

Stranded shipments and trade wars

As the trade war between the U.S. and China ramps up over the summer there is a danger that hide and skin exports from the U.S. could become subject to Chinese tit-for-tat tariffs.

Writes Martin Ricker.

Tensions have escalated further over a possible trade war between China and the U.S., with countries such as Mexico and Canada already imposing taxes on several U.S. products.

In mid-July, U.S. officials released a new list of Chinese goods worth US\$200 billion as the next target for tariffs. The additional 6,031 product lines, which do not include hides and skins at the moment, would be hit with a 10% tariff. The additional list is said to include various food items, chemicals, minerals, tobacco, electronics and office goods.

The Chinese government said it is shocked at the announcement, with China's Commerce Ministry describing the new round of U.S. tariffs as "totally unacceptable". China has imposed an additional 25% tariff on many U.S. agriculture exports effective July 6, as a retaliation against the Trump administration's imposition of 25% duties on approximately US\$34 billion worth of Chinese exports. Beijing said it would now seek support from the international community and "fight back".

Mexico's tariffs on many U.S. products are also said to have doubled to 20% as from July 5, one month after initial 10% tariffs first took effect. Canada also has imposed retaliatory tariffs on a number of U.S. goods starting July 1.

The U.S. Hides Skins and Leather Association (USHSLA) says that, so far (late July), "U.S. hide, skin and leather products have not been subject to any retaliatory tariffs by any trading partners". However, it would be wise to watch this space carefully as hides and skins could be dragged into the trade war.

Figure 2. U.S. weekly wet-salted hide exports to China/Hong Kong

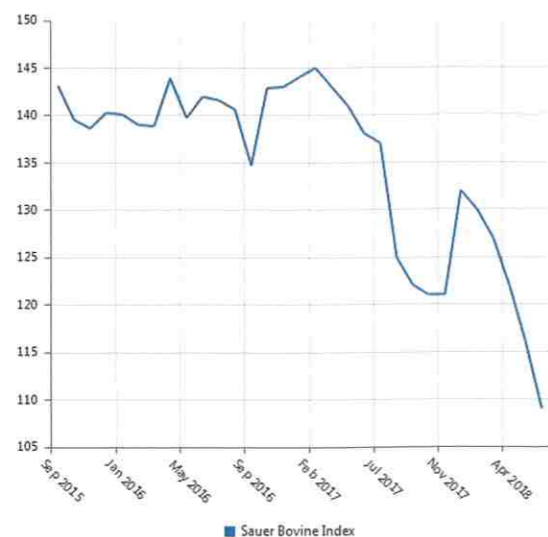


Figure 1. Sauer Report bovine hide index over a 3-year period

towards the next one. The more honest buyers either bought in small volumes, to average down the value of their stocks or, to the same effect, if large purchases had already been made, pushed for "compensatory" rebates to keep the older, more expensive orders in place. The less honest ones, as is now widely accepted, repeatedly reneged in whole or in part on previous agreements, leaving large quantities of hides stranded in Asian ports and elsewhere, awaiting resale. Needless to say, at discounted prices.

To put this in perspective, one should note that the largest hide exporting countries have been relatively successful in managing their hide throughput against the backdrop of a higher kill. In the case of the U.S., whose slaughter has been running around +3% higher than in 2017, during the first five months of the year the number whole hides exported was +4% above that of 2017 and +26% higher than 2016. Wet-blue exports by volume were in line with those of last year. While it is likely that these numbers may ease when June figures will be available, they do attest to a successful commercialisation of local hides, though at an average value-per-unit drop of over -20% year-on-year.

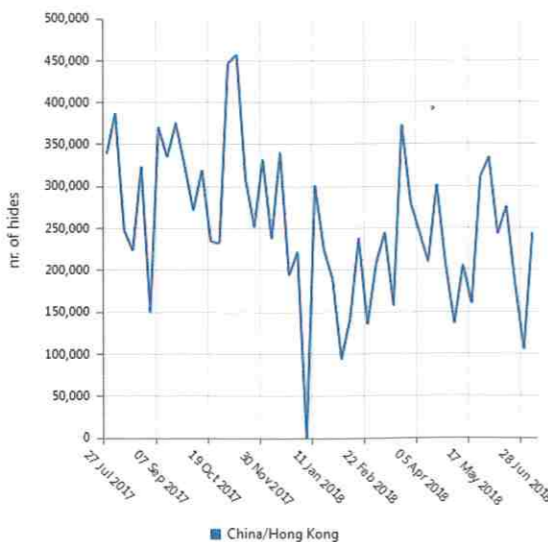
As for Brazil, the quantity (area) of wet-blue exported dropped over the first six months of 2018 by -3.4% compared with last year, but the +30% increase in crust exports offset this deficit, with the aggregate of all semi-processed/unfinished leather exported from the country almost +1% higher this year for the first half. Finished leather exports, however, fell significantly, close to -20% in surface area.

The EU-block results over the first

Market overview

The month of July has passed and the global landscape in the hides and skins markets has largely kept the same tone and pace seen in June, and before that.

Hide prices have entered a downwards price spiral. Every round of lower adjustments has simply built more pressure



five months of the year, show a +9% increase in the number of whole hides exported outside of the union, yet a -12% decrease in weight (and -38% in value), leaving the general result somewhat undetermined. theSauerReport tends to believe that the quantity is lower than last year, but a fall in the average weight of hides exported is also possible.

To sum it up, for the largest hide producers in the export of raw or semi-processed materials, they have not been absolutely negative in terms of quantities exported, with the U.S. and Brazil emerging better than Europe in the competition for foreign markets. This also has to do with other well-known factors, such as favourable exchange rates, the different scale and dynamics of the meat industry, and the qualities and quantities on sale for export. Undeniably, hide prices have fallen between 20-40% compared with last year, depending on origin and selection, with overall revenues dropping considerably. It does, however, hint at a demand which is not as downbeat as some may indicate (while it may well be towards specific segments or destinations), at least for these supply origins. What is true is that it remains fundamentally a buyer's market, with excess availability for certain production types. This has pushed prices lower and lower and the less successful sellers to the edges of the market. Figure 1 shows the Sauer Hide Index over the past three years and shows how average hide prices have fallen since around late February 2017.

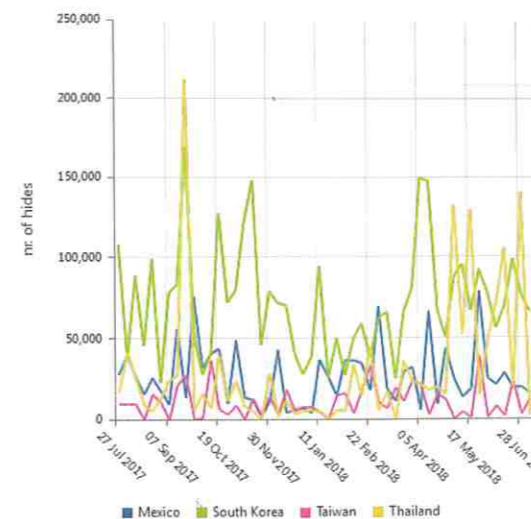


Figure 3. U.S. weekly wet-salted hide exports to Mexico, Thailand, South Korea and Taiwan

China, traditionally the largest buyer of U.S. hides, has continued to buy good volumes. However, the volume of average weekly sales has been coming down in recent months as can be seen in Figure 2.

Part of the reason why global hide prices are low is because no single export destination has been able to pick up the slack in terms of the reduction of hides exported to China. However, as we can see in Figure 3, Thailand has been rapidly increasing the volume of hides buying from the U.S. which

are most likely contract tanned in the country before being sold on around Asia. The rise of U.S. hide shipments into Thailand appears to be a growing trend.

The rise of Thailand

During its regular market analysis of U.S. wet-salted hide shipments, two interesting trends have been noted.

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of leather industry related reports in its "Knowledge Centre" section. It is a one-stop shop to find out what's going on in the global leather market. If you are interested in a free trial, or demonstration of the information and functionality of the new report, please contact Clare Worton: clare@edifydigitalmedia.com

RAW MATERIALS British Isles report

Water issues persist in Northern Italy

The hide market continued to decline throughout July as Italian tanners prepared for their annual August shut down. There were some water issues in the Arzignano area of Italy in early July that prompted tanners to delay shipments by a couple of weeks as the water treatment plants could not operate with their usual efficiency. There was speculation that the effluent treatment works may not be running to capacity until October due to the lack of rainfall in the area. Mid-July did bring some respite, but it remains to be seen if this rainfall has been sufficient to help overcome the water shortages. Sellers have, as a consequence, seen bid prices for hides fall by another 10% per kilo during July. There were a number of visits to the UK and Ireland by Chinese agents in July and, while there was plenty of talking, there was little to no bidding for hides. Instead, there was a lot of muttering about

cancelled contracts for cows and everybody except the Chinese tanners, who are the ones that actually reneged on the contracts, were responsible for the poor market situation. Agents can always explain why the customer is never wrong.

In reality, the Chinese government crackdown on dirty industries in Northern China has decimated the cow hide tanning areas with long term concern for the future of cowhide tanning in this area. There will be a relocation of the cow hide tanning sector when reasonable profitability returns to the sector, but it is not expected in the near future.

The rest of the market for hides has been caught in the classic market squeeze situation; oversupply meeting reduced demand. The U.S., the largest producer of hides, has seen kill numbers increase significantly this year and the predictions are that the increases will continue in 2018,

2019 and 2020. This is because the U.S. beef sector has seen record profits for every animal that they kill. However, they cannot close off their books until the hide has been sold and they have been quite happy to take a low price to bank their profits. To put it crudely, a couple of years ago animals were being killed for little to no profit and the hides were sold for close to an average price of US\$70. Today, the beef processors are rumoured to be making US\$150 per head and are taking close to an average of US\$40 for hides. It's simple really. Back to the UK and Ireland, where our beef producers do not realise these profit margins on the cattle that they kill but have to live with the lower hide returns, prices in Ireland for clean hides were around €35 and cows €15 towards the end of July and will fall further going into August. In the UK, clean hides went for £33 (US\$43) and cows £14 (US\$18).