



IHS Markit®

Trade, Tariffs and Commodity Prices

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Enabling smarter purchasing decisions and supply chain cost savings



The IHS Markit Pricing & Purchasing Service enables supply chain cost savings by providing timely, accurate cost and price analysis.

Armed with a better understanding of suppliers' cost structures and market dynamics, organizations can effectively negotiate prices, strategically time buys, and boost the bottom line.

Comprehensive Data and Analysis to Cover All Your Spend Categories

Wages and benefits

Industrial machinery and equipment

Building materials

Electricity and gas

Transportation and logistics

Electronic components

Nonferrous metals

Ferrous metals

Petroleum products

Paper and packaging

Steel

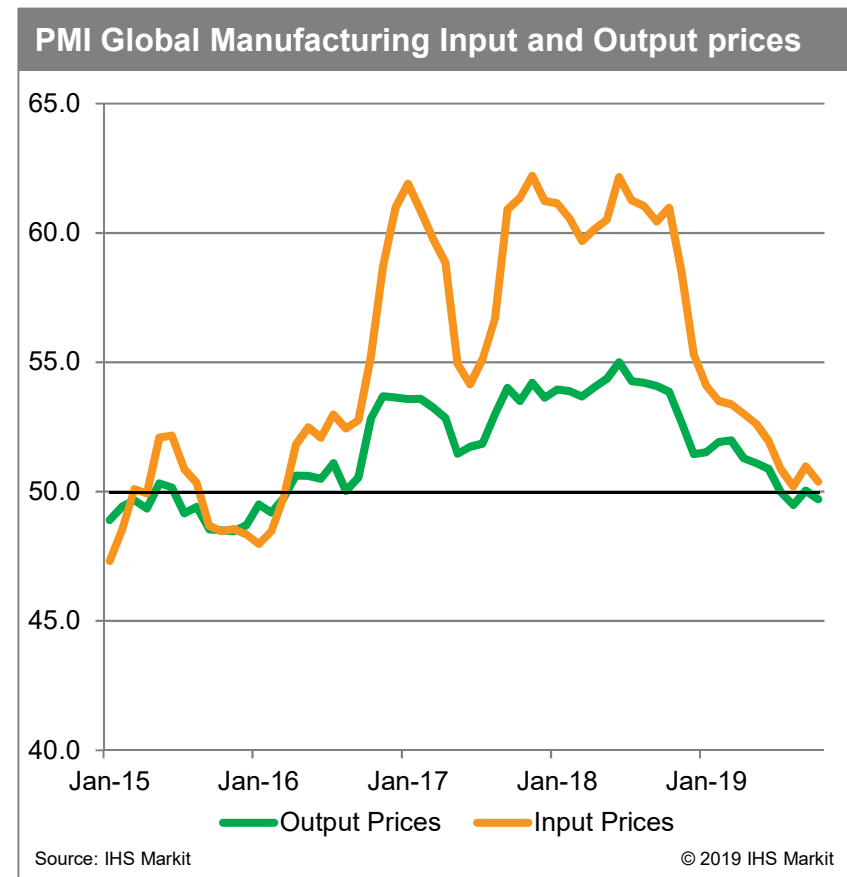
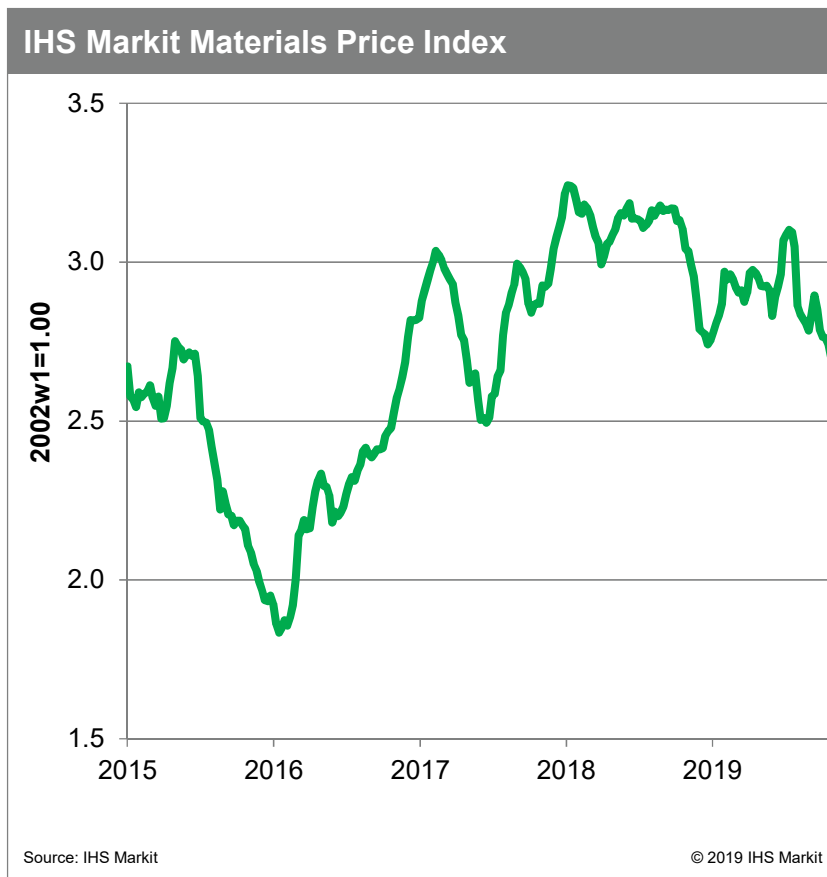
Chemicals and plastics

Services

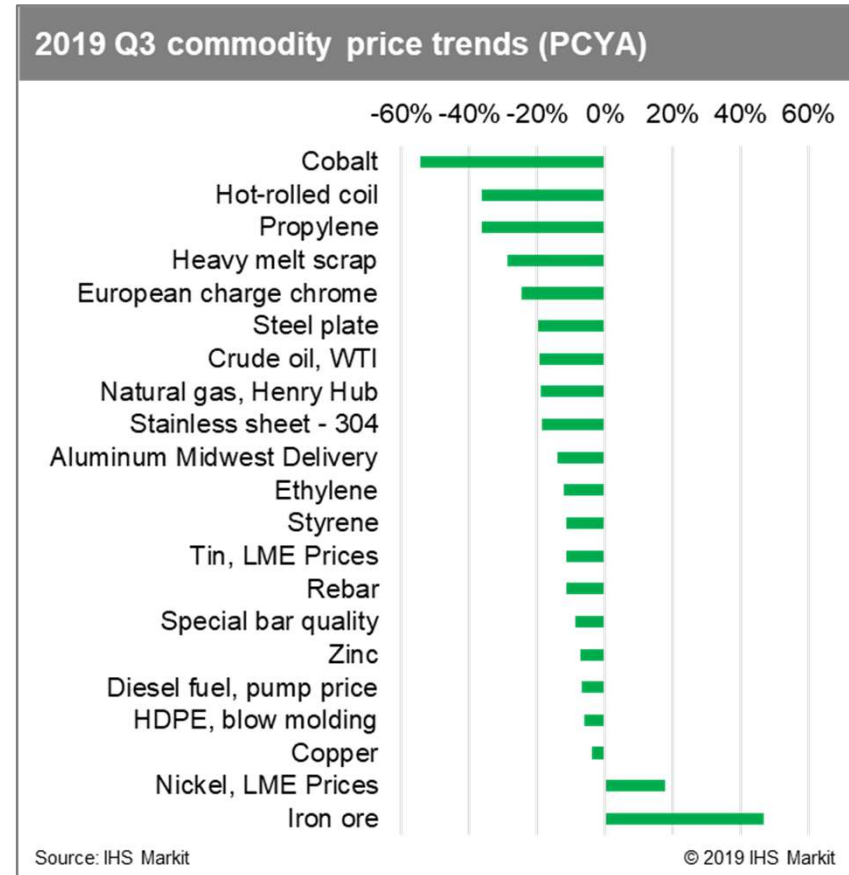
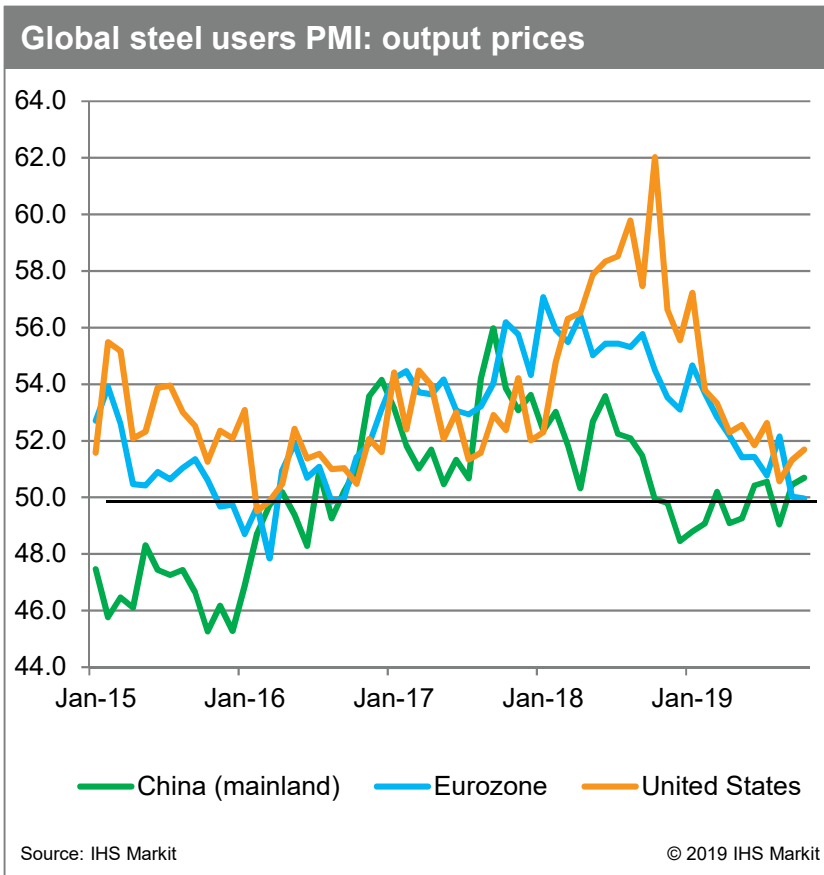
Indirect Costs

Clients realize savings of up to 10% of overall spend

Commodity prices have declined throughout 2019, driving down global manufacturing costs



The decline in commodity prices has been broad-based



Industrial commodities are being affected by the structural slow down in global growth

GDP (in local currency, percent change)	2017	2018	2019	2020	2021
World	3.4	3.2	2.6	2.5	2.7
United States	2.4	2.9	2.3	2.0	2.0
Canada	3.0	1.9	1.4	1.3	1.6
Eurozone	2.7	1.9	1.1	0.8	1.0
United Kingdom	1.8	1.4	1.2	0.5	0.8
China	6.7	6.6	6.2	5.7	5.6
Japan	1.9	0.8	0.9	0.3	0.6
India*	7.1	6.8	5.8	6.2	6.5
Brazil	1.1	1.1	0.9	1.4	1.5
Russia	1.7	2.2	1.1	1.5	2.0

* Fiscal years starting 1 April

Source: IHS Markit

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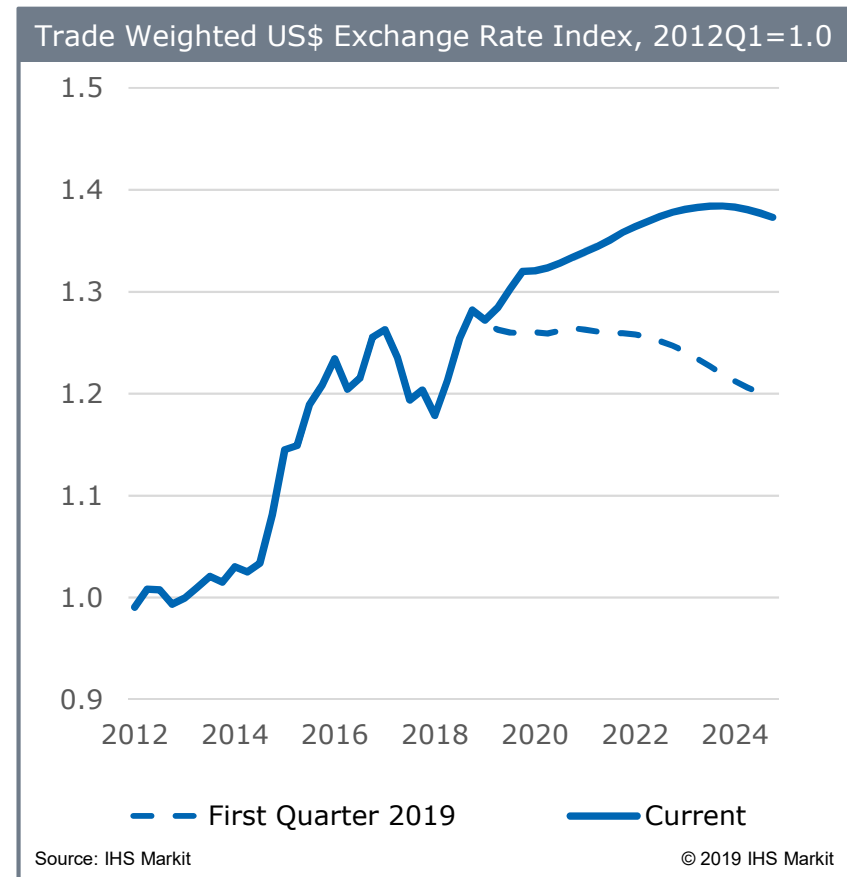
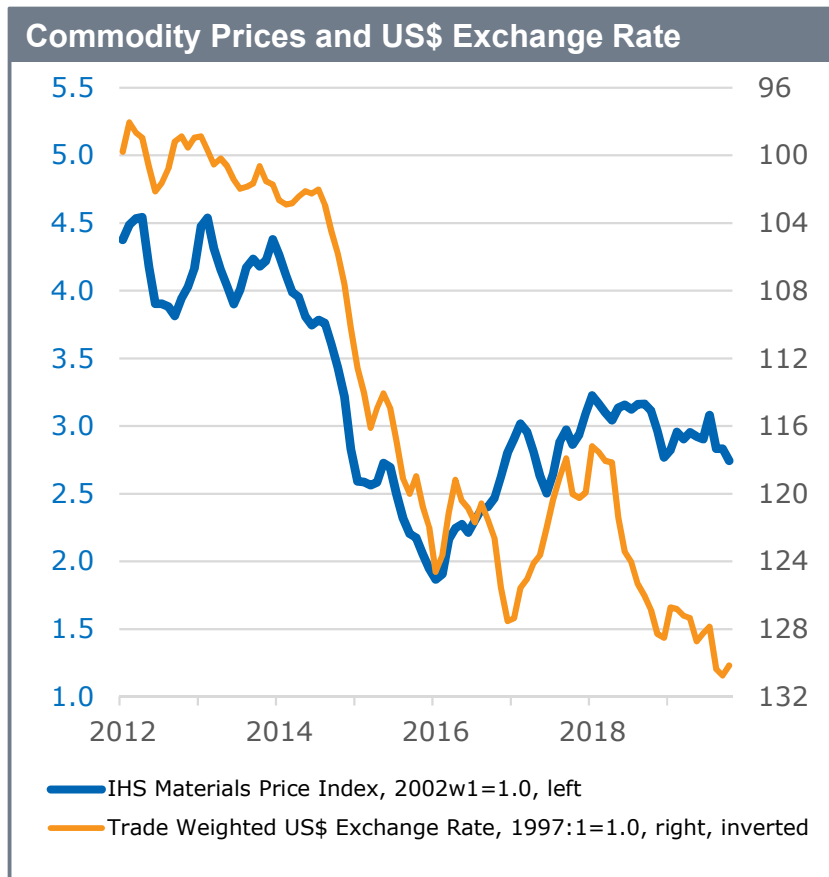
Cyclical factors, such as the slowdown in manufacturing activity, will shift from a headwind to a tailwind in 2020

Industrial production (percent change)	2017	2018	2019	2020	2021
World	3.4	3.1	1.1	1.9	2.3
United States	2.3	4.0	1.0	1.2	1.3
Canada	4.9	3.3	0.2	1.6	1.9
Eurozone	3.0	0.9	-0.8	0.3	1.0
United Kingdom	1.8	0.8	-0.3	0.0	1.2
China	6.5	6.3	5.7	5.1	5.0
Japan	2.9	1.0	-1.7	-0.1	0.9
India*	3.5	5.2	3.0	4.1	4.8
Brazil	2.8	0.8	-1.1	1.3	1.4
Russia	-0.4	2.8	2.4	2.0	2.1

* Fiscal years starting 1 April
Source: IHS Markit

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A strong dollar has also weighed on commodity prices and will remain a headwind over the next year



Uncertainty surrounding ongoing trade negotiations is also unlikely to go away

- **Minimal change to actions already in place**

- > Expect status quo in your 2020 business planning
 - Section 232 metals
 - Section 301, list 1-4A
 - Section 301, list 4B is pending but scheduled
 - NAFTA

- **Pending actions could have large consequences**

- > Section 232 motor vehicles
- > USMCA
- > Brexit
- > South Korea – Japan, USA –Japan, USA – India, Africa, TPP

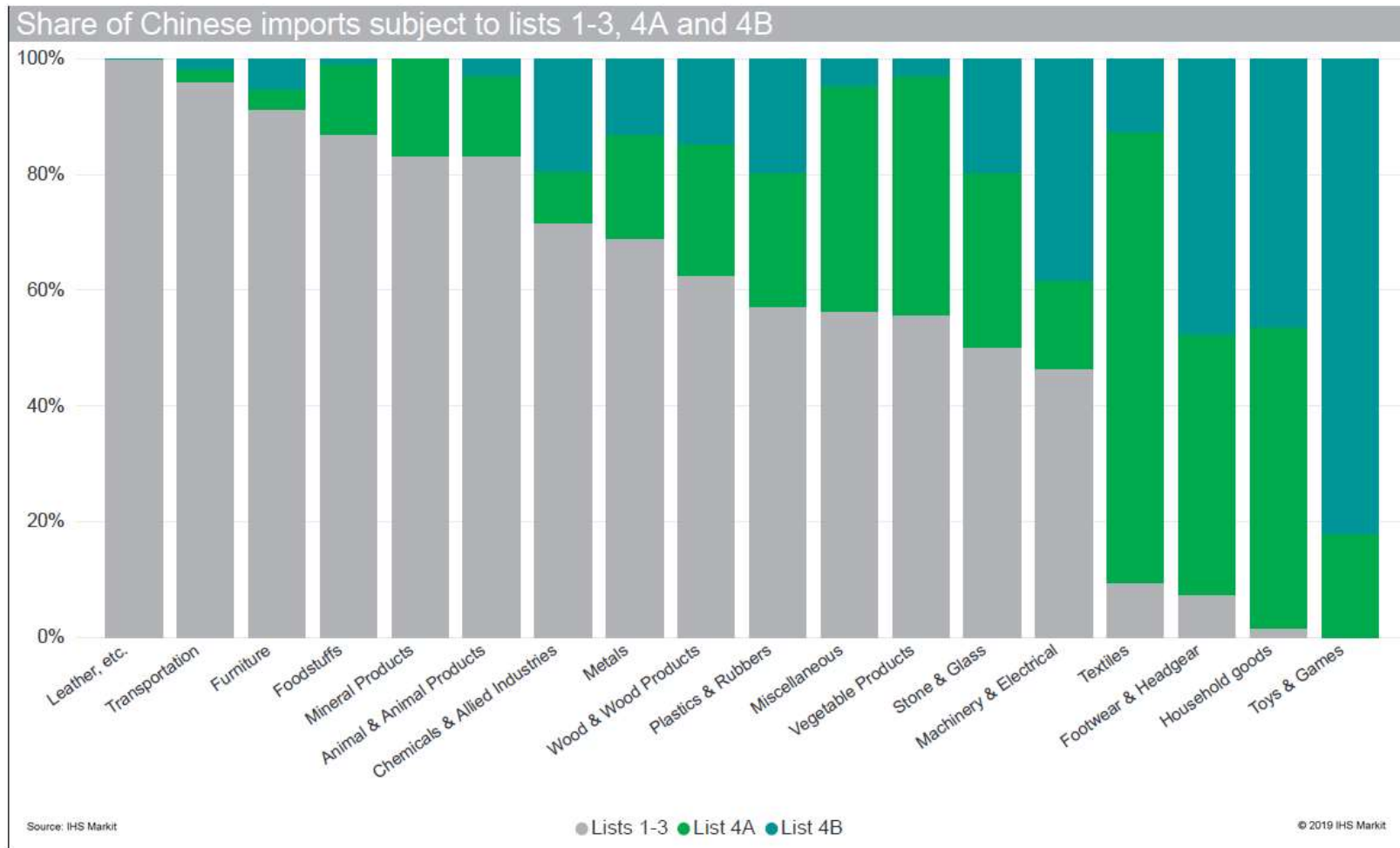
The importance of US imports from China:

The US bought \$540 billion worth of products from China, in 2018, supplying 7% of demand. Year to date through July 2019 imports are down 12%.

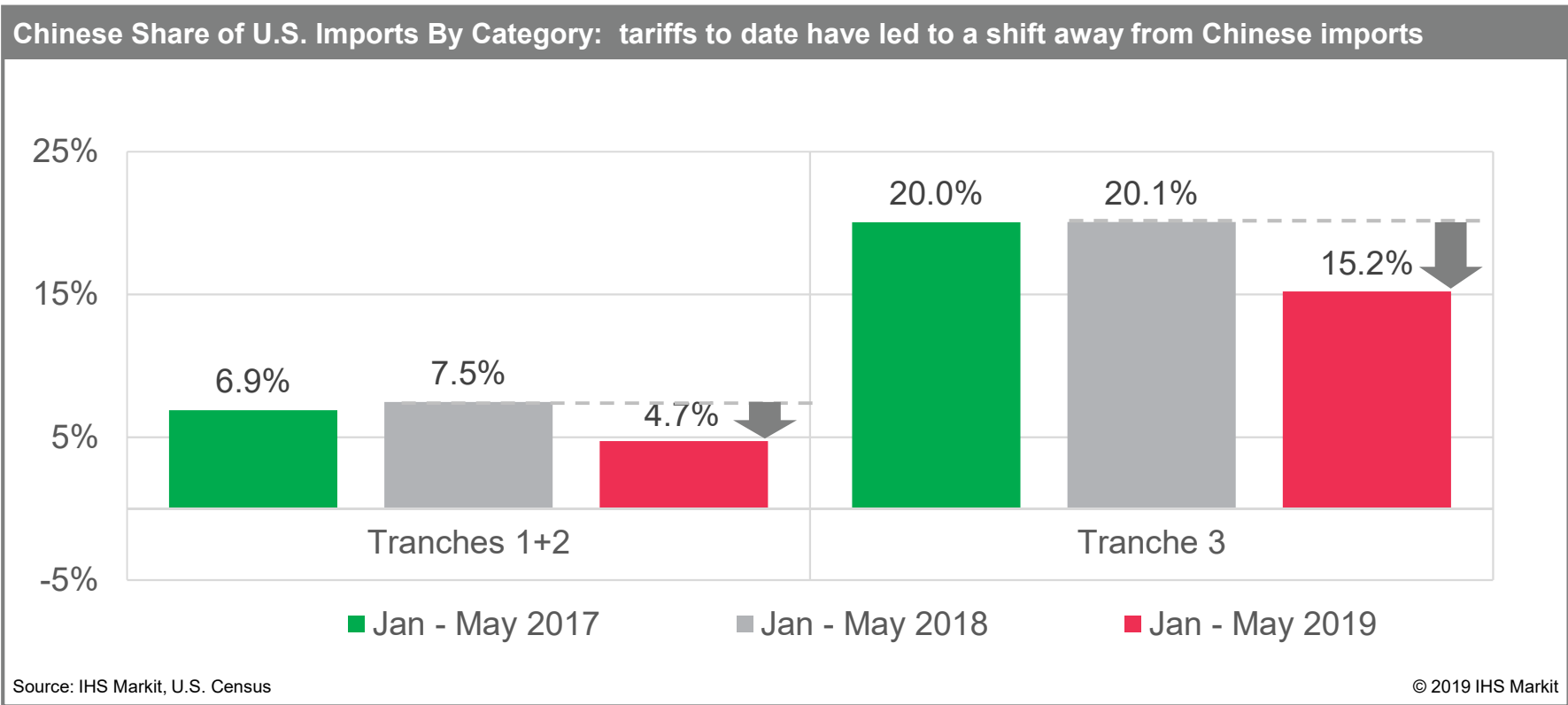
	Billion US\$ 2018 imports	Import % of US Demand	% Import Increase July 2018 – July 2019 YTD
Computers & Electronics	186.2	32%	-20.5%
Textiles, Apparel & Products	65.1	30%	-2.0%
Electrical Equipment	50.1	26%	-9.1%
Chemicals & Plastics	41.6	3%	-11.0%
Machinery	38.8	9%	-12.6%
Fabricated Metals	26.4	6%	-6.0%
Furniture	25.8	22%	-17.4%
Transportation Equipment	22.1	2%	-11.1%
Nonmetallic Mineral Products	9.2	6%	-16.3%
Wood and Paper Products	7.8	2%	-20.4%
Food, Beverages & Tobacco	4.3	0%	-29.7%
Primary Metals	4.0	1%	-24.1%
Agricultural, Forestry & Marine Products	3.2	0%	-19.7%
Other	55.2	6%	4.6%
Total	539.7	6%	-12.3%

Source: US Census

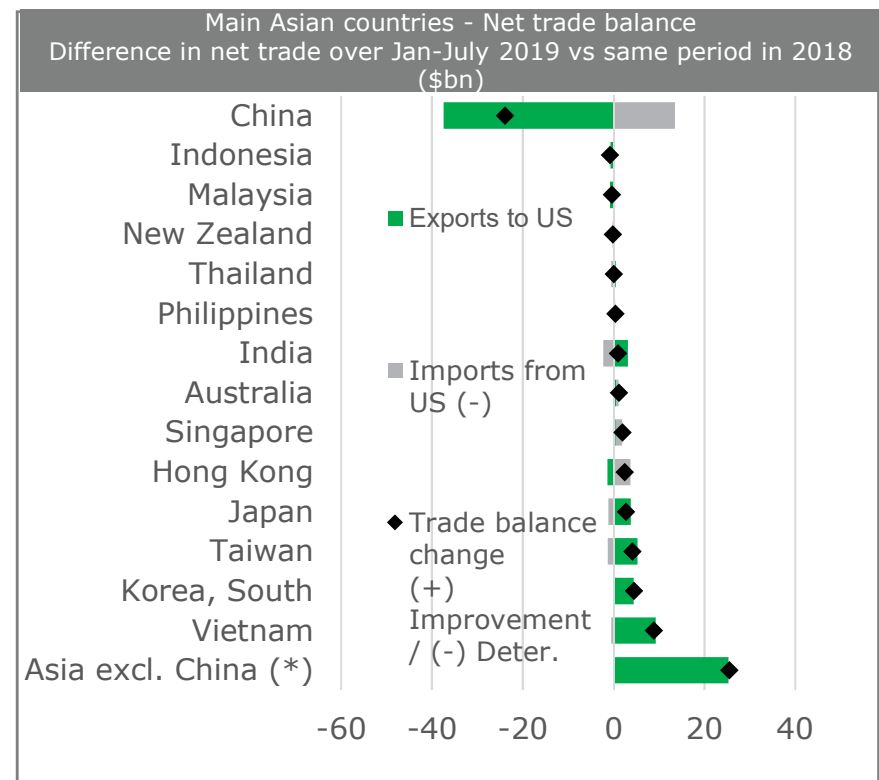
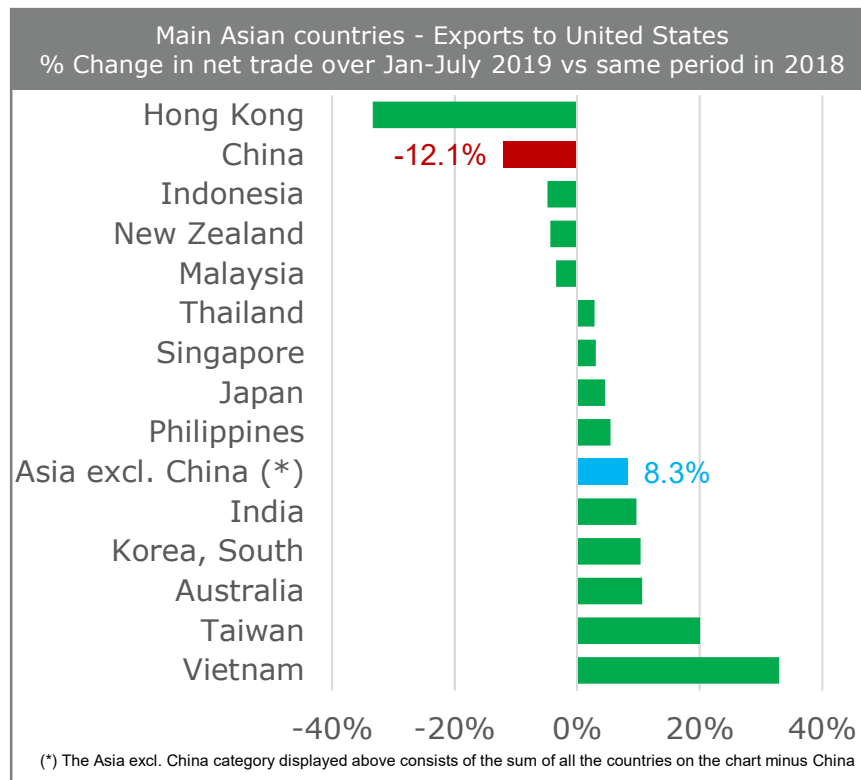
Section 301: Breakdown by list and sector



How much trade diversion has occurred since the start of the trade war?



Several countries in APAC have improved their trade balance with the US



US fabricated metal imports by major country

While China is declining this year other countries are easily filling in

Top 10 US Import Originators of Fabricated Metals

	Country	2018 Million US\$	Mkt Share of Total	% Change YTD July 2019
1	China	26,387	34%	-6%
2	Mexico	9,426	12%	7%
3	Canada	6,202	8%	2%
4	Taiwan	5,216	7%	6%
5	Germany	5,206	7%	2%
6	Japan	4,710	6%	1%
7	Italy	2,673	3%	7%
8	South Korea	2,516	3%	12%
9	India	2,057	3%	16%
10	Other	13,529	17%	8%
	Total	77,921	100%	2%

Source: US Census

US machinery imports by major country

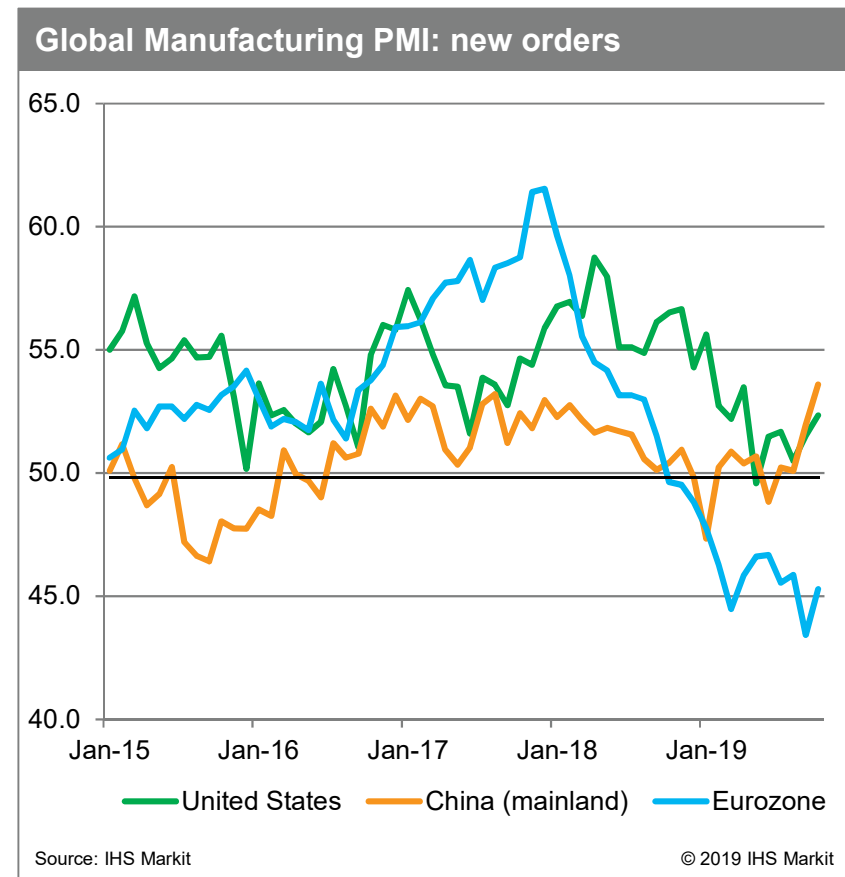
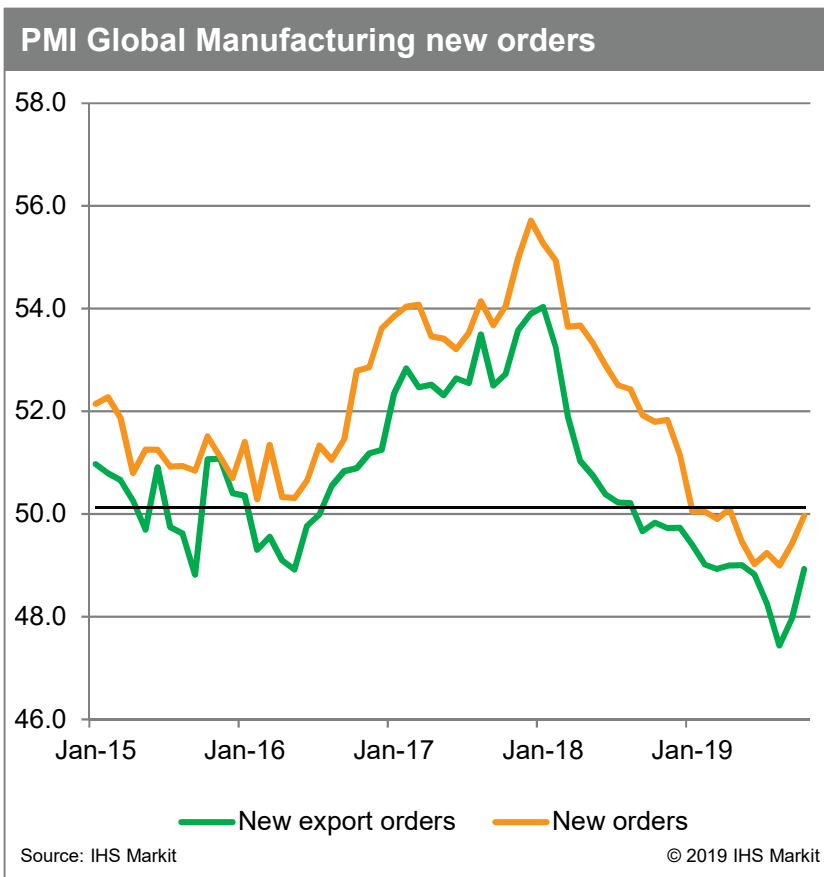
Imports up 3% in 2019 despite double digits declines from China

Top 10 US Import Originators of Machinery

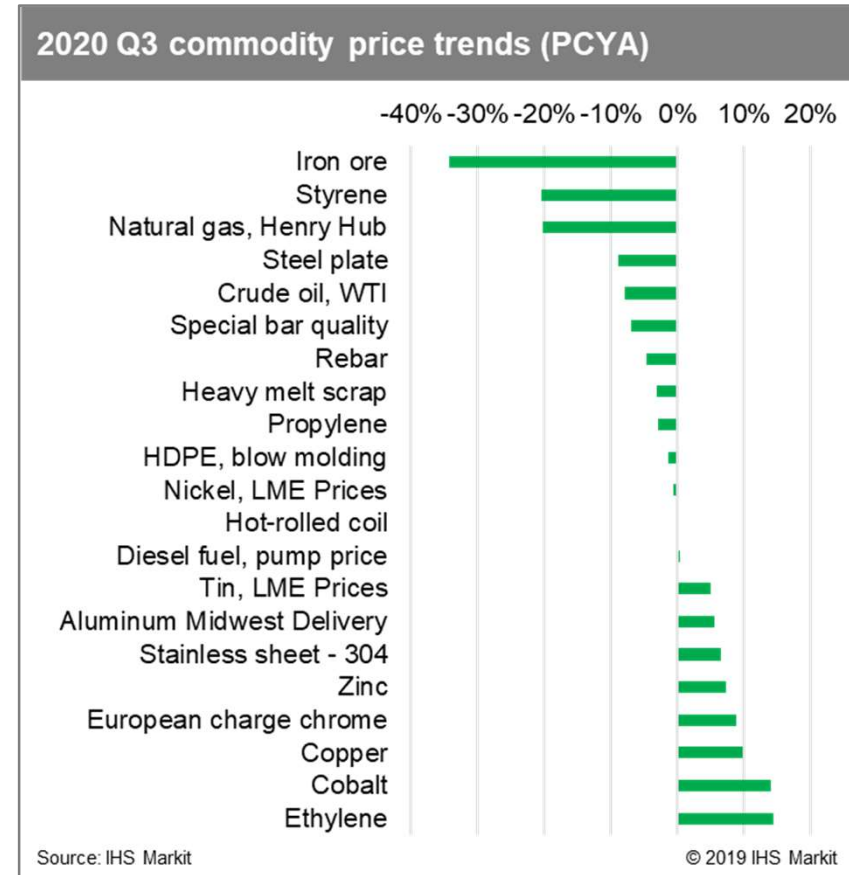
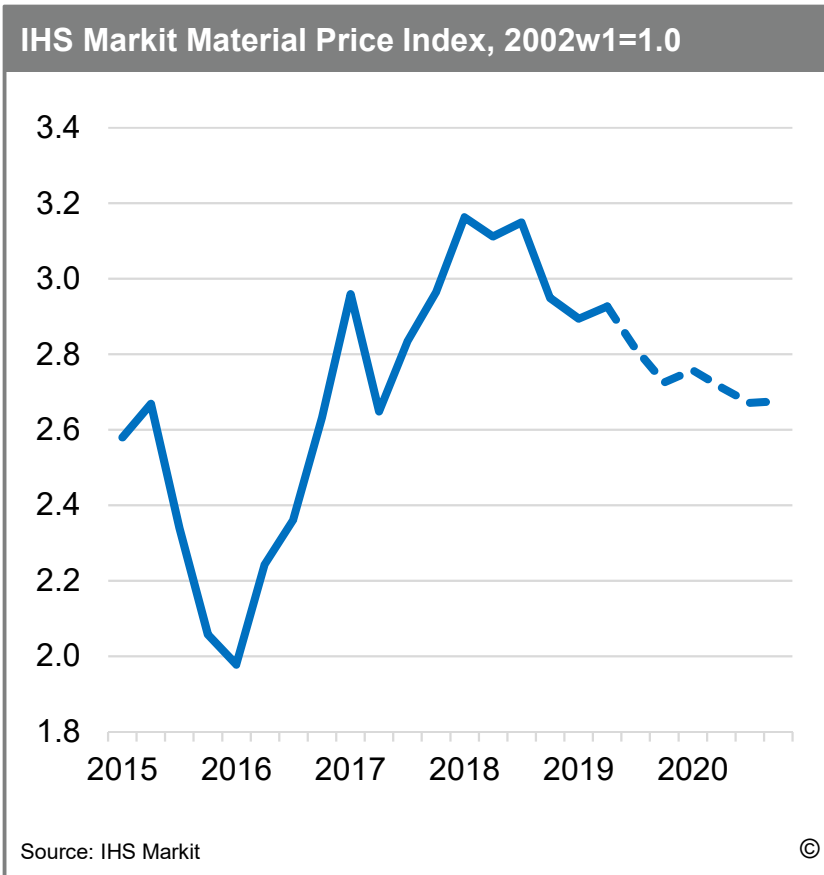
		2018	Mkt Share	% Change
	Country	Million US\$	of Total	YTD July 2019
1	China	38,781	21%	-13%
2	Japan	24,991	13%	14%
3	Germany	22,849	12%	0%
4	Mexico	20,217	11%	9%
5	Canada	16,234	9%	5%
6	Italy	9,075	5%	7%
7	South Korea	7,252	4%	1%
8	United Kingdom	6,326	3%	11%
9	Taiwan	4,221	2%	11%
10	Other	38,574	20%	8%
	Total	188,521	100%	3%

Source: US Census

Rising trade barriers and tariffs have weighed on demand in 2019, but markets appear to be near a turning point



Lower oil, gas and iron ore prices will continue to weigh on manufacturing costs next year



But prices for some key commodities will begin to rise as market fundamentals assert themselves

Summary and Takeaways

- Softening global demand growth is restraining commodity prices.
- Decelerations in international trade and manufacturing have led the slowdown and are amplified by an inventory correction in industrial economies.
- With core inflation calm and downside risks prevailing, near-term monetary policies will be accommodative.
- The US dollar will appreciate moderately in the near term, based on favorable rates of return and risk aversion.
- Downside risks include an escalation in the US-China war, new trade conflicts, hostilities in the Middle East, a hard Brexit, and rising debt levels.
- Vulnerability to shocks rises as economic growth diminishes.

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