SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

JULY 2017

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TRANS-PACIFIC OCEAN U.S. IMPORTS

2017 | JULY

OCEAN CARRIER UTILIZATION STATS

For June sailings, ocean carriers reported vessels loading at about 90-92% capacity for the East Coast U.S. and closer to 94% for the West Coast. This is a very small uptick vs. May, but not as strong as the ocean carriers expected. This helps to explain the softness in June rates overall and the general postponement of GRIs.

Early indications for July are for 95% vessel utilizations, which should allow the carriers to impose an early July GRI though it will likely be mitigated over the course of the month.

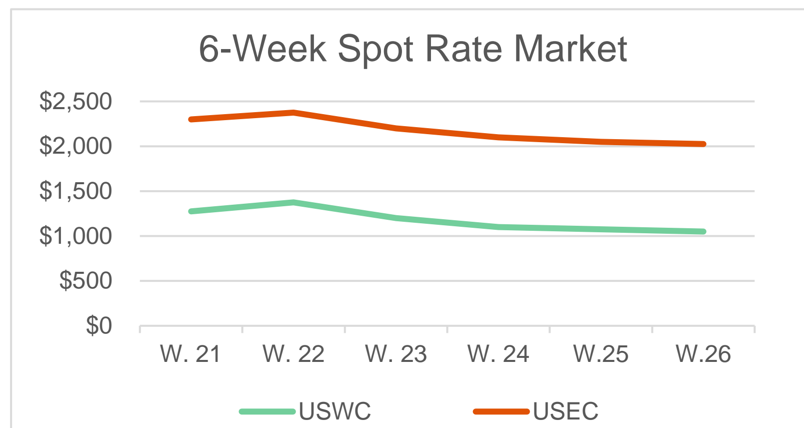
Based on continuously solid BCO shipping volumes, the current softness in the market is a result of recently deployed supply coming on-line rather than sluggish demand. In fact, the value of goods shipped to the U.S. from China is up 10% YTD when compared to the same period in 2016. All signs point to steady demand barring any extreme policy adjustments from the White House. A majority of forecasts predict a 5% increase in container volume for the year.

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

JULY 2017: RATE ENVIRONMENT

Though we witnessed a considerable slowdown in vessel scrapping in May and June, the rates for charter vessels may tell the more compelling story for 2017. The rates and bookings for companies chartering vessels to steamship lines are at historic lows. The situation is so bad for charter firms that Rickmers, a very famous name in the business, declared bankruptcy this Spring.

The bad news for charter companies can only be seen as a sign of belt tightening for the steamship industry. With demand quietly surging and supply under better control, the ocean carriers may very well be looking at their first "sellers" market since 2015. For an industry that lost more than $3.5B in 2016, Drewry's recent 2017 forecast for $1.5B in profits is welcome news. Though rates are 33% higher for 2017 YTD, importers should not expect this trend to last throughout 2017 since the Hanjin fiasco caused rate spikes in Q3 and Q4 of 2016 that had a ripple effect leading into 2017. That said, when comparing 2017 to 2016, the trade does expect an average increase of 15-20%.
Please note the 6-week rate trend per 40' container:



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THE "FUTURE MARKET" FOR TRANS-PACIFIC

There continue to be two major threats to rate stability for China-U.S. trade: a) Impending U.S. trade policy - and- b) an ocean carrier bankruptcy. Unfortunately, neither of these affairs are easy to predict, but we see no evidence to fear these events at the moment.

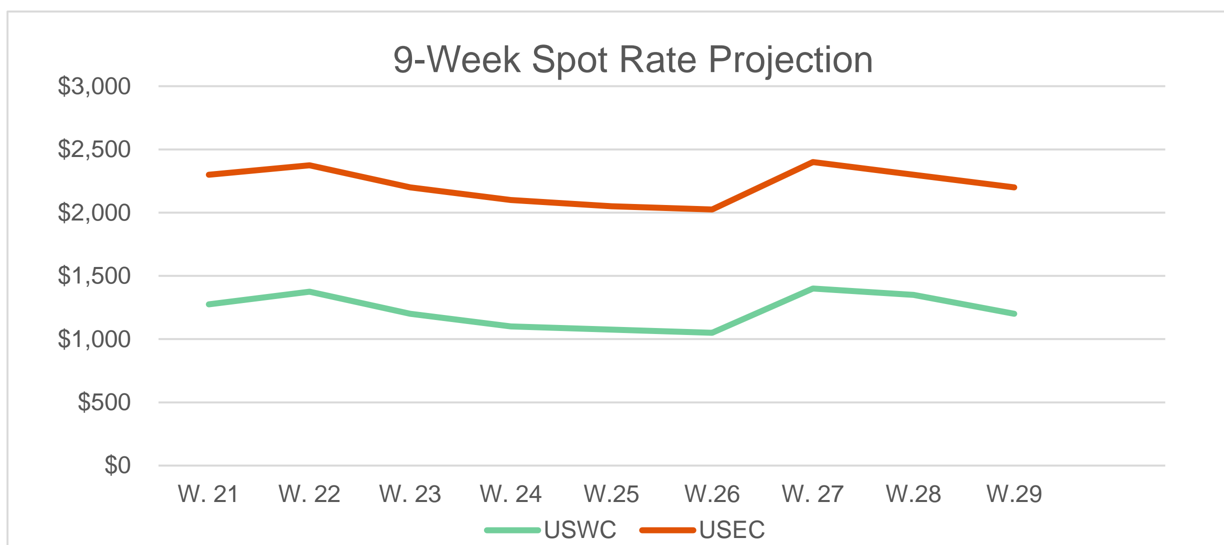
What is clearer is that demand is humming along and gradually increasing, and we have not yet seen the back-to-school or holiday cargo surges. YTD the ocean carriers have done a very nice job of delaying the production of purchased mega-vessels, bypassing the charter industry, and using blank sailings as a weapon (no matter the furious outcry).

While this bodes well for the beleaguered steamship business, there are some enticing temptations on the horizon for importers. The Bayonne Bridge project will allow mega-vessels with 18,000 TEU capacity to enter port at America's largest population base. Volatile and likely rising fuel costs could push carriers to deploy more modern, fuel-efficient equipment. Oh, and we can't forget about the never-ending love of market share!

When you look at the East Coast vs. the West Coast, you see more stable supply on the East, but slightly more promising demand for the West. The untold story is that an entire 33% of Long Beach bound containers are now trans-loaded and trucked out of California. While this model wreaks havoc on LA infrastructure from chassis to port congestion to commercial real estate, how quickly can U.S. importers actually adjust should this boost to demand spike ocean rates? Also, the fact that the few independent carriers left in the trade emphasize the West Coast almost exclusively has provided a temporary, downward pressure on rates.

At the end of the day, we expect spot rates to dance between $2200 to $2800 for the remainder of the year, and we expect to see importers and forwarders leaning more and more heavily on their fixed rate deals from August to December (and through Chinese New Year).

Here's a glance at the very near future:



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HEDGING YOUR BETS

In 2016, customers using our NVO service had exactly ONE container on Hanjin when they went out of business. One container out of 20,000 total feels like a great score, and we are proud of that.

Trade witnessed ocean carriers unwilling to be flexible on contracted allocations after Hanjin. These disruptions were extremely costly to American BCOs who not only had to pay spot rates for any container overages, but they often had to wait to get on a vessel which cost those importers time while creating downstream supply chain dislocations. If the pundits are right and scenario A for the future market plays out, you better have a dependable, intelligent, and nimble NVO to fill in the empty spots (pun intended) in your overall import program. You better have a friend in the business to help you build extra security and dependability in a market fraught with dangers and uncertainties.

Contact Shapiro to discuss hedging your supply chain bets today!

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