

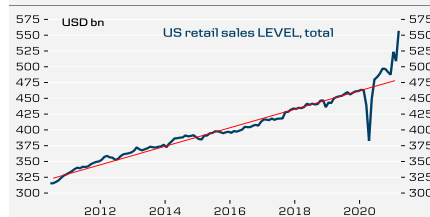
27 April 2021

The China Letter

Exports to lift Q2 growth, container rates stay high for now

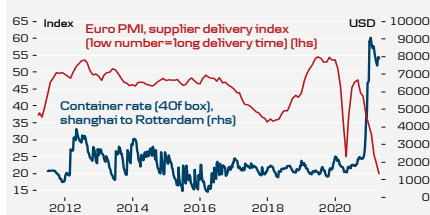
- Exports to see lift in Q2:** While US consumption of *services* has been weak, American households have spent a lot of money on *goods* after receiving new stimulus checks in March (chart 1). This is giving a short-term boost to Chinese exports and manufacturing in Q2 as US inventories are drawn down and US retail sales is likely stay elevated in the short term. China is still to a large extent the ‘factory of the world’. PMI export orders from NBS rebounded in March to a high level and our model points to more upside in the coming months. In H2, we expect the slowdown in China manufacturing to resume due to weaker growth in housing and infrastructure and a transition in the US and euro area consumer spending back towards services from goods.
- Freight rates and delivery times stay elevated for now:** With the strong demand for goods there is little respite for container freight rates or delivery times, which stay elevated (chart 2). The blockage of the Suez Canal did not help. However, we look for a gradual decline in rates and delivery times during Q3, as 1) goods spending moderates again, 2) more shipping supply enters the market and 3) vaccinations reduce port congestion as port workers will again run at full time.
- Metal prices rally again:** Industrial metals such as copper and aluminium have rallied again lately in another sign, that manufacturing is still growing at a robust pace (chart 5). Iron ore prices have seen a *new leg higher* as well (chart 6) but it’s partly related to production challenges in Brazil.
- Financial risks resurfacing:** State-owned financial company Huarong Securities came under *severe pressure* lately after concerns arose about its financial health with little signs the government would bail it out. A failure to report 2020 earnings by the March 31 deadline triggered fears of looming bankruptcy and its’ dollar denominated perpetual bond dropped as low as 45 in price from above 100. Losses spread to other companies in a sign of contagion as a reassessment of the previous implicit state guarantee is taking place. Calm has been restored, though, as Chinese regulators have asked some banks not to withhold loans in a sign that it will not be allowed to go bankrupt after all but might instead be restructured, more details [here](#).
- USD/CNY falls back again:** A renewed weakening of the USD has also pushed down USD/CNY back below 6.50. On a 12M horizon we still look for the USD to strengthen, though, and USD/CNY to trend higher.
- US and China to cooperate on climate:** At least in one area, the US and China have agreed to cooperate. That was the main result of a meeting in Shanghai between John Kerry and Chinese special envoy on climate Xie Zhenhua (see [joint statement](#)). A few days later Chinese President Xi Jinping participated in US President Joe Biden’s Leaders Summit on Climate. China made no new commitments but has already vowed to peak emissions no later than 2030 and reach carbon neutrality in 2060. Xi Jinping also stated China would “strictly control coal-fired power generation projects”, see [NPR](#).
- Vaccinations continue at 2-2½% pace per week:** A total of 225mn vaccines have now been administered corresponding to 16% of population (chart 8).

Chart 1: Boom in US consumption of goods a lift to China exports in Q2



Source: Macrobond, BLS

Chart 2: Freight rates still very high



Source: Macrobond, Markit, WCI, Danske Bank

CNY forecast

EUR/CNY		
	Danske	Forward (NDF)
27-Apr	7.83	
+3M	7.73	7.89
+6M	7.72	7.96
+12M	7.71	8.10
USD/CNY		
	Danske	Forward (NDF)
27-Apr	6.49	
+3M	6.55	6.53
+6M	6.60	6.57
+12M	6.70	6.65

Source: Bloomberg, Danske Bank

Recent China research

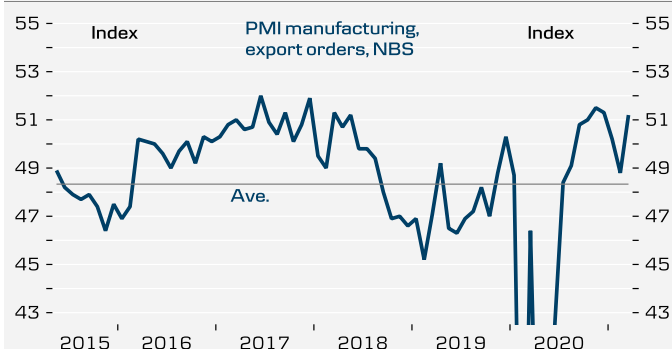
[The China Letter – Credit growth slows further, tensions over Taiwan grows](#), 12 April 2021

[China Macro Monitor- US consumers to put China slowdown on pause in Q2](#), 19 April 2021

[FX Forecast Update](#), 15 April 2021 (CNY on p. 12).

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Chart 3: PMI export orders from NBS rebounded in March


Source: Macrobond Financial, Danske Bank

Chart 4: Our PMI export model points to more upside in coming months


Source: Macrobond Financial, Danske Bank

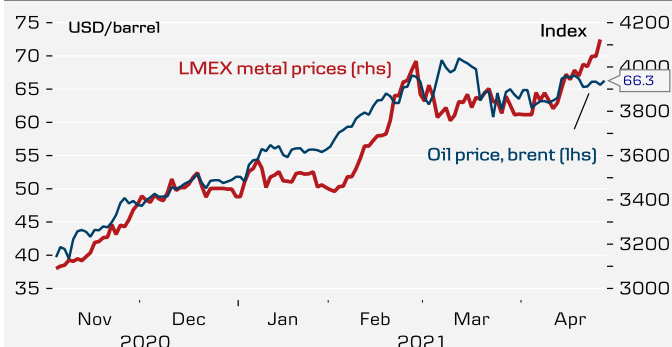
Chart 5: Further rise in metal prices testament of still strong manufacturing. Oil prices, stabilize.

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Bloomberg, Danske Bank

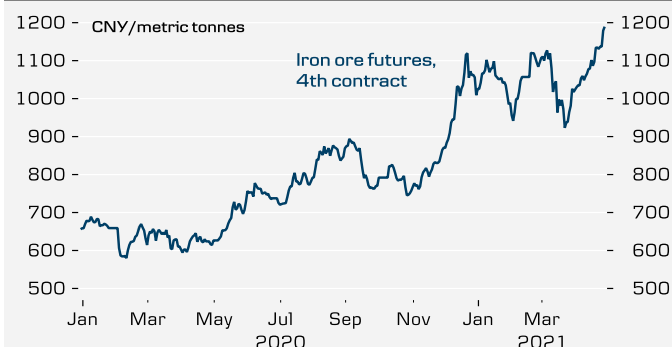
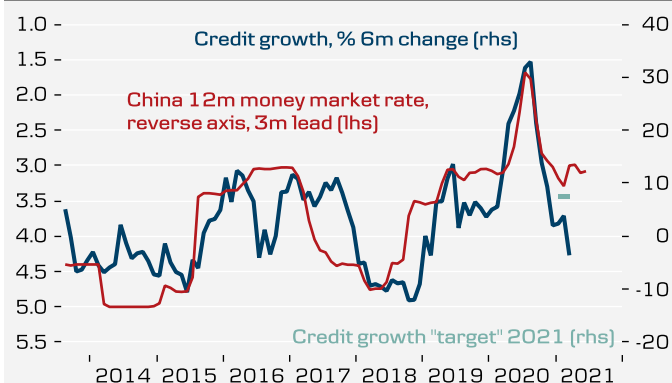
Chart 6: Iron ore prices also see another leg higher but partly due to a decline in supply in Brazil

Note: Past performance is not a reliable indicator of current or future results
Source: Bloomberg, Danske Bank

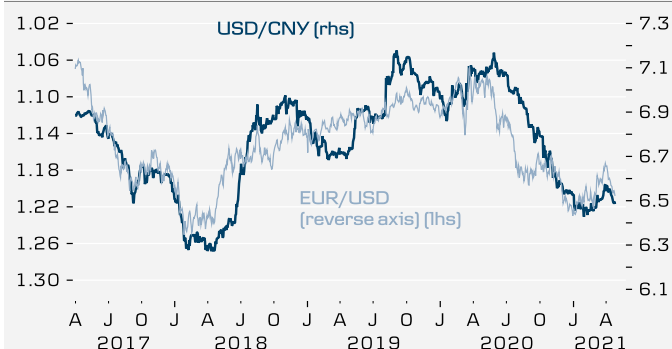
Chart 7: Tighter policy expected to slow growth in H2 as lift to exports fade


Source: Macrobond Financial, Danske Bank

Chart 8: Credit growth also slowing. The run rate should rebound to around 7-8% in line with nominal GDP growth


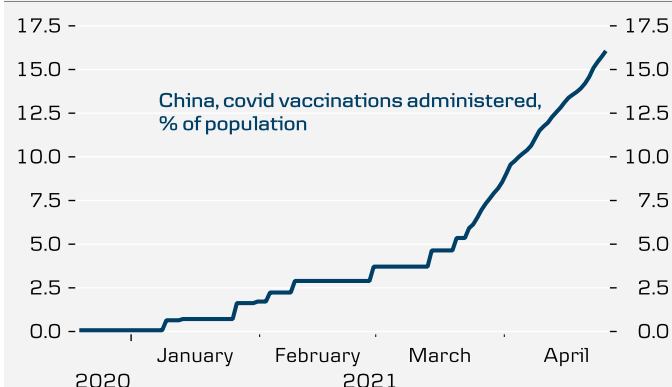
Source: Macrobond Financial

Chart 7: USD/CNY still shadowing EUR/USD, we look for renewed upside on broad USD strength during 2021



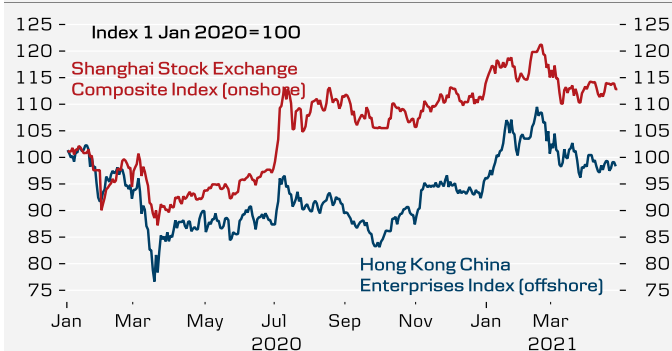
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

Chart 8: Vaccination pace still running at 8-10% per month



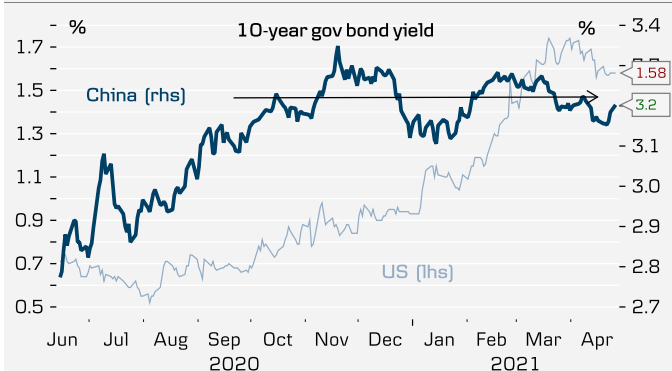
Source: Macrobond Financial, China National Health Commission

Chart 7: Stocks treading water after recent correction



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Bloomberg, Danske Bank

Chart 8: Chinese bond yields not going anywhere



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, China National Health Commission

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