Short Insight

Group Economics
Emerging Markets & Commodity Research

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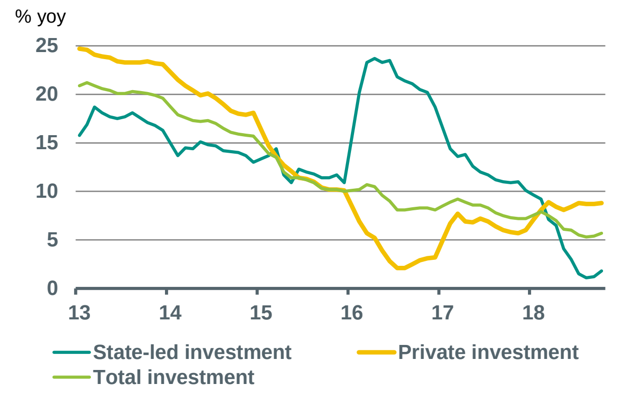
China: First signs of support kicking in

- **Growth weakens further in October; investment recovers as support kicks in**
- **Weak lending data partly explained by seasonal factors, but more easing likely**
- **Export growth accelerates in October, despite trade conflict with US**
- **Import growth at over 20%, despite signs of economic slowdown**

1. Growth slows in October, but policy support starts to kick in

Recent data point to a further gradual weakening of momentum, but there are signs that policy easing is starting to kick in. As we expected, investment growth picked up to 5.8% yoy ytd (September: 5.4%). That mainly reflects the recovery of stated-led investment on the back of fiscal easing policies. State-led investment growth slowed sharply over the past years, after a surge in 2015 when the government stepped up stimulus as China was experiencing 'wobbles' at that time. Over the past months, Beijing ordered local governments to issue more special purpose bonds to finance local infrastructure projects, while the banking supervisor cut risk weights for local government bonds. Retail sales slowed to 8.6% yoy (September: 9.2%), the lowest pace in five months. That likely reflects some statistical factors, such as the timing of the mid-autumn festival holidays and possibly some households holding back spending in the run-up to 'Singles Day' on 11 November. Meanwhile, industrial production edged up marginally, to 5.9% yoy (September: 5.8%). All in all, Bloomberg's monthly GDP estimate continued its gradual decline, falling to 6.6% yoy in October. That's the lowest level since May 2015, but still somewhat above the latest official growth number (Q3: 6.5% yoy).

Investment shows recovery on back of policy support



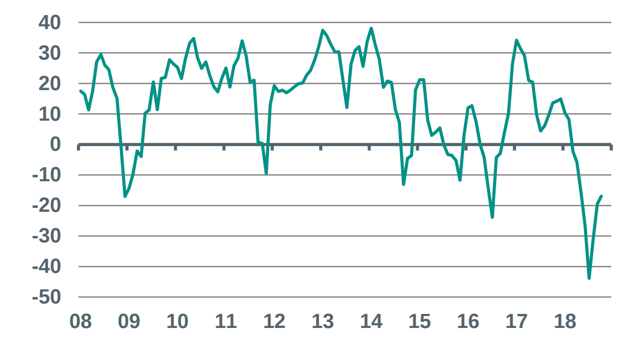
Source: Thomson Reuters Datastream

2. Weak lending explained by seasonal factors, more easing likely

Earlier this week, lending data came in weaker than expected, despite government policies to revive local bond issuance and credit growth to private firms and SMEs. The pace of increase of both aggregate financing and new bank loans dropped back sharply last month. We should add that due to seasonal factors, new lending always weakens in October given the national holiday week at the start of the month. Still, this year the drop was clearly sharper than expected. M2 growth also dropped further, equaling a record low of 8.0% yoy. Part of the weakness in lending reflects the effects of the ongoing crackdown on shadow banking. Moreover, local government bond issuance stagnated as entities had reached their annual quota. In reaction to the latest lending data, we expect the PBoC to continue taking measures to prop up lending, including further cuts of banks' RRRs. We still expect the PBoC to keep the 1-year lending rate on hold until end-2019, although the likelihood that this benchmark rate will be cut as well has risen.

Shadow banking remains drag on lending growth

Share of shadow banking related items in new total financing

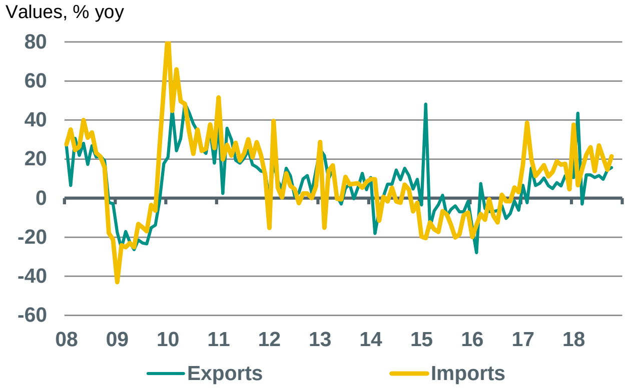


Source: ABN AMRO Group Economics, Thomson Reuters Datastream,

3. Export growth accelerates in October, despite trade conflict with US

China's export figures published last week do not seem to have been affected by the trade tensions with the US, at least not in a negative way. Even after the imposition of 10% tariffs on another USD 200bn of imports from China on 24 September, Chinese exports accelerated to 15.6% yoy in October, up from a revised 14.4% yoy in the previous month. This number also outbeated consensus expectations (11.7%). This ongoing strength may be partly explained by ongoing front-loading, as the 10% tariff rate over the USD 200bn may automatically rise to 25% per 1 January 2019. Strikingly, Chinese exports to the US have remained at double digit levels since the US announced to implement *Section 301* import tariffs versus China last spring. A weakening of CNY versus USD (by almost 10% since March) is likely also supporting export growth. The strong export data contrast sharply with the export subindices of the forward looking PMIs. These have remained below the neutral 50 mark over the past months, although Caixin's version bounced back to 48.9 in October (September: 47.6). That illustrates that there are clear downside risks to export growth going forward, certainly in case the US and China would not reach a deal at short notice. Presidents of the US and China Trump and Xi Jinping are set to meet on 1 December in Buenos Aires, just after the G20 summit, and they will likely talk about trade and North Korea, amongst other issues.

Exports/imports solid in October, despite trade conflict

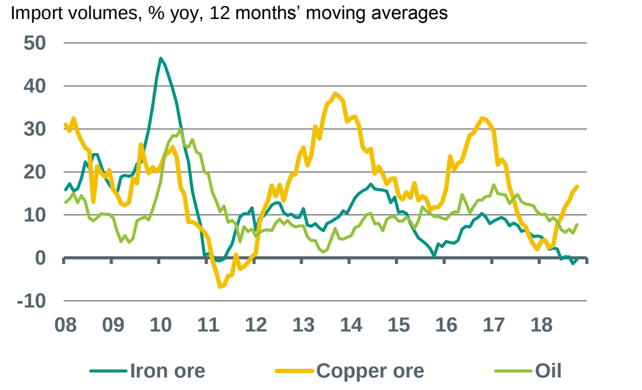


Source: Thomson Reuters Datastream

4. Import growth at over 20%, despite signs of economic slowdown

Import growth also accelerated in October, to reach a three-month high of 21.4% yoy. Over the first ten months of this year, import growth averaged 20% yoy, even higher than the already strong average for 2017 (16%). Hence, the development of Chinese imports is defying other signs that China's growth momentum is slowing, on the back of the previous financial deleveraging campaign and with trade tensions negatively affecting business sentiment and stock markets. That may partly reflect price effects, but our estimated import volume index showed an increase of almost 27% in October. Import volumes for key commodities such as iron ore, copper ore and oil also showed double digit growth rates in October. While a future slowdown in export growth would likely have a negative effect on import growth (given that part of imports are export-related), recent policy measures such as the stepping up of infrastructure spending and a general reduction of import tariffs should be supportive. Meanwhile, as China's exports to the US continue to grow faster than US exports to China, China's bilateral surplus with the US continues to rise. According to US data, the twelve month rolling sum of the US's bilateral deficit with China reached a new high in September, surpassing USD 400 bn. That may well complicate trade negotiations between the two strategic competitors.

Import volumes key commodities strong in October



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

Key forecasts for the economy of China

	2015	2016	2017	2018e	2019e
GDP (% yoy)	6.9	6.7	6.9	6.7	6.3
CPI inflation (% yoy)	1.5	2.1	1.5	2.0	2.5
Budget balance (% GDP)	-3.4	-3.8	-3.8	-4.0	-4.5
Government debt (% GDP)	15	16	17	19	21
Current account (% GDP)	2.7	1.8	1.4	0.5	0.0
Gross fixed investment (% GDP)	43.1	42.7	42.7	44.0	43.0
Gross national savings (% GDP)	47.5	45.9	45.8	45.5	44.1
USD/CNY (eop)	6.5	7.0	6.5	6.9	6.7
EUR/CNY (eop)	7.1	7.3	7.8	7.9	8.4

Economic growth, budget balance, current account balance for 2018 and 19 are rounded figures
Source: EIU, ABN AMRO Group Economics