SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

FEBRUARY 2019

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OCEAN CARRIER UTILIZATION STATS

For late January to early February sailings, ocean carriers reported increased utilization ratios across the board. The USEC, USWC and Pacific Northwest are all displaying fill factors between 95-100%, which represents a 5-10% increase in all regions when compared to fill factors from late December to early January. Despite diminishing demand post-CNY and a lessened cargo swell as many importers have already entered an inventory surplus in their efforts to beat tariffs, the carriers' implementation of void sailings post-CNY would lessen the gap between demand and capacity, meaning utilization ratios are likely to remain consistent at 95-100% in the coming weeks.

FEBRUARY 2019: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

DRAWING A BLANK: WHAT VOID SAILINGS TELL US ABOUT THE CARRIERS' CAPACITY TO CONTROL CAPACITY

First of all, it is a rare pleasure to be drawing a blank on your article title and then come up with this one! That said, I think we can all infer and deduce quite a bit about the coming freight market and contract season from the recent capacity management moves made by the alliances. Let's peek at the after-peak weeks before and after Chinese New Year (CNY), 2019:

West Coast: Average of Approx 30% Capacity Withdrawn

East Coast: Average of Approx 33% Capacity Withdrawn

It is not surprising to see carriers building volumes before CNY and controlling supply during and just after the annual shipping lull; however, what is surprising are the levels of blank sailings. In the past two years, the industry removed roughly 20% from the market during the same period.

When we widen the lens a bit, we note that 26 sailings were voided in 2018 (an amount which eclipsed the totals of 2016 and 2017 combined). As we yet again witness increased capacity withdrawal following a year that was notorious for removing capacity, we are tempted to shriek clichés like "double bubble", "doubling down" or for you Stevie Ray fans "double trouble."

Here are a few takeaways for you before these clichés have you seeing double:

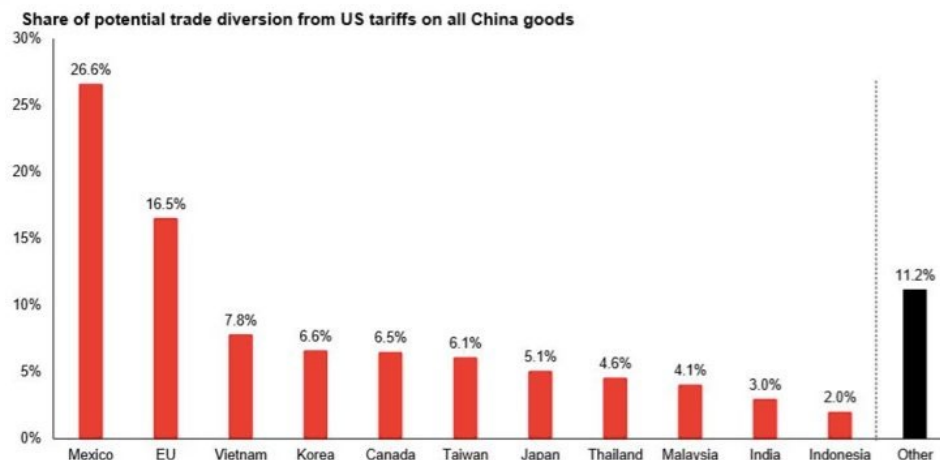
- With stronger alliances and larger vessels, carriers are better aligned and more committed to supply controls than they have been since 2010
- Carriers refuse to see rates dip too much just before the Transpacific Maritime Conference (TPM) in Long Beach (the conference takes place March 4th – 7th this year)
- Carriers are already prepping shippers for higher contract rates in April
- Low-sulfur fuel costs are real (estimated at $15B for the industry), and the carriers won't pay for those by themselves

The word on the street is that most of us accustomed to negotiating a "no peak" and/or a "flat BAF" in our contracts will be drawing a *blank* this Spring. And, for those of us looking to *avoid* a per container increase of $300 or more over last year's base contract rates, we may well be staring into a great *void* of carriers willing to move our cargo. If you are interested in more specifics on expected void sailings then please reach out to us at web@shapiro.com.

NEW SOURCING OPTIONS: PRODUCTION POTENTIAL VS. LOGISTICS CAPABILITY

In September 2018, the Census Bureau put together a fascinating study just as the trade war with China began to take shape. In essence, they imagined a scenario in which China was no longer exporting any goods to the U.S., and they prorated that production among the countries that already supply a portion of each commodity to the U.S. The main idea here is to place potential production in the hands of countries who can already produce these items (though not at the levels China achieves, of course). The study also does not attempt to guess how much production could or would shift to domestic suppliers in the U.S.

Please note the result of their research here:



With so many companies clamoring to build diversity of sourcing and future scalability into their purchasing models, we found it compelling to add a sense of logistical infrastructure into the sourcing equation. Enter World Bank and their famous Logistics Performance Index (LPI).

The LPI blends performance metrics for every trading nation on Earth (all 160 of them) based on the following six factors:

1. Customs/Border Control
2. Overall Physical Infrastructure
3. International Capabilities
4. Competence of Transport Professionals
5. Tracking and Tracing of Cargo
6. Timeliness of Deliveries

After drawing a blank on sailings, we are now drawing conclusions from a bank. This is exciting stuff, folks! Below, we have offered a list of all countries with current production capabilities of 2% or more for Chinese import commodities. We then show you those countries' LPI global ranking, as well as recent trends for that ranking.

Trading Country	Potential "Inheritance" from China in 2019	Average World Bank Logistics Performance Index Rank, 2014-16	World Bank Logistics Performance Index Rank, 2018	Logistics "Momentum"
Mexico	26.6%	52	51	Neutral
EU	16.5%	Mean Rank of 6 approx	Mean Rank of 6 approx	Neutral
Vietnam	7.8%	56	39	Rapid Improvement
Korea	6.6%	23	25	Neutral
Canada	6.5%	13	20	Regression
Taiwan	6.1%	22	27	Slight Regression
Japan	5.1%	11	5	Rapid Improvement
Thailand	4.6%	40	32	Improvement
Malaysia	4.1%	29	41	Regression
India	3.0%	39	44	Slight Regression
Indonesia	2.0%	60	46	Rapid Improvement

At the end of the day, it appears fairly obvious that even if certain countries could find a means to produce goods at the levels required to replace China, they would immediately struggle with the scalable, high-quality logistics required for modern businesses and our increasingly dynamic supply chains.

We urge our customers, readers, and cult-like fans to deeply consider the logistical capabilities of potential suppliers and their countries. More and more attention and information will center on the infrastructural investments needed to deliver modern production from new markets, and we look forward to watching this brave new world with a double dose of excitement and a thoughtful measure of caution.

Oh, don't think you fooled us… you want to know how China and the U.S. scored, don't you? The U.S. has fallen from 9th to 14th over the last four years. China has increased from 28th to 26th over those same four years. And, just to prove that we do indeed love our readers…. Germany was 1st (and has been forever), and Afghanistan was 160th (taking over from recent champions Somalia and Syria).

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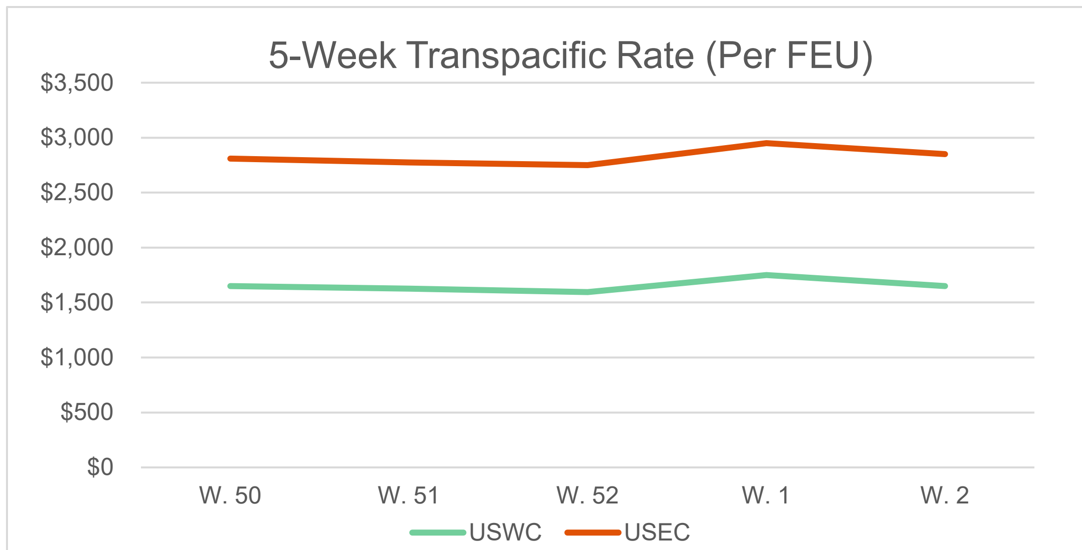
February 2019, Rate Trends

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



We have also estimated future rates here: