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Domestic Trade

Retail sales of consumer goods grow by 8.3% yoy in 1Q19.

Growth in nominal fixed asset investment quickens to 6.3% yoy in 1Q19.

China reduces rates for postal tax to boost imports of consumer products.

Manufacturing PMI returns to expansionary zone in March and stays high in April.

NMI reading indicates continued growth in non-manufacturing sector.

Foreign Trade

Growth rates of both exports and imports decelerate in 1Q19.

Exports to the US fall by 8.5% yoy in 1Q19.

Exports from Shanghai fall by 13.1% yoy in January to February 2019.

FDI increases by 5.5% yoy in January to February 2019.

Foreign exchange reserves rise for first time in four quarters.

China and the US move closer to a trade deal.

Chinese yuan stays relatively stable against US dollar in recent months.

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Executive Summary

Domestic Trade

Retail sales of consumer goods reached 9,779.0 billion yuan in 1Q19, up by 8.3% yoy. Online retail sales of goods, which accounted for 18.2% of total retail sales, increased markedly by 21.0% yoy over the period.

Growth in nominal fixed asset investment quickened to 6.3% yoy in 1Q19 from 5.9% yoy in 2018, mainly attributable to the rise in FAI growth for infrastructure and real estate development.

On 9 April, the Chinese government reduced the rates for postal tax. The rate of postal tax on the 'category one items' such as computers, digital cameras, food, beverages, gold and silverware, furniture, toys and medicines was reduced from 15% to 13%, while that on the 'category two items' such as textiles, electrical appliances, sporting goods and bicycles was decreased from 25% to 20%. One of the main purposes of the measure was to boost imports of consumer products.

Manufacturing PMI returned to expansionary zone in March and stayed high in April. The manufacturing PMI dropped from 49.5 in January to 49.2 in February. Afterwards, the index rebounded to 50.5 in March and stayed high at 50.1 in April, above the critical 50-mark. The latest figure indicates stabilization in the manufacturing sector and the economy in China.

The NMI fluctuated within a range of 54.3 to 54.8 throughout January to April, above the critical 50-mark. The NMI reading indicates continued growth in non-manufacturing sector.

Foreign Trade

Growth rates of both exports and imports decelerated in 1Q19. Export growth decelerated to 1.4% yoy in 1Q19 from 4.6% yoy in 4Q18, while import growth turned negative to minus 4.8% yoy after rising 4.8% yoy in 4Q18.

China's exports to the EU and the ASEAN registered high single-digit growth rates of 8.8% yoy and 9.8% yoy, respectively, in 1Q19. It is noteworthy that exports to the US fell by 8.5% yoy in 1Q19 and the ASEAN overtook the US to become China's second largest trading partner in the quarter.

Exports from Shanghai fell by 13.1% yoy, while exports from Guangdong dropped by 3.2% yoy in January to February 2019. In contrast, provinces such as Hainan and Sichuan still managed to post double-digit growth in exports in the two-month period.

FDI increased by 5.5% yoy to 147.1 billion yuan in January to February 2019. FDI in the Hi-Tech industries soared by 48.4% yoy to 40.6 billion yuan, accounting for 27.6% of the total FDI during the period.

Foreign exchange reserves amounted to US\$ 3,098.8 billion as at the end of 1Q19, up by US\$ 26.1 billion compared with end-4Q18. This was the first time in four quarters that the foreign exchange reserves posted a quarter-on-quarter gain.

China and the US held two rounds of high-level talks to resolve trade conflicts in late February and early April, moving closer and closer to a trade deal. US Treasury Secretary Steven Mnuchin said on 10 April that the US and China have largely agreed on a mechanism to monitor any trade agreement reached, including the establishment of new 'enforcement offices' by both countries. The two countries will hold two rounds of face-to-face meetings in the weeks of 29 April and 6 May, and reportedly aim for a signing ceremony in late May or early June.

Chinese yuan has stayed relatively stable against the US dollar in recent months. The daily fixing rate of the Chinese yuan against the US dollar was 6.7082 on 23 April, compared to 6.6901 on 28 February.

A Recent developments

1. China's real GDP growth stabilises at 6.4% in 1Q19

China's real GDP growth came in at 6.4% year-on-year (yoy) in 1Q19, the same as in 4Q18, indicating that the country's economic growth has stabilised recently (see exhibit 1). Overall, in 1Q19, China's nominal GDP amounted to 21.3 trillion yuan.

In 1Q19, the growth of the tertiary industry decelerated while that of the secondary industry accelerated, compared to 2018. The real growth rate for the value-added of the tertiary industry came in at 7.0% yoy in 1Q19, lower than the 7.6% yoy growth seen in 2018. In contrast, the real growth rate for the value-added of the secondary industry was 6.1% yoy in 1Q19, up from the 5.8% yoy growth seen in 2018.

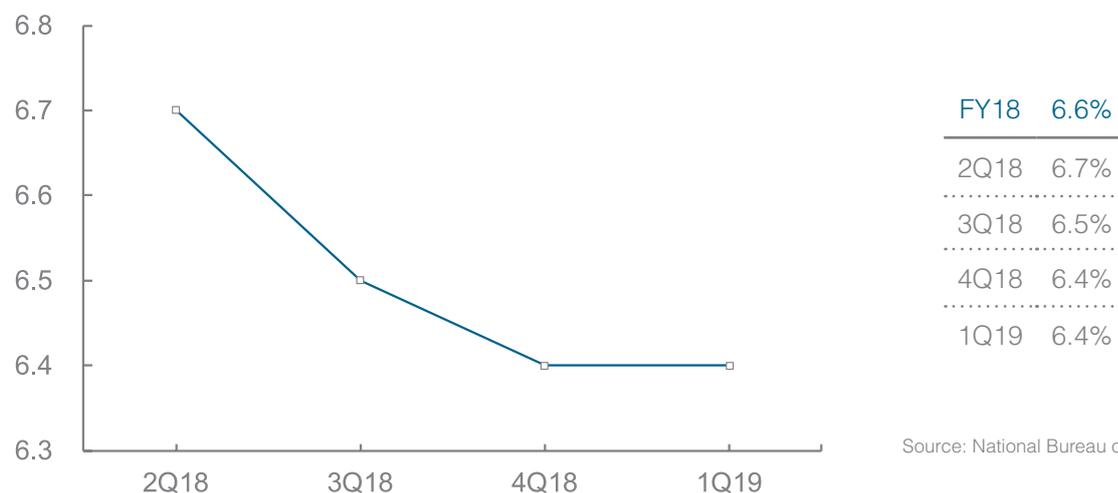
In 1Q19, final consumption expenditure contributed 4.2 pts to the real GDP growth, while gross capital formation contributed 0.8 pts. These figures show that China has been shifting towards a consumption-led economy.

Looking ahead, the central government is likely to introduce more policies to stabilise economic growth. To tackle the problem of high financing costs on enterprises, China's central bank will use monetary policy tools such as required reserve ratios and interest rates to guide financial institutions in increasing credit supply and bringing down the costs of borrowing, according to the Government Work Report published in March this year. Besides, the government plans to reduce the taxes on and the social insurance contributions of enterprises by almost 2 trillion yuan this year. For example, on 1 April, the value-added tax rate in the manufacturing sector and other sectors was reduced sharply from 16% to 13%; and the value-added tax rate in the transportation, the construction and other sectors was decreased from 10% to 9%. Moreover, local governments are allowed to lower enterprises' contribution rate to the social pension for urban workers to 16%. We believe that these policies will help alleviate the downward pressure on the Chinese economy.

Going forward, we predict that the real GDP growth will be around 6.3% yoy in 2Q19.

Exhibit 1 China's real GDP growth, 2Q18 to 1Q19

yoy growth (%)



Source: National Bureau of Statistics, PRC

2. Growth in retail sales accelerate

According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods accelerated from 8.2% yoy in January to February 2019 to 8.7% yoy in March. The month-on-month (mom) growth in seasonally-adjusted retail sales also rose from 0.74% in February to 0.91% in March.

Overall, in 1Q19, the total retail sales of consumer goods reached 9,779.0 billion yuan. The growth rate

was 8.3% yoy in 1Q19, lower than the 9.0% yoy growth recorded in 2018 (see exhibits 2 and 3).

The growth of China's online retail sales of goods decelerated to 21.0% yoy in 1Q19 from 25.4% yoy in 2018. Consequently, the share of online retail sales in the total retail sales of consumer goods went down to 18.2% in 1Q19 from 18.4% in 2018.

Exhibit 2 China's total retail sales, year-on-year nominal growth, April 2017 to March 2019



Source: National Bureau of Statistics, PRC

Exhibit 3 China's total retail sales, month-on-month nominal growth, October 2018 to March 2019

mom growth (%), seasonally adjusted

	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Total retail sales	0.82	0.72	0.76	0.86	0.74	0.91

Source: National Bureau of Statistics, PRC

Both rural and urban retail sales have increased at a slower pace: the growth in rural retail sales slowed to 9.2% yoy in 1Q19 from 10.1% yoy in 2018. In the meantime, the growth in urban retail sales decelerated to 8.2% yoy in 1Q19 from 8.8% yoy in 2018.

The growth in catering services sales came in at 9.6% yoy in 1Q19, up slightly from 9.5% yoy in 2018. Meanwhile, the growth in sales of goods decelerated to 8.2% yoy in 1Q19 from 8.9% yoy in 2018.

The growth rate for the retail sales of goods by enterprises above a designated size¹, which amounted to 3,285.2 billion yuan in 1Q19, decelerated to 3.8% yoy in 1Q19 from 5.7% yoy in 2018.

Among products, 'products for daily use' saw the strongest growth in sales (16.1% yoy) in 1Q19. In contrast, sales of 'automobiles' registered a negative growth of minus 3.4% yoy. 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, 2018 to 1Q19

Nominal growth, yoy (%)	FY18	1Q19
Total retail sales	9.0	8.3
- Goods	8.9	8.2
Sales by enterprises above a designated size	5.7	3.8
Online sales	25.4	21.0
- Catering services	9.5	9.6

Source: National Bureau of Statistics, PRC

3. Chinese consumers become more optimistic

The consumer confidence index² rose from 123.0 in December to 123.7 in January, and further to 126.0 in February. These figures show that Chinese consumers have become more optimistic recently (see exhibit 6).

4. Growth rates of income of both rural and urban households stabilise in 1Q19

The growth of income of both rural and urban households stabilised in 1Q19, compared to 2018. The nominal growth rate of the per capita disposable income of rural households, which amounted to 4,600 yuan in 1Q19, was 8.8% yoy in 1Q19, the same as in 2018. Meanwhile, the nominal growth rate of the per capita disposable income of urban households, which totalled 11,633 yuan in 1Q19, registered 7.9% yoy in 1Q19, close to 7.8% yoy in 2018.

Both rural and urban households' consumption expenditures increased at a slower pace in 1Q19, compared to 2018. The nominal growth rate of the per capita consumption expenditure of rural households, which reached 3,525 yuan in 1Q19, decelerated to 8.7% yoy in 1Q19 from 10.7% yoy in 2018. Meanwhile, the per capita consumption expenditure of urban households, which amounted to 7,160 yuan in 1Q19, fell to 6.1% yoy in 1Q19 from 6.8% yoy in 2018.

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, 2018 to 1Q19

Nominal growth, yoy (%)	FY18	1Q19
Grain, oil and food	10.2	10.6
Beverages	9.0	9.3
Tobacco and liquor	7.4	5.9
Clothing, shoes, hats and textiles	8.0	3.3
Cosmetics	9.6	10.9
Gold, silver and jewellery	7.4	2.6
Products for daily use	13.7	16.1
Sports and entertainment products	-2.7	-
Home appliances and video equipment	8.9	7.8
Chinese and Western medicines	9.4	10.8
Stationery and office accessories	3.0	3.8
Furniture	10.1	5.0
Telecommunications equipment	7.1	10.0
Petroleum and related products	13.3	4.1
Automobiles	-2.4	-3.4
Building and decoration materials	8.1	8.1

Source: National Bureau of Statistics, PRC

Exhibit 6 China's consumer confidence index, March 2017 to February 2019



Source: National Bureau of Statistics, PRC

5. CPI growth jumps in March

The year-on-year growth rate of China's consumer price index (CPI)³ went up from 1.5% in February to 2.3% in March (see exhibits 7 & 8).

The surge in the CPI growth in March was mainly attributed to a faster increase in food prices in the month: the year-on-year growth in the food component in the CPI went up from 0.7% in February to 4.1% in March. The accelerated hike in food prices was led by rising vegetable and pork prices, which drove the CPI

up by more than half a percentage point in the month, according to China's National Bureau of Statistics. Meanwhile, the year-on-year growth in the non-food component edged up from 1.7% in February to 1.8% in March.

Looking ahead, we expect that China's CPI growth will continue to rise in the coming couple of months, due mainly to a further increase in pork prices.

Exhibit 7 China's CPI growth, April 2017 to March 2019

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yoy growth (%)



Apr 18	1.8%
May	1.8%
Jun	1.9%
Jul	2.1%
Aug	2.3%
Sep	2.5%
Oct	2.5%
Nov	2.2%
Dec	1.9%
Jan 19	1.7%
Feb	1.5%
Mar	2.3%

Source: National Bureau of Statistics, PRC

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 8China's CPI growth by commodity, October 2018 to March 2019⁴

<i>yoy growth (%)</i>	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Food, tobacco and liquor	2.9	2.5	2.4	2.0	1.2	3.5
Clothing	1.4	1.4	1.5	1.6	2.0	2.0
Housing	2.5	2.4	2.2	2.1	2.2	2.1
Household goods and services	1.5	1.5	1.4	1.5	1.3	1.2
Transportation and communication	3.2	1.6	-0.7	-1.3	-1.2	0.1
Education, culture and recreational activities	2.5	2.5	2.3	2.9	2.4	2.4
Medical and healthcare	2.6	2.6	2.5	2.7	2.8	2.7
Other goods and services	1.3	1.5	1.6	2.3	2.0	1.9

Source: National Bureau of Statistics, PRC

The year-on-year growth in China's producer price index of industrial products (PPI) accelerated from 0.1% in February to 0.4% in March (see exhibits 9 & 10).

After having posted month-on-month drop for four consecutive months, the PPI went up by 0.1% mom in March, due mainly to increases in ex-factory prices in the 'extraction of petroleum and natural gas', 'processing of petroleum, coking, processing of nucleus fuel' and 'manufacture and processing of ferrous metals' industries in the month.

Going forward, the PPI is expected to rise further in April, as the latest reading of the input prices sub-index of China's manufacturing PMI shows a recent increase in the domestic prices of production inputs. However, the year-on-year growth in the PPI is likely to drop and ultimately return to negative territory in the following months, due largely to a sluggish aggregate demand and a higher comparison base in the same period last year.

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'.

Exhibit 9 China's PPI growth, April 2017 to March 2019

yoy growth (%)



Apr 18	3.4%
May	4.1%
Jun	4.7%
Jul	4.6%
Aug	4.1%
Sep	3.6%
Oct	3.3%
Nov	2.7%
Dec	0.9%
Jan 19	0.1%
Feb	0.1%
Mar	0.4%

Source: National Bureau of Statistics, PRC

Exhibit 10 China's PPI growth by selected industry, October 2018 to March 2019

yoy growth (%)

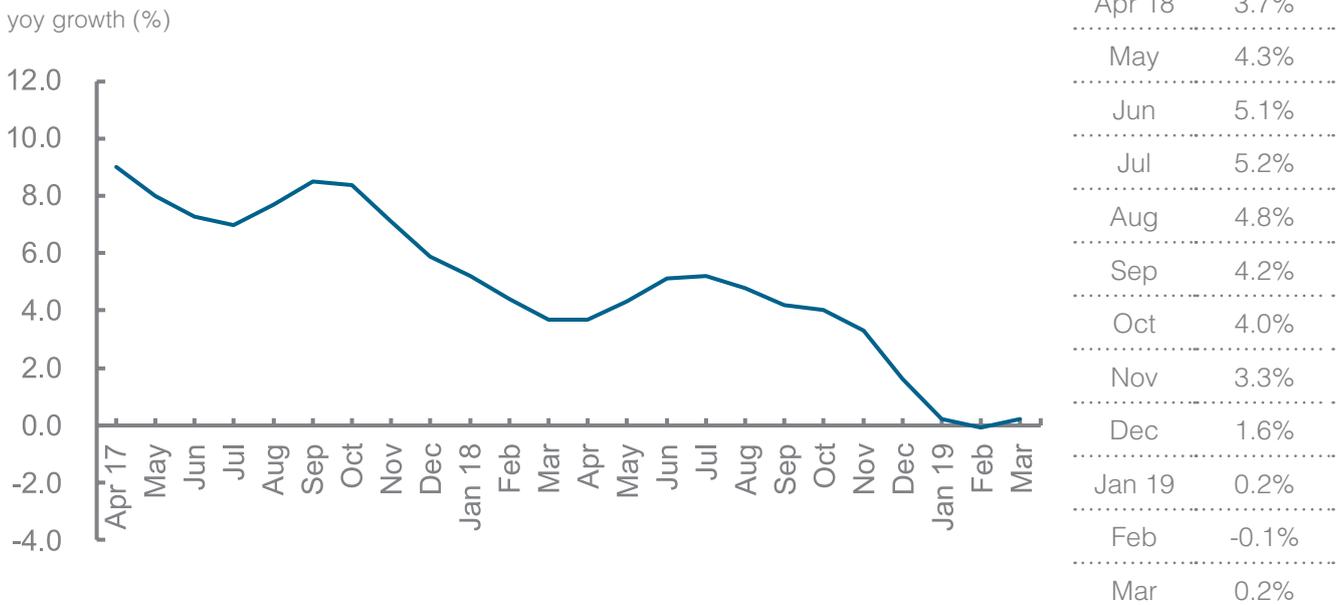
	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Textile	3.1	2.8	1.7	1.6	1.4	1.2
Textile wearing apparel and ornament	1.4	1.6	1.7	1.3	1.2	1.3
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.9	1.6	1.2	1.2	1.5	1.2

Source: National Bureau of Statistics, PRC

The year-on-year growth rate of the purchaser price index of industrial products improved from minus 0.1% in February to 0.2% in March (see exhibits 11 & 12). On a month-on-month basis, the purchaser price index of industrial products stayed flat over the previous month, after having fallen for three consecutive months.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, rose to 53.5 in March, indicating that prices of production inputs have been rising modestly. Therefore, we expect that the purchaser price index of industrial products will go up slightly in April. However, the year-on-year growth rate of the index is likely to fall and ultimately turn negative in the following months, due mainly to a higher base for comparison in the same period last year.

Exhibit 11 Growth in China's purchaser price index of industrial products, April 2017 to March 2019



Source: National Bureau of Statistics, PRC

Exhibit 12 China's purchaser price index of industrial products by selected commodity, October 2018 to March 2019

yoy growth (%)	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Fuel and power	9.4	7.9	3.8	0.3	-0.5	0.7
Non-ferrous metal materials and wires	-1.7	-2.1	-2.0	-3.3	-2.9	-1.7
Chemical raw materials	5.3	3.2	0.3	-1.6	-2.3	-2.4
Wood and pulp	2.6	1.6	1.4	0.6	0.4	-0.4
Textile raw materials	2.7	2.3	1.9	1.5	1.5	1.2

Source: National Bureau of Statistics, PRC

6. Growth in industrial production accelerates in March

The growth rate for China's industrial production (IP), measured by the value-added of industrial output (VAIO), accelerated rapidly from 5.3% yoy in January to February 2019 to 8.5% yoy in March (see exhibit 13).⁵ Overall, in 1Q19, China's IP expanded by 6.5% yoy, faster than the 6.2% yoy growth recorded in 2018.

Challenges facing Chinese manufacturers remain, including ongoing trade frictions between China and the US, strong government's determination to tackle pollution problem, intense competition in the international market, and the weak demand for luxury products. Looking ahead, we expect that the industrial production (VAIO) growth will moderate to around 6.0% yoy in 2Q19.

7. Industrial profits show double-digit drop in January to February

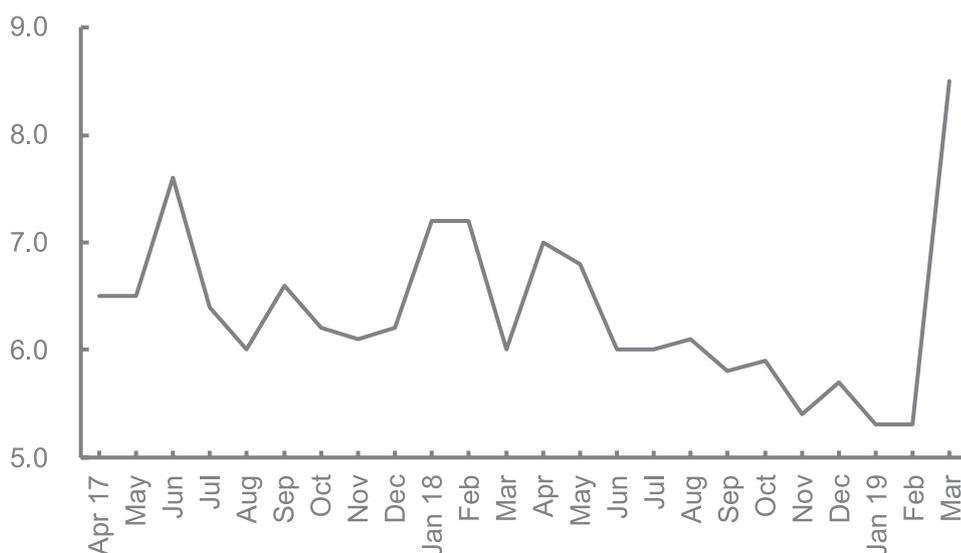
The total profits earned by large and medium industrial enterprises above a designated size⁶ recorded double-digit drop in January to February 2019. During the period, China's industrial profits totalled 708.0 billion yuan, down by 14.0% yoy (see exhibit 14).

Among sectors, in January to February 2019, profits of the manufacturing sector decreased by 15.7% yoy to 568.2 billion yuan; profits of the mining sector fell by 12.6% yoy to 70.2 billion yuan. In contrast, profits of the 'electricity, heat, gas and water' sector grew slightly by 0.9% yoy to 69.7 billion yuan.

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Exhibit 13 China's industrial production growth, April 2017 to March 2019

yoy growth (%)



Apr 18	7.0%
May	6.8%
Jun	6.0%
Jul	6.0%
Aug	6.1%
Sep	5.8%
Oct	5.9%
Nov	5.4%
Dec	5.7%
Jan-Feb 19	5.3%
Mar	8.5%

Source: National Bureau of Statistics, PRC

⁵ 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.

⁶ '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, August 2018 to February 2019

yoy growth (%)	Aug 18	Sep	Oct	Nov	Dec	Jan-Feb 19
Total profits made by industrial enterprises above a designated size	9.2	4.1	3.6	-1.8	-1.9	-14.0

Source: National Bureau of Statistics, PRC

8. Fixed asset investment growth quickens in 1Q19

The growth in China's nominal fixed asset investment (FAI) (excluding rural households) quickened to 6.3% yoy in 1Q19 from 5.9% yoy in 2018.⁷ Overall, in 1Q19, China's nominal FAI (excluding rural households) amounted to 10.2 trillion yuan (*see exhibit 15*).

The acceleration in the overall FAI growth in 1Q19 was mainly attributable to the rise in FAI growth for infrastructure and real estate development. The growth in FAI (excluding rural households) for infrastructure (excluding power, heat, gas and water infrastructure) rose to 4.4% yoy in 1Q19 from 3.8% yoy in 2018, while the growth in FAI (excluding rural households) in real estate development went up to 11.8% yoy in 1Q19 from 9.5% yoy in 2018. In contrast, the growth in FAI (excluding rural households) for the manufacturing sector decelerated to 4.6% yoy in 1Q19 from 9.5% yoy in 2018.

Looking ahead, we predict that the growth in China's FAI will rise in coming future. To avert economic slowdown, China's government has increased its efforts to stimulate infrastructure investment. For example, according to the Government Work Report released in early March, the government will accelerate the implementation of a number of key projects. It will complete 800 billion yuan of railway investment and 1.8 trillion yuan of road and waterway investment. Moreover, the government will start the construction of a number of major water conservancy projects and boost investment for intercity transportation, logistics, utilities, disaster prevention and mitigation, civil and general aviation and next-generation information infrastructure. Besides, the central government has allowed local governments to issue 2.15 trillion yuan of special bonds this year, much higher than the 1.35 trillion yuan of special bonds issued last year. Such a move will enable local governments to boost their infrastructure investment.

Exhibit 15 China's FAI (excluding rural households) growth, October 2018 to March 2019

	Oct 18	Nov	Dec	Jan 19	Feb	Mar
FAI (excluding rural households) (year-to-date, yoy growth %)	5.7	5.9	5.9	-	6.1	6.3
FAI (excluding rural households) (mom growth %, seasonally adjusted)	0.47	0.43	0.45	0.46	0.42	0.45

Source: National Bureau of Statistics, PRC

⁷ 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 cuts postal tax to boost consumption

On 9 April, the Chinese government reduced the rates for postal tax.⁸ The rate of postal tax on the 'category one items' such as computers, digital cameras, food, beverages, gold and silverware, furniture, toys and medicines was reduced from 15% to 13%, while that on the 'category two items' such as textiles, electrical appliances, sporting goods and bicycles was decreased from 25% to 20%. One of the main purposes of the measure was to boost imports of consumer products, as this type of tax is applicable to goods which are purchased overseas and then sent to China via either personal parcels or personal luggage. With the reduced postal tax rates, it is expected that Chinese consumers can enjoy lower costs of buying overseas products via buying agents (or so-called "daigou" agents).

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2. Growth rates of both money supply and total outstanding RMB loans accelerate

Both the broad money supply (M2) and the total outstanding RMB loans have grown at a faster pace recently, attributable to the Chinese central bank's easing measures (see exhibit 16). The M2 growth rose to 8.6% yoy as at the end of March, compared to 8.1% yoy as at the end of December last year. The growth rate of the total outstanding RMB loans was 13.7% yoy as at the end of March, higher than the 13.5% yoy growth recorded as at the end of December last year. Overall, in 1Q19, the rise in the total outstanding RMB loans amounted to 5.81 trillion yuan, higher than the increase seen in 1Q18 (i.e. 4.86 trillion yuan). These figures indicate an ease in credit conditions in China.

According to the Government Work Report released in early March, the official stance for monetary policy this year is still 'prudent', but this monetary policy 'will be eased

or tightened to the right degree' to 'keep major indicators within an appropriate range'. To tackle problem of high financing costs on enterprises, China's government will use monetary policy tools such as required reserve ratios and interest rates to guide financial institutions in increasing credit supply and bringing down the costs of borrowing. Besides, more targeted cuts on required reserve ratios will be made for medium and small banks; the additional funds thus released will be lent to private enterprises and small and micro businesses. Moreover, this year, loans to be granted to small and micro businesses by large state-owned commercial banks will increase by over 30 percent. In our view, these statements indicate that Chinese government will provide more financing support to the real economy.

3. 'Total social financing' increases at a faster pace in 1Q19

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, local government special bonds, equity issuance, asset-backed securities of depository financial institutions, written-off loans and other instruments) amounted to 8.2 trillion yuan in 1Q19, much larger than the increase seen in 4Q18 (i.e. 3.9 trillion yuan) (see exhibit 17).⁹

The faster increase in the 'total social financing' in 1Q19 was due mainly to a bigger rise in RMB loans, foreign currency loans, trust loans, and faster issuance of corporate bonds, local government special bonds and bank acceptance bills.

⁸ http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201904/t20190408_3216190.html?fiyarg=2

⁹ The People's Bank of China has changed the statistical method of the total social financing recently, incorporating 'local government special bonds', 'asset-backed securities of depository financial institutions' and 'written-off loans'. Consequently, the figures of the total social financing have been readjusted.

Exhibit 16 Broad money supply (M2) and RMB loans, April 2018 to March 2019

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	FY18 1Q19	16.17 5.81
End-Apr 18	173.8	8.3%	126.2	12.7%	Apr 18	1.18
End-May	174.3	8.3%	127.3	12.6%	May	1.15
End-Jun	177.0	8.0%	129.2	12.7%	Jun	1.84
End-Jul	177.6	8.5%	130.6	13.2%	Jul	1.45
End-Aug	178.9	8.2%	131.9	13.2%	Aug	1.28
End-Sep	180.2	8.3%	133.3	13.2%	Sep	1.38
End-Oct	179.6	8.0%	134.0	13.1%	Oct	0.70
End-Nov	181.3	8.0%	135.2	13.1%	Nov	1.25
End-Dec	182.7	8.1%	136.3	13.5%	Dec	1.08
End-Jan 19	186.6	8.4%	139.5	13.4%	Jan 19	3.23
End-Feb	186.7	8.0%	140.4	13.4%	Feb	0.89
End-Mar	188.9	8.6%	142.1	13.7%	Mar	1.69

Source: People's Bank of China

Exhibit 17 Increase in total social financing, 2018 to 1Q19

	2018		4Q18		1Q19	
	Amount (billion yuan)	Share (%)	Amount (billion yuan)	Share (%)	Amount (billion yuan)	Share (%)
Total social financing	19,260.0	100.0	3,855.7	100.0	8,197.5	100.0
- RMB loans to the real sector	15,670.0	81.4	2,872.5	74.5	6,289.3	76.7
- Foreign currency loans to the real sector	-420.1	-2.2	-228.8	-5.9	24.1	0.3
- Trust loans	-690.1	-3.6	-224.9	-5.8	83.6	1.0
- Entrusted loans	-1,610.0	-8.4	-446.9	-11.6	-227.8	-2.8
- Bank acceptance bills	-634.3	-3.3	44.3	1.1	204.8	2.5
- Corporate bonds	2,480.0	12.9	836.0	21.7	925.0	11.3
- Local government special bonds	1,790.0	9.3	89.8	2.3	539.1	6.6
- Equity issuance	360.6	1.9	50.6	1.3	53.5	0.7
- Asset-backed securities of depository financial institutions	594.0	3.1	284.8	7.4	n/a	n/a
- Written-off loans	1,015.1	5.3	369.3	9.6	n/a	n/a

Source: People's Bank of China

C Outlook

1. PMI returns to expansionary zone

China's manufacturing PMI dropped from 49.5 in January to 49.2 in February. Afterwards, the index rebounded to 50.5 in March, returning to the expansionary zone for the first time in four months. The index then moderated to 50.1 in April, still above the critical 50-mark. The latest figure indicates stabilization in the manufacturing sector and the economy in China (*see exhibit 18*).

The output index went up strongly by 3.2 pts from the previous month to 52.7 in March and stayed high at 52.1 in April, showing a recovery in production activities. This was due largely to an improving domestic demand: The new orders index has returned to the expansionary zone since February.¹⁰ Meanwhile, the new export orders index rebounded from 45.2 in February to 47.1 in March and 49.2 in April, indicating that the new export orders have decreased at a slower pace lately.

Against the backdrop of falling orders, the purchases of inputs index rebounded to 51.2 in March, returning to the expansionary zone for the first time in four months. The index stayed high at 51.1 in April. These figures indicate that manufacturers have started to increase their purchases of production inputs recently.

The stocks of finished goods index hovered between 46.4 and 47.1 during the January – April period, indicating that the stocks of finished goods held by manufacturers have continued to decrease lately. Meanwhile, the stocks of major inputs index fluctuated within a range of 46.3 to 48.4 throughout January to April, indicating that the stocks of major inputs have fallen in recent months.

Prices of industrial products have started to rise: the ex-factory prices index went up above the critical 50-mark in March and rose further to 52.0 in April. A major reason behind the increase in product prices was the recent rise in prices of materials. The input prices index went up above 50 in February, further reached 53.5 in March, and stayed high at 53.1 in April.

The business expectations index rose from 52.5 in January to 56.2 in February and 56.8 in March, and stayed high at 56.5 in April. The latest figures indicate that purchasing managers have been optimistic recently.

2. NMI indicates continued growth in non-manufacturing sector

China's Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), fluctuated within a range of 54.3 to 54.8 throughout January to April, above the critical 50-mark. The index reading indicates a continued expansion in the non-manufacturing sector.

The new orders index rose from 50.7 in February to 52.5 in March, and then fell to 50.8 in April. The index reading shows that new orders have expanded lately (*see exhibit 19*).

The sales prices index has risen above the critical 50-mark since February, indicating that enterprises have started to raise service charges of enterprises recently. Meanwhile, the input prices index went up from 52.0 in January to 53.0 in April, showing that input prices have increased at a relatively fast pace recently.

The business expectation index was 60.3 in April, well above the critical 50-mark, suggesting that purchasing managers in the non-manufacturing sector have stayed optimistic about the near-term outlook for their respective industries.

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 18 China's manufacturing PMI at a glance, April 2019

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	50.1	Lower	Expanding
Output	52.1	Lower	Expanding
New Orders	51.4	Lower	Expanding
New Export Orders	49.2	Higher	Contracting
Backlogs of Orders	44.0	Lower	Contracting
Stocks of Finished Goods	46.5	Lower	Contracting
Purchases of Inputs	51.1	Lower	Expanding
Imports	49.7	Higher	Contracting
Input Prices	53.1	Lower	Rising
Stocks of Major Inputs	47.2	Lower	Contracting
Ex-factory Prices	52.0	Higher	Rising
Employment	47.2	Lower	Contracting
Suppliers' Delivery Time	49.9	Lower	Slowing
Business Expectations	56.5	Lower	Optimistic

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

Exhibit 19 China's non-manufacturing purchasing managers' index (NMI) at a glance, April 2019

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	54.3	Lower	Expanding
New orders	50.8	Lower	Expanding
Input prices	53.0	Higher	Rising
Sales prices	50.5	Lower	Rising
Business expectations	60.3	Lower	Optimistic

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

A Recent developments

1. Growth rates of both exports and imports decelerate in 1Q19

The growth of China's exports decelerated to 1.4% yoy in 1Q19 from 4.6% yoy in 4Q18, indicating that the export demand for Chinese products stayed weak (see exhibits 20, 21 and 22). Overall, in 1Q19, China's exports amounted to US\$ 551.8 billion.

China's exports to the EU and the ASEAN showed high single-digit growth in 1Q19. The growth rates of China's exports to the EU and the ASEAN registered 8.8% yoy and 9.8% yoy respectively in 1Q19. In contrast, China's exports to the US fell by 8.5% yoy in 1Q19, amid ongoing trade frictions between China and the US. Meanwhile, China's exports to Brazil and India, major emerging countries in the world, dropped by 1.7% yoy and 1.6% yoy respectively.

The growth rate for China's imports turned negative in 1Q19. After gaining 4.8% yoy in 4Q18, China's imports dropped by 4.8% yoy in 1Q19. The figure shows that the domestic demand for imported goods has been sluggish lately. Overall, in 1Q19, China's imports totalled US\$ 475.5 billion.

China's trade surplus dropped markedly from US\$ 136.6 billion in 4Q18 to US\$ 76.3 billion in 1Q19. The reason for the fall in trade surplus in 1Q19 was that exports decreased faster than imports in the quarter. Compared to 4Q18, China's imports fell by US\$ 53.8 billion in 1Q19, while China's exports dropped at a faster pace by US\$ 114.0 billion in 1Q19, as most factories suspended their operations during Chinese New Year holidays.

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Exhibit 20 China's quarterly foreign trade data, 2Q18 to 1Q19

USD billion (yoy growth)

	Exports		Imports		Trade Balance
FY18	2,487.4	(9.9%)	2,135.6	(15.8%)	351.8
2Q18	630.0	(11.8%)	534.7	(20.2%)	95.3
3Q18	659.6	(11.6%)	572.0	(20.7%)	87.6
4Q18	665.8	(4.6%)	529.2	(4.8%)	136.6
1Q19	551.8	(1.4%)	475.5	(-4.8%)	76.3

Source: China Customs

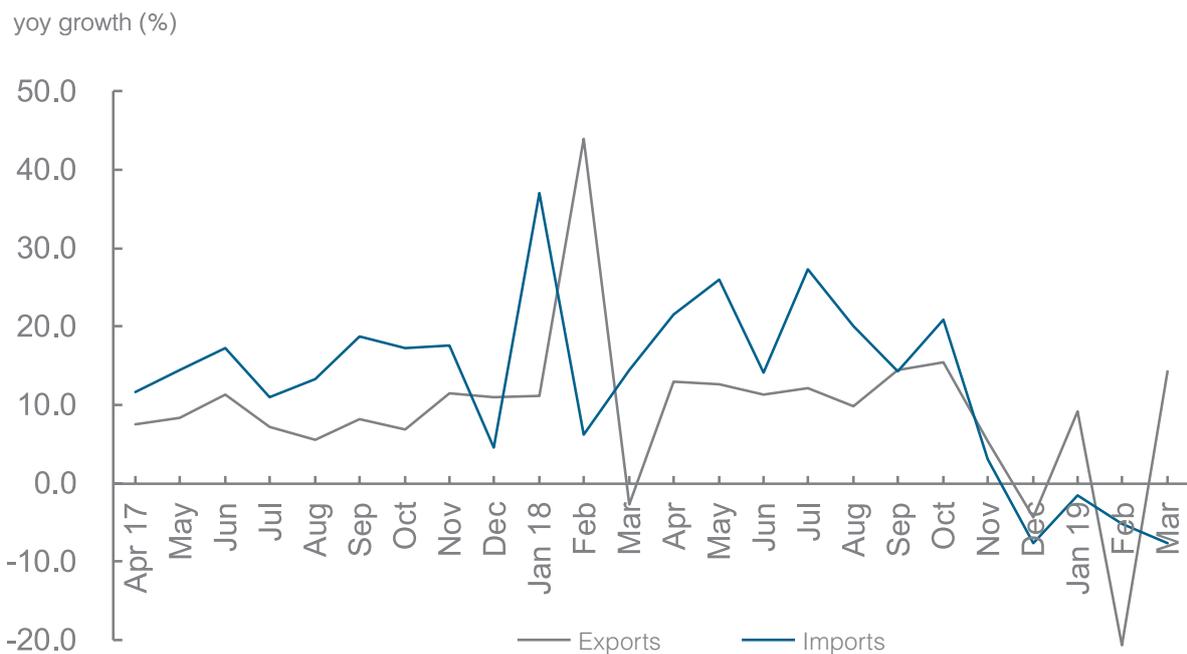
Exhibit 21 China's monthly foreign trade data, April 2018 to March 2019

USD billion (yoy growth)

	Exports		Imports		Trade Balance
April 2018	200.4	(12.9%)	171.7	(21.5%)	28.8
May	212.9	(12.6%)	187.9	(26.0%)	24.9
June	216.7	(11.3%)	175.1	(14.1%)	41.6
July	215.6	(12.2%)	187.5	(27.3%)	28.1
August	217.3	(9.8%)	189.5	(20.0%)	27.9
September	226.7	(14.5%)	195.0	(14.3%)	31.7
October	217.1	(15.6%)	182.3	(21.4%)	34.8
November	227.4	(5.4%)	182.7	(3.0%)	44.8
December	221.3	(-4.4%)	164.2	(-7.6%)	57.1
January 2019	217.6	(9.1%)	178.4	(-1.5%)	39.2
February	135.2	(-20.7%)	131.1	(-5.2%)	4.1
March	198.7	(14.2%)	166.0	(-7.6%)	32.7

Source: China Customs

Exhibit 22 Growth rates of exports and imports, April 2017 to March 2019



Source: China Customs

Part 2 : Foreign Trade

Exhibit 23 Exports by category, 2018 and 1Q19

<i>yoy growth (%) of export value, calculated in USD</i>	2018	1Q19
Textile materials and products	8.1	3.9
Garments and clothing accessories	0.3	-6.5
Footwear	-2.7	-3.7
Toys	4.5	25.3
Coal	-27.6	82.0
Crude oil	-30.3	-67.7
Refined oil	41.3	11.3
Steel	11.2	2.6
Mechanical and electrical products	10.6	0.2

Source: China Customs

Exhibit 24 Imports by category, 2018 and 1Q19

<i>yoy growth (%) of import value, calculated in USD</i>	2018	1Q19
Cereal and cereal flour	-8.8	-9.5
Soybean	-4.0	-11.5
Iron ore	-1.3	3.4
Crude oil	46.7	1.0
Refined oil	39.1	1.7
Steel	8.3	-16.3
Textile yarns, fabric and textile products	3.0	-7.0
Vehicles and vehicle chassis	0.0	-15.5

Source: China Customs

2. General trade exports maintain positive year-on-year growth in 1Q19

In 1Q19, the general trade¹¹ exports maintained positive year-on-year growth, while the processing trade¹² exports posted year-on-year decline in the quarter. The growth in general trade exports softened to 5.5% yoy in 1Q19 from 7.2% yoy in 4Q18. In the meantime, the growth in processing trade exports worsened to minus 5.2% yoy in 1Q19 from minus 0.3% yoy in 4Q18 (see exhibit 25).

On the import side, the growth in general trade imports decelerated markedly from 4.1% yoy in 4Q18 to minus 4.2% yoy in 1Q19. Meanwhile, the growth rate for processing trade imports worsened to minus 9.9% yoy

in 1Q19 from minus 0.1% yoy in 4Q18. In our view, the year-on-year drop of the processing trade imports in 1Q19 suggests that the processing trade exports are likely to continue to show negative growth in the coming months, as processing trade imports serve as a leading indicator of processing trade exports performance.

The share of processing trade in China's total trade fell to 25.5% in 1Q19 from 28.6% in 4Q18. Nevertheless, with a large surplus of US\$ 73.1 billion in 1Q19, processing trade plays a vital 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 25

China foreign trade (general and processing trades), 2018 to 1Q19

Item	yoy growth (%)			Share (%)		
	FY18	4Q18	1Q19	FY18	4Q18	1Q19
Exports	9.9	4.6	1.4	100.0	100.0	100.0
Of which:						
General Trade	13.9	7.2	5.5	56.3	55.6	58.4
Processing Trade	4.9	-0.3	-5.2	32.0	33.0	30.3
Imports	15.8	4.8	-4.8	100.0	100.0	100.0
Of which:						
General Trade	17.4	4.1	-4.2	59.7	57.3	60.9
Processing Trade	8.6	-0.1	-9.9	22.0	23.0	19.8
Total of Imports and Exports	12.6	4.7%	-1.5	100.0	100.0	100.0
Of which:						
General Trade	15.5	5.8%	0.7	57.9	56.3	59.5
Processing Trade	6.2	-0.2%	-6.9	27.4	28.6	25.5

Source: China Customs

3. China's exports to US post sharp growth deceleration in 1Q19

The EU was still China's largest trading partner, accounting for 15.8% of China's total foreign trade in 1Q19. Sino-EU trade amounted to US\$ 162.6 billion, up by 5.9% yoy in 1Q19. Specifically, China's exports to the EU expanded by 8.8% yoy in 1Q19, compared to the growth of 9.8% yoy in 2018; and China's imports from the EU increased at a slower pace by 1.8% yoy in 1Q19, compared to the growth of 11.7% yoy in 2018 (see exhibits 26 and 27).

Accounting for 13.3% of China's total foreign trade, the Association of South East Asian Nations (ASEAN) overtook the US to become China's second largest trading partner in 1Q19. Sino-ASEAN trade grew by 2.7% yoy to US\$ 77.4 billion in 1Q19. Of which, China's exports to ASEAN rose by 9.8% yoy, while China's imports from ASEAN dropped by 5.3% yoy, in 1Q19.

Accounting for 11.6% of China's total foreign trade, the US was only China's third largest trading partner in 1Q19. Sino-US trade decreased by 15.4% yoy to US\$ 119.6 billion in 1Q19, against the backdrop of ongoing trade frictions between China and the US. China's exports to the US fell by 8.5% yoy in 1Q19, after rising by 11.3% yoy in 2018. Meanwhile, China's imports from the US dropped markedly by 31.8% yoy in 1Q19, compared to the positive growth of 0.7% yoy in 2018.

Sino-Japanese trade decreased by 2.1% yoy to US\$ 74.2 billion in 1Q19. China's exports to Japan gained 2.6% yoy, while China's imports from Japan fell by 6.1% yoy in 1Q19.

4. Growth rates for China's exports to and imports from Russia decelerates significantly in 1Q19

China's export growth to Russia fell to 3.7% yoy in 1Q19 from 12.0% yoy in 2018. Meanwhile, China's import growth from Russia decelerated significantly to 4.7% yoy in 1Q19 from 42.7% yoy in 2018 (see exhibits 26 and 27). Consequently, the growth in China's trade with Russia dropped to 4.2% yoy in 1Q19 from 27.1% yoy in 2018.

China's export growth to India worsened to minus 1.6% yoy in 1Q19 from 12.7% yoy in 2018, while China's import growth from India fell to minus 2.7% yoy in 1Q19 from 15.2% yoy in 2018. Overall, the growth of Sino-Indian trade decelerated to minus 1.9% yoy in 1Q19 from a positive 13.2% yoy in 2018.

The growth in China's exports to Brazil fell to minus 1.7% yoy in 1Q19 from 16.3% yoy in 2018. In the meantime, the growth in China's imports from Brazil decelerated to 23.8% yoy in 1Q19 from 31.7% yoy in 2018. Consequently, the growth in Sino-Brazilian trade dropped to 15.1% yoy in 1Q19 from 26.6% yoy in 2018.

Together, these three BRIC members accounted for 6.3% of China's total exports and 7.4% of China's total imports in 1Q19, close to the 6.4% and 7.3% shares, respectively, in 2018.

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Exhibit 26 China's trading partners, 1Q19

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	162.6	15.8	97.8	64.8	5.9	8.8	1.8
US	119.6	11.6	91.1	28.5	-15.4	-8.5	-31.8
ASEAN	137.1	13.3	77.4	59.7	2.7	9.8	-5.3
Japan	74.2	7.2	35.3	38.9	-2.1	2.6	-6.1
Brazil	25.1	2.4	7.3	17.8	15.1	-1.7	23.8
Russia	24.2	2.4	10.6	13.5	4.2	3.7	4.7
India	21.6	2.1	17.2	4.5	-1.9	-1.6	-2.7

Source: China Customs

Exhibit 27 China's trading partners, comparing growth rates for 2018 and 1Q19

Country/Region	Total Trade		Exports		Imports	
	2018	1Q19	2018	1Q19	2018	1Q19
EU	10.6	5.9	9.8	8.8	11.7	1.8
US	8.5	-15.4	11.3	-8.5	0.7	-31.8
ASEAN	14.1	2.7	14.2	9.8	13.8	-5.3
Japan	8.1	-2.1	7.2	2.6	8.9	-6.1
Brazil	26.6	15.1	16.3	-1.7	31.7	23.8
Russia	27.1	4.2	12.0	3.7	42.7	4.7
India	13.2	-1.9	12.7	-1.6	15.2	-2.7

Source: China Customs

5. Exports from Shanghai post double-digit drop in January to February 2019

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Shanghai, Zhejiang, Shandong and Fujian – jointly accounted for 77.1% of China's total exports in January to February 2019, up from the 76.9% share in 2018 (see exhibit 28). Among these six provinces, Shanghai saw the sharpest drop in exports while Guangdong witnessed the smallest fall. Exports from Shanghai fell by 13.1% yoy, while exports from Guangdong dropped by 3.2% yoy in January to February 2019.

Several provinces in China still managed to show double-digit growth in exports in January to February 2019. For example, exports from Hainan, Sichuan, Guangxi and Chongqing grew by 80.1% yoy, 20.4% yoy, 23.5% yoy and 15.2% yoy respectively over the period.

Exhibit 28 Top six provinces and municipalities in terms of value of exports, January to February 2019

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	97.1	-3.2	27.5
Jiangsu	59.4	-4.8	16.8
Zhejiang	50.9	-7.3	14.4
Shanghai	24.7	-13.1	7.0
Shandong	24.5	-4.3	6.9
Fujian	15.8	-5.5	4.5

Source: China Customs

6. China's FDI grows by 5.5% yoy in January to February 2019

China's foreign direct investment (FDI) in Renminbi terms increased by 6.6% yoy in February, recording positive year-on-year growth for three consecutive months. Overall, in January to February 2019, China's FDI amounted to 147.1 billion yuan, up by 5.5% yoy (see exhibit 29).

In January to February 2019, FDI in the Hi-Tech industries soared by 48.4% yoy to 40.6 billion yuan, accounting for 27.6% of the total FDI during the period. Among Hi-Tech industries in the manufacturing sector, FDI in the 'aviation, spacecraft and equipment industry', the 'electronics and communications equipment industry' and the 'computers and office equipment industry' grew rapidly by 252.7% yoy, 21.2% yoy and 253.1% yoy respectively during the period. Among Hi-Tech industries in the service sector, FDI in the 'information services industry', the 'research and development and design services industry' and the 'transformation of scientific and technological achievements industry' rose strongly by 101.9% yoy, 29.2% yoy and 76.4% yoy respectively in January to February 2019.

Among major sources, FDI from Korea, Singapore, the US, Netherlands, Germany and France soared by 35.6% yoy, 8.4% yoy, 44.3% yoy, 174.8% yoy, 39.9% yoy and 113.3% yoy respectively in January to February 2019.

7. China's foreign exchange reserves rebound in 1Q19

As at the end of 1Q19, China's foreign exchange reserves amounted to US\$ 3,098.8 billion, up by US\$ 26.1 billion compared with end-4Q18 (see exhibit 30). This was the first time in four quarters that the foreign exchange reserves posted a quarter-on-quarter gain. The rise in the foreign exchange reserves in 1Q19 was due largely to an increase in the value of financial assets held by the Chinese government.

Looking ahead, we expect that China's foreign exchange reserves will stay relatively stable in the near future. A major reason is that the recent stabilisation of the Chinese yuan against the US is likely to improve investors' confidence in yuan-denominated assets, which would in turn limit capital outflows.

Exhibit 29 China's FDI, March 2018 to February 2019

	Amount (billion yuan)	yoy growth
FY18	885.6	0.9%
January to February 2019	147.1	5.5%
March 18	88.1	0.4%
April	59.2	-1.1%
May	58.8	7.6%
June	100.7	0.3%
July	50.4	14.9%
August	63.7	1.9%
September	76.3	8.0%
October	64.5	7.2%
November	92.1	-26.3%
December	92.3	24.9%
January 2019	84.2	4.8%
February	62.9	6.6%

Source: Ministry of Commerce, PRC

Exhibit 30 Foreign exchange reserves by quarter, 1Q18 to 4Q18

<i>USD billion</i>	Accumulation	End of the quarter
FY18	-67.2	
2Q18	-30.7	3,112.1
3Q18	-25.1	3,087.0
4Q18	-14.3	3,072.7
1Q19	26.1	3,098.8

Source: State Administration of Foreign Exchange, PRC

B Highlights

1. China and US move closer to trade deal

China and the US held two rounds of high-level trade talks to resolve trade conflicts in late February and early April. On 24 February, US President Donald Trump announced that he would extend the 1 March deadline for trade negotiations and postpone the scheduled tariff increase on US\$200 billion worth of Chinese imports. In the latest round of bilateral trade talks that ran from 3 April to 5 April, the two negotiation teams discussed the agreement text on several structural issues, trade balance and the enforcement mechanism for a potential deal, and achieved some progress. Donald Trump also said on 4 April that the two sides were very close to a deal, and that a trade deal may be reached 'within the next four weeks'.

US Treasury Secretary Steven Mnuchin said on 10 April that the US and China have largely agreed on a mechanism to monitor any trade agreement reached, including the establishment of new 'enforcement offices' by both countries. He added on 13 April that trade talks with China were 'getting close to the final round', and that the 'very, very detailed' agreement would have seven chapters.

China and the US have been engaging in further negotiations via video conference and phone calls in recent weeks. The two countries are planning two rounds of face-to-face meetings in the weeks of 29 April and 6 May, and aiming for a signing ceremony in late May or early June, according to a Wall Street Journal report dated 17 April.

2. Chinese yuan stays relatively stable against US dollar

The exchange rate of the Chinese yuan against the US dollar has stayed relatively stable since late February. The daily fixing rate (also known as the central parity

rate) of the Chinese yuan against the US dollar was 6.7082 on 23 April, compared to 6.6901 on 28 February (see exhibit 31).¹³

In line with the movement of the daily fixing rate, the USD-CNY spot exchange rate has been relatively stable in recent months, after the Chinese yuan appreciated against the US dollar throughout late November last year to late February this year.¹⁴ So far this year, the spot exchange rate of the Chinese yuan has appreciated by 2.18% (as of 23 April) against the US dollar.

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.8765 on 10 January to 7.5257 on 2 April, and then fluctuated within a narrow range of 7.5290 to 7.5871 until late April (as of 23 April). So far this year, the daily fixing rate of the Chinese yuan against the Euro has appreciated by 3.94% (as of 23 April) (see exhibit 32).

According to the Bank for International Settlements, the real effective exchange rate (REER) of the yuan rose all the way from 119.98 in November to 124.51 in February, and then stayed high at 124.45 in March.¹⁵ Overall, in 1Q19, the Chinese yuan appreciated in real terms against its trading partners by 2.8% (see exhibit 33).

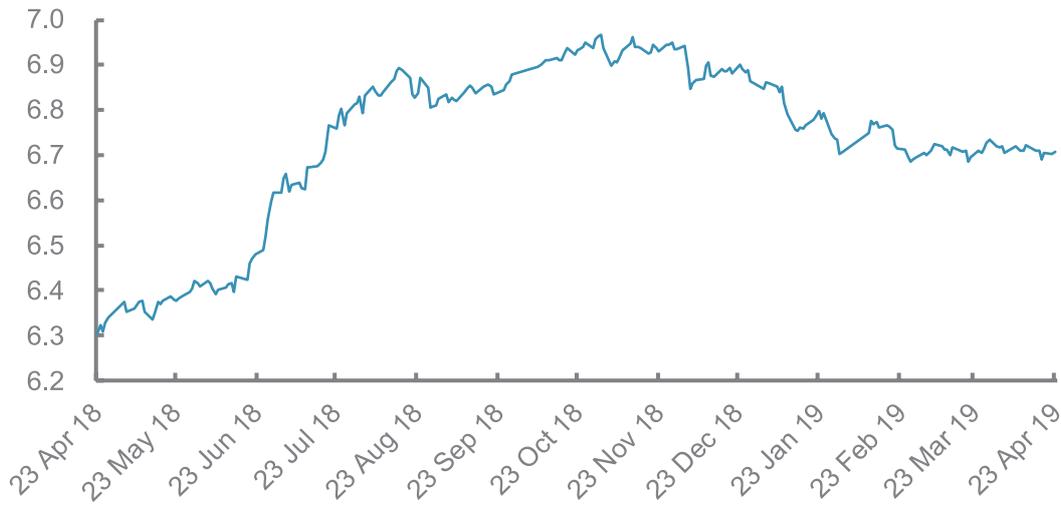
Looking ahead, we predict that the exchange rate of the Chinese yuan against the US dollar will stay strong in the near term due to the following reasons. The recent stabilisation of the Chinese economic growth, together with the government's move to introduce more stimulus policies, is likely to encourage capital inflows. Moreover, China and the US are widely expected to reach a trade deal soon. If this is the case, China's economic prospects will improve, and consequently, China's central bank will be under less pressure to further ease its monetary policy, thereby providing more support to the yuan exchange rate.

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 movements of major international currencies and 'counter cyclical coefficient'.

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

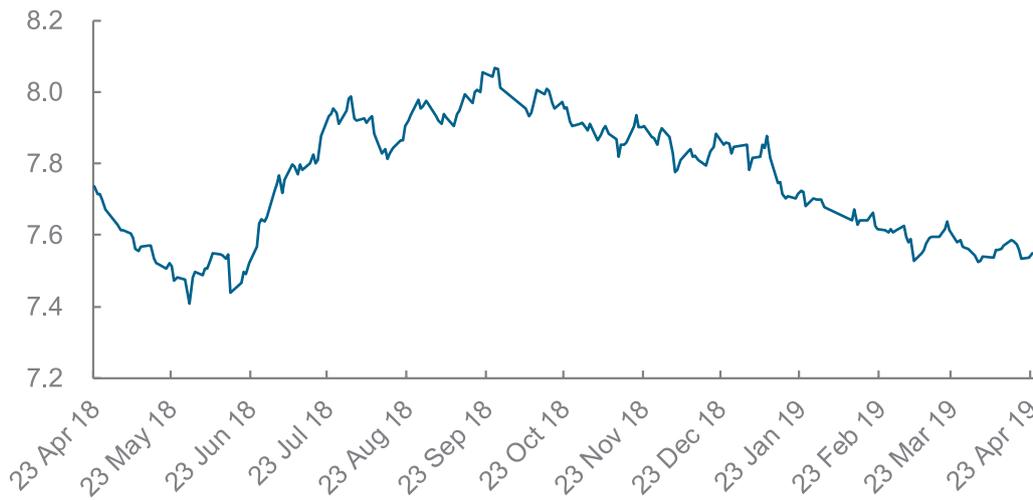
¹⁵ The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real 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 31 USD-CNY daily fixing rate, April 2018 to April 2019



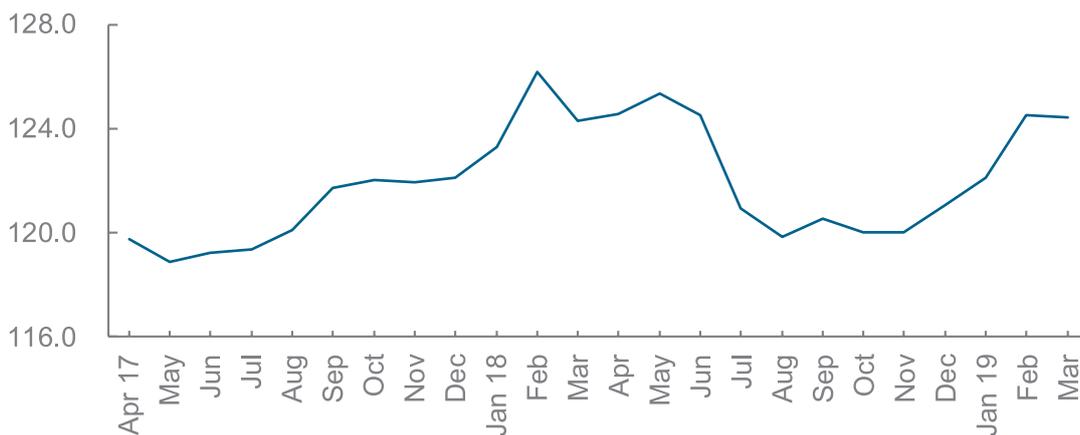
Source: State Administration of Foreign Exchange

Exhibit 32 EUR-CNY daily fixing rate, April 2018 to April 2019



Source: Bank for International Settlements

Exhibit 33 Real effective exchange rate of the Chinese yuan, April 2017 to March 2019



Source: State Administration of Foreign Exchange

C Outlook

1. Recent indicators paint a mixed picture of US economy

The US economic growth accelerated in 4Q18: The US real GDP expanded by an annual rate of 2.2% in 4Q18, compared to the annual growth of 3.4% in 3Q18. Recent indicators paint a mixed picture of the US economy. On the production side, the new orders for manufactured durable goods dropped by 1.6% mom in February. In contrast, industrial production grew by 0.1% mom in February, recording positive month-on-month growth in eight of the past nine months (see exhibit 35). Meanwhile, the manufacturing PMI rebounded from 54.2 in February to 55.3 in March, indicating a reacceleration in the growth of the manufacturing sector in the US.

past three months. Meanwhile, the Reuters/ University of Michigan index of consumer sentiment rose from 91.2 in January to 93.8 in February, and further to 98.4 in March, indicating a significant improvement in the confidence among US consumers (see exhibit 36).

The labour market in the US has remained solid: In March, the non-farm payroll employment increased by 196,000, close to the 12-month average of 211,000. Meanwhile, the unemployment rate fell from 4.0% in January to 3.8% in February and March (see exhibit 37).

The growth of the non-manufacturing sector has decelerated lately: the non-manufacturing index (NMI) went down from 59.7 in February to 56.1 in March. The US retail sales dropped by 0.2% mom in February, recording negative month-on-month growth in two of the

Looking ahead, the IMF predicts that the US economic growth will decelerate in the near future. According to the latest projection by the IMF, the real GDP growth rate for the US is forecast to slow from 2.9% in 2018 to 2.3% in 2019 and 1.9% in 2020.¹⁶

Exhibit 34 US national accounts, 2016 to 4Q18

Annual growth (%)	2017	2018	1Q18	2Q18	3Q18	4Q18
Real GDP	2.2	2.9	2.2	4.2	3.4	2.2

Source: US Department of Commerce

Exhibit 35 US industrial sector, September 2018 to February 2019

mom growth (%), seasonally adjusted	Sep 18	Oct	Nov	Dec	Jan 19	Feb
Industrial production	0.2	0.1	0.6	0.1	-0.4	0.1
New orders for manufactured durable goods	0.0	-4.3	0.9	1.3	0.1	-1.6

Source: US Federal Reserve, US Department of Commerce

Exhibit 36 US consumer market, October 2018 to March 2019

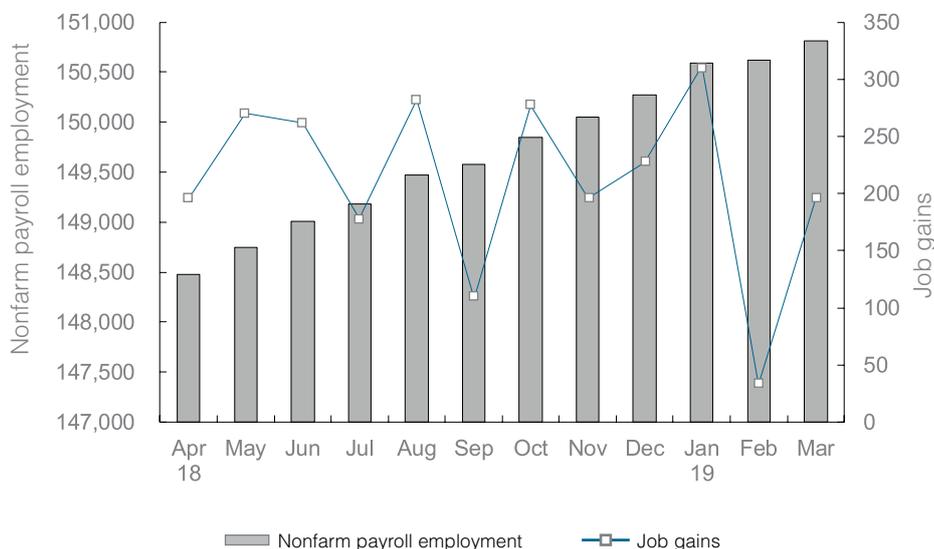
	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Retail and food services sales <i>(mom growth %, seasonally adjusted)</i>	1.0	0.0	-1.6	0.7	-0.2	-
Reuters/University of Michigan index of consumer sentiment	98.6	97.5	98.3	91.2	93.8	98.4
CPI <i>(yoy growth %)</i>	2.5	2.2	1.9	1.6	1.5	-

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

Exhibit 37 US employment

	Unemployment rate (%)
2017	4.4
2018	3.9
Apr 18	3.9
May	3.8
Jun	4.0
Jul	3.9
Aug	3.8
Sep	3.7
Oct	3.8
Nov	3.7
Dec	3.9
Jan 19	4.0
Feb	3.8
Mar	3.8

*Nonfarm payroll employment, April 2018 to March 2019
In thousands, seasonally adjusted*



Yearly figures: Annual average
Monthly figures: Seasonally adjusted

Source: US Department of Labor

2. Manufacturing sector in Eurozone continues to contract

Recent indicators indicate a growth deceleration of the Eurozone economy.¹⁷ According to the global survey firm Markit Economics, the Eurozone manufacturing PMI fell from 50.5 in January to 49.3 in February, dipping into the contractionary zone for the first time since June 2013. The index dropped further to 47.5 in March, showing that the manufacturing sector in the Eurozone has contracted at a faster pace recently.

In contrast, the service sector in the region has fared relatively well. The Eurozone services PMI went up from 51.2 in January to 52.8 in February, and rose further to a four-month high of 53.3 in March, indicating a growth acceleration of the service sector in the region.

In addition, the retail trade volume in the Eurozone increased by 0.4% mom on a seasonally adjusted basis

in February, recording positive month-on-month growth in four of the past five months (see exhibit 39). This coincided with a gradual improvement in the labour market conditions in the region. The seasonally-adjusted unemployment rate fell from 7.9% in December to 7.8% in January and February (see exhibit 40).

Nevertheless, confidence among consumers and managers in various sectors has weakened: the Eurozone's economic sentiment indicator (ESI) dropped further to 105.5 in March, the lowest level since November 2016 (see exhibit 41).

Looking ahead, the growth of the Eurozone economy is expected to decelerate this year. In its latest *World Economic Outlook* published in April, the IMF forecasts that the real GDP growth rate for the Eurozone will soften from 1.8% in 2018 to 1.3% in 2019, before rebounding slightly to 1.5% in 2020.¹⁸

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Exhibit 38 Eurozone's real GDP growth, 2016 to 4Q18

	2017	2018	1Q18	2Q18	3Q18	4Q18
Real GDP (<i>qoq growth %</i>)			0.4	0.4	0.1	0.2
Real GDP (<i>yoy growth %</i>)	2.4	1.8	2.4	2.1	1.6	1.1

Source: Eurostat, IMF

Exhibit 39 Eurozone consumer market, September 2018 to February 2019

	Sep 18	Oct	Nov	Dec	Jan 19	Feb
Volume of retail trade (<i>mom growth %, seasonally adjusted</i>)	-0.4	0.7	0.9	-1.4	0.9	0.4
Annual inflation (%)	2.1	2.3	1.9	1.5	1.4	1.5

Source: Eurostat

Exhibit 40 Eurozone labour market, September 2018 to February 2019

<i>seasonally adjusted</i>	Sep 18	Oct	Nov	Dec	Jan 19	Feb
Unemployment rate (%)	8.0	8.0	7.9	7.9	7.8	7.8

Source: Eurostat

¹⁷ The member countries of the Eurozone include Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

¹⁸ IMF, *World Economic Outlook*, April 2019

Exhibit 41

Eurozone economic sentiment indicator, October 2018 to March 2019

<i>seasonally adjusted</i>	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Economic sentiment indicator	109.7	109.5	107.4	106.3	106.2	105.5

Source: Eurostat

3. China's exports are expected to show negative growth in 2Q19

According to the *World Economic Outlook* released in April, the IMF cuts its forecasts on world economic growth in 2019 by 0.2 ppt., compared to its previous projections made in January this year. The primary reason behind the latest downward revision is that the slower growth momentum of the world economy is expected to persist in the first half of 2019. The IMF forecasts that the world economic growth will fall from 3.6% in 2018 to 3.3% in 2019 and will improve to 3.6% in 2020. The growth in the advanced economies is projected to decelerate from 2.2% in 2018 to 1.8% in 2019, and further to 1.7% in 2020. Meanwhile, the growth in the emerging market and developing economies is projected to fall from 4.5% in 2018 to 4.4% in 2019, and to rebound strongly to 4.8% in 2020 (see exhibit 42).

Looking ahead, we forecast that China's exports will show negative year-on-year growth in 2Q19, compared to the small positive growth of 1.4% yoy in 1Q19. Challenges facing Chinese manufacturers include ongoing trade frictions between China and the US, intense competition in the international market, and the weak demand for luxury products.

Exhibit 42

Latest GDP growth forecasts by the IMF

<i>yoy growth (%)</i>	2018 (Estimates)	2019 (Forecasts)	2020 (Forecasts)
World economy	3.6	3.3	3.6
Advanced economies	2.2	1.8	1.7
US	2.9	2.3	1.9
Eurozone	1.8	1.3	1.5
Japan	0.8	1.0	0.5
Emerging market and developing economies	4.5	4.4	4.8
China	6.6	6.3	6.1
India *	7.1	7.3	7.5
Brazil	1.1	2.1	2.5
Russia	2.3	1.6	1.7

* Data and forecasts are presented on a fiscal year basis.

Source: IMF, US Department of Commerce, Eurostat, National Bureau of Statistics, PRC

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