

China Economy

Foreign trade drops as demand worsens

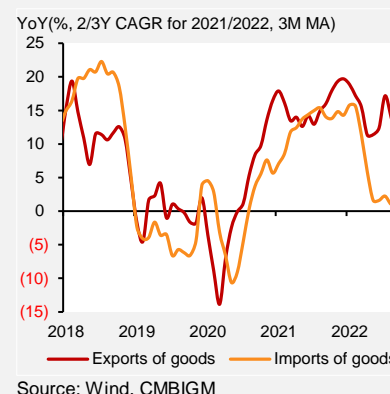
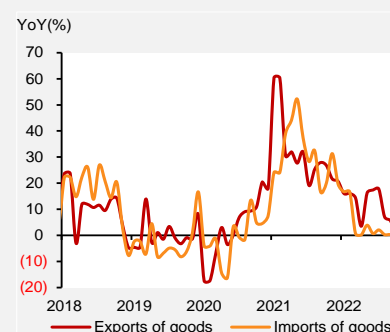
China's exports started to see a YoY decline in October as overseas demand worsened. The exports are expected to grow 8% in 2022 before dropping by 4% in 2023 due to overseas recession and disinflation next year. China's imports further deteriorated as domestic demand and commodity inflation weakened. We expect the imports to grow 2% in 2022 and to decrease by 1.5% in 2023. Domestic demand may slowly resume, yet commodity prices are likely to further decline next year. The weakness of foreign trade points to additional pressure on China economy, which is struggling with property market slump and zero-Covid policy. The country faces increasing pressure to adjust its epidemic control measures and focus more on the economic growth.

- Exports started to drop as overseas demand worsened.** China's exports of goods dropped 0.3% YoY in October after rising 5.7% YoY in September. As the YoY growth of export price index should have been above 10% YoY, export volume may have declined by over 10% YoY in October. The decline of China's exports of goods indicates an increase of overseas recession risk amid the high inflation and abrupt monetary tightening in advanced economies. By destinations, China's exports to the US further declined 9.6% YoY in October after dropping 1.5% YoY in September. Meanwhile, the exports to EU and Japan respectively rose 2.5% YoY and 5.6% YoY, down sharply from the growth of 13.2% YoY and 10.8% YoY in September. However, the growth of exports to ASEAN remained strong at 22.9% YoY in October after rising 28.4% YoY in September. By products, the exports of furniture, lamps & similar products, and automatic data processing equipment saw YoY declines, as overseas housing market and home economy sharply cooled down. However, the exports of garments & shoes maintained strong growth as social activities rebounded after the reopening in overseas. Meanwhile, the exports in steel products and motor vehicles also experienced high growth as China strengthened its competitiveness in energy & supply chain security.
- Imports further deteriorated as domestic demand and commodity inflation weakened.** China's imports dropped 0.7% YoY in October after rising 0.3% in September. For one thing, domestic demand further weakened in October. Local governments tightened the zero-Covid policy as economic activities declined in China. The import volume is estimated to have dropped by over 7% in October. For another thing, commodity inflation declined as the growth of import price index should have slowed from 15.6% in July to about 7% in October. In 10M22, China's import volume in airplane dropped by 40.7% YoY, that in steel products decreased by 23% YoY and the import volume in integrated circuits declined by 13.2% YoY. Meanwhile, the import volume in grain, beauty cosmetics and machine tools dropped by over 10% as domestic consumption and capital expenditure remained weak.
- Exports and imports are expected to grow 8% and 2% in 2022 and drop by 4% and 1.5% in 2023.** We expect China's exports of goods to drop by 4% in 2023 due to overseas recession and disinflation in future. The overheating housing market and home economy in the past two years has exhausted some future demand. The high inflation and high interest rates will significantly hurt the economy in 2023. We see a recession with disinflation next year. China's imports of goods are expected to decline by 1.5% in 2023. Domestic

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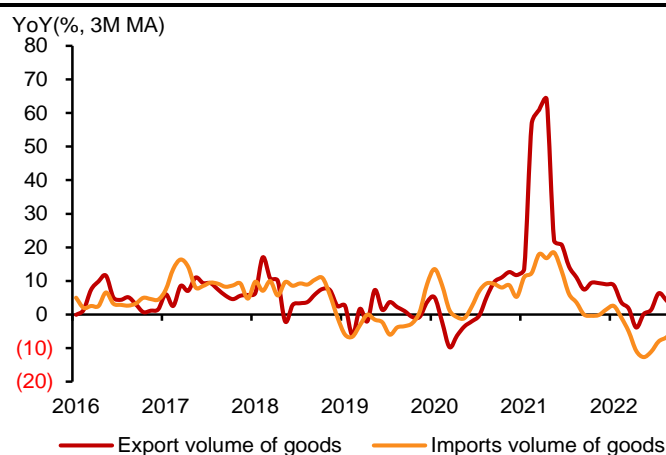
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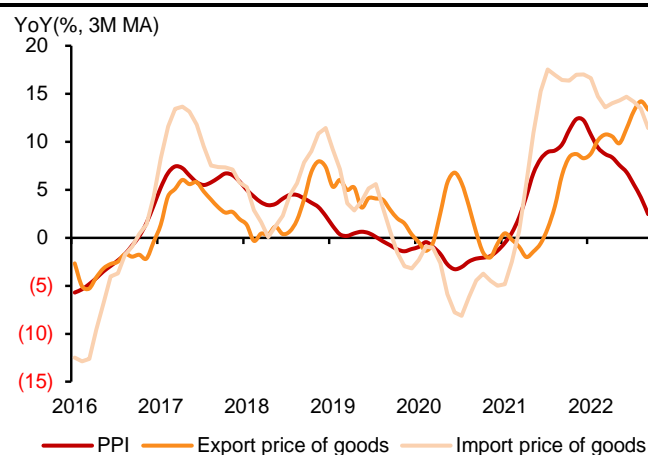


demand should resume very slowly while commodity prices may further decline next year.

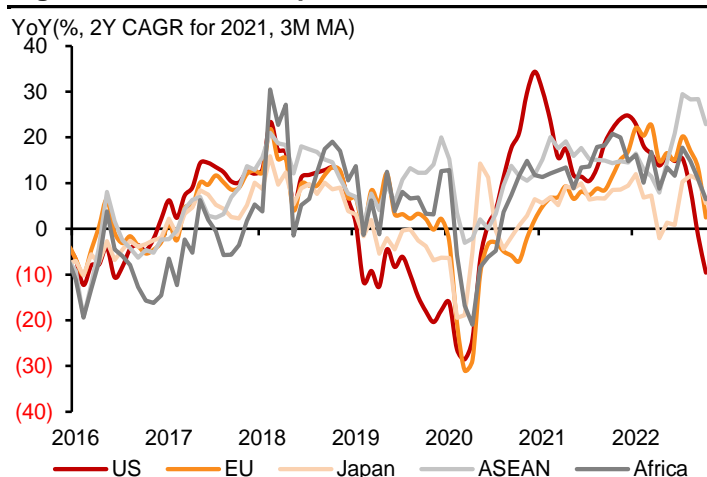
- **The weakness in foreign trade indicates additional pressure on China's economy.** China's economy is already struggling with property market slump and weakening consumption amid zero-Covid policy. It becomes increasingly difficult for China to control the epidemic as local governments have no money and people become displeased with the epidemic control measures. The risk of large-scale spread of the epidemic may increase sharply during the Chinese New Year holiday. China will face increasing pressure to maintain its zero-Covid policy in future.

Figure 1: Growth of Export and Import Volume

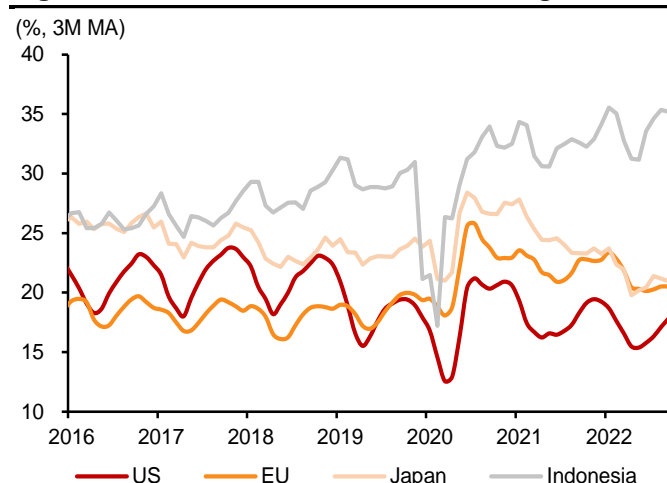
Source: Wind, CMBIGM

Figure 2: Growth of Export and Import Prices

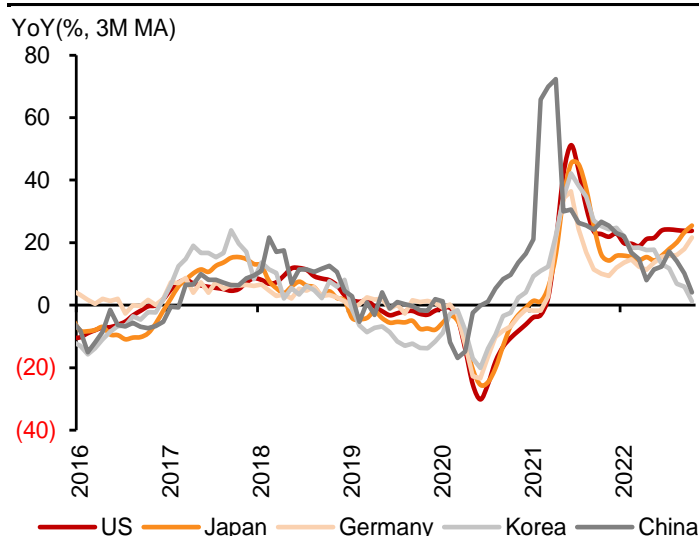
Source: Wind, CMBIGM

Figure 3: Growth of Exports to Main Partners

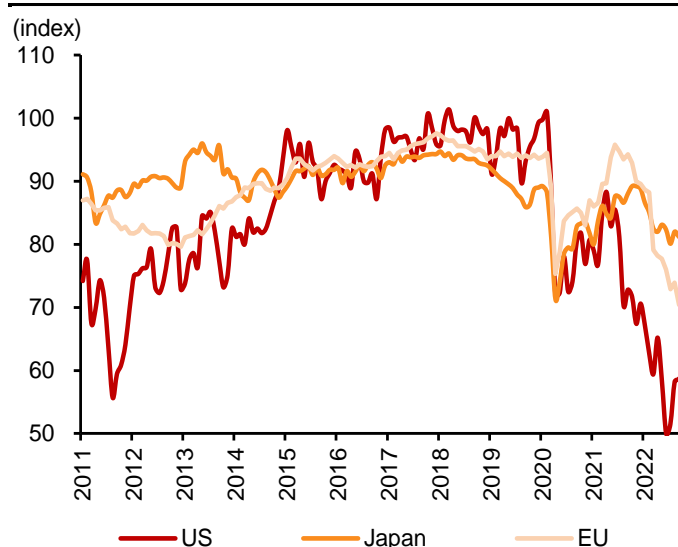
Source: Wind, CMBIGM

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

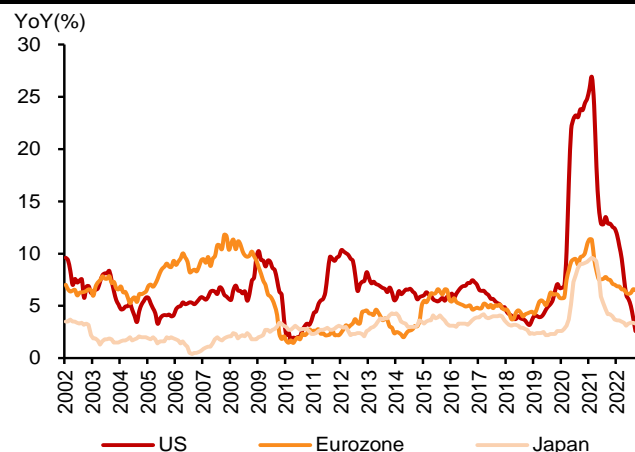
Source: Wind, CMBIGM

Figure 7: 10Y Treasury Bond Rates



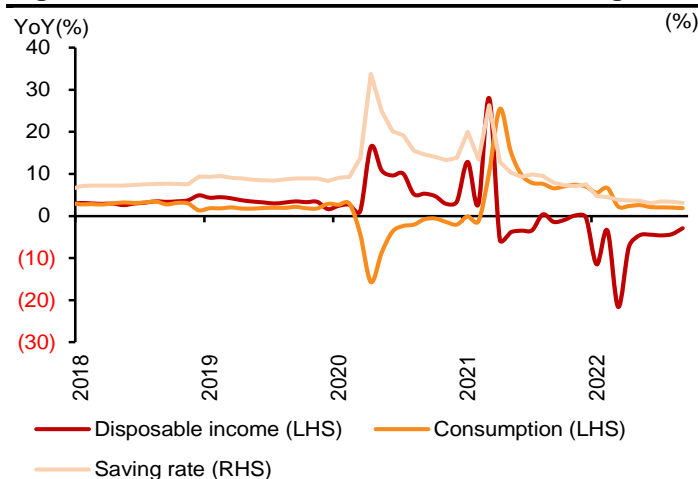
Source: Wind, CMBIGM

Figure 8: Growth of M2 Supply



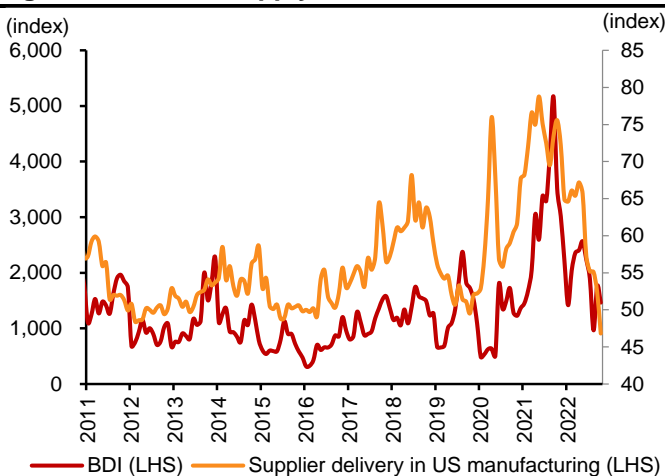
Source: Wind, CMBIGM

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

YoY(%)	2018	2019	2020	2021	2020-2021	1H22	7M22	8M22	9M22	10M22
Textile Yarn, Fabrics & Related Products	8.1	0.9	29.2	(5.6)	10.4	11.3	11.9	10.2	8.7	6.9
Travel Goods, Hand bags & Similar Articles	1.8	0.5	(24.2)	35.1	1.2	35.7	36.0	34.1	33.3	32.0
Garment & Accessories	0.3	(4.0)	(6.4)	24.0	7.7	12.0	12.9	11.6	9.4	6.4
Shoes & Boots	0.0	0.0	(21.2)	35.3	3.3	32.5	33.0	30.4	27.5	24.9
Toy	4.5	24.2	7.5	37.7	21.7	24.7	24.7	20.2	14.9	10.8
Furniture & Parts Thereof	7.6	0.8	11.8	26.4	18.9	1.2	0.6	(1.2)	(2.1)	(2.8)
Lamps, Lighting Fixtures & Similar Products	5.6	9.6	14.3	31.2	22.5	2.0	1.2	(1.0)	(2.8)	(3.9)
Plastic Products	12.2	11.2	19.6	29.1	24.3	16.0	16.3	14.4	13.3	12.4
Steel Products	11.2	(11.3)	(15.4)	80.2	23.5	30.6	32.2	32.3	27.8	25.2
Unwrought Aluminum	25.8	(7.4)	(14.1)	48.7	13.0	72.4	70.1	62.9	55.6	48.9
Integrated Circuits	26.6	20.0	14.8	32.0	23.1	17.2	13.5	8.7	7.3	6.2
Shipping	4.6	(6.3)	(15.3)	26.2	3.4	(5.7)	(9.4)	(5.2)	(4.8)	(2.2)
Motor Vehicles	12.3	4.1	(3.6)	119.2	45.4	52.4	54.3	56.2	64.6	67.9
Auto Parts & Accessories	10.8	(3.6)	(6.2)	33.7	12.0	7.5	10.3	10.5	9.8	9.4
General Machinery			7.5	26.4	16.6	12.1	13.4	12.5	11.3	9.6
Automatic Data Processing Equipment			11.6	21.0	16.2	4.6	4.3	2.8	0.9	(1.2)

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

YoY(%)	2018	2019	2020	2021	2020-2021	1Q22	1H22	7M22	8M22	9M22	10M22
Grain	(11.5)	(3.6)	28.0	18.1	23.0	(1.5)	(5.4)	(7.1)	(9.9)	(10.5)	(11.3)
Soybean	0.0	0.0	13.3	(3.8)	4.4	(4.2)	(5.4)	(5.9)	(8.6)	(6.6)	(7.4)
Iron ore	(1.0)	0.5	9.5	(3.9)	2.6	(5.2)	(4.4)	(3.4)	(3.1)	(2.3)	(1.7)
Copper ore	13.7	11.6	(1.0)	7.6	3.2	6.7	8.6	7.4	9.0	8.8	8.4
Coal	3.9	6.3	1.5	6.6	4.0	(24.2)	(17.5)	(18.2)	(14.9)	(12.7)	(10.5)
Crude oil	10.1	9.5	7.3	(5.4)	0.8	(8.1)	(3.1)	(4.0)	(4.7)	(4.3)	(2.7)
Natural gas	31.9	6.9	5.3	19.9	12.4	(5.1)	(10.0)	(9.6)	(10.2)	(9.5)	(10.4)
Steel products	(1.0)	(6.5)	64.4	(29.5)	7.7	(13.4)	(21.5)	(21.9)	(21.2)	(22.1)	(23.0)
Copper products	12.9	(6.0)	34.1	(17.2)	5.4	2.6	5.3	5.8	8.1	9.8	8.8
Plastics in primary form	14.5	12.4	10.1	(16.4)	(4.1)	(14.9)	(13.0)	(12.7)	(12.9)	(12.0)	(10.8)
Rubber	(2.0)	(6.2)	13.6	(9.4)	1.5	3.9	3.1	4.1	5.1	5.2	7.1
Integrated circuits	10.8	6.6	22.1	16.9	19.5	(9.6)	(10.4)	(11.8)	(12.8)	(12.8)	(13.2)
Machine tool	0.0	0.0	18.8	(0.7)	8.6	3.1	(13.0)	(15.2)	(12.2)	(13.2)	(10.9)
Auto	(7.5)	(6.6)	(11.4)	0.6	(5.6)	(4.5)	(16.7)	(16.0)	(12.3)	(11.0)	(6.6)
Airplane	7.1	(48.6)	(35.4)	29.4	(8.6)	(23.5)	(58.6)	(56.5)	(55.5)	(46.6)	(40.7)
Medicine	0.0	0.0	(0.6)	3.1	1.2	2.3	9.8	14.0	16.6	20.3	25.2
Beauty cosmetics	0.0	0.0	3.7	5.2	4.4	(2.9)	(9.5)	(8.4)	(7.3)	(9.2)	(10.9)

Source: Wind, CMBIGM

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