

SHAPIRO FREIGHT

# REPORT

*Trans-Pacific Ocean U.S. Imports*

AUGUST 2017



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## TRANS-PACIFIC OCEAN U.S. IMPORTS

2017 | AUGUST

### OCEAN CARRIER UTILIZATION STATS

For July sailings, ocean carriers reported vessels loading at about 95% capacity for the U.S. East Coast and closer to 97% for the West Coast. This represents an almost 5% uptick vs. July and singles the beginning of the peak season. Interestingly, Maersk's cyber woes helped the rest of the trade by boosting short term bookings. It remains to be seen if Maersk volumes will trail the market for more than a month or two; especially in light of the efforts Maersk has made to recapture market share.

Early indications for August are even stronger than July, especially to the U.S. West Coast. Utilizations could reach 100% by the end of August, and this forecast has fueled speculation that an August 15<sup>th</sup> PSS is inevitable.

Total volume sits at 15% higher YTD for 2017 vs. 2016, and the value of goods shipped from China to the U.S. is up just over 10% for the year.

There is currently no reason to expect a diminishment in shipping volumes, and the carriers seem to be poised to impose and hold a modest PSS for the coming two months.

Most forecasts call for a 5-8% increase in container volume for the year, which may sound bearish given the current YTD increase of 15%. We must remember the strong volume recovery in Q4, 2016 to help us understand the seemingly conservative forecast.

Shapiro/M+R will keep a close eye on vessel utilization factors throughout the late summer, looking for the best buy opportunities for our customers on the spot market.

## AUGUST 2017: CARRIER NEWS AND RATE ENVIRONMENT

In the blockbuster deal of the year, Cosco acquired OOCL for \$6.3B. The combined entity will rank 3rd in the world for total capacity and will slide just past the One Network Express (the future combined enterprise of NYK, MOL, and K-Line) for 1st place in the Transpacific U.S. trade. Post-acquisition, Cosco will control over 16% of the U.S. Transpac. As these two carriers are both part of the Ocean Alliance, it is not expected that this merger will have much of an impact on the current carrier alliance makeup.

Beleaguered Yang Ming announced a profitable Q2 for 2017 and has already forecast a profitable 2017. The carrier has fared well in raising new investment capital though the trade is still abound with rumors of Yang Ming being acquired by Evergreen or other larger carriers.

Many carriers have announced excellent revenue and profit results for 2017, especially for Q2. OOCL, MOL, K-Line, and NYK all announced double digit revenue increases for Q2 and vastly improved profits. Many carriers point to operational efficiencies and alliance advantages as the driving force behind improved results. Most shippers, on the other hand, point to rates that are 25-35% higher per TEU in 2017 vs. the same time in 2016.

The Hapag-Lloyd-UASC merger was finalized in May, and the new Hapag-Lloyd is busy re-working trade routes and vessel utilizations. This is highly positive news for the carrier, which had been battling regulatory and financial hurdles since the merger was first announced.

### Rate Environment:

Perhaps the most telling statistic in forecasting August-September rates is the decrease of rate decline seen in July. As we all know (and despise), spot rates start high each month and then often tumble as the month marches forward. In May, for example, rates tumbled by 25% from the beginning of May to the end of the month for U.S. West Coast trade. We also witnessed a rate decline greater than 12.5% for the U.S. East Coast during the month of May.

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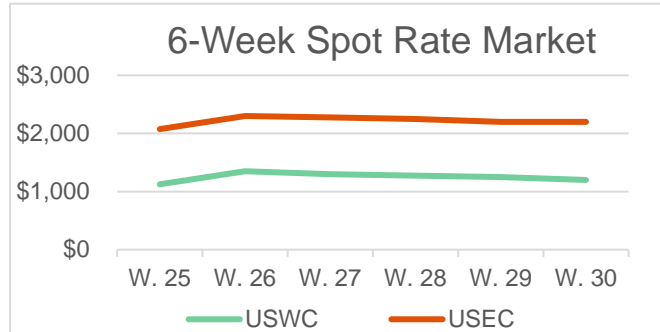
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In July, by contrast, rates slid by only 10% to the West Coast and 5% to the East Coast from the beginning to the end of the month. This tremendous reduction in rate of decline signals an ever-strengthening market for the ocean carriers. We already know that a \$500 GRI is in place for August 1, and we anticipate an additional \$400, or so, PSS on August 15. It does seem likely that carriers will give back somewhere around \$100-\$200 of the GRI as August progresses.

Please note the 6-week rate trend per 40' container:



## THE “FUTURE MARKET” FOR TRANS-PACIFIC

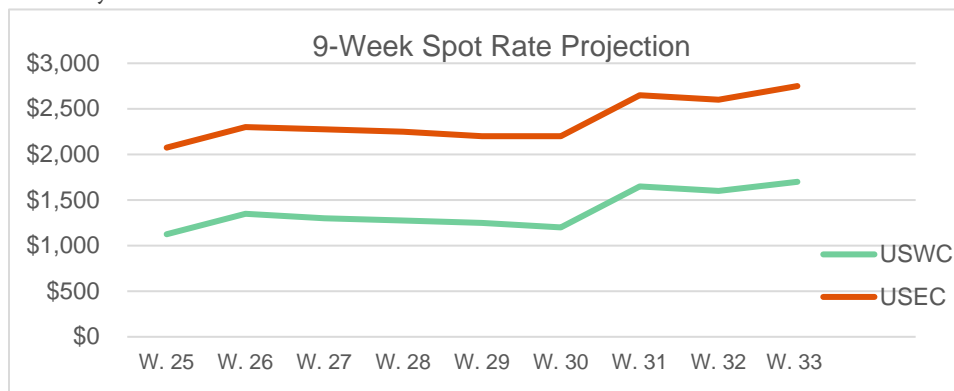
The acquisition of OOCL has many shippers nervous about the formation of a potential oligopoly on the carrier side and for good reason. A full 70% of global trade will be moved by only six carriers come 2018.

The question for 2017 is how quickly newly merged or re-configured carriers can fully leverage their improved market share and commercial positions. And while most rational business people must see the return to financial black from red as an overall positive, ocean carriers are notorious for emphasizing short term volumes over long-term profits. Are there carriers who will dump rates to attempt to gain even greater market share? Will Maersk be forced to provide discounted rates to re-gain their full volumes?

In short, there may be more questions than answers at this point, but we do foresee a relatively stable and strong volume for at least the next three months. Early indications suggest a softening November and possibly a weak December from the demand side, and the carriers have already delayed capacity on-boarding and scrapped at historic levels; these supply-side “weapons” have already been used.

One thing is certain: it will be wild ride walking into Chinese New Year in February 2018!

Here’s a glance at the very near future:



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# SHAPIRO'S SUMMER SUPPLY CHAIN SEMINAR

Shapiro cordially invites you to attend our Annual Supply Chain Summer Seminar in Baltimore, MD on Thursday, August 10, 2017.

Our panels of leading industry experts will cover the hottest topics facing the logistics & Customs brokerage world today. Join us as we incite stimulating conversation concerning freight rates, infrastructure issues and more. Then, take a deep dive into compliant shipping regulations and the costs of ignoring them!

## Here's what we plan to cover:

### The International Logistics Market

- Capacity/ Supply & Demand Imbalance
- Freight Rates
- VSA

### Infrastructure

- Terminal Operations
- U.S. Infrastructure
- Chassis Challenges

### Regulatory Compliance

- Mitigating Risk
- Agency Viewpoints

#### Location

Royal Sonesta Harbor Court | 550 Light Street | Baltimore, MD | 21202, USA

#### Date & Time

Thursday, August 10, 2017 | 8:30 AM – 12:00 PM

***RSVP before it's too late!***

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