TRADE NEWS WEEKLY

November 4–November 8, 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.

WTO Gives China Approval to Apply Retaliatory Duties on U.S.

The WTO has granted China's request to apply retaliatory duties on U.S. exports in a dispute relating to the U.S. treatment of China in antidumping cases that dates back to December 2013. The WTO awarded $3.58 billion of concession removals versus China's $7.5 billion request. The case relates to historic use of the zeroing methodology and the combination of exporters as a market-wide entity.

China may withhold the application of the retaliatory action while talks to formulate a "phase 1" trade deal continue. The Chinese government has indicated those talks are still proceeding, while providing no clue as to their potential success, press reports suggest talks between the heads-of-state have also been ongoing on an informal basis.

China-U.S. Rates Improve, China-Europe Still in Doldrums

Coming back to container shipping rates, there was a small sign of improvement last week with rates from China to the U.S. east and west coasts having risen by 2.2% and 2.3%, respectively, compared to a week earlier. Yet, the problem remains on Asia-to-Europe lanes - as outlined in S&P Global Platts' monthly review from November 1 - given rates from China to Europe fell 0.4%.

China Wants More from Phase 1 of U.S. Trade Deal

The Chinese government reportedly wants a roll-back of U.S. tariffs, as well as a commitment to not increasing them further, as part of the so-called "phase 1" trade deal. Phase 1 was originally planned to be a relatively simple combination of commodity purchases, tariff limits and commitments to minor policy change.

China's new assertion may cut the likelihood of a deal getting done. It also increases supply chain planning uncertainty heading into the latter part of the peak season - accelerated imports of List 4A/B products could end up being "stranded."

Rapid Inflation in Gas Exports Could Be Aided By Phase 1 Trade Deal

U.S. Commerce Secretary, Wilbur Ross, has indicated that the putative “phase 1” trade deal between the U.S. and China could include Chinese commitments to buy liquefied natural gas from the U.S., Bloomberg reports.

That would provide an extra fillip to growth for U.S. LNG exports which climbed 65.3% year over year in September. The surge in exports was due to a new export terminal operated by Freeport LNG coming online.

Demand for the rapid expansion in export capacity has come from the European Union, with a 7x rise in imports from the U.S. in 3Q compared to a year earlier. The EU, therefore, represented 30.6% of total U.S. LNG exports in 3Q. If exports to China returned to the peak seen in the 12 months to May 2018 it would add 8.2% to total exports on the basis of 3Q levels.

There may also be an opportunity to further expand exports to India, which grew by 100% year over year in 3Q after a 220% rise in September led it to be the fourth largest market for U.S. LNG that month. The potential could be unlocked if a dollar-for-dollar deal on returning India's access to reduced tariffs under the GSP program occurs, as reported by Inside Trade.

Trump Administration 232 Investigation Nearing Conclusion

The Trump administration's Section 232 "national security" investigation of the automotive industry is close to a conclusion. In May, the White House gave the U.S. Trade Representative until November 13 to report back on whether trade negotiations with Japan and the EU were sufficient to avert the need for wide-ranging automotive tariffs. There's also a decision due on whether to act on the Commerce Department's earlier report on the investigation which has remained private.

On top of the Section 232 uncertainty, the industry also faces uncertainties from the implementation of the U.S.-Mexico-Canada Agreement. The passage of USMCA into U.S. law has been delayed, while the Trump administration wants to intervene directly in corporate supply chain planning, Bloomberg reports.

The two regulatory challenges come as the industry is already facing challenges from slowing sales. Data shows total U.S. sales fell 1.8% year over year in October after a 0.6% rise in 3Q. Sales of foreign-built vehicles climbed 0.5%, including a 1.7% rise in light truck sales in October.

TRUCKS BEAT CARS, FOREIGN BEATS DOMESTIC

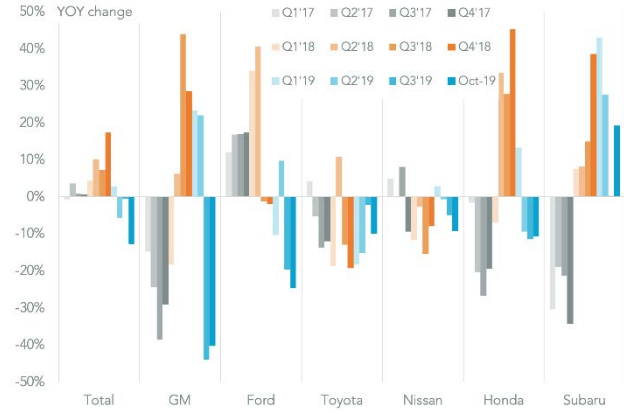

Chart segments change in U.S. auto sales by vehicle origin and class. Calculations based on BEA data.
Source: Panjiva

The major automakers appear to expect a return to growth in sales. Analysis of the data shows imports of completed vehicles climbed 5.4% year over year in September, including a 6.6% surge in shipments from Japan and an 18.8% rise in shipments from South Korea. The improvements are not universal though, with shipments from the EU having fallen by 2.5% and imports from Canada/Mexico were unchanged.

U.S. Trade Deficit Falls in September

The U.S. trade deficit fell to $52.5 billion in September, down from $56.1 billion a year earlier. While a success in terms of the Trump administration's main trade metric, it involved a 2.3% slide in total trade activity compared to a year earlier.

Aside from the trade war-driven drop in merchandise trade there has also been a slowdown in exports of services. The latter expanded by just 0.2% as a result of a 3.0% drop in intellectual property exports.

Goods trade with China fell 18.3%, including an 11.6% slide in exports after a small improvement in August. China's not the only problem, however – exports excluding China fell 2.6% due to lower shipments to both Mexico and Japan. Exports to Japan dropped 10.6% on lower LNG, oil, aerospace and medical device shipments.

Best Buy, Samsung Switch Off as List 4A Tariffs Hit Electronics Imports

The forthcoming "phase 1" trade deal between the U.S. and China will include the roll-back of tariffs by the U.S. according to China's Commerce Ministry. A deal may only be struck at a meeting between President Trump and President Xi in December but could provide relief in particular to importers of "List 4A" products.

Tariffs of 15% were applied to those products in September, resulting in a 20.3% year over year drop in imports. Just three products accounted for half the dollar value of the drop in imports. The most significant were network connected devices – including products such as the Apple Watch – where there was a 31.6% slide. That was followed by an 82.0% drop in SSD drive imports.

Shipments of large screen TVs fell by 52.0%. The latter likely continued to decline in October on the basis of U.S. seaborne imports. Shipments of TVs associated with Best Buy fell 39.1% year over year in October while Samsung Electronics' imports fell to minimal levels and were replaced with shipments from Vietnam.

Rare Dumping Case Could Bend Fitting Shipments for Welspun

The U.S. International Trade Commission received just one new petition to investigate alleged dumping of products in October. Out of the 14 cases received year to date in 2019, four related to steel despite the application of Section 232 duties at a rate of 25% since March 2018.

The October antidumping case, brought by Bonney Forge, covers imports from South Korea and India that represent 22.6% of total U.S. imports of forged steel fittings which, in total, were worth $1.2 billion in the 12 months to August 31.

Imports from South Korea have surged 13.4% year over year and those from India rose by 9.2%. That's offset lower imports from China in relation to a case brought in October 2017 as well as the wider Section 301 duties on Chinese exports to the U.S. The case may have an impact on shipments associated with SK Bend and Welspun.

Vietnam Rides to ONE's Rescue as Rate Collapse Cuts Outlook

Ocean Network Express reported revenue growth in calendar 3Q/fiscal 2Q that was 3.3% below the firm's guidance due to freight rates that were "below expectations for Asia-North America" and Asia-to-Europe container shipping lanes. There's little sign of recovery in October so far, according to S&P Global Platts data.

On a more positive tack though, capacity utilization rates improved including a 94% rate on Asia-to-North America lanes compared to 90% a year earlier in 3Q. The comparator is somewhat soft though – ONE's initial integration from operations contributed by K-Line, Mitsui-OSK and NYK was still struggling.

China-to-U.S. traffic linked to ONE improved by 2.4% year over year in 3Q while Japan-U.S. growth returned after a downturn running back to 4Q 2017. The real growth driver though has been Vietnam-to-U.S. shipping which surged 46.6% higher.

Data shows that customers that may have contributed to that growth are focused in consumer goods and may have included Hyosung, Skechers and La-Z-Boy among others.

CHINA, JAPAN TURNAROUND MATTERS BUT VIETNAM GROWTH LEADS FOR ONE

Chart segments change in U.S.-inbound containerized freight handling by Ocean Network Express by port-of-lading country. Source: Panjiva

U.S. May Steer Clear of Automotive Duties

There are signs that the use of Section 232 automotive duties - which are due to be decided on within the next few weeks - may be limited. Commerce Secretary, Wilbur Ross, has indicated there have been "good conversations" with the governments of Europe, South Korea and Japan though action will be a function of investment commitments by the automakers. The Japanese Foreign Minister, Toshimitsu Motegi, has indicated the Trump administration has been "unusually clear" in its intent not to apply duties.

Paris Withdrawal May Lead Paris to Withdraw from Trade Talks Support

A potential trade deal between the U.S. and EU - which could put the automotive duties mentioned above on hold for an extended time period - may become more complicated should the Trump administration make good on its threat to withdraw from the Paris climate change agreement. Today is the first day that President Trump can sign a letter indicating the U.S. will do so. President Macron has already indicated that membership of the Paris Accord is a prerequisite for France to approve a future trade deal - talks could, therefore, be over before they start.

Apple, Square Apply Early for Tariff Exemptions as List 4A Process Opens

The U.S. government has opened the process to request exemptions from "List 4A" tariffs on Chinese exports that were applied in September. As of November 3, 148 exemptions had been filed – on the basis of List 3 applications that could eventually reach 16,000. Given only 7.1% of List 3 filings have been assessed, List 4A applicants could be waiting a long time for a decision.

Among early List 4A filers is Apple, with 11 applications covering its iMac, Apple Watch and Airpod ranges. Apple had a 67% success rate in its List 3 applications. Other filers in the electronics sector for List 4A include Square and Specialty Technologies.

The bulk of List 4A filings by number so far though are in the leisure sector including shipments by Sea Eagle Boats which has had a 38.9% success rate in List 3 requests.

USBA Could Be on the Way

The U.S. and Brazilian governments are holding regular discussions that could lead to a "USMCA-like" deal. There would be a number of hurdles - including TPA approval from Congress to getting a deal done - yet Brazil's interest isn't a surprise. Brazil's relations with its Mercosur partner Argentina are worsening and it will want alternative sources of trade growth.