

China Trade Quarterly

ISSUE

46

MAY
2017

Domestic Trade

Retail sales of consumer goods grow by 10.0% yoy in 1Q17.

Uptrend of ex-factory prices of industrial products reverses.

Consumption expenditure of both rural and urban households shows high single-digit growth in 1Q17.

Growth in nominal fixed asset investment accelerates to 9.2% yoy in 1Q17.

Government to take a series of measures to boost consumption.

Real GDP growth target of about 6.5% set for 2017.

Entrepreneur Confidence Index for the secondary industry rises markedly by 13.8 pts in 1Q17.

April PMI indicates a growth moderation of the manufacturing sector.

Foreign Trade

Both exports and imports continue to post year-on-year gain in April.

Exports to the US, the EU, Japan and the ASEAN grow by 10.0% yoy, 7.4% yoy, 4.8% yoy and 11.4% yoy respectively in 1Q17.

Exports from Guangxi, Shaanxi, Qinghai and Xinjiang show stunning growth in 1Q17.

FDI gains 1.0% yoy in 1Q17.

Foreign exchange reserves bottom out.

Exchange rate of the Chinese yuan against the US dollar stays relatively stable.

Xi-Trump summit seems successful.

In This Issue:

Part 1: Domestic Trade

A	Recent developments	4
B	Highlights	14
C	Outlook	17

Part 2: Foreign Trade

A	Recent developments	21
B	Highlights	29
C	Outlook	32

2

Helen Chin, Timothy Cheung

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

Global Sourcing
Fung Business Intelligence

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

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

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



Executive Summary

Domestic Trade

Retail sales of consumer goods reached 8,582.3 billion yuan in 1Q17, up nominally by 10.0% yoy. Online retail sales of goods, which accounted for 12.4% of total retail sales, rose strongly by 25.8% yoy over the period.

Uptrend of ex-factory prices of industrial products has reversed recently. For the first time in ten months, the producer price index of industrial products recorded a drop, down by 0.4% mom in April.

Consumption expenditure of both rural and urban households showed high single-digit growth in 1Q17: the per capita consumption expenditure of rural households increased nominally by 8.1% yoy to reach 2,921 yuan; while that of urban households grew by 7.0% yoy in nominal terms to reach 6,387 yuan in 1Q17.

Growth in nominal fixed asset investment rose to 9.2% yoy in 1Q17 from 8.1% yoy in 2016, due largely to the acceleration in the growth in investment in the manufacturing sector, the real estate development and the infrastructure.

Government will take a series of measures to boost consumption this year. For example, the government will continue to push forward the '10 initiatives for boosting consumption'; foster the integrated development of brick-and-mortar stores and online shopping; and ensure that more domestically sold products come off the same production lines, meet the same standards, and are of the same quality as export products.

Macroeconomic targets set for 2017. During the fifth session of the 12th National People's Congress, the government set a real GDP growth target of about 6.5% for 2017, compared to the actual growth rate of 6.7% in 2016 and the 6.5% - 7.0% growth target set for 2016.

Entrepreneur Confidence Index for the secondary industry rose markedly by 13.8 pts in 1Q17, indicating a great improvement in confidence among Chinese entrepreneurs in the secondary industry in the quarter.

April PMI indicates a growth moderation of the manufacturing sector. PMI went down to 51.2 in April from 51.8 in March, the highest level in almost five years.

Foreign Trade

Both exports and imports continued to post year-on-year gain in April. Exports rose by 8.0% yoy, while imports expanded by 11.9% yoy in the month.

Exports to the US, the EU, Japan and the ASEAN grew by 10.0% yoy, 7.4% yoy, 4.8% yoy and 11.4% yoy respectively in 1Q17. Exports to some commodity-exporting emerging countries posted robust growth in 1Q17: the exports to Brazil and Russia increased by 35.8% yoy and 22.4% yoy respectively in 1Q17.

Exports from Guangxi, Shaanxi, Qinghai and Xinjiang showed stunning growth, up by 34.6% yoy, 35.3% yoy, 56.3% yoy and 50.3% yoy respectively in 1Q17.

FDI grew by 1.0% yoy to reach 226.5 billion yuan in 1Q17. The share of the service sector in China's total FDI went up to 73.0% in 1Q17 from 70.3% in 2016. Among the industries, FDI in the 'transportation, warehousing and postal industry' and the 'rental and commercial service industry' posted rapid growth of 43.7% yoy and 62.3% yoy respectively in 1Q17.

Foreign exchange reserves have bottomed out recently. For the first time in eight months, foreign exchange reserves in February recorded month-on-month gain, up by US\$ 6.9 billion. Then, foreign exchange reserves increased by US\$ 4.0 billion and US\$ 20.4 billion respectively in March and April.

Exchange rate of the Chinese yuan against the US dollar has stayed relatively stable in recent months. The daily fixing rate of the Chinese yuan against the US dollar has stabilized in a range between 6.8456 and 6.9125 since late January (as of 12 May).

Xi-Trump summit in early April seemed successful. After the meetings, Trump said he and Xi had 'developed a friendship', while Xi said he had established a good working relationship with Trump. In addition, at Xi's invitation, Trump will pay a state visit to China later this year. Besides, China and the US announced to establish four high-level dialogue mechanisms, including the Diplomatic and Security Dialogue, the Comprehensive Economic Dialogue, the Law Enforcement and Cyber-security Dialogue, as well as the Social and Cultural Dialogue.

A Recent developments

1. China's real GDP growth quickens in 1Q17

According to the National Bureau of Statistics, China's real GDP growth rose to 6.9% year-on-year (yoy) in 1Q17, the highest in six quarters (see *exhibit 1*). The real GDP growth has accelerated since 4Q16, indicating a continuous improvement in the Chinese economy. Overall, in 1Q17, China's nominal GDP amounted to 18.1 trillion yuan.

The acceleration in the real GDP growth in 1Q17 was led by the faster growth of the secondary industry amid rising prices of industrial products as well as stronger domestic and foreign demand. The real growth rate for the value-added of the secondary industry quickened to 6.4% yoy in 1Q17 from 6.1% yoy in 4Q16. In contrast, the real growth rate for the value-added of the tertiary industry decelerated to 7.7% yoy in 1Q17 from 8.3% yoy in 4Q16.

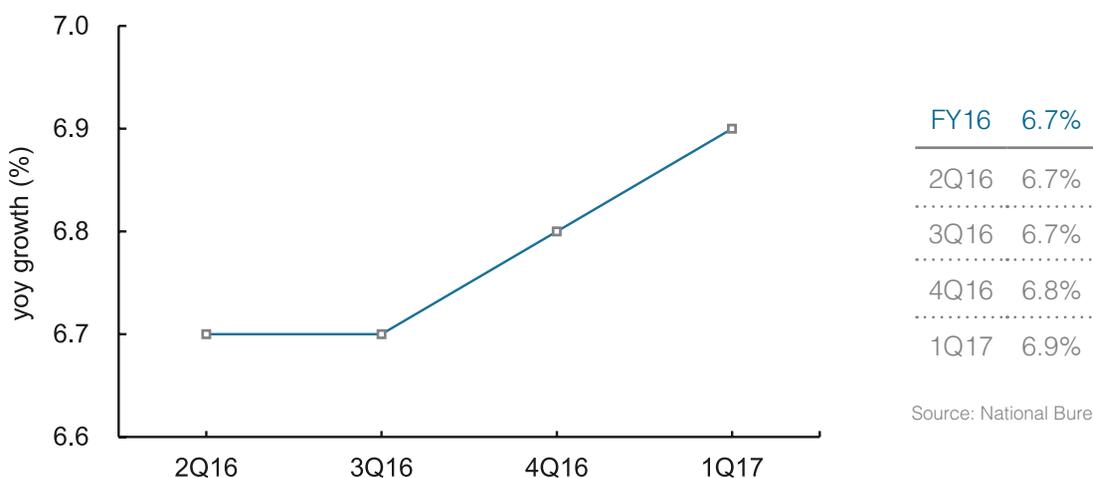
Compared to investment and net exports, consumption has played a more important role in driving economic growth. In 1Q17, final consumption expenditure contributed 5.3 ppts to the real GDP growth, while gross capital formation contributed 1.3 ppts and net exports contributed 0.3 ppts.

Looking ahead, the Chinese government will strive to maintain stable economic growth ahead of the 19th

National Party Congress which will be held in autumn this year. According to the Government Work Report published in early March, the fiscal policy is expected to be more proactive and effective. The ratio of fiscal deficit to nominal GDP is set at 3% for this year, meaning that the fiscal deficit is budgeted to be 2.38 trillion yuan this year, higher than the actual fiscal deficit last year by 200 billion yuan. The major reason for the high level of fiscal deficit is that the government plans to further cut taxes and fees this year: the taxes and the fees on enterprises are expected to be reduced by 350 billion yuan and 200 billion yuan respectively in 2017. Also noteworthy is that, according to the media report, more Public Private Partnership (PPP) projects will be carried out this year, which will greatly support the growth in infrastructure investment in China.

As demand has been improving, we predict that China's economy will show relatively fast growth in near future. Going forward, we also forecast the real GDP growth to be around 6.9% yoy in 2Q17. Downside risks to the economic growth, in our view, come mainly from the negative impact of the property tightening measures recently introduced, the less accommodative monetary policy as well as the government's crackdown on illegal activities in the financial industry.

Exhibit 1 China's real GDP growth, 2Q16 to 1Q17



Source: National Bureau of Statistics, PRC

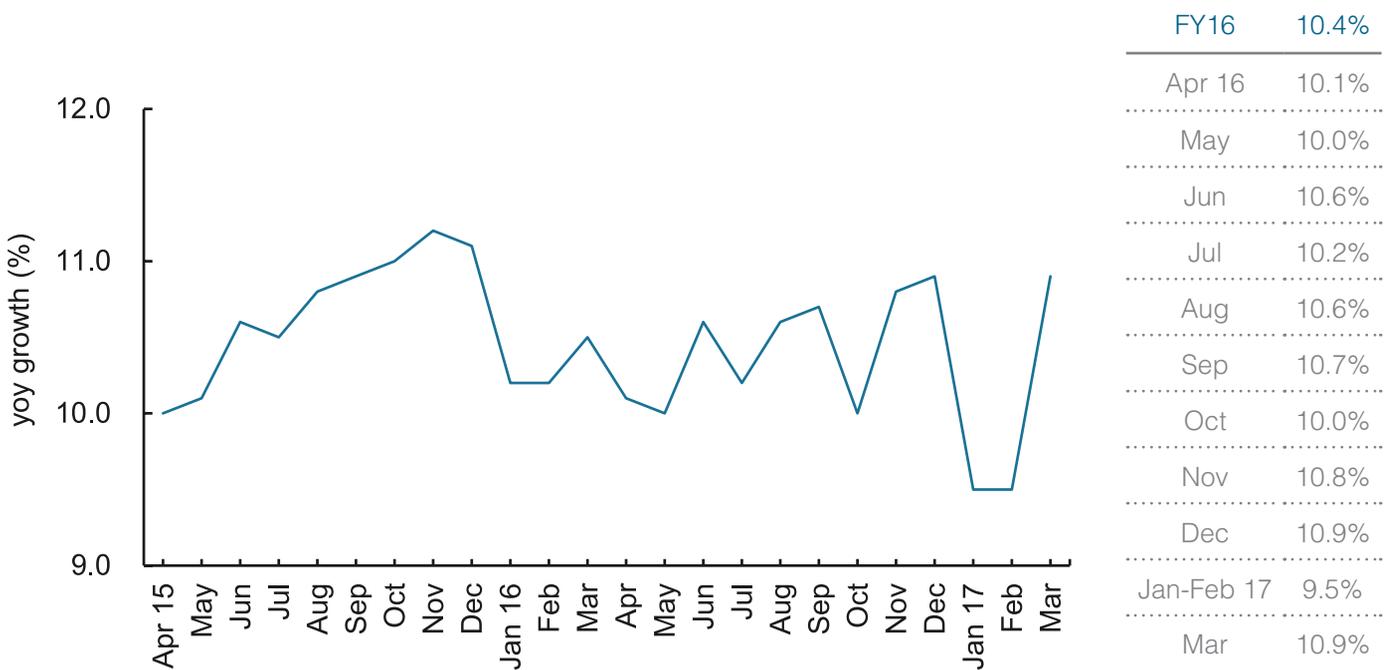
2. Growth in retail sales reaccelerates in March

According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods fell from 10.9% yoy in December last year to 9.5% yoy in January to February. However, the growth rate reaccelerated to 10.9% yoy in March, indicating the latest improvement in the consumption demand. The month-on-month (mom) growth in seasonally-adjusted retail sales fluctuated within the range of 0.78% to 0.96% throughout December to March. Overall, in 1Q17, the

total retail sales of consumer goods reached 8,582.3 billion yuan. The nominal growth rate was 10.0% yoy in 1Q17, lower than the 10.4% yoy growth seen in 2016 (see exhibits 2 and 3).

China's online retail sales of goods increased by 25.8% yoy to reach 1,067.4 billion yuan, accounting for 12.4% of China's total retail sales of consumer goods in 1Q17.

Exhibit 2 China's total retail sales, year-on-year nominal growth, April 2015 to March 2017



Source: National Bureau of Statistics, PRC

Exhibit 3 China's total retail sales, month-on-month nominal growth, October 2016 to March 2017

mom growth (%), seasonally adjusted

	Oct 16	Nov	Dec	Jan 17	Feb	Mar
Total retail sales	0.82	0.95	0.87	0.78	0.96	0.84

Source: National Bureau of Statistics, PRC

Rural retail sales have been rising faster than urban retail sales. In 1Q17, rural retail sales expanded by 11.9% yoy to reach 1,242.6 billion yuan, while urban retail sales rose by 9.7% yoy to 7,339.8 billion yuan.

The nominal growth in catering services sales came in at 10.8% yoy in 1Q17, the same as in 2016. Meanwhile, the nominal growth in sales of goods dropped from 10.4% yoy in 2016 to 9.9% yoy in 1Q17.

The growth rate for the retail sales of goods by enterprises above a designated size¹, which amounted to 3,524.8 billion yuan in 1Q17, decelerated to 7.9%

yoy in 1Q17 from 8.3% yoy in 2016, dragged down by the growth deceleration of the sales of 'automobiles'. In 1Q17, the growth in sales of 'automobiles' came in at 2.3% yoy, down markedly from 10.1% yoy in 2016. A possible reason for the slowdown was that the purchase tax rate on passenger-vehicles with less than 1.6 litre was adjusted upward from 5% to 7.5% on 1 January 2017. In contrast, sales of 'building and decoration materials' posted rapid growth of 14.8% yoy, supported by the strong sales of new homes. 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, 2016 to 1Q17

Nominal growth, yoy (%)	FY16	1Q17
Total retail sales	10.4	10.0
- Goods	10.4	9.9
Sales by enterprises above a designated size	8.3	7.9
Online sales	25.6	25.8
- Catering services	10.8	10.8

Source: National Bureau of Statistics, PRC

3. Confidence among Chinese consumers improves

The consumer confidence index² rose from 108.4 in December to 109.2 in January, and further to its recent peak of 112.6 in February, indicating that confidence

among Chinese consumers has improved lately (see exhibit 6).

4. Consumption expenditure of both rural and urban households shows high single-digit growth in 1Q17

Both rural and urban households witnessed high single-digit nominal growth in income in 1Q17. The per capita disposable income of rural households grew nominally by 8.4% yoy (or 7.2% yoy real) to reach 3,880 yuan; while the per capita disposable income of urban households rose by 7.9% yoy in nominal terms (or 6.3% yoy real) to reach 9,986 yuan in 1Q17.

With higher income, both rural and urban households had more room to increase their consumption expenditures in 1Q17. The per capita consumption expenditure of rural households reached 2,921 yuan, up nominally by 8.1% yoy (or 6.8% yoy real); while the per capita consumption expenditure of urban households grew by 7.0% yoy in nominal terms (or 5.4% yoy real) to reach 6,387 yuan in 1Q17.

1 '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.

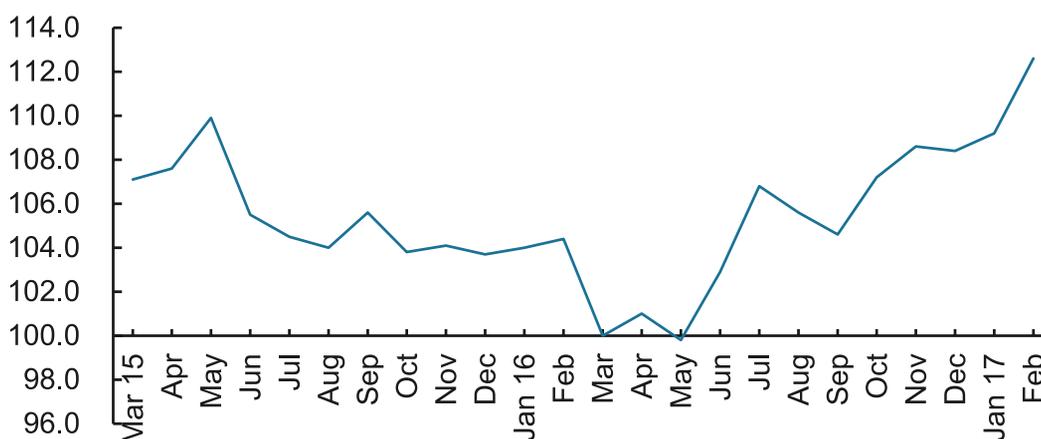
2 A reading above 100 indicates that consumers tend to be optimistic; a reading below 100 indicates that consumers tend to be pessimistic.

Exhibit 5 China's retail sales by enterprises above a designated size, by product, 2016 to 1Q17

Nominal growth, yoy (%)	FY16	1Q17
Grain, oil and food	10.9	10.4
Beverages	10.5	12.7
Tobacco and liquor	9.3	9.8
Clothing, shoes, hats and textiles	7.0	6.2
Cosmetics	8.3	9.9
Gold, silver and jewellery	0.0	7.9
Products for daily use	11.4	8.5
Sports and entertainment products	13.9	-
Home appliances and video equipment	8.7	8.0
Chinese and Western medicines	12.0	10.7
Stationery and office accessories	11.2	14.8
Furniture	12.7	12.6
Telecommunications equipment	11.9	11.0
Petroleum and related products	1.2	13.0
Automobiles	10.1	2.3
Building and decoration materials	14.0	14.8

Source: National Bureau of Statistics, PRC

Exhibit 6 China's consumer confidence index, March 2015 to February 2017



Mar 16	100.0
Apr	101.0
May	99.8
Jun	102.9
Jul	106.8
Aug	105.6
Sep	104.6
Oct	107.2
Nov	108.6
Dec	108.4
Jan 17	109.2
Feb	112.6

Source: National Bureau of Statistics, PRC

5. Consumer inflation goes up gradually

After dropping from 2.5% in January to a two-year low of 0.8% in February, the year-on-year growth rate of China's consumer price index (CPI) rebounded to 0.9% in March, and went up further to 1.2% yoy in April.³

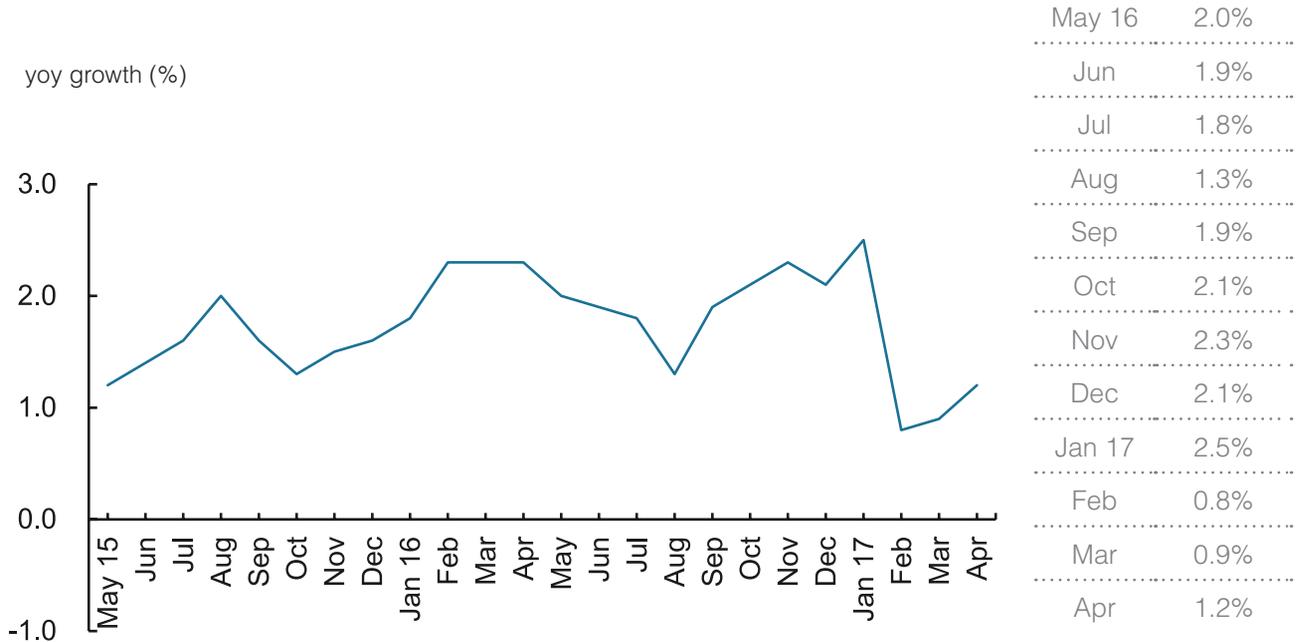
The CPI has grown at a relatively slow pace in recent months, affected by the movement of food prices. The food component in the CPI posted year-on-year drop, down by 4.3%, 4.4% and 3.5% in February, March and April respectively. In contrast, the non-food

component gained 2.2%, 2.3% and 2.4% in February, March and April respectively (see exhibits 7 and 8).

Looking ahead, we predict that the food inflation will pick up in the near future due to a slowdown in the year-on-year decline of vegetable prices; meanwhile, we expect the non-food inflation to rise slightly in the near term. Overall, in our view, the CPI growth is likely to go up but stay below 2% in the coming couple of months.

8

Exhibit 7 China's CPI growth, May 2015 to April 2017



³ 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.

Exhibit 8 China's CPI growth by commodity, November 2016 to April 2017⁴

<i>yoy growth (%)</i>	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Food, tobacco and liquor	3.2	2.2	2.5	-2.4	-2.4	-1.8
Clothing	1.4	1.1	1.1	1.2	1.3	1.3
Housing	2.0	2.1	2.3	2.5	2.4	2.4
Household goods and services	0.3	0.4	0.6	0.5	0.7	0.8
Transportation and communication	0.0	0.9	2.3	1.7	2.0	1.8
Education, culture and recreational activities	2.2	2.3	3.3	1.8	2.3	2.6
Medical and healthcare	4.4	4.6	5.0	5.1	5.3	5.7
Other goods and services	4.2	4.0	4.8	3.1	2.9	3.4

Source: National Bureau of Statistics, PRC

The year-on-year growth in China's producer price index of industrial products (PPI)⁵ went down from an eight-year high of 7.8% in February to 7.6% in March, and dropped further to 6.4% in April (*see exhibits 9 & 10*). On a month-on-month basis, for the first time in ten months, the PPI recorded a drop, down by 0.4% in April. The latest reading indicates that the uptrend of ex-factory prices of industrial products has reversed recently.

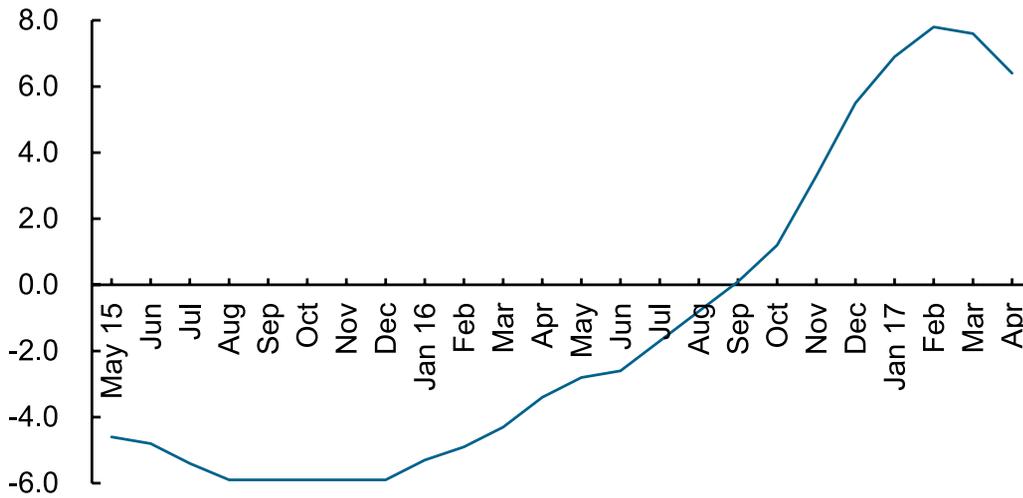
Going forward, due to the recent fall in prices of production inputs, the year-on-year growth in the PPI is expected to fall further in the coming months.

⁴ 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'.

⁵ 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.

Exhibit 9 China's PPI growth, May 2015 to April 2017

yoy growth (%)



May 16	-2.8%
Jun	-2.6%
Jul	-1.7%
Aug	-0.8%
Sep	0.1%
Oct	1.2%
Nov	3.3%
Dec	5.5%
Jan 17	6.9%
Feb	7.8%
Mar	7.6%
Apr	6.4%

10

Source: National Bureau of Statistics, PRC

Exhibit 10 China's PPI growth by selected industry, November 2016 to April 2017

yoy growth (%)

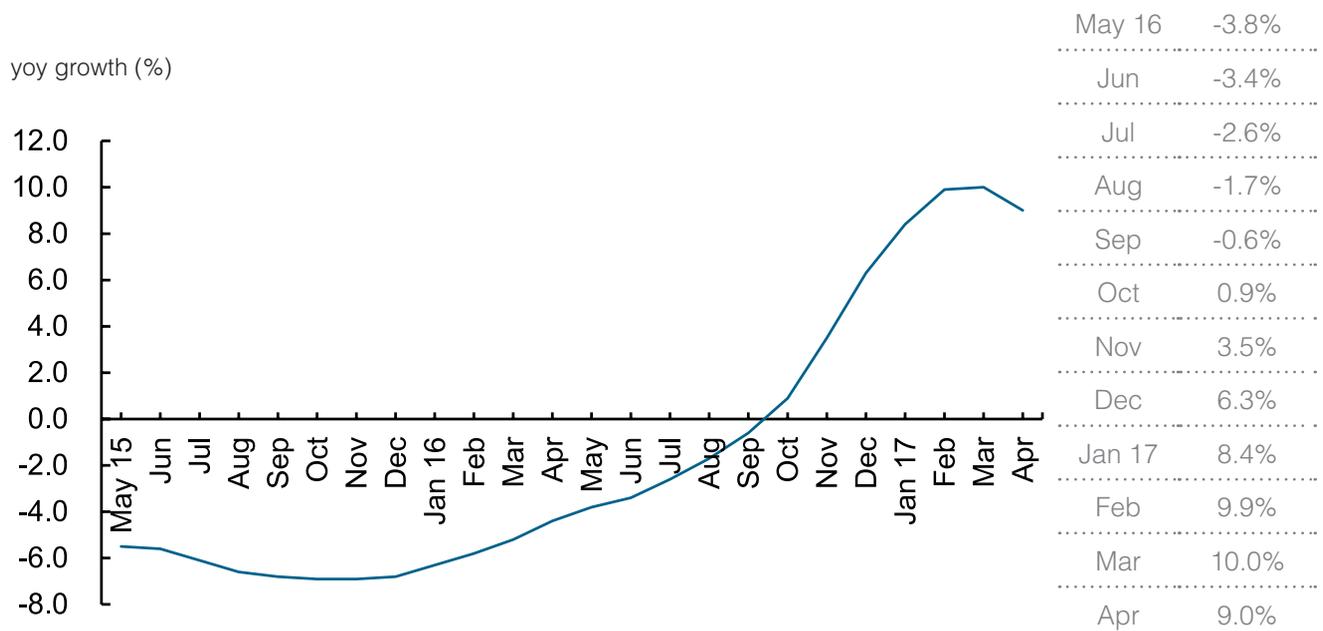
	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Textile	1.0	1.0	2.6	3.2	3.5	3.8
Textile wearing apparel and ornament	0.5	0.5	0.6	0.9	1.0	1.0
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.1	0.1	0.2	0.1	0.6	0.5

Source: National Bureau of Statistics, PRC

The year-on-year growth rate for the purchaser price index of industrial products, a major indicator of upstream prices, went up to 10.0% in March, the highest level in more than five years. Afterwards, in April, the year-on-year growth rate fell to 9.0% (see exhibits 11 & 12). On a month-on-month basis, the purchaser price index of industrial products dropped by 0.3% in April, indicating a fall in upstream prices. We believe this was attributable to the recent drop in global commodity prices.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, dropped markedly from 64.2 in February to 59.3 in March, and further to 51.8 in April. Thus, the year-on-year growth rate of the purchaser price index of industrial products is likely to trend downward in the coming months, in our view.

Exhibit 11 Growth in China's purchaser price index of industrial products, May 2015 to April 2017



Source: National Bureau of Statistics, PRC

Exhibit 12 China's purchaser price index of industrial products by selected commodity, November 2016 to April 2017

yoy growth (%)	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Fuel and power	6.0	10.1	14.7	18.7	19.0	17.6
Non-ferrous metal materials and wires	9.5	14.9	15.8	17.1	16.1	15.4
Chemical raw materials	2.0	5.3	8.1	10.3	10.0	8.1
Wood and pulp	0.5	2.1	3.3	4.0	4.5	4.7
Textile raw materials	1.8	2.5	3.3	4.0	4.6	4.7

Source: National Bureau of Statistics, PRC

6. Growth in industrial production continues to rise

The growth rate for China's industrial production (IP), measured by value-added of industrial output (VAIO), accelerated from 6.0% yoy in December last year to 6.3% yoy in January to February, and rose further to 7.6% yoy in March (see exhibit 13).⁶ Overall, in 1Q17, China's IP expanded by 6.8% yoy, much faster than the 6.0% yoy growth recorded in 2016.

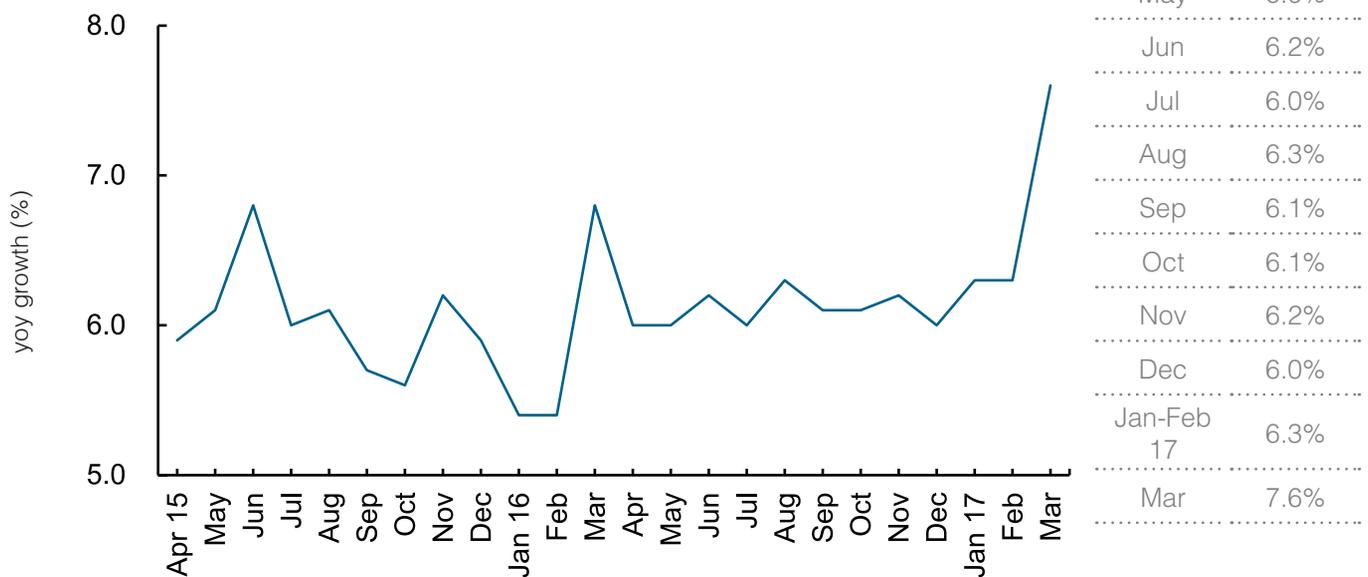
The output sub-index of China's manufacturing PMI, a leading indicator of output of manufacturers, stayed high at 53.7, 54.2 and 53.8 in February, March and April respectively, suggesting that the industrial production is set to show fast growth in coming months. Looking ahead, we expect that the growth in VAIO will be around 7% yoy in 2Q17.

7. Industrial profits show strong growth in 1Q17

The total profits earned by large and medium industrial enterprises above a designated size⁷ increased by 28.3% yoy in 1Q17, compared to the 8.5% yoy growth in 2016. The strong growth in China's industrial profits in the first three months of this year was due largely to the acceleration in the output growth and the increase in prices of industrial products. In 1Q17, China's industrial profits totalled 1,704.3 billion yuan (see exhibit 14).

Among sectors, profits of the manufacturing sector rose by 23.4% yoy to 1,491.4 billion yuan in 1Q17. Meanwhile, the mining sector, which made losses of 8.0 billion yuan in 1Q16, earned profits of 122.9 billion yuan in 1Q17. In contrast, profits of the electricity, heat, gas and water sector fell sharply by 29.4% yoy to 90.1 billion yuan over the same period.

Exhibit 13 China's industrial production growth, April 2015 to March 2017



Source: National Bureau of Statistics, PRC

⁶ 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.

⁷ '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 2016 to March 2017

<i>yoy growth (%)</i>	Sep 16	Oct	Nov	Dec	Jan-Feb 17	Mar
Total profits made by industrial enterprises above a designated size	7.7	9.8	14.5	2.3	31.5	23.8

Source: National Bureau of Statistics, PRC

8. Fixed asset investment growth accelerates in 1Q17

The growth in China's nominal fixed asset investment (FAI) (excluding rural households) accelerated to 9.2% yoy in 1Q17, compared to 8.1% yoy in 2016.⁸ In 1Q17, China's nominal FAI (excluding rural households) amounted to 9.4 trillion yuan (*see exhibit 15*).

The growth in investment in the secondary industry, the real estate development and the infrastructure accelerated in 1Q17, compared to 2016. The growth in FAI (excluding rural households) in the secondary industry rose to 4.2% yoy in 1Q17 from 3.5% yoy growth in 2016, attributable to stronger confidence among entrepreneurs amid the improvement in both domestic and foreign demand for industrial products as well as a continuous rise in prices of industrial products. Meanwhile, due partly to the recent drop in housing inventories in China, the growth in FAI (excluding rural households) for real estate development quickened to

9.1% yoy in 1Q17 from 6.9% yoy in 2016. The growth in FAI in infrastructure (excluding power, heat, gas and water infrastructure) improved to 23.5% yoy in 1Q17 from 17.4% yoy in 2016.

According to the media report, more Public Private Partnership (PPP) projects will be carried out this year, which will greatly support the growth in infrastructure investment in China. Nevertheless, the government's efforts to tighten property markets in various cities have already triggered a deceleration in growth of sales of new homes in recent months. This may have negative impact on the growth in investments for real estate development later this year. All in all, we expect that China's FAI growth will peak in near future.

Exhibit 15 China's FAI (excluding rural households) growth, October 2016 to March 2017

	Oct 16	Nov	Dec	Jan 17	Feb	Mar
FAI (excluding rural households) <i>(year-to-date, yoy growth %)</i>	8.3	8.3	8.1	-	8.9	9.2
FAI (excluding rural households) <i>(mom growth %, seasonally adjusted)</i>	0.74	0.67	0.74	0.72	0.86	0.87

Source: National Bureau of Statistics, PRC

⁸ 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 to take a series of measures to boost consumption

According to the Government Work Report published in March, China's government will take a series of measures to boost consumption this year. For example, the government will continue to push forward the '10 initiatives for boosting consumption' (see *exhibit 16 for more details*); relax unreasonable restrictions on entry into the service sectors; support non-governmental agencies to provide education, elderly care and medical services; promote information consumption in areas such as digital homes, online education

and virtual reality; launch the 'specific actions for accelerating innovation in distribution for domestic trade, pushing forward the supply-side structural reforms and expanding consumption'; foster the integrated development of brick-and-mortar stores and online shopping; and ensure that more domestically sold products come off the same production lines, meet the same standards, and are of the same quality as export products.

14

Exhibit 16 10 initiatives for boosting consumption

Urban Sales	Facilitating the flows of products in distribution network, with a focus on reducing logistics costs while enhancing efficiency, and extending sales of high-quality brands to third- and fourth-tier cities
Rural Consumption	Tapping the potential for e-commerce consumption in rural areas, facilitating flows in two-way sales channels between urban and rural areas, improving rural infrastructure for consuming information goods and services, and bringing about higher-quality consumption in rural areas
Housing	Cutting the housing inventory by using measures which are tailored to local conditions, establishing a housing system which encourages both renting and purchasing, ensuring efficient use of the housing provident fund, and meeting consumer demand for better housing conditions
Automobile	Initiating trials to loosen restrictions on driving pickup trucks in cities, accelerating construction of parking facilities, working to improve after-sales services for automobiles, and meeting consumer demand for automobiles
Tourism & Leisure	Developing demonstration zones for all-for-one tourism, accelerating the development of cruise and yacht tourism, promoting ecotourism and elderly-friendly tourism, and stepping up development of the general aviation market
Health, Elderly Care, & Domestic Services	Providing more training for domestic service workers, developing combined medical and care services for the elderly, supporting the integration and transformation of idle non-governmental resources to provide elderly care services, and encouraging development of diversified and personalized health services

Education, Culture & Information	Developing high-level vocational education, promoting Chinese-foreign cooperation in operating schools, encouraging the development of cultural & creative industries, increasing application of new information products such as smart-home technology, and strengthening infrastructure for cultural consumption such as physical bookstores, digital cinemas in county-level cities
Sports & Fitness	Continuing to put stadiums and gymnasiums to best use, improving market-based competitive mechanisms for sports event operations, and hosting a wider range of sports events to stimulate and satisfy household demand in the area of sports
Green Consumption	Carrying out a 'frontrunner program' for energy efficient household appliances, increasing the supply of eco-friendly household purifiers, and promoting the use of green materials in construction
Consumption Environment & Quality	Extending application of the national platform for sharing information on credit, making effective use of the '12358' pricing monitoring platform, strengthening price monitoring, working to improve the quality of consumer goods, and supporting development of new forms of consumption such as sharing economy

Extracted from Report on the Implementation of the 2016 Plan and on the 2017 Draft Plan for National Economic and Social Development

2. Growth rates for RMB loans and broad money supply decelerate

The growth rates for broad money supply and RMB loans have decelerated in recent months. As at the end of March, the growth of the broad money supply (M2) was 10.6% yoy, lower than 11.3% yoy as at the end of December last year (see exhibit 17). The total outstanding RMB loans gained 12.4% yoy as at the end of March, compared to the growth of 13.5% yoy as at the end of December last year. Overall, in 1Q17, the increase in the total outstanding RMB loans amounted to 4.22 trillion yuan, smaller than the increase seen in the same period of the previous year (i.e. 4.61 trillion yuan). Driven mainly by the demand for housing mortgages, the total outstanding medium- to long term RMB loans to households gained 1.46 trillion yuan in 1Q17, contributing 34.6% of the increase in RMB loans in 1Q17; the total outstanding short term RMB loans to households increased by 387 billion yuan, contributing 9.2%. The total outstanding medium- to long term RMB loans to non-financial business and other sectors expanded by 2.66 trillion yuan, contributing 63.0% of the increase in RMB loans in 1Q17.

One of the possible reasons behind the moderation in the growth in RMB loans in the past few months was the central bank's actions to raise the rates of medium-term lending facility (MLF) on 24 January and 16 March, and the standing lending facility (SLF) on 3 February and 16 March. The hike in rates of the MLF and the SLF has increased the financing costs on financial institutions, thereby putting upward pressure on the interbank rates: the overnight Shanghai interbank offered rate (Shibor), for example, reached 2.8348% on 5 May, compared to 2.1640% on 24 January. Banks may pass through the higher costs to borrowers, which in turn will have less incentive to raise loans.

Looking ahead, we expect the growth rate for RMB loans to soften in near future, as China's central bank has adopted a less accommodative monetary policy recently.

Exhibit 17 Broad money supply (M2) and RMB loans, April 2016 to March 2017

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	FY16	1Q17
End-Apr 16	144.5	12.8%	99.1	14.4%	12.65	4.22
End-May	146.2	11.8%	100.1	14.4%	Apr 16	0.56
End-Jun	149.1	11.8%	101.5	14.3%	May	0.99
End-Jul	149.2	10.2%	102.0	12.9%	Jun	1.38
End-Aug	151.1	11.4%	102.9	13.0%	Jul	0.46
End-Sep	151.6	11.5%	104.1	13.0%	Aug	0.95
End-Oct	152.0	11.6%	104.8	13.1%	Sep	1.22
End-Nov	153.0	11.4%	105.6	13.1%	Oct	0.65
End-Dec	155.0	11.3%	106.6	13.5%	Nov	0.79
End-Jan 17	157.6	11.3%	108.6	12.6%	Dec	1.04
End-Feb	158.3	11.1%	109.8	13.0%	Jan 17	2.03
End-Mar	160.0	10.6%	110.8	12.4%	Feb	1.17
					Mar	1.02

16

Source: People's Bank of China

3. Shadow banking activities show signs of increase

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 6.9 trillion yuan in 1Q17, larger than the increase seen in the previous year (i.e. 6.7 trillion yuan) (see exhibit 18).

Shadow banking activities have shown signs of increase in recent months. Compared to 2016, trust loans and bank acceptance bills played a more important role in driving up 'total social financing' in 1Q17. For example, trust loans contributed 10.6% of the increase in 'total social financing' in 1Q17, compared to a 4.8% share in 2016. In contrast, RMB loans contributed 64.9% of the increase in 'total social financing' in 1Q17, compared to the share of 69.9% in 2016.

Exhibit 18 Increase in total social financing, 2016 to 1Q17

	2016		1Q17	
	Amount (billion yuan)	Share (%)	Amount (billion yuan)	Share (%)
Total social financing	17,800	100.0	6,930	100.0
RMB loans to the real sector	12,440	69.9	4,500	64.9
Foreign currency loans to the real sector	-564	-3.2	78	1.1
Trust loans	859	4.8	735	10.6
Entrusted loans	2,190	12.3	635	9.2
Bank acceptance bills	-1,950	-11.0	680	9.8
Corporate bonds	3,000	16.9	-147	-2.1
Equity issuance	1,240	7.0	295	4.3

Source: People's Bank of China

C Outlook

1. Macroeconomic targets set for 2017

The fifth 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 19*).

The government sets a real GDP growth target of about 6.5% for 2017, compared to the actual growth rate of 6.7% in 2016 and the 6.5% - 7.0% growth target set for 2016. According to Premier Li, the slight reduction in the economic growth target would give the government

more room to improve the quality and the efficiency of the economy and to accelerate economic restructuring and upgrade. The NDRC Chairman He Lifeng also commented that setting a lower growth target did not imply the government was concerned about the economic growth for this year. At a press conference on 6 March, He Lifeng said he had confidence that the real GDP growth target of about 6.5% could be achieved this year.

Exhibit 19 Macroeconomic targets set for 2017

1. Real GDP growth of about 6.5% (vs. 6.7% actual in 2016).
2. CPI growth of about 3% (vs. 2.0% actual in 2016).
3. Fixed asset investment to grow by about 9% (vs. 7.9% actual in 2016).
4. Retail sales of consumer goods to increase by about 10% (vs. 10.4% actual in 2016).
5. Over 11 million new jobs in urban areas (vs. 13.14 million actual in 2016).
6. M2 growth of about 12% (vs. 11.3% actual as of end-2016).

Source: The Government Work Report delivered by Premier Li Keqiang on 5 March 2017; the Report on the Implementation of the 2016 Plan and on the 2017 Draft Plan for National Economic and Social Development

2. Entrepreneur Confidence Index for the secondary industry rises markedly in 1Q17

China's Entrepreneur Confidence Index (ECI) for the secondary industry rose markedly by 13.8 pts from the previous quarter to 129.2 in 1Q17, indicating a great improvement in confidence among Chinese entrepreneurs in the secondary industry in the quarter (see *exhibit 20*).⁹

The ECIs for the 'manufacturing' and 'mining' sectors recorded strong quarter-on-quarter increases, up by 14.2 pts and 16.5 pts respectively in 1Q17. In comparison, the ECI for 'electricity, gas and water' sector rose slightly, by 4.3 pts, in the same quarter (see *exhibit 21*).

Exhibit 20 China's Entrepreneur Confidence Index (Secondary Industry), 2Q15 to 1Q17

	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Entrepreneur Confidence Index (Secondary Industry)	114.5	112.1	108.9	108.7	109.3	113.4	115.4	129.2

Source: National Bureau of Statistics, PRC

⁹ 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 21 Entrepreneur Confidence Index by sector, 4Q16 and 1Q17

	4Q16	1Q17	Compared with the previous quarter
Secondary industry	115.4	129.2	Higher
- Mining	97.3	113.8	Higher
- Manufacturing	115.9	130.1	Higher
- Electricity, gas and water	125.1	129.4	Higher

Source: National Bureau of Statistics, PRC

3. PMI indicates a growth moderation of the manufacturing sector

18

China's manufacturing Purchasing Managers' Index (PMI) edged up from 51.6 in February to 51.8 in March, the highest level in almost five years, but then went down to 51.2 in April. The latest reading indicates a moderation of the growth in the manufacturing sector in China (see exhibit 22).

The growth rates for both new domestic and export orders have decelerated lately. The new orders index fell from 53.3 in March to a four-month low of 52.3 in April, while the new export orders index dropped from 51.0 in March to 50.6 in April.¹⁰

Output growth has also softened recently. After rising from 53.7 in February to 54.2 in March, the output index slid to 53.8 in April.

The purchases of inputs index advanced from 51.4 in February to 53.4 in March. However, the index went down to 51.9 in April, showing that manufacturers have slowed their purchasing activities amid a growth deceleration in new orders.

Both the stocks of finished goods index and the stocks of major inputs index have remained below the critical 50-mark in the past few months, indicating that destocking activities have continued.

The input prices index fell from 64.2 in February to 59.3 in March, and then dropped markedly to a ten-month low of 51.8 in April, showing that upstream cost pressure has eased lately. This may be the main reason behind a fall in ex-factory prices of industrial products: the ex-factory prices index dropped below the critical 50-mark in April.

The business expectations index went down from 60.0 in February to 58.3 in March, and further to 56.6 in April, indicating that purchasing managers have become less optimistic recently.

¹⁰ The 'new orders index' covers both domestic and export orders. That is to say, the manufacturers are not asked to differentiate between domestic and export orders when filling in questionnaires.

Exhibit 22

China's manufacturing PMI at a glance, April 2017

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	51.2	Lower	Expanding
Output	53.8	Lower	Expanding
New Orders	52.3	Lower	Expanding
New Export Orders	50.6	Lower	Expanding
Backlogs of Orders	45.0	Lower	Contracting
Stocks of Finished Goods	48.2	Higher	Contracting
Purchases of Inputs	51.9	Lower	Expanding
Imports	50.2	Lower	Expanding
Input Prices	51.8	Lower	Rising
Stocks of Major Inputs	48.7	Lower	Falling
Ex-factory Prices	48.3	Unchanged	Contracting
Employment	49.2	Lower	Contracting
Suppliers' Delivery Time	50.5	Higher	Quickening
Business Expectations	56.6	Lower	Optimistic

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

4. Growth in non-manufacturing sector decelerates

China's Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), rose from 54.2 in February to 55.1 in March, before falling to 54.0 in April. The latest reading indicates a deceleration in the growth in the non-manufacturing sector (see exhibit 23).

The growth in the new orders has also moderated recently: the new orders index dropped from 51.9 in March to 50.5 in April, the lowest level since September last year.

After going down from 51.4 in February to 49.7 in March, the sales prices index rebounded to 50.2 in

April, above the critical 50-mark, suggesting that enterprises have increased their service charges recently. Meanwhile, the input prices index has been on a downward trend in recent months, falling to 51.7 in April, the lowest level since October last year. The April reading shows that the input prices have increased at a slower pace lately.

The business expectation index came in at 59.7 in April, well above the critical 50-mark, suggesting that purchasing managers in the non-manufacturing sector have remained optimistic.

20

Exhibit 23 China's non-manufacturing purchasing managers' index (NMI) at a glance, April 2017

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	54.0	Lower	Expanding
New orders	50.5	Lower	Expanding
Input prices	51.7	Lower	Rising
Sales prices	50.2	Higher	Rising
Business expectations	59.7	Lower	Optimistic

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

A Recent developments

1. Both exports and imports continue to show year-on-year growth in April

For the first time in eight quarters, China's exports recorded positive growth of 8.2% yoy in 1Q17 (see exhibits 24, 25 and 26). The impressive export performance in 1Q17 was attributable to a recovery in the foreign demand as well as the weak Chinese yuan, in our view. Overall, in 1Q17, China's exports amounted to US\$ 482.8 billion.

China's exports to its major trading partners registered year-on-year gain in 1Q17. For example, China's exports to the US, the EU, Japan and the ASEAN gained 10.0% yoy, 7.4% yoy, 4.8% yoy and 11.4% yoy respectively in 1Q17. Also noteworthy is that China's exports to some commodity-exporting emerging countries posted robust growth in 1Q17: the exports to Brazil and Russia increased by 35.8% yoy and 22.4% yoy respectively in 1Q17.

The growth rate for China's imports rose from 2.7% yoy in 4Q16 to 24.0% yoy in 1Q17. The acceleration in China's import growth was mainly boosted by the rise in commodity prices and the strengthening domestic demand. Overall, in 1Q17, China's imports totalled US\$ 417.2 billion.

In April, China's exports and imports continued to post year-on-year gain, up by 8.0% yoy and 11.9% yoy. The latest figures indicate that both the foreign demand for Chinese products and the domestic demand for imported products have remained strong recently.

With imports increasing faster than exports, China's trade surplus narrowed markedly to US\$ 65.6 billion in 1Q17 from US\$ 134.5 billion in 4Q16.

Exhibit 24 China's quarterly foreign trade data, 2Q16 to 1Q17

USD billion (yoy growth)

	Exports		Imports		Trade Balance
FY16	2,097.4	(-7.7%)	1,587.5	(-5.5%)	510.0
2Q16	534.2	(-4.4%)	390.6	(-6.8%)	143.7
3Q16	559.8	(-6.3%)	413.5	(-4.7%)	146.3
4Q16	584.4	(-4.8%)	449.9	(2.7%)	134.5
1Q17	482.8	(8.2%)	417.2	(24.0%)	65.6

Source: China Customs

Part 2 : Foreign Trade

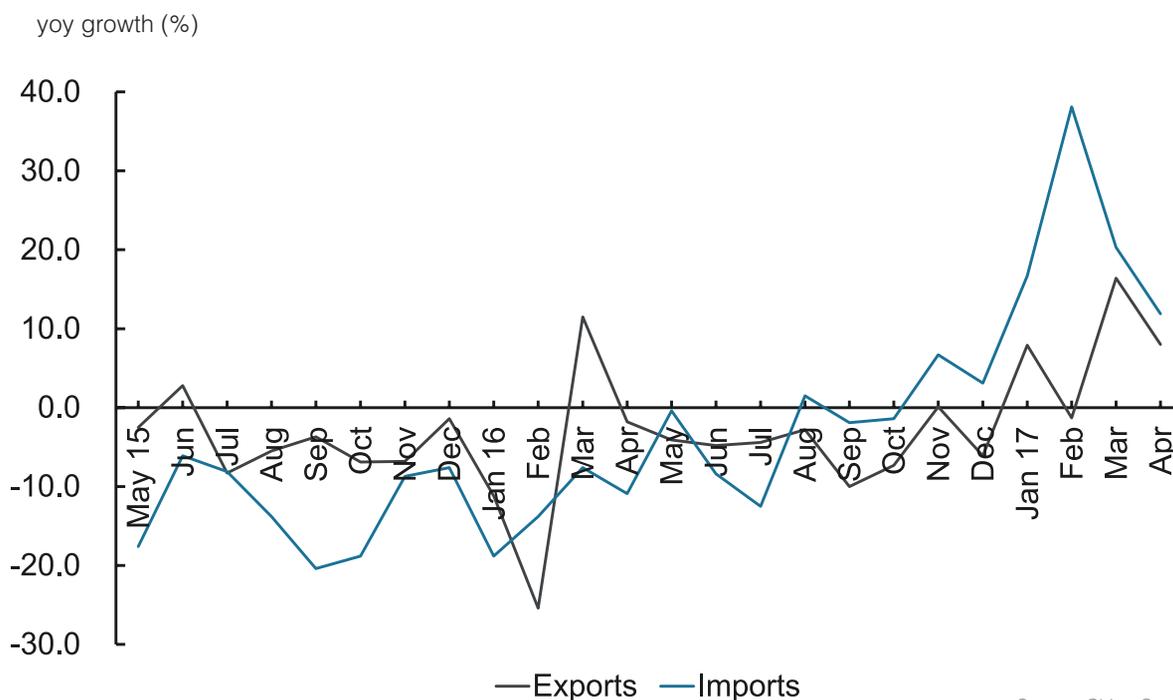
Exhibit 25 China's monthly foreign trade data, May 2016 to April 2017

USD billion (yoy growth)

	Exports		Imports		Trade Balance
May 2016	181.1	(-4.1%)	131.1	(-0.4%)	50.0
June	180.4	(-4.8%)	132.3	(-8.4%)	48.1
July	184.7	(-4.4%)	132.4	(-12.5%)	52.3
August	190.6	(-2.8%)	138.5	(1.5%)	52.0
September	184.5	(-10.0%)	142.5	(-1.9%)	42.0
October	178.2	(-7.3%)	129.1	(-1.4%)	49.1
November	196.8	(0.1%)	152.2	(6.7%)	44.6
December	209.4	(-6.1%)	168.6	(3.1%)	40.8
January 2017	182.8	(7.9%)	131.4	(16.7%)	51.3
February	120.1	(-1.3%)	129.2	(38.1%)	-9.1
March	180.6	(16.4%)	156.7	(20.3%)	23.9
April	180.0	(8.0%)	142.0	(11.9%)	38.0

Source: China Customs

Exhibit 26 Growth rates of exports and imports, May 2015 to April 2017



Source: China Customs

Exhibit 27 Exports by category, 2016 and 1Q17

<i>yoy growth (%) of export value, calculated in USD</i>	2016	1Q17
Textile materials and products	-4.1	1.2
Garments and clothing accessories	-9.6	-0.1
Footwear	-12.1	6.0
Toys	17.4	33.1
Coal	39.8	18.8
Crude oil	-39.0	152.9
Refined oil	1.5	53.3
Steel	-13.4	11.6
Mechanical and electrical products	-7.7	8.6

Source: China Customs

Exhibit 28 Imports by category, 2016 and 1Q17

<i>yoy growth (%) of import value, calculated in USD</i>	2016	1Q17
Cereal and cereal flour	-39.3	4.4
Soybean	-2.3	36.6
Iron ore	0.5	91.3
Crude oil	-13.3	79.0
Refined oil	-21.8	38.2
Steel	-8.2	15.2
Textile yarns, fabric and textile products	-12.2	9.0
Vehicles and vehicle chassis	-0.5	23.3

Source: China Customs

2. Growth rates for both general trade exports and processing trade exports turn positive in 1Q17

The year-on-year growth rates for both the general trade¹¹ exports and the processing trade¹² exports turned positive in 1Q17. The growth in the general trade exports improved to 5.1% yoy in 1Q17 from minus 10.3% yoy in 4Q16. Meanwhile, the processing trade exports expanded by 9.0% yoy in 1Q17, compared to the 5.4% yoy decline in 4Q16 (see exhibit 29).

On the import side, the growth in the general trade imports accelerated to 30.3% yoy in 1Q17 from 7.2% yoy in 4Q16, driven largely by the rise in import prices and volumes of commodities. In the meantime, the processing trade imports registered positive growth of 12.9% yoy in 1Q17, compared to the 5.1% yoy drop

in 4Q16. In our view, the year-on-year increase in the processing trade imports in 1Q17 suggests that the processing trade exports are likely to maintain positive growth in the near future, as processing trade imports serve as a leading indicator of processing trade exports performance.

In 1Q17, the share of processing trade in China's total trade was 28.9%, much lower than that of general trade (i.e. 56.2%). Nevertheless, with a large surplus of US\$ 71.8 billion in 1Q17, processing trade still plays an important role in China's foreign trade.

¹¹ '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.

¹² '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.

Exhibit 29 China foreign trade (general and processing trades), 2016 to 1Q17

Item	yoy growth (%)			Share (%)		
	FY16	4Q16	1Q17	FY16	4Q16	1Q17
Exports	-7.7	-4.8	8.2	100.0	100.0	100.0
Of which:						
General Trade	-7.0	-10.3	5.1	53.8	50.5	53.0
Processing Trade	-10.3	-5.4	9.0	34.1	37.2	34.4
Imports	-5.5	2.7	24.0	100.0	100.0	100.0
Of which:						
General Trade	-2.5	7.2	30.3	56.6	54.9	60.0
Processing Trade	-11.3	-5.1	12.9	25.0	26.1	22.6
Total of Imports and Exports	-6.8	-1.7	15.0	100.0	100.0	100.0
Of which:						
General Trade	-5.1	-2.9	16.2	55.0	52.5	56.2
Processing Trade	-10.6	-5.3	10.4	30.2	32.3	28.9

Source: China Customs

24

3. China's exports to the US and ASEAN show double-digit growth in 1Q17

The EU was still China's largest trading partner, accounting for 14.9% of China's total foreign trade in 1Q17. Sino-EU trade amounted to US\$ 134.2 billion, up by 10.5% yoy in 1Q17. Specifically, China's exports to the EU gained 7.4% yoy in 1Q17, compared to the negative growth of minus 4.7% yoy in 2016; and China's imports from the EU grew by 15.5% yoy in 1Q17, compared to the 0.4% yoy drop in 2016 (see exhibits 30 and 31).

Accounting for 14.0% of China's total foreign trade, the US continued to be China's second largest trading partner in 1Q17. Sino-US trade expanded by 14.4% yoy to US\$ 126.4 billion in 1Q17. China's export growth to the US turned positive in 1Q17: after dropping by 5.9% yoy in 2016, exports to the US grew by 10.0%

yoy in 1Q17. Meanwhile, China's imports from the US recorded strong growth of 25.9% yoy in 1Q17, compared to the 9.1% yoy decline in 2016.

The Association of South East Asian Nations (ASEAN) accounted for 12.4% of China's total foreign trade in 1Q17. Sino-ASEAN trade grew by 18.0% yoy to US\$ 112.0 billion in 1Q17. Of which, China's exports to ASEAN rose by 11.4% yoy, and China's imports from ASEAN soared by 27.1% yoy, in 1Q17.

Sino-Japanese trade increased by 12.3% yoy to US\$ 68.9 billion in 1Q17. China's exports to Japan gained 4.8% yoy, while China's imports from Japan jumped by 20.0% yoy in 1Q17.

4. China's exports to commodity-exporting countries such as Brazil and Russia grow robustly in 1Q17

China's export growth to Russia accelerated to 22.4% yoy in 1Q17 from 7.3% yoy in 2016, amid the recovery in Russia's economy. Meanwhile, China's import growth from Russia improved to 36.1% yoy in 1Q17 from minus 3.1% yoy in 2016 (see exhibits 30 and 31). Consequently, the growth in China's trade with Russia picked up to 29.3% yoy in 1Q17 from 2.2% yoy in 2016.

China's export growth to India rose to 14.2% yoy in 1Q17 from 0.2% yoy in 2016. In the meantime, China's import growth from India accelerated rapidly to 49.3% yoy in 1Q17 from minus 12.0% yoy in 2016. Overall, the growth of Sino-Indian trade improved to 20.4% yoy in 1Q17 from minus 2.1% yoy in 2016.

With Brazil's economy showing strong improvement, China's exports to Brazil soared by 35.8% yoy in 1Q17. Meanwhile, China's imports from Brazil expanded by 49.3% yoy in 1Q17. Consequently, Sino-Brazilian trade surged by 44.5% yoy over the same period.

Together, these three BRIC members accounted for 6.0% of China's total exports and China's total imports in 1Q17, up from 5.6% and 5.7%, respectively, in 2016.

Exhibit 30 China's trading partners, 1Q17

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	134.2	14.9	80.3	54.0	10.5	7.4	15.5
US	126.4	14.0	88.0	38.4	14.4	10.0	25.9
ASEAN	112.0	12.4	61.1	50.8	18.0	11.4	27.1
Japan	68.9	7.7	32.3	36.6	12.3	4.8	20.0
Brazil	16.8	1.9	5.6	11.2	44.5	35.8	49.3
Russia	18.1	2.0	8.4	9.7	29.3	22.4	36.1
India	19.0	2.1	14.8	4.2	20.4	14.2	49.3

Source: China Customs

Exhibit 31 China's trading partners, comparing growth rates for 2016 and 1Q17

Country/Region	yoy growth (%)					
	Total Trade		Exports		Imports	
	2016	1Q17	2016	1Q17	2016	1Q17
EU	-3.1	10.5	-4.7	7.4	-0.4	15.5
US	-6.7	14.4	-5.9	10.0	-9.1	25.9
ASEAN	-4.2	18.0	-7.8	11.4	0.9	27.1
Japan	-1.3	12.3	-4.7	4.8	1.9	20.0
Brazil	-5.3	44.5	-19.9	35.8	3.7	49.3
Russia	2.2	29.3	7.3	22.4	-3.1	36.1
India	-2.1	20.4	0.2	14.2	-12.0	49.3

Source: China Customs

26

5. Exports from Guangxi, Shaanxi, Qinghai and Xinjiang show stunning growth in 1Q17

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Shanghai, Zhejiang, Shandong and Fujian – jointly accounted for 78.0% of China's total foreign trade in 1Q17, down from 79.0% in 2016 (see exhibit 32). Among these provinces, Shandong saw the fastest growth in exports in 1Q17. Exports from Shandong grew by 11.2% yoy to US\$ 34.4 billion in 1Q17.

In 1Q17, some provinces posted stunning growth in exports, partly attributed to the relocation of processing trade enterprises from coastal provinces to inland provinces. Exports from Guangxi, Shaanxi, Qinghai and Xinjiang surged by 34.6% yoy, 35.3% yoy, 56.3% yoy and 50.3% yoy respectively over the period.

Exhibit 32 Top six provinces and municipalities in terms of value of exports, 1Q17

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	139.7	6.9	28.9
Jiangsu	80.6	8.1	16.7
Zhejiang	61.5	7.6	12.7
Shanghai	39.9	6.3	8.3
Shandong	34.4	11.2	7.1
Fujian	20.1	0.0	4.2

Source: China Customs

6. China's FDI gains 1.0% yoy in 1Q17

China's foreign direct investment (FDI) in Renminbi terms gained 6.7% yoy in March, recording positive year-on-year growth for two consecutive months. Overall, in 1Q17, China's FDI amounted to 226.5 billion yuan, up by 1.0% yoy (see exhibit 33).

FDI in the service sector increased by 7.1% yoy to 165.4 billion yuan in 1Q17. The share of the service sector in China's total FDI went up to 73.0% in 1Q17 from 70.3% in 2016. Among the industries in the service sector, FDI in the 'transportation, warehousing and postal industry' and the 'rental and commercial service

industry' posted rapid growth of 43.7% yoy and 62.3% yoy respectively in 1Q17, indicating the optimism about these industries among foreign enterprises.

FDI in the manufacturing sector came in at 59.5 billion yuan, accounting for 26.3% of the total FDI in 1Q17. Among industries in the manufacturing sector, FDI in the 'general machinery industry' and the 'communications equipment industry' grew strongly by 27.7% yoy and 62.3% yoy respectively over the same period.

Exhibit 33 China's FDI, April 2016 to March 2017

	Amount (billion yuan)	yoy growth
FY16	813.2	4.1%
1Q17	226.5	1.0%
April 16	62.6	6.0%
May	56.8	-1.0%
June	98.2	9.7%
July	49.8	-1.6%
August	57.3	5.7%
September	60.2	1.2%
October	57.3	4.7%
November	65.5	0.9%
December	81.4	5.7%
January 17	80.1	-9.2%
February	58.6	9.2%
March	87.8	6.7%

Source: Ministry of Commerce, PRC

Exhibit 34 Foreign exchange reserves by quarter, 2Q16 to 1Q17

USD billion	Accumulation	End of the quarter
FY16	-319.8	
2Q16	-7.4	3,205.2
3Q16	-38.8	3,166.4
4Q16	-155.9	3,010.5
1Q17	-1.4	3,009.1

Source: State Administration of Foreign Exchange, PRC

7. China's foreign exchange reserves bottom out

For the first time in eight months, China's foreign exchange reserves in February recorded month-on-month gain, up by US\$ 6.9 billion. Afterwards, the foreign exchange reserves increased by US\$ 4.0 billion and US\$ 20.4 billion respectively in March and April. As at the end of April, the foreign exchange reserves amounted to US\$ 3,029.5 billion (see exhibit 34).

One of the major reasons behind the bottoming out of the foreign exchange reserves was that the capital outflows moderated amid the recent stabilization of the yuan exchange rate against the US dollar. Besides, the appreciation of the non-dollar currencies in the past few months resulted in a higher US-dollar value of non-US-dollar denominated assets in the foreign exchange reserves.

Looking ahead, we believe that the value of China's foreign exchange reserves will depend on the movement of the US dollar, which affects the trend of capital outflows and the value of non-US-dollar denominated assets in the reserves.

B Highlights

1. Exchange rate of the Chinese yuan against the US dollar stays relatively stable

After appreciating in the first few weeks of January, the daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar has stabilized in a range between 6.8456 and 6.9125 since late January (as of 12 May) (see exhibit 35).¹³ In line with the trend of the daily fixing rate, the USD-CNY spot exchange rate has stayed relatively stable in recent months.¹⁴ The USD-CNY spot exchange rate closed at 6.9027 on 12 May, implying that the Chinese yuan has appreciated against the US dollar by 0.68% so far this year (as of 12 May).

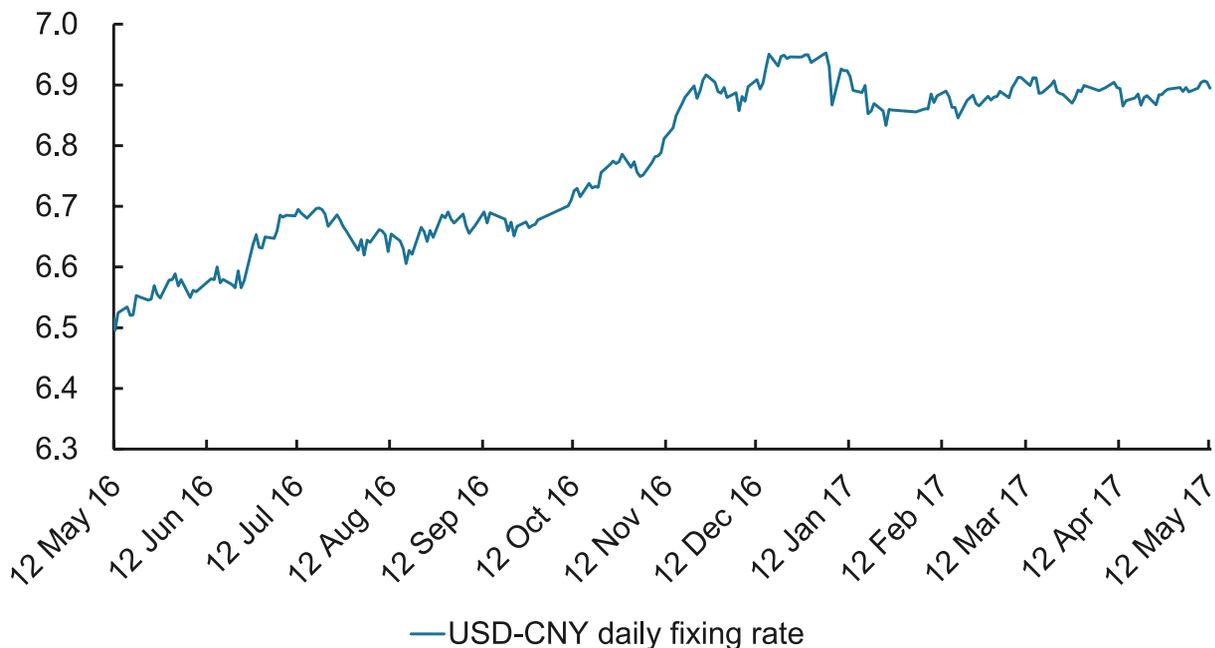
Since mid-April, the Chinese yuan against the Euro has been on a depreciation trend. The daily fixing rate of the Chinese yuan against the Euro depreciated from 7.3025 on 17 April to 7.5677 on 8 May, the weakest level since

mid-December 2014, before appreciating a bit to 7.5016 on 12 May (see exhibit 36). So far this year, the daily fixing rate of the Chinese yuan against the Euro has depreciated by 2.6% (as of 12 May).

According to the Bank for International Settlements, the real effective exchange rate (REER) of the yuan has trended downward in recent months, falling to 120.43 in March, the lowest level since October 2014.¹⁵ Overall, in 1Q17, the Chinese yuan depreciated in real terms against its trading partners by 1.9% (see exhibit 37).

Looking ahead, it is widely expected that the central bank in the US will further raise interest rate this year, which may lead to acceleration in the outflows of hot money from China and thus put depreciation pressure on the Chinese yuan. We predict that the exchange rate of the Chinese yuan against the US dollar will stay weak in near future.

Exhibit 35 USD-CNY daily fixing rate, May 2016 to May 2017

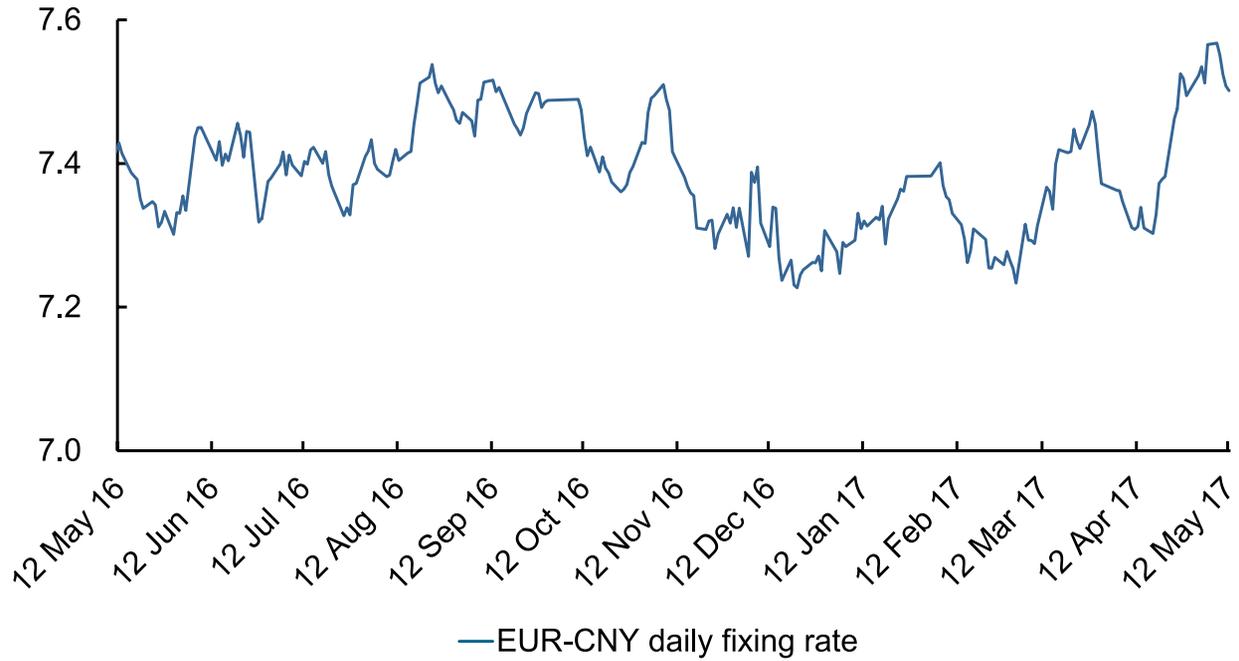


¹³ According to the PBOC, the daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the supply-demand conditions in the market and the movements of major international currencies.

¹⁴ The daily trading band of the Chinese yuan against the US dollar is $\pm 2.0\%$ around the daily fixing rate.

¹⁵ 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 36 EUR-CNY daily fixing rate, May 2016 to May 2017



30

Exhibit 37 Real effective exchange rate of the Chinese yuan, April 2015 to March 2017



2. US does not label China a currency manipulator

The US Treasury Department does not label China a currency manipulator, according to its bi-annual report on International Economic and Exchange Rate Policies published on 14 April.¹⁶

According to the report, the US Treasury Department would undertake an enhanced analysis of exchange rates and externally-oriented policies for a major trading partner that meets all three criteria:

- (1) has a significant bilateral trade surplus with the US (i.e. US\$ 20 billion or more);
- (2) has a material current account surplus (i.e. at least 3% of GDP);
- (3) engaged in persistent, one-sided intervention in the foreign exchange market (when net purchases of foreign currency are conducted repeatedly and total at least 2% of an economy's GDP over a 12 month period).

The 'currency manipulator' designation means there will be intense talks between the US and the labeled country, and can lead to tariffs imposed by the US.

According to the report, China only met one of the three criteria in 2016: China's goods trade surplus with the US amounted to 347 billion during the period. Therefore, China was not considered a 'currency manipulator' in this latest round of assessment.

3. Xi-Trump summit seems successful

The Chinese President Xi Jinping visited the US and had several meetings with US President Donald Trump on 6-7 April. Overall, the Xi-Trump summit seemed successful. After the meetings, Trump said he and Xi had 'developed a friendship', while Xi said he had established a good working relationship with Trump. Besides, at Xi's invitation, Trump will pay a state visit to China later this year.¹⁷

According to Chinese Foreign Minister Wang Yi, one of the major outcomes of the summit was that the two sides announced to establish four high-level dialogue mechanisms, including the Diplomatic and Security Dialogue, the Comprehensive Economic Dialogue, the Law Enforcement

and Cyber-security Dialogue, as well as the Social and Cultural Dialogue. They initiated the Diplomatic and Security Dialogue as well as the Comprehensive Economic Dialogue during the summit. Particularly noteworthy is that Xi and Trump agreed to have a 100-day plan under the framework of the Comprehensive Economic Dialogue in a bid to discuss the issues about trade imbalances between China and the US.

A month later, on 11 May, China and the US reached consensus on several issues in areas of agricultural trade, financial services, investment and energy under the 100-day plan.¹⁸ The key takeaways from their consensus related to trade include:

- (1) China is to allow the imports of the US beef by 16 July.
- (2) China and the US are to resolve outstanding issues for the import of China origin cooked poultry as soon as possible, and after reaching consensus, the US is to publish a proposed rule by July 16, with the US realizing China poultry exports as soon as possible.
- (3) China's National Biosafety Committee (NBC) is to hold a meeting by the end of May 2017, to conduct science-based evaluations of all eight pending US biotechnology product applications to assess the safety of the products for their intended use. For the products that pass the safety evaluations of the NBC, China is to grant certificates within 20 working days.
- (4) The US welcomes China to receive imports of LNG from the US. Companies from China may proceed at any time to negotiate all types of contractual arrangement with US LNG exporters.

4. Global merchandise trade posts low single-digit growth in 2016

In mid-April, the World Trade Organization (WTO) released the world trade statistics for 2016. According to the WTO, the global merchandise trade volume increased slightly by 1.3% yoy in 2016, due mainly to the slow growth in the world economy.

In 2016, the global merchandise exports in US dollar terms dropped by 3.3% yoy to US\$15.46 trillion. China continued to be the world's largest merchandise exporter in 2016, followed by the US and Germany. Among the top 30 merchandise exporters in US dollar terms, Vietnam posted the strongest growth in merchandise exports (i.e. 9% yoy) in 2016.

¹⁶ <https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2017-04-14-Spring-2017-FX-Report-FINAL.PDF>

¹⁷ http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1453028.shtml

¹⁸ <https://www.commerce.gov/print/3122>

C Outlook

1. US economic growth decelerates in 1Q17

The economic growth in the US decelerated in 1Q17. The US real GDP expanded by an annual rate of 0.7% in 1Q17, compared to the annual growth of 2.1% in 4Q16 (see exhibit 38).

On the production side, industrial production gained 0.5% mom in March, posting month-on-month growth for two consecutive months (see exhibit 39). Meanwhile, after staying at 2.4% in January and in February, the month-on-month growth in the new orders for manufactured durable goods decelerated to 0.9% in March. Also noteworthy is that the manufacturing Purchasing Managers' Index (PMI) dropped from 57.2 in March to a four-month low of 54.8 in April, according to the Institute for Supply Management. The April reading indicates that the growth in the manufacturing sector has decelerated.

The non-manufacturing index (NMI), compiled by the Institute for Supply Management, went down from the recent peak of 57.6 in February to 55.2 in March. However, the index rebounded to 57.5 in April, indicating a reacceleration in the growth of the non-manufacturing sector.

The consumption demand has shown signs of moderation in recent months. The US retail sales dropped by 0.2% mom in March, recording negative month-on-month growth for two consecutive months. Nevertheless, the Reuters/University of Michigan Index

of consumer sentiment rose from 96.3 in February to 96.9 in March, and further edged up to 97.0 in April. The latest reading was close to a 13-year high of 98.5 in January this year, indicating that consumer confidence has been strong recently, boding well for consumption (see exhibit 40).

The pace of job creation has reaccelerated. After increasing by 79,000 in March, the non-farm payroll employment rose at a faster pace, by 211,000, in April. In the meantime, the US unemployment rate dropped from 4.5% in March to 4.4% in April, the lowest in almost ten years (see exhibit 41).

In view of the current situation and the outlook of the employment market and inflation, the US Federal Reserve raised the federal funds rate by 25 bps on 16 March for the second time in three months. Overall, the federal funds rate has been increased three times since December 2015. Therefore, the latest adjustment in the federal funds rate implies a faster pace of the interest rate hike.

Looking ahead, we forecast that the US economic growth will accelerate in the near future, boosted by the tax cuts under the Trump administration as well as the strong consumer sentiment. According to the latest projection by the International Monetary Fund (IMF), the real GDP growth in the US will rise from 1.6% in 2016 to 2.3% in 2017 and 2.5% in 2018.¹⁹

Exhibit 38 US national accounts, 2015 to 1Q17

Annual growth (%)	2015	2016	2Q16	3Q16	4Q16	1Q17
Real GDP	2.6	1.6	1.4	3.5	2.1	0.7

Source: US Department of Commerce

Exhibit 39 US industrial sector, October 2016 to March 2017

mom growth (%), seasonally adjusted	Oct 16	Nov	Dec	Jan 17	Feb	Mar
Industrial production	0.2	-0.2	0.8	-0.3	0.1	0.5
New orders for manufactured durable goods	5.0	-4.7	-0.9	2.4	2.4	0.9

Source: US Federal Reserve, US Department of Commerce

Exhibit 40 US consumer market, November 2016 to April 2017

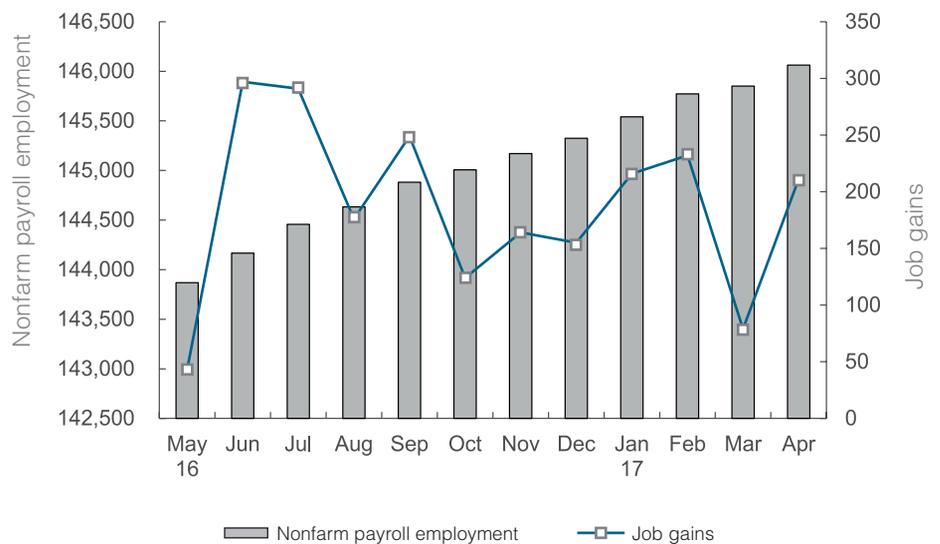
	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Retail and food services sales (mom growth %, seasonally adjusted)	0.2	1.0	0.5	-0.3	-0.2	-
Reuters/University of Michigan index of consumer sentiment	93.8	98.2	98.5	96.3	96.9	97.0
CPI (yoy growth %)	1.7	2.1	2.5	2.7	2.4	-

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

Exhibit 41 US employment

	Unemployment rate (%)
2015	5.3
2016	4.9
May 16	4.7
Jun	4.9
Jul	4.9
Aug	4.9
Sep	4.9
Oct	4.8
Nov	4.6
Dec	4.7
Jan 17	4.8
Feb	4.7
Mar	4.5
Apr	4.4

Nonfarm payroll employment, May 2016 to April 2017
In thousands, seasonally adjusted



Yearly figures: Annual average
Monthly figures: Seasonally adjusted

Source: US Department of Labor

2. Eurozone economy shows some signs of acceleration

The quarter-on-quarter growth rate for the real GDP in the Eurozone came in at 0.5% in 1Q17, the same as in 4Q16, indicating that the economic growth in the region stabilized in 1Q17 (see exhibit 42).²⁰

The Eurozone economy has shown some signs of acceleration recently, as indicated by the Eurozone services PMI and manufacturing PMI. According to the global survey firm Markit Economics, the Eurozone services PMI went up from 56.0 in March to 56.4 in April, the highest level since April 2011, indicating that the growth momentum of the services sector in the Eurozone has strengthened lately. Meanwhile, the Eurozone manufacturing PMI has continued to rise in recent months, going up to a six-year high of 56.7 in April. The uptrend indicates that the manufacturing sector in the region has expanded at a faster pace.

34

The retail trade volume in the Eurozone gained 0.3%

mom in March on a seasonally adjusted basis, posting positive month-on-month growth for three consecutive months (see exhibit 43).

The labour market conditions in the region have improved recently. The seasonally-adjusted unemployment rate fell to 9.5% in March, the lowest level since April 2009 (see exhibit 44). Meanwhile, consumers and managers in various sectors have been optimistic. After staying at 108.0 throughout January to March, the Eurozone's economic sentiment indicator (ESI) went up to almost a ten-year high of 109.6 in April (see exhibit 45).

Looking ahead, the Eurozone economy is expected to expand at a stable pace in 2017 and 2018, supported by the accommodative monetary policy, the mildly expansionary fiscal policy and the weak Euro. According to the latest projection by the IMF, the growth rate for the Eurozone's real GDP is forecast to be 1.7% and 1.6% in 2017 and 2018 respectively, compared to the 1.7% growth in 2016.²¹

Exhibit 42 Eurozone's real GDP growth, 2015 to 1Q17

	2015	2016	2Q16	3Q16	4Q16	1Q17
Real GDP (<i>qoq growth %</i>)			0.3	0.4	0.5	0.5
Real GDP (<i>yoy growth %</i>)	2.0	1.7	1.6	1.8	1.8	1.7

Source: Eurostat

Exhibit 43 Eurozone consumer market, October 2016 to March 2017

	Oct 16	Nov	Dec	Jan 17	Feb	Mar
Volume of retail trade (<i>mom growth %, seasonally adjusted</i>)	1.1	-0.1	-0.3	0.1	0.5	0.3
Annual inflation (%)	0.5	0.6	1.1	1.8	2.0	1.5

Source: Eurostat

Exhibit 44 Eurozone labour market, October 2016 to March 2017

<i>seasonally adjusted</i>	Oct 16	Nov	Dec	Jan 17	Feb	Mar
Unemployment rate (%)	9.8	9.7	9.6	9.6	9.5	9.5

Source: Eurostat

²⁰ 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.

²¹ IMF, *World Economic Outlook*, April 2017

Exhibit 45 Eurozone economic sentiment indicator, November 2016 to April 2017

<i>seasonally adjusted</i>	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Economic sentiment indicator	106.5	107.8	108.0	108.0	108.0	109.6

Source: Eurostat

3. China's exports are expected to show high single-digit growth in 2Q17

In its World Economic Outlook released on 18 April this year, the IMF forecasts that the world economic growth will accelerate from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018, amid the recovery in manufacturing and trade as well as the booming financial markets. Both the advanced and the emerging economies are set to witness acceleration in economic growth in the near future: the growth in the advanced economies is projected to rise to 2.0% in 2017 from 1.7% in 2016, while that in the emerging market and developing economies is projected to quicken from 4.1% in 2016 to 4.5% in 2017 and 4.8% in 2018 (see exhibit 46).

As the improvement in the world economy is set to boost the demand for goods, we forecast that China's exports will show high single-digit year-on-year growth in 2Q17. Still, challenges facing Chinese exporters persist, which include the greater uncertainty in the US trade policies under the Trump administration, intense competition in the international market, stronger government's efforts to cut excess capacities in various sectors and enforce environmental regulations, increasing costs of labour and materials, and the weak demand for luxury products.

Exhibit 46 Latest GDP growth forecasts by the IMF

<i>yoy growth (%)</i>	2016	2017 (Forecasts)	2018 (Forecasts)
World economy	3.1	3.5	3.6
Advanced economies	1.7	2.0	2.0
US	1.6	2.3	2.5
Eurozone	1.7	1.7	1.6
Japan	1.0	1.2	0.6
UK	1.8	2.0	1.5
Emerging market and developing economies	4.1	4.5	4.8
China	6.7	6.6	6.2
India *	6.8	7.2	7.7
Brazil	-3.6	0.2	1.7
Russia	-0.2	1.4	1.4

* 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 2017

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The Fung Group is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 45,100 people across 40 economies worldwide, generating total revenue of over US\$24.8 billion in 2015. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

Please visit www.funggroup.com for more about the Fung Group.

© Copyright 2017 Fung Business Intelligence. All rights reserved.

Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence is prohibited.

