

SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

DECEMBER 2019



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OCEAN CARRIER UTILIZATION STATS

In mid to late November, ocean carriers reported stagnant if not slightly increased utilization ratios, though there was a much more significant uptick in early to mid-December. In looking at early to mid-December, the USEC displayed a fill factor of 95%, the USWC sat at 90% and the Pacific Northwest displayed a robust fill factor of 95-100%. The increase in carrier load factors across the board is majorly attributable to the blank sailing strategy implemented by the carriers, in conjunction with shippers looking to beat IMO (where possible) and the threatened tariffs that were set to take effect on December 15th. In the case of the Pacific Northwest, utilizations have been strong in December in part due to four sailings blanked from the schedule totaling nearly 40,000 TEUs, accounting for a 20% shortfall in capacity.

DECEMBER 2019: BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

In honor of our Canadian readership, a tribute to Boxing Day.

The Main Event: Shippers Boxing Carriers on Box BAFs

Punchy Shippers' Jabs at Carriers Fuel a Fight

In December, shorter-term contracts and spot business were cornered for the first uppercuts for shipping costs based on low sulfur fuel implementation. Longer-term contracts are scheduled to swell and bleed like a broken nose on Jan 1. As one might guess, the gloves came off quickly and with teeth bared and knuckles bare, shippers immediately counted the following carrier "low blows":

1. Near complete lack of transparency on low sulfur implementation charges. Like a surprise left hook, shippers are left stunned as they have been all but knocked out of open collaboration with carriers.

2. Inconsistencies between alliance partners on

the same vessels leaves BCOs punch drunk and ready to put up their dukes. How can it be that Maersk, MSC, and slot-chartering Hyundai have hugely different BAF levels? After all, the two heavyweights and the flyweight are all moving cargo on the same vessels.

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1215 E. Fort Ave, Ste 201
Baltimore, MD 21230
www.shapiro.com



3. The size of the boxer does not correlate to the size of the punch. One imagines that the larger the average vessel, the more efficient the fuel consumption as measured per container. Isn't that why the carriers began building and deploying Super Heavyweight ships (to fight the on-going bout with operating costs)? Even a cursory analysis of the TransPac shows that average vessel size has no apparent connection to fuel surcharge levels.

Carriers Storm Out of their Corners to Attempt a TKO

For their part, the ocean carriers have indicated that it is they who have been put on the ropes by the fuel compliance mandate and by pugilistic shippers beating them down on price daily. The carriers are standing together and counting their own points:

1. IMO 2020 represents an \$11B headlock for ocean carriers just trying to make a living. The cost of implementation is huge, and shippers are trying to count out ocean carriers and drop them to the canvas once and for all. Nothing could be worse for the industry than a fallen fighter going bankrupt.
2. The true low blow for carriers is that the costs of IMO 2020 are not limited to higher fuel costs. They also have brutal retro-fitting costs for scrubbers, major service disruptions based on the availability of different fuel types (leaving carriers off-balance especially at smaller ports), the chaos of dislocating assets (and the jaws of investors) during scrubber installation and potential future costs associated with the beating carriers are suffering over the low sulfur mandate.
3. Shippers would be left woozy if they got the combination of data points required to create true transparency. For example, one heavyweight carrier on imports may be a flyweight on exports; this creates a different fuel cost reality as this boxer moves his boxes back home empty. To punch up this point, it is nearly impossible for carriers to determine the short-term use of different fuels as they transition for vessels fitted for low sulfur while also employing vessels fitted with scrubbers.

We are early in the first round of this bout, and all eyes are on the potential prizes for the winners and the dangerous consequences for the losers.

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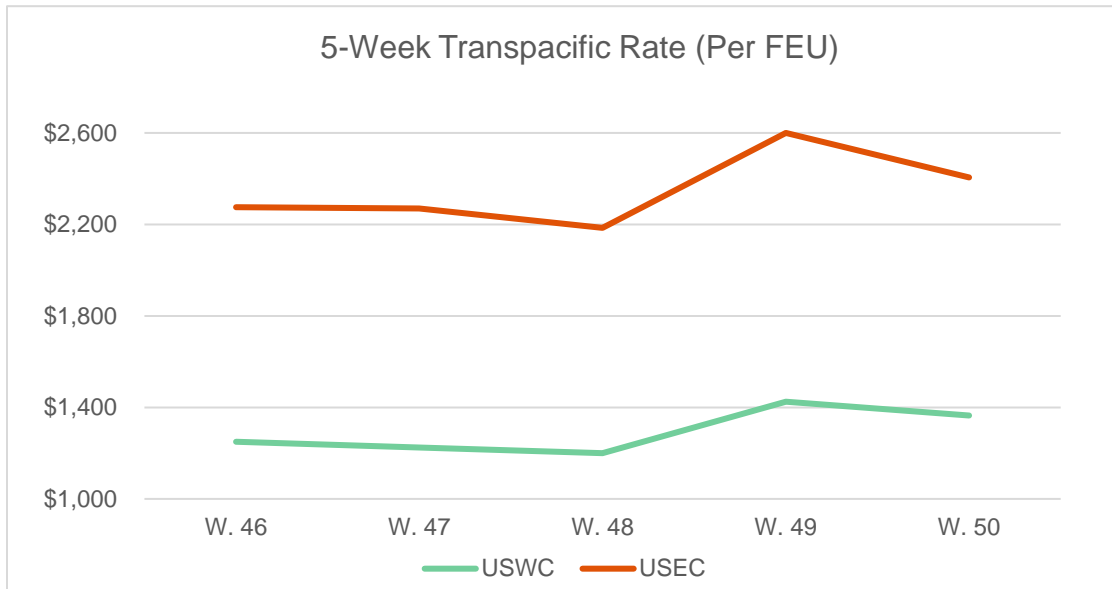
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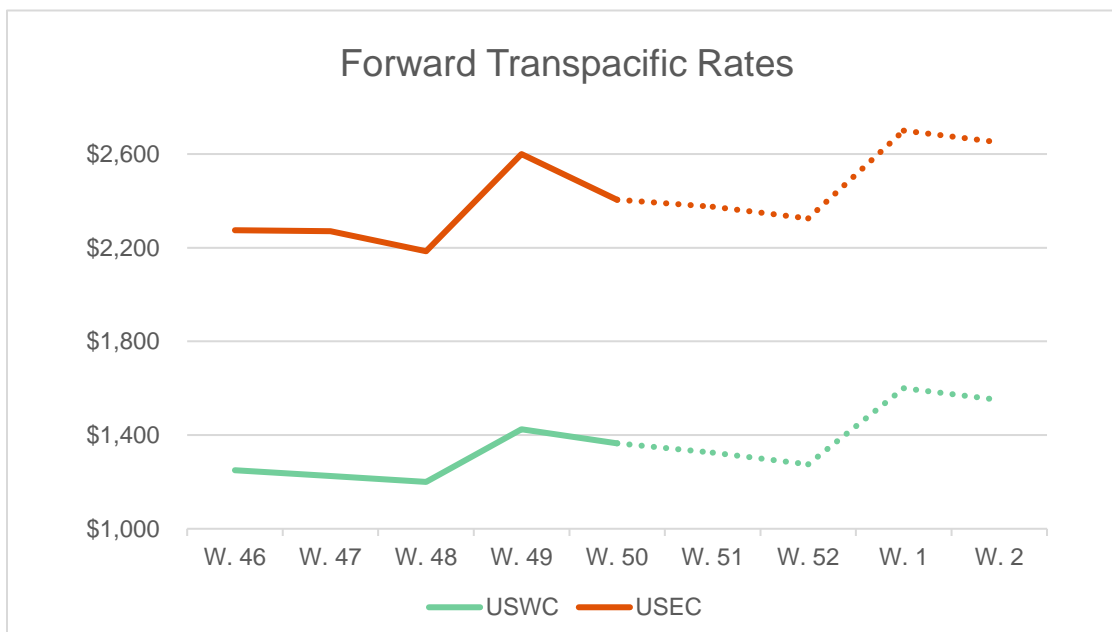


DECEMBER 2019: RATE TRENDS

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



We have also estimated future rates here:



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