MONTHLY REPORT

TRADE SERVICING

– WUSATA

May 2022

Monthly Trade Servicing Report

Market: China & HK **Submitted by**: China In-market Representative **Month & Year:** May 2022

Executive Summary

A severe lockdown lasting more than two months that crippled the economic capital of Shanghai may finally be coming to a gradual end as Shanghai hopes to emerge from its worst-ever COVID outbreak in June.

An easing of restrictions would finally bring positive news for the global economy as half of the world's 20 largest ports are located in the country.

According to research firm Resilinc, shipping one container from China to the West Coast now costs roughly twice as much as it did a year earlier and 344 ships were stuck at the Shanghai port, a 34% increase over March.

China's zero COVID policy has led to a substantial decrease in traffic at ports as well as a sharp drop in production output.

The damage doesn't stop there, either. Business activity in the country's services sector came in at its lowest pace since February 2020 at the height of its first wave, and the ripple effect of the current Chinese backlog might last till the end of 2022 and beyond.

It will be important for US exporters to manage any expectations of business development in China, as it is difficult to predict how China will approach any potential new waves of infection, and whether further lockdowns will be imposed, to the detriment the economy. Traders are also finding it difficult to forecast if their business can resume purchasing from overseas, and evaluate the impact if they cease importing.

Market Intelligence Update

China has lifted a 3-year ban on Canadian canola

A three-year Chinese ban on Canadian canola has come to an end, according to the federal government.

In a joint statement released Wednesday afternoon (18 May 2022), Trade Minister Mary Ng and Agriculture Minister Marie-Claude Bibeau said China has reinstated market access for two Canadian grain trading companies that have been prevented from exporting canola seed to China since March 2019.

"We welcome this decision to remove the restrictions and immediately reinstate the two companies to allow them to export Canadian canola seeds," the statement said.

"Canada will always firmly uphold the international rules-based trade system and related dispute settlement mechanisms, as well as a science-based approach to resolving such issues."

In March 2019, the Chinese government blocked canola shipments from Canadian companies Richardson International Ltd. and Viterra Inc. by suspending their licences, alleging the detection of pests in canola shipments.
In September of 2019, Canada took the canola dispute to the World Trade Organization. A WTO dispute resolution panel was composed in November 2021.

Before the trade tensions, the Chinese market made up 40 per cent of Canada's canola exports.

According to the Canola Council of Canada, seed exports to China have fallen from $2.8 billion in 2018 before the restrictions, to $800 million in 2019, $1.4 billion in 2020 and $1.8 billion in 2021.

The industry organization estimates the dispute cost the industry between $1.54 billion and $2.35 billion from lost sales and lower prices between March 2019 and August 2020 alone.

"This is a positive step forward, restoring full trade in canola with China and ensuring that all Canadian exporters are treated equally by the Chinese administration," said Canola Council of Canada President Jim Everson in a news release.

"We will continue efforts to nurture and maintain a predictable, rules-based trade environment."

Canada is the world's largest producer of canola. It is one of the most widely grown crops in Canada, and is currently trading at all-time record highs as the war in Ukraine drives up prices for agricultural commodities.

Canola is primarily used to make cooking oil, but can also be used as livestock feed and to make biodiesel.

China's soybean imports increase in April
China's soybean imports in April climbed from a month ago, helped by the arrival of cargoes delayed by poor weather and slow harvests in South America, Reuters reported on May 9, citing customs data.

The world's top soybean importer brought in 8.08 million tonnes of the oilseed in April, up 27% from 6.35 million in March, data from the General Administration of Customs showed.

The figures were also up from 7.45 million tonnes in the same month a year earlier.

"Delayed Brazilian soybean cargoes gradually arrived and China's soybean imports in May were expected to keep climbing and hit around 9.4 million tonnes," said Zou Honglin, an analyst with the agriculture section of Mysteel, a consultancy based in China.

In the first four months of the year, China imported 28.36 million tonnes of soybeans, down 0.8% from 28.59 million in the previous year, according to the data.

Bad weather in Brazil delayed harvest and exports from China's top soybean supplier, causing lower arrivals in the earlier months of the year.

Soymeal prices in China had soared to record highs as supplies of bean and meal tightened, but came down as more cargoes arrived.

Chinese crushers bring in soybeans to make soymeal for feed for the massive livestock sector and to produce cooking oil.

China is expected to need 7 million to 8 million tonnes of soybeans each month through August, traders said.

While demand in May was mostly covered, Chinese crushers were slow to buy soybeans for June-August shipments as poor crush margins curbed appetite, Reuters reported in April.

Importers have since booked more Brazilian soybean cargoes for shipment in coming months, traders said.

Hog margins in China have recently recovered from the record lows of March, thanks to rising pork prices, which in turn supported soy crush margins.

China In-Focus — Meat trade falls

The protracted lockdown in Shanghai, China’s financial hub, is slowing the nation’s usually booming meat trade, with stringent COVID-19 measures causing logistics logjams across the food industry in a sign of the broadening disruptions to business.

The challenge of moving food in and around Shanghai, whose residents are into month-long stressful home isolation, highlights similar problems in many other Chinese cities as Beijing persists with its controversial zero-COVID strategy despite growing risks to its economy.

China is the world's biggest buyer of meat, bringing in more than 9 million tons last year, worth about $32 billion, and the financial hub with a thriving dining scene accounts for the largest chunk of imports.

Other food products, including dairy and edible oils, have also been stuck in the Shanghai port, while beef imports into the city have dropped 23 percent year-on-year in March. When compared with other cities under COVID-19 restrictions, the data suggests food exporters like Brazil, the United States and Australia are facing pressure on their trade with the world's second-biggest economy.

In March, Australian beef exports to China fell 10 percent year-on-year when the lockdown had just started, while overall pork imports fell 70 percent.

Pork imports could plunge as much as 30 percent this year because of the logistics woes, compared with a previous estimate of 10 percent, said Pan Chenjun, a senior analyst at Rabobank.

Traders rely on Shanghai's ideal location for distributing products around the country, but since an outbreak of the coronavirus forced a lockdown in the city at the end of March, moving chilled or frozen products has become a costly headache.

Frequent COVID-19 tests, lengthy quarantines and long clearance times to enter Shanghai have kept many drivers away, while fewer refrigerated trucks are available because of special licensing requirements.

➢ *Activities & Achievement*

This month's activity is mainly related to trader contact for Mainland China and Hong Kong markets.

Thank You!

Submitted by SMH, China/Hong Kong In-market Representative