



Economic Insight

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China's export growth hit a more than one-year high in August

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- China's Aug export growth was 9.5% in USD terms, stronger than the 7.2% in July and the consensus forecast of 7.5%. The acceleration in export growth was largely due to resumed external demand on the gradual recovery in major economies and the rapid growth in the coronavirus prevention-related products
- Import growth eased to -2.1% in Aug from -1.4% in July in USD terms, well below the consensus forecast of 0.2% increase. Decline in import growth can be attributed to the bad weather, with high temperature in many areas and heavy floods in some that weighed on manufacturing activities
- The trade balance remained high at US\$ 58.9bn in Aug, compared to US\$ 62.3bn in July, exceeding the market expectation of US\$ 49.7bn. The large merchandise trade surplus in July and Aug and the narrowing of service trade deficit indicate the net exports of goods and services are likely to provide support for economic growth in 3Q20
- Looking ahead, with the continuation of global economic recovery and steady growth in China's economy, trade growth is expected to remain stable in the coming months despite the Sino-U.S. trade dispute. We revise up our export and import growth forecasts to 2.0% and -3.0% for 2020E, up from the previous estimates of -2.0% and -4.0%. Meanwhile, our forecast for spot USD/CNY rate by end-2020E was adjusted to 6.7000 from the previous estimate of 6.9000

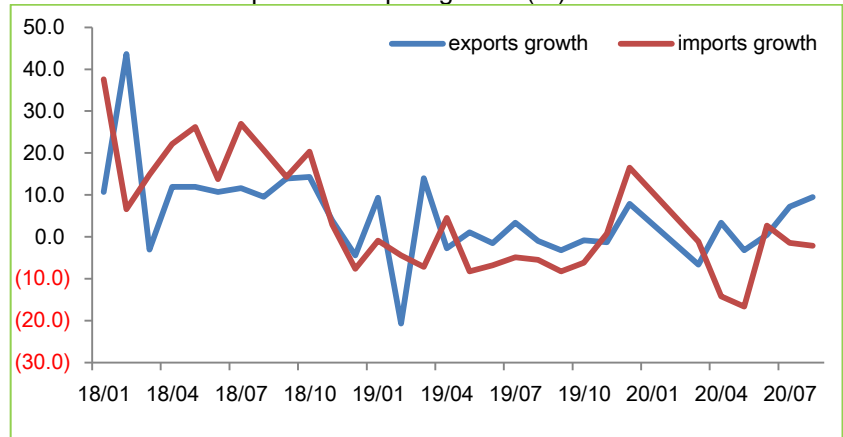
China's Aug export growth was 9.5%¹ in USD terms, stronger than the 7.2% in July and the consensus forecast of 7.5%, almost hitting an 18-month high (Exhibit 1). The rebounding export growth was in line with the advancement observed in the new export orders index within the official manufacturing PMI. The acceleration in export growth was largely due to a pick-up in external demand driven by the gradual recovery of the world's major economies from the pandemic, as well as the rapid growth in the COVID-19 prevention-related products. Notably, the spot CNY against USD appreciated by 1.1% in Aug, and the CFETS RMB index published by China Foreign Exchange Trading Center also appreciated by 1.7%, yet export growth is unhindered, reflecting China's resilience in the global industrial chain and supply chain.

China's export shipment to five major destinations – the ASEAN, EU, the US, Hong Kong, and Japan, grew by 12.9%, -6.5%, 20.0%, -3.0%, and -0.8%, respectively, in Aug, compared with 14.0%, -3.4%, 12.5%, 6.6%, and -2.0% in July. It can be seen that China's export growth to the US and Japan accelerated in Aug, while export growth to ASEAN, EU, and Hong Kong declined slightly. Notably, the export growth of products related to coronavirus prevention remained high in Aug. Export of plastic products grew by 90.6% in Aug, while export of textile products was up 47.0%; for medical instruments and equipment, the figure expanded by 38.9%. Meanwhile, export growth of integrated circuits slowed to 10.9% in Aug from 15.9% in July.

¹ All growth rates are year-on-year except specified otherwise



Exhibit 1: China's export and import growth (%)



Source(s): China Customs, ABCI Securities

Import growth eased to -2.1% in Aug from -1.4% in July in USD terms, well below the consensus forecast of a 0.2% increase. Decline in import growth can be attributed to the bad weather, with high temperature in many areas and heavy floods in some weighing on manufacturing activities. The import growth of major commodities in Aug was lower than that in July. By volume, imports of crude oil, iron ore, integrated circuits, soybeans, and grains grew by 12.6%, 5.8%, 9.9%, 1.3%, and 17.1%, respectively, down from 25.0%, 23.8%, 21.3%, 16.8%, and 32.9% in July. It is noted that import growth from the US eased to 1.8% in Aug from 3.6% in July.

The trade balance remained high in Aug despite falling slightly to US\$ 58.9bn from US\$ 62.3bn in July, exceeding the market expectation of US\$ 49.7bn. We believe the higher-than-expected trade surplus in Aug, coupled with the FX reserves that recorded a fifth straight monthly increase, would provide support to RMB in the near term. The high merchandise trade surplus in Aug and July and the sharp narrowing of service trade deficit indicate that the net exports of goods and services are likely to provide positive support for economic growth in 3Q20. Notably, China's trade surplus with the US further widened to US\$ 34.2bn in Aug from US\$ 32.5bn in July.

Looking ahead, with the continuation of global economic recovery and steady growth in China's economy, trade growth is expected to remain stable despite continuation of the Sino-U.S. trade dispute. We revise up our growth forecasts for China's exports and imports to 2.0% and -3.0% for 2020E from the previous estimates of -2.0% and -4.0%; meanwhile, our forecast for spot USD/CNY rate by end-2020E was adjusted to 6.7000 from the previous estimate of 6.9000 (Exhibit 2).



Exhibit 2: Economic forecasts

Economic indicators	2019	2020F(New)	2020F(Old)
Real GDP growth, %	6.1	2.5	2.5
FAI growth, %	5.4	2.0	2.0
Retail Sales growth, %	8.0	2.0	2.0
Export growth in USD terms, %	0.5	2.0	-2.0
Import growth in USD terms, %	-2.8	-3.0	-4.0
Industrial Production growth, %	5.7	2.7	2.7
CPI, %	2.9	3.0	3.0
PPI, %	-0.3	-1.0	-1.0
M2 growth, %	8.7	11.0	11.0
Aggregate Financing, RMB bn	25,674	30,000	30,000
New Yuan Loans, RMB bn	16,816	20,000	20,000
Spot CNY per US dollar, End-year	6.9632	6.7000	6.9000
One-year LPR, %	4.15	3.65	3.65
Five-year LPR, %	4.80	4.55	4.55

Source(s): NBS, PBOC, ABCI Securities estimates



Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate $<$ Market return rate (+10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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