

China Macro Flash

Sep Data: Trade Surplus Supportive of GDP Growth

- **Net exports should reduce downside risks to growth in 3Q and this year –** Despite the overall weakness in export and import growth this year relative to the same period last year, the trade surplus recorded strong growth, up 36.1%YoY year to date and 24.6%YoY in 3Q. The seasonal pattern suggests that 4Q trade surplus is often more than 30% of the annual total, implying possibly more than 33%YoY growth in 4Q. This will likely be another factor to support the 4Q GDP rebound even though a recession in the euro area, possible fiscal cliff in the US and China-Japan disputes will likely cap the upside of exports in the months ahead.
- **Sept exports surprised on the upside –** The trade data point to better-than-expected external and domestic demands. Exports grew by 9.9%YoY, beating expectations by a big margin. YoY import growth turned from a negative 2.6% in August to a positive 2.4% in Sep, in line with market estimates. Thanks to stronger exports, China's monthly trade surplus widened from \$26.7bn in Aug to \$27.7bn. According to the Customs, seasonally adjusted exports and imports expanded by 10.9% and 13.8%MoM.
- **External demand seems to have improved –** China's PMI new export order index increased to 48.8 in Sep. In the US, the ISM index rose above 50 last month. Exports seem to have benefited from better sentiment abroad following the ECB decision on government bond purchase and the rollout of QE3 in the US. Seasonal procurement of Christmas-related goods may have been a contributor as well. In terms of destination, Sep export growth to EU remained sluggish (10.7%YoY), while exports to ASEAN and US accelerated (25.5%YoY and 5.5%YoY). Export of labor-intensive products improved, with furniture and plastic article exports growing by 46%YoY and 51%YoY, respectively.
- **Import growth may reflect improved domestic demand –** Import of raw materials (including iron ore, crude oil and copper) increased in volume terms MoM, possibly due to accelerated implementation of investment projects that made it necessary to restock. Imports from the US increased by 5.5%YoY, while those from Japan dropped by 9.6%YoY, which may have reflected the initial impact of the Sino-Japan territorial disputes.
- **Annual trade surplus may exceed that of last year, underlying RMB strength –** Year-to-date trade surplus reached \$148bn in Sep, only slightly below the whole year surplus for 2011 (\$155bn). Assuming exports would slow due to continued external weakness and imports would speed up due to a mild growth rebound, the seasonal pattern of trade suggests China would register sizable surplus in 4Q, and annual trade surplus may reach around \$200bn. Both fundamentals and liquidity (QE3) support RMB strength. We expect CNYUSD to appreciate slightly before the US presidential elections and stay range bound in the months thereafter.

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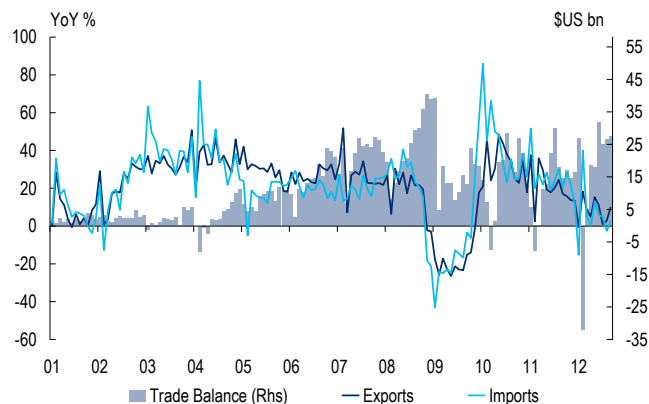
Trade Surplus Supportive of GDP Growth

Figure 1. China Data Release

	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev
Exports (% YoY)	13-Oct	Sep	9.9	2.2	5.5	2.7
Imports (% YoY)			2.4	2.4	-0.6	-2.6
Trade Balance (\$US bn)			27.7	19.2	20.5	26.7

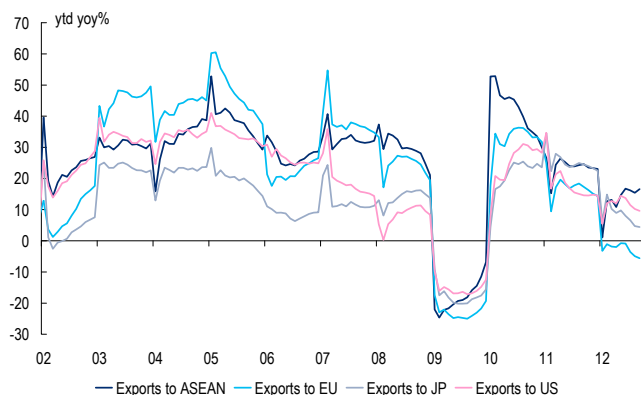
Source: Bloomberg and Citi Research estimates

Figure 2. Sep exports surprised on the upside



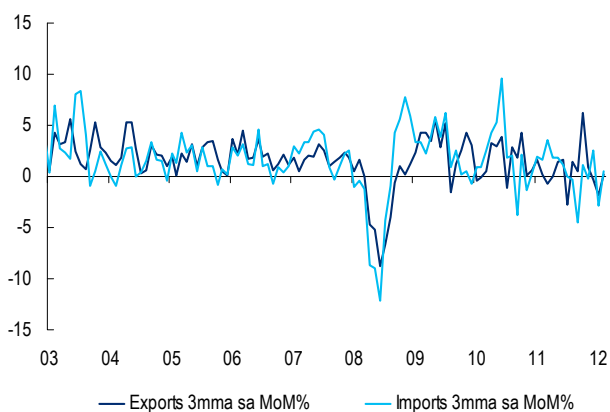
Source: China Customs and Citi Research

Figure 4. YTD exports to EU remained weak



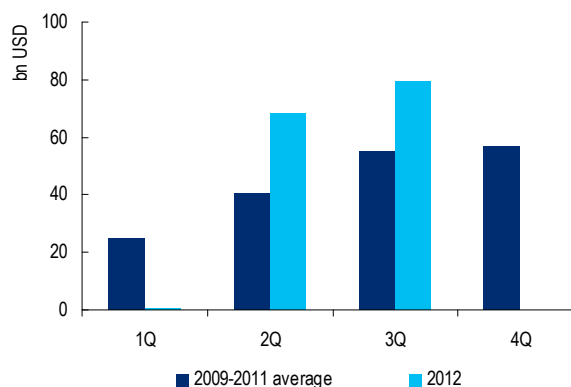
Source: China Customs and Citi Research

Figure 3. Seasonally adjusted exports and imports turned to positive



Source: China Customs and Citi Research

Figure 5. Trade surplus may reach around \$200bn this year



Source: China Customs and Citi Research

* Trade surplus in 1Q2012 is \$343mn

Appendix A-1

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