

China Trade Quarterly

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Domestic Trade

Retail sales of consumer goods grow by 8.4% yoy in 1H19.

Growth rates of income of both rural and urban households edge up in 1H19.

Growth in nominal fixed asset investment eases to 5.8% yoy in 1H19.

China unveils two-year action plan to promote upgrading of key consumer goods.

Manufacturing PMI returns to contractionary zone in May and stays low in June and July.

NMI reading indicates continued expansion in non-manufacturing sector.

Foreign Trade

Both exports and imports fall year-on-year in 2Q19.

Exports to US decline by 8.1% yoy in 1H19.

Exports from Shanghai fall by 10.4% yoy in January to May 2019.

FDI grows by 7.2% yoy in 1H19.

Foreign exchange reserves rise for second consecutive quarter in 2Q19.

Yearlong trade war between China and US re-escalates in past three months.

Chinese yuan stays relatively stable against US dollar in past two months.

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Executive Summary

Domestic Trade

Retail sales of consumer goods reached 19.5 trillion yuan in 1H19, up by 8.4% yoy. Online retail sales of goods, which accounted for 19.6% of total retail sales, increased markedly by 21.6% yoy over the period.

Growth rates of income of both rural and urban households edged up in 1H19. The per capita disposable income of rural households grew nominally by 8.9% yoy to reach 7,778 yuan; while the per capita disposable income of urban households rose by 8.0% yoy in nominal terms to reach 21,342 yuan in 1H18.

Growth in nominal fixed asset investment eased to 5.8% yoy in 1H19 from 5.9% yoy in 2018, mainly attributable to the deceleration of FAI growth of the manufacturing sector.

On 6 June, the Chinese government unveiled a two-year action plan to promote the upgrading of key consumer goods such as cars, home appliances and consumer electronics products, and facilitate resource recycling. The plan aims to stimulate consumption and transition the economy to one with a higher reliance on environment-friendly consumer products.

Manufacturing PMI returned to contractionary zone in May and stayed low in June and July. The manufacturing PMI dropped from 50.1 in April to 49.4 in May, and stayed low at 49.4 in June and 49.7 in July. The latest figures indicate downward pressure on China's manufacturing sector and economy.

The NMI fluctuated within a narrow range of 54.2 to 54.3 throughout April to June, before dropping to 53.7 in July. The NMI reading indicates a continued expansion in the non-manufacturing sector.

Foreign Trade

Both exports and imports fell year-on-year in 2Q19. Exports dropped by 1.0% yoy in 2Q19 after rising by 1.3% yoy in 1Q19, while imports fell by 4.1% yoy in 2Q19 after dropping by 4.6% yoy in 1Q19.

China's exports to the EU and the ASEAN managed to post single-digit growth rates of 6.0% yoy and 7.9% yoy, respectively, in 1H19. It is noteworthy that exports to the US declined by 8.1% yoy in 1H19 and the ASEAN overtook the US to become China's second largest trading partner in period.

Exports from Shanghai fell by 10.4% yoy, while exports from Fujian rose by 3.3% yoy in January to May 2019. In contrast, provinces such as Hainan and Sichuan still managed to post double-digit growth in exports in the five-month period.

FDI increased by 7.2% yoy to 478.3 billion yuan in 1H19. FDI in the Hi-Tech industries soared by 44.3% yoy, accounting for 28.8% of the total FDI during the period.

Foreign exchange reserves amounted to US\$3,119.2 billion as at the end of 2Q19, up by US\$20.5 billion compared with end-1Q19. This was the second consecutive quarter that the foreign exchange reserves posted a quarter-on-quarter gain.

The yearlong trade war between China and the US escalated in the past three months. The US raised the additional tariff rate on US\$200 billion worth of Chinese goods from 10% to 25% on 10 May. In retaliation, China raised the tariff rate on roughly US\$60 billion worth of US products from 1 June. Just one day after negotiators from the two countries concluded a new round of trade talks in Shanghai on 31 July, Trump announced that the US will impose 10% additional tariffs on another US\$300 billion worth of Chinese imports starting 1 September.

The Chinese yuan has stayed relatively stable against the US dollar in the past two months, after depreciating against the US dollar during late April to late May. The daily fixing rate of the Chinese yuan against the US dollar was 6.8841 on 31 July, compared with 6.8992 on 31 May.

A Recent developments

1. China's real GDP growth falls to 27-year low of 6.2% in 2Q19

China's real GDP growth decelerated from 6.4% year-on-year (yoy) in 1Q19 to 6.2% yoy in 2Q19, the lowest since quarterly records began in 1992. The latest figure indicates a further moderation in the growth of the Chinese economy (*see exhibit 1*). Overall, in 1H19, China's nominal GDP amounted to 45.1 trillion yuan, up by 6.3% yoy in real terms.

Compared with 2018, the growth of the tertiary industry decelerated while that of the secondary industry stayed stable in 1H19. The real growth rate of the value-added of the tertiary industry came in at 7.0% yoy in 1H19, lower than the 7.6% yoy growth in 2018. In the meantime, the real growth rate of the value-added of the secondary industry was 5.8% yoy in 1H19, the same as in 2018.

In 1H19, final consumption expenditure contributed 3.8 ppts to the real GDP growth, while gross capital formation contributed 1.2 ppts. These figures show that China has been shifting towards a consumption-led economy.

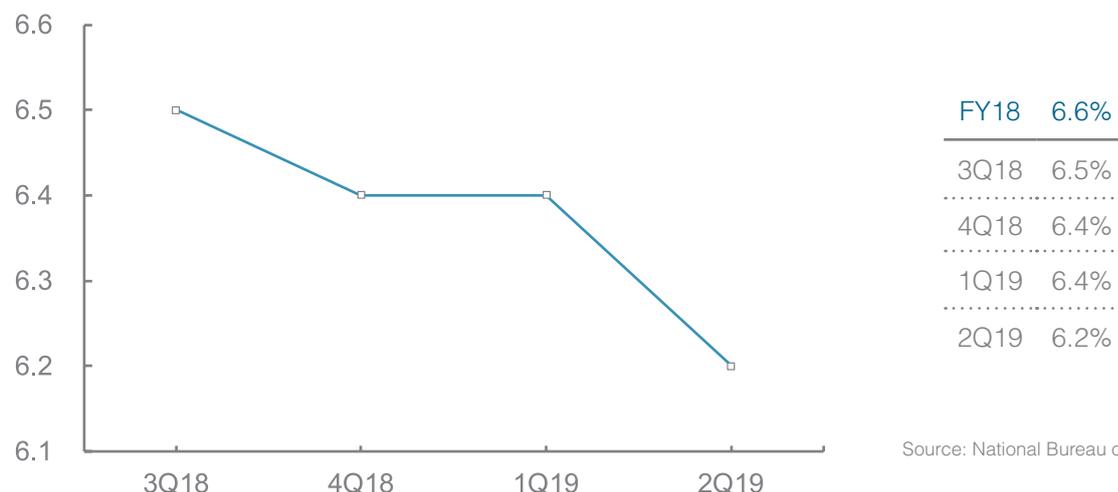
Looking ahead, the Chinese economy is still under downward pressure with the China-US trade disputes lingering. The central government is likely to introduce

more policies to stabilize economic growth, in our view. In the short term, the central bank will continue to adopt an appropriate monetary policy to maintain reasonably sufficient liquidity. For example, the People's Bank of China (PBoC) lowered the required reserve ratios (RRRs) for small- and mid-sized banks by 50 basis points on 15 May to encourage more lending to small and private enterprises; and the PBoC cut the RRRs for county-level rural commercial banks on 17 June and 15 July. Moreover, the central government will continue with its proactive fiscal policy, such as lowering the value-added tax rates and reducing tax and fee burdens on enterprises; and allowing local governments to use proceeds from special bond issuance as equity capital to encourage investment in infrastructure projects. In addition, the central government unveiled a new action plan on 6 June to promote the upgrading of key consumer goods such as cars, home appliances and consumer electronics products to stimulate consumption. 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 stabilize at 6.2% in 3Q19.

Exhibit 1 China's real GDP growth, 3Q18 to 2Q19

yoy growth (%)



Source: National Bureau of Statistics, PRC

2. Growth in retail sales decelerates in 1H19

According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods plunged to 7.4% yoy in April, the lowest since May 2003, before rebounding to 8.6% yoy in May and 9.8% yoy in June. The month-on-month (mom) growth in seasonally-adjusted retail sales also rose from 0.51% in April to 0.96% in June.

Overall, in 1H19, the total retail sales of consumer goods reached 19.5 trillion yuan. The growth rate was 8.4%

yoy in 1H19, lower than the 9.0% yoy growth recorded in 2018 (see exhibits 2 and 3).

China's online retail sales of goods increased by 21.6% yoy to reach 3,816.5 billion yuan in 1H19. Consequently, the share of online retail sales in total retail sales of consumer goods went up to 19.6% in 1H19 from 18.4% in 2018, indicating the growing popularity of online shopping.

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



Source: National Bureau of Statistics, PRC

Exhibit 3 China's total retail sales, month-on-month nominal growth, January to June 2019

mom growth (%), seasonally adjusted

	Jan 19	Feb	Mar	Apr	May	Jun
Total retail sales	0.91	0.49	0.99	0.51	0.75	0.96

Source: National Bureau of Statistics, PRC

Both rural and urban retail sales have increased at a slower pace: the growth in rural retail sales decelerated to 9.1% yoy in 1H19 from 10.1% yoy in 2018, while the growth in urban retail sales slowed to 8.3% yoy in 1H19 from 8.8% yoy in 2018.

The growth in catering services sales came in at 9.4% yoy in 1H19, down slightly from 9.5% yoy in 2018. Meanwhile, the growth in sales of goods eased to 8.3% yoy in 1H19 from 8.9% yoy in 2018.

Exhibit 4 China's total retail sales, 2018 to 1H19

Nominal growth, yoy (%)	FY18	1Q19	1H19
Total retail sales	9.0	8.3	8.4
- Goods	8.9	8.2	8.3
Sales by enterprises above designated size	5.7	3.8	4.7
Online sales	25.4	21.0	21.6
- Catering services	9.5	9.6	9.6

Source: National Bureau of Statistics, PRC

3. Chinese consumers become less optimistic

The consumer confidence index² fell from 125.3 in April to 123.4 in May, which shows that Chinese consumers have become less optimistic recently (see exhibit 6).

4. Growth rates of income of both rural and urban households edge up in 1H19

The growth of income of both rural and urban households went up slightly in 1H19, compared with 2018. The nominal growth rate of the per capita disposable income of rural households, which amounted to 7,778 yuan in 1H19, was 8.9% yoy in 1H19, up from 8.8% yoy in 2018. Meanwhile, the nominal growth rate of the per capita disposable income of urban households, which totalled 21,342 yuan in 1H19, registered 8.0% yoy in 1H19, up from 7.8% yoy in 2018.

However, both rural and urban households' consumption expenditures increased at a slower pace in 1H19, compared with 2018. The nominal growth rate of the per capita consumption expenditure of rural households, which reached 6,310 yuan in 1H19, decelerated to 8.7% yoy in 1H19 from 10.7% yoy in 2018. Meanwhile, the per capita consumption expenditure of urban households, which amounted to 13,565 yuan in 1H19, fell to 6.4% yoy in 1H19 from 6.8% yoy in 2018.

¹ 'Enterprises above designated size' refer to wholesale enterprises with annual revenue of 20 million yuan or more, retail enterprises with annual revenue of 5 million yuan or more, and hotel and catering enterprises with annual revenue of 2 million yuan 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 designated size, by product, 2018 to 1H19

Nominal growth, yoy (%)	FY18	1Q19	1H19
Grain, oil and food	10.2	10.6	10.4
Beverages	9.0	9.3	9.9
Tobacco and liquor	7.4	5.9	6.0
Garments, footwear, hats and textiles	8.0	3.3	3.0
Cosmetics	9.6	10.9	13.2
Gold, silver and jewellery	7.4	2.6	3.5
Commodities for daily use	13.7	16.1	14.1
Home appliances and audio/video equipment	8.9	7.8	6.7
Traditional Chinese and Western medicines	9.4	10.8	10.9
Cultural and office appliances	3.0	3.8	4.2
Furniture	10.1	5.0	5.7
Communication appliances	7.1	10.0	7.4
Petroleum and related products	13.3	4.1	3.1
Automobiles	-2.4	-3.4	1.2
Building and decoration materials	8.1	8.1	3.6

Source: National Bureau of Statistics, PRC

Exhibit 6 China's consumer confidence index, June 2017 to May 2019



Source: National Bureau of Statistics, PRC

Jun 18	118.2
Jul	119.7
Aug	118.6
Sep	118.5
Oct	119.1
Nov	122.1
Dec	123.0
Jan 19	123.7
Feb	126.0
Mar	124.1
Apr	125.3
May	123.4

5. CPI growth stays high in June

The year-on-year growth rate of China's consumer price index (CPI)³ was 2.7% in June, the same as in May (see exhibits 7 & 8).

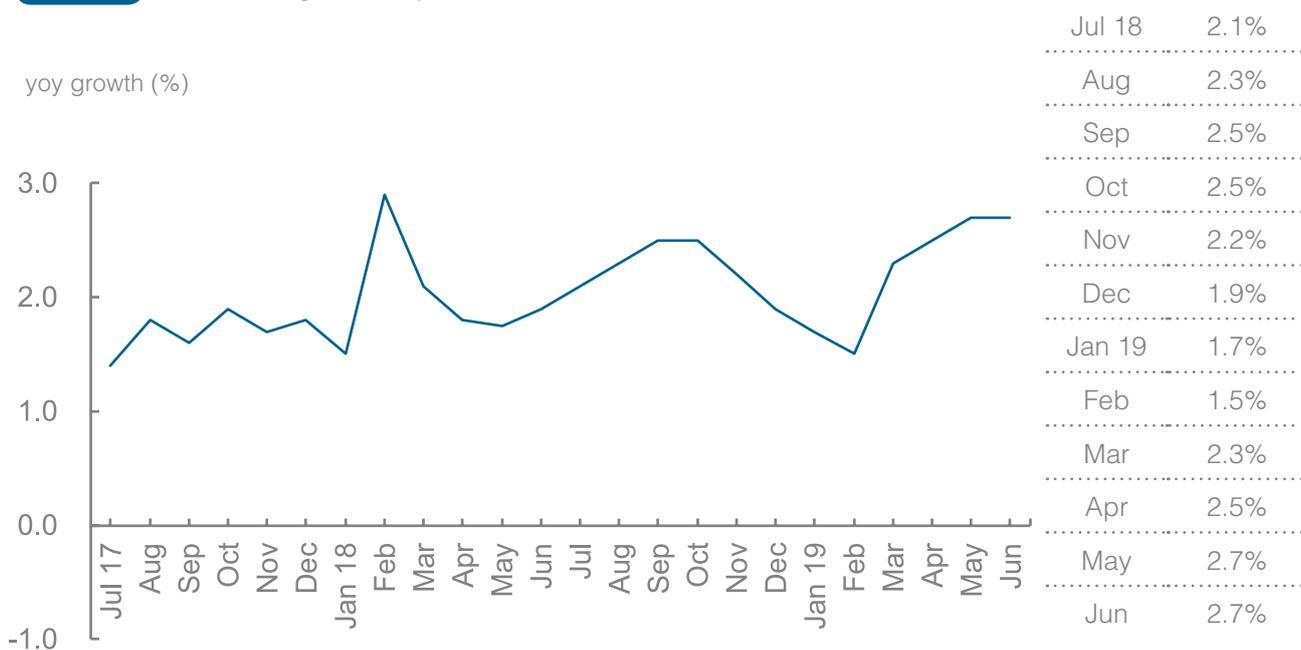
The reason for the stabilization of the CPI growth in June was that a rise in food inflation was offset by a drop in non-food inflation in the month. The year-on-year growth in the food component in the CPI climbed from 7.7% in May to 8.3% in June, due largely to a

further increase in fruit and pork prices. Meanwhile, the year-on-year growth in the non-food component declined from 1.6% in May to 1.4% in June.

Looking ahead, we expect that China's CPI growth will stay high in July but ease afterwards, as the impacts of the cut in value-added taxes across various sectors start to unfold.

Exhibit 7 China's CPI growth, July 2017 to June 2019

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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.

Exhibit 8 China's CPI growth by commodity, January to June 2019

<i>yoy growth (%)</i>	Jan 19	Feb	Mar	Apr	May	Jun
Food, tobacco and liquor	2.0	1.2	3.5	3.5	5.8	6.1
Clothing	1.6	2.0	2.0	2.0	1.7	1.8
Housing	2.1	2.2	2.1	2.1	1.8	1.6
Household goods and services	1.5	1.3	1.2	1.2	1.0	0.8
Transportation and communication	-1.3	-1.2	0.1	0.1	-0.9	-1.9
Education, culture and recreation	2.9	2.4	2.4	2.4	2.6	2.4
Healthcare	2.7	2.8	2.7	2.7	2.5	2.5
Other goods and services	2.3	2.0	1.9	1.9	2.1	2.7

Source: National Bureau of Statistics, PRC

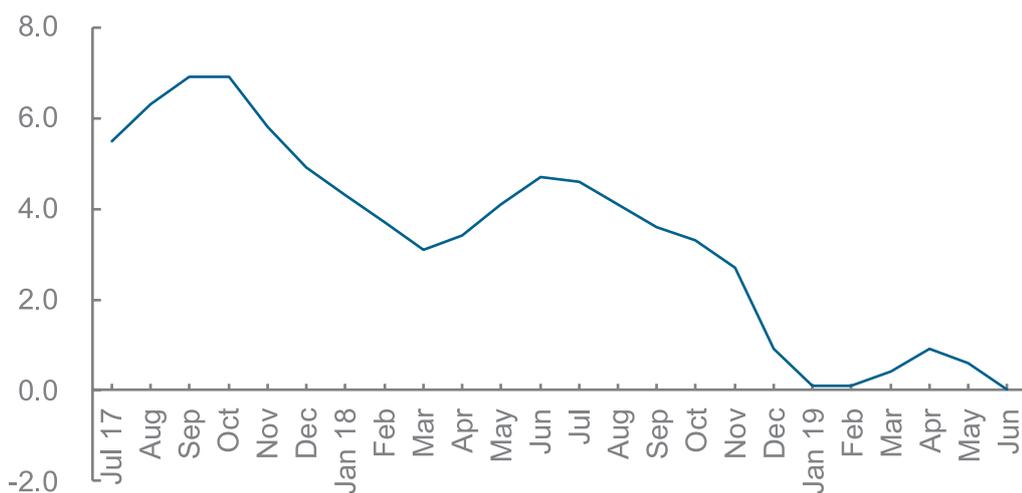
The year-on-year growth in China's producer price index of industrial products (PPI) went down from 0.6% in May to 0.0% in June (*see exhibits 9 & 10*).

On a month-on-month basis, the PPI dropped by 0.3% in June after rising by 0.2% in the previous month, as the ex-factory prices in the 'processing of petroleum, coking, processing of nucleus fuel', 'extraction of petroleum and natural gas', and 'manufacture and processing of ferrous metals' industries fell in June.

Looking ahead, we expect that the month-on-month growth in the PPI will remain negative in the near future, as the ex-factory prices sub-index of China's manufacturing PMI went down further from 49.0 in May to 45.4 in June and 46.9 in July, indicating strong deflationary pressure on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to return to negative territory in July and continue to fall in the following months, due largely to a sluggish aggregate demand and a higher base for comparison in the same period last year.

Exhibit 9 China's PPI growth, July 2017 to June 2019

yoy growth (%)



Jul 18	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%
Apr	0.9%
May	0.6%
Jun	0.0%

Source: National Bureau of Statistics, PRC

Exhibit 10 China's PPI growth by selected industry, January to June 2019

yoy growth (%)

	Jan 19	Feb	Mar	Apr	May	Jun
Textile	1.6	1.4	1.2	1.1	0.9	0.1
Textile wearing apparel and ornament	1.3	1.2	1.3	1.1	1.0	0.9
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.2	1.5	1.2	1.1	1.1	1.2

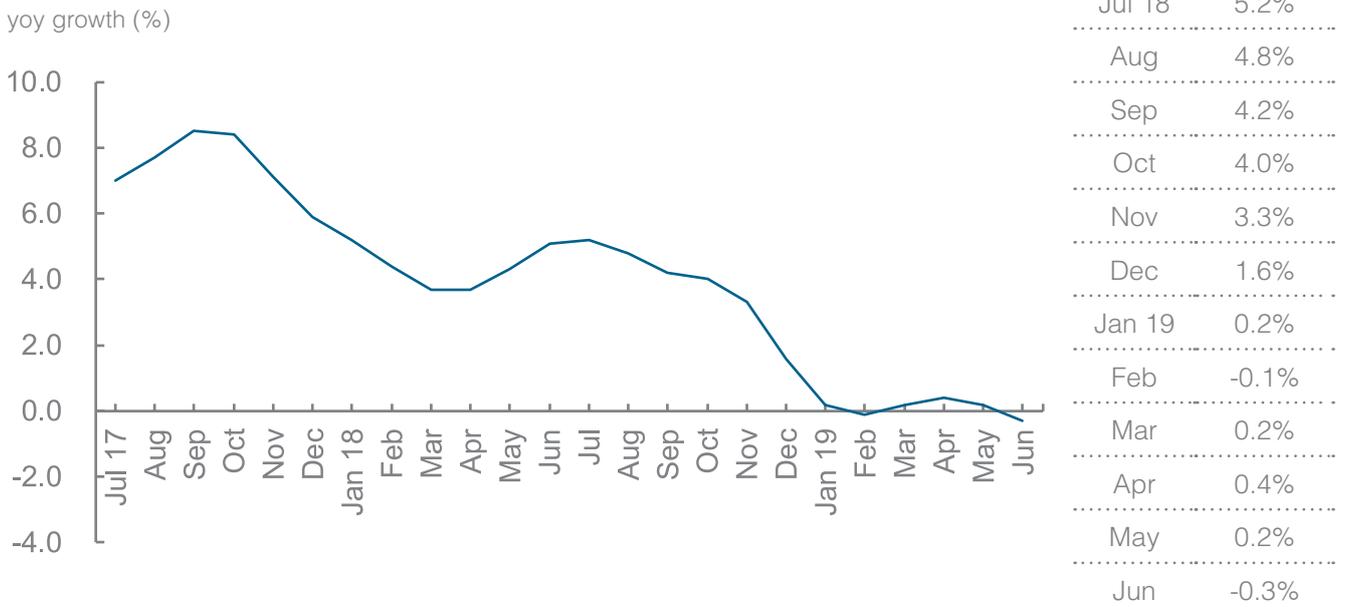
Source: National Bureau of Statistics, PRC

The year-on-year growth rate of the purchaser price index of industrial products fell from 0.2% in May to minus 0.3% in June, returning to negative territory and registering the lowest level since September 2016 (see exhibits 11 & 12). On a month-on-month basis, the purchaser price index edged down by 0.1% in June, after staying flat in May.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, dropped

to 49.8 in June from 51.8 in May, indicating deflationary pressure. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay low or negative in the near term. Meanwhile, the year-on-year growth rate of the index is likely to remain negative and fall further in the coming months, due mainly to a weak demand for production inputs and a higher comparison base in the same period last year.

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



Source: National Bureau of Statistics, PRC

Exhibit 12 China's purchaser price index of industrial products by selected commodity, January to June 2019

yoy growth (%)	Jan 19	Feb	Mar	Apr	May	Jun
Fuel and power	0.3	-0.5	0.7	1.6	1.4	-0.2
Non-ferrous metal materials and wires	-3.3	-2.9	-1.7	-1.6	-2.5	-3.5
Chemical raw materials	-1.6	-2.3	-2.4	-2.8	-3.5	-4.7
Wood and pulp	0.6	0.4	-0.4	-1.3	-2.5	-3.0
Textile raw materials	1.5	1.5	1.2	1.1	0.7	-0.1

Source: National Bureau of Statistics, PRC

6. Growth in industrial production decelerates

The real growth rate of China's industrial production (IP), measured by the value-added of industrial output (VAIO) of industrial enterprises above designated size⁴, decelerated rapidly from 8.5% yoy in March to 5.4% yoy in April, and further to 5.0% yoy in May, the lowest since February 2009, before rebounding to 6.3% yoy in June (see exhibit 13). Overall, in 1H19, China's IP expanded by 6.0% yoy, slower 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, and intense competition in the international market. Looking ahead, we expect that the industrial production (VAIO) growth will stabilize around 5.5% yoy in 3Q19.

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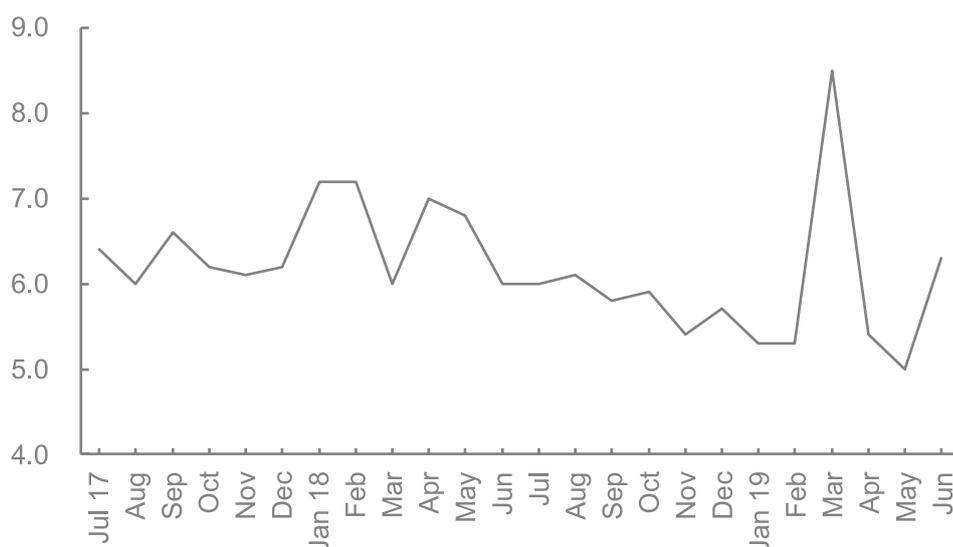
7. Industrial profits drop by 2.4% yoy in 1H19

The growth rate of the total profits earned by industrial enterprises above designated size improved from minus 3.7% yoy in April to 1.1% yoy in May, and then fell to minus 3.1% yoy in June. In 1H19, China's industrial profits totalled 2,984.0 billion yuan, down by 2.4% yoy, compared with a growth of 10.3% yoy in 2018 (see exhibit 14).

Among sectors, in 1H19, profits of the manufacturing sector declined by 4.1% yoy to 2,460.8 billion yuan. In contrast, profits of the mining sector increased by 4.2% yoy to 283.9 billion yuan, and profits of the 'electricity, heat, gas and water' sector grew by 9.0% yoy to 239.3 billion yuan.

Exhibit 13 China's industrial production growth, July 2017 to June 2019

yoy growth (%)



Jul 18	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%
Apr	5.4%
May	5.0%
Jun	6.3%

Source: National Bureau of Statistics, PRC

⁴ 'Industrial enterprises above designated size' refer to industrial enterprises with annual revenue of 20 million yuan or more.

Exhibit 14 China's industrial profits growth, December 2018 to June 2019

yoy growth (%)	Dec 18	Jan-Feb 19	Mar	Apr	May	Jun
Total profits made by industrial enterprises above a designated size	-1.9	-14.0	13.9	-3.7	1.1	-3.1

Source: National Bureau of Statistics, PRC

8. Fixed asset investment growth falls to record low in 1H19

The growth in China's nominal fixed asset investment (FAI) (excluding rural households) eased from 5.9% yoy in 2018 to 5.8% yoy in 1H19, the lowest half-year figure on record. Overall, in 1H19, China's nominal FAI (excluding rural households) amounted to 29.9 trillion yuan (*see exhibit 15*).

The drop in the overall FAI growth was mainly attributable to the deceleration of FAI growth for the manufacturing sector, which plunged to 3.0% in 1H19 from 9.5% yoy in 2018.

In contrast, the FAI growth for infrastructure (excluding power, heat, gas and water infrastructure) edged up to 4.1% yoy in 1H19 from 3.8% yoy in 2018, while the FAI growth for real estate development went up to 10.9% yoy in 1H19 from 9.5% yoy in 2018.

Looking ahead, we predict that the growth in China's FAI will stabilize in the near future, boosted by the Chinese government's efforts to increase infrastructure investment. For example, local governments are allowed to use proceeds from special-purpose bond issuance as equity capital for certain infrastructure projects, according to a document issued by the government on 10 June.⁵ The document also encourages local authorities and financial institutions to expand funding sources for major projects through market-based financing methods. Such a move would encourage local governments to boost their infrastructure investment.

Exhibit 15 China's FAI (excluding rural households) growth, January to June 2019

	Jan 19	Feb	Mar	Apr	May	Jun
FAI (excluding rural households) (year-to-date, yoy growth %)	-	6.1	6.3	6.1	5.6	5.8
FAI (excluding rural households) (mom growth %, seasonally adjusted)	0.44	0.46	0.46	0.43	0.42	0.44

Source: National Bureau of Statistics, PRC

B Highlights

1. China unveils plan to promote upgrading of key consumer goods

The Chinese government unveiled a two-year action plan on 6 June to promote the upgrading of key consumer goods such as cars, home appliances and consumer electronics products, and facilitate resource recycling.⁸ The plan aims to stimulate consumption and transition the economy to one with a higher reliance on environment-friendly consumer products. Consumers are encouraged to replace old products with upgraded green consumer products. To achieve this, the plan offers financial incentives, more relaxed regulations, and greater support for manufacturers and suppliers of these products.

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

Both the broad money supply (M2) and the total outstanding RMB loans have grown at a slower pace recently (*see exhibit 16*). The M2 growth softened to 8.5% yoy as at the end of June, compared with 8.6% yoy as at the end of March. The growth rate of total outstanding RMB loans was 13.0% yoy as at the end of June, down from 13.7% yoy as at the end of March. Overall, in 1H19, the total outstanding RMB loans rose by to 9.67 trillion yuan, a larger increase than seen in the same period last year (i.e. 9.03 trillion yuan).

The People's Bank of China (PBoC), China's central bank, has continued to take actions to maintain reasonably sufficient liquidity in the banking system in recent months. For example, it lowered the required reserve ratios (RRRs) for small- and mid-sized banks by 50 basis points on 15 May, releasing 280 billion yuan in liquidity; and it cut the RRRs for county-level rural commercial banks on 17 June and 15 July.

Going forward, we expect that China's central bank will continue to adopt a prudent monetary policy that is 'eased or tightened to the right degree', and that it will continue to cut the RRRs in the second half of this year to provide more financing support for the real economy.

3. 'Total social financing' increases at a faster pace in 1H19

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, entrusted loans, trust loans, bankers' acceptances, corporate bonds, local government special bonds, equity financing, asset-backed securities of depository financial institutions, written-off loans and other instruments) amounted to 13.2 trillion yuan in 1H19, much larger than the increase seen in the same period last year (i.e. 10.1 trillion yuan) (*see exhibit 17*).⁹

The faster increase in 'total social financing' in 1H19 was due mainly to a bigger rise in RMB loans, and faster issuance of corporate bonds and local government special bonds.

⁸ http://www.ndrc.gov.cn/zcfb/zcfbtz/201906/t20190606_938326.html

⁹ The People's Bank of China changed the statistical method of the total social financing in July and September 2018, incorporating 'asset-backed securities of depository financial institutions', 'written-off loans' and 'local government special bonds'. Consequently, the figures of the total social financing have been adjusted.

Exhibit 16 Broad money supply (M2) and RMB loans, July 2018 to June 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 1H19	16.17 9.67
End-Jul 18	177.6	8.5%	130.6	13.2%	Jul 18	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
End-Apr	188.5	8.5%	143.1	13.5%	Apr	1.02
End-May	189.1	8.5%	144.3	13.4%	May	1.18
End-Jun	192.1	8.5%	146.0	13.0%	Jun	1.66

Source: People's Bank of China

Exhibit 17 Increase in total social financing, 2018 to 1H19

	2018		1H19	
	Amount (billion yuan)	Share (%)	Amount (billion yuan)	Share (%)
Total social financing	19,260.0	100.0	13,230.0	100.0
- RMB loans to the real sector	15,670.0	81.4	10,020.0	75.8
- Foreign currency loans to the real sector	-420.1	-2.2	9.7	0.1
- Entrusted loans	-1,610.0	-8.4	-493.3	-3.7
- Trust loans	-690.1	-3.6	92.8	0.7
- Bankers' acceptances	-634.3	-3.3	-38.9	-0.3
- Corporate bonds	2,480.0	12.9	1,460.0	11.0
- Local government special bonds	1,790.0	9.3	1,190.0	9.0
- Equity financing	360.6	1.9	120.5	0.9
- Asset-backed securities of depository financial institutions	594.0	3.1	n/a	n/a
- Written-off loans	1,015.1	5.3	n/a	n/a

Source: People's Bank of China

C Outlook

1. PMI indicates downward pressure on manufacturing sector and economy

China's manufacturing PMI dropped from 50.1 in April to 49.4 in May, returning to the contractionary zone. Afterwards, the index stayed low at 49.4 in June and 49.7 in July. The latest figures indicate downward pressure on China's manufacturing sector and economy (*see exhibit 18*).

The output index went up from 51.3 in June to 52.1 in July, indicating that output growth has accelerated lately. Meanwhile, the domestic and export demand has remained sluggish: The new orders index dipped into the contractionary zone in May and has stayed slightly below the neutral level of 50 since then, while the new export orders index went down markedly from 49.2 in April to 46.3 in June and stayed low at 46.9 in July.

After dropping from 51.1 in April to 49.7 in June, the purchases of inputs index rebounded to 50.4 in July. The latest figure indicates that manufacturers have started to increase their purchases of production inputs recently.

The stocks of finished goods index fluctuated between 46.5 to 48.1 during April to July, indicating that the stocks of finished goods held by manufacturers have been decreasing lately. Meanwhile, the stocks of major inputs index hovered around 48.0 in the same period, indicating a decline in the stocks of major inputs in recent months.

Prices of industrial products have started to decline: The ex-factory prices index fell below the neutral level of 50 in May and went down further to 45.4 in June, before picking up to 46.9 in July. Meanwhile, the input prices index went down from 53.1 in April to 49.0 in June, but then rose to 50.7 in July, returning to the expansionary zone.

The business expectations index went down from 56.5 in April to 53.4 in June, before rebounding to 53.6 in July. The latest figures indicate that purchasing managers have remained optimistic recently.

2. NMI indicates continued growth in non-manufacturing sector

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), fluctuated within a narrow range of 54.2 to 54.3 throughout April to June, before dropping to 53.7 in July (*see exhibit 19*). The index reading indicates a continued expansion in the non-manufacturing sector.

After rising from 50.3 in May to 51.5 in June, the new orders index fell to 50.4 in July, indicating a deceleration in the growth of new orders.

The sales prices index rose above the critical 50-mark in July, meaning that enterprises have raised their service charges recently. Meanwhile, the input prices index went up from 51.5 in June to 52.9 in July, indicating that input prices have increased at a faster pace recently.

The business expectation index was 59.8 in July, well above the critical 50-mark, suggesting that purchasing managers in the non-manufacturing sector have remained optimistic about the near-term outlook for their respective industries.

Exhibit 18 China's manufacturing PMI at a glance, July 2019

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	49.7	Higher	Contracting
Output	52.1	Higher	Expanding
New Orders	49.8	Higher	Contracting
New Export Orders	46.9	Higher	Contracting
Backlogs of Orders	44.7	Higher	Contracting
Stocks of Finished Goods	47.0	Lower	Contracting
Purchases of Inputs	50.4	Higher	Expanding
Imports	47.4	Higher	Contracting
Input Prices	50.7	Higher	Rising
Stocks of Major Inputs	46.9	Higher	Falling
Ex-factory Prices	48.0	Lower	Contracting
Employment	47.1	Higher	Contracting
Suppliers' Delivery Time	50.1	Lower	Quickening
Business Expectations	53.6	Higher	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, July 2019

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	53.7	Lower	Expanding
New orders	50.4	Lower	Expanding
Input prices	52.9	Higher	Rising
Sales prices	50.6	Higher	Rising
Business expectations	59.8	Lower	Optimistic

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

A Recent developments

1. Both exports and imports fall year-on-year in 2Q19

China's exports growth decelerated from 1.3% yoy in 1Q19 to minus 1.0% yoy in 2Q19 amid reescalation in the trade war between China and the US since May (see exhibits 20, 21 and 22). Overall, in 1H19, China's exports amounted to US\$1,171.2 billion, up by 0.1% yoy.

China's exports to the EU and the ASEAN managed to post single-digit growth in 1H19: The growth rates of China's exports to the EU and the ASEAN registered 6.0% yoy and 7.9% yoy respectively in 1H19. In contrast, China's exports to the US declined by 8.1% yoy in 1H19, 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 8.9% yoy and 4.1% yoy respectively.

The growth rate of China's imports stayed negative in 2Q19. After dropping by 4.6% yoy in 1Q19, China's imports fell by 4.1% yoy in 2Q19, indicating a sluggish domestic demand for imported goods lately. Overall, in 1H19, China's imports totalled US\$990.0 billion, down by 4.3% yoy.

China's trade surplus increased markedly from US\$74.8 billion in 1Q19 to US\$ 106.4 billion in 2Q19, due to a larger quarter-on-quarter increase in exports than imports in the quarter.

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Exhibit 20 China's quarterly foreign trade data, 3Q18 to 2Q19

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
FY18	2,487.4	9.9%	2,135.6	15.8%	351.8
3Q18	656.8	11.7%	572.7	20.7%	84.1
4Q18	660.4	3.9%	528.3	4.7%	132.1
1Q19	551.0	1.3%	476.2	-4.6%	74.8
2Q19	620.2	-1.0%	513.8	-4.1%	106.4

Source: China Customs

Exhibit 21 China's monthly foreign trade data, July 2018 to June 2019

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
July 2018	214.4	11.6%	187.0	27.0%	27.4
August	217.0	9.6%	190.7	20.7%	26.3
September	225.4	13.9%	195.0	14.3%	30.4
October	214.8	14.3%	181.7	20.3%	33.1
November	224.3	3.9%	182.5	2.9%	41.9
December	221.3	-4.4%	164.2	-7.6%	57.1
January 2019	218.0	9.3%	178.8	-1.3%	39.2
February	135.1	-20.8%	131.7	-4.8%	3.4
March	197.9	13.8%	165.7	-7.8%	32.2
April	193.5	-2.7%	179.8	4.1%	13.7
May	213.9	1.1%	172.1	-8.5%	41.7
June	212.8	-1.3%	161.9	-7.3%	51.0

Source: China Customs

Exhibit 22 Growth rates of exports and imports, July 2017 to June 2019

yoy growth (%)



Source: China Customs

Exhibit 23 Exports by category, 2018 and 1H19

<i>yoy growth (%) of export value, calculated in USD</i>	2018	1H19
Textile yarn, fabrics and textile products	8.1	0.7
Garments and clothing accessories	0.3	-4.9
Footwear	-2.7	-0.2
Toys	4.5	23.7
Furniture and parts	7.6	2.2
Lighting fittings and parts	5.6	14.5
Suitcases and handbags	1.8	0.0
Refined oil	41.3	3.7
Steel	11.2	-8.0
Mechanical and electrical products	10.6	-0.6

Source: China Customs

Exhibit 24 Imports by category, 2018 and 1H19

<i>yoy growth (%) of import value, calculated in USD</i>	2018	1H19
Soybeans	-4.0	-18.8
Iron ores	-1.3	15.7
Crude oil	46.7	5.2
Refined oil	39.1	-3.4
Steel	8.3	-17.3
Textile yarn, fabrics and textile products	3.0	-8.8
Vehicles and vehicle chassis	0.0	5.0
Integrated circuits	19.8	-6.9
Plastics	16.3	-5.6

Source: China Customs

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

In 2Q19, general trade¹¹ exports managed to record a positive year-on-year growth, while processing trade¹² exports posted a year-on-year decline in the quarter. The growth in general trade exports eased to 0.2% yoy in 2Q19 from 5.5% yoy in 1Q19. In the meantime, the growth in processing trade exports worsened to minus 7.1% yoy in 2Q19 from minus 5.2% yoy in 1Q19 (*see exhibit 25*).

On the import side, the growth in general trade imports improved slightly from minus 4.2% yoy in 1Q19 to minus 4.0% yoy in 2Q19. Meanwhile, the growth in processing trade imports also improved from minus

9.9% yoy in 1Q19 to minus 8.9% yoy in 2Q19. In our view, the year-on-year fall in processing trade imports in 2Q19 suggests that processing trade exports are likely to continue to post 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 24.5% in 2Q19 from 25.5% in 1Q19. Nevertheless, with a large surplus of US\$77.2 billion in 2Q19, processing trade still 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 2Q19

Item	yoy growth (%)			Share (%)		
	FY18	1Q19	2Q19	FY18	1Q19	2Q19
Exports	9.9	1.3	-1.0	100.0	100.0	100.0
Of which:						
General trade	13.9	5.5	0.2	56.3	58.4	59.0
Processing trade	4.9	-5.2	-7.1	32.0	30.3	28.6
Imports	15.8	-4.6	-4.1	100.0	100.0	100.0
Of which:						
General trade	17.4	-4.2	-4.0	59.7	60.9	61.3
Processing trade	8.6	-9.9	-8.9	22.0	19.8	19.5
Total of imports and exports	12.6	-1.5	-2.4	100.0	100.0	100.0
Of which:						
General trade	15.5	0.7	-1.8	57.9	59.5	60.1
Processing trade	6.2	-6.9	-7.8	27.4	25.5	24.5

Source: China Customs

3. China's exports to US decline markedly in 1H19

The EU was still China's largest trading partner, accounting for 15.6% of China's total foreign trade in 1H19. Sino-EU trade amounted to US\$338.0 billion, up by 4.9% yoy in 1H19. Specifically, China's exports to the EU expanded by 6.0% yoy in 1H19, compared with the growth of 9.8% yoy in 2018; and China's imports from the EU increased at a slower pace by 3.3% yoy in 1H19, compared with the growth of 11.7% yoy in 2018 (see exhibits 26 and 27).

Accounting for 13.5% 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 1H19. Sino-ASEAN trade grew by 4.2% yoy to US\$291.9 billion in 1H19. Of which, China's exports to ASEAN rose by 7.9% yoy, while China's imports from ASEAN dropped by 0.2% yoy.

Accounting for 12.0% of China's total foreign trade, the US was only China's third largest trading partner in 1H19. Sino-US trade declined by 14.2% yoy to US\$258.3 billion in 1H19, against the backdrop of ongoing trade frictions between China and the US. China's exports to the US fell by 8.1% yoy in 1H19, after rising by 11.3% yoy in 2018. Meanwhile, China's imports from the US slumped by 29.9% yoy in 1H19, compared with the positive growth of 0.7% yoy in 2018. Sino-Japanese trade decreased by 4.0% yoy to US\$151.1 billion in 1H19. China's exports to Japan edged down by 1.1% yoy, while China's imports from Japan fell by 6.4% yoy in 1H19.

4. Growth rates of China's trade with Brazil and Russia drop sharply in 1H19

The growth in China's exports to Brazil dropped significantly to minus 8.9% yoy in 1H19 from 16.3% yoy in 2018. In the meantime, the growth in China's imports from Brazil tumbled to 4.5% yoy in 1H19 from 31.7% yoy in 2018 (see exhibits 26 and 27). Consequently, the growth in Sino-Brazilian trade dropped to 0.1% yoy in 1H19 from 26.6% yoy in 2018.

China's export growth to Russia fell to minus 1.6% yoy in 1H19 from 12.0% yoy in 2018. Meanwhile, China's import growth from Russia plunged to 10.7% yoy in 1H19 from 42.7% yoy in 2018. Consequently, the growth in China's trade with Russia dropped to 5.1% yoy in 1H19 from 27.1% yoy in 2018.

China's export growth to India worsened to minus 4.1% yoy in 1H19 from 12.7% yoy in 2018, while China's import growth from India fell to minus 5.9% yoy in 1H19 from 15.2% yoy in 2018. Overall, the growth of Sino-Indian trade deteriorated to minus 4.5% yoy in 1H19 from 13.2% yoy in 2018.

Together, these three BRIC members accounted for 6.3% of China's total exports and 7.6% of China's total imports in 1H19, close to the 6.4% and 7.3% shares, respectively, in 2018.

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Exhibit 26 China's trading partners, 1H19

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	338.0	15.6	202.8	135.2	4.9	6.0	3.3
ASEAN	291.9	13.5	164.5	127.3	4.2	7.9	-0.2
US	258.3	12.0	199.4	58.9	-14.2	-8.1	-29.9
Japan	151.1	7.0	69.5	81.6	-4.0	-1.1	-6.4
Brazil	52.1	2.4	15.6	36.5	0.1	-8.9	4.5
Russia	51.8	2.4	22.1	29.6	5.1	-1.6	10.7
India	44.7	2.1	35.8	8.9	-4.5	-4.1	-5.9

Source: China Customs

Exhibit 27 China's trading partners, comparing growth rates for 2018 and 1H19

Country/Region	Total trade		Exports		Imports	
	2018	1H19	2018	1H19	2018	1H19
EU	10.6	4.9	9.8	6.0	11.7	3.3
ASEAN	14.1	4.2	14.2	7.9	13.8	-0.2
US	8.5	-14.2	11.3	-8.1	0.7	-29.9
Japan	8.1	-4.0	7.2	-1.1	8.9	-6.4
Brazil	26.6	0.1	16.3	-8.9	31.7	4.5
Russia	27.1	5.1	12.0	-1.6	42.7	10.7
India	13.2	-4.5	12.7	-4.1	15.2	-5.9

Source: China Customs

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

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 76.9% of China's total exports in January to May 2019, the same as in 2018 (*see exhibit 28*). Among these six provinces, Shanghai saw the sharpest drop in exports while Fujian witnessed the largest gain. Exports from Shanghai fell by 10.4% yoy, while exports from Fujian rose by 3.3% yoy in January to May 2019.

Several provinces in China still managed to record double-digit growth in exports in January to May 2019. For example, exports from Hainan, Sichuan, Heilongjiang and Anhui grew by 21.6% yoy, 16.2% yoy, 13.5% yoy and 12.9% yoy respectively in the period.

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

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	272.0	2.9	28.4
Jiangsu	159.1	-1.6	16.6
Zhejiang	131.0	3.0	13.7
Shanghai	67.4	-2.3	7.0
Shandong	64.5	-10.4	6.7
Fujian	42.4	3.3	4.4

Source: China Customs

6. China's FDI grows by 7.2% yoy in 1H19

China's foreign direct investment (FDI) in Renminbi terms increased by 8.5% yoy in June, the same as in May, recording positive year-on-year growth for seven consecutive months. Overall, in 1H19, China's FDI amounted to 478.3 billion yuan, up by 7.2% yoy (*see exhibit 29*).

In 1H19, FDI in the Hi-Tech industries soared by 44.3% yoy, accounting for 28.8% of the total FDI during the period. FDI in Hi-Tech manufacturing sector reached 50.3 billion yuan, up 13.4% yoy. Among Hi-Tech manufacturing industries, FDI in 'pharmaceuticals manufacturing' and 'electronics and communications device manufacturing' grew by 12.8% yoy and 25.0% yoy respectively in 1H19. FDI in Hi-Tech service sector totalled 87.6 billion yuan, up 71.1% yoy. Among Hi-Tech service industries, FDI in 'information services', 'research and development and design' and 'transformation of scientific achievements' rose strongly by 68.1% yoy, 77.7% yoy and 62.7% yoy respectively during the period.

Among major investment sources, FDI from South Korea, Singapore, Japan and Germany jumped by 63.8% yoy, 10.5% yoy, 13.1% yoy and 81.3% yoy respectively in 1H19.

7. China's foreign exchange reserves go up further in 2Q19

As at the end of 2Q19, China's foreign exchange reserves amounted to US\$3,119.2 billion, up by US\$20.5 billion compared with end-1Q19 (*see exhibit 30*). This was the second consecutive quarter that the foreign exchange reserves posted a quarter-on-quarter gain. The rise in the foreign exchange reserves in 2Q19 was due mainly to an increase in the value of financial assets held by the Chinese government and the appreciation of the non-US dollar currencies.

Looking ahead, we expect that China's foreign exchange reserves will stay relatively stable in the near future. On one hand, the US central bank cut its benchmark US interest rates on 31 July and is widely expected to do so again in the coming months, which would boost the value of US debt held by China. The downward pressure on the US dollar would also increase the value (in terms of US dollar) of non-US dollar denominated assets in the reserves. On the other hand, potential capital outflows triggered by the slowdown in the Chinese economy pose downside risks to China's foreign exchange reserves.

Exhibit 29 China's FDI, July 2018 to June 2019

	Amount (billion yuan)	yoy growth
FY18	885.6	0.9%
January to June 2019	478.3	7.2%
July 18	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%
March	95.2	8.0%
April	63.0	6.3%
May	63.8	8.5%
June	109.3	8.5%

Source: Ministry of Commerce, PRC

Exhibit 30 Foreign exchange reserves by quarter, 3Q18 to 2Q19

<i>USD billion</i>	Accumulation	End of the quarter
FY18	-67.2	
3Q18	-25.1	3,087.0
4Q18	-14.3	3,072.7
1Q19	26.1	3,098.8
2Q19	20.5	3,119.2

Source: State Administration of Foreign Exchange, PRC

B Highlights

1. China-US trade war re-escalates

The yearlong trade war between China and the US re-escalated in the past three months. After the US accused China of retreating from some of its earlier commitments made, the US raised the additional tariff rate on US\$200 billion worth of Chinese goods from 10% to 25% on 10 May. In retaliation, China raised the tariff rate on roughly US\$60 billion worth of US products from 1 June.

The US also threatened to levy additional tariffs of 25% on another US\$300 billion of Chinese imports as early as July, but the tariffs were temporarily suspended after Chinese President Xi Jinping and US President Donald Trump met on the sidelines of the G20 summit on 29 June and agreed to a trade war truce. The two leaders also agreed to resume trade negotiations.

However, just one day after negotiators from the two countries concluded a new round of trade talks in Shanghai on 31 July, Trump announced on 1 August that the US will impose 10% additional tariffs on another US\$300 billion worth of Chinese imports starting 1 September, marking a significant escalation in the China-US trade war. Trump warned that the tariff rate could go 'well beyond' 25%.

Meanwhile, Trump described the latest trade talks as 'constructive' and left the door open to further talks. Trade negotiations will continue in Washington in early September, according to a White House statement released before Trump's tariff announcement. However, it is unclear whether the plan will change now as the US has ended the trade war truce with new tariffs on Chinese goods. As of 6 August, no official announcement has been made by China on future trade talks.

2. Chinese yuan stays relatively stable against US dollar since late May

The exchange rate of the Chinese yuan against the US dollar has stayed relatively stable since late May. The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar was 6.8841 on 31 July, compared with 6.8992 on 31 May (*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 the past two months, after the Chinese yuan depreciated against the US dollar during late April to late May.¹⁴ So far this year, the spot exchange rate of the Chinese yuan has appreciated by 0.04% (as of 31 July) against the US dollar.

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro depreciated from 7.499 on 26 April to 7.8024 on 27 June, and then rebounded to 7.6803 on 31 July. So far this year, the daily fixing rate of the Chinese yuan against the Euro has appreciated by 2.69% (as of 31 July) (*see exhibit 32*).

According to the Bank for International Settlements, the real effective exchange rate of the yuan fell from 124.37 in March to 120.42 in June.¹⁵ Overall, in 1H19, the Chinese yuan depreciated in real terms against its trading partners by 0.54% (*see exhibit 33*).

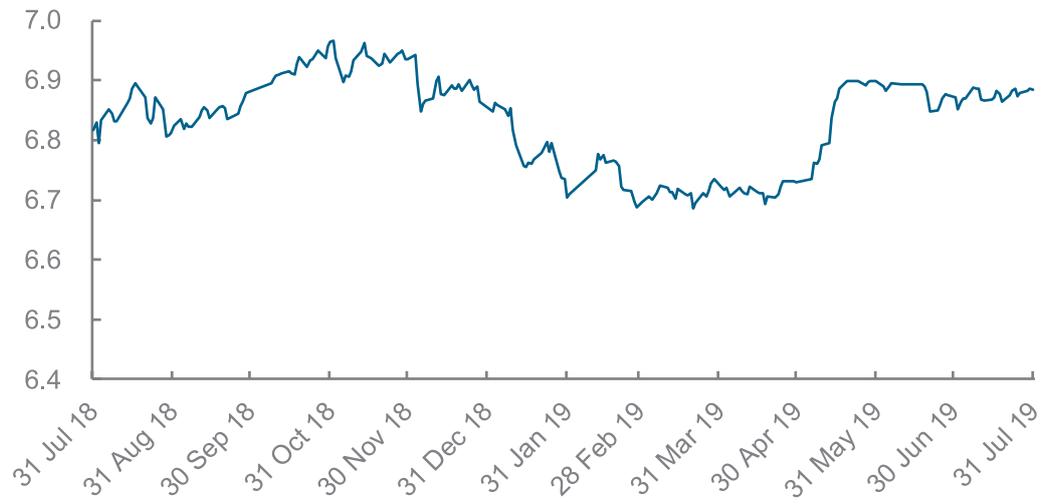
Looking ahead, we predict that the exchange rate of the Chinese yuan against the US dollar will not weaken much in the near term despite the escalating China-US trade war. A major reason is that China is widely expected to keep the yuan exchange rate relatively stable to prevent capital outflows. Another reason is that the US central bank cut its benchmark US interest rates on 31 July and is expected to do so again in the coming months, which would put downward pressure on the US dollar. Moreover, with the positive impact of China's stimulus measures starting to unfold, China's economic growth is set to stabilize in the near term, which would help bolster the yuan exchange rate.

¹³ According to the PBOC, the daily fixing 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.

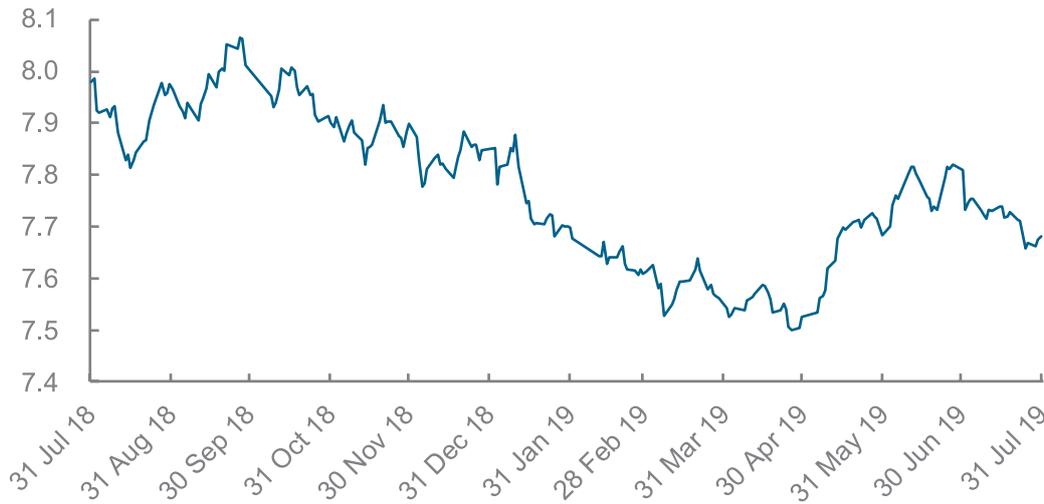
¹⁵ The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real 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 2014-16.

Exhibit 31 USD-CNY daily fixing rate, July 2018 to July 2019



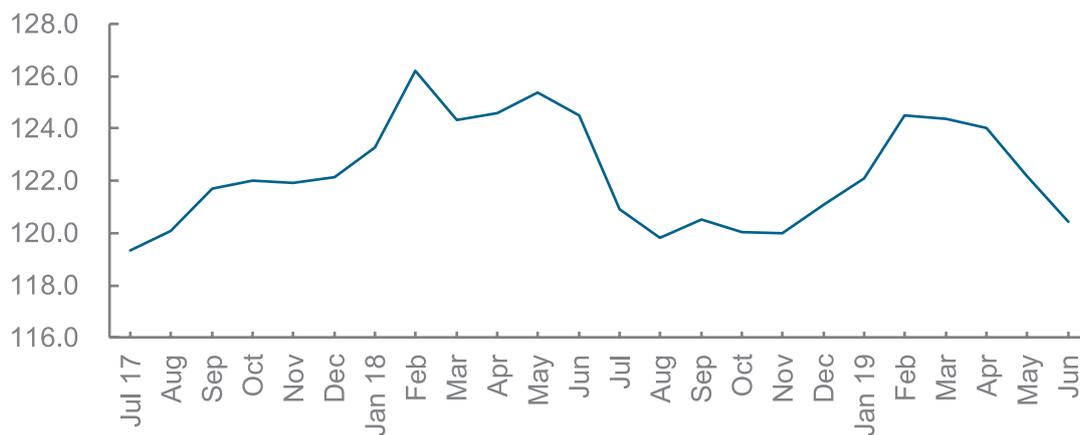
Source: State Administration of Foreign Exchange

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



Source: State Administration of Foreign Exchange

Exhibit 33 Real effective exchange rate of the Chinese yuan, July 2017 to June 2019



Source: Bank for International Settlements

C Outlook

1. US economic growth decelerates in 2Q19

Due mainly to downturns in exports, inventory investment and non-residential fixed investment, the US economic growth decelerated in 2Q19: The US real GDP expanded by an annual rate of 2.1% in 2Q19, compared with the annual growth of 3.1% in 1Q19 (*see exhibit 34*).

Recent indicators paint a mixed picture of the US economy. On the production side, the new orders for manufactured durable goods increased by 2.0% mom in June after dropping by 2.3% mom in May. In contrast, industrial production grew by 0.4% mom in May but stayed flat in June (*see exhibit 35*). Meanwhile, the manufacturing PMI fell from 52.1 in May to 51.7 in June, indicating that the US manufacturing sector has expanded at a slower pace recently.

The growth of the non-manufacturing sector has decelerated lately: The non-manufacturing index (NMI) dropped from 56.9 in May to 55.1 in June, the weakest pace of expansion since July 2017.

The retail sector in the US has fared well in recent months. The US retail sales increased by 0.4% mom in June, the same pace as in May, recording positive month-on-month growth for four consecutive months. Moreover, the Reuters/ University of Michigan index of consumer sentiment reached 100.0 in May and stayed high at 98.2 in June and 98.4 in July, indicating that US consumers have been optimistic lately (*see exhibit 36*).

The labour market in the US has remained solid. In June, the non-farm payroll employment increased by 224,000. Meanwhile, the unemployment rate stayed low at 3.7% in June (*see exhibit 37*).

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 of the US is forecast to slow from 2.9% in 2018 to 2.6% in 2019 and 1.9% in 2020.¹⁶

Exhibit 34 US national accounts, 2017 to 2Q19

Annual growth (%)	2017	2018	3Q18	4Q18	1Q19	2Q19
Real GDP	2.4	2.9	2.9	1.1	3.1	2.1

Source: US Department of Commerce

Exhibit 35 US industrial sector, January to June 2019

mom growth (%), seasonally adjusted	Jan 19	Feb	Mar	Apr	May	Jun
Industrial production	-0.4	-0.5	0.1	-0.5	0.4	0.0
New orders for manufactured durable goods	0.1	-1.6	1.7	-2.8	-2.3	2.0

Source: US Federal Reserve, US Department of Commerce

Exhibit 36 US consumer market, January to July 2019

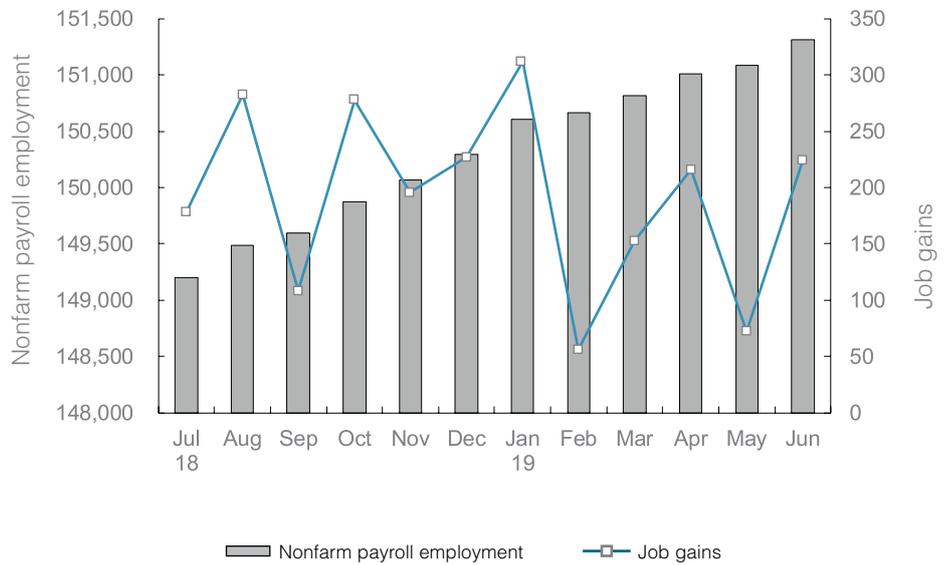
	Jan 19	Feb	Mar	Apr	May	Jun	Jul
Retail and food services sales (mom growth %, seasonally adjusted)	1.5	-0.5	1.8	0.4	0.4	0.4	-
Reuters/University of Michigan index of consumer sentiment	91.2	93.8	98.4	97.2	100.0	98.2	98.4
CPI (yoy growth %)	1.6	1.5	1.9	2.0	1.8	1.6	-

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
Jul 18	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
Apr	3.6
May	3.6
Jun	3.7

Nonfarm payroll employment, July 2018 to June 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 dropped from 47.6 in June to 46.4 in July, pointing to the steepest contraction in the manufacturing sector since December 2012.

In contrast, the service sector in the region has fared relatively well. The Eurozone services PMI went up from 52.8 in April to 53.6 in June, and then stayed high at 53.3 in July, indicating a stable growth of the service sector in the region.

The retail trade volume in the Eurozone increased by 1.1% mom on a seasonally adjusted basis in June, after dropping by 0.6% mom in May (see exhibit 39).

The labour market conditions in the region have further improved lately. The seasonally-adjusted unemployment rate fell from 7.7% in March to 7.5% in June, the lowest in 11 years (see exhibit 40).

Nevertheless, confidence among consumers and managers in various sectors has weakened: The Eurozone's economic sentiment indicator (ESI) dropped further to 103.3 in June, the lowest level since August 2016 (see exhibit 41).

Looking ahead, the growth of the Eurozone economy is expected to decelerate this year. In its latest *World Economic Outlook Update* published in July, the IMF forecasts that the real GDP growth rate of the Eurozone will soften from 1.9% in 2018 to 1.3% in 2019, before rebounding to 1.6% in 2020.¹⁸

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Exhibit 38 Eurozone's real GDP growth, 2017 to 2Q19

	2017	2018	3Q18	4Q18	1Q19	2Q19
Real GDP (<i>qoq growth %</i>)			0.2	0.2	0.4	0.2
Real GDP (<i>yoy growth %</i>)	2.4	1.8	1.6	1.2	1.2	1.1

Source: Eurostat, IMF

Exhibit 39 Eurozone consumer market, January to June 2019

	Jan 19	Feb	Mar	Apr	May	Jun
Volume of retail trade (<i>mom growth %, seasonally adjusted</i>)	0.8	0.7	0.2	-0.1	-0.6	1.1
Annual inflation (%)	1.4	1.5	1.4	1.7	1.2	1.3

Source: Eurostat

Exhibit 40 Eurozone labour market, January to June 2019

<i>seasonally adjusted</i>	Jan 19	Feb	Mar	Apr	May	Jun
Unemployment rate (%)	7.8	7.8	7.7	7.6	7.6	7.5

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 Update, July 2019

Exhibit 41

Eurozone economic sentiment indicator, January to June 2019

<i>seasonally adjusted</i>	Jan 19	Feb	Mar	Apr	May	Jun
Economic sentiment indicator	106.3	106.2	105.6	103.9	105.2	103.3

Source: Eurostat

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

According to the *World Economic Outlook Update* released in July, the IMF cuts its forecasts on world economic growth in 2019 by 0.1 ppt., compared with its previous projections made in April this year. The primary reason behind the latest downward revision is that the intensified China-US tensions and prolonged uncertainty on Brexit are likely to continue to drag down on the world economy. The IMF forecasts that the world economic growth will fall from 3.6% in 2018 to 3.2% in 2019 and will improve to 3.5% in 2020. The growth in advanced economies is projected to decelerate from 2.2% in 2018 to 1.9% in 2019, and further to 1.7% in 2020. Meanwhile, the growth in emerging market and developing economies is projected to fall from 4.5% in 2018 to 4.4% in 2019, and rebound strongly to 4.7% in 2020 (see exhibit 42).

Looking ahead, we forecast that China's exports will continue to post negative year-on-year growth in 3Q19. Challenges facing Chinese manufacturers include ongoing trade frictions between China and the US, strong government's determination to tackle the pollution problem, and intense competition in the international market.

Exhibit 42

Latest GDP growth forecasts by the IMF

<i>yoy growth (%)</i>	2018 (Estimates)	2019 (Forecasts)	2020 (Forecasts)
World economy	3.6	3.2	3.5
Advanced economies	2.2	1.9	1.7
US	2.9	2.6	1.9
Eurozone	1.9	1.3	1.6
Japan	0.8	0.9	0.4
Emerging market and developing economies	4.5	4.4	4.8
China	6.6	6.2	6.0
India *	6.8	7.0	7.2
Brazil	1.1	0.8	2.4
Russia	2.3	1.2	1.9

* 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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