

SHAPIRO FREIGHT

# REPORT

*Trans-Pacific Ocean U.S. Imports*

MAY 2019



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## TRANS-PACIFIC OCEAN U.S. IMPORTS

2019 | MAY

### OCEAN CARRIER UTILIZATION STATS

For late April to early May sailings, ocean carriers once again reported rather stagnant if not downward trending utilization ratios. In regard to fill factors, USEC and USWC are still between 90-95% and the Pacific Northwest is estimated to be between 85-95%. The implementation of additional tariffs on Chinese goods and uncertainty over the direction of the market in the coming weeks, especially given that carriers must now navigate without the safety net of void sailings, has carriers content with load factors in the 90% range.

### MAY 2019: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

### FORGET THE NFL DRAFT! WATCH THE PANAMA CANAL DRAFT

In our industry we watch the following like a linebacker stalking an elusive QB:

Global Economy	Vessel Purchases
Carrier Consolidation	Tariff Threats
Alliances	Port Labor Contracts
Trade Policies	Blank Sailings
Seasonal Demand	Vessel Scrapping

One can easily add 10 more items to this list of 10, and we throw those 20+ factors into our forecasting play book as we all look to call the perfect strategic play or audible at just the right time. And the key to a great shipping season is the annual .... Draft?? Huh?

Out of nowhere, we are all aiming our binoculars away from the Patriots and toward Panama's weather. Here are some highlights (lowlights in this case!) from the Panama weather film reel:

1. Five months without any significant precipitation
2. El Nino phenomenon has created five dry years in the

past six (fortunately, 2018 was the exception, which has helped offset 2019's extreme drought)

3. The two main lakes that feed the Canal are down 5-7 feet
4. Water flow from rivers feeding those lakes is down 60%
5. The Canal itself is at 44 feet with 43 feet announced for June 1 (the normal water draft is 50 feet, so the Canal will be at 86% of optimal volume in two weeks)

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The huge Panama Canal widening project (which finished in 2016) included deepening, but today's mega vessels, not unlike today's mammoth lineman, require more space in which to operate. With 14% less depth, carriers are going to have to restrict their load plans and target heavier cargo for their "disabled list." Shippers of heavyweight cargo should expect to be rolled or assessed higher rates.

The shipper scoreboard for the East Coast is already lighting up with higher rates from Asia. When compared to one year ago, West Coast spot rate scores are only 4.3% higher (and have dropped in recent weeks); East Coast scores, on the other hand, are up 14.7% from a year ago and are at their "high water" mark since February... well, their low water high water mark, anyway.

The clock is winding down to peak season (and on this football metaphor), and at this point, all of us are praying for rain. We'd all like to be given a rain check on a new reason for carriers to increase spot rates, and none of us want to see poor vessel utilizations for an industry gearing up for the added costs of low sulfur fuels.

## **STATE OF THE MARKET ADDRESS**

*Service Contract Rates: "Ask Not What Your Carrier Can Do for You Today, Ask What You Can Expect Him to Do for You Tomorrow"*

My fellow Americans (and I) allowed carriers to increase base service contract rates approximately 10-20% during this year's annual contract negotiations. The combination of 21 blank sailings in March and April and the painful memory of rates near \$4000 in November was enough to convince us to pay a bit more now with the expectation of more stability and predictable allocation later in the season. Even JFK might have been proud of our ability to think of a more sustainable future.

*Fuel Surcharges: "Our Long International Nightmare is Far From Over"*

The citizens of the shipping and forwarding nation can all agree on one thing (perhaps for the first time): the formulas and expectations for BAF and LSS (low sulfur surcharges) are as varied as opinions about the Vietnam War or Gerald Ford's famous pardon. The ocean carriers stood together and almost universally left BAF and LSS to be determined by market conditions throughout the contract year.

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*Trade War Blues: "Read My Lips: More New Tariffs"*

In an unprecedented move, the (current) President raised List 3 tariffs by 15% in a .... WEEK. On top of that announcement, the importing community was told to potentially expect 25% on all imports from China. Okey Dokey! The ghost of George H.W. Bush is reported to have warned, "that wouldn't be prudent." It remains to be seen if President Trump will heed the warning of one of his more conservative predecessors. Read my lips: Tariffs on all Chinese goods would likely spur a second round of tariff related front loading and increased profits for ocean carriers.

*Global Trade: "It's the Economy, Stupid!"*

For only the second time in 10 years, container shipping levels from China to the U.S. shrunk in Q1, 2019 compared to the previous year. With global trade growth forecast to grow only 4%, many pundits are expecting the China-U.S. import trade to grow 2% at best for all of 2019. While ocean carrier capacity is expected to be quite flat, any prolonged reduction or sluggishness in demand will put carriers back on the brink of losses as spot rates fall. Overall, there is little evidence of any robust growth trends. President Clinton has indicated that Kenneth Starr is the most likely cause of poor trade growth.

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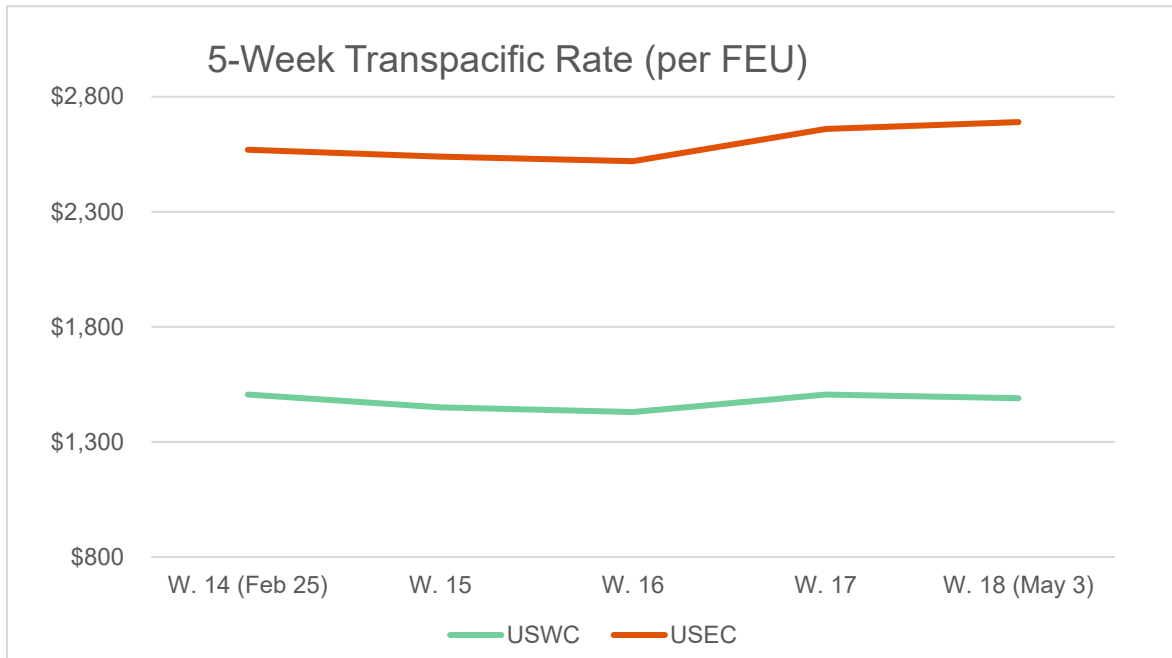
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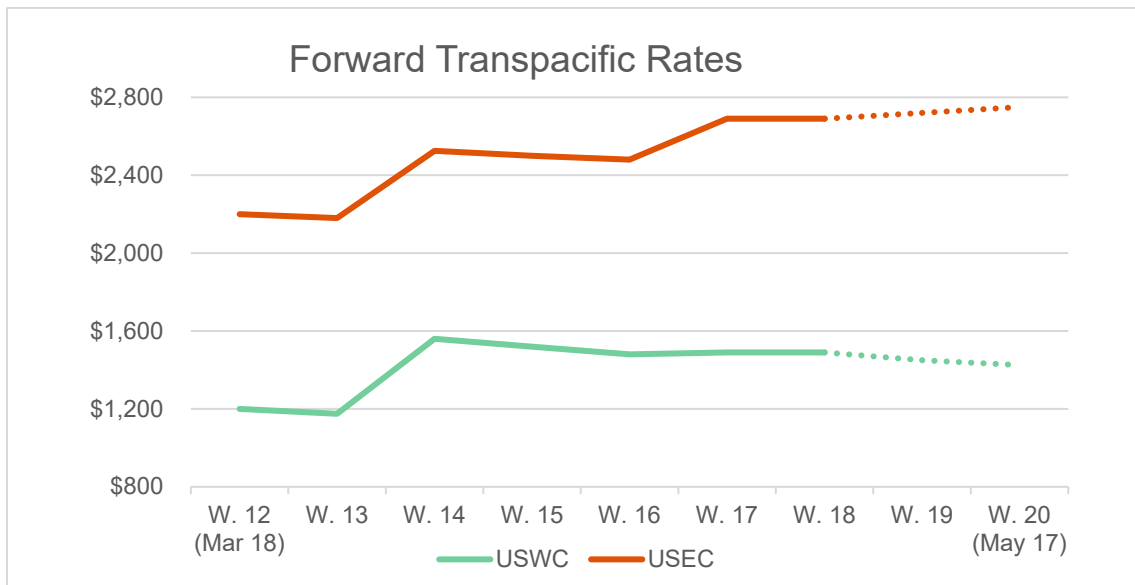


## May 2019, Rate Trends

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



We have also estimated future rates here:



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