DBS Flash

China: Stable signs, slower growth

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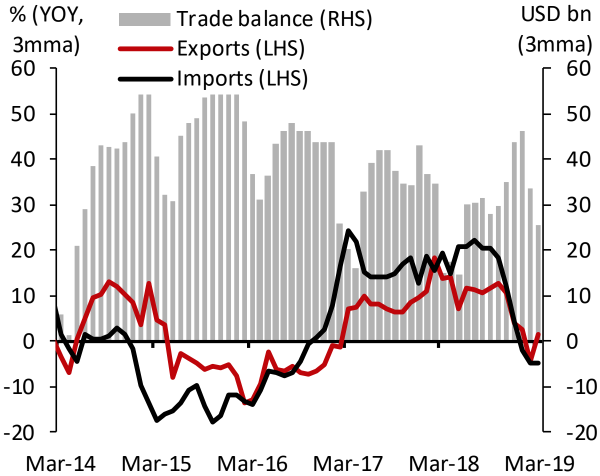
Samuel Tse
Economist

Please direct distribution queries to Violet Lee +65 68785281
violetleeyh@dbs.com

- *Export growth registered its first double-digit growth since October 2018.*
- *The rebound was partly due to the earlier Lunar New Year this year.*
- *Negative import growth deepened to -7.6% YoY on sluggish domestic demand.*
- *Implication for our forecast: Expect 1Q19 GDP growth to slow modestly to 6.3% from 6.4% in 4Q18.*
- *Implication for our investor: Monetary policy will remain supportive.*

Chart 1: Merchandise trade

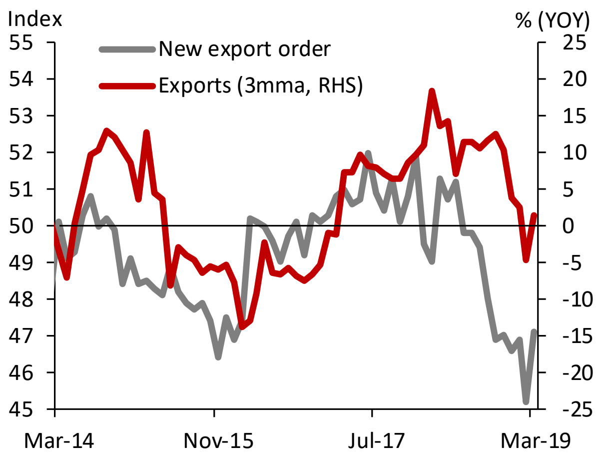


China's export performance improved markedly. Growth rebounded to 14.2% YoY in March from -4.6% in January-February and led 1Q19 (Chart 1) growth to 1.4%. An improvement in sentiment banking on hopes for an easing in trade tensions was also evident in other indicators. Within the NBS Manufacturing PMI, new export orders rebounded from 45.2 in February to 47.1 in March after 10 straight months of declines (Chart 2). **The appreciable export rebound was, however, due to the hefty 66.3% contribution in export price to headline growth in 1Q19 and the earlier Lunar New Year this year.**

Weakening global demand will continue to hamper the recovery in external trade. Export to the US dropped 9.0% YoY in 1Q19 from higher tariffs and recession fears. Between February and March, PMIs fell to 56.0 from 59.1 in the US, 51.6 from 51.9 in the Eurozone and to 50.4 from 50.7 in Japan. With global growth risks synchronized to the downside, the IMF has downgraded its forecast for this year's world growth from 3.5% to 3.3%, the slowest since 2016. A relatively strong CNY exchange rate also compromises competitiveness of exporters.

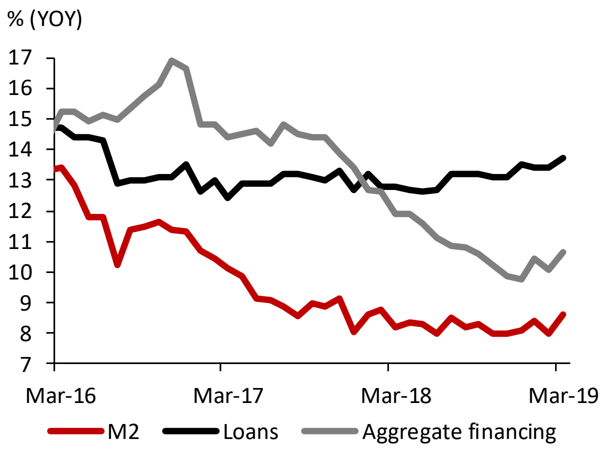
Unlike exports, imports growth did not turn positive and contracted 4.8% YoY in 1Q19. Despite a modest recovery in oil prices, the decline in imports deteriorated to -7.6% in March from -3.2% in January-February. WTI crude oil prices have, in the past 4.5 months, recouped 62% of the sharp losses incurred in 4Q18, but prices are still below the USD65-75/barrel range seen in 2Q-3Q18.

Chart 2: Exports and Manufacturing PMI



Imports was also hurt by weak domestic demand which we expect will stabilize soon. NBS Manufacturing PMI has turned expansionary (above 50) for the first time since November. Consumer confidence should also get a lift from the wealth effect generated by buoyant stock markets. For example, the Shanghai Shenzhen CSI 300 Index has rallied almost 35% this year. China has cut taxes on personal items bought overseas to lift consumption. For example, consumers are now taxed 15% instead of 13% for computers, food, gold, furniture and medicine, and 20% instead of 25% for textiles, electric appliances and bicycles tax. These measures coupled with the earlier import tariff cuts on both consumer and industrial goods should stimulate imports in the months ahead.

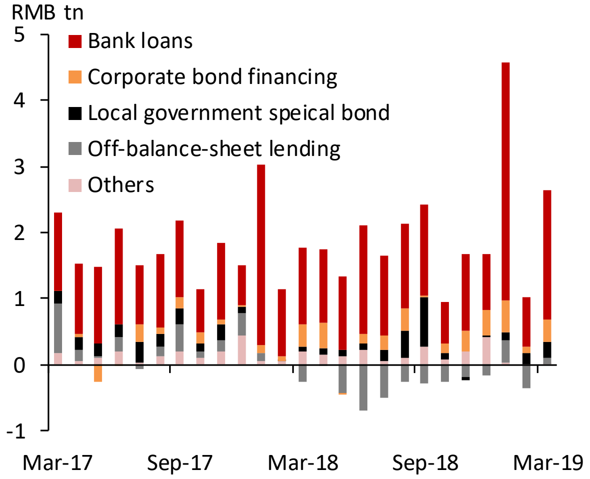
Chart 3: M2, loans, and aggregarate financing (outstanding)



On the monetary front, liquidity conditions have continued to ease. M2 money supply increased by 8.6% YoY in March, the strongest growth since February 2018 (Chart 3). Outstanding aggregate financing increased by 10.6% in March or 10.4% in 1Q19, 0.4ppt above 4Q18. More appreciable increases were found in bank loans (Chart 4). Share of long-term corporate loans to total loans increased to 44.4% in 1Q19 from 22.1% in in 4Q18. Meanwhile, the average lending rates have also fallen from persistent liquidity injections by the People's Bank of China (PBOC). These measures included the 350 bps cut in the reserve requirement ratio (RRR) since 2018; the Macro-Prudential Assessment (MPA) factors adjustment to encourage lending to SMEs; and the introduction of a SME-focused targeted medium-term lending facility (TMLF). The relending and rediscounting quota was also increased by RMB150bn for small and micro companies and private enterprises. Looking ahead, the authorities will continue to support exporters. To revive risk appetite in the financial sector, the authority will be looking to unclog the transmission channel to ensure that the liquidity eventually reaches the SMEs.

In conclusion, we see some early signs of a stabilizing Chinese economy. **We project the economy will advance 6.3% in 1Q19, down from 6.4% in 4Q18.**

Chart 4: Aggregate financing (new increase)



Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Masyita Crystallin, Ph.D.
Economist – Indonesia & Philippines
+62 21 2988-4003 masyita@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Neel Gopalakrishnan
Credit strategist
+65 6878-2072 neelg@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Ma Tieying
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

Radhika Rao
Economist - Eurozone & India
+65 6878-5282 radhikarao@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Duncan Tan
FX and Rates Strategist - ASEAN
+65 6878-2140 duncantan@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668 5695 samueltse@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

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

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