

# Revisiting China-US Phase One Deal

## How much of the trade target has been achieved?

The China-U.S. Phase One Agreement signed in Jan marked an uneasy truce between the two countries, though it did not last long as tensions intensified in many other aspects. Nonetheless, before the two sides officially talk again, it's necessary to revisit the progress of Phase One Deal execution in time of COVID-19, in particular, trade expansion, before any judgement is made.

- **Revisiting Phase One Deal - ambitious targets of trade expansion are set**, among which China is to purchase an additional amount of no less than US\$200bn U.S. goods and services in 2020-21 on top of 2017 amounts. Categories of goods include manufactured goods, agriculture and energy products. Even before COVID-19, such goal is considered ambitious, implying 79% increase of U.S. exports to China in 2020 compared to 2017.
- **How much of the target has been achieved now?** Our calculation finds that by the end of 1H20, China's purchase of U.S. goods achieved **22.9%** of the 2020 target as specified in Phase One Agreement. For manufactured goods, agriculture and energy products, hit rate of their 2020 Phase One target was 28.3%, 19.2% and 10.9%, respectively.
- **Severe COVID-19 impact in 1Q20.** Exports of U.S. goods specified in the Agreement declined 9% in 1Q as a result of global economic shutdown, supply chain disruption and demand stagnation...**but followed by sequential improvement in 2Q.** U.S. goods exports to China increased 12.6% YoY in 2Q, pegging growth in 1H20 at 2.1% YoY. A detailed analysis of 18 subcategories of U.S. goods exports to China shows that the majority of goods experienced significant acceleration or narrowing of decline in 2Q.
- **We believe China has been sincerely making efforts to accomplished the trade deal in time of COVID-19**, which is bolstered not only by sequential increase in the purchase of U.S. goods in 2Q and onward (immediately after COVID-19 was largely contained domestically), but also by the fact that China's purchase of major categories goods, such as LNG, crude oil and meat achieved breakthroughs in 1H20.
- **What to expect next?** To one's best wish, U.S. and China should sit down and talk about revising or postponing the Phase One targets, which now seems unattainable under the circumstance of COVID-19 inflicting on global trade and economy (to achieve the 2020 target requires U.S. goods exports to China to increase ~200% YoY in 2H20). However, as the U.S. Election approaches, it is not hard to believe that China-U.S. tensions may intensify and deviations from economic and business rationale may well continue.

### Data Summary - U.S. exports to China as specified in Phase One Agreement

in US\$ bn	2019A	2020T	1H19	1H20	YoY	Hit rate
<b>Goods specified</b>	<b>67.8</b>	<b>144.6</b>	<b>32.5</b>	<b>33.2</b>	<b>2.1%</b>	<b>22.9%</b>
Manufactured goods	49.3	83.8	24.5	23.7	-3.0%	28.3%
Agriculture	14.8	33.7	5.9	6.5	9.7%	19.2%
Energy	3.8	27.1	2.1	2.9	40.5%	10.9%
<b>Services</b>	<b>56.5</b>	<b>67.8</b>	<b>28.4</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

Source: USTR, BEA, Phase One Agreement, CMBIS estimates

### Ding Wenjie, PhD

(852) 3900 0856 /

(86) 755 2367 5597

dingwenjie@cmbi.com.hk

### Related Reports

#### Thematic reports

1. The return of street vendors – 8 Jun 2020
2. Takeaways of 2020 Government Work Report – 25 May 2020
3. Employment situations in light of COVID-19 – 5 May 2020
4. Policy support and demand boost – 30 Mar 2020
5. China New Infrastructure: What, why, how and where – 12 Mar 2020
6. Charting the Hubei Economy – 20 Feb 2020
7. Returned to work? Observations from travel data – 10 Feb 2020
8. Looking for silver linings of the virus outbreak – 3 Feb 2020
9. Embracing new relationship in the new decade: on China-US Phase One Deal – 17 Jan 2020

#### On monthly China economy

10. China Economy in 2Q: Looking forward to more balanced recovery – 17 Jul 2020
11. China Economy in May: Recovery and bifurcation – 16 Jun 2020
12. China Economy in Apr: Recovery on track – 18 May 2020
13. China Economy in 1Q20: Simultaneous freefall, asynchronous recovery – 20 Apr 2020
14. China Economy in Jan-Feb: Worst data, best hope – 17 Mar 2020

#### On inflation/PMI monitors

15. China inflation in Jun – PPI contraction pressure alleviated further, 9 Jul 2020
16. China inflation in May – CPI back to normal; PPI decline narrowed MoM, 10 Jun 2020
17. China inflation in Apr – Moderated inflation echoing weak demand, 12 May 2020

**Please cast your valuable vote for CMBIS research team in the 2020 Asiamoney Brokers Poll:**

<https://euromoney.com/brokers>

## Ambitious targets of trade expansion

### ■ China to purchase an additional US\$ 200bn U.S. goods and services

Among the commitments in Phase One Deal, one of the most specific and quantifiable target is for China to purchase an additional amount of no less than US\$200bn U.S. goods and services in 2020 and 2021 on top of corresponding 2017 amounts. Breakdown of export targets has been specified for each of the year 2020 and 2021, as well as for each category of goods including manufactured goods, agricultural products and energy products.

### ■ Even without COVID-19 disruption, such targets are considered ambitious

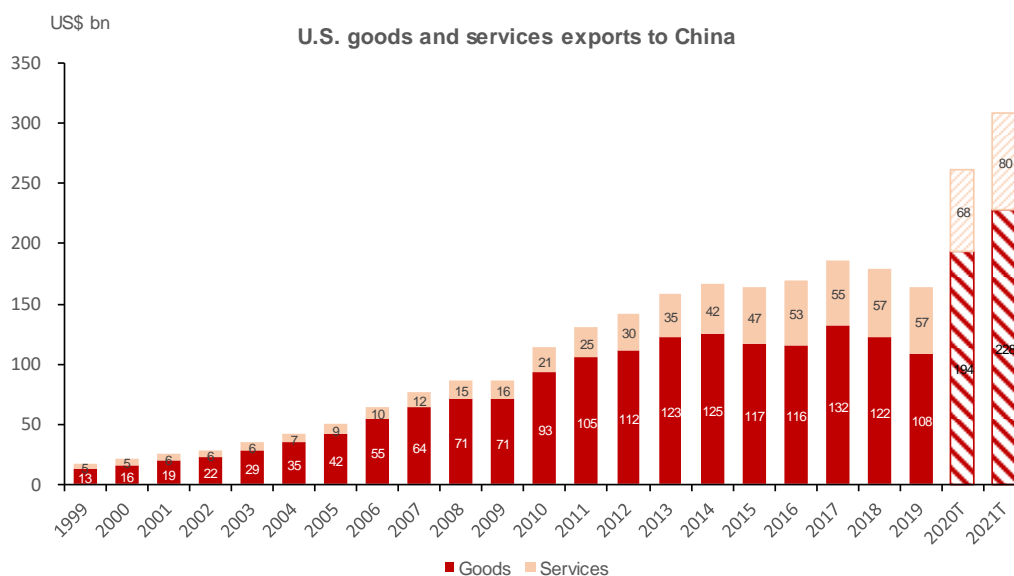
According to the Deal, China is to purchase US\$144.6bn/US\$178.9bn specified U.S. goods in 2020/2021, compared to US\$80.7bn in 2017 and US\$67.8bn in 2019. Imputed growth of goods exports in 2020 from 2017 is as high as 79%. Targets of services exports are less aggressive, but still implying 23%/18% YoY growth in 2020/21E.

**Figure 1: U.S. goods and services exports to China and Phase One Targets**

in US\$ bn	2017A	Phase One Target		Imputed growth rate	
		2020T	2021T	2020E	2021E
<b>Goods specified in Phase One Deal</b>	<b>80.7</b>	<b>144.6</b>	<b>178.9</b>	<b>79%</b>	<b>24%</b>
Manufactured goods	50.9	83.8	95.7	65%	14%
Agriculture	21.2	33.7	40.7	59%	21%
Energy	8.6	27.1	42.5	215%	57%
<b>Services</b>	<b>55</b>	<b>67.8</b>	<b>80.1</b>	<b>23%</b>	<b>18%</b>
<b>Total goods and services specified</b>	<b>135.7</b>	<b>212.4</b>	<b>259</b>	<b>57%</b>	<b>22%</b>
Goods not specified	49.3	n/a	n/a	n/a	n/a

Source: Phase One Agreement, USTR, CMBIS estimates

**Figure 2: U.S. goods and services exports to China and the ambitious targets in 2020/21T**



Source: BEA, Phase One Agreement, CMBIS estimates

\*In deriving 2020 and 2021 targets (2020/21T), we assume the export amount of goods not specified in Phase One Agreement would equal to 2017 export amount in 2020/21.

## How much of the target has been achieved?

In **Figure 3** below, we calculate the amount of U.S. goods and services exports to China in 2020. Here are some key observations.

- **By the end of 1H20, China's purchase of U.S. goods achieved 22.9% of the 2020 target as specified in Phase One Agreement.**

China's purchase of U.S. manufactured goods/agriculture/energy products each accomplished 28.3%/19.2%/10.9% of the Phase One target in 2020.

- **Goods exports declined in 1Q due to COVID-19**

Inflicted by the outbreak of COVID-19, U.S. exports to China suffered YoY decline of 9% in 1Q for goods specified in the Agreement. Among these, manufactured goods exports declined 10.8% YoY, energy exports dropped 27.8% YoY along with the oil price plunge although agriculture exports reported 2.8% YoY gain. Goods not specified in the trade agreement posted even greater decline at 23.6%.

- **Decline reversed in 2Q**

However, 2Q recorded sequential improvements as China's economy reopened and embarked on gradual recovery. For goods specified in the trade agreement, U.S. exports increased 12.6% YoY in 2Q, pegging YoY growth in 1H20 at 2.1%. Exports of manufactured goods/agriculture/energy products increased 4.7%/16.9%/70.9% YoY in 2Q, respectively.

- **Services exports**

We are not able to calculate 2Q services exports to China at this moment since the Jun number has not been disclosed by individual country. However, we think 2Q service exports may still post YoY decline due to travel restrictions. Overall U.S. services exports to the world declined 2.7%/24.7% in 1Q/2Q, respectively.

**Figure 3: U.S. Exports to China and growth in 2020**

in US\$ bn	2019A	2020T	1H19	1H20	YoY	Hit rate	1Q19	1Q20	YoY	2Q19	2Q20	YoY
<b>Goods specified</b>	<b>67.8</b>	<b>144.6</b>	<b>32.5</b>	<b>33.2</b>	<b>2.1%</b>	<b>22.9%</b>	<b>15.9</b>	<b>14.4</b>	<b>-9.0%</b>	<b>16.6</b>	<b>18.7</b>	<b>12.6%</b>
Manufactured goods	49.3	83.8	24.5	23.7	-3.0%	28.3%	12.21	10.89	-10.8%	12.28	12.86	4.7%
Agriculture	14.8	33.7	5.9	6.5	9.7%	19.2%	3.00	3.08	2.8%	2.91	3.40	16.9%
Energy	3.8	27.1	2.1	2.9	40.5%	10.9%	0.64	0.47	-27.8%	1.45	2.48	70.9%
<b>Services</b>	<b>56.5</b>	<b>67.8</b>	<b>28.4</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>14.1</b>	<b>11.7</b>	<b>-16.9%</b>	<b>14.33</b>	<b>n/a</b>	<b>n/a</b>
<b>Goods specified and services</b>	<b>124.4</b>	<b>212.4</b>	<b>60.9</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>30.0</b>	<b>26.2</b>	<b>-12.7%</b>	<b>31.0</b>	<b>n/a</b>	<b>n/a</b>
Goods not specified	38.6	n/a	19.4	16.3	-15.8%	n/a	9.91	7.57	-23.6%	9.48	8.75	-7.7%

Source: BEA, Phase One Agreement, CMBIS estimates

Figure 4 below exhibits U.S. exports to China for each of the 18 subcategories of goods specified in Phase One Agreement.

#### ■ Manufactured goods exports -3% YoY in 1H20, hitting 28.3% of 2020 target

Exports of vehicles and pharmaceutical products to China decreased 41% and 17% YoY, respectively, being the main draggers in this category. In 2Q20, vehicle export declined 33% YoY, although narrowing from 47% in 1Q20.

We think the decline of manufactured goods exports was primarily due to **1) COVID-19**, which interrupted U.S. production and order delivery, and possibly weakened China's domestic demand; and **2) trade restrictions** of high-tech industrial machineries and optical & medical instruments.

#### ■ Agriculture exports +9.7% YoY in 1H20, hitting 19.2% of 2020 target

The decline of oilseeds exports was offset by substantial export increase of U.S. meat, cereal as well as cotton. Meanwhile, more soybean orders are likely to be delivered in future months according to USDA.

#### ■ Energy exports +10.9% YoY in 1H20

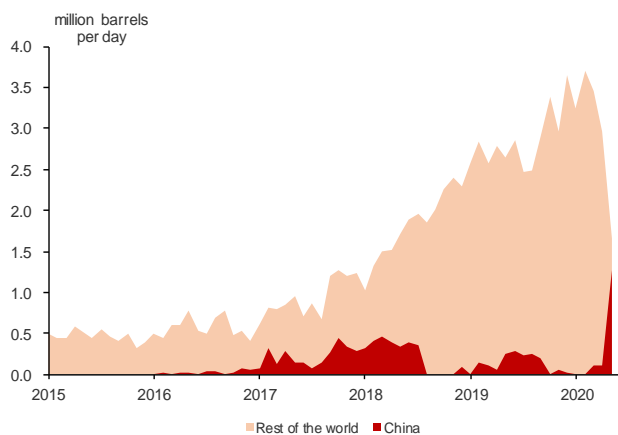
China's purchase amount of U.S. LNG and crude oil increased 390% and 30% in 1H20, respectively, in nominal dollar values. Increase in purchase volumes has offset the plunge in oil prices. According to EIA, U.S. crude oil exports to China reached >1.2 million barrels per day in May, the latest month we can obtain data.

**Figure 4: Detailed breakdown, U.S. Exports to China and growth in 2020**

in US\$ bn	2019	2020T	1H19	1H20	YoY	Hit rate	1Q19	1Q20	YoY	2Q19	2Q20	YoY
<b>Manufactured goods</b>	<b>49.31</b>	<b>83.80</b>	<b>24.49</b>	<b>23.75</b>	<b>-3.0%</b>	<b>28.3%</b>	<b>12.21</b>	<b>10.89</b>	<b>-11%</b>	<b>12.28</b>	<b>12.86</b>	<b>5%</b>
1 Industrial machinery	12.76		6.47	6.53	1%		2.80	2.89	3%	3.67	3.64	-1%
2 Electrical equipment & machinery	6.28		3.08	3.28	7%		1.50	1.54	3%	1.58	1.75	11%
3 Pharmaceutical products	4.13		2.06	1.72	-17%		1.31	0.79	-40%	0.75	0.93	23%
4 Aircraft (orders & deliveries)	0.00		0.00	0.00	-		0.00	0.00	-	0.00	0.00	-
5 Vehicles	7.42		3.40	2.01	-41%		1.98	1.05	-47%	1.42	0.96	-33%
6 Optical and medical instruments	4.78		2.32	2.23	-4%		1.09	1.07	-2%	1.23	1.16	-5%
7 Iron and steel	0.39		0.20	0.25	23%		0.10	0.09	-11%	0.10	0.16	59%
8 Other manufactured goods	13.55		6.95	7.73	11%		3.43	3.46	1%	3.52	4.27	21%
<b>Agriculture</b>	<b>14.78</b>	<b>33.7</b>	<b>5.90</b>	<b>6.48</b>	<b>9.7%</b>	<b>19.2%</b>	<b>3.00</b>	<b>3.08</b>	<b>3%</b>	<b>2.91</b>	<b>3.40</b>	<b>17%</b>
9 Oilseeds	8.00		2.95	1.36	-54%		1.70	1.03	-40%	1.24	0.34	-73%
10 Meat	1.20		0.29	1.63	454%		0.11	0.73	560%	0.18	0.90	390%
11 Cereals	0.32		0.12	0.67	439%		0.02	0.12	667%	0.11	0.55	407%
12 Cotton	0.70		0.49	0.64	32%		0.21	0.29	38%	0.28	0.35	27%
13 Other agricultural commodities	3.70		1.65	1.81	10%		0.75	0.78	4%	0.90	1.04	15%
14 Seafood	0.87		0.40	0.35	-12%		0.21	0.14	-34%	0.19	0.21	12%
<b>Energy</b>	<b>3.75</b>	<b>27.1</b>	<b>2.09</b>	<b>2.94</b>	<b>40.5%</b>	<b>10.9%</b>	<b>0.64</b>	<b>0.47</b>	<b>-28%</b>	<b>1.45</b>	<b>2.48</b>	<b>71%</b>
15 Liquefied natural gas	0.16		0.11	0.56	390%		0.10	0.11	14%	0.02	0.45	2768%
16 Crude oil	2.96		1.59	2.06	30%		0.37	0.18	-51%	1.22	1.88	54%
17 Refined products	0.47		0.28	0.26	-6%		0.14	0.12	-12%	0.14	0.14	0%
18 Coal	0.16		0.11	0.06	-48%		0.04	0.05	32%	0.07	0.01	-87%
<b>Total of goods specified</b>	<b>67.8</b>	<b>144.6</b>	<b>32.5</b>	<b>33.2</b>	<b>2%</b>	<b>22.9%</b>	<b>15.9</b>	<b>14.4</b>	<b>-9%</b>	<b>16.6</b>	<b>18.7</b>	<b>13%</b>

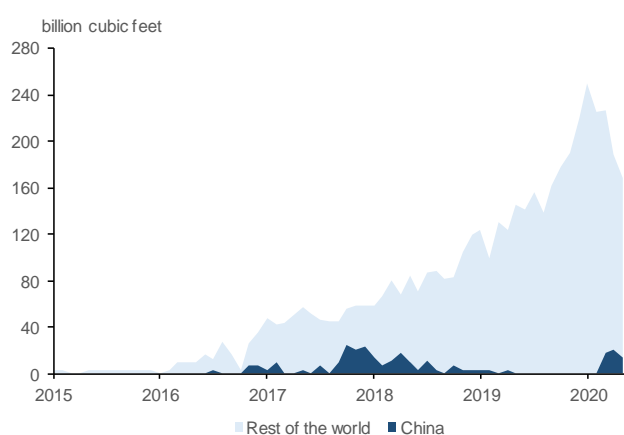
Source: USTR, Phase One Agreement, CMBIS

**Figure 5: U.S. export of crude oil to China vs. to the rest of world**



Source: EIA, CMBIS

**Figure 6: U.S. export of liquefied natural gas to China vs. to the rest of world**



Source: EIA, CMBIS

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.