

# Flash Comment

## China: Just what the doctor ordered

- Despite a weaker-than-expected development in exports in May, the overall picture remains that exports have bottomed out. Imports roared ahead driven by strong domestic demand and commodity stock building.
- Trade surplus is likely to decline substantially and China's accumulation of FX reserves will ease.
- In particular ASEAN, Latin America, Korea and Taiwan are currently benefiting from China's strong import volumes.

### Details

The development in China's **exports** was weaker than expected. According to our own seasonally adjusted data, exports edged up slightly and the overall picture remains that China's exports have stabilised in recent months. However, the rebound in China's exports since early this year has been weaker than in most other Asian countries, suggesting that the Chinese recovery story has been a major driver in Asian countries' export recovery in recent months (see chart on next page).

This is confirmed by the continued strong growth in China's **imports**. According to our own seasonally adjusted figures, China's imports soared ahead 5.8% m/m in May following an 4.9% m/m impressive jump in imports in the previous month. China's imports of commodities such as iron ore, coal and crude oil have been extraordinarily strong, increasing speculation that China is currently building strategic inventories of the most important commodities (see chart on next page). For that reason, Latin America (not least Brazil) and the ASEAN countries have benefited recently from China's strong import volumes.

Despite the big terms of trade gains from lower commodity prices, China's **trade surplus** has declined substantially since last year and, in our opinion, is likely to continue to do so despite our expectation of some improvement in exports. China's seasonally adjusted monthly surplus could very well decline below USD10bn in the coming months.

### Assessment & Outlook

The current recovery in China is being driven by very strong domestic demand. This was confirmed by the release earlier today of very strong fixed asset investment data for May (comment will be published later). It appears as if the Chinese government has been very successful in boosting domestic demand and this is a big positive for the world economy and not least the rest of Asia where many countries are starting to benefit from China's strong import volumes.

China's exports appear to have bottomed out and downside risk from the global economy on China appears to be declining. As mentioned above, China's trade surplus is likely to decline substantially and hence China's accumulation of FX reserves should ease significantly. One implication of course is that China's purchase of US treasuries should decline too. This is an unavoidable consequence of global rebalancing and in the end is just what the doctor ordered.

### Implications

We are unlikely to see further interest rate cuts from the People's Bank of China (PBOC). On the contrary, we believe PBOC will tighten monetary policy in H1 10.

Focus on monetary policy will gradually shift towards sustaining low inflation; China will at some stage resume its gradual appreciation of CNY.

### Foreign trade, May (% y/y)

	Act	Con	Last
Export, %y/y	-26.4	-23.0	-22.6
Export, %m/m, sa	0.9	na	-1.9
Import, %y/y	-25.2	-22.0	-23.0
Import, %m/m, sa	5.8	na	4.9
Trade bal (USDbn)	13.4	14.9	-13.1

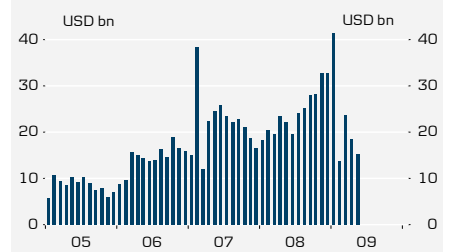
Source: Reuters Ecowin, Bloomberg and own calculations

### Exports stabilising, imports soaring



Source: Reuters EcoWin

### Trade surplus is declining despite major terms of trade gain



Source: Reuters EcoWin and own seasonal adjustment

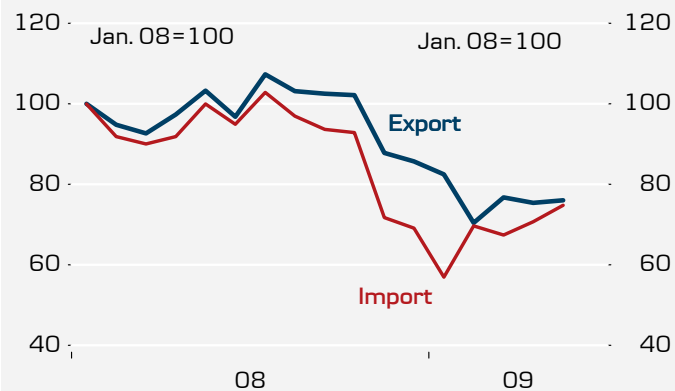
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Exports have stabilised, imports roar ahead



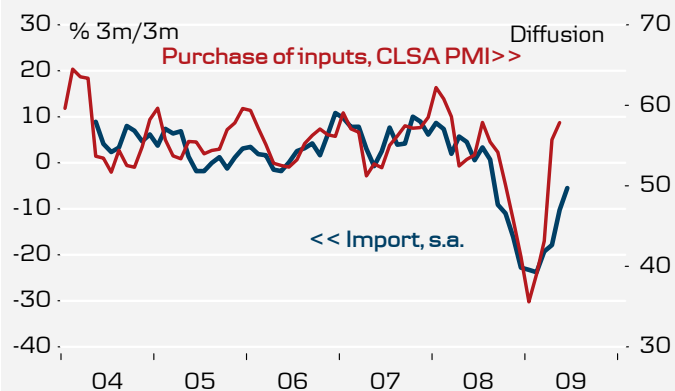
Source: Reuters EcoWin and own calculations

Export stabilisation consistent with PMI export orders



Source: Reuters EcoWin and Markit

Chinese companies are stepping up purchases and imports



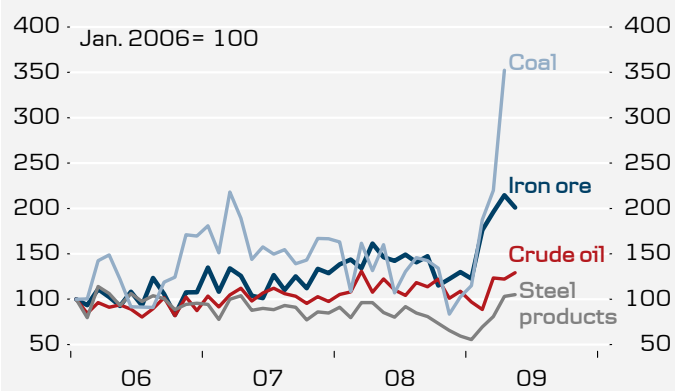
Source: Reuters EcoWin, Markit and own calculations

In real terms imports are close to the level from May last year



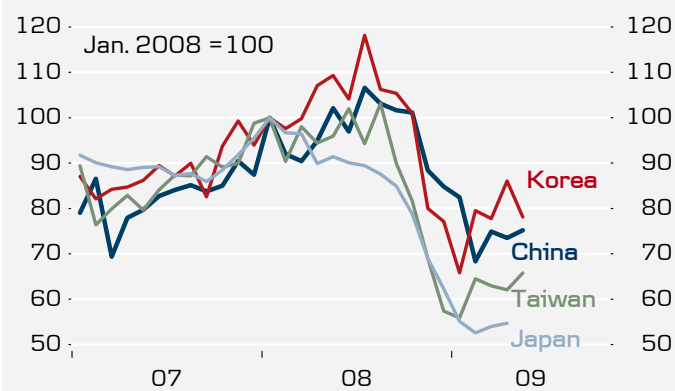
Source: Reuters EcoWin and own calculations

Volume imports of commodities have soared



Source: Reuters EcoWin

The rebound in China's exports has been less than in most other Asian countries



Source: Reuters Ecwin and own calculations

## Disclosure

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