

China Flash

Encouraging April trade and inflation data reveal improving external demand, with room for policy support as needed

Stronger-than-expected trade data and subdued inflation (2.4% y/y; BBVA: 2.2%, consensus: 2.3%), suggest a gradually improving external environment and room for policies to remain growth-supportive (Charts 1-3). There are lingering questions about the accuracy of the export data, however, given signs of over-invoicing to disguise hot money capital inflows (Charts 4). Meanwhile, the inflation outturn was slightly higher than expected, but prices of non-food items remain well-contained, and inflation is within the government's 3.5% target range. Reflecting such inflows, the currency has continued to appreciate at a surprisingly rapid pace, reaching 6.13 per USD today, a new high (Chart 5). Overall, the data are in line with our outlook of a gradually improving growth momentum, with GDP growth of 8.0% in 2013, albeit subject to downside risk. In the meantime, we are awaiting Monday's release of activity indicators on industrial production, retail sales, and investment for a further picture of the current state of growth momentum.

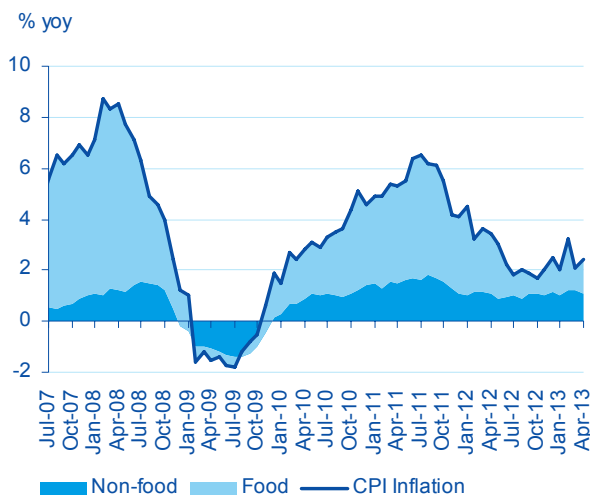
- **Strong exports are a positive sign of improving external demand, but may be distorted by over-invoicing.** By destination, exports to ASEAN (accounting for 10% of total exports) led the growth, rising 37% y/y in April from 12% in March; exports to the US (17% of total exports) and EU (16% of total exports) also improved, albeit still negative in year-over-year terms. Notably, exports to Hong Kong (16% of total exports), rose 57.2% y/y. While not as strong as March (92.9% y/y), there are signs of over-invoicing, which and disguised capital inflows. Excluding exports to Hong Kong, overall exports rose by 6.8% y/y in April. Meanwhile, strong imports (16.8% vs. consensus: 14.1%) are a positive sign of domestic demand.
- **Inflation pressure remains subdued,** despite an uptick of vegetables prices. Food inflation accelerated to 4.0% y/y from 2.7% in March, led by vegetables (5.9%y/y); in contrast, non-food inflation declined slightly to 1.6% y/y from 1.8% in March. On the other hand, PPI inflation fell to -2.6% y/y from -1.9% in March due to low commodity prices. In general, inflation pressure remains subdued. Looking ahead, we expect inflation to rise gradually over the course of 2013, reaching 3.0% on average in 2013, and 3.8% by end-year.
- **We expect other monthly indicators, due out in the coming week, to add further evidence of a modest pickup.** We expect industrial production growth (due out May 13th) to rise to 9.1% y/y from 8.9% in March thanks to stabilizing domestic demand and favourable base effects, retail sales (consensus: 12.8% y/y; prior: 12.6 y/y) and urban fixed asset investment ytd (consensus: 21.0% y/y; prior: 20.9% y/y). New RMB loans in April are expected to be about 750 bn RMB (1.06 trillion in March), in line with the pace to reach the 9.2 trillion new RMB loans target for 2013.

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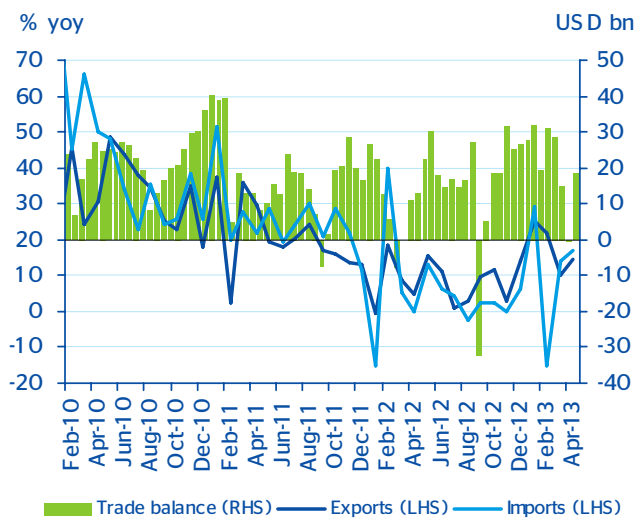
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Chart 1
Headline inflation ticks up on higher food prices...



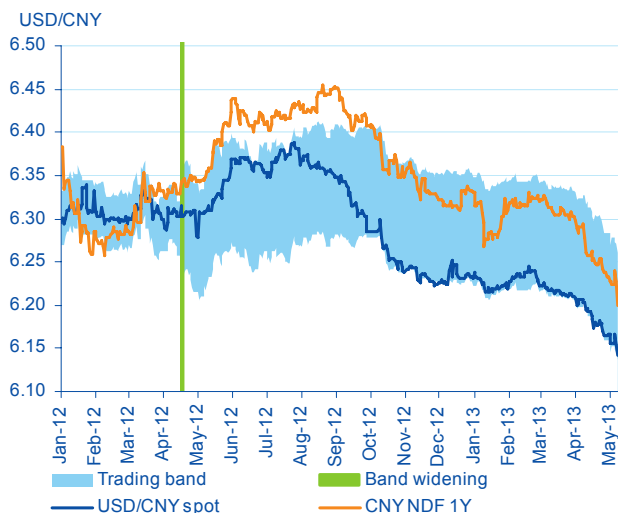
Source: CEIC and BBVA Research

Chart 3
The external sector stabilizes further



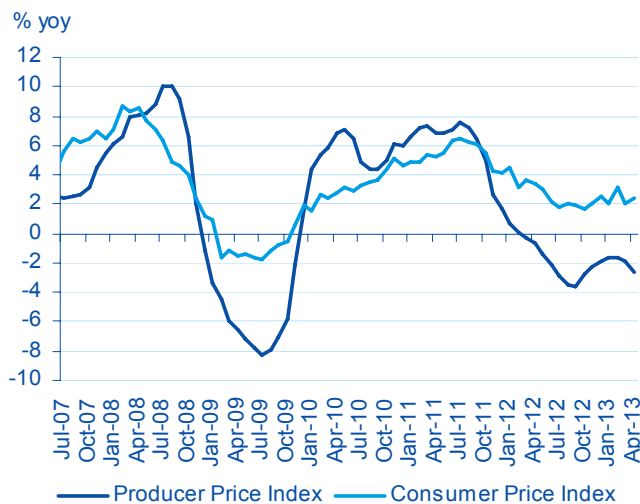
Source: CEIC and BBVA Research

Chart 5
The RMB has appreciated at a relatively fast pace



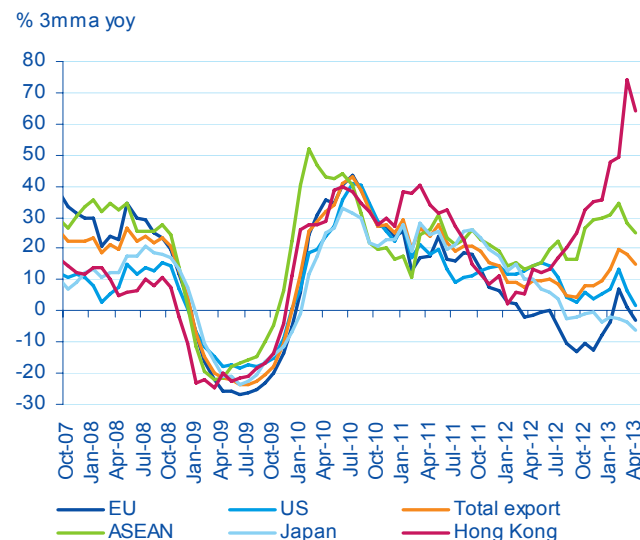
Source: Bloomberg and BBVA Research

Chart 2
... nonetheless PPI inflation fell



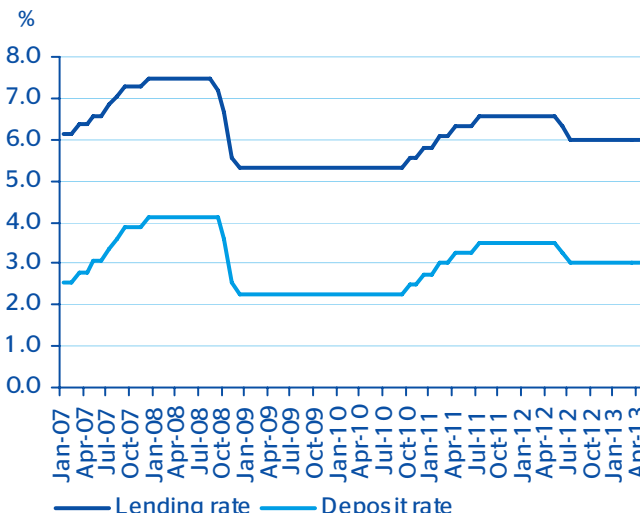
Source: CEIC and BBVA Research

Chart 4
... although a surge in exports to Hong Kong may be due to over-invoicing and disguised capital inflows



Source: CEIC and BBVA Research

Chart 6
Policy rates have stayed unchanged



Source: Wind and BBVA Research