

SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

NOVEMBER 2018



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OCEAN CARRIER UTILIZATION STATS

For late October to early November sailings, ocean carriers reported steady utilization ratios. The USWC, USEC and Pacific Northwest all sit at or just under a 100% fill factor, which is in line with fill factors from late September to early October, offering further evidence of a significantly elongated peak season. Despite the introduction of extra capacity by the carriers, we suspect that utilization ratios will remain high throughout the remainder of the year as shippers complete their holiday orders and vie for space in an effort to “beat” the tariffs.

NOVEMBER 2018: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

LOADING UP FOR THE LONGEST PEAK SEASON IN FIVE YEARS

After 14 straight weeks of five-year highs, spot rates continue to rise steadily in early November. Since August 3rd, average rates to West Coast ports have eclipsed \$2000 per 40', while East Coast levels for that equipment have remained above \$3000. To put this rally in recent historical perspective: rates to both U.S. coasts are over 90% higher today than one year ago (WOW!). 2018 will certainly be a year to remember for the ocean carriers, BCOs, and the rest of us brave enough to work in this crazy business.

Lest any of us expect the usual steady decline in demand after Golden Week, the ocean carriers are actually adding considerable capacity into the market through the deployment of “extra-loaders” (now you recognize the pun in the title of this article). For the last few weeks, carriers have injected about 15% to the U.S. West Coast where back-logs have been extreme. For the East Coast, the extra capacity is increasing as we head into November; we expect about 4% to be added this week and another 9-10% next week. It would be hard to imagine a clearer sign that carriers expect this peak to flow into December.

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WHAT DID THE BCOs HAVE TO SAY?

Many pundits expect retail growth of about 5% for the 2018 holiday season. Interestingly, U.S. containerized imports are also trending to grow about 5% for the year. The trade is struggling to answer three fundamental questions:

1. How much of this prolonged peak is based on the pre-tariff cargo surge?
2. How long can/should BCOs pre-purchase and rush their supply chains?
3. How long before the Trump administration announces Round 4 of the Section 301 Chinese tariffs?

While the answer to question #1 above will become clear in the coming weeks, to answer question #2 is a much tougher undertaking. Many BCOs have begun to more carefully calculate the cost of shipping goods at extremely high freight rates and the inventory carrying costs created by buying goods well in advance of natural consumer demand. As many importers face an additional 15% tariff come January 1st, it is likely that the burden of their ever-growing supply chain costs is becoming harder and harder to stomach.

If we could fully answer question #3 above, we would quickly move out of the low margin freight business and charge \$2000 per hour for consulting! In the first trade war in a generation, the only thing that is constant is change, and we hope you have your seatbelts firmly fastened, dear customers.

November 2018 Bigger Picture

KEEP YOUR EYES ON VESSEL SIZES AND CAPACITY FOR 2019

Without much fanfare, Maersk has replaced two smaller vessels in their TP Pearl South China service with a pair of 17,816 TEU behemoths, the largest vessels to be used in the trade since the famous *Ben Franklin* test. In the blink of an eye, this added over 6,000 TEUs to the U.S. West Coast trade.

Based on the vessel order books of the last several years and the need to cascade vessels/capacity out of the Europe trade, this will not be the only string upgrade for the Transpacific.

With gloomy forecasts for 2019 container demand, ocean carriers will be facing a highly complex game on the chessboard of supply and demand as we look ahead to spring's annual contract season.

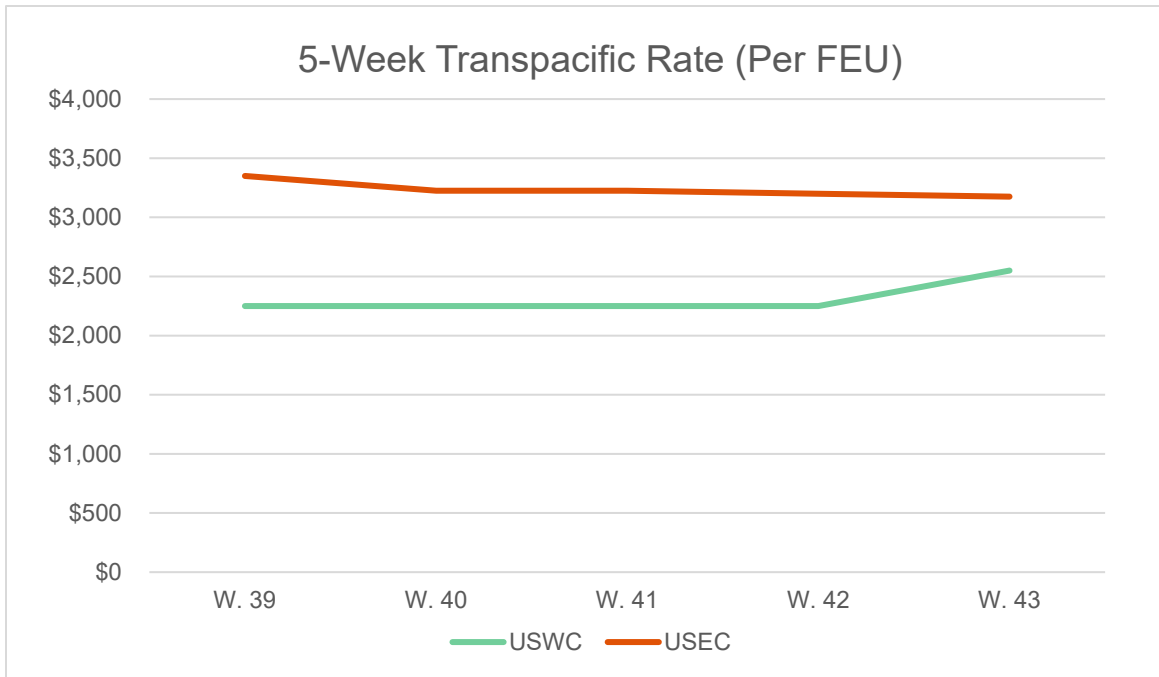
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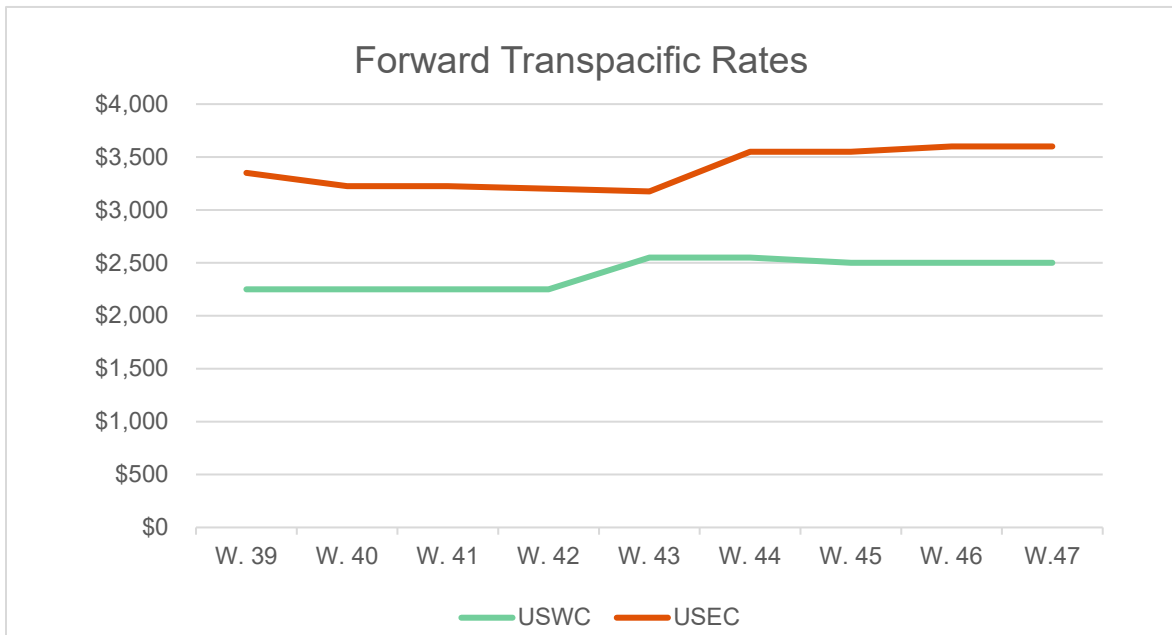


November 2018 Rate Environment

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



We have also estimated future rates here:



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