Economic Watch

China | July export growth surged to record high

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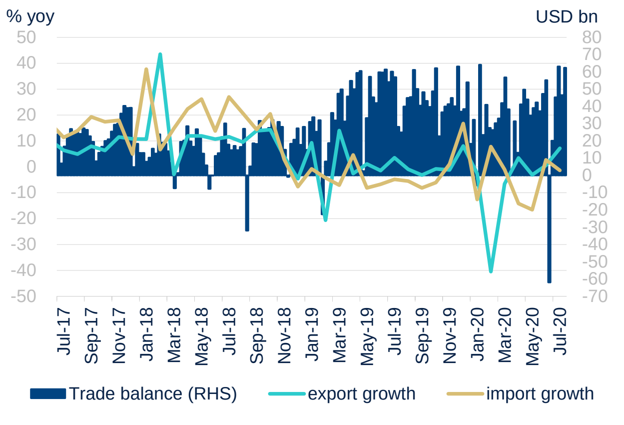
China's July trade data released by the Chinese Customs Administration came out today. The significantly better-than-expected export growth boosted by coronavirus-related product shipments, together with a volume expansion but total value dipping import growth helped to maintain the growth momentum extending in 2H 2020. However, in our baseline scenario, external sector will remain lackluster in the rest of the year amid global contagion of coronavirus.

The July export growth significantly surprised the market to the upside, surging to 7.2% y/y (consensus: -0.2% y/y) from 0.5% y/y in the previous month, reaching the seven months' high. The surprising rise was mainly boosted by COVID-related shipments as countries around the world battle to stem the spread of the coronavirus while the situation in China has been almost controlled since early April. In particular, medical care products surged by 47.3% ytd y/y in Jan-July and the textile exports (including medical masks) also jumped to 31.3% ytd y/y. However, most other export items recorded a double-digit slowdown or marginal increasing, reflecting a still weak global demand amid growth recession. (Figure 1 and 2)

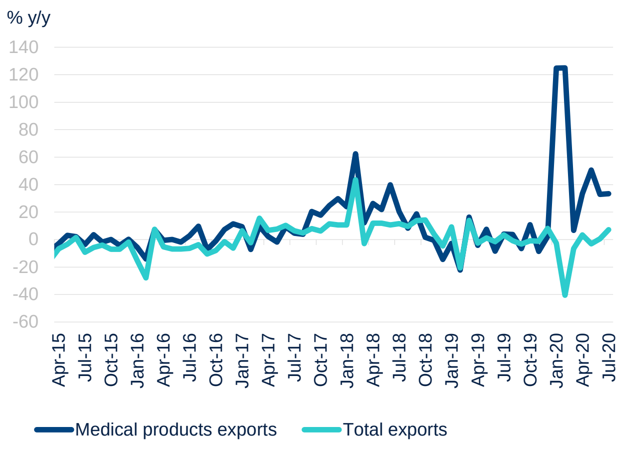
On the other hand, import growth contracted to -1.4% y/y (consensus 1% y/y) from last month's reading of 2.7% y/y, mostly driven by the price effect. In particular, we observe a large increasing of import volume but dipping total value in many import items such as crude oil, refined oil and natural gas etc. That means, the domestic demand has continued to recover but the decelerating global commodity prices dragged the total value of imports. Except for the price effect, the largest drop of the import category was airplanes, which dipped by -81.5% ytd y/y in July, as other nations including US and Europe are experiencing lock-down in recent months.

Figure 1. **CHINA'S JULY EXPORT GROWTH REACHED RECORD HIGH**



Source: CEIC and BBVA Research

Figure 2. **THE STRONG EXPORTS ARE MOSTLY SUPPORTED BY MEDICAL CARE PRODUCTS**

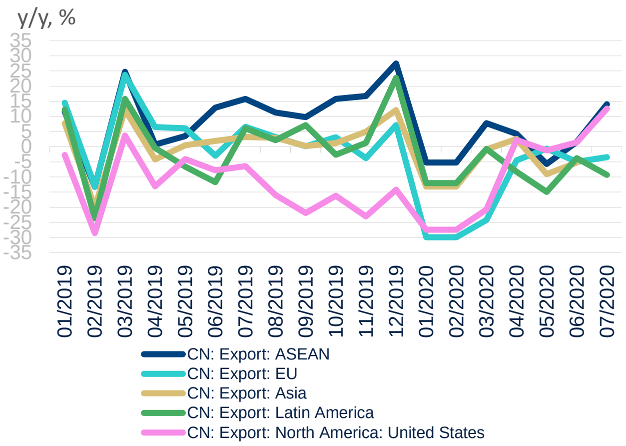


Source: BBVA Research and CEIC

As a consequence, the trade balance expanded significantly to USD 62.33 billion (consensus: USD 42 billion), way higher than June's reading of USD 46.4 billion.
By export destination, the largest year on year growth was to ASEAN (13.9% y/y) and the US (12.5% y/y), following those was EU (-3.2% y/y, already improved significantly from -24% to-30% dipping in Jan-March), much larger than that of Latam (-9.3% y/y). The main reasons for the divergence are from two perspectives simultaneously: (1) The demand of medical care products which contributed most to China's exports in July. As the US still has the highest confirmed cases around the world, its demand for medical care products should be large, higher than that of the EU which controlled the virus better. Actually, the earlier breakout of COVID-19 in the EU gave them the time to relocate the medical product's supply chain back to the home, reducing the dependence on China. (2) The work resumption and economic activity. For Latam, as the COVID-19 has been severely contagion, the low economic activity domestically reduced the demand for imports. The ASEAN, with the better normalization of work resumption and comparatively lower confirmed cases, is on the contrary, making it the highest growth of export by destination.

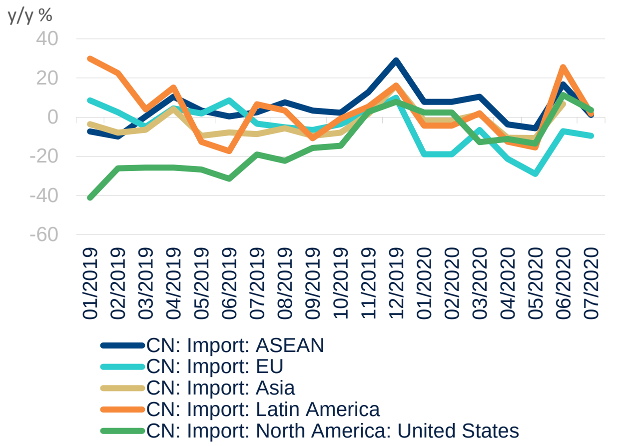
For China's imports country decomposition, the largest import country or region in July was from the US (3.6% y/y), mainly because of the implementation of the China-US phase-1 deal which requires China to import USD 200 billion products from the US in 2020-2021. Following the US, it is the imports from Latam (1.8% y/y) and ASEAN (1.1% y/y), mainly for the raw industrial products, reflecting the continuing recovery of domestic demand of China. The least import growth is from the EU (-9.5% y/y), indicating the second-round of coronavirus in the EU with limited work resumption deteriorated the supply chain in the EU. (Figure 3 and 4)

Figure 3. **CHINA'S JULY EXPORTS TO US AND ASEAN INCREASED SIGNIFICANTLY**



Source: CEIC and BBVA Research

Figure 4. **IMPORTS FROM THE US IS THE STRONGEST AMONG THE REGIONS DUE TO THE PHASE-ONE DEAL IMPLEMENTATION**



Source: BBVA Research and CEIC

It is worth noticing that the strong medical care products that have supported exports in the latest months could be transitory. As countries have been relocating the pandemic-related supply chain back to home, the global demand of medical care products might gradually decline in the future. On the other hand, the unbalanced domestic demand recovery together with dipping global commodity price will continue to weigh on China's imports. In addition, a point of pressure on the trade front has been rocky U.S.-China relations, with tensions expected to escalate ahead of the US presidential election.

Looking ahead, despite of the surging July export growth data, the road ahead may be still bumpy, due to the widely spread COVID-19 around the world which unprecedentedly ruined the global value chain and economic activities. Altogether, we expect China's export growth will decrease by -8% y/y in this year (vs. -4% drop in Jan-July), while imports dip by -9% y/y (vs. -6% y/y drop for Jan-July). Thus, the external demand maintains a drag on growth throughout the rest of year.

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