



# MONTHLY REPORT

TRADE SERVICING

– WUSATA

November 2023



# Monthly Trade Servicing Report

Market: China & HK Submitted by: China In-market Representative Month & Year: November 2023

## ***Executive Summary***

Chinese buyers are once again traveling to the United States and showing strong interest in U.S. products. As travel resumes following the end of Zero Covid in China, marked by the elimination of quarantine restrictions on January 8<sup>th</sup>, 2023, SMH has already organized multiple inbound and outbound trade missions to the United States and to China to rebuild connections between Chinese buyers and U.S. exporters.

During the nearly three years without international travel, Chinese importers continued to express a need to reestablish ties. Some, however, decided to pivot to different products to keep up with a changing market. It would be important for exporters who still have eyes firmly fixated on gaining entry or expanding share in the Chinese market to make sure their offerings remain in need from the Chinese consumers and to continue developing products which creates sufficient differentiations from the many competing products within the market.

## ***Market Intelligence Update***

### **China's economy falls back into deflation in blow to recovery**

China's economy edged back into deflation last month, dragged down by falling pork prices as policymakers struggled to reignite domestic demand during a property sector crisis and after the ending of strict pandemic controls.

The consumer price index fell 0.2 per cent year on year in October, data from the National Bureau of Statistics showed on Thursday, compared with a 0.1 per cent fall forecast by a Reuters poll of analysts. The CPI was unchanged in September.

Producer prices fell for a 13th consecutive month, dropping 2.6 per cent year on year, against a 2.7 per cent decline forecast by economists and following a 2.5 per cent contraction in September.

The NBS said the price of livestock and meat fell 17.9 per cent overall, driven by a 30.1 per cent decline in pork prices. Non-food prices rose 0.7 per cent.

Chinese market reaction was muted on Thursday, with the CSI 300 index of Shanghai- and Shenzhen-listed stocks flat and the renminbi weakening 0.1 per cent against the dollar after the data release.

China's economy has shown mixed signs of recovery in recent months, leading economists to debate whether it will hit the government's official gross domestic product growth target this year of 5 per cent, the lowest in decades. Prices fell into negative territory in July before edging back into growth in the months that followed.

The IMF this week upgraded its forecast for China's GDP growth to 5.4 per cent, citing stronger support from policymakers, who have been easing monetary policy and restrictions on property purchases and mortgages to try to stabilize the real estate market.

Analysts have blamed low consumer confidence for soft inflation figures. Falling pork prices aggravated the trend in October. Live hog futures traded on China's Dalian Commodity Exchange have dropped about 15 per cent this month.

Prices of the meat in China, the world's largest producer and consumer of pork, follows boom-and-bust cycles, with oversupply leading to large price falls and causing CPI volatility.

Goldman Sachs said in an analyst note that China's headline CPI should rise gradually in the coming months, although "persistent pork prices deflation is likely to slow the pace".

Rob Carnell, economist at ING, disputed that China was suffering from deflation, which he defined as not just a decline in consumer prices but also in the prices of "real and financial assets and wages".

"What China has right now is a low rate of underlying inflation, which reflects the fact that domestic demand is fairly weak," he said. "What we are seeing today is mainly the result of a supply excess, rather than a collapse in demand."

Other recent indicators have painted a mixed picture of the economic recovery. China's exports dropped 6.4 per cent in dollar terms in October compared with the same period a year earlier, the sixth consecutive month of declines and worse than the 3 per cent fall forecast by a Reuters survey of analysts. Manufacturing activity also contracted in October.

One positive sign from the trade data was China's imports, which expanded year on year for the first time since February, rising 3 per cent.

Economists argue the government needs to do more to stimulate domestic consumption and lift flagging demand in the economy.

Beijing has announced a Rmb1tn (\$137bn) bond to fund local government disaster relief and flood controls, but this is seen as aimed at supporting growth next year.

While the economy in 2023 has benefited from a low base effect compared with a year earlier, when Covid-19 controls depressed activity, next year could prove more challenging for GDP growth unless the recovery gains more traction, analysts have warned.

### **China signs US agriculture purchase agreements in first ceremony in years**

A delegation of commodity importers from China on Monday (Oct 23) signed agreements to buy billions of US dollars' worth of agricultural goods, mostly soybeans, during a ceremony in Iowa, the US Soybean Export Council (USSEC) said on Tuesday.

The agreements, signed at the China-US Sustainable Agricultural Trade Forum, were the first such bulk signings since 2017 between top soybean importer Beijing and the US, the world's second-largest supplier of the oilseed.

The deals also included corn, sorghum and wheat, the US Soybean Export Council said.

China's crop import purchases from the US are well below normal this year as Brazil, the world's largest exporter of corn and soy, harvested bumper crops.

Top US crop merchants Archer-Daniels-Midland, Bunge and Cargill were among the companies that signed 11 purchasing agreements, the US Soybean Export Council said.

The deals were signed as "frame contracts," which are typically non-binding letters of intent to buy at a later date, without formal sales terms.

"These contracts illustrate the gains from trade: food is moving from surplus regions to deficit," said Jason Hafemeister, the US Department of Agriculture's acting deputy undersecretary for trade and foreign agricultural affairs.

As of Oct 19, soybean purchases by China from the latest US harvest were down 39 per cent from the same time last year, according to USDA data. Its corn purchases were down 73 per cent from a year prior.

"I think this is China saying, 'Hey, we still want to have strong trade relations over soybeans but this is a year where we're not going to be aggressively buying American soybeans,'" said Ted Seifried, chief market strategist for Zaner

Ag Hedge.

Traders will be looking for confirmation of sales from the US Agriculture Department in coming days, Seifried said.

Chinese soybean buyers attending a large US soy export conference in August said that they do not see import volumes growing much more in the coming years as demand for the ingredient that is mostly used to make animal feed stabilizes.

China recently made rare purchases of US soft red winter wheat, however, after rains damaged the quality of the Chinese harvest.

### **CIIE brings imported food retailers, expanding trade in local markets**

Import food retailers regard the China International Import Expo as a an increasingly important platform for new flavors to reach consumers and seek closer trade ties. Multinationals and local online platforms believe in the vast potential for import goods and seek a more active role in the field.

Alibaba's grocery chain Freshippo inked purchasing deals worth 3 billion yuan (US\$422 million) over the next three years, with leading French companies earlier this week. This year it became a first-time exhibitor instead of a trader during previous editions of the CIIE, bringing more than 200 types of imported products.

Over the past few years, the grocery chain has greatly expanded the availability of import food. One of the bestselling cashew nuts at Freshippo was on exhibit from a Vietnam trading company, which was selected and sourced by the purchasing staff during the expo back in 2019.

Russia's dairy product brand Svitlogorie was introduced in Freshippo earlier this year, already welcomed by shoppers after the grocery chain tailor-made a vanilla chocolate ice cream to cater to local tastes. Special sections for import goods will be set up at Freshippo physical stores, allowing shoppers access to foreign goods.

Retailers remain committed to efforts to bring import products to the expo to fully tap the growing demand for quality products.

Having seen that its home brands continued to gain momentum in recent months, Metro China President Tino Zeiske expects the consumption recovery will continue for the rest of the year and during the Chinese New Year, with online sales gaining solid momentum.

"I felt a more vibrant atmosphere at this year's event and also a strong signal of China's high-standard opening-up, allowing the local markets to be shared by the world," he noted.

Among Metro's 117 exhibits at the expo, over 80 are from European nations with 61 items are making their debut. Nearly one third of the imported goods are Metro's house brands. Mediterranean style dietary are also a focus, featuring seafood, olive oil and dairy products. The membership retailer model still has much room for growth in China, and has strong confidence in venturing into lower tier cities, he also noted.

Shanghai-headquartered fresh produce online platform Benlai's latest tie-up with Syngenta Group, China's Modern Agriculture Platform and Digital business unit, will allow consumers to purchase high quality kiwi fruit and sweet corn.

The latest move highlighted at the CIIE will further facilitate the upgrade of China's agriculture and produce quality, and advance their distribution across the country.

By using the planting, fertilizing fielding solution by Syngenta, it's expected to further stimulate sales of high quality fresh products. In addition, products such as cheese, and ham with Italian Protected Geographical Indication have also been featured on a special page, with nearly 200 types of products through a recent deal with the Italian Trade Agency.