

Macro + FX Strategy

China: January Trade Data Surprised On The Upside While Trade With US Continued To Decline

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Ho Woei Chen

Economist

Ho.WoeiChen@uobgroup.com**Peter Chia**

Senior FX Strategist

Peter.ChiaCS@uobgroup.com**Quek Ser Leang**

Markets Strategist

Quek.SerLeang@uobgroup.com

China's export and import growth turned out better-than-expected in January. In USD-term, exports rebounded with strong 9.1% y/y growth (exp: -3.3%, Dec: -4.4%) and January import fell for the second consecutive month at -1.5% y/y (exp: -10.2%, Dec: -7.6%) though still out-performing consensus expectation by a wide margin. Overall trade surplus narrowed to US\$39.16 bn in January from US\$57.06bn in December.

Exports to key markets rebounded with the exception of the US which contracted for the second consecutive month by -2.8% y/y (Dec: -3.5%) in further signs that front-loading has eased. Exports to EU, Japan, South Korea and ASEAN recovered to 14.5% y/y, 5.6% y/y, 14.0% y/y and 11.5% y/y respectively in January.

The import growth is more uneven across its points of origins in January. China's imports from EU and Australia registered positive growth of 8.5% y/y and 10.6% y/y respectively while contracting for North Asian countries including Japan (-1.1% y/y), South Korea (-11.5% y/y), and Taiwan (-0.2% y/y) as well as from ASEAN (-7.3% y/y). Meanwhile, the slump in imports from the US worsened to -41.2% y/y (Dec: -35.8%). This is the 5th straight month of contraction. Trade surplus with US narrowed to US\$27.30bn in January from US\$29.87bn in December.

For the hi-tech product segment, exports registered 2.5% y/y expansion (Dec: -10.3%) while imports continued to contract by -5.4% y/y (Dec: -13.8%) in January. Possible trade tensions impact on China's access to technology as well as the expected tech-sector slowdown in general could weigh on the outlook for this segment.

Despite the stronger-than-expected export data in January, outlook for China's trade remains fragile at current stage. Key leading indicators of the manufacturing activities in China which include both the official and Caixin/Markit manufacturing PMIs have stayed in contraction in January. The Caixin/Markit manufacturing PMI fell sharply by 1.4 points to 48.3 in January, the weakest reading since March 2016. The CFLP manufacturing PMI has ticked marginally higher in January though the new export orders component remains mired deep in contraction. Similarly, the Markit manufacturing PMIs for Taiwan and South Korea have also stayed in contraction mode, suggesting a synchronised downturn in the manufacturing sector outlook for the region.

Upcoming National People's Congress (NPC) starting 5 March will indicate policymakers' view of the growth outlook through the key macroeconomic targets set for the year while the government is expected to step up the fiscal and monetary measures to boost growth.

US-China Trade Talk In Focus

US delegation helmed by Treasury Secretary Steven Mnuchin and Trade Representative Lighthizer is in Beijing for trade talks with Chinese Vice Premier Liu He over the next two days. Reports that Chinese President Xi Jinping will meet with the US delegation on Friday and that US President Trump is considering to extend the 1st March deadline by 60 days demonstrate some degree of commitment and compromise by both parties in order to avoid further escalation in the trade tensions. This scenario is within our expectation though we think that a more comprehensive trade deal may not materialize until 2H 2019 which may mean a further extension may be on the cards.

([US-China Trade: Extension Of Talks Still Our Base Case Scenario](#), 13 Feb 2019). The payout of this scenario should support a more stable outlook in terms of China's trade and growth. For now, our growth forecast for China remains at 6.3% for 2019.

FX Outlook

Signs Of Stabilization In USD/CNY After The Sharp Selloff In Early January

Peter Chia, Senior FX Strategist

While positive developments in the US-China trade negotiations and a patient FED have spurred a CNY rally from 6.88 per USD on 2 Jan to about 6.76 currently, it still seems premature to expect sustained CNY strength across 2019. First, a weaker outlook for Chinese growth in the coming quarters is likely to lean the PBOC towards a more accommodative stance while Beijing injects more fiscal stimulus. Secondly, we think the Fed is not yet done with its rate hikes yet. Rather, given the robust US job market and uncertain inflation outlook, once the current pause stabilizes financial markets, we still see resumption of Fed rate hikes later this year in Jun and Dec. Both factors are likely to underpin an upwards trajectory of USD/CNY towards 6.75 by end-1Q19, 6.80 by end-2Q19 and 6.90 end-3Q19 and end-4Q19.

Technical Outlook

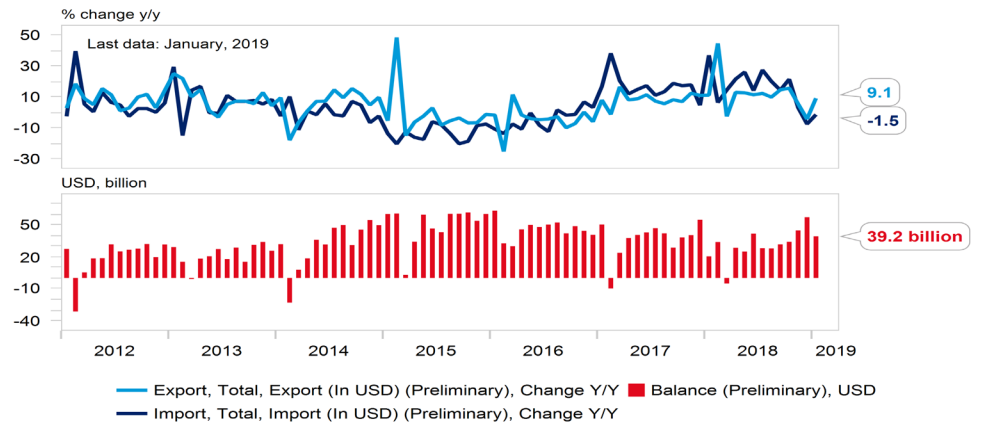
Quek Ser Leang, Market Strategist

USD/CNH Outlook (6.7750):

Short-term bottom in place, recovery could extend higher and test the strong 6.8270 level. USD dropped to 6.7590 yesterday (13 Feb) before rebounding quickly. We continue to hold the view wherein the current recovery in USD that started in late-Jan could extend higher and test the strong 6.8270 level. At this stage, the prospect for a sustained move above 6.8270 is not high. On the downside, only a move below the 6.7500 'key support' would indicate that the current upward pressure has eased.

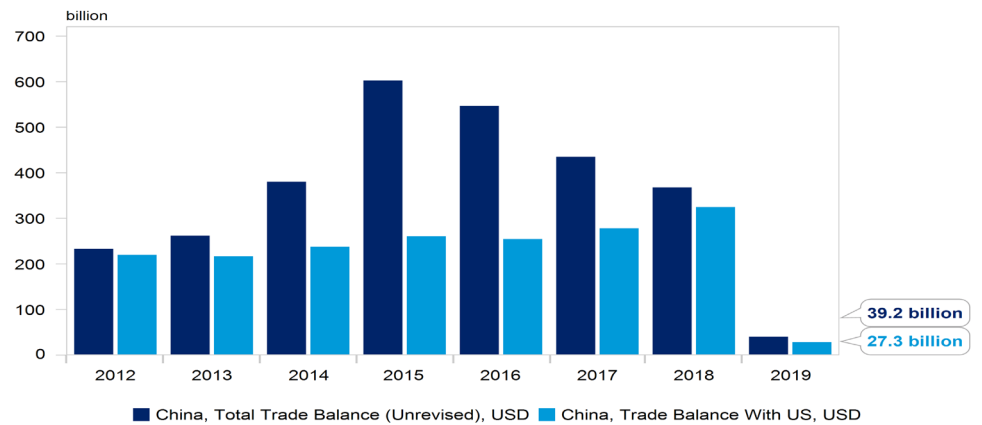
China, Foreign Trade (Monthly), USD

Source: Macrobond, UOB Global Economics & Markets Research



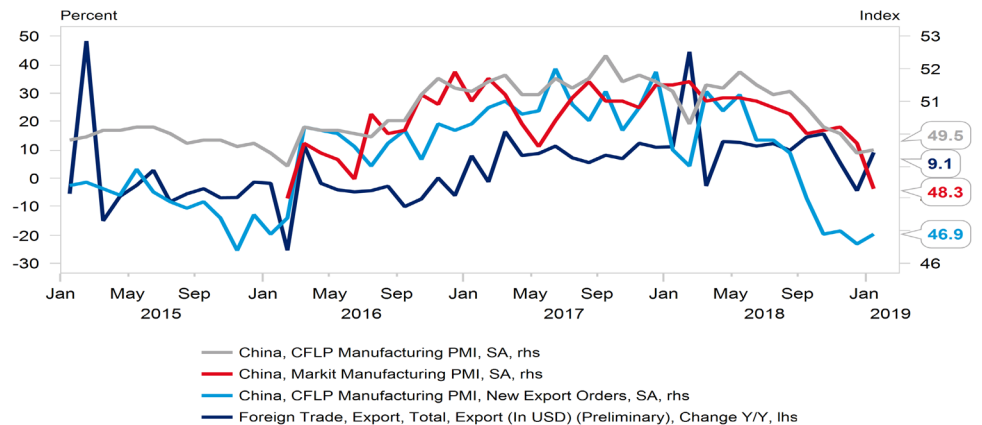
China Trade Balance, YTD (USD)

Source: Macrobond, UOB Global Economics & Markets Research



China Export Growth & Manufacturing Outlook

Source: Macrobond, UOB Global Economics & Markets Research



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