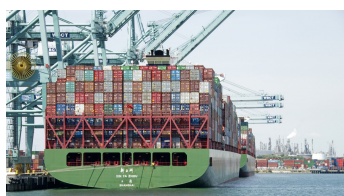


## Good Morning Asia - 16 April 2018

It is tempting to conclude that China's trade deficit in March is a result of pressure from the US, however, details in the data do not support this. In fact, we're positive on future export growth

### In this bundle



China

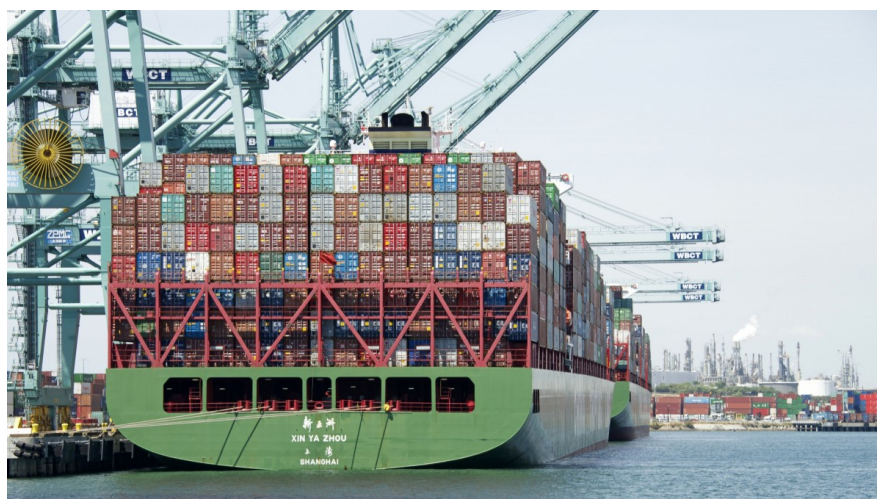
#### **Why China's trade deficit has little to do with US trade tensions**

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# Why China's trade deficit has little to do with US trade tensions

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Source: Shutterstock

## Trade deficit in March

China has a trade deficit from time to time, though not one that has persisted historically. The last time China saw a trade deficit was February 2017.

Is this time different due to the trade tensions between China and the US? We do not believe so. The deficit of US\$4.98 billion in March was mainly driven by an increase in imports of energy products, which have been volatile for China, and imports of parts. In March the import value of crude oil, gasoline, coal and coke rose 28.5%, 67.5% and 9.2% YoY YTD, respectively, and imports of integrated circuits rose 36.9% YoY YTD.

We believe the drop in exports was likely to be due to the late resumption of work at factories given that the Chinese New Year fell in February this year, and the New Year holiday for factories is longer than public holidays.

Since the increase in imports and the decrease in exports were not broad-based, we do not believe the trade deficit was caused by a stronger yuan.

Putting this together, we believe China's trade deficit will be a short-term situation as seasonality

plays a big role.

## Upbeat import data points to good export prospects

March's data, in fact, suggests good exports ahead for China. Strong growth in energy imports implies strong factory production activities and robust growth in integrated circuits imports implies healthy export growth in electronic and mechanical products over the coming months.

Thus we continue to be bullish on China's manufacturing activities and exports especially since the US government downplayed trade tensions on 12 April.

### Yuan should continue to be strong

We reiterate that China's export growth is largely driven by global demand. Mild yuan depreciation would not help exports rise if demand were weak. Further, it is not in China's interests to depreciate the yuan while there are trade tensions between China and the US, it would only offer additional ammunition for the US to argue that China supports an 'unfair' import trade practice to its trade partners.

The main driver of yuan strength in 2018 would come from a weaker dollar driven by the US's policies.

An equally important factor is China pushing forward yuan internationalisation. To facilitate this policy, yuan would be more attractive to its holders if it is appreciating.

All in all, we keep our forecasts of USD/CNY at 6.10 by the end of 2018.

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