

DIRECTIONS

News Update

July 2009

THE CURRENT MARKET

David and I visited Hong Kong last week for a quick update with what's happening in China.

First and obviously, business is slow with both Seafreight and Airfreight volumes down substantially from previous years.

Whilst the US and European markets are down considerably, it appears that Australia is in better shape and suppliers are indicating that things should start to improve over the next 4-6 weeks.

The recent deferral of a full sea freight rate restoration (RR) is indicative of this, however with volumes expecting to lift in the coming weeks, another rate RR is imminent.

While travelling we visited the port of Yantian which is one of Shenzhen's three ports.

Shenzhen is located in Southern China quite near Hong Kong and is now collectively exporting more than HK. Yantian handles 20 million TEU per annum which is quite staggering.

Our Shenzhen logistics warehouse is currently holding a lot of stock in bond, particularly for Europe and the US. This is a departure from the usual approach of consolidation and immediately ship. What is happening is that Import Clients are requesting stock to be held until absolutely required. This approach is not being utilised by Australian Importers as yet and is probably a good sign.

GLOBALISATION – GOOD OR BAD?

We are all aware that trade ex China to the US and Europe is down. We also hear that whilst China exports are down internal consumption is up, however the relationship between the two is quite misleading.

Internal retail sales in China increased by 15.2% in April over last year, but exports decreased by 25% on the same basis. I'm sure the numbers lost on exports will overshadow the retail sales increase.

Another way to look at it is US savings have increased to 6% of GDP. For the first time, Americans are saving more than they are spending and on a global scale this is hurting China and India. As the US spends less, in fact for every 1% increase in savings, there is US100 billion less in spending.

On average the 300 million US consumers spend US10 Trillion compared to 2.5 Billion Chinese and Indians spending only US1.8 Trillion. Therefore any increase in Indian and Chinese internal consumption will still not help or counteract the US decline in purchasing.

Asia cannot simply export its way out of trouble and in a global sense the US is not helping anyone by saving more.

Pretty ironic when you think that if the US had saved more in the past they might not be in the trouble they are now in.

DUTY RATES

Further to the ultimate implementation of the Free Trade Agreement (FTA) between China and New Zealand, local NZ Duty rates continue to be reduced.

Most important to many of our TCF clients is that Apparel & Footwear will attract a 10% Import Duty Rate as of 1 July this year. In general most other rates will start dropping from 1 July this year as well, while some specific commodities started on reduced rates on January 1, 2009. Other than Apparel and Footwear, most Duty Rates are now either 7% or 5%, and most will drop in 1% increments each.

As always, please let me or any of our staff know if you'd like any further information.

With regards,

Bruce