



JOC Container Shipping Outlook

Presented by

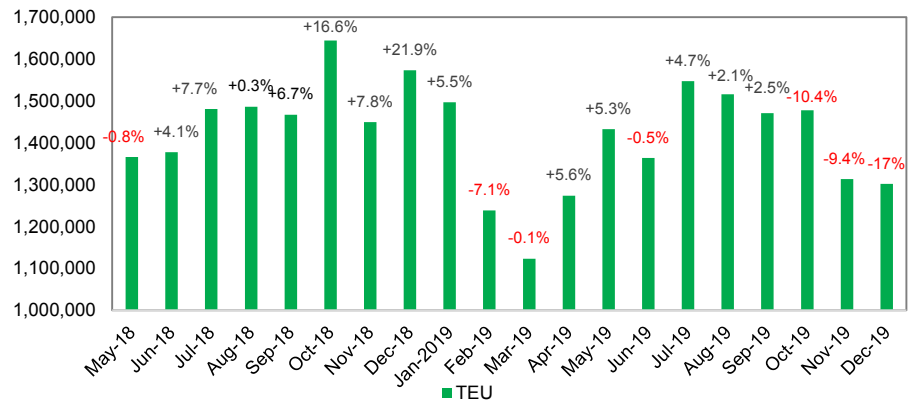
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Senior Editor

2020-A return to normalcy in the trans-Pacific?

- 2018 was a roller coaster ride in the eastbound Pacific due to tariffs
- Carriers started 2018 by removing 3 weekly strings to West Coast and 1 to East Coast because volumes were low
- The Trump tariffs were announced in mid-2018. Imports exploded as retailers front-loaded shipments, “robbing” volume from 2019
- In 2019, imports from Asia declined 2.2% after increasing 7.6% in 2018. Imports from China plunged 9.8%
- Takeaway from 2018-19: Carriers learned they could flex capacity up at will with extra-loaders or down with blank sailings

US imports from Asia plunge in 2019

Volume of US laden container imports from Asia with year-over-year change

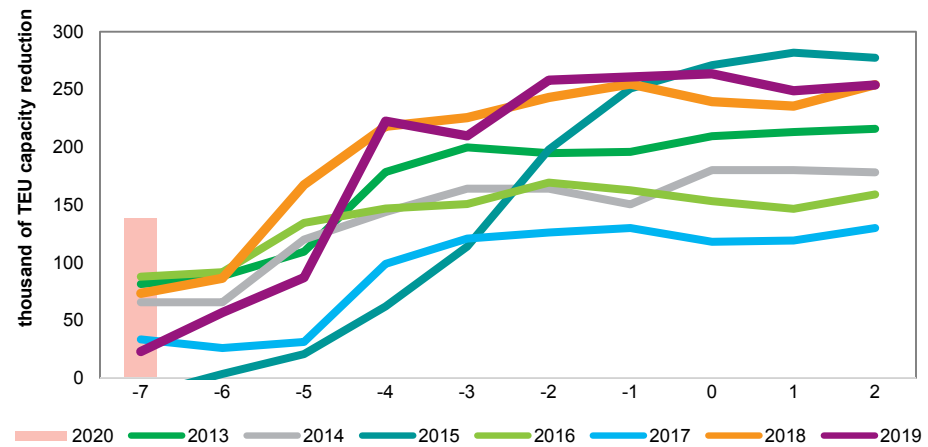


Source: IHS Markit

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Asia-N. America carriers signal record blank sailings to West Coast

For year over year comparisons of capacity reductions before and after Chinese New Year, which occurs in different weeks annually, Week 0 is the week immediately after

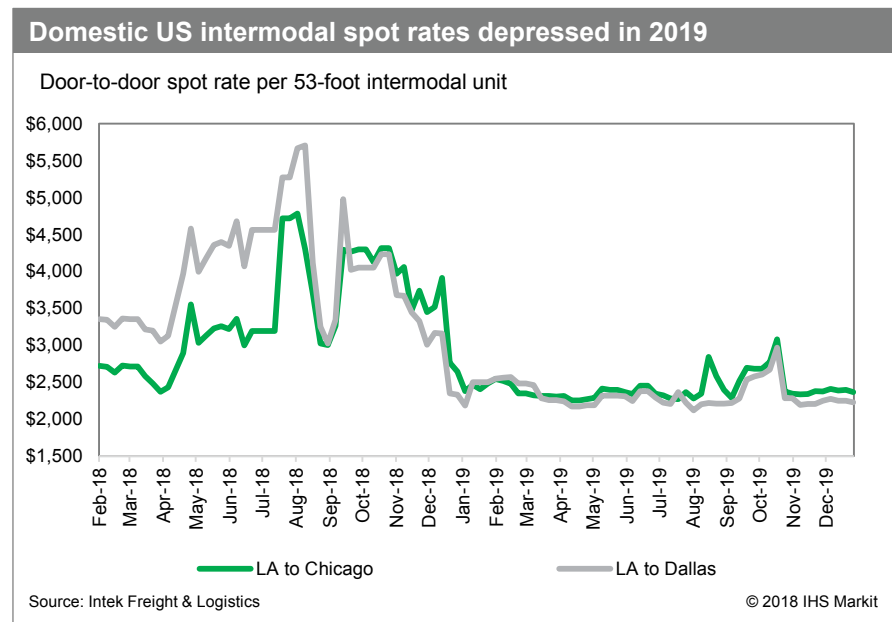


Source: Sea-Intelligence

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Intermodal rail anticipates low-single-digit growth

- Railroads finished 2019 on a weak note, with intermodal units down 9.6% in December and 5.1% in 2019
- Analysts' projections for intermodal growth this year are 1% to 3%
- Intermodal traffic is forecast to pick up a bit in second half 2020
- Problem in early 2019: Railroads quoted high single-digit rate hikes while truck rates were plummeting
- Excess truck capacity remained throughout 2019
- With GDP this year expected to be only about 2%, slow growth in intermodal is all but certain



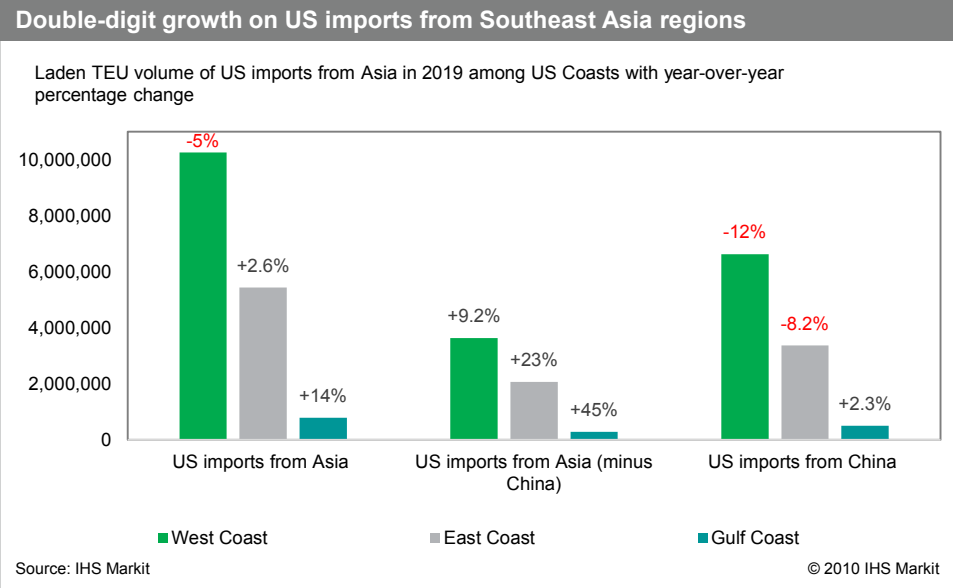
Trucking slump to end in 2020?

- After six consecutive quarters of deflationary spot rates since 2018, the market is turning
- But contract rates will remain negative through Q1 2020
- DAT Solutions predicts 5% increase in spot truckload rates and 2% increase in contract rates in 2020
- Rate hikes to be driven by tighter capacity as LMCs exit the market
- However, with lackluster GDP growth likely in 2020, it's unclear where the economic stimulus will come from, according to IHS Markit



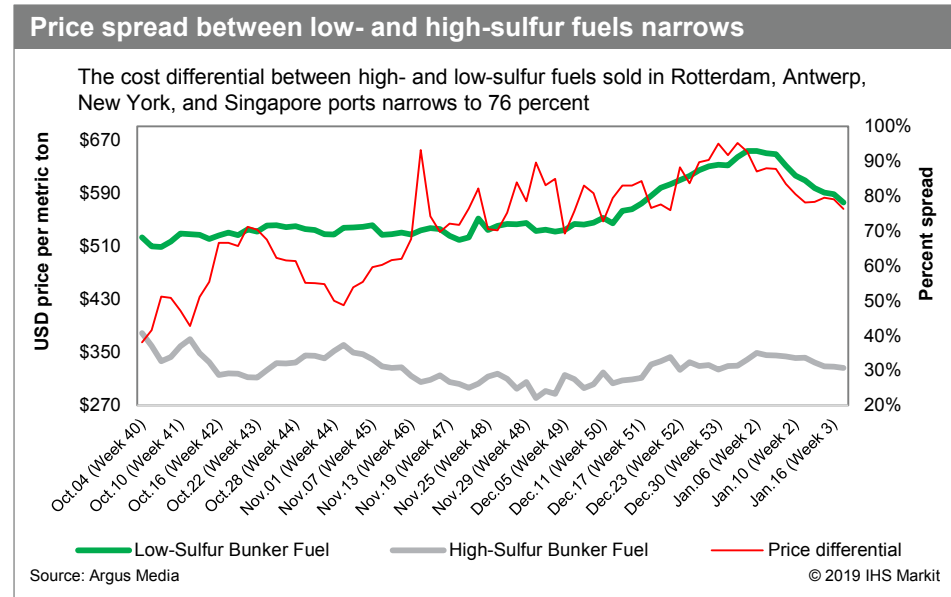
Tariffs now in second year with no end in sight

- \$370 billion of US imports from China still under tariff; tariffs scheduled on \$160 billion cancelled in Phase One agreement in December
- One thing for sure, the tariffs disproportionately hurt West Coast
- In 2019 US imports from China fell 12% through West Coast; 6.8% on East Coast. Imports from China but increased 2.3% through Gulf ports
- And it gets worse. As sourcing shifts to SE Asia and India, those routes favor East Coast ports



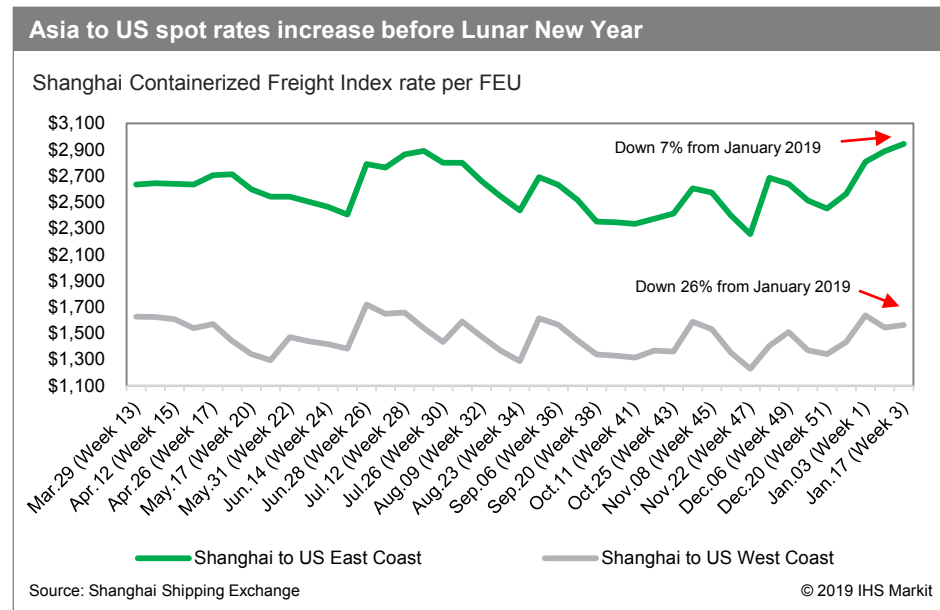
Pain at bunker pump – confusion over LSFO charges

- IMO 2020 low-sulfur fuel mandate took effect on Jan. 1.
- Carriers in December 2019 began to levy interim surcharges, increasing bunker fuel surcharges by about \$150/FEU to West Coast and \$250/FEU to East Coast
- However, all-in spot rates (ocean rate plus bunker surcharge) only edged up a bit in December and January
- That means carriers unable to pass along to shippers their full cost of LSFO because import volumes are weak (Lars Jensen SeaIntel)
- How will this uncertainty affect service contract negotiations this spring?



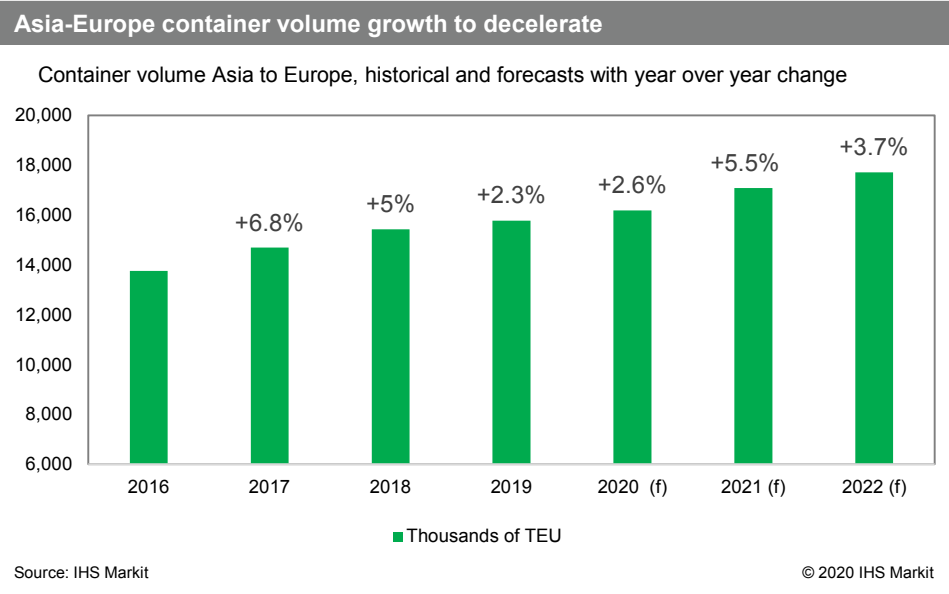
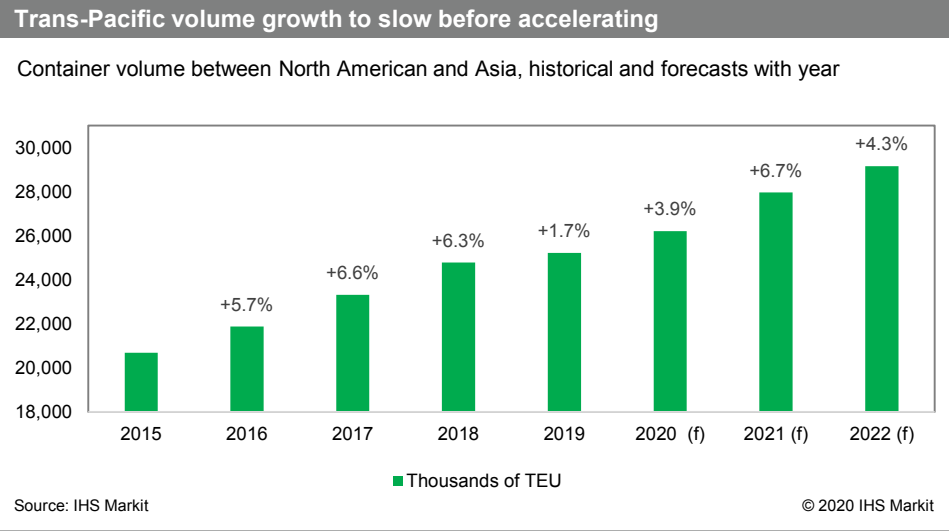
Carriers bolster spot rates by managing capacity

- This is the era of blank sailings
- Carriers in November/December cancelled at least 37 sailings in Pacific
- Early announcements for post-Lunar New Year 2020 beginning Jan. 25 are for capacity reduction of 137,800 TEU
- This will be largest reduction of recent years “by considerable margin” (SeaIntel)
- Carriers will try to push spot rates higher to gain leverage for the enter 2020-21 contracting season
- Contracts come May 1 are expected to show more continuity among carriers in bunker surcharges, which have been all over the map so far



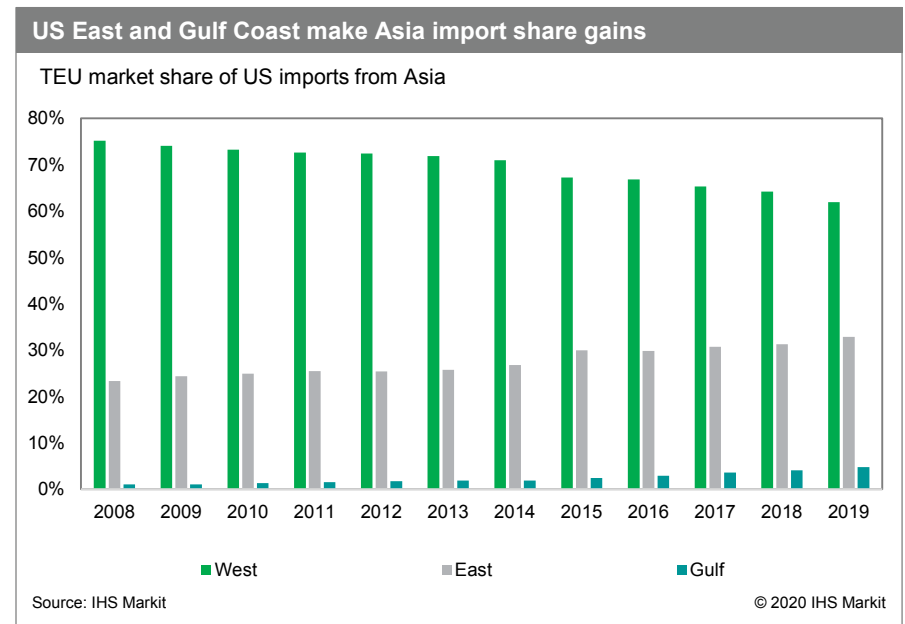
Trans-Pac imports continue to weaken

- After US imports from Asia fell 2.2% in 2019 Global Port Tracker (NRF) projects imports will drop 5% year over year in January and 4.9% in February
- Global Port Tracker says growth should resume in March, but with GDP to increase maybe 2%, imports growth will likely be low-single digit
- US-China trade war will continue to stifle trade growth. Any growth that does occur will be mostly to East and Gulf coasts



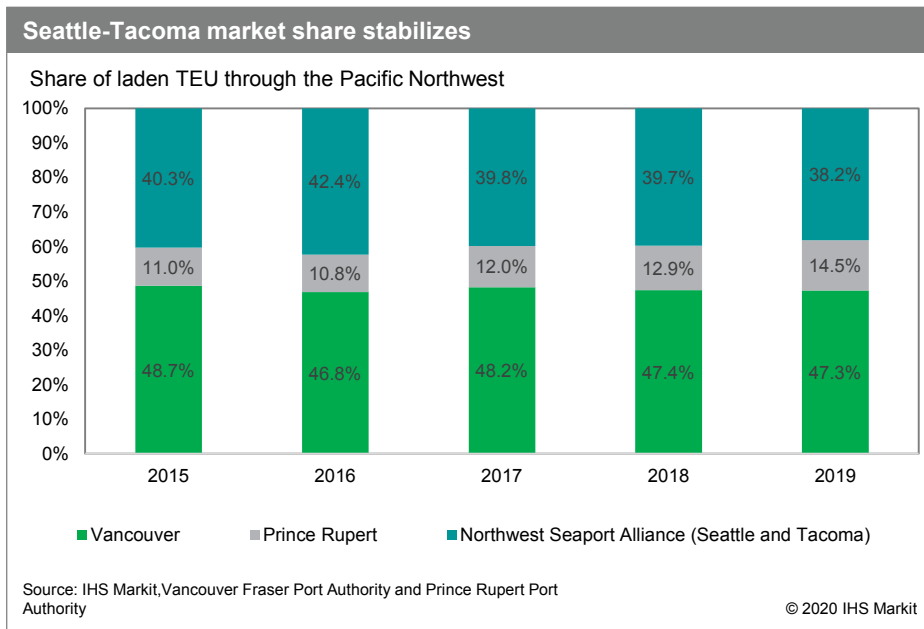
Shift in cargo to East and Gulf coasts continues

- Asian imports through West Coast declined 5.5% last year while increasing 2.6% through East Coast and 14.3% through Gulf Coast
- West Coast share of Asian imports down to 62% in 2019 from 67.2% in 2015; East Coast share up to 32.9% from 30%; Gulf share up to 4.8% from 2.5% in 2015
- From China: West Coast imports declined 9.2% in 2019; but East Coast declined only 3.7%; Gulf Coast increased 6.4% from China
- Asia minus China imports: up 10.3% to West Coast but up 23.9% to East Coast and 45.1% Gulf Coast



Competition within North America's Pacific Northwest

- Due to Canada's limited growth opportunities, Vancouver and Prince Rupert focusing on large US market
- Mercator International: US now accounts for 27.4% of Vancouver's total volume, up from 23.7% in 2015
- Prince Rupert and Vancouver volumes increasing faster than at NWSA
- Vancouver-Prince Rupert share of PNW region's cargo increased from 59% to 62.3% past five years
- NWSA study: Container shipped Shanghai-Chicago \$400-\$600 cheaper through Vancouver than Sea-Tac
- IPI rail rates are Achilles Heel of all West Coast ports



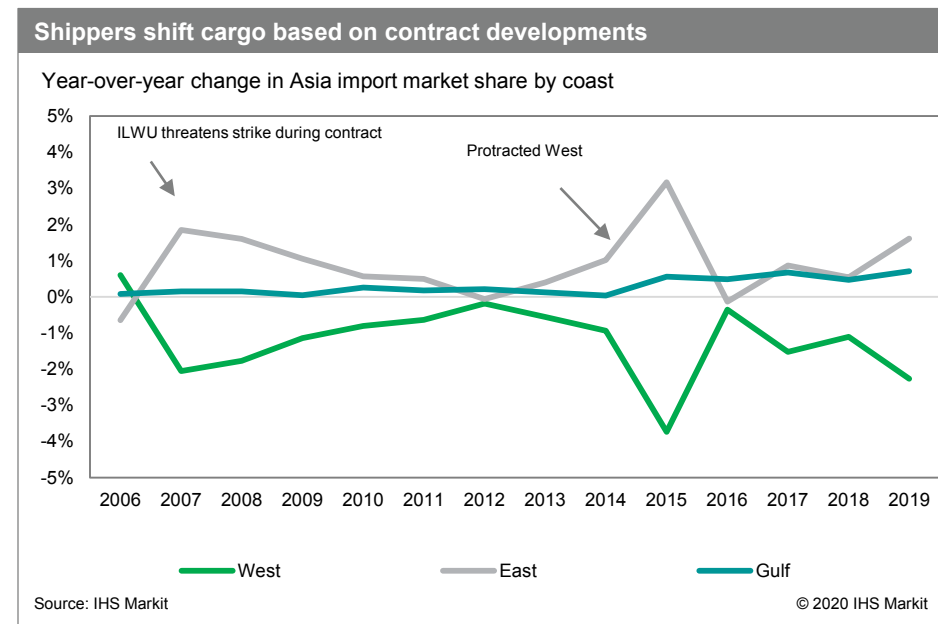
Seattle-Tacoma vs Vancouver & Prince Rupert

- Canadian PNW ports combined operating at 80-85 percent utilization
- Any supply chain (rail service) or weather glitch results in service deterioration and congestion
- NWSA, by contrast, has excess capacity and is modernizing facilities like T-5 to increase cargo velocity
- Accommodate larger vessels, build longer trains, operate more efficiently
- Modernization underway right now
- Vancouver and Prince Rupert projects won't come online until mid to late 2020s.



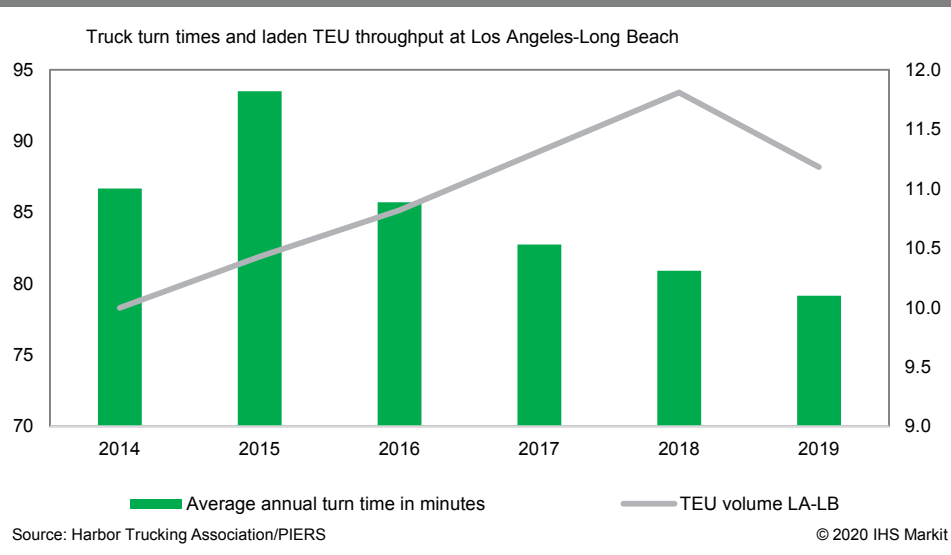
West Coast should have labor peace into 2022

- ILWU/PMA contract will run until July 1, 2022
- Terminal automation could be a major labor issue in 2022 negotiations
- Yet even with two automated terminals, ILWU registration in LA-LB has actually increased
- Truckers love automation. LBCT and TraPac's turn times are 30-35 minutes, half those of manual terminals
- Yet automation a key issue for ILWU, ILA and ILWU Canada
- Will ILWU insist on give-backs in 2022?



West Coast ports competing for cargo through efficiency

Average LA-LB truck turn times fell even as volume

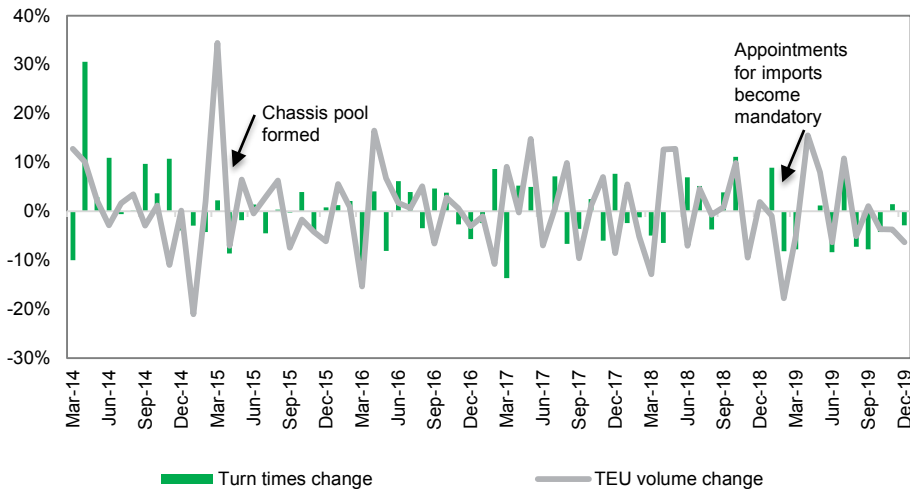


- Trucker turn-times tracked monthly by HTA in LA-LB and Oakland
- LA-LB turn times fastest they've been since 2014 – 67 minutes in December
- Mandatory appointments help terminals manage gate flows
- Information portals (Advent/eModal and GE Transportation) enable information sharing and predictive analytics for making appointments
- Extended gates reduce turn times and expand port capacity.
- Interoperable chassis pools improve equipment availability
- Empty returns and occasional chassis shortages still problems

Technology contributing to improved turn times

LA-LB chassis pool helped stabilized truck turn times

Month-to-month changes in volume and turn times in Los Angeles and Long Beach



Source: Harbor Trucking Association/PIERS

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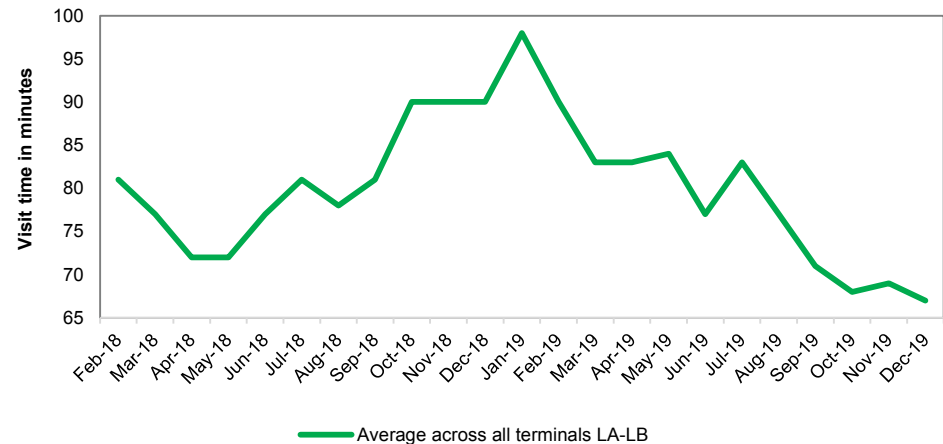
- BCOs are benefitting from use of technology throughout the supply chain, but true end-to-end cargo visibility remains elusive.
- Terminal operators and IEPs could engage in predictive analytics if all stakeholders in supply chain shared data on shipments
- However, many stakeholders fear they will lose competitive advantage if they share data with others in supply chain
- Chassis shortages and dislocations can also be addressed using technology tools
- In LA-LB, terminal operators are marrying technology and predictive analytics with trucker appointment systems to improve turn times

West Coast Ports Challenges and Opportunities

- West Coast ports invested in terminal expansion past 10 years to handle mega-ships and build adequate capacity.
 - Vancouver, Prince Rupert at 80-85% utilization which hurts productivity. No major expansion will occur there until mid-decade
 - Yet West Coast must further improve productivity to handle mega-ships
 - Truck appointments, extended gates, container dray-offs and peel-offs work
 - Congestion at West Coast ports last year was virtually non-existent
 - Fluidity continues into the new year
- Can West Coast ports improve cargo velocity enough to compete on equal footing with East Coast & Canadian ports?

Turn times at LA-LB port complex fall further

Average truck turn times at Los Angeles-Long Beach marine terminals



Source: Harbor Trucking Association Truck Mobility Data

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THANK YOU!