

China Trade Quarterly

ISSUE
42
JUN
2016

Domestic Trade

Retail sales of consumer goods gain 10.3% yoy in January to April 2016.

Prices of industrial products show signs of bottoming out.

Household income posts impressive growth in 1Q16.

China strengthens support to property market through taxation policies.

Financial support to new consumption areas increased.

Real GDP growth target of 6.5% - 7.0% set for 2016.

Confidence among entrepreneurs in the secondary industry drops at a slower pace in 1Q16.

Manufacturing sector returns to expansion.

Foreign Trade

Both exports and imports post year-on-year drop in April.

Exports to the US, the ASEAN, the EU and Japan fall in 1Q16.

Guangdong's exports drop 10.9% yoy in 1Q16.

FDI grows 1.5% yoy in 1Q16.

Foreign exchange reserves post month-on-month gain in March.

Chinese yuan depreciates against its trading partners by 3.1% in real terms in January to April 2016.

China launches measures to boost foreign trade.

Tax policy changed for imported goods purchased from cross-border e-commerce platforms.

In This Issue:

Part 1: Domestic Trade

A	Recent developments	4
B	Highlights	14
C	Outlook	16

Part 2: Foreign Trade

A	Recent developments	20
B	Highlights	28
C	Outlook	31

2

Helen Chin, Timothy Cheung, William Kong

T: (852) 2300 2471
helenchin@fung1937.com
timothycheung@fung1937.com
WilliamKong@fung1937.com

Global Sourcing
Fung Business Intelligence

10/F, LiFung Tower,
888 Cheung Sha Wan Road,
Kowloon, Hong Kong

<http://www.fbicgroup.com/>

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com



Executive Summary

Domestic Trade

Retail sales of consumer goods reached 10,267.0 billion yuan in January to April 2016, up nominally by 10.3% yoy. Online retail sales of goods, which accounted for 11.1% of total retail sales, surged by 25.6% yoy in the period.

Prices of industrial products show signs of bottoming out. The producer price index of industrial products rose by 0.7% mom in April, posting month-on-month gains for two consecutive months.

Household income posted impressive growth in 1Q16. The per capita disposable income of rural households increased nominally by 9.1% yoy in 1Q16; while that of urban households rose by 8.0% yoy in nominal terms.

The government has strengthened support to the property market through taxation policies, but it has tightened property policies in some first-tier cities to cool down their property markets.

The government has announced to strengthen financial support to new consumption areas, such as elderly care, smart devices, online retailing, tourism and culture.

Macroeconomic targets set for 2016. During the fourth session of the 12th National People's Congress, the government set a real GDP growth target of between 6.5% and 7.0% for 2016, so as to ensure employment and promote the well-being of the people.

Confidence among Chinese entrepreneurs in the secondary industry dropped at a slower pace in 1Q16. The Entrepreneur Confidence Index for the secondary industry fell by 0.2 pts to 108.7 in 1Q16, after falling by 3.2 pts in 4Q15.

The manufacturing sector returns to expansion. PMI came in at 50.1 in May, staying above the critical 50-mark for three consecutive months.

Foreign Trade

Both exports and imports posted year-on-year drop in April. Exports and imports were down by 1.8% yoy and 10.9% yoy respectively in the month.

Exports to the US and the ASEAN fell by 8.8% yoy and 13.7% yoy respectively in 1Q16. Exports to the EU and Japan dropped by 6.9% yoy and 5.5% yoy respectively over the same period.

All top six provinces/ municipalities in terms of exports witnessed negative year-on-year growth in exports in 1Q16. Among these provinces, Guangdong saw the sharpest fall in exports (minus 10.9% yoy).

FDI grew by 1.5% yoy to reach US\$ 35.4 billion in 1Q16. The share of the service sector in the total FDI went up to 68.8%, while the share of the manufacturing sector fell to 30.4%.

Foreign exchange reserves posted month-on-month gain in March. China's foreign exchange reserves increased by US\$ 10.3 billion in March, amounting to US\$ 3.21 trillion as at the end of March.

Chinese yuan depreciated against its trading partners by 3.1% in real terms in the first four months of 2016, according to the Bank for International Settlements.

China has launched measures to boost foreign trade. The government will increase fiscal and financial support to trade enterprises, strengthen traditional competitive advantages and nurture new competitive advantages for foreign trade, and improve the structure and environment of China's foreign trade.

Tax policy on imported goods purchased from cross-border e-commerce platforms has been changed. Under the new policy, effective from 8 April, the government levies import tariffs, import value-added tax and consumption tax on imported goods purchased from cross-border e-commerce platforms. Before the introduction of the new tax policy, imported goods purchased from cross-border e-commerce platforms were subject to personal postal articles tax.

A Recent developments

1. China's real GDP growth softens

According to the National Bureau of Statistics, China's real GDP growth edged down to 6.7% year-on-year (yoy) in 1Q16 from 6.8% yoy in 4Q15 (see exhibit 1). These figures indicate that the Chinese economic growth has been softening. Overall, in 1Q16, China's nominal GDP amounted to 15.9 trillion yuan.

The tertiary industry has continued to grow faster than the secondary industry. The value-added of the tertiary industry, which contributed 56.9% of China's nominal GDP in 1Q16, gained 7.6% yoy in real terms in 1Q16. Meanwhile, the value-added of the secondary industry, which contributed 37.5% of the country's nominal GDP, increased 5.8% yoy in real terms over the same period.

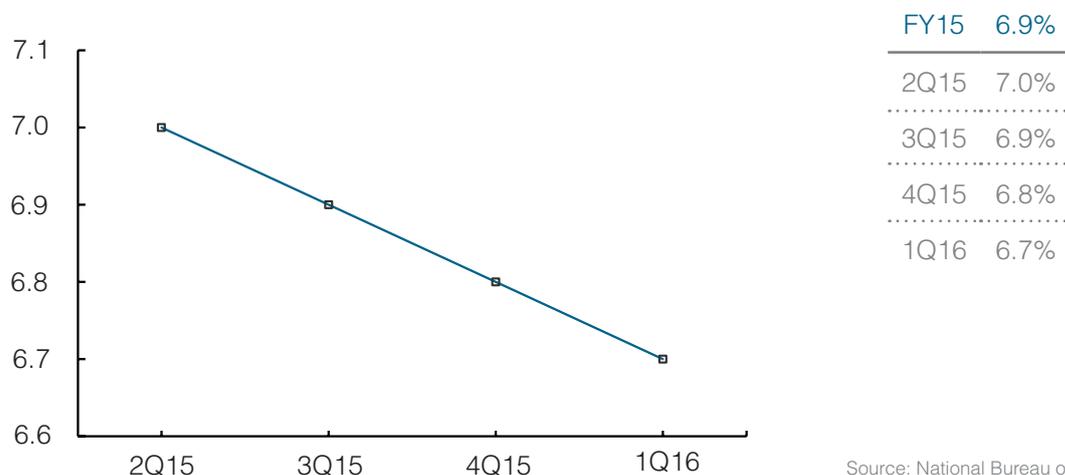
Compared to investment, consumption has played a more important role in boosting the economic growth. In 1Q16, the contribution by the final consumption expenditure to the GDP growth was 84.7%, while the contribution by the gross capital formation was 35.8%.¹ Net exports made a negative contribution (minus 20.5%) to the GDP growth in the same period.

To prevent China's real GDP growth from falling below the government target of 6.5-7.0% yoy this year, the government is likely to further support the economic growth in coming future. On the monetary front, China's central bank will ensure abundant liquidity and lower financing costs to support the real economy. On the fiscal front, the government will lower taxes and fees. According to the government, due to the measures to cut taxes and fees announced by the National People's Congress in March, enterprises and individuals will save more than 500 billion yuan this year. Meanwhile, the government will continue to push forward structural reforms, especially the 'supply-side reforms'.

In view of the signs of recovery in the property market and the positive impact of an accommodative monetary policy, we predict that the real GDP growth will accelerate slightly to around 6.8% yoy in 2Q16.

Exhibit 1 China's real GDP growth, 2Q15 to 1Q16

yoy growth (%)



Source: National Bureau of Statistics, PRC

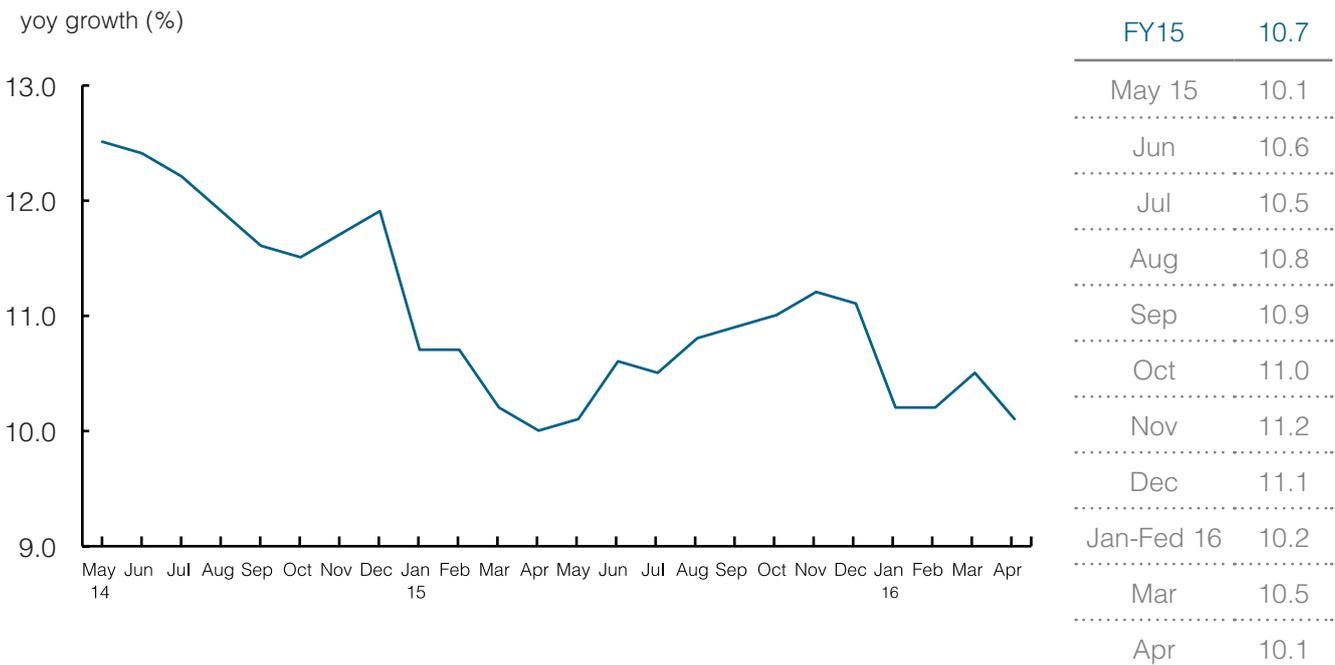
2. Growth in retail sales falls in April

According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods accelerated from 10.2% yoy in January to February to 10.5% yoy in March, before falling to 10.1% yoy in April. The month-on-month (mom) growth in seasonally-adjusted retail sales fluctuated within the range of 0.62% to 0.86% throughout January to April. Overall, in the first four months of 2016, the total retail sales of consumer goods reached 10,267.0 billion yuan. The nominal growth rate was 10.3% yoy in January to April

2016, slightly lower than the 10.7% yoy growth seen in 2015 (see exhibits 2 and 3).

China's online retail sales of goods rose strongly by 25.6% yoy to reach 1,141.9 billion yuan in January to April 2016. Consequently, the share of the online retail sales of goods in the total retail sales of consumer goods went up to 11.1% in January to April 2016, up from 10.8% in 2015.

Exhibit 2 China's total retail sales, year-on-year nominal growth, May 2014 to April 2016



Source: National Bureau of Statistics, PRC

Exhibit 3 China's total retail sales, month-on-month nominal growth, November 2015 to April 2016

mom growth (%), seasonally adjusted

	Nov 15	Dec	Jan 16	Feb	Mar	Apr
Total retail sales	0.90	0.76	0.79	0.62	0.86	0.80

Source: National Bureau of Statistics, PRC

Rural retail sales have been growing faster than urban retail sales. In January to April, rural retail sales expanded by 11.0% yoy to reach 1,447.6 billion yuan, while urban retail sales rose by 10.2% yoy to 8,819.4 billion yuan.

The pace of retail sales growth diverged for different modes of sales: the nominal growth in catering services sales softened from 11.7% yoy in 2015 to 11.4% yoy in January to April 2016. In comparison, the nominal growth in sales of goods fell at a faster pace, down from 10.6% yoy in 2015 to 10.1% yoy in January to April 2016.

Retail sales of goods by enterprises above a designated size² rose 7.7% yoy to reach 4,336.1 billion yuan in January to April 2016. By product category, sales of 'telecommunications equipment' achieved the fastest growth (17.2% yoy), boosted by the strong demand for smartphones. The growth in sales of 'clothing, shoes, hats and textiles' came in at 7.2% yoy over the same period. Meanwhile, sales of 'gold, silver and jewellery' posted the sharpest drop, down by 2.1% yoy in January to April 2016. Exhibit 5 demonstrates the growth in China's retail sales by product among enterprises above a designated size.

Exhibit 4 China's total retail sales, 2015 to April 2016

Nominal growth, yoy (%)	FY15	1Q16	Apr
Total retail sales	10.7	10.3	10.1
Goods	10.6	10.2	9.9
Sales by enterprises above a designated size	7.9	8.0	6.6
Online sales	31.6	25.9	-
Catering services	11.7	11.3	11.6

Source: National Bureau of Statistics, PRC

3. Consumer confidence index falls to the lowest level since December 2013

The consumer confidence index³ fell from 104.4 in February to 100.0 in March, the lowest level since December 2013. The latest figure indicates that confidence among consumers has weakened (see exhibit 6).

4. Chinese households continue to enjoy impressive income growth

Chinese households continued to enjoy impressive income growth in 1Q16, amid the stable labour market. The per capita disposable income of households increased by 8.7% yoy in nominal terms (or 6.5% yoy real) to 6,619 yuan in 1Q16. Specifically, rural household income grew faster than urban household income over the period. In 1Q16, the per capita disposable income of rural households increased nominally by 9.1% yoy (or 7.0% yoy real) to reach 3,578 yuan; while the per capita disposable income of urban households rose by 8.0% yoy in nominal terms (or 5.8% yoy real) to reach 9,255 yuan.

² 'Enterprises above a designated size' refers to enterprises with annual sales of 5 million yuan or more and with an employee strength of 60 or more.

³ A reading above 100 indicates that consumers tend to be optimistic; a reading below 100 indicates that consumers tend to be pessimistic.

Exhibit 5

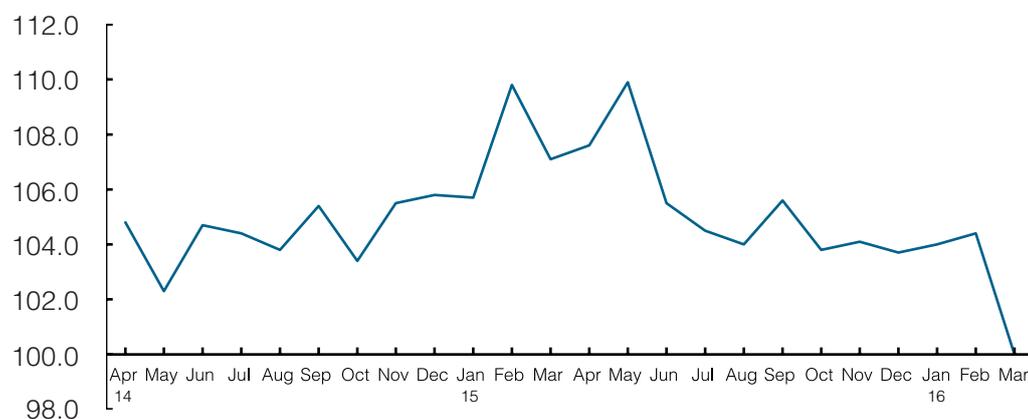
China's retail sales by enterprises above a designated size, by product, 2015 to April 2016

Nominal growth, yoy (%)	2015	1Q16	Apr
Grain, oil and food	15.1	12.7	11.9
Beverages	15.3	9.8	12.4
Tobacco and liquor	12.7	7.6	12.9
Clothing, shoes, hats and textiles	9.8	7.2	7.3
Cosmetics	8.8	10.6	7.6
Gold, silver and jewellery	7.3	-3.9	5.0
Products for daily use	12.3	10.9	12.7
Sports and entertainment products	16.6	16.3	-
Home appliances and video equipment	11.4	7.2	9.1
Chinese and Western medicines	14.2	15.1	9.9
Stationery and office accessories	15.2	7.4	13.0
Furniture	16.1	16.2	17.1
Telecommunications equipment	29.3	18.9	12.5
Petroleum and related products	-6.6	0.4	-3.8
Automobiles	5.3	7.7	5.1
Building and decoration materials	18.7	15.2	17.3

Source: National Bureau of Statistics, PRC

Exhibit 6

China's consumer confidence index, April 2014 to March 2016



Source: National Bureau of Statistics, PRC

Apr 15	107.6
May	109.9
Jun	105.5
Jul	104.5
Aug	104.0
Sep	105.6
Oct	103.8
Nov	104.1
Dec	103.7
Jan 16	104.0
Feb	104.4
Mar	100.0

5. CPI growth stays high

The year-on-year (yoy) growth rate for China's consumer price index (CPI)⁴ rose from 1.8% yoy in January to 2.3% yoy in February, the highest level since August 2014, and then stayed at the same level in March and April.

The rise in the CPI growth in February was largely due to the acceleration in the yoy growth in the food component in the CPI, which went up from 4.1% in January to 7.3% in February and then stayed high at 7.6% and 7.4% yoy in March and April respectively. In contrast, the yoy growth in the non-food component in the CPI fluctuated within the narrow range of 1.0%

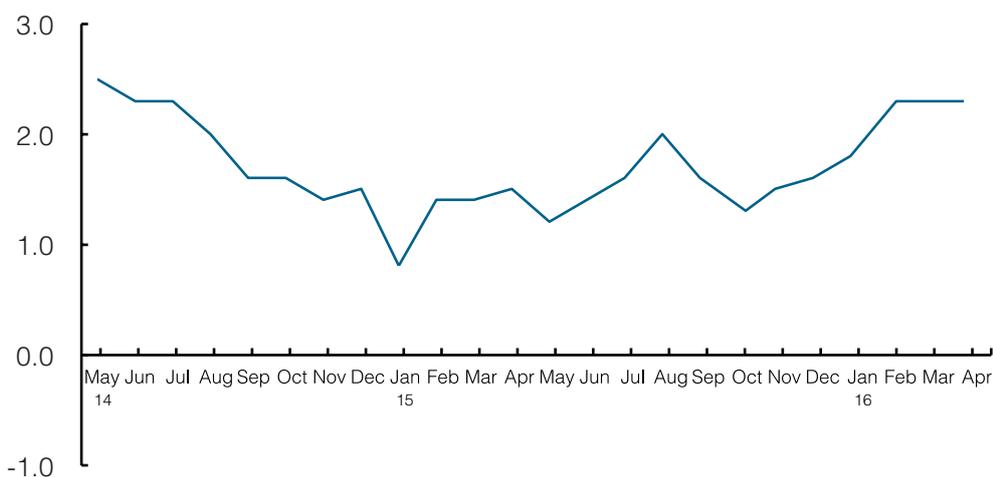
to 1.2% yoy throughout January to April (see exhibits 7 and 8).

Looking ahead, we expect that the non-food inflation will stay at around the current level in the near future, unless the domestic demand improves significantly. Meanwhile, according to the National Development and Reform Commission, pork prices, one of the major drivers behind the recent rise in the CPI growth, are likely to stay high in coming months.⁵ Overall, in our view, the CPI growth is likely to fluctuate between 2.0% yoy and 2.5% yoy in 2Q16.

8

Exhibit 7 China's CPI growth, May 2014 to April 2016

yoy growth (%)



May 15	1.2%
Jun	1.4%
Jul	1.6%
Aug	2.0%
Sep	1.6%
Oct	1.3%
Nov	1.5%
Dec	1.6%
Jan 16	1.8%
Feb	2.3%
Mar	2.3%
Apr	2.3%

Source: National Bureau of Statistics, PRC

⁴ The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household. It is noteworthy that the NBS has changed the weights assigned to the various components in the CPI basket, effective from January 2016. The weight of the food component, for example, has been reduced by 3.2 ppt; the weight of the housing component has been increased by 2.2 ppt; and the weights of other components have been adjusted by around or less than 1 ppt. The impact of the re-weighting on the CPI growth was limited, according to the NBS.

⁵ <http://news.wenweipo.com/2016/04/10/IN1604100045.htm>

Exhibit 8 China's CPI growth by commodity, January to April 2016⁶

<i>yoy growth (%)</i>	Jan 16	Feb	Mar	Apr
Food, Tobacco and liquor	3.6	5.8	6.0	5.9
Clothing	1.9	1.6	1.5	1.5
Housing	1.4	1.3	1.3	1.4
Household goods and services	0.6	0.3	0.4	0.5
Transportation and communication	-1.6	-1.6	-2.6	-2.4
Education, culture and recreational activities	1.7	0.9	1.2	1.2
Medical and healthcare	2.9	2.8	3.1	3.2
Other goods and services	-0.4	0.4	1.7	1.7

Source: National Bureau of Statistics, PRC

The growth in China's producer price index of industrial products (PPI)⁷ rose all the way from minus 5.9% yoy in December 2015 to minus 3.4% yoy in April 2016, the highest level since January last year (see exhibits 9 & 10). On a month-on-month (mom) basis, the PPI rose by 0.7% in April, posting mom gain for two consecutive months.

In our view, the continuous rise in the PPI may show signs of bottoming out of prices of industrial products. Looking ahead, we expect that the PPI will rise further in the coming months, driven by the rise in prices of production inputs.

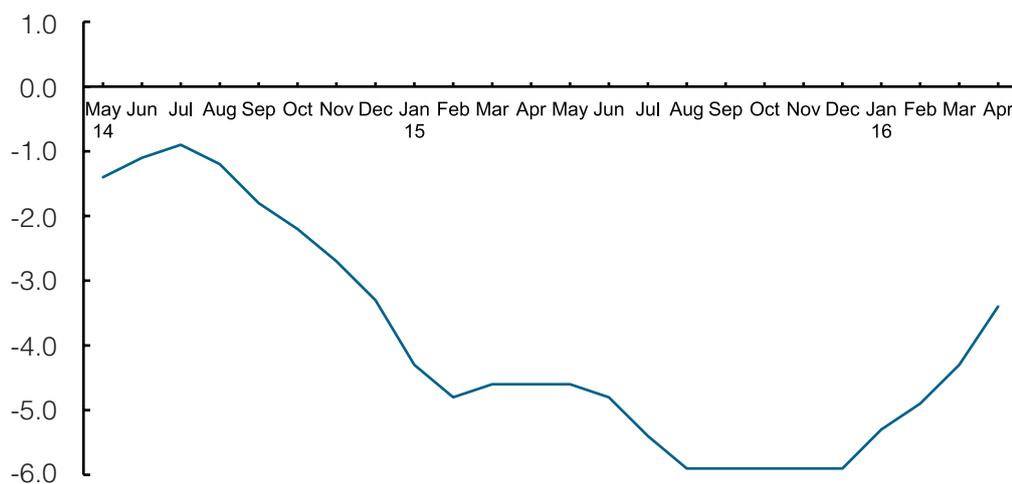
⁶ The NBS has re-categorized the categories in the CPI basket, effective from January 2016. For example, the old category of 'household goods and maintenance services' has been re-categorized into a new category called 'household goods and services' and the category of 'other goods and services'. The old category of 'recreational, educational products and services' has been re-categorized into a new category called 'education, culture and recreational activities' and the category of 'other goods and services'.

⁷ The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

Part 1 : Domestic Trade

Exhibit 9 China's PPI growth, May 2014 to April 2016

yoy growth (%)



May 15	-4.6%
Jun	-4.8%
Jul	-5.4%
Aug	-5.9%
Sep	-5.9%
Oct	-5.9%
Nov	-5.9%
Dec	-5.9%
Jan 16	-5.3%
Feb	-4.9%
Mar	-4.3%
Apr	-3.4%

Source: National Bureau of Statistics, PRC

Exhibit 10 China's PPI growth by selected industry, November 2015 to April 2016

yoy growth (%)

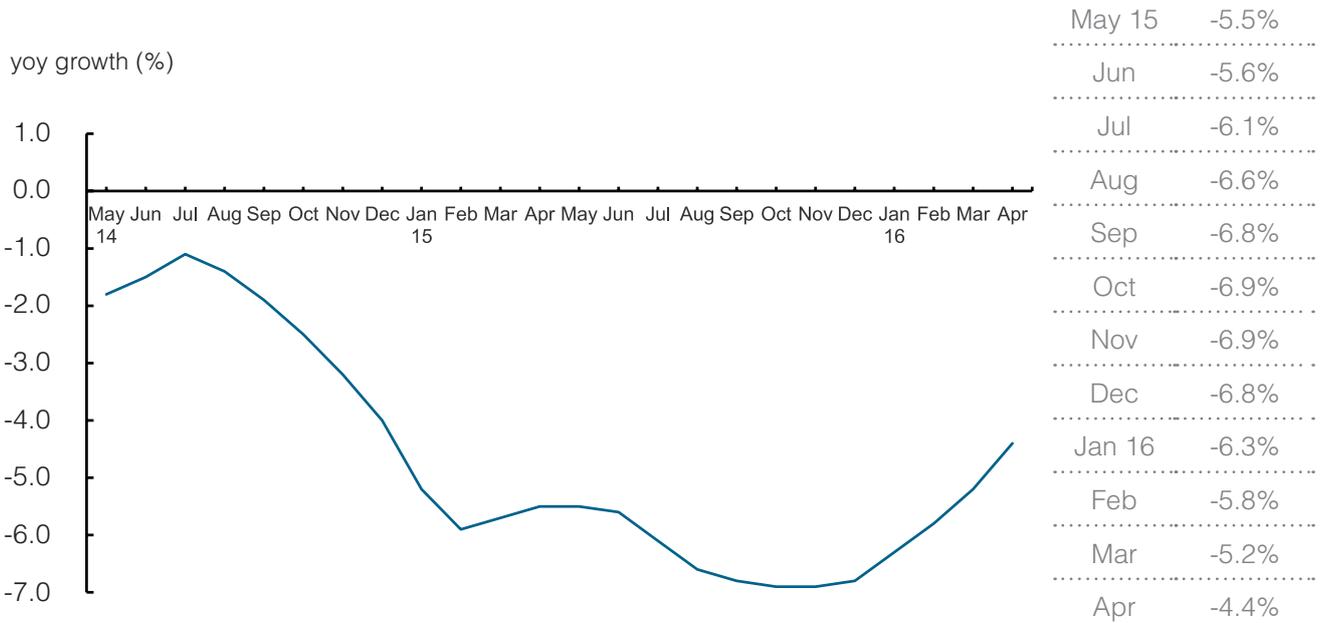
	Nov 15	Dec	Jan 16	Feb	Mar	Apr
Textile industry	-2.2	-2.2	-2.9	-2.7	-2.5	-2.5
Apparel and accessories	0.8	0.6	0.5	0.3	0.3	0.5
Timber processing and wood, bamboo, cane, palm fiber and straw products	-0.8	-1.0	-0.7	-0.8	-0.8	-0.8

Source: National Bureau of Statistics, PRC

On a mom basis, after falling by 0.7% and 0.5% in January and February respectively, the purchaser price index gained 0.3% and 0.6% in March and April respectively. The rise in the purchaser price index can be attributed to the rebound in global commodity prices in recent months and market speculations, in our view. The yoy growth rate for the purchaser price index of industrial products went up all the way to a 16-month high of minus 4.4% yoy in April from minus 6.9% yoy in November last year (See exhibits 11 & 12).

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, has stayed above the critical 50-mark for three consecutive months, showing signs that prices of production inputs have been bottoming out. Thus, we believe that the yoy growth rate for the purchaser price index of industrial products will rise further in near future.

Exhibit 11 Growth in China's purchaser price index of industrial products, May 2014 to April 2016



Source: National Bureau of Statistics, PRC

Exhibit 12 China's purchaser price index of industrial products by selected commodity, November 2015 to April 2016

yoy growth (%)	Nov 15	Dec	Jan 16	Feb	Mar	Apr
Fuel and power	-11.5	-11.0	-10.7	-10.0	-10.4	-9.4
Non-ferrous metals	-11.3	-12.0	-10.4	-9.1	-7.2	-6.9
Raw materials for the chemical industry	-7.6	-7.0	-5.7	-5.1	-4.3	-3.9
Timber and paper pulp	-0.6	-0.7	-0.5	-0.6	-0.6	-0.8
Textile raw materials	-1.9	-1.6	-1.6	-1.5	-1.5	-1.4

Source: National Bureau of Statistics, PRC

6. Growth in industrial production decelerates

After registering 5.4% yoy in the first two months of 2016, the growth rate for China's industrial production (IP), measured by value-added of industrial output (VAIO), rebounded strongly to a nine-month high of 6.8% yoy in March, but then dropped to 6.0% yoy in April (see exhibit 13).⁸ Overall, in January to April 2016, China's IP expanded by 5.8% yoy, slightly slower than the 6.1% yoy growth recorded in 2015.

In the coming months, industrial activities will be supported by the positive impact of an accommodative monetary policy and the increase in public investment. That being said, we do not expect to see a V-shaped recovery of the manufacturing sector this year, as the policy focus has shifted to 'supply-side reforms'. Challenges facing Chinese manufacturers, especially those in traditional industries, include wider exchange rate fluctuations, rising labour and environmental costs, slow growth in the global economy, foreign protectionism and weaker luxury spending. Overall, we expect the IP growth to improve to around 6.5% yoy in 2Q16.

12

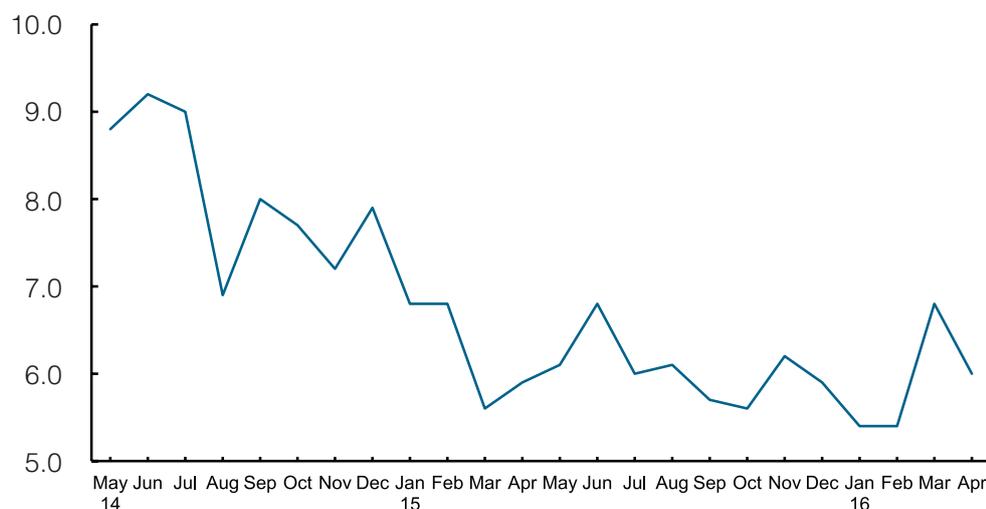
7. Industrial profits show positive yoy growth in 1Q16

The total profits earned by large and medium industrial enterprises above a designated size⁹ gained 4.8% yoy in January to February and 11.1% yoy in March. Overall, in 1Q16, China's industrial profits amounted to 1,342.2 billion yuan, up by 7.4% yoy (see exhibit 14).

Among the industries, profits of 'computers, communications and other electronic equipment' registered the strongest growth of 35.6% yoy in 1Q16. Meanwhile, several industries related to the production of light-manufactured consumer products such as 'textile', 'apparel and accessories', 'leather, fur, footwear, down and related products', 'timber processing and wood, bamboo, cane, palm fiber and straw products' and 'furniture' registered profit growth of 6.7% yoy, 6.9% yoy, 7.3% yoy, 7.9% yoy and 15.4% yoy respectively in 1Q16.

Exhibit 13 China's industrial production growth, May 2014 to April 2016

yoy growth (%)



Source: National Bureau of Statistics, PRC

⁸ The National Bureau of Statistics has changed the method of compiling the value added for industry (industrial production, IP), effective January 2011. The statistical threshold for industrial enterprises has been raised to cover those with annual revenues of 20 million yuan or above, up from the previous threshold of 5 million yuan or above.

⁹ 'Industrial enterprises above a designated size' refers to industrial enterprises with annual sales of 20 million yuan or more.

Exhibit 14 China's industrial profits growth, September 2015 to March 2016

<i>yoy growth (%)</i>	Sep 15	Oct	Nov	Dec	Jan-Feb 16	Mar
Total profits made by industrial enterprises above a designated size	-0.1	-4.6	-1.4	-4.7	4.8	11.1

Source: National Bureau of Statistics, PRC

8. Growth in fixed asset investment accelerates

The growth in China's nominal fixed asset investment (FAI) (excluding rural households) accelerated to 10.5% yoy in January to April 2016 from 10.0% yoy in 2015.¹⁰ In January to April 2016, China's nominal FAI (excluding rural households) amounted to 13.3 trillion yuan (see exhibit 15).

Compared to 2015, the growth in real estate and infrastructure investment accelerated, while the growth in investment in the secondary industry decelerated in

January to April 2016: the growth in FAI (excluding rural households) for real estate development rose sharply to 7.2% yoy in January to April 2016 from 1.0% yoy in 2015; the growth in FAI in infrastructure (excluding power infrastructure) came in at 19.0% in January to April 2016, up from 17.2% yoy in 2015; the growth in FAI (excluding rural households) in the secondary industry fell to 7.3% yoy in January to April 2016, down from the 8.0% yoy growth recorded in 2015.

Exhibit 15 China's FAI (excluding rural households) growth, November 2015 to April 2016

	Nov 15	Dec	Jan 16	Feb	Mar	Apr
FAI (excluding rural households) <i>(year-to-date, yoy growth %)</i>	10.2	10.0	NA	10.2	10.7	10.5
FAI (excluding rural households) <i>(mom growth %, seasonally adjusted)</i>	0.86	0.75	0.78	0.70	0.84	0.72

Source: National Bureau of Statistics, PRC

¹⁰ The National Bureau of Statistics has expanded coverage of the monthly statistics for FAI from the urban areas to rural enterprises and institutions, effective from 2011. Thus: 'FAI (excluding rural households)', the new indicator, has been released by the bureau as from March 2011 to replace 'urban FAI', the previous indicator. Also, a new statistical criterion has been adopted. The statistical threshold for the size of investment projects has been adjusted upwards from 500,000 yuan to 5 million yuan.

B Highlights

1. China strengthens its support to the property market through taxation policies

The Chinese government strengthened its support to the property market through taxation policies in February. On 19 February, the government announced to grant business tax exemption on the resale of residential units which have been purchased for more than 2 years, effective from 22 February.¹¹ Besides, the rate of deed tax on the individual who purchases the sole home for family was revised downward to 1% for residential unit with gross floor area (GFA) of 90 sqm and below, and 1.5% for residential unit with GFA of over 90 sqm; the rate of deed tax on the individual who purchases a second home for family was reduced to 1% for residential unit with GFA of 90 sqm and below, and 2% for residential unit with GFA of over 90 sqm.¹² It is also noteworthy that the above-mentioned business tax exemption and deed tax reduction on second home buyers would not be implemented in Beijing, Shanghai, Guangzhou and Shenzhen.

On the other hand, the government tightened its property policies in some first-tier cities. For example, the Shanghai government and the Shenzhen government announced to raise the down-payment ratios for second homes in their jurisdictions on 24 March and 25 March respectively. We believe these measures are aimed at cooling the property markets in view of the sharp rise in home prices in these first-tier cities in the past year.

As many third- and fourth-tier cities are still facing a serious problem of high inventories of unsold homes, the government is likely to continue its support to the property markets. This will help boost the property transactions in these cities, as well as the sales of housing-related items such as furniture, home textile products and home appliances.

2. China strengthens financial support to new consumption areas

On 30 March, the People's Bank of China and the China Banking Regulatory Commission jointly published the 'Guiding Opinions on Strengthening Financial Support to New Consumption Areas'.¹³ The document outlines a series of measures to further develop consumer finance and satisfy the financing needs of enterprises in new consumption areas such as elderly care, smart devices, online retailing, tourism and culture. Looking ahead, we expect more details about the measures to be announced soon.

3. Growth in RMB loans stays strong

The credit conditions in China have remained accommodative in recent months. The total outstanding RMB loans increased by 5.16 trillion yuan in January to April 2016, compared with the increase (4.38 trillion yuan) in the same period in 2015. Meanwhile, the growth rate for broad money supply (M2) came in at 12.8% yoy as at the end of April 2016 (see exhibit 16).

The People's Bank of China (PBOC) has continued to take moves to ease liquidity in the banking system. For example, on 1 March, the PBOC cut the required reserve ratios (RRRs) for financial institutions by 0.5 ppts. And according to the *Government Work Report* published in early March, the government aims at ensuring abundant liquidity and lowering financing costs on borrowers this year. The target for the M2 growth rate is set at around 13% for 2016. We therefore expect the monetary policy to maintain its easing stance in near future.

14

¹¹ The government expanded the business tax to VAT reform to cover construction, property, finance, household services sectors on 1 May this year. Therefore, starting from 1 May, home buyers have to pay VAT, instead of paying business tax. According to the government, this tax exemption policy would still continue after the business tax to VAT reform.

¹² http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201602/t20160219_1760645.html

¹³ http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/FB21DA0230164DC680DE56502CB573DD.html

Exhibit 16 Broad money supply (M2) and RMB loans, May 2015 to April 2016

As of	Broad money supply (M2)		Total outstanding RMB loans		Increase in RMB loans (trillion yuan)	
	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth	FY15	11.72
End-May 15	130.7	10.8%	87.5	14.0%	Jan-Apr 16	5.16
End-Jun	133.3	11.8%	88.8	13.4%	May 15	0.90
End-Jul	135.3	13.3%	90.3	15.5%	Jun	1.27
End-Aug	135.7	13.3%	91.1	15.4%	Jul	1.48
End-Sep	136.0	13.1%	92.1	15.4%	Aug	0.81
End-Oct	136.1	13.5%	92.7	15.4%	Sep	1.05
End-Nov	137.4	13.7%	93.4	14.9%	Oct	0.51
End-Dec	139.2	13.3%	94.0	14.3%	Nov	0.71
End-Jan 16	141.6	14.0%	96.5	15.3%	Dec	0.60
End-Feb	142.5	13.3%	97.2	14.7%	Jan 16	2.51
End-Mar	144.6	13.4%	98.6	14.7%	Feb	0.73
End-Apr	144.5	12.8%	99.1	14.4%	Mar	1.37
					Apr	0.56

Source: People's Bank of China

4. 'Total social financing' increases by a larger amount in January to April

The increase in 'total social financing' (covering sources of financing such as RMB loans to the real sector, foreign currency loans to the real sector, trust loans, entrusted loans, bank acceptance bills, corporate bonds, equity issuance and other instruments) amounted to 7.4 trillion yuan in January to April 2016, much larger than the increase seen in the same period of the previous year (i.e. 5.7 trillion yuan) (see exhibit 17). The increase in 'total social financing' in the first four months of 2016 was largely due to the

strong rise in RMB loans, trust loans, entrusted loans and corporate bond financing.

In January to April 2016, RMB loans contributed 70.6% to the increase in 'total social financing', lower than the 73.1% share in 2015. Meanwhile, corporate bond financing contributed 20.5% to the increase in 'total social financing', higher than the 18.3% share in 2015, indicating that the role of corporate bonds as a source of financing has strengthened.

Exhibit 17 Increase in total social financing, 2015 to January-April 2016

	FY15		Jan-Apr16	
	Amount (billion yuan)	Share (%)	Amount (billion yuan)	Share (%)
Total social financing	15,410.0	100.0	7,404.8	100.0
RMB loans to the real sector	11,269.3	73.1	5,229.3	70.6
Foreign currency loans to the real sector	-642.7	-4.2	-299.6	-4.0
Trust loans	43.4	0.3	186.1	2.5
Entrusted loans	1,591.1	10.3	717.9	9.7
Bank acceptance bills	-1,056.9	-6.9	-498.3	-6.7
Corporate bonds	2,824.9	18.3	1,518.3	20.5
Equity issuance	760.4	4.9	379.2	5.1

Source: People's Bank of China

C Outlook

1. Macroeconomic targets set for 2016

The fourth session of the 12th National People's Congress (NPC) was concluded in mid-March this year, and the major macroeconomic targets for the year were announced (see exhibit 18).

The government set a real GDP growth target of between 6.5% and 7.0% for 2016, compared to the actual growth of 6.9% recorded in 2015. According

to the *Government Work Report*, the main purposes of maintaining the current pace of economic growth are to ensure employment and to promote well being for people in the country. We believe that the Chinese leaders are serious about achieving the growth target, and will continue with its efforts to prevent the real GDP growth from falling below the target.

2. Entrepreneur Confidence Index drops at a slower pace

After falling by 3.2 pts in 4Q15, China's Entrepreneur Confidence Index (ECI) for the secondary industry dropped at a slower pace, by 0.2 pts, to 108.7 in 1Q16. The latest index reading may show an early signal of stabilization of confidence among Chinese entrepreneurs in the industry, in our view (see exhibit 19).¹⁴

Among sectors, the ECIs for the 'manufacturing' and the 'mining' sectors fell slightly by 0.2 pts and 0.1 pts respectively in 1Q16. Meanwhile, the ECI for the 'electricity, gas and water' sector slid 2.1 pts in the quarter (see exhibit 20).

16

Exhibit 18 Macroeconomic targets set for 2016

1. Real GDP growth of 6.5-7.0% (vs. 6.9% actual in 2015).
2. CPI growth of about 3% (vs. 1.4% actual in 2015).
3. Fixed asset investment to grow by 10.5% (vs. 9.8% actual in 2015).
4. Retail sales of consumer goods to increase by 11% (vs. 10.7% actual in 2015).
5. Total exports and imports to rise steadily (vs. minus 8.0% actual in 2015).
6. Over ten million new jobs for urban residents (vs. 13.12 million actual in 2015)
7. M2 growth of about 13% (vs. 13.3% actual as of end-2015).

Source: The Government Work Report delivered by Premier Li Keqiang on 5 March 2016; the Report on the 2016 Draft Plan for National Economic & Social Development

Exhibit 19 China's Entrepreneur Confidence Index (Secondary Industry), 2Q14 to 1Q16

	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Entrepreneur Confidence Index (Secondary Industry)	121.4	119.0	115.1	120.6	114.5	112.1	108.9	108.7

Source: National Bureau of Statistics, PRC

¹⁴ China's Entrepreneur Confidence Index (ECI) ranges from 0 to 200. A reading above 100 indicates that entrepreneurs tend to be optimistic; a reading below 100 indicates that they tend to be pessimistic.

Exhibit 20 Entrepreneur Confidence Index by sector, 4Q15 and 1Q16

	4Q15	1Q16	Compared with the previous quarter
Secondary industry	108.9	108.7	Lower
- Mining	68.7	68.6	Lower
- Manufacturing	110.4	110.2	Lower
- Electricity, gas and water	124.2	122.1	Lower

Source: National Bureau of Statistics, PRC

3. May PMI indicates continuous expansion of the manufacturing sector

China's manufacturing Purchasing Managers' Index (PMI) rebounded from 49.0 in February to 50.2 in March. The index then came in at 50.1 in April and in May, staying above the critical 50-mark for three consecutive months. The latest trend of the PMI indicates the continuous expansion of the manufacturing sector in China (see exhibit 21).

The new orders index rose markedly from 48.6 in February to 51.4 in March, the highest level since November 2014, before dropping to 50.7 in May. Meanwhile, the new export orders index went up all the way from 46.9 in January to an 18-month high of 50.2 in March, and then went down slightly to 50.0 in May. The two sub-indices show a moderation in the month-on-month growth of new domestic and export orders since April.

The output index rebounded from 50.2 in February to 52.2 in April and 52.3 in May. This suggests that output has grown at a relatively fast pace in recent months.

The purchases of inputs index rose strongly from 47.9 in February to 52.6 in March, before going down to

51.3 in May. The index has been above the critical 50-mark since March, suggesting the continuous increase in purchasing activities.

The stocks of finished goods index stayed between 44.6 and 46.8 in January to May. Meanwhile, the stocks of major inputs index fluctuated within the range of 46.8 to 48.2 throughout the period. Both indices stayed below the critical 50-mark in the past five months, suggesting that destocking activities have continued.

The input prices index rose all the way from the recent low of 41.1 in December 2015 to 57.6 in April this year, before going down to 55.3 in May. The index has stayed above 50 for four consecutive months, showing signs that prices of production inputs have been bottoming out.

The business expectations index went up from the record low of 44.4 in January to 62.6 in March, and then stayed high at 55.9 in May, indicating that confidence among purchasing managers has improved in recent months.

Exhibit 21 China's manufacturing PMI at a glance, May 2016

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	50.1	Unchanged	Expanding
Output	52.3	Higher	Expanding
New orders	50.7	Lower	Expanding
New export orders	50.0	Lower	Unchanged
Backlogs of orders	45.1	Higher	Contracting
Stocks of finished goods	46.8	Higher	Contracting
Purchases of inputs	51.2	Higher	Expanding
Imports	49.6	Higher	Contracting
Input prices	55.3	Lower	Rising
Stocks of major inputs	47.6	Higher	Contracting
Employment	48.2	Higher	Contracting
Suppliers' delivery time	50.4	Higher	Quickening
Business expectations	55.9	Lower	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

18

4. Non-manufacturing sector continues to expand

China's Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), stayed between 52.7 and 53.8 throughout January to April. The index readings in recent months indicate that the non-manufacturing sector has continued to expand (see exhibit 22).

After dropping all the way from 51.7 in December last year to 48.7 in February, the new orders index rebounded to 50.8 in March, but then fell to 48.7 in April. The recent trend of the index indicates the fluctuation in the demand for services.

The sales prices index has stayed below the critical 50-mark in the past four months, showing that

enterprises have continued to reduce their service charges. In contrast, the input prices index has been above the critical 50-mark since February, indicating that costs of inputs have been increasing.

The business expectation index stayed well above 50 in the past four months, registering 58.4, 59.5, 59.0 and 59.1 in January, February, March and April respectively. The high index readings in the past few months indicate that purchasing managers in the non-manufacturing sector have remained optimistic about the near-term outlook for their respective sub-sectors.

Exhibit 22 China's non-manufacturing purchasing managers' index (NMI) at a glance, April 2016

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	53.5	Lower	Expanding
New orders	48.7	Lower	Contracting
Input prices	52.1	Higher	Rising
Sales prices	49.1	Lower	Falling
Business expectations	59.1	Higher	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

Snapshot: 2016 Policy focuses and highlights

In the third session of the 12th National People's Congress (NPC) held in early to mid-March in Beijing, Premier Li Keqiang presented the Government Work Report on behalf of the State Council, setting the policy focus for 2016.¹⁵

The government set a real GDP growth target of between 6.5% and 7.0% for 2016, compared to the actual growth of 6.9% recorded in 2015. To achieve such a growth target, the government will adopt a more expansionary fiscal policy this year. The fiscal deficit is budgeted to be 2.18 trillion yuan in 2016, up markedly from the actual fiscal deficit of 1.62 trillion yuan in 2015. Consequently, the ratio of fiscal deficit to nominal GDP is budgeted to go up to 3% in 2016. The rise in the fiscal deficit in 2016 is driven mainly by the government's moves to lower taxes and fees this year. For example, the government expanded the business tax to VAT reform to cover the construction, real estate, finance and consumer services sectors on 1 May this year. According to the government, benefiting from the measures for cutting taxes and fees, enterprises and individuals will save more than 500 billion yuan this year.

Meanwhile, to strengthen support to the real economy, China's central bank will ensure abundant liquidity and lower financing costs through various policy tools such as open market operations, interest rates, reserve requirement ratio and re-lending. The M2 growth target is set at around 13% for 2016, compared to the actual growth of 13.3% as of end-2015.

Regarding trade, the government will improve the structure of export VAT rebate rates, expand cross-border e-commerce pilot areas and support enterprises to set up overseas warehouses for export products. Besides, the government will accelerate the implementation of the free trade zone strategy. For example, the negotiations on the Regional Comprehensive Economic Partnership agreement (RCEP) and the China-Japan-South Korea free trade agreement will be quickened; and the negotiations on investment agreements between China and the US and between China and the EU will be pushed forward.

A Recent developments

1. Both exports and imports post year-on-year drop in April

China's export growth deteriorated further from minus 5.0% yoy in 4Q15 to minus 9.6% yoy in 1Q16 (see exhibits 23, 24 and 25). Overall, in 1Q16, China's exports amounted to US\$ 463.9 billion.

China's exports to most of its major trading partners showed negative yoy growth in 1Q16. Particularly noteworthy is that China's export growth to the US and the ASEAN turned negative in 1Q16: the exports to the US and the ASEAN fell by 8.8% yoy and 13.7% yoy respectively in 1Q16, after gaining 3.4% yoy and 2.1% yoy respectively in 2015. Meanwhile, China's exports to the EU, Japan and Brazil continued to post negative growth of minus 6.9% yoy, minus 5.5% yoy and minus 47.2% yoy respectively in 1Q16, compared to the negative growth of minus 4.0% yoy, minus 9.2% yoy and minus 21.4% yoy respectively in 2015.

China's imports fell at a faster pace, by 13.5% yoy, in 1Q16, compared to the 11.8% yoy drop in 4Q15. Overall, in 1Q16, China's imports totalled US\$ 338.2 billion.

In April, both China's exports and imports posted yoy drop, down by 1.8% yoy and 10.9% yoy respectively. The latest figures indicate that both the foreign demand for Chinese products and the domestic demand for imported products have remained weak recently.

China's trade surplus fell markedly to US\$ 125.7 billion in 1Q16 from US\$ 175.8 billion in 4Q15. A major reason behind the drop in the trade surplus was the sharp fall in China's exports in 1Q16, with most factories suspending operation during the Chinese New Year holidays in February.

Exhibit 23 China's quarterly foreign trade data, 2Q15 to 1Q16

USD billion (yoy growth)

	Exports		Imports		Trade Balance
FY15	2,276.6	(-2.8%)	1,682.1	(-14.1%)	594.5
2Q15	559.1	(-2.0%)	418.9	(-13.6%)	140.2
3Q15	597.5	(-5.9%)	433.9	(-14.4%)	163.6
4Q15	613.8	(-5.0%)	438.0	(-11.8%)	175.8
1Q16	463.9	(-9.6%)	338.2	(-13.5%)	125.7

Source: China Customs

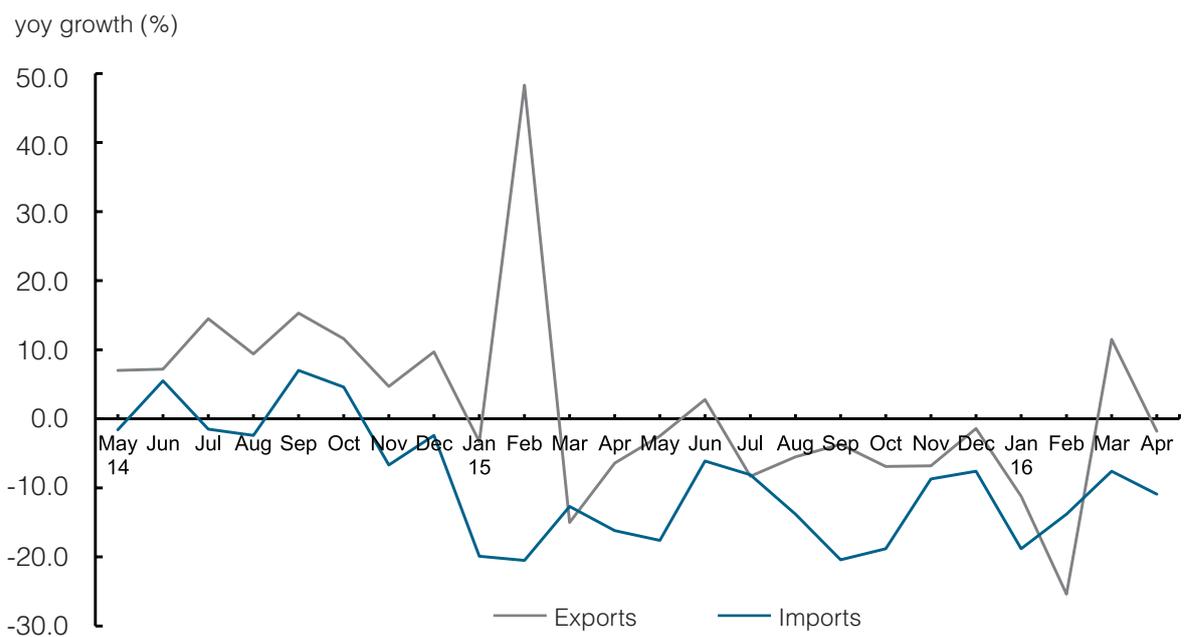
Exhibit 24 China's monthly foreign trade data, May 2015 to April 2016

USD billion (yoy growth)

	Exports		Imports		Trade Balance
May 2015	190.8	(-2.5%)	131.3	(-17.6%)	59.5
June	192.0	(2.8%)	145.5	(-6.1%)	46.5
July	195.1	(-8.3%)	152.1	(-8.1%)	43.0
August	196.9	(-5.5%)	136.6	(-13.8%)	60.2
September	205.6	(-3.7%)	145.2	(-20.4%)	60.3
October	192.4	(-6.9%)	130.8	(-18.8%)	61.6
November	197.2	(-6.8%)	143.1	(-8.7%)	54.1
December	224.2	(-1.4%)	164.1	(-7.6%)	60.1
January 2016	177.5	(-11.2%)	114.2	(-18.8%)	63.3
February	126.1	(-25.4%)	93.6	(-13.8%)	32.6
March	160.8	(11.5%)	131.0	(-7.6%)	29.9
April	172.8	(-1.8%)	127.2	(-10.9%)	45.6

Source: China Customs

Exhibit 25 Growth rates of exports and imports, May 2014 to April 2016



Source: China Customs

Exhibit 26 Exports by category, 2015 and 1Q16

<i>yoy growth (%) of export value, calculated in USD</i>	2015	1Q16
Textile materials and products	-2.3	-2.2
Garments and clothing accessories	-6.4	-7.3
Footwear	-4.8	-12.8
Toys	10.8	12.4
Coal	-28.3	90.0
Crude oil	215.0	-65.6
Refined oil	-25.9	-8.0
Steel	-11.3	-27.6
Mechanical and electrical products	0.1	-9.6

Source: China Customs

Exhibit 27 Imports by category, 2015 and 1Q16

<i>yoy growth (%) of import value, calculated in USD</i>	2015	1Q16
Cereal and cereal flour	51.1	-26.2
Soybean	-13.6	-15.4
Iron ore	-38.3	-30.6
Crude oil	-41.1	-33.0
Refined oil	-39.0	-31.6
Steel	-20.0	-19.0
Textile yarns, fabric and textile products	-6.4	-17.4
Vehicles and vehicle chassis	-26.1	-16.8

Source: China Customs

2. Both processing trade exports and general trade exports post sharper fall in 1Q16

Both the processing trade¹⁶ exports and the general trade¹⁷ exports posted sharper fall in 1Q16, compared to 4Q15. The processing trade exports dropped by 16.0% yoy in 1Q16, after falling by 12.2% yoy in 4Q15. Meanwhile, the general trade exports slid 7.2% yoy in 1Q16, compared to the negative growth of minus 2.6% yoy in 4Q15 (see exhibit 28).

Both general trade imports and processing trade imports posted double-digit drop in 1Q16. The general trade imports fell by 14.0% yoy, while the processing trade imports dropped by 18.1% yoy in 1Q16. We

believe that the sharp fall in processing trade imports suggests that the processing trade exports are likely to continue to show negative yoy growth in the near future, as processing trade imports serve as a leading indicator of processing trade exports performance.

The share of processing trade in China's total trade was 29.5% in 1Q16, down from 32.6% in 4Q15. That being said, with a large surplus of US\$ 69.1 billion in 1Q16, processing trade still plays an important role in China's overall total foreign trade.

¹⁶ 'Processing trade' refers to the business of importing all or part of the raw and auxiliary materials, parts and components, accessories and packaging materials from abroad, and re-exporting the finished products after processing or assembly by enterprises within the Chinese Mainland.

¹⁷ 'General trade' refers to China's import or export of goods by enterprises holding import-export rights. According to China's National Bureau of Statistics, the scope of general trade covers: Imports and exports using loans or aids; the import of materials by foreign invested enterprises (FIEs) for processing of goods for sale in the domestic market; the export of goods purchased by FIEs or manufactured by processing domestically-produced materials; the import of food and beverages by restaurants and hotels; the supply of domestically-produced fuels, materials, parts and components to foreign vessels or aircraft; the import of goods as payment in kind, in lieu of wages in labour service cooperation projects with foreign countries; and the export of equipment and materials by enterprises in China for their investment abroad.

Exhibit 28

China foreign trade (general and processing trades), 2015 to 1Q16

Item	yoy growth (%)			Share (%)		
	FY15	4Q15	1Q16	FY15	4Q15	1Q16
Exports	-2.8	-5.0	-9.6	100.0	100.0	100.0
Of which:						
General Trade	1.1	-2.6	-7.2	53.5	51.5	55.4
Processing Trade	-9.8	-12.2	-16.0	35.0	35.9	32.9
Imports	-14.1	-11.8	-13.5	100.0	100.0	100.0
Of which:						
General Trade	-16.8	-14.4	-14.0	54.9	52.3	56.5
Processing Trade	-14.8	-16.6	-18.1	26.6	28.0	24.8
Total of Imports and Exports	-8.0	-8.0	-11.3	100.0	100.0	100.0
Of which:						
General Trade	-7.5	-7.9	-10.2	54.1	51.8	55.9
Processing Trade	-11.6	-13.8	-16.8	31.4	32.6	29.5

Source: China Customs

3. China's export growth to the US turns negative in 1Q16

The EU was still China's largest trading partner, accounting for 15.4% of China's total foreign trade in 1Q16. Sino-EU trade amounted to US\$ 123.5 billion in 1Q16, down by 7.0% yoy. Specifically, the growth of China's exports to the EU worsened from minus 4.0% yoy in 2015 to minus 6.9% yoy in 1Q16. Meanwhile, the growth of China's imports from the EU improved to minus 7.0% yoy in 1Q16 from minus 14.5% yoy in 2015 (see exhibits 29 and 30).

The US continued to be China's second largest trading partner in 1Q16, accounting for 14.1% of China's total foreign trade. The total Sino-US trade fell by 10.3% yoy in 1Q16. It is noteworthy that China's export growth to the US turned negative, registering minus 8.8% yoy in 1Q16, compared to the positive growth of 3.4% yoy in

2015. Meanwhile, China's import growth from the US deteriorated to minus 14.1% yoy in 1Q16 from minus 6.5% yoy in 2015.

The Association of South East Asian Nations (ASEAN), China's third largest trading partner, accounted for 12.3% of China's total foreign trade in 1Q16. China's trade with ASEAN dropped by 11.6% yoy to US\$ 98.6 billion in 1Q16. Of which, China's exports to ASEAN shrank by 13.7% yoy, and China's imports from ASEAN contracted by 8.4% yoy, in 1Q16.

Sino-Japanese trade contracted by 6.9% yoy to US\$ 61.4 billion in 1Q16. China's exports to Japan fell by 5.5% yoy, while China's imports from Japan slid 8.2% yoy in 1Q16.

4. China's exports to India and Russia post weak growth in 1Q16

China's exports to India rose slightly by 0.2% yoy in 1Q16. In contrast, China's imports from India dropped markedly by 20.1% yoy over the same period. Overall, the growth of Sino-Indian trade fell to minus 4.0% yoy in 1Q16 from 1.5% yoy in 2015.

China's foreign trade with Russia dropped at a slower pace, by 2.4% yoy, in 1Q16, after falling by 28.6% yoy in 2015. The growth of China's exports to Russia recovered to a positive 0.2% yoy in 1Q16 from minus 35.2% yoy in 2015. Meanwhile, China's imports from Russia improved to minus 4.9% yoy in 1Q16 from minus 20.0% yoy in 2015 (see exhibits 29 and 30).

Driven by the fall in China's exports to Brazil, Sino-Brazilian trade dropped by 18.9% yoy in 1Q16. The exports to Brazil plunged by 47.2% yoy in 1Q16. In contrast, China's import growth from Brazil turned positive, posting 17.6% yoy in 1Q16, compared to the negative growth of minus 14.5% yoy in 2015.

Together, these three BRIC members accounted for 5.3% of China's total exports and 5.1% of China's total imports in 1Q16, compared to 5.3% and 5.4%, respectively, in 2015.

24

Exhibit 29 China's trading partners, 1Q16

Country/ Region	Trade value (USD billion)	Share of total trade (%)	Export value (USD billion)	Import value (USD billion)	yoy growth (%)		
					Total trade	Exports	Imports
EU	123.5	15.4	76.7	46.8	-7.0	-6.9	-7.0
US	112.7	14.1	81.6	31.1	-10.3	-8.8	-14.1
ASEAN	98.6	12.3	58.5	40.2	-11.6	-13.7	-8.4
Japan	61.4	7.7	30.9	30.5	-6.9	-5.5	-8.2
Brazil	11.6	1.4	4.2	7.4	-18.9	-47.2	17.6
Russia	14.1	1.8	7.1	7.0	-2.4	0.2	-4.9
India	16.2	2.0	13.4	2.8	-4.0	0.2	-20.1

Source: China Customs

Exhibit 30 China's trading partners, comparing growth rates for 2015 and 1Q16

Country/Region	yoy growth (%)					
	Total Trade		Exports		Imports	
	2015	1Q16	2015	1Q16	2015	1Q16
EU	-8.2	-7.0	-4.0	-6.9	-14.5	-7.0
US	0.6	-10.3	3.4	-8.8	-6.5	-14.1
ASEAN	-1.7	-11.6	2.1	-13.7	-6.6	-8.4
Japan	-10.8	-6.9	-9.2	-5.5	-12.2	-8.2
Brazil	-17.3	-18.9	-21.4	-47.2	-14.5	17.6
Russia	-28.6	-2.4	-35.2	0.2	-20.0	-4.9
India	1.5	-4.0	7.4	0.2	-18.2	-20.1

Source: China Customs

5. All top six provinces/ municipalities in terms of exports witness negative year-on-year growth in exports in 1Q16

All top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Shanghai, Zhejiang, Shandong and Fujian – witnessed negative yoy growth in exports in 1Q16 (see exhibit 31).¹⁸ Among these provinces, Guangdong saw the sharpest fall in exports, which were down by 10.9% yoy in 1Q16. Meanwhile, exports from Shanghai and Zhejiang fell by 10.3% yoy and 7.4% yoy respectively over the same period.

Moreover, some provinces in central China, which have benefited from industrial relocation in recent years, also

saw a drop in exports in 1Q16. For example, exports from Henan, Jiangxi and Anhui fell by 15.0% yoy, 5.9% yoy and 8.1% yoy respectively in 1Q16.

Five provinces in China witnessed positive growth in exports in 1Q16, including Guizhou, Shaanxi, Xinjiang, Guangxi and Hubei. Exports from Guizhou, Shaanxi, Xinjiang, Guangxi and Hubei grew by 45.9% yoy, 8.0% yoy, 7.0% yoy, 1.4% yoy and 0.8% yoy respectively in 1Q16.

¹⁸ China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Shanghai, Zhejiang, Shandong and Fujian – jointly accounted for 78.8% of China's total China's exports in 1Q16.

Exhibit 31 Top six provinces and municipalities in terms of value of exports, 1Q16

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	141.6	-10.9	30.5
Jiangsu	75.9	-2.9	16.4
Zhejiang	58.7	-7.4	12.6
Shanghai	37.7	-10.3	8.1
Shandong	31.4	-5.9	6.8
Fujian	20.3	-7.6	4.4

Source: China Customs

26

6. China's FDI shows positive growth in 1Q16

Growth of China's foreign direct investment (FDI) turned positive in March. After dropping by 1.4% yoy in February, China's FDI gained 4.0% yoy in March. Overall, in 1Q16, China's FDI amounted to US\$ 35.4 billion, managing to post a positive growth of 1.5% yoy (see exhibit 32).

Among the sectors, FDI in the service sector rose by 13.2% yoy to US\$ 24.4 billion in 1Q16. The share of the service sector in China's total FDI reached 68.8% in 1Q16, up from 61.1% in 2015. In comparison, FDI in the manufacturing sector fell by 4.5% yoy to US\$ 10.7 billion in 1Q16, accounting for only 30.4% of China's total FDI. These figures suggest that foreign enterprises are less optimistic about the prospects in the manufacturing sector.

Among the regions, the eastern region remained the largest recipient of FDI in 1Q16. FDI in the eastern region amounted to US\$ 29.8 billion in 1Q16, the same level as in 1Q15; FDI in the central region fell by 13.9% yoy to US\$ 2.3 billion in 1Q16; FDI in the western region rose by 37.0% yoy to US\$ 3.3 billion in 1Q16.

The top ten countries/ regions in terms of FDI value jointly accounted for 94.4% (US\$ 33.4 billion) of China's total FDI in 1Q16. Particularly noteworthy is that FDI from ASEAN and the EU posted strong yoy growth of 34.1% yoy and 35.1% yoy respectively in 1Q16.

Exhibit 32 China's FDI, April 2015 to March 2016

	Amount (USD billion)	yoy growth
FY15	126.3	5.6%
1Q16	35.4	1.5%
April 15	9.6	10.2%
May	9.3	8.0%
June	14.6	1.1%
July	8.2	5.2%
August	8.7	20.9%
September	9.6	6.1%
October	8.8	3.2%
November	10.4	-0.4%
December	12.2	-8.0%
January 16	14.1	1.3%
February	8.4	-1.4%
March	12.9	4.0%

Source: Ministry of Commerce, PRC

7. China's foreign exchange reserves posts month-on-month gain in March

China's foreign exchange reserves dropped to US\$ 3.21 trillion as at the end of 1Q16, compared to US\$ 3.33 trillion as at the end of 2015 (see exhibit 33). Nevertheless, taking a closer look at the monthly figures, the foreign exchange reserves increased by US\$ 10.3 billion in March, posting a mom rise for the first time since November last year.

In our view, the increase in the foreign exchange reserves can be attributed to the rise in value of Euro-denominated assets held by the Chinese government as the US dollar has depreciated against the Euro during the month, as well as the slowdown in hot money outflows.¹⁹

Looking ahead, we expect the change in China's foreign exchange reserves to depend on the strength of the US dollar in the near term. It is widely expected that the US central bank will further raise the interest rate this year, which may trigger a new round of appreciation of the US dollar against other major currencies such as Chinese yuan and the Euro. Consequently, hot money outflows from China may quicken, thereby putting downward pressure on China's foreign exchange reserves.

Exhibit 33 Foreign exchange reserves by quarter, 2Q15 to 1Q16

USD billion	Accumulation	End of the quarter
FY15	-512.7	
2Q15	-36.2	3,693.8
3Q15	-179.7	3,514.1
4Q15	-183.8	3,330.4
1Q16	-117.8	3,212.6

Source: State Administration of Foreign Exchange, PRC

¹⁹ According to Bloomberg, the nominal EUR-USD exchange rate was 1.1380 on 31 March, compared to 1.0873 on 29 February.

B Highlights

1. Chinese yuan depreciates against the US dollar

Since early May, the daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar has depreciated, registering 6.5693 on 25 May, the weakest level since mid-March 2011 (see exhibit 34).²⁰ Meanwhile, the USD-CNY spot exchange rate has depreciated since late April. So far this year, the USD-CNY spot exchange rate has depreciated by 1.0% (as of 25 May).

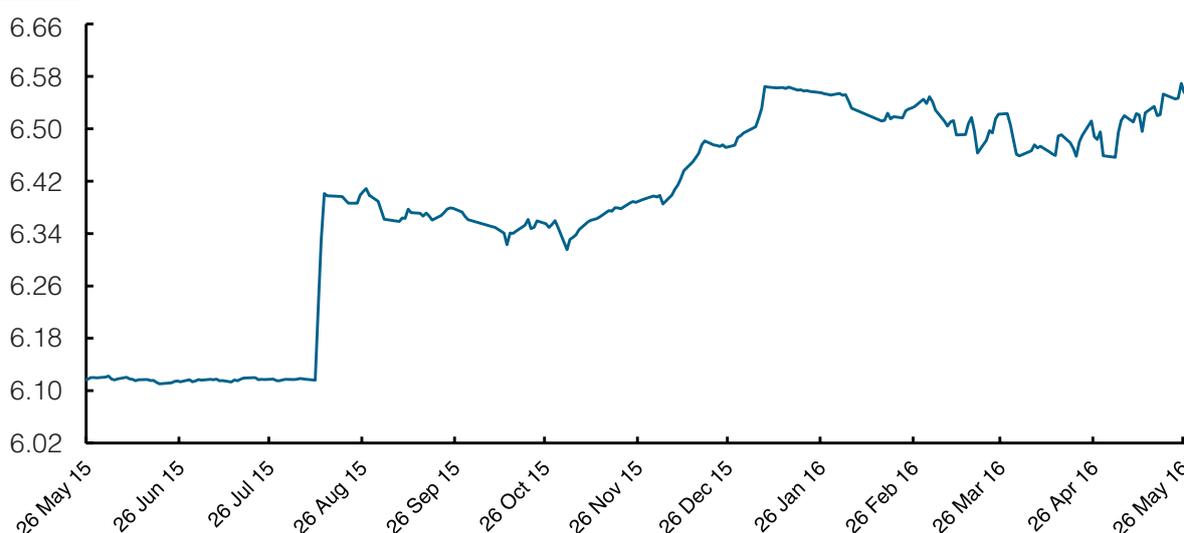
In contrast, the daily fixing rate of the Chinese yuan against the Euro has appreciated since early May. The daily fixing rate of the Chinese yuan against the Euro appreciated from 7.4765 on 5 May to 7.3118 on 25 May (see exhibit 35). That being said, the Chinese yuan has depreciated by 3.0% against the Euro so far this year (as of 25 May).

According to the Bank for International Settlements, the real effective exchange rate (REER) of the yuan has dropped in recent months, falling to 126.14 in April, the lowest level since January last year.²¹ Overall, in the first four months of 2016, the Chinese yuan depreciated in real terms against its trading partners by 3.1% (see exhibit 36).

Looking ahead, it is expected that the central bank in the US will further raise interest rates in the near term, which may accelerate the outflows of hot money from China and thus put depreciation pressure on the Chinese yuan. We predict the Chinese yuan to depreciate slowly against the US dollar in the coming months.

28

Exhibit 34 USD-CNY daily fixing rate, May 2015 to May 2016

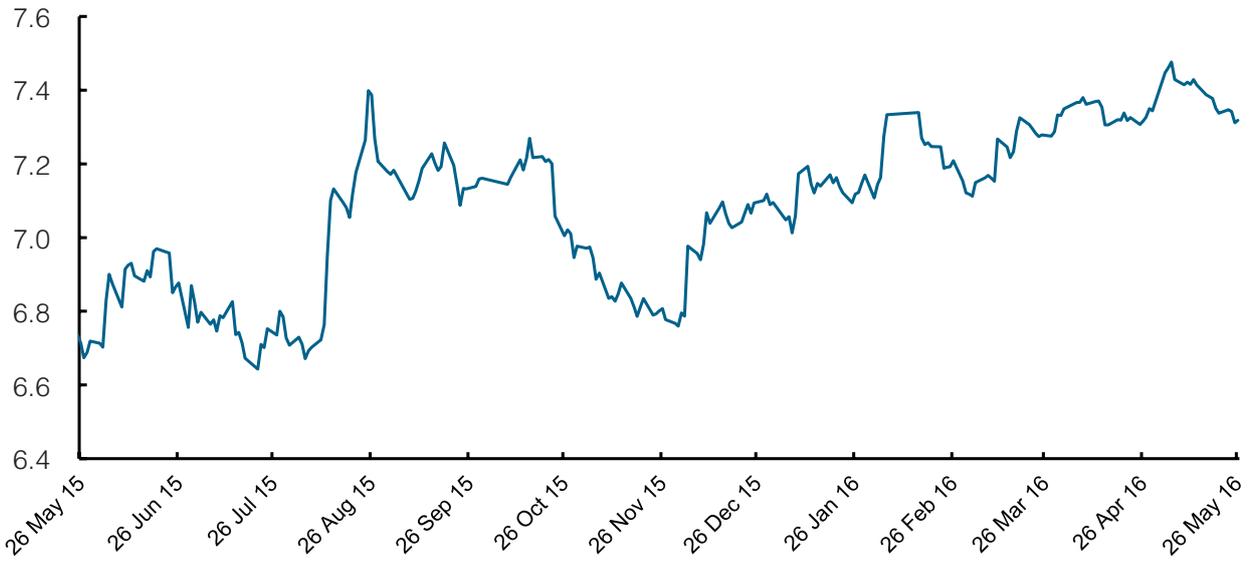


Source: State Administration of Foreign Exchange

²⁰ According to the PBOC, the daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the supply-demand conditions in the market and the movements of major international currencies.

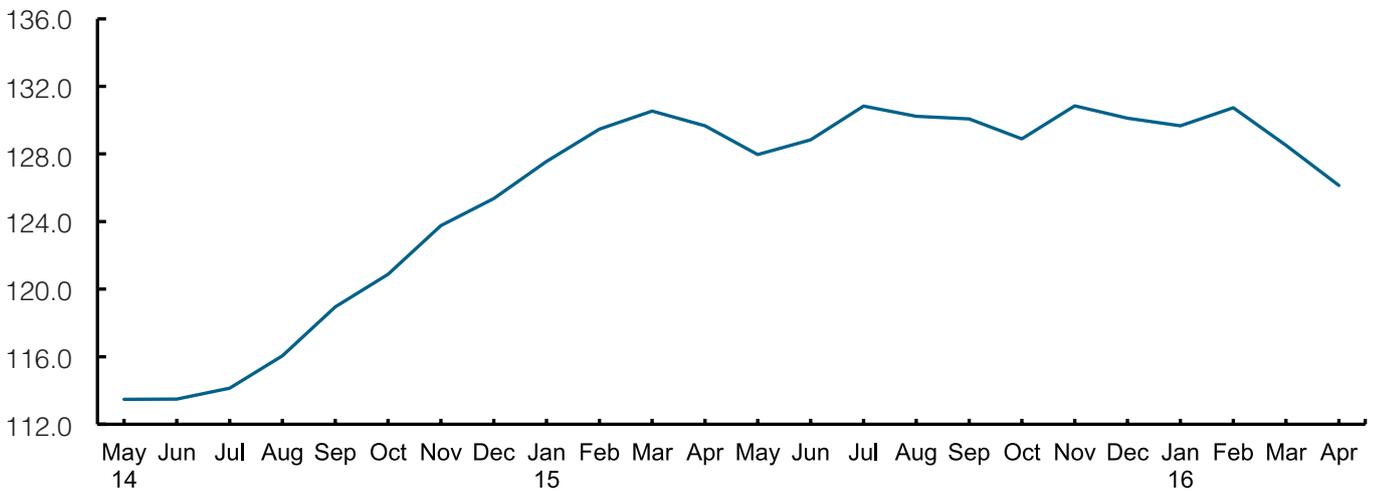
²¹ The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real EERs are the same weighted averages of bilateral exchange rates adjusted by relative consumer prices. The weighting pattern is time-varying, and the most recent weights are based on trade in 2011-13.

Exhibit 35 EUR-CNY daily fixing rate, May 2015 to May 2016



Source: State Administration of Foreign Exchange

Exhibit 36 Real effective exchange rate of the Chinese yuan, May 2014 to April 2016



Source: Bank for International Settlements

2. China launches measures to boost exports and imports

On 9 May, the State Council published the '*Several Opinions of the State Council on Promoting the Stabilization and Recovery of Foreign Trade*'.²²

According to the document, to boost foreign trade, the government will focus on increasing fiscal and financial support to trade enterprises, strengthening traditional competitive advantages and nurturing new competitive advantages for foreign trade, and improving the structure and environment of China's foreign trade. One of the notable measures is to encourage and support financial institutions to lend money to trade enterprises which have orders and profits. This can help improve the cash flow of competitive enterprises in the foreign trade sector.

3. China changes tax policy on imported goods purchased from cross-border e-commerce platforms

On 24 March, the Chinese government announced to change its tax policy on imported goods purchased from cross-border e-commerce platforms, effective from 8 April. Under the new policy, the government levies import tariffs, import value-added tax (VAT) and consumption tax on imported goods purchased from cross-border e-commerce platforms.

Under the old tax policy, Chinese consumers who purchased imported goods from cross-border e-commerce platforms were subject to the personal postal articles tax; but if the taxable value was 50 yuan or below, the imported goods would be exempted from the personal postal articles tax. However, under the new policy, the imported goods will not be exempted from tax even if the taxable value is 50 yuan or below. It is therefore believed that the new tax policy will adversely affect the sales of low-priced products offered by cross-border e-commerce platforms.

C Outlook

1. US GDP growth moderates in 1Q16

The US real GDP growth moderated in 1Q16. The real GDP advanced by an annual rate of 0.8% in 1Q16, the lowest level in four quarters (see exhibit 37).

More recent indicators have shown signs of improvement in the manufacturing sector. Industrial production rebounded by 0.7% mom in April, after dropping by 0.2% mom and 0.9% mom in February and March respectively (see exhibit 38). Meanwhile, according to the Institute for Supply Management, the manufacturing Purchasing Managers' Index (PMI) came in at 50.8 in April, staying in the expansionary zone for two consecutive months. Also noteworthy is that, the new orders for manufactured durable goods gained 0.8% mom in March on a seasonally adjusted basis, posting positive mom growth in two of the last three months.

The non-manufacturing sector has also expanded at a faster pace in recent months. The non-manufacturing index (NMI), compiled by the Institute for Supply Management, went up from 53.4 in February to 54.5 in March, and further to a four-month high of 55.7 in April.

The US retail sales recorded a strong growth of 1.3% mom in April. Nevertheless, the Reuters/University of Michigan Index of consumer sentiment fell to a seven-month low of 89.0 in April, indicating that the US consumers have become less optimistic (see exhibit 39).

The pace of job creation has decelerated in recent months. The non-farm payroll employment gained 233,000, 208,000 and 160,000 in February, March and April respectively. Meanwhile, the US unemployment rate rebounded slightly from 4.9% in February to 5.0% in March and April (see exhibit 40).

According to the latest projection by the International Monetary Fund (IMF), the US real GDP growth is forecast to be 2.4% this year, the same as in 2015.²³ Downside risks, in our view, come mainly from the pace of normalization of the US monetary policy. It is generally expected that the US central bank will increase the interest rates within this year.

Exhibit 37 US national accounts, 2014 to 1Q16

<i>Annual growth (%)</i>	2014	2015	2Q15	3Q15	4Q15	1Q16
Real GDP	2.4	2.4	3.9	2.0	1.4	0.8

Source: US Department of Commerce

Exhibit 38 US industrial sector, November 2015 to April 2016

<i>mom growth (%), seasonally adjusted</i>	Nov 15	Dec	Jan 16	Feb	Mar	Apr
Industrial production	-0.6	-0.4	0.5	-0.2	-0.9	0.7
New orders for manufactured durable goods	-0.5	-4.6	4.3	-3.1	0.8	-

Source: US Federal Reserve, US Department of Commerce

Exhibit 39 US consumer market, November 2015 to April 2016

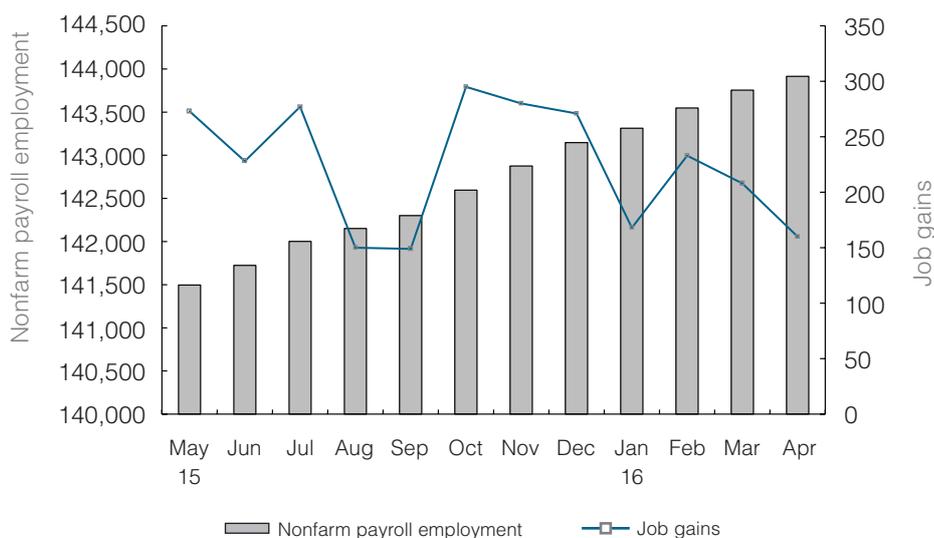
	Nov 15	Dec	Jan 16	Feb	Mar	Apr
Retail and food services sales (mom growth %, seasonally adjusted)	0.3	0.4	-0.5	0.3	-0.3	1.3
Reuters/University of Michigan index of consumer sentiment	91.3	92.6	92.0	91.7	91.0	89.0
CPI (yoy growth %)	0.5	0.7	1.4	1.0	0.9	1.1

Source: US Department of Commerce, Reuters/University of Michigan Surveys of Consumers, US Department of Labor

Exhibit 40 US employment

	Unemployment rate (%)
2014	6.2
2015	5.3
May 15	5.5
Jun	5.3
Jul	5.3
Aug	5.1
Sep	5.1
Oct	5.0
Nov	5.0
Dec	5.0
Jan 16	4.9
Feb	4.9
Mar	5.0
Apr	5.0

Nonfarm payroll employment, May 2015 to April 2016
In thousands, seasonally adjusted



Yearly figures: Annual average
Monthly figures: Seasonally adjusted

Source: US Department of Labor

2. Eurozone economic growth accelerates in 1Q16

The Eurozone economic growth accelerated in 1Q16.²⁴ The real GDP growth in the Eurozone rose to 0.5% qoq in 1Q16 from 0.3% qoq in 4Q15 (see exhibit 41).

More recent indicators suggest that the slow recovery in the region has continued. For example, the Eurozone

manufacturing PMI rose from 51.2 in February to 51.6 in March, and further to 51.7 in April, according to the global survey firm Markit Economics. The uptrend of the PMI indicates an acceleration in the growth of the manufacturing sector in the Eurozone. Meanwhile, the Eurozone services PMI registered 53.3, 53.1 and 53.1

²⁴ Lithuania has become the 19th member of the Eurozone as from 1 January 2015. Other member countries include Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

in February, March and April respectively, indicating that the services sector in the Eurozone has been expanding at a steady pace.

On a seasonally adjusted basis, after having posted positive mom growth for four consecutive months, the retail trade volume in the Eurozone fell by 0.5% mom in March (see exhibit 42).

The good news is that the labour market conditions in the region have improved gradually, boding well for consumption. The seasonally-adjusted unemployment rate fell from 10.4% in February to 10.2% in March, the lowest rate recorded since August 2011 (see exhibit 43).

The Eurozone's economic sentiment indicator (ESI) fell all the way from 106.6 in December to 103.0 in March, and then stayed low at 103.9 in April, indicating relatively weak confidence in the economy (see exhibit 44).

Looking ahead, we expect that the Eurozone economy will continue to grow at a slow pace in the foreseeable future, amid the accommodative monetary conditions. According to the projections by the IMF, the Eurozone's real GDP growth is forecast to stay low at 1.5% in 2016, compared to 1.6% in 2015.²⁵

Exhibit 41 Eurozone's real GDP growth, 2014 to 1Q16

	2014	2015	2Q15	3Q15	4Q15	1Q16
Real GDP (<i>qoq growth %</i>)			0.4	0.3	0.3	0.5
Real GDP (<i>yoy growth %</i>)	0.9	1.6	1.6	1.6	1.6	1.5

* The figure in 2014 does not reflect Lithuania's membership of the Eurozone, which began on 1 January 2015.

Source: Eurostat

Exhibit 42 Eurozone consumer market, November 2015 to April 2016

	Nov 15	Dec	Jan 16	Feb	Mar	Apr
Volume of retail trade (<i>mom growth %, seasonally adjusted</i>)	0.1	0.6	0.3	0.3	-0.5	-
Annual inflation (%)	0.1	0.2	0.3	-0.2	0.0	-0.2

Source: Eurostat

Exhibit 43 Eurozone labour market, October 2015 to March 2016

<i>seasonally adjusted</i>	Oct 15	Nov	Dec	Jan 16	Feb	Mar
Unemployment rate (%)	10.6	10.5	10.4	10.4	10.4	10.2

Source: Eurostat

Exhibit 44 Eurozone economic sentiment indicator, November 2015 to April 2016

<i>seasonally adjusted</i>	Nov 15	Dec	Jan 16	Feb	Mar	Apr
Economic sentiment indicator	105.9	106.6	105.0	103.9	103.0	103.9

Source: Eurostat

3. China's exports are expected to show single-digit decline in 2Q16

In its *World Economic Outlook* released on 12 April this year, the IMF announces its cuts on 2016 growth forecasts for major economies, including the US, the Eurozone, Japan, the UK, Russia and Brazil. The IMF's 2016 growth forecast for the advanced economies is also adjusted downward 0.2 ppts to 1.9%, compared to its previous prediction made in January this year. As for the emerging market and developing economies,

the IMF has revised downward the 2016 growth forecast by 0.2 ppts to 4.1% (see exhibit 45). The downward adjustments in growth forecasts suggest that the global economic recovery has been weaker than earlier expected. We remain pessimistic over China's export outlook, and expect to see single-digit decline in China's exports in 2Q16.

34

Exhibit 45 Latest GDP growth forecasts by the IMF

<i>yoy growth (%)</i>	2015	2016 (Forecasts)	2017 (Forecasts)
World economy	3.1	3.2	3.5
Advanced economies	1.9	1.9	2.0
US	2.4	2.4	2.5
Eurozone	1.6	1.5	1.6
Japan	0.5	0.5	-0.1
Emerging market and developing economies	4.0	4.1	4.6
China	6.9	6.5	6.2
India*	7.3	7.5	7.5
Brazil	-3.8	-3.8	0.0
Russia	-3.7	-1.8	0.8

* Data and forecasts are presented on a fiscal year basis. India's fiscal year runs from 1 April to 31 March.

Source: IMF, World Economic Outlook, April 2016

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