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## Domestic Trade

Retail sales of consumer goods grow by 8.0% yoy in 2019.

Both rural and urban households witness growth acceleration in income in 2019.

Growth in nominal fixed asset investment decelerates to 5.4% yoy in 2019.

China issues guidelines to promote high-quality trade development.

Manufacturing sector and the economy start to stabilize before the COVID-19 outbreak becomes serious in late January.

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

## Foreign Trade

Growth rates of both exports and imports turn positive in 4Q19.

ASEAN overtakes US to become China's second largest trading partner in 2019.

Exports from Shanghai fall by 6.2% yoy in 2019.

FDI grows by 5.8% yoy in 2019.

Foreign exchange reserves rise in 4Q19.

China and US sign 'phase one' trade deal.

Chinese yuan depreciates against US dollar since late January.

FUNG BUSINESS INTELLIGENCE

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## Part 1: Domestic Trade





## Part 2: Foreign Trade




Helen Chin, William Kong

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

Global Sourcing
Fung Business Intelligence

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

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

http://www.fbicgroup.com/

***Editor's note:*** *China is presently experiencing widespread economic disruption owing to the coronavirus disease 2019 (COVID-19) outbreak and stringent government measures to contain it. While comparisons are inevitable with the economic toll taken by another coronavirus, SARS (2002-03), the difference for China, now, is that its economic fundamentals are more robust, its technology more advanced, its services more diverse, and its consumers more resilient, as illustrated by its thriving e-commerce sector. For these and other reasons we believe the COVID-19 outbreak, while currently a jolt to China and the world, will not leave a long-term scar on the Chinese economy.*

# Executive Summary



## Domestic Trade

Retail sales of consumer goods reached 41,164.9 billion yuan in 2019, up by 8.0% yoy. Online retail sales of goods, which accounted for 20.7% of total retail sales, increased markedly by 19.5% yoy in the year.

Both rural and urban households witnessed growth acceleration in income in 2019, In nominal terms, the per capita disposable income of rural households grew by 9.2% yoy to 16,021 yuan, while the per capita disposable income of urban households rose by 7.9% yoy to 42,359 yuan in 2019.

Growth in nominal fixed asset investment decelerated to 5.4% yoy in 2019 from 5.9% yoy in 2018, mainly attributable to the deceleration of FAI growth for the manufacturing sector.

The Chinese government unveiled on 28 November last year the *Guiding Opinions on Promoting High-quality Trade Development*. Under the guideline, China will take a series of key measures to encourage new advantages in trade competition, improve trade structures, foster new businesses, create a better trade environment and deepen reform and opening-up.

China's manufacturing PMI went up from 49.8 in October to 50.2 in November, rising above the critical 50-mark for the first time in seven months. The PMI stayed flat at 50.2 in December and then edged down to 50.0 in January. The index readings in recent months show that the manufacturing sector and the economy started to stabilize before the COVID-19 outbreak became serious in late January.

The NMI fell from 54.4 in November to 53.5 in December, and then rebounded to 54.1 in January. The latest NMI reading indicates growth deceleration in the non-manufacturing sector.

## Foreign Trade

Growth rates of both exports and imports turned positive in 4Q19. Export growth improved to 1.8% yoy in 4Q19 from minus 0.3% yoy in 3Q19, while import growth improved to 3.2% yoy in 4Q19 from minus 6.2% yoy in 3Q19.

China's exports to the ASEAN managed to post double-digit growth of 12.7% yoy in 2019, while China's exports to the US declined by 12.5% yoy in the year. The ASEAN overtook the US to become China's second largest trading partner in 2019.

Exports from Shanghai fell by 6.2% yoy, while exports from Fujian and Zhejiang rose by 3.6% yoy in 2019. In contrast, provinces such as Yunnan and Hunan still managed to post double-digit growth in exports in the year.

FDI amounted to 941.5 billion yuan, up by 5.8% yoy, in 2019.

Foreign exchange reserves amounted to US$3,107.9 billion as at the end of 4Q19, up by US$15.5 billion compared with end-3Q19.

The yearlong trade war between China and the US has shown signs of easing lately as the two countries signed a 'phase one' trade deal on 15 January. The trade deal specifies some structural changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency. China has also committed to greatly increasing the imports of various US goods and services over the next two years. Moreover, the US administration agreed to cancel the proposed 15% additional tariffs on about US$160 billion of Chinese goods scheduled on 15 December last year, and cut the tariff rate to 7.5% from 15% on another US$120 billion of Chinese products, effective 14 February. China also halved tariffs on hundreds of US goods on the same day.

The exchange rate of the Chinese yuan appreciated against the US dollar during late September last year to late January but depreciated afterwards. The daily fixing rate of the Chinese yuan against the US dollar appreciated from 7.0729 on 30 September to 6.8606 on 21 January, but then depreciated to 6.9768 on 7 February.

Part 1 :

# Domestic Trade

## A Recent developments

### 1. China's real GDP growth stays stable at 6.0% in 4Q19

China's real GDP growth stayed stable at 6.0% year-on-year (yoy) in 4Q19, the same as in 3Q19. The 4Q19 figure indicates a growth stabilization of the Chinese economy. *(see exhibit 1)*. Overall, China's nominal GDP amounted to 99.1 trillion yuan in 2019. The real growth rate was 6.1% yoy, the lowest since 1990.

Compared with 2018, both the tertiary industry and secondary industry witnessed growth deceleration in 2019. The real growth rate of the value-added of the tertiary industry slowed to 6.9% yoy in 2019 from 7.6% yoy in 2018. In the meantime, the real growth rate of the value-added of the secondary industry came in at 5.7% yoy in 2019, down from 5.8% yoy in 2018.



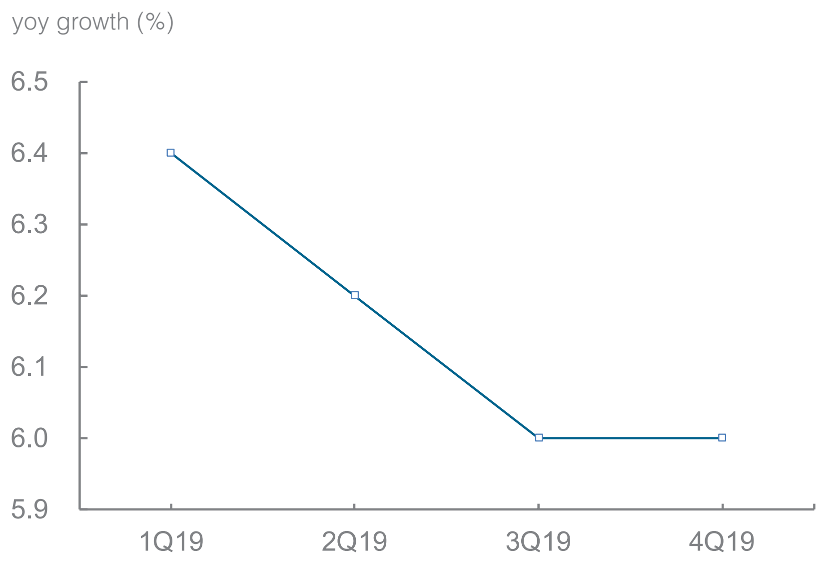
In 2019, final consumption expenditure contributed 3.5 percentage points (ppts) to the real GDP growth, while gross capital formation contributed 1.9 ppts and net exports contributed 0.7 ppts. These figures show that China has been shifting towards a consumption-led economy.

The Central Economic Work Conference, a meeting which sets the tone for the economic tasks this year, was held on 10-12 December last year. According to a statement issued after the conference, China will continue with its proactive fiscal policy and prudent monetary policy. The fiscal policy should focus on improved quality and efficiency with more efforts on structural adjustment. The monetary policy should be flexible and moderate to maintain market liquidity at a reasonably ample level. The government will also work to reduce the costs of social financing, increase medium- and long-term loans to the manufacturing sector, and solve the financing difficulties and lower financing costs for private enterprises and small businesses.

Looking ahead, the Chinese economy is under severe downward pressure amid the coronavirus disease 2019 (COVID-19) outbreak, in addition to the sluggish global economy and lingering China-US trade tensions. In particular, the COVID-19 outbreak and government measures to control the disease, such as the extension of the Chinese New Year holiday period and the lockdowns within Hubei province, have led to a sharp fall in business activities, industrial production and consumption since late January. Facing strong economic headwinds, the central government is likely to step up its efforts to stabilize China's economic growth, in our view.

Going forward, we predict that the real GDP growth will fall sharply to around 4.0% in 1Q20.

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




| FY19 | 6.1% |
|---|---|
| 1Q19 | 6.4% |
| 2Q19 | 6.2% |
| 3Q19 | 6.0% |
| 4Q19 | 6.0% |

Source: National Bureau of Statistics, PRC

## 2. Growth in retail sales bottoms out in 4Q19

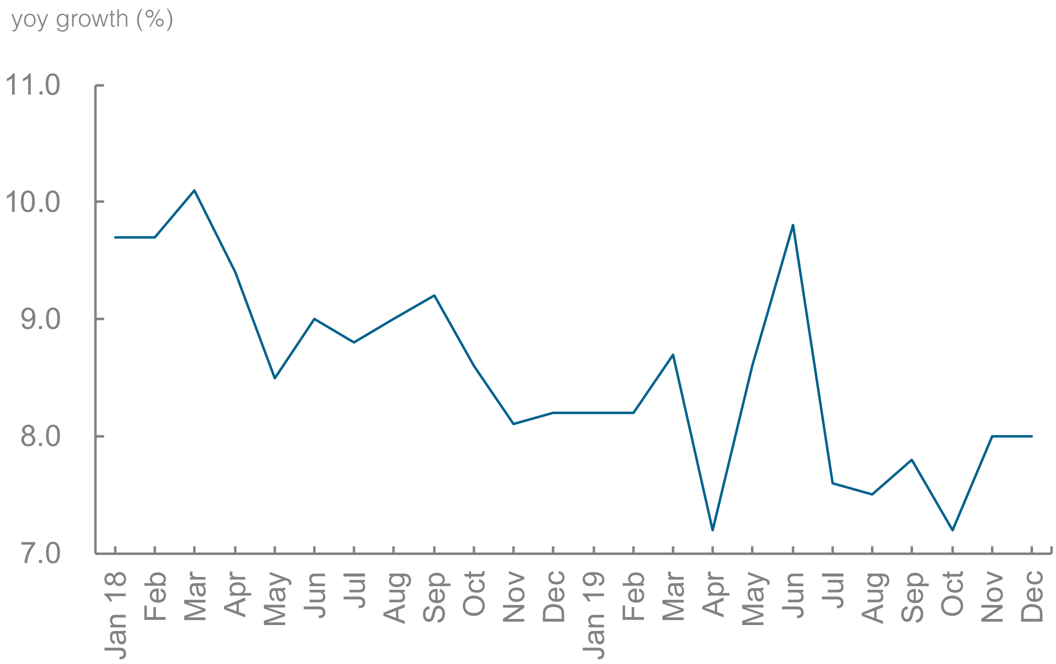
According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods registered 7.2% yoy in October, matching a 16-year low recorded in April, but then picked up to 8.0% yoy in November and in December, indicating a bottoming out of retail sales. Meanwhile, the month-on-month (mom) growth in seasonally-adjusted retail sales rose from 0.47% in October to 0.80% in November, before dropping to 0.53% in December.

Overall, in 2019, the total retail sales of consumer goods reached 41,164.9 billion yuan. The growth rate was 8.0% yoy in 2019, lower than the 9.0% yoy in 2018 *(see exhibits 2 and 3)*.

China's online retail sales of goods increased by 19.5% yoy to 8,523.9 billion yuan in 2019. Consequently, the share of online retail sales in total retail sales of consumer goods went up to 20.7% in 2019 from 18.4% in 2018, indicating the growing popularity of online shopping.



**Exhibit 2** China's total retail sales, year-on-year nominal growth, January 2018 to December 2019




| FY19 | 8.0% |
|---|---|
| Jan-Feb 19 | 8.2% |
| Mar | 8.7% |
| Apr | 7.2% |
| May | 8.6% |
| Jun | 9.8% |
| Jul | 7.6% |
| Aug | 7.5% |
| Sep | 7.8% |
| Oct | 7.2% |
| Nov | 8.0% |
| Dec | 8.0% |

Source: National Bureau of Statistics, PRC

**Exhibit 3** China's total retail sales, month-on-month nominal growth, July to December 2019

*mom growth (%), seasonally adjusted*

| | Jul 19 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| Total retail sales | 0.21 | 0.67 | 0.71 | 0.47 | 0.8 | 0.53 |

Source: National Bureau of Statistics, PRC

Both rural and urban retail sales have increased at a slower pace: the growth in rural retail sales eased to 9.0% yoy in 2019 from 10.1% yoy in 2018, while the growth in urban retail sales decelerated to 7.9% yoy in 2019 from 8.8% yoy in 2018.

The growth in catering services sales came in at 9.4% yoy in 2019, down slightly from 9.5% yoy in 2018. Meanwhile, the growth in sales of goods slowed to 7.9% yoy in 2019 from 8.9% yoy in 2018.

The growth rate of the retail sales of goods by enterprises above designated size[1], which amounted to 14,801.0 billion yuan in 2019, decelerated to 3.9% yoy in 2019 from 5.7% yoy in 2018. Among products, 'commodities for daily use' saw the strongest growth in sales (13.9% yoy) in 2019, followed by 'cosmetics' (12.6% yoy). Meanwhile, 'automobiles' registered a negative growth of minus 0.8% 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 2019

| *Nominal growth, yoy (%)* | FY18 | 1Q19 | 1H19 | 1-3Q19 | FY19 |
|---|---|---|---|---|---|
| Total retail sales | 9.0 | 8.3 | 8.4 | 8.2 | 8.0 |
| - Goods | 8.9 | 8.2 | 8.3 | 8.0 | 7.9 |
| Sales by enterprises above a designated size | 5.7 | 3.8 | 4.7 | 3.9 | 3.9 |
| Online sales | 25.4 | 21.0 | 21.6 | 20.5 | 19.5 |
| - Catering services | 9.5 | 9.6 | 9.4 | 9.4 | 9.4 |

Source: National Bureau of Statistics, PRC



Going forward, the COVID-19 outbreak is expected to hit retail sales in 1Q20. A large number of people choose to stay at home and avoid going out. Many retailers and restaurants are suspending operations or shortening their business hours. Travel retail is also greatly affected due to limited passenger flows and a reduced number of tourists. As a result, 1Q20 would be a challenging time for retailers. We predict that the growth in retail sales will fall sharply to below 4.0% in 1Q20.

## 3. Chinese consumers become more optimistic

The consumer confidence index[2] rose from 124.1 in September to 124.3 in October and further to 124.6 in November, which shows that Chinese consumers have become more optimistic recently *(see exhibit 6)*.

## 4. Growth of household income shows slight acceleration in 2019

The growth of income of both rural and urban households slightly accelerated in 2019. In nominal terms, the per capita disposable income of rural households grew by 9.2% yoy to 16,021 yuan, compared with a growth of 8.8% yoy in 2018. Meanwhile, the per capita disposable income of urban households rose nominally by 7.9% yoy to 42,359 yuan in 2019, compared with a growth of 7.8% yoy in 2018.

The consumption expenditure of rural households increased at a slower pace in 2019, compared with 2018. In nominal terms, the per capita consumption expenditure of rural households grew 9.9% yoy to 13,328 yuan in 2019, compared with a growth of 10.7% yoy in 2018. In contrast, the per capita consumption expenditure of urban households gained 7.5% yoy to 28,063 yuan, compared with a growth of 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.

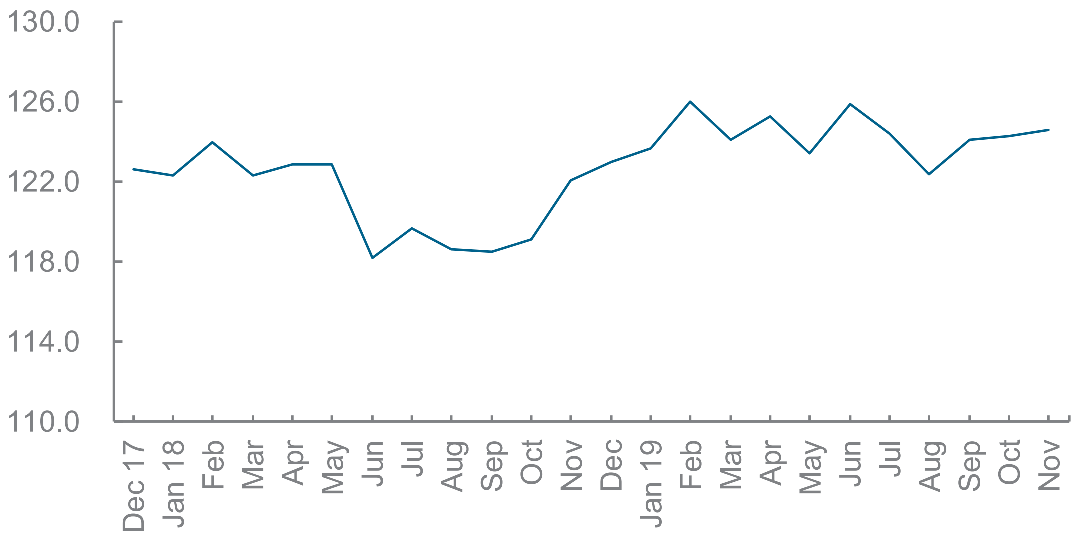
2 A reading above 100 indicates that consumers tend to be optimistic; a reading below 100 indicates that consumers tend to be pessimistic.

**Exhibit 5** China's retail sales by enterprises above designated size, by product, 2018 to 2019

| *Nominal growth, yoy (%)* | FY18 | 1Q19 | 1H19 | 1-3Q19 | FY19 |
|---|---|---|---|---|---|
| Grain, oil and food | 10.2 | 10.6 | 10.4 | 10.6 | 10.2 |
| Beverages | 9.0 | 9.3 | 9.9 | 9.8 | 10.4 |
| Tobacco and liquor | 7.4 | 5.9 | 6.0 | 6.9 | 7.4 |
| Garments, footwear, hats and textiles | 8.0 | 3.3 | 3.0 | 3.3 | 2.9 |
| Cosmetics | 9.6 | 10.9 | 13.2 | 12.8 | 12.6 |
| Gold, silver and jewellery | 7.4 | 2.6 | 3.5 | 0.6 | 0.4 |
| Commodities for daily use | 13.7 | 16.1 | 14.1 | 13.6 | 13.9 |
| Home appliances and audio/video equipment | 8.9 | 7.8 | 6.7 | 5.9 | 5.6 |
| Traditional Chinese and Western medicines | 9.4 | 10.8 | 10.9 | 10.1 | 9.0 |
| Cultural and office appliances | 3.0 | 3.8 | 4.2 | 6.4 | 3.3 |
| Furniture | 10.1 | 5.0 | 5.7 | 5.9 | 5.1 |
| Communication appliances | 7.1 | 10.0 | 7.4 | 6.4 | 8.5 |
| Petroleum and related products | 13.3 | 4.1 | 3.1 | 1.7 | 1.2 |
| Automobiles | -2.4 | -3.4 | 1.2 | -0.7 | -0.8 |
| Building and decoration materials | 8.1 | 8.1 | 3.6 | 3.6 | 2.8 |

Source: National Bureau of Statistics, PRC

**Exhibit 6** China's consumer confidence index, December 2017 to November 2019




Source: National Bureau of Statistics, PRC

| | |
|---|---|
| Dec 18 | 123.0 |
| Jan 19 | 123.7 |
| Feb | 126.0 |
| Mar | 124.1 |
| Apr | 125.3 |
| May | 123.4 |
| Jun | 125.9 |
| Jul | 124.4 |
| Aug | 122.4 |
| Sep | 124.1 |
| Oct | 124.3 |
| Nov | 124.6 |

## 5. CPI growth soars to eight-year high in January

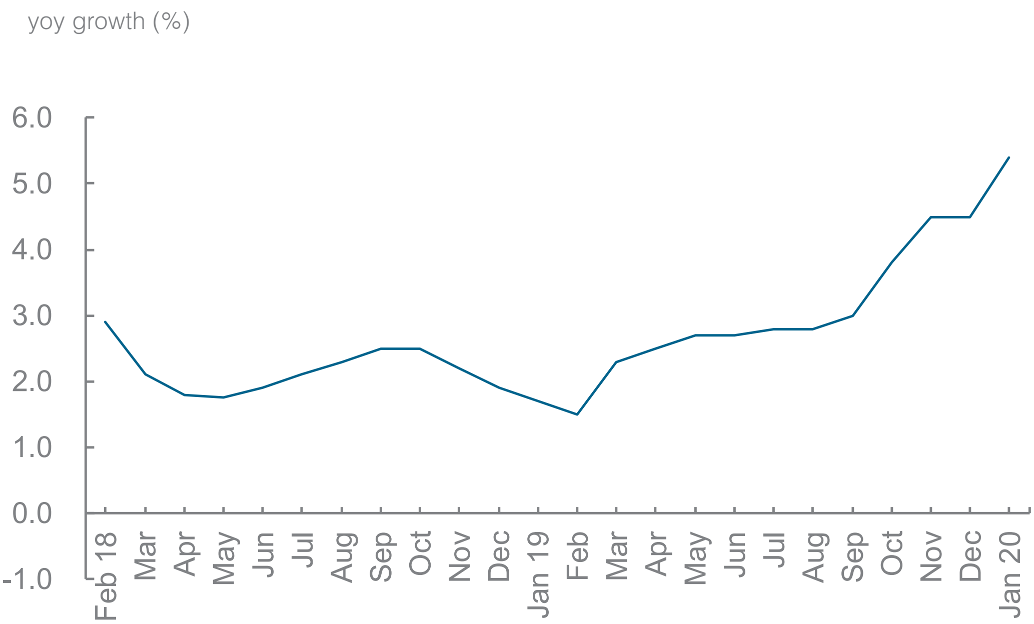
The year-on-year growth rate of China's consumer price index (CPI)[3] jumped from 4.5% in December to 5.4% in January, the highest since October 2011 *(see exhibits 7 & 8)*.

The acceleration in CPI growth in January was mainly attributed to the different timing of the Chinese New Year this year and last year: The Chinese New Year in 2020 began in late-January, while that in 2019 was from early February, which has resulted in a lower comparison base in January last year. The COVID-19 outbreak, which was first reported to the WHO from Wuhan on 31 December 2019, also pushed up the CPI growth in the month, as people rushed to buy food, daily necessities, and medical supplies such as face masks and disinfectant products. Consequently, the year-on-year growth in the food component in the CPI rose to 20.6% in January this year from 17.4% in December, while the year-on-year growth in the non-food component went up to 1.6% in January from 1.3% in the previous month.

Looking ahead, we expect China's general price level to remain high in the coming couple of months, as the higher prices of food, daily necessities, and medical supplies are expected to continue for a while amid the COVID-19 outbreak. However, given a higher comparison base in February last year, we predict that China's CPI growth will moderate below 5.0% yoy in February this year.



**Exhibit 7** China's CPI growth, February 2018 to January 2020




| | |
|---|---|
| Feb 19 | 1.5% |
| Mar | 2.3% |
| Apr | 2.5% |
| May | 2.7% |
| Jun | 2.7% |
| Jul | 2.8% |
| Aug | 2.8% |
| Sep | 3.0% |
| Oct | 3.8% |
| Nov | 4.5% |
| Dec | 4.5% |
| Jan 20 | 5.4% |

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, August 2019 to January 2020

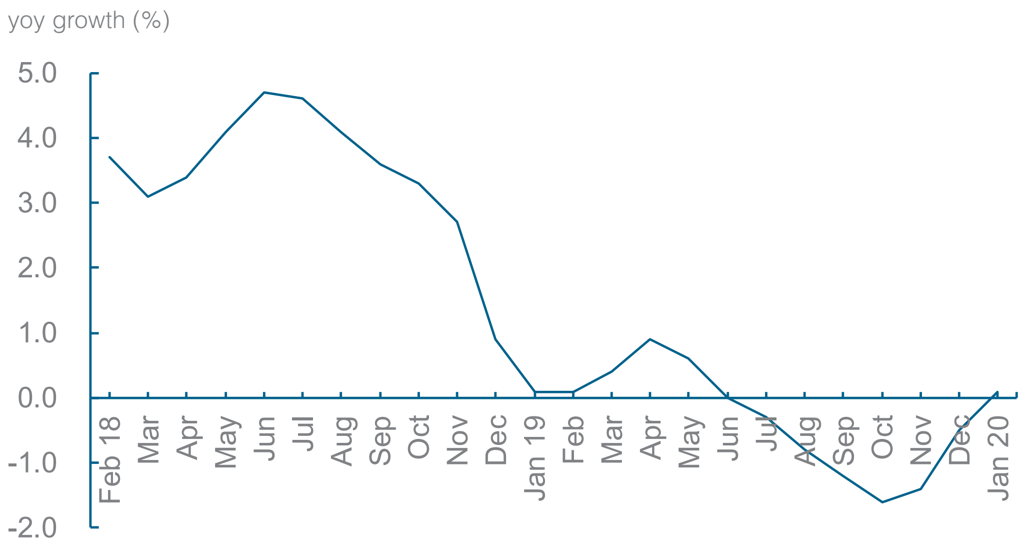
| *yoy growth (%)* | Aug 19 | Sep | Oct | Nov | Dec | Jan 20 |
|---|---|---|---|---|---|---|
| Food, tobacco and liquor | 7.3 | 8.4 | 11.4 | 13.9 | 12.9 | 15.2 |
| Clothing | 1.6 | 1.6 | 1.2 | 1.1 | 0.8 | 0.6 |
| Housing | 1.0 | 0.7 | 0.5 | 0.4 | 0.5 | 0.5 |
| Household goods and services | 0.7 | 0.6 | 0.6 | 0.4 | 0.4 | 0.2 |
| Transportation and communication | -2.3 | -2.9 | -3.5 | -2.8 | -0.7 | 0.9 |
| Education, culture and recreation | 2.1 | 1.7 | 1.9 | 1.7 | 1.8 | 2.2 |
| Healthcare | 2.3 | 2.2 | 2.1 | 2.0 | 2.1 | 2.3 |
| Other goods and services | 4.7 | 5.8 | 5.5 | 4.5 | 4.4 | 4.8 |

Source: National Bureau of Statistics, PRC

The year-on-year growth in China's producer price index of industrial products (PPI) improved from minus 0.5% in December to 0.1% in January, returning to positive territory for the first time since May 2019 *(see exhibits 9 & 10)*. On a month-on-month basis, the PPI stayed flat in January over the previous month.

Looking ahead, we expect that both the year-on-year growth and month-on-month growth in the PPI will turn negative in the near future, as there is a delay in the resumption of industrial production and thus a reduced demand for upstream industrial products amid the COVID-19 outbreak since late January.

**Exhibit 9** China's PPI growth, February 2018 to January 2020




| | |
|---|---|
| Feb 19 | 0.1% |
| Mar | 0.4% |
| Apr | 0.9% |
| May | 0.6% |
| Jun | 0.0% |
| Jul | -0.3% |
| Aug | -0.8% |
| Sep | -1.2% |
| Oct | -1.6% |
| Nov | -1.4% |
| Dec | -0.5% |
| Jan 20 | 0.1% |

Source: National Bureau of Statistics, PRC



**Exhibit 10** China's PPI growth by selected industry, August 2019 to January 2020

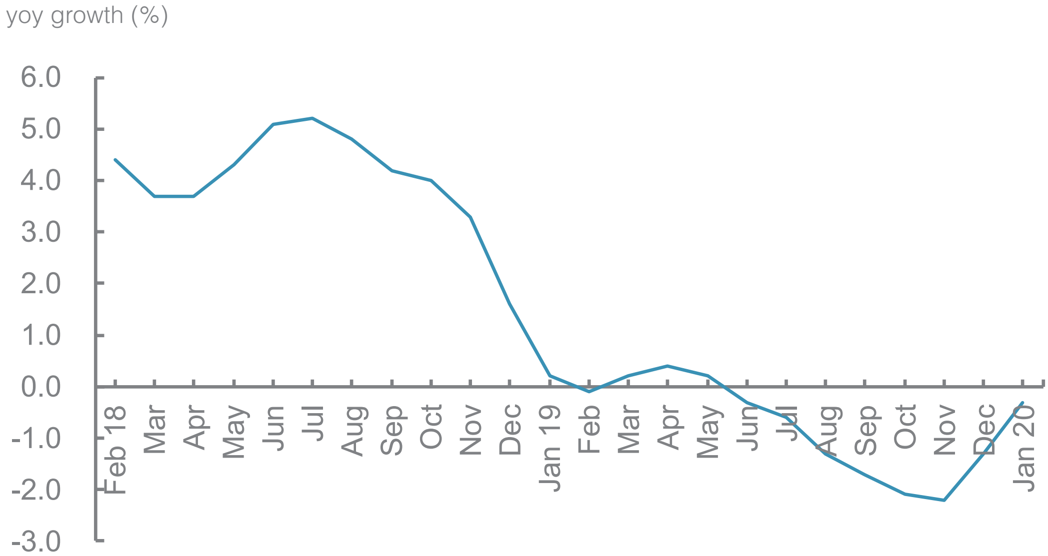
| *yoy growth (%)* | Aug 19 | Sep | Oct | Nov | Dec | Jan 20 |
|---|---|---|---|---|---|---|
| Textile | -1.6 | -2.4 | -3.0 | -3.0 | -2.9 | -3.0 |
| Textile wearing apparel and ornament | 0.4 | 0.3 | 0.1 | -0.3 | -0.7 | -0.5 |
| Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products | 0.6 | 0.5 | 0.4 | 0.4 | 0.5 | 0.3 |

Source: National Bureau of Statistics, PRC

The year-on-year growth rate of the purchaser price index of industrial products improved markedly from minus 1.3% in December to minus 0.3% in January *(see exhibits 11 & 12)*. On a month-on-month basis, the purchaser price index went up by 0.2% in January.

The COVID-19 outbreak since late January has led to a delay in the resumption of industrial production and a fall in the demand for production inputs. Therefore, going forward, we expect that the year-on-year growth in input prices will go down again, and the month-on-month growth will turn negative in the near future.

**Exhibit 11** Growth in China's purchaser price index of industrial products, February 2018 to January 2020




| | |
|---|---|
| Feb 19 | -0.1% |
| Mar | 0.2% |
| Apr | 0.4% |
| May | 0.2% |
| Jun | -0.3% |
| Jul | -0.6% |
| Aug | -1.3% |
| Sep | -1.7% |
| Oct | -2.1% |
| Nov | -2.2% |
| Dec | -1.3% |
| Jan 20 | -0.3% |

Source: National Bureau of Statistics, PRC

**Exhibit 12** China's purchaser price index of industrial products by selected commodity, August 2019 to January 2020

| *yoy growth (%)* | Aug 19 | Sep | Oct | Nov | Dec | Jan 20 |
|---|---|---|---|---|---|---|
| Fuel and power | -3.2 | -4.2 | -5.5 | -5.8 | -3.3 | -0.2 |
| Non-ferrous metal materials and wires | -2.3 | -1.5 | -2.4 | -2.3 | -1.9 | -0.7 |
| Chemical raw materials | -6.8 | -7.9 | -8.5 | -8.4 | -7.4 | -6.1 |
| Wood and pulp | -4.5 | -4.8 | -4.4 | -3.7 | -3.1 | -2.9 |
| Textile raw materials | -1.6 | -2.3 | -2.9 | -2.9 | -2.9 | -2.8 |

Source: National Bureau of Statistics, PRC

## 6. Growth in industrial production accelerates in 4Q19

The real growth rate of China's industrial production (IP), measured by the value-added of industrial output (VAIO) of industrial enterprises above designated size[4], accelerated markedly from 4.7% yoy in October to 6.2% yoy in November and further to 6.9% in December *(see exhibit 13)*. Overall, in 2019, China's IP expanded by 5.7% yoy, slower than the 6.2% yoy growth recorded in 2018.

In addition to long-term challenges such as the lingering trade frictions between China and the US, strong government's determination to tackle pollution problem, and intense competition in the international market, Chinese manufacturers are also facing short-term disruptions brought about by the COVID-19 outbreak. Looking ahead, we expect that China's industrial production growth will fall sharply in 1Q20.

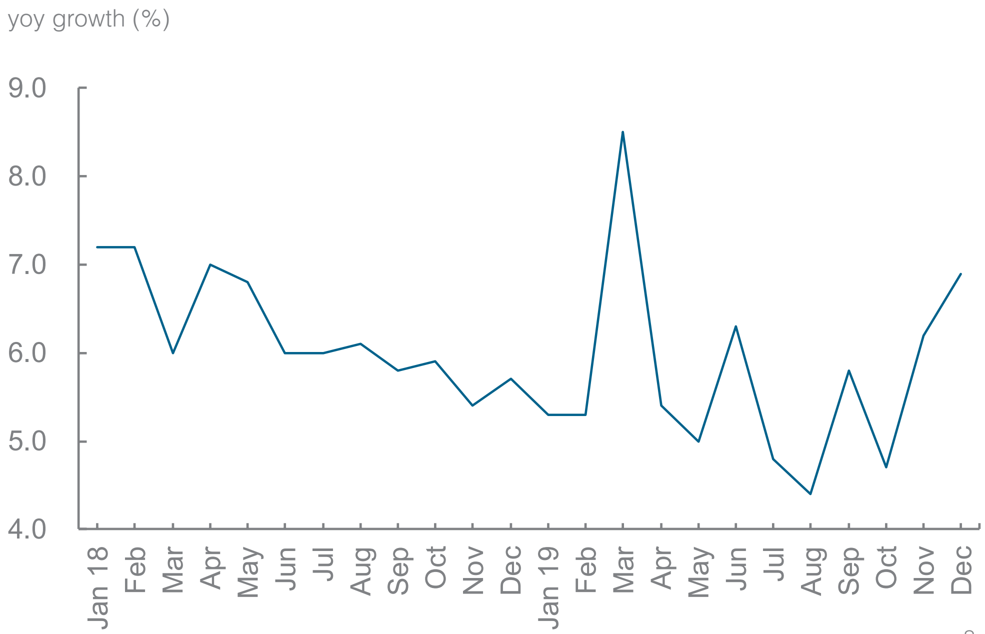
## 7. Industrial profits fall by 3.3% yoy in 2019

The growth rate of the total profits earned by industrial enterprises above designated size improved from minus 9.9% yoy in October to 5.4% yoy in November, but then worsened to minus 6.3% in December.

In 2019, China's industrial profits totalled 6,199.6 billion yuan, down by 3.3% yoy, compared with a growth of 10.3% yoy in 2018 *(see exhibit 14)*.

Among sectors, in 2019, profits of the manufacturing sector dropped by 5.2% yoy to 5,190.4 billion yuan. In contrast, profits of the mining sector grew by 1.7% yoy to 527.5 billion yuan, and profits of the 'production and supply of electricity, gas and water' sector jumped by 15.4% yoy to 481.6 billion yuan.

**Exhibit 13** China's industrial production growth, January 2019 to December 2019




| | |
|---|---|
| Jan-Feb 19 | 5.3% |
| Mar | 8.5% |
| Apr | 5.4% |
| May | 5.0% |
| Jun | 6.3% |
| Jul | 4.8% |
| Aug | 4.4% |
| Sep | 5.8% |
| Oct | 4.7% |
| Nov | 6.2% |
| Dec | 6.9% |

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, July to December 2019

| *yoy growth (%)* | Jul 19 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| Total profits made by industrial enterprises above a designated size | 2.6 | -2.0 | -5.3 | -9.9 | 5.4 | -6.3 |

Source: National Bureau of Statistics, PRC

## 8. Fixed asset investment growth drops in 2019

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) decelerated to 5.4% yoy in 2019 from 5.9% yoy in 2018. Overall, China's FAI (excluding rural households) amounted to 55.1 trillion yuan in 2019 *(see exhibit 15).*

The fall in the overall FAI growth was mainly attributed to the deceleration of FAI growth for the manufacturing sector, which plunged to 3.1% in 2019 from 9.5% yoy in 2018.

In contrast, the FAI growth for real estate development edged up to 9.8% yoy in 2019 from 9.5% yoy in 2018, while the FAI growth for infrastructure (excluding power, heat, gas and water infrastructure) stayed flat at 3.8% yoy in 2019.

Looking ahead, we predict that the growth in China's FAI will stabilize around 5.5% this year, boosted by the Chinese government's efforts to increase infrastructure investment. For example, on 27 November last year, the Ministry of Finance issued 1 trillion yuan in 2020 special bond quotas in advance, and requested that local government must ensure that special bonds, which are used to finance infrastructure projects, should be issued and used as soon as possible, so that the projects can have an impact by early 2020. This move is likely to lend support to the growth of infrastructure investment.

**Exhibit 15** China's FAI (excluding rural households) growth, July to December 2019

| | Jul 19 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| FAI (excluding rural households) *(year-to-date, yoy growth %)* | 5.7 | 5.5 | 5.4 | 5.2 | 5.2 | 5.4 |
| FAI (excluding rural households) *(mom growth %, seasonally adjusted)* | 0.43 | 0.41 | 0.44 | 0.41 | 0.42 | 0.44 |

Source: National Bureau of Statistics, PRC

## B Highlights

### 1. China publishes guidelines to boost high-quality trade development

The Chinese government unveiled on 28 November last year the *Guiding Opinions on Promoting High-quality Trade Development*. It aims to promote high-quality development of trade with a key focus on forging a stable and better-structured trade development as part of China's ongoing efforts to implement the deep transformation and upgrading of the economy.

Under the guideline, China will take a series of key measures to encourage new advantages in trade competition, improve trade structures, foster new businesses, create a better trade environment and deepen reform and opening-up.[5]



### 2. Growth in total outstanding RMB loans decelerates

The total outstanding RMB loans grew at a slower pace in 4Q19 *(see exhibit 16)*. The growth rate of total outstanding RMB loans was 12.3% yoy as at the end of December, down from 12.5% yoy as at the end of September. Overall, the total outstanding RMB loans rose by 16.81 trillion yuan in 2019, larger than the increase seen in 2018 (i.e. 16.17 trillion yuan).

Meanwhile, the broad money supply (M2) has grown at a faster pace recently *(see exhibit 16)*. The M2 growth went up to 8.7% yoy as at the end of December, compared with 8.4% yoy as at the end of September.

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 1 January that it would lower the required reserve ratios (RRR) for all banks by 50 basis points effective 6 January, releasing 800 billion yuan in liquidity into the banking system.

On 10-12 December last year, the Central Economic Work Conference was held to set the tone for the economic tasks this year. According to a statement released after the meeting, China's prudent monetary policy should be pursued with 'moderate flexibility'. It is noteworthy that the wording was different from that used before: China would keep its prudent monetary policy 'neither too tight nor too loose' according to an article written by China's central bank governor published on 1 December last year[6]. In our view, the change in wording implies that the monetary policy is likely to become more accommodative in the near future.

### 3. 'Total social financing' rises at faster pace in 2019

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, government bonds, equity financing, asset-backed securities of depository financial institutions, and written-off loans) amounted to 25.6 trillion yuan in 2019, larger than the increase seen in 2018 (i.e. 22.5 trillion yuan) *(see exhibit 17)*.[7]

The faster increase in 'total social financing' in 2019 was due mainly to a bigger rise in RMB loans and faster issuance of corporate bonds.

5 For more details, please see: https://www.chinadaily.com.cn/a/201911/29/WS5de01845a310cf3e3557abf1.html
6 http://www.qstheory.cn/dukan/qs/2019-12/01/c_1125288270.htm
7 The People's Bank of China changed the statistical method of the total social financing in December 2019, incorporating 'treasury bonds' and 'local government general bonds' into the statistics of the total social financing, and combining them with the existing 'local government special bonds' under the item 'government bonds'. Consequently, the historical statistics of the total social financing have been adjusted.

**Exhibit 16** Broad money supply (M2) and RMB loans, January to December 2019

| *As of* | Broad money supply (M2) Amount (trillion yuan) | Broad money supply (M2) yoy growth | Total outstanding RMB loans Amount (trillion yuan) | Total outstanding RMB loans yoy growth |
|---|---|---|---|---|
| End-Jan 19 | 186.6 | 8.4% | 139.5 | 13.4% |
| End-Feb | 186.7 | 8.0% | 140.4 | 13.4% |
| End-Mar | 188.9 | 8.6% | 142.1 | 13.7% |
| End-Apr | 188.5 | 8.5% | 143.1 | 13.5% |
| End-May | 189.1 | 8.5% | 144.3 | 13.4% |
| End-Jun | 192.1 | 8.5% | 146.0 | 13.0% |
| End-Jul | 191.9 | 8.1% | 147.0 | 12.6% |
| End-Aug | 193.6 | 8.2% | 148.2 | 12.4% |
| End-Sep | 195.2 | 8.4% | 149.9 | 12.5% |
| End-Oct | 194.6 | 8.4% | 150.6 | 12.4% |
| End-Nov | 196.1 | 8.2% | 152.0 | 12.4% |
| End-Dec | 198.7 | 8.7% | 153.1 | 12.3% |

| | Increase in RMB loans (trillion yuan) |
|---|---|
| FY18 | 16.17 |
| FY19 | 16.81 |
| Jan 19 | 3.23 |
| Feb | 0.89 |
| Mar | 1.69 |
| Apr | 1.02 |
| May | 1.18 |
| Jun | 1.66 |
| Jul | 1.06 |
| Aug | 1.21 |
| Sep | 1.69 |
| Oct | 0.66 |
| Nov | 1.39 |
| Dec | 1.14 |

Source: People's Bank of China

**Exhibit 17** Increase in total social financing, 2018 to 2019

| | 2018 | | 2019 | |
|---|---|---|---|---|
| | Amount (billion yuan) | Share (%) | Amount (billion yuan) | Share (%) |
| Total social financing | 22,492.0 | 100.0 | 25,575.2 | 100.0 |
| - RMB loans to the real sector | 15,671.2 | 69.7 | 16,883.5 | 66.0 |
| - Foreign currency loans to the real sector | -420.1 | -1.9 | -127.5 | -0.5 |
| - Entrusted loans | -1,606.2 | -7.1 | -939.6 | -3.7 |
| - Trust loans | -697.5 | -3.1 | -346.7 | -1.4 |
| - Bankers' acceptances | -634.3 | -2.8 | -475.7 | -1.9 |
| - Corporate bonds | 2,631.8 | 11.7 | 3,241.6 | 12.7 |
| - Local government special bonds | 4,853.1 | 21.6 | 4,720.4 | 18.5 |
| - Equity financing | 360.6 | 1.6 | 347.9 | 1.4 |
| - Asset-backed securities of depository financial institutions | 594.0 | 2.6 | 403.4 | 1.6 |
| - Written-off loans | 1,015.5 | 4.5 | 1,055.1 | 4.1 |

Source: People's Bank of China

# C Outlook

## 1. Manufacturing sector shows signs of stabilization

China's manufacturing PMI went up from 49.8 in October to 50.2 in November, rising above the critical 50-mark for the first time in seven months. The PMI stayed flat at 50.2 in December and then edged down to 50.0 in January. The index readings in recent months show that the manufacturing sector and the economy started to stabilize. *(see exhibit 18).*

The output index came in at 51.3 in January, indicating a continued growth of production activities. Although the new export orders index returned to the contractionary zone in January, the new orders index edged up from 51.2 in December to a nine-month high of 51.4 in January, showing that the new orders have increased at a faster pace lately.

Against the backdrop of rising orders, purchasing activities have started to increase: The purchases of inputs index went up from 49.8 in October to 51.0 in November and further to 51.3 in December and 51.6 in January.

The stocks of finished goods index went up 45.6 in December to 46.0 in January, indicating that the stocks of finished goods held by manufacturers have decreased at a slower pace lately. Meanwhile, the stocks of major inputs index dropped from 47.8 in November to 47.2 in December and further to 47.1 in January. The latest readings indicate a faster decline in the stocks of major inputs in recent months.

After rebounding from 47.3 in November to 49.2 in December, the ex-factory prices index retreated to 49.0 in January. The index has stayed below the critical 50-mark for nine 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 strongly from 49.0 in November to 51.8 in December and further to 53.8 in January, indicating an increase in the prices of production inputs.



The business expectations index went up from 54.4 in December to 57.9 in January, indicating that purchasing managers have become more optimistic recently.

It should be noted that the impact of the COVID-19 outbreak was not fully reflected in the January's PMI reading as the PMI survey was conducted before 20 January.

## 2. NMI indicates growth acceleration in non-manufacturing sector

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), fell from 54.4 in November to 53.5 in December, and then rebounded to 54.1 in January (see exhibit 19). The latest index reading indicates growth deceleration in the non-manufacturing sector.

The new orders index edged up from 50.4 in December to 50.6 in January, indicating that new orders have expanded at a faster pace lately.

The sales prices index came in at 50.5 in January, meaning that enterprises have raised their service charges lately. Meanwhile, the input prices index went up from 52.4 in December to 53.3 in January, indicating that input prices have increased at a faster pace recently.

The business expectation index came in at 59.6 in January, 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.

It should be noted that the impact of the COVID-19 outbreak was not fully reflected in the January's NMI reading as the NMI survey was conducted before 20 January.

**Exhibit 18** China's manufacturing PMI at a glance, January 2020

| Index | Seasonally Adjusted Index | Index Compared with the Previous Month | Direction |
|---|---|---|---|
| PMI | 50.0 | Lower | Stable |
| Output | 51.3 | Lower | Expanding |
| New Orders | 51.4 | Higher | Expanding |
| New Export Orders | 48.7 | Lower | Contracting |
| Backlogs of Orders | 46.3 | Higher | Contracting |
| Stocks of Finished Goods | 46.0 | Higher | Contracting |
| Purchases of Inputs | 51.6 | Higher | Expanding |
| Imports | 49.0 | Lower | Contracting |
| Input Prices | 53.8 | Higher | Rising |
| Ex-factory Prices | 49.0 | Lower | Falling |
| Stocks of Major Inputs | 47.1 | Lower | Contracting |
| Employment | 47.5 | Higher | Contracting |
| Suppliers' Delivery Time | 49.9 | Lower | Slowing |
| Business Expectations | 57.9 | 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, January 2020

| Index | Seasonally Adjusted Index | Index Compared with the Previous Month | Direction |
|---|---|---|---|
| Business activity | 54.1 | Higher | Expanding |
| New orders | 50.6 | Higher | Expanding |
| Input prices | 53.3 | Higher | Rising |
| Sales prices | 50.5 | Higher | Rising |
| Business expectations | 59.6 | Higher | Optimistic |

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

## A Recent developments

### 1. Both exports and imports register positive year-on-year growth in 4Q19

Despite lingering China-US trade tensions and a sluggish global economy, China's exports posted a positive growth of 1.8% yoy in 4Q19, compared with a 0.3% yoy negative growth in 3Q19 *(see exhibits 20, 21 and 22)*. Overall, in 2019, China's exports amounted to US$2,498.4 billion, up by 0.5% yoy.

China's exports to the ASEAN managed to post double-digit growth in 2019: The growth rate of China's exports to the ASEAN registered 12.7% yoy in 2019. China's exports to the EU also rose by 4.9% yoy in the year. In contrast, China's exports to the US declined by 12.5% yoy in 2019, amid ongoing trade frictions between China and the US. China's exports to Japan and India also dropped in the year, posting declines of 2.6% yoy and 2.4% yoy respectively.

The growth rate of China's imports also turned positive in 4Q19. After dropping by 6.2% yoy in 3Q19, China's imports increased by 3.2% yoy in 4Q19, indicating an improvement in the domestic demand for imported goods lately. Overall, in 2019, China's imports totalled US$2,076.9 billion, down by 2.8% yoy.

China's trade surplus increased from US$ 117.7 billion in 3Q19 to US$ 127.0 billion in 4Q19, due to a larger quarter-on-quarter increase in exports than imports in the quarter.



**Exhibit 20** China's quarterly foreign trade data, 1Q19 to 4Q19

| | Exports | | Imports | | Trade Balance |
|---|---|---|---|---|---|
| | Amount (USD billion) | yoy growth | Amount (USD billion) | yoy growth | Amount (USD billion) |
| FY19 | 2,498.4 | 0.5% | 2,076.9 | -2.8% | 421.5 |
| 1Q19 | 551.6 | 1.4% | 478.6 | -4.1% | 72.9 |
| 2Q19 | 619.9 | -1.0% | 516.0 | -3.7% | 103.9 |
| 3Q19 | 654.8 | -0.3% | 537.1 | -6.2% | 117.7 |
| 4Q19 | 672.1 | 1.8% | 545.2 | 3.2% | 127.0 |

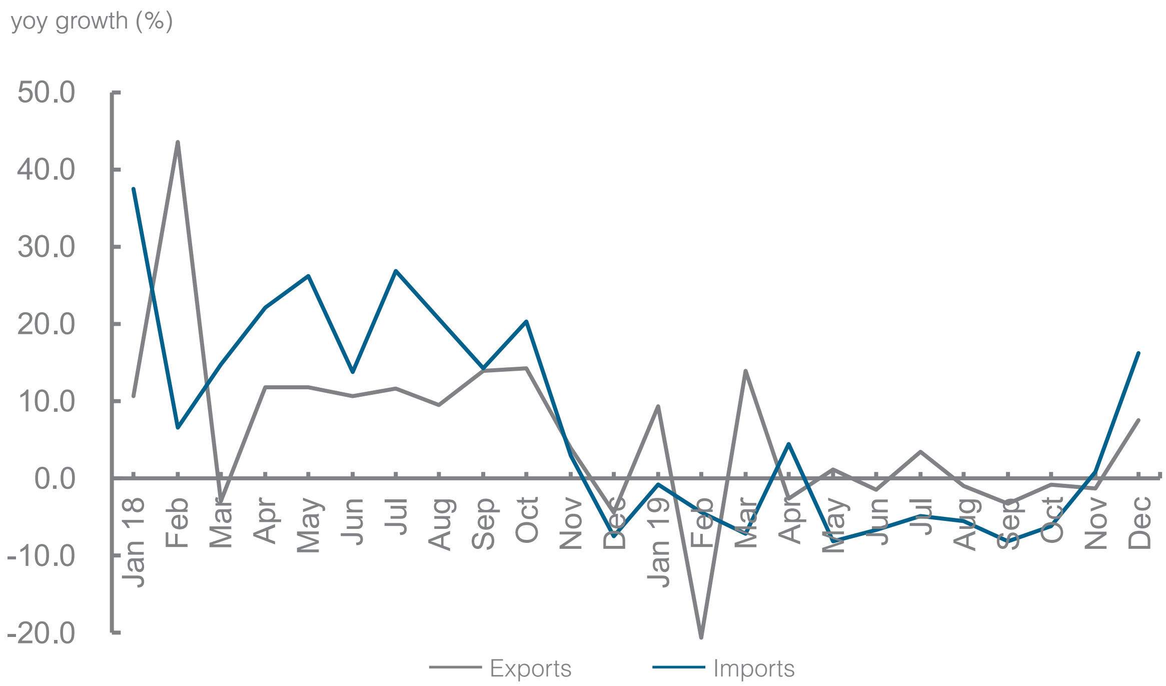
Source: China Customs

Exhibit 21 China's monthly foreign trade data, January to December 2019

| | Exports | | Imports | | Trade Balance |
|---|---|---|---|---|---|
| | Amount (USD billion) | yoy growth | Amount (USD billion) | yoy growth | Amount (USD billion) |
| January 2019 | 218.0 | 9.3% | 179.6 | -0.9 % | 38.4 |
| February | 135.3 | -20.7% | 132.3 | -4.4% | 3.0 |
| March | 198.2 | 14.0% | 166.8 | -7.2% | 31.5 |
| April | 193.6 | -2.7% | 180.5 | 4.5% | 13.1 |
| May | 213.9 | 1.1% | 172.7 | -8.2% | 41.3 |
| June | 212.4 | -1.5% | 162.8 | -6.8% | 49.6 |
| July | 221.8 | 3.4% | 177.7 | -4.9% | 44.1 |
| August | 214.9 | -1.0% | 180.2 | -5.5% | 34.6 |
| September | 218.2 | -3.2% | 179.2 | -8.2% | 39.0 |
| October | 213.0 | -0.8% | 170.5 | -6.2% | 42.6 |
| November | 221.5 | -1.3% | 183.9 | 0.8% | 37.6 |
| December | 237.7 | 7.6% | 190.9 | 16.3% | 46.8 |

Source: China Customs

Exhibit 22 Growth rates of exports and imports, January 2018 to December 2019




Source: China Customs

**Exhibit 23** Exports by category, 2018 and 2019

| *yoy growth (%) of export value, calculated in USD* | 2018 | 2019 |
|---|---|---|
| Textile yarn, fabrics and textile products | 8.1 | 0.9 |
| Garments and clothing accessories | 0.3 | -4.0 |
| Footwear | -2.7 | 1.7 |
| Toys | 4.5 | 24.2 |
| Furniture and parts | 7.6 | 0.8 |
| Lighting fittings and parts | 5.6 | 9.6 |
| Suitcases and handbags | 1.8 | 0.5 |
| Refined oil | 41.3 | 7.0 |
| Steel | 11.2 | -11.3 |
| Mechanical and electrical products | 10.6 | -0.1 |

Source: China Customs

**Exhibit 24** Imports by category, 2018 and 2019

| *yoy growth (%) of import value, calculated in USD* | 2018 | 2019 |
|---|---|---|
| Soybeans | -4.0 | -7.2 |
| Iron ores | -1.3 | 33.6 |
| Crude oil | 46.7 | 0.4 |
| Refined oil | 39.1 | -15.2 |
| Steel | 8.3 | -14.1 |
| Textile yarn, fabrics and textile products | 3.0 | -12.1 |
| Vehicles and vehicle chassis | 0.0 | -4.3 |
| Integrated circuits | 19.8 | -2.1 |
| Plastics | 16.3 | -5.5 |

Source: China Customs



## 2. General trade exports maintain positive year-on-year growth in 4Q19

In 4Q19, general trade[8] exports managed to record positive year-on-year growth, while processing trade[9] exports posted year-on-year decline in the quarter. The growth in general trade exports slowed to 2.4% yoy in 4Q19 from 2.7% yoy in 3Q19. In the meantime, the growth in processing trade exports improved to minus 8.5% yoy in 4Q19 from minus 9.2% yoy in 3Q19 *(see exhibit 25).*

On the import side, the growth in general trade imports jumped from minus 4.5% yoy in 3Q19 to 7.9% yoy in 4Q19. Meanwhile, the growth in processing trade imports improved from minus 15.6% yoy in 3Q19 to minus 9.5% yoy in 4Q19. In our view, the year-on-year fall in processing trade imports in 4Q19 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 edged up to 25.6% in 4Q19 from 25.5% in 3Q19. With a large surplus of US$90.4 billion in 4Q19, processing trade still plays a vital role in China's foreign trade.

8 '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.

9 '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 2019

| Item | yoy growth (%) | | | | Share (%) | | | |
|---|---|---|---|---|---|---|---|---|
| | FY18 | FY19 | 3Q19 | 4Q19 | FY18 | FY19 | 3Q19 | 4Q19 |
| Exports<br>Of which: | 9.9 | 0.5 | -0.3 | 1.8 | 100.0 | 100.0 | 100.0 | 100.0 |
| General Trade | 13.9 | 3.1 | 2.7 | 2.4 | 56.3 | 57.8 | 58.1 | 56.4 |
| Processing Trade | 4.9 | -7.7 | -9.2 | -8.5 | 32.0 | 29.4 | 29.1 | 29.9 |
| Imports<br>Of which: | 15.8 | -2.8 | -6.2 | 3.2 | 100.0 | 100.0 | 100.0 | 100.0 |
| General Trade | 17.4 | -1.3 | -4.5 | 7.9 | 59.7 | 60.5 | 60.0 | 60.1 |
| Processing Trade | 8.6 | -11.3 | -15.6 | -9.5 | 22.0 | 20.1 | 21.1 | 20.3 |
| Total of Imports and Exports<br>Of which: | 12.5 | -1.0 | -3.1 | 2.4 | 100.0 | 100.0 | 100.0 | 100.0 |
| General Trade | 15.5 | 1.0 | -0.8 | 4.9 | 57.9 | 59.0 | 58.9 | 58.1 |
| Processing Trade | 6.2 | -9.1 | -11.7 | -8.9 | 27.4 | 25.2 | 25.5 | 25.6 |

Source: China Customs

## 3. China's exports to US decline markedly in 2019

The EU was still China's largest trading partner, accounting for 15.4% of China's total foreign trade in 2019. Sino-EU trade amounted to US$705.1 billion, up by 3.4% yoy in 2019. Specifically, China's exports to the EU expanded by 4.9% yoy in 2019, compared with the growth of 9.8% yoy in 2018; and China's imports from the EU edged up by 1.1% yoy in 2019, compared with the growth of 11.7% yoy in 2018 *(see exhibits 26 and 27).*

Accounting for 14.0% 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 2019. Sino-ASEAN trade grew by 9.2% yoy to US$641.5 billion in 2019. Of which, China's exports to ASEAN jumped by 12.7% yoy, while China's imports from ASEAN increased by 5.0% yoy.

Accounting for 11.8% of China's total foreign trade, the US was only China's third largest trading partner in 2019. Sino-US trade declined by 14.6% yoy to US$541.2 billion in 2019, against the backdrop of ongoing trade frictions between China and the US. China's exports to the US fell by 12.5% yoy in 2019, after rising by 11.3% yoy in 2018. Meanwhile, China's imports from the US slumped by 20.9% yoy in 2019, compared with a positive growth of 0.7% yoy in 2018.
Sino-Japanese trade decreased by 3.9% yoy to US$315.0 billion in 2019. China's exports to Japan declined by 2.6% yoy, while China's imports from Japan fell by 4.9% yoy in 2019.

## 4. Growth rates of China's trade with Brazil and Russia decelerate sharply in 2019

The growth in China's exports to Brazil dropped markedly to 5.5% yoy in 2019 from 16.3% yoy in 2018. In the meantime, the growth in China's imports from Brazil tumbled to 2.9% yoy in 2019 from 31.7% yoy in 2018 *(see exhibits 26 and 27)*. Consequently, the growth in Sino-Brazilian trade decelerated to 3.7% yoy in 2019 from 26.6% yoy in 2018.

The growth in China's exports to Russia fell to 3.6% yoy in 2019 from 12.0% yoy in 2018. Meanwhile, the growth in China's imports from Russia plunged to 3.2% yoy in 2019 from 42.7% yoy in 2018. Consequently, the growth in China's trade with Russia slowed to 3.4% yoy in 2019 from 27.1% yoy in 2018.

The growth in China's exports to India worsened to minus 2.4% yoy in 2019 from 12.7% yoy in 2018, while the growth in China's imports from India fell to minus 4.5% yoy in 2019 from 15.2% yoy in 2018. Overall, the growth of Sino-Indian trade dropped to minus 2.8% 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 2019, close to the 6.4% and 7.3% shares, respectively, in 2018.



**Exhibit 26** China's trading partners, 2019

| 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 | 705.1 | 15.4 | 428.5 | 276.6 | 3.4 | 4.9 | 1.1 |
| ASEAN | 641.5 | 14.0 | 359.4 | 282.0 | 9.2 | 12.7 | 5 |
| US | 541.2 | 11.8 | 418.5 | 122.7 | -14.6 | -12.5 | -20.9 |
| Japan | 315.0 | 6.9 | 143.2 | 171.8 | -3.9 | -2.6 | -4.9 |
| Brazil | 115.3 | 2.5 | 35.5 | 79.8 | 3.7 | 5.5 | 2.9 |
| Russia | 110.8 | 2.4 | 49.7 | 61.1 | 3.4 | 3.6 | 3.2 |
| India | 92.8 | 2.0 | 74.8 | 18.0 | -2.8 | -2.4 | -4.5 |

Source: China Customs

**Exhibit 27** China's trading partners, comparing growth rates for 2018 and 2019

*yoy growth (%)*

| Country/Region | Total trade | | Exports | | Imports | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| EU | 10.6 | 3.4 | 9.8 | 4.9 | 11.7 | 1.1 |
| ASEAN | 14.1 | 9.2 | 14.2 | 12.7 | 13.8 | 5 |
| US | 8.5 | -14.6 | 11.3 | -12.5 | 0.7 | -20.9 |
| Japan | 8.1 | -3.9 | 7.2 | -2.6 | 8.9 | -4.9 |
| Brazil | 26.6 | 3.7 | 16.3 | 5.5 | 31.7 | 2.9 |
| Russia | 27.1 | 3.4 | 12.0 | 3.6 | 42.7 | 3.2 |
| India | 13.2 | -2.8 | 12.7 | -2.4 | 15.2 | -4.5 |

Source: China Customs

## 5. Exports from Shanghai fall markedly in 2019

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 76.5% of China's total exports in 2019, down from 76.9% in 2018 *(see exhibit 28)*. Among these six provinces, Shanghai saw the sharpest drop in exports while Fujian and Zhejiang witnessed the largest gain. Exports from Shanghai fell by 6.2% yoy, while exports from both Fujian and Zhejiang rose by 3.6% yoy in 2019.

Several provinces still managed to record robust growth in exports in 2019. For example, exports from Yunnan, Hunan and Heilongjiang grew by 37.5% yoy, 25.2% yoy and 16.8% yoy respectively in the year.

**Exhibit 28** Top six provinces and municipalities in terms of value of exports, 2019

| Provinces/ Municipalities | Value of exports (USD billion) | yoy growth (%) | Share of total exports (%) |
|---|---|---|---|
| Guangdong | 719.6 | 1.7 | 28.8 |
| Jiangsu | 403.0 | -3.4 | 16.1 |
| Zhejiang | 339.6 | 3.6 | 13.6 |
| Shandong | 171.1 | -1.4 | 6.8 |
| Shanghai | 169.8 | -6.2 | 6.8 |
| Fujian | 108.8 | 3.6 | 4.4 |

Source: China Customs

## 6. China's FDI grows by 5.8% yoy in 2019



China's foreign direct investment (FDI) in Renminbi terms increased by 1.5% yoy in November, recording positive year-on-year growth for 12 consecutive months. Overall, in 2019, China's FDI amounted to 941.5 billion yuan, up by 5.8% yoy *(see exhibit 29)*.

In the first eleven months of 2019, FDI in the Hi-Tech industries soared by 27.6% yoy to 240.7 billion yuan, accounting for 28.5% of the total FDI during the period. FDI in Hi-Tech manufacturing sector reached 83.4 billion yuan, up 5.7% yoy. Among which, FDI in 'pharmaceuticals manufacturing' and 'electronics and communications device manufacturing' grew by 41.9% yoy and 10.6% yoy respectively in the period. FDI in Hi-Tech service sector totalled 157.3 billion yuan, up 43.4% yoy. Among which, FDI in 'information services', 'research and development and design' and 'transformation of scientific achievements' rose strongly by 28.3% yoy, 60.7% yoy and 67.8% yoy respectively during the period.

## 7. China's foreign exchange reserves rise in 4Q19

As at the end of 4Q19, China's foreign exchange reserves amounted to US$3,107.9 billion, up by US$15.5 billion compared with end-3Q19 *(see exhibit 30)*. The increase in the foreign exchange reserves in 4Q19 was due mainly to an appreciation of the non-US dollar currencies.

Recently, China's economic prospects have worsened amid the COVID-19 outbreak lately. Potential capital outflows triggered by the slowdown in the Chinese economy could pose downside risks to China's foreign exchange reserves, in our view.

**Exhibit 29** China's FDI, December 2018 to November 2019

| | Amount (billion yuan) | yoy growth |
|---|---|---|
| FY18 | 885.6 | 0.9% |
| FY19 | 941.5 | 5.8% |
| December 18 | 92.3 | 24.9% |
| January 19 | 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% |
| October | 69.2 | 7.4% |
| November | 93.5 | 1.5% |

Source: Ministry of Commerce, PRC

**Exhibit 30** Foreign exchange reserves by quarter, 1Q19 to 4Q19

| *USD billion* | Accumulation | End of the quarter |
|---|---|---|
| FY19 | -35.2 | |
| | | |
| 1Q19 | 26.1 | 3,098.8 |
| 2Q19 | 20.5 | 3,119.2 |
| 3Q19 | -26.8 | 3,092.4 |
| 4Q19 | 15.5 | 3,107.9 |

Source: State Administration of Foreign Exchange, PRC

## B Highlights

### 1. China and the US sign phase one trade deal

The yearlong trade war between China and the US has shown signs of easing lately as the two countries signed a 'phase one' trade deal. Chinese Vice Premier Liu He and US President Donald Trump signed the China-US phase one economic and trade agreement at the White House in Washington on 15 January. The pact will enter into force 30 days after signing.

The deal signed on 15 January makes no mention of further removal of US tariffs on Chinese goods, although during the negotiation process of the deal the US administration agreed to cancel the proposed 15% additional tariffs on about US$160 billion of Chinese goods scheduled on 15 December last year, and cut the tariff rate to 7.5% from 15% on another US$120 billion of Chinese products, which will be effective on 14 February. Trump said that the remaining tariffs on Chinese imports 'will all come off' if the subsequent phases of trade negotiations produce a second agreement. Those talks are expected to begin soon but might not conclude until after the US presidential election in November.

The phase one trade deal specifies some structural changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency. China has also committed to importing various US goods and services over the next two years in a total amount that exceeds China's annual level of imports for those goods and services in 2017 by no less than US$200 billion, including an additional US$32 billion in US agricultural products.

China on 6 February announced that it will halve tariffs on hundreds of US goods worth about US$75 billion effective 14 February. Retaliatory tariffs on some US goods will be cut from 10% to 5%, and from 5% to 2.5% on others, according to a statement from China's Ministry of Finance.

### 2. China cuts tariffs on over 1,000 import items

Effective from 1 January, China has reduced tariffs on 859 import items including frozen pork, hi-tech components and medicines. China will also reduce tariffs on 176 information technology products from 1 July. A statement from the State Council said that the move will help reduce import costs, promote the orderly and free flow of international and domestic trade, and promote the establishment of a new system of a higher level, open economy.

### 3. Chinese yuan depreciates against US dollar since late-January

The exchange rate of the Chinese yuan appreciated against the US dollar during late September last year to late January but depreciated afterwards. The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar appreciated from 7.0729 on 30 September to 6.8606 on 21 January, but then depreciated to 6.9768 on 7 February *(see exhibit 31)*.[10]

In line with the movement of the daily fixing rate, the USD-CNY spot exchange rate was on an appreciation trend during late September to mid-January but reversed the trend afterwards.[11] The USD-CNY spot exchange rate rose from 7.1483 on 30 September to a six-month high of 6.8598 on 17 January, and then fell to 7.0024 on 7 February. Overall, the spot exchange rate of the Chinese yuan against the US dollar depreciated by 1.51% in 2019, and further depreciated by 0.56% so far this year (as of 7 February).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.8802 on 22 October last year to 7.6117 on 21 January, the strongest level since early May, before retreating to 7.6624 on 7 February. Overall, the daily fixing rate of the Chinese yuan against the Euro appreciated by 0.41% in 2019 *(see exhibit 32)*.

According to the Bank for International Settlements, the real effective exchange rate of the yuan went up from 119.99 in September to 122.44 in December.[12] Overall, in 2019, the Chinese yuan appreciated in real terms against its trading partners by 1.13% *(see exhibit 33)*.

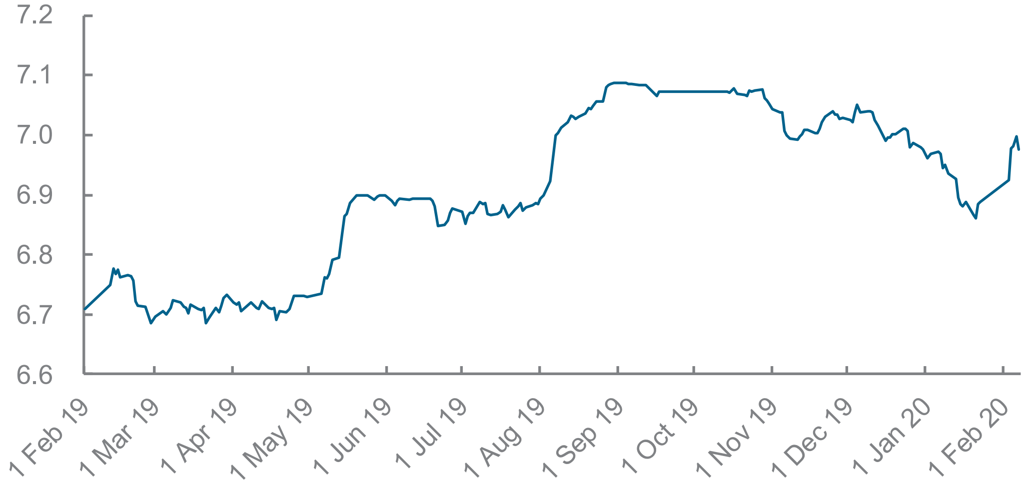
Looking ahead, we predict that the exchange rate of the Chinese yuan against the US dollar will weaken in the near term, as the COVID-19 outbreak in China is expected to hit the Chinese economy badly, which would put downward pressure on the Chinese yuan.

10 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'.

11 The daily trading band of the Chinese yuan against the US dollar is ±2.0% around the daily fixing rate.

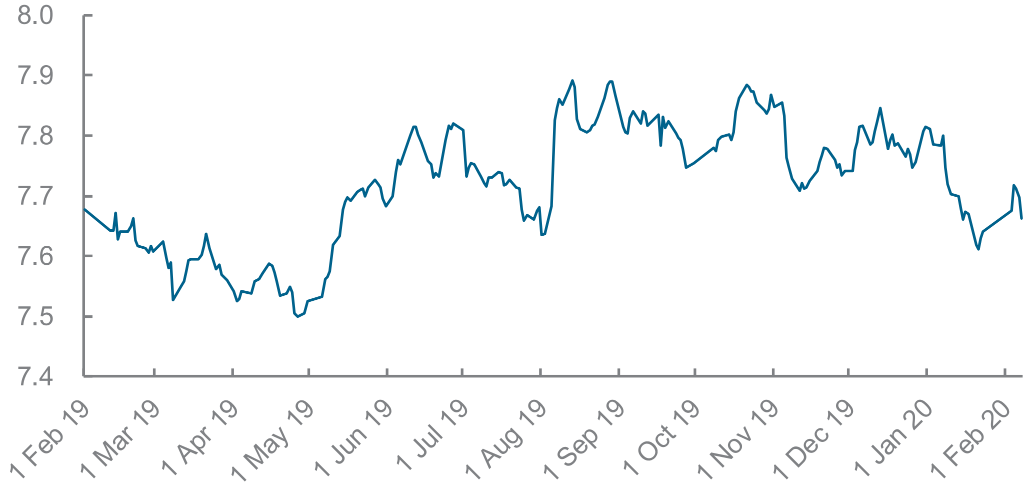
12 The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real 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, February 2019 to February 2020




Source: State Administration of Foreign Exchange

**Exhibit 32** EUR-CNY daily fixing rate, February 2019 to February 2020




Source: State Administration of Foreign Exchange

**Exhibit 33** Real effective exchange rate of the Chinese yuan, January 2018 to December 2019


Source: Bank for International Settlements

## C Outlook

### 1. US economic growth stays stable in 4Q19

The US real GDP expanded by an annual rate of 2.1% in 4Q19, the same as in 3Q19. In 4Q19, an increase in government spending and a fall in imports were offset by a slowdown in personal consumption expenditure and a larger decline in private inventory investment. In 2019, the US real GDP growth was 2.3% yoy, the slowest since 2016 *(see exhibit 34).*

Recent indicators paint a mixed picture of the US economy. On the production side, industrial production fell by 0.3% mom in December after gaining 0.8% mom in November, while the new orders for manufactured durable goods rose by 2.4% mom in December after dropping by 3.1% mom in November. *(see exhibit 35).* Meanwhile, the manufacturing PMI fell to a 10-year low of 47.2 in December from 48.1 in November, indicating that the US manufacturing sector has contracted at a faster pace recently.

However, the growth of the non-manufacturing sector has accelerated lately: The non-manufacturing index (NMI) went up from 53.9 in November to 55.0 in December.

The US retail sales increased by 0.3% mom in December, recording month-on-month growth for three consecutive months. The positive growth in recent months points to an improvement in the consumption demand. Meanwhile, the Reuters/ University of Michigan index of consumer sentiment increased from 95.5 in October to 96.8 in November and further to 99.3 in December, indicating that US consumers have become more optimistic lately *(see exhibit 36).*

The labour market in the US has remained solid. The unemployment rate stayed at a 50-year low of 3.5% in December *(see exhibit 37).* Meanwhile, the non-farm payroll employment increased at a relatively slow pace, by 145,000, in the same month.

Looking ahead, the IMF predicts that the US economic growth will further 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 2.3% in 2019 to 2.0% in 2020 and 1.7% in 2021.[13]

**Exhibit 34** US national accounts, 2018 to 2019

| *Annual growth (%)* | 2018 | 2019 | 1Q19 | 2Q19 | 3Q19 | 4Q19 |
|---|---|---|---|---|---|---|
| Real GDP | 2.9 | 2.3 | 3.1 | 2.0 | 2.1 | 2.1 |

Source: US Department of Commerce

**Exhibit 35** US industrial sector, July to December 2019

| *mom growth (%), seasonally adjusted* | Jul 19 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| Industrial production | -0.2 | 0.8 | -0.5 | -0.5 | 0.8 | -0.3 |
| New orders for manufactured durable goods | 2.1 | 0.3 | -1.5 | 0.2 | -3.1 | 2.4 |

Source: US Federal Reserve, US Department of Commerce

13 IMF, World Economic Outlook Update, January 2020

**Exhibit 36** US consumer market, July to December 2019

| | Jul 19 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| Retail and food services sales *(mom growth %, seasonally adjusted)* | 0.7 | 0.6 | -0.4 | 0.3 | 0.3 | 0.3 |
| Reuters/University of Michigan index of consumer sentiment | 98.4 | 89.8 | 93.2 | 95.5 | 96.8 | 99.3 |
| CPI *(yoy growth %)* | 1.8 | 1.7 | 1.7 | 1.8 | 2.1 | 2.3 |

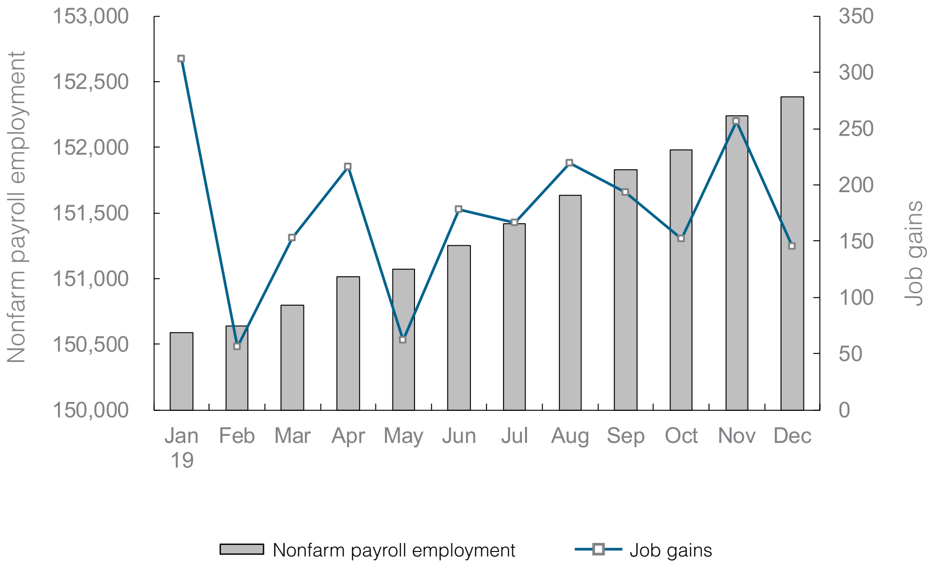
Source: US Department of Commerce, Reuters/University of Michigan Surveys of Consumers, US Department of Labor

**Exhibit 37** US employment

| | Unemployment rate (%) |
|---|---|
| 2018 | 3.9 |
| 2019 | 3.7 |
| | |
| 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 |
| Oct | 3.6 |
| Nov | 3.5 |
| Dec | 3.5 |

Yearly figures: Annual average
Monthly figures: Seasonally adjusted

*Nonfarm payroll employment, January to December 2019*
*In thousands, seasonally adjusted*




Source: US Department of Labor

## 2. Eurozone GDP expands at slowest pace in six years in 2019

The real GDP growth of the Eurozone[14] came in at 0.1% qoq in 4Q19, down from 0.3% qoq in 3Q19. Overall, the real GDP growth of the region slowed to 1.2% yoy in 2019, the slowest pace since 2013 *(see exhibit 38)*.

Recent indicators indicate a mixed picture of the Eurozone economy. According to the global survey firm Markit Economics, the Eurozone manufacturing PMI came in at 47.2 in December, down from 48.1 in November, pointing to continued contraction in the manufacturing sector. Meanwhile, the Eurozone services PMI went up from 53.9 in November to 55.0 in December, indicating a faster growth of the service sector in the region.

The retail trade volume in the Eurozone increased by 1.0% mom on a seasonally adjusted basis in November, after dropping by 0.3% mom in October *(see exhibit 39)*.

The labour market in the region has remained solid lately. The seasonally adjusted unemployment rate dropped to an 11-year low of 7.4% in December from 7.5% in November *(see exhibit 40)*.

Moreover, confidence among consumers and managers in various sectors has improved: The Eurozone's economic sentiment indicator (ESI) rose from a five-year low of 100.7 in October to 101.3 in December and further to 102.8 in January this year *(see exhibit 41)*.

Looking ahead, the growth of the Eurozone economy is expected to accelerate this year. In its latest *World Economic Outlook Update* published in January, the IMF forecasts that the real GDP growth rate of the Eurozone will go up from 1.2% in 2019 to 1.3% in 2020 and 1.4% in 2021.[15]



**Exhibit 38** Eurozone's real GDP growth, 2018 to 2019

| | 2018 | 2019 | 1Q19 | 2Q19 | 3Q19 | 4Q19 |
|---|---|---|---|---|---|---|
| Real GDP *(qoq growth %)* | | | 0.4 | 0.2 | 0.3 | 0.1 |
| Real GDP *(yoy growth %)* | 1.9 | 1.2 | 1.4 | 1.2 | 1.2 | 1.0 |

Source: Eurostat, IMF

**Exhibit 39** Eurozone consumer market, July 2019 to January 2020

| | Jul 19 | Aug | Sep | Oct | Nov | Dec | Jan 20 |
|---|---|---|---|---|---|---|---|
| Volume of retail trade *(mom growth %, seasonally adjusted)* | -0.5 | 0.7 | -0.3 | -0.3 | 1.0 | -- | -- |
| Annual inflation (%) | 1.0 | 1.0 | 0.8 | 0.7 | 1.0 | 1.3 | 1.4 |

Source: Eurostat

**Exhibit 40** Eurozone labour market, July to December 2019

| *seasonally adjusted* | Jul 19 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| Unemployment rate (%) | 7.6 | 7.5 | 7.5 | 7.5 | 7.5 | 7.4 |

Source: Eurostat

14 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.
15 IMF, World Economic Outlook Update, January 2020

**Exhibit 41** Eurozone economic sentiment indicator, August 2019 to January 2020

| *seasonally adjusted* | Aug 19 | Sep | Oct | Nov | Dec | Jan 20 |
|---|---|---|---|---|---|---|
| Economic sentiment indicator | 103.0 | 101.6 | 100.7 | 101.1 | 101.3 | 102.8 |

Source: Eurostat







## 3. China's exports are expected to post negative growth in 1Q20

According to the *World Economic Outlook Update released in January*, the IMF cuts its forecasts for world economic growth in 2020 by 0.1 ppt., compared with its previous projections made in October last year. The primary reason behind the latest downward revision is a sharply lower growth forecast for India. The IMF forecasts that the world economic growth will rise from 2.9% in 2019 to 3.3% in 2020 and further to 3.4% in 2021. The growth in advanced economies is projected to decelerate from 1.7% in 2019 to 1.6% in 2020 and 2021. Meanwhile, the growth in emerging market and developing economies is projected to accelerate from 3.7% in 2019 to 4.4% in 2020 and 4.6% in 2021 *(see exhibit 42)*. However, it should be noted that these forecasts were made before the COVID-19 outbreak in China, which could hit the global economy.

Looking ahead, we forecast that China's exports will post negative year-on-year growth in 1Q20 amid the COVID-19 outbreak. Other 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

| *yoy growth (%)* | 2019 (Estimates) | 2020 (Forecasts) | 2021 (Forecasts) |
|---|---|---|---|
| World economy | 2.9 | 3.3 | 3.4 |
| Advanced economies | 1.7 | 1.6 | 1.6 |
| US | 2.3 | 2.0 | 1.7 |
| Eurozone | 1.2 | 1.3 | 1.4 |
| Japan | 1.0 | 0.7 | 0.5 |
| Emerging market and developing economies | 3.7 | 4.4 | 4.6 |
| China | 6.1 | 6.0 | 5.8 |
| India * | 4.8 | 5.8 | 6.5 |
| Brazil | 1.2 | 2.2 | 2.3 |
| Russia | 1.1 | 1.9 | 2.0 |

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

Source: World Economic Outlook Update released in January 2020, the IMF

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

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