Economic Analysis

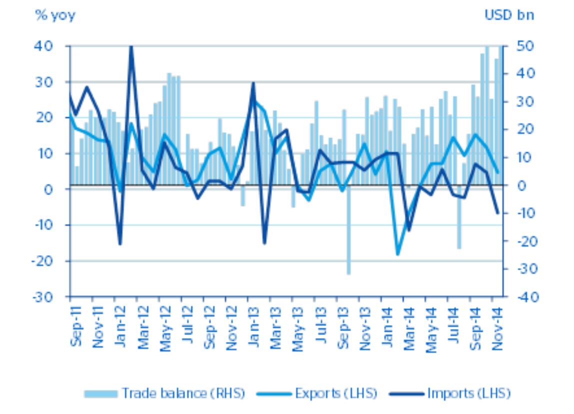
Trade data disappointed the market amid headwinds

Le Xia and Jinyue Dong

Both export and import outturns in November announced today slowed significantly from their readings of the previous month, disappointing the market expectation to the down side. In particular, exports growth eased to 4.7% y/y in November, down from 11.6% of the previous month (consensus: 8.0% y/y) while imports growth even turned negative (November: -6.7% y/y versus October: 4.6% y/y), registering the weakest reading since the Global Financial Crisis. As a result, trade surplus expanded to 54.47 bn USD (Consensus: 43.95 bn USD), from the surplus of 45.41 bn USD in the previous month. (Figure 1)

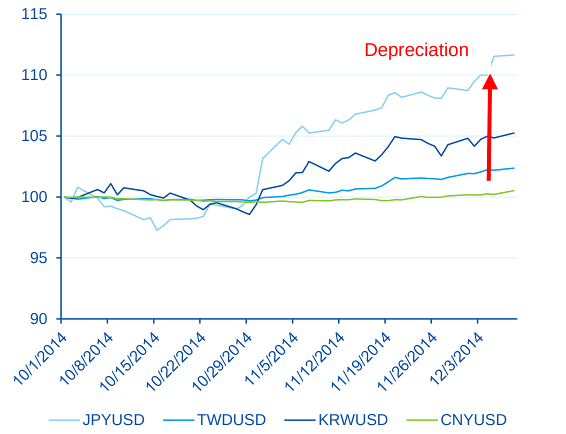
- **A few factors contributed to the lackluster export performance**. First, the recent weakening of Japanese Yen, Korea Won and Taiwan New Dollar have largely undermined the competitiveness of China's shipments, as they have high overlap with China's products in certain sectors. (Figure 2) Second, several growth headwinds in the EU and Japan, as well as the escalated geographical tension regarding Russia and Ukraine, have added more uncertainties to external demand. Third, the mis-invoicing problem, which had boosted China's export figures in Q3, might have caused the authorities' attention and incurred clampdown.
- **The anemic imports were caused by weak domestic demand.** By categories, production materials such as coal, product oil and fuel oil have the most significant year-on-year decreases in terms of both volume and value, indicating that the slow-down of imports was mainly due to weak domestic demand. In this respect, iron ore is an exception in that its imported value declined significantly while its imported volume has actually increased, suggesting that some importers are increasing their inventory as its price substantially fell in November.
- **We anticipate more monetary easing policies to stimulate the economy.** The recent sluggish economy has prompted the PBoC to cut interest rates on November 21. The deterioration in the export sector could expedite the authorities to implement more easing measures in the coming months so as to avert a hard-landing in growth. We project that the authorities will cut interest rates by one or two times additionally. Meanwhile, the authorities will trim the Reserve Required Ratio (RRR) at least twice between now and the end of next year.

Figure 1
Both exports and imports decreased significantly in November



Source: CEIC and BBVA Research

Figure 2
The weakening of currencies of the competitors deteriorated Chinese products' competitiveness



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