

China: Trade fell slightly in March but bumpy road ahead

China's exports fell slightly and imports fell even less. Trade with ASEAN was more active than with Europe due to Covid-19 but this pattern should reverse when Europe's lockdown is relaxed. Until then, China's trade will continue to be hit by weak global demand



China's exports shrank less but could be temporary

China's exports shrank 6.6% year-on-year. This is worse than our estimate but a lot better than the market's. Almost all export items contracted, which was not surprising as export orders have fallen.

However, exports of integrated circuits, which is the third-largest export item in China, grew 9.5% year-to-date, year-on-year. This could be due to the fact that integrated circuit production is not as affected by the number of workers in factories, as the process is automated.

That said, integrated circuits are just parts, not a final product. With measures of social distancing in place in many parts of the world, demand for new electronic goods will fall, especially in economies that are suffering from a high unemployment rate due to Covid-19. Smartphone exports fell 12.8% YTD YoY and automatic processors fell 22.6% YTD YoY in March and could fall

further in April.

This means export growth in April and May could be worse than in March, as we don't expect the social distancing measures to be relaxed in most economies, and the jobless rate could continue to climb, which implies lower global demand.

9.5% Exports of integrated circuits
% YTD YoY

Imports fell only marginally due to oil stockpiling

Imports fell only 0.9% YoY. This was mainly the result of imports of oil for strategic inventory, which increased 5.8% YTD YoY, while imports of integrated circuits rose 10.6% YTD YoY, due to the reason mentioned earlier.

But these two factors could be absent in April and May.

1. Though oil prices are likely to be low, they should not be lower than in March.
2. There are likely to be too many integrated circuits to match the demand for electronic goods, as export orders are falling. In short, there should be an oversupply of integrated circuits.

Domestic demand is still affected by social distancing measures and imports of goods for domestic demand should keep falling in the year-on-year comparison.

From these three perspectives, we are not optimistic about China's imports in the coming months.

10.6% Imports of integrated circuits
%YTD YoY

ASEAN becomes the biggest trade partner of China

Due to the Covid-19 infection route from China, Asia, then a mix of Europe and Asia followed by the US, Europe and Asia, and [the lockdowns more or less in this sequence](#), ASEAN has surpassed Europe to become the largest trading partner of China.

We expect this to reverse back to Europe as the largest trading partner of China when the lockdown measures are relaxed gradually.

USD/CNY can't give life to exports

The damage from Covid-19 on trade comes from the lockdowns and social distancing. These two factors affect demand for goods and services directly and are also raising unemployment. Even with a cheaper price from the depreciation of the yuan, the demand for goods won't increase

much.

The re-emergence of Covid-19 or another outbreak in any part of the world could rock the market further and therefore could make the yuan volatile. China is now suffering from imported cases in its northern boundary with Russia, and an outbreak in Guangdong from cases imported from Africa. This news could be negative for the yuan.

We project USD/CNY will reach 7.25 by end of 2Q20. The spot is now at 7.0450.