THEME

China | Narrowed trade surplus and plunged foreign reserves

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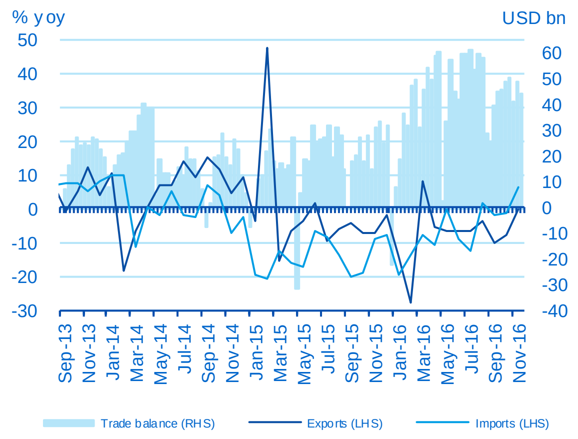
The authorities have reported trade and foreign reverses data in November, pointing to a further weakening of the country's external balance amid elevated global uncertainties in the aftermath of US president election and Italy constitutional referendum. On the trade front, both exports and imports accelerated in November, which, as a consequence, have narrowed trade balance. Meanwhile, foreign reserves decreased to USD 3,051.6 billion from USD 3,120.7 billion in October (Bloomberg consensus: USD 3,060.7 billion; BBVA forecast: USD 3,060 billion), the largest fall within the year. Looking ahead, we expect the PBoC to keep vigilant on the flows under the capital account and rein in the pace of the exchange rate depreciation. We maintain our exchange rate projections of 6.9 CNY/USD by December and 7.2 CNY/USD at end-2017.

Better exports and imports outturns led to a narrowed trade balance. Exports increased by 0.1% y/y in November, way above last month's outturn of -7.3% y/y and the market expectations (consensus: -5% y/y). Higher-than-expected exports can be attributed to the improving external demand, despite global financial uncertainties. In the meantime imports surged up significantly to 6.7% y/y in November from -1.4% y/y in October (consensus: -1.9% y/y). Although the pickup of imports is consistent with the recent stabilization of domestic economy, we suspect that it could also be related to recently increasing activities of mis-invoicing in cross-border trade as a means to circumvent tightening restrictions under the capital account. Put them together, trade surplus narrowed to USD 44.6 billion in November, compared with USD 49.1 billion in the previous month (consensus: USD 46.7 billion)

Capital outflow contributes to the bulk of foreign reserves decline. According to our estimation, taking into account of trade balance and valuation effect, capital outflow of November was USD 78 billion, compared with USD 67.86 billion of the previous month. Thus, capital outflows contribute to USD 78 billion of the foreign reserve decline, while valuation effect contributes USD 35.7 billion. The huge capital outflow is mainly due to the safe heaven effect after the victory of Trump leading to global financial market uncertainties. Meanwhile, the large valuation effect is because of the sharp appreciation of 3.9% of DXY index in November, while other currencies in the foreign reserve basket depreciated accordingly. Looking ahead, we predict the DXY index will continue its appreciation trend in the coming months, as the market holds strong appreciation expectation of the US Dollar after the victory of Trump in the US president election. Thus, the pressure on China's foreign reserve and capital outflow will continue in the next year.

Figure 1

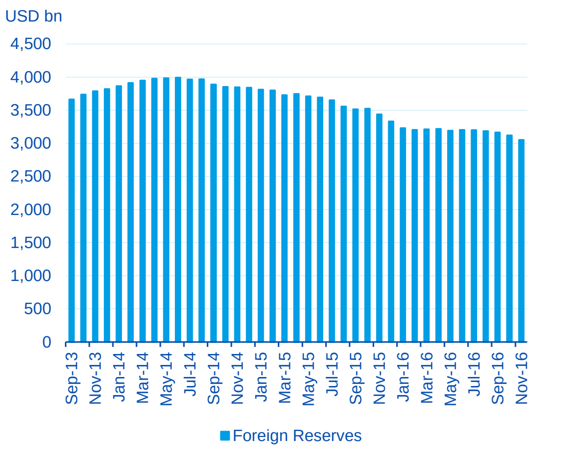
Trade surplus shrunk significantly in November due to the largely dip of exports



Source: BBVA Research

Figure 2

Foreign reserve declined significantly in November



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