

China Trade Quarterly

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Domestic Trade

Retail sales of consumer goods grow by 8.2% yoy in 1-3Q19.

Both rural and urban households witness high single-digit growth in income in 1-3Q19.

Growth in nominal fixed asset investment eases to 5.4% yoy in 1-3Q19.

China proposes 20 measures to promote consumer spending.

PMI points to continued downward pressure on China's manufacturing sector.

Latest NMI reading indicates growth deceleration in non-manufacturing sector.

Foreign Trade

Both exports and imports fall year-on-year in 3Q19.

Exports to US decline by 10.7% yoy in 1-3Q19.

Exports from Shanghai fall by 8.9% yoy in Jan-Aug 2019.

FDI grows by 6.5% yoy in 1-3Q19.

Foreign exchange reserves drop for the first time in three quarters.

China and US reach 'phase one' trade deal.

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

In This Issue:

Part 1: Domestic Trade

A	Recent developments	4
B	Highlights	14
C	Outlook	16

Part 2: Foreign Trade

A	Recent developments	18
B	Highlights	26
C	Outlook	28

2

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Executive Summary

Domestic Trade

Retail sales of consumer goods reached 29.1 trillion yuan in 1-3Q19, up by 8.2% yoy. Online retail sales of goods, which accounted for 19.5% of total retail sales, increased markedly by 20.5% yoy over the period.

Both rural and urban households continued to witness high single-digit growth in income in 1-3Q19. In nominal terms, the per capita disposable income of rural households grew by 9.2% yoy to 11,622 yuan, while the per capita disposable income of urban households rose by 7.9% yoy to 31,939 yuan in 1-3Q19.

Growth in nominal fixed asset investment eased to 5.4% yoy in 1-3Q19 from 5.9% yoy in 2018, mainly attributable to the deceleration of FAI growth for the manufacturing sector.

On 27 August, the Chinese government released the *Opinions on Accelerating Circulation and Promoting Commercial Consumption*. It outlined 20 measures to help promote consumer spending such as liberalizing car-buying restrictions, encouraging the purchase of new energy vehicles, expanding cross-border e-commerce imports to more cities, and supporting trade-ins for household appliances.

The manufacturing PMI rose from 49.5 in August to 49.8 in September, and then dropped to 49.3 in October. The manufacturing PMI has stayed below the critical 50-mark for six consecutive months, pointing to continued downward pressure on China's manufacturing sector and economy.

The NMI fluctuated within a narrow range of 53.7 to 53.8 throughout July to September, before dropping to 52.8 in October. The latest NMI reading indicates growth deceleration in the non-manufacturing sector.

Foreign Trade

Both exports and imports fell year-on-year in 3Q19. Exports dropped by 0.4% yoy in 3Q19 after falling by 1.0% yoy in 2Q19, while imports fell by 6.5% yoy in 3Q19 after dropping by 4.0% yoy in 2Q19.

China's exports to the EU and the ASEAN managed to post single-digit growth rates of 5.1% yoy and 9.5% yoy, respectively, in 1-3Q19. It is noteworthy that exports to the US declined by 10.7% yoy in 1-3Q19 and the ASEAN overtook the US to become China's second largest trading partner in the period.

Exports from Shanghai fell by 8.9% yoy, while exports from Fujian rose by 3.3% yoy in January to August 2019. In contrast, provinces such as Yunnan and Hainan still managed to post double-digit growth in exports in the eight-month period.

FDI increased by 6.5% yoy to 683.2 billion yuan in 1-3Q19. FDI in the Hi-Tech industries soared by 39.8% yoy, accounting for 29.8% of the total FDI during the period.

Foreign exchange reserves amounted to US\$3,092.4 billion as at the end of 3Q19, down by US\$26.8 billion compared with end-2Q19. This was the first time in three quarters that foreign exchange reserves posted a quarter-on-quarter drop.

The yearlong trade war between China and the US has shown signs of easing lately as the two countries reached a 'phase one' deal. Both the US and China raised the additional tariff rates on tens of billions of imports from each other on 1 September, and the US threatened with more tariff hikes to be imposed on 15 October and 15 December. However, the two countries reached a 'phase one' deal on 11 October. China reportedly agreed to make purchases of US\$40 billion to US\$50 billion in US agricultural goods annually, while the US would delay tariff hikes on US\$250 billion worth of Chinese imports scheduled on 15 October.

After depreciating against the US dollar during early to late August, the exchange rate of the Chinese yuan has stayed relatively stable since then. The daily fixing rate of the Chinese yuan against the US dollar was 7.0533 on 31 October, compared with 7.0879 on 30 August.

A Recent developments

1. China's real GDP growth drops to 27-year low of 6.0% in 3Q19

China's real GDP growth decelerated from 6.2% year-on-year (yoy) in 2Q19 to 6.0% yoy in 3Q19, the lowest since quarterly records began in 1992. The latest figure indicates a further moderation in the growth of the Chinese economy amid the China-US trade war and a slowdown in the global economy (*see exhibit 1*). Overall, in 1-3Q19, China's nominal GDP amounted to 69.8 trillion yuan, up by 6.2% yoy in real terms.

Compared with 2018, both the tertiary industry and the secondary industry witnessed growth deceleration in 1-3Q19. The real growth rate of the value-added of the tertiary industry came in at 7.0% yoy in 1-3Q19, 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 5.6% yoy in 1-3Q19, down from 5.8% yoy in 2018.

In 1-3Q19, 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

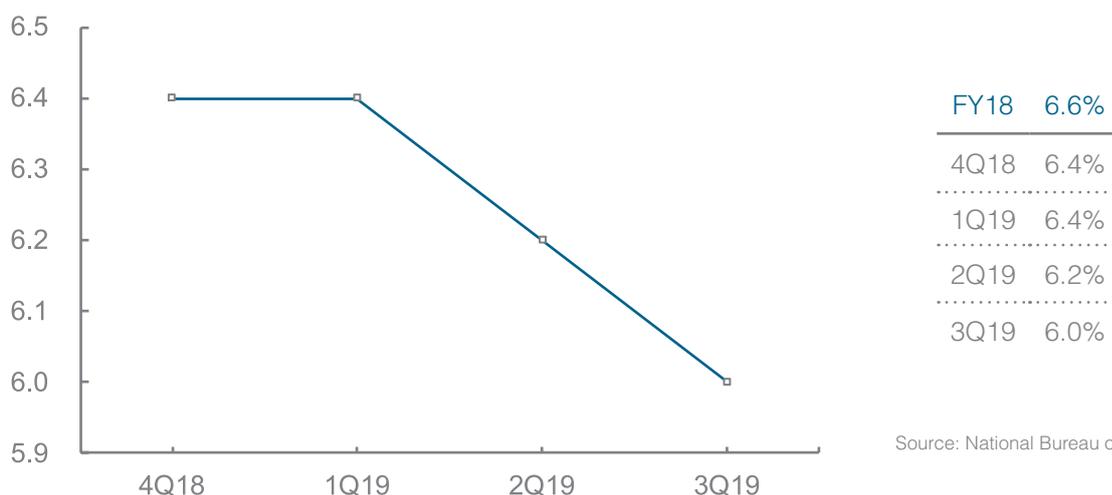
lingering and the global economy slowing down. The central government is likely to introduce more policies to stabilize economic growth, in our view. In the short term, the central bank will continue to adopt an appropriate monetary policy to maintain reasonably sufficient liquidity. For example, the People's Bank of China (PBoC) announced on 6 September that it would lower the required reserve ratios (RRR) for all banks effective 16 September, with two additional targeted cuts for qualified city commercial banks effective 15 October and 15 November. Moreover, the central government will continue with its proactive fiscal policy, such as further reducing tax and fee burdens on enterprises and speeding up special bonds issuance to encourage investment in infrastructure projects. In addition, the central government published a document on 27 August to propose a number of measures to help promote consumer spending, including liberalizing car-purchase restrictions, supporting trade-ins for household appliances, etc. 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 6.0% in 4Q19.

4

Exhibit 1 China's real GDP growth, 4Q18 to 3Q19

yoy growth (%)



Source: National Bureau of Statistics, PRC

2. Growth in retail sales stabilises in 3Q19

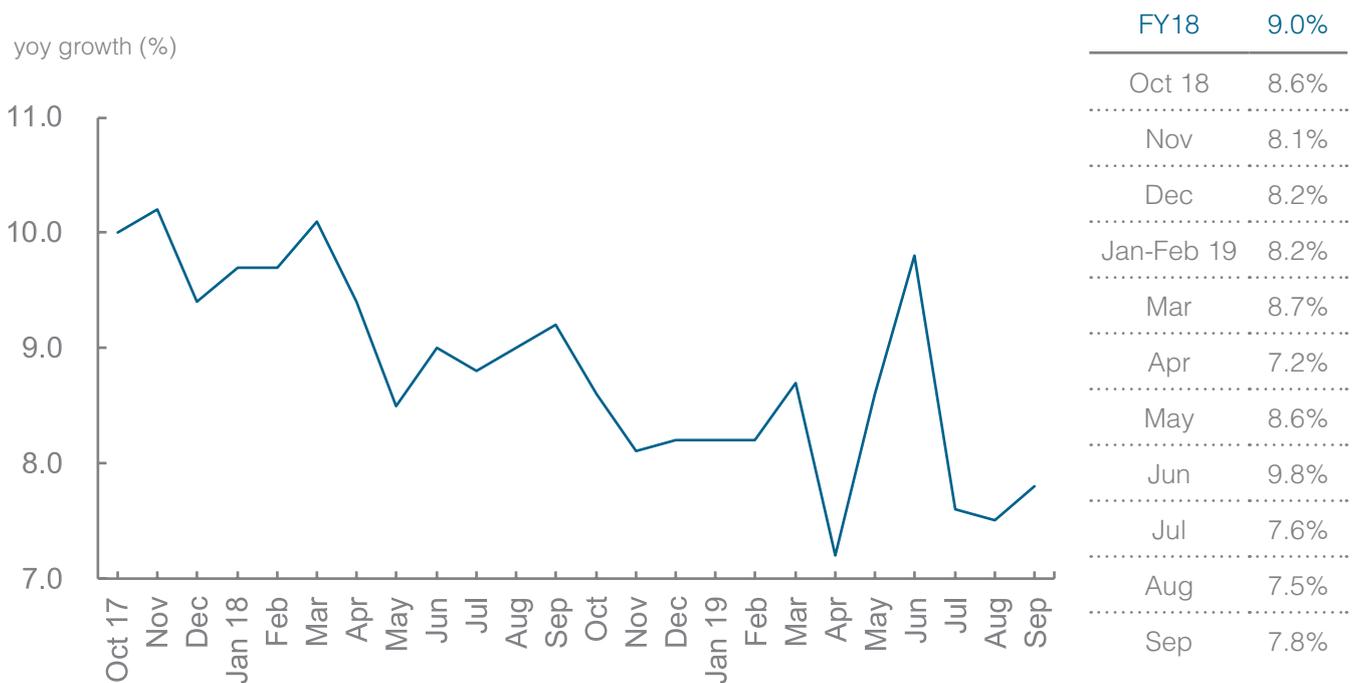
According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods stabilised in 3Q19, registering 7.6% yoy in July, 7.5% yoy in August and 7.8% yoy in September. Meanwhile, the month-on-month (mom) growth in seasonally-adjusted retail sales rose from 0.22% in July to 0.67% in August and further to 0.70% in September.

Overall, in 1-3Q19, the total retail sales of consumer goods reached 29.7 trillion yuan. The growth rate was

8.2% yoy in 1-3Q19, lower than the 9.0% yoy growth recorded in 2018 (see exhibits 2 and 3).

China's online retail sales of goods increased by 20.5% yoy to reach 5,777.7 billion yuan in 1-3Q19. Consequently, the share of online retail sales in total retail sales of consumer goods went up to 19.5% in 1-3Q19 from 18.4% in 2018, indicating the growing popularity of online shopping.

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



Source: National Bureau of Statistics, PRC

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

	mom growth (%), seasonally adjusted					
	Apr 19	May	Jun	Jul	Aug	Sep
Total retail sales	0.41	0.66	0.90	0.22	0.67	0.70

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 9.0% yoy in 1-3Q19 from 10.1% yoy in 2018, while the growth in urban retail sales slowed to 8.0% yoy in 1-3Q19 from 8.8% yoy in 2018.

The growth in catering services sales came in at 9.4% yoy in 1-3Q19, down slightly from 9.5% yoy in 2018. Meanwhile, the growth in sales of goods eased to 8.0% yoy in 1-3Q19 from 8.9% yoy in 2018.

The growth rate of the retail sales of goods by enterprises above designated size¹, which amounted to 9,983.0 billion yuan in 1-3Q19, decelerated to 3.9% yoy in 1-3Q19 from 5.7% yoy in 2018. Among products, 'commodities for daily use' saw the strongest growth in sales (13.6% yoy) in 1-3Q19, followed by 'cosmetics' (12.8% yoy). Meanwhile, 'automobiles' registered a negative growth of minus 0.7% yoy. Exhibit 5 demonstrates the growth in China's retail sales by product among enterprises above designated size.

Exhibit 4 China's total retail sales, 2018 to 1-3Q19

Nominal growth, yoy (%)	FY18	1Q19	1H19	1-3Q19
Total retail sales	9.0	8.3	8.4	8.2
- Goods	8.9	8.2	8.3	8.0
Sales by enterprises above designated size	5.7	3.8	4.7	3.9
Online sales	25.4	21.0	21.6	20.5
- Catering services	9.5	9.6	9.4	9.4

Source: National Bureau of Statistics, PRC

3. Chinese consumers become more optimistic

The consumer confidence index² rose from 122.4 in August to 124.1 in September, which shows that Chinese consumers have become more optimistic recently (see exhibit 6).

4. Both rural and urban households witness high single-digit growth in income in 1-3Q19

Both rural and urban households continued to witness high single-digit growth in income in 1-3Q19. In nominal terms, the per capita disposable income of rural households grew by 9.2% yoy to 11,622 yuan, while the per capita disposable income of urban households rose by 7.9% yoy to 31,939 yuan in 1-3Q19.

With higher income, both rural and urban households had more room to increase their consumption expenditures. Specifically, in nominal terms, the per capita consumption expenditure of rural households grew 9.5% yoy to 9,353 yuan, while the per capita consumption expenditure of urban households gained 7.2% yoy to 20,379 yuan in 1-3Q19.

² '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 1-3Q19

Nominal growth, yoy (%)	FY18	1Q19	1H19	1-3Q19
Grain, oil and food	10.2	10.6	10.4	10.6
Beverages	9.0	9.3	9.9	9.8
Tobacco and liquor	7.4	5.9	6.0	6.9
Garments, footwear, hats and textiles	8.0	3.3	3.0	3.3
Cosmetics	9.6	10.9	13.2	12.8
Gold, silver and jewellery	7.4	2.6	3.5	0.6
Commodities for daily use	13.7	16.1	14.1	13.6
Home appliances and audio/video equipment	8.9	7.8	6.7	5.9
Traditional Chinese and Western medicines	9.4	10.8	10.9	10.1
Cultural and office appliances	3.0	3.8	4.2	6.4
Furniture	10.1	5.0	5.7	5.9
Communication appliances	7.1	10.0	7.4	6.4
Petroleum and related products	13.3	4.1	3.1	1.7
Automobiles	-2.4	-3.4	1.2	-0.7
Building and decoration materials	8.1	8.1	3.6	3.6

Source: National Bureau of Statistics, PRC

Exhibit 6

China's consumer confidence index, October 2017 to September 2019



Source: National Bureau of Statistics, PRC

5. CPI growth accelerates in September

The year-on-year growth rate of China's consumer price index (CPI)³ went up from 2.8% in August to 3.0% in September, its fastest pace in almost six years (see exhibits 7 & 8).

The reason for the increase in the CPI growth in September was that a rise in food inflation outweighed a decline in non-food inflation in the month. The year-on-year growth in the food component in the CPI

jumped from 10.0% in August to 11.2% in September, due largely to a further surge in pork prices. Meanwhile, the year-on-year growth in the non-food component fell from 1.1% in August to 1.0% in September.

Looking ahead, we expect that China's CPI growth will continue to go up in the coming months, due mainly to rising pork prices.

Exhibit 7 China's CPI growth, October 2017 to September 2019

8

yoy growth (%)



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, April to September 2019

yoy growth (%)	Apr 19	May	Jun	Jul	Aug	Sep
Food, tobacco and liquor	3.5	5.8	6.1	6.7	7.3	8.4
Clothing	2.0	1.7	1.8	1.8	1.6	1.6
Housing	2.1	1.8	1.6	1.5	1.0	0.7
Household goods and services	1.2	1.0	0.8	0.8	0.7	0.6
Transportation and communication	0.1	-0.9	-1.9	-2.1	-2.3	-2.9
Education, culture and recreation	2.4	2.6	2.4	2.3	2.1	1.7
Healthcare	2.7	2.5	2.5	2.6	2.3	2.2
Other goods and services	1.9	2.1	2.7	3.4	4.7	5.8

Source: National Bureau of Statistics, PRC

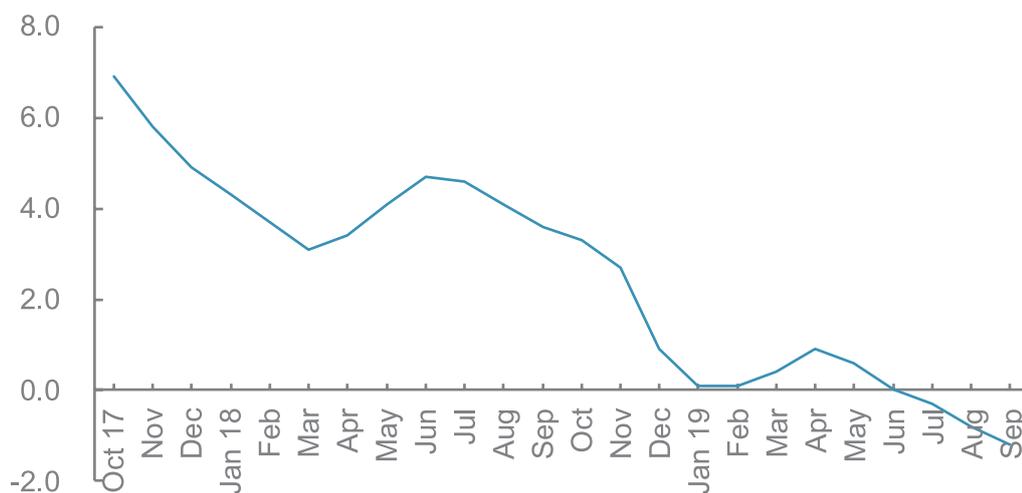
The year-on-year growth in China's producer price index of industrial products (PPI) dropped from minus 0.8% in August to minus 1.2% in September, the lowest level in three years (*see exhibits 9 & 10*).

On a month-on-month basis, the PPI went up by 0.1% in September, after having fallen for three consecutive months. The increase in the PPI in September was mainly attributed to the rise in ex-factory prices in the 'processing of food from agricultural products', 'manufacture and processing of non-ferrous metals' and 'manufacture of computer, communication equipment and other electronic equipment' industries in the month.

Looking ahead, we expect that the month-on-month growth in the PPI will remain low or even turn negative in the near future, as the ex-factory prices sub-index of China's manufacturing PMI came in at 48.0 in October, indicating deflationary pressure on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to go down further in October and continue to stay low 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, October 2017 to September 2019

yoy growth (%)



Oct 18	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%
Jul	-0.3%
Aug	-0.8%
Sep	-1.2%

Source: National Bureau of Statistics, PRC

Exhibit 10 China's PPI growth by selected industry, April to September 2019

yoy growth (%)

	Apr 19	May	Jun	Jul	Aug	Sep
Textile	1.1	0.9	0.1	-0.4	-1.6	-2.4
Textile wearing apparel and ornament	1.1	1.0	0.9	0.6	0.4	0.3
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.1	1.1	1.2	1.1	0.6	0.5

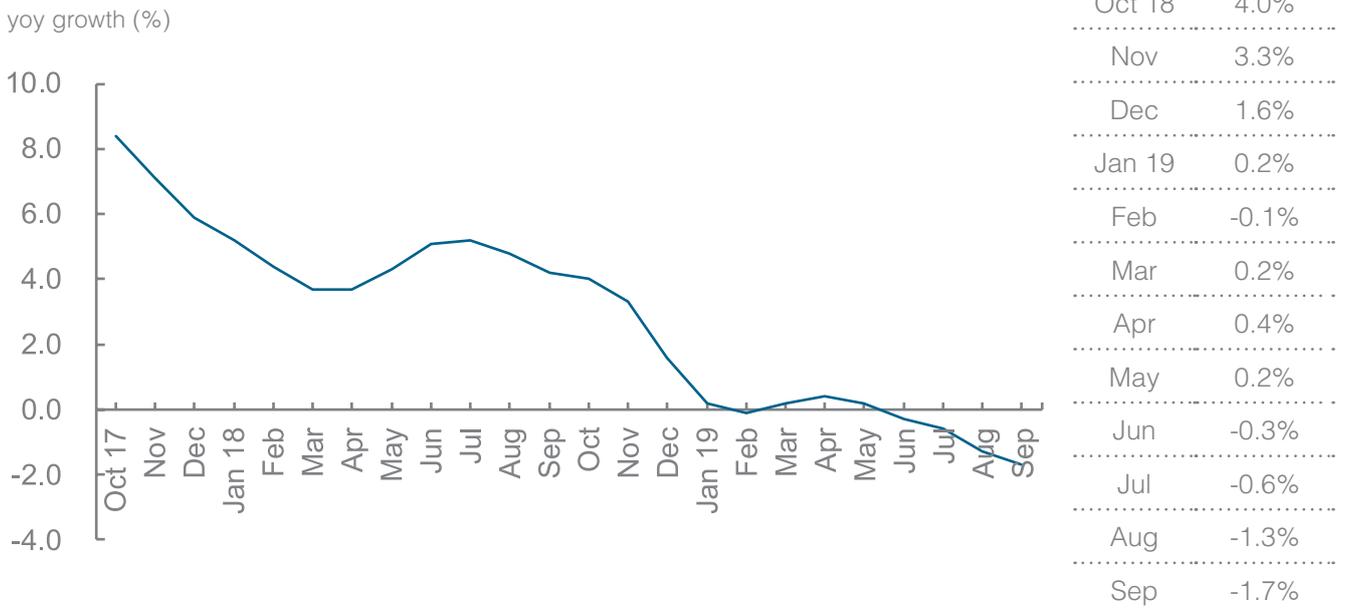
Source: National Bureau of Statistics, PRC

The year-on-year growth rate of the purchaser price index of industrial products went down from minus 1.3% in August to minus 1.7% in September, the lowest level in three years (see exhibits 11 & 12). On a month-on-month basis, the purchaser price index increased by 0.2% in September, after having posted a fall for three consecutive months.

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

in at 50.4 in October, indicating weak inflationary pressure on input prices. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay low in the near term. Meanwhile, the year-on-year growth rate of the index is likely to drop further in October and continue to stay low in the following 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, October 2017 to September 2019



Source: National Bureau of Statistics, PRC

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

yoy growth (%)	Apr 19	May	Jun	Jul	Aug	Sep
Fuel and power	1.6	1.4	-0.2	-2.1	-3.2	-4.2
Non-ferrous metal materials and wires	-1.6	-2.5	-3.5	-2.5	-2.3	-1.5
Chemical raw materials	-2.8	-3.5	-4.7	-5.4	-6.8	-7.9
Wood and pulp	-1.3	-2.5	-3.0	-3.7	-4.5	-4.8
Textile raw materials	1.1	0.7	-0.1	-0.8	-1.6	-2.3

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 6.3% yoy in June to 4.4% yoy in August, the lowest since February 2009, before rebounding to 5.8% yoy in September (*see exhibit 13*). Overall, in 1-3Q19, China's IP expanded by 5.6% 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 5.0% yoy in 4Q19.

12

7. Industrial profits fall by 2.1% yoy in first nine months of 2019

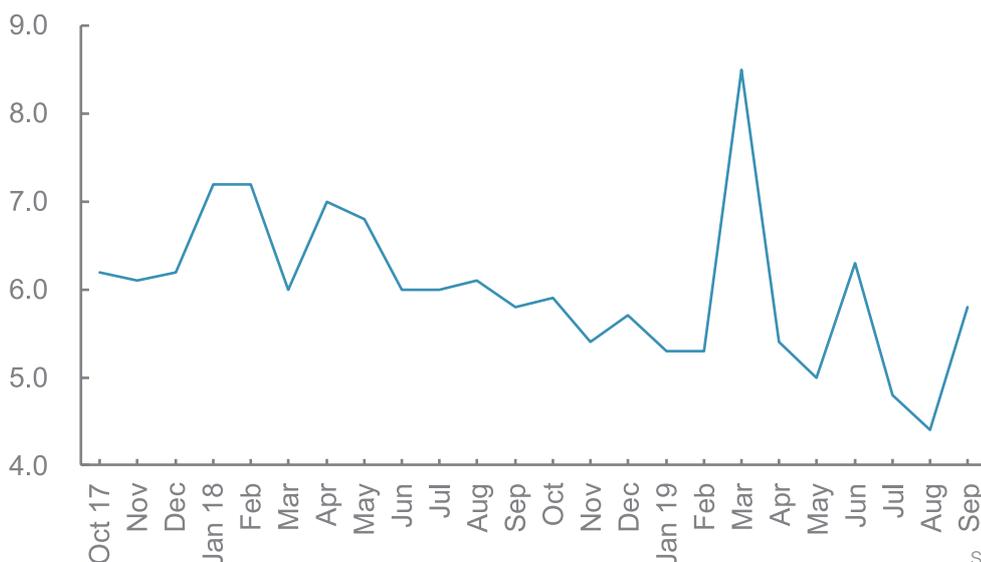
The growth rate of the total profits earned by industrial enterprises above designated size deteriorated from 2.6% yoy in July to minus 2.0% yoy in August, and further to minus 5.3% yoy in September.

In the first nine months of 2019, China's industrial profits totalled 4,593.4 billion yuan, down by 2.1% yoy, compared with a growth of 10.3% yoy in 2018 (*see exhibit 14*).

Among sectors, in the January to September period, profits of the manufacturing sector dropped by 3.9% yoy to 3,790.4 billion yuan. In contrast, profits of the mining sector grew by 3.1% yoy to 427.9 billion yuan, and profits of the 'electricity, heat, gas and water' sector jumped by 12.3% yoy to 375.0 billion yuan.

Exhibit 13 China's industrial production growth, October 2017 to September 2019

yoy growth (%)



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, April to September 2019

yoy growth (%)	Apr 19	May	Jun	Jul	Aug	Sep
Total profits made by industrial enterprises above a designated size	-3.7	1.1	-3.1	2.6	-2.0	-5.3

Source: National Bureau of Statistics, PRC

ISSUE
56
NOV
2019**8. Fixed asset investment growth decelerates in 1-3Q19**

The growth in China's nominal fixed asset investment (FAI) (excluding rural households) eased from 5.9% yoy in 2018 to 5.4% yoy in 1-3Q19. Overall, in 1-3Q19, China's nominal FAI (excluding rural households) amounted to 46.1 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 2.5% in 1-3Q19 from 9.5% yoy in 2018.

In contrast, the FAI growth for infrastructure (excluding power, heat, gas and water infrastructure) edged up to 4.5% yoy in 1-3Q19 from 3.8% yoy in 2018, while the FAI growth for real estate development went up to 10.5% yoy in 1-3Q19 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 have nearly exhausted the 2.15 trillion yuan annual quota set by the central government for special bond issuance this year to fund infrastructure projects. This move is likely to lend support to the growth of infrastructure investment.

Exhibit 15 China's FAI (excluding rural households) growth, April to September 2019

	Apr 19	May	Jun	Jul	Aug	Sep
FAI (excluding rural households) (year-to-date, yoy growth %)	6.1	5.6	5.8	5.7	5.5	5.4
FAI (excluding rural households) (mom growth %, seasonally adjusted)	0.41	0.40	0.41	0.42	0.42	0.41

Source: National Bureau of Statistics, PRC

B Highlights

1. China proposes 20 measures to boost domestic consumption

The Chinese government released the *Opinions on Accelerating Circulation and Promoting Commercial Consumption* on 27 August. It outlined 20 measures to help promote consumer spending such as liberalizing car-buying restrictions, encouraging the purchase of new energy vehicles, and expanding cross-border e-commerce imports to more cities. New measures also include encouraging the merger of new technologies and business platforms, upgrading aging shopping centres, improving pedestrian shopping areas, supporting trade-ins for household appliances, promoting night markets, and encouraging activities for public holidays.

14

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 8.4% yoy as at the end of September, compared with 8.5% yoy as at the end of June. The growth rate of total outstanding RMB loans was 12.5% yoy as at the end of September, down from 13.0% yoy as at the end of June. Overall, in 1-3Q19, the total outstanding RMB loans rose by 13.63 trillion yuan, larger than the increase seen in the same period last year (i.e. 13.14 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 announced on 6 September that it would lower the required reserve ratios (RRR) for all banks by 50 basis points effective 16 September, with additional targeted cuts for qualified city commercial banks effective 15 October and 15 November.

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

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

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 18.7 trillion yuan in 1-3Q9, larger than the increase seen in the same period last year (i.e. 15.4 trillion yuan) (*see exhibit 17*).⁵

The faster increase in 'total social financing' in 1-3Q19 was due mainly to a bigger rise in RMB loans, and faster issuance of corporate bonds and local government special bonds.

⁵ 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, October 2018 to September 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 1-3Q19	16.17 13.63
End-Oct 18	179.6	8.0%	134.0	13.1%	Oct 18	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
End-Jul	191.9	8.1%	147.0	12.6%	Jul	1.06
End-Aug	193.6	8.2%	148.2	12.4%	Aug	1.21
End-Sep	195.2	8.4%	149.9	12.5%	Sep	1.69

Source: People's Bank of China

Exhibit 17 Increase in total social financing, 2018 to 1-3Q19

	2018		1-3Q19	
	Amount (billion yuan)	Share (%)	Amount (billion yuan)	Share (%)
Total social financing	19,260.0	100.0	18,740.0	100.0
- RMB loans to the real sector	15,670.0	81.4	13,900.0	74.2
- Foreign currency loans to the real sector	-420.1	-2.2	-81.1	-0.4
- Entrusted loans	-1,610.0	-8.4	-645.4	-3.4
- Trust loans	-690.1	-3.6	-107.8	-0.6
- Bankers' acceptances	-634.3	-3.3	-522.4	-2.8
- Corporate bonds	2,480.0	12.9	2,390.0	12.8
- Local government special bonds	1,790.0	9.3	2,170.0	11.6
- Equity financing	360.6	1.9	234.3	1.3
- 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 rose from 49.5 in August to 49.8 in September, and then dropped to 49.3 in October. The index has stayed below the critical 50-mark for six consecutive months, pointing to continued downward pressure on China's manufacturing sector and economy. (see exhibit 18).

The output index fell from 52.3 in September to 50.8 in October, indicating that output growth has decelerated recently. This was due largely to a sluggish domestic and external demand: The new orders index⁶ dipped into the contractionary zone in October. Meanwhile, the new export orders index went down to 47.0 in October from 48.2 in September, indicating that new export orders have dropped at a faster pace recently.

The purchases of inputs index went up from 49.3 in August to 50.4 in September, and then declined to 49.8 in October, returning to the contractionary zone. The latest figure indicates that manufacturers have again reduced their purchases of production inputs.

The stocks of finished goods index went down from 47.8 in August to 47.1 in September, and further to 46.7 in October. The latest figure indicates that the stocks of finished goods held by manufacturers have decreased at a faster pace lately. Meanwhile, the stocks of major inputs index fluctuated between 47.4 and 47.6 during August to October, indicating a steady decline in the stocks of major inputs in recent months.

After rising from 46.7 in August to 49.9 in September, the ex-factory prices index declined to 48.0 in October. The index has stayed below the critical 50-mark for six consecutive months, indicating that Chinese manufacturers have been reducing the ex-factory

prices of their finished products amid challenging sales environment. Meanwhile, the input prices index rose from 48.6 in August to 52.2 in September, before retreating to 50.4 in October. The index has stayed above the critical 50-mark in the past two months, indicating an increase in prices of production inputs lately.

The business expectations index went up from 53.3 in August to 54.4 in September, and then stayed high at 54.2 in October, indicating that purchasing managers have remained optimistic recently.

2. NMI indicates growth deceleration 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 53.7 to 53.8 throughout July to September, before dropping to 52.8 in October (see exhibit 19). The latest index reading indicates growth deceleration in the non-manufacturing sector.

The new orders index fell from 50.5 in September to 49.4 in October, indicating a reduction in new orders.

The sales prices index came in at 48.9 in October, meaning that enterprises have lowered their service charges lately. Meanwhile, the input prices index went down from 52.8 in September to 51.3 in October, indicating that input prices have increased at a slower pace recently.

The business expectation index came in at 60.7 in October, 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.

16

⁶ 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, October 2019

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	49.3	Lower	Contracting
Output	50.8	Lower	Expanding
New Orders	49.6	Lower	Contracting
New Export Orders	47.0	Lower	Contracting
Backlogs of Orders	44.9	Higher	Contracting
Stocks of Finished Goods	46.7	Lower	Contracting
Purchases of Inputs	49.8	Lower	Contracting
Imports	46.9	Lower	Contracting
Input Prices	50.4	Lower	Rising
Stocks of Major Inputs	48.0	Lower	Falling
Ex-factory Prices	47.4	Lower	Contracting
Employment	47.3	Higher	Contracting
Suppliers' Delivery Time	50.1	Lower	Quickening
Business Expectations	54.2	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, October 2019

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	52.8	Lower	Expanding
New orders	49.4	Lower	Contracting
Input prices	51.3	Lower	Rising
Sales prices	48.9	Lower	Falling
Business expectations	60.7	Higher	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 3Q19

Amid escalations in the China-US trade war and a global economic slowdown, China's exports posted a negative growth of 0.4% yoy in 3Q19, compared with a 1.0% yoy negative growth recorded in 2Q19 (see exhibits 20, 21 and 22). Overall, in 1-3Q19, China's exports amounted to US\$1,825.1 billion, down by 0.1% yoy.

China's exports to the EU and the ASEAN managed to post single-digit growth in 1-3Q19: The growth rates of China's exports to the EU and the ASEAN registered 5.1% yoy and 9.5% yoy respectively in 1-3Q19. In contrast, China's exports to the US declined by 10.7% yoy in the period, 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 2.1% yoy and 2.7% yoy respectively.

The growth rate of China's imports stayed negative in 3Q19. After dropping by 4.0% yoy in 2Q19, China's imports fell by 6.5% yoy in 3Q19, indicating a sluggish domestic demand for imported goods lately. Overall, in 1-3Q19, China's imports totalled US\$1,526.7 billion, down by 5.0% yoy.

China's trade surplus increased from US\$ 105.6 billion in 2Q19 to US\$ 118.9 billion in 3Q19, due to a larger quarter-on-quarter increase in exports than imports in the quarter.

18

Exhibit 20 China's quarterly foreign trade data, 4Q18 to 3Q19

	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
4Q18	660.4	3.9%	528.3	4.7%	132.1
1Q19	551.0	1.3%	476.8	-4.5%	74.1
2Q19	619.9	-1.0%	514.2	-4.0%	105.6
3Q19	654.4	-0.4%	535.5	-6.5%	118.9

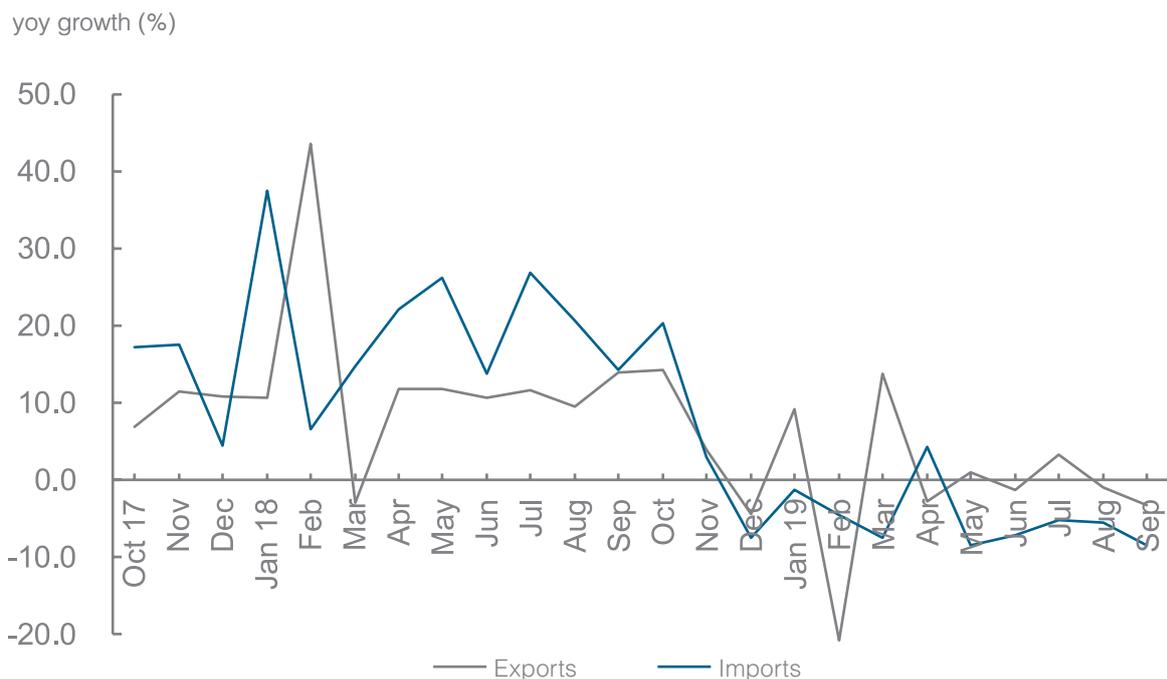
Source: China Customs

Exhibit 21 China's monthly foreign trade data, October 2018 to September 2019

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
October 2018	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	9.2%	178.8	-1.3%	39.1
February	135.1	-20.8%	132.0	-4.6%	3.2
March	197.9	13.8%	166.1	-7.6%	31.8
April	193.4	-2.8%	180.0	4.2%	13.4
May	213.8	1.0%	172.1	-8.5%	41.7
June	212.7	-1.3%	162.1	-7.2%	50.6
July	221.5	3.3%	177.1	-5.3%	44.5
August	214.8	-1.0%	180.0	-5.6%	34.8
September	218.1	-3.2%	178.5	-8.5%	39.7

Source: China Customs

Exhibit 22 Growth rates of exports and imports, October 2017 to September 2019



Source: China Customs

Exhibit 23 Exports by category, 2018 and 1-3Q19

<i>yoy growth (%) of export value, calculated in USD</i>	2018	1-3Q19
Textile yarn, fabrics and textile products	8.1	-0.1
Garments and clothing accessories	0.3	-4.7
Footwear	-2.7	0.1
Toys	4.5	27.0
Furniture and parts	7.6	1.3
Lighting fittings and parts	5.6	10.1
Suitcases and handbags	1.8	-0.6
Refined oil	41.3	2.6
Steel	11.2	-9.4
Mechanical and electrical products	10.6	-0.6

Source: China Customs

Exhibit 24 Imports by category, 2018 and 1-3Q19

<i>yoy growth (%) of import value, calculated in USD</i>	2018	1-3Q19
Soybeans	-4.0	-14.7
Iron ores	-1.3	33.9
Crude oil	46.7	2.4
Refined oil	39.1	-14.5
Steel	8.3	-17.2
Textile yarn, fabrics and textile products	3.0	-13.0
Vehicles and vehicle chassis	0.0	-8.2
Integrated circuits	19.8	-6.7
Plastics	16.3	-7.3

Source: China Customs

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

In 3Q19, general trade⁷ exports managed to record positive year-on-year growth, while processing trade⁸ exports posted year-on-year decline in the quarter. The growth in general trade exports improved to 2.7% yoy in 3Q19 from 0.2% yoy in 2Q19. In the meantime, the growth in processing trade exports worsened to minus 9.2% yoy in 3Q19 from minus 7.1% yoy in 2Q19 (see exhibit 25).

On the import side, the growth in general trade imports worsened from minus 4.0% yoy in 2Q19 to minus 4.5% yoy in 3Q19. Meanwhile, the growth in processing trade

imports worsened markedly from minus 8.9% yoy in 2Q19 to minus 15.6% yoy in 3Q19. In our view, the year-on-year fall in processing trade imports in 3Q19 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 rose to 25.5% in 3Q19 from 24.5% in 2Q19. With a large surplus of US\$77.5 billion in 3Q19, processing trade still plays a vital role in China's foreign trade.

⁷ '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.

⁸ '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 3Q19

Item	yoy growth (%)			Share (%)		
	FY18	2Q19	3Q19	FY18	2Q19	3Q19
Exports	9.9	-1.0	-0.4	100.0	100.0	100.0
Of which:						
General trade	13.9	0.2	2.7	56.3	59.0	58.1
Processing trade	4.9	-7.1	-9.2	32.0	28.6	29.1
Imports	15.8	-4.0	-6.5	100.0	100.0	100.0
Of which:						
General trade	17.4	-4.0	-4.5	59.7	61.3	60.0
Processing trade	8.6	-8.9	-15.6	22.0	19.5	21.1
Total of imports and exports	12.6	-2.4	-3.2	100.0	100.0	100.0
Of which:						
General trade	15.5	-1.8	-0.8	57.9	60.1	58.9
Processing trade	6.2	-7.8	-11.7	27.4	24.5	25.5

Source: China Customs

3. China's exports to US decline markedly in 1-3Q19

The EU was still China's largest trading partner, accounting for 15.6% of China's total foreign trade in 1-3Q19. Sino-EU trade amounted to US\$522.5 billion, up by 3.2% yoy in 1-3Q19. Specifically, China's exports to the EU expanded by 5.1% yoy in 1-3Q19, compared with the growth of 9.8% yoy in 2018; and China's imports from the EU edged up by 0.3% yoy in 1-3Q19, compared with the growth of 11.7% yoy in 2018 (see exhibits 26 and 27).

Accounting for 13.7% 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 1-3Q19. Sino-ASEAN trade grew by 5.9% yoy to US\$459.0 billion in 1-3Q19. Of which, China's exports to ASEAN rose by 9.5% yoy, while China's imports from ASEAN increased by 1.6% yoy.

Accounting for 12.0% of China's total foreign trade, the US was only China's third largest trading partner in 1-3Q19. Sino-US trade declined by 14.8% yoy to US\$402.7 billion in 1-3Q19, against the backdrop of ongoing trade frictions between China and the US. China's exports to the US fell by 10.7% yoy in 1-3Q19, after rising by 11.3% yoy in 2018. Meanwhile, China's imports from the US slumped by 26.4% yoy in 1-3Q19, compared with a positive growth of 0.7% yoy in 2018. Sino-Japanese trade decreased by 4.9% yoy to US\$231.9 billion in 1-3Q19. China's exports to Japan declined by 1.5% yoy, while China's imports from Japan fell by 7.6% yoy in 1-3Q19.

4. Growth rates of China's trade with Brazil and Russia drop sharply in 1-3Q19

The growth in China's exports to Brazil dropped significantly to minus 2.1% yoy in 1-3Q19 from 16.3% yoy in 2018. In the meantime, the growth in China's imports from Brazil tumbled to 3.0% yoy in 1-3Q19 from 31.7% yoy in 2018 (see exhibits 26 and 27). Consequently, the growth in Sino-Brazilian trade decelerated to 1.4% yoy in 1-3Q19 from 26.6% yoy in 2018.

The growth in China's exports to Russia fell to 1.3% yoy in 1-3Q19 from 12.0% yoy in 2018. Meanwhile, the growth in China's imports from Russia plunged to 5.6% yoy in 1-3Q19 from 42.7% yoy in 2018. Consequently, the growth in China's trade with Russia slowed to 3.7% yoy in 1-3Q19 from 27.1% yoy in 2018.

The growth in China's exports to India worsened to minus 2.7% yoy in 1-3Q19 from 12.7% yoy in 2018, while the growth in China's imports from India fell to minus 4.1% yoy in 1-3Q19 from 15.2% yoy in 2018. Overall, the growth of Sino-Indian trade dropped to minus 3.0% yoy in 1-3Q19 from 13.2% yoy in 2018.

Together, these three BRIC members accounted for 6.4% of China's total exports and 7.6% of China's total imports in 1-3Q19, close to the 6.4% and 7.3% shares, respectively, in 2018.

22

Exhibit 26 China's trading partners, 1-3Q19

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	522.5	15.6	316.8	205.8	3.2	5.1	0.3
ASEAN	459.0	13.5	255.1	204.0	5.9	9.5	1.6
US	402.7	12.0	312.0	90.7	-14.8	-10.7	-26.4
Japan	231.9	7.0	106.2	125.7	-4.9	-1.5	-7.6
Brazil	83.1	2.4	24.9	58.2	1.4	-2.1	3.0
Russia	80.1	2.4	35.6	44.5	3.7	1.3	5.6
India	69.7	2.1	56.3	13.3	-3.0	-2.7	-4.1

Source: China Customs

Exhibit 27 China's trading partners, comparing growth rates for 2018 and 1-3Q19

Country/Region	Total trade		Exports		Imports	
	2018	1-3Q19	2018	1-3Q19	2018	1-3Q19
EU	10.6	3.2	9.8	5.1	11.7	0.3
ASEAN	14.1	5.9	14.2	9.5	13.8	1.6
US	8.5	-14.8	11.3	-10.7	0.7	-26.4
Japan	8.1	-4.9	7.2	-1.5	8.9	-7.6
Brazil	26.6	1.4	16.3	-2.1	31.7	3.0
Russia	27.1	3.7	12.0	1.3	42.7	5.6
India	13.2	-3.0	12.7	-2.7	15.2	-4.1

Source: China Customs

5. Exports from Shanghai fall markedly in January to August 2019

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 77.1% of China's total exports in January to August 2019, up from 76.9% 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 8.9% yoy, while exports from Fujian rose by 3.3% yoy in January to August 2019.

Several provinces in China still managed to record double-digit growth in exports in January to August 2019. For example, exports from Yunnan, Hainan, Hunan and Heilongjiang grew by 23.0% yoy, 22.7% yoy, 19.2% yoy and 13.9% yoy respectively in the period.

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

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	457.8	1.8	28.5
Jiangsu	266.5	-0.8	16.6
Zhejiang	223.3	3.2	13.9
Shandong	112.3	-0.8	7.0
Shanghai	108.0	-8.9	6.7
Fujian	71.3	3.3	4.4

Source: China Customs

6. China's FDI grows by 6.5% yoy in 1-3Q19

China's foreign direct investment (FDI) in Renminbi terms increased by 3.8% yoy in September, recording positive year-on-year growth for ten consecutive months. Overall, in 1-3Q19, China's FDI amounted to 683.2 billion yuan, up by 6.5% yoy (*see exhibit 29*).

In 1-3Q19, FDI in the Hi-Tech industries soared by 39.8% yoy to 203.8 billion yuan, accounting for 29.8% of the total FDI during the period. FDI in Hi-Tech manufacturing sector reached 74.6 billion yuan, up 13.7% yoy. Among which, FDI in 'pharmaceuticals manufacturing', 'medical equipment and instruments manufacturing' and 'electronics and communications device manufacturing' grew by 40.7% yoy, 33.1% and 10.7% yoy respectively in 1-3Q19. FDI in Hi-Tech service sector totalled 129.2 billion yuan, up 61.3% yoy. Among which, FDI in 'information services', 'research and development and design' and 'transformation of scientific achievements' rose strongly by 52.4% yoy, 57.9% yoy and 74.4% yoy respectively during the period.

Among major investment sources, FDI from Hong Kong, Macao, Singapore, South Korea and Japan rose by 8.7% yoy, 51.4% yoy, 27.8% yoy, 28.7% yoy and 4.0% yoy respectively in 1-3Q19.

7. China's foreign exchange reserves decline in 3Q19

As at the end of 3Q19, China's foreign exchange reserves amounted to US\$3,092.4 billion, down by US\$26.8 billion compared with end-2Q19 (*see exhibit 30*). This was the first time in three quarters that the foreign exchange reserves posted a quarter-on-quarter drop. The fall in the foreign exchange reserves in 3Q19 was due mainly to a decrease in the value of financial assets held by the Chinese government and the depreciation of the non-US dollar currencies.

Looking ahead, we expect that China's foreign exchange reserves will stay relatively stable in the near future. A major reason is that the US central bank cut its benchmark US interest rates on 30 October, which would put downward pressure on the US dollar.

Exhibit 29 China's FDI, October 2018 to September 2019

	Amount (billion yuan)	yoy growth
FY18	885.6	0.9%
1-3Q 2019	683.2	6.5%
October 18	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%
July	54.8	8.7%
August	70.9	3.6%
September	79.2	3.8%

Source: Ministry of Commerce, PRC

Exhibit 30 Foreign exchange reserves by quarter, 4Q18 to 3Q19

USD billion	Accumulation	End of the quarter
FY18	-67.2	
4Q18	-14.3	3,072.7
1Q19	26.1	3,098.8
2Q19	20.5	3,119.2
3Q19	-26.8	3,092.4

Source: State Administration of Foreign Exchange, PRC

B Highlights

1. China and the US reach 'phase one' trade deal

The yearlong trade war between China and the US re-escalated in the past few months but has shown signs of easing lately as the two countries reached a verbal 'phase one' deal.

US President Donald Trump announced on 1 August that the US would impose 10% additional tariffs on another US\$300 billion worth of Chinese imports starting 1 September. However, on 13 August, the US announced that it would delay the proposed 10% additional tariffs on imports from China worth about US\$160 billion to 15 December, and remove certain products from the tariff lists altogether.

On 23 August, China announced that it would impose additional tariffs of 5% or 10% on US products worth US\$75 billion beginning 1 September and 15 December. In retaliation for China's tariff revenge, the US said that it would raise its existing tariffs on US\$250 billion of Chinese imports to 30% from 25% starting 1 October (later postponed to 15 October). The planned tariffs on another US\$300 billion of Chinese imports would also increase to 15% from 10%.

After trade negotiation teams from China and the US ended two days of trade talks in Washington on 11 October, the two countries reached a 'phase one deal'. China reportedly agreed to make purchases of US\$40 billion to US\$50 billion in US agricultural goods annually, while the US would delay the above-mentioned tariff hikes on US\$250 billion worth of Chinese imports scheduled on 15 October. However, due to the cancellation of the Asia-Pacific Economic Cooperation summit in mid-November, a planned meeting of leaders of the two countries on the summit's sidelines was called off. Trump said on 31 October that a new location for signing the 'phase one' deal will be announced soon.

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

After depreciating against the US dollar during early to late August, the exchange rate of the Chinese yuan has stayed relatively stable since then. The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar was 7.0533 on 31 October, compared with 7.0879 on 30 August and 6.8841 on 31 July (*see exhibit 31*).⁹

In line with the movement of the daily fixing rate, the USD-CNY spot exchange rate has been relatively stable since late August, after the Chinese yuan depreciated against the US dollar throughout August.¹⁰ So far this year, the spot exchange rate of the Chinese yuan has depreciated by 2.28% (as of 31 October) against the US dollar.

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro depreciated from 7.6356 on 1 August to 7.8916 on 13 August, and fluctuated afterwards, closing at 7.8676 on 31 October. So far this year, the daily fixing rate of the Chinese yuan against the Euro has depreciated by 0.26% (as of 31 October) (*see exhibit 32*).

According to the Bank for International Settlements, the real effective exchange rate of the yuan fell from 120.41 in June to 119.96 in September.¹¹ Overall, in 1-3Q19, the Chinese yuan depreciated in real terms against its trading partners by 0.92% (*see exhibit 33*).

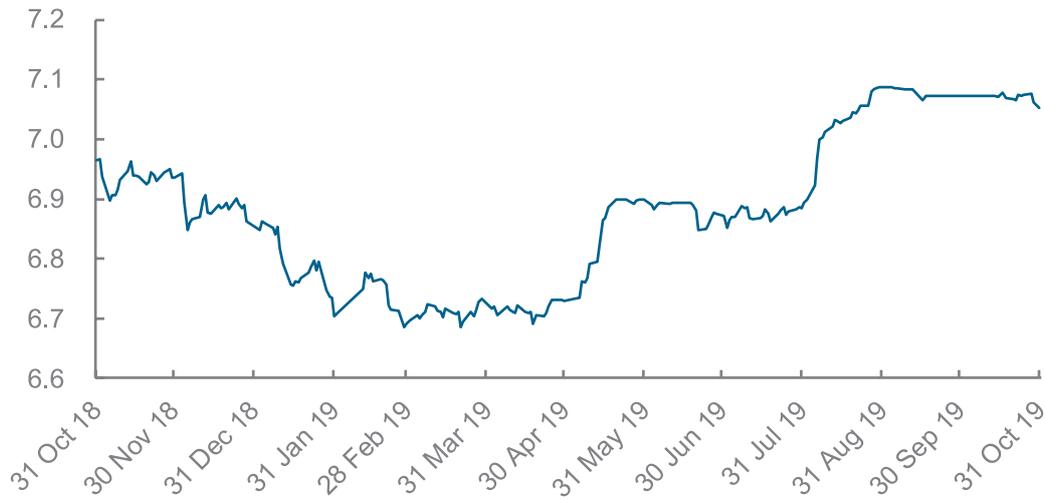
Looking ahead, we predict that the exchange rate of the Chinese yuan against the US dollar will stay relatively stable in the near term. A major reason is that China is likely to keep the yuan exchange rate relatively stable as the 'phase one' trade deal with the US is being finalized. Another reason is that, on 30 October, the US central bank cut its benchmark US interest rates for the third time this year, 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.

⁹ 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'.

¹⁰ The daily trading band of the Chinese yuan against the US dollar is $\pm 2.0\%$ around the daily fixing rate.

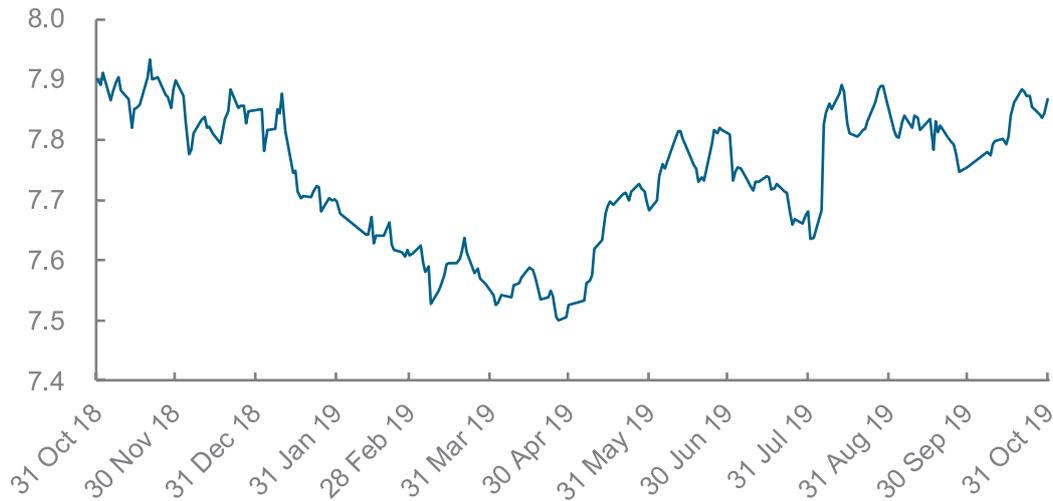
¹¹ The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real 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, October 2018 to October 2019



Source: State Administration of Foreign Exchange

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



Source: State Administration of Foreign Exchange

Exhibit 33 Real effective exchange rate of the Chinese yuan, October 2017 to September 2019



Source: Bank for International Settlements

C Outlook

1. US economic growth decelerates in 3Q19

Due mainly to downturns in non-residential fixed investment and private inventory investment, the US economic growth decelerated in 3Q19: The US real GDP expanded by an annual rate of 1.9% in 3Q19, compared with the annual growth of 2.0% in 2Q19 (*see exhibit 34*).

Recent indicators also paint growth moderation in the US economy. On the production side, industrial production fell by 0.4% mom in September after gaining 0.8% mom in August, while the new orders for manufactured durable goods declined by 1.1% mom in September after rising by 0.3% mom in August. (*see exhibit 35*). Meanwhile, the manufacturing PMI fell to a 10-year low of 47.8 in September from 49.1 in August, indicating that the US manufacturing sector has contracted at a faster pace recently.

The growth of the non-manufacturing sector has also decelerated lately: The non-manufacturing index (NMI) went down from 56.4 in August to 52.6 in September, the weakest pace of expansion since August 2016.

The US retail sales decreased by 0.3% mom in September, after having recorded positive month-on-month growth for six consecutive months. Meanwhile, the Reuters/ University of Michigan index of consumer sentiment increased from 89.8 in August to 93.2 in September and further to 95.5 in October, indicating that US consumers have become more optimistic lately (*see exhibit 36*).

The labour market in the US has remained solid. The unemployment rate dropped to a nearly-50-year low of 3.5% in September (*see exhibit 37*). Meanwhile, the non-farm payroll employment increased at a relatively slow pace, by 136,000, in the same month.

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 2.4% in 2019 and 2.1% in 2020.¹²

Exhibit 34 US national accounts, 2017 to 3Q19

Annual growth (%)	2017	2018	4Q18	1Q19	2Q19	3Q19
Real GDP	2.4	2.9	1.1	3.1	2.0	1.9

Source: US Department of Commerce

Exhibit 35 US industrial sector, April to September 2019

mom growth (%), seasonally adjusted	Apr 19	May	Jun	Jul	Aug	Sep
Industrial production	-0.6	0.2	0.1	-0.2	0.8	-0.4
New orders for manufactured durable goods	-2.8	-2.3	1.8	2.1	0.3	-1.1

Source: US Federal Reserve, US Department of Commerce

Exhibit 36 US consumer market, April to October 2019

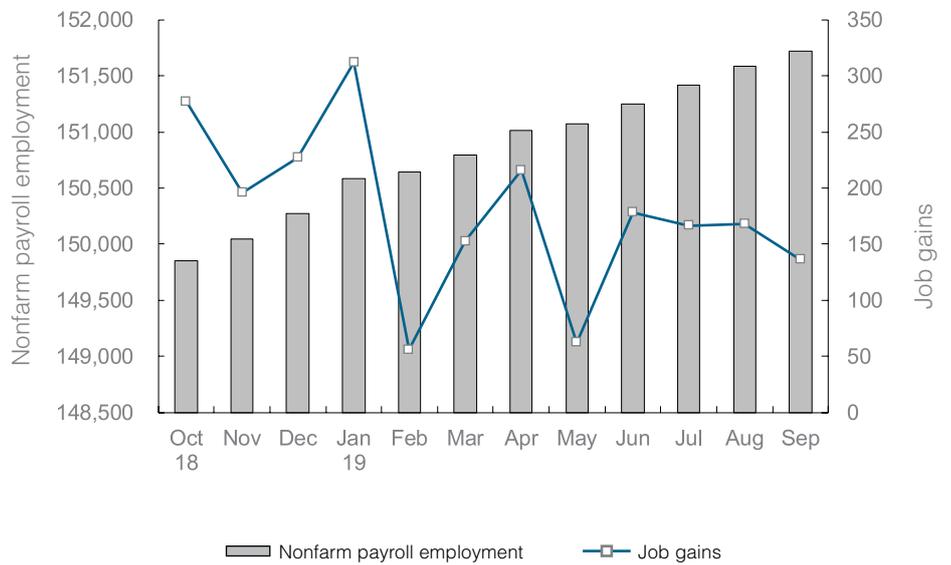
	Apr 19	May	Jun	Jul	Aug	Sep	Oct
Retail and food services sales <i>(mom growth %, seasonally adjusted)</i>	0.4	0.5	0.4	0.7	0.6	-0.3	-
Reuters/University of Michigan index of consumer sentiment	97.2	100.0	98.2	98.4	89.8	93.2	95.5
CPI <i>(yoy growth %)</i>	2.0	1.8	1.6	1.8	1.7	1.7	-

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
Oct 18	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
Jul	3.7
Aug	3.7
Sep	3.5

*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 growth deceleration of the Eurozone economy.¹³ According to the global survey firm Markit Economics, the Eurozone manufacturing PMI came in at 45.7 in October, the same as in September, pointing to the steepest contraction in the manufacturing sector since October 2012. Meanwhile, the Eurozone services PMI went down from 53.5 in August to 51.6 in September, and then stayed low at 51.8 in October, indicating a slower growth of the service sector in the region.

The retail trade volume in the Eurozone increased by 0.1% mom on a seasonally adjusted basis in September, after rising by 0.6% mom in August (*see exhibit 39*).

The labour market in the region has remained solid lately. The seasonally-adjusted unemployment rate stayed at an 11-year low of 7.5% in September, the same as in August (*see exhibit 40*).

Nevertheless, confidence among consumers and managers in various sectors has weakened: The Eurozone's economic sentiment indicator (ESI) dropped further to 101.7 in September, the lowest in nearly five years (*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 October, the IMF forecasts that the real GDP growth rate of the Eurozone will soften from 1.9% in 2018 to 1.2% in 2019, before rebounding to 1.4% in 2020.¹⁴

Exhibit 38 Eurozone's real GDP growth, 2017 to 3Q19

	2017	2018	4Q18	1Q19	2Q19	3Q19
Real GDP (<i>qoq growth %</i>)			0.3	0.4	0.2	0.2
Real GDP (<i>yoy growth %</i>)	2.4	1.9	1.2	1.3	1.2	1.1

Source: Eurostat, IMF

Exhibit 39 Eurozone consumer market, April to October 2019

	Apr 19	May	Jun	Jul	Aug	Sep	Oct
Volume of retail trade (<i>mom growth %, seasonally adjusted</i>)	0.1	-0.3	1.0	-0.5	0.6	0.1	-
Annual inflation (%)	1.7	1.2	1.3	1.0	1.0	0.8	0.7

Source: Eurostat

Exhibit 40 Eurozone labour market, April to September 2019

<i>seasonally adjusted</i>	Apr 19	May	Jun	Jul	Aug	Sep
Unemployment rate (%)	7.6	7.6	7.5	7.6	7.5	7.5

Source: Eurostat

¹³ 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.

¹⁴ IMF, World Economic Outlook, October 2019

Exhibit 41

Eurozone economic sentiment indicator, April to September 2019

<i>seasonally adjusted</i>	Apr 19	May	Jun	Jul	Aug	Sep
Economic sentiment indicator	103.9	105.2	103.3	102.7	103.1	101.7

Source: Eurostat

3. China's exports are expected to post negative growth in 4Q19

According to the *World Economic Outlook* released in October, the IMF cuts its forecasts for world economic growth in 2019 by 0.2 ppt., compared with its previous projections made in July 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 3.0% in 2019 and will improve to 3.4% in 2020. The growth in advanced economies is projected to decelerate from 2.3% in 2018 to 1.7% in 2019 and 2020. Meanwhile, the growth in emerging market and developing economies is projected to fall from 4.5% in 2018 to 3.9% in 2019, and rebound strongly to 4.6% in 2020 (*see exhibit 42*).

Looking ahead, we forecast that China's exports will continue to post negative year-on-year growth in 4Q19. 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	3.0	3.4
Advanced economies	2.3	1.7	1.7
US	2.9	2.4	2.1
Eurozone	1.9	1.2	1.4
Japan	0.8	0.9	0.5
Emerging market and developing economies	4.5	3.9	4.6
China	6.6	6.1	5.8
India *	6.8	6.1	7.0
Brazil	1.1	0.9	2.0
Russia	2.3	1.1	1.9

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

Source: World Economic Outlook released in October 2019, the IMF

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

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