

TRANSPACIFIC EASTBOUND TRADE

MARKET SUMMARY & OUTLOOK

SEPTEMBER 29, 2021

KEY DEVELOPMENTS IN THE LAST TWO WEEKS....

- Supply: US port congestion reaches tipping point as terminals consider new measures to improve productivity
- Demand: Market responding to China's power rationing and its effects on manufacturing and export output
- Covid-19: Under pressure from manufacturing sector, Vietnam government considering lighter restrictions

STATE OF THE TRADE – SEPTEMBER 29, 2021

As details emerge of widespread power shortages in China affecting specific high-consumption and high-emission industries including (but not limited to) steel, electrolytic aluminum, cement, and chemical fibers, vessel space in the transpacific eastbound trade opens a bit more as the China National Day holiday approaches. Carriers – who for months on end have implemented at least one general rate increase per month – do not appear confident to continue the trend in October, an indication of weaker forecasts for October sailings. Wholesale / Co-load rates from China base ports have declined slightly in the past week as well – an indication that wholesalers are having a more difficult time filling space allocations than they were in September. Load factors remain at or near the 100% level in late September, but carriers are allocating more space to cargo moving in lower rate-tiers than earlier in the month, a sure sign that demand is weakening from some locations.



In Vietnam's southern region, the government is considering loosening Covid-restrictions particularly in hard-hit manufacturing zones, despite soaring numbers of Covid cases. Exporters are facing months-long backlog in the hardest hit areas, and pressure on the government to ease manufacturing and transportation restrictions is heightening amidst the threat of orders missing holiday deadlines.

As the parade of new services continues with TS Lines being the latest to announce two new services to the west coast – US port congestion particularly in the LA/LB port complex worsens with some 70 ships now at anchor, causing an average delay of nearly 10 days. In response to the congestion, the Port of Los Angeles is extending gate hours on weekends while Long Beach terminals keep gates open between 2am and 7am. However, these measures are not expected to make a significant impact on overall congestion as the respective demand for chassis, truck power, and rail yard space remain well over efficiency limits.

CARRIER LOAD-FACTORS AND DEMAND TRACKER – SEPTEMBER 29



Asia-to-Pacific Southwest (PSW)

Average Vessel Utilization: 100%

Rate Trend next week:  



Asia-to-Pacific Northwest (PNW)

Average Vessel Utilization: 100%

Rate Trend next week:  

Asia-to-US East Coast (USEC)

Average Vessel Utilization: 100%

Rate Trend next week:  

VESSELS AT ANCHOR – UPDATE AS OF WEEK 39

- **Los Angeles / Long Beach:** 73 vessels @ anchor; 16 vessels drift
- Oakland: 3 @ anchor
- Seattle / Tacoma: 7 vessels @ anchor
- Charleston: 3 vessels @ anchor
- **Savannah:** 27 vessels @ anchor
- New York / New Jersey: 7 vessels @ anchor

VESSELS AT ANCHOR – 2-WEEK TREND BY PORT

Los Angeles / Long Beach	↑
Oakland	↓
Seattle / Tacoma	↓
Charleston	↓
Savannah	↓
New York	↑

Los Angeles / Long Beach snapshot:



SHORT-TERM TRANSPACIFIC CAPACITY TRACKER

** Weeks with "0" or positive numbers indicate deployment of extra loaders which may offset blank sailings

TP Capacity Adjustment Updated 16 Sep
Summary by Trades

Trade	Capacity Change	WK 35	WK 36	WK 37	WK 38	WK 39	WK 40	WK 41	WK 42	WK 43	WK 44	WK 45	WK 46	WK 47
Asia to PS	TEU Adjustment	-23064	-64965	-44127	-40900	-43892	-41368	-14414	-14052	0	-8600	0	0	0
	Total Number	-2	-6	-5	-6	-4	-4	-1	-1	0	-1	0	0	0
% of Total Capacity Adjustment		-8%	-23%	-16%	-15%	-16%	-15%	-5%	-5%	0%	-3%	0%	0%	0%

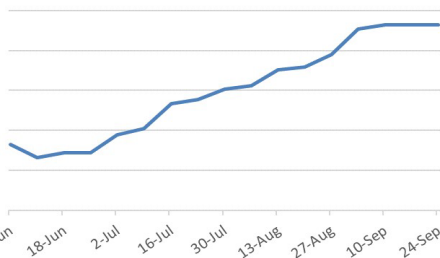
Trade	Capacity Change	WK 35	WK 36	WK 37	WK 38	WK 39	WK 40	WK 41	WK 42	WK 43	WK 44	WK 45	WK 46	WK 47
Asia to PN	TEU Adjustment	-13400	-16600	-5950	-16043	-15467	-14916	0	0	0	0	0	0	0
	Total Number	-1	-1	-1	-2	-1	-2	0	0	0	0	0	0	0
% of Total Capacity Adjustment		-11%	-13%	-5%	-13%	-12%	-12%	0%	0%	0%	0%	0%	0%	0%

Trade	Capacity Change	WK 35	WK 36	WK 37	WK 38	WK 39	WK 40	WK 41	WK 42	WK 43	WK 44	WK 45	WK 46	WK 47
Asia to AW+GC	TEU Adjustment	-9200	0	-9362	-20568	-66819	-28746	-20342	0	0	0	0	0	0
	Total Number	-1	0	0	-2	-6	-3	-2	0	0	0	0	0	0
% of Total Capacity Adjustment		-5%	0%	-5%	-11%	-34%	-15%	-10%	0%	0%	0%	0%	0%	0%

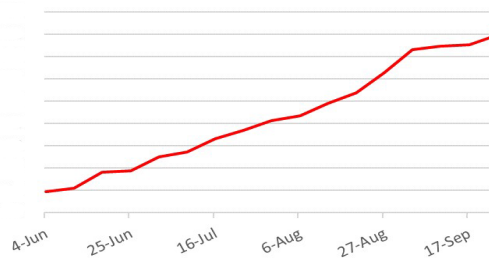
TOTAL ALL USA	Capacity Change	WK 35	WK 36	WK 37	WK 38	WK 39	WK 40	WK 41	WK 42	WK 43	WK 44	WK 45	WK 46	WK 47
	TEU Adjustment	-45664	-81565	-59439	-77511	-126178	-85030	-34756	-14052	0	-8600	0	0	0
	Total Number	-4	-7	-6	-10	-11	-9	-3	-1	0	-1	0	0	0
% of Total Capacity Adjustment		-8%	-14%	-10%	-13%	-21%	-14%	-6%	-2%	0%	-1%	0%	0%	0%

SCFI RATE INDEX AS OF SEPTEMBER 24

SCFI - Asia - US West Coast (US\$ per FEU)



SCFI - Asia to US East Coast (US\$ per FEU)



CHINA'S POWERCUTS ORDERS BRING FURTHER DISRUPTION TO SUPPLY CHAIN

To fulfill the requirement for reducing energy consumption and carbon emissions, the Chinese government has expanded power cuts to more than 10 provinces from this month, including economic powerhouses Jiangsu, Zhejiang and Guangdong where a large number of manufacturing hubs locate. Energy-intensive companies in the textile, dyeing, chemical, ceramic and raw materials industries have been ordered to halt production by cutting electricity supply to 20-50%. Some factories have to stop production till the end of the month. Meanwhile, the enterprises with low consumption and low emission can enjoy comparatively loose electricity rationing policies. The curbs may push more enterprises to improve production efficiency or turn to new energy, which can help upgrade and optimize industrial structure.

We see the another reason behind is the record high coal prices since May. The restriction of coal mining capacity and the decrease in coal imports have both driven up the price of coal. In China, 70% of electricity is generated from coal. As all electricity supply is controlled by SGCC (State Grid Corporation of China), the government has the pricing power to set low electricity price. When manufacturing production capacity is boosted by growing demand, the power plants have been facing huge losses for several months. The governments may use restricting output to force up industrial coal power price.

One big question is how strictly and how long these measures will be enforced. Governments of China are suggested to give full consideration on limiting/cutting the power supply as it has already constrain economic growth. Nevertheless, policy makers seem to be willing to accept slower growth in the rest of this year. Beijing is targeting full-year growth of 6% after expansion of 12.7% in the first half. China's power cuts will bring further disruption to supply chain and delay the US inventory replenishment. Since the US is coming into fiscal year Q2 (September-November) in-transit inventory, the full impact of China's factory closures would only be felt at the end of this year and in early 2022. The global markets will feel the short supply from textiles, machine parts to raw materials, along with a wave of prices surge.

MARKET OUTLOOK & FORECAST – SEPTEMBER 28 – OCTOBER 12

While ***we expect the power shortages in China to be temporary***, some exports – particularly chemicals, steel, and other heavy industrials will be affected in the coming weeks and the market will likely see a brief overall slowdown in export volume. ***Gross capacity will be in surplus in the coming weeks***, but continuing congestion in both US and Asia ports will probably keep *net* capacity more in line with Asia-export demand, thereby preventing rates from slipping too fast in the first half of October. That being said, ***space should remain more easily attainable for October sailings*** – assuming current blank sailing figures remain in the single-digit percent ranges after week 40. Space availability under lower rate-classifications such as FAK and named account tiers is likely to increase as well, as carriers will no longer be able to command premiums on the majority of cargo loaded.

PROJECTED AVERAGE FAK RATES – AS OF SEPTEMBER 28

