SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

NOVEMBER 2019

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OCEAN CARRIER UTILIZATION STATS

From late October to early November, ocean carriers reported significant declines in utilization ratios across the board. The USEC and USWC displayed fill factors between 90 to 95%, while the Pacific Northwest took a larger dip, ranging from 85-95%. While this reduction is not out of the ordinary for this time of year, especially considering we are past the brunt of ocean freight pre-holiday shipping, it is surprising to see such declines given the carriers' implementation of blank sailings and capacity mitigation strategies. It is more than likely that utilization ratios will remain bleak heading into December and January, wherein more tariffs and sizeable fuel surcharges await.

NOVEMBER 2019: BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

Talking Turkey about Transpacific Trade

Giving Thanks for 2019

Pilgrims, as we march ahead on the crisp fallen leaves of autumn, and as we anticipate pumpkin and apple pies later this week, let us pause and give thanks for the blessings of the 2019 shipping season:

1. ***Total Shipping Costs vs. 2018***

In the bigger picture, we shippers have gobbled up lower rates in 2019 vs. 2018 and harvested a net reduction of $300 (WC) and $500 (EC) per 40'. We are rarely grateful despite stuffing our bottom lines with overall freight cost reductions.

2. ***Service Stability Despite Aggressive Capacity Management***

Yes, the alliances have been as careful and prudent as Squanto in 2019 (seemingly, for the first time since 1620 when the Puritans bumped Plymouth Rock in the first low Sulphur vessel, the Mayflower). We all feared that blank sailings would carve up transit reliability while the carriers feasted on us at the spot rate banquet. Yet, we can say that despite the confusing casseroles of space management, we should all be grateful that overall service and transit stability has kept its seat at the table.

3. *Beating the Drum(stick) on Free Time, Demurrage, Detention, Per Diem*

For a generation, we have known that the steamship lines and ports are as full of (BLEEP) as a Thanksgiving turkey regarding the subject of free time at ports and rail ramps. None of you pilgrims is unaware that the parties naming the free time are the parties soaking up the gravy on demurrage, detention, and per diem. While there are a cornucopia of factors and interested parties, we must give thanks that the FMC is finally taking this bunch of leftovers quite seriously. We can only hope that like the colonists of Massachusetts Bay, they are steadfast in occupying this new ground so that we may all enjoy a larger Horn of Plenty.

Will the Sulphuring Ever End?!

Boring but Important Details on Fuel Surcharges

We are less than two months away from the IMO 2020 effective date, which mandates that carriers must burn 0.5% very low sulphur fuel oil (VLSFO) or operate vessels with exhaust scrubbers to meet IMO 2020 emissions regulations. Starting in October 2019, carriers began fuelling ships with VLSFO, as the 4th quarter serves as a crossover period from the currently-used IFO 380 (3.5% sulphur content fuel oil) to VLSFO, in order for carriers to be fully compliant by January 1st, 2020.

Regarding VLSFO costs and the impact to the market, there is still tremendous uncertainty about the exact effect that VLSFO costs will have on rates. As we move through November, we will start to gain clarity on the impact to both the short-term and long-term marketplaces. The below update should provide some clarity (and sanity?) to the current situation and will allow you to prepare accordingly.

Low Sulphur Surcharges – December 1st, 2019

As a means of covering short-term VLSFO fuel costs and the price-gap between IFO 380 and VLSFO (during the use of both fuel types), carriers have begun filing **Low Sulphur Surcharges** which would take effect on December 1st, 2019 and would apply only to short-term validity spot and FAK rates. The low sulphur surcharges would be valid for the month of December only, until January 1st when carriers' tariff BAF charges will be adjusted to reflect the use of VLSFO. In other words, the LSS charge in December will be blended into all-in rates on January 1st, 2020.

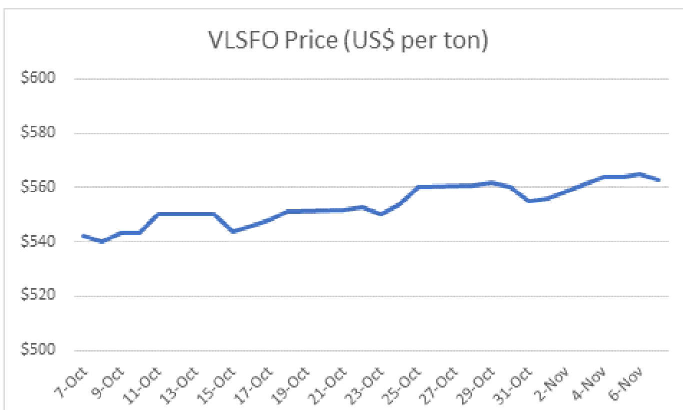
However, while most carriers have filed various Low Sulphur Surcharges for a December 1st implementation, there are several carriers who have not filed specific charges to cover 4th quarter VLSFO costs.

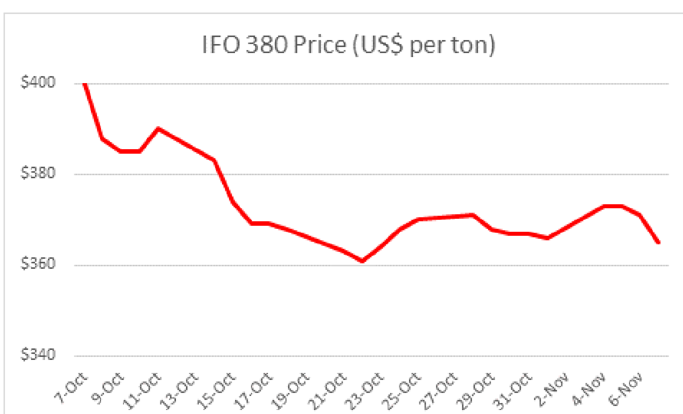
On average, the carriers who are filing low sulphur surcharges have imposed $200/40’ to USWC and $350 to USEC. The lack of consistency and structure among carriers in filing low sulphur surcharges for December 1st suggests that the surcharge will ostensibly amount to a GRI in December, which will allow those carriers who did not file specific low sulphur surcharges to simply increase spot-rates on December 1st – through either standalone GRIs or an exceptional adjustment to their tariff BAF - along with the carriers who did file specific surcharges.

BAF - January 1st, 2020

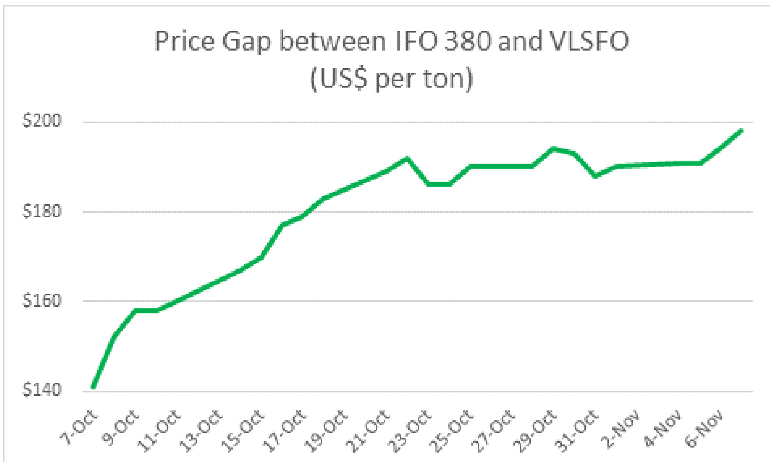
Longer-term (12-month) rate agreements (i.e., fixed rates, or named-account rates) would be exempt from the December LSS charge, since long-term rates are subject to quarterly BAF adjustment and the January 1 BAF is expected to increase as a result of the cost-gap between VLSFO and IFO 380.

Since VLSFO prices became publicly available in early October, prices have increased by nearly 5% to an average of $562 per ton earlier this month. IFO 380 prices have predictably fallen since October – as demand for the 3.5% sulphur content fuel tapers-off, and demand for VLSFO rises. Please see below:





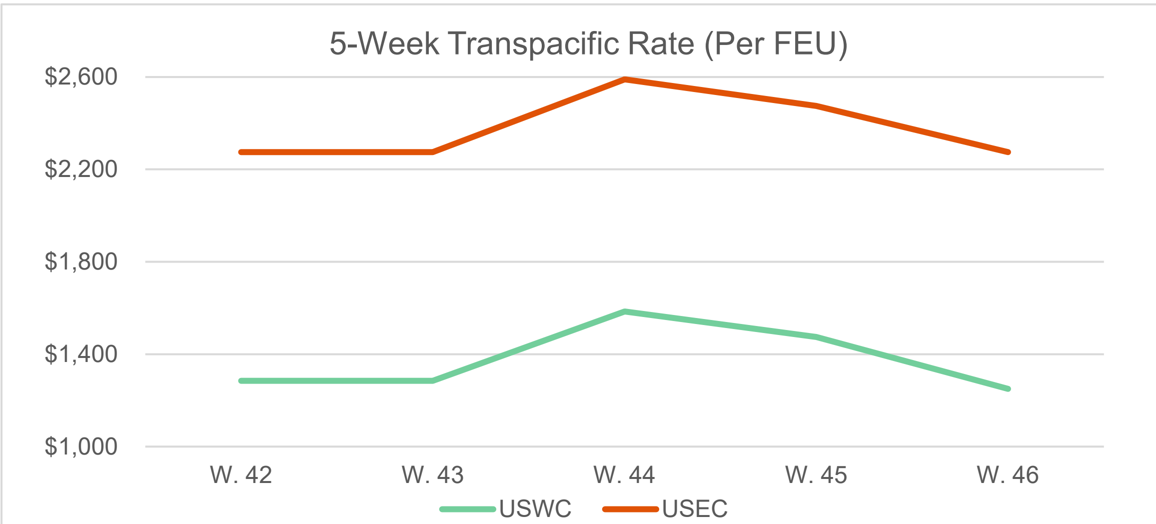
Between October and early November, VLSFO prices have averaged $553 per ton. Under the respective carriers' quarterly BAF mechanisms, average fuel prices are taken from the three months prior to implementation date, in addition to the FMC's 30-day requirement. So, for the January 1, 2020 BAF adjustment, carriers will calculate average fuel prices during the 3-month period (September-November 2019), then file the adjusted BAF charge on December 1st for January 1st implementation. For the January 1st calculation, carriers must evaluate price and usage ratios of *both* IFO 380 and VLSFO, the so-called 'gap', plus the calculation of their individual trade-coefficient (the financial effect that trade imbalance has on the quantity of fuel used in each direction), which varies by carrier and by how much each carrier chooses to subsidize the backhaul trade (US to Asia) with the dominant trade (Asia to US).



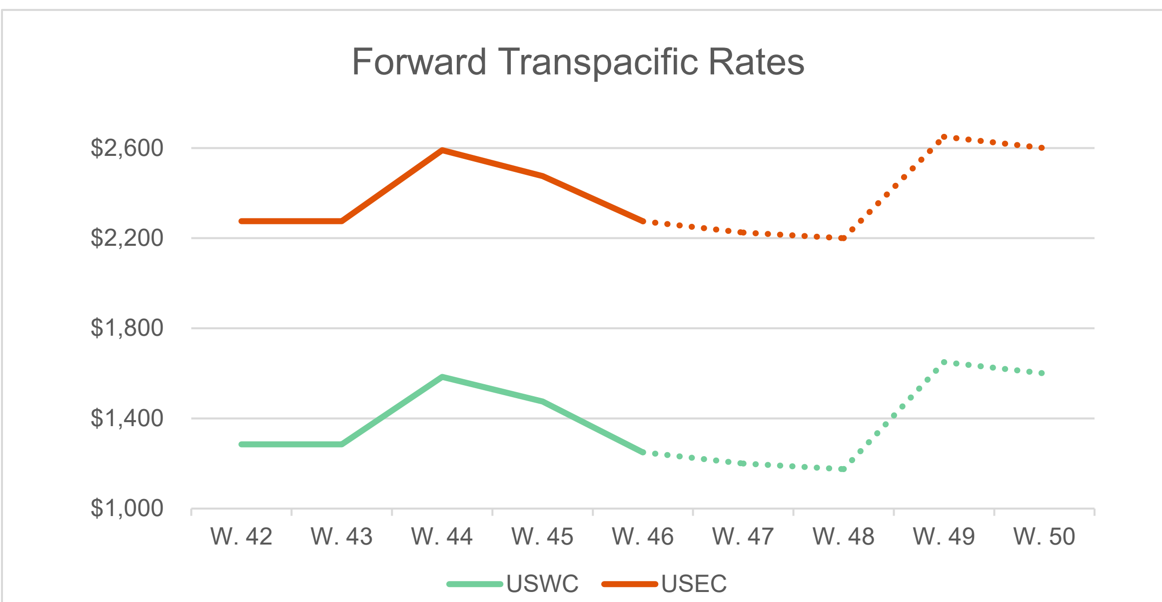
Our initial calculations suggest that the incremental BAF charge on January 1st, for long-term contract rates, will be in the range of $180-225 per FEU to US West Coast and IPI destinations, and $325-375 per FEU. Obviously, this could change based on VLSFO prices during the remainder of November, and we will provide updates as the fuel prices evolve.

NOVEMBER 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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