

# China posts first trade deficit in two years

China's exports fell in February, as expected. But imports were not as negative as predicted, as imports of medical-related supplies surged. That resulted in a trade deficit for China, the first since March 2018



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## China in trade deficit

In China, exports were smaller than imports in January and February, which resulted in a trade deficit of US\$7.1 billion. The last time that China had a trade deficit was in March 2018, at the start of the trade war with the US, when it was nearly US\$5.8bn.

## A lot of imports of medical supplies

Imports fell only 4% year-on-year year-to-date in February. This is a surprisingly low negative growth figure.

In January and February, China imported an increased value of medical-related supplies, e.g. raw materials to produce masks, which falls into the category of textiles and rubber, and latex for hospital beds. Part of this was from donations from the rest of the world. Imports from donations increased by more than 4000% YoY YTD, to fight Covid-19.

## Exports were bad, as expected

Exports fell 17.2% YoY YTD in February, as expected. Factories were closed for most of January and February due to the Chinese New Year holidays and the coronavirus, and thus we could hardly expect positive growth here.

## Things should be different in March

We do not expect a V-shape rebound in production and exports in March, but we also think that China is unlikely to receive more donations from the rest of the world. On the contrary, we expect China to export some medical supplies to other countries that need help to fight the coronavirus. As such, we believe that even though China's trade could be negative on a yearly basis in March, the trade balance should turn positive.

## The negative trade balance is a risk to our GDP growth forecast, again

We have revised our first quarter GDP forecasts for China to 4.4% year-on-year. Our forecast is now at risk as we did not expect a trade deficit in the first two months of the first quarter. But we have seen increasingly more fiscal stimulus from the central government, which is also ahead of our expectations. For the time being, we maintain our forecasts at 4.4% YoY for the first quarter.

## USD/CNY to follow the dollar index

We do not think that the People's Bank of China is going to weaken the yuan to boost exports as what we have seen so far is that the USD/CNY has moved in tandem with the dollar index. So the yuan, in fact, has strengthened to 6.93 on 6 March from the weakest level this year at 7.03 per dollar on 24 February. If the dollar gets stronger due to a flight-to-safety, the yuan could weaken to 7.05 by the end of March.