



Global Economics & Markets Research
Company Reg No. 193500026Z

Suan Teck Kin Suan.Teckkin@UOBgroup.com

Tuesday, 21 October 2014

Flash Notes

China: 3Q14 GDP Growth Decelerating

- 3Q14 growth came in marginally higher at 7.3% vs. expectation of 7.2%, and q/q momentum suggests growth rate remains steady, at 1.9%q/q vs. 2.0% in 2Q14. This means that the current “targeted” approach of policy accommodation would likely continue.
- While the 3Q14 data overall suggests a broad based slowing, external trade data stood out with record exports and trade balance for the quarter. A closer examination suggests that exports “over invoicing” may have returned and therefore not able to lift headline growth.
- With no major surprises from the data, we we maintain our full-year growth forecast of 7.4% for China, and at 7.5% for 2015, as well as our end-2014 target of 6.10/USD for the RMB.

Growth Moderation in 3Q14

China’s 3Q14 headline GDP growth came in slightly better-than-expected this morning (Thur, 21 oct) at 7.3%y/y, vs. our expectation and consensus view of 7.2%. This is a slowdown from the 7.4-7.5% pace seen in 1H14. Of note though is that on a q/q basis, activities expanded by 1.9%q/q seasonally adjusted, relatively steady vs. 2.0% in 2Q14 and was much faster than the 1.5% pace in 1Q14. This suggests that the slowdown or moderation remains manageable and should point to Chinese government’s comfort in having the 7.5% growth as just a guide rather than an annual target.

In any case, the performance for 3Q14 is largely reflected in the monthly data, which shows a broad based slowdown in various indicators, including CPI, industrial production, PMI credit, and retail sales. For external trade data though, exports “over-invoicing” appears to be making a comeback and is thus over-exaggerated. As such, even a record trade surplus for the quarter (US\$128bn) and record exports shipments (US\$635bn), that did not really help juice up headline growth number for the quarter. More details on exports “over invoicing” is explained below.

External Trade Likely to Be Overestimated

Despite the upbeat exports data reported during the quarter, it is likely that the figures may be overestimated, with the possibility that “hot money” inflows are disguising in the form of exports over-invoicing, thus exaggerating overall exports figures and as a result trade balances and headline GDP growth. As a recap, China’s

Sep external report came in stronger than expected, particularly for exports which expanded 15.3%/y vs. expectations of 12%, and faster than the 9.4% pace in Aug, to record high of US\$213.69bn. Again, some discrepancy is detected between the China-HK trade corridor which suggests that the positive headline figures may be overstated.

In more details, China's exports to HK jumped to US\$37.605bn in Sep from US\$29.5bn in Aug and average of US\$27bn Jan-Aug this year. HK reported average monthly imports from China value of US\$21bn for Jan-Aug (HK trade figures are only available on 27 Oct). This means there is an average trade gap of US\$7bn per month in favour of China. Ideally, there should be minimal trade gaps, and the differential should wash out over time.

HK's number for Sep not available yet, but based on averages, the difference for Sep (between China's exports to HK and imports from China reported by HK) looks to be around US\$14bn or even higher in favour of China, or doubling the usual. The last time there is double digit billion trade differential was in late-2012 to early 2013 when "over invoicing" was running rampant in China that resulted in official clampdowns later. For China, if the Sep figure is "normalized", exports growth for Sep should be just around 10%, about the same as Aug, compared to the reported 15.3%.

Maintaining our Growth Forecasts

With the 3Q14 report coming in ahead of expectations, and steady momentum on a q/q basis, it suggests that the current slowdown in China remains manageable. However, the government's 7.5% target is unlikely to be met for 2014 unless headline growth in 4Q14 jumps to around 7.8%, which would be a challenge given the current stance of pursuing "targeted", rather than broad-based, accommodative measures, as well as relatively high base in 3Q13. Nevertheless, PBoC's relaxed measures on first home mortgages, announced on 30 Sep, amount to a targeted rate cut for the housing sector. At the same time, the reported liquidity infusion of RMB200bn into national and regional banks just past week via the Standing Lending Facility (SLF), for instance, is another of targeted reserve requirement ratio (RRR) cut, albeit with limited duration. These targeted accommodative measures are likely to remain for now, so long as no sharp declines in overall activities are seen.

On our part, we maintain our full-year growth forecast of 7.4% for China, and at 7.5% for 2015. As for the RMB, we keep to our target of 6.10/USD for end-2014, and look for slightly more upside of 6.00-6.05/USD towards end-2015, though it we expect more volatility ahead for the currency and possibility of bouts of depreciation similar to those experienced in early 2014, as we believe that the one-way appreciation trend for the currency is over.

| China's Key Macro Data | | | | | | | | | | | | |
|----------------------------------|----------|----------|----------|-----------|----------|-----------|-----------|-----------|-----------|---------|---------|-----------|
| | 2011 | 2012 | 2013 | 1Q14 | | | 2Q14 | | | 3Q14 | | |
| Real GDP Growth %y/y | 9.3 | 7.7 | 7.7 | 7.4 | | | 7.5 | | | 7.3 | | |
| Real GDP Growth %q/q SA | | | | 1.5 | | | 2.0 | | | 1.9 | | |
| %y/y change | 2011 | 2012 | 2013 | Jan-14 | Feb-14 | Mar-14 | Apr-14 | May-14 | Jun-14 | Jul-14 | Aug-14 | Sep-14 |
| Industrial Output | 13.7 | 10.8 | 9.7 | - | - | 8.8 | 8.7 | 8.8 | 9.2 | 9.0 | 6.9 | 8.0 |
| NBS PMI | 50.3 | 50.6 | 51.0 | 50.5 | 50.2 | 50.3 | 50.4 | 50.8 | 51.0 | 51.7 | 51.1 | 51.1 |
| HSBC PMI | 48.7 | 51.5 | 50.5 | 49.5 | 48.5 | 48.0 | 48.1 | 49.4 | 50.7 | 51.7 | 50.2 | 50.2 |
| CPI | 5.4 | 2.7 | 2.6 | 2.5 | 2.0 | 2.4 | 1.8 | 2.5 | 2.3 | 2.3 | 2.0 | 1.6 |
| PPI | 6.1 | -1.7 | -1.9 | -1.6 | -2.0 | -2.3 | -2.0 | -1.5 | -1.1 | -0.9 | -1.2 | -1.8 |
| Exports | 20.3 | 7.9 | 7.9 | 10.6 | -18.1 | -6.6 | 0.8 | 7.0 | 7.2 | 14.5 | 9.4 | 15.3 |
| Imports | 24.9 | 4.4 | 7.3 | 10.8 | 10.4 | -11.3 | 0.7 | -1.7 | 5.5 | -1.5 | -2.4 | 7.0 |
| Trade Balance (US\$ bn) | \$ 157.9 | \$ 232.8 | \$ 261.4 | \$ 31.9 | -\$ 23.0 | \$ 7.7 | \$ 18.5 | \$ 35.9 | \$ 31.6 | \$ 47.3 | \$ 49.8 | \$ 30.9 |
| New Loans (RMB bn chg) | 7,471.5 | 8,203.8 | 8,891.9 | ¥ 1,319.0 | ¥ 644.8 | ¥ 1,049.7 | ¥ 774.5 | ¥ 870.8 | ¥ 1,079.3 | ¥ 385.2 | ¥ 702.5 | ¥ 854.0 |
| Aggregate Financing (RMB bn chg) | 12,828.6 | 15,760.5 | 17,290.0 | ¥ 2,597.7 | ¥ 937.0 | ¥ 2,093.4 | ¥ 1,525.9 | ¥ 1,401.3 | ¥ 1,967.3 | ¥ 273.7 | ¥ 957.4 | ¥ 1,050.0 |
| M2 | 13.6 | 13.8 | 13.6 | 13.2 | 13.3 | 12.1 | 13.2 | 13.5 | 14.7 | 13.5 | 12.8 | 12.9 |
| Urban Fixed Asset Investment YTD | 23.8 | 20.6 | 19.6 | 17.9 | 17.9 | 17.6 | 17.3 | 17.2 | 17.3 | 17.0 | 16.5 | 16.1 |
| Retail Sales | 17.2 | 14.4 | 13.1 | - | - | 12.2 | 11.9 | 12.5 | 12.4 | 12.2 | 11.9 | 11.6 |

Source: CEIC, Bloomberg, National Bureau of Statistics; UOB Economics-Treasury Research estimates. All data for individual months except noted