TRADE NEWS WEEKLY

November 23–November 27, 2020

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.

Roche Sees Supply Chain Issues for COVID-19 Diagnosis Kit

Medical supply chain security is becoming an issue heading into the northern hemisphere winter. Roche CEO, Severin Schwan, has stated "demand is by far out stripping supply" for diagnostic tests and that he expects "this to continue for quite some time in 2021, and it's simply because we have huge back orders."

Shortages include components as well as complete kits in the U.S. Imports of test kits broadly were worth $387 million in September versus $422 million in the March to August period and were down by 8.8%. Imports of swabs were also below their peak while immunological reagents have improved.

U.S. seaborne imports of test kits, both for COVID-19 and other diseases, linked to Roche were 25.0% lower year over year in October, perhaps reflecting the component shortages Mr. Schwan referred to. Total U.S. seaborne imports of kits fell by 4.4% sequentially and by 17.3% in October led by reductions linked to Johnson & Johnson and Wondfo Biotech.

U.S., China Press Pause on Agriculture Spat

The U.S. and China have agreed to postpone the deadline for China to bring its agricultural quota system into line with WTO rules to December 31 from November 9. While the action nominally allows the U.S. "additional time to evaluate China's compliance measures," there's also a degree of self-interest given the U.S.-China Phase 1 trade deal requires China to specifically prioritize U.S. agricultural commodities over those from the rest of the world. The key risk for U.S. farmers remains whether President Trump decides to pursue a scorched-earth policy towards relations with China in the last few weeks of his administration.

Tariff Burden Sharing Over as U.S. Import Price Inflation Accelerates

The weight of tariffs on U.S. imports increased in October, reaching 3.1% of merchandise imports. That was the highest since February as imports of Chinese goods outpaced the rest of the world, raising costs for U.S. importers.

There had previously been a degree of burden sharing between exporters and importers via import price deflation. That process is over. In October, import prices excluding food and fuel rose by 1.6%, the fastest rate since July 2018.

The price of shipments from China rose by 0.1% while those from the EU increased by 2.0%. The recovery of import prices from China has been driven by accelerating inflation in apparel and capital goods while deflation in household products including appliances and furniture is slowing as demand in the U.S. booms.

Xi's China Tariff Cuts Already Partly in Place, Five Year Plan Details Matter More

President Xi Jinping has stated that China will "further cut tariffs and government instituted transaction costs" as well as develop pilot free-trade zones to "increase import of quality goods and services." Reduced tariffs are already embedded in the RCEP managed trade deal which was signed earlier this week and should be ratified in the coming months.

Lower duties on imports from the U.S. will only become possible if there is a reduction in tensions with the U.S. which will likely, at a minimum, require improved relations with the Biden administration.

Of more importance to Chinese trade policy at this stage though is the details of the 14th Five Year Plan, which will only emerge in the period through March 2021. In that regard, Xi's comment that "will not reverse course or run against historical trend by 'decoupling'" leaves the door open to keeping supply chains with the U.S. open.

Major Challenges for Meat Supply Chain

Meat supply chains have faced two major challenges from a health perspective during the pandemic. Packaging and shipping issues have been shown by the Chinese government's discovery of evidence of SARS-COV-2 on packaging of beef from Brazil linked to Marfrig.

China accounted for 65.1% of Brazilian beef exports in the 12 months to September 30 after volume growth of 55.1% year over year in Q3. The expansion included a 107.2% surge in shipments linked to Marfrig.

Restrictions on supplies from Brazil may lead China to increase imports from the U.S., helping delivery of the Phase 1 trade deal. U.S. seaborne exports of beef have increased significantly.

Seaborne exports linked to JBS and Tyson Foods which have already increased by 181% and 101.4% year over year, respectively, in September without significant shipments to China.

The second issue has been health safety standards in packing plants, where Fairr has indicated that 73% of animal protein firms are "high risk." The Trump administration is attempting to accelerate production line speeds at poultry packing plants by as much as a quarter.

U.S. seaborne exports of poultry to China already climbed by 197% year over year in September. Shipments linked to JBS grew fastest with a 432% rise while exports linked to Tyson Foods and Mountaire Farms increased by 133%.

Ag Deal with China Shows Signs of Slowing

One of the drivers of the acceleration of refrigerated deliveries into China has been the implementation of the Phase 1 trade deal with the U.S., coming at the same time as rapidly increasing food demand in China. Soybeans have been at the forefront of that growth and as of week 46 (through November 12) deliveries in the current farm year have increased by 288% year over year and by 24.3% versus 2017.

Yet, deliveries in week 46 alone were only equivalent to the same level in 2017, suggesting a slowdown in shipments versus the trade deal's targets. That raises the risk that the Trump administration may lose patience with the trade deal in the last few weeks of its term in office.

The 12 Day Vietnam Tariff Window

The U.S. Trade Representative will hold hearings on December 28 and 29 relating to the Section 301 review of Vietnam's timber and currency practices. Post-hearing rebuttals are due by January 6 and 7, respectively. Both are necessary precursors to the application of tariffs which have a very narrow window before the end of the Trump administration.

The review of Vietnam is entirely consistent with Trump administration policy targeting countries with rapidly expanding trade deficits, with Vietnam having been a major beneficiary of manufacturing that has been relocated during the trade war.

While President-elect Biden's trade policies have not made specific mention of Vietnam, it would be a surprise for tariffs to be maintained while the new administration seeks to build relationships in the region. The precise direction of the Biden administration's trade policies will only become clear once a nomination for the U.S. Trade Representative and Commerce Secretary roles are put in place.

Bifacial About-Face Puts Tariffs in Way of Future Energy Policy

The U.S. Court of International Trade has ruled in favor of a Trump administration attempt to remove a tariff loophole for bifacial solar panels. The case illustrates the complexity of using the Section 201 "safeguarding" tariff rules.

U.S. imports of solar panels actually increased by 36.6% in the 12 months to September 30 versus 2017, and by 110.9% year over year. That suggests tariff costs have been passed through to customers.

The incoming Biden administration will need to decide whether to keep the duties, designed to encourage U.S. manufacturing, and risk raising the costs of its renewable ambitions to reach carbon neutrality in power generation by 2035. Any "made in America" rules for new renewable energy projects may disadvantage overseas panel suppliers.

The largest importer of solar panels to the U.S. by sea in the 12 months to October 31 was LONGi Green Energy with 21,100 TEUs of imports linked to the firm after 22.0% year over year growth in the three months to October 31. That was followed by 8,760 TEUs linked to Hanwha Solutions after growth of 279%. Trina Solar was third but has scaled back shipments recently.

LONGI LENGTHENS ITS LEAD OVER HANWHA, TRINA

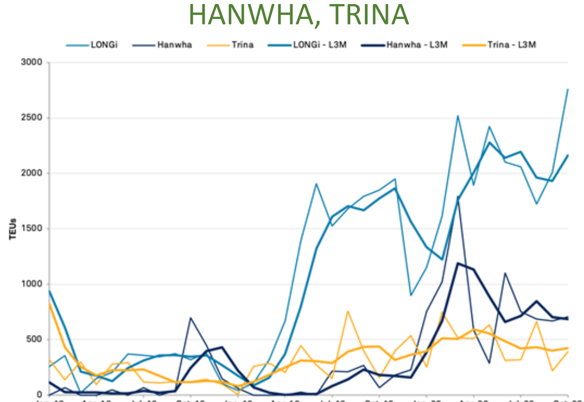

Chart segments U.S. seaborne imports of solar panels by shipper. Source: Panjiva

Microsoft Xbox Levels Up, Higher Score Ahead

Microsoft's new Xbox faces supply chain constraints versus demand with the division's CFO, Tim Stuart, stating the firm will "continue to see supply shortages as we head into the post-holiday quarter" but that "we'll have enough supply cranking over the next 4, 5, 6 months." There's already been an uptick in supplies with U.S. seaborne shipments linked to the Xbox, including peripherals, up by 88.0% year over year in October.

Shipments associated with Sony's Playstation, which has also just had a new model launch, declined by 22.5% suggesting airfreight may have been used instead. Nintendo's Switch, meanwhile, is making slow but steady gains with growth of 2.0%, indicating the prior backlog of demand from early in the pandemic has cleared.

XBOX SAILS PAST COMPETITION

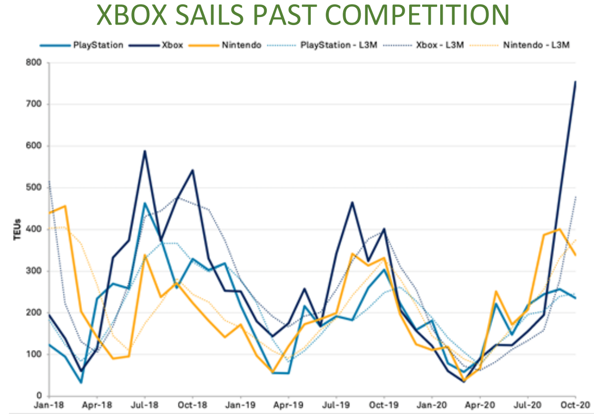

Chart segments U.S. seaborne imports of videogame systems and peripherals by brand. Source: Panjiva

Casino Closures During COVID-19 Cut Demand for Gaming Machines

Aristocrat Leisure reported a 17.7% year over year slide in FH2'20 revenues due to reduced demand for its gaming machines from casinos in Las Vegas and other gambling hubs in the wake of COVID-19.

U.S. seaborne imports of the firm's machines and parts dropped 72.3% year over year in Q3 with a further decline of 69.2% in October suggesting casinos are being cautious despite reopening. The issue is industry-wide with total imports down by 38.8% in October after a 47.6% slide in Q3. Kortek dropped by 47.4% in October while Konami's focus on arcade games meant it only experienced an 18.1% decline.

Samsonite Offsets Grounded Luggage Demand with Supply Chain Management

Luggage producer Samsonite reported a 64.6% year over year reduction in revenues in Q3 as the pandemic took a toll on air travel and consumer spending. The firm has managed to cut its inventories, with CEO, Kyle Genreau, stating "we've been able to move our inventory down almost $100 million year-over-year, which is a testament to our sourcing teams and our supplier organization that we're working very closely with manage the inventory and the cash flow of the business."

U.S. seaborne imports linked to the firm declined by 77.9% year over year in Q3 and included a supply chain restructuring away from China with imports that dropped by 83.1%.

Other luggage manufacturers are also experiencing a decline with imports linked to Travelers Club and GLP down by 55.2% and 50.1%, respectively, in Q3.

Entity List Set to Expand

The Trump administration is reportedly close to adding 89 Chinese companies to the entity list of firms facing restricted ability to buy U.S. exports, focused on the aerospace sector. That would add to the recent move to block U.S. firms from investing in certain companies linked to the Chinese military. The additions would confirm the continued policy of increasing pressure on China by the Trump administration. The bigger issue would come if Trump decides to withdraw from the Phase 1 trade deal, though for now the sanctions-based approach appears to be sufficient.

Notably, the new list will reportedly also include 28 Russian firms in the aerospace sector, suggesting that the move may also be designed to help Boeing after the travails caused by the pandemic and the 737 Max grounding.

What's Ahead: Protecting Tech, Pushing Pork - Relations with Taiwan

The U.S. and Taiwan governments have held their first "Economic Prosperity Dialogue" covering supply chain structures, telecoms security, renewable energy and health. A trade deal is very unlikely in the near-term given China's sensitivities. Indeed, the move may be part of the Trump administration's ongoing economic pressure on China before the end of its term in office. Future developments will be a function of the Biden administration's yet to be detailed Asia region policies.

The top seven import lines to the U.S. from Taiwan are dominated by electronics with PC components representing 13.3% of the total $57.7 billion of shipments in the 12 months to September 30, followed by telecoms equipment representing 6.9% and electronic circuits / semiconductors which accounted for 5.9%.

Shipments of PC components have surged as a result of the U.S.-China trade war with growth of 16.6% year over year in the past 12 months and 193.4% compared to 2017. U.S. seaborne inbound shipments of PC components included a doubling of imports linked to Micro-Star and Chenbro Micom in the 12 months to October 31 versus a year earlier while Pegatron's rose by 30.3%.

Taiwan's authorities are already attempting to liberalize trade with reduced barriers to imports of U.S. food, which accounted for 24.5% of Taiwan's imports of food in 2019. Limits on pork and beef imports are being removed despite popular protests.

The growth in U.S. seaborne exports of meat to Taiwan was led by a 161% rise in exports linked to WH Group in the three months to October 31 while Tyson Foods' shipments rose by a more modest 12.2%.