

SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

FEBRUARY 2020



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TRANS-PACIFIC OCEAN U.S. IMPORTS

2020 | FEBRUARY

OCEAN CARRIER UTILIZATION STATS

In mid to late February, ocean carriers reported weaker-than-anticipated utilization ratios across the board, as the coronavirus continues to wreak havoc on supply chains. The USEC, USWC and the Pacific Northwest all realized between 40-50%, which represents a 48-58% decrease in all regions compared to fill factors just before Chinese New Year. The sharp decline in carrier load factors is primarily attributable to the nearly absolute suspension of manufacturing and production in China. Though many importers have begun to experience inventory shortages at this point, it remains uncertain when factories will be able to raise production levels enough to improve load factors. With unprecedented capacity reduction via blank sailings (nearing 25% of total TEU), load factors should improve rapidly once production levels and surface transportation reliability in China normalize.

FEBRUARY 2020: BIGGER PICTURE AND RATE ENVIRONMENT

Year of the Transpacific Ratatouille

PREP:

What is real ratatouille (besides a movie starring a rat named Remy)?

Ratatouille is a French stew made with many disparate ingredients. Typically, it includes eggplant, zucchini, yellow squash, fresh basil, dried oregano, and olive oil (among many more potentials).

What is transpacific ratatouille (besides a report starring a rat named Robby)?

Transpacific ratatouille is a shipping stew with many disparate ingredients. In this case, it all starts with the unprecedented extension of Chinese New Year due to Covid 19.

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INGREDIENTS:

- Covid 19 coronavirus outbreak
 - Multi-week extension of Chinese New Year
 - Massively delayed manufacturing production
- Supply chain disruptions connected to containing the Covid 19 outbreak:
 - 14-day quarantines for all transportation workers
 - Shutdown of major highways and railways
 - Closed office buildings
 - Inter-provincial bottlenecks throughout China
- 25% blanked capacity after the extension of Chinese New Year
- Shortage of empty containers in China, connected with blank sailings
- Dislocation of empty containers globally
- \$2 billion in profit losses for a steamship industry with questionable credit status already
- One big low-sulfur mandate (for a splash):
 - Added profit pressures on carriers
 - Reduced capacity for scrubber re-fits
 - Rate pressure for shippers
- Reduced available charter tonnage
- Vastly reduced new vessel launches and order books (lack of future capacity)

DIRECTIONS (COOKING):

1. First, make certain that China is the source of at least 2/3 of Asian imports for the planet Earth. Then, be very sure to time your virus outbreak during the largest annual holiday in China, the one that causes the vast majority of the population to travel home to be with family. Also, be very careful to place the epicenter in a province famous for manufacturing, with a major emphasis on the just-in-time automotive industry. Furthermore, make certain that your virus spreads *quickly* to the rest of Asia and then on to the rest of the world.

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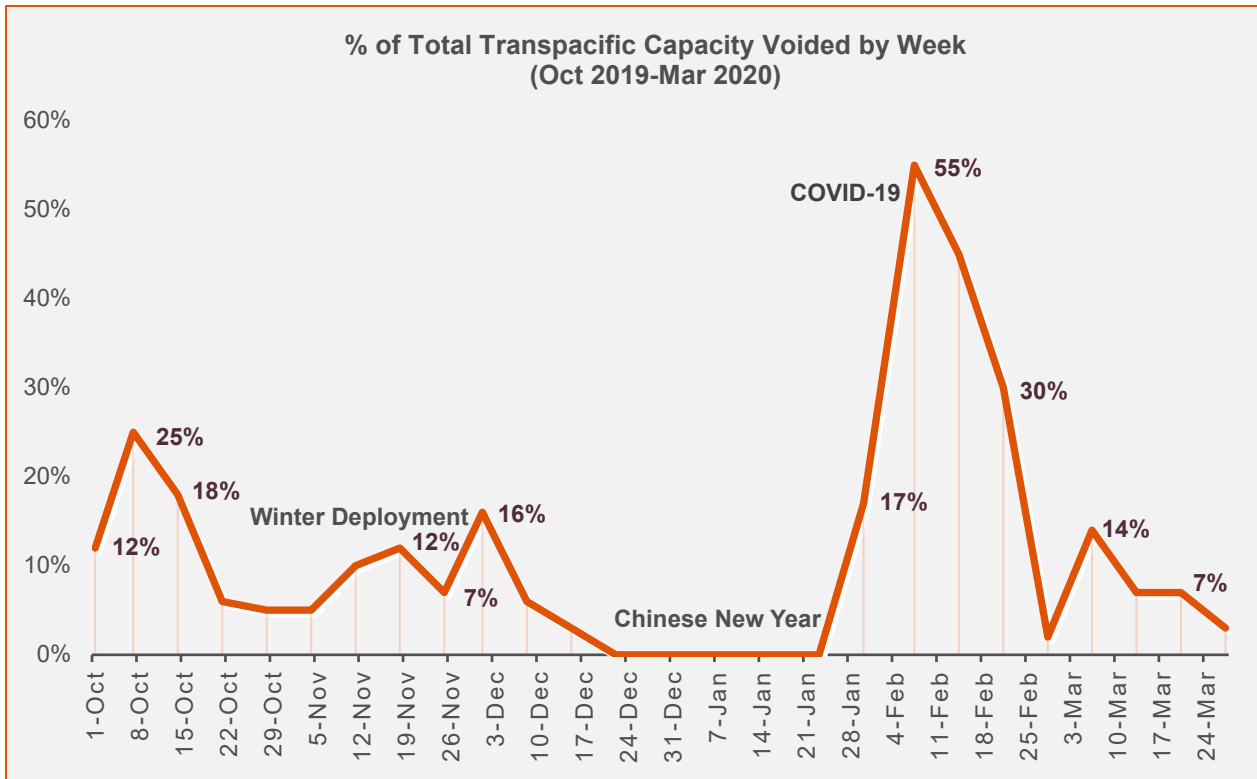
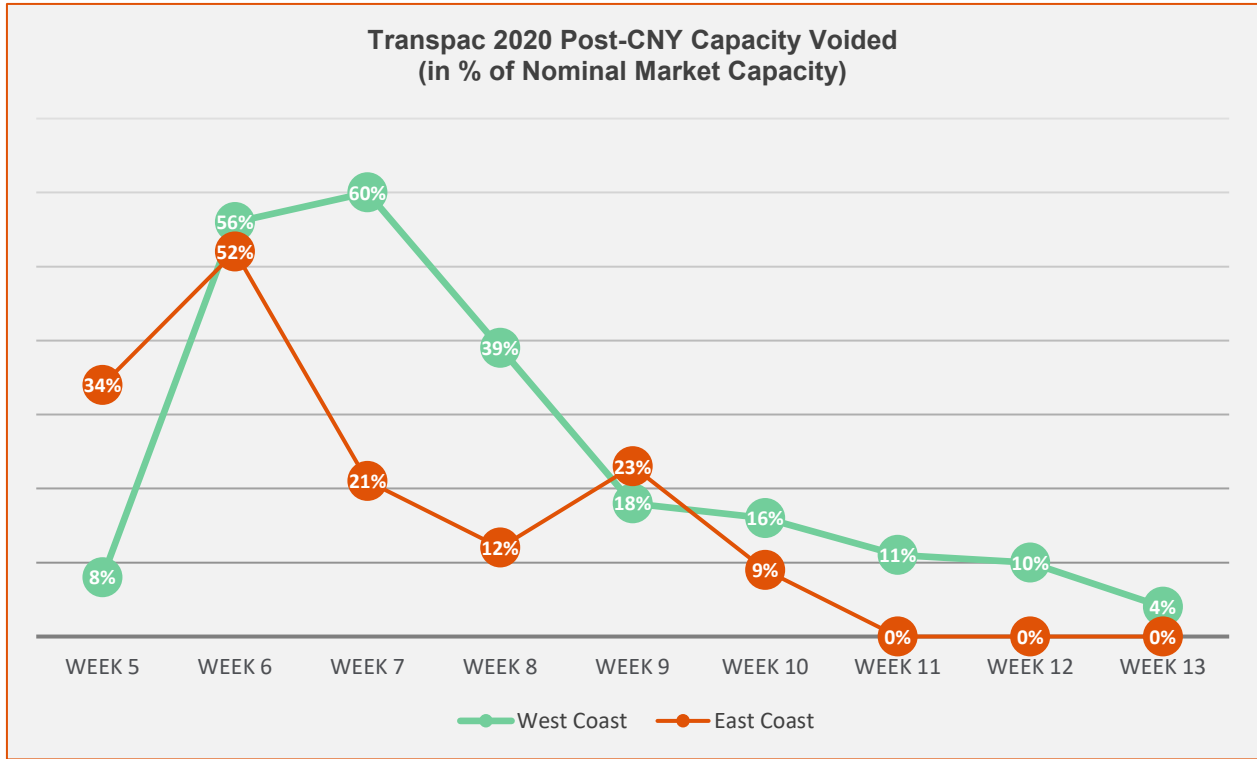


2. Once your virus is well-established, the next step is to combat the outbreak with various forms of quarantine, all designed to keep workers from their factories, workshops, and production centers. It is absolutely crucial that once travel bans are lifted, there are still additional restrictions for the occupation of office buildings and factories, with an additional 14-day quarantine for returning workers.
3. The next step is crucial; and do not skimp here! Be very certain to reduce steamship capacity by *at least* 25% to guarantee both future capacity shortfalls AND a shortage of empty containers in China. Go ahead and blank 400,000 TEUs to the U.S. and over 800,000 TEUs globally. This will greatly hinder exports even after normal manufacturing resumes. It will also trigger global bottlenecks as the normal flow of vessels and containers (loaded and empty) is disrupted.
4. For best results, spice it up! Prepare your shipping ratatouille just after the rollout of a low-sulfur mandate that greatly increases steamship fuel costs (and thus shipper bills as well). This will ensure maximum disarray as the carriers now face a \$2 billion hole in revenues thanks to the \$6 million TEU reduction in exports from China in Q1, 2020. Since even some of the titans in the industry are financially frail, a ratatouille peppered with low-sulfur realities could push carriers to the brink of collapse.

***Author's Note:** for many appetites, this piece is in bad taste (literally). Some may call it unpalatable. However, please note that this author is well-aware of the severity of this health crisis and that people are living in fear (with some paying the ultimate price). Many families have been devastated, and all of us in supply chain know people affected by this disaster. Our hearts go out to all. Let us pray that containment efforts are effective, in China and globally.

The main point of this article is to stir the pot; one simply could not imagine a more disruptive stew of factors for shipping as we march into 2020.

Blank Sailing Charts



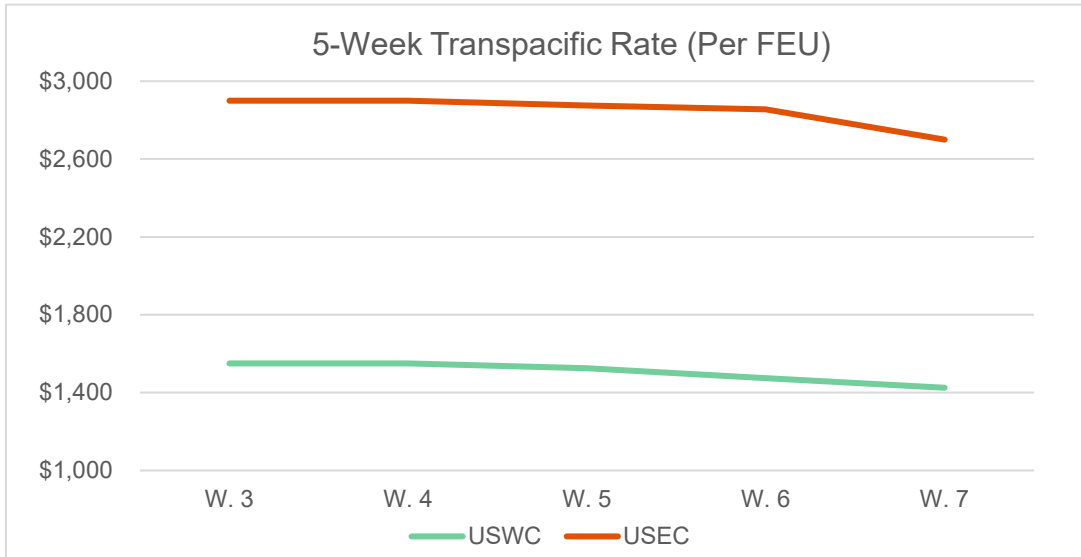
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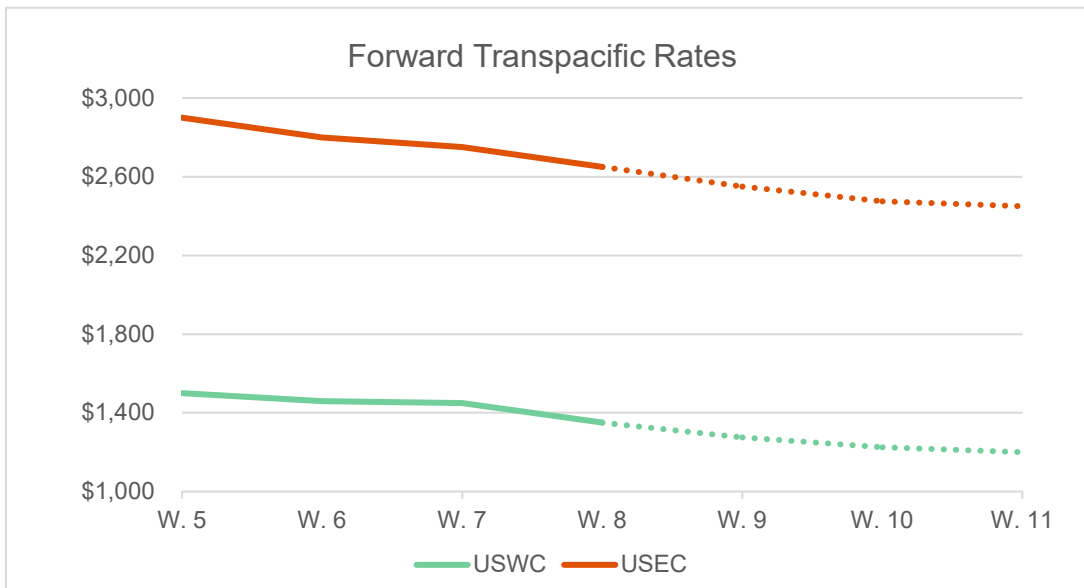


FEBRUARY 2020: RATE TRENDS

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



We have also estimated future rates here:



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