TRADE NEWS WEEKLY

February 25–March 1, 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.

European Partnership Agreement, Not Brexit, Sends Honda Back to Japan

Honda may close its U.K. factory beginning in 2022. That's likely the result of the EU-Japan Economic Partnership Agreement (EPA) that has recently come into effect. The EPA may lead to a further restructuring of automotive supply chains with bilateral trade in vehicles already worth 18.4 billion euros ($20.8 billion U.S.) in 2018.

Maquiladoras Provide a Taste of Labor Rights Disruptions

Strikes at factories near the Mexico-U.S. border at Matamoros have disrupted operations at 70 out of 115 factories in the area, the Wall Street Journal reports. That's been precipitated by pay increase demands and could be worsened by increased labor rights under the U.S.-Mexico-Canada Agreement.

USMCA's new rules will take years rather than months to fully take effect, particularly given the slow progress of ratification in all three countries. But, these rules are in part designed to reduce Mexico's low wage advantage over the U.S. and Canada.

Exports from Matamoros and the surrounding 50km to the U.S. were worth $5.46 billion in 2018 having increased by 15.7% year over year.

CONSISTENT GROWTH IN EXPORTS FROM MATAMOROS REGION

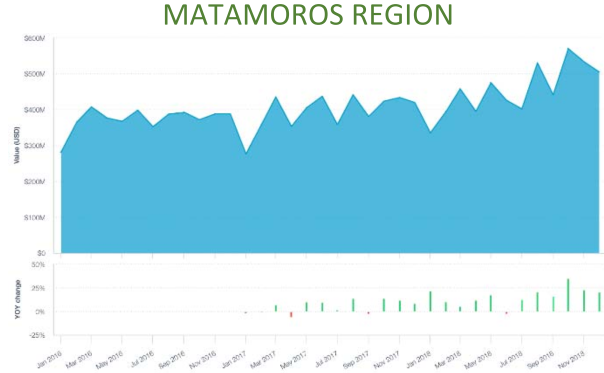

Chart shows Mexican exports to the U.S. from the region 50km around Matamoros, Tamaulipas state. Source: Panjiva

Japan Provides Further Evidence for Slowing Electronics Supply Chains

Japan's international trade activity fell 4.2% year over year in January, the second straight decline and the result of an 8.4% slump in exports. A decrease in shipments to China were the main culprit as well as weakness in electronics where exports of semiconductors fell 3.6% and computer components slumped 15.9%.

South Korea's Trade Decline Gathers Pace

South Korea's international trade slowdown stretched into its third month in February with an 11.7% drop in activity. That included a 10.9% drop in exports, or 8.9% if excluding the

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volatile shipping industry. Reduced trade in semiconductors was the main driver with a 24.8% slump in exports following a 6.8% slide in the prior three months. Exports to China, down 17.4%, and much of the rest of Asia are indicative of slowing activity in the region. South Korea has been a leading indicator of regional decline since December.

Canada May Not "Get There" with Steel and Aluminum Duties

The Canadian government has "a series of challenges" from U.S. steel and aluminum duties in deciding whether to pass the U.S.-Mexico-Canada Agreement (USMCA) through its parliament according to Transport Minister Marc Garneau, adding he "(doesn't) know if we're going to get there" with them. With parliamentary elections due in October, time is becoming pressing for a vote on USMCA. Bilateral trade with the U.S. in steel and aluminum products covered by U.S. section 232 duties was worth \$20.2 billion in the 12 months to Nov. 30, having fallen by 15.7% year over year in the three months to Nov. 30. The two sides have lost similar amounts of exports – by \$390 million for the three month period – with U.S. steel exporters seeing a 26.4% drop in their shipments.

Venezuela's Reliant on Brazilian Food While Luxury Goods Imports Remain Robust

Venezuela's political crisis has come to a head after the government refused access to an international aid convoy on Feb. 23. There's been a steady downward trend in Venezuelan imports culminating in a 36.6% year over year decline in the three months to Nov. 30. That included a 61.0% slump in imports of food and 25.0% in healthcare supplies.

Relations with Brazil are critical in terms of food imports given it accounted for 45.4% of shipments in the past 12 months. Notably, some luxury goods have seen only modest declines including telecoms equipment imports which were down just 4.1%, and home appliances whose imports fell just 4.1% in the past three months compared to a year earlier. Whatever the political outcome, it will be exports of oil that drive the economy going forward, requiring the lifting of U.S. sanctions.

FOOD RECOVERY PROVED SHORT LIVED, HEALTHCARE DECLINE CRITICAL

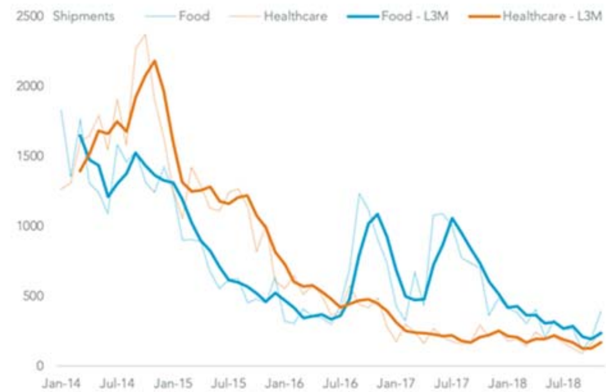

Chart shows Venezuelan imports of food and healthcare supplies on a monthly and three-month average basis. Source: Panjiva

Blame Europe, Not the Trade War, for the Global Export Downturn

Evidence for a slowdown in global trade activity is increasing with the WTO's outlook indicator suggesting a downturn is possible in 1Q. Panjiva's analysis of export data from 34 countries – excluding the U.S. and Canada which have to report – shows there was already a drop of 2.6% in exports in December.

There are further signs of a downturn in January already with 48.6% of countries having reported as at Feb. 22. Three of the four regions covered – Asia, Europe and the Middle East/Africa – are likely in decline with the Americas being an outlier. Europe's likely seen the fastest slowdown with a 5.9% decline in December and a further 3.1% in January. The average of the countries that have reported so far suggests a 1.3% drop in exports in January globally, though the average is being held up in part by the earlier lunar new year than a year earlier.

Uncertainty Remains High in U.S.-China Talks

U.S. Trade Representative Robert Lighthizer has struck a cautious tone regarding completion of U.S.-China trade deal. Lighthizer stated the agreement will be comprehensive "if a deal gets done" though at least tariff increases on Chinese exports have been delayed "until further notice." One of the more controversial areas has been enforcement of a deal. Lighthizer has said there will be a mix of monthly, quarterly and semiannual updates that could lead to a snap-back of tariffs. The latter may introduce periodic business uncertainty. Finally, Lighthizer has suggested forthcoming WTO decisions on China's agricultural subsidies could also form part of the negotiations, underscoring their complexity.

China's EV Makers Have Tariffs as Well as Tesla and GM to Tackle

Chinese automakers Byton, Guangzhou Auto and NIO plan to start shipping electric vehicles to the U.S. from 2020. Their competitiveness will depend on a significant change in U.S. tariff policy. That includes both the section 301 duties on Chinese exports as well as the forthcoming section 232 tariffs on the automotive industry more broadly.

U.S. imports of electric vehicles were worth $1.33 billion in the 12 months to Nov. 30. Shipments were led by imports from Japan, equivalent to 81.3% of the total and including Nissan's Leaf. Imports have been outstripped by exports which were worth $3.39 billion including Tesla and General Motors models. Yet, the growth in exports has been anemic in the past 12 months due to China's retaliatory tariffs against U.S. electric vehicle exports.

LEAF LEADS U.S. ELECTRIC VEHICLE IMPORTS

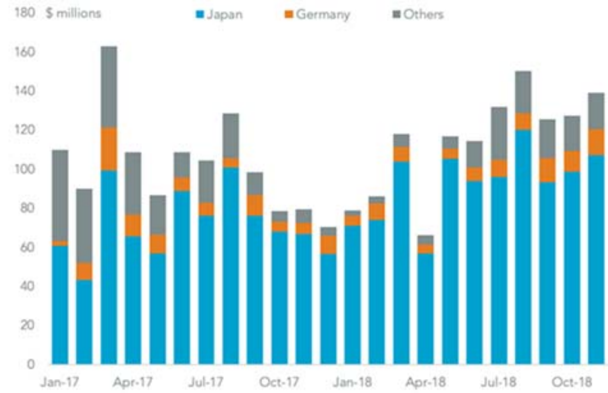

Chart segments U.S. imports of electric vehicles (HS 8703.80) by direction by origin.
Source: Panjiva

Tariff Hopes No Use as China's Trade Confidence Slumps to 10-Year Low

Chinese business confidence regarding trade collapsed in February with both import and export measures at their lowest since Feb. 2009. That flies in the face of apparently improving U.S.-China trade relations and suggests underlying weakness in the economy. The export reading fell to 45.2% from 46.9% a month earlier – a figure under 50% indicates an expected decline. A surge in exports in January will likely reverse due to the timing of the lunar new year. The drop in the import reading to 44.8% from 47.1% suggests exports from suppliers across the region to China – which have already seen 7 out of 10 countries to report show lower year over year exports in January – will continue.

Seasonal Shipping Slump Continues

Container shipping rates continued their traditional post lunar new year decline last week with a 1.1% decline in all China-outbound rates. That included a 2.2% drop in routes to the U.S. west coast. The nearing of a successful deal between the U.S. and China mentioned above may put further pressure on rates if an anticipated pre-tariff rush in March fails to materialize. A further challenge may come from rising fuel costs after bunker fuel costs increased by 1.1%, bringing the year-to-date increase to 24.1%.

Tough End to 2018 for Global Trade After Worst Dip Since 2009

Global trade activity fell 1.4% compared to a year earlier in December according to CPB World Monitor data, the first decline since Jan. 2016 and the worst one-month year over year drop since Oct. 2009. The biggest drop was in emerging Asia which fell 3.2%. Data from China, Japan and South Korea would suggest the semiconductor industry is a driver there. Europe was second worst with a 2.9% decline, coming even before Brexit disruptions. Analysis of export data from 34 countries suggests more of the same likely occurred in January with a potential 1.3% slide.

U.S. Steel Mission Accomplished

The U.S. steel industry reached an 81.9% plant utilization rate in the week to February 23, breaching a threshold of 80% deemed necessary for long-term industry profitability by the U.S. section 232 tariff review. Yet, it's unlikely that shippers will see a respite from the tariffs.

While the utilization would represent a marked improvement from 75.8% in the third quarter, it barely breaches the threshold and needs to be shown to be sustainable. Similarly, aluminum – where duties have also been applied – only reached 69.9% utilization in 3Q.

Secondly, U.S. steel prices are well below the levels they were before tariffs were applied.

Third, tariffs have not deterred many importers with only nine of the top 20 product categories imported by sea to the U.S. having declined. Products that have seen significant increases include flat-rolled non-alloy steel, where imports rose and increased 13.8% year over year in the three months to Jan. 31, and heavy aluminum plate which saw shipments surge 21.9% higher.

TARIFFS NOT THE ONLY FACTOR DRIVING METALS DEMAND

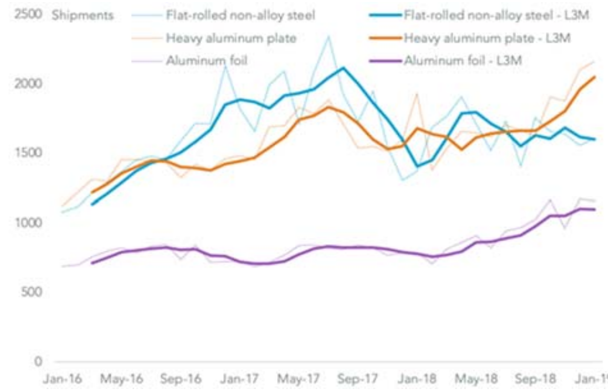

Chart segments U.S. seaborne imports of metals by product (HS-2 definition) on a monthly and three-month average basis.

Source: Panjiva

Posco and Ternium Trigger Mexican Steel Safeguarding Response

The Mexican government plans to apply 15% import duties to steel that have come from countries that it does not have a free trade agreement (FTA) with. Imports in 2018 from non-FTA countries were worth $7.47 billion, or 28.5% of total steel shipments.

A 23.0% year over year growth in imports from non-FTA countries – led by China and South Korea – is likely the major reason for the government triggering the higher tariffs. The two largest shippers were Posco, which accounted for 10.7% of non-FTA imports, and Ternium which delivered 14.1% of non-FTA shipments. Both significantly increased their shipments to Mexico in 2018, likely as they diverted steel away from the U.S. and other areas that have imposed safeguarding measures.

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