SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

AUGUST 2018

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TRANS-PACIFIC OCEAN U.S. IMPORTS

2018 | AUGUST

OCEAN CARRIER UTILIZATION STATS

For July and early August sailings, ocean carriers reported staggering and escalating utilization ratios, with a steady crescendo in motion for six or seven weeks in a row. The average vessel "fill factor" for the U.S. East Coast started around 95% in July and now sits at 100-110% including backlog. The Pacific Northwest sits at 100-120%, including backlog and the Pacific Southwest (in essence LA/Long Beach) reports utilizations upward of 130% including backlog. Can you spell "extra-loaders"??

AUGUST 2018: RATE ENVIRONMENT, OCEAN CARRIER UTILIZATION STATS, AND STEAMSHIP NEWS

CHOOSE YOUR CLICHÉ: THIS IS THE PERFECT RECIPE FOR CARRIER PROFITS

In the press, we have read about "the perfect storm" dozens of times; we are told there is a "blood bath" on rates and allocations; we are also encouraged to view our market as "Armageddon."

The simple fact of the matter is that the following factors have indeed collided at tremendous expense to U.S. importers and U.S. consumers:

- Steamship profits slid after an unfavorable contract season and broadly expanding costs for bunker fuel and chartering vessels (note: only three of the top 20 ocean carriers were profitable in 2018 through June).

- The trade war with China expanded to potentially affect well over $200B in Chinese exports to the U.S. at increased duties of 10-25% (prompting U.S. importers to rush import cargo to beat tariff implementation timelines).

- Ironically, citing sluggish demand and the potential diminishment of future demand due to new tariffs, the steamship industry slashed capacity to the U.S. West Coast by 7% while also eliminating planned expansions to the U.S. East Coast (note: June 2018 set records for volume into Long Beach, which was unambiguous evidence that demand was swelling even before the tariff rush).

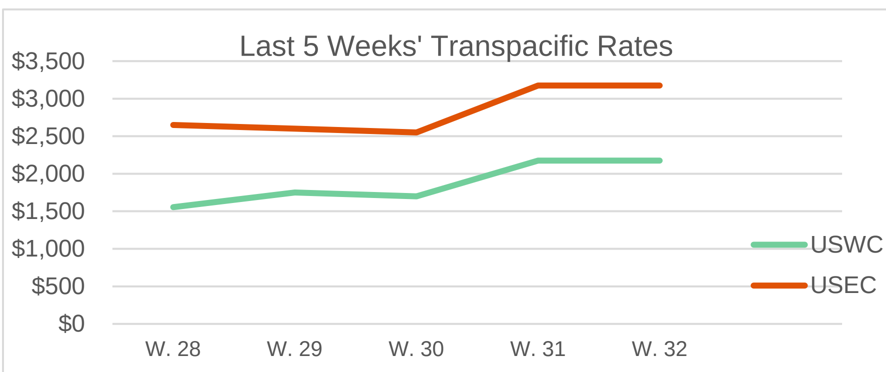
WHEN A "CONTRACT" ISN'T

During the last two weeks of July, the average spot rate from Shanghai to LA spiked by 31.9%, with rates to the East Coast rising well over 20%. This trend has only continued in early August with spot rates now well over $2000/40' for the West Coast and $3000/40' for the East Coast. During this time, there have been two very clear signals from the ocean carriers that the summer of 2018 amounts to a cash grab. Please note:

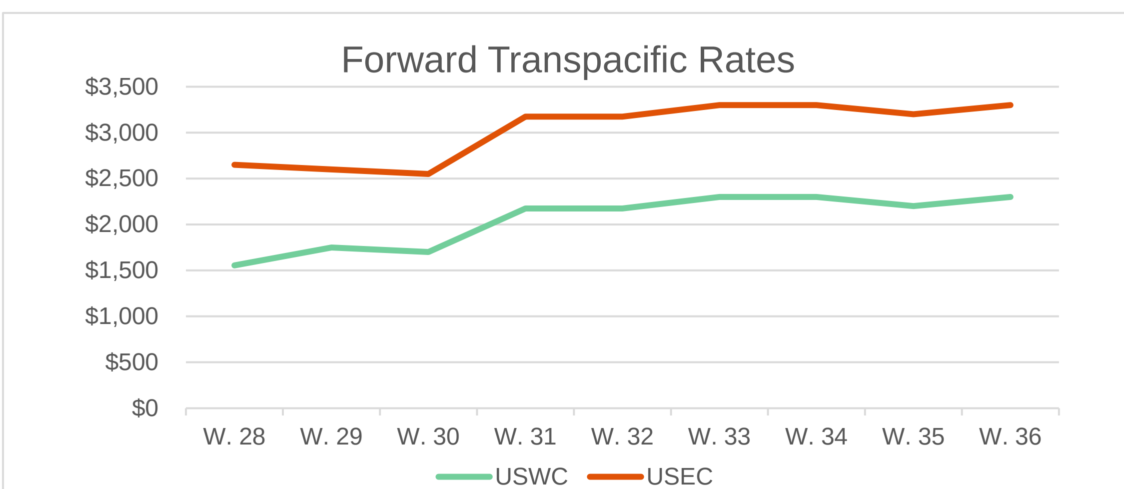
A. BCO and NVO "contracts" have not been honored and allocations are being reserved for higher profit spot business. Hence, BCO shippers are frequently forced to ship a percentage of their cargo on FAK rates to obtain anything even resembling a fixed rate allocation. In regard to contracted BCO rates that are being "honored", many carriers are now imposing PSS and/or EFAF surcharges (despite the terms of the "contracts" signed in April and May).

B. The carriers have not deployed extra-loaders despite the growing backlog of containers at origin. Extra loaders are not only a logical pathway to normalize their own operations, but they are also the only means for carriers to begin to keep faith with the thousands of "contracts" they signed in the Spring.

Please have a look at the rate picture for the recent past here:



Looking ahead, we expect about a $200 per container rate increase. Please note the following chart for forward-rates:



COSCO RECEIVES REGULATORY APPROVAL FOR OOCL ACQUISITION

Though COSCO had to concede ownership of Long Beach Container Terminal to a U.S. trust to gain approval from the Committee on Foreign Investment in the United States, COSCO has now been approved by both the Chinese and U.S. governments to finalize the purchase of OOCL. The combined fleet will be the third largest globally with over 2.7 million TEUs.

INDUSTRY EYES HEALTH OF HYUNDAI MERCHANT MARINE

Perhaps motivated by the unprecedented culling of 7% of Transpacific capacity this summer, which happens to roughly equal Hanjin's market share before their collapse, the trade is watching Hyundai carefully after the carrier again announced huge losses after the first two quarters of 2018. In our current environment a carrier bankruptcy would make today's "perfect storm" considerably more dangerous. Hyundai is operating at what amounts to a -15.6% profit YTD. Our readers may remember that Hyundai stood alone in the red after 2017, and it is difficult to imagine investors and the South Korean government tolerating losses at these levels for much longer.

SHAPIRO
1215 E. Fort Ave, Ste 201
Baltimore, MD 21230
www.shapiro.com

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