



GOI TRADING - Market Dynamics

.....

We live in interesting times!



By Tariq Malik July 2018

.....

Recent months have given us no shortage of compelling news, from global skirmishes on trade and technology to that meeting with North Korea in Singapore. Let's not forget US President Donald Trump misspeaking in Moscow or the Brexit quagmire.

Given our focus on international trade and the range of multinational trading partners, these are among the many issues that we monitor closely at GOI Trading.

The edge of a global trade war?

Whether escalating tensions between the US, China and beyond amount to an all-out trade war remains to be seen. It's an issue unlikely to go away anytime soon.

"The world's two biggest economies are locking horns for the foreseeable future and, like it or not, the rest of us will be drawn in," Prospect magazine said on 18 June.

The US President has certainly put the protectionist cat amongst the trading pigeons. In recent months he has imposed tariffs not only on China, but also Canada, Mexico and the European Union.

The EU, for one, has retaliated to Trump's decision to levy tariffs on European steel and aluminium by taxing 2.8 billion euros of products from orange juice to cranberries, bourbon to Harley-Davidson motorbikes.

The maker of the iconic motorbikes said it stands to lose as much as \$100 million a year because of that and plans to move some production from the US to its existing facilities worldwide.

The implications go far beyond individual companies. A full-blow trade war "would be a disaster for everyone, not least for the United States," UK Chancellor Philip Hammond told CNBC on 26 June.

Yasheng Huang, political economist and MIT professor of international management, speaking at the 2018 Aspen Ideas Festival said a trade war would, "negatively affect the interests of US consumers, companies, and the financial system of the United States."

If the US levies tariffs on vehicles and parts as well as existing levies on steel and aluminium, it will be the "the next and final step to economic disaster," Linda Hasenfratz, CEO of Canadian car-parts maker Linamar, was cited as saying in a 27 June Bloomberg article.

The trade spat looks like it will run and run, not least as European Council President Donald Tusk has told EU countries to prepare for "worst-case scenarios" as relations with the US worsen, the Independent reported on 27 June.

Trump's threatened widening of tariffs to imported cars and car parts from the EU would be "disastrous," Cecilia Malmstrom, the EU's trade commissioner, said on 19 July.

Effects seen in global styrene market

Styrene supply chains are far from immune to those changes.

China's Ministry of Commerce announced in June 2017 a year-long investigation into styrene monomer imports from the U.S., South Korea and Taiwan, which between them account for 60 percent of imports. China first imposed anti-dumping tariffs on styrene producers in February 2018, then again in June.

"Duties on cargoes from South Korea and Taiwan have been lowered, while higher rates imposed in July, shortly after the US tariffs on Chinese goods are due to take effect on July 6," Platts Commodity News reported on 24 June .

US producers Lyondell Chemicals, Westlake Styrene, Ineos Styrolutions and Americas Styrenics face duties of between 13.7 percent and 13.9 percent, Plastic News said, citing a Wood Mackenzie report.

The impact for U.S. styrene producers is already being felt. US exports to China slumped to 65 kilotonnes in the first quarter of 2018 compared with 111kt a year earlier, Plastic News cited Truong Mellor, Wood Mackenzie senior research analyst.

US product reaching Western Europe increased to 70kt from 5kt previously, Mellor said. What that means for European producers and consumers of styrene in the longer term, including investment in ageing production facilities, is a matter of debate.

Rumblings in Europe

Say Europe and Brexit follows. Debates and recriminations about the outcome of the UK's split from the EU have rumbled on, prompting a slew of ministerial resignations this month in protest at a compromise proposal that UK Prime Minister Theresa May managed to thrash out with her Cabinet.

Arguably, the Brexit drama has descended into chaos. Whether a workable deal will emerge remains to be seen. The clock continues to tick, with 29 March 2019, the date when Britain is slated to leave the EU, is only a matter of months away. Plane-maker Airbus has said it may pull out of Britain if the UK leaves the single market and customs union with no transition deal after March 2019, while Siemens has said time is running out to reach a Brexit deal.

One in three European firms plans to cut investment spending because of Brexit, Reuters cited a survey by Swiss bank UBS as saying.

Mainland Europe faces challenges of its own. Eurozone consumer confidence fell more than expected in June, adding to signs in the second quarter of a cooling of the bloc's economy, Reuters reported on 21 June. The European Central Bank plans to end the main part of its stimulus programme by December.

There is always an opportunity

It's not all doom and gloom. Investments in ABS production, for instance, point to continuing demand for the plastic used in products from computer keyboards to car parts and canoes.

Ineos Styrolution plans to switch one of its polystyrene lines to make ABS at its factory in Wingles, northern France, the company said on 20 June. The new line will be able to make 50,000 tonnes of ABS a year.

Plastic and its impact on the environment, especially the oceans, has continued to feature in the news in recent months.

An EU target that all plastic packaging in the bloc be recycled by 2030 can be an advantage for the European polyolefins industry, according to an Icis blog on 15 May. The industry

must work with brands and retailers to make innovative plastic packaging and also integrate production with the recycling of plastics into fuels and naphtha, the blog said.

Even on the macro-economic front?

Economic models suggest that the impact of tariffs will be minimal, “the economic equivalent of a mosquito bite,” Megan Greene, global chief economist at Manulife Asset Management, wrote in the Financial Times on 13 June. “The brunt of the pain is felt in the first two years, and after five years it is virtually undetectable.”

Interesting times indeed

So, while uncertainty and volatility are the watchwords of the day, the team at GOI Trading are available to help you meet your market needs, combining our deep market knowledge with real flexibility and focus on delivery.

[READ MORE ON OUR WEBSITE](#)

