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Macro Note

China: August Trade Data Showed Resilience But Outlook Clouded By Rising Tensions

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China's export and import growth moderated slightly in August but remained on a firm footing even as China and US have fully implemented additional tariffs on a total of US$50 bn worth of goods from each other. August export growth was in line with expectation at 9.8% y/y (exp: 10.0%, Jul:12.2%) while import growth came in above expectation at 20.0% y/y (exp: 17.7%, Jul: 27.3%). The trade surplus narrowed to US$27.91 bn in August from US$28.05 bn in July. In CNY terms, export growth strengthened to 7.9% y/y in August from 6.0% in July while import growth was largely intact at 18.8% y/y vs. 20.9% in July.

While China's total trade surplus continued to fall, its surplus with the US grew to fresh record high of US$31.05bn in August (Jul: US$28.09bn). This came on the back of stronger shipments to the US at 13.2% y/y in August (Jul: 11.2%) while imports from the US slowed sharply to 2.3% y/y (Jul: 11.1%). This could suggest that China's imports from the US is more sensitive to the tariffs than its exports to the US while there could also be further frontloading in China's exports before further tariffs on another US$200 bn of Chinese goods is expected to be implemented.

By markets, exports to US registered the fourth consecutive month of double-digit growth, while exports to ASEAN was 15.9% y/y in August, marginally higher than in July. There was some slowdown in exports to Japan and EU while exports to South Korea and UK contracted in the month. China's imports from the UK rose by a sharp 43.6% y/y in August (Jul: 28.7%) while imports from EU and ASEAN moderated to 10.3% y/y and 12.7% y/y from 19.7% and 30.2% respectively in July.

By products, there was a sharp rebound in coal shipments while export of agricultural products fell in August. Exports of hi-tech products maintained the 10th consecutive month of double-digit expansion though the growth rate has moderated to 10.6% y/y in August from 12.0% in July. As for imports, the growth was driven by energy products including crude petroleum oil and coal while import growth of hi-tech products moderated to 11.7% y/y from 25.2% in July.

Despite some moderation in the export growth momentum in recent months, China recorded export growth of 12.2% y/y YTD which was still well-ahead of 7.6% y/y in the same period of 2017. Similarly, import grew 20.9% y/y YTD compared to 16.9% in the same period of 2017.

Trade Outlook Increasingly Worrying

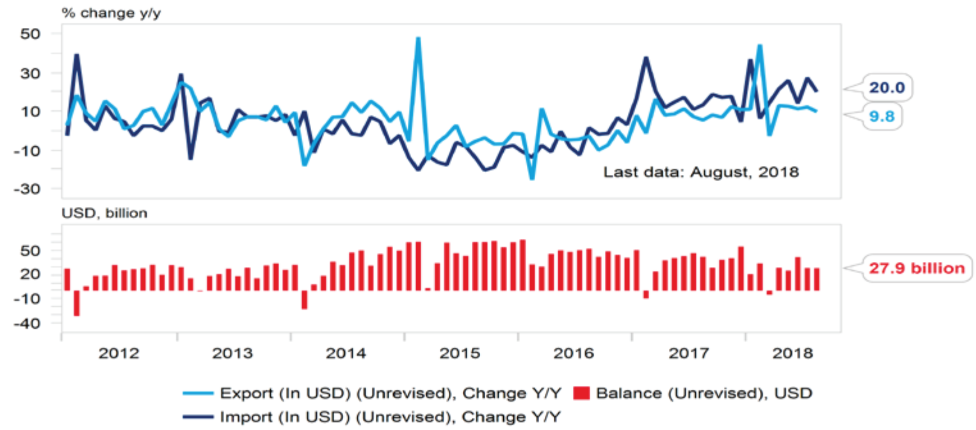
The resilience in China's trade data so far was partly supported by some frontloading and the strength in the US economy. However, the outlook is increasingly worrying as China and the US appear to be heading deeper into an all-out "trade war".

After the US Trade Representative (USTR) office concluded its public comment period for the proposed US$200bn of Chinese goods that are targeted next for the additional tariffs last week, markets are awaiting the official implementation by the US which US President Trump said "could take place very soon". This is significantly larger than the US$50 bn that are already implemented. Trump further said that another US$267 bn of Chinese goods are coming under consideration for additional tariffs which would then bring the tariff actions on all of China's exports to the US. The escalation in trade tensions will have a significant impact on China's trade in coming months considering the extent of goods being covered as US accounts for around 19% of its exports.

To soften the impact, China announced on Friday an increase in export tax rebates for 397 items including steel and electronic products effective 15 September. We expect Chinese policymakers to adopt more proactive fiscal and monetary policy stance including easing the domestic credit conditions further to support growth ahead. Former PBOC governor Zhou Xiaochuan said on Friday that the trade actions will have an impact of less than 0.5% on The Chinese economy given the companies' ability to re-route their exports but warned of the impact on sentiment.

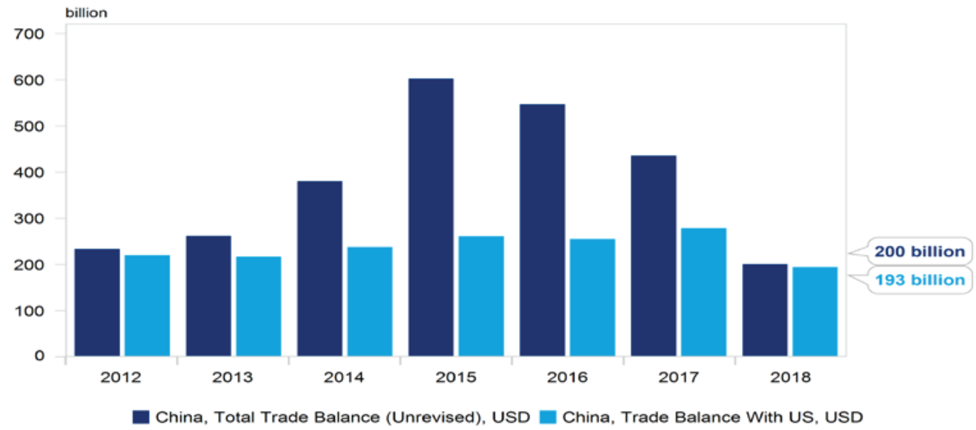
China, Foreign Trade (Monthly), USD

Source: Macrobond, UOB Global Economics & Markets Research



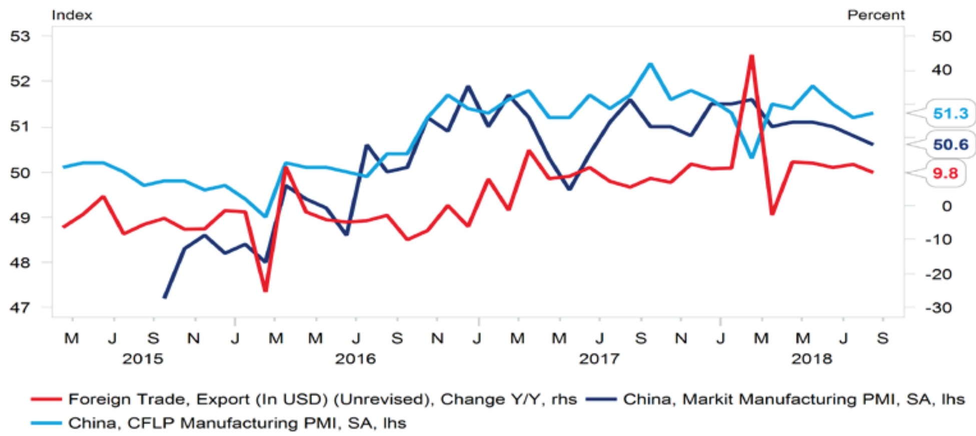
China Trade Balance, YTD (USD)

Source: Macrobond, UOB Global Economics & Markets Research



China Export Growth & Manufacturing PMIs

Source: Macrobond, UOB Global Economics & Markets Research



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