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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's external trade still maintained a steady growth in 1H2018, with exports and imports growing at 4.9% YoY and 11.5% YoY. Trade surplus reached RMB 901.32bn. However, on both monthly and quarterly basis, growth of total trade posted slowing momentum as June exports and imports rose only 3.1% and 6.0% (May's 3.2% and 15.6%) while 2Q2018 exports and imports surged only 3.2% and 11.0% (1Q2018's 7.4% and 11.7%).
- In sum, pessimistic outlook for international trade driven by increasing trade tensions between the U.S. and the rest of the world disrupts the global supply chain with which global trade will likely shrink to some extent in 2H2018. We believe overseas demand for Chinese products to soften on the kickoff of full-blown trade war, which in turn will undermine growth momentum of China's total trade.
- Provided that trading partners such as EU, Japan and ASEAN countries could maintain their current pace of growth and policy tools would be employed effectively by Chinese regulators, China's external trade sector should be able to resist the trade headwinds, lending support to the soft-landing of external trade growth in 2H2018.

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Trade war to cloud the outlook of China's external trade in 2H2018

Surrounded by escalating trade friction with the U.S., China's external trade still maintained a steady growth in 1H2018, with exports and imports growing at 4.9% YoY and 11.5% YoY. Trade surplus reached RMB 901.32bn. However, on both monthly and quarterly basis, growth of total trade posted slowing momentum as June exports and imports rose only 3.1% and 6.0% (May's 2.8% and 15.6%) while 2Q2018 exports and imports surged only 3.2% and 11.0% (1Q2018's 7.4% and 11.7%). The latest release of China's June official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, fell to 49.8 and 50, signaling that external trade sector starts to experience the impact of trade war in the near-term. In sum, pessimistic outlook for international trade driven by increasing trade tensions between the U.S. and the rest of the world disrupts the global supply chain with which global trade will likely shrink to some extent in 2H2018. We believe overseas demand for Chinese products to soften on the kickoff of full-blown trade war, which in turn will undermine growth momentum of China's total trade. Provided that trading partners such as EU, Japan and ASEAN countries could maintain their current pace of growth and policy tools would be employed effectively by Chinese regulators, China's external trade sector should be able to resist the trade headwinds, lending support to the soft-landing of external trade growth in 2H2018.

Total trade to maintain steady upsurge in 1H2018. The external trade sector maintained a healthy growth of 7.9% in 1H2018, reflecting continued recovery of global economy. China's export recorded a growth rate of 4.9% YoY with which growth of exports to major trading partners, namely the U.S., EU and ASEAN, reached 5.7% YoY, 4.0% YoY and 10.0% YoY respectively. China's imports posted double-digit growth of 11.5%. Such strong growth indicates that domestic demand, aided by the government's continuous commitment to driving consumption remained resilient.

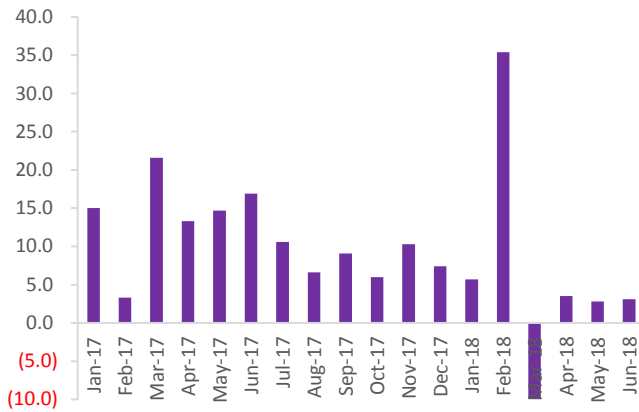
A less favorable environment to become negative propellers of global trade. U.S. tariffs on Chinese goods have disruptive impacts on global supply chain. As a key player in global manufacturing

supply chain, China has demonstrated both upstream and downstream functions in the chain with different countries through trading activities. As businesses cannot easily shift their sourcing market in short term, tariffs definitely will raise production costs which will finally pass on the consumers through higher prices. Although the European Union (EU) and ASEAN countries demonstrate steady demand for the Chinese goods, China's exports sector will suffer from weakening demand from the U.S. market due to tariffs. In sum, ongoing trade disputes will further disrupt manufacturing supply chain in Asia, creating an unstable and unfavorable environment for global external trade.

Effects of the U.S. tariffs on Chinese exports. The U.S imposed 25% tariff on USD \$50bn of Chinese exports on 6 July 2018 and possible 10% tariffs on USD \$200bn worth of Chinese products in two months cloud China's export outlook in 2H2018. Chinese household products exported to the U.S. will be reduced to certain extent as labor-intensive products are prone to be replaced by Southeast Asia or Latin American countries such as Vietnam, Mexico and so on. In general, with the start of the Sino-U.S. tariff war, China's export enterprises are facing less new orders, trimming the export growth for 2H2018.

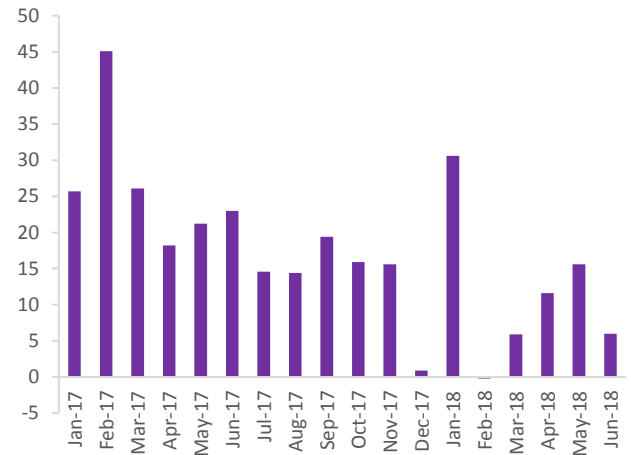
Effects of the U.S. tariffs on Chinese imports. With the escalation of the trade tensions, China is facing higher imported price of agricultural products. In 2017, China imported about USD 18.5 billion of soybeans from the U.S., accounting for 37% of China's total imports of soybean. The U.S. tariffs are likely to push up price of soybean and downstream industries will bear higher costs, which in turn enhance inflationary pressures on food products. However, as China has started to shift the sourcing of imported agricultural products from the U.S to Brazil, Argentina and Russia, we believe the tariffs will have limited impacts on the price and supply of agricultural products.

Fig. 1: China Exports (RMB) YoY%



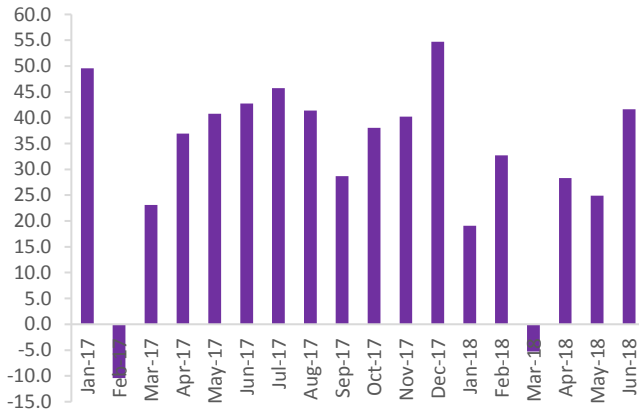
Source: Wind, Bloomberg and CEBI

Fig. 2: China Imports (RMB) YoY%



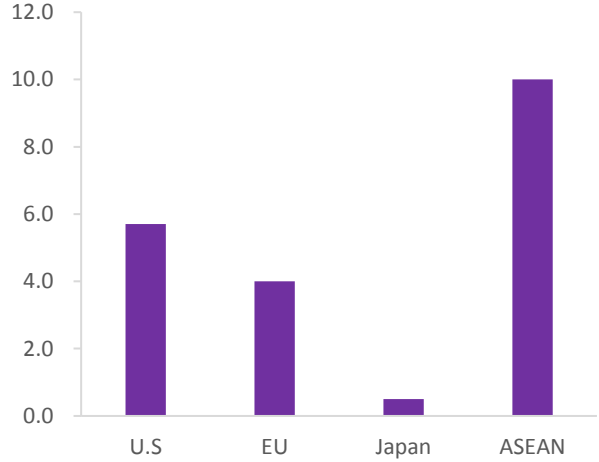
Source: Wind, Bloomberg and CEBI

Fig. 3: China Trade Balance (USD bn)



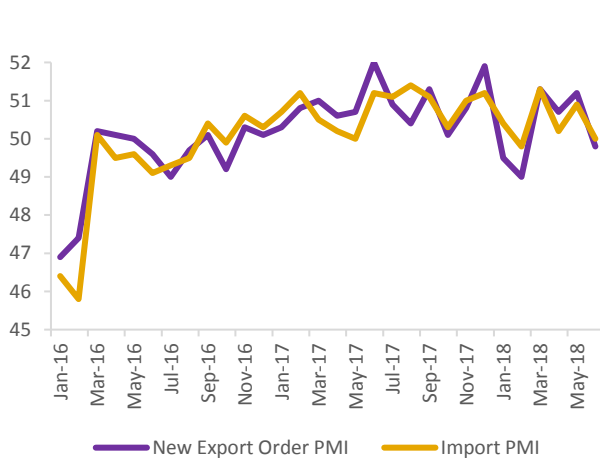
Source: Wind, Bloomberg and CEBI

Fig. 4: China Exports by Major Countries (YTD%)



Source: Wind, Bloomberg and CEBI

Fig. 5: New Export Order and Import PMI



Source: Wind, Bloomberg and CEBI

Fig. 6: CNY/USD



Source: Wind, Bloomberg and CEBI

China Economic Indicators

	2014	2015	2016	2017	1Q2018	2Q2018	1H2018
Real GDP	7.3	6.9	6.7	6.9	6.8	-	-
PMI							
Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	51.5
Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	55.0
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.4	3.2	4.9
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	11.7	11.0	11.5
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	313.6	598.08	901.32
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.9	12.1	12.8
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.1	20.4	19.9
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	46.5	94.8	139.7
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.0
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.1	4.1	3.9
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	-	-
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	-	-
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	-	-
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	-	-
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	3510.0	8369.3
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.0
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	19443.0	5580.0	3501.3	9084.0

	Jun 17	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18
Real GDP (YoY %)	6.9	-	-	6.8	-	-	6.8	-	-	6.8	-	-	-
PMI – Manufacturing %	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5
PMI- Non-manufacturing%	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0
Exports (RMB YoY %)	10.3	6.3	8.9	5.5	9.5	7.4	16.3	5.7	35.4	(9.9)	3.5	2.8	3.1
Imports (RMB YoY %)	14.8	14.5	19.6	15.8	15.4	0.9	22.9	30.6	(0.2)	5.9	11.6	15.6	6.0
Trade Balance (RMB/bn)	284.3	308.5	273.7	185.9	245.9	252.3	357.5	127.2	218.0	(31.6)	179.7	156.5	261.9
Export (USD YoY %)	10.3	6.4	4.9	7.9	6.3	11.5	10.9	10.8	43.7	(2.9)	12.6	12.6	11.3
Import (USD YoY %)	16.9	11.1	13.4	18.9	17.1	17.6	4.5	37.3	6.3	14.4	21.5	26.0	14.1
Trade Balance (USD/bn)	41.3	44.9	40.1	27.4	37.2	36.9	54.0	19.1	32.7	(5.3)	28.3	24.9	41.6
CPI (YoY %)	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9
PPI (YoY %)	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7
FAI (YTD/ YOY %)	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	-
Real Estate Investment (YTD/ YoY %)	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	-
Industrial Production (YoY %)	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	-
Retail Sales (YoY%)	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	-
New Lending (RMB/bn)	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0
M2 (YoY %)	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0
Aggregate Financing (RMB bn)	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3061.0	1167.2	1354.6	1560.5	760.8	1180.0
Urban Unemployment Rate (%)	-	-	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8	-
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,924.89	18.59	2.33
S&P 500	2,798.29	21.33	2.25
NASDAQ	7,823.92	26.49	3.13
EUR			
FTSE 100	7,651.33	13.65	0.63
DAX	12,492.97	13.91	0.23
CAC40S	5,405.90	17.04	0.74
STOXX EUR 600	384.37	16.20	0.73
Asia			
HSI	28,525.44	11.39	0.74
HSCEI	10,746.45	8.25	1.17
CSI300	3,492.69	13.22	3.79
SSE Composite	2,831.18	13.79	3.06
SZSE Composite	1,604.45	26.04	4.46
NIKKEI 225	22,597.35	16.86	3.71
KOSPI	2,310.90	11.08	1.67
TWSE	10,864.54	14.33	2.41
S&P/ASX 200	6,268.39	18.54	-0.06
MSCI Index			
MSCI WORLD	2,130.86	18.85	1.65
MSCI DEVELOPED	514.12	18.02	1.64
MSCI EMERGING	1,070.24	13.38	1.51
MSCI US	2,670.68	21.77	2.27
MSCI UK	2,210.76	13.72	0.63
MSCI France	156.73	17.29	0.97
MSCI Germany	151.50	14.76	0.45
MSCI China	86.32	14.58	1.97
MSCI Hong Kong	15,321.66	10.38	1.65
MSCI Japan	1,017.47	13.79	2.12

* As of 13/7/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	69.89	-5.30
ICE Brent Oil	USD/bbl	73.37	-4.85
NYMEX NatGas	USD/MMBtu	2.80	-2.13
Basic Metals			
LME Alum.Cash	USD/MT	2,091.50	-0.50
CMX Cop.Active	USD/lb.	276.45	-2.11
LME Steel Rebar	USD/MT	540.00	-1.46
LME Lead Cash	USD/MT	2,192.75	-6.75
Precious Metals			
CMX Gold	USD/KRW	1,240.97	-1.15
Gold Futures	USD/KRW	1,241.50	-1.14
CMX Silverbn	USD/KRW	15.84	-1.28
NYMEX Platinum	USD/T. oz	834.05	-1.23
Agri. Products			
CBOT Corn	USD/bu	357.25	-4.22
CBOT Wheat	USD/bu	487.75	-5.34
NYB-ICE Sugar	USD/lb.	11.10	-3.56
CBOT Soybeans	USD/bu.	842.00	-5.90

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.00	0.00
US Prime Rate	5.00	0.00
US Discount Window	2.50	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.88	0.07
US Treasury (1 Yr)	2.34	0.04
US Treasury (5 Yr)	2.75	0.03
US Treasury (10 Yr)	2.84	0.02
US Treasury (30 Yr)	2.94	0.01
1-Month LIBOR	2.07	-0.01
3 Month LIBOR	2.34	0.00
Japan 1-Yr Gov. Bond	-0.13	0.00
Japan 10-Yr Gov. Bond	0.04	0.01
German 1-Yr Gov. Bond	-0.65	0.01
German 10-Yr Gov. Bond	0.34	0.05
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.08	0.03
China 5-Yr Gov. Bond	3.32	0.02
China 10-Yr Gov. Bond	3.52	0.01
O/N SHIBOR	2.48	0.51
1-mth SHIBOR	3.21	-0.24
HK Base rate	0.36	0.04
O/N HIBOR	0.36	0.04
1-mth HIBOR	1.74	0.05
O/N CNH HIBOR	1.89	0.44
1-mth CNH HIBOR	3.00	-0.05
Corporate Bonds (Moody's)		
Aaa	3.82	-0.08
Baa	4.76	-0.06

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	95.19	1.31
Euro/USD	1.16	-1.06
GBP/USD	1.31	-1.22
AUD/USD	0.74	-0.67
USD/CAD	1.32	0.81
USD/JPY	112.78	2.09
USD/CHF	1.00	1.46
USD/CNY Midpoint	6.67	0.59
USD/CNY	6.70	0.81
USD/CNY NDF		
12-mth Spot pr.	6.78	0.75
USD/CNH	6.71	0.74
USD/HKD	7.85	0.01
CNY/HKD	1.17	-0.80
CNH/HKD	1.17	-0.72
USD/KRW	1,123.45	0.67
USD/TWD	30.55	0.20
USD/SGD	1.37	0.74
USD/INR	68.51	-0.54

All data sources: Bloomberg, CEBI, NBS

Disclosures

Analyst Certification

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