

Morning Market Tidbits

Friendshoring, or rerouting, that is the question

In focus

Trade tensions between the US and China mean that global supply chains are continuing to shift from focusing on efficiency to managing geopolitical risk. Friend/nearshoring is now the topic on everyone's lips, along with the risk of rerouting Chinese exports.

While a true relocation of production resulting from friend/nearshoring should lead to increased foreign direct investment, productivity, GDP growth, and real exchange rate appreciation, rerouting would likely have a much smaller impact on such variables. We believe investors should be cautious, as rerouting could risk triggering retaliatory tariffs by the US, leading to a weaker, or at least more volatile, exchange rate.

Are China's exports being rerouted?

Most of the winners in market share in US imports have also seen an increase in their share in China's exports. One hypothesis could be that Chinese exports are simply being rerouted to the US through other countries to bypass trade restrictions.

Mexico: the nearshoring darling

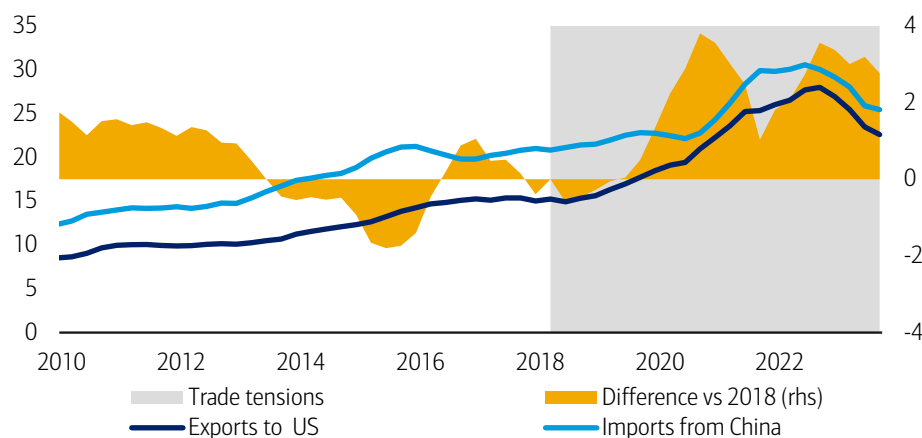
We reject the premise that the increase in Mexico's exports to the US is due to rerouting. In fact, exports to the US have increased by 5% of GDP, outgrowing imports from China by 3% of GDP. Nearshoring seems to explain most of Mexico's gain.

Vietnam: the strongest case for rerouting

Vietnam's exports to US have grown by 13% of GDP since 2018. While this seems much larger than Mexico's gain, exports to US have outgrown imports from China by the same 3% of GDP (Exhibit 1). This might indicate rerouting of Chinese products to the US.

Exhibit 1: Vietnam exports to the US and imports from China (% of GDP)

Most of Vietnam's gains in exports to the US are compensated by higher imports from China



Source: BofA Global Research, Haver

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See our full report: [Friendshoring, or rerouting, that is the question](#)

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12657214

Timestamp: 08 February 2024 08:31AM EST

08 February 2024

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CPI: Consumer Price Index

GDP: Gross Domestic Product

Market Action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Hang Seng and the Indian Sensex fell 1.3% and 1.0% respectively. On the flipside, the Korean Kospi, the Shanghai Composite and the Nikkei were up 0.4%, 1.3% and 2.1% respectively.

As of 7:00 am ET, aggregate European stocks are up 0.1% and S&P500 futures are down 0.2%. In the bond markets, 10-year Treasury yields are up 1bp to 4.13% and German Bund yields are up 2bp to 2.33%. The dollar index is up \$0.18 to \$104.24. WTI crude oil prices are \$0.76 higher at \$74.62/bbl, and gold prices are at \$2029.13/oz.

Data review

Trade Balance

December trade deficit widened to \$62.2b from \$61.9b in prior month. This was slightly higher than consensus expectations of \$62.0b and in line with the widening in the advance goods deficit. Imports rose 1.3% in December to \$320.45b from \$316.21b previously and exports rose 1.5% to \$258.25b from \$254.33b. Within exports, the biggest increase came from industrial supplies and food and beverages. And, within imports, it was from consumer goods. The services surplus also increased to \$26.5bn from \$26.9bn. Trade deficit excluding petroleum at \$65.13b in Dec.

Data preview

February 8th

Initial Jobless Claims

Date	Time	Indicator	Period	BofA	Consensus	Previous
				Estimate		
2/08/24	8:30	Initial Jobless Claims	Feb 03	220k	—	224k
2/08/24	10:00	Wholesale Inventories	Dec F	—	—	0.4%

Source: Bloomberg, BofA Global Research

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US GDP Tracking

Exhibit 1: BofA US GDP tracking estimate (% q/q saar)

4Q US GDP tracking remains at 3.5% q/q saar since the December trade deficit widened pretty much in line with our expectations

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
1/25/24	4Q (A) GDP	3.3	2.7	2.8	1.1	3.2	1.0	2.1	3.3	6.3	1.9	-908.2	82.7
2/1/24	Construction Spending	3.5	3.0	2.8	1.5	5.8	1.0	2.1	4.1	6.3	1.9	-908.2	82.7
2/2/24	Payrolls	3.5	3.0	2.8	1.9	5.8	1.0	2.1	4.1	6.3	1.9	-908.2	82.7
2/2/24	Factory Orders	3.5	3.0	2.8	1.9	5.8	0.9	2.1	4.1	6.3	1.9	-908.2	80.7
2/7/23	Trade Balance	3.5	3.0	2.8	1.9	5.8	0.9	2.1	4.1	6.7	2.4	-910.0	80.7
	GDP tracking	3.5	3.0	2.8	1.9	5.8	0.9	2.1	4.1	6.7	2.4	-910.0	80.7
	Contribution to GDP growth (pp)			1.9	0.1	0.2	0.0	0.1	0.7			0.4	0.1
	BofA official GDP forecast	1.5	2.5	2.0	1.0	3.5	2.5	2.5	2.0	2.5	2.0	-929.0	29.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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Overseas data

China

CPI inflation softened again in January, to -0.8% yoy (from -0.3% in December), trailing market consensus (-0.5%). The main drag to headline CPI was food prices, partly due to the Lunar New Year calendar shift effect. Core CPI inflation also edged down to 0.4% yoy from 0.6% previously. Our Asia economists note that these subdued core inflation prints underscore the fragility of consumption and investment demand. Going forward, inflation may continue to stay weak, but a slow recovery is possible with more favorable base effects in the coming month.

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