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Economic Acumen

Commentary by CEBI Research Team

In Brief

- Despite the escalating trade friction with the U.S., China's external trade has been surprisingly resilient in August with exports and imports growing at 7.9% YoY and 18.8% YoY. Trade surplus reached RMB 179.8bn.
- However, the latest release of China's August official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, fell to 49.4 and 49.1, signaling that external trade sector will experience contraction driven by the impact of trade war.
- Pessimistic outlook for international trade driven by increasing trade tensions between the U.S. and the rest of the world has disrupted the global supply chain with which global trade will likely shrink to some extent in coming months.
- In order to resist headwinds of trade war, the Chinese Ministry of finance announces to offer export tax refund for domestic manufactured products in selected sectors.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

China's trade remained steady in August despite fears of US-China trade war

Despite the escalating trade friction with the U.S., China's external trade has been surprisingly resilient in August with exports and imports growing at 7.9% YoY and 18.8% YoY. Trade surplus reached RMB 179.8bn. On monthly basis, August's exports posted stronger momentum at 4.0% rebounding from July's 1.0%. However, the latest release of China's August official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, fell to 49.4 and 49.1, signaling that external trade sector will experience contraction driven by the impact of trade war. Pessimistic outlook for international trade driven by increasing trade tensions between the U.S. and the rest of the world has disrupted the global supply chain with which global trade will likely shrink to some extent in coming months, especially if the U.S. decides to further impose tariffs on more Chinese goods. In sum, overseas demand for Chinese products will soften on the kickoff of full-blown trade war, which in turn undermines growth momentum of China's total trade. In order to resist headwinds of trade war, the Chinese Ministry of finance announces to offer export tax refund for domestic manufactured products in selected sectors. The move aims to alleviate negative impact of trade tariffs and we believe more policy tools will launch to lend solid support to the soft-landing of external trade sector.

China's external trade demonstrated steady growth in August.

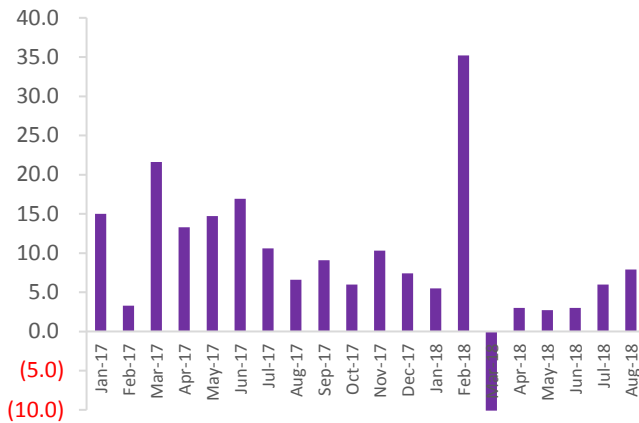
Exports, in Yuan terms, rose 7.9% YoY, higher than consensus' 5.7% and July's 6.0% while imports, in Yuan terms, grew 18.8% YoY, beating consensus' 12.1% but lower than July's 20.9%. The acceleration of trading activities was mainly supported by steady global demand for Chinese products, and surging imports driven by resilient domestic demand. Looking ahead, rising protectionism and uncertainty in global economic recovery could affect total trade growth in coming months. In sum, despite the U.S imposing tariffs on Chinese goods, China still experiences stable pick-up in growth of trade to other major trading partners such as EU, Japan and

ASEAN. In our view, China's external trade growth is expected to remain on a positive track for the rest of 2018.

Escalating trade tensions to weaken China's trade outlook. In August, the new export orders index and the import index were 49.4% and 49.1% respectively, 0.4% and 0.5% lower than the previous month. The contraction of external trade sector exposes risks of weakening manufacturing industry in the face of trade friction and external uncertainty. Ongoing trade disputes have already disrupted manufacturing supply chain in Asia, creating an unstable and unfavorable environment for China's external trade sector. We believe China will step up more efforts to place more emphasis on expanding domestic demand, thus alleviating the negative impact of trade war on the economy.

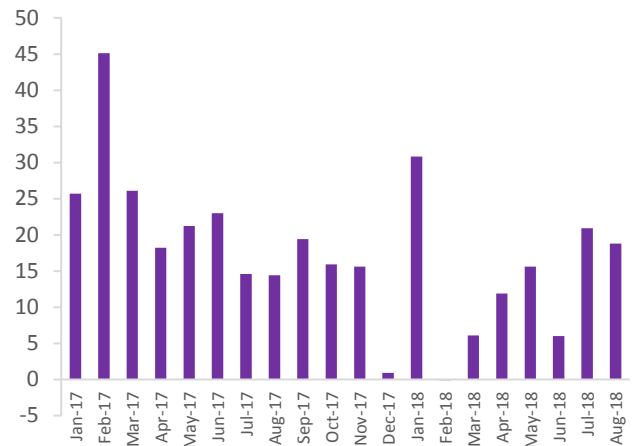
The swelling of China's trade surplus with the U.S to become propeller of the trade flights between the U.S and China. The U.S. trade deficit with China widened in August to USD \$31.1 billion, up from \$28.1 billion in July. Widening China's trade surplus with the U.S. is expected to draw more tariff fires from President Trump. In sum, 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 markets in short term, tariffs definitely will raise production costs which will finally pass on the consumers through higher prices, creating an unstable and unfavorable environment for global external trade.

Fig. 1: China Exports (RMB) YoY%



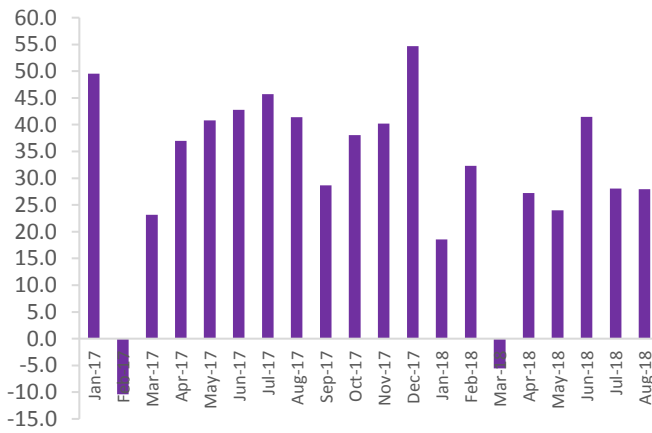
Source: NBS, Bloomberg and CEBI

Fig. 2: China Imports (RMB) YoY%



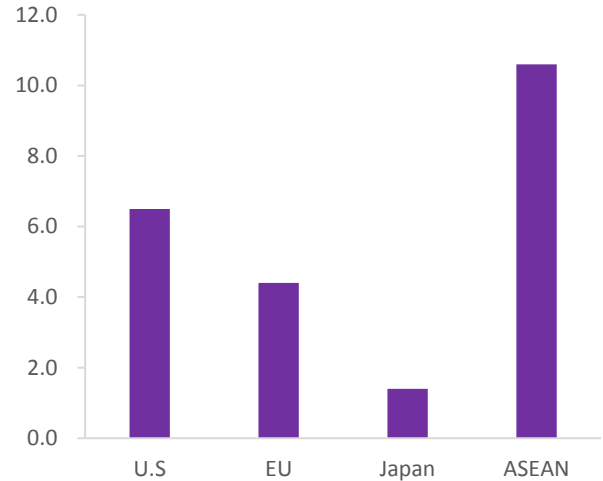
Source: NBS, Bloomberg and CEBI

Fig. 3: China Trade Balance (USD bn)



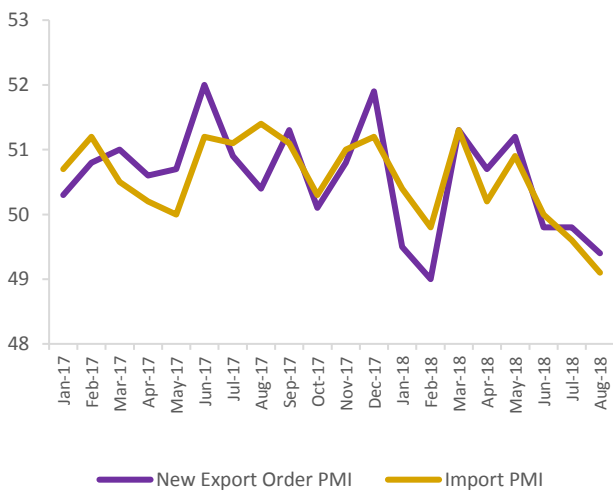
Source: NBS, Bloomberg and CEBI

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



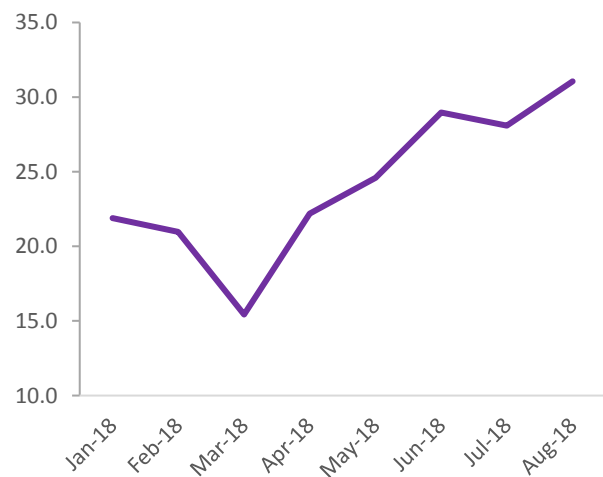
Source: NBS, Bloomberg and CEBI

Fig. 5: PMI-New Export Order and Import Index



Source: NBS, Bloomberg and CEBI

Fig. 6: China's trade surplus with the U.S. (USD bn)



Source: NBS, Bloomberg and CEBI

China Economic Indicators

	2014	2015	2016	2017	1Q2018	2Q2018	1H2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	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	7.1	2.9	4.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	12.0	11.1	11.5
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	306.4	584.7	891.1
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.8	12.7
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	19.9
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.4	92.7	138.1
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	6.0	6.0
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.7
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.7
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.4
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	5760.5	3931.2	9691.7

	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18
Real GDP (YoY%)	-	6.8	-	-	6.8	-	-	6.8	-	-	6.7	-	-
PMI – Manufacturing %	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3
PMI- Non-manufacturing%	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2
Exports (RMB YoY %)	8.9	5.5	9.5	7.4	16.3	5.5	35.2	(10.1)	3.0	2.7	3.0	6.0	7.9
Imports (RMB YoY %)	19.6	15.8	15.4	0.9	22.9	30.8	(0.1)	6.1	11.9	15.6	6.0	20.9	18.8
Trade Balance (RMB/bn)	277.9	189.6	248.2	255.4	362.0	124.1	215.7	(33.5)	173.0	150.8	260.9	176.9	179.8
Export (USD YoY %)	4.9	7.9	6.3	11.5	10.9	10.6	43.5	(3.0)	12.1	12.1	11.2	12.2	9.8
Import (USD YoY %)	13.4	18.9	17.1	17.6	4.5	37.4	6.5	14.6	21.8	26.0	14.1	27.3	20.0
Trade Balance (USD/bn)	40.7	28.0	37.2	39.0	54.7	18.6	32.3	(5.6)	27.2	24.0	41.5	28.1	27.9
CPI (YoY %)	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3
PPI (YoY %)	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1
FAI (YTD/ YOY %)	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	-
Real Estate Investment (YTD/ YoY %)	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	-
Industrial Production (YoY %)	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	-
Retail Sales (YoY%)	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	-
New Lending (RMB/bn)	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	-
M2 (YoY %)	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	-
Aggregate Financing (RMB bn)	1489.5	1833.5	1035.7	1619.6	1139.8	3073.3	1176.6	1510.6	1691.4	847.7	1392.2	1041.5	-
Urban Unemployment Rate (%)	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	-
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,916.54	18.40	-0.27
S&P 500	2,871.68	20.79	-1.02
NASDAQ	7,902.54	44.88	-2.30
EUR			
FTSE 100	7,277.70	16.16	-2.08
DAX	11,959.63	13.79	-3.27
CAC40S	5,252.22	16.63	-2.86
STOXX EUR 600	373.77	16.90	-2.22
Asia			
HSI	26,613.42	10.19	-3.97
HSCEI	10,433.62	7.71	-3.51
CSI300	3,230.07	12.15	-2.76
SSE Composite	2,669.49	12.71	-1.88
SZSE Composite	1,406.92	22.89	-2.90
NIKKEI 225	22,373.09	16.09	-1.47
KOSPI	2,288.66	10.99	-0.80
TWSE	10,725.80	14.06	-2.17
S&P/ASX 200	6,141.70	16.88	-2.68
MSCI Index			
MSCI WORLD	2,137.60	18.39	-1.74
MSCI DEVELOPED	512.97	17.46	-1.90
MSCI EMERGING	1,022.98	12.39	-3.12
MSCI US	2,736.61	21.15	-1.06
MSCI UK	2,102.31	16.42	-2.07
MSCI France	152.86	17.06	-2.62
MSCI Germany	146.46	14.76	-3.17
MSCI China	77.81	12.40	-4.36
MSCI Hong Kong	14,582.74	10.04	-3.88
MSCI Japan	1,002.69	13.19	-2.87

* As of 10/9/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	68.44	-1.95
ICE Brent Oil	USD/bbl	77.80	-0.46
NYMEX NatGas	USD/MMBtu	2.77	-5.11
Basic Metals			
LME Alum.Cash	USD/MT	2,031.00	-3.35
CMX Cop.Active	USD/lb.	260.65	-2.41
LME Steel Rebar	USD/MT	519.00	2.77
LME Lead Cash	USD/MT	2,057.50	0.00
Precious Metals			
CMX Gold	USD/KRW	1,194.38	-0.61
Gold Futures	USD/KRW	1,199.40	-0.60
CMX Silverbn	USD/KRW	14.20	-2.10
NYMEX Platinum	USD/T. oz	783.11	-0.66
Agri, Products			
CBOT Corn	USD/bu	366.00	0.27
CBOT Wheat	USD/bu	512.00	-6.14
NYB-ICE Sugar	USD/lb.	11.12	4.91
CBOT Soybeans	USD/bu.	847.00	0.41

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)	1.96	0.03
US Treasury (1 Yr)	2.50	0.05
US Treasury (5 Yr)	2.82	0.08
US Treasury (10 Yr)	2.94	0.08
US Treasury (30 Yr)	3.10	0.08
1-Month LIBOR	2.13	0.02
3 Month LIBOR	2.33	0.01
Japan 1-Yr Gov. Bond	-0.11	-0.01
Japan 10-Yr Gov. Bond	0.12	0.00
German 1-Yr Gov. Bond	-0.59	0.03
German 10-Yr Gov. Bond	0.40	0.07
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.85	0.01
China 5-Yr Gov. Bond	3.45	0.10
China 10-Yr Gov. Bond	3.65	0.05
O/N SHIBOR	2.57	0.30
1-mth SHIBOR	2.72	0.01
HK Base rate	0.69	-0.69
O/N HIBOR	0.69	-0.69
1-mth HIBOR	1.62	0.01
O/N CNH HIBOR	3.83	2.31
1-mth CNH HIBOR	4.95	1.71
Corporate Bonds (Moody's)		
Aaa	3.94	0.06
Baa	4.81	0.04

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	95.35	0.22
Euro/USD	1.16	-0.44
GBP/USD	1.29	0.40
AUD/USD	0.71	-1.30
USD/CAD	1.32	0.91
USD/JPY	111.02	-0.05
USD/CHF	0.97	0.15
USD/CNY Midpoint	6.82	-0.05
USD/CNY	6.87	0.62
USD/CNY NDF		
12-mth Spot pr.	6.96	0.84
USD/CNH	6.87	0.55
USD/HKD	7.85	0.00
CNY/HKD	1.14	-0.62
CNH/HKD	1.14	-0.54
USD/KRW	1,128.45	1.63
USD/TWD	30.82	0.36
USD/SGD	1.38	0.65
USD/INR	72.27	1.47

All data sources: Bloomberg, CEBI, NBS

Disclosures

Analyst Certification

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**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600**