

## Economic Analysis

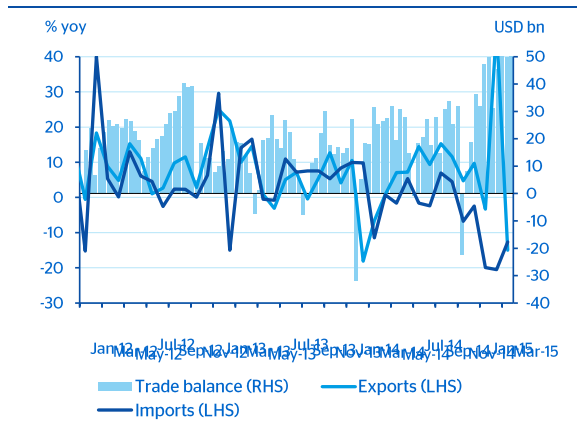
## March trade data fell below market expectations significantly

Le Xia and Jinyue Dong

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.

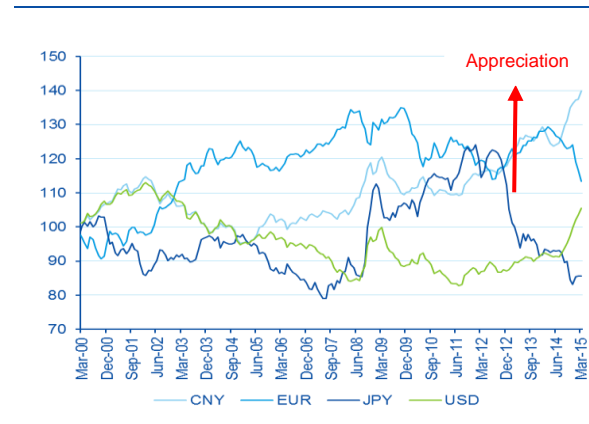
- **Q1 exports were dragged down by the currency factor.** Among all the important trade partners, China's exports to Hong Kong (Q1:-10.1% y/y) and Japan (Q1: -11.5% y/y) registered the largest declines, which, we believe, is mainly due to the performance of China's RMB against the USD (HKD) and JPY. 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**



Source: CEIC and BBVA Research

**DISCLAIMER**

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.