

China Trade Quarterly

Domestic Trade

China's economic growth accelerates to 6.3% yoy in 2Q23
 Retail sales recover to 8.2% yoy growth in 1H23
 NDRC rolls out measures to promote consumption

Foreign Trade

China's exports decline in 2Q23 amid global economic slowdown
 FDI in China registers a small dip in 1H23
 China further opens up its FTZs and FTP to align with international trade rules

Fung Business Intelligence

Helen Chin

Vice President
helenchin@fung1937.com

William Kong

Senior Research Manager
williamkong@fung1937.com



In This Issue:

Part 1: Domestic Trade

A. Recent developments	3
B. Highlights	10

Part 2: Foreign Trade

A. Recent developments	12
B. Highlights	18
C. Outlook	19

Helen Chin

Vice President

E: helenchin@fung1937.com

William Kong

Senior Research Manager

E: williamkong@fung1937.com

Fung Business Intelligence

11/F LiFung Tower

868 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2271

F: (852) 2635 1598

E: fbicgroup@fung1937.com

W: <http://www.fbicgroup.com>



Part One: Domestic Trade

A. Recent developments

1. China's economic growth accelerates to 6.3% yoy in 2Q23

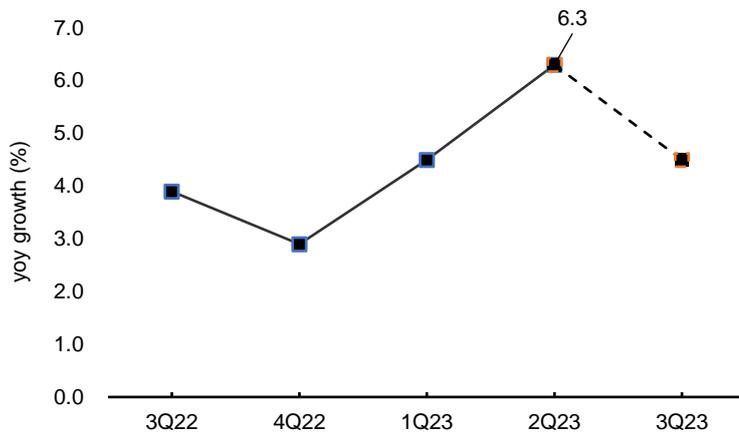
China's GDP grew by a worse-than-expected 6.3% yoy in real terms in 2Q23, still the fastest pace in two years (see exhibit 1). The 6.3% growth comes on top of a low base in 2Q22, when GDP growth stood at just 0.4% amid COVID-19 outbreaks in Shanghai and other provinces. Overall, in 1H23, China's nominal GDP amounted to 59.3 trillion yuan, up by 5.5% in real terms.

We predict that China's real GDP growth will decelerate to 4.5% yoy in 3Q23 as the low-base effect fades.

We predict that China's real GDP growth will decelerate to 4.5% yoy in 3Q23 as the low-base effect fades.

Exhibit 1: China's real GDP growth and forecasts, 3Q22 to 3Q23

FY22	3Q22	4Q22	1Q23	2Q23	3Q23F
3.0%	3.9%	2.9%	4.5%	6.3%	4.5%



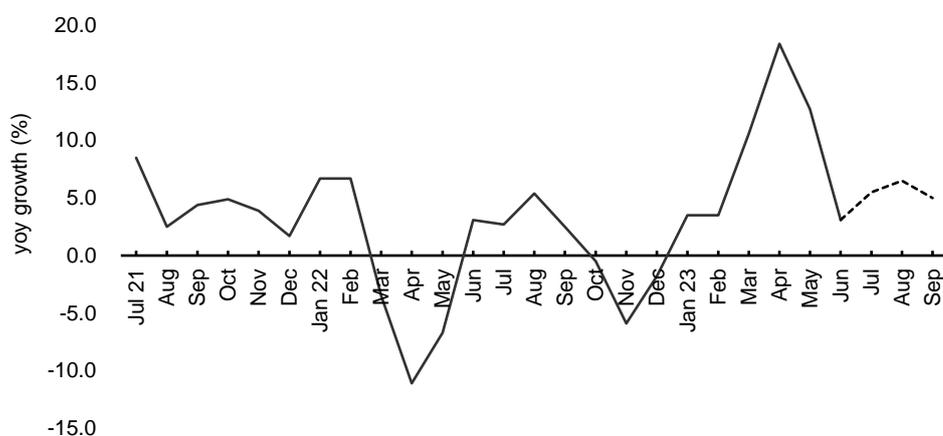
Source: National Bureau of Statistics, PRC

2. Retail sales recover to 8.2% yoy growth in 1H23

Against a low comparison base last year, China's total retail sales of consumer goods jumped by 8.2% yoy to 22.7 trillion yuan in 1H23 (see exhibits 2, 3 and 4).

Exhibit 2: China's total retail sales, year-on-year nominal growth and forecasts, July 2021 to September 2023

FY22	Jul 22	Aug	Sep	Oct	Nov	Dec	Jan-Feb 23	Mar	Apr	May	Jun
-0.2%	2.7%	5.4%	2.5%	-0.5%	-5.9%	-1.8%	3.5%	10.6%	18.4%	12.7%	3.1%



Source: National Bureau of Statistics, PRC

Exhibit 3: China's total retail sales, month-on-month nominal growth, January to June 2023

mom growth (%), seasonally adjusted

	Jan 23	Feb	Mar	Apr	May	Jun
Total retail sales	0.05	1.21	0.23	0.27	0.39	0.23

Source: National Bureau of Statistics, PRC

Exhibit 4: China's retail sales growth, 2022 to 1H23

Nominal growth, yoy (%)	FY22	1Q23	1H23
Total retail sales	-0.2	5.8	8.2
- Goods	0.5	4.9	6.8
Sales by enterprises above designated size	1.9	3.9	6.3
Online sales	6.2	7.3	10.8
- Catering services	-6.3	13.9	21.4

Source: National Bureau of Statistics, PRC

We predict that China's retail sales will grow by 5%–6% yoy in 3Q23, given a continued recovery in services spending and the rollout of government policies to boost consumption.

Online retail sales of physical goods increased by 10.8% yoy to 6,062.3 billion yuan in 1H23, accounting for 26.6% total retail sales of consumer goods, up 0.7 percentage points from a year ago.

Exhibit 5: China's retail sales growth by enterprises above designated size, by product, 2022 to 1H23

Nominal growth, yoy (%)	FY22	1Q23	1H23
Grain, oil and food	8.7	7.5	4.8
Beverages	5.3	1.8	1.0
Tobacco and liquor	2.3	6.8	8.6
Garments, footwear, hats, knitwear	-6.5	9.0	12.8
Cosmetics	-4.5	5.9	8.6
Gold, silver and jewellery	-1.1	13.6	17.5
Commodities for daily use	-0.7	5.1	5.0
Sports and amusement appliances	--	5.8	10.5
Home appliances and audio/video equipment	-3.9	-1.7	1.0
Traditional Chinese and Western medicines	12.4	16.5	11.1
Cultural and office appliances	4.4	-1.4	-3.9
Furniture	-7.5	4.6	3.8
Communication appliances	-3.4	-5.1	4.1
Petroleum and related products	9.7	10.3	7.5
Automobiles	0.7	-2.3	6.8
Building and decoration materials	-6.2	-2.4	-6.7

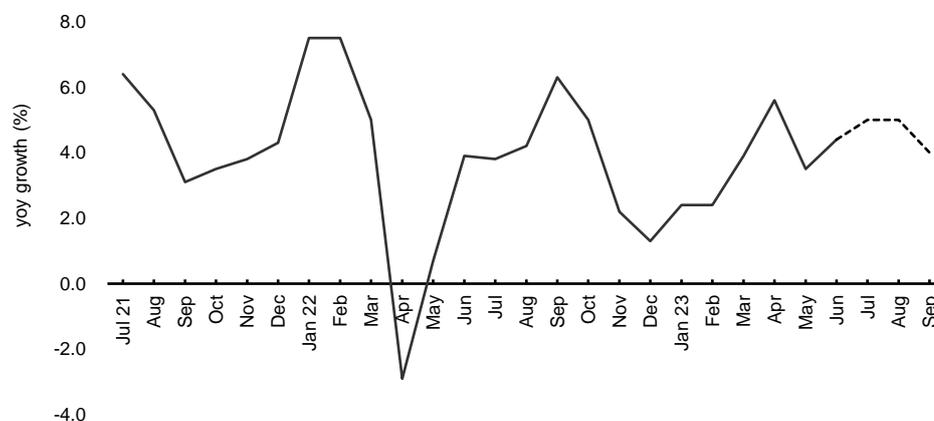
Source: National Bureau of Statistics, PRC

3. Industrial production grows at a relatively slow pace in 1H23

China's industrial production, measured by the value-added of industrial output of industrial enterprises above designated size¹, rose by 3.8% yoy in 1H23 (see exhibit 6).

Exhibit 6: China's industrial production growth and forecasts, July 2021 to September 2023

FY22	Jul 22	Aug	Sep	Oct	Nov	Dec	Jan-Feb 23	Mar	Apr	May	Jun
3.6%	3.8%	4.2%	6.3%	5.0%	2.2%	1.3%	2.4%	3.9%	5.6%	3.5%	4.4%



Source: National Bureau of Statistics, PRC

¹ 'Industrial enterprises above designated size' refer to industrial enterprises with annual revenue of 20 million yuan or more.

In 1H23, consumer discretionary categories such as 'gold, silver and jewellery' and 'garments, footwear, hats, knitwear' posted stronger sales growth, indicating a fast recovery in discretionary spending. Meanwhile, housing-related spending on 'building and decoration materials' and 'home appliances and audio/video equipment' remained weak amid the sluggish property market.

We expect China's VAIO growth to recover to 4.5% yoy in 3Q23, supported by an acceleration in infrastructure investment.

4. Growth in fixed asset investment decelerates in 2Q23

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) came in at 3.8% yoy in 1H23, down from 5.1% yoy in 1Q23 (see exhibit 7). China's FAI (excluding rural households) amounted to 24.3 trillion yuan in the period.

Exhibit 7: China's FAI (excluding rural households) growth, December 2022 to June 2023

Year-to-date, yoy growth %	Dec 22	Feb 22	Mar	Apr	May	Jun
FAI (excluding rural households)	5.1	5.5	5.1	4.7	4.0	3.8
- Manufacturing sector	9.1	8.1	7.0	6.4	6.0	6.0
- Infrastructure (excluding power, heat, gas and water infrastructure)	9.4	9.0	8.8	8.5	7.5	7.2
- Real estate development	-10.0	-5.7	-5.8	-6.2	-7.2	-7.9

Source: National Bureau of Statistics, PRC

5. Growth in M2 and total outstanding RMB loans decelerates

Both the broad money supply (M2) and the total outstanding RMB loans have grown at a slower pace recently (see exhibit 8 & 9).

Exhibit 8: Broad money supply (M2) and RMB loans, July 2022 to June 2023

As of	Broad money supply (M2)		Total outstanding RMB loans	
	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth
End-Jul 22	257.8	12.0%	207.0	11.0%
End-Aug	259.5	12.2%	208.3	10.9%
End-Sep	262.7	12.1%	210.8	11.2%
End-Oct	261.3	11.8%	211.4	11.1%
End-Nov	264.7	12.4%	212.6	11.0%
End-Dec	266.4	11.8%	214.0	11.1%
End-Jan 23	273.8	12.6%	219.8	11.3%
End-Feb	275.5	12.9%	221.6	11.6%
End-Mar	281.5	12.7%	225.5	11.8%
End-Apr	280.9	12.4%	226.2	11.8%
End-May	282.1	11.6%	227.5	11.4%
End-Jun	287.3	11.3%	230.6	11.3%

Source: People's Bank of China

We expect that investment in the dampened real estate sector will start to stabilize in 2H23 and be less of a drag on FAI growth.

Exhibit 9: Increase in RMB loans, 2022 to June 2023

Increase in RMB loans (trillion yuan)	
FY22	21.31
1H23	15.73
Jul 22	0.68
Aug	1.25
Sep	2.47
Oct	0.62
Nov	1.21
Dec	1.40
Jan 23	4.90
Feb	1.81
Mar	3.89
Apr	0.72
May	1.36
Jun	3.05

Source: People's Bank of China

The People's Bank of China (PBoC) has continued to take actions to maintain reasonable and sufficient liquidity in the banking system and encourage banks to channel funds into the real economy. It announced on 30 June to provide an additional 200 billion yuan of low-cost re-lending fund and re-discounting fund for small businesses and the agricultural sector.²

Moreover, the PBoC cut its key benchmark lending rates on 20 June, the first such reductions in 10 months. The one-year loan prime rate (LPR) was lowered by 10 basis points to 3.55%, while the five-year LPR – which is a reference for mortgages – was cut by the same margin to 4.20%.³

The latest monetary loosening comes as the post-pandemic recovery showed signs of losing momentum in the second quarter.

² <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4979611/index.html>

³ https://www.gov.cn/lianbo/bumen/202306/content_6887307.htm

6. PMI indicates continued downward pressure on the manufacturing sector

After dropping to a five-month low of 48.8 in May, China's manufacturing PMI rebounded to 49.0 in June and 49.3 in July (see *exhibit 10*). The index has stayed below the critical 50-mark for four consecutive months, pointing to continued downward pressure on China's manufacturing sector. However, the uptick in the last couple of months might indicate that the downward pressure is easing.

The output index edged down by 0.1 pts to 50.2 in July, indicating that the growth in production activities has slowed slightly. Meanwhile, the new orders index rose by 0.9 pts to 49.5 in the month, pointing to a slower contraction in market demand.

The input prices index surged by 7.4 pts to 52.4 in July, returning to the expansionary territory for the first time since March. Meanwhile, the ex-factory prices index came in at 48.6 in the month, still below the watershed level of 50, indicating a persistent drop in prices of industrial products.

The business expectations index rose to a four-month high of 55.1 in July, indicating that purchasing managers in China have become more optimistic about the near-term outlook for their respective industries.

China's manufacturing PMI edged up to 49.3 in July, indicating easing downward pressure on the manufacturing sector. Growth in production activities slowed amid a sustained reduction in new orders. Prices of industrial products continued to fall, despite an increase in prices of production inputs.

Exhibit 10: China's manufacturing PMI at a glance, July 2023

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	49.3	Higher ▲	Contracting
Output	50.2	Lower ▼	Expanding
New Orders	49.5	Higher ▲	Contracting
New Export Orders	46.3	Lower ▼	Contracting
Backlogs of Orders	45.4	Higher ▲	Contracting
Stocks of Finished Goods	46.3	Higher ▲	Contracting
Stocks of Major Inputs	48.2	Higher ▲	Contracting
Purchases of Inputs	49.5	Higher ▲	Contracting
Imports	46.8	Lower ▼	Contracting
Input Prices	52.4	Higher ▲	Rising
Ex-factory Prices	48.6	Higher ▲	Falling
Employment	48.1	Lower ▼	Contracting
Suppliers' Delivery Time	50.5	Higher ▲	Quickening
Business Expectations	55.1	Higher ▲	Optimistic

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

7. NMI indicates a slowdown in non-manufacturing sector

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), went down from 53.8 in May to 52.8 in June and then a seven-month low of 51.5 in July (see *exhibit 11*). The latest index readings indicate a slowdown in the non-manufacturing sector lately.

The sales prices index has remained below the neutral level of 50 since May, indicating that enterprises have continued to lower their service charges recently. Meanwhile, the input prices index rose above the neutral level of 50 in July, indicating that input prices have started to increase.

The business expectation index stayed high at 59.0 in July, suggesting that purchasing managers in the non-manufacturing sector have remained optimistic about the near-term outlook for their respective industries.

We expect that China's non-manufacturing sector will continue to expand and that the NMI will fluctuate around 52.0 in the next few months.

Exhibit 11: China's Non-manufacturing Purchasing Managers' Index (NMI) at a glance, July 2023

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	51.5	Lower ▼	Expanding
New orders	48.1	Lower ▼	Contracting
Input prices	50.8	Higher ▲	Rising
Sales prices	49.7	Higher ▲	Falling
Business expectations	59.0	Lower ▼	Optimistic

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

B. Highlights

1. State Council announces plans to boost household consumption

An executive meeting of the State Council on 29 June announced fresh plans to boost household consumption. The State Council said that targeted policy and measures in boosting consumption will be adopted to boost growth in consumer spending and economic recovery.⁴

The State Council said that new policy steps to boost household consumption will be aligned and coordinated with measures for renovation of aging residential communities and old neighborhoods, renovation of homes for the elderly, the building of convenient neighborhoods, and the improvements to waste material recycling networks, so as to create synergy for expanding consumption.

2. NDRC unveils plans to boost consumption of cars and electronic products

On 20 July, the National Development and Reform Commission (NDRC) released two notices on boosting the consumption of automobiles and electronic products, as part of package measures to promote a sustained recovery in consumption.⁵

The two plans detail a total of 22 measures. On the auto consumption front, the government will ease restrictions on car purchases, encourage the replacement of old cars with new ones, reduce costs on car purchase and use of new energy vehicles (NEVs), step up the construction of supporting facilities for NEVs, etc. On the electronics consumption front, it will promote technological innovation for better electronic products, create more scenarios for electronic products consumption, promote the consumption of home appliances in rural areas, improve the environment for the consumption of electronic products, etc.

The Chinese government has been ramping up stimulus and support measures in recent months to boost the economy, which will help alleviate the downward pressure on the Chinese economy, in our view.

⁴ https://www.gov.cn/zhengce/202306/content_6889105.htm

⁵ https://www.ndrc.gov.cn/xxqk/zcfb/tz/202307/t20230721_1358538.html,
https://www.ndrc.gov.cn/xxqk/zcfb/tz/202307/t20230721_1358534.html

3. CPC meeting lays out policy orientation for 2H23

A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 24 July to make arrangements for the economic work for the second half of the year.⁶

The meeting called for carrying out macro regulation with precision and force, strengthening counter-cyclical regulation, and making more policy options available. It is necessary to stick to a proactive fiscal policy and a prudent monetary policy, extend and improve the implementation of tax and fee reductions, and give full play to the role of monetary tools.

The meeting emphasized that it is necessary to actively expand domestic demand. China will boost the consumption of bulk commodities such as automobiles, electronic products and household goods, and promote the consumption of services on sports, entertainment, culture, tourism and so on. Moreover, strong support will be given to scientific and technological innovation, the real economy, and the development of micro, small and medium-sized enterprises, according to the meeting.

4. NDRC rolls out measures to promote consumption

On 31 July, the NDRC released a notice outlining measures to expand consumption.⁷

The NDRC vowed to spur consumption of a wide range of items and services, including NEVs, home appliances, electronics, catering, cultural and tourism sectors, as well as that in rural areas. It also pledged to support 'rigid demand' for housing and improved living, according to the notice.

Local authorities should not unveil new measures to restrict auto purchases. Efforts should be made to build high-quality charging infrastructure, promote the use of NEVs in rural areas, and maintain and improve the favourable tax incentives for NEV purchases. The NDRC also pushed for the consumption of home appliances by rolling out trade-ins and the recycling of used home appliances, the notice said.

⁶ https://www.gov.cn/yaowen/liebiao/202307/content_6893950.htm

⁷ https://www.gov.cn/zhengce/content/202307/content_6895599.htm

Part Two: Foreign Trade

A. Recent developments

1. China's exports decline in 2Q23 amid global economic slowdown

China's exports dropped by 4.7% yoy to US\$860.8 billion while its imports fell by 6.4% yoy to US\$637.1 billion in 2Q23. Overall, in 1H23, China's export declined by 3.2% yoy and its imports went down by 6.7% yoy. In July, China's export dropped by 14.5% yoy and its imports decreased by 12.4% yoy. (See exhibits 12, 13 and 14)

With a sluggish global economy, we forecast that China's exports will fall by 10% yoy in 3Q23.

Exhibit 12: China's quarterly foreign trade data, 3Q22 to 2Q23

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
FY22	3,569.4	7.6%	2,712.8	1.1%	856.6
3Q22	961.5	9.4%	700.1	0.3%	261.4
4Q22	890.0	-7.6%	667.5	-6.5%	222.6
1Q23	802.6	-1.5%	617.6	-7.0%	185.0
2Q23	860.8	-4.7%	637.1	-6.4%	223.7

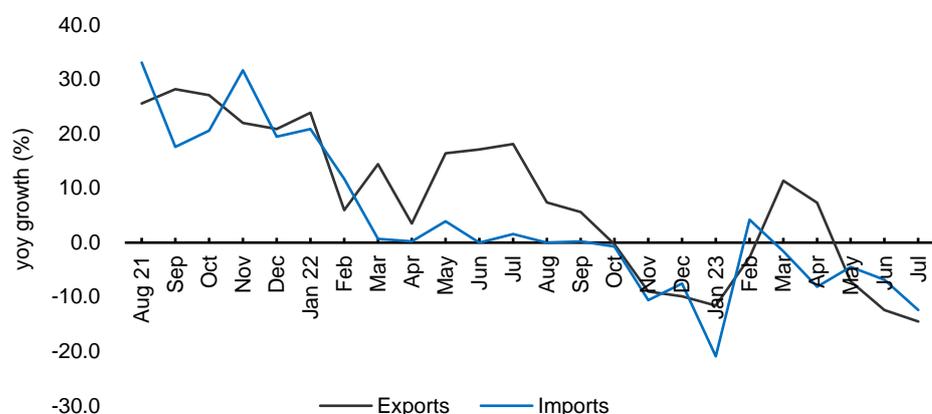
Source: China Customs, compiled by Fung Business Intelligence

Exhibit 13: China's monthly foreign trade data, August 2022 to July 2023

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
August 22	312.3	7.4%	233.7	0.0%	78.7
September	319.6	5.6%	236.9	0.2%	82.7
October	296.3	-0.3%	212.8	-0.7%	83.5
November	292.9	-9.0%	225.9	-10.6%	67.0
December	300.9	-9.9%	228.8	-7.5%	72.0
January 2023	287.2	-11.6%	193.4	-20.9%	93.9
February	210.3	-2.7%	197.3	4.2%	13.0
March	305.0	11.4%	226.9	-1.6%	78.1
April	291.7	7.3%	204.8	-8.1%	86.8
May	283.8	-7.1%	217.6	-4.5%	66.3
June	285.3	-12.4%	214.7	-6.8%	70.6
July	281.8	-14.5%	201.2	-12.4%	80.6

Source: China Customs

Exhibit 14: Growth rates of exports and imports, August 2021 to July 2023



Source: China Customs

Exhibit 15: Exports growth by category, 2022 to 1H23

<i>yoy growth (%) of export value, in USD</i>	2022	1Q23	1H23
Textile yarn, fabrics and textile products	2.0	-12.1	-10.9
Garments and clothing accessories	3.2	-1.3	-5.9
Footwear	20.4	-0.2	-6.3
Toys	5.6	3.7	-11.2
Furniture and parts	-5.3	-6.8	-10.0
Suitcases and handbags	28.2	29.1	14.1
Refined oil	48.7	70.3	28.8
Steel	18.7	36.7	-1.1
Mechanical and electrical products	3.6	-0.4	-0.8
Household appliances	-13.3	-4.4	-2.0
Motor vehicles including chassis	74.7	81.6	108.1
Lighting fittings and parts	-6.1	-1.7	-4.0

Source: China Customs

Exports of three categories of tech-intensive ‘green products’ – solar batteries, lithium-ion batteries and electric vehicles – surged 51.0% yoy to US\$77.5 billion in 1H23. Their weight in total exports also increased to 4.7% in the quarter, up 1.6 percentage points from a year ago.

Exhibit 16: Imports growth by category, 2022 to 1H23

<i>yoy growth (%) of import value, in USD</i>	2022	1Q23	1H23
Soybeans	14.4	23.6	11.4
Iron ores	-29.7	-3.3	-5.0
Crude oil	41.4	-4.2	-10.9
Steel	-8.8	-31.5	-28.6
Textile yarn, fabrics and textile products	-24.3	-25.9	-19.6
Motor vehicles including chassis	-1.2	-22.4	-23.8
Integrated circuits	-3.9	-26.7	-22.4
Plastics	-12.2	-22.5	-23.4

Source: China Customs

2. ASEAN overtakes the US to become China's largest export market in 1H23

In 1H23, the ASEAN remained China's largest trading partner and it overtook the US to become China's largest export market. The US was also surpassed by the EU, falling all the way to the third spot in terms of China's export destinations. (See exhibits 17 and 18)

Despite an overall fall in exports in 1H23, China's exports to Africa managed to grow by 15.4% yoy, one of the few highlights of China's foreign trade this year.

Exhibit 17: China's trading partners, 1H23

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	447.3	15.3	263.2	184.2	-1.5	1.5	-5.5
EU	399.2	13.7	257.9	141.2	-4.9	-6.6	-1.4
US	327.3	11.2	239.4	87.9	-14.5	-17.9	-3.7
Japan	157.0	5.4	79.3	77.7	-11.2	-4.7	-17.0
South Korea	153.4	5.3	76.4	77.0	-16.0	-4.6	-24.9
Russia	114.5	3.9	52.3	62.3	40.6	78.1	19.4
Brazil	82.9	2.8	28.3	54.6	0.5	-2.1	2.0
India	66.0	2.3	56.5	9.5	-0.9	-0.9	-0.6

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2022 and 1H23

Country/Region	yoy growth (%)					
	Total trade		Exports		Imports	
	2022	1H23	2022	1H23	2022	1H23
ASEAN	11.2	-1.5	17.7	1.5	3.3	-5.5
EU	2.4	-4.9	8.6	-6.6	-7.9	-1.4
US	0.6	-14.5	1.2	-17.9	-1.1	-3.7
Japan	-3.7	-11.2	4.4	-4.7	-10.2	-17.0
South Korea	0.1	-16.0	9.5	-4.6	-6.5	-24.9
Russia	29.3	40.6	12.8	78.1	43.4	19.4
Brazil	4.9	0.5	15.7	-2.1	-0.4	2.0
India	8.4	-0.9	21.7	-0.9	-37.9	-0.6

Source: China Customs

3. Leading export provinces except Shanghai record a fall in exports in 1H23

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 72.9% of China's total exports in 1H23, down from 73.4% in 2022 (see *exhibit 19*). All six provinces and municipalities except Shanghai, which had COVID-19 outbreaks and thus a low comparison base in 1H22, registered a year-on-year drop in exports in 1H23.

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 1H23

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	406.1	-3.6	24.4
Jiangsu	245.3	-7.7	14.7
Zhejiang	239.6	-4.5	14.4
Shandong	146.1	-3.8	8.8
Shanghai	98.7	10.4	5.9
Fujian	76.7	-10.9	4.6

Source: China Customs

4. FDI in China registers a small dip in 1H23

Foreign direct investment (FDI) in China edged down by 2.7% yoy to 703.7 billion yuan in 1H23 (see *exhibit 20*).

Exhibit 20: China's FDI, 2022 to June 2023

	Amount (billion yuan)	Yoy growth	Ytd amount (billion yuan)	Year-to-date, yoy growth
FY22	1,232.7	6.3%	1,232.7	6.3%
July 2022	75.0	16.6%	798.3	17.3%
August	94.4	10.0%	892.7	16.4%
September	111.0	9.4%	1,003.8	15.6%
October	86.1	2.9%	1,089.9	14.4%
November	66.2	-33.1%	1,156.1	9.9%
December	76.6	-28.5%	1,232.7	6.3%
January 2023	127.7	24.8%	127.7	14.5%
February	140.8	-0.5%	268.4	6.1%
March	140.0	2.8%	408.5	4.9%
April	91.0	-7.8%	499.5	2.2%
May	75.4	-12.0%	574.8	0.1%
June	128.8	-19.0%	703.7	-2.7%

Source: Ministry of Commerce, PRC

China is witnessing a new trend in foreign investment activities, with FDI in China's high-tech manufacturing sector growing rapidly, which jumped by 28.8% yoy in 1H23.

5. Chinese yuan depreciates against US dollar and Euro over past three months

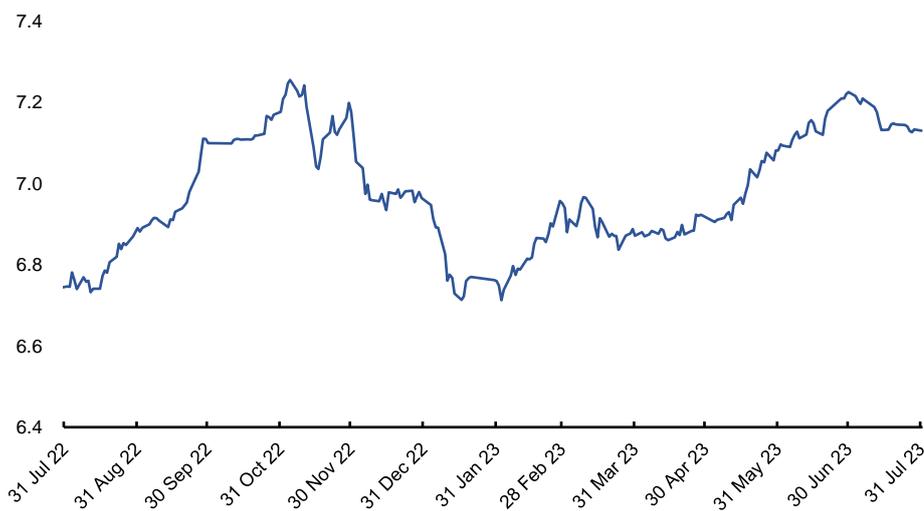
The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar depreciated from 6.9240 on 28 April to a seven-month low of 7.2258 on 30 June, before picking up to 7.1305 on 31 July (see *exhibit 21*).⁸ The Chinese yuan had depreciated by 2.6% against the US dollar so far this year (as of 31 July).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro depreciated from 7.6361 on 28 April to a 13-year low of 8.0879 on 20 July, before rebounding to 7.8836 on 31 July (see *exhibit 22*). The Chinese yuan had depreciated by 7.2% against the Euro so far this year (as of 31 July).

According to the Bank for International Settlements, the Chinese yuan depreciated in real terms against the currencies of its trading partners by 5.2% in 2Q23 (see *exhibit 23*).

With rising hopes of an end to US interest rate hikes, we expect the Chinese yuan to rebound against the US dollar in the coming months.

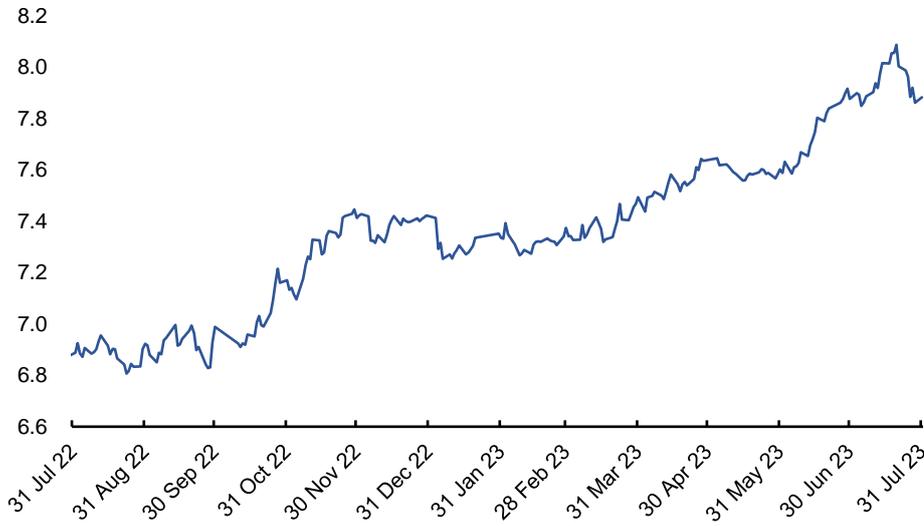
Exhibit 21: USD-CNY daily fixing rate, July 2022 to July 2023



Source: State Administration of Foreign Exchange

⁸ 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 and the movements of major international currencies.

Exhibit 22: EUR-CNY daily fixing rate, July 2022 to July 2023



Source: State Administration of Foreign Exchange

Exhibit 23: Real effective exchange rate of the Chinese yuan, July 2021 to June 2023



Source: Bank for International Settlements

B. Highlights

1. China further opens up its FTZs and FTP to align with international trade rules

In a notice released on 29 June, the State Council said that it will implement a range of international trade regulations within five of China's 21 free trade zones (FTZs) – Shanghai, Guangdong, Tianjin, Fujian and Beijing – and Hainan Free Trade Port (FTP).⁹ The new measures are an attempt to 'proactively align with' rules of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), Assistant Minister of Commerce Chen Chunjiang said.

The opening-up measures include 33 items in six key aspects, including promoting innovative development in goods trade, facilitating trade in services, streamlining temporary entry of business personnel, ensuring the healthy development of digital trade, optimizing the business environment, and establishing robust risk prevention and control mechanisms.

In particular, measures will be implemented to promote goods trade, including pilot projects for importing remanufactured products in key industries, duty exemptions for aircraft and ships temporarily exported for repair, and tariff and tax waivers for selected imported goods.

These opening-up measures signal that China is continuously advancing its institutional opening-up to attract foreign businesses and investors. China is also paving the way for its potential participation in high-level free trade agreements such as the CPTPP.

⁹ https://www.gov.cn/zhengce/content/202306/content_6889026.htm

C. Outlook

1. US economy registers faster growth in 2Q23

The US GDP grew a better-than-expected 2.4% yoy in 2Q23, driven primarily by an increase in business investment and government purchases, while the growth in consumer spending slowed as rising interest rates and still-high inflation weighed on consumer demand (see exhibit 24). Meanwhile, the GDP growth of the Eurozone economy¹⁰ eased to 0.6% yoy in 2Q23. The Eurozone has been facing the economic fallout from the Russia-Ukraine conflict in addition to rising interest rates and high inflation (see exhibit 25).

We expect that both the US and Eurozone economies will slow in 3Q23 amid continued monetary tightening.

Exhibit 24: US real GDP growth, 2021 to 2Q23

	2021	2022	3Q22	4Q22	1Q23	2Q23
Real GDP (<i>annualized qoq growth %</i>)			3.2	2.6	2.0	2.4
Real GDP (<i>yoy growth %</i>)	5.9	2.1	1.9	0.9	1.8	2.6

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2021 to 2Q23

	2021	2022	3Q22	4Q22	1Q23	2Q23
Real GDP (<i>qoq growth %</i>)			0.4	-0.1	0.0	0.3
Real GDP (<i>yoy growth %</i>)	5.2	3.5	2.4	1.8	1.1	0.6

Source: Eurostat, IMF

¹⁰ Up to 31 December 2022, the Eurozone included Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. From 1 January 2023 the Eurozone also includes Croatia.

2. IMF upgrades growth forecast for world economy for 2023

In the *World Economic Outlook Update* released in July, the IMF upgrades its growth forecast for the global economy for 2023 from 2.8% to 3.0%, still below the historical annual average of 3.8% (see *exhibit 26*). The primary reasons behind the latest revision are reduced risks of financial sector turmoil and stronger services activity in advanced economies.

Exhibit 26: Latest GDP growth estimates and forecasts by the IMF (2022 to 2024)

	yoy growth (%)		
	2022 (Estimates)	2023 (Forecasts)	2024 (Forecasts)
World economy	3.5	3.0	3.0
Advanced economies	2.7	1.5	1.4
- US	2.1	1.8	1.0
- Eurozone	3.5	0.9	1.5
- Japan	1.1	1.4	1.0
- UK	4.0	0.4	1.0
Emerging market and developing economies	4.0	4.0	4.1
- China	3.0	5.2	4.5
- India*	6.8	6.1	6.3
- Brazil	2.9	2.1	1.2
- Russia	-2.1	1.5	1.3
- ASEAN-5 ¹¹	5.5	4.6	4.5

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

Source: *World Economic Outlook Update* released in July 2023, IMF

¹¹ ASEAN-5 refers to Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Fung Business Intelligence

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

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 25,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

© Copyright 2023 Fung Business Intelligence. All rights reserved.

Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.