SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

OCTOBER 2018

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OCEAN CARRIER UTILIZATION STATS

For late September to early October sailings, ocean carriers reported diminishing utilization ratios that signify a return to normalized operations and a steady reduction in cargo back logs. Following the rapid ascent to a 130% fill factor in August and early September, the USWC now sits at 100%. For both the Pacific Northwest and USEC, carriers are reporting an average vessel utilization between 95-100%. Despite these reductions, pockets of space tightness are likely to continue until capacity returns to its full extent, which is expected to happen in late-October (barring any alternative announcements from the carriers).

OCTOBER 2018: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

TWIN PEAKS? ARE WE SET-UP FOR A SECOND SPIKE?

Based on what we read in the press and hear "on the street," U.S. importers are forming two radically different expectations for Transpacific shipping realities for Oct-Dec 2018.

Number One Theory:

To circumvent the announced Jan 1, 2019 escalation in tariffs, the traditional winter slack season will be replaced with an extension of the August-September peak. This implies the continuation of current rate levels and space shortages for the foreseeable future.

Number Two Theory:

U.S. importers, having shifted their purchasing up once or twice already, have purchased what they can early and are already stocked for the holiday season and beyond. The added shipping, storage, and borrowing costs do not warrant another rush to beat new tariffs.

It seems quite likely that both interpretations are partially correct, depending on the commodity and the seasonality of an importer's business (to say nothing of cash flow realities). What is certain is that the ocean carriers aggressively blanked out sailings around Golden Week and, as a result, we will not get a solid first read on the market until the week of Oct 22nd when capacity is back to normal levels.

What is also certain is that the markets to the USWC and USEC are two wholly different markets at this point. This is true in large part because the shorter transits to the USWC have allowed importers to better strategically time their imports with expected tariff implementations and escalations, and many will continue to do this. Also, lost in the bombast and chaos of what we read about the trade war and ocean carrier "chess moves" is the fact that only 1.3% of capacity was removed from the USEC in 2018. We have noted that many articles and blogs stated that 6% of Transpacific capacity was removed, but this is only true for the USWC.

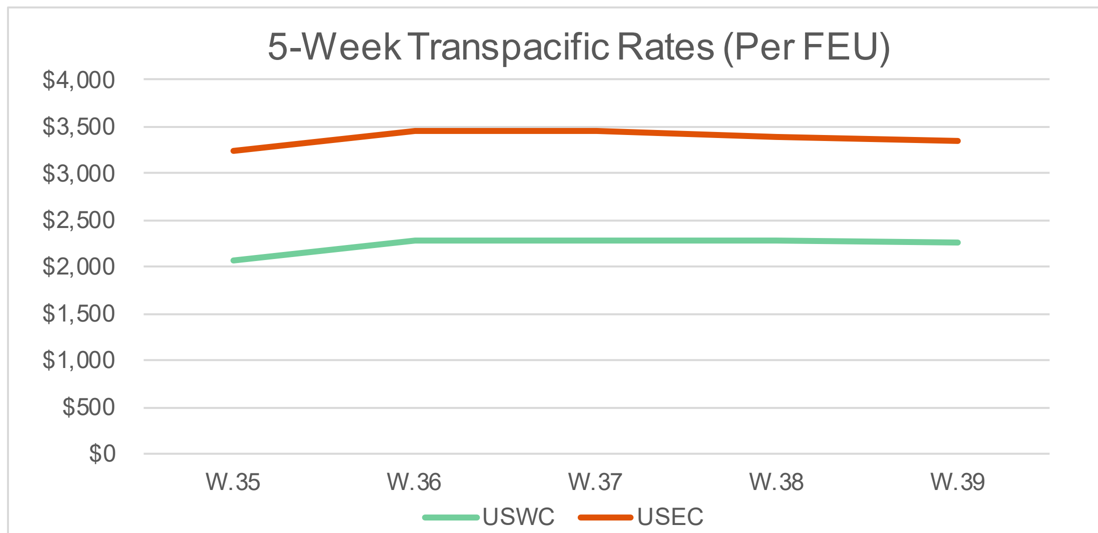
It stands to reason that shipping demand will be more robust than usual for Oct-Dec; however, we do not see a solid case for a twin peaks scenario.

A FEW FACTS FROM 2018…EMPHASIZE QUESTIONS AND OBSERVATIONS FOR 2019

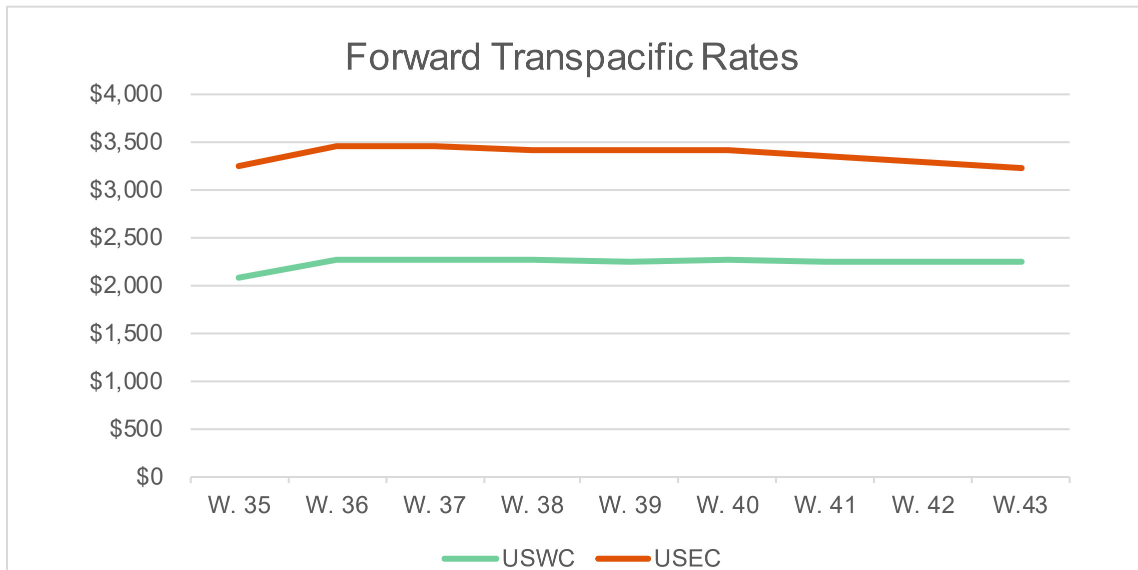
- U.S. retail sales are trending to increase by 4.5% for 2018 vs. 2017.
  - As the new tariffs hit consumers in the wallet, is this sustainable in 2019?
- Based on broad weakening in trade, manufacturing, and investment, the International Monetary Fund (IMF) has downgraded expectations for global growth to 3.7% for 2019… with a meagre 2% for advanced economies.
  - This news highlights the status of economic fundamentals, as we in the U.S. may be a bit blinded by the current unnatural peak season. Will we witness a declining import market in 2019?
- Steamship lines, now comfortable within their alliances, cut capacity supply in an unprecedented and effective manner in 2018.
  - Emboldened by their success, what is to stop steamship lines from using this technique as needed in 2019?
- After years of losing money (at least for the majority of ocean carriers), many pundits believe that investors and the carriers themselves cannot and will not sacrifice profitability for the sake of market share.
  - If this is true, we have entered an entirely different marketplace between shippers and ocean carriers.
- In the current press, we see many references to the coming low-sulphur mandate for Jan 1, 2020. Having seen their fuel costs rise by 187% in the last three years, while rates have risen just 7%, ocean carriers are very eager to pass along any cost increases. Early estimates put the additional cost of low-sulphur fuel at $160-260 per TEU.
  - The negotiation of BAF, EBAF, and EFAF will almost certainly take on greater significance in 2019 than in any other year in recent memory. The transparency of these costs will become a significant concern and negotiation point for major shippers.

October 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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