China | A sharp drop of trade surplus and continuously increasing foreign reserve

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The authorities have released trade data today and foreign reverses data yesterday, pointing to a mixing picture of the country's external balance amid global uncertainties. On the trade front, imports significantly rocketed to 36.9% in terms of USD (30.2% y/y growth in terms of CNY), while exports mildly accelerated to 11.1% in terms of USD in January (6% y/y growth in terms of CNY), which, as a consequence, have narrowed trade balance significantly to USD 20.34 bn (CNY 135.8 bn). (Figure 1)

Meanwhile, foreign reserves increased to USD 3,161.5 billion from USD 3,139.6 billion in December of 2017 (Bloomberg consensus: USD 3,170.7 billion; BBVA forecast: USD 3,160 billion), a consecutive twelve months increasing. (Figure 2) The continuing increasing of foreign reserve reflects the recent strong RMB exchange rate and the authorities' measures of "stimulating capital inflow and controlling capital outflow". Looking ahead, we expect the PBoC to continue to keep vigilant on the flows under the capital account and push forward domestic financial deleveraging. We maintain our exchange rate projection of 6.5 CNY/USD at end-2018.

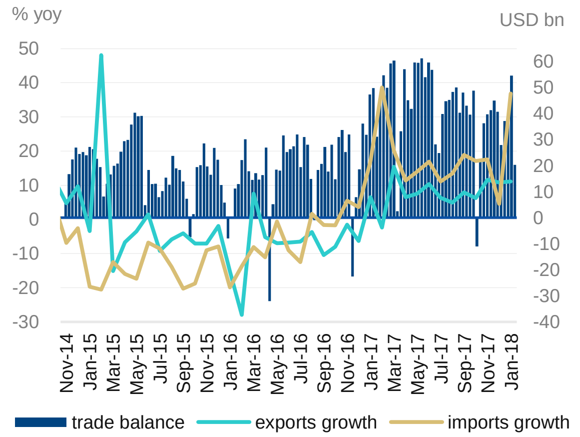
Significantly increasing of imports led to a narrowing trade balance

Imports surged up significantly to 36.9% y/y from 4.5% y/y in December 2017 (consensus: 10.6% y/y). The imported goods with highest growth rate include metal manufacturing machines and natural gas. The sharp increasing of imports might be related to China's large-scale imports of the US goods, after the US president Trump's visit to China in November 2017. In addition, we suspect that it could also be related to activities of mis-invoicing in cross-border trade as a means to circumvent tightening restrictions under the capital account. On the other hand, exports increased to 11.1% y/y in January, marginally above the last month's outturn of 10.9% y/y and the market expectations (consensus: 10.7% y/y), indicating a robust global demand. Put them together, trade surplus narrowed significantly to USD 20.34 billion in January, compared with USD 54.69 billion in the previous month (Bloomberg consensus: USD 54.65 billion) (Figure 1)

RMB appreciation contributes to the consecutive foreign reserves increasing

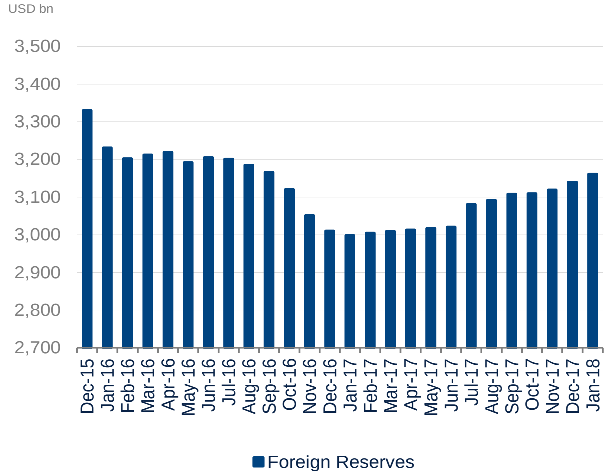
According to our estimation, taking into account of trade balance and valuation effect, capital outflow of January was USD 25.14 billion, compared with USD 39.7 billion of the previous month. A decreasing of capital outflow, a significant drop of trade balance and a large valuation effect all contributed to foreign reserve increasing. In particular, the large valuation effect is due to the depreciation of 2.8% of DXY index in January, thus other currencies (around 30%) in the foreign reserve basket appreciated accordingly. Looking ahead, we predict the DXY index will continue its downward trend in the coming months, as the market holds depreciation expectation of the US Dollar, together with the US stocks. Thus, the pressure on China's foreign reserve and capital outflow will be kind of released in this year.

Figure 1.A sharp increasing of imports narrowed trade balance



Source: BBVA Research, CEIC

Figure 2. Foreign reserve has increased in the past 12 months



Source: BBVA Research, CEIC

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