

China: Imports even stronger

We expect strong trade growth, especially imports, although the year-on-year growth rates will be slower than the prior month. In 2018, we expect 12% import growth and 8% export growth due to rising domestic demand.



Exports should be strong but imports should be even stronger

While our forecasts on December trade growth (8.7%YoY exports and 10.4%YoY imports respectively) are lower than consensus (10.8% and 15.1%) and the prior month's data (12.3% and 17.7%), they do not change the picture that China's export and import growth is robust. For the whole of 2017, we expect 8% export growth and 16.5% import growth.

China's trade will be helped by a better global economy in 2018. We expect that imports will grow 12%, faster than export growth at 8%. The slower pace is a result of a high base in 2017. We see domestic demand as the main factor behind strong import growth, as spending from the middle classes keeps growing.

Though merchandise imports will grow at a slower speed, services imports could rise faster. We expect tourism, which is part of services imports, to grow considerably among the middle classes.

As such, the current account surplus as a percentage of GDP will fall to around 0.8% in 2018, against 3Q17's 1.0%. That would imply the CNY could be around its equilibrium level in 2018. Our

projection of USDCNY is 6.30, appreciating 3% in 2018.

8% Export growth 2018

12% Import growth 2018

Technology is another trade growth driver

We believe that technological-related products are driving part of this trade growth. According to China Customs, exports and imports of mechanical, electrical goods and parts amounted to \$1185 bn and \$769 bn, respectively YTD in Nov 2017, which was 58% of total exports and 46% of total imports during the first eleven months of 2017. Exports of these items (+9%YoY Ytd) outgrew total exports (+8%YoY Ytd) in the first eleven months of last year. These data highlight the importance of technology in production of consumer goods and business tools.

We expect this trend to continue in China in 2018. And there could be a gradual increase in the value-add of technological products produced by Chinese companies, as growing high-tech sectors is part of the government's agenda.

0.8% Current account as % GDP