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中国经济评论: 贸易增速预计低位企稳

China Economics Update: Better than expected trade in July points to stabilization

7月贸易数据好于预期。非美国地区的贸易额回升，推动进出口增速双双反弹。科技行业贸易近期有所好转。受此支持，贸易增速有望在未来几个月低位企稳。

然而，我们预计整体贸易势头将维持低迷。近期中美的贸易紧张局势再度升级，伴随制造业信心走弱，是贸易下行压力的主要来源。

人民币兑美元汇率破7后，央行中间价定价偏向强端，表明中央并无打算推动人民币持续贬值。中国稳健的国际收支也将支撑人民币。我们继续认为近期人民币将在7附近波动。若贸易谈判情况好转，人民币将会小幅升值。

Jul's trade data came in better than expected. Both export and import growth rebounded, driven by a rebound in trade with non-US trade partners. Trade data should begin to stabilize in the coming months without further deterioration in IT trade.

However, we expect overall trade momentum to remain sluggish with low single-digit growth. Renewed tensions between the US and China and weakening manufacturing sector confidence remain the main sources of downward pressure.

The bias towards appreciation in USDCNY fixings over the past few days suggests China does not intend to persist in weakening the currency. Solid balance of payment flows underpin the renminbi. We maintain our view that the USDCNY will fluctuate around 7 in the near-term, and if trade negotiations show promise, could strengthen modestly.

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Trade indicators	**Jul-18**	**Apr-19**	**May-19**	**Jun-19**	**Jul-2019**			**3Q19F**		**2019F**	
					BBG	**CCBIS**	**Actual**	**BBG**	**CCBIS**	**BBG**	**CCBIS**
Trade balance (US$ b)	27.5	13.8	41.7	51	42.65	40.8	**45.06**	-	-	-	-
Exports YoY (%)	12.2	-2.7	1.1	-1.3	-1.0	-1.7	**3.3**	-0.9	-1	0.4	0
Imports YoY (%)	27.3	4.0	-8.5	-7.3	-9.0	-9.1	**-5.6**	-0.3	-4	-0.4	-2.4

Source: Bloomberg, CCBIS estimates

Trade growth shows better-than-expected improvement

Export growth recovered by 3.3% YoY in Jul (vs a 1.3% YoY decline in Jun), beating the market and our expectation of a decline (Bloomberg cons: -1.0%, CCBIS: -1.7%).

By destination, **exports to the EU and Asia improved,** a sign of trade diversion amid US tariffs**.** Meanwhile, exports to the US continued to decline (Jul: 6.5% YoY decline vs Jun: 7.8% YoY decline). Exports to Hong Kong (including some re-exports to the US) fell 15.7% YoY vs an 8.2% YoY decline the previous month).

By product, the recovery was seen in both labor- and capital-intensive goods. In particular, exports of semiconductors (e.g. Electronic IC) saw a strong 31.7% YoY increase. Exports of mobile phones and LCD panels continued to decline but at a slower pace.

There was a smaller contraction in imports (5.6% YoY decline) despite the high base last year. This came as a mild surprise to the market which had anticipated further weakening (Bloomberg cons: 9.0% decline, CCBIS: -9.1% decline). By category, the smaller decline in imports was a function of strengthening entrepôt imports (up 15.2% YoY in Jul vs a 2.9% YoY increase in Jun). General imports declined at a similar pace to last month despite the high base last year.

By product, **fuels and high-tech imports declined the most**. The contraction in fuel imports was largely the result of price declines on increasing volume growth. Meanwhile, both import volume and value of industrial metals rebounded notably. **Improving volume growth of commodities** suggests warming domestic demand (Fig 2).

FX reserves declined on negative valuation effect; capital outflows ease

FX reserves stood at US$3,103.7b, a decline of US$15.5b from Jun and largely in line with the market and our expectations. The decline was entirely driven by a negative valuation effect due to a sharp depreciation in the euro and the pound in Jul. Adjusting for this valuation effect, we found FX reserves rose US$11.7b after a US$2.6b increase in Jun. Combining the trade balance and FX reserves data, we estimate that non-FDI capital outflows eased to US$41.0b from US$64.5b the previous month. China's fundamentals, such as the widened onshore-offshore interest rate differential, continue to support capital inflows and bond inflows as we discussed in recent renminbi piece.[1]

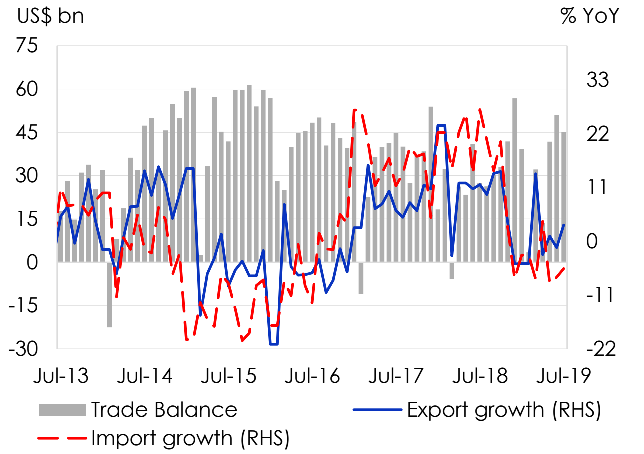
Our view

Signs of stabilizing trade growth but the escalation of the trade war remains the key concern. Stabilization evident in today's trade data along with early signs of a bottoming-out in manufacturing orders suggest we are not likely to see a steep fall in trade. However, renewed trade tensions on multiple fronts (the US, China, Japan and Korea) will continue to depress business confidence in the manufacturing sector, jeopardizing the recovery in manufacturing sector momentum. Hence, we expect export growth to remain soft at around zero throughout the year, while import growth remains slightly negative.

Renminbi to trade range bound until progress made. After the US labelled China a currency manipulator, SAFE responded on Wed by stating the US action was a complete departure from reality. SAFE also underscored a continuation of the current exchange rate policy and vowed to continue opening up the bond market. In the past four days, USDCNY fixings exhibited an appreciation bias, suggesting China does not intend to persist in weakening the currency.[2] The mounting bilateral trade surplus with the US in Jun and Jul from the first five months of the year could be used as justification by the US for a more determined push for a stronger renminbi. Until the trade negotiations begin to show promise, we expect the USDCNY to fluctuate around 7 before appreciating again.

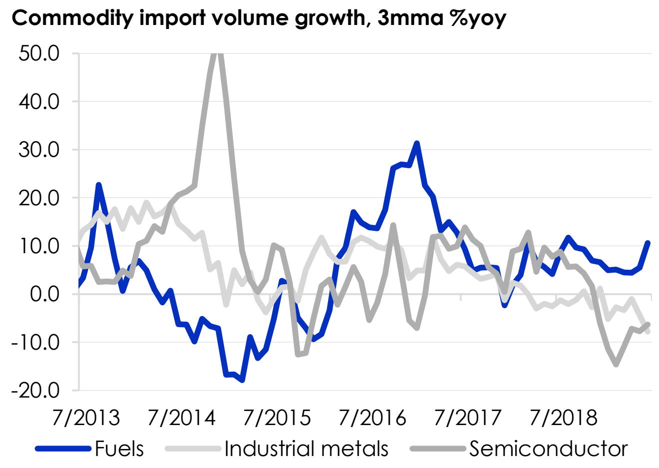
[1] *CCBIS–China Economics Update: USDCNY exchange rate breaking past 7; now what?* (5 Aug 2019)
[2] *CCBIS–China Economics Update: Beyond the symbolic label* (6 Aug 2019)

Fig 1. Export and import growth both improved from Jun, beating market expectations



Source: CEIC, CCBIS

Fig 2. Commodities import improved, amid warming domestic demand



Source: CEIC, CCBIS

Table 1. China trade data breakdown

In US$ terms (% YoY)	Jul 18	2Q18	3Q18	4Q18	1Q19	2Q19	Jun 19	Jul 19
Total exports (in US$ terms)	**12.2**	**11.5**	**11.7**	**3.9**	**1.4**	**-1.0**	**-1.3**	**3.3**
Total exports (in RMB terms)	**6.0**	**2.6**	**9.8**	**8.5**	**6.6**	**5.7**	**6.1**	**10.3**
Exports by destination								
Shipments to EU	9.5	9.8	11.6	6.2	8.1	2.9	-3.0	6.5
Shipments to US	11.2	11.3	12.9	6.3	-9.0	-8.2	-7.8	-6.5
Shipments to ASEAN	15.4	18.0	15.2	7.4	9.1	5.6	12.9	15.6
Exports by product								
Garments	4.0	-4.3	4.5	0.2	-4.4	-4.8	-3.0	-0.3
Steel products	9.5	18.9	18.3	9.9	2.2	-16.4	-22.4	-6.6
Mobile phones	4.5	15.2	11.6	-0.9	-19.2	-14.5	-20.9	-6.4
Hi-tech products	12.0	16.6	12.8	4.0	-2.5	2.5	-2.1	-0.2
Total imports (in US$ terms)	**27.3**	**20.5**	**20.4**	**4.4**	**-4.8**	**-4.1**	**-7.3**	**-5.6**
Total imports (in RMB terms)	**20.9**	**11.2**	**19.1**	**9.1**	**0.4**	**2.3**	**-0.4**	**0.4**
Imports by method of trade								
General imports	30.0	23.7	23.2	4.8	-3.9	-3.9	-7.0	-6.5
Processing imports	24.1	8.2	17.0	0.7	-10.3	-9.2	-12.1	-13.1
Entrepôt imports	17.3	18.5	10.1	5.6	-0.9	4.4	2.9	15.2
Imports by commodity								
Iron ore (vol)	4.3	-2.8	-1.3	1.8	-3.2	-7.8	-9.7	-0.5
Copper ore (vol)	31.8	25.4	26.2	-0.5	20.0	2.3	-16.5	12.4
Coal (vol)	49.1	2.8	18.5	-19.9	-2.4	14.3	6.4	12.1
Crude oil (vol)	3.7	4.9	5.7	23.7	8.9	9.7	15.2	14.6

Source: CEIC, CCBIS

Table 2. China FX reserve indicators

	Jul 18	2H18 avg	1Q19 avg	2Q19 avg	Jun 19	Jul 19
FX reserves						
FX reserves (EOP, US$ b)	3,117.9	3,083.7	3,092.3	3,105.1	3,119.2	3,103.7
Change in FX reserves (US$ b)	5.8	-6.6	8.7	6.8	18.2	-15.5
Estimated valuation effects (US$ b)	-2.2	-2.8	-5.3	4.2	15.6	-27.2
Adjusted for valuation (US$ b)	8.06	-3.8	14.0	2.6	2.6	11.7
Non-FDI capital flows (US$ b)	-27.7	-52.4	-22.7	-44.6	-63.3	-40.7

** The amount of liquidity injected includes RRR cuts and TMLF. EOP = end of period*
Source: CEIC, CCBIS

Rating definitions:

Outperform (O) – expected return > 10% over the next twelve months
Neutral (N) – expected return between -10% and 10% over the next twelve months
Underperform (U) – expected return < -10% over the next twelve months

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