

Flash Note 06/09/2018

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Fresh news from China

Trade arena:

- The August trade data showed Chinese Exports growth in RMB accelerated to >9% (which is more closely correlated with firms' revenue growth). In USD terms, export growth decelerated to 9.8% y/y from 12.2% y/y, reflecting the lower value of the RMB.
- This suggest two important things, according to local sources:
 - Chinese firms appear to be taking advantage of the weaker exchange rate to expand real exports (in RMB terms).
 - US growth and consumption has remained robust enough to offset the negative impact of the first two tranches of US tariffs on \$50bn worth of Chinese exports.
- For now at least, the headwinds to China's economy coming from the recent trade spat remain under control.
- Meanwhile, Shanghai stock exchange fell sharply again on Monday, hitting YTD low intraday on the back of concerns about US President Trump's threat of another round of tariffs to cover all Chinese imports.

Outlook:

- The risks to export growth are clearly to the downside (as Trump is threatening to expand tariffs to all US imports from China) and despite last night words from former PBOC Governor Zhou Xiaochuan saying that "the trade war between Washington and Beijing won't have a huge effect on the Chinese economy".
- Meanwhile, earnings in China's listed state-owned enterprises (SOEs) on the Shenzhen Stock Exchange reported combined profits of CNY147.8B (\$21.7B), up 32% year on year (Source Shenzhen exchange). SOEs listed on the Shanghai Stock Exchange saw combined earnings surge 13% to CNY1.4T. Steel firms led the gains, reporting combined profits of CNY29.6B (\$0.34B) in H1, up 134% year on year, amid continued government efforts to cut overcapacity in the sector (and driving steel prices higher).
- China continues trying to prop up investor sentiment. The Financial Stability and Development Commission (FSDC) convened a high-profile meeting on Friday to improve the effectiveness of the government's efforts to manage market expectations. The conference was hosted by central bank governor Yi Gang and attended by officials from Beijing's top financial regulators, the four largest state-owned banks, and the nation's stock exchanges as well as a number of prominent government economists.
- Despite official's efforts, confidence in Chinese stocks remain low, and will probably continue so as president Trump suggested that **"the US is not ready to make trade deal with China, although talks would continue"**.

Best regards