

# Asia Economics Data Flash

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## China: Exports growth accelerated strongly, more pressure on inflation and the currency

- Exports growth picked up to 45.7% yoy in February from 21.0% yoy in January (our forecast: 40.0% yoy, consensus: 38.7% yoy). On a month-on-month; seasonally adjusted; annualized basis, exports growth was 61.8% in February, up from 7.2% in January.
- The combined January-February yoy growth of exports was 31.3%, compared with 17.7% in December. The sequential growth in January-February combined (February's seasonally-adjusted level compared with that in December 2009 annualised) was also 49.9% s.a. ann. Therefore, the **high exports growth was NOT just because of base effects**.
- Imports growth came in at 44.7% yoy in February, down from 85.5% yoy in January (our forecast: 47.0% yoy, consensus: 39.7% yoy). On a mom s.a. ann. basis, imports growth was 53.5%, up from -22.0% in January.
- The combined January-February yoy growth of imports was 63.5%, compared with 55.9% in December. The sequential growth in January-February combined was also 12.1% s.a. ann. However, this low sequential reading was because imports growth in December was exceedingly strong (around 300% mom s.a. ann.). When compared with November's seasonally-adjusted level, February's sequential growth was also high as 69.0% s.a. ann. Therefore, we can be confident that sequential imports growth has also been strong.
- The trade surplus narrowed to US\$7.6 billion, from US\$14.2 billion in January and 18.4 billion in December.

### Key takeaways:

- **Implications on the overall growth/inflation and growth mix:** In light of the stronger-than-expected exports growth and robust domestic demand growth, which is being supported by very robust credit expansion since the start of the year and confirmed by the latest imports data, we see increasing upside risks to our GDP growth forecast which is already well above the consensus (our forecasts of 11.4% for 2010 and 11.9% for 1Q2010 vs. the consensus forecast of 9.8% for 2010). Given that the output gap has probably closed already, such a level of strong growth is likely to lead to higher inflation in the coming months which we believe requires more forceful tightening measures than the ones which have been used so far (e.g., reserve requirement ratio [RRR] hikes). Given the government's strong emphasis on stimulating private consumption and the unwillingness to fully utilize the exchange rate as a policy tool to influence exports growth, most of the downward pressures will be felt on fixed-asset-investment-related areas. These so called macro tightening measures will likely involve a mixture of credit controls, further RRR and interest rate hikes, administrative controls on investment approvals and funding and other "industrial policies" to curb investment activities in sectors regarded as having problems such as overcapacity.
- **More pressure on the CNY:** Exceedingly strong official exports data and more anecdotal information on the recovery of the export-related sectors are likely to make it more difficult to argue against a currency appreciation. While the official trade surplus data appears to be narrowing over the past two months and hence putting less pressure on the CNY to appreciate, it is mostly because of the seasonal bias. The seasonally-adjusted trade surplus is still as high as around US\$15 billion per month and has not shown any tendency to fall in recent months (see Exhibit 4). Given that the expected tightening measures will be on fixed investments which will likely drag down imports growth, the underlying trade surplus is likely to rise in the coming quarters. We still expect the CNY to appreciate modestly (5%) against the USD on a 12-month basis, though the exact timing is more difficult to pinpoint, not only because of the political issues involved.



**Next up: January-February data on industrial production, fixed asset investment and retail sales; February data on CPI, PPI and money and credit.**

Expected release time: March 11

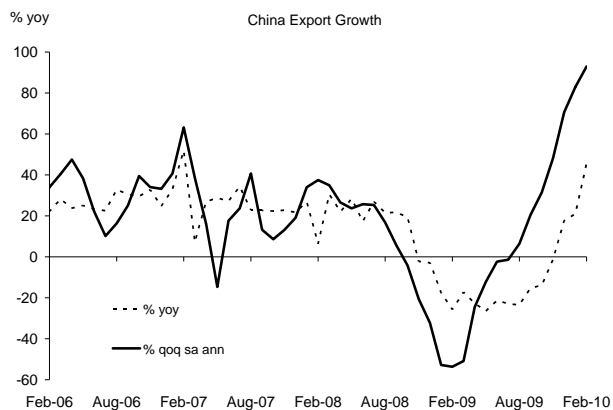
<b>CPI</b>	<b>GS</b>	2.3%yoy	<b>Consensus</b>	2.5%yoy	<b>January</b>	1.5%yoy
<b>PPI</b>	<b>GS</b>	5.3%yoy	<b>Consensus</b>	5.1%yoy	<b>January</b>	4.3%yoy
<b>Industrial Production</b>	<b>GS</b>	19.5%yoy	<b>Consensus</b>	19.5%yoy	<b>December</b>	18.5%yoy
<b>Fixed Asset Investment</b>	<b>GS</b>	27.0%yoy	<b>Consensus</b>	25.6%yoy	<b>December</b>	20.5%yoy
<b>Retail Sales</b>	<b>GS</b>	17.8%yoy	<b>Consensus</b>	18.7%yoy	<b>December</b>	17.5%yoy
<b>CNY Loans</b>	<b>GS</b>	Rmb700 bn	<b>Consensus</b>	Rmb600 bn	<b>January</b>	Rmb1390 bn
<b>M2</b>	<b>GS</b>	24.9%yoy	<b>Consensus</b>	25.0%yoy	<b>January</b>	26.0%yoy

**Exhibit 1: Table of trade data**

	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
<b>Nominal Exports</b>														
% yoy	45.7	21.0	17.7	-1.2	-13.9	-15.3	-23.4	-23.0	-21.3	-26.5	-22.8	-17.2	-25.7	-17.6
% qoq (sa, ann)	92.9	83.0	70.6	48.1	31.5	20.6	6.4	-1.4	-2.4	-12.2	-24.4	-50.8	-53.7	-52.9
% mom (sa, ann)	61.8	7.2	296.5	45.1	52.7	85.4	13.2	22.8	0.1	20.3	-29.6	-16.5	132.0	-82.4
<b>Nominal Imports</b>														
% yoy	44.7	85.5	55.9	26.7	-6.4	-3.5	-17.0	-14.9	-13.2	-25.2	-23.0	-25.1	-24.1	-43.1
% qoq (sa, ann)	99.4	110.5	93.5	53.5	30.9	32.6	50.1	70.6	81.0	55.7	5.9	-51.6	-66.8	-70.8
% mom (sa, ann)	53.5	-22.0	309.4	131.4	49.2	121.6	-2.8	-13.5	120.6	98.3	28.4	128.7	118.9	-70.8
<b>Nominal Trade Balance</b>														
USD bn	7.6	14.2	18.4	19.0	23.8	12.7	15.5	10.3	7.9	13.0	12.9	18.3	4.8	39.1
% yoy	58.2	-63.8	-52.8	-52.9	-33.5	-57.5	-47.3	-59.5	-62.0	-34.7	-22.1	39.6	-41.5	100.8

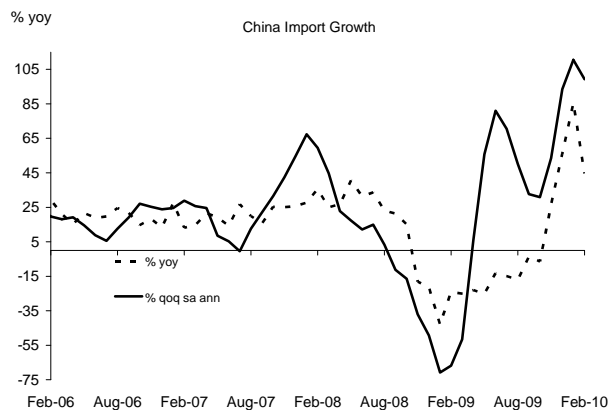
Source: Customs Administration, CEIC, GS Global ECS Research.

**Exhibit 2: Exports growth surging...**



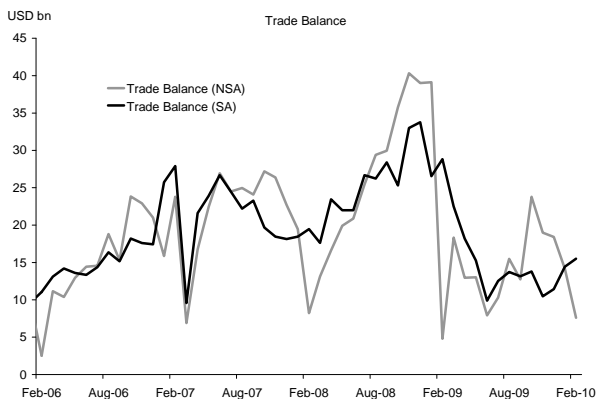
Source: Customs Administration, CEIC, GS Global ECS Research.

**Exhibit 3: ...so is imports growth**



Source: Customs Administration, CEIC, GS Global ECS Research.

**Exhibit 4: The fall in the trade surplus in recent months is seasonal**



Source: Customs Administration, CEIC, GS Global ECS Research.

We, Yu Song and Helen (Hong) Qiao, hereby certify that all of the views expressed in this report accurately reflect personal views, which have not been influenced by considerations of the firm's business or client relationships.

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