China Trade Quarterly

ISSUE
58
MAY
2020

Domestic Trade

Real GDP growth plunges to minus 6.8% yoy in 1Q20.

Retail sales of consumer goods decline by 19.0% yoy in 1Q20.

Consumption expenditures of both rural and urban households fall in 1Q20.

Fixed asset investment drops by 16.1% yoy in 1Q20.

China unveils a slew of policies to promote consumption.

Latest PMI readings show gradual resumption of industrial production and economic activity.

Latest NMI reading indicates recovery in non-manufacturing sector.

Foreign Trade

Growth rates of both exports and imports turn negative in 1Q20.

ASEAN overtakes EU to become China's largest trading partner in 1Q20.

Exports from Guangdong plummet by 18.0% yoy in 1Q20.

FDI drops by 6.1% yoy in 1Q20.

Foreign exchange reserves fall in 1Q20.

China-US relations worsen amid war of words regarding COVID-19 outbreak.

Chinese yuan depreciates against US dollar since late January.

FUNG BUSINESS INTELLIGENCE

In This Issue:

Part 1: Domestic Trade

Part 2: Foreign Trade

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Executive Summary

Domestic Trade

China's real GDP growth plummeted to minus 6.8% yoy in 1Q20, the first contraction since quarterly records began in 1992.

Retail sales of consumer goods declined 19.0% yoy to 7,858.0 billion yuan in 1Q20. Online retail sales of goods, which accounted for 23.6% of total retail sales, managed to increase by 5.9% yoy over the period.

Consumption expenditures of both rural and urban households declined in 1Q20. In nominal terms, the per capita consumption expenditure of rural households fell by 5.4% yoy, while the per capita consumption expenditure of urban households dropped by 9.5% yoy in 1Q20.

Fixed asset investment dropped 16.1% yoy in 1Q20, mainly attributable to the decline in FAI for the manufacturing sector and infrastructure.

Chinese authorities have unveiled a slew of policies to promote consumption in a bid to stimulate the economy amid the COVID-19 global pandemic, including 19 measures announced on 13 March to boost consumption and develop a strong domestic market, and measures announced on 29 April to stabilize and expand car consumption.

China's manufacturing PMI plunged from 50.0 in January to a record low of 35.7 in February. The PMI then rebounded to 52.0 in March and stayed above the critical 50-mark in April with an index reading of 50.8. The latest index readings show that industrial production and economic activity have gradually resumed amid the containment of the COVID-19 in China.

The NMI tumbled from 54.1 in January to a record low of 29.6 in February, before rebounding to 52.3 in March and further to 53.2 in April. The latest index readings indicate that the non-manufacturing sector has been recovering from the COVID-19 outbreak.

Foreign Trade

Growth rates of both exports and imports turned negative in 1Q20. Export growth plunged to minus 13.3% yoy in 1Q20 from 1.8% yoy in 4Q19, while import growth dropped to minus 2.9% yoy in 1Q20 from to 3.2% yoy in 4Q19.

China's exports to the ASEAN managed to grow 0.4% yoy in 1Q20, while China's exports to the EU and the US declined by 16.0% yoy and 25.2% yoy. The ASEAN overtook the EU to become China's largest trading partner in the quarter.

Exports from Guangdong plummeted by 18.0% yoy, while exports from Shanghai declined by 7.3% yoy in 1Q20. In contrast, provinces such as Yunnan, Hainan and Hunan still managed to post double-digit growth in exports in the quarter.

FDI amounted to 286.6 billion yuan, down by 6.1% yoy, in 1Q20.

Foreign exchange reserves amounted to US$3,060.6 billion as at the end of 1Q20, down by US$47.3 billion compared with end-4Q19.

Despite the phase one economic and trade agreement coming into effect on 14 February, the China-US relations have worsened as the two countries have been engaging in a war of words regarding the COVID-19 outbreak since early March. The US blames a 'lack of transparency' and even 'cover up' in China's handling of the COVID-19 outbreak, while China dismisses such criticisms as unfair and untrue. The two countries have also referred to conspiracies theories on the origin of the novel coronavirus. US President Donald Trump suggested that China will be 'held accountable' for the COVID-19 outbreak and threatened new tariffs on China as part of the punitive measures against China. Trump even went as far as to suggest that the US could cut ties with China.

The exchange rate of the Chinese yuan depreciated against the US dollar since late January. The daily fixing rate of the Chinese yuan against the US dollar depreciated from 6.8606 on 21 January to a 12-year low of 7.1104 on 3 April, before closing at 7.0919 on 12 May.

Part 1 :

Domestic Trade

A Recent developments

1. China's real GDP growth plunges to record-low of minus 6.8% yoy in 1Q20

China's real GDP growth plummeted from 6.0% year-on-year (yoy) in 4Q19 to minus 6.8% yoy in 1Q20, the first contraction since quarterly records began in 1992. The 1Q20 figure indicates a sharp slowdown of the Chinese economy amid the outbreak of the coronavirus disease 2019 (COVID-19) in China *(see exhibit 1)*. Overall, China's nominal GDP amounted to 20.7 trillion yuan in 1Q20.

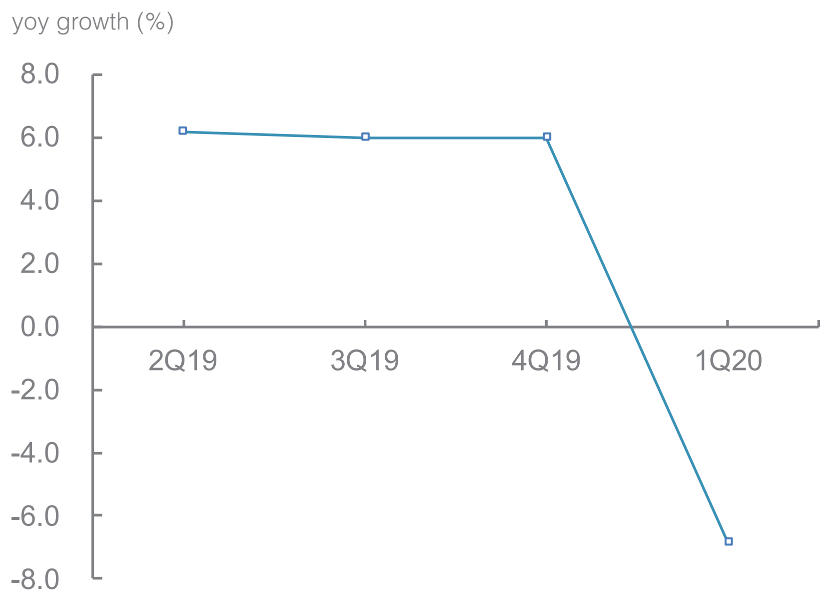
Both the tertiary industry and secondary industry witnessed negative growth in 1Q20. The real growth rate of the value-added of the tertiary industry came in at minus 5.2% yoy in 1Q20, down from 6.9% yoy in 2019. In the meantime, the real growth rate of the value-added of the secondary industry dipped to minus 9.6% yoy in 1Q20 from 5.7% yoy in 2019.

Looking ahead, the Chinese economy is under heavy downward pressure amid the COVID-19 global pandemic and the resulting global economic recession. Facing strong economic headwinds, the central government has pledged to step up its efforts to stabilize China's economic growth.

A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 17 April. According to a statement released after the meeting, China will step up macroeconomic policies to offset the impact of the COVID-19 outbreak. The meeting stressed the necessity of making proactive fiscal policy more effective, with steps to raise the budget deficit ratio, issue special sovereign bonds and increase the scale of local government bonds. The prudent monetary policy should be more flexible and accommodating to maintain adequate liquidity and guide the lending interest rates to fall, with the use of tools such as re-lending and cuts in reserve requirement ratios (RRRs) and interest rates. 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 rebound to around 3.0% in 2Q20.

Exhibit 1 China's real GDP growth, 2Q19 to 1Q20



FY19	6.1%
2Q19	6.2%
3Q19	6.0%
4Q19	6.0%
1Q20	-6.8%

Source: National Bureau of Statistics, PRC

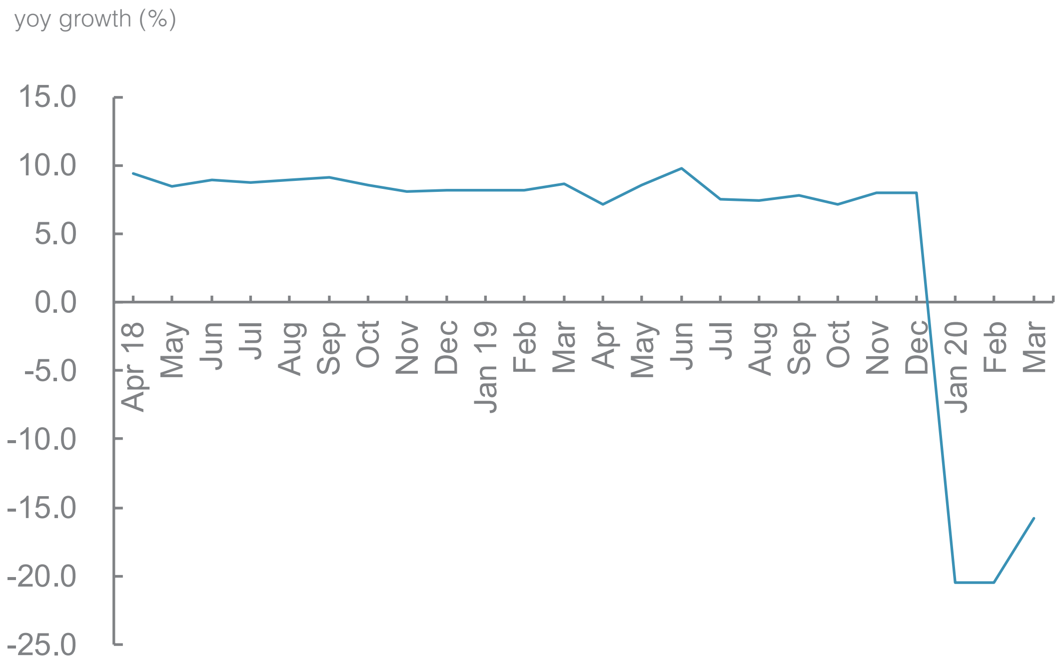
2. Retail sales record first contraction in 1Q20

According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods registered minus 20.5% yoy in January to February, the first year-on-year contraction on record, and then picked up to minus 15.8% yoy in March. Meanwhile, the month-on-month (mom) growth in seasonally-adjusted retail sales rebounded from minus 13.21% in January to minus 3.64% in February and 0.24% in March.

Overall, in 1Q20, the total retail sales of consumer goods reached 7,858.0 billion yuan. The growth rate was minus 19.0% yoy in 1Q20, down from 8.0% yoy in 2019 *(see exhibits 2 and 3)*.

The growth of China's online retail sales of goods decelerated to 5.9% yoy in 1Q20 from 19.5% yoy in 2019. Consequently, the share of online retail sales in the total retail sales of consumer goods went up to 23.6% in 1Q20 from 20.7% in 2019, indicating the growing popularity of online shopping due partly to the COVID-19 outbreak.

Exhibit 2 China's total retail sales, year-on-year nominal growth, April 2018 to March 2020



FY19	8.0%
Apr 19	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%
Jan-Feb 20	-20.5%
Mar	-15.8%

Source: National Bureau of Statistics, PRC

Exhibit 3 China's total retail sales, month-on-month nominal growth, October 2019 to March 2020

mom growth (%), seasonally adjusted

	Oct 19	Nov	Dec	Jan 20	Feb	Mar
Total retail sales	0.5	0.77	0.63	-13.21	-3.64	0.24

Source: National Bureau of Statistics, PRC

Both rural and urban retail sales decreased in 1Q20: The growth in rural retail sales fell to minus 19.1% yoy in 1Q20 from 9.0% yoy in 2019, wile the growth in urban retail sales dropped to minus 17.7% yoy in 1Q20 from 7.9% yoy in 2019.

The growth in catering services sales came in at minus 44.3% yoy in 1Q20, down sharply from 9.4% yoy in 2019. Meanwhile, the growth in sales of goods dipped to minus 15.8% yoy in 1Q20 from 7.9% yoy in 2019.

The growth rate of the retail sales of goods by enterprises above designated size[1], which amounted to 2,577.1 billion yuan in 1Q20, plummeted to minus 18.9% yoy in 1Q20 from 3.9% yoy in 2019.

Among products, 'grain, oil, foodstuff' saw the strongest growth in sales (12.6% yoy) in 1Q20, followed by 'beverages' (4.1% yoy). Meanwhile, 'gold, silver and jewellery' registered the largest negative growth of minus 37.7% yoy, followed by 'garments, footwear, hats, knitwear' (minus 32.2% yoy). Exhibit 5 demonstrates the growth in China's retail sales by product among enterprises above designated size.

Going forward, as the COVID-19 outbreak has been brought under control in China, private consumption could gradually return to normal levels in 2Q20. Thus, we predict that the growth in retail sales will recover to about 3.0% yoy in 2Q20.

Exhibit 4 China's total retail sales, 2019 to 1Q20

Nominal growth, yoy (%)	FY19	1Q20
Total retail sales	8.0	-19.0
- Goods	7.9	-15.8
Sales by enterprises above designated size	3.9	-18.9
Online sales	19.5	5.9
- Catering services	9.4	-44.3

Source: National Bureau of Statistics, PRC

3. Household consumption expenditures drop in 1Q20

The growth of income of both rural and urban households sharply decelerated in 1Q20. In nominal terms, the per capita disposable income of rural households grew by 0.9% yoy to 4,641 yuan, compared with a growth of 9.2% yoy in 2019. Meanwhile, the per capita disposable income of urban households rose nominally by 0.5% yoy to 11,691 yuan in 1Q20, compared with a growth of 7.9% yoy in 2019.

The consumption expenditures of both rural and urban households declined in 1Q20. In nominal terms, the per capita consumption expenditure of rural households fell by 5.4% yoy to 3,334 yuan in 1Q20, compared with a growth of 9.9% yoy in 2019. Meanwhile, the per capita consumption expenditure of urban households dropped by 9.5% yoy to 6,478 yuan, compared with a growth of 7.5% yoy in 2019.

4. CPI growth slows further in April

The year-on-year growth rate of China's consumer price index (CPI)[2] eased from 4.3% in March to 3.3% in April, the lowest since September last year *(see exhibits 6 & 7)*.

The sharp slowdown in CPI growth in April was mainly attributed to a fall in food inflation. The year-on-year growth in the food component in the CPI went down from 18.3% in March to 14.8% in April, due largely to a decline in the prices of pork and vegetable. Meanwhile, the year-on-year growth in the non-food component dropped from 0.7% in March to 0.4% in April, due to a weak domestic demand and a drop in energy and related prices.

Looking ahead, we expect that China's CPI growth will continue to go down in the coming months, as the domestic demand is likely to remain sluggish amid the economic uncertainty brought about by the COVID-19 global pandemic.

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.

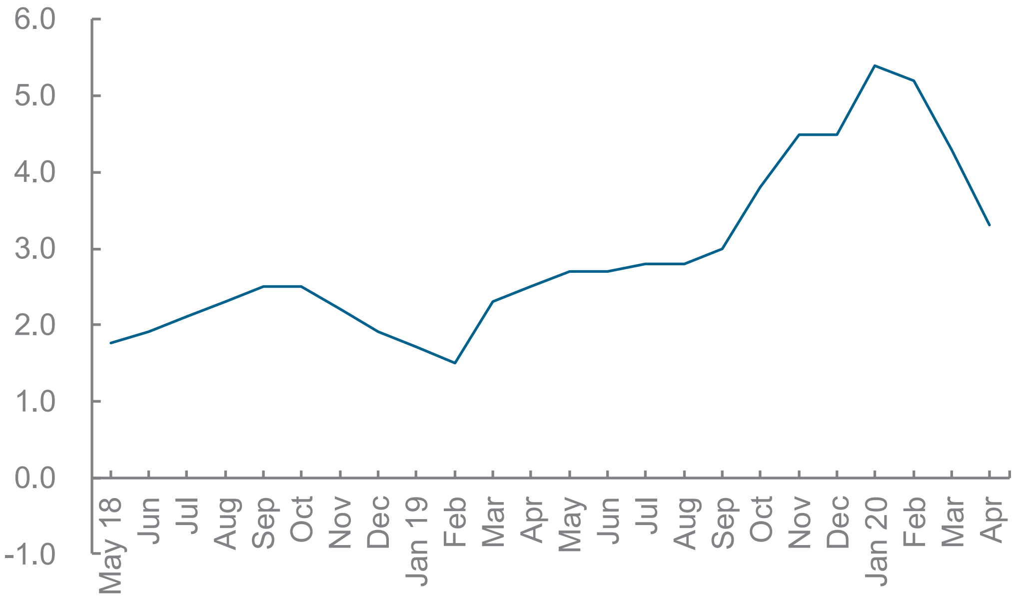
2 The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household.

Exhibit 5 China's retail sales by enterprises above designated size, by product, 2019 to 1Q20

Nominal growth, yoy (%)	FY19	1Q20
Grain, oil and food	10.2	12.6
Beverages	10.4	4.1
Tobacco and liquor	7.4	-14.0
Garments, footwear, hats and textiles	2.9	-32.2
Cosmetics	12.6	-13.2
Gold, silver and jewellery	0.4	-37.7
Commodities for daily use	13.9	-4.2
Home appliances and audio/video equipment	5.6	-29.9
Traditional Chinese and Western medicines	9.0	2.9
Cultural and office appliances	3.3	-3.4
Furniture	5.1	-29.3
Communication appliances	8.5	-3.6
Petroleum and related products	1.2	-23.5
Automobiles	-0.8	-30.3
Building and decoration materials	2.8	-23.9

Source: National Bureau of Statistics, PRC

Exhibit 6 China's CPI growth, May 2018 to April 2020



May 19	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%
Feb	5.2%
Mar	4.3%
Apr	3.3%

Source: National Bureau of Statistics, PRC

Exhibit 7 China's CPI growth by commodity, November 2019 to April 2020

yoy growth (%)	Nov 19	Dec	Jan 20	Feb	Mar	Apr
Food, tobacco and liquor	13.9	12.9	15.2	16.0	13.6	11.3
Clothing	1.1	0.8	0.6	0.5	-0.3	-0.4
Housing	0.4	0.5	0.5	0.3	-0.1	-0.3
Household goods and services	0.4	0.4	0.2	0.1	0.3	0.1
Transportation and communication	-2.8	-0.7	0.9	-1.6	-3.8	-4.9
Education, culture and recreation	1.7	1.8	2.2	1.0	2.5	2.0
Healthcare	2.0	2.1	2.3	2.2	2.2	2.2
Other goods and services	4.5	4.4	4.8	4.4	5.3	4.8

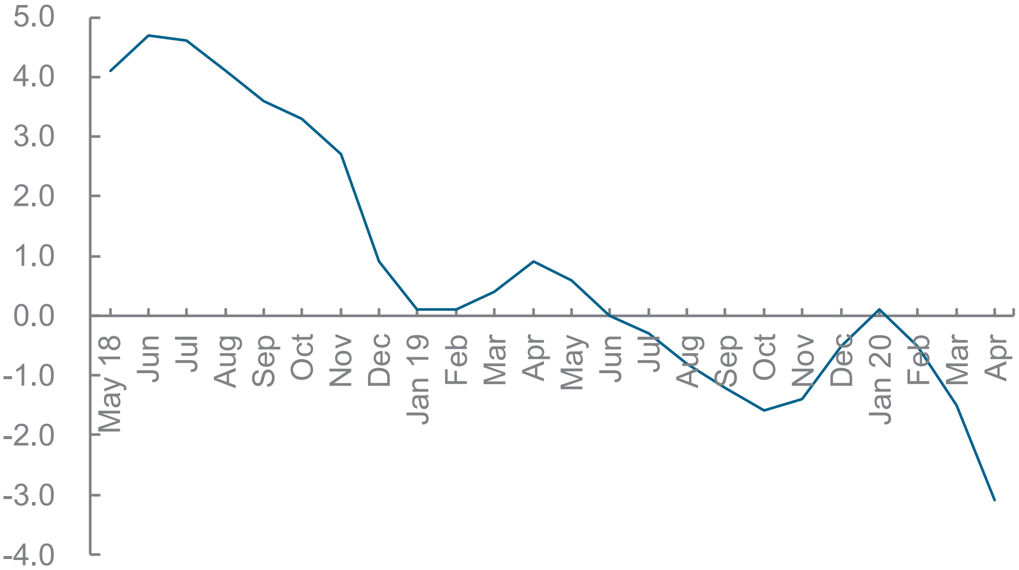
Source: National Bureau of Statistics, PRC

The year-on-year growth in China's producer price index of industrial products (PPI) went down from minus 1.5% in March to minus 3.1% in April *(see exhibits 8 & 9)*.

On a month-on-month basis, the PPI dropped by 1.3% in April, after falling by 1.0% in March. The main reason for the decrease in the PPI in April was a decline in ex-factory prices in the crude oil, coal, and chemicals industries, driven by a plunge in global commodity prices and a reduced demand for upstream industrial products amid a weak global economy.

Going forward, a sluggish external demand is likely to continue to drag down the ex-factory prices of industrial products in China. Therefore, we expect that the year-on-year growth in the PPI will go down further, and the month-on-month growth will stay negative in the coming months.

Exhibit 8 China's PPI growth, May 2018 to April 2020



May 19	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%
Feb	-0.5%
Mar	-1.5%
Apr	-3.1%

Source: National Bureau of Statistics, PRC

Exhibit 9 China's PPI growth by selected industry, November 2019 to April 2020

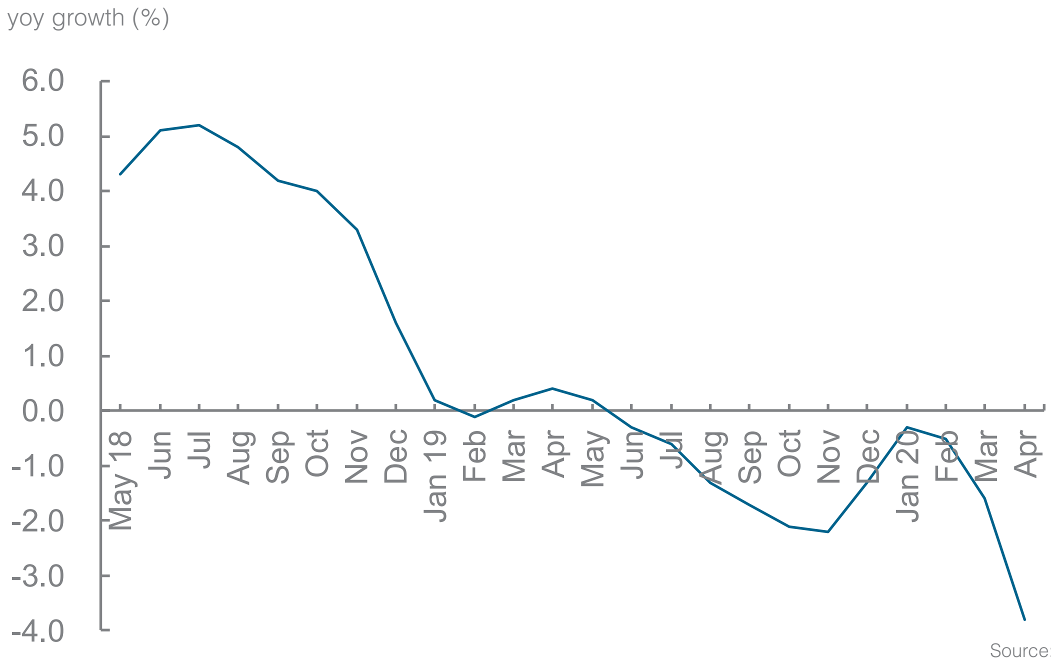
yoy growth (%)	Nov 19	Dec	Jan 20	Feb	Mar	Apr
Textile	-3.0	-2.9	-3.0	-3.0	-3.2	-4.5
Textile wearing apparel and ornament	-0.3	-0.7	-0.5	-0.5	-0.9	-1.0
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.4	0.5	0.3	0.0	-0.1	-0.7

Source: National Bureau of Statistics, PRC

The year-on-year growth rate of the purchaser price index of industrial products dived from minus 1.6% in March to minus 3.8% in April *(see exhibits 10 & 11)*. On a month-on-month basis, the purchaser price index went down by 2.3% in April, after dropping 1.1% in March.

Going forward, a weak global economy is likely to continue to hamper the recovery of industrial production in China, leading to a fall in the demand for production inputs. Therefore, we expect that the year-on-year growth in input prices will go down further, and the month-on-month growth will stay negative in the near future.

Exhibit 10 Growth in China's purchaser price index of industrial products, May 2018 to April 2020



May 19	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%
Feb	-0.5%
Mar	-1.6%
Apr	-3.8%

Source: National Bureau of Statistics, PRC

Exhibit 11 China's purchaser price index of industrial products by selected commodity, November 2019 to April 2020

yoy growth (%)	Nov 19	Dec	Jan 20	Feb	Mar	Apr
Fuel and power	-5.8	-3.3	-0.2	-1.0	-4.0	-11.4
Non-ferrous metal materials and wires	-2.3	-1.9	-0.7	-1.2	-4.8	-6.6
Chemical raw materials	-8.4	-7.4	-6.1	-6.0	-7.2	-9.3
Wood and pulp	-3.7	-3.1	-2.9	-2.7	-2.0	-2.7
Textile raw materials	-2.9	-2.9	-2.8	-2.8	-2.9	-3.6

Source: National Bureau of Statistics, PRC

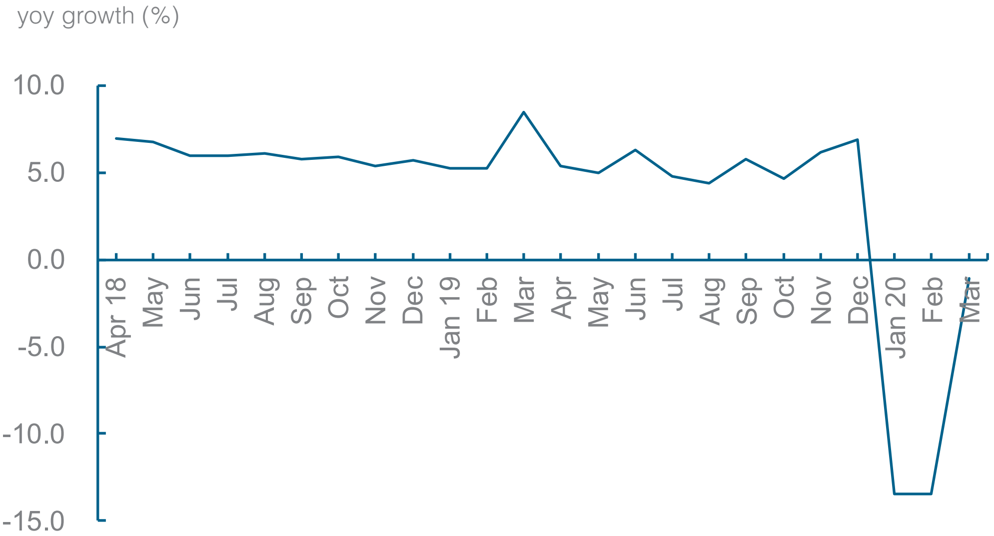
5. Industrial production contracts in 1Q20

Due to factory shutdown and production disruptions caused by the COVID-19 outbreak, 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[3], dipped to minus 13.5% yoy in January-February before picking up to minus 1.1% in March *(see exhibit 12)*. Overall, in 1Q20, China's IP contracted by 8.4% yoy, down from the 5.7% yoy growth recorded in 2019.

Looking ahead, we expect that China's industrial production growth will rebound to around 3.0% yoy in 2Q20, as most manufacturers have resumed production amid a successful containment of the COVID-19 outbreak in China. Moreover, the government's stimulus measures are likely to partly offset the negative impact of the global economic slowdown on China's industrial activities. Challenges facing Chinese manufacturers include weak external demand caused by the COVID-19 pandemic, ongoing trade frictions between China and the US, strong government's determination to tackle pollution problem, and intense competition in the international market.

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

Exhibit 12 China’s industrial production growth, April 2018 to March 2020



Apr 19	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%
Jan-Feb 20	5.3%
Feb	-13.5%
Mar	-1.1%

Source: National Bureau of Statistics, PRC

6. Industrial profits drop by 36.7% yoy in 1Q20

The total profits earned by industrial enterprises above designated size declined by 36.7% yoy to 781.5 billion yuan in 1Q20 *(see exhibit 13).*

Among sectors, in 1Q20, profits of the manufacturing sector dropped by 38.9% yoy to 608.0 billion yuan; profits of the mining sector fell by 27.5% yoy to 88.1 billion yuan; and profits of the ‘production and supply of electricity, gas and water’ sector declined by 28.6% yoy to 85.4 billion yuan.

Exhibit 13 China's industrial profits growth, October 2019 to March 2020

yoy growth (%)	Oct 19	Nov	Dec	Jan-Feb 20	Mar
Total profits made by industrial enterprises above a designated size	-9.9	5.4	-6.3	-38.3	-34.9

Source: National Bureau of Statistics, PRC

7. Fixed asset investment drops year-on-year in 1Q20

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) declined to minus 16.1% yoy in 1Q20 from 5.4% yoy in 2019. Overall, China's FAI (excluding rural households) amounted to 8.4 trillion yuan in 1Q20 *(see exhibit 14).*

The fall in the overall FAI (excluding rural households) in 1Q20 was mainly attributed to the decline in FAI (excluding rural households) for the manufacturing sector, which plunged by 25.2% yoy in 1Q20, compared with a growth of 4.6% yoy in 2019. The FAI (excluding rural households) for infrastructure (excluding power, heat, gas and water infrastructure) also fell by 19.7% yoy in 1Q20, compared with a growth of 3.8% yoy in 2019. Meanwhile, the FAI (excluding rural households) for real estate development went down by 7.7 yoy in 1Q20, compared with a growth of 9.8% yoy in 2019.

Looking ahead, we predict that the growth in China's FAI will gradually pick up and return to the positive territory in the coming quarters, on the back of massive government efforts to increase infrastructure investment, including fiscal boost, monetary easing and pushes from the central government to expedite project approval and construction. For example, as of mid-April, at least 23 of 31 Chinese provincial governments had proposed infrastructure projects with a combined investment of 9.5 trillion yuan for 2020. To finance these infrastructure projects, local governments issued 1.1 trillion yuan of new special bonds in 1Q20, an increase of 66.7% over the same period last year. These moves are likely to lend support to the growth of infrastructure investment.

Exhibit 14 China's FAI (excluding rural households) growth, October 2019 to March 2020

	Oct 19	Nov	Dec	Jan 20	Feb	Mar
FAI (excluding rural households) *(year-to-date, yoy growth %)*	5.2	5.2	5.4	-	-24.5	-16.1
FAI (excluding rural households) *(mom growth %, seasonally adjusted)*	0.42	0.42	0.44	-2.14	-22.13	6.05

Source: National Bureau of Statistics, PRC

B Highlights

1. China takes measures to boost consumption

The Chinese authorities have unveiled a slew of policies to promote consumption in a bid to stimulate the economy amid the COVID-19 global pandemic.

On 13 March, the Chinese government rolled out 19 measures to boost consumption and develop a strong domestic market.[4] Steps will be taken to reduce import tariffs for daily household articles, promote cultural and leisure consumption, facilitate the consumption of green and 'smart' products, and encourage new types of consumption such as online shopping, etc.

On 29 April, the Chinese authorities announced measures to stabilize and expand car consumption, including favorable tax policies for purchases of new energy vehicles, and encouraging financial institutions to conduct businesses related to auto consumption finance.

China's central government has also endorsed efforts by local governments to hand out e-vouchers worth 19 billion yuan to encourage residents to dine out and shop.[5] Moreover, the Chinese government is considering additional policies and measures to promote consumption of other key commodities such as furniture and home appliances.[6]

2. Growth in total outstanding RMB loans accelerates

Both the broad money supply (M2) and the total outstanding RMB loans have grown at a faster pace recently, attributable to the Chinese central bank's easing measures *(see exhibit 15)*. The M2 growth shot up to 11.1% yoy as at the end of April, compared with 8.7% yoy as at the end of December last year. The growth rate of total outstanding RMB loans was 13.1% yoy as at the end of April, up from 12.3% yoy as at the end of December. The total outstanding RMB loans rose by 7.10 trillion yuan in 1Q20, larger than the increase seen in 1Q19 (i.e. 5.81 trillion yuan). These figures indicate an ease in credit conditions in China.

Since the COVID-19 outbreak, the People's Bank of China (PBoC) has continued to take actions to maintain reasonably sufficient liquidity in the banking system and encourage banks to channel funds into the real economy. It announced on 31 January to provide 300 billion yuan of low-cost special re-lending fund, and on 26 February to provide 500 billion yuan of fund through its re-lending and re-discounting mechanisms.[7] On 31 March, the PBoC announced the provision of an additional 1 trillion yuan of fund for small- and medium-sized banks through its re-lending and re-discounting mechanisms.[8]

Effective from 16 March, the PBoC cut the RRR by 50-100 basis points (bps) for banks that have met targets regarding inclusive financing. Qualified commercial banks would enjoy an additional cut of 100 bps. The move would release 550 billion yuan in liquidity.[9] Then on 3 April, the PBoC announced to further cut the RRR by 100 bps for rural and regional banks to free up another 400 billion yuan in liquidity, effective in phases on 15 April and 15 May.[10]

A meeting of the Political Bureau of the CPC Central Committee was held on 17 April. According to a statement released after the meeting, the prudent monetary policy must be more flexible and accommodating to maintain adequate liquidity. Thus, we expect that China's central bank will continue to cut RRRs in the coming months.

3. 'Total social financing' rises at faster pace in 1Q20

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 11.1 trillion yuan in 1Q20, larger than the increase seen in 1Q19 (i.e. 8.6 trillion yuan) *(see exhibit 16)*.[11]

The faster increase in 'total social financing' in 1Q20 was due mainly to a bigger rise in RMB loans and faster issuance of corporate bonds and government bonds.

4 https://www.ndrc.gov.cn/xxgk/zcfb/tz/202003/t20200313_1223046.html
5 http://www.gov.cn/xinwen/gwylflkjz116/index.htm
6 http://www.gov.cn/xinwen/gwylflkjz61/index.htm
7 http://politics.people.com.cn/n1/2020/0227/c1001-31608191.html
8 https://finance.sina.com.cn/china/gncj/2020-03-31/doc-iimxxsth2907790.shtml
9 http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3989112/index.html
10 http://www.gov.cn/xinwen/2020-04/03/content_5498733.htm
11 The People's Bank of China changed the statistical method of total social financing in December 2019, incorporating 'treasury bonds' and 'local government general bonds' into the statistics of total social financing, and combining these two items with the existing 'local government special bonds' under the item 'government bonds'. Consequently, the historical statistics of total social financing have been adjusted.

Exhibit 15 Broad money supply (M2) and RMB loans, May 2019 to April 2020

	Broad money supply (M2)		Total outstanding RMB loans		Increase in RMB loans (trillion yuan)	
As of	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth	FY19	16.81
					1Q20	7.10
End-May 19	189.1	8.5%	144.3	13.4%	May 19	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
End-Oct	194.6	8.4%	150.6	12.4%	Oct	0.66
End-Nov	196.1	8.2%	152.0	12.4%	Nov	1.39
End-Dec	198.7	8.7%	153.1	12.3%	Dec	1.14
End-Jan 20	202.3	8.4%	156.5	12.1%	Jan 20	3.34
End-Feb	203.1	8.8%	157.4	12.1%	Feb	0.91
End-Mar	208.1	10.1%	160.2	12.7%	Mar	2.85
End-Apr	209.4	11.1%	161.9	13.1%	Apr	1.70

Source: People's Bank of China

Exhibit 16 Increase in total social financing, 2019 to 1Q20

	2019		1Q20	
	Amount (billion yuan)	Share (%)	Amount (billion yuan)	Share (%)
Total social financing	25,575.2	100.0	11,080.0	100.0
- RMB loans to the real sector	16,883.5	66.0	7,250.0	65.5
- Foreign currency loans to the real sector	-127.5	-0.5	191.0	1.7
- Entrusted loans	-939.6	-3.7	-97.0	-0.9
- Trust loans	-346.7	-1.4	-13.0	-0.1
- Bankers' acceptances	-475.7	-1.9	26.0	0.2
- Corporate bonds	3,241.6	12.7	1,770.0	15.9
- Government bonds	4,720.4	18.5	1,580.0	14.2
- Equity financing	347.9	1.4	125.5	1.1
- Asset-backed securities of depository financial institutions	403.4	1.6	n/a	n/a
- Written-off loans	1,055.1	4.1	n/a	n/a

Source: People's Bank of China

C Outlook

1. PMI indicates gradual resumption of industrial production and economic activity

Due to factory shutdown and production disruptions caused by the outbreak of the COVID-19, China's manufacturing PMI plunged from 50.0 in January to a record low of 35.7 in February. The PMI then rebounded to 52.0 in March and stayed above the critical 50-mark in April with an index reading of 50.8. The latest index readings show that industrial production and economic activity have gradually resumed amid the containment of the COVID-19 in China *(see exhibit 17)*.

The output index rebounded strongly from a record-low of 27.8 in February to 54.1 in March and stayed high at 53.7 in April, indicating output growth in March and April after significant production cut in February. Although the new export orders index has continued to stay below the neutral level of 50, the new orders index has returned to the expansionary zone in March and April, indicating an improvement in domestic demand lately.

Against the backdrop of rising orders recently, purchasing activities have started to recover: The purchases of inputs index went up from a record low of 29.3 in February to 52.7 in March and stayed high at 52.0 in April.

The stocks of finished goods index went up from 46.1 in February to 49.1 in March and 49.3 in April, indicating that the stocks of finished goods held by manufacturers have decreased at a slower pace in recent months. Meanwhile, the stocks of major inputs index fell from 49.0 in March to 48.2 in April, indicating a faster decline in the stocks of major inputs lately.

The ex-factory prices index has stayed below the critical 50-mark for 12 consecutive months and dropped to 42.2 in April. The index readings indicate that Chinese manufacturers have been reducing the ex-factory prices of their finished products amid challenging sales environment. The fall in industrial product prices was also partly attributed to the recent decline in the prices of materials: The input prices index went down from 53.8 in January to 45.5 in March and further to 42.5 in April.

The business expectations index rebounded strongly from 41.8 in February to 54.4 in March and stayed high at 54.0 in April. The latest index readings indicate that purchasing managers have become optimistic recently after displaying deep pessimism in February, as the COVID-19 outbreak in China has been brought under control since late February.

2. NMI indicates recovery in non-manufacturing sector

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), tumbled from 54.1 in January to a record low of 29.6 in February, before rebounding to 52.3 in March and further to 53.2 in April *(see exhibit 18)*. The latest index readings indicate that the non-manufacturing sector has been recovering from the COVID-19 outbreak.

The new orders index rose from 49.2 in March to 52.1 in April, indicating that new orders have expanded at a faster pace lately.

The sales prices index came in at 45.4 in April, meaning that enterprises have lowered their service charges lately. Meanwhile, the input prices index was 49.0 in April, indicating that input prices have decreased recently.

The business expectation index came in at 60.1 in April, well above the critical 50-mark, suggesting that purchasing managers in the non-manufacturing sector have become more optimistic about the near-term outlook for their respective industries.

Exhibit 17 China's manufacturing PMI at a glance, April 2020

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	50.8	Lower	Expanding
Output	53.7	Lower	Expanding
New Orders	50.2	Lower	Expanding
New Export Orders	33.5	Lower	Contracting
Backlogs of Orders	43.6	Lower	Contracting
Stocks of Finished Goods	49.3	Higher	Contracting
Purchases of Inputs	52.0	Lower	Expanding
Imports	43.9	Lower	Contracting
Input Prices	42.5	Lower	Falling
Ex-factory Prices	42.2	Lower	Falling
Stocks of Major Inputs	48.2	Lower	Contracting
Employment	50.2	Lower	Expanding
Suppliers' Delivery Time	50.1	Higher	Quickening
Business Expectations	54.0	Lower	Optimistic

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

Exhibit 19 China's non-manufacturing purchasing managers' index (NMI) at a glance, April 2020

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	53.2	Higher	Expanding
New orders	52.1	Higher	Expanding
Input prices	49.0	Lower	Falling
Sales prices	45.4	Lower	Falling
Business expectations	60.1	Higher	Optimistic

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

A Recent developments

1. China's exports register double-digit year-on-year drop in 1Q20

Amid the COVID-19 outbreak in China, China's exports posted a negative growth of 13.3% yoy in 1Q20, compared with a 1.8% yoy positive growth in 4Q19 *(see exhibits 19, 20 and 21)*. Overall, in 1Q20, China's exports amounted to US$478.0 billion.

China's exports to the ASEAN managed to increase slightly in 1Q20: The growth rate of China's exports to the ASEAN registered 0.4% yoy in 1Q20. In contrast, China's exports to the EU and the US fell by 16.0% yoy and 25.2% respectively in 1Q20. China's exports to Brazil and India, two major emerging countries, decreased by 1.3% yoy and 9.9% yoy respectively.

The growth rate of China's imports also turned negative in 1Q20. After rising by 3.2% yoy in 4Q19, China's imports declined by 2.9% yoy in 1Q20, indicating a sluggish domestic demand for imported goods lately. Overall, in 1Q20, China's imports totalled US$465.0 billion.

China's trade surplus plunged from US$126.9 billion in 4Q19 to US$13.1 billion in 1Q20, due to a larger quarter-on-quarter decline in exports than imports in the quarter.

In April, China's exports recorded a positive growth of 3.5% yoy, while China's imports fell by 14.2% yoy. The unexpected export growth in April was due partly to Chinese exporters racing to make up for lost sales in 1Q20 due to the COVID-19 outbreak, as well as factory closures in other production countries in the month.

Exhibit 19 China's quarterly foreign trade data, 2019 to 1Q20

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
FY19	2,499.4	0.5%	2,078.0	-2.8%	421.4
2Q19	619.9	-1.0%	516.0	-3.7%	103.8
3Q19	654.8	-0.3%	537.0	-6.2%	117.8
4Q19	673.1	1.8%	546.2	3.2%	126.9
1Q20	478.0	-13.3%	465.0	-2.9%	13.1

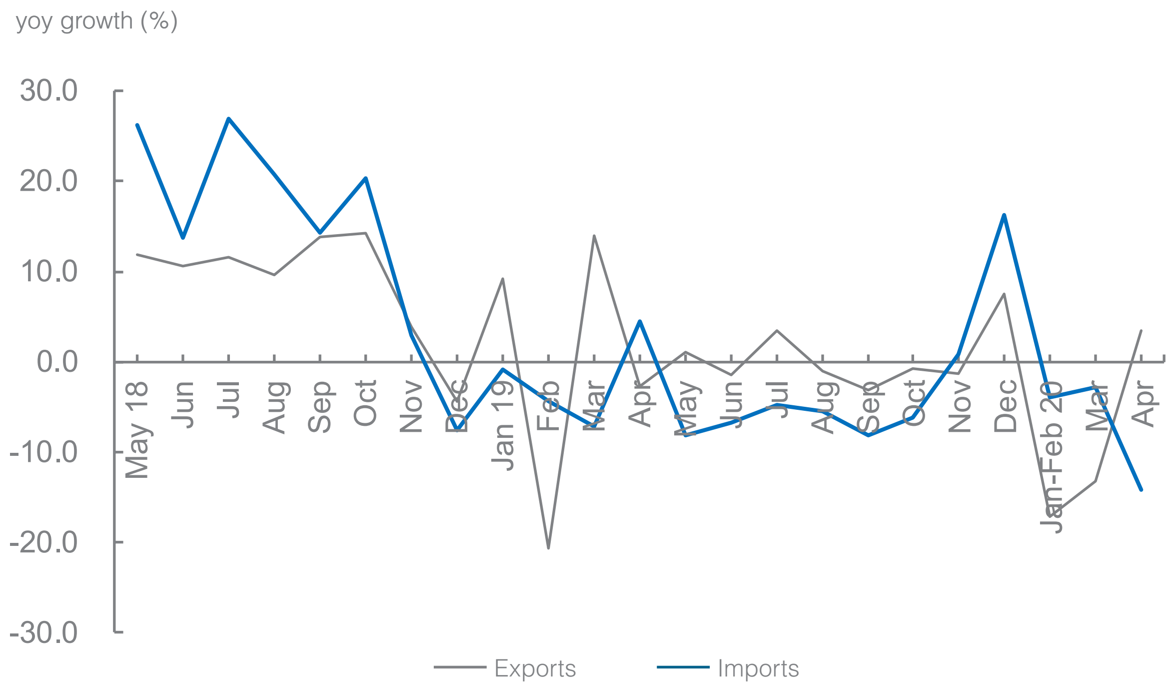
Source: China Customs

Exhibit 20 China's monthly foreign trade data, May 2019 to April 2020

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
May 2019	213.9	1.1%	172.7	-8.2%	41.2
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%	180.1	-5.5%	34.7
September	218.2	-3.2%	179.1	-8.2%	39.0
October	213.0	-0.8%	170.6	-6.2%	42.4
November	221.5	-1.3%	184.1	0.8%	37.3
December	238.7	7.9%	191.5	16.5%	47.2
Jan-Feb 2020	292.9	-17.2%	299.8	-4.0%	-6.9
March	185.2	-13.3%	165.3	-2.9%	19.9
April	200.3	3.5%	154.9	-14.2%	45.3

Source: China Customs

Exhibit 21 Growth rates of exports and imports, May 2018 to April 2020



Source: China Customs

Exhibit 22 Exports by category, 2019 and 1Q20

yoy growth (%) of export value, calculated in USD	2019	1Q20
Textile yarn, fabrics and textile products	0.9	-14.6
Garments and clothing accessories	-4.0	-20.6
Footwear	1.7	-20.7
Toys	24.2	-17.9
Furniture and parts	0.8	-20.5
Lighting fittings and parts	9.6	-21.0
Suitcases and handbags	0.5	-19.8
Refined oil	7.0	15.3
Steel	-11.3	-18.7
Mechanical and electrical products	-0.1	-13.4

Source: China Customs

Exhibit 23 Imports by category, 2019 and 1Q20

yoy growth (%) of import value, calculated in USD	2019	1Q20
Soybeans	-7.2	-1.1
Iron ores	33.6	11.7
Crude oil	0.4	5.8
Refined oil	-15.2	-15.6
Steel	-14.1	-9.0
Textile yarn, fabrics and textile products	-12.1	10.3
Vehicles and vehicle chassis	-4.3	-8.7
Integrated circuits	-2.1	10.6
Plastics	-5.5	-13.2

Source: China Customs

2. Both general trade exports and processing trade exports fall year-on-year in 1Q20

Both general trade[12] exports and processing trade[13] exports register year-on-year drop in 1Q20. In 1Q20, the growth in general trade exports fell to minus 13.3% yoy from 2.4% yoy in 4Q19. In the meantime, the growth in processing trade exports dropped to minus 19.2% yoy in 1Q20 from minus 8.5% yoy in 4Q19 *(see exhibit 24).*

On the import side, the growth in general trade imports went down from 7.9% yoy in 4Q19 to minus 1.1% yoy in 1Q20. Meanwhile, the growth in processing trade imports improved from minus 9.5% yoy in 4Q19 to minus 5.9% yoy in 4Q20. In our view, the year-on-year fall in processing trade imports in 1Q19 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 dropped to 23.8% in 1Q20 from 25.6% in 4Q19. With a large surplus of US$46.6 billion in 1Q20, processing trade still plays a vital role in China's foreign trade.

12 '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.

13 '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 24 China foreign trade (general and processing trades), 2019 to 1Q20

	yoy growth (%)		Share (%)	
	FY19	1Q20	FY19	1Q20
Exports	0.5	-13.3	100.0	100.0
Of which:				
General Trade	3.1	-13.3	57.8	58.4
Processing Trade	-7.7	-19.2	29.4	28.3
Imports	-2.8	-2.9	100.0	100.0
Of which:				
General Trade	-1.3	-1.1	60.5	61.6
Processing Trade	-11.3	-5.9	20.1	19.1
Total of Imports and Exports	-1.0	-8.4	100.0	100.0
Of which:				
General Trade	1.0	-7.5	59.0	60.0
Processing Trade	-9.1	-14.4	25.2	23.8

Source: China Customs

3. China's exports to ASEAN post positive growth in 1Q20

Accounting for 15.1% of China's total foreign trade, the Association of South East Asian Nations (ASEAN) overtook the EU to become China's largest trading partner in 1Q20. Sino-ASEAN trade grew by 3.9% yoy to US$142.4 billion in 1Q20. Specifically, China's exports to ASEAN inched up by 0.4% yoy, compared with a growth of 12.7% yoy in 2019. Meanwhile, China's imports from ASEAN grew 8.4% yoy, compared with a growth of 5.0% yoy in 2019 *(see exhibits 25 and 26).*

Accounting for 13.3% of China's total foreign trade, the EU was only China's second largest trading partner in 1Q20. Sino-EU trade amounted to US$125.7 billion, down by 12.3% yoy in 1Q20. Specifically, China's exports to the EU declined by 16.0% yoy in 1Q20, compared with a growth of 4.9% yoy in 2019; and China's imports from the EU fell by 7.0% yoy in 1Q20, compared with a growth of 1.1% yoy in 2019.

The US was still China's third largest trading partner in 1Q20, accounting for 10.1% of China's total foreign trade. Sino-US trade contracted by 20.1% yoy to US$95.7 billion in 1Q20. China's exports to the US dropped by 25.2% yoy in 1Q20, after falling by 12.5% yoy in 2019. Meanwhile, China's imports from the US decreased by 3.7% yoy in 1Q20, compared with a negative growth of 20.9% yoy in 2019.

Sino-Japanese trade decreased by 10.1% yoy to US$66.9 billion in 1Q20. China's exports to Japan declined by 16.0% yoy, while China's imports from Japan fell by 4.7% yoy in 1Q20.

4. China's trade with Russia grows in 1Q20

The growth in China's exports to Russia fell to minus 14.6% yoy in 1Q20 from 3.6% yoy in 2019. Meanwhile, the growth in China's imports from Russia jumped to 17.3% yoy in 1Q20 from 3.2% yoy in 2019. Consequently, China's trade with Russia managed to grow by 3.4% yoy in 1Q20, the same growth rate as in 2019 *(see exhibits 26 and 27)*.

The growth in China's exports to Brazil dropped to minus 1.3% yoy in 1Q20 from 5.5% yoy in 2019. In the meantime, the growth in China's imports from Brazil fell to minus 2.6% yoy in 1Q20 from 2.9% yoy in 2019. Consequently, the growth in Sino-Brazilian trade decelerated to minus 2.2% yoy in 1Q20 from 3.7% yoy in 2019.

The growth in China's exports to India worsened to minus 9.9% yoy in 1Q20 from minus 2.4% yoy in 2019, while the growth in China's imports from India fell to minus 10.7% yoy in 1Q20 from minus 4.5% yoy in 2019. Overall, the growth of Sino-Indian trade dropped to minus 10.1% yoy in 1Q20 from minus 2.8% yoy in 2019.

Together, these three BRIC members accounted for 6.7% of China's total exports and 8.1% of China's total imports in 1Q20, higher than the 6.4% and 7.6% shares, respectively, in 2019.

Exhibit 25 China's trading partners, 1Q20

Country/ Region	Trade value (USD billion)	Share of total trade (%)	Export value (USD billion)	Import value (USD billion)	yoy growth (%)		
					Total trade	Exports	Imports
ASEAN	142.4	15.1	77.5	64.9	3.9	0.4	8.4
EU	125.7	13.3	70.5	55.2	-12.3	-16.0	-7.0
US	95.7	10.1	68.3	27.5	-20.1	-25.2	-3.7
Japan	66.9	7.1	29.6	37.3	-10.1	-16.0	-4.7
Russia	25.4	2.7	9.2	16.2	3.4	-14.6	17.3
Brazil	24.7	2.6	7.2	17.5	-2.2	-1.3	-2.6
India	19.4	2.1	15.5	4.0	-10.1	-9.9	-10.7

Source: China Customs

Exhibit 26 China's trading partners, comparing growth rates for 2019 and 1Q20

yoy growth (%)

Country/Region	Total trade		Exports		Imports	
	2019	1Q20	2019	1Q20	2019	1Q20
ASEAN	9.2	3.9	12.7	0.4	5.0	8.4
EU	3.4	-12.3	4.9	-16.0	1.1	-7.0
US	-14.6	-20.1	-12.5	-25.2	-20.9	-3.7
Japan	-3.9	-10.1	-2.6	-16	-4.9	-4.7
Russia	3.4	3.4	3.6	-14.6	3.2	17.3
Brazil	3.7	-2.2	5.5	-1.3	2.9	-2.6
India	-2.8	-10.1	-2.4	-9.9	-4.5	-10.7

Source: China Customs

5. Exports from Guangdong fall markedly in 1Q20

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shanghai, Shandong and Fujian – jointly accounted for 75.6% of China's total exports in 1Q20, down from 76.5% in 2019 *(see exhibit 27)*. Among these six provinces, Guangdong saw the sharpest fall in exports while Shanghai witnessed the smallest drop. Exports from Guangdong plummeted by 18.0% yoy, while exports from Shanghai declined by 7.3% yoy in 1Q20.

Several provinces still managed to record robust growth in exports in 1Q20. For example, exports from Yunnan, Hainan and Hunan grew by 43.1% yoy, 18.7% yoy and 13.1% yoy respectively in the quarter.

Exhibit 27 Top six provinces and municipalities in terms of value of exports, 1Q20

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	125.3	-18.0	26.2
Jiangsu	78.3	-16.7	16.4
Zhejiang	63.7	-14.1	13.3
Shanghai	36.5	-7.3	7.6
Shandong	35.9	-7.9	7.5
Fujian	21.6	-9.7	4.5

Source: China Customs

6. China's FDI drops by 6.1% yoy in first four months

China's foreign direct investment (FDI) in Renminbi terms increased by 11.8% in April, after having recorded year-on-year decline for two consecutive months. Overall, in January to April, China's FDI amounted to 286.6 billion yuan, down by 6.1% yoy *(see exhibit 28)*.

In January to April, FDI in Hi-Tech industries managed to grow by 2.7% yoy. Among which, FDI in 'information services', 'e-commerce services' and 'professional technical services' rose strongly by 46.9% yoy, 73.8% yoy and 99.6% yoy respectively during the period.

7. China's foreign exchange reserves fall in 1Q20

As at the end of 1Q20, China's foreign exchange reserves amounted to US$3,060.6 billion, down by US$47.3 billion compared with end-4Q19 *(see exhibit 29)*. The decrease in the foreign exchange reserves in 1Q20 was due mainly to a depreciation of the non-US dollar currencies and a decline in the value of financial assets held by the Chinese government.

Recently, the near-term prospects for Chinese and global economic growth have deteriorated amid the COVID-19 global pandemic. Turmoil in global financial markets and 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 28 China's FDI, May 2019 to April 2020

	Amount (billion yuan)	yoy growth
FY19	941.5	5.8%
1Q20	216.2	-10.8%
May 19	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%
December	95.5	3.5%
January 20	87.6	4.0%
February	46.8	-25.6%
March	81.8	-14.1%
April	70.4	11.8

Source: Ministry of Commerce, PRC

Exhibit 29 Foreign exchange reserves by quarter, 2Q19 to 1Q20

USD billion	Accumulation	End of the quarter
FY19	-35.2	
2Q19	20.5	3,119.2
3Q19	-26.8	3,092.4
4Q19	15.5	3,107.9
1Q20	-47.3	3,060.6

Source: State Administration of Foreign Exchange, PRC

B Highlights

1. COVID-19 outbreak heightens China-US tensions despite phase one trade deal

The China-US phase one economic and trade agreement entered into force on 14 February. On the same day, the Chinese government halved the additional tariffs on billions of US goods. Products benefiting from the reduced tariff rates include crude oil, meat products and soybean, which are part of product lists worth a total of US$75 billion announced last August. Chinese officials said that the tariff cuts correspond with those announced by the US, which earlier agreed to cut the tariff rate on US$120 billion of Chinese products to 7.5% from 15%, effective from 14 February.

Despite the initial trade deal, the China-US relations have worsened as the two countries have been engaging in a war of words regarding the COVID-19 outbreak since early March. The US blames a 'lack of transparency' and even 'cover up' in China's handling of the COVID-19 outbreak, while China dismisses such criticisms as unfair and untrue. The two countries have also referred to conspiracies theories on the origin of the novel coronavirus.

In late April, US President Donald Trump suggested that China would be 'held accountable' for the COVID-19 outbreak and threatened new tariffs on China as part of the punitive measures against China. Trump also made clear that his concerns about China's role in the origin and spread of the COVID-19 were taking priority for now over his efforts to build on the phase one trade deal with China. On 14 May, Trump even went as far as to suggest that the US could cut ties with China.

2. Chinese yuan depreciates against US dollar since late-January

The exchange rate of the Chinese yuan depreciated against the US dollar since late January. The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar depreciated from 6.8606 on 21 January to a 12-year low of 7.1104 on 3 April, before closing at 7.0919 on 12 May *(see exhibit 30)*.[14]

In line with the movement of the daily fixing rate, the USD-CNY spot exchange rate was on an depreciation trend during late January to mid-May.[15] The USD-CNY spot exchange rate dropped from 6.8598 on 17 January to a five-month low of 7.1121 on 25 March, and closed at 7.0827 on 12 May. So far this year, the spot exchange rate of the Chinese yuan had depreciated by 1.7% against the US dollar (as of 12 May).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro depreciated from 7.5571 on 19 February to 7.9181 on 10 March, the weakest level since October 2018, before rebounding to 7.6624 on 12 May. So far this year, the daily fixing rate of the Chinese yuan had appreciated by 2.0% against the Euro (as of 12 May) *(see exhibit 31)*.

According to the Bank for International Settlements, the real effective exchange rate of the yuan went up from 122.24 in December to 126.07 in March.[16] Overall, in 1Q20, the Chinese yuan appreciated in real terms against its trading partners by 3.1% *(see exhibit 32)*.

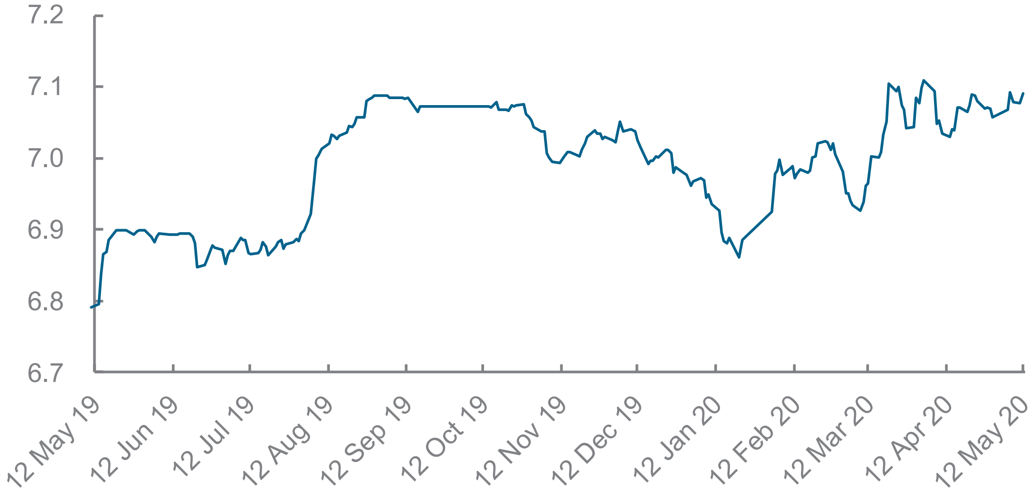
Looking ahead, we predict that the exchange rate of the Chinese yuan against the US dollar will stay weak in the near term, as the Chinese economy is under downward pressure amid the COVID-19 global pandemic.

14 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'.

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

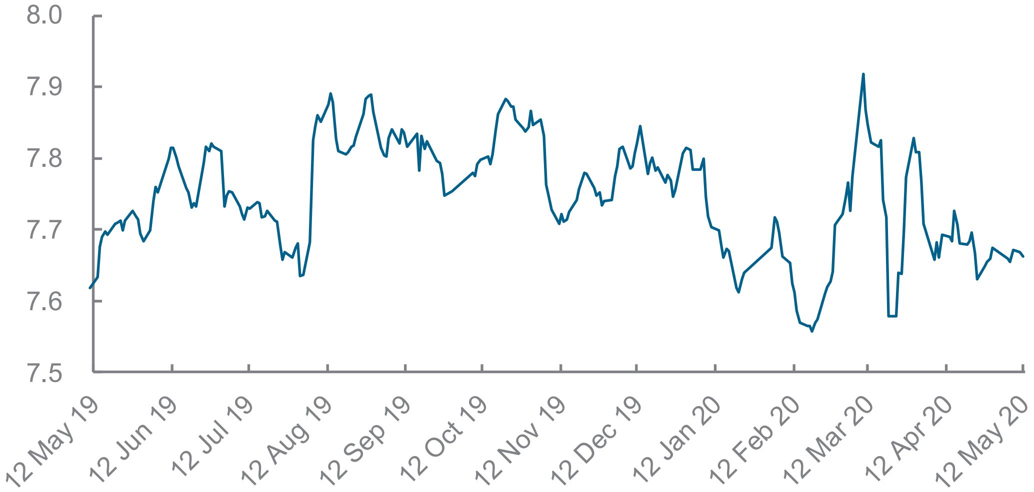
16 The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real 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 30 USD-CNY daily fixing rate, May 2019 to May 2020



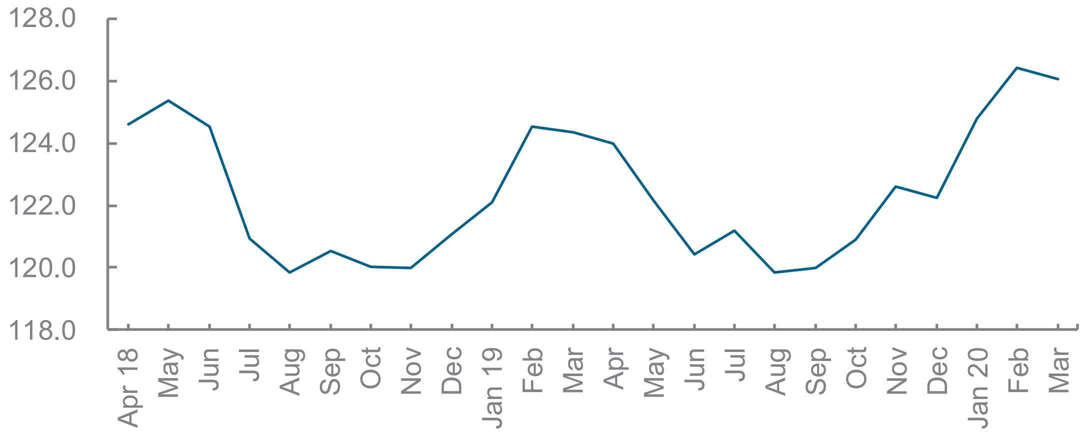
Source: State Administration of Foreign Exchange

Exhibit 31 EUR-CNY daily fixing rate, May 2019 to May 2020



Source: State Administration of Foreign Exchange

Exhibit 32 Real effective exchange rate of the Chinese yuan, April 2018 to March 2020



Source: Bank for International Settlements

C Outlook

1. US economy dips into deep economic slump

The US real GDP shrank by an annual rate of 4.8% in 1Q20, compared with an annual growth of 2.1% in 4Q19. It was the steepest pace of contraction in the US GDP since the 4Q08. The decline in GDP in 1Q20 was due partly to government measures to contain the spread of the COVID-19, as various state governments issued ‘stay-at-home’ orders in March. In the quarter, declines in personal consumption expenditure and non-residential fixed investment offset an increase in government spending and a fall in imports *(see exhibit 33)*.

On the production side, industrial production fell by 5.4% mom in March after gaining 0.5% mom in February, while the new orders for manufactured durable goods plunged by 14.4% mom in March after rising by 1.1% mom in February *(see exhibit 34)*. Meanwhile, the ISM manufacturing PMI dropped from 49.1 in March to 41.5 in April, pointing to the steepest pace of contraction in the US manufacturing sector since April 2009.

The non-manufacturing sector has also contracted lately: The ISM non-manufacturing index (NMI) went down from 52.5 in March to 41.8 in April, indicating the sharpest contraction in the service sector since March 2009.

The US retail sales slumped by a record 8.4% mom in March, recording month-on-month decline for two consecutive months. The drop in retail sales in recent months points to a rapid deterioration in the consumption demand amid the COVID-19 outbreak. Meanwhile, the Reuters/ University of Michigan index of consumer sentiment declined from 101.0 in February to 89.1 in March and further to an eight-year low of 71.8 in April, indicating that US consumers have become pessimistic lately *(see exhibit 35)*.

The US labour market has been devastated by the COVID-19 crisis. The unemployment rate jumped from a 50-year low of 3.5% in February to 4.4% in March and further to 14.7% in April, the highest level since the Great Depression in the 1930s *(see exhibit 36)*. Meanwhile, total non-farm payroll employment fell by 20.5 million in April, the largest monthly decline on record.

Looking ahead, the IMF predicts that the US economy will dip into a recession this year. In its latest *World Economic Outlook* published in April, the IMF forecasts that the US economy will contract by 5.9% this year, with a rebound to 4.7% growth in 2021.[17]

Exhibit 33 US national accounts, 2018 to 1Q20

Annual growth (%)	2018	2019	2Q19	3Q19	4Q19	1Q20
Real GDP	2.9	2.3	2.0	2.1	2.1	-4.8

Source: US Department of Commerce

Exhibit 34 US industrial sector, October 2019 to March 2020

mom growth (%), seasonally adjusted	Oct 19	Nov	Dec	Jan 20	Feb	Mar
Industrial production	-0.4	0.9	-0.4	-0.5	0.5	-5.4
New orders for manufactured durable goods	0.2	-3.1	2.8	0.1	1.1	-14.4

Source: US Federal Reserve, US Department of Commerce

13 IMF, World Economic Outlook, April 2020

Exhibit 35 US consumer market, October 2019 to April 2020

	Oct 19	Nov	Dec	Jan 20	Feb	Mar	Apr
Retail and food services sales *(mom growth %, seasonally adjusted)*	0.4	0.3	0.2	0.6	-0.4	-8.4	-
Reuters/University of Michigan index of consumer sentiment	95.5	96.8	99.3	99.8	101.0	89.1	71.8
CPI *(yoy growth %)*	1.8	2.1	2.3	2.5	2.3	1.5	0.3

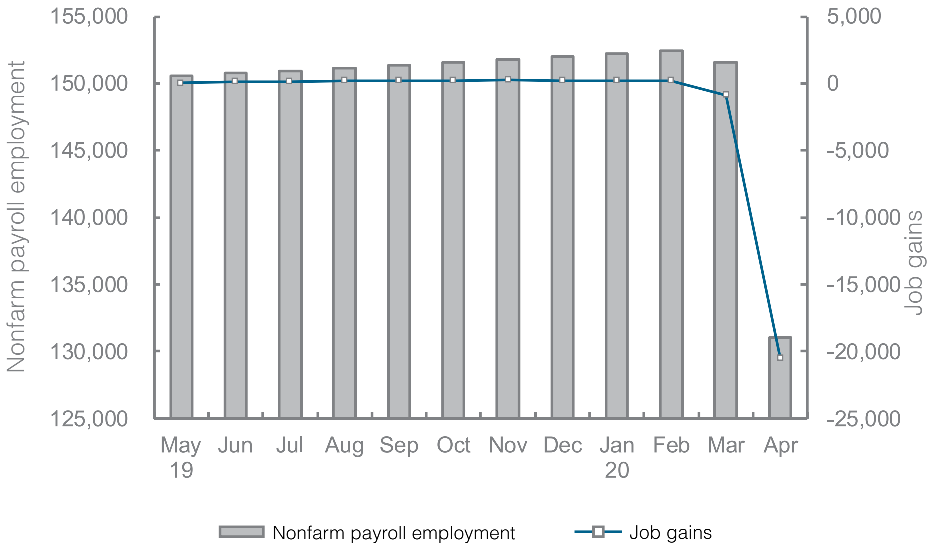
Source: US Department of Commerce, Reuters/University of Michigan Surveys of Consumers, US Department of Labor

Exhibit 36 US employment

	Unemployment rate (%)
2018	3.9
2019	3.7
May 19	3.6
Jun	3.7
Jul	3.7
Aug	3.7
Sep	3.5
Oct	3.6
Nov	3.5
Dec	3.5
Jan 20	3.6
Feb	3.5
Mar	4.4
Apr	14.7

Yearly figures: Annual average
Monthly figures: Seasonally adjusted

Nonfarm payroll employment, May 2019 to April 2020
In thousands, seasonally adjusted



Source: US Department of Labor

2. Eurozone faces deep economic recession

The Eurozone economy[14] is facing a deep economic recession amid the COVID-19 pandemic. The real GDP growth of the Eurozone came in at minus 3.8% qoq in 1Q20, down from 0.1% qoq in 4Q19 *(see exhibit 37).*

According to the global survey firm Markit Economics, the Eurozone manufacturing PMI plummeted from 44.5 in March to 33.4 in April, pointing to the steepest contraction in the manufacturing sector since records began in June 1997. Meanwhile, the Eurozone services PMI plunged from 52.6 in February to 26.4 in March and further to a record-low of 12.0 in April, indicating an unprecedented collapse in the service sector in the region.

The retail trade volume in the Eurozone slumped by 11.2% mom on a seasonally adjusted basis in March, after rising by 0.6% mom in February *(see exhibit 38).*

The labour market in the region had remained solid till March. The seasonally adjusted unemployment rate edged up from a 12-year low of 7.3% in February to 7.4% in March *(see exhibit 39).*

Moreover, confidence among consumers and managers in various sectors has deteriorated rapidly: The Eurozone's economic sentiment indicator (ESI) dropped from 103.0 in February to 94.6 in March and further to 65.8 in April, the lowest level since March 2009 *(see exhibit 40).*

Looking ahead, the Eurozone economy is expected to dip into a deep recession this year. The IMF forecasts that the Eurozone economy will shrink by 7.5% in 2020, before growing by 4.7% in 2021.[15]

Exhibit 37 Eurozone's real GDP growth, 2018 to 1Q20

	2018	2019	2Q19	3Q19	4Q19	1Q20
Real GDP *(qoq growth %)*			0.1	0.3	0.1	-3.8
Real GDP *(yoy growth %)*	1.9	1.2	1.2	1.3	1.0	-3.3

Source: Eurostat, IMF

Exhibit 38 Eurozone consumer market, October 2019 to April 2020

	Oct 19	Nov	Dec	Jan 20	Feb	Mar	Apr
Volume of retail trade *(mom growth %, seasonally adjusted)*	-0.1	0.9	-1.0	0.8	0.6	-11.2	-
Annual inflation (%)	0.7	1.0	1.3	1.4	1.2	0.7	0.4

Source: Eurostat

Exhibit 39 Eurozone labour market, October 2019 to March 2020

seasonally adjusted	Oct 19	Nov	Dec	Jan	Feb	Mar
Unemployment rate (%)	7.4	7.4	7.3	7.3	7.3	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 40 Eurozone economic sentiment indicator, November 2019 to April 2020

seasonally adjusted	Nov 19	Dec	Jan 20	Feb	Mar	Apr
Economic sentiment indicator	100.9	101.0	102.5	103.0	94.6	65.8

Source: Eurostat

3. China's exports are expected to post double-digit negative growth in 2Q20

According to the *World Economic Outlook* released in April, the IMF slashes its forecasts for world economic growth to minus 3.0% in 2020, from a 3.3% increase predicted in January. According to the IMF, the global economy is very likely to experience its worst downturn since the Great Depression due to the COVID-19 pandemic. The IMF forecasts that the world economic growth will rebound from minus 3.0% this year to record growth of 5.8% in 2021 if the pandemic fades in the second half of 2020. The growth in advanced economies is projected to plunge from 1.7% in 2019 to minus 6.1% in 2020 before rebounding to 4.5% in 2021. Meanwhile, the growth in emerging market and developing economies is projected to drop from 3.7% in 2019 to minus 1.0% in 2020 and pick up to 6.6% in 2021 *(see exhibit 41).*

Looking ahead, we forecast that China's exports will post double-digit negative year-on-year growth in 2Q20 amid the COVID-19 pandemic. 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 41 Latest GDP growth forecasts by the IMF

yoy growth (%)	2019 (Estimates)	2020 (Forecasts)	2021 (Forecasts)
World economy	2.9	-3.0	5.8
Advanced economies	1.7	-6.1	4.5
US	2.3	-5.9	4.7
Eurozone	1.2	-7.5	4.7
Japan	0.7	-5.2	3.0
Emerging market and developing economies	3.7	-1.0	6.6
China	6.1	1.2	9.2
India *	4.2	1.9	7.4
Brazil	1.1	-5.3	2.9
Russia	1.3	-5.5	3.5

* 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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