

China Economy

Foreign trade plunge shows no relief of global recession risk

China's exports continued to drop as overseas demand for goods shrunk with the disinflation trend. The recent better-than-expected performance in global economy was mainly supported by the service sector as its boost on global trade was limited. In fact, global housing market & home economy dropped sharply due to high base and high rates. In addition, the Russia-Ukraine war and Sino-US conflict continued to pressure on China's exports with global supply chain restructuring. China's imports surprised us with further deterioration as commodity prices plunged, service sector dominated in the early stage of recovery and more products saw the home-made substitution. We expect China's exports of goods to drop 3.5% in 2023 after rising 7.1% in 2022 and the imports of goods are projected to rise 0.5% after growing 1%. The weakness of China's foreign trade indicates no relief of global recession risk as the country has to maintain easing credit policy to boost domestic demand.

■ **China exports continued to shrink amid overseas demand slowdown, disinflation trend & supply chain restructuring.** China exports of goods dropped by 6.8% YoY in 2M23 after dropping 9.9% YoY in December last year, better than market consensus. Exports of most products continued to decline, while a few items like motor vehicles and steel products achieved strong growth. The shrinkage of China exports was mainly due to two reasons. For one reason, overseas demand of goods has continued to shrink with sharp declines in both producer prices and import prices. The recent better-than-expected performance in global economy was mainly supported by the service sector as its boost to global trade activity may have been limited. China's exports of durables and capital goods plunged. For another reason, global supply chain has continued to adjust amid Sino-US tensions. The US has maintained high tariffs for Chinese goods and put more Chinese companies on its sanction list. Multinational companies have continued to restructure their supply chain with the "China +1" or "China + X" strategy. China's trade with US and EU further weakened while its economic ties with the ASEAN strengthened. In 2M23, China exports to US and EU dropped by 21.8% and 12.2% YoY, compared to the increase of 1.2% and 8.6% in 2022. Meanwhile, China's exports to its largest trade partner, the ASEAN, rose 9% YoY after growing 17.7% YoY. By enterprise, the exports of foreign enterprises in China remained worse than those of SOEs and private enterprises in 2M23 as this trend started from 2H21. At the same time, China's market shares in both US and EU imports continued to decline.

■ **China imports further declined amid commodity deflation, lagged recovery in durable & capex demand and the home-made substitution.** China imports of goods dropped 10.2% YoY in 2M23 after declining 7.5% YoY last December, below market expectations. China's reopening has firstly improved supply chains by boosting imports volume of most commodities. However, the commodity deflation dragged China imports as the prices of most products experienced sharp YoY declines in the first two months. In 2M23, the imports volume of medicine and airplane significantly picked up amid strong or improving demand. Coal imports volume also rebounded sharply as China improved trade ties with Australia to lower energy cost. As service sector dominated in the early stage of recovery, we may need some

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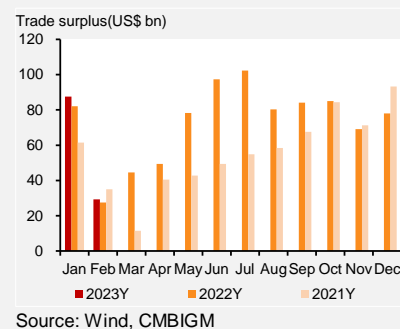
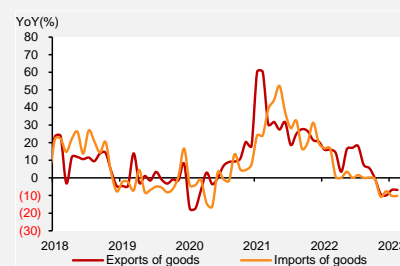
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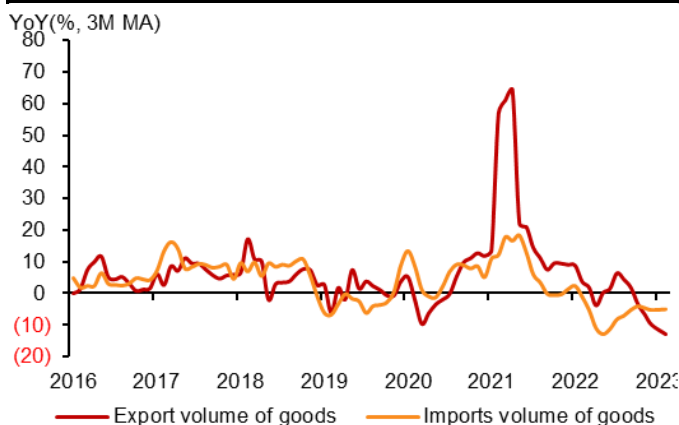
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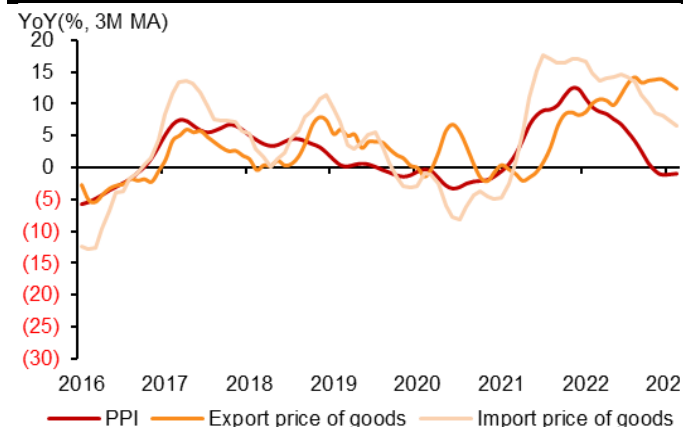


time to see the boost to imports of some durable and capital goods. The imports of machine tool dropped by 10.3% YoY in 2M23 as business capex remained weak. The imports of integrated circuits further dropped 26.5% YoY in 2M23 after decreasing 15.3% YoY in 2022 as global demand for electronics remained weak and US continued to decouple China from global semiconductor supply chains. Meanwhile, Due to the home-made substitution effect, the imports of autos dropped by 30.4% YoY in 2M23.

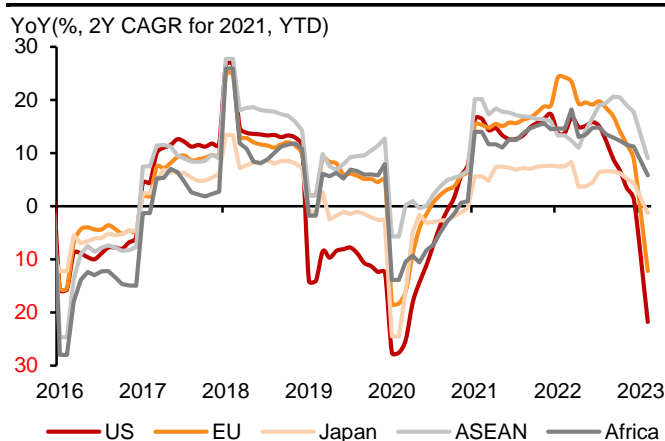
- **We expect exports to drop 3.5% and imports to rise 0.5% in 2023.** China's exports are likely to see significant YoY declines in 1H23 as overseas demand for goods further slows with the disinflation trend and the Sino-US tensions lingers. The projected growth rates of the exports for the four quarters are -9%, -5%, -2% and 2%, respectively. We expect China imports to slightly rise 0.5% in 2023 after growing 1% in 2022. The economy reopening and resumption should help boost imports volume. However, the recovery model with more contribution from service sector and commodity deflation may restrain the upside room for China imports.
- **The weakness in foreign trade activity increases China's likelihood to maintain easing credit policy to boost domestic demand.** The weakness in foreign trade will restrain China's economic recovery as the country has to rely on its domestic demand to boost the growth. China's conservative GDP growth target has lowered market expectations about its policy room ahead. However, we expect the country may have to further ease its policy in 2H23 as the pace of domestic recovery is likely to slow and overseas recession risk would increase. Meanwhile, China has to maintain easing credit supply to relieve property stress, lower local government contingent debt risk and boost private business confidence.

Figure 1: Growth of export and import volume

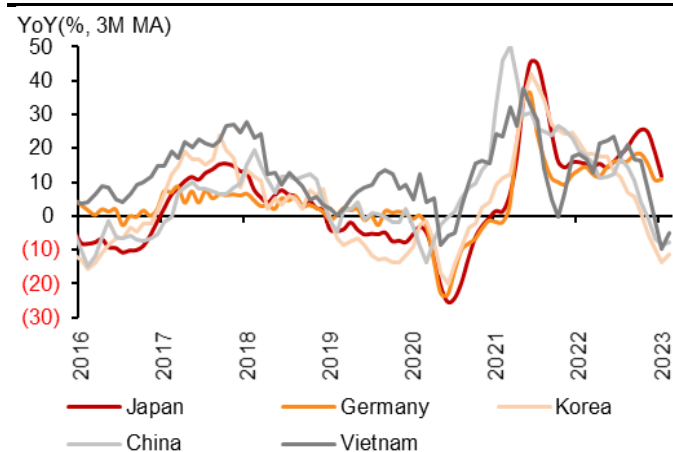
Source: Wind, CMBIGM

Figure 2: Growth of export and import prices

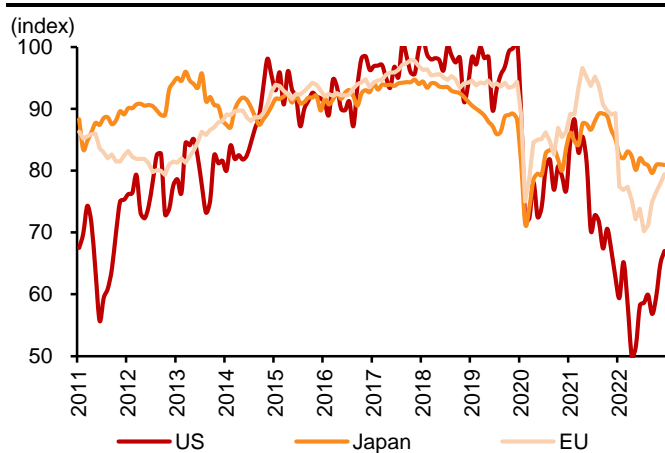
Source: Wind, CMBIGM

Figure 3: China exports to main partners

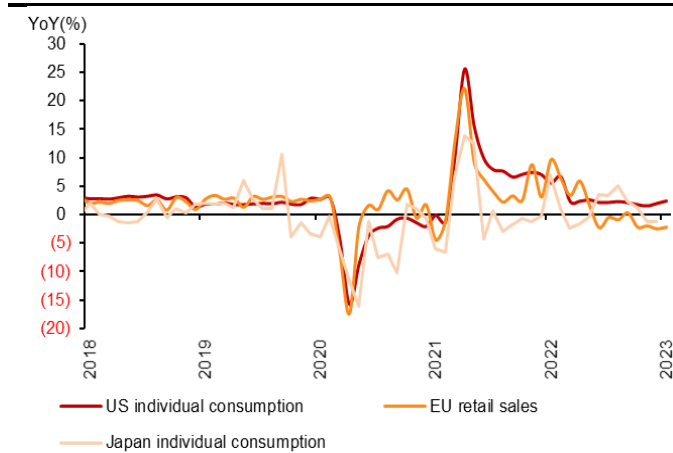
Source: Wind, CMBIGM

Figure 4: Exports growth in major economies

Source: Wind, CMBIGM

Figure 5: Consumer confidence in major economies

Source: Wind, CMBIGM

Figure 6: Consumption growth in major economies

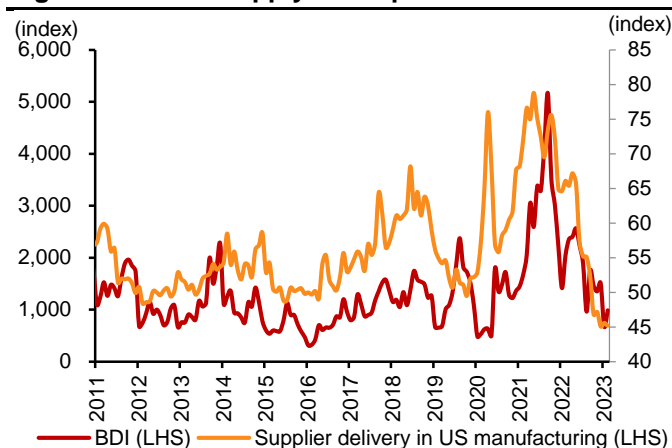
Source: Wind, CMBIGM

Figure 7: 10Y T-bond rates in major economies

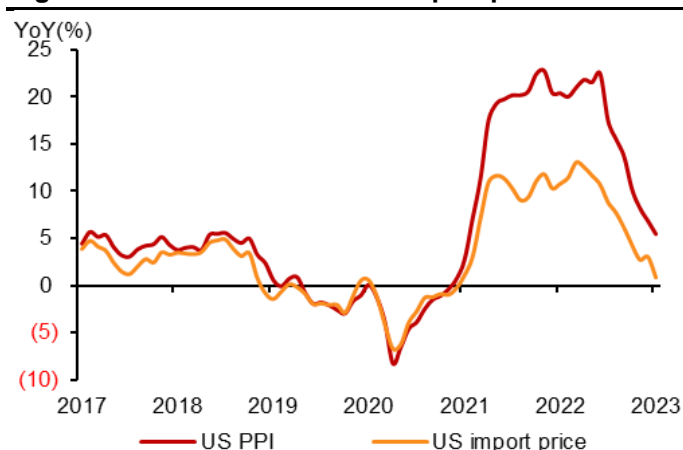
Source: Wind, CMBIGM

Figure 8: Banks' credit growth in major economies

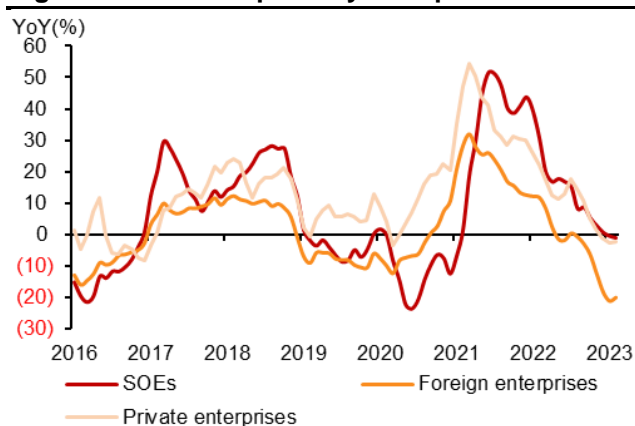
Source: Wind, CMBIGM

Figure 9: Global supply chain pressure

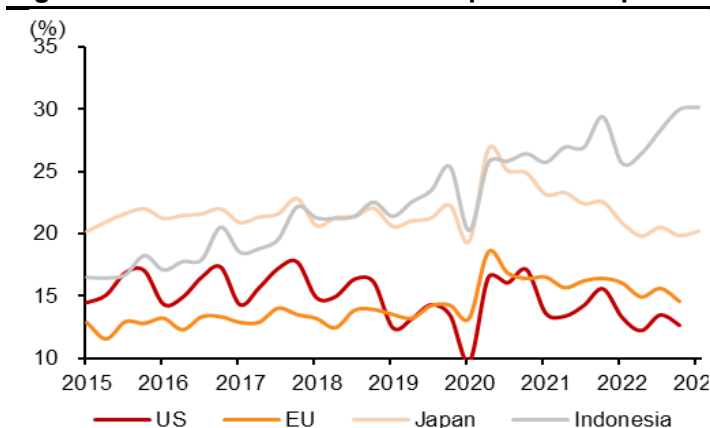
Source: Wind, CMBIGM

Figure 10: Growth of US PPI & import price

Source: Wind, CMBIGM

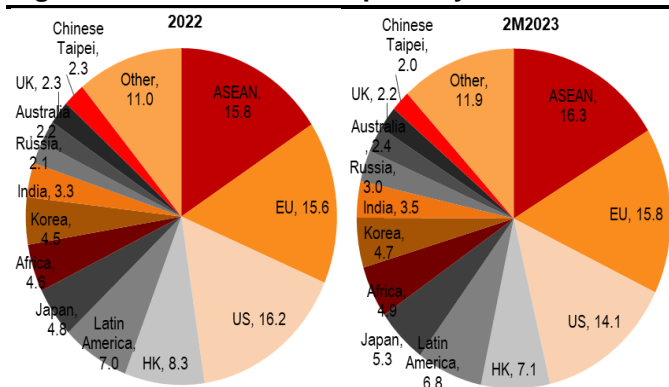
Figure 11: China exports by enterprise

Source: Wind, CMBIGM

Figure 12: China's market shares in partners' imports

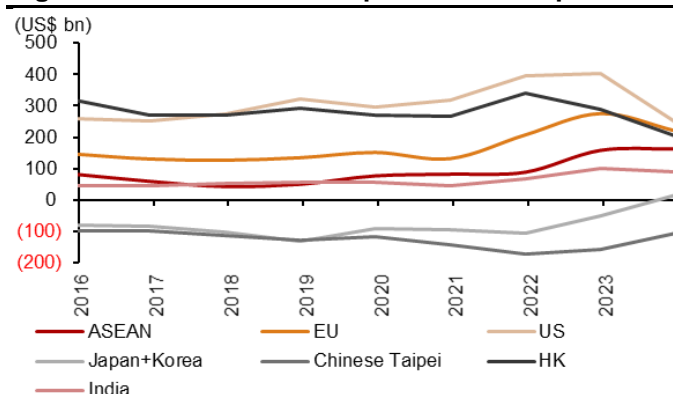
Source: Wind, CMBIGM

Figure 13: Mix of China's exports by destination



Source: Wind, CMBIGM

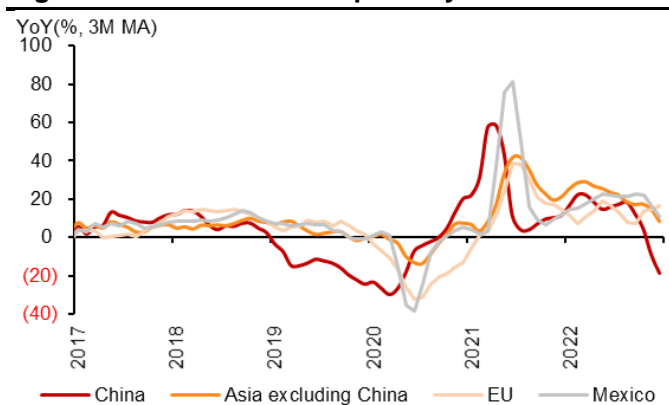
Figure 14: China's trade surplus with main partners



Source: Wind, CMBIGM

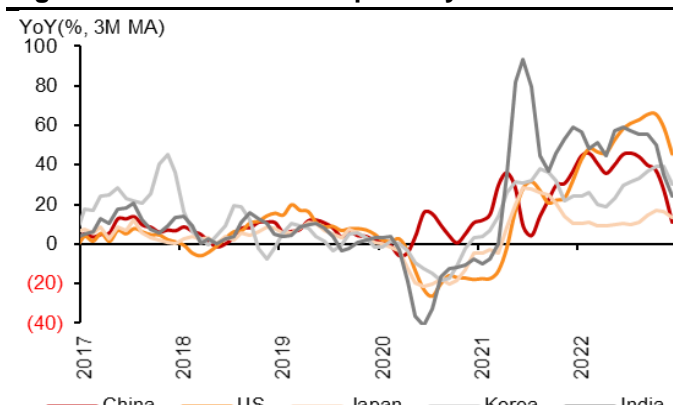
Note: Data for 2M23 is simply annualized

Figure 15: Growth of US imports by source



Source: Wind, CMBIGM

Figure 16: Growth of EU imports by source



Source: Wind, CMBIGM

Figure 17: Growth of China exports by product

| | YoY(%) | | | | | 2/3 Y CAGR(%) | | | |
|---|--------|--------|-------|-------|--------|---------------|-------|------|------|
| | 2019 | 2020 | 2021 | 2022 | 2M23 | 2021 | 1Q22 | 1H22 | 2022 |
| Textile Yarn, Fabrics & Related Products | 0.9 | 29.2 | (5.6) | 2.0 | (22.4) | 10.4 | 11.3 | 9.6 | 7.6 |
| Travel Goods, Hand bags & Similar Articles | 0.5 | (24.2) | 35.1 | 28.2 | 3.3 | 1.2 | 7.5 | 8.0 | 9.5 |
| Garment & Accessories | (4.0) | (6.4) | 24.0 | 3.2 | (14.7) | 7.7 | 8.0 | 8.2 | 6.2 |
| Shoes & Boots | 0.0 | (21.2) | 35.3 | 20.4 | (11.6) | 3.3 | 8.2 | 8.8 | 8.7 |
| Toy | 24.2 | 7.5 | 37.7 | 5.6 | (10.1) | 21.7 | 19.1 | 21.5 | 16.1 |
| Furniture & Parts Thereof | 0.8 | 11.8 | 26.4 | (5.3) | (17.2) | 18.9 | 12.6 | 11.8 | 10.2 |
| Lamps, Lighting Fixtures & Similar Products | 9.6 | 14.3 | 31.2 | (6.1) | (17.0) | 22.5 | 15.7 | 14.2 | 12.1 |
| Plastic Products | 11.2 | 19.6 | 29.1 | 9.3 | (9.7) | 24.3 | 19.7 | 20.2 | 19.1 |
| Steel Products | (11.3) | (15.4) | 80.2 | 18.7 | 27.5 | 23.5 | 11.4 | 19.8 | 21.9 |
| Unwrought Aluminum | (7.4) | (14.1) | 48.7 | 33.7 | (22.2) | 13.0 | 19.3 | 22.2 | 19.5 |
| Integrated Circuits | 20.0 | 14.8 | 32.0 | 0.3 | (25.8) | 23.1 | 21.1 | 19.6 | 15.0 |
| Shipping | (6.3) | (15.3) | 26.2 | (0.4) | (25.0) | 3.4 | (2.5) | 2.6 | 2.1 |
| Motor Vehicles | 4.1 | (3.6) | 119.2 | 74.7 | 65.2 | 45.4 | 50.5 | 43.0 | 54.6 |
| Auto Parts & Accessories | (3.6) | (6.2) | 33.7 | 7.4 | 4.0 | 12.0 | 10.2 | 9.7 | 10.4 |
| General Machinery | | 7.5 | 26.4 | 6.1 | (3.7) | 16.6 | 15.8 | 13.8 | 13.0 |
| Automatic Data Processing Equipment | | 11.6 | 21.0 | (7.5) | (32.1) | 16.2 | 12.1 | 9.6 | 7.7 |

Source: Wind, CMBIGM

Figure 18: Growth of China import volume & price by product

| YoY(%) | Imports volume | | | | | Imports price | | | | |
|--------------------------|----------------|--------|--------|--------|--------|---------------|--------|------|--------|--------|
| | 2019 | 2020 | 2021 | 2022 | 2M23 | 2019 | 2020 | 2021 | 2022 | 2M23 |
| Grain | (3.6) | 28.0 | 18.1 | (10.7) | 7.0 | (5.1) | (5.4) | 26.3 | 23.7 | 13.1 |
| Soybean | 0.0 | 13.3 | (3.8) | (5.6) | 16.1 | (7.2) | (1.3) | 40.7 | 21.2 | 10.5 |
| Iron ore | 0.5 | 9.5 | (3.9) | (1.5) | 7.3 | 32.9 | 7.2 | 55.4 | (28.6) | (11.8) |
| Copper ore | 11.6 | (1.0) | 7.6 | 8.0 | 11.7 | (4.8) | 2.1 | 44.6 | (8.5) | (15.2) |
| Coal | 6.3 | 1.5 | 6.6 | (9.2) | 70.8 | (11.1) | (14.8) | 65.9 | 29.7 | (18.4) |
| Crude oil | 9.5 | 7.3 | (5.4) | (0.9) | (1.3) | (8.3) | (32.2) | 52.4 | 42.7 | (4.1) |
| Natural gas | 6.9 | 5.3 | 19.9 | (9.9) | (9.4) | 1.5 | (23.8) | 39.8 | 39.5 | 0.2 |
| Steel products | (6.5) | 64.4 | (29.5) | (25.9) | (44.2) | (8.1) | (27.5) | 57.9 | 23.1 | 18.5 |
| Copper products | (6.0) | 34.1 | (17.2) | 6.2 | (9.3) | (7.8) | (0.9) | 45.5 | (2.5) | (12.5) |
| Plastics in primary form | 12.4 | 10.1 | (16.4) | (10.0) | (2.2) | (15.9) | (10.6) | 39.4 | 2.0 | (17.7) |
| Rubber | (6.2) | 13.6 | (9.4) | 8.7 | 10.8 | (4.5) | (7.2) | 26.4 | (1.7) | (21.0) |
| Integrated circuits | 6.6 | 22.1 | 16.9 | (15.3) | (26.5) | (8.2) | (6.1) | 5.7 | 13.5 | (5.4) |
| Machine tool | 0.0 | 18.8 | (0.7) | (14.4) | (10.3) | 0.0 | (30.8) | 25.8 | 1.5 | (11.0) |
| Auto | (6.6) | (11.4) | 0.6 | (6.5) | (30.4) | 3.6 | 8.1 | 14.7 | 5.7 | 6.5 |
| Airplane | (48.6) | (35.4) | 29.4 | (27.3) | 41.2 | 12.5 | (30.0) | 12.3 | 13.5 | (13.2) |
| Medicine | | (0.6) | 3.1 | 28.8 | 25.7 | | 4.1 | 16.5 | (25.7) | (1.0) |
| Beauty cosmetics | | 3.7 | 5.2 | (11.8) | (16.4) | | 24.8 | 17.0 | 1.8 | 5.6 |

Source: Wind, CMBIGM

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