

China's imports will be affected by long delivery times

Imports grew slower than exports in October and we believe delivery time will continue to play an important role that distorts this data for next month. China faces policy challenges, and thus imports could rise slower. As such net exports will remain on the rise, which helps GDP growth. Covid is the biggest risk to port operations that will affect trade



Chinese container ship

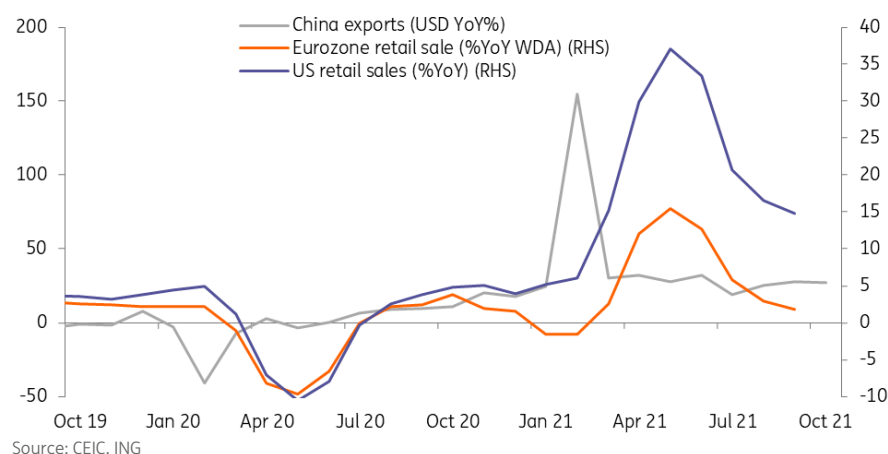
Shipment delays affect imports more than exports data

Exports grew 27.1% year-on-year in October from 28.1% YoY in September, which met our expectation as Western countries continued to boost exports. A rebound in retail sales in the West should continue to support exports in November. Moreover, given the long delivery time, we expect that some past practices of "urgent" orders from the West should be moved forward and delivered before December.

Imports grew 20.6% YoY in October, a lot slower than our forecast of 28.5% YoY, but still faster than September's 17.6% YoY. We believe that the cumulative delay in shipments has reached a level that could distort the data. Other factors continued to hurt imports, e.g. chip shortages that

reduce imports of automobiles and parts. Demand also plays a role here. As policy actions continue to affect some jobs and wages, demand for imports will not be as rosy as before.

China exports, US and EU retail sales growth rate



Net exports support GDP

A faster exports and slower imports means an increase in net exports, which would support GDP in the fourth quarter. For the remaining month in the quarter, we believe delays in shipments will remain unchanged, chip shortages cannot be eased in 4Q21, demand for imports will continue to be affected by domestic policy actions, exports should rise for another month and be muted in December as seasonal orders should be fulfilled.

Adding all this up, net exports should continue to rise for the quarter, which supports GDP growth. This is good news for China as this could at least offset some negative impacts from policy actions.

Supply chain disruptions are less of a problem after the export season. Every year's first quarter is particularly quiet for exporters' and their manufacturers due to the lack of holidays in the West and the Chinese New Year holiday in China. Exporters should prepare for the delayed arrival of parts and materials for 2Q22 to 4Q22 export shipment.

Covid is the risk of port operations that affects both exports and imports

Covid is a risk to port operations. Covid cases in China are climbing and the cases have spread to more locations than the previous quarters. Port operations are at risk. If there is a Covid case found at ports, the port will be under lockdown for Covid screening and testing, which could affect operations from two weeks to one month.

A cold winter has arrived earlier than usual for the northern part of China, which complicates the matter.

If there are Covid cases found at ports, global shipment delays will lengthen.

GDP forecasts

Having said, we do not expect any additional policy action from the government. The existing ones will remain, e.g. deleveraging reform on real estate developers, compliance on technology companies, shutdown of tuition centres and increase in worker benefits for all industries, starting with technology companies.

Our GDP forecast is 4.3% YoY for 4Q21 down from 4.9% YoY in 3Q21. Overall, 2021 GDP growth is expected to be 8.9% after 2.3% in 2020.