

China Weekly Letter

Xi to visit White House 'soon', data confirm recovery

- US and China aim for trade deal in late May
- March data better than expected but downside risk to April data
- African swine fever crisis could give significant boost to inflation
- Xi addresses concerns over Belt and Road Initiative at the Belt and Road Forum

Aiming for a trade deal in late May

US President Donald Trump said on Thursday that Chinese President Xi Jinping will come to the White House soon. A high-level US delegation is set to go to Beijing on Tuesday and the following week Chinese top negotiators are set to go to Washington with the goal of closing a deal and announcing a signing summit between Trump and Xi, see [Bloomberg](#), 24 April.

Comment. Trump's message suggest we are moving closer to a deal. We expect it to become a reality at a Trump-Xi summit in late May or early June.

More recovery signals but risk of disappointments in April data

Another batch of positive data for March was released just before Easter. Industrial production, retail sales, property prices and home sales all improved (see charts). Q1 GDP beat expectations with an increase of 6.4% y/y (consensus 6.3% y/y) and several banks followed up by revising up growth forecasts for 2019 to around 6.4% from 6.2-6.3%.

Comment. It is encouraging to see more signs that the worst is behind us in the Chinese economy. However, **we should brace ourselves for some slip back in April** as the March data are likely somewhat distorted by the Chinese New Year. The rise in industrial production of 8.5%, for example, seems too good to be true. Next week the April PMI manufacturing will give more clues. We see downside risk to the Caixin PMI manufacturing, which has risen very fast in recent months. **However, we still believe that China has started a moderate recovery driven by easing trade tensions and economic stimulus.** We may not see further reductions in the Reserve Requirement Ratio but we expect targeted lending measures to be stepped up to increase credit availability for small and medium-sized private companies.

African swine fever crisis intensifies

The African swine fever in China is starting to have a bigger effect on pork output pushing up prices. According to the Ministry of Agriculture and Rural Affairs the impact on China's pig industry has been 'very serious' with stocks shrinking and prices expected to rise to an all-time high later in 2019, see [SCMP](#) 23 April. The number of mother pigs declined 21% in March from a year earlier and in the first week of April pork prices increased 36% from a year earlier (up from a rise of 2.1% y/y in the first week of March).

China had 375 million pigs and piglets at the end of March, a drop of 53 million from 428 million in December. Some estimates have suggested China could lose up to 200 million

Recent China research

China Leading Indicators - clearer signs of recovery, 2 April 2019

US-China trade: A deal in sight - look out for Xi-Trump meeting(s), 1 February 2019

China Outlook - short-term pain, long-term gain, 13 December 2018

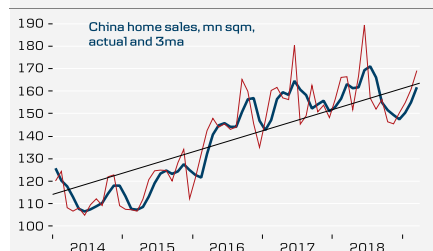
[Link to all China research including previous China Weekly Letters](#)

Spike in industrial production too good to be true



Source: Macrobond Financial, NBS

Home sales have rebounded lately



Source: Macrobond Financial, Danske Bank

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pigs during the epidemic, close to three times the pig population of the US. So far 129 cases of African swine fever have been reported but the fear is that the number is much higher due to underreporting at big pig farms.

Comment. The crisis will push up inflation in China over the coming months and to some extent also in other countries as the global supply of pork is set to shrink sharply.

Chinese statistics do not reveal the weight of pork but estimates are around 5%. Hence, if pork prices were to increase 70% y/y as projected by the Chinese Ministry of Agriculture, it could add 3.5 percentage points to headline inflation. We do not expect the People's Bank of China to respond to this rise in inflation as it is a temporary supply shock, but it would erode purchasing power among consumers. Chinese households will probably substitute to other food products but this is likely to push up prices on these as well.

We expect further stimulus to spur more private consumption growth in China this year and the higher food prices will add to the pressure for more consumer stimulus. Subsidies for certain items such as cars, home appliances and electronic products are already drafted, but details are scarce on the measures so far.

China addresses 'debt trap' criticism at second Belt and Road Forum

China is hosting the second Belt and Road Forum in Beijing this week with participation of 37 global leaders including Russian president Vladimir Putin, Italian prime minister Giuseppe Conte and the heads of state of the 10 ASEAN countries. Xi Jinping addressed the Forum on Friday addressing some of the criticism of the Belt and Road Initiative (BRI), that he kicked off in 2013. Xi highlighted building infrastructure of high quality, sustainability, risk resilience, reasonable pricing, inclusiveness and accessibility. He also stressed that China would continue to open up, see SCMP for more details.

US has been a fierce opponent of the initiative, calling it a 'vanity project'. The EU has also voiced some criticism over debt issues and lack of transparency but has signalled openness to work with China. Some countries have joined the BRI with Italy and Luxembourg recently signing memoranda of understanding with China. In a commentary in *Fortune*, the Chinese ambassador in Washington Cui Tiankai this week encouraged the US to join forces with China: 'Imagine the potential of China and United States, the world's two largest, most vibrant economies collaborating on the most ambitious development project in history'. The US launched its own infrastructure initiative for Asia last year, although the size is much smaller, see SCMP 30 July 2018.

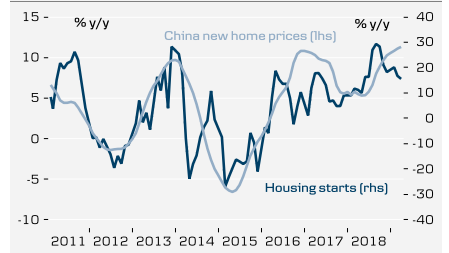
Comment. The BRI continues to expand with new countries joining. By now 126 countries have signed cooperative documents with China. The US will continue to warn countries against joining, but the US leverage is waning with China's economy rising and the US in relative decline. China has responded to the criticism by increasing focus on debt concerns and sustainability and encourage cooperation on global development. At the same time competing infrastructure programmes from the EU, the US and Japan will run alongside the BRI, boosting investments in developing countries.

Other selected China news of the week

USD/CNY increased 6.74 from around 6.7 this week pulled higher by broad based USD strength. We still look for a gradual appreciation of CNY to 6.6 versus USD in 12 months.

ABB is building the world's most advanced robot factory in Shanghai, see video on SCMP.

Robust property sector



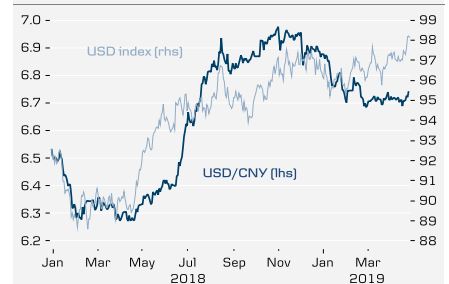
Source: Macrobond Financial, NBS

Stock market correcting lower the past week



Source: Macrobond Financial, Bloomberg

USD/CNY pulled higher by overall USD strength



Source: Macrobond Financial, Bloomberg

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