Global supply chain crisis flares up again where it all began

CHINA'S stringent rules to curb coronavirus disease 2019 (COVID-19) are about to unleash another wave of summer chaos on supply chains between Asia, the US and Europe.

Beijing's zero-tolerance approach amid an escalating virus outbreak brings the pandemic full circle, more than two years after its emergence in Wuhan upended the global economy. Shipping congestion at Chinese ports, combined with Russia's war in Ukraine, risks a one-two punch that threatens to derail the recovery, already buffeted by inflation pressures and headwinds to growth.

Even if the virus is reined in, the disruptions will ripple globally — and extend through the year — as bunched-up cargo vessels start sailing again.

China accounts for about 12% of global trade and COVID-19 restrictions have idled factories and warehouses, slowed truck deliveries and exacerbated container logjams. US and European ports are already swamped, leaving them vulnerable to additional shocks.

In the short run, the pileups will mean more costly headaches in the $22-trillion arena for global merchandise trade, which slumped in 2020 and rebounded last year. Longer term, such chaos is redrawing the contours of a global economy tied together by cross-border commerce. For some corporate executives, reeling in far-flung production networks is no longer a patriotic political slogan — it's a business necessity given all the uncertainty.

Relocating supply chains "might cost more, but if you can make smaller quantities that you can then sell at closer to full price, you can actually completely change the game," said Brian Ehrig, a partner at the consulting firm Kearney and co-author of a report this month that found 78% of CEOs are either considering reshoring or have done it already. Added Shay Luo, a Kearney principal who helped write the report: "My bet is that globalization will never die, however, it will evolve to a different form."

Companies have weathered the roughest bouts of supply turmoil over the past year partly by raising prices — and consumers have largely absorbed the hit. In the near term, though, supplies from China pose a more menacing cloud than the questions about household demand.

It still takes an average of 111 days for goods to reach a warehouse in the US from the moment they're ready to leave an Asian factory, close to the record of 113 set in January and more than double the trip in 2019, according to San Francisco-based Flexport, Inc., a freight forwarder. The westbound journey to Europe takes even longer — a near-record 118 days.

Longer queues of vessels seen off China's coast aren't helping. The line of cargo carriers has jumped after Shanghai, home to the world's largest container port, initiated a city-wide lockdown late last month to combat COVID-19 cases. The total number of container ships in port and off the hub's shared anchorage with nearby Ningbo stood at 230 as of last Wednesday, a 35% increase from this time last year, according to Bloomberg shipping data.

Imported containers are waiting on average for 12.1 days at Shanghai's port before they are picked up by truck and delivered to destinations inland, according to supply-chain data provider project44. The rate for April 18 was almost triple the 4.6 days on March 28. Trucking shortages have crippled efforts to supply key inputs to factories and transport goods such as autos and electronics to the ships.

The total container-ship count for America's dual hub of Los Angeles and Long Beach reached at least 57 vessels last Wednesday, the highest since late February. — ***Bloomberg***

Big grocery shock looms as food giants face cooking oil shortage

INDONESIA'S shock move to ban exports of cooking oil will reverberate across the world, threatening to push up costs for the likes of Nestlé SA and Unilever Plc and heightening concerns about food inflation.

The world's biggest shipper, Indonesia, will halt some cooking oil exports from April 28 after a domestic shortage led to street protests over high food costs. This will squeeze already tight supplies of vegetable oils and add to the impact of Russia's invasion of Ukraine that's thrown sunflower oil trade into chaos.

While details have emerged that Indonesia's ban will exclude some products, it still risks stoking food inflation further. World food costs are at an all-time high and surging at the fastest pace ever. The ubiquitous use of edible oils in everything from candy to frying and fuel means that it could well be a thorn in the side of global food inflation for a long time to come.

GLOBAL FOOD SUPPLY

The move by Indonesia, which accounts for a third of global edible oil exports, will add to turmoil facing emerging markets from Sri Lanka to Egypt and Tunisia. Even developed countries could see sharp rises in supermarket prices.

Palm oil is one of the most versatile staples, used in thousands of products from food to personal care items to biofuels. Prices of cooking oils have been on a tear due to drought and labor shortages. Then the war in Ukraine roiled trade of about 80% of global sunflower oil exports, boosting demand for alternatives like palm and soybean oil and sending prices to record highs.

Indonesia's ban applies to exports of RBD palm olein, a higher value product that has been processed. Exports of crude palm oil will still be allowed, the agriculture ministry said in a circular. RBD olein accounts for 30% to 40% of Indonesia's total palm oil exports.

The move could increase costs for packaged food producers including Nestlé, Mondelez International and Unilever. Unilever, the maker of Ben & Jerry's ice cream, Hellmann's mayonnaise and Dove soap, said it's well placed to look for alternative materials and currently has enough supplies. Nestlé declined to comment, while Mondelez couldn't immediately comment. The ban may force governments to choose between using cooking oils for food or biofuels.

India, the world's biggest importer of palm, soybean and sunflower oils, faces a further spike in inflation. Domestic prices of the edible oils in New Delhi surged between 12% and 17% since the war in Ukraine erupted late February. The government has abolished import levies and is trying to clamp down on hoarding of cooking oil, but prices are showing little signs of cooling.

Indonesia's move will hit costs and margins of several consumer companies, financial services firm Prabhudas Lilladher said. Hindustan Unilever, Nestlé India and ITC Ltd. will be among those directly affected, and the impact will be felt most keenly in biscuits, noodles, cakes, potato chips and frozen desserts.

"If this ban is seriously implemented, it can be highly inflationary," said Atul Chaturvedi, president of the Solvent Extractors' Association of India. Demand will probably shift, but the availability of other edible oils is also limited.

Indians prefer palm over other oils because it's cheaper and can be blended easily with other fats. It also lasts longer than other alternatives, making it cost-efficient for bulk users such as restaurants and hotels. Cooking oils play a starring role in feasts served during the country's massive festivals.

China is another big importer of Indonesian cooking oil. It bought 4.7 million tons of palm oil from the Southeast Asian nation last year, accounting for more than 70% of total imports. China's purchases have slumped this year on higher prices and as strict COVID lockdowns hurt demand.

The export ban by Indonesia adds to headwinds for the Chinese government looking to keep inflation under control. While consumer inflation has remained relatively subdued, risks are growing because of soaring commodities prices and COVID-related disruptions to supply chains.

The export ban is a double-edged sword for Malaysia, the world's second-biggest palm oil producer after Indonesia. Malaysian plantation players stand to gain from a surge in sales and windfall profits from the spike in prices. The country's export revenues will likely climb.

Companies including Boustead Plantations Bhd., Kuala Lumpur Kepong Bhd., IOI Corporation Bhd. and Sime Darby Plantation Bhd. climbed on Monday, while their Indonesian peers sank. Palm oil futures jumped as much as 7% in early trade, and then retreated as details of the excluded products emerged.

The higher costs of oilseeds will have a rippling effect across the Malaysian economy with its food inflation already at five-year highs. The government will have to fork out more subsidies to absorb higher costs of palm oil products. The ban would also curtail Malaysia's palm oil imports, which are largely from neighboring Indonesia, and tighten local supplies especially for refiners.

Malaysia may also struggle to fill the gap in global demand left by Indonesia as farmers grapple with chronic labor shortages that may only begin to ease from next month. Malaysia makes up about a third of the world's palm oil supply, compared to Indonesia's lion share of about 60%.

It could also ease inflation expectations, Citigroup said, before indications that the ban would not be as strict as feared. If cooking oil prices revert to early 2021 levels and stabilize from there, it could reduce the bank's inflation forecast this year by up to 0.5 percentage point.

This gain could, however, be offset by "adverse second-round impacts" like surging prices of soybean, a substitute of palm. Indonesia imports the oilseed for things like tofu and tempeh. Soybean products have a similar weight as palm oil in the consumer price basket, the bank notes. — ***Bloomberg***

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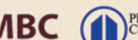
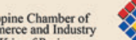

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