



Regular columnist David Peters gives his thoughts on March's APLF exhibition in Hong Kong and reserves special praise for tanners in Brazil.

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The Summer of Love

The image of lovers running on a beach in slow motion and then engaging in a warm embrace was replicated at the 2017 APLF exhibition in Hong Kong as principals and agents, tanners and suppliers hugged each other along the harbour shores adjoining the convention centre. Not since the sounds of Maurice Ravel's Bolero have we been so entertained. While the leather fair was definitely not a "10" it surely registered at least an "8" for most of the participants and, in the case of the US contingent, a "6" would have been a more correct evaluation.

It was a good show. While lacking the scale of previous years, the consolidated version provided the attendees with an enhanced ability to communicate and cover the ground in an efficient manner. Compared to Shanghai this forum was a pleasure as the organisers were able to meet the needs of the participants effectively and appropriately without compromising on security and quality. For at least the first couple of days, gone were the street peddlers, hustlers and urchins who often compete for attention.

We were impressed with the good vibrations emanating from the machinery stands as we witnessed numerous processors and tanners absorbed in serious discussions on innovative technology and the efficiencies of new equipment. We feel confident that these deliberations translated into actual transactions, all of which bodes well for the future of leather business.

Demand for good plump hides, with or without brands, offered in volume was lacking as various buyers have grown accustomed to cheaper alternatives, more suitable for the leather orders currently in vogue. We are not surprised; this is something that was widely predicted several months ago. The disparity in prices is far too great to offset the potential yield and grade advantages, especially when considering the selections that dominate winter hide production. Supply nation leaders will have to transition from reactive to proactive sellers. (Memo to corporate accounting: expect to see an increase in communication costs together with travel and entertainment this summer.)

Has the auto business changed gears? Decelerated? Slowed down? Or simply shifted to neutral? Yes to all of the

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above, but the impact on the hide market will be negligible as the leather option package still remains popular. In addition, SUV demand remains decent, and therefore the corresponding amount of leather used will allow tanners to cruise for the balance of the year.

As the summer takes hold with bikinis, BBQs and beaches the supplier nation industrialists are girding their loins with plans for a carnivorous feast, satisfying the multitudes of omnivores with ample meat supplies. The latest USDA report published in April would support this increase in production as estimated federally inspected weekly total cow slaughter for the first quarter was up about 5% compared to the same period in 2016. Beef cow slaughter is almost 10% higher year-on-year. Considering the steer and heifer numbers, this translates into nearly a million more hides in the first half of 2017 and for the full year an estimated two million or 2.5 million more hides. As one tanner in Hong Kong was reported to comment: "My cup runneth over."

A more interesting USDA statistic was that Mexican feeder cattle imports continued to show strength this February. US live cattle imports increased by 27% from the previous

month to 168,473 head, 11% up from the same period a year ago. More than 85% of the feeder cattle imported from Mexico were in the 400- to 700-pound weight range, while almost all of the feeder cattle imported from Canada were over 700 pounds. For most of 2016, there was not a large difference between the numbers of cattle imported from Mexico and Canada but since last November, live cattle imports from Mexico have been significantly higher than imports from Canada. January and February imports from Mexico were above the five-year average, while imports from Canada were below it. The strength of the US dollar relative to the Mexican peso and a rebuilding of the Mexican herd are likely contributing factors to this uptick in imports from Mexico. There are "M" brands a-plenty, no doubt encouraging segregation. The scuttlebutt during APLF suggested the branding programme is a success as several tanners and dealers were confirming that the "M" branded hides were highly visible on wet blue supplies and provided good economic value compared to other hides purchased.

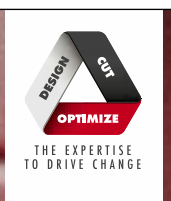
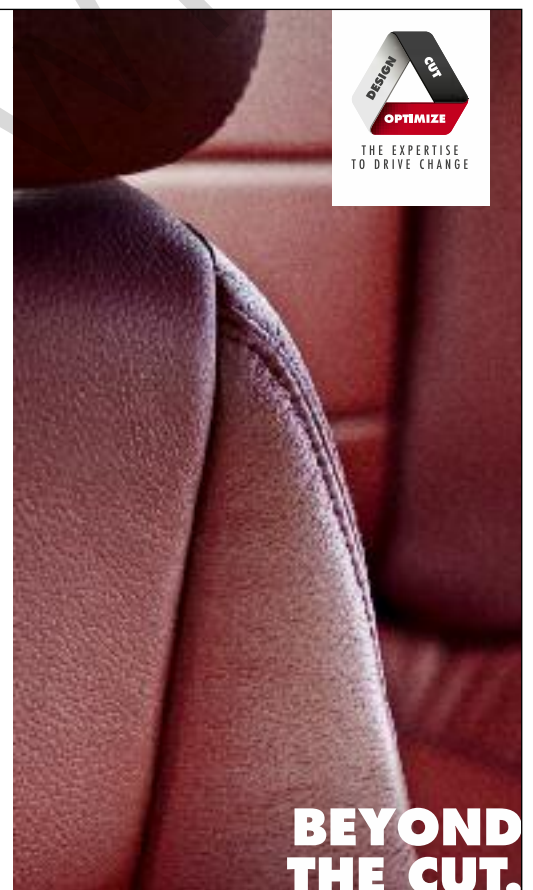
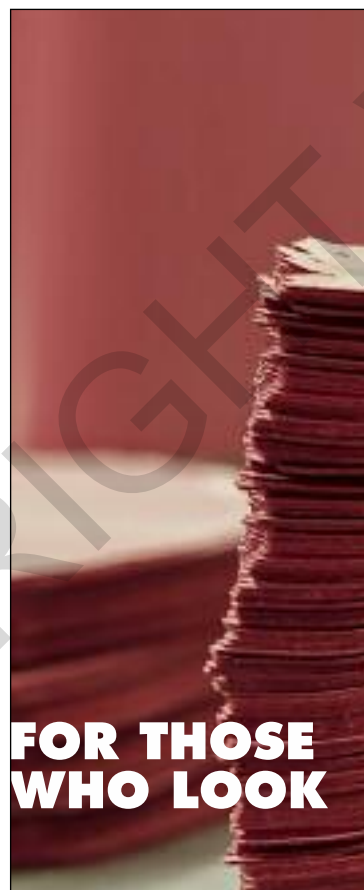
Operation 'Weak Flesh', not a reference to gender or loose grain but an initiative carried out by the Brazilian government to reveal bribery among several beef companies and government health inspectors, created headlines. Misrepresenting out-of-date beef and repackaging meat to disguise spoiled product were only part of the problem, as further research into cattle origins suggested that the Amazon region was being used for cattle procurement, which, as all traceability doyens will tell you with relish, is a big no-no for the transparency czars. The net result was a disruption in slaughter as several packing plants were closed down.

Brazil today is the single largest source of crust leather for the auto-leather industry; we estimate that more than 25% of leather used in vehicles originates in Brazil. It's a wonderful story and a remarkable job in product development that should set a benchmark in how to position a certain selection of raw material as a core substrate in a growing leather segment.

Kudos to the Brazilian tanners who had the foresight and commitment to grow their business in this manner. However, where there is smoke there is a BBQ and in Brazil the meat business is definitely on the hot coals. Infractions and complaints circulate the industry from compliance on cattle traceability to meat inspection and the whole spectrum appears under scrutiny. So when production is suddenly affected, the auto seating world reconsiders its supply chains and moves into a defensive plan of action. Look for a shift in the global procurement strategies of

the major auto-tanners.

Meanwhile, just in time for summer, Big Deal Don and Small Change Mike in the US continue to make headlines with potential economic and supply chain influences. Mixed messages and apparent indecision will no doubt influence the value of the dollar. This could present tanners with improved buying opportunities because, with increased summer production, prices will be pressured and tip the scales towards a buyer's market. It looks like tanners are going to love the summer of 2017. 🌞



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