SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

DECEMBER 2018

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OCEAN CARRIER UTILIZATION STATS

For late November to early December sailings, ocean carriers yet again reported steady utilization ratios. The USEC, USWC and Pacific Northwest are all displaying fill factors between 95-100%, which further concretes this massively elongated peak. Though utilization ratios are expected to stay strong for the foreseeable future, there will likely be a dip (5-10%) in the coming weeks as the holidays coincide with the extension of increased List 3 tariffs to March 1.

DECEMBER 2018: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

SLIP, SLIDING

Over the last two weeks, average spot rates have dropped about 3-6% per week. These reductions were certainly expected for the East Coast due to longer transits, requiring importers to ship in November to beat the purported January 1 tariff deadline. However, the slippage to the West Coast is an interesting development, as importers could still ship in early December and expect to be in the country prior to January. Have we begun to witness truly softening demand, or does it more closely resemble the calm eye of a hurricane? The Chinese New Year peak in January-February will begin to tell us the answer.

When we compare today's rates to a year ago, we note an eye-popping 70% increase to the East Coast and a staggering 90% increase per container to the West Coast. The carriers have publicly proclaimed that they intend to "rationalize capacity" should demand slump considerably; there are also no plans to re-establish the services that were (infamously) withdrawn in August. All signs point to contract rates in April coming in considerably higher than 2018 levels. With 2019 emerging as one of the hardest years to predict from a demand perspective this decade, it is also very difficult to estimate the upcoming contract levels. However, we have heard various insiders estimate 10-30% increases for base rates AND considerably higher bunker charges due to the impending low sulfur regulations.

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HERE COMES THE YEAR OF THE PIG, 2019

We're going to guess that all of you remember this classic childhood poem:

This little piggy went to market,
This little piggy stayed home,
This little piggy had roast beef,
This little piggy had none.
This little piggy went ...
Wee, wee, wee,
all the way home!

For the Year of the Pig, all eyes are on the Chinese New Year peak before and after February 4, as well as the extended deadline for increased List 3 tariffs on March 1. It is expected that importers of List 3 commodities will continue to go to market and thereby extend the longest peak season in a decade by another month or two (we'll be at 6-7 months of peak by February). It is also expected that the announcement of a List 4 would send many, many more "piggies" to market as a means of beating the imposition of additional duties. Depending on the scope of the much-feared List 4, today's record peak could last another six months, which is not welcome news for shippers.

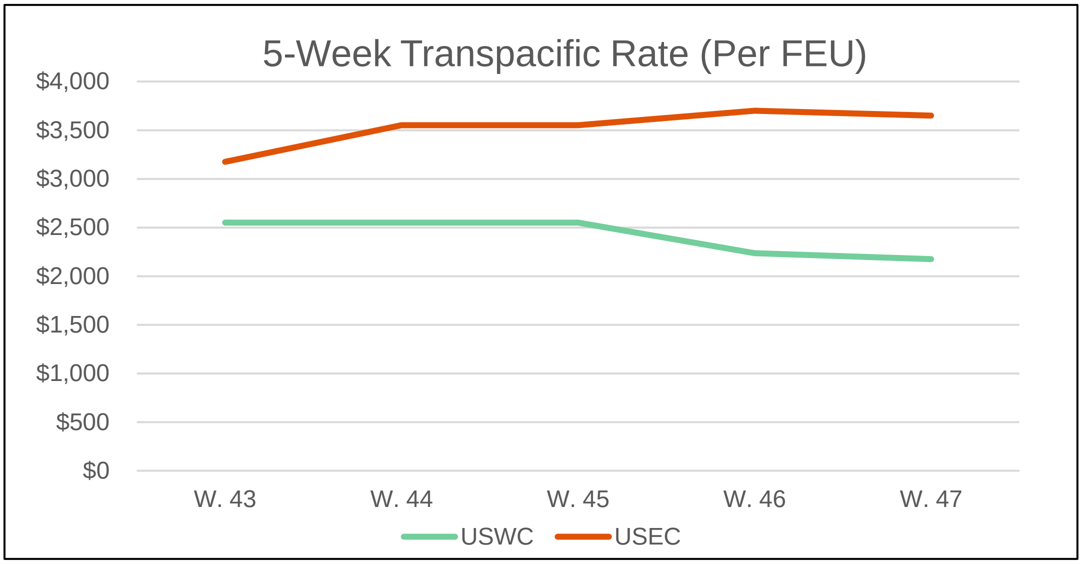
Many pundits believe that the inventory carrying and capital costs for List 3 importers will cause them to "stay home" and slow their importing after Chinese New Year. As chance would have it, the extension to March 1 is potentially less favorable for importers because it will be quite hard to get goods into the U.S. before that date following the hiatus of Chinese New Year (with a few quick West Coast routings being the only exceptions).

As for roast beef, one might imagine that the U.S. will attempt to bring this commodity into negotiations surrounding U.S. exports to China, but this remains to be seen. Frankly, in the early days of trade war détente, the U.S. could just as easily get none… no roast beef and no guaranteed exports to China that is. The story of agreements from China to buy U.S. exports, especially foodstuffs, is unfolding day by day.

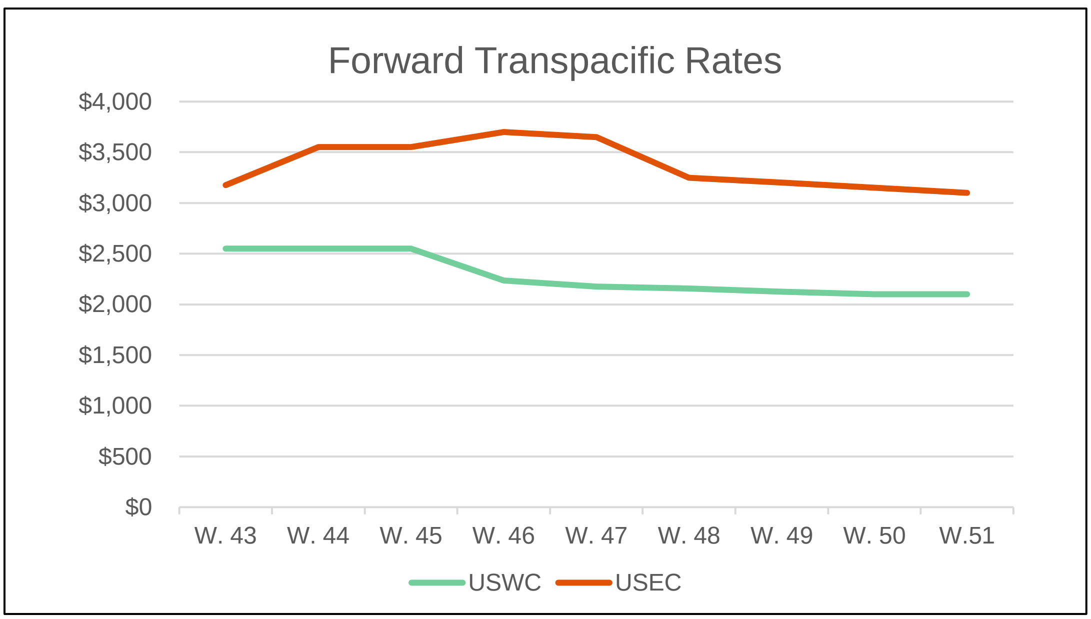
And finally, we are afraid that all of us paid to forecast, budget, and guide our companies into the best freight positions will be crying "wee wee wee" all the way home. We keep our focus on low sulfur, we watch vessel scrapping increase, and we always (repeat, ALWAYS) watch alliance behaviors like a hawk. Yet, at the end of the day, our market predictions and attempts to understand each and every piggy depend on decisions very much outside our industry. The realities of the 2019 Transpacific market come down to March 1 for List 3 and the uncertain future of Lists 4, 5, and 6.

December 2018, Rate Environment

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



We have also estimated future rates here:



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