

# Macro Note

## China: Larger-Than-Expected Decline In Sep Trade

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China's exports (in USD terms) remained in contraction at -3.2% y/y in Sep (exp: -2.8%, Aug: -1.0%) and imports at -8.5% in Sep (exp: -6.0%, Aug: -5.6%), coming in below consensus expectation. Trade surplus widened to US\$39.65 bn in Sep from US\$34.83 bn in Aug. In CNY terms, exports and imports contracted 0.7% y/y and 6.2% y/y respectively in Sep. YTD, China's exports and imports (USD terms) registered contractions of 0.1% y/y and 5.0% y/y respectively.

By key markets, the export decline in Aug was largest in the US (-21.9% y/y), Hong Kong (-12.6%), India (-7.0%), Japan (-5.0%) and South Korea (-5.1%) while it rose in ASEAN (+9.7%), Taiwan (+14.2%), UK (7.1%), EU (+0.1%) and Australia (8.8%).

By import sources, the largest declines were registered in South Korea (-27.0% y/y), US (-15.7%), Taiwan (-7.7%), Japan (-6.7%) and the EU (-6.5%) in Sep. The largest gains were from Hong Kong (+31.5%) and Australia (+25.9%). Similar to its exports trend, China's imports from ASEAN has risen for the 7<sup>th</sup> consecutive month by 3.4% y/y in Sep, indication of improving trade between China and the ASEAN region. Meanwhile, China's trade with the US continued to weaken: exports to US have fallen in nine out of ten months while imports were down for 13 straight months. Despite the significant reduction in bilateral trade between China and US, its trade surplus with the US has remained prominent at US\$221.19bn YTD in Sep compared to US\$227.26bn in the same period a year ago.

By products, China's exports of high-tech products fell 5.8% y/y in Sep vs 3.2% drop in Aug which likely reflected the weakness in computers and telecoms. Exports of rare earth fell sharply for the second consecutive month by 34.7% y/y in Sep (Aug: -31.9%) as US-China trade tensions escalated. However, shipments of products such as toys expanded at double-digit pace of 28.8% y/y in signs of frontloading before more additional tariffs are set to hit in Dec. Meanwhile, the continuous decline in imports of machine tools and commodities including steel and copper point to sustained weakness in the general demand.

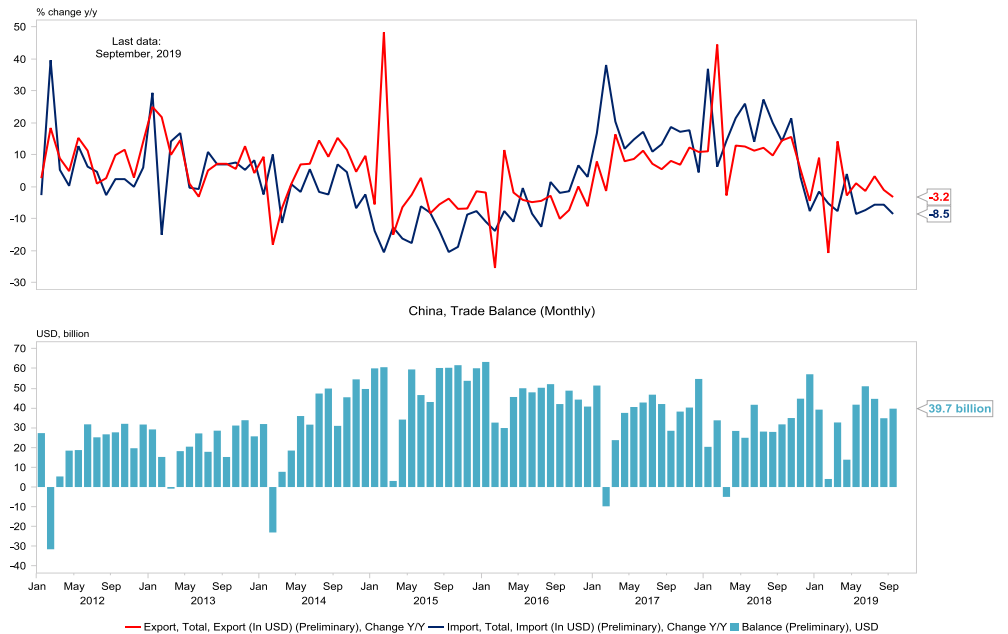
### Trade Outlook Remains Weak As Existing Tariffs Remain In Place

Although US and China reached a Phase 1 trade deal, there was no major breakthroughs and the bulk of the focus was on the US\$40-50 bn in annual agricultural goods purchases by China while the 15 Oct tariff was delayed not canceled and 15 Dec US additional tariffs of 15% on approximately US\$160 of Chinese goods remains in place. Between now and APEC summit on 16-17 Nov where US and China leaders will sign the Phase 1 agreement, there remains significant risk of breakdown in talks. We assessed the probability to be around 35%. ([US-China Trade: Phase 1 Is Far From Full Resolution](#), 14 Oct 2019)

With existing tariffs remaining in place, we keep our full-year growth forecast for China at 6.1% in 2019 and 5.9% in 2020. We expect to see continued weakness in China's economic data in the near-term. This includes the upcoming release of the 3Q19 GDP (18 Oct) which we forecast at 6.0% y/y vs. 6.2% in 2Q19. This should see Chinese policymakers maintaining a measured pace of proactive fiscal and monetary easing.

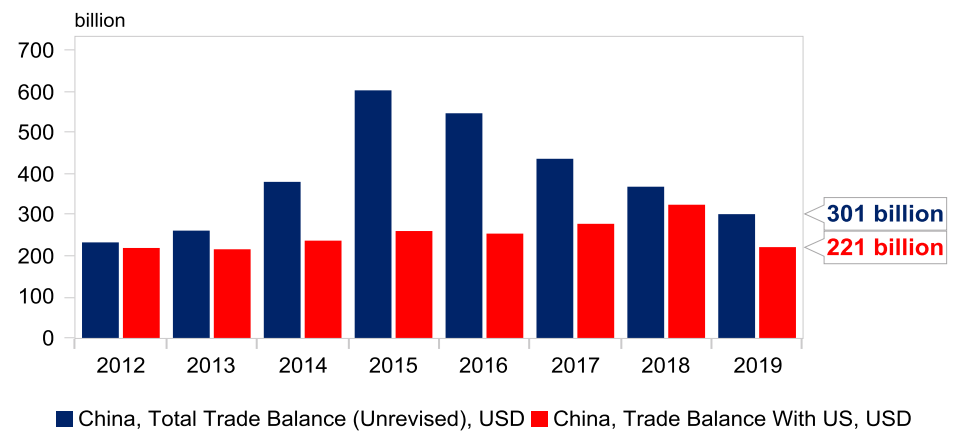
## China, Foreign Trade (Monthly) USD

Source: Macrobond, UOB Global Economics & Markets Research



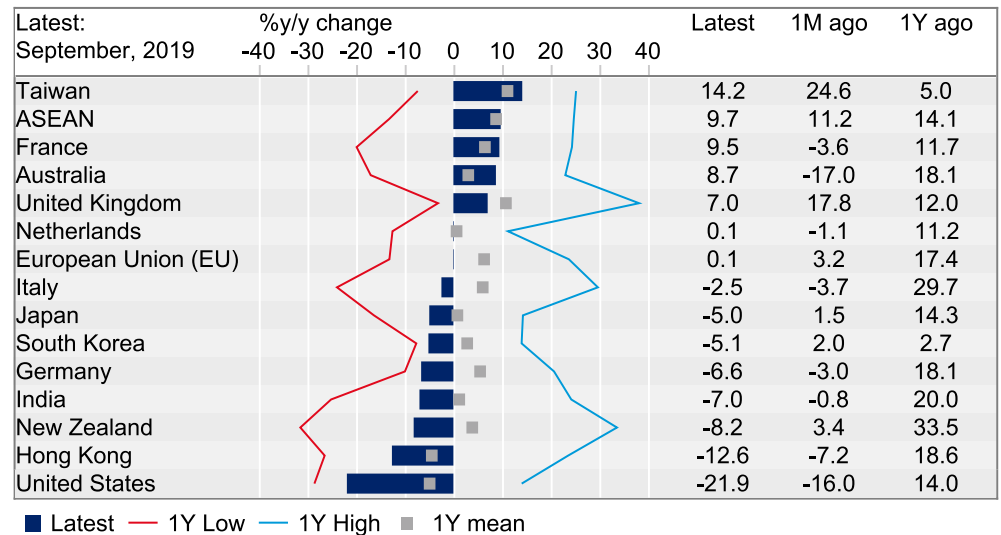
## China Trade Balance, YTD (USD)

Source: Macrobond, UOB Global Economics & Markets Research



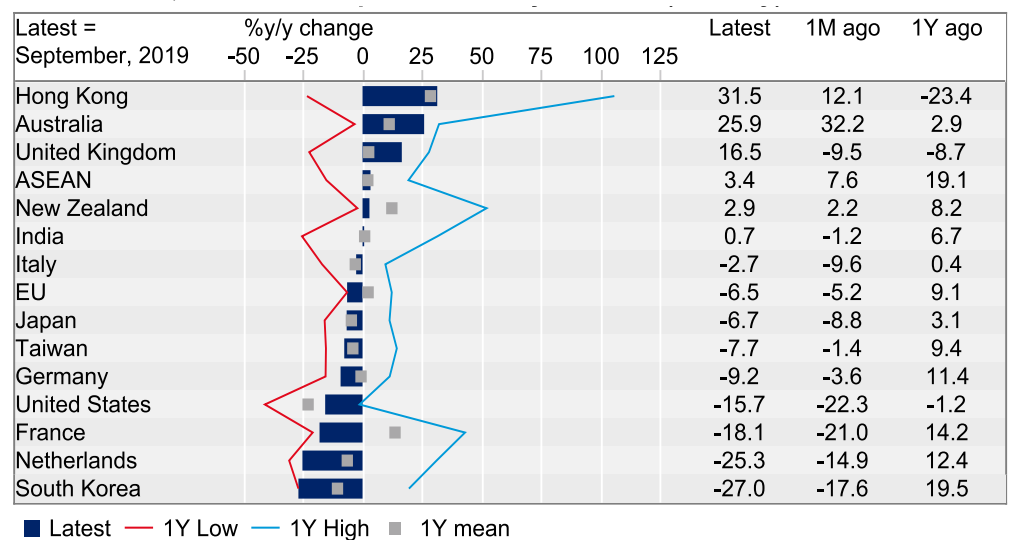
## China: Exports Performance By Key Markets (Monthly)

Source: Macrobond, UOB Global Economics & Markets Research



## China: Imports From Key Sources (Monthly)

Source: Macrobond, UOB Global Economics & Markets Research



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