

The new normal?

Trade data and policy tracker

Free to View
Economics - Global

- ◆ Businesses are being hit with new challenges as pandemic-related supply chain pressures continue to ease
- ◆ Soaring energy prices have caused trade balances to deteriorate in some economies...
- ◆ ...while geopolitical tensions may leave businesses vulnerable to supply chain disruptions in the near to medium term

Just when it looked as though supply chain disruptions might be easing, exporters and importers have been hit by a fresh wave of challenges, including high inflation, port worker strikes (e.g. at Felixstowe in the UK), and recent low water levels in Germany, begging the question: is ongoing disruption the “new normal” for supply chains?

We previously argued that pandemic-related supply chain strains could start to ease in the second half of 2022 and, for the most part, that is playing out. Global supply chain pressures, as measured by the New York Fed’s index, hit an 18-month low in July, and global spot container freight rates are down nearly 50% from their pandemic peak. Commodity prices too are coming off the boil, but remain elevated.

Over 650,000 tonnes of grain (mainly corn) have been exported from Ukrainian ports so far this month under a safe-passage deal, while gas flows via the Nord Stream pipeline are currently tracking at around 20% of full capacity as at 23 August 2022 and will cease for three days from 31 August for further (previously unscheduled) maintenance. And surging energy costs are impacting trade balances: the UK goods and services trade deficit widened to the largest on record (GBP27.9bn) in Q2 2022, while Japan’s goods trade deficit hit an all-time high in July (JPY2.1trn). However, some countries, including Norway and Canada, are benefiting from higher prices for their energy exports.

Meanwhile, various indicators are pointing to a potential slowdown in trade. Global new export orders declined for the fifth consecutive month in July, while the US National Retail Federation expects containerised retail import volumes to fall by 2.3% y-o-y over August to December (i.e. during peak container shipping season). New export orders for Taiwanese electronics also tumbled in July as customer inventories continued to grow.

And these trade issues, along with recessionary concerns, remain top of mind for businesses. Natural Language Processing analysis by our Data Science team finds that “inventory” and “freight” were key topics in recent company earnings calls, while discussions around “shortages” have become less prominent for North American firms – perhaps indicative of some normalisation in supply chain strains post-pandemic.

Ongoing geopolitical strains are also adding to the uncertainty for businesses. The US launched trade talks with Taiwan this month amid tensions with mainland China, including US plans to expand its domestic chips capacity, while the UK raised a legal challenge against the EU over access to key science programmes.

Therefore, it looks as though ongoing disruption might just be the new normal, for now.

This is a Free to View version of a report with the same title published on 25-Aug-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Shanella Rajanayagam
Trade Economist
HSBC Bank plc

Shiva Joon
Data Scientist
HSBC Bank plc

Disclosures & Disclaimer

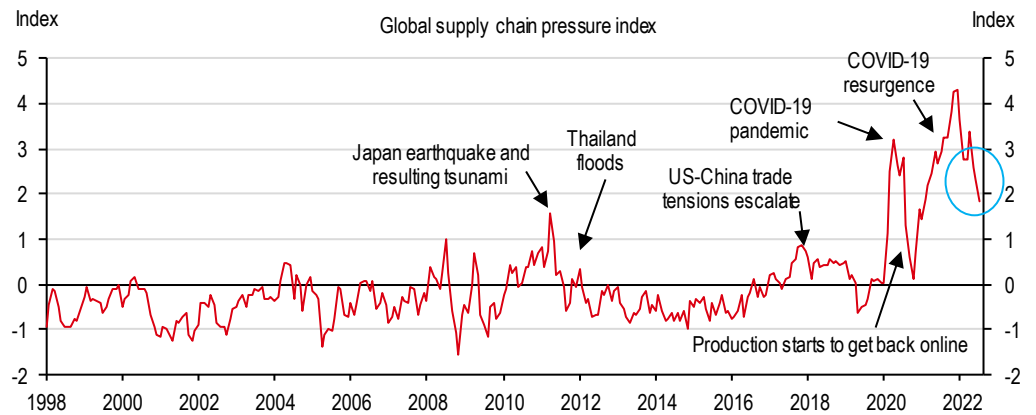
This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: HSBC Bank plc

View HSBC Global Research at:
<https://www.research.hsbc.com>

Monthly trade trends

1. Pandemic-related supply chain strains continue to ease...



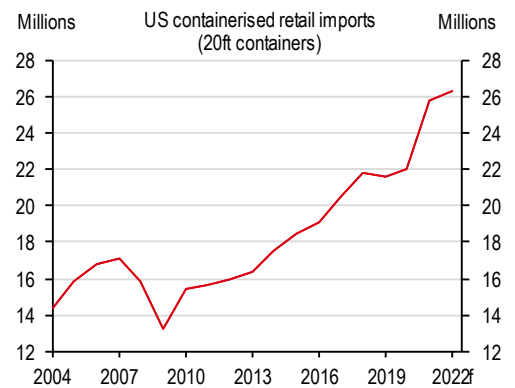
Source: Federal Reserve. Note: Latest data point for July 2022.

2. US containerised retail import volumes may slow y-o-y in H2 2022...



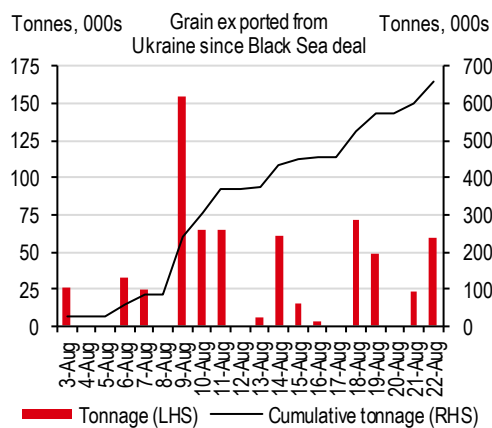
Source: US National Retail Federation. Note: *Estimated **Forecast

3. ...but remain well above pre-pandemic levels



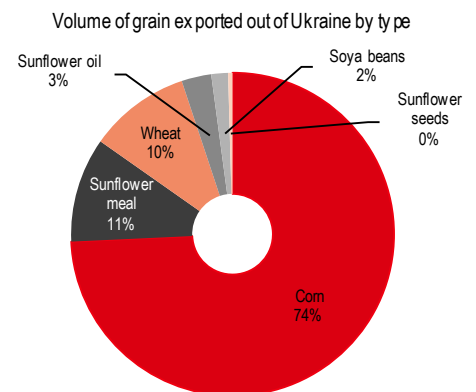
Source: US National Retail Federation

4. Ukraine grain exports are starting to flow...



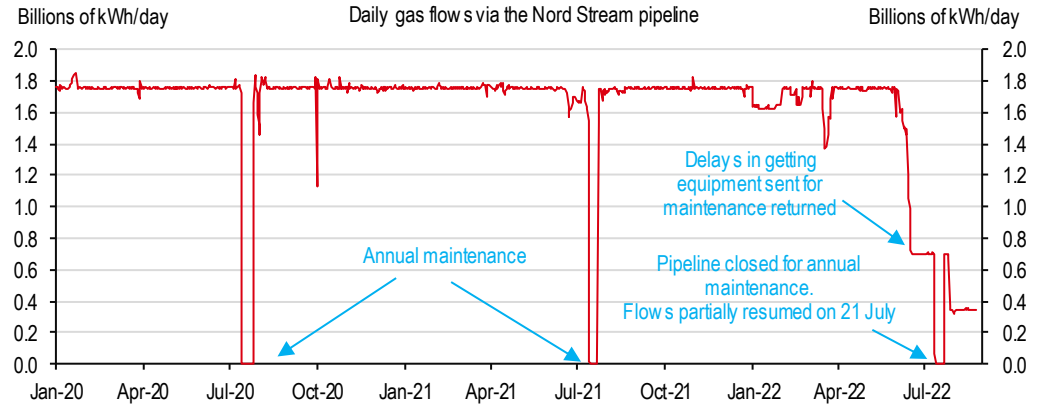
Source: UN Black Sea Grain Initiative. Note: Data as at 24 August 2022. Excludes shipments that have not been inspected yet.

5. ...although most of this is corn trade



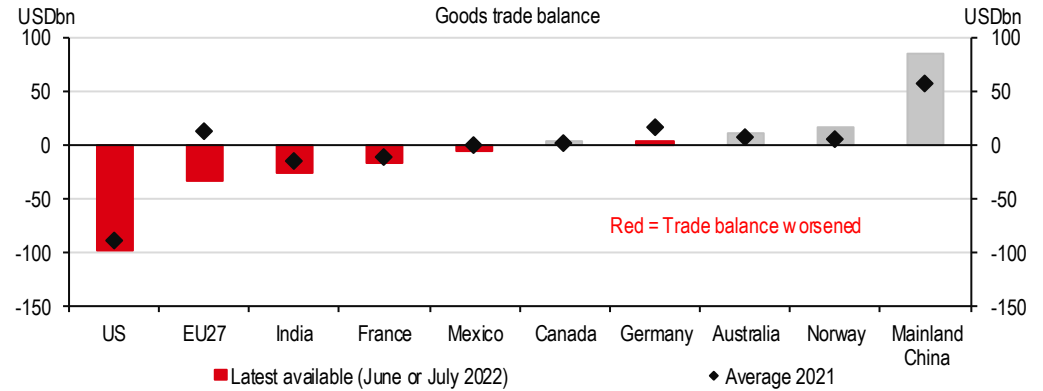
Source: UN Black Sea Grain Initiative. Note: Data as at 24 August 2022. Excludes shipments that have not been inspected yet.

6. Gas flows via the Nord Stream pipeline remain limited...



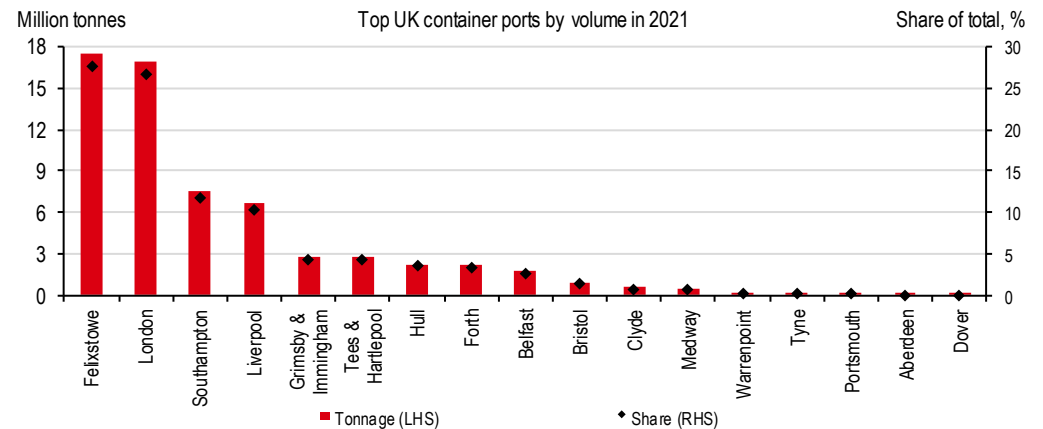
Source: Nord Stream. Note: Latest data point for 23 August 2022.

7. Higher energy prices have led to a deterioration in net trade for some economies....

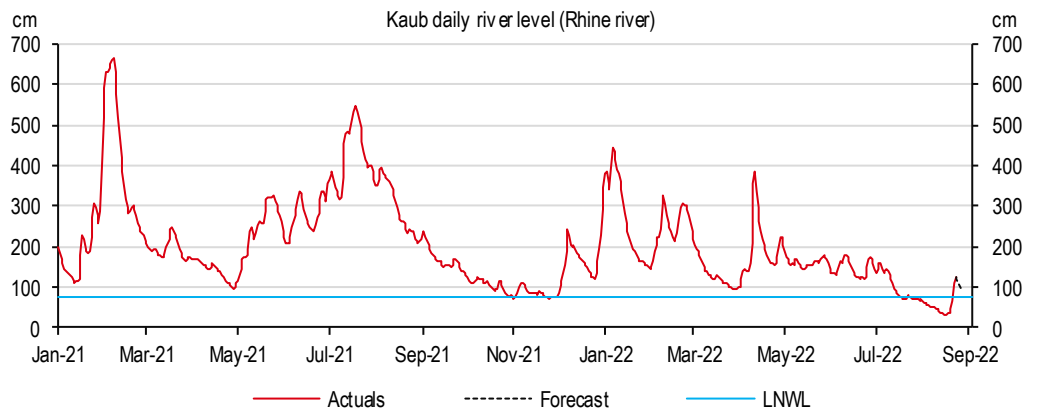


Source: OECD. Note: Seasonally adjusted.

8. Port worker strikes at Felixstowe and potentially Liverpool threaten further supply chain disruptions for UK businesses...



Source: UK Department for Transport

9. ...while recent low river levels in Germany have impacted freight movements


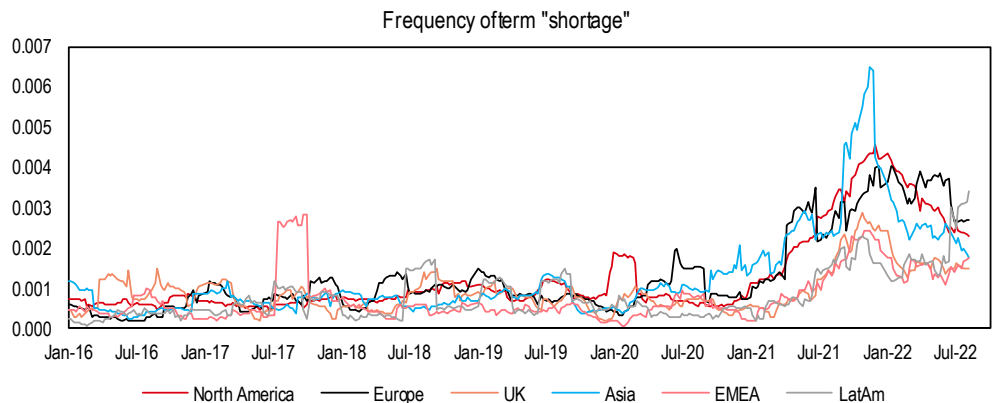
Source: Refinitiv Eikon. Note: Data as at 24 August 2022. The water marker is a measure for navigability and is not the actual depth of the river. LNWL = low navigable water level.

10. Discussion around inventories a key focus in recent company earnings calls...

Key terms in discussions on "supply chain" in Q2 2022 earnings calls



Source: FTSE Russell, Refinitiv TRKD, HSBC

11. Mentions of shortages have declined in prominence for North American and Asian businesses...


Source: FTSE Russell, Refinitiv TRKD, HSBC

Trade policy calendar

12. Key upcoming trade events

● Deadline ● Event ● Report

| Date | Type | Details |
|-------------------------|------|--|
| 29 August 2022 | ● | Port workers strike at Felixstowe in the UK due to end |
| early Autumn/Autumn | ● | US-Taiwan trade talks to begin |
| | ● | UK Government to publish a Target Operating Model that will set out its new regime of border import controls on EU goods. It will aim to be applied from end-2023. |
| 5 September 2022 | ● | New UK PM to be announced |
| 8 to 9 September 2022 | ● | US planning Indo-Pacific Economic Framework ministerial meeting to launch negotiations |
| mid-September | ● | European Commission due to release a proposal to ban goods made with forced labour |
| mid- to end-September | ● | Port workers strike at Liverpool in the UK expected in late September |
| 21 to 23 September 2022 | ● | G20 Trade, Investment and Industry ministerial meeting |
| 22 September 2022 | ● | Deadline for UK to respond to EU's additional four new legal challenges over the Northern Ireland Protocol |
| October 2022 | ● | UK and India aim to conclude initial bilateral trade deal |
| | ● | Next round of UK-CPTPP negotiations due to be held |
| 15 October 2022 | ● | Semi-annual report by the US Treasury on currency practices of major trading partners due |
| 30 to 31 October 2022 | ● | G20 ministerial meeting in Indonesia |
| 4 November 2022 | ● | Possible due date for Biden administration to submit its "grand strategy" on China. |
| 14 to 19 November 2022 | ● | APEC Economic Leaders' Week |
| 15 to 16 November 2022 | ● | G20 Leaders' Summit |
| 13 to 16 December 2022 | ● | OECD ministerial conference |
| 1 January 2023 | ● | Certain goods sold in Great Britain will now require the UKCA (UK Conformity Assessed) marking as the EU's marking (the CE mark) will no longer be accepted. |
| 15 March 2023 | ● | US International Trade Commission to submit report to Congress on economic impact of US Section 232 and Section 301 tariffs. |
| end-2023 | ● | UK implementation of full border controls and checks on EU exports due to take effect after being postponed from 2022 |
| 30 June 2025 | ● | EU equivalence for UK CCPs due to end (could potentially be extended). |
| TBC | ● | Grace periods for customs formalities on certain GB exports to NI were suspended indefinitely in September 2021. |

Source: HSBC, Inside US Trade, Politico, WTO, UK Government, European Commission, European Council, ESRB, UK Parliament, FT, Bloomberg.

Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Shanella Rajanayagam and Shiva Joon

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

- 1 This report is dated as at 25 August 2022.
- 2 All market data included in this report are dated as at close 23 August 2022, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

This document has been issued by HSBC Bank plc, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither HSBC Bank plc nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

HSBC Bank plc is registered in England No 14259, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. (070905)

© Copyright 2022, HSBC Bank plc, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of insert issuing entity name. MCI (P) 037/01/2022, MCI (P) 017/10/2021
