All the world's trade routes leading to China

WORLD ECONOMY

CHINA is eating up a larger chunk of the world's shrinking trade pie.

Brushing off rising wages, a shrinking workforce and intensifying competition from lower-cost nations from Vietnam to Mexico, China's global export share climbed to 14.6 per cent last year from 12.9 per cent a year earlier.

That is the highest proportion of world exports ever in International Monetary Fund data going back to 1980.

Yet even as its export share climbs globally, manufacturing's slice of China's economy is waning as services and consumption emerge as the new growth drivers.

For the global economy, a slide this year in exports out of China — Australia's biggest trading partner — is providing no respite as an even sharper slump in its imports erodes a pillar of demand.

Those trends are likely to be replicated in August figures due out today. Exports are estimated to have fallen 4 per cent from a year earlier and imports are seen dropping 5.4 per cent, leaving a trade surplus of $US58.85 billion ($76.8 billion), according to a survey of economists.

A weaker yuan risks exacerbating global trade tensions, which became a hot-button issue at the Group of 20 meeting in Hangzhou.

"All the talk we have heard over the last few years about China losing its global competitive advantage is nonsense," AMP Capital chief economist Shane Oliver said.

"This will all further fuel increasing trade tensions."

BLOOMBERG

Aussies absent at pointy end

DREW CRATCHLEY
TRADE

A woman tries out the Samsung VR in Beijing. Samsung is one of HSBC's top China stocks.

NO Australian company has made it onto banking titan HSBC's list of stocks that it expects will benefit most from China's booming consumer spending.

A dozen companies across the travel, retail, automotive and technology sectors are listed in a new HSBC report on companies best-placed for exposure to the spending boom under way in China as the ranks of middle-class consumers grow.

But Australian companies missed out, due, HSBC says, to their lack of size and their small exposure to Chinese consumers at the moment.

HSBC conducted a survey that supported its bullish stance on 12 major travel, retail, auto and tech companies that are listed in China, Hong Kong, South Korea, France and Spain.

On the list are Chinese companies including e-commerce giant Alibaba, web services group Baidu, Spring Airlines, tour operator CYTS, drinks firm Kweichow Moutai and cinema operator Wanda Cinemas. Hong Kong-based luggage firm Samsonite is on the list, alongside South Korean electronics heavyweight Samsung Electronic, cosmetics maker AmorePacific and biopharmaceutical firm Hugel.

Rounding off the 12 are French dairy behemoth Danone and Spanish clothing retailer Inditex, owner of the Zara chain.

Travel was still in its infancy in China — which boasts the world's biggest population of 1.36 billion — and bodes well for airlines and travel-related companies, HSBC said.

Chinese consumers are also moving away from traditional shopping to entertainment, e-commerce and healthy living, according to the report, which studied 2000 young, rich Chinese citizens across major cities. HSBC's research team was "surprised notably" by the finding that travel, including domestic, was still in its infancy in China.

The underdeveloped Chinese travel market is an important part of its investment case on CYTS, Spring Airlines and Samsonite.

The shift from shopping to entertainment is consistent with HSBC's bullish stance on Wanda Cinemas.

"Enthusiasm and willingness to spend more online is a positive read-across for Alibaba, where people expect to spend even more in the next few years," HSBC said.

HSBC also liked Samsung as its tech pick, saying "smartphone replacement rates appear healthy", despite high penetration rates and limited production differentiation. The report did not mention rival Apple.

On the automotive front, HSBC said brand names were not the key factor in car purchases, and rather shoppers were focused on designs and performance.

AAP

KICKING GOALS AT FOOT LOCKER

THE SHORT CUT
with ANDREW MACKEN

FOOT Locker, the global retailer of athletic footwear and apparel, delivered a stellar result during their second fiscal quarter of 2016.

Announced a couple of weeks ago, Foot Locker delivered revenues and earnings ahead of the share market's expectations.

The stock rallied 11 per cent on the day.

The reasons for the sharp stock reaction were twofold, in our view: the quality of the performance was high across all major value drivers of the business; and the market's valuation of the business prior to the result was absurdly cheap.

I'll touch firstly on the quality of the result.

The business generated same-store sales growth of 4.7 per cent year-on-year in the second quarter of 2016; and this was on top of 9.6 per cent year-on-year same-store sales growth achieved in the same quarter of 2015.

It was a combination of strong store traffic and higher average selling prices that drove the growth.

These numbers certainly refute any notion of Amazon eating Foot Locker's lunch.

Furthermore, both gross and operating profit margins improved as the company's strong sales drove a positive operating leverage effect. We think this will continue as a period of investment in stores, digital sales and infrastructure is now behind the company.

Next, on valuation. Prior to the result being released, the market price of Foot Locker's shares were implying an annual revenue growth rate of just 3 per cent per annum, in our view.

This was way too conservative and made no sense.

Consider that the business had generated an average same-store sales growth rate of more than 7 per cent per annum over the past 17 consecutive quarters!

And this does not even include growth from the opening of new stores.

The result delivered by Foot Locker is a great example of a high quality business that had attractive future prospects and was trading in the marketplace at a price that was materially less than its intrinsic value.

These characteristics are what we look to buy every single day.

The Montgomery Global Fund and Montaka owns shares in Foot Locker.

ANDREW MACKEN IS PORTFOLIO MANAGER AT MONTGOMERY GLOBAL INVESTMENT MANAGEMENT

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