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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China demonstrated slowdown in July's exports on the back of worsening pandemic conditions driven by Delta Variant (DV) and slowing factory activities due to seasonal floods and bad weather, thus posting a slower growth momentum of 8.1% YoY in Yuan terms, which stayed below the consensus estimate of 9.6% and June's 20.2%.
- July's imports cooled to 16.1% YoY after a surge of 24.2% in June, which stood below the consensus estimate of 21.9%. The deceleration of imports was mainly due to moderation of industrial production due to higher raw material costs, uncertain economic conditions and extreme weather.
- China's major trading partners are under the threat of DV and surging commodity prices, which not only hit the demand for China's exports, but also damage the supply of raw materials and intermediate components.
- China's overall trade growth could face slower momentum in coming months but will maintain modest growth for the rest of 2021.

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China's external trade embracing slower-than-expected growth momentum in July

China demonstrated slowdown in July's exports on the back of worsening pandemic conditions driven by Delta Variant (DV) and slowing factory activities due to seasonal floods and bad weather, thus posting a slower growth momentum of 8.1% YoY in Yuan terms, which stayed below the consensus estimate of 9.6% and June's 20.2%. July's imports cooled to 16.1% YoY after a surge of 24.2% in June, which stood below the consensus estimate of 21.9%. The deceleration of imports was mainly due to moderation of industrial production due to higher raw material costs, uncertain economic conditions and extreme weather. In sum, external trade growth slowed as global efforts to control the spread of DV weighed on business and consumer spending, thus lowering demand for Chinese products. Looking forward, global economy faces increasing infected cases of coronavirus with which the new round of pandemic continues to depress travel, spending, corporate investment and consumer confidence. China's major trading partners are under the threat of DV and surging commodity prices, which not only hit the demand for China's exports, but also damage the supply of raw materials and intermediate components. Major cities re-imposing lockdown measures to fight against the spread of DV disrupt the global supply chain with which Chinese exporters struggle with an ongoing global semiconductor shortage, logistics bottlenecks, and higher raw material and freight costs. We are of the view that global trading activities still pursue unstable recovery in 2H2021. As overseas new orders of the Chinese products remain uncertain, China's overall trade growth could face slower momentum in coming months but will maintain modest growth for the rest of 2021.

The DV's threat clouding global export growth outlook in 2H2021. China's export growth decelerated in July amid disruptions in the global flow of industrial components and consumption activities due to the fast-spreading DV. Uncertainties around the path to

economic normalization remain intact as the new strain recently triggers rebound in infected coronavirus cases, raising the concerns about slowdown of economic recovery. The spread of more coronavirus in the U.S., Europe and Asia has led to some re-tightening of lockdown restrictions, which seriously affect global trading activities. DV's surge does inflict greater macroeconomic damage through delays in fully reopening of economies with which western nations are still struggling to cope the ongoing pandemic and DV casts shadow over global trade recovery.

China's imports pointing to unstable growth for the rest of 2021.

The latest release of China's July official New Export Orders and imports indexes, the sub-index of manufacturing PMI, stayed below the expansion threshold of 50 at 47.7 and 49.4, signaling that overseas new orders of Chinese products and China's demand for foreign products are softening, which weaken rebound momentum of external trading activities. In sum, headwinds facing the world trade have endangered China's external trade. China's major trading partners of China are still locking down their cities to fight against the spread of DV. We are of the view that Chinese exporters have struggled as they wait for supply chains to return to pre-pandemic level and foreign markets are hindered by renewed pandemic outbreaks. Heightened epidemic risks prolong global economic stagnation, which undermines demand for Chinese products. China's external trade sector is unavoidably embedded into an uncertain trend in 2H2021, with which the ongoing pandemic deepens uneven recovery of overseas new orders of the Chinese products. We believe China will launch more trade-related stimulus measures in 2H2021 to prop up external trade growth.

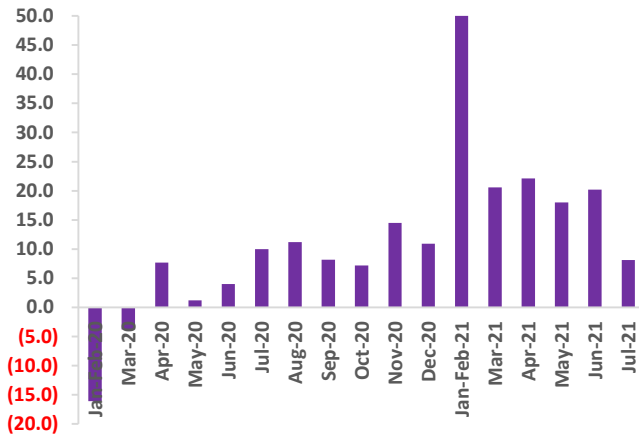
China's imports pointing to unstable growth amid surging industrial prices.

July imports edged down to 16.1% YoY, staying below the 1H2021's 25.9%. The deceleration was mainly due to weakening demand for foreign raw materials and industrial components as their prices skyrocketed. June producer price index (PPI) also edged up to 9% YoY, the highest since 2008, reflecting that manufacturers were under pressures to adjust industrial prices, which may undermine the new orders of exports. In sum, the latest release of China's July official New Export Orders and imports indexes, the sub-index of manufacturing PMI, stayed below the expansion threshold of 50 at 47.7 and 49.4, signaling that overseas new orders of Chinese products and China's demand for foreign products are softening, which weaken rebound momentum of external trading activities. In sum, headwinds facing the world trade have endangered China's external trade. China's major trading partners of China are still locking down their cities to fight against the spread of DV. We are of the view that Chinese exporters have struggled as they wait for supply chains to return to pre-pandemic level and foreign markets are hindered by renewed pandemic outbreaks. Heightened epidemic risks prolong global economic stagnation, which undermines demand

for Chinese products. China's external trade sector is unavoidably embedded into an uncertain trend in 2H2021, with which the ongoing pandemic deepens uneven recovery of overseas new orders of the Chinese products. We believe China will launch more trade-related measures in 2H2021 to alleviate difficulties faced by external trade enterprises.

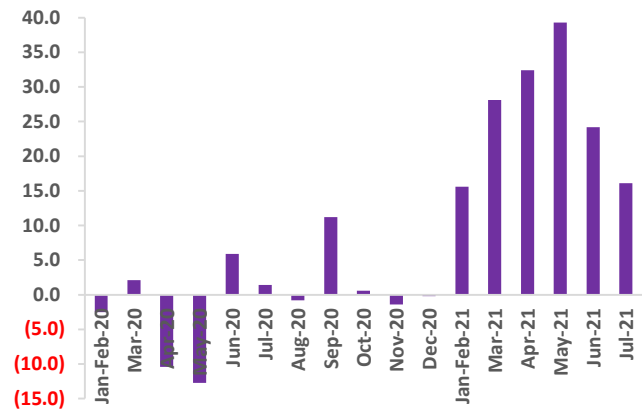
Global trade headwinds undermining global economic recovery momentum. The resurgent coronavirus infections across the globe and constraints in global trade have left some China's exporters grappling with prolonged delivery timeframes and surging prices of raw materials. On the sector front, manufacturers of cars and electronic devices from televisions to smartphones are sounding alarm bells about a global shortage of chips, which is causing manufacturing delays. Overall China's trade growth could show the pace slowing due to the uncertain course of the pandemic aggravating trade prospects in the coming months. The unavoidable declines in trade and output will have painful consequences for households and businesses, which further delay recovery of global economy.

Fig. 1: China Exports (RMB) YoY%



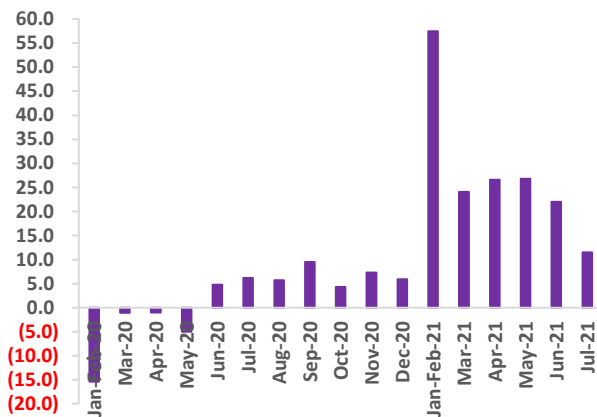
Source: General Administration of Customs (GAC)

Fig. 2: China Imports (RMB) YoY%



Source: General Administration of Customs (GAC)

Fig. 3: China's total trade (YoY%)



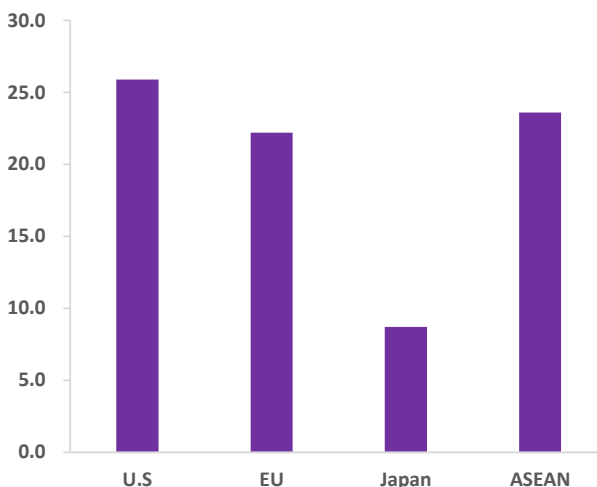
Source: General Administration of Customs (GAC)

Fig. 4: China Trade Balance (USD bn)



Source: General Administration of Customs (GAC)

Fig. 5: China Exports by Major Countries (YTD %)



Source: General Administration of Customs (GAC)

Fig. 6: PMI-New Export Order and Import Index



Source: National Bureau of Statistics (NBS)

China economic indicators

	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021
Real GDP (YoY%)	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3	7.9
PMI Manufacturing (%)	50.2	45.9	50.8	51.2	51.8	51.9	51.3	51.0
PMI Non-Manufacturing (%)	53.5	45.3	53.7	55.1	56.1	55.7	53.4	54.5
Exports (RMB YoY %)	5.0	(11.7)	4.2	9.8	10.9	4.0	38.6	20.1
Imports (RMB YoY %)	1.7	(1.0)	(5.6)	4.7	0.04	(0.4)	20.0	31.6
Trade Balance (RMB/bn)	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	733.4	900.3
Exports (USD YoY %)	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9	30.7
Imports (USD YoY %)	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.7	43.3
Trade Balance (USD/bn)	421.1	12.7	151.7	153.7	209.3	526.9	112.4	139.2
CPI (YoY %)	2.9	4.9	2.7	2.3	0.1	2.5	0.0	1.1
PPI (YoY %)	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2
FAI (YTD/ YOY %)	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6	12.6
Real Estate Investment (YTD YoY %)	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0
Industrial Production (YoY %)	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0
Retail Sales (YoY%)	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9
New Lending (RMB/bn)	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5090.0
M2 (YoY %)	8.7	10.1	11.1	10.9	10.1	10.1	9.4	8.6
Aggregate Financing (RMB bn)	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10266.2	7440.7

	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21
Real GDP (YoY%)	-	-	4.9	-	-	6.5	-	-	18.3	-	-	7.9	-
PMI - Manufacturing %	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4
PMI - Non-manufacturing%	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3
Exports (RMB YoY %)	10.0	11.2	8.2	7.2	14.5	10.9	16.5	139.3	20.6	22.1	18.0	20.2	8.1
Imports (RMB YoY %)	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	19.6	11.2	28.1	32.4	39.3	24.2	16.1
Trade Balance (RMB/bn)	429.1	405.0	248.0	395.7	502.8	509.2	412.4	238.3	82.7	272.3	295.2	332.7	362.7
Export (USD YoY %)	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.7	30.5	32.2	27.8	32.2	19.3
Import (USD YoY %)	(1.6)	(2.3)	12.7	4.4	3.9	6.5	28.0	18.2	38.5	43.3	50.8	36.7	28.1
Trade Balance (USD/bn)	60.5	57.3	35.6	57.5	74.8	77.0	62.9	36.5	13.0	42.2	45.4	51.5	56.6
CPI (YoY %)	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0
PPI (YoY %)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0
FAI (YTD/ YOY %)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	-
Real Estate Investment (YTD/ YoY %)	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	-
Industrial Production (YoY %)	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	-
Retail Sales (YoY%)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	-
New Lending (RMB/bn)	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0	2120.0	-
M2 (YoY %)	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	-
Aggregate Financing (RMB bn)	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5175.8	1723.9	3366.5	1850.7	1920.5	3670.0	-
Urban Unemployment Rate (%)	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	-
Urban Unemployment Rate in 31 major cities (%)	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,208.51	21.68	0.78
S&P 500	4,436.52	27.12	0.94
NASDAQ	14,835.76	91.41	1.11
EUR			
FTSE 100	7,122.95	18.96	1.29
DAX	15,761.45	18.66	1.40
CAC40S	6,816.96	23.87	3.09
STOXX EUR 600	469.97	25.59	1.78
Asia			
HSI	26,179.40	10.82	0.84
HSCEI	9,273.55	11.35	0.44
CSI300	4,921.56	17.46	2.29
SSE Composite	3,458.23	15.76	1.79
SZSE Composite	2,443.06	36.40	2.41
NIKKEI 225	27,820.04	16.66	1.97
KOSPI	3,270.36	17.42	2.12
TWSE	17,526.28	16.61	1.62
S&P/ASX 200	7,538.42	49.88	1.97
MSCI Index			
MSCI WORLD	3,098.06	24.73	0.94
MSCI DEVELOPED	731.19	23.53	0.96
MSCI EMERGING	1,292.53	17.34	1.15
MSCI US	4,318.44	27.48	0.93
MSCI UK	2,005.56	18.08	1.31
MSCI France	195.16	24.92	2.81
MSCI Germany	172.48	19.56	1.46
MSCI China	94.49	18.76	0.06
MSCI Hong Kong	16,386.36	29.30	0.06
MSCI Japan	1,183.99	16.51	1.69

* As of 2021/08/06 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	68.28	(7.67)
ICE Brent Oil	USD/bbl	70.70	(7.38)
NYMEX Natural	USD/MMBtu	4.14	5.77
Basic Metals			
LME Aluminum	USD/MT	2,569.75	(1.09)
CMX Copper	USD/lb.	434.80	(3.00)
LME Steel Rebar	USD/MT	694.50	(5.89)
LME Lead Cash	USD/MT	2,297.60	(4.85)
Precious Metals			
CMX Gold	USD/T. oz	1,763.03	(2.82)
Gold Futures	USD/T. oz	1,763.10	(2.98)
CMX Silver	USD/T. oz	24.33	(4.55)
NYMEX Platinum	USD/T. oz	983.58	(6.46)
Agricultural			
CBOT Corn	USD/bu	556.50	2.06
CBOT Wheat	USD/bu	719.00	2.17
NYB-ICE Sugar	USD/lb.	18.68	4.30
CBOT Soybeans	USD/bu.	1,336.75	(0.93)

All data sources: Bloomberg

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.03	(0.01)
US Treasury (1 Yr)	0.07	0.003
US Treasury (5 Yr)	0.77	0.08
US Treasury (10 Yr)	1.30	0.07
US Treasury (30 Yr)	1.95	0.05
1-Month LIBOR	0.0951	0.005
3 Month LIBOR	0.1284	0.011
Japan 1-Yr Gov. Bond	(0.12)	0.008
Japan 10-Yr Gov. Bond	0.02	(0.01)
German 1-Yr Gov. Bond	(0.66)	(0.02)
German 10-Yr Gov. Bond	(0.46)	0.01
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	1.92	(0.07)
China 5-Yr Gov. Bond	2.65	(0.02)
China 10-Yr Gov. Bond	2.82	(0.039)
O/N SHIBOR	1.86	(0.32)
1-mth SHIBOR	2.28	(0.05)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	(0.0052)
1-mth HIBOR	0.08	(0.005)
O/N CNH HIBOR	2.36	(0.13)
1-mth CNH HIBOR	2.85	(0.189)
Corporate Bonds (Moody's)		
Aaa	2.50	(0.01)
Baa	3.18	(0.04)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.80	0.68
Euro/USD	1.1762	(0.91)
GBP/USD	1.3872	(0.23)
AUD/USD	0.7356	0.16
USD/CAD	1.2554	0.63
USD/JPY	110.25	0.48
USD/CHF	0.9148	0.98
USD/CNY Midpoint	6.4625	0.04
USD/CNY	6.4831	0.34
USD/CNY NDF-12-mth	6.6549	0.12
USD/CNH	6.4786	0.24
USD/HKD	7.7802	0.11
CNY/HKD	1.1999	(0.25)
CNH/HKD	1.2009	(0.13)
USD/KRW	1,142.15	(0.70)
USD/TWD	27.81	(0.55)
USD/SGD	1.3548	0.03
USD/INR	74.15	(0.36)

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