

China: Surprise! Exports rebound

Exports expanded in April after contracting in March. But this should not be perceived as an upward trend, and the threat of a trade war could change this. The yuan will be volatile



Source: Shutterstock

A surprise of export rebound

Exports rose 3.5% year-on-year in April after contracting by 6.6% in March.

This is due to exports of medical supplies to the rest of the world. Medical equipment exports rose by 11% year-on-year, year to date in April from -3.4% in March. Another growth item was 5G infrastructure parts and processors, which is driven by government policy rather than by market demand.

Other than these two special items, we find that exports of consumer goods, including clothing and footwear, continued to contract, which signals weak global demand.

The fall in imports deepened a lot to -14.2% YoY in April from -0.9% a month ago. Importers expect weak global demand for goods, as imports of parts for final manufacturing are shrinking.

Exports are likely to contract again

As some major cities begin to relax social distancing measures, China's exports of medical supplies

are likely to slow down abruptly.

Without exports of medical supplies, overall exports are likely to contract again on a year-on-year basis. This is because demand in major economies is weak and will continue to be so due to high levels of unemployment. Matching jobs could take more time than normal longer given the large numbers of unemployed workers.

There could be two exceptional items to support imports in the coming months even if imports of parts for the manufacturing of final products continues to shrink. The first one is imports of oil for national strategic stocks. The second is imports of agricultural products to fulfill the phase one trade deal with US.

Threat of trade war is increasing

The threat of a trade war with the US is increasing. We believe that the exchange of words could go on for another three to six months.

Given the dire situation of the US economy and the fact that a trade war would hurt both economies, the possibility of the US imposing tariffs on Chinese goods, for now, is still low but we would not rule out this risk completely. If the US imposes renewed tariffs on China, China will retaliate.

Yuan moving with the trade war news may need a revision

If these risks increase, the yuan is likely to depreciate against the dollar. This has not been reflected in our point forecast of USD/CNY at 7.15 by end of 2Q20. We will revise the yuan forecast accordingly as the situation develops.