

# China Economy

## Imports slumped as demand & supply chain deteriorated

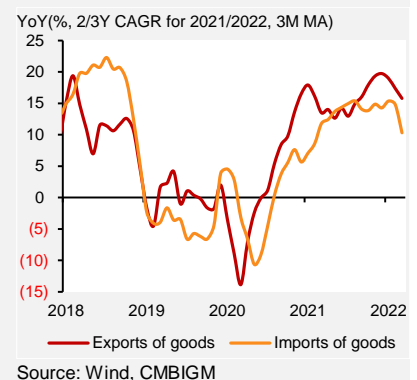
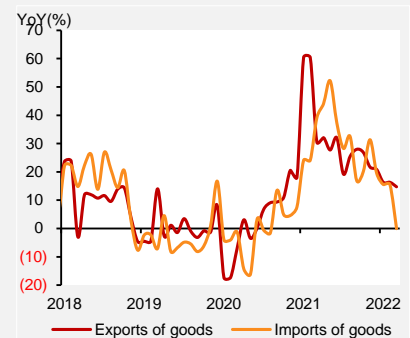
China's exports mildly slowed while imports sharply deteriorated as the Russia-Ukraine conflict disrupted global supply chain and the housing market stress & the epidemic severely hit domestic demand. China's exports should gradually slow as global demand and inflation starts to soften. The imports may further decline with domestic condition deterioration in April, before seeing some fluctuations of growth due to base effect and economic condition. The sharp increase of trade surplus is due to the recession effect, which is in line with the shrinkage of Sino-US interest rate spreads. The economic fundamental behind this scenario may point to a weak renminbi. The prospect of economic fundamental drives both interest rate spreads and exchange rates. The Chinese policymakers should pay attention to the economic fundamental instead of the Sino-US interest rate spreads. With flexible exchange rates to absorb external shocks, China should increase its policy support to stabilize the economy as soon as possible. Only when the economic fundamental improves, can interest rate spreads, exchange rates and financial market truly stabilize.

- Exports slowed as overseas demand started to soften and supply chain pressure increased.** China's exports of goods rose 14.7% YoY in March, compared to the YoY growth of 16.3% in 2M22 and the 2Y CAGR of 16% in 2021. While export price index may have maintained a strong growth at over 10%, export volume growth should have noticeably declined in March. Breaking down items, exports of anti-virus products, medicines and home-economy-related products slowed due to base effect and normalization of overseas economies. As outings activities gradually returned to normal, exports of clothing and travel goods picked up. The slowdown of China's exports was mainly due to softening global economy and rising global supply chain pressure amid the Russia-Ukraine conflict. Looking forward, China's exports should further slow as global growth and inflation continued to soften.
- Imports dropped as domestic housing market stress and epidemic resurgence hit demand and supply chains.** China's imports turned to a YoY decline of 0.1% in March, down from the YoY growth of 15.5% in 2M22 and the 2Y CAGR of 13.7% in 2021. With a sharp increase of commodity prices, import volume should have seen a significant decline in March. Breaking down items, import volume of most commodities significantly declined. The decline of China's imports indicates a sharp weakening of domestic demand and increase of supply chain pressure amid the housing market stress and the resurgence of the epidemic. The imports may further decline in April as the demand and supply chain condition continue to deteriorate. As the condition may gradually improve from May, it is possible to see some rebounding in 3Q22. But the upside room may be limited due to base effect and decline of commodity inflation.
- The faster decline of imports than exports significantly expanded trade surplus, which is seen in the recession phase.** China's trade surplus reached US\$47.4bn in March, compared to US\$11.8bn in the same period last year. The significant increase of trade surplus was in line with the shrinkage of Sino-US interest rate spreads, as domestic economy was weaker than overseas economy. The economic fundamental behind this scenario definitely

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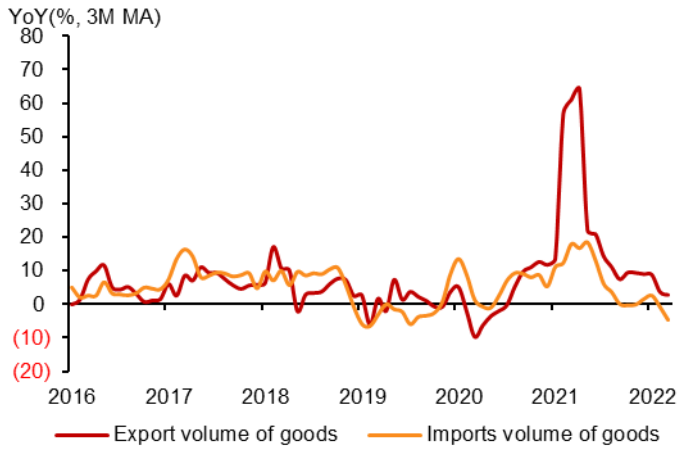
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points to a weak not strong renminbi. We expect some moderate depreciation of renminbi this year.

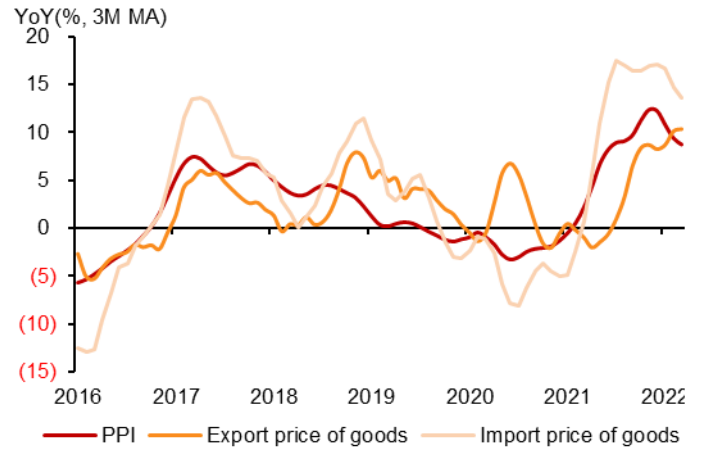
- **The policymakers should pay attention to the economic fundamental instead of the Sino-US interest rate spreads.** The prospect of economic fundamental drives changes of interest rate spreads and exchange rates. The Chinese policymakers should pay attention to the economic fundamental instead of the interest rate spreads. With more flexible exchange rates to absorb external shocks, China should use its independent monetary policy to stabilize the economy as soon as possible. Only when economic prospect improves, the Sino-US interest rate spreads, exchange rates and financial market can truly stabilize.

**Figure 1: Growth of Export and Import Volume**



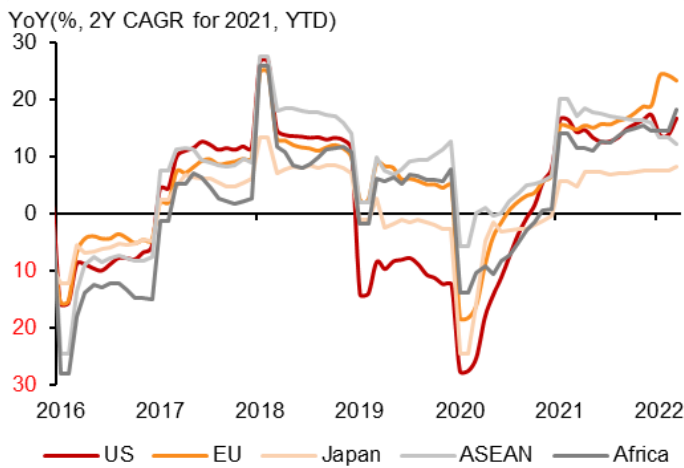
Source: Wind, CMBIGM

**Figure 2: Growth of Export and Import Prices**



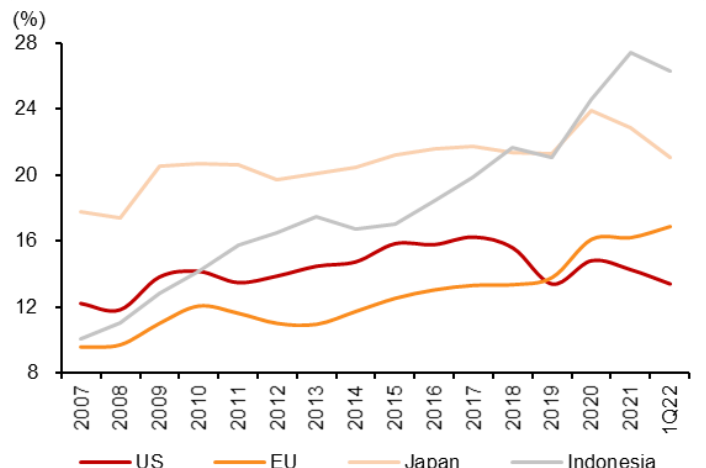
Source: Wind, CMBIGM

**Figure 3: Growth of Exports to Main Partners**



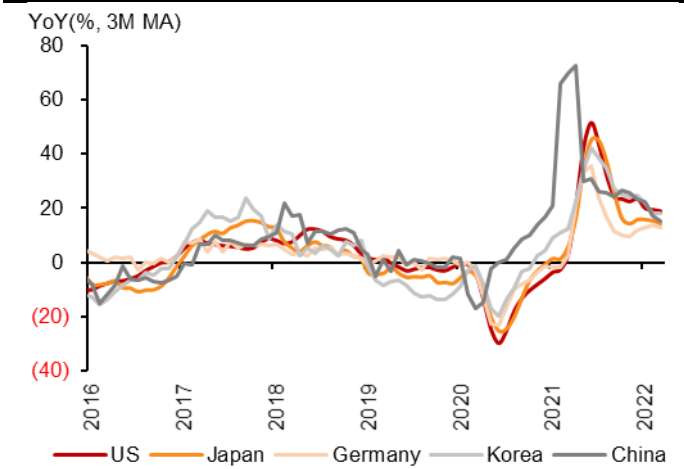
Source: Wind, CMBIGM

**Figure 4: China's Share in Partner's Foreign Trade**



Source: Wind, CMBIGM

**Figure 5: Growth of Main Countries' Exports**



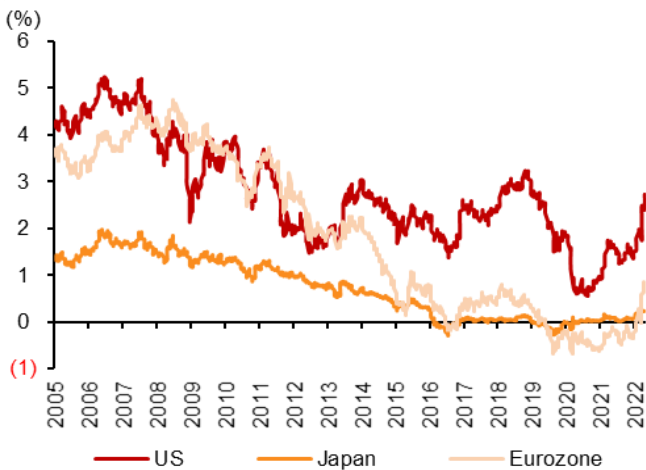
Source: Wind, CMBIGM

**Figure 6: Consumer Confidence Index**



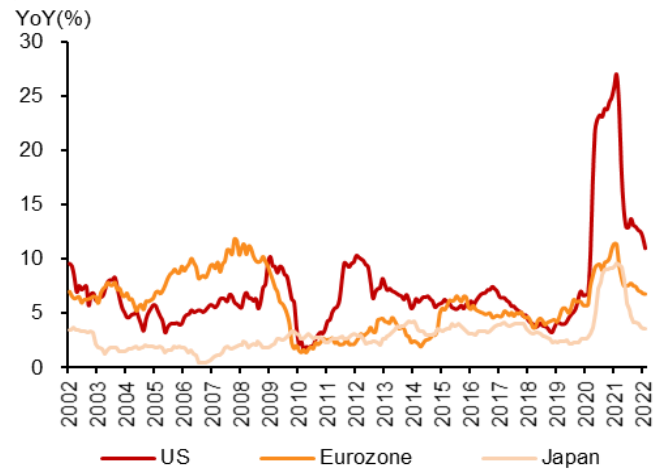
Source: Wind, CMBIGM

**Figure 7: 10Y Treasury Bond Rates**



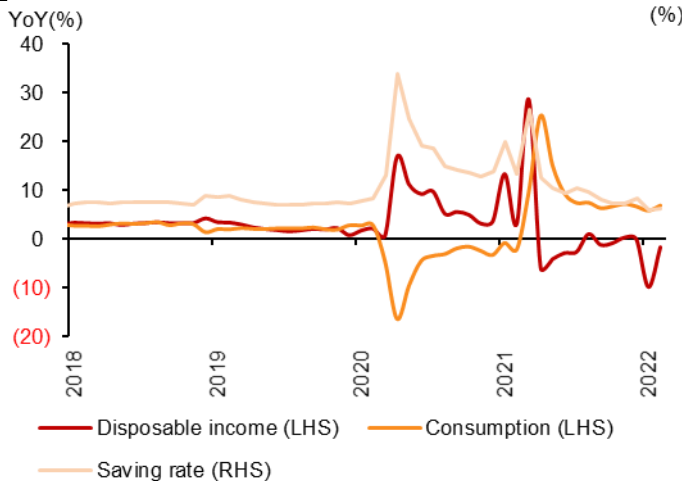
Source: Wind, CMBIGM

**Figure 8: Growth of M2 Supply**



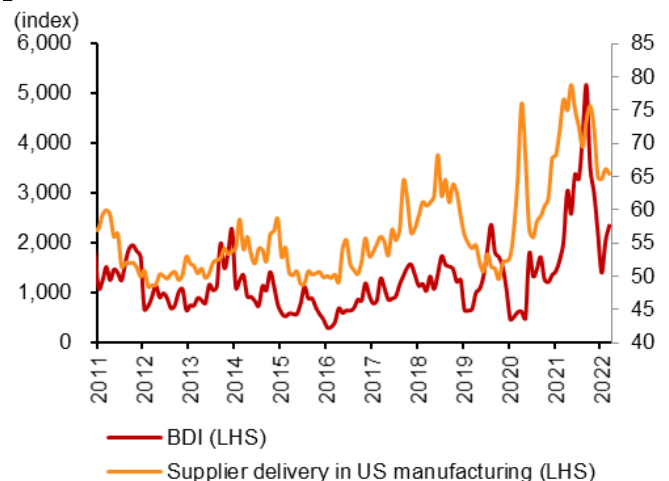
Source: Wind, CMBIGM

**Figure 9: US Household Income Growth & Saving Rates**



Source: Wind, CMBIGM

**Figure 10: Global Supply Chain Pressure**



Source: Wind, CMBIGM

**Figure 11: Growth of China Export Value by Main Products**

	YoY(%)					2/3 Y CAGR(%)		
	2018	2019	2020	2021	1Q22	2021	2M22	1Q22
Textile Yarn, Fabrics & Related Products	8.1	0.9	29.2	(5.6)	15.1	10.4	12.9	11.3
Travel Goods, Hand bags & Similar Containers	1.8	0.5	(24.2)	35.1	26.7	1.2	7.9	7.5
Garment & Accessories	0.3	(4.0)	(6.4)	24.0	7.4	7.7	8.3	8.0
Shoes & Boots	0.0	0.0	(21.2)	35.3	23.0	3.3	8.8	8.2
Toy	4.5	24.2	7.5	37.7	19.4	21.7	20.4	19.1
Furniture & Parts Thereof	7.6	0.8	11.8	26.4	3.9	18.9	12.4	12.6
Lamps, Lighting Fixtures & Similar Products	5.6	9.6	14.3	31.2	(2.1)	22.5	17.8	15.7
Plastic Products	12.2	11.2	19.6	29.1	16.9	24.3	20.6	19.7
Steel Products	11.2	(11.3)	(15.4)	80.2	22.8	23.5	11.6	11.4
Unwrought Aluminum	25.8	(7.4)	(14.1)	48.7	64.8	13.0	19.5	19.3
Integrated Circuits	26.6	20.0	14.8	32.0	23.2	23.1	22.0	21.1
Shipping	4.6	(6.3)	(15.3)	26.2	(2.2)	3.4	(2.1)	(2.5)
Motor Vehicles	12.3	4.1	(3.6)	119.2	87.1	45.4	60.6	50.5
Auto Parts & Accessories	10.8	(3.6)	(6.2)	33.7	5.9	12.0	11.4	10.2
General Machinery			7.5	26.4	18.1	16.6	16.1	15.8

Automatic Data Processing Equipment			11.6	21.0	9.7	16.2	12.9	12.1
Mobile			0.9	16.6	5.3	8.5	10.8	11.0
Household Appliances			23.5	22.3	(5.3)	22.9	13.3	12.4
Medical Instruments & Appliances	13.3	13.3	40.5	11.9	5.6	25.4	20.0	17.9

Source: Wind, CMBIGM

**Figure 12: Growth of China Import Volume by Main Products**

	YoY(%)					2/3 Y CAGR(%)		
	2018	2019	2020	2021	1Q22	2021	2M22	1Q22
Grain	(11.5)	(3.6)	28.0	18.1	(1.5)	23.0	16.8	19.1
Soybean	0.0	0.0	13.3	(3.8)	(4.2)	4.4	5.7	6.6
Iron ore	(1.0)	0.5	9.5	(3.9)	(5.2)	2.6	1.4	1.2
Copper ore	13.7	11.6	(1.0)	7.6	6.7	3.2	3.1	4.6
Coal	3.9	6.3	1.5	6.6	(24.2)	4.0	(11.6)	(11.4)
Crude oil	10.1	9.5	7.3	(5.4)	(8.1)	0.8	1.4	1.9
Natural gas	31.9	6.9	5.3	19.9	(5.1)	12.4	4.9	4.9
Steel products	(1.0)	(6.5)	64.4	(29.5)	(13.4)	7.7	3.4	3.6
Copper products	12.9	(6.0)	34.1	(17.2)	2.6	5.4	7.1	7.7
Plastics in primary form	14.5	12.4	10.1	(16.4)	(14.9)	(4.1)	(3.6)	(2.8)
Rubber	(2.0)	(6.2)	13.6	(9.4)	3.9	1.5	6.4	5.8
Integrated circuits	10.8	6.6	22.1	16.9	(9.6)	19.5	17.9	17.0
Machine tool	0.0	0.0	18.8	(0.7)	3.1	8.6	4.4	6.7
Auto	(7.5)	(6.6)	(11.4)	0.6	(4.5)	(5.6)	(0.2)	(1.6)
Airplane	7.1	(48.6)	(35.4)	29.4	(23.5)	(8.6)	(28.3)	(30.3)
Medicine	0.0	0.0	(0.6)	3.1	2.3	1.2	10.1	10.4
Beauty cosmetics	0.0	0.0	3.7	5.2	(2.9)	4.4	5.1	2.3

Source: Wind, CMBIGM

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