

**THOSE MAY TRADE STATISTICS:
DON'T CLAP YOUR HANDS YET, FOLKS**

There is that story of a farmer in ancient China, who, one day, discovered that a beautifully proportioned, wild stallion had strayed onto his property; and, this stallion seemed determine to make the farm its home.

Wild mares came to visit the stallion on the farm.

And so a herd of choice foals, all belonging to the farmer, was the result of the natural inclination of mammals that are well fed, healthy, satisfied and content.

The farmer's wife gave birth to a healthy boy and so, as was the custom, neighbours dropped by to wish the farmer happiness on his good fortune, now that he had a male heir, an impressive stallion, and a herd of choice foals.

The farmer thanked the neighbours for their thoughtfulness, but encouraged them not to be too generous with their good wishes.

As the years passed, the farmer's son grew to be a champion rider of horses and the farmer, himself, grew more and more prosperous with the coming of every new season.

Neighbours were, often, seen on the farm and, always, they congratulated the farmer for his good fortune to which the farmer would respond: *'Please do not congratulate me for one does not know what the future will bring.'*

One day, the farmer's son fell off a horse and broke his leg in 2 places.

The leg did not heal well to the stage that the young man could ever, again, ride as he did, prior to his unfortunate accident.

When the Emperor went to war, all of the best horses on the farm were confiscated to be used by the Imperial Cavalry, but the farmer's son was not asked to fight for the Emperor because his leg had never healed properly.

The neighbours of the farmer commiserated and the farmer remarked: *'Please do not commiserate about my losses for one does not know what the future will bring.'*

The farmer's son grew to be a fine young man, well-respected for his knowledge of horses and the farm continued to prosper, during and after the war was over.

The moral to this story is: Fate plays a game that only it may know the outcome.

Which brings **TARGET** () to the whoop-de-do in respect of the latest financial statistics with regard to the People's Republic of China (PRC).

First The Statistics

Late last week, the Government of the PRC announced, inter alia, the following:

- The value of the PRC's exports for the month of May was about \$US131.80 billion. This was an increase, Year-On-Year, of about 48.50 percent. With regard to the value of April's exports, it was up about 30.50 percent, Year-On-Year;
- The value of the PRC's imports for the month of May was about \$US112.20 billion, an increase, Year-On-Year, of about 48.30 percent. There had been a negative growth in respect of the PRC's imports in May, compared with the positive growth of April's imports, that negative growth, being about 2.82 percentile points; and,
- The PRC Trade Surplus for the month of May was about \$US19.50 billion, an increase, Year-On-Year, of about 45.90 percent.

The above trade statistics may look promising, but in the words of that mythical Chinese farmer of days of yore:

'Please do not congratulate me for one does not know what the future will bring.'

It is true that the trade statistics of the PRC surprised quite a number of people and bankers, from one corner of the world to another.

The key indices of the stock markets of the world, last Thursday, rose rapidly as a direct result of the release of the above statistics, one was told by the gurus of equity markets.

Last Thursday-week, The Dow Jones Industrial Average, the benchmark index of The New York Stock Exchange, which is the largest equity market of the world, rose about 2.76 percent to 10,172.53 points, and The Composite Index of The NASDAQ put on about 2.77 percent, rising to 2,218.71 points.

On The New York Mercantile Exchange (NYMEX), last Thursday-week, which is the largest commodity exchange in the world, the price of a barrel of light sweet crude oil for delivery in July rose about 1.48 percent to \$US75.48.

Good times had returned, it appeared – overnight.

On careful scanning of the PRC's trading statistics, one noted the deceleration of the value of the PRC imports on the back of an acceleration in the value of exports.

In the opinion of many economists, the strength of an economy can often be measured by the growth of imports as opposed to the growth of exports.

One has to be very wary of having too much reliance on trade statistics especially when one's trading partners may be more than slightly suspect.

In the case of the PRC, its main trading partners are, still, the United States of America and Europe.

Clearly, any weakness in the fabric of these 2 markets will, immediately, impact on outbound exports from the Middle Kingdom.

Clearly, also, the problems of the sovereign debts of a number of countries in the eurozone must impact on the PRC's overall economy, in due course.

It has been made very apparent from the statistics, reported by various organs of the European Union (EU), that Greece, Hungary, Portugal and Spain are all, having major financial problems.

And Finland has been enjoying its double-dip recession since the final quarter of 2009!

Moody's Corporation, an international rating agency, announced on Monday that it had slashed Greece's

Government Bonds by 4 levels to junk status: From A3 to Ba1.

Citing considerable uncertainty, Moody's said that there were persistent doubts over the country's ability to exit its current severe debt crisis.

So the May statistics of the PRC may not be quite as important as some people may have claimed.

In the coming months, this medium believes that it is very likely that there could be a number of other negative (perhaps shocking) financial/economic announcements that could well reverse, at least partially, the picture of the financial health in the PRC and elsewhere.

And all of the prayers and incantations to the gods of fortune may not be sufficient to stem the tide.

On the PRC's domestic front, there is the matter of keeping the lid on inflation as much as possible.

This is something that the PRC Government has made it a priority project.

To this end, the PRC has instituted curbs on lending money to its industries/individuals in the hope of cooling demand, domestically.

It is very apparent that the PRC monetary authorities are seeing progress, slow that it might be:

- Consumer prices fell back about 0.10 percent in May, Month-On-Month. In April, consumer prices rose about 0.20 percent, Month-On-Month;
- Food prices rose about 6.10 percent in May, Year-On-Year, accelerating from April's statistic of 5.90 percent; and,
- Producer Prices gained about 7.10 percent, Year-On-Year, in May, after rising about 6.80 percent in April.

Clearly, there is a way to go before the PRC Government will be satisfied with its efforts to contain inflation.

Further, new rounds of monetary tightening appear to be on the cards; and, these new policies are likely to come sooner rather than later.

The new round of monetary tightening could well be difficult for many people in the PRC to digest, but a medicine, aimed at curing a chronic problem, very often tastes bitter.

While the PRC Government's efforts will, undoubtedly, bear fruit, they will, also, have a knock-on effect on consumers in the country.

As the domestic economy cools, the domestic demand for imports will, also, cool.

This will have a negative effect on the PRC's trading partners and could, potentially, take a bite out of their economies.

In the meantime, it is noted that Producer Prices in the PRC rose in May by about 7.10 percent, Year-On-Year, following a growth of about 6.80 percent in April.

Surely, this will hit the domestic consumer right where it hurts the most – in the pocketbook – as consumer prices will have to rise in tandem with Producer Prices.

The target for the PRC is to see inflation held to about 3 percent per annum.

Easier said than done.

Industrial Production

Then, there is the matter of industrial production in the PRC.

In the month of May, industrial production rose about 16.50 percent, Year-On-Year.

Since February, industrial production in the country had been on the wane.

In the first 5 months of 2010, industrial production rose in the PRC by about 18.50 percent, compared with the like months in 2009.

May's statistics with the regard to the largest winners in this game are as follows:

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| 1. Transportation equipment manufacturing | Up 22.30 percent, Year-On-Year |
| 2. Electrical machinery and equipment manufacturing | Up 21.00 percent, Year-On-Year |
| 3. Non-Metallic mineral products manufacturing | Up 20.60 percent, Year-On-Year |
| 4. General equipment manufacturing | Up 20.00 percent, Year-On-Year |
| 5. Communication equipment, computers and other equipment manufacturing | Up 17.80 percent, Year-On-Year |
| 6. Chemical materials and production | Up 17.00 percent, Year-On-Year |
| 7. Ferrous metal smelting and rolling processing | Up 15.30 percent, Year-On-Year |
| 8. Textile manufacturing | Up 11.30 percent, Year-On-Year |

While it is obvious that industrial production in the PRC remains strong and must be the envy of many an economy, at the same time, there are clear signs of deceleration in industrial production in the country.

Since February, trade statistics indicate this for each of the 3 months.

The deceleration may be linked to the PRC Government's policy of its gradual tightening policy.

Deceleration of industrial production goes hand in hand with the PRC Government's determination to contain inflation.

The PRC's economy is vitally important, today, not just to the 1.30 billion human inhabitants of the country, but to the entire developed world.

While the leaders of many of the countries of eurozone are shaking in their proverbial boots that their economies could drift back into recession, thanks to their sovereign-debt crises, inter alia – as has happened in Finland – and, meanwhile, the US economy continues to struggle with its many and varied problems, which include, inter alia, a very weak labour market and the tens of thousands of more workers that are jobless, thanks, in part, to the lack of success of BP plc in containing the oil spill in The Gulf of Mexico, it is apparent that the PRC is capable of providing the necessary '*medicine*' to keep patients ambulatory until they can regain their health.

It seems odd, does it not, that the US blames the PRC Government for a goodly portion of its problems, suggesting, among other things, that the relatively weak renminbi is a form of rampant currency manipulation, designed to give the government of the most-populous country in the world an unfair export advantage.

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