



September 28, 2023

As “Golden Week” Begins in China, the Transpacific Eastbound Market Will Likely Soften, but Countered with More Void Sailings

“Golden Week” will begin October 1st and run through October 7th in China. The national holiday is to commemorate the founding of the People's Republic of China in 1949. Please be reminded that during this time, factories in China will be closed and production postponed until workers return. Trucking is extremely limited and most transportation related warehouses are closed. Ports will continue to operate, but at a smaller scale with most of the volumes already moving out of China this week.

As volumes continue to decline out of Asia, ocean carriers continue to void more sailings as well as implement service and string reductions over the next few weeks, especially with the Golden Week holiday starting off the month of October. All three alliances of carriers, THE Alliance, OCEAN Alliance and 2M have already announced their plans for the next few weeks. Combined, they will account for over 40 void sailings and reduced services impacting the Transpacific Eastbound trade. While volumes are dropping against available capacity that is only increasing with more vessel deliveries, actions to reduce sailings will continue to cause disruption in the flow and transit of containers. This will create an artificial supply and demand and allow carriers to continue their practice of rolling containers, while hoping to keep rates in line or above breakeven operating costs. In recent weeks, many vessels are sailing at 85% to 98% utilization, showing that the practice of void sailings has been very effective for the carriers and on several key strings, in particular those destined for the U.S. West Coast ports.

There is anticipation as to how the beginning of 2024 will payout, especially as warehouses still have strong inventory levels in need of turning. During Q4 of this year, inventory levels will be watched closely to see how much retailers can move in the coming months, especially over the holiday season. The outcome will help determine if Q1 and Q2 of 2024 will move the needle in terms of import volumes or continue to remain flat. The hopeful need of some inventory replenishment as well seasonal Spring merchandise would appear to be very optimistic based on current conditions. After a very disappointing and weak peak season period, continued volume drops are likely over the balance of 2023. What we can likely be sure of is that winter deployment of vessels, frequency and routings by the ocean carriers, will be influenced by the above as well as any forecasts shippers can offer for future quarters. A poor or stagnant outlook will very likely leave the practice of void sailings and suspension of low performing strings in place for quite some time.

The Panama Canal drought continues to be widely reported on and closely monitored. The severe drought and low levels of Gutan lake, which feeds the canal with fresh water, remains at low levels through September and after the traditional rainy season. With the lower water levels, restrictions have been implemented, such as reduced weights per vessel, and fewer ships being allowed to transit each day, compared to normal operations. There is also evidence of an ongoing bottleneck of ships waiting to move through, prompting changes to the reservation system in order to help accommodate the situation. While many carriers have built in some of the anticipated extra time to pass through the canal into their transit times, the overall performance of arrivals to East coast ports has not yet been significantly impacted. However, should water levels continue to remain unseasonably low for any further extended time, more restrictions are likely to be enforced and with a result of noticeable delays, late arrivals, and the potential of increased cost.

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