# China: Trade growth solid as tensions escalate

China's import and export growth was solid in May, which could be due to rising US-China trade tension

Source: Shutterstock

## Chinese exporters want to cash in profits before US tariff announcement

We accurately predicted that exports and imports would be exceptionally strong in May. Our view was based on the assumption that exporters would seek to ship as much as possible ahead of potential US tariffs on China. This has boosted imports, too, because exports of Chinese goods need imported parts in the manufacturing process. High-tech goods imports grew more than 23% year on year.

Crude oil imports also played a role in import growth, growing more than 40% YoY. This could be a result of the fall in crude oil prices near the end of May and the fact that China needs to build up its strategic energy reserves when geopolitical tensions escalate.

# 12.6%

Export growth

YoY in May

Better than expected

# 26.0%

Import growth

YoY in May

Better than expected

## Looking forward, uncertainty from tariff negotiations will continue to support China trade

If the US delays potential tariff hikes by another month, we expect exporters to bring forward planned exports to cash in profits. The same is true for crude oil imports. As long as geopolitical tensions remain (the US navy recently sailed near Taiwan), Mainland China will continue to import crude to build up its strategic energy reserves.

## Yuan weakening could be China's strategy for trade negotiation

During trade negotiations with the US, China may need to show that it is not afraid of the US. A threat to weaken the yuan would likely be effective, given that the US wants to export more goods to China. Though this would not be constructive in negotiations, it is an important signal that China is not afraid of the tariff threat.

We maintain our forecast of USD/CNY at 6.60 by the end of 2018.

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