

Stronger yuan won't dent China trade

We expect China's exports in USD terms to grow 16.3% year-on-year in January and imports to expand 16.2% due to seasonal effects from the Chinese New Year



Source: Shutterstock

Seasonality of Chinese New Year plays a vital role

We expect China's exports in USD terms to grow 16.3% year-on-year in January compared to a low base in January 2017. We also expect import growth to reach 16.2%YoY in January compared to 4.5%YoY growth in December 2017.

We believe that Chinese exporters will pull forward the shipping of orders, if they able, to January rather than waiting until February, which is the month of the Chinese New Year. Workers usually leave the factories a week or so before the Chinese New Year, making the shipment in early February busy and tight.

On imports, we believe that China will import more strategic raw materials to take advantage of the strong yuan. These raw materials could include crude oil and gasoline.

Strong yuan won't hurt overall exports

The yuan appreciated more than 3% in January but that would not hurt China's overall exports. Around 50% of imports are electronic or mechanical parts and products, which are then used to produce exported goods. If the import and export invoices are denominated in the same currency, there is little effect on overall exports.

What's more, other currencies in Asia have strengthened more than the yuan, so China isn't the only country to have been affected in the region. In addition, most of the products produced nowadays include parts from more than one location, so the global production line may make the currency impact on trade less obvious than in the past.

6.10 USD/CNY
end 2018

But exporters may need to hedge currency risks

With the speedy fall in the dollar, exporters might chase after the fast appreciating yuan trend to convert their dollar receipts into yuan. This could create a self-fulfilling cycle for the yuan to strengthen. We expect that there would be more exporters hedging their currency exposure to keep their yuan earnings stable.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com