CCBI SECURITIES | RESEARCH

中国经济评论: 外贸 4 季度预计有所改善
China Economics Update: Expect better trade data in 4Q

中国 9 月贸易数据低于预期。三季度出口增速较二季度略有改善，但进口加速下滑，体现供应链贸易走弱以及国内进口替代上升。受益于去年低基数以及科技硬件周期回暖，我们预计四季度贸易增速将有所改善。

中美第一阶段贸易谈判结果与我们的预期基本相符，需持续关注双方可能于 11 月签署的贸易协议细节。我们仍预计美国将推迟计划于 12 月中加征的额外关税。

贸易谈判的阶段性进展以及贸易顺差走升利好人民币汇率。但由于贸易谈判的不确定性仍存，我们维持年底人民币兑美元汇率在 7.0-7.1 区间的预测不变。

China's trade growth came in weaker than expected in Sep. Export growth improved slightly in 3Q from 2Q but imports fell at a faster rate driven by processing trade amid the global manufacturing recession and rising domestic substitution. We expect trade growth to improve in 4Q19F thanks to the low base last year and the firming tech cycle.

The outcome of phase one of negotiations between the US and China is largely in line with our expectation. Progress towards a potential trade deal in Nov and related details are sure to be closely watched. We continue to expect new Dec tariffs to be postponed.

The improved outlook for the trade negotiations along with the rising trade surplus as import substitution picks up is positive for the yuan; however, as trade uncertainties linger, we maintain our view that the renminbi will land in the 7.0-7.1 range at the end of the year.

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					Sep-2019			4Q19F		2019F	
Trade indicators	**Sep-18**	**Jun-19**	**Jul-19**	**Aug-19**	**BBG**	**CCBIS**	**Actual**	**BBG**	**CCBIS**	**BBG**	**CCBIS**
Trade balance (US$ b)	30.3	50.7	44.6	34.8	34.75	34.1	**39.7**	-	-	-	-
Exports YoY (%)	14.5	-1.3	3.3	-1.0	-2.8	-3.0	**-3.2**	0.0	0.0	0.4	-0.1
Imports YoY (%)	14.3	-7.3	-5.6	-5.6	-6.0	-5.5	**-8.5**	1.0	0.5	-0.4	-3.7

Source: Bloomberg, CCBIS estimates

Weighed down by the trade war, trade deceleration continued in 3Q19

Exports saw a further decline of 3.2% YoY in Sep (vs a 1.0% YoY decline in Aug), missing the market and our expectation (Bloomberg cons: -2.8%, CCBIS: -3.0%). That said, exports declined at a slower pace in 3Q19 compared with 2Q. Exports have up held much better than imports since the beginning of the year.

Export diversion may have alleviated some of the pain of US tariffs. By destination, exports to the US declined the most (Sep: -21.9% YoY vs Aug: -16.0% YoY). Exports to Hong Kong including some re-exports to the US saw larger YoY contraction (-12.6% YoY vs -7.2% YoY in Aug). Taken together, these two regions account for over 70% of the decline in headline growth in Sep. Meanwhile, exports to the EU and ASEAN slowed moderately though average growth in exports to the EU and ASEAN both strengthened in 3Q19, indicating trade diversion amid US tariffs (Fig 1).

By product, exports of final consumer electronic products, including computers, mobile phones and LCD panels, declined at a slower pace, in line with stabilization taking place within the global tech cycle. However, components shipments slowed, in particular integrated circuits, consistent with the overall slowdown in global supply chain trade and higher domestic demand.

Processing trade continues to drag imports while commodity imports remained solid. Imports recorded a bigger decline of 8.5% YoY in Sep compared with the 5.6% YoY decline the previous month. The decline was slightly deeper than expected (Bloomberg cons: -6.0%, CCBIS: -5.5%). On average, imports fell at a faster pace of 6.5% YoY in 3Q19 after having contracted 4.0% YoY in 2Q. Processing trade, accounting for slightly more than a third of total imports, was the main culprit, decelerating to -15.6% YoY in 3Q from -9.2% YoY in 2Q. Excluding processing trade, imports managed to eke out a positive gain of 2.6% YoY in 3Q19 after having fallen 1.4% YoY in 2Q. The stark contrast between processing and non-processing trade is a function of the slowdown in global supply chain trade since the trade war began. Domestic sourcing of parts and components has been on the rise in China.[1]

Taking a closer look at the sub-categories we find that imports of semiconductors and machinery & electrical equipment declined the most in Sep, explaining the weakness in processing trade and consistent with the rising import substitution in the technology sector. By contrast, import volume of fuels accelerated and that of industrial metals stayed robust, suggesting resilient domestic demand (Fig 2).

FX reserves declined on negative valuation effect and modest pickup in capital outflows

FX reserves declined by US$14.7b to US$3,092.4b by the end of Sep, below the market and our expectations. The decline was attributed to the negative valuation effect and a modest pickup in capital outflows. We estimate non-FDI capital outflows of around US$56.8b in Sep vs US$39.9b in outflows the previous month. Improving fundamentals and positive trade news should support capital inflows and the renminbi exchange rate in coming quarters.[2]

Our view

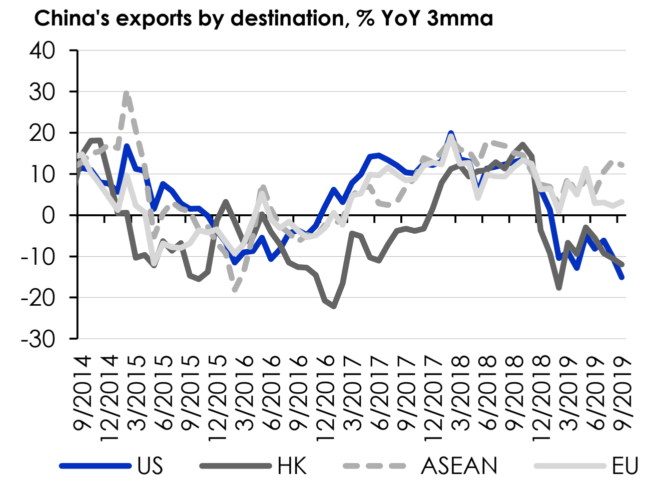
We expect China trade growth to improve in 4Q19F. Our composite trade indicator is pointing to a rebound in global trade growth around year-end, while the latest global PMI data suggests business sentiment has started to improve. The ICT sector, which underwent a sharp correction this year, is likely to become a less of a drag on global trade and industrial growth in the coming months as reflected in improving global semiconductor sales. Last year's low base for trade is also likely to support annual headline growth.

Continued trade dialogue likely though a comprehensive deal is not in sight. The outcome

[1] *CCBIS-The Big Picture:* *Domestic substitution under the cloud of the trade war* (19 Sep 2019)
[2] *CCBIS-The Big Picture Macro Outlook 4Q 2019:* *Treading water* (30 Sep 2019)

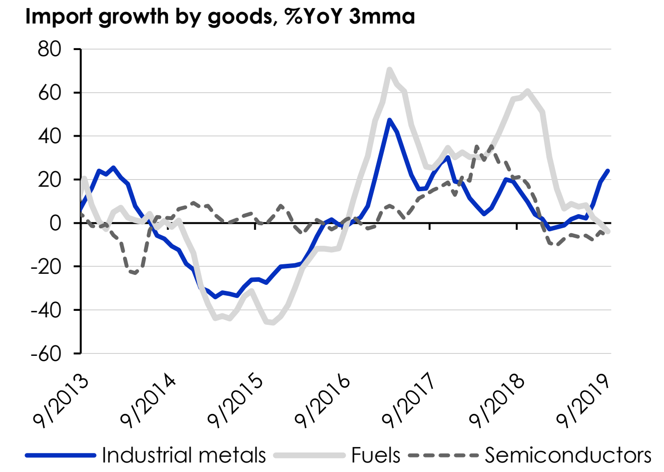
of the latest round of trade talks was largely in line with our baseline scenario, with a suspension of the mid-Oct tariff hike but no decisions made on new tariffs to come into effect in Dec. We expect the Trump administration to delay the 15 Dec tariff hike given its outsized impact on the consumer sector. The next event to watch is the likely signing of the phase-one deal around mid-Nov at the APEC leader summit, with remaining items (including the thorny issue of technology transfers) to be discussed in phase two. We maintain our forecast that the renminbi will be somewhere in the 7.0-7.1 range at the end of the year.

Fig 1. Exports to US declined the most while exports to EU and ASEAN held up



Source: CEIC, CCBIS

Fig 2. Commodities imports suggested still resilient domestic demand



Source: CEIC, CCBIS

Table 1. China trade data breakdown

In US$ terms (% YoY)	Sep 2018	3Q18	4Q18	1Q19	2Q19	3Q19	Aug 2019	Sep 2019
Total exports (in US$ terms)	**14.5**	**11.7**	**3.9**	**1.3**	**-1.0**	**-0.4**	**-1.0**	**-3.2**
Total exports (in RMB terms)	**17.0**	**9.8**	**8.5**	**6.5**	**5.6**	**3.9**	**2.6**	**-0.7**
Exports by destination								
Shipments to EU	17.4	11.6	6.2	8.1	2.9	3.2	3.2	0.1
Shipments to US	14.0	12.9	6.3	-9.0	-8.2	-15.1	-16.0	-21.9
Shipments to ASEAN	14.1	15.2	7.4	9.1	5.6	12.2	11.2	9.7
Exports by product								
Garments	8.3	4.5	0.2	-4.4	-4.8	-4.8	-6.4	-7.8
Steel products	35.4	18.3	9.9	2.2	-16.4	-12.6	-15.9	-15.2
Mobile phones	21.7	11.6	-0.9	-19.2	-14.5	-8.5	-11.3	-4.7
Hi-tech products	15.9	12.8	4.0	-2.5	-2.5	-3.0	-3.2	-5.8
Total imports (in US$ terms)	**14.3**	**20.4**	**4.4**	**-4.5**	**-4.0**	**-6.5**	**-5.6**	**-8.5**
Total imports (in RMB terms)	**17.4**	**19.1**	**9.1**	**0.6**	**2.4**	**-2.9**	**-2.6**	**-6.2**
Imports by method of trade								
General imports	13.5	23.2	4.8	-3.9	-3.9	-4.6	-3.2	-4.2
Processing imports	12.4	17.0	0.7	-10.3	-9.2	-15.5	-14.9	-18.6
Entrepôt imports	14.8	10.1	5.6	-0.9	4.4	9.6	15.2	-1.6
Imports by commodity								
Iron ore (vol)	-9.1	-1.3	1.8	-3.2	-7.8	4.5	6.1	6.3
Copper ore (vol)	31.3	26.2	-0.5	20.0	2.3	1.2	9.2	-18.1
Coal (vol)	-7.2	18.5	-19.9	-2.4	14.3	16.3	14.9	20.5
Crude oil (vol)	0.5	5.7	23.7	8.9	9.7	11.5	9.9	10.8

Source: CEIC, CCBIS

Table 2. China FX reserve indicators

	Sep 2018	1Q19 avg	2Q19 avg	3Q19 avg	Aug 2019	Sep 2019
FX reserves						
FX reserves (EOP, US$ b)	3,087.0	3,092.3	3,105.1	3101.1	3,107.2	3,092.4
Change in FX reserves (US$ b)	-22.7	8.7	6.8	-8.9	3.5	-14.7
Estimated valuation effects (US$ b)	-3.5	-5.3	4.2	-12.4	-1.9	-8.0
Adjusted for valuation (US$ b)	-19.2	14.0	2.6	3.4	5.4	-6.7
Non-FDI capital flows (US$ b)	-62.4	-22.7	-44.6	-45.9	-39.9	-56.8

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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