SHAPIRO FREIGHT REPORT

Trans-Pacific Ocean U.S. Imports

SEPTEMBER 2019

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OCEAN CARRIER UTILIZATION STATS

For late August to early September, ocean carriers reported slight decreases in utilization ratios across the board, as demand continues to remain relatively flat. The USEC and Pacific Northwest are each reporting fill factors between 90-95%, while the USWC is faring slightly more variable with fill factors ranging from 85-95%. Utilization ratios are likely to decline slightly through the end of peak season, as carriers are increasingly feeling the effects of the US-China trade war, with October blank sailings providing the next real opportunity for higher utilization factors.

SEPTEMBER 2019: BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

A September to Remember?

If we will ever remember the titans in the shipping business for September 2019, the following developments will need to collect and recollect in our recall:

1. FMC on Demurrage, Detention, and Per Diem

The FMC's proposed interpretative rule on the "reasonableness" of detention, demurrage, and per diem may make for forgettable reading, but the premise promises to be a memorable and essential distinction (since millions of shipper dollars are at stake). Basically, these surcharges were first designed to incentivize freight fluidity by penalizing parties who slowed the productive use of land and assets. Over time, this premise seems to have been "dismissed" from the minds of ocean carriers and port operators.

The part that should not escape your memory or slip your mind is this hard to follow concept from the FMC: "…absent extenuating circumstances, storage practices and regulations that do not provide for a suspension of charges when circumstances are such that demurrage and detention are incapable of serving their purpose would likely be found unreasonable."

Remember the Alamo, people! Remember your thousands of dollars of losses and lost time fighting the carriers and ports over demurrage, detention, and per diem… frequently charged by the parties that did not make your freight available quickly, conveniently, or as advertised!

2. *Shipper Demand Forgets to Show Up*

August 2019 was like déjà vu all over again for ocean carriers. After the bumper crop of 2018 and the see-saw beginning to 2019, August brought us spot rates descending to levels nearing long-term contract deals. How soon we forget that supply side market management is a heck of lot easier with steady or increasing demand.

But the ocean carriers have a long memory for the industry losses of many of the last several years, and they pushed hard for a Sept 1st GRI. While promising for a day or two… within a week, the laws of supply and demand (which never forget to be memorably rational) pushed the September market rates to roughly the same levels as the end of August.

We begin to hear pundits calling for us to recollect the front-loading of 2018, since importers face a 15% rise in duties for a large population of merchandise on Dec 15th. If shippers remember correctly, much of the front-loading in 2018 was often more expensive than the cost of increased tariffs (largely due to increased freight rates, high levels of demurrage, and product storage costs). Many mid to small-sized importers are focused on remembering what made them successful in the first place: efficient supply chains supporting sensible sourcing.

Hints of a Sober October for Shippers?

One might argue that shippers are drinking heartily from the prosperity cup with ocean rates dropping, trucking supply prohibition over, and ports and rail ramps no longer stumbling while incoherently dealing with volumes. But, if you want to be sober as a judge, please judge these potential October buzz kills for shippers:

1. *Blankly Staring at Your Empty Cup of Supply*

Please use your beer-free goggles to gander at this summary of October blank sailings:

	Week 40 (Oct 1-6)	Week 41 (Oct 7-13)	Week 42 (Oct 14 – 20)	Week 43 (Oct 21 – 27)
PSW	**11%**	**17%**	**14%**	3%
PNW	NONE	**14%**	**27%**	6%
AW	**26%**	**15%**	NONE	NONE

While the disciplined and sobering manipulation of container allocation supply is not new, it has been aged to perfection in 2019. And, the timing for this distillation of the blanking brew may be just what the carriers needed.

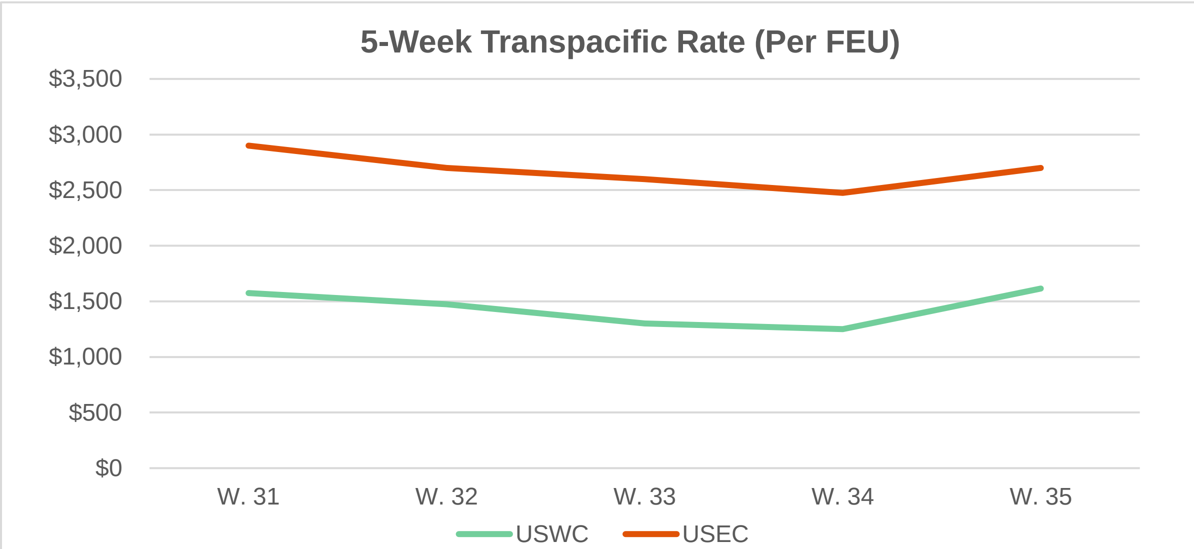
You have importers currently abstaining from emotional front-loading facing four temptations to jump off the wagon: a) Tariffs (tariffs, tariffs, and tariffs in fact); b) Allocation supply restrictions in October (including Golden Week); c) New low Sulphur fuel costs beginning in November; d) Chinese New Year on Jan 25th (a party that starts early in 2020).

2. *You Must "Sulphur" (and Suffer) the Fuel Surcharge Sodden Fools!*

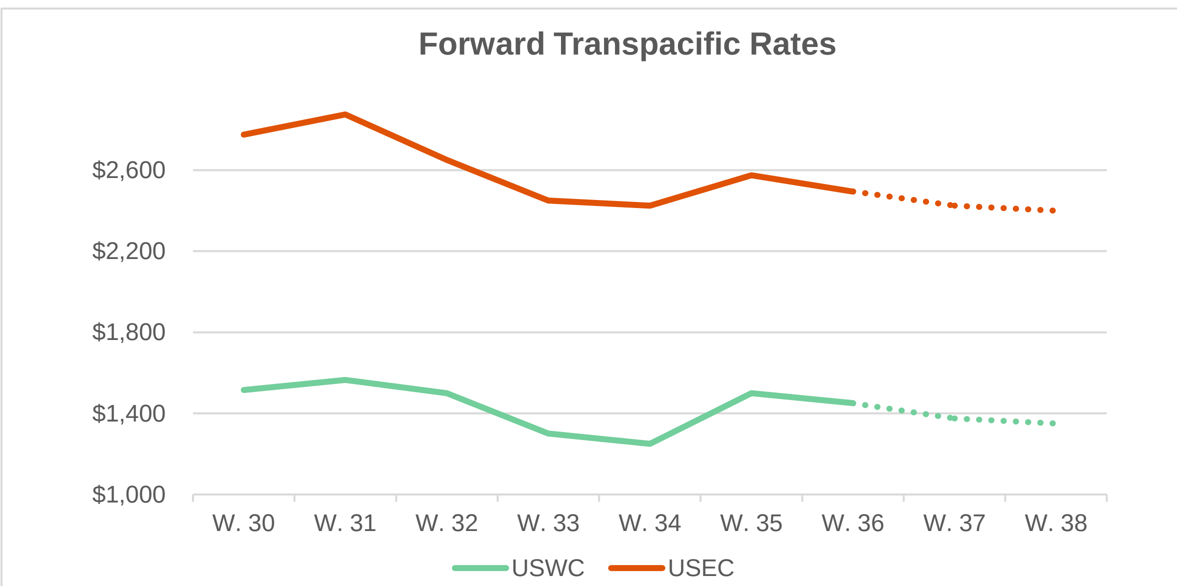
While confusion and hangover-level headaches are the norm for now, one thing is not in doubt: shippers face a roughly 10-15% increase for the liquid fire side of the business. Most pundits estimate the added costs for low Sulphur bunker (called "fire water" where I'm from) will be somewhere near $150/FEU to the USWC and $300/FEU to the USEC. No matter how the proof formulas lead to our knowledge of the percentage of intoxicating profits or debilitating costs (depending on your perspective), it is clear at 200 proof that a higher spirited debate will end with shipper costs increasing, perhaps as much as 15%.

SEPTEMBER 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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