Economic Analysis

March trade data fell below market expectations significantly

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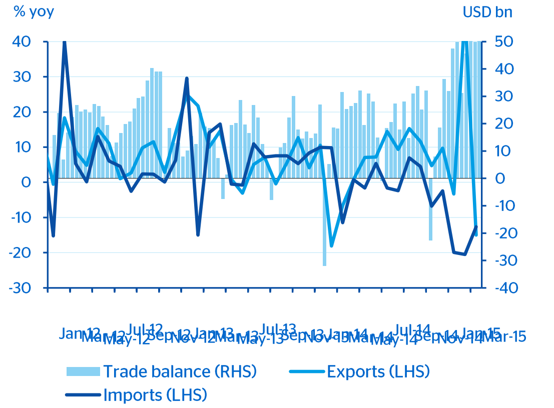
March trade data announced today rattled the market as both exports and imports were significantly below market expectations. In particular, exports came out at RMB 887 bn (USD 143 bn) in March, equivalent to a year-on-year decline of -14.6% y/y (consensus: 8.2% y/y; February: 48.9%). In the meantime, March imports declined by -12.3% y/y (consensus: -11.3% y/y; February: -20.1%) to RMB 869 bn (USD 140 bn). As a result, trade surplus significantly narrowed to RMB 18bn (USD 3.1 bn) in March compared to RMB 371 bn (USD 60.6 bn) in the previous month. (Figure 1) The violent fluctuation of exports and imports across months at the beginning of this year was in part affected by the Chinese New Year (CNY) holidays. Therefore, it is crucial to look at relevant figures of Q1 as a whole. Putting together, exports increased by 4.9% y/y while imports declined by -17.3% in the first quarter. Our below analysis is also based on the Q1 data.

- **Q1 exports were dragged down by the currency factor**. Among all the important trade partners, China's exports to Hong Kong (Q1:-10.1% y/y) and Japan (Q1: -11.5% y/y) registered the largest declines, which, we believe, is mainly due to the performance of China's RMB against the USD (HKD) and JPY. As we flagged previously, there long existed arbitrage activities disguised as bilateral trade between Hong Kong and China which actually bet on the RMB appreciation. Although the authorities had stepped-up their clampdown efforts since May 2013, it is still hard to eradicate such activities. However, the recently increasing strength of the USD has substantially reversed the RMB's appreciation expectations and therefore squeezed out these activities. As for Japan, the JPY has depreciated against the RMB by around 17% since March 2014, which largely weighed on China's shipments to the country.
- **The anemic imports were caused by both falling commodity prices and weak domestic investment.** By categories, almost all categories of the commodity imports registered significant declines in value. However, in terms of imported volume, crude oil, iron ore and even copper ore increased in the first quarter. Imports of consumer goods (excluding commodity) still held up in Q1, consistent with stable domestic consumption observed in January and February. On the other hand, imports of capital goods tumbled in terms of both value and volume during Q1, due in large part to the sluggish domestic investment.
- **The authorities are still unwilling to allow a large-scale depreciation of the RMB for the short term.** Looking ahead, we expect that both the currency factor and domestic investment will continue to weigh on China's trade in the rest of the year. The pressure could even escalate if the potential negative effects of the recent sharp decline in the Euro start to unfold with a certain time lag. Theoretically, a significant depreciation of the RMB could help to mitigate, which, however, is still not on the authorities' agenda for a number of reasons ranging from the fear of capital outflows to the concern of the RMB's international acceptance. (refer to Q1 China Outlook) Therefore, we expect that the authorities, on top of the prospective monetary easing measures, will implement more targeted measures for exporters, including raising the exports tax rebate and increasing exporters' access to trade finance.

Figure 1

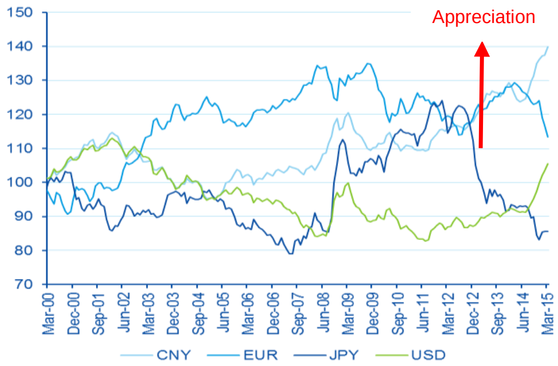
Both exports and imports are significantly below market expectation in March



Source: CEIC and BBVA Research

Figure 2

Q1 exports were dragged down by currency effects



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