TRADE NEWS WEEKLY

September 16–20, 2019

A summary of international business news prepared by the Hawaii Foreign-Trade Zone 9 with the collaboration of the Research and Economic Analysis Division of the Department of Business, Economic Development & Tourism, and based on research and shipment data from Panjiva, Inc. which tracks companies involved in global trade. Other news sources may occasionally be included where indicated.

Tariff Burden Sharing by Chinese Exporters Rising as U.S. Import Prices Fall

U.S. trade price deflation continued in August with headline imports down 2.0% year over year and export prices having fallen by 1.4%. The import price deflation was widespread with imports from Latin America down 2.3% while those from China fell 1.6%. The latter may be down to tariff-related burden sharing.

Import prices for chemicals from China – where 25% tariffs have been applied since July 2018 – dropped 11.8% year over year. Prices for furniture, where duty rates were increased to 25% from 10% in May, dropped by 1.9% compared to a 0.9% decline in July.

In aggregate, the dollar value of the price deflation was equivalent to 21.7% of the increase in duties on imports from China. While an imperfect measure, that would suggest burden sharing reached over a fifth of tariffs from 18.8% in July, indicating that pressure on Chinese exporters is increasing.

U.S. – China Trade Talks Result in Tariff De-escalation

The USTR has granted a new round of tariff exemptions on Chinese imports. Luckily for holiday season retailers, they include tree lights and bicycles. Today's announcements are part of an ongoing series of exemptions from tariffs that are being granted though there are two points to note.

Firstly, requests for tariffs applied in July and August 2018 are still waiting for approval over a year down the line, making supply chain and cash flow planning especially challenging for small firms.

Second, the date of the announcement comes just as the U.S. and Chinese officials are negotiating terms of a restricted trade deal. The decisions on exemptions are granted by USTR, which is also handling the trade negotiations.

This is another sign of the low-key de-escalation that has seen the first tariff exemptions from China, delayed tariff increases by the U.S., and reduced tariff rates for agricultural products by China.

China's New Rating System Could Be the Latest Trade War Weapon

China's National Development and Reform Commission has completed its initial review of the "social credit" of 33 million firms. That reportedly includes foreign firms operating in the country, with the concern that lower scores may be used to place companies - particularly those from the U.S. - on an "unreliable entities" list. The social credit list will be sent to local authorities for review before implementation but comes just as U.S.-China trade talks are due to resume on Thursday.

The list was last referred to by the government in June, as discussed in S&P Global's recent "China Beyond Tariffs" event and would be just the latest in a series of non-tariff tools available to the Chinese government in the trade war.

Saudi Oil Attack's Direct Impact on U.S. May Be Limited

An attack on Saudi Aramco's oil facilities at Abqaiq and Khurais could cut 5.7 million barrels of oil per day from the global oil market, leading the Trump administration to allow the release of oil from the Strategic Petroleum Reserve. In the context of the U.S. market, Saudi Arabia is relatively minor, accounting for 6.9% of imports in the 12 months to July 31. The U.S. also exports oil equivalent to 6.3x its imports from Saudi Arabia.

The availability of precise oil grades may be a challenge for individual U.S. refiners to determine, let alone Motiva, Saudi Arabia's Aramco refining division. Panjiva's shipping data shows there were shipments associated with the firm that were equivalent to 6.7 million tons of imports in the 12 months to August 31.

OUTSIDE ARAMCO MOST BUYERS ARE OCCASIONAL USERS OF SAUDI OIL

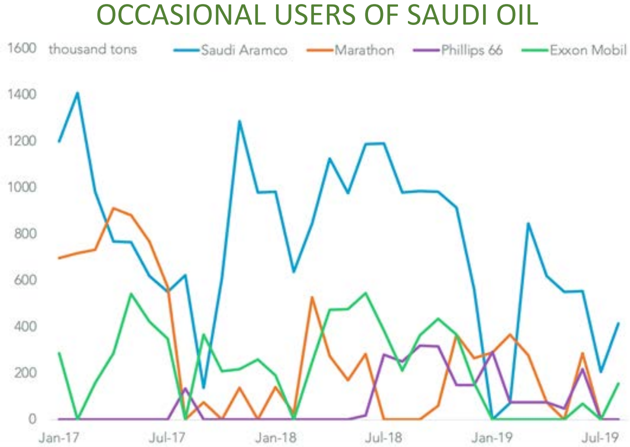

Chart compares U.S. seaborne imports by Saudi Aramco to other consignees importing from Saudi Arabia. Source: Panjiva

Other major importers of Saudi oil to the U.S. over the same period were Marathon Oil, Phillips 66 and Exxon Mobil though each was less than one third the size of Motiva's shipments. Chevron's Californian refineries may also face challenges given their reliance on oil imported by sea.

Hasbro, Mattel Not Playing Around with Rapid Inventory Build

The U.S. toy importing season is overshadowed this year by the threat of tariffs of Chinese exports, which represented 84.7% of seaborne shipments to the U.S. in the 12 months to August 31. Most brands have reacted to the threat – even though it is now postponed to December 15 – with accelerating imports.

Hasbro's already noted that changing suppliers can take years while Funko has indicated small prices may also be applied. Total U.S. seaborne toy imports jumped 17.3% year over year in August, with shipments associated with Hasbro and Mattel climbing 13.9% and 66.8%, respectively. Niche brands have followed a similar strategy with Vtech's having risen by 73.3% and Funko's rising by 59.9%.

Guess, Urban Outfitters Fill the Stockroom Ahead of Tariffs

The National Retail Federation is projecting a surge of imports from retailers ahead of potential tariffs in December. Many apparel retailers are likely to be stockpiling ahead of the tariffs that have been applied to some products since September 1 and all remaining categories in December.

Panjiva's data, retrieved via S&P Global Xpressfeed, shows that U.S. seaborne imports from China associated with specialty retailers, Guess and Urban Outfitters, climbed 48.1% and 70.2% year over year, respectively, in the three months to August 31. Not all apparel retailers are taking such extreme measures, for example Cato Corporation increased its shipments by just 2.5%.

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Multiline retailers face ongoing tariff pressures as the Trump administration may widen the coverage of duties to all consumer goods by December 15 while furniture has been covered since last September.

Big box retailers, Target and Burlington, have likely already cut their imports from China in part due to the earlier tariffs with a 39.7% and 29.0% year over year decline, respectively. A similar pattern can be seen from department store operators such as Ascena which declined by 27.7%.

Global Trade's Summer Sun Already Fading

Asia's exports staged something of a recovery in July with total exports from 15 countries having risen by 0.4% year over year after a 2.6% slump in 2Q. When combined with a 1.3% recovery in exports from the EU that meant global exports across 37 countries grew by 0.2%, the first monthly improvement since January.

Yet, Asia's gain in July was largely down due to China, which has since seen a 1.0% drop in exports in August. Indeed, six of the nine countries that have reported August data have already shown a drop in exports – the recovery is proving short-lived.

Cars-for-Wine Deal Between U.S. and Japan Possible, Thresholds a Challenge

A small-scale trade deal between the U.S. and Japan could include U.S. commitments to not raise tariffs on autos and Japanese plans to reduce tariffs on U.S. goods including wine. Facilitation of trade in agricultural products may also be a part of the deal.

An announcement could come as soon as a meeting between President Trump and Prime Minister Abe at the UN General Assembly starting from next week. Yet, the deal will have to be complete enough to avoid WTO rules while being small enough to not require Congressional approval.

Abe Loses Leverage as Japanese Trade Activity Slides

Japan's international trade activity dropped 10.4% year over year in August after a 1.4% slip in July. That included an 8.2% slide in global exports and weakens the Japanese government's leverage just as the closure of a restricted trade deal between the U.S. and Japan is due to be signed by Prime Minister Abe and President Trump on September 25. Exports to the U.S. fell 4.4%, including a 13.0% drop in shipments of autos where the future of tariffs remains uncertain.

Looking globally, Japan's export downturn was widespread with all but one of the 18 sectors tracked by Panjiva seeing a drop. Of particular concern is a 12.3% slide in capital equipment machinery and an 8.1% decline in electricals, suggesting a sustained downturn in industrial demand for Japan's exports.

Saudi Oil Supply Chain Shortage Should be Limited to September

Saudi Aramco's oil supplies from the Abqaiq and Khurais fields should be fully restored by end of September according to the company, with oil supplies from the country's reserves making up the difference until then. The impact on U.S. oil supply chains is limited in scope overall - though significant for a handful of refiners - as well as being mitigated by the potential to cut exports.

Trade War Takes Toll on FedEx

The fiscal Q1 performance of FedEx has been hit by a "weakening global macro environment driven by increasing trade tensions and policy uncertainty," according to CEO Fred Smith. The firm has cut its fiscal year earnings guidance to $10 to $12 per share from $11 to

$13 previously, S&P Global Market Intelligence data shows.

The freight forwarder sector in general has seen a slowdown in growth to just 0.1% in August driven in large part by slower imports from China. Yet, other forwarders, including CH Robinson, have seen expanding volumes by focusing on Asia ex-China customers.

LG Electronics, Electrolux Refuse to be Washed Out by Tariffs

The Trump administration's tariff-led approach to trade policy has had varying success. Imports of solar panels have begun to increase despite tariffs, while steel and aluminum duties have been largely successful in reducing imports. The combination of tariffs and quotas in the case of washing machines have both cut imports and driven leading overseas firms to build U.S. factories.

U.S. imports of washing machines fell 45.7% year over year in the January 1 to July 31 period in 2019 and were 38.1% lower than the same period in 2015. The major importers have followed different import strategies.

Seaborne shipping data suggests Samsung Electronics cut its imports by 12.4% year over year to August 31. By contrast, while LG Electronics' rose by 19.2% potentially as a result of struggling to ramp up production at its new U.S. factory. Electrolux, meanwhile, may have seen a 44.1% rise in its shipments.

Novo Nordisk, Sanofi Highlight Unprecedented Brexit Supply Chain Challenges

The uncertainties of Brexit are creating challenges that are "unprecedented from a logistics point of view" according to Novo Nordisk, while switching supply chains requires time "to test and validate these routes," Sanofi has stated. With political uncertainty overhanging the actual date of Brexit, never mind the terms, drug supply chains likely face continued volatility.

British imports of insulin, which were worth $434 million euros ($479 million) in the 12 months to July 31, are particularly exposed with 99.9% of shipments coming from the EU. Of those, 64.9% points came from Denmark, likely linked to Novo, and 22.4% from France including Sanofi. The volatility in British imports of insulin can be seen in a 99.0% year over year surge in 1Q followed by a 33.5% drop in 2Q and a 17.6% slide in July.

Democrats Demand Paris Accord Inclusion to USMCA

U.S. House Democrats have called on the Trump administration to include tighter environmental commitments in the U.S.-Mexico Canada Agreement (USMCA) as well as a commitment to remaining in the Paris Agreement on Climate Change (PACC). Such changes "will require fundamental changes to the current deal on the table."

With over 100 Democrats reportedly supporting the amendment and the Trump administration having previously announced a withdrawal from the PACC, there's a real chance that passage of USMCA is postponed into 2020. There already have been significant hurdles to passage in the healthcare policy sphere.