SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

AUGUST 2019

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OCEAN CARRIER UTILIZATION STATS

For late July to early August, ocean carriers reported slight decreases in utilization ratios across the board. The USWC and Pacific Northwest are each reporting fill factors between 90-95%, while the USEC is fairing slightly better with fill factors ranging from 95-100%. Though it appeared the carriers had become experts at balancing capacity in previous months through the implementation of blank sailings and additional feeder vessels, demand has been significantly underwhelming during this year's peak season. Utilization ratios are likely to remain relatively stagnant as we head into the middle of peak season, as any expected uptick in demand will likely be mitigated by the addition of two new services that will be introduced later this month.

AUGUST 2019: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

The Plunging Demand Line

A plunging neck line on a stylish dress can inspire attention, admiration, and a poet's musical words of joy. A plunging demand line for Chinese imports inspires only consternation and fear for ocean carriers, for China, and for people not in favor of a global recession. Please forgive the drama, but a 24.7% decline in import volumes from China to the US in July 2019 vs July 2018, is provocative in all the wrong ways!

Yes, we must remember that the market was clothed in panic in July 2018 (and this pushed volumes up like a corset). Yes, we must note that imports from broader Asia are more conservatively dressed in only a 2% slide YTD. However, a year-over-year decline of a quarter of total traffic from China conjures notions of emperors without clothes and losing the shirt right off our backs.

During the first week of August, the closet of West Coast rates was left in tatters with a 7.2% decline from the previous week. That left the total rate wardrobe to the USWC shrunken by 28.7% from a year ago. So far, the ocean carriers have somehow been able to take these unstylish "high waters" and pass them off as capris pants, but please keep reading to understand how these market tailors have fashioned such an elaborate tale.

Are They Blanking the Extra Loads or Loading Extra Blanks?

Please direct your blank stare and feed your eyes on this chart of the recent history and expected near future of Trans-Pacific blank sailings:

Year	# of Blanks	Volume of Blanks (TEUs)
2017	80	600,000
2018	136	1,000,000
2019	200+	2,000,000

<u>It's difficult to draw a blank on a conclusion:</u> through alliance control/collaboration and having lost the taste of bitter losses in recent years, the ocean carriers are prepared to feed the market less-stable transits and services to keep capacity in check.

…But Wait! Why Do We Have Blank Sailings AND Extra Loaders??

As an industry, we can begrudgingly admire the carriers for suppressing extra load capacity from a declining China, but we find ourselves shooting blanks as we target the reason for implementing blank sailings and extra loaders in the same months. What's going on here?

<u>Let's blanket ourselves in some facts:</u>

- ✓ Nearly 90% of extra-loaders have been deployed to the Gulf and East Coast.
- ✓ Nearly 90% of blank sailings have affected West Coast routings.
- ✓ Ocean carriers have NOT solicited business from NVOs on extra loaders.
- ✓ The Ocean Alliance (CMA, Cosco, Evergreen, APL, OOCL) has implemented the vast majority of blank sailings.

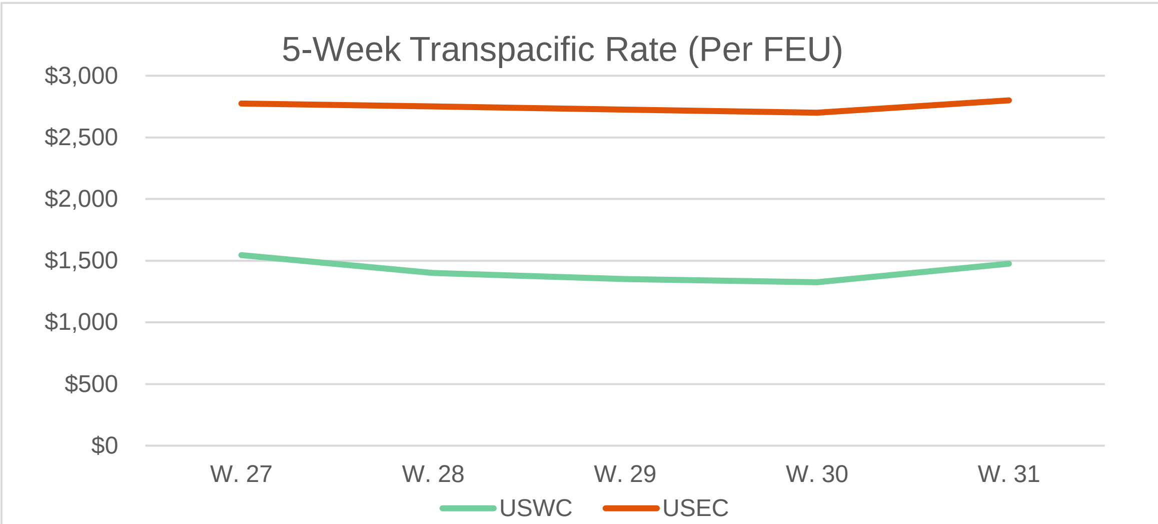
It seems clear that blank sailings are being deployed to prop up the Spot Market/FAK market while extra loaders are in motion to help honor elite BCO contract cargo. In the simplest terms, the BCOs get the service and price stability they couldn't find in 2018 while the ocean carriers enjoyed a nice "raise" on 2019 contract rates and want to re-build trust with their largest customers.

But, will the little guys have the last laugh? Recent rate trends indicate the very real possibility of FAK rates going lower than long-term contract rates (despite all the ingenious maneuvering from the carriers). If their rates are higher than market, those elite BCOs will want more than a few extra loaders to re-build trust and to heal the wounds of 2018!

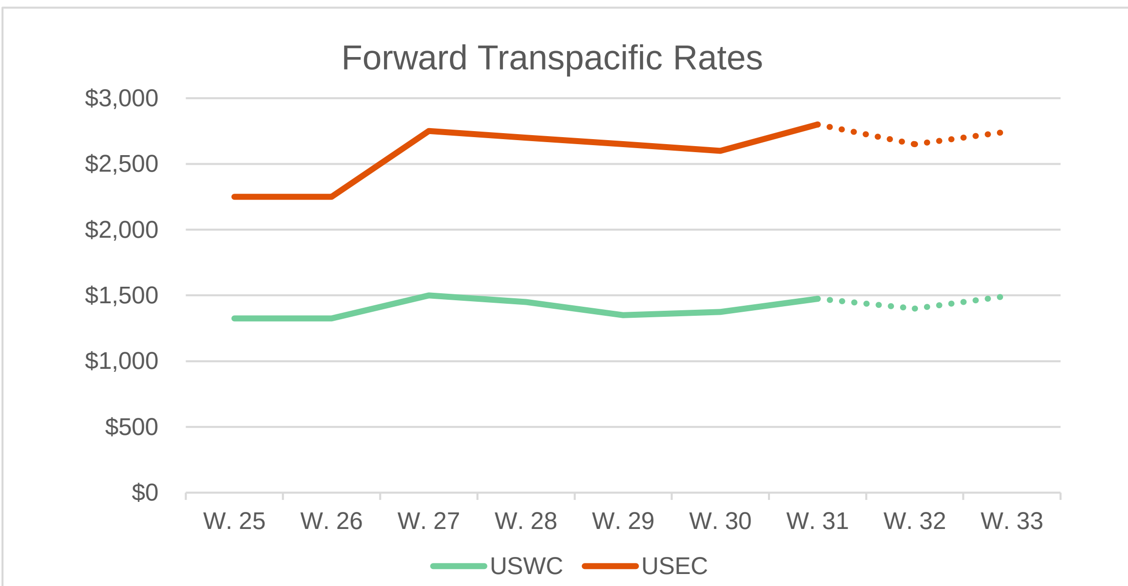
We shippers and 3PLs sometimes forget that a healthy steamship industry is good for all of us. We are witnessing unprecedented capacity discipline and the targeted use of capacity injections and reductions… so far on the backs of the smaller importers in the Spot Market. Overall, this observer is tempted to applaud the steamship industry for 2019 YTD. However, with two new services launching later in August, it looks like the industry will have to increase blank sailings during traditional peak. This could be a recipe for rolling cargo, transit delays, and enough supply chain disruption for the typical importer to load extra blanking anger and frustration on their carriers' report cards.

AUGUST 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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