

China Economy

Weak exports support further policy easing

China's exports of goods recorded the worst decline since the pandemic in June as overseas demand for goods remained weak, the de-stock cycle went on and the industrial deflation intensified. China's imports of goods also deteriorated as domestic demand weakened and commodity prices further declined. Weak exports should support further policy easing. China may further loosen credit supply and property policy and show more pro-business stance ahead. Looking forward, exports may maintain a double-digit decline in July and gradually improve from August due to the base effect and probable alleviation of the de-stock pressure. We expect China's exports of goods to drop 2.3% in 2023 before rising 6.5% in 2024. The imports of goods may narrow its YoY declines from July and turn to a mild positive growth in 4Q23. We expect China's imports of goods to drop 3.2% in 2023 before growing 5.5% in 2024.

- China's exports showed consistent weakness in June due to weak foreign demand for goods, continuous de-stock cycle and severe industrial deflation.** China's exports declined by 12.4% YoY (all in YoY term unless specified otherwise) in June after falling 7.5% in May. Exports to US further slumped 23.7% in June as the country was in the de-stock cycle and continued to diversify supply chain beyond China. Meanwhile, exports to EU also deteriorated significantly due to continuous shrinkage of retail sales in Europe. Exports to Japan and ASEAN further dropped 15.6% and 16.9% in June, in line with the slump of foreign trade activity in total in Asia. Exports to South Korea and Chinese Taipei maintained sharp declines with slight improvement as global foreign trade activity related to AI equipment started to rebound. Exports to developing countries like India, Africa and Latin America sharply deteriorated with an economic slowdown in those countries.
- Most export products slumped further in June.** Exports of textile product, garment, toys, furniture and steel fell by 14.3%, 14.5%, 27.3%, 15.1%, and 42.7% respectively in June, after declining by 14.3%, 12.5%, 23.0%, 14.8%, and 28.0% respectively in May. Exports of integrated circuits and cellphone also declined further by 19.4% and 23.3% in June, respectively. Exports of motor vehicles and auto parts & accessories remained resilient in June by increasing 109.9% and 5.1% after rising 123.5% and 13.4% in May, respectively.
- Imports fell below expectations in June as commodity deflation in intensified and domestic demand was weak.** China's imports of goods declined by 6.8% in June after falling 4.5% in May. The sharp decline of commodity prices twisted the import figure as import volume of most commodities seemed strong amid China's focus on supply security. In June, import volume of grain, soybean, iron core, coal, crude oil and natural gas increased 14.7%, 24.5%, 7.4%, 110.1%, 45.3% and 19.1%, while their import prices respectively dropped 10.5%, 15.8%, 21%, 29.8%, 32.2% and 13%. Meanwhile, import volume of airplane and medicine also increased strongly by 250% and 32.1% in June as related demand sharply improved after removing the zero Covid policy. Import volume of auto and beauty cosmetics improved. But that of machine tool, steel products and copper products further declined as business capex and construction activity was weak. Imports of

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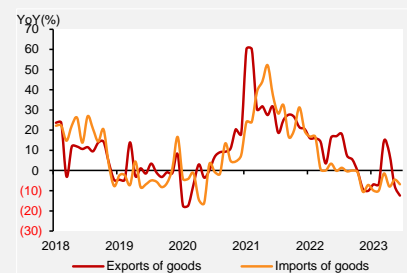
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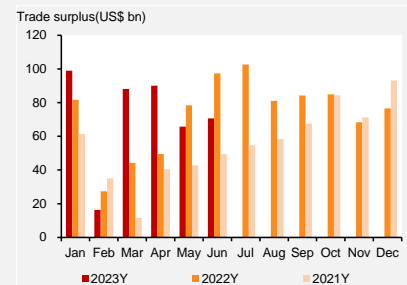
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Source: Wind, CMBIGM

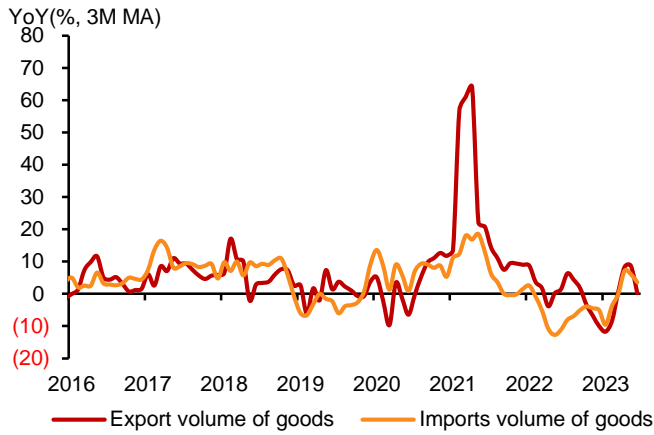


Source: Wind, CMBIGM

integrated circuits maintained a double-digit decline as pace of domestic substitution accelerated.

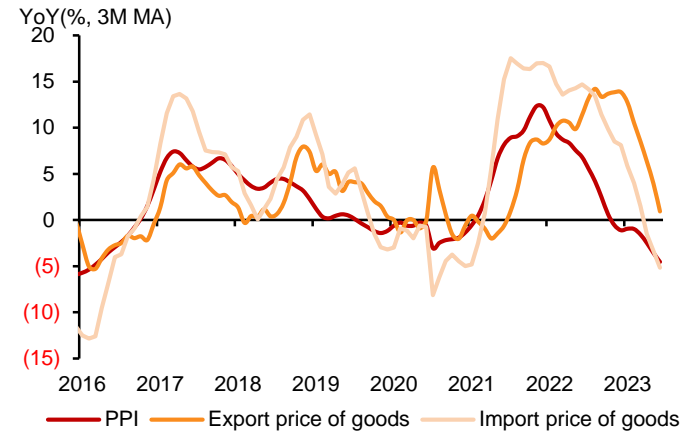
- **Weak exports support further policy easing.** Weak exports add further slowdown and deflation pressure on China economy, thus increasing the possibility of additional policy easing ahead. We expect China may further loosen credit supply and property policy in 2H23. The PBOC may further lower deposit rates and RRR, creating additional downside room for loan rates. More cities will lower down-payment ratio and mortgage rates for first and second home buyers. Meanwhile, the policymakers may show more pro-business stance to boost the private business confidence.
- **Exports and imports are expected to drop 2.3% and 3.2% in 2023.** China's exports of goods may maintain a double-digit decline in July and gradually improve from August thanks to the base effect and probable alleviation of the de-stock pressure. We expect the exports of goods to drop 2.3% in 2023 and rise 6.5% in 2024. China's imports of goods are likely to gradually improve in the second half year due to the base effect and possible improvement of domestic demand. The imports of goods are expected to drop 3.2% in 2023 and grow 5.5% in 2024.

Figure 1: Growth of Export and Import Volume



Source: Wind, CMBIGM

Figure 2: Growth of Export and Import Prices



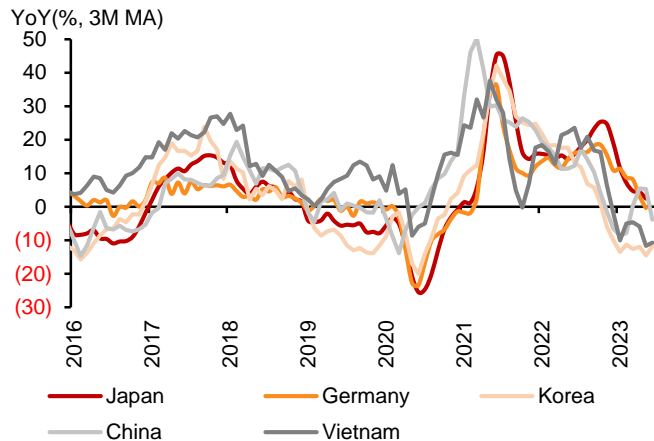
Source: Wind, CMBIGM

Figure 3: China Exports by Destination

	YoY growth (%)										Share (%)					
	2018	2019	2020	2021	2022	1Q23	Apr	May	Jun	2018	2019	2020	2021	2022	1H23	
World	9.9	0.5	3.6	29.6	7.0	0.5	8.5	-7.5	-12.4	100.0	100.0	100.0	100.0	100.0	100.0	
US	11.3	-12.5	7.9	27.5	1.2	-17.0	-6.5	-18.2	-23.7	19.2	16.8	17.4	17.2	16.2	14.4	
EU	9.8	4.9	6.7	32.6	8.6	-7.1	3.9	-7.0	-12.9	16.4	17.2	15.1	15.4	15.6	15.5	
Japan	7.2	-2.6	-0.4	16.3	4.4	-2.4	11.5	-13.3	-15.6	5.9	5.7	5.5	4.9	4.8	4.8	
ASEAN	14.2	12.7	6.7	26.1	17.7	18.6	4.5	-15.9	-16.9	12.8	14.4	14.8	14.4	15.8	15.8	
India	12.7	-2.4	-10.8	46.2	21.7	3.9	6.1	-4.1	-13.6	3.1	3.0	2.6	2.9	3.3	3.4	
Africa	10.8	7.9	0.9	29.9	11.2	19.3	49.9	12.9	-6.9	4.2	4.5	4.4	4.4	4.6	5.3	
Latin America	13.7	2.1	-0.8	52.0	10.6	0.5	10.5	-1.1	-10.8	6.0	6.1	5.8	6.8	7.0	7.1	
Russia	12.0	3.7	1.7	33.8	12.8	47.1	153.1	114.3	90.9	1.9	2.0	2.0	2.0	2.1	3.1	
Australia	14.2	1.8	10.9	24.2	19.0	10.4	10.2	-5.8	-9.5	1.9	1.9	2.1	2.0	2.2	2.2	
UK	-0.3	10.4	16.3	19.9	-6.1	-7.4	10.8	3.7	-10.2	2.3	2.5	2.8	2.6	2.3	2.2	
Canada	12.1	5.0	14.0	22.4	4.5	-17.1	-14.5	-18.1	-27.1	1.4	1.5	1.6	1.5	1.5	1.3	
South Korea	5.9	2.1	1.4	32.4	9.5	6.0	0.9	-20.3	-19.8	4.4	4.4	4.3	4.4	4.5	4.6	
Saudi Arabia	-5.1	36.9	17.7	7.9	25.7	39.9	41.3	1.1	-	0.7	1.0	1.1	0.9	1.1	1.1	
HK China	8.2	-7.6	-2.3	28.6	-15.0	-8.9	-3.0	-14.9	-20.6	12.1	11.2	10.5	10.4	8.3	7.6	
Chinese Taipei	10.6	13.2	9.1	30.4	4.2	-22.1	-14.4	-33.6	-30.7	2.0	2.2	2.3	2.3	2.3	1.9	

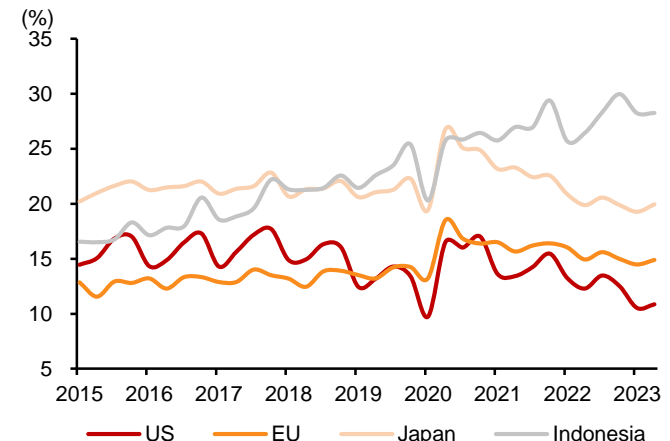
Source: Wind, CMBIGM

Figure 4: Exports Growth in Major Economies



Source: Wind, CMBIGM

Figure 5: China's Market Shares in Partners' Trade



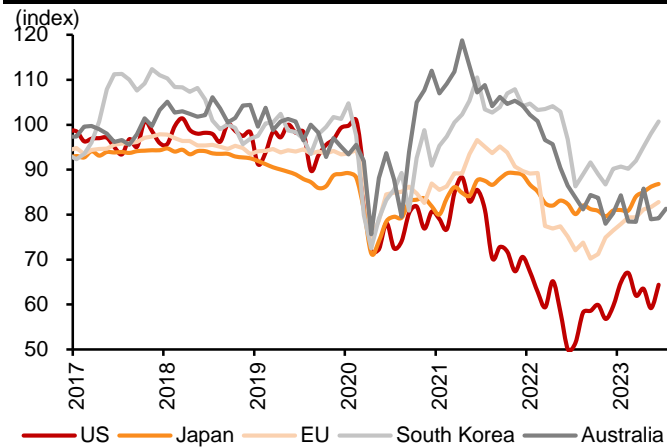
Source: Wind, CMBIGM

Figure 6: China Exports by Product

	YoY(%)									Share (%)					
	2018	2019	2020	2021	2022	1Q23	Apr	May	Jun	2018	2019	2020	2021	2022	1H23
Textile Yarn & Related Products	8.1	0.9	29.2	-5.6	2.0	-12.1	3.9	-14.3	-14.3	4.8	4.8	5.9	4.3	4.1	4.1
Travel Goods & Bags	1.8	0.5	-24.2	35.1	28.2	29.1	36.8	1.2	-5.1	1.1	1.1	0.8	0.8	1.0	1.1
Garment & Accessories	0.3	-4.0	-6.4	24.0	3.2	-1.3	14.0	-12.5	-14.5	6.3	6.1	5.3	5.1	4.9	4.5
Toy	4.5	24.2	7.5	37.7	5.6	3.7	-0.5	-23.0	-27.3	1.0	1.2	1.3	1.4	1.3	1.1
Furniture & Parts Thereof	7.6	0.8	11.8	26.4	-5.3	-6.8	0.0	-14.8	-15.1	2.2	2.2	2.3	2.2	1.9	1.9
Lamps, Lighting Fixtures & Similar Produ	5.6	9.6	14.3	31.2	-6.1	-1.7	7.2	-3.4	-10.3	1.2	1.3	1.5	1.5	1.3	1.2
Plastic Products	12.2	11.2	19.6	29.1	9.3	2.9	7.6	-11.1	-12.0	1.7	1.9	3.3	2.9	3.0	3.0
Steel Products	11.2	-11.3	-15.4	80.2	18.7	36.7	22.2	-28.0	-42.7	2.4	2.2	1.8	2.4	2.7	2.8
Unwrought Aluminum	25.8	-7.4	-14.1	48.7	33.7	-23.8	-35.4	-42.1	-35.4	0.7	0.6	0.5	0.6	0.7	0.6
Integrated Circuits	26.6	20.0	14.8	32.0	0.3	-17.6	-7.3	-25.8	-19.4	3.4	4.1	4.5	4.6	4.3	3.8
Ship	4.6	-6.3	-15.3	26.2	-0.4	4.9	79.2	23.5	-24.0	0.9	0.8	0.7	0.6	0.6	0.7
Motor Vehicles	12.3	4.1	-3.6	119.2	74.7	81.6	195.7	123.5	109.9	0.6	0.6	0.6	1.0	1.7	2.8
Auto Parts & Accessories	10.8	-3.6	-6.2	33.7	7.4	11.3	30.0	13.4	5.1	2.2	2.1	2.2	2.3	2.3	2.6
General Equipment			7.5	26.4	6.1	2.3	20.5	7.5	-2.4			1.6	1.6	1.6	1.7
Automatic Data Processing Equipment			11.6	21.0	-7.5	-29.9	-17.0	-10.9	-24.7			8.1	7.6	6.6	5.4
Fertilizer	16.2	2.7	-8.3	73.2	-1.6	18.1	-18.2	1.8	-7.3	0.3	0.3	0.3	0.3	0.3	0.3
Ceramic products	11.7	16.5	0.0	22.3	6.4	2.9	14.5	-22.1	-28.2	0.9	1.0	1.0	0.9	0.9	0.8
Rare earth	23.7	-14.4	-21.9	90.0	62.8	-2.9	-24.7	-32.3	-32.0	0.0	0.0	0.0	0.0	0.0	0.0
Cellphone			0.9	16.6	-2.5	-9.8	-12.7	-25.0	-23.3			4.8	4.4	4.0	3.5
Home appliance			23.5	22.3	-13.3	-4.4	2.2	0.7	3.9			2.6	2.9	2.4	2.6
Medical equipment	13.3	13.3	40.5	11.9	-5.8	-4.3	7.4	-3.2	-8.5	0.5	0.5	0.7	0.6	0.5	0.5

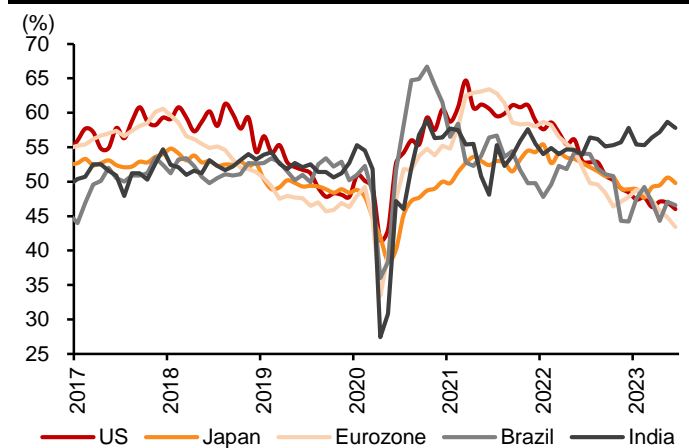
Source: Wind, CMBIGM

Figure 7: Consumer Confidence in Major Economies



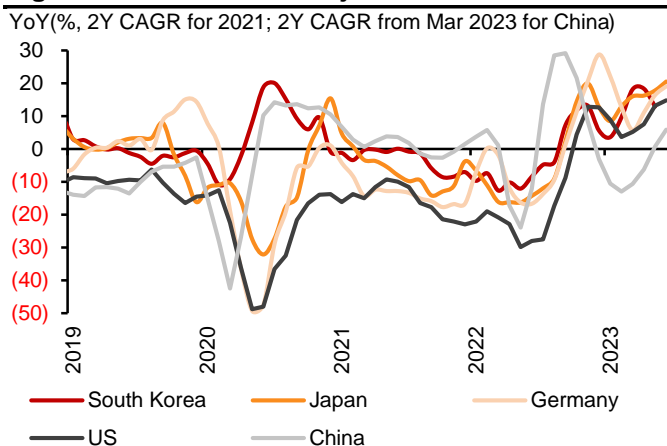
Source: Wind, CMBIGM

Figure 8: Manufacturing PMI in Major Economies



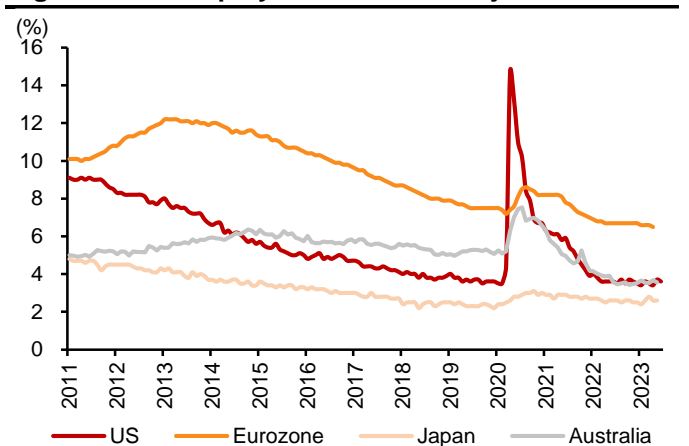
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Figure 9: Auto Sales in Major Economies



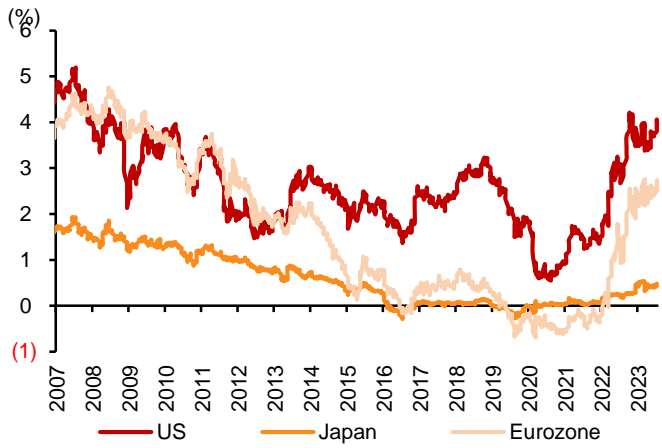
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Figure 10: Unemployment Rates in Major Economies



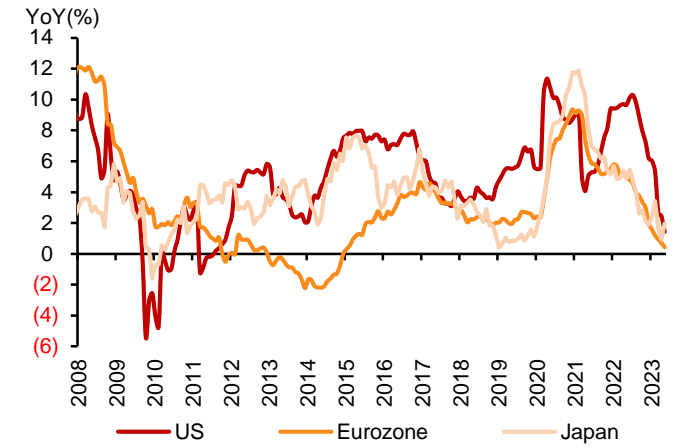
Source: Wind, CMBIGM

Figure 11: 10Y T-Bond Rates in Major Economies



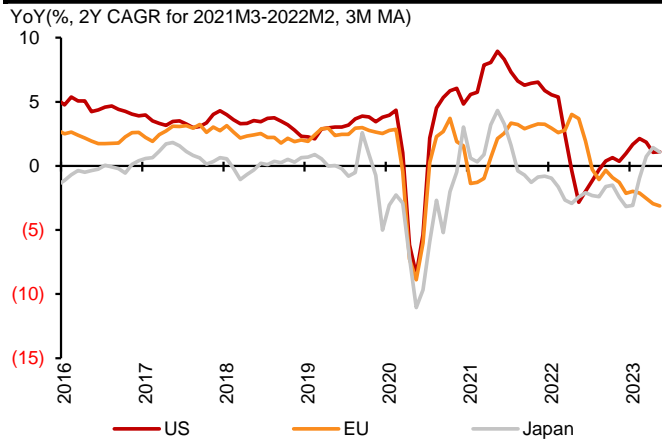
Source: Wind, CMBIGM

Figure 12: Banks' Credit Growth in Major Economies



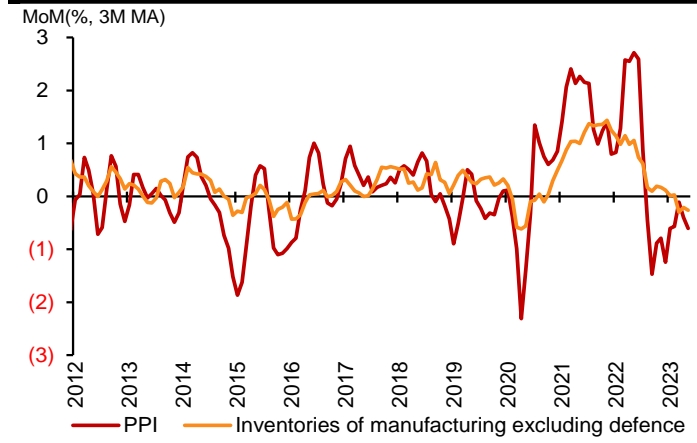
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Figure 13: Retail Sales Volume in Major Economies



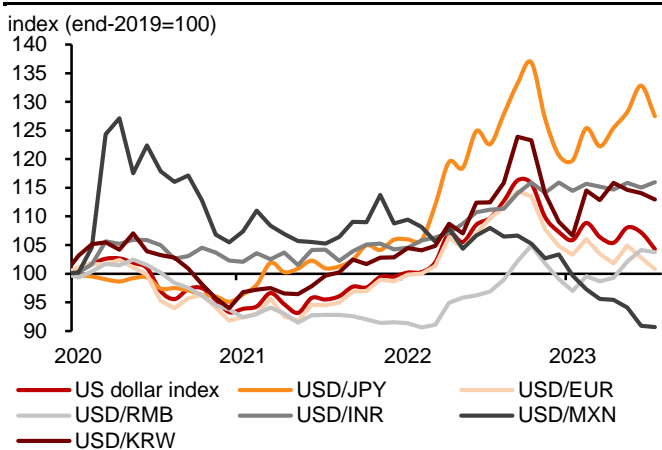
Source: Wind, CMBIGM

Figure 14: US Inventory Cycle



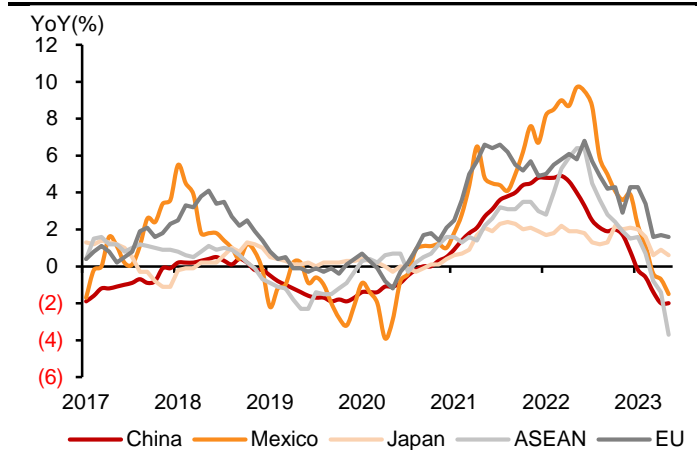
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Figure 15: Exchange Rates



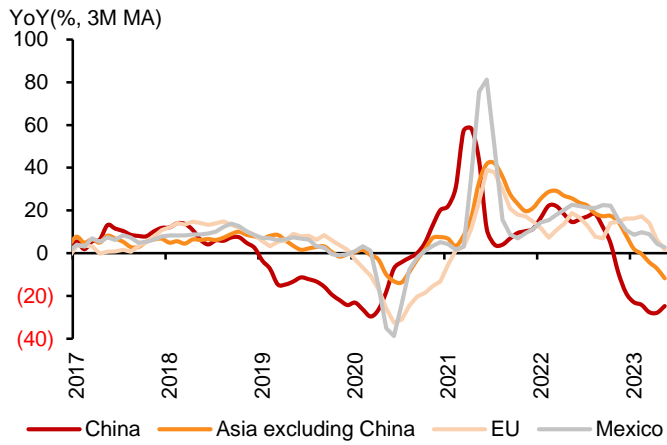
Source: Wind, CMBIGM

Figure 16: US Import Price Growth by Source



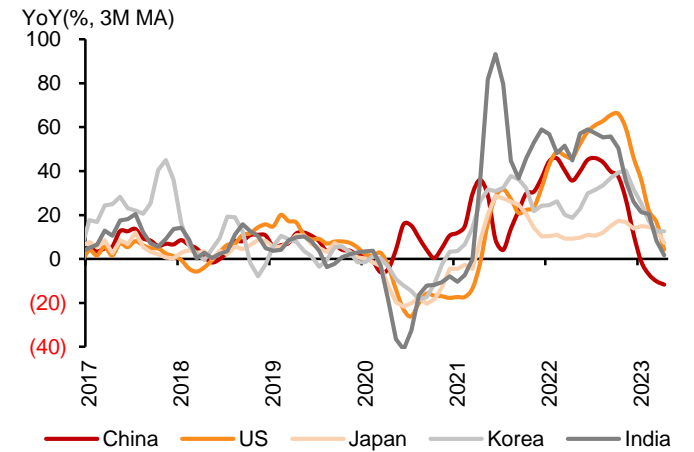
Source: Wind, CMBIGM

Figure 17: Growth of US Imports by Source



Source: Wind, CMBIGM

Figure 18: Growth of EU Imports by Source



Source: Wind, CMBIGM

Figure 19: China Import Volume & Price by Product

	Import volume YoY (%)							Import price YoY(%)						
	2019	2020	2021	2022	1H23	May	Jun	2019	2020	2021	2022	1H23	May	Jun
Grain	-3.6	28.0	18.1	-10.7	4.5	9.0	14.7	-5.1	-5.4	26.3	23.7	2.4	-2.4	-10.5
Soybean	0.0	13.3	-3.8	-5.6	13.6	24.3	24.5	-7.2	-1.3	40.7	21.2	-1.9	-7.9	-15.8
Iron ore	0.5	9.5	-3.9	-1.5	7.7	3.9	7.4	32.9	7.2	55.4	-28.6	-11.8	-15.8	-21.0
Copper ore	11.6	-1.0	7.6	8.0	7.9	16.9	3.2	-4.8	2.1	44.6	-8.5	-6.6	-10.2	-10.4
Coal	6.3	1.5	6.6	-9.2	93.0	92.6	110.1	-11.1	-14.8	65.9	29.7	-22.7	-29.6	-29.8
Crude oil	9.5	7.3	-5.4	-0.9	11.7	12.3	45.3	-8.3	-32.2	52.4	42.7	-20.2	-23.4	-32.2
Natural gas	6.9	5.3	19.9	-9.9	5.8	17.3	19.1	1.5	-23.8	39.8	39.5	-4.5	-12.0	-13.0
Steel products	-6.5	64.4	-29.5	-25.9	-35.2	-22.2	-22.5	-8.1	-27.5	57.9	23.1	10.2	5.2	-4.2
Copper products	-6.0	34.1	-17.2	6.2	-12.0	-4.6	-16.4	-7.8	-0.9	45.5	-2.5	-12.2	-13.3	-12.9
Plastics in primary form	12.4	10.1	-16.4	-10.0	-5.8	-3.3	-0.3	-15.9	-10.6	39.4	2.0	-18.7	-21.2	-22.0
Rubber	-6.2	13.6	-9.4	8.7	18.0	32.6	17.2	-4.5	-7.2	26.4	-1.7	-21.9	-22.7	-20.9
Integrated circuits	6.6	22.1	16.9	-15.3	-18.5	-13.9	-13.3	-8.2	-6.1	5.7	13.5	-4.8	-5.7	-0.3
Machine tool	0.0	18.8	-0.7	-14.4	-15.4	-35.9	-37.5	0.0	-30.8	25.8	1.5	7.7	93.5	39.4
Auto	-6.6	-11.4	0.6	-6.5	-22.4	-14.3	5.0	3.6	8.1	14.7	5.7	-1.8	-15.5	0.3
Airplane	-48.6	-35.4	29.4	-27.3	140.0	250.0	250.0	12.5	-30.0	12.3	13.5	4.9	-9.7	91.1
Medicine	0.0	-0.6	3.1	28.8	36.2	64.5	32.1	0.0	4.1	16.5	-25.7	-17.2	-36.4	-33.1
Beauty cosmetics	0.0	3.7	5.2	-11.8	-10.7	-21.0	-9.2	0.0	24.8	17.0	1.8	-4.4	1.8	-18.1

Source: Wind, CMBIGM

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