

## Samuel Tse

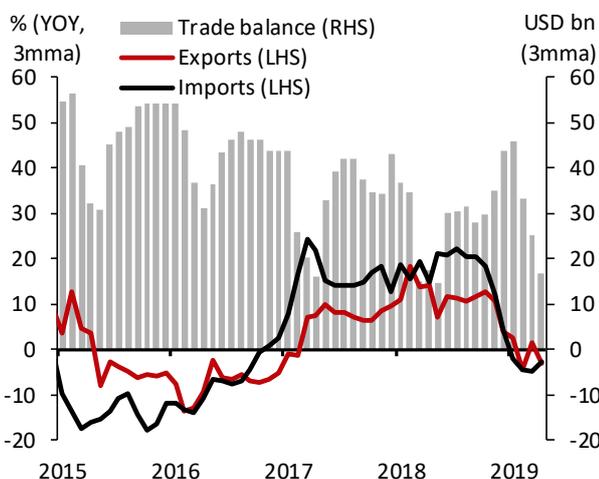
Economist



Please direct distribution queries to Violet Lee +65 68785281  
[violetleeyh@db.com](mailto:violetleeyh@db.com)

- Exports dropped 2.7% YoY from 13.8% in March while imports bounced back by 4.0% from -7.6%
- The consumer price inflation accelerated to 2.5% in April from 2.3% in March
- Outstanding aggregate financing growth inched down from 10.7% to 10.4%
- Downward pressure on local interest rate will soon resume

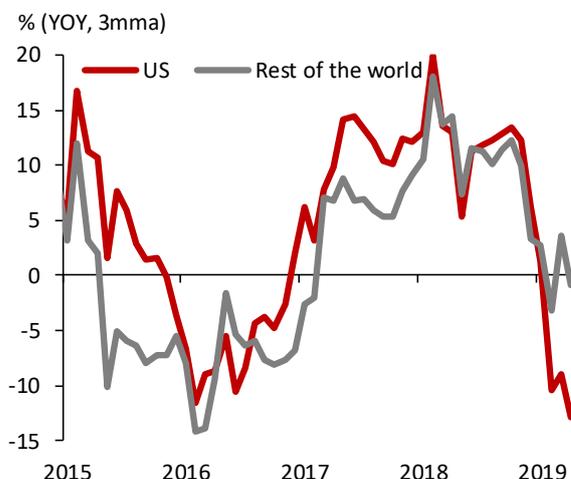
Chart 1: Merchandise trade



Source: CEIC, DBS Group Research

**China's export performance (-2.7% YoY) turned sluggish in April** (Chart 1). The weak early indicator, April's NBS Manufacturing new export orders PMI (stayed in the contraction zone for 11 straight months), pointed to a lacklustre trade environment (Chart 2). Amid the weakening global demand, export growth to the EU dropped to 6.5% from 23.7% alongside the continued downtrend of its PMI of (edged down to 51.5 from 51.6). Outward shipment to Japan also fell by 16.3%, the biggest drop since Feb16 (its PMI stayed at 50.4, the lowest reading since Sep16).

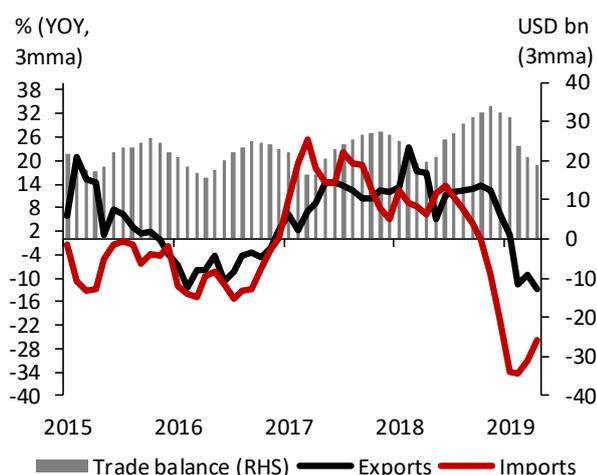
Chart 2: Exports to US and rest of the world



Source: CEIC, DBS Group Research

**The outlook of the external environment is cloudy due to lingering trade tension with the US.** US President Trump has threatened that tariffs on USD200bn of imports from China will rise from 10% to 25% on Friday. The Chinese delegation will be visiting the US despite the looming threat. Potential higher tariff for the rest of the Chinese imported goods (mainly consumer goods) is also on the cards. Export to the US in April dropped 13.1%, compared to the 3.7% advance in March. Yet, the trade balance increased from USD20.5bn from USD21.0bn due to slumping import (-25.7%) from the US (Chart 3).

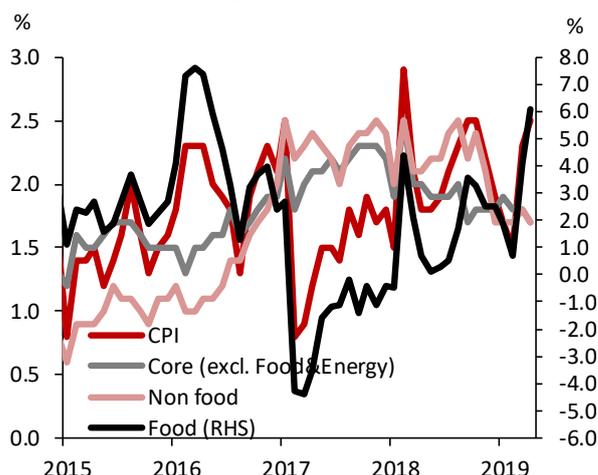
**Chart 3: Trade balance vis-à-vis the US**



Source: CEIC, DBS Group Research

**Imports growth was 4.0% in April on the back of gradually improving domestic demand.** Headline NBS Manufacturing PMI was above 50 for the second time since Nov18, with the import component improved from 48.7 to 49.7. In fact, the industrial production and fixed asset investment surge to 8.5% and 6.3% in March from 5.3% and 6.1% registered in Jan-Feb respectively due to large-scale stimulus policy. These increased the demand for commodities such as oil, copper and coal. The respective import volumes increased by 10.8%, 6.6% and 13.5%. The rise in commodity price fuelled upward pressure to headline import figure. For instance, iron ore price jumped over 30% from its year-low. WTI crude oil prices rebounded 45% in the past 4 months to USD62/barrel. Import of these products in value terms is even higher than that in volume terms (oil: 4.3% ppt higher; iron ore: 25.7ppt). Meanwhile, the China-US trade deal also boosted soybeans import. The inward shipment soared by 10.4% in volume terms/2.9% in value terms due to the decrease of value-added tax for the product effective in April. This is the first YoY increase since Nov18.

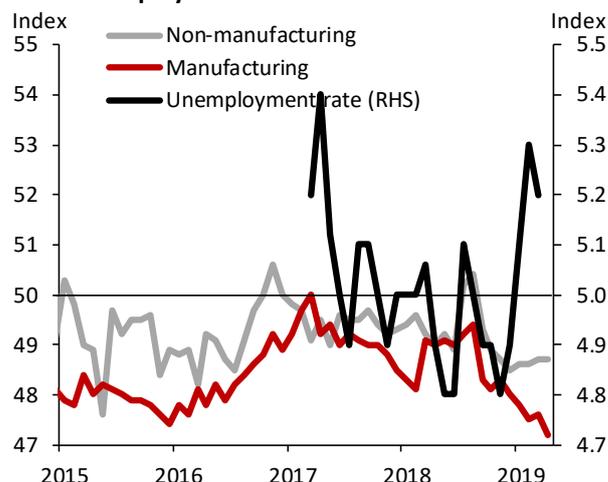
**Chart 4: CPI by category**



Source: CEIC, DBS Group Research

**The CPI was up 2.5% YoY in April from 2.3% in March** (Chart 4). Food inflation was 6.1%, with pork prices jumping by 14.4% YoY in April after recording 25 consecutive declines till March. This was the strongest increase since Jun16 and was largely due to the swine fever outbreak. Reportedly, China’s pork production fell 5% in 1Q19 and is expected to see a bigger drop in the quarters ahead. The pig stock also saw a 18.8% drop in March according to the Ministry of Agriculture and Rural Affairs. Pork prices are likely to stay elevated.

**Chart 5: Employment PMI**



Note: Surveyed Unemployment rate in Urban Areas is only available since Jan17.

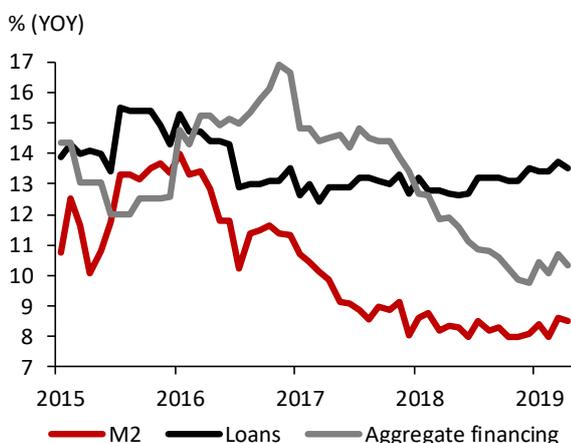
Source: CEIC, DBS Group Research

**Non-food inflation also edged down to 1.7% YoY in April from 1.8% in March.** Among all, the increase in prices of traffic and communication ease to -0.5% despite higher energy prices. Rent and healthcare & medical service also saw modest easing from 2.4% to 2.2% and 2.7% to 2.6% respectively. **Core inflation (excluding energy and food prices) edged down from 1.8% to 1.7%.** Consumption sentiment was dampened by weaker expectation of future income growth alongside a weakening labour market. The employment PMI for manufacturing sector went down to its 8 year-low of 47.2, while that of the non-manufacturing counterpart stayed in contraction zone for the 8<sup>th</sup> consecutive month (Chart 5). Unemployment rate also stayed above 5.0% for over 7 months. This will exert downward pressure on wage. According to the PBoC’s Urban Depositor Survey, inflation expectation was the third lowest since 2010. Only 26.8% of the respondents expected prices to surge. **As such, we maintain our inflation forecast of 2.3% for 2019 (2018: 2.1%).**

**Monetary condition tightened somewhat last month.** M2 growth inched down from 8.6% to 8.5% in April. Outstanding aggregate financing growth also eased back from 10.7% to 10.4%. Bank loan also drop from 13.7% to 13.5% (Chart 6). The corporate loan as percentage of total loan shrank, thereby suggesting a weak borrowing demand (Chart 7). Premature policy normalization could risk choking off growth momentum (see: [“Economy still fragile despite stabilization policies”](#), April 30). The escalated trade tension with US also warrants accommodative stance on monetary policy to stay.

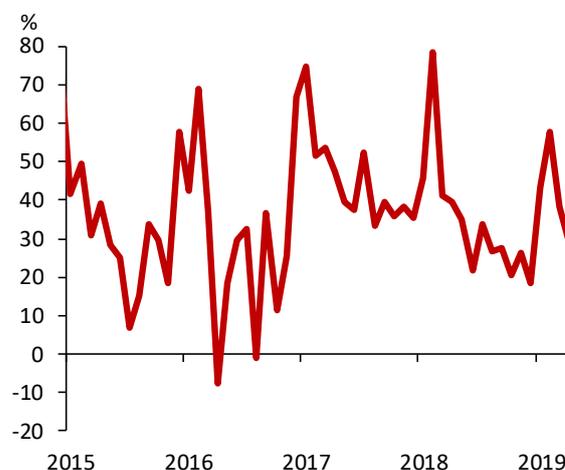
Earlier this week, the PboC cut reserve requirement ratio (RRR) releasing RMB 280bn for small to medium size banks. Banks with assets lower than RMB 10bn will be subject to RRR of 8%. About 1,000 small banks will benefit. The latest cut will put downward pressure on the 7-day repo rate, and subsequently drive down average lending rates. Looking ahead, a broad-based easing is likely given persistent trade tensions (see: [“RRR cut signals PBoC still supportive”](#), May 06).

**Chart 6: M2, loans, and aggregate financing (outstanding)**



Source: CEIC, DBS Group Research

**Chart 7: Corp. long term loan/total loan**



Source: CEIC, DBS Group Research

## Group Research

### Economics & Strategy

**Taimur Baig, Ph.D.**

Chief Economist - G3 &amp; Asia

+65 6878-9548 [taimurbaig@dbs.com](mailto:taimurbaig@dbs.com)**Nathan Chow**

Strategist - China &amp; Hong Kong

+852 3668-5693 [nathanchow@dbs.com](mailto:nathanchow@dbs.com)**Masyita Crystallin, Ph.D.**

Economist – Indonesia &amp; Philippines

+62 21 2988-4003 [masyita@dbs.com](mailto:masyita@dbs.com)**Joanne Goh**

Regional equity strategist

+65 6878-5233 [joannegohsc@dbs.com](mailto:joannegohsc@dbs.com)**Eugene Leow**

Rates Strategist - G3 &amp; Asia

+65 6878-2842 [eugeneleow@dbs.com](mailto:eugeneleow@dbs.com)**Chris Leung**

Economist - China &amp; Hong Kong

+852 3668-5694 [chrisleung@dbs.com](mailto:chrisleung@dbs.com)**Ma Tieying**

Economist - Japan, South Korea, &amp; Taiwan

+65 6878-2408 [matieying@dbs.com](mailto:matieying@dbs.com)**Radhika Rao**

Economist - Eurozone &amp; India

+65 6878-5282 [radhikarao@dbs.com](mailto:radhikarao@dbs.com)**Irvin Seah**

Economist - Singapore, Malaysia, &amp; Vietnam

+65 6878-6727 [irvinseah@dbs.com](mailto:irvinseah@dbs.com)**Duncan Tan**

FX and Rates Strategist - ASEAN

+65 6878-2140 [duncantan@dbs.com](mailto:duncantan@dbs.com)**Samuel Tse**

Economist - China &amp; Hong Kong

+852 3668 5695 [samueltse@dbs.com](mailto:samueltse@dbs.com)**Philip Wee**

FX Strategist - G3 &amp; Asia

+65 6878-4033 [philipwee@dbs.com](mailto:philipwee@dbs.com)

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

**Disclaimer:**

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E. PT Bank DBS Indonesia, DBS Bank Tower, 33<sup>rd</sup> floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000. Company Registration No. 09.03.1.64.96422.