Economics

Chart of the Week: China's plunging imports and rising trade surpluses

Group Research

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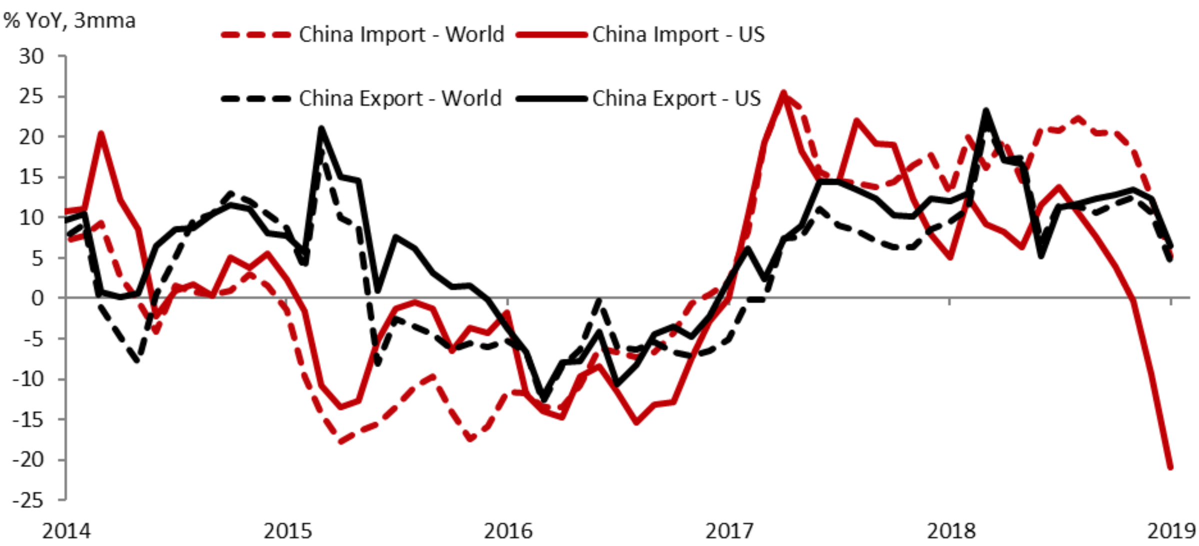
Key Events:

- *We expect Bank Indonesia to keep policy rates unchanged at this week's decision.*
- *Singapore's non-oil domestic exports are expected to rebound to 2.1% YoY in December.*
- *Price pressures continue to ebb in India with December's CPI expected to print 2.1% YoY.*

Chart of the Week: Trade war is yet to go the US way

Have tariffs and other trade-related developments caused a decline in China's trade surplus vis-à-vis the US? The data show the opposite, at least so far. Whatever the cause may be (slowdown in domestic demand, substituting away from US goods, etc), Chinese imports from the US have plunged lately, while exports have held up quite well (perhaps reflecting strong demand in the US, lack of substitutability of Chinese goods, etc). Consequently, in 2018, China's trade surplus vis-à-vis the US was USD324bn, higher than the USD278bn in 2017 or USD254bn in 2016. Meanwhile China's trade surplus relative to the world continues to decline (USD352bn in 2018, USD420bn in 2017, and USD537bn in 2016). The chart below underscores the dynamic vividly. Imports growth from the US have plunged but holding up when seen from total imports perspective. Trade war is yet to go the US way.

China's Exports and Imports



Source: Bloomberg data from Chinese Customs General Administration, Group Research

Event	Consensus	DBS	Previous
Jan 14 (Mon)			
India: CPI (Dec)	2.17% y/y	2.1% y/y	2.33% y/y
China: trade balance (Dec)	USD 51.6bn	USD 51.4bn	USD 44.7bn
-- exports	2.0% y/y	2.0% y/y	5.4% y/y
--imports	4.5% y/y	4.0% y/y	3.0% y/y
Jan 15 (Tue)			
Indonesia: trade balance (Dec)		-USD 2.3bn	-USD 2.05bn
-- exports		2.00% y/y	-3.28% y/y
-- imports		16.00% y/y	11.68% y/y
India: trade balance (Jun)	-USD14.30bn	-USD14.5bn	-USD16.67bn
- exports		0.6% y/y	0.8% y/y
- imports		1.1% y/y	4.3% y/y
Jan 16 (Wed)			
US: retail sales (Dec)	0.1% m/m sa	0.3% m/m sa	0.2% m/m sa
Jan 17 (Thu)			
Singapore: non-oil domestic exports (Dec)	2.0% y/y	2.1% y/y	-2.6% y/y
Hong Kong: unemployment rate (Dec)	2.8% sa	2.8% sa	2.8% sa
Eurozone: CPI (Dec F)	1.6% y/y	1.6% y/y	1.9% y/y
Indonesia: BI repo rate		6.00%	6.00%
Jan 18 (Fri)			
Japan: CPI (Dec)	0.3% y/y	0.4% y/y	0.8% y/y
US: industrial production (Dec)	0.2% m/m sa	0.3% m/m sa	0.6% m/m sa

China: Early indicators point to further moderation of trade sentiments. New export orders PMI and imports PMI have contracted for 7 and 6 consecutive months respectively. Trade balance is set to deteriorate in the months ahead.

Hong Kong: Thanks to the favorable local economic growth (real GDP rose 3.5% YoY in 1-3Q18), the labor market should remain tight. Recovery in inbound tourism and domestic consumption (visitor arrivals and retail sales value increased 11.0% and 10.0% YOY respectively in 2018 YTD) should support the labor market. The seasonally-adjusted unemployment rate is expected to stay at a 20-year low of 2.8%. Looking forward, the potential repercussion from the Sino-US trade friction warrant concern. The demand for labor, of which 11.6% comes from the import/export trade and wholesale sectors, is set to slow. Also, Hang Seng Index slump to 25,000 from its year-high of 33,000 points of late. The negative wealth effect to the local spending sentiment might blow headwinds to the retail sector as well as the labor market.

India: String of weak inflation numbers is likely to persist, with December CPI inflation to rise 2.1% YoY, at the lower end of the RBI's 2-6% inflation range. Price pressures continue to ebb, primarily due to disinflation in the food segment, which makes up nearly half of the basket. Food likely declined for a third consecutive month, with high-frequency data pointing to a drop in vegetables and sugar, while pulses fall by a smaller extent. Imported pressures also received some relief as a pullback in global oil softened domestic prices and rupee stabilised, just as base effects from rent allowance increases fade. With inflation trending to the lower end of the target range, a shift in the policy stance from 'calibrated tightening' to 'neutral' is on the cards. Odds of a rate cut have risen, but we reckon the policy panel will prefer to leave the door open with dovish commentary this week. Separately, December trade deficit likely moderated to USD14.5bn, reflecting a smaller oil imports bill, while non-oil purchases continued to moderate.

Indonesia: We see trade deficit to widen slightly to -USD2.3bn in December from -USD2.05bn in the previous month on the back of stronger imports growth. Despite easing oil and gas imports which was driven by lower oil price, total imports might remain on its acceleration path driven by the non-oil and gas account. The strong non-O&G imports might continue at least in 1H19 due to the ongoing infrastructure projects as well as higher economic activity as the general election is only four months away. On another account, export number is likely to remain weak following subdued global demand.

Yet, we think it might improve slightly to 2% YoY from -3.28% in Nov18, the first negative growth since September 2016. This December trade balance estimate is still in line with our current account deficit forecast of 3% of GDP for 2018.

We think Bank Indonesia will likely maintain the policy rate at 6.0% (on 17 Jan) as external pressures have eased on the capital flows front and Rupiah. In fact, Rupiah has strengthened in the last month by around 2.1% since the beginning of the year. On the trade side, deficit widened in November, however we think current account deficit would hover around 3% of GDP in 2018 and will somewhat narrow in 2019 thanks to lower oil price.

Japan: CPI inflation for Dec18 is expected to register 0.4% YoY, the second consecutive month of slowdown and notably lower than the 0.8% in Nov18 and 1.4% in Oct18. This will converge with the core-core CPI, which is estimated to remain stable at 0.3% in Dec18. The sharp correction in global oil prices in 4Q18 has reduced imported inflation pressures. The yen has also appreciated versus the dollar, due to the deterioration in global risk appetite. On a positive note, lower oil prices, a stronger yen, together with the still-tight labour market, will lend support to consumption. This will, in turn, translate into a rise in demand-side inflation in the medium term. As such, the BOJ is likely to tolerate the ongoing phenomenon of disinflation, keeping policy unchanged at the next meeting on 23 Jan.

Singapore: Non-oil domestic export sales for December should see some respite. A rebound to +2.1% YoY is expected, from a decline of 2.6% previously. Some front-loading of orders ahead of the upcoming Lunar New Year by manufacturers in China could be reflected in the number. Electronics exports registered the first month of expansion in the past twelve months. Pharmaceutical exports could surprise on the upside after a month of lull in November. However, the trend is still down with risk of a sequential decline compared to the previous month. This stems largely from an ongoing deceleration in China, with additional drag from the trade tensions between China and the US. Overall export outlook is gradually dimming.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).