Trans-Pac spot rates rise again amid third service cut

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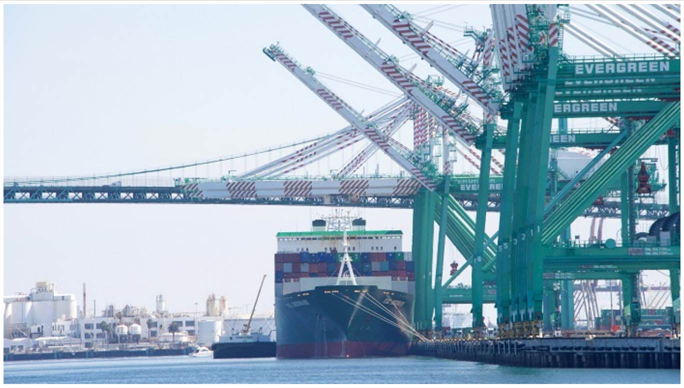
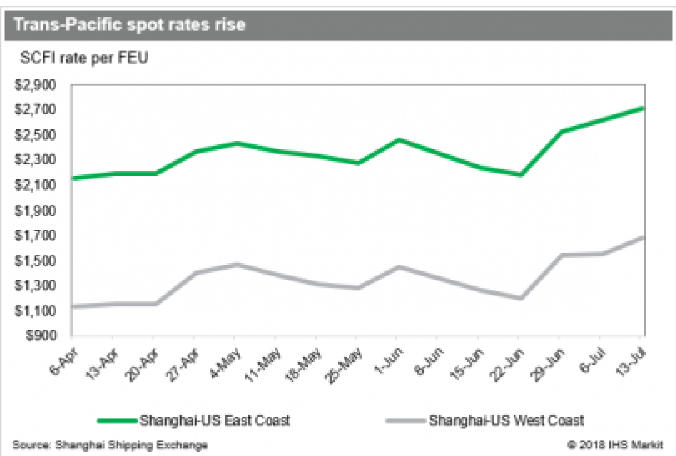


Eastbound Pacific spot rates rose for the second straight week as Cosco and Ocean Alliance partners became the third carrier alliance to announce peak season cuts in services. (Above: The Port of Los Angeles.) Photo credit: Shutterstock.com.

Spot rates in the eastbound Pacific increased 3.3 percent to the East Coast and 8.4 percent to the West Coast, after a double-digit increase last week, as yet another carrier alliance announced Friday that it is reducing its weekly capacity from Asia to the West Coast.



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The spot rate increase to $2,710 per FEU from Shanghai to the East Coast and $1,685 per FEU to the West Coast follows increases of 20.3 percent to the East Coast and 30.2 percent to the West Coast last week. The spot rates are provided by the Shanghai Containerized Freight Index and are published under the JOC Shipping & Logistics Pricing Hub (https://www.joc.com/market-data-landing/container-pricing).

Also on Friday, China Ocean Shipping Co., in an advisory to customers, said the Ocean Alliance of Cosco, Evergreen, CMA CGM, and OOCL in late August will reconfigure its Pacific Southwest services from Asia to Los Angeles-Long Beach and Oakland. The new strings will result in the elimination of one weekly service. The Ocean Alliance will then have eight Pacific Southwest weekly services.

The exact reduction in capacity was not immediately available, but Howard Finkel, senior vice president of trade at Cosco, said there will be two blank sailings, and two weekly services will be combined into one. “There has been a decrease in volume between the US and China, along with rising bunker costs that we are having a hard time getting reimbursed for,” Finkel said.

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Ocean Alliance — third to announce capacity cut

The Ocean Alliance becomes the third this past month to announce capacity reductions in the largest US trade lane just weeks before the peak season officially kicks off in August. The others collapsing two services into one were the 2M Alliance of Maersk Line and Mediterranean Shipping Co., effective July 4, and THE Alliance (https://www.joc.com/maritime-news/trade-lanes/trans-pacific/trans-pac-spot-rates-surge-amid-another-service-cut-announcement_20180706.html) of Yang Ming, Hapag-Lloyd, and Ocean Network Express, effective Aug. 6.

Spot rates in the eastbound Pacific had been sluggish this spring during the normal seasonal lull following Chinese New Year in Asia when factories close for a week or longer. However, the rates snapped back in the first week of July, due to general rate increases pre-filed by the carriers and also bunker fuel surcharges caused by the increase in oil prices. Bunker fuel now costs 53 percent more than a year ago.

The rush by carriers to reduce capacity, though, is based on concerns that trans-Pacific volumes could slow down later this year due to a series of tariffs announced by the Trump administration on US imports from China, and retaliatory tariffs by the Chinese government on US exports. The trade has already been under pressure, with US imports from Asia 2.7 percent lower than in April 2017. May imports were 7.7 percent lower year over year, according to PIERS, a sister product of JOC.com. The latest announcement (https://www.joc.com/regulation-policy/trade-policy/united-states-trade-policy/new-trump-tariffs-would-hit-one-third-containerized-imports-china_20180712.html) by the administration would place more than one-third of US imports from China, or 4 million TEU a year, under the threat of tariffs.

National retailers, though, are looking for brisk holiday sales and are predicting that US imports will reach record levels in July, August, and October.The *Global Port Tracker*, which is published by the National Retail Federation and Hackett Associates, projected increases of 3.7 percent in June, 4.1 percent in July, 4 percent in August, 2.3 percent in September, and 2.3 percent in October compared with the same months last year.

On the other hand, spot rates are still higher than last summer, and the gap is increasing. The spot rate to the East Coast this week is up 20.4 percent and the West Coast rate is 33.2 percent higher than in Week 28 of 2017.

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