

Flash Note 10/08/2018

Alex Fusté
[@AlexfusteAlex](#)
alex.fuste@andbank.com

How is Beijing managing the trade war?

Pro-growth policies implemented to counteract the effects of tariffs war

- Chinese authorities continue implementing pro-growth policies to counteract the effects of the tariff war. These policies remain as a supportive factor and are causing some optimism among local investors.
- Among these policies, the following should be highlighted:
 - PBOC skipped open market operations for the 16th straight session (to keep liquidity high)
 - This looser liquidity conditions are driving down short end lending rates. Overnight SHIBOR fell to 1.42% on Wednesday, marking the lowest since 2015 and remaining nearly a percentage point lower than it was in mid-July.
 - Short-term SHIBOR rates are about 20bp lower than the corresponding reverse repo rates.
 - Also, three-month government bond yields fell below the equivalent US Treasury bill rate for the first time since the 2008 financial crisis.
 - Mainland investors (probably guided) turn against Hong Kong market and in favor of local indexes : Mainland investors have turned net sellers of Hong Kong stocks. Net sales last week amounted to about HK\$7.5B, the third biggest weekly total on record, and another HK\$4.5B were sold this week. I wonder whether this shift represents a return to the April-June period, when they sold HK\$24B over a record three consecutive months.
 - The central bank has shifted away from traditional intervention, instead acting through lower-profile foreign-exchange swaps. Such actions are said to have stemmed sharper depreciation. The PBOC has let the yuan fall more than 7% against the dollar since the trade dispute with Washington escalated in mid-June.

Trade Actions

- After China decided to cut tariff on vehicles from places other than the US, authorities have released that China's automobile imports rose 70% y/y in July to a record \$7.3B.
- The story noted China cut its auto import tariff on 1-Jul from 25% to 15% (but only to non-US producers) as part of broader efforts to indirectly address calls from the US to take action on the bilateral trade imbalance. China later hiked the rate on US auto imports.
- China announces additional tariffs on \$16B of US imports: Xinhua reported China has decided to impose additional tariffs of 25% on \$16B of US goods, which will take effect at 12:01 on 23-Aug. A Ministry of Commerce

spokesperson said that “it is totally unreasonable for the United States to put domestic laws above international laws”.

- The State Administration of Foreign Exchange (SAFE) reported that they see current account deficit in H1 (balance was a \$28.3B deficit in H1, down \$34.1B from Q1). The story noted the services account contributed the bulk of the deficit, outweighing a surplus in the trade balance. The financial account maintained net inflows, with a surplus of \$18.2B. Net foreign direct investment stood high at \$58.6B.

Economy (projections)

- Growth expected at 6.7% in H2: Shanghai Securities News cited CASS researcher Zou Yunhan who forecasted H2 GDP at 6.7%. Zou sees stable demand and positive momentum in the economy. Also, he forecasted CPI at +1.8% and PPI at +2.8%.

Corporate (profits)

- Listed firms report higher H1 profits: Xinhua cited data from Securities Times which showed that more than 70% of listed firms reported year-on-year growth in net profits. Among 262 companies, 217 of them also reported increases in revenues.

Just hope it helps