing on the service has not been named yet. It is expected to depart from Qingdao on February 23rd.

Carrier Rate Announcements

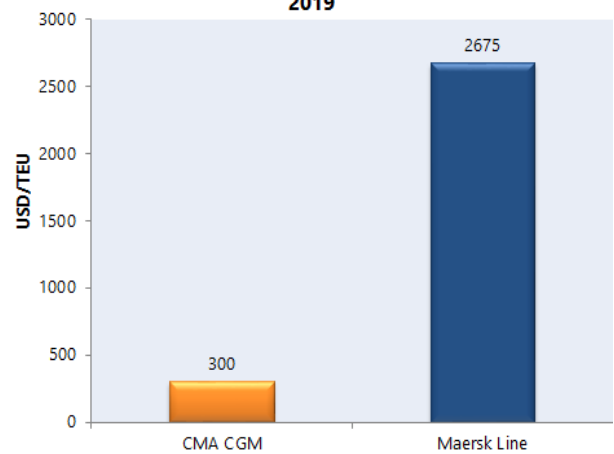
Asia-North America (EB) - Effective February 1, 2019
PLEASE NOTE: ORANGE BARS REPRESENT RATE INCREASES



Asia-Caribbean/Mexico/Central America/WCSA (EB) - Effective February 1, 2019

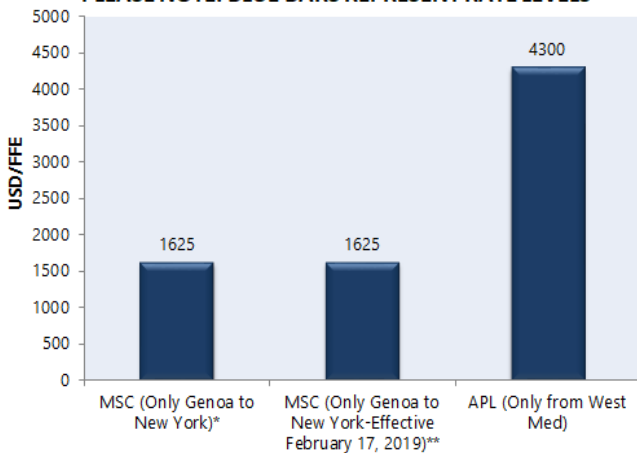


Asia-West Africa (WB) - Effective February 1, 2019



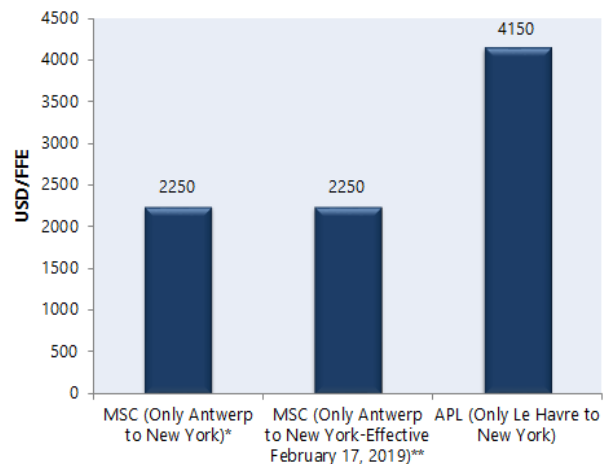
Mediterranean-North America (WB) - Effective February 1, 2019

PLEASE NOTE: BLUE BARS REPRESENT RATE LEVELS



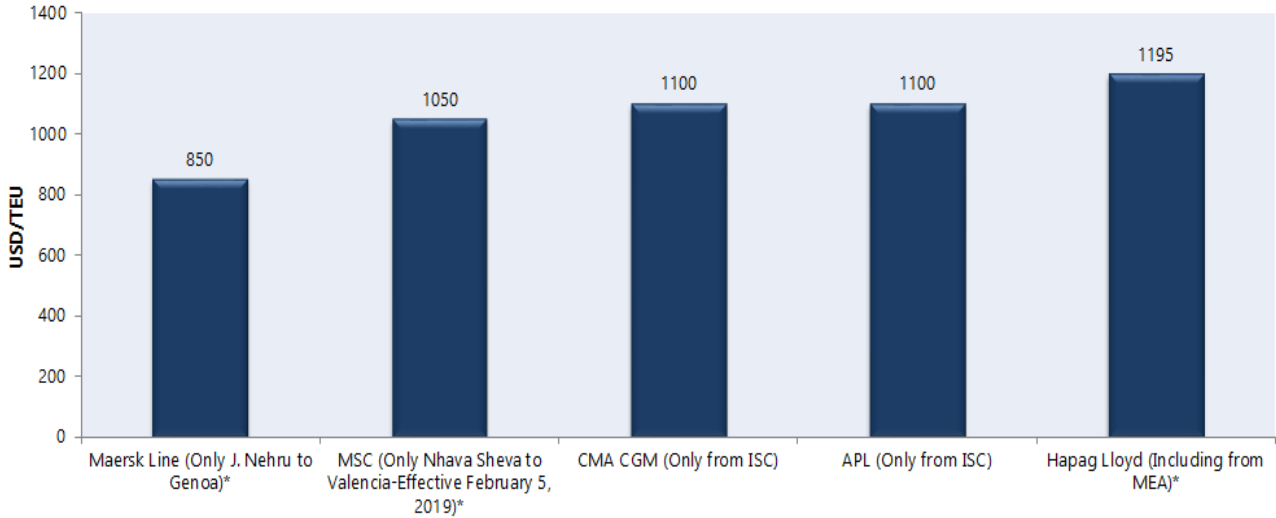
*MSC: 2 rate levels; **MSC: 2 rate levels

North Europe-North America (WB) - Effective February 1, 2019



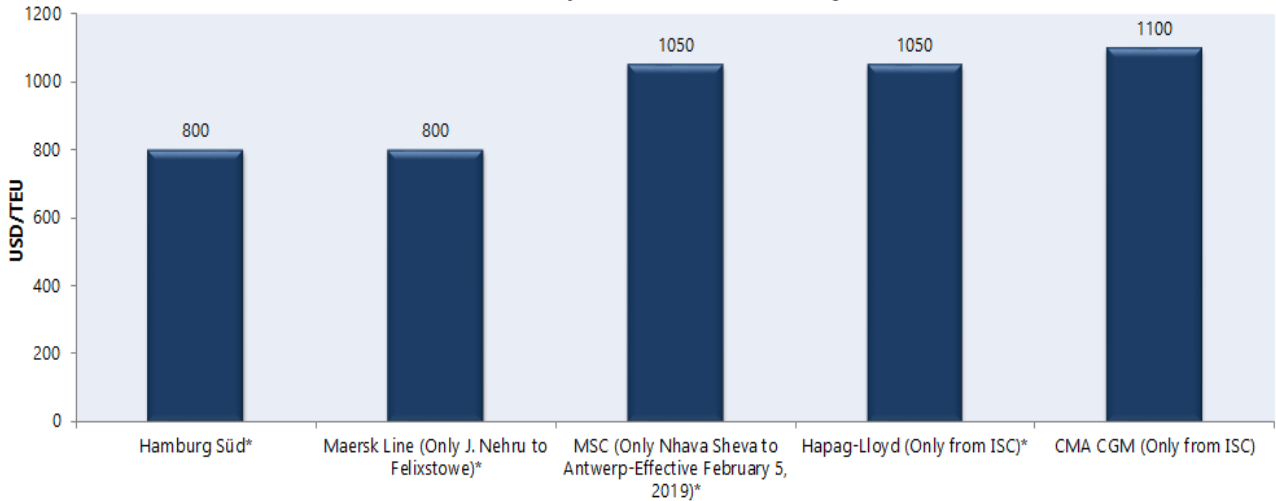
*MSC: 2 rate levels; **MSC: 2 rate levels

ISC/MEA-Mediterranean (WB) - Effective February 1, 2019



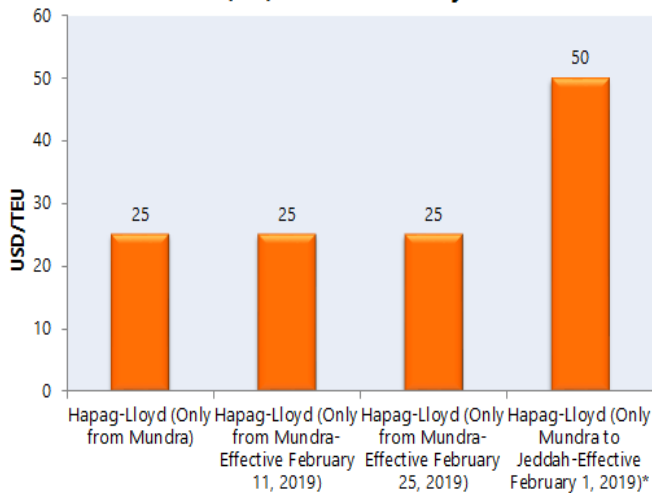
*Maersk Line: 16 rate levels; *MSC: 4 rate levels; *Hapag-Lloyd: 4 rate levels

ISC/MEA-North Europe (WB) - Effective February 1, 2019



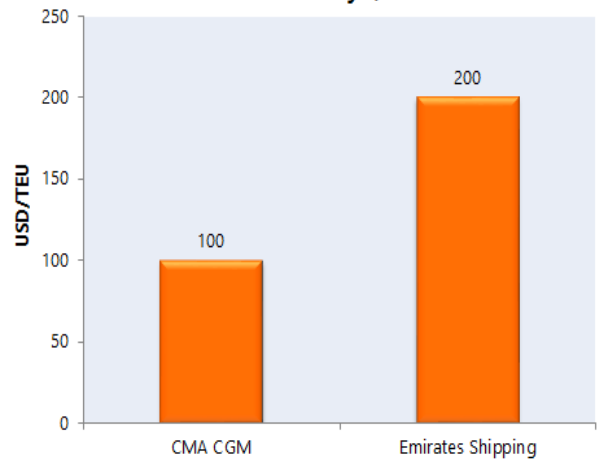
*Hamburg Süd: 3 rate levels; *Maersk Line: 6 rate levels; *MSC: 4 rate levels; *Hapag-Lloyd: 3 rate levels

India-MEA (WB) - Effective January 28, 2019



*Hapag-Lloyd: 4 rate increases

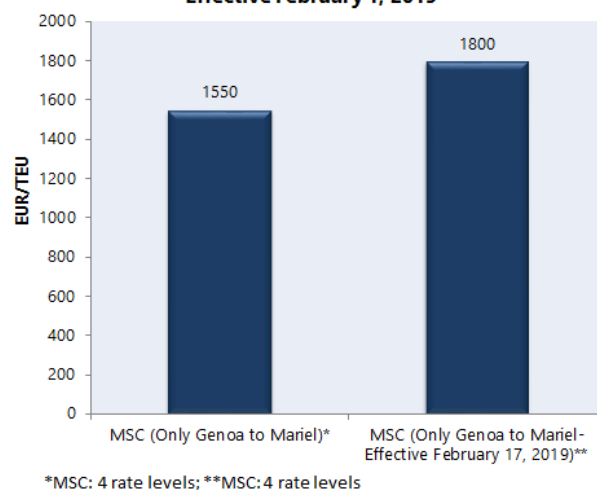
United Arab Emirates - East Africa (WB) - Effective February 1, 2019



North America-Australia/New Zealand (EB) - Effective February 1, 2019



Europe-Central America/Caribbean (WB) - Effective February 1, 2019



Trade lane	Carrier	Rate increase	Effective date
North America-West Africa (EB)	Maersk Line	400 USD/FFE	February 1, 2019
India/United Arab Emirates-West Africa (WB)	CMA CGM	150 USD/TEU	February 1, 2019
North America-Asia (WB)	HMM	50 USD/FFE	February 1, 2019
ISC/MEA-North America (EB)	Hapag-Lloyd	500 USD/FFE	February 1, 2019
Asia-Middle East Gulf (WB)	APL	100 USD/TEU	February 18, 2019
Trade lane	Carrier	Rate level	Effective date
North Europe-MEA/ISC (EB)	Maersk Line	575 USD/TEU	February 1, 2019
ISC/MEA-Somalia (WB)	Maersk Line	1060 USD/TEU	February 1, 2019
MEA-North Europe (SB)	Hapag-Lloyd	1810 USD/TEU	February 1, 2019
Australia/New Zealand-Europe (NB)	MSC	1500 USD/TEU	February 1, 2019

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