

Nathan Chow

Strategist/Economist



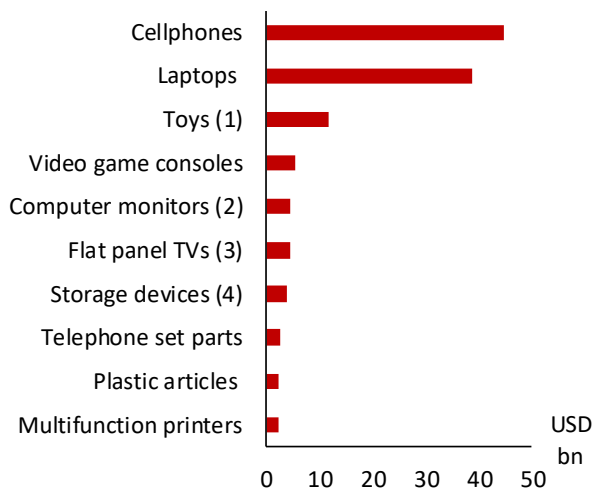
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Charts of the month

- The Trump’s administration raised tariffs to 25% on nearly USD200bn of goods from China on May 10 and is preparing to add levies on the remaining Chinese imports (approx. USD325bn), with a public hearing scheduled on June 17.
- The proposed list would cover nearly every consumer product left untouched by previous tariffs, including cellphones (USD44.8bn) and laptops (USD38.7bn).
- Trade war’s impact will be unevenly distributed in local China. Disruption is expected to be more pronounced in the coastal regions that rely heavily on trade such as Guangdong, Shanghai, Zhejiang, Jiangsu, and Fujian.
- These areas are China’s traditional export powerhouses. Collectively, exports account for more than 36% of their GDP, much higher than the national average of 18.3%.

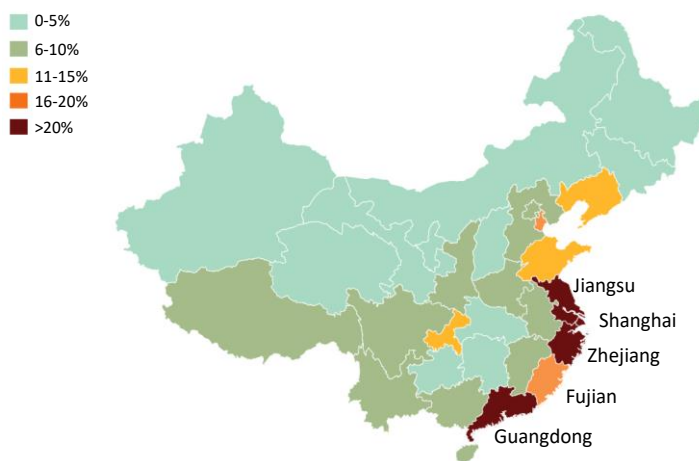
Top 10 US imports from China that could be subject to 25% tariffs



Note: (1) Wheeled toys, puzzles, scale models
 (2) Other than LCD, CRT displays
 (3) Smaller than 13.5" and VCR or other players
 (4) E.g. USB drives, hard disks

Source: Bloomberg and DBS Group Research

Provincial economic vulnerability to trade war (export as % of GDP)



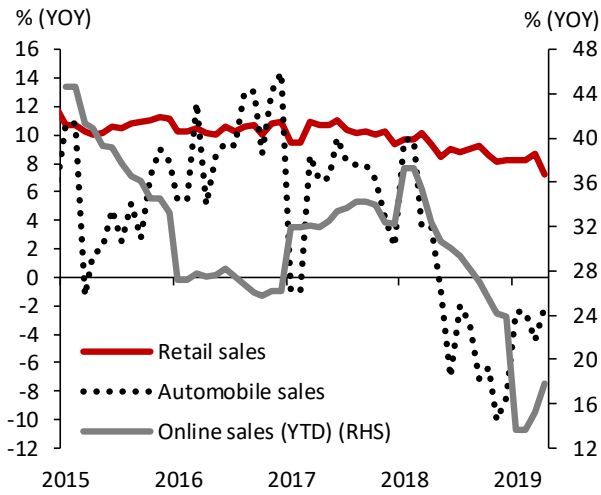
Source: Economist Intelligence Unit, Visme, and DBS Group Research

Sales, investment, property, profits

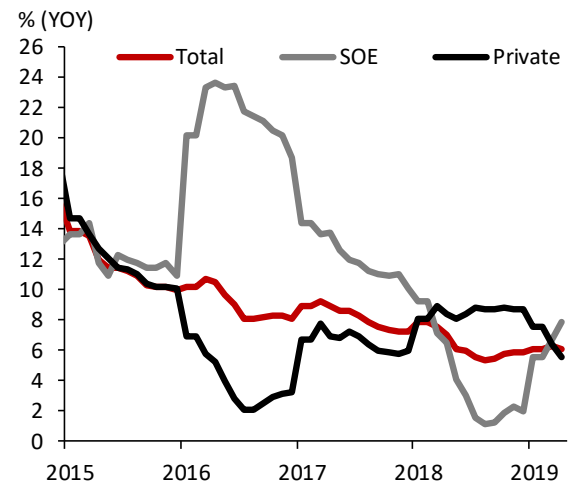
Advance in retail sales weakened to 7.2%, the lowest level last seen in 2003; auto sales have been in negative territory the last 12 months.

Investment was driven by SOEs; private investment remained weak amid external uncertainties.

Retail sales



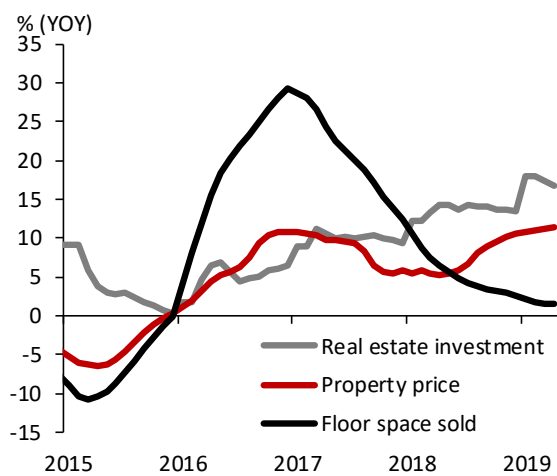
Fixed asset investment (YTD)



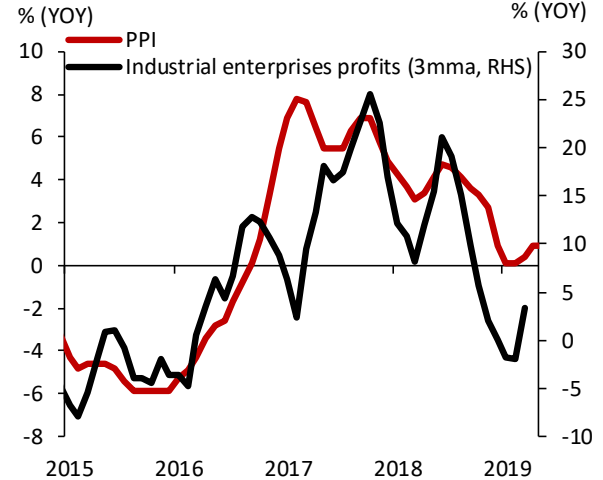
Property price surprised on the upside, but floor space sales remained weak.

Industrial earnings growth rebounded in March on improving producer price inflation.

Residential housing growth



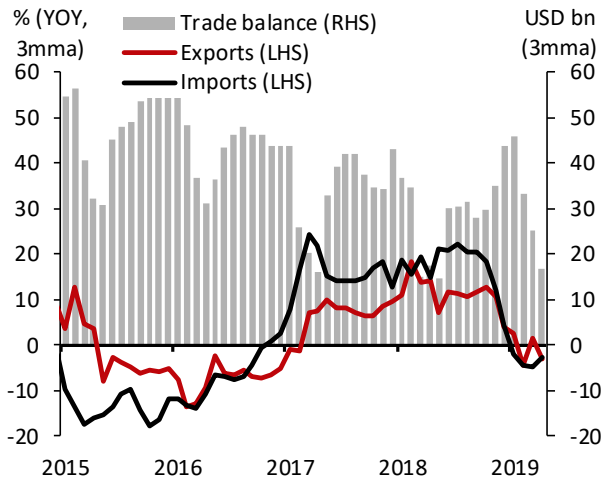
PPI vs profits



External sector

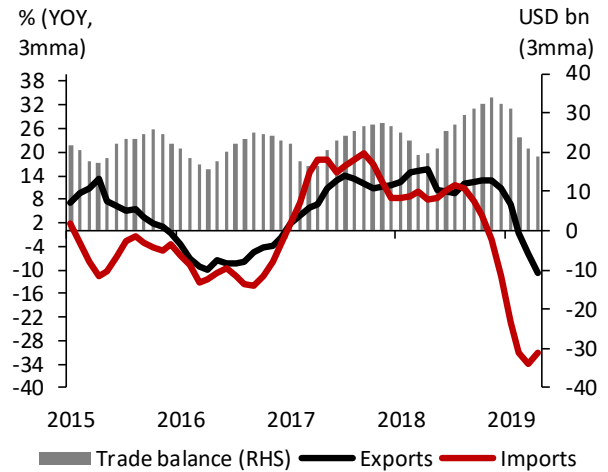
China's exports dropped 2.7% YoY in April from growth of 13.8% in March due to moderating external demand and lingering trade conflicts with the US.

Merchandise trade



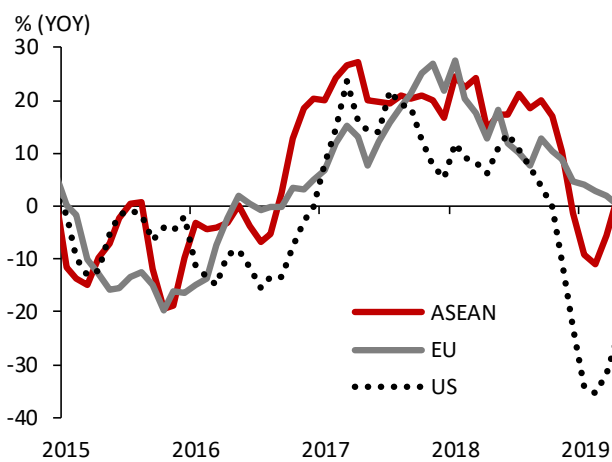
Trade surplus with the US remained high amid a significant drop of inward shipment from the US.

Trade balance vis-à-vis the US



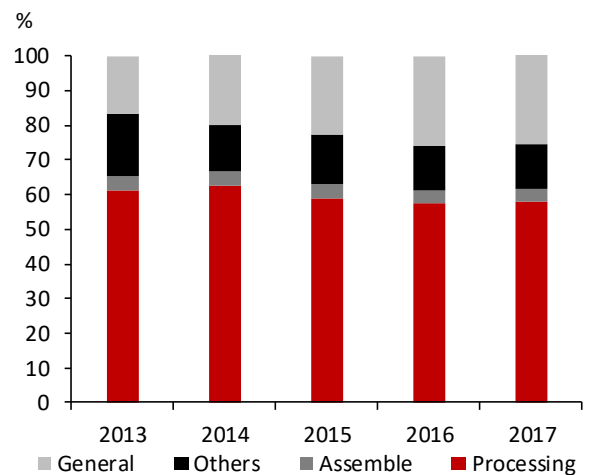
Imports from the EU moderated; that from the US continued to record high double-digit drop.

Import by country (3mma)



Share of processing trade continued to drop; yet it remained as the major high-tech export component.

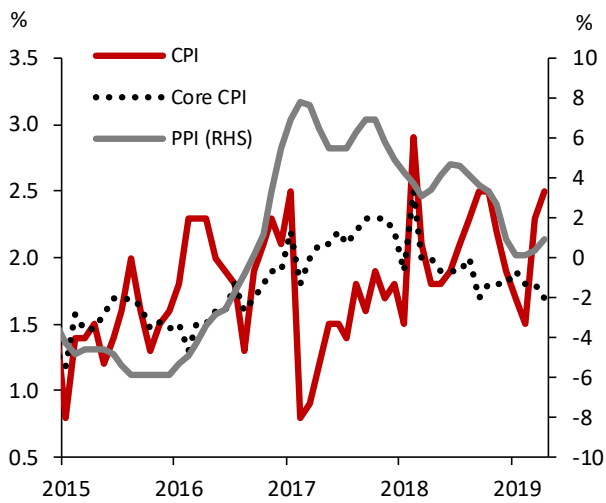
Processing trade as % of high-tech exports



Monetary

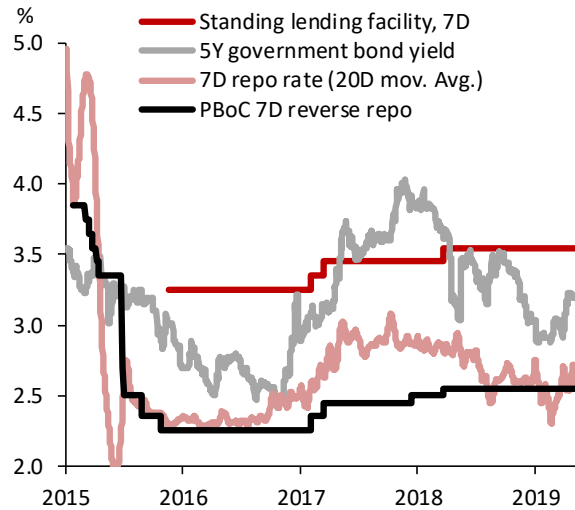
Headline CPI increased to 2.7% in April from 2.3% in March. Food price inflation accelerated due to widespread of pork disease.

PPI, headline CPI, and core CPI



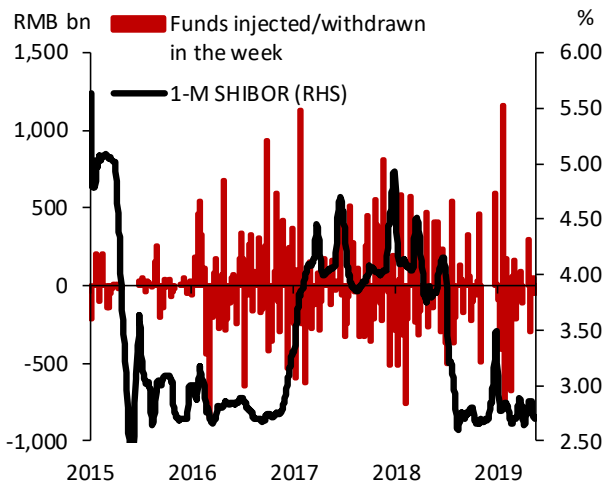
Borrowing cost retreated due to liquidity injections and the recent RRR cut.

Interest rates



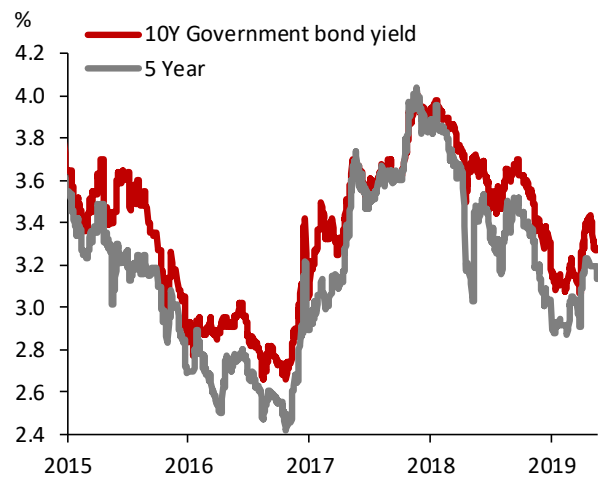
PBoC missed one reverse repo in April; open market operation withdrawal and injection was on par.

Open market operation, SHIBOR



PBOC's accommodative stance will likely keep the borrowing cost low.

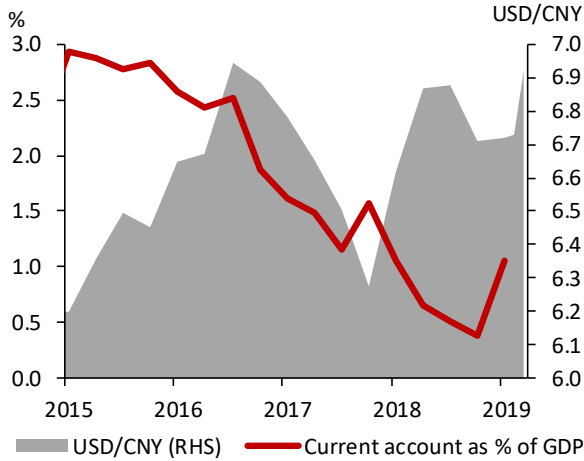
Government bond yields



Capital flows

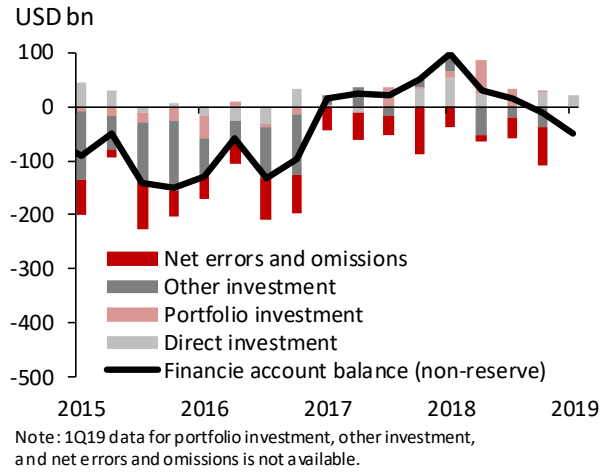
Current account surplus rose again in 1Q, thanks to increased export price.

Current account as % of GDP and CNY exchange rate



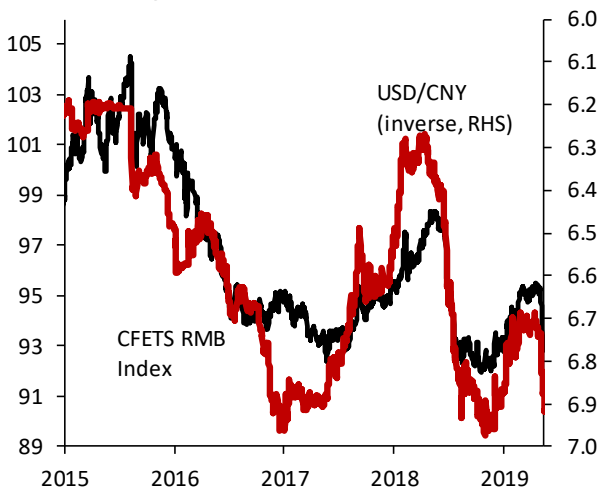
Financial account turned negative, with a deficit of USD48.6bn

Financial account



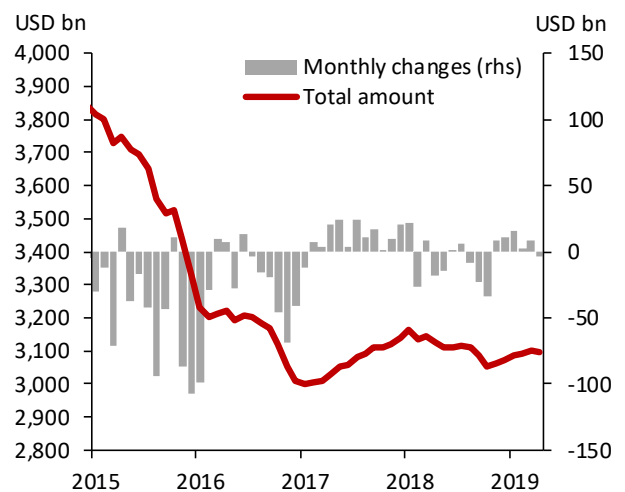
CNY depreciated against the USD as more monetary loosening is expected.

RMB exchange rates



Forex reserves recorded mild month-to-month decrease but it stayed above USD3trn.

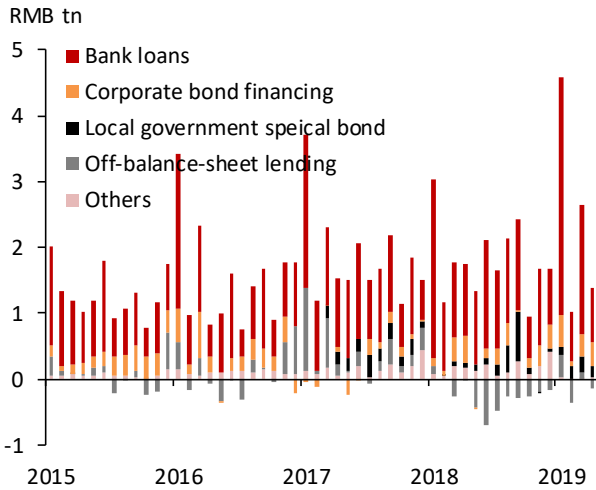
Forex reserves



Deleveraging

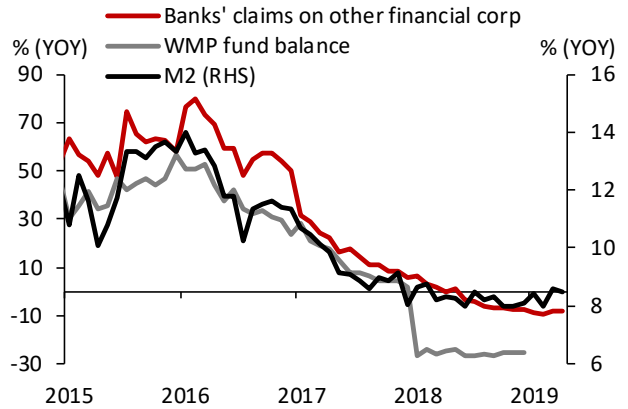
New increase in shadow lending returned to negative zone, indicating the lending continued to shift back onto the book.

Total social financing (new increase)



Intra-financial claims registered negative growth of -25%-27% in 2018.

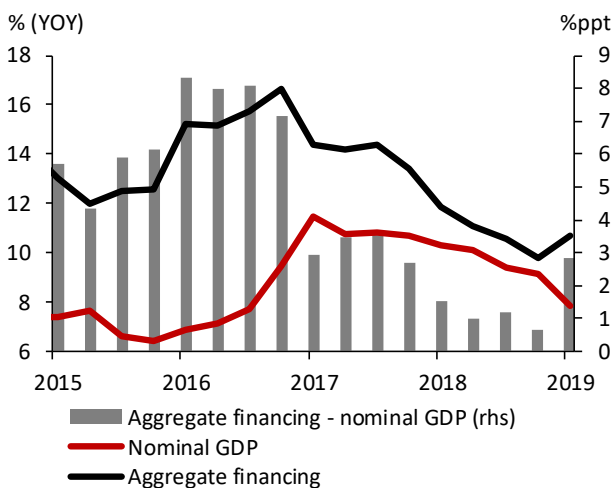
Intra-financial claims



Note: Intra-financial claims: The sum of borrowing from financial institutions and issuance of securities (debt securities, commercial paper and certificates of deposit) owned by other financial institutions.

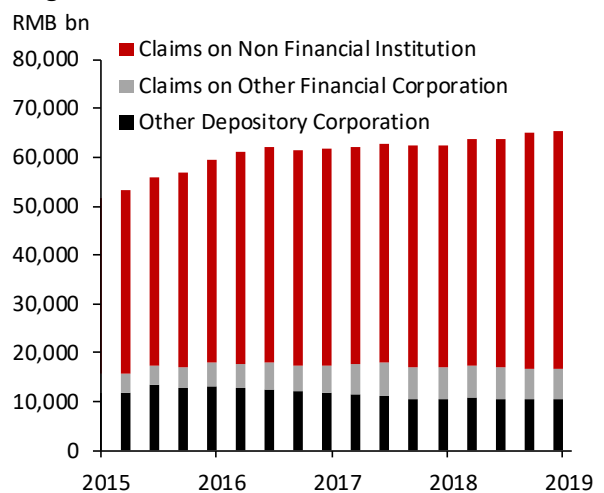
The gap between aggregate financing and nominal GDP growth widened to 2.9 percentage points in 1Q19.

GDP and aggregate financing growth



The existing large stock of intra-financial sector credit is a persistent risk to financial stability.

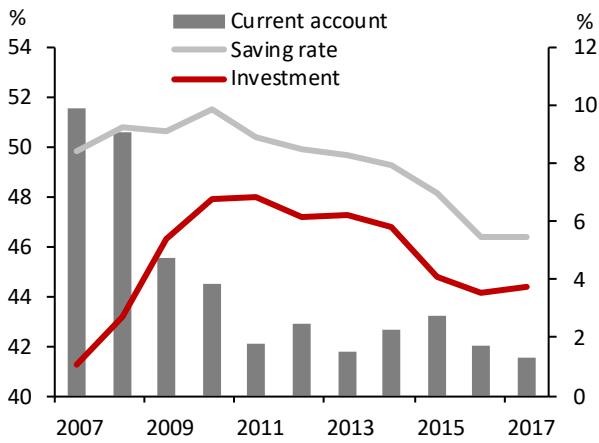
Large banks' claims on other institutions



Rebalancing

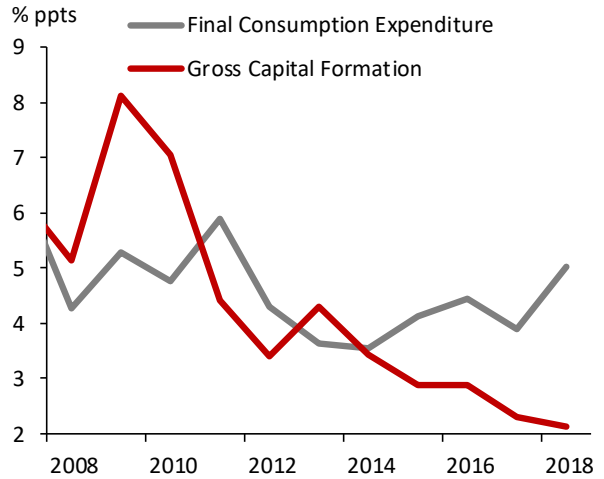
External rebalancing advanced with national savings falling faster than investment.

Investment, saving and current account as percentage of GDP



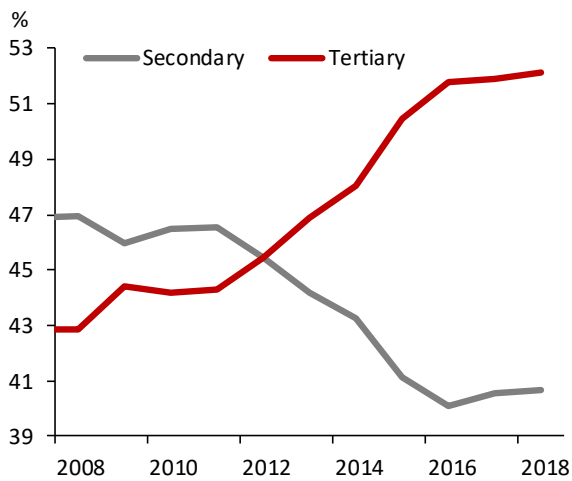
Domestic rebalancing continued with ongoing strength in consumption.

Contribution to growth



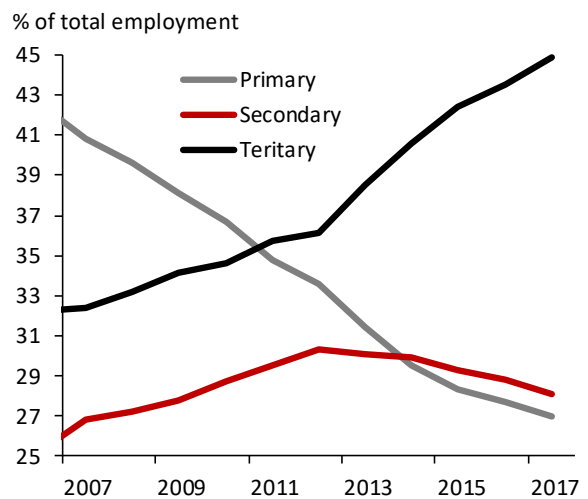
On the supply side, the share of services in GDP continued to rise...

GDP by production (as percentage of GDP)



... with labour relocation from agriculture and industry to service.

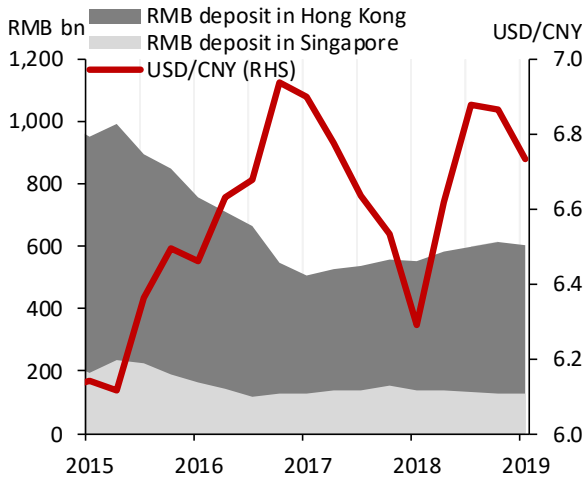
Employment by sector



RMB internationalization

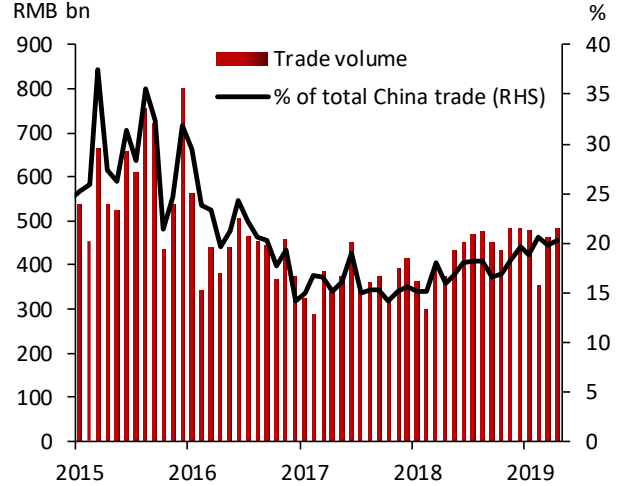
Offshore RMB deposits have fallen 40% from their 2014 peak.

RMB deposits and CNY exchange rate



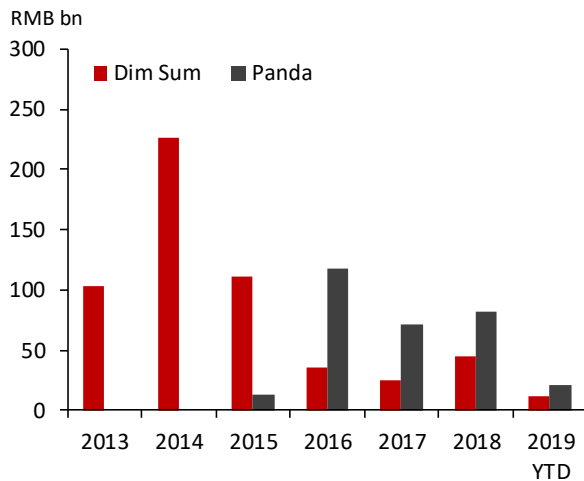
RMB cross-border transactions have rebounded somewhat.

RMB cross-border trade settlement



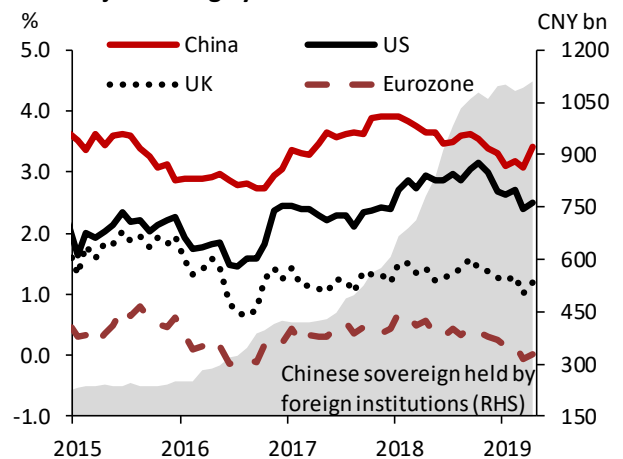
Both Dim Sum bond and Panda bond markets shrank due to a weakening borrowing sentiment.

RMB-denominated bond issuance



Foreign investors have increased their holdings of Chinese sovereign bonds.

Chinese sovereign held by foreign institutions and major sovereign yields



Forecasts on major indicators:

	GDP				CPI inflation			
	2017	2018f	2019f	2020f	2017	2018f	2019f	2020f
Growth rate (% YoY)	6.9	6.6	6.2	6.0	1.6	2.1	2.3	2.3

Exchange rate and interest rates forecasts									
		Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
USD/CNY	eop	6.90	6.85	7.00	6.95	6.90	6.85	6.80	6.75
Benchmark lending rate	1Y (%)	2.91	2.80	2.80	2.80	2.80	2.80	2.80	2.80
Government bond yields	3Y (%)	3.36	3.15	3.10	3.15	3.20	3.25	3.25	3.25
	10Y (%)	45	35	30	35	40	45	45	45
	10Y-3Y (bps)	2.91	2.80	2.80	2.80	2.80	2.80	2.80	2.80

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

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