TRADE NEWS WEEKLY

June 7–June 11, 2021

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.

May 2021 Container Shipping Rate Update

Global container shipping markets became progressively tighter during May as a result of: continued demand growth; logistics delays at ports; the long-tail impact of the closure of the Suez Canal in March; and continued mispositioning of empty containers due to earlier trade flows.

The resultant drop in schedule reliability and expectation of continued elevated demand has led the major container lines to void parts of their sailing schedule in order to reset their networks. That comes just ahead of the peak shipping season as well as the risk from storms that have already impacted shipping into India and may start to impact deliveries into the U.S.

As a result, Transatlantic rates for shipping from Europe to the U.S. climbed 26.5% during the month of May to reach $4,300 per FEU (forty-foot equivalent unit) while Transpacific rates for North Asia to the U.S. east coast rose by 8.9% to $6,200/FEU. Asia-to-Europe freight rates remain among the highest after rising by 26.3% to $12,000/FEU before the application of a range of surcharges.

Bunker fuel charges inched slightly higher during May and remained volatile as the result of uncertainty about the return of Iranian oil to international markets. Nonetheless, bunker-excluded rates (a proxy for the container-lines profitability) on North Asia to Europe lanes rose by 27.2% sequentially in May to reach a record high while those for North Asia to the U.S. west coast rose 7.1% to their highest since mid-January.

RENEWED SURGE IN RATES ESPECIALLY COSTLY FOR EUROPEAN IMPORTERS

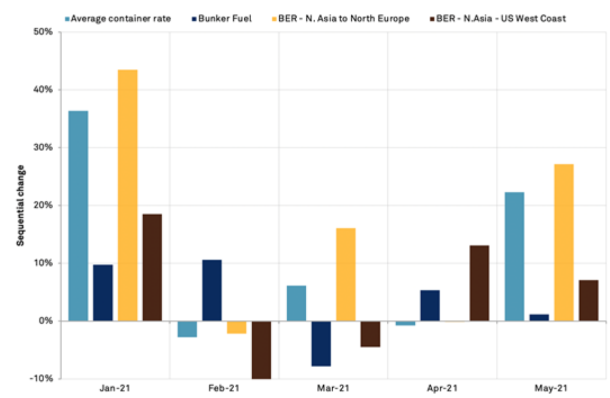

Chart compares average global container shipping rates, average bunker fuel costs and bunker-excluded container rates by route. Calculations based on S&P Global Platts data.
Source: Panjiva

Maersk's CO2 Tax Proposal Could Nearly Double Fuel Costs

Container line Maersk has proposed a $450/ton levy on bunker fuel, equivalent to $150 per ton of CO2, to encourage greenhouse gas emissions mitigation. In contrast to many of its peers, Maersk has hung back on investing in new shipping capacity recently due to uncertainties about incentives for decarbonization.

Others, including CMA CGM and ZIM Shipping, have pressed ahead with LNG-fueled vessels that reduce but don't remove all CO2 emissions. For context, bunker fuel prices are around $520 per ton currently (0.5% sulfur content) and account for around $350 per FEU (forty-foot equivalent unit) of Asia-to-U.S. west coast shipping costs versus shipping rates of $4,800 per FEU.

Netgear, Samsung Face Disruptions from Vietnam's Worker Shortages

A renewed series of spikes in COVID-19 infections is causing further disruptions to global supply chains in southeast Asia. In one example, Vietnam's northern provinces of Bac Ninh and Bac Giang are suffering marked shortages of staff due to illness.

That's particularly relevant for the renewable energy and technology sectors. The data shows 43.1% of U.S. seaborne imports from the two Vietnamese provinces in the 12 months to April 30 were renewable energy products while a further 11.3% are classified as telecoms and networking gear.

Major importers of renewable energy equipment to the U.S. from the provinces include Ningbo Boway and Trina Solar. Total shipments of solar panels from the region fell 32.5% year over year in the three months to April 30, likely as a result of regulatory uncertainties.

Shipments of telecoms and network gear by contrast surged 44.5% year over year in April on elevated work-from-home demand. That included a 203.4% jump in imports linked to Samsung Electronics and a 142.5% rise in imports associated with Netgear.

NETWORK, FITNESS EQUIPMENT FIRMS CATCH UP WITH SOLAR PANEL SPECIALISTS

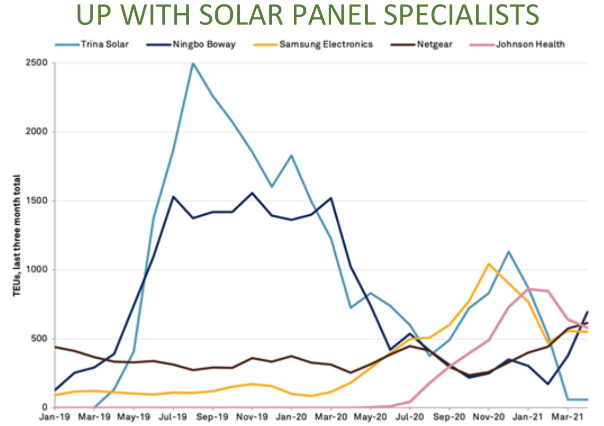

Chart segments U.S. seaborne imports from Vietnamese provinces of Bac Ninh and Bac Giang by consignee on a three-month trailing average basis. Source: Panjiva

JBS Hack Could Chop Meat Exports

Meat packer JBS announced that they were impacted by a ransomware attack that temporarily closed facilities across the U.S., Australia, and Canada. The shutdown is a reminder that physical supply chains across manufacturing and logistics can be rapidly hamstrung by cybersecurity lapses.

The hack comes as JBS was showing positive momentum in both imports and exports. U.S. seaborne imports of meat linked to the firm had increased by 121.2% year over year in April while exports rose by 28.0% year over year in the same period.

Other companies that could benefit from JBS's disruptions on the export side include WH Group's Smithfield and Tyson Foods, while on the import side, Cargill and Gurrentz may find new opportunities.

Good News is Bad News for Abbott Labs

Medical testing equipment maker Abbott Labs has lowered its earnings guidance due to "significantly lower recent and projected COVID-19 diagnostic testing demand" after successful vaccine rollouts in Europe and North America.

Data shows that U.S. seaborne imports linked to the firm already fell by 6.4% year over year in April after rising by 28.6% in Q1'21. Other importers of test kits have also seen lower shipments with imports linked to Johnson & Johnson and Roche having declined at a rate of 11.8% and 36.9% year over year, respectively, in April.

Strikes Join Chips in Volkswagen's Production Woes

Volkswagen, like many other automakers, has had to contend with demand volatility, a shortage of semiconductors, rising raw material costs and staff sickness during the pandemic. Added to these is the threat of a new round of strikes at the firm's Puebla, Mexico, factory in August.

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Exports of vehicles from Mexico linked to Volkswagen dropped by 14.0% year over year in April after dipping 2.4% lower in Q1'21. The firm's supply chain has only just started to slow to compensate. Mexican imports of components linked to the firm were down by just 3.7%, led by a slide in imports of engines and body panels, after rising by 3.0% in Q1'21.

Japan's Semiconductor Policy Close to Approval

The Japanese government may approve a strategy to attract semiconductor manufacturers to the country by the end of June. It will reportedly include financial incentives for investment as well as support for industries that use advanced semiconductors including telecoms, robotics and health to support "in-market, for-market" strategies.

Japan's plans will have to be generous to rival those being implemented in the U.S., including the CHIPS Act and forthcoming supply chain review, and in the EU as all three seek to secure critical supply chains in the wake of recent shortages.

Biden-Style Tariff Negotiations

The Biden Administration has completed its review of digital services tax proposals from six countries, applied retaliatory tariffs and immediately suspended them for six months "to provide additional time to complete the ongoing multilateral negotiations" at the OECD and G20. A further four investigations, including the EU, have been terminated as the taxes haven't yet been implemented.

The impose-and-suspend approach is a contrast to that used in the Trump administration. Continued U.S. engagement in the multilateral discussions is encouraging but could take at least year to complete even with the ultimatum.

The negotiations are particularly relevant for the U.K. given it represents $887 million of the $2.09 billion of U.S. imports set to be targeted by the 25% tariffs. The DST retaliation also complicates parallel attempts to resolve disagreements relating to aerospace subsidies and steel/aluminum trade as well as ongoing trade deal discussions.

Toro Stocks Up for a Hot Summer

Outdoor tools maker, The Toro Company, published FQ2'21 (to April 30) revenues which increased by 23.6% year over year, beating analysts' expectations by 3.3 percentage points according to S&P Global CapitalIQ data. The firm's CEO, Richard Olson, noted the growth was "driven by robust broad-based demand across our professional and residential segments."

Data associated with the firm shows that U.S. seaborne imports have increased rapidly to match, with imports by volume in the three months to April 30 increasing by 160.7% year over year. The increase of imports combined with a 12.0% year over year fall in inventories indicates Toro is selling through more than they can make in a high demand environment.

Mr. Olson also stated that, "along with the exceptionally strong demand, we've seen escalating supply chain and inflation challenges," mirroring themes seen across the capital goods sector.

Toro's imports mostly come from China, which accounted for 80.3% of imports by volume in 2020 before dipping slightly to 76.7% of the total in FQ2'21. That may be an operational strategy to reduce costs, with Mr. Olson stating the firm has "also focused on mitigating material, freight and wage inflationary pressures through productivity and synergy initiatives, disciplined expense control and market aligned pricing actions."

Advance Auto Parts Set to Accelerate Brake Prices

Automotive parts retailer, Advance Auto Parts, reported Q1'21 (to April 24) same-store sales growth of 24.7% year over year and by 15.4% compared to the same quarter in 2019. Increased car maintenance in the wake of shortage of new vehicles — in part due to a shortage of semiconductors, and desire to hang onto older vehicles were likely contributing factors.

Data shows that U.S. seaborne imports linked to Advance Auto Parts climbed 32.0% year over year in calendar Q1'21 and increased by a further 23.8% in April. The expansion was driven by imports of brakes, which climbed 64.4% in Q1'21 before rising by a further 45.5% in April.

Like many other industries, the firm is facing rising supply chain expenses "in commodities, transportation and wages," according to CFO Jeffrey Shepherd. The firm plans to pass these onto consumers with Mr. Shepherd noting "our industry has historically been very rational and successful in passing on inflationary costs in the form of price." A similar factor was noted by the CFO of O'Reilly Automotive, Thomas McFall, who stated at a company conference, "[W]hen we've seen our acquisition cost of product go up as an industry, we've been pretty effective at passing those through to price." McFall cited the imposition of U.S. import duties on shipments from China in 2018 and 2019 as an example.

Aside from price rises, the shift in costs has led to an increased share of U.S. imports from Mexico. Mexican suppliers took a 39.4% share of shipments in the 12 months to March 31 compared to 30.5% in 2017, while imports from China fell to 28.2% from 31.0%. The latter has not fallen further largely due to the surge in demand since the pandemic and the more extreme loss of supplies from Mexico during the depths of the pandemic lockdown in April/May 2020.

MEXICO PASSES CHINA THANKS TO TARIFFS

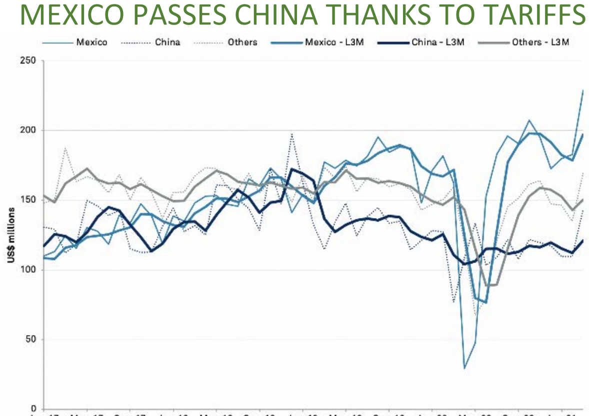

Chart segments U.S. imports of brakes by origin on a monthly and three-month average basis.
Source: Panjiva

Russia's Food Worries Equals Opportunity for U.S. Farmers

The Russian government is applying a new round of export curbs to mitigate food price inflation, the Financial Times reports, including floating tariffs and "flexible export duties." Global food supply chains have been roiled by shifting demand patterns at the consumer level and a shortage of supplies in selected products during the pandemic.

Data shows that Russia's food exports are dominated by wheat, fish and vegetable oils which together represented 58.4% of shipments in 2019, led by wheat's 25.8%. Exports had been steadily shifting away from wheat though, with shipments that fell by 24.1% year over year while vegetable oil exports rose by 28.9%.

A loss of Russian supplies of wheat to the market could have a notable impact on Turkey and Egypt which received 21.5% and 19.9%, respectively, of Russia's wheat exports in 2019. There is also a potential bounty for exporters from other countries which may be able to take market share from Russian suppliers. The largest non-Russian exporters in 2019 were the U.S. and Canada with a 15.9% and 14.6% global share, respectively, compared to Russia's 15.3%.

U.S. exports of wheat, including those linked to Scoular and Perdue Farms, only increased by 1.8% year over year in the three months to April 30. That reflected a surge in shipments to China, which accounted for 19.4% of the total compared to zero a year earlier and was, in part, the result of the Phase 1 trade deal between the U.S. and China. Total exports only rose by 1.8% after exports to China were offset by lower shipments to Japan and the Philippines among others.