

1BN) China Trade Surprise Signals Domestic Stimulus Focus: Economy

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MAY EXPORTS RISE 15.3% VS ANALYST EST. 7.1% RISE :GACZ CH

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By Bloomberg News

June 11 (Bloomberg) -- China's exports rose in May at more than double the pace analysts estimated while industrial output and retail sales trailed forecasts, signaling that last week's interest-rate cut was aimed at countering a domestic slowdown.

Overseas shipments climbed 15.3 percent from a year earlier, the customs bureau said yesterday, exceeding all 29 estimates in a Bloomberg News survey. Industrial output gained by less than 10 percent for a second month and retail sales increased the least in almost six years excluding holiday-month distortions, statistics bureau reports showed June 9.

China's trade resilience signals Europe's crisis has yet to spark a collapse in world commerce on the scale of 2008, even as Spain's banking woes threaten to deepen the trauma. Stronger exports and imports also support the case for Premier Wen Jiabao to adopt a more restrained stimulus than the credit boom officials unleashed in 2008, which stoked a property bubble.

"The better-than-expected trade data should help alleviate ongoing concerns of a sharp growth deterioration in the near term," said Sun Junwei, a Beijing-based economist with HSBC Holdings Plc. "The key to securing a soft landing pivots on reviving domestic demand and that will necessitate more stimulus but it will be more measured than in 2008 and monetary policy won't be eased excessively."

The government may boost tax cuts and speed up spending on public works to ensure growth of more than 8.5 percent in the second half of the year, the bank says. Further reductions in interest rates are "possible" and reserve requirements may be cut four more times this year to spur lending, according to Sun.

Spain Rescue

China's stocks had their biggest slide this year last week, after the rate cut heightened concern the nation's economic slowdown is deepening. Equities rallied in Asia today after a weekend agreement in Europe to provide Spain with as much as \$125 billion to bail out its banks. The MSCI Asia Pacific Index was up 1.9 percent at 4:50 p.m. in Tokyo.

Trade data from Singapore today also showed resilience, with non-oil domestic exports advancing 3.2 percent in May from a year before, compared with the median estimate for a 3 percent gain. Malaysia's industrial production growth quickened in April, with output at factories, utilities and mines rising 3.2 percent from a year earlier, after climbing a revised 1.5 percent in March, the statistics department said today.

In France, industrial production unexpectedly increased in April from March. Italy's statistics institute said the economy contracted 0.8 percent in the three months through March from the previous quarter, matching an earlier estimate.

Rate Cut

China on June 7 announced the first rate reduction in more than three years to spur demand. The 25 basis-point move took one-year borrowing costs to 6.31 percent and the one-year deposit rate to 3.25 percent.

China's economic growth eased to 8.1 percent in the first quarter from a year earlier and may slow to 7.7 percent in the three months through June, according to JPMorgan Chase & Co. The bank also predicts full-year expansion of 7.7 percent, the least since 1999. Wen in March set a 2012 growth target of 7.5 percent, down from an 8 percent goal in place since 2005.

Inflation in May eased to 3 percent, the statistics bureau said, the lowest reading in two years and below the government's 2012 target of 4 percent for the fourth month.

The decline will offer more room for policy easing, said Lu Ting, head of Greater China economics at Bank of America Corp. in Hong Kong. He expects the government to start and speed up more projects and make financing easier by cutting reserve requirements and interest rates, approving more corporate bond issuance and lifting lending restrictions.

Bank Loans

The People's Bank of China released money supply and new lending figures for May today. M2, the broadest measure of money supply, rose 13.2 percent while new yuan loans were 793.2 billion yuan (\$125 billion), up from 681.8 billion yuan the previous month and 551.6 billion yuan a year ago.

China's statistics bureau also reported fixed-asset investment excluding rural households rose 20 percent in the first five months. That was the weakest gain for a January-May period since 2001, according to previously released data.

Industrial output increased 9.6 percent in May from a year earlier and retail sales grew 13.8 percent. Home-appliance sales growth slid to 0.5 percent compared with a 15.4 percent gain a year ago, after the government ended incentive programs.

Consumer Subsidies

Gome Electrical Appliances Holding Ltd., China's second-biggest electronics retailer, said May 25 its first-quarter net income slumped 88 percent from a year earlier as demand dropped when the programs ended. President Wang Jun Zhou said new subsidies announced last month for energy-saving appliances will be "particularly important" to boost television and air-conditioner sales.

Customs data showed a trade surplus of \$18.7 billion last month, more than economists estimated, while the median forecast for export growth was 7.1 percent. Imports rose 12.7 percent from a year earlier compared with the median estimate for a 5.5 percent gain. Crude oil purchases climbed to a record and iron ore imports were the highest in three months.

"This shows it's not all doom and gloom," said Song Seng Wun, an economist with CIMB Research Pte. in Singapore. "Growth momentum may be slowing, but it's not about to crash."

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