

SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

OCTOBER 2019



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OCEAN CARRIER UTILIZATION STATS

From late September to early October, ocean carriers reported consistently flat utilization ratios across the board. The USEC, USWC and Pacific Northwest are all displaying fill factors between 90 to 100%, indicating that the carriers' blank sailing strategy combined with a heavily delayed, or potentially completely lacking, peak season has created a rather stable market for shippers. As the slate of December 15th tariffs has yet to be thwarted and as carriers continue to implement blank sailings and ponder GRIs, it is likely we will witness an uptick in fill rates as we head into November and the full brunt of the holiday season.

OCTOBER 2019: BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

Pain and Sulphuring

A Four-Pack of Folly:

1. Sulphur HURTS the Environment

The primary reason the U.S., EU, and China painfully imposed the use of low-sulphur fuels when ships near coastlines is that nitrogen oxides, heavy particulates, and sulphur dioxide cause severe pulmonary problems, smog, and acid rain!

An EU study estimated that 50,000 people a year die prematurely thanks to the marine cargo industry. A study conducted by the U.S. EPA estimates the cost of using low-sulphur close to shore at a whopping \$3.2B a year, yet the savings from a healthcare perspective is estimated to be \$110B a year.

Did you know that there is 2700 times more sulphur in today's marine fuel than in your car's gas tank?

So, let's do the torturous math. We are an industry arguing passionately about \$150-\$300 per container and who should foot the bill. Meanwhile, high-sulphur fuels kill people, poison crops and fish and can lead to deadly lung problems. Why isn't anyone talking about this instead?

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2. *Saudi Arabia Got a Nasty BOO BOO*

Very early on the morning of September 14, 2019, unwelcomed Russian drones arrived at the Abqaiq and Khurais oil refineries in Saudi Arabia to deliver some destruction. Within minutes, half of Saudi Arabia's and 5% of the world's oil production had been halted.

The owner of these facilities, Aramco, specializes in the production of Arab Light and Arab Extra Light ... these are not craft beer choices or acoustic guitar strings, people. No, as luck would have it, these are light grades of fuel oil processed to remove yes, sulphur!

Winston Churchill said of Russia, "it is a riddle, wrapped in a mystery, inside an enigma." The attack on the Saudis means that we have a low-sulphur mandate that's plagued in uncertain supply, afflicted with uncertain demand, and harmed by the wounding words of self-interest as shippers and carriers shamefully fight over a couple of hundred dollars per container (remember, the stakes can only be measured in human lives, sustainable food sources, and billions of dollars in healthcare savings.) Have we finally lost our minds?

3. *PAINFUL Uncertainty over Vessel Performance*

IHS Markit forecasts that only 30% of the global shipping fleet will adequately utilize low-sulphur fuel on January 1, 2020. Ouch! The remaining 70% will utilize Marine Gas Oil or will install scrubbers while continuing to use high-sulphur fuels.

Shockingly, the reason for the expectation of low adoption levels is that carriers are not 100% convinced that low-sulphur fuels actually work for extended voyages. They fear that their vessels may drift powerlessly across the ocean blue. You must be kidding us!

Nobody has tested the new fuels thoroughly? What have vessels been burning close to shore for roughly five years now? The performance concerns are either far-fetched or evidence of a major flaw in the broader implementation plan.

4. *Is it AGONY or Ecstasy for Carriers?*

Many shippers have been afflicted with the idea that ocean carriers are welcoming the IMO mandate so they can exploit a new profit center. They point to the fact that ocean carriers have not pushed hard for an implementation delay.

Given the up-front installation costs for scrubbers, the high levels of supply uncertainty, the dislocation of vessel maintenance supply chains, and the agonizing commercial inflammation and conflagration with shippers, it strains, sprains, and pains the mind to imagine ocean carriers in ecstasy over the mandate.

That said, the carriers should adopt a highly transparent approach to sharing these costs, remind shippers why low-sulphur is good for humanity, and help the market understand that fuel surcharges affect all companies (including any shipper's most despised archrival).

Treat or Trick, a Limerick

There once was a market called TransPac
In '19 a short story of slack
Alliances thwarted
Tariff tweets aborted
Shippers lost about whom to attack.

In Spring the lines pushed hard for a raise
For steady space, the importer prays
Frontloading be damned
All feeling quite scammed
Equilibrium hard not to praise.

But demand, she started to falter
Blanking supply was used to halter
Spot rates, they kept falling
Load factors appalling
With fixed contracts, why did we palter?!

This lull market, she's overly dull
For new angles, we bash our own skull
Where, where is the peak?
GRIs so weak
'Bout cancelling services we mull.

Versus '18, shippers are winning
To the wall the lines they are pinning
Sulphur does hurt us
There's reason for fuss
Our bargain shopping worse than sinning.

Dear friends, let's accept this action
Let's move past our first reaction
Our air will be cleaner
Our grass will be greener
Time for another distraction!

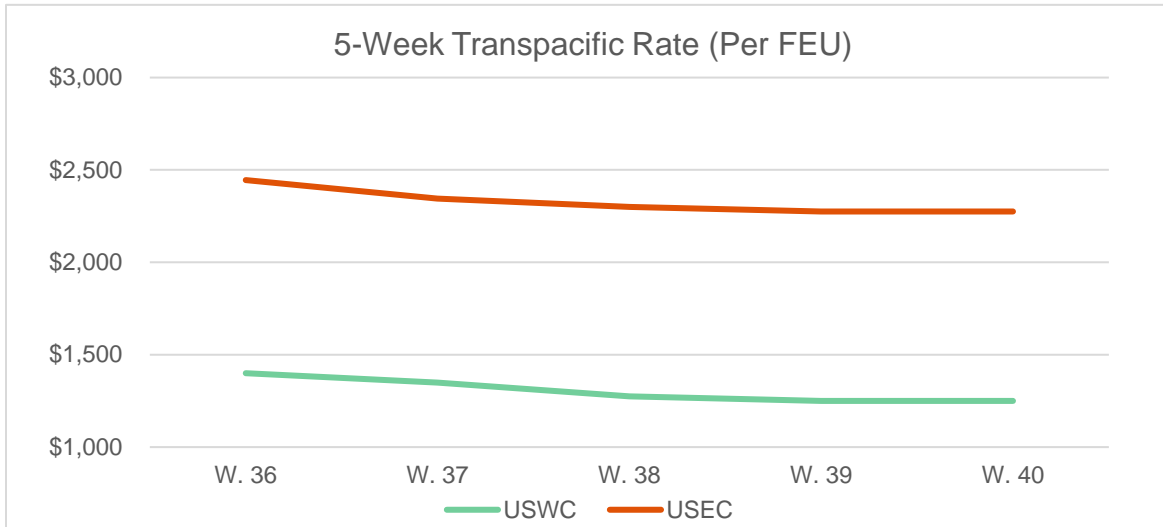
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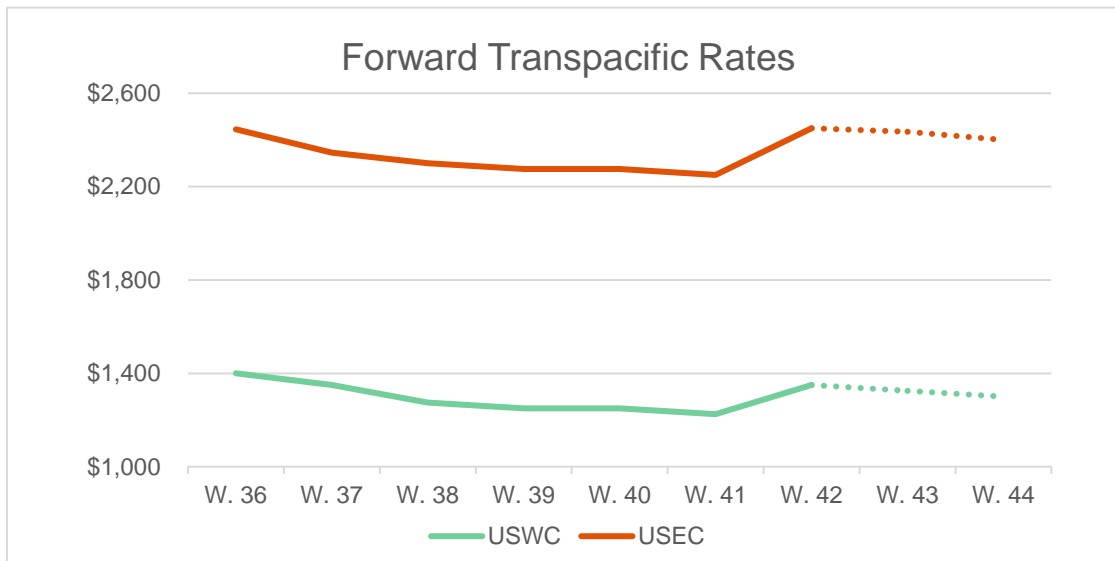


OCTOBER 2019: RATE TRENDS

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



We have also estimated future rates here:



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