

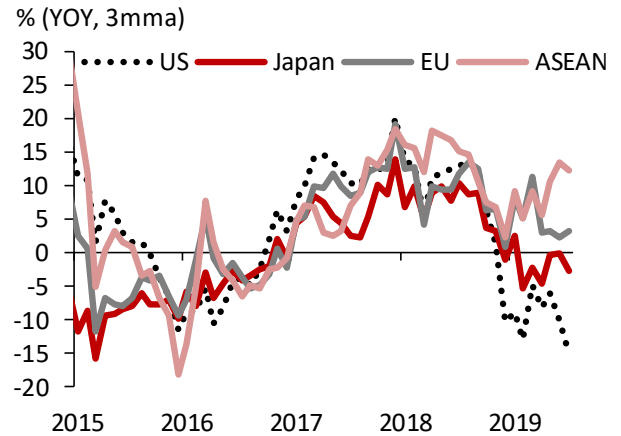
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Economist



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- *The mini China-US trade deal has forestalled the US tariff increase on October 15*
- *However, don't expect any quick recovery in China's weak trade performance*
- *Implication to our forecast: China's GDP will slow to 6.0% in 3Q19 from 6.2% in 2Q19*
- *Implication to our investors: Pro-growth policies will add downward pressure on interest rates and keep the CNY weak*

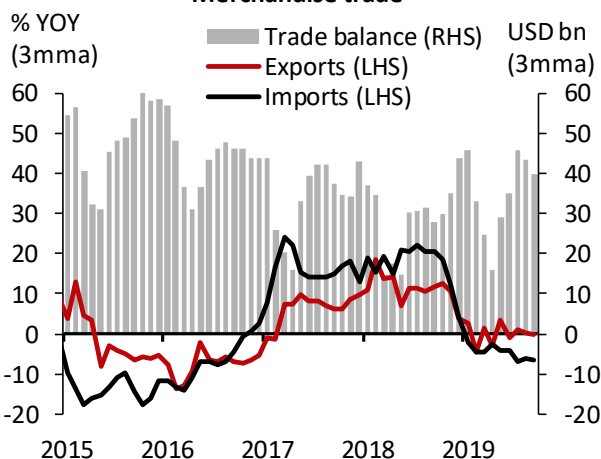
Export by country



Source: CEIC, DBS

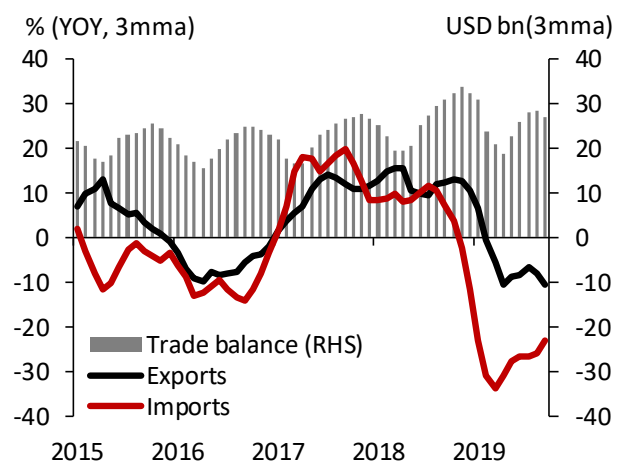
China's export growth in September fell deeper into negative territory of -3.2% vs -1.0% in August (Chart). By country (Chart), export growth for the comparable months plunged to -21.9% from -15.6% for the US, and to -5.0% from -1.5% for Japan. To address these shortfalls, exporters have sought to diversify revenue sources by trading more with the ASEAN countries. Here, growth has remained strong at 9.7% in September after three consecutive months of double-digit expansion.

Merchandise trade

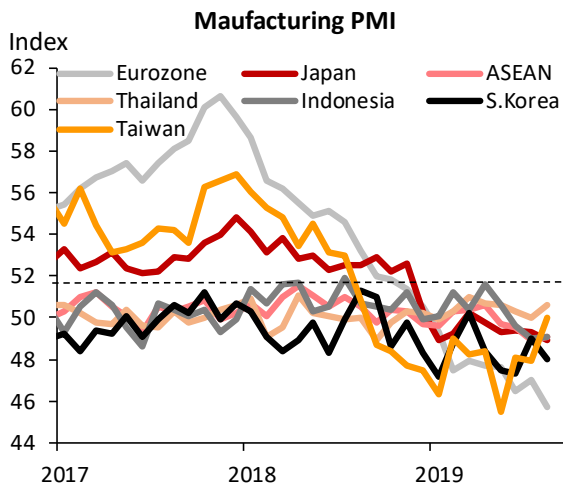


Source: CEIC, DBS

Trade balance vis-à-vis the US



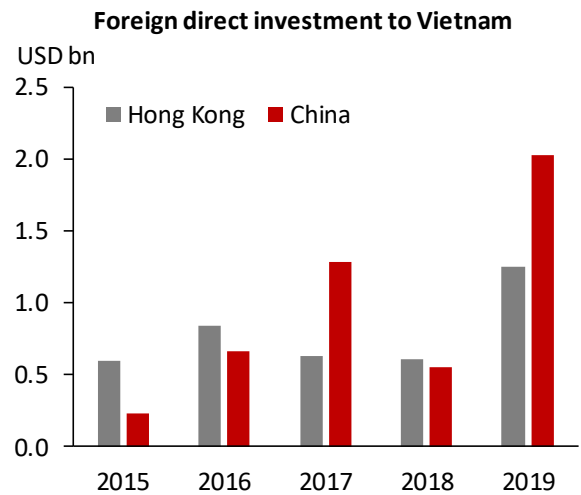
Source: CEIC, DBS



Source: Bloomberg and DBS Group Research

The outlook for the external sector has remained cloudy. The new export orders PMI contracted for the 16th straight month in September albeit an improved reading of 48.2 vs 47.2 in August. Last week's trade talks with the US were positive and delayed the US tariff increase scheduled for October 15. Without a comprehensive trade deal with the US, the other planned US tariff increase on December 15 was left intact. China's trade surplus with the US has stayed large at USD25.9bn in September on slumping imports (-15.7%) and will continue to fuel trade tensions (Chart).

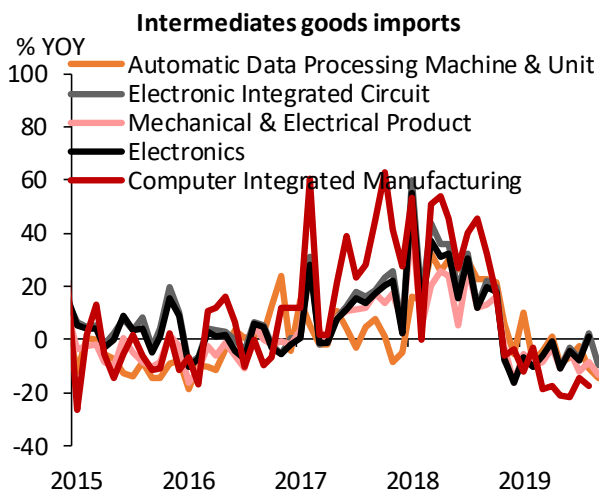
The EU, meanwhile, has imposed tariffs as high as 66.4% on steel wheels from China on alleged dumping practices. Although base metals



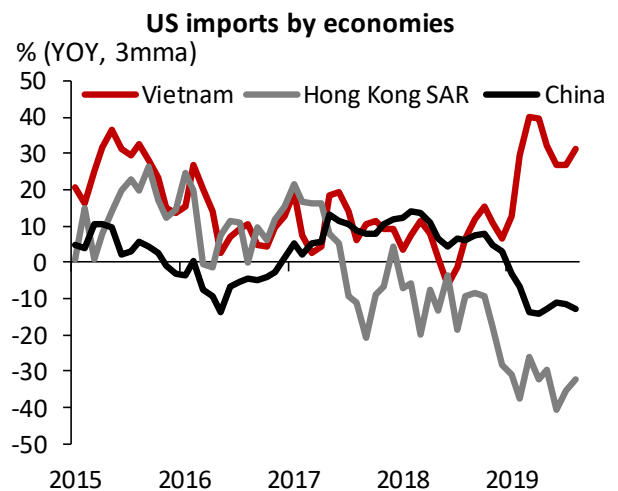
Source: CEIC, DBS

account for less than 5% of China's exports to the EU, the potential tariffs on intermediate goods will likely hurt exporters' revenue ahead. The PMIs of major trading partners also fell, for example, to 45.7 from 47.0 for the Eurozone, and to 48.9 from 49.9 for Japan (Chart).

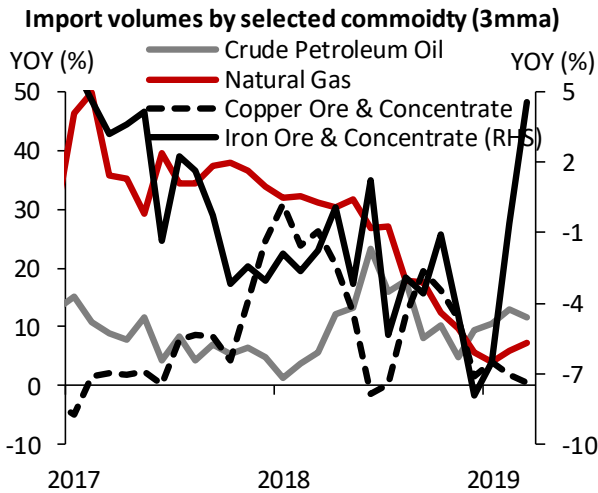
Imports slid further to 8.5% YoY in September from -5.6% in August. Imports from South Korea and Taiwan, the global electronics suppliers, fell noticeably by 27.0% and 7.7% respectively. This was in line with the lingering decline in intermediate goods imports (Chart). These trends may continue longer term from supply chain relocation to ASEAN. For example, US



Source: CEIC, DBS



Source: CEIC, DBS

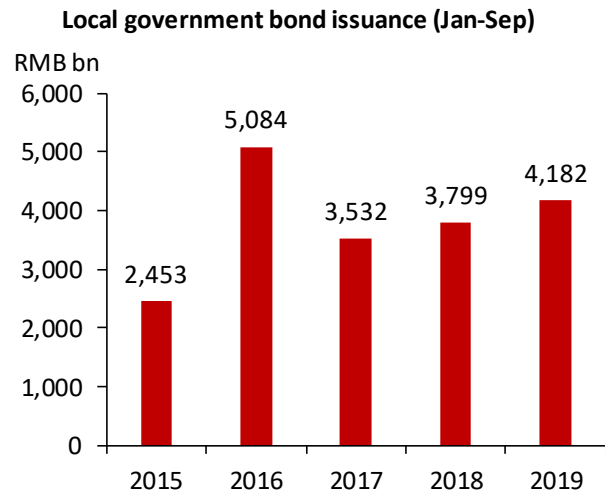


Source: CEIC, DBS

imports that used to come from China are now sourced from Vietnam (Chart). Foreign direct investment from Hong Kong and China to Vietnam surged 107.3% YoY Ytd and 269.4% in September respectively (Chart).

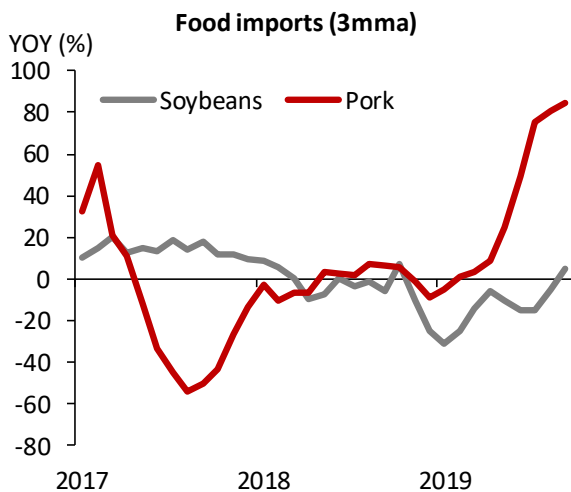
Raw material imports picked up somewhat except copper (Chart). Import volumes growth picked up to 20.5% from 14.9% for coal, to 10.8% from 9.9% for oil, and to 7.8% from 7.3% for gas. Demand for iron ore recovered (Chart) in tandem with faster infrastructure investment growth to 4.2% in August from 3.8% July.

On consumables imports, inward food shipments expanded rapidly. In September,

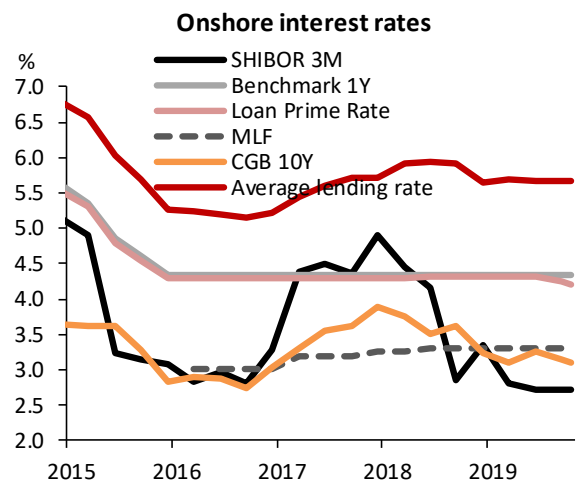


Source: Bloomberg, DBS

the volume of imported pork posted triple-digit growth (162.1%) for a fourth straight month (Chart). In fact, pig stock already dropped 41.1% in September. Shortage of pork and other meats (through substitution effect) adds upward pressure to food imports. Beef imports also jumped by 151.3%. Chicken and lamb all recorded double-digit growth for over six months. The double-digit declines in the import volume of soybeans has started turn positive at +2.3 % in September. China has, in last week's mini trade agreement, agreed to purchase USD40-50bn of US agricultural products annually. Against external headwinds and softening domestic demand, **we expect the**



Source: CEIC, DBS



Source: Bloomberg, CEIC, DBS

3Q19 GDP release this week to show growth falling from 6.2% in 2Q19 to 6.0%.

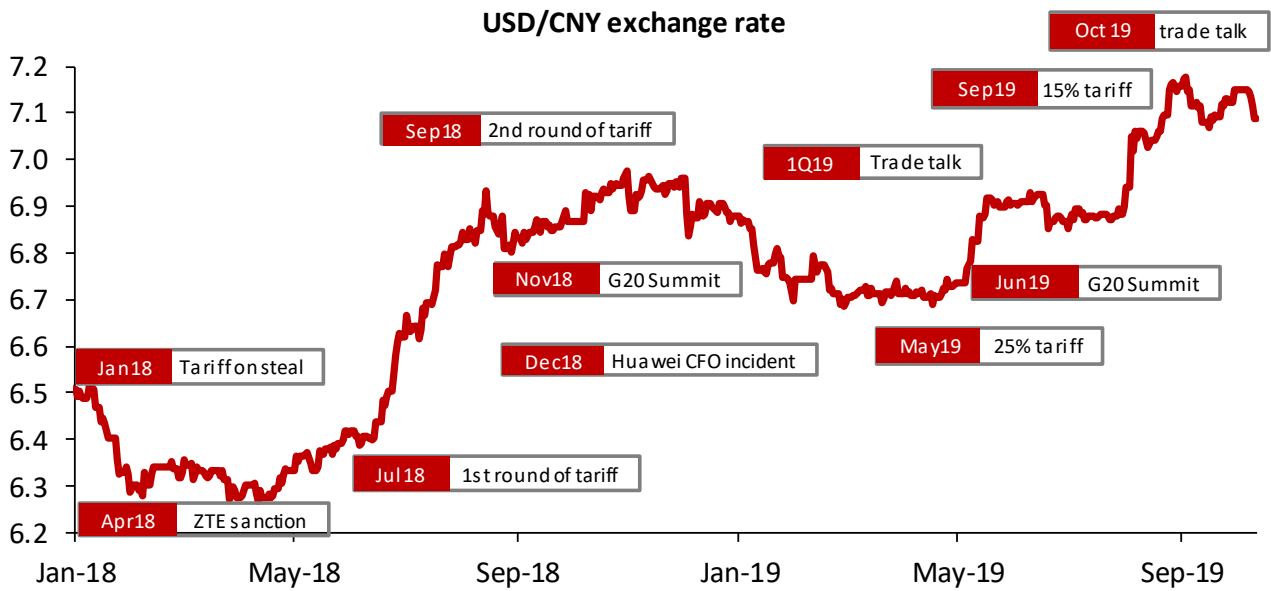
Look for the central government to initiate more pro-growth policies ahead.

On the fiscal front, increments of project approvals and local government bond issuance (Chart) in recent months should translate into more infrastructure spending ahead. As of September, local governments bonds issuance increased 10.1% YoY and used up more than 90% of their new debt quotas for 2019. An early assessment on the 2020's quota is already in progress.

On the monetary front, the cut in banks' reserve requirement ratio (RRR) last month should

increase liquidity and lower the average lending rate (held stable at 5.66% for Q2 2019; 5.69% for Q1 2019; 5.64% for Q4 2018) (Chart). The upcoming two RRR cuts for city commercial banks on October 15 and November 15 should help unclog the funding channels of SMEs, especially those in need of liquidity amidst the ongoing trade war. We expect the PBoC to lower RRR by another 50-100bps in 4Q (see "[China: More easing in the pipeline](#)", September 9).

As such, there should be downward pressure on the CNY exchange rates despite the rebound seen after the latest trade talk. The CNY depreciated by 13% since the start of trade war in early 2018 (Chart).



Source: Bloomberg, DBS

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

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