

Exports to China appear to have bottomed out

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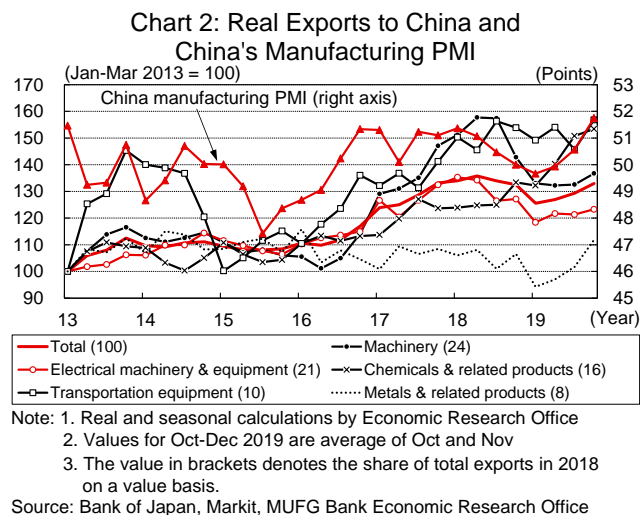
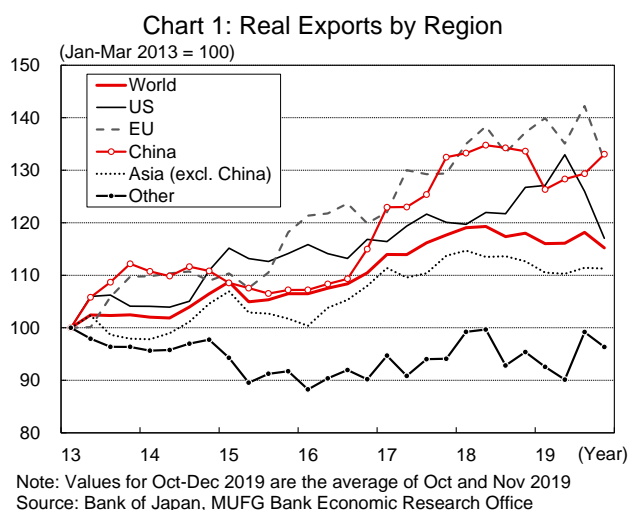
1. The Real Economy

Japanese exports have been weak since the latter half of 2018 owing to continued uncertainty about the future regarding the global economic slowdown and political issues. Nevertheless, it is important to keep a look out for a change in the direction of growth in some regions from around mid-2019.

The breakdown of real exports by region shows that from around mid-2018 until the start of 2019, the decline in exports to China was offset by an increase in exports to Europe and the US, which allowed total exports to avoid a further decline. However, exports to the US then fell dramatically, particularly those of automobiles and machinery, yet it appears the downward pressure from this fall was softened by a recovery in exports to China (Chart 1).

According to the breakdown of real exports by good to China, exports of “transportation equipment” continue to see-saw, while exports of “chemicals and related products” are still as robust as they are to other countries. In addition, exports of “machinery” and “electrical machinery and equipment” – the first and second largest respectively in terms of value – have both partly recovered from their fall around the start of the year and are putting upward pressure on the overall growth of exports to China (Chart 2). It is thought this reflects the positive impact on the Chinese manufacturing industry from a cyclical decrease in the effects of strengthened shadow banking regulations carried out domestically, as well as the knock-on effect of China’s reactions to the friction between itself and the US. In fact, Chinese manufacturing PMI is rising concurrently with the recovery of Japanese exports to China.

While the outcome of trade negotiations between the US and China is uncertain, there is a lull in the conflict between the two countries and, in the case that the deceleration of the Chinese economy remains gradual due to certain economic policies, Japanese exports to China will remain steady after bottoming out and will start to rise again, although a sharp acceleration in the pace of recovery seems unlikely for the time being. At present, exports to the US are experiencing a sudden drop, but it is thought they will not fall continuously in light of robust US domestic demand thanks to the effect of interest rate cuts. Japan’s total exports are expected to recover gradually in 2020 due to the firming of exports to the US and China, which together account for around 40% of total exports.



2. Prices and Financial Markets

2.1 Monetary Policy

The Bank of Japan (BoJ) decided to maintain its current policy at its monetary policy meeting on 18th and 19th December. At the press conference following the meeting, Governor Kuroda said that while a further escalation of US-China trade friction and the issue of the UK's departure from the EU have been avoided, overseas risks remain at a high level on the whole, and an easy approach to policy management is still appropriate. Nevertheless, as the US Federal Reserve Board is forecast to maintain its current FF rate and continues to adopt a wait-and-see attitude, the BoJ is expected to continue with its current monetary easing policy, provided there is no change in the domestic or overseas economies or a resurgence of political or policy-related risks, such as a rise in US-China trade friction.

2.2 Financial Markets

From mid-December, financial markets' risk appetite grew owing to an easing of tension between the US and China over trade and a decrease in the risk of a "no deal" Brexit.

In the bond market, the 10-year Japanese government bond (JGB) yield rose into positive territory for the first time since March 2019 (Chart 3). The yield has fallen by more than the BoJ expected ("around zero": i.e. in general a margin of +/- 0.2%) in late August, after a period of rising uncertainty about the future of various risk factors, such as US-China relations. However, the yield started to rise in line with markets' revised attitude to risks and it has continued on its upward trajectory even after the BoJ's monetary policy meeting in October when the BoJ clarified its stance on monetary easing by adjusting its forward guidance amongst other measures, and the yield turned positive. That being said, it is important to be aware that the yield will not necessary rise continually in the future as there is a certain amount of investment demand with yields at this level.

The JPY depreciated to around JPY 109.5 per USD. Looking at the relationship between the gap in US and Japanese interest rates and the USD/JPY exchange rate, when the former expands (shrinks), the latter rises (falls). This can be seen in the shift to JPY appreciation since

11th September, when there was an increase in expectations of a development in US-China negotiations, compared with the period from 5th May to 10th September, when the two countries enacted a series of retaliatory tariffs on exports from the other (Chart 4). This kind of shift is brought about by more JPY selling due to increase in risk appetite as concerns about the future fade, but as US and Japanese interest rates are widely predicted to remain unchanged for the time being, it seems the FX market is starting to be affected by factors other than the difference between Japanese and US interest rates. Depending on the outcome of the US-China conflict, markets' may respond again to uncertainty about the future. Therefore, it is important to keep an eye on JPY appreciation, even if there is no change in the gap between interest rates.

Chart 3: 10-Year Japanese Government Bond Yield

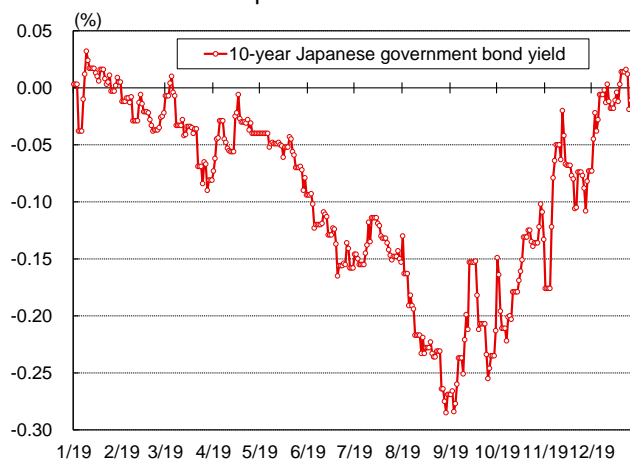
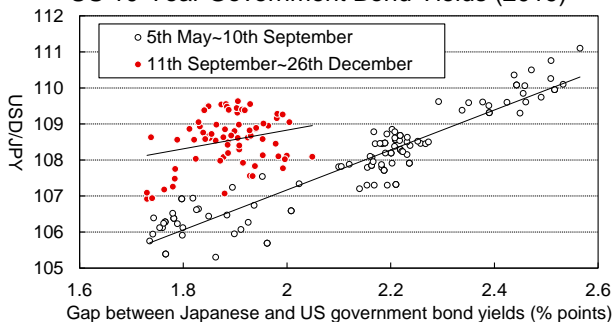


Chart 4: USD/JPY and the Gap between Japanese and US 10-Year Government Bond Yields (2019)



(Translated by Elizabeth Foster)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Dec. 27, 2019

	Fiscal	Fiscal	2019			2019				
	2017	2018	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.9	0.3	2.6 (0.8)	2.0 (0.9)	1.8 (1.7)	***	***	***	***	***
Index of All Industries Activity	1.8	0.8	-0.5 (0.3)	0.5 (0.2)	0.5 (1.3)	0.2 (1.2)	0.0 (-0.6)	1.9 (3.4)	-4.3 (-3.3)	
Industrial Production Index	2.9	0.3	-2.5 (-1.7)	0.6 (-2.3)	-0.5 (-0.8)	1.3 (0.7)	-1.2 (-4.7)	1.7 (1.3)	-4.5 (-7.7)	-0.9 (-8.1)
Production										
Shipments	2.2	0.2	-2.1 (-1.6)	1.0 (-2.7)	-0.1 (-0.1)	2.7 (1.9)	-1.3 (-4.5)	1.5 (2.2)	-4.5 (-7.3)	-1.7 (-7.7)
Inventory	5.1	0.2	0.9 (0.2)	0.9 (3.0)	-1.7 (0.9)	-0.2 (2.5)	-0.1 (2.6)	-1.4 (0.9)	1.3 (2.6)	-1.1 (1.5)
Inventory/Shipments Ratio (2015=100)	101.9	105.0	105.9 [104.3]	106.9 [104.0]	108.8 [105.0]	107.5 [105.5]	110.5 [104.4]	108.4 [105.2]	113.4 [105.1]	115.4 [104.5]
Domestic Corporate Goods Price Index	2.7	2.2	-0.8 (0.9)	0.4 (0.6)	-0.6 (-0.9)	0.0 (-0.6)	-0.3 (-0.9)	0.0 (-1.1)	1.1 (-0.4)	0.2 (0.1)
Consumer Price Index(SA, total, excl.fresh foods)	0.7	0.8	-0.2 (0.8)	0.4 (0.8)	-0.1 (0.5)	0.1 (0.6)	0.1 (0.5)	-0.1 (0.3)	0.2 (0.4)	0.2 (0.5)
Index of Capacity Utilization (2015=100)	102.7	102.5	100.5 [102.2]	102.4 [103.3]	100.6 [101.9]	102.3 [101.3]	99.3 [102.8]	100.3 [101.7]	95.8 [104.8]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.8	2.8	-3.2 (-2.5)	7.5 (4.1)	-3.5 (-2.7)	-6.6 (0.3)	-2.4 (-14.5)	-2.9 (5.1)	-6.0 (-6.1)	
Manufacturing	9.2	3.8	-7.7 (-8.0)	2.5 (-8.5)	-0.9 (-10.2)	5.4 (-9.4)	-1.0 (-17.4)	-5.2 (-4.4)	-1.5 (-15.0)	
Non-manufacturing Excl.Electric Power & Ship building	-7.8	2.1	-0.3 (1.8)	13.1 (15.9)	-7.3 (3.6)	-15.6 (10.2)	-8.0 (-12.1)	2.6 (11.8)	-5.4 (2.9)	
Shipments of Capital Goods (Excl.Transport Equipment)	7.0	-0.3	-7.4 (-6.9)	2.5 (-6.6)	2.9 (-0.3)	0.2 (-3.2)	2.5 (-7.0)	8.9 (8.1)	-11.9 (-12.0)	-6.1 (-14.5)
Construction Orders	0.7	6.5								
Private	0.6	14.5								
Public	-5.4	-15.0								
Public Works Contracts	-4.3	1.1								
Housing Starts 10,000 units at Annual Rate, SA	94.6 (-2.8)	95.3 (0.7)	94.2 (5.1)	91.8 (-4.7)	90.0 (-5.4)	91.0 (-4.1)	89.1 (-7.1)	89.7 (-4.9)	87.9 (-7.4)	83.4 (-12.7)
Total floor										
Sales at Retailers	1.9	1.6								
Real Consumption Expenditures of Households over 2 persons (SA)	0.3	0.0	-0.2 (2.0)	0.6 (3.3)	2.5 (4.1)	-0.9 (1.0)	2.4 (1.0)	5.5 (10.5)	-11.5 (-4.0)	
Propensity to Consume (SA,%)	71.7	69.2	69.8 [71.0]	67.5 [68.8]	72.5 [70.6]	71.5 [70.9]	70.2 [70.4]	75.8 [70.4]	65.2 [70.4]	[70.1]
Overtime Hours Worked (All Industries, 5 employees or more)	0.4	-1.7	-0.7 (-2.1)	1.0 (-2.4)	-1.2 (-1.0)	-0.8 (-0.9)	-1.6 (-2.0)	1.6 (0.0)	0.2 (-1.8)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.7	0.9								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	99	1	96	86	100	97	95	107	109	
Ratio of Job Offers to Applicants (SA,Times)	1.54	1.62	1.63 [1.59]	1.62 [1.61]	1.58 [1.62]	1.59 [1.62]	1.59 [1.63]	1.57 [1.63]	1.57 [1.62]	1.57 [1.63]
Unemployment Rate (SA,%)	2.7	2.4	2.4	2.4	2.3	2.2	2.2	2.4	2.4	2.2
Economy Watcher Survey (Judgment of the present condition D.I.%)	50.5	47.8	46.0 [49.5]	44.5 [48.7]	43.6 [48.0]	41.2 [47.1]	42.8 [48.7]	46.7 [48.3]	36.7 [48.6]	39.4 [49.5]
Bankruptcies (Number of cases)	8,367 (-0.2)	8,110 (-3.1)	1,916 (-6.1)	2,074 (-1.6)	2,182 (8.2)	802 (14.2)	678 (-2.3)	702 (13.0)	780 (6.8)	727 (1.3)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

2. Balance of Payments

As of Dec. 27, 2019

	Fiscal	Fiscal	2019			2019				
	2017	2018	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Customs Clearance (Exports in Yen Terms)	10.8	1.9	(-3.9)	(-5.6)	(-5.0)	(-1.5)	(-8.2)	(-5.2)	(-9.2)	(-7.9)
Value	5.5	2.5	(1.2)	(0.7)	(-2.8)	(-3.1)	(-2.4)	(-2.9)	(-5.0)	(-3.1)
Volumes	5.0	-0.6	(-5.0)	(-6.2)	(-2.2)	(1.6)	(-6.0)	(-2.3)	(-4.4)	(-5.0)
Imports (In Yen terms)	13.7	7.2	(-2.0)	(-0.1)	(-4.9)	(-1.1)	(-11.9)	(-1.5)	(-14.7)	(-15.7)
Value	8.9	5.7	(-0.2)	(0.0)	(-7.1)	(-7.3)	(-6.2)	(-7.7)	(-9.2)	(-8.2)
Volumes	4.4	1.4	(-1.8)	(-0.1)	(2.3)	(6.7)	(-6.1)	(6.8)	(-6.1)	(-8.1)
Current Account (100 mil. yen)	221,749	192,434	59,541	45,676	57,706	19,999	21,577	16,129	18,168	
Goods (100 mil. yen)	45,396	6,963	2,141	-16	-225	-745	509	11	2,540	
Services (100 mil. yen)	-4,567	-7,123	3,561	-1,046	-1,665	-2,299	233	401	-995	
Financial Account (100 mil. yen)	206,805	212,310	88,169	65,220	70,322	9,170	16,299	44,854	8,799	
Gold & Foreign Exchange Reserves (\$1mil.)	1,268,287	1,291,813	1,291,813	1,322,279	1,322,581	1,316,452	1,331,583	1,322,581	1,324,468	1,317,322
Exchange Rate (¥/\$)	110.80	110.88	110.17	109.85	107.30	108.22	106.27	107.41	108.12	108.86

3. Financial Market Indicators

	Fiscal	Fiscal	2019			2019						
	2017	2018	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV		
Uncollateralized Overnight Call Rates	-0.050	-0.062	-0.054 [-0.048]	-0.060 [-0.065]	-0.059 [-0.063]	-0.071 [-0.070]	-0.046 [-0.059]	-0.059 [-0.059]	-0.022 [-0.060]	-0.043 -0.070		
Euro Yen TIBOR (3 Months)	0.065	0.062	0.037 [0.078]	0.049 [0.084]	0.022 [0.077]	0.049 [0.091]	0.009 [0.091]	0.009 [0.050]	0.009 [0.050]	0.018 [0.050]		
Newly Issued Japanese Government Bonds Yields (10 Years)	0.045	-0.095	-0.095 [0.045]	-0.165 [0.030]	-0.215 [0.125]	-0.160 [0.060]	-0.280 [0.110]	-0.215 [0.125]	-0.150 0.130	-0.080 [0.085]		
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.817	0.751	0.751 (-0.008)	0.749 (-0.002)	0.738 (-0.011)	0.747 (-0.002)	0.746 (-0.001)	0.738 (-0.008)	0.741 (0.003)			
The Nikkei Stock Average (TSE 225 Issues)	21,454	21,206	21,206 [21,454]	21,276 [22,305]	21,756 [24,120]	21,522 [22,554]	20,704 [22,865]	21,756 [24,120]	22,927 [21,920]	23,294 [22,351]		
M2(Average)	(3.7)	(2.7)	(2.3)	(2.5)	(2.4)	(2.3)	(2.4)	(2.4)	(2.4)	(2.8)		
Broadly-defined Liquidity(Average)	(3.1)	(1.9)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)	(1.7)	(2.0)	(2.5)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin		(2.8)	(2.2)	(2.3)	(2.4)	(2.1)	(2.3)	(2.1)	(2.0)	(2.0)	(2.1)
	Banks		(2.8)	(2.2)	(2.4)	(2.6)	(2.3)	(2.4)	(2.2)	(2.2)	(2.2)	(2.3)
	City Banks etc.		(2.0)	(1.0)	(1.6)	(2.4)	(2.2)	(2.5)	(2.1)	(2.1)	(2.0)	(2.2)
	Regional Banks		(3.6)	(4.3)	(4.1)	(5.1)	(4.3)	(4.4)	(4.3)	(4.3)	(4.3)	(4.3)
	Regional Banks II		(3.0)	(-0.4)	(-0.8)	(-6.6)	(-5.7)	(-5.7)	(-5.7)	(-5.7)	(-5.7)	(-5.7)
Shinkin		(2.7)	(2.1)	(1.7)	(1.4)	(1.1)	(1.2)	(1.2)	(1.0)	(1.0)	(1.0)	
Deposits and CDs (Average)	Total(3 Business Condition)		(4.2)	(3.4)	(3.1)	(2.5)	(2.3)	(2.1)	(2.3)	(2.5)	(2.6)	(3.0)
	City Banks		(5.9)	(4.9)	(4.7)	(3.5)	(3.1)	(2.7)	(3.1)	(3.4)	(3.6)	(4.2)
	Regional Banks		(2.5)	(2.7)	(2.3)	(3.4)	(3.1)	(3.1)	(3.1)	(3.1)	(3.2)	(3.4)
	Regional Banks II		(2.1)	(-1.3)	(-2.0)	(-6.2)	(-5.4)	(-5.4)	(-5.4)	(-5.5)	(-5.5)	(-5.3)

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in () indicate % changes from previous year. [] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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