DBS Flash:

China: Economic dataflow to weaken further

Economics/Strategy/Rates/FX

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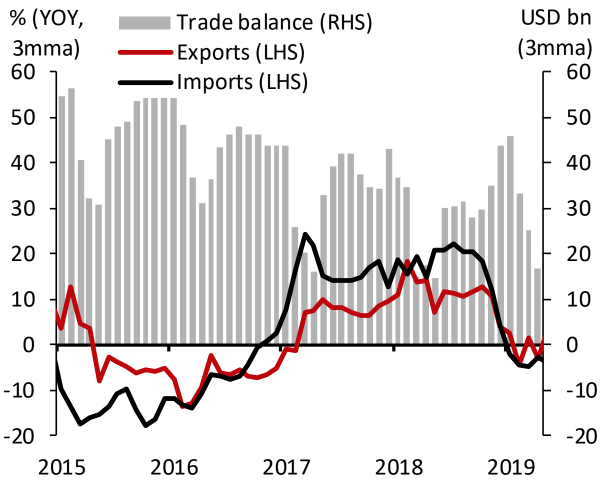
- *China's export performance (1.1% YOY) improved slightly in May from -2.7% in April*
- *Imports slid by 8.5% YOY in May from advancement of 4.0% due to both sluggish domestic demand*
- *The CPI was up 2.7% YoY in May from 2.5% in April due to widespread of swine fever*
- *Implication to our forecast: Domestic demand figures (Friday) will go South*
- *Implication to our investor: Worsening business condition will weigh on equity market performance*

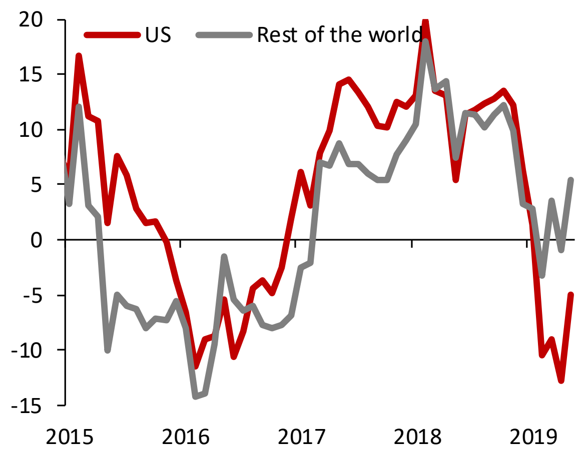
Chart 1: Merchandise trade



Source: CEIC, DBS Group Research

China's export performance (1.1% YOY) improved slightly in May from -2.7% in April (Chart 1). This may somewhat due to the front-loading activities after US imposed 25% tariffs on USD200bn of imports from China last month. By country, outward shipment to Japan bounced back to modest expansion of 0.5% from -16.3% while that to the EU dropped further to 6.1% from 6.5% (Chart 2). However, May's NBS Manufacturing new export orders PMI fell to 46.5 from 49.2 after improving for two consecutive months.

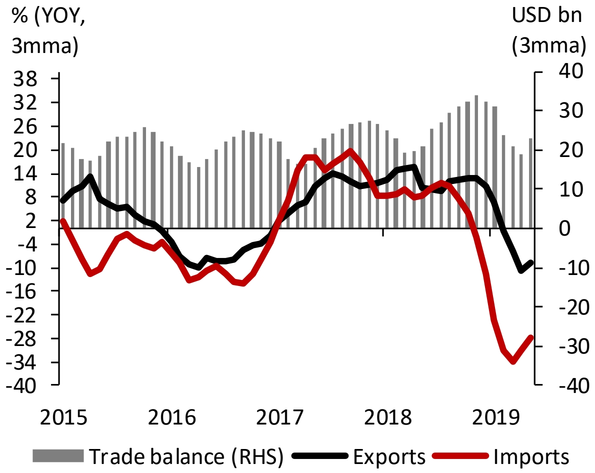
Chart 2: Exports to US and rest of the world



Source: CEIC, DBS Group Research

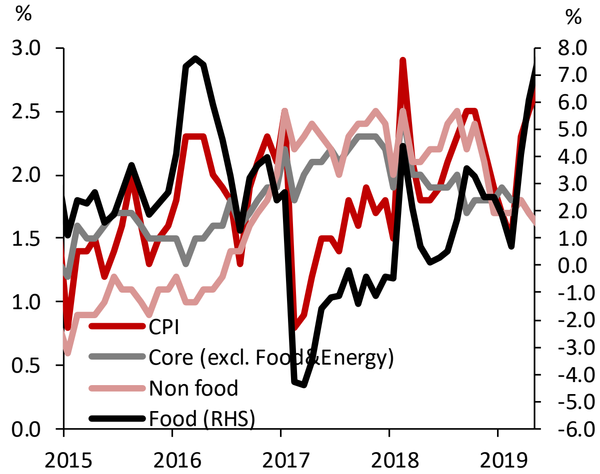
The outlook of the external environment will hinge on the trade talk with the US in the upcoming G20 Summit in Osaka, Japan. The US is likely to impose higher tariff for the rest of the Chinese imported goods (mainly consumer goods). Exports to the US recorded decline of 4.2% in May, compared to the 13.1% in April. Yet, the trade balance increased from USD26.9bn from USD21.0bn due to slumping import (-26.8%) from the US (Chart 3).

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



Source: CEIC, DBS Group Research

Chart 5: CPI by category

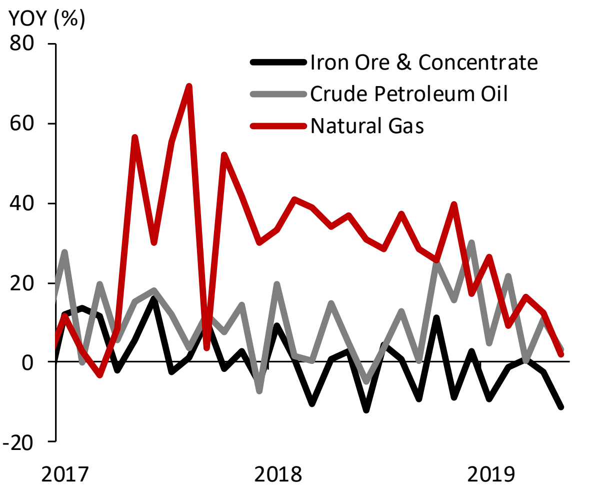


Source: CEIC, DBS Group Research

Imports slide by 8.5% YOY in May from advancement of 4.0% in April due to both sluggish domestic demand. Import from South Korea and Taiwan, the global electronics suppliers, fell noticeably by 18.2% and 8.3%. Raw material imports for industrial production were also weakened. The import volumes growth of iron ore, oil, and natural gas eased to -11.0%, 3.0% and 2.0% from -2.5%, 10.8%, and 12.3% respectively (Chart 4). Breakdown shows import of iron ore in value terms is even higher than that in volume terms (35.0ppts). This also largely mirror the slowdown of import from Australia (down from 18.0% to 5.2%).

The CPI was up 2.7% YoY in May from 2.5% in April (Chart 5). Food inflation continued to soar, at 7.7%. This is the highest inflation since Jan12. Pork prices jumped by 18.2% YoY.

Chart 4: Imports by selected commoidty

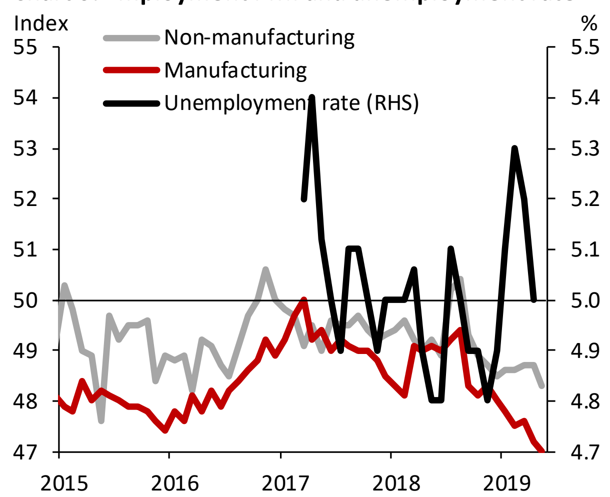


Source: CEIC, DBS Group Research

The uptrend is likely to sustain due to the widespread of swine fever outbreak. Meanwhile, the pig stock saw a 2.5% MOM drop in April. On a YOY basis, it fell by 20.8%. This was the biggest drop in record.

Non-food inflation also edged down to 1.6% YoY in May from 1.7% in April. Among all, prices of traffic and communication fell 0.9%. Rent and healthcare & medical service also saw modest easing from 2.2% to 2.1% and 2.6% to 2.5% respectively. **Core inflation (excluding energy and food prices) edged down from 1.7% to a 33-month low of 1.6% due to subdued income growth**. The employment PMI for manufacturing sector went down further to an 10 year-low of 47.0. That of the non-manufacturing counterpart also fell for the 9th consecutive month to touch a 48-month low of 48.3 (Chart 6). Unemployment rate also stayed above 5.0% for

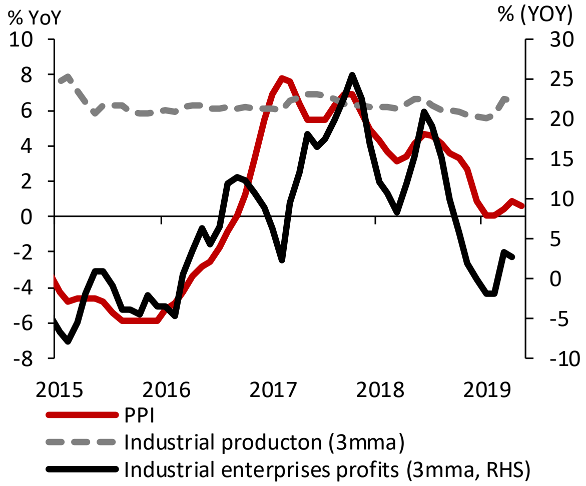
Chart 6: Employment PMI and unemployment rate



Note: Surveyed Unemployment rate in Urban Areas is only available since Jan17.
Source: CEIC, DBS Group Research

over 4 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%).**

Chart 7: PPI vs profits



Source: Bloomberg, CEIC, and DBS Group Research

Producer price inflation broadly eased to 0.6% YOY (0.2% MOM) in May from 0.9% (0.3%) in April. Performance of upstream industry will continue to moderate due to falling commodity price (except iron ore). PPI of raw materials went down by 0.6%. Chemical and metal PPI went down by 2.5% and 1% respectively. Meanwhile, consumer durables and automobiles went down by 0.8% and 0.7%. This indicates a softening industrial production and profits ahead (Chart 7).

In view of the sluggish trade performance and subdued core inflation expectation, retail sales and industrial production figures will likely to weaken further reflecting general sluggishness of domestic demand.

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