

Economic Analysis

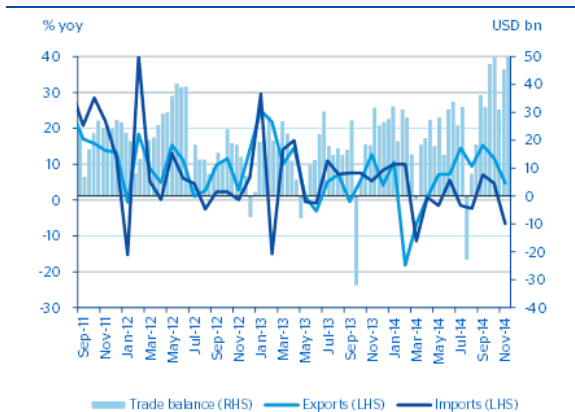
Trade data disappointed the market amid headwinds

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)

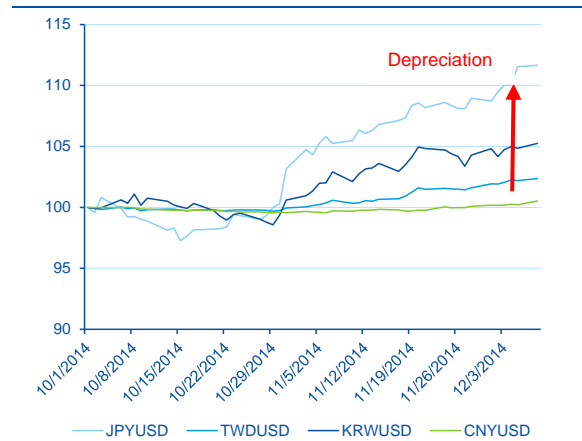
- A few factors contributed to the lackluster export performance.** First, the recent weakening of Japanese Yen, Korea Won and Taiwan New Dollar have largely undermined the competitiveness of China's shipments, as they have high overlap with China's products in certain sectors. (Figure 2) Second, several 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



Source: CEIC and BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes. BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents. This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.