

CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **The IMF revises its growth forecast for China for 2017 upward to 6.8%**
- **Real GDP growth rate for 3Q 2017 is 6.8%, slight slackening versus 2Q**

[Industry]

- **Consumption increases by 10.3% year-on-year (YoY) in the retail and restaurant sectors during the National Day holidays**
- **September auto sales increases 5.7% YoY, up 0.4% MoM in growth rate**

[Trade/ Investment]

- **The statistics show export and import in September rises 8.1% and 18.7% YoY, respectively**
- **Hubei Province, Shanxi Province and Ningxia Hui Autonomous Region announce a hike in minimum wage**

[Finance/Exchange]

- **Foreign reserves increase for the eighth consecutive month in September**
- **Rate of RMB-denominated cross-border settlements in 2016 fell 3.5% YoY to 25.2%**
- **September cross-border RMB settlements**
- **Money supply for September rises 9.2% YoY, rising for the first time in 11 months**

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[Economy]

◆The IMF revises its growth forecast for China for 2017 upward to 6.8%

Recently, the International Monetary Fund (IMF) announced its “World Economic Outlook” in which they revised up their growth forecast for China to 6.8% for 2017, and 6.5% for 2018, up 0.1 point from the July forecast for both 2017 and 2018.

The revision reflects the robust growth and active external demand in China’s economic growth in the first half. For 2018, the IMF raised the forecast expecting that the Chinese government will maintain

the policy mix for sustainable economic expansion in order to achieve the goal of doubling the GDP between 2010 and 2020. It also pointed out, however, that there would be a risk of sharp growth deceleration unless the government accelerates efforts to control credit expansion.

In addition, IMF revised up the forecast for global economic growth to 3.6 % for 2017 and 3.7% for 2018, up 0.1 point from the July forecast for both, projecting that the recovery of the global economy from the second half of 2016 will further accelerate in the first half of 2017, and growth in emerging and developing countries will rise in this year and next year. On the other hand, it indicated that a risk of economic downturn will remain in the medium-term, naming causes such as the tighter global financial environment, and the consequent financial confusion in emerging countries and regions and low inflation in advanced countries and regions.

◆Real GDP growth rate for 3Q 2017 is 6.8%, slight slackening versus 2Q

On October 19, the National Bureau of Statistics (NBS) announced that China’s real GDP growth rate for the third quarter of 2017 was 6.8%, 0.1 percentage point lower than that in the previous quarter. The rates of contribution to GDP by item for January-September were 64.5% for final consumption, 32.8% for investments, and 2.7% for net exports (For January-June, the rates were 63.4%, 32.7%, and 3.9% respectively). NBS emphasized that the Chinese economy continues to grow steadily driven by domestic demand.

While investment in fixed assets grew 7.5% YoY for January-September (January-August: up 7.8% YoY), slowing down in growth rate, industrial production (value-added basis) grew 6.6% YoY for September (August: up 6.0% YoY), increasing in growth rate. By sector, there was a significant leap in manufacturing of PCs/ telecommunications/

electronic equipment (up 16.3% YoY), automobiles (up 13.7% YoY), electrical machinery and equipment (up 12.3% YoY), and special-purpose equipment (up 11.3% YoY). Total retail sales of consumer goods also grew 10.3% YoY (January-August: up 10.1% YoY), and increased in growth rate.

Consumer Price Index (CPI) for September increased 1.6% YoY, down 0.2 points from August, while industrial producer price index (PPI) increased 6.9% YoY, up 0.6 points from August.

<IMF's GDP growth forecast for China and the world economy>

		2017	2018
China	January 2017	6.5%	6.0%
	April 2017	6.6%	6.2%
	July 2017	6.7%	6.4%
	October 2017	6.8%	6.5%
World	January 2017	3.4%	3.6%
	April 2017	3.5%	3.6%
	July 2017	3.5%	3.6%
	October 2017	3.6%	3.7%

(Source) IMF's World Economic Outlook (October 2017)

<Main Economic Indicators in September>

Item		Amount	YoY (%)
Gross domestic product (GDP)*		(RMB Bn) 21,180	6.8
Investment in fixed assets**		(RMB Bn) 45,848	7.5
State-owned sector		(RMB Bn) 16,816	11.0
Private sector		(RMB Bn) 27,752	6.0
By industry	Primary industry	(RMB Bn) 1,497	11.8
	Secondary industry	(RMB Bn) 17,179	2.6
	Tertiary industry	(RMB Bn) 27,172	10.5
Value-added industrial production***		-	6.6
Total retail sales of social consumables		(RMB Bn) 3,087	10.3
Consumer price index (CPI)		-	1.6
Industrial producer price index (PPI)		-	6.9
Industrial producer purchase price		-	8.5
Exports		(USD Bn) 198.3	8.1
Imports		(USD Bn) 169.8	18.7
Trade balance		(USD Bn) 28.5	-
Inward foreign direct investment (actual)		(USD Bn) 10.6	14.9

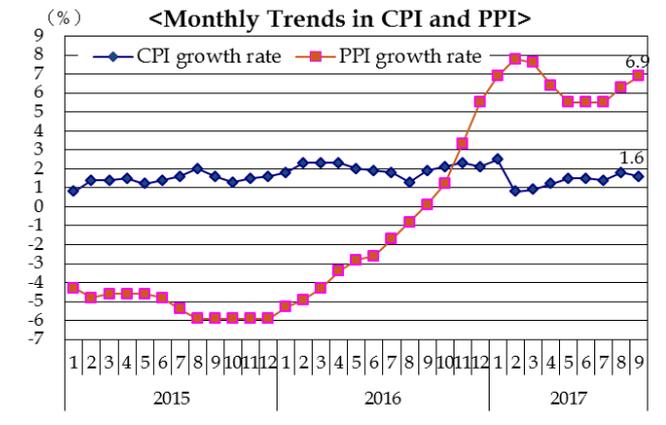
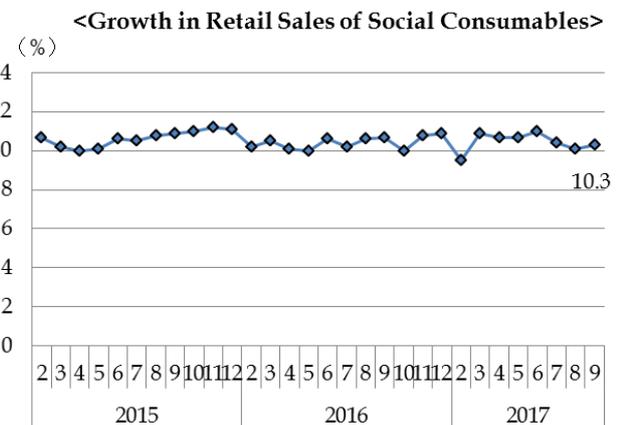
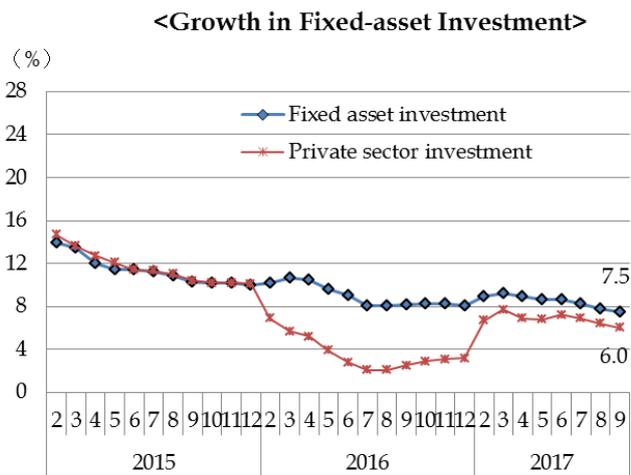
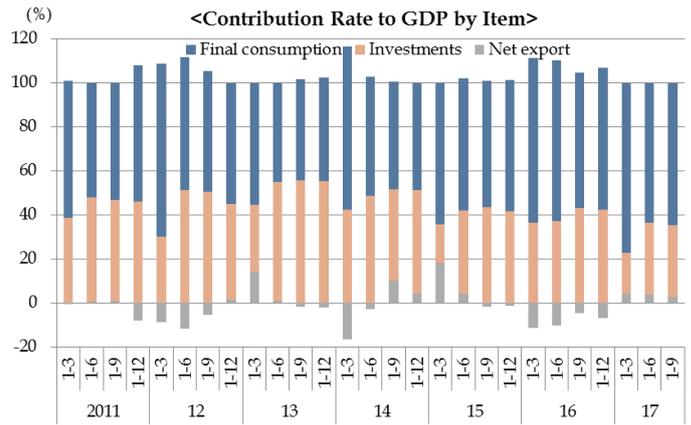
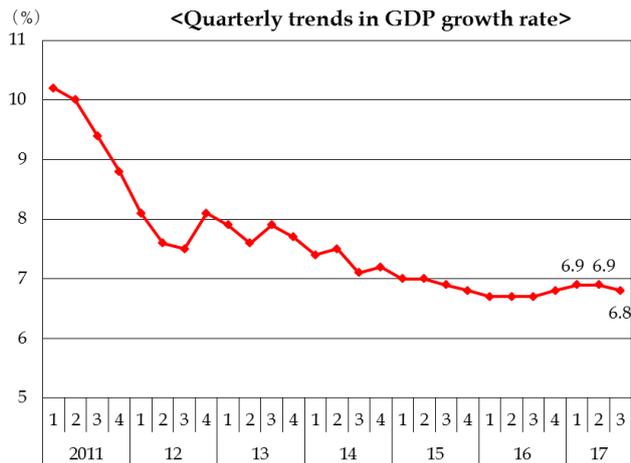
*: 3Q

**：Cumulative total for January-September(excl. investments by rural companies)

***: Of independently-accounted state-run companies and non-state-run companies

with annual sales of at least RMB 20 Mn

(Source) Prepared based on data published by the NBS, etc.



[Industry]

◆ **Consumption increases by 10.3% year on year (YoY) in the retail and restaurant sectors during the National Day holidays**

On October 8, the Ministry of Commerce of the Government of China (MOFCOM) announced that nationwide sales in the retail and restaurant sectors reached approx. RMB 1.5 Tn, growing by 10.3% YoY in consumption per day. The growth rate fell below 10.7% of the previous year, slowing down for the seventh consecutive year.

Consumption of this year was characterized by booming sales of food gifts such as mooncake,

clothing, jewelry, electric home appliances, new energy vehicles, etc. During the period, events were held in various places, including a shopping festival and a food festival in Shanghai and a houseware fair in Beijing, driving the expansion of consumption. MOFCOM pointed out that as diversification and higher quality becomes the new trend, various improvements were made in services and products, including new promotion methods such as holding events, extended business hours and special menus in restaurants, and showing movies without charge to improve customer satisfaction.

In addition, according to the data published by the China National Tourism Board on October 8, the number of tourists who visited various parts of China during the National Day holidays (seven days from October 1 to 7) increased by 11.9% YoY (previous year: +12.8% YoY) to 705 million, and sales related to travel rose 13.9% YoY (previous year: +14.4% YoY) to RMB 583.6 Bn.

Over 6 million people travelled overseas during the holidays. Among them, the number of tourists who participated in a group tour decreased significantly from 1.399 million in the previous year to 641.9 thousand, showing a continued increase in individual travel. The top five overseas travel destinations were Russia, Thailand, Vietnam, Singapore, and Malaysia. Purpose of travel has been changing from shopping to visiting museums, watching sports games, enjoying works of art, etc.

<YoY growth rate of consumption per day>

2010	18.7%
2011	17.5%
2012	15.0%
2013	13.6%
2014	12.1%
2015	11.0%
2016	10.7%
2017	10.3%

◆ **September auto sales increases 5.7% YoY, up 0.4% MoM in growth rate**

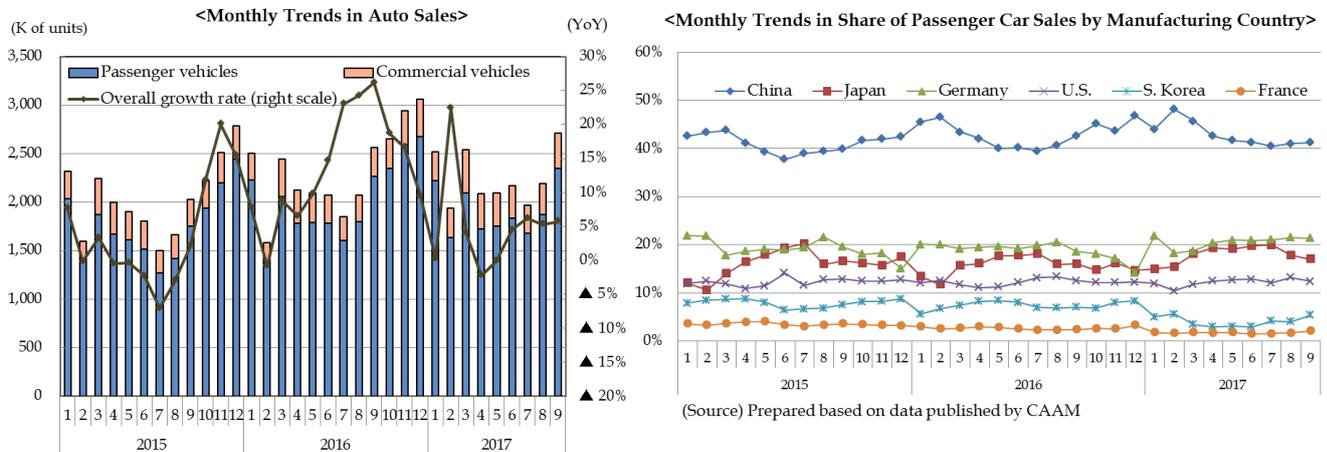
The China Association of Automobile Manufacturers announced on October 12 that September auto sales rose 5.7% YoY to 2.709 million units, increasing in growth rate from 5.3% for the previous month. The peak period for auto sales having started, the number of sales in a single month marked the highest since the beginning of this year. Cumulative sales for January-September went up 4.5% YoY to 20.225 million units, increasing in growth rate from 4.3% YoY for January-August.

By type of vehicle, sales of passenger cars rose 3.3% YoY to 2.343 million units (August: up 4.1% YoY to 1.875 million units). Among passenger cars, sales of small cars with 1.6-liter or smaller engines, which have been declining year-on-year since March, maintained the same level year-on-year, with 1.617 million units (August: down 0.5% YoY to 1.268 million units). Meanwhile, sales of commercial cars rose 23.9% YoY to 367,000 units (August: up 12.8% YoY to 311,000 units), showing a significant growth.

By type of passenger car, sales of sedans rose 3.7% YoY to 1.161 million units (August: up 1.6% YoY to 933,000 units), sports utility vehicles (SUVs) rose 10.5% YoY to 971,000 units (August: up 17.7% YoY to 774,000 units), multi-purpose vehicles (MPVs) dropped 25.1% YoY to 166,000 units (August: down 23.4% YoY to 138,000 units). The growth rate of sales increased for sedans and decreased for SUVs from the previous month.

Turning to the sales shares in the Chinese passenger car market, Chinese automakers acquired 41.2% (August: 41.0%) with 966,000 units, German automakers 21.3% (August: 21.5%) with 499,000 units, Japanese automakers 17.0% (August: 17.8%) with 398,000 units, U.S. automakers 12.3% (August: 13.2%) with 289,000 units, Korean automakers 5.3% (August: 4.1%) with 125,000 units, and French automakers 2.0% (August: 1.7%) with 47,000 units.

Sales of new energy vehicles soared 79.1% YoY to 78,000 units (August: up 76.3% YoY to 68,000 units), of which sales of electric vehicles (EVs) jumped 83.4% YoY to 64,000 units (August: up 95.5% YoY to 56,000 units). Cumulative sales of new energy vehicles for January-September rose 37.7% YoY to 398,000 units (January-August: up 30.2% YoY to 320,000 units), of which sales of EVs rose 50.1% YoY to 325,000 units (January-August: up 43.5% YoY to 260,000 units).



[Trade/ Investment]

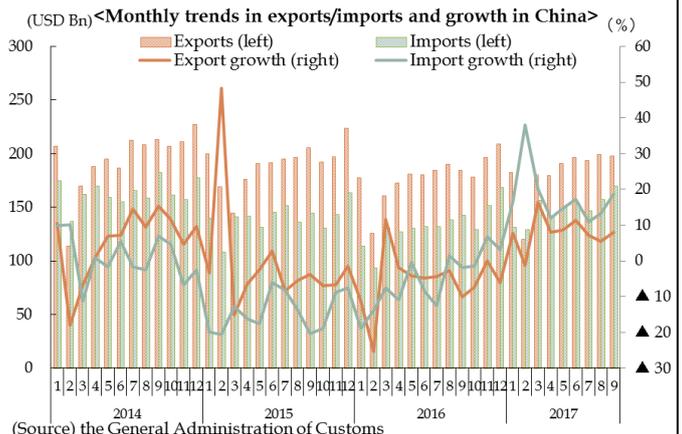
◆ The statistics show export and import in September rises 8.1% and 18.7% YoY, respectively

The General Administration of Customs (GAC) published the preliminary figures for trade statistics (in USD) on October 13. Total exports and imports in September rose 12.7% YoY to USD 368.05 Bn (+8.8% YoY in August). Exports rose 8.1% YoY to USD 198.26 Bn (+5.5% YoY in August) and imports rose 18.7% YoY to USD 169.79 Bn (+13.3% YoY in August), increasing in growth rate from the previous month in both exports and imports.

Total exports and imports from January to September rose 11.7% YoY to USD 2,969.33 Bn (+11.6% YoY in January-August). Exports rose 7.5% to USD 1,632.45 Bn (+7.6% YoY in January-August), and imports rose by 17.3% YoY to USD 1,336.87 Bn (+16.9% YoY in January-August). The year-on-year growth rate slowed in exports but increased in imports.

For trade with Japan from January to September, exports to Japan rose 4.7% YoY (+5.4% YoY in January-August), and imports from Japan rose 15.0% YoY (+14.3% YoY in January-August). The growth rate increased in imports.

In a press conference held on the same day, GAC analyzed the cause of the year-on-year slowdown in the quarterly growth rate of total exports and imports (in RMB) from +21.5% to +17.5% and to +11.9%, and explained that the values for the second half of the previous year, against which this year's figures are compared, were high due to the recovery of China's foreign trade. At the same time, GAC emphasized that the values of exports and imports marked record high in the third quarter, and remain on a trend of recovery.



<Exports, imports, and growth rate by country and region for January-September 2017 (Top 10)> (USD Bn)

Country/Region	Total (Jan.-Sep.)	YoY	Exports (Jan.-Sep.)	YoY	Imports (Jan.-Sep.)	YoY
USA	422.6	13.7%	309.1	11.5%	113.5	19.8%
Japan	220.1	10.1%	99.3	4.7%	120.7	15.0%
South Korea	202.2	11.4%	75.1	12.0%	127.1	11.0%
Hong Kong	198.9	▲ 8.0%	193.5	▲ 3.9%	5.4	▲ 63.1%
Taiwan	141.3	11.1%	31.6	8.8%	109.8	11.8%
Germany	122.7	9.7%	51.7	7.8%	71.0	11.2%
Australia	99.7	29.8%	29.1	8.4%	70.6	41.2%
Vietnam	82.4	20.6%	49.9	16.0%	32.5	28.4%
Malaysia	69.4	12.8%	29.7	12.3%	39.6	13.2%
Brazil	66.5	28.4%	21.0	34.3%	45.5	25.9%

(Source) Prepared based on data published by the General Administration of Customs

By types of trade, the ratio of general trade in total exports and imports from January to September rose 0.7 points YoY to 56.6%, and by types of enterprises, the ratio of private enterprises (excluding foreign-invested companies) grew 0.9 points to 46.8%. Inner driving power of trade expansion strengthened, and trade structure improved.

Regarding China's external trade in the future, GAC indicated that despite destabilizing factors such as differences in the direction of monetary policy among major advanced countries and the spread of protectionism in the world, a double-digit growth can be expected through 2017 due to the strength of recovery of the world economy and the continued stable growth of the Chinese economy.

◆ **Hubei Province, Shanxi Province and Ningxia Hui Autonomous Region announce a hike in minimum wage**

The governments of Hubei Province, Shanxi Province and Ningxia Hui Autonomous Region recently announced a hike in minimum wage.

Hubei Province will raise its minimum wage from RMB 1,550 (revised in September 2015) to RMB 1,750 effective from November 1, 2017. The minimum wage was raised from RMB 1,620 (revised in May 2015) to RMB 1,700 for Shanxi Province, and from RMB 1,480 (revised in November 2015) to RMB 1,660 for Ningxia Hui Autonomous Region effective from October 1, 2017.

Aside from those three regions, Shanghai City, Shenzhen City, Shaanxi Province, Fujian Province and Shandong Province, Tianjin City, Qinghai Province, Jiangsu Province, Beijing City, Hunan Province, Guizhou Province, Gansu Province, Jilin Province, and Henan Province have implemented or announced hikes in minimum wage this year, for a total of 17 regions.

[Finance/ Exchange]

◆ **Foreign reserves increase for the eighth consecutive month in September**

The People's Bank of China announced on October 9 that the country's foreign reserves in September increased by USD 16.98 Bn from the previous month to USD 3,108.51 Bn, rising for the eighth consecutive month.

According to the analysis by the State Administration of Foreign Exchange (SAFE), the increase in foreign reserves in September was due to the continued stability of cross-border fund transfers, balanced supply and demand for foreign currency, and an increase in the value of assets in U.S. dollars due to the relative appreciation of other currencies against the U.S. dollar.



◆Rate of RMB-denominated cross-border settlements in 2016 fell 3.5% YoY to 25.2%

The People's Bank of China (PBoC) released "2017 Report on Internationalization of RMB" on October 18. It is an annual report first released in 2015, summarizing the progress of RMB internationalization in terms of use of RMB in cross-border settlements, etc.

Of the amount of cross-border RMB settlements in 2016, ordinary items fell 27.7% YoY to RMB 5,227.47 Bn and capital/financial items slipped 5.1% to RMB 4,633 Bn, both decreasing in year-on-year growth rate with a particularly big drop for ordinary items.

Share of RMB denominated transactions in cross-border settlements fell 3.5% from the previous year to 25.2%.

Regarding RMB settlements for ordinary items, while trade of goods dropped 35.5% YoY to RMB 4,120.9 Bn, trade in services and others increased 31.2% YoY to RMB 1,106.5 Bn, showing a significant growth.

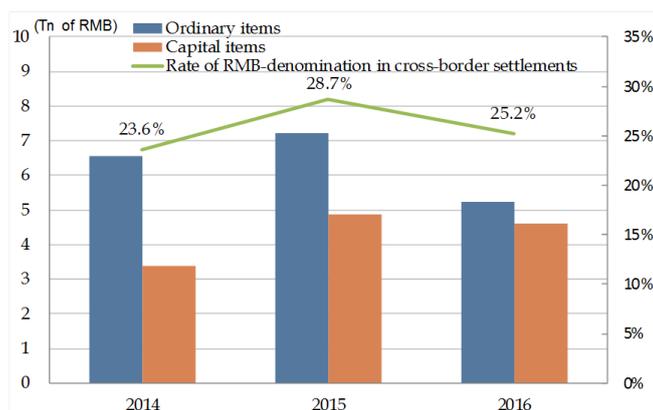
Of RMB settlements for capital/financial items, inward foreign direct investment fell 11.9% YoY to RMB 1,398.8 Bn, but outward foreign direct investment jumped 44.2% YoY to RMB 1,061.9 Bn, growing significantly. The report also showed that settlements associated with cross-border RMB pooling, receipt and payment combined, stood at RMB 1,752.5 Bn, and fund settlements associated with Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, inflow and outflow combined, totaled RMB 419.8 Bn.

In the breakdown of cross-border RMB settlements by country/region of counterparty (Fig. 2), Hong Kong with 53.6%, Singapore with 8.2%, and Germany with 4.2% were at the top. In the breakdown by regions in China (Fig. 3), Guangdong Province with 27.3%, Shanghai with 23.0%, and Beijing with 10.6% were the top three regions.

As of the end of 2016, the PBoC has signed currency swap agreements with 36 countries/regions worth RMB 3.3 Tn in total. RMB clearing centers have been established in 23 countries/regions, including the U.S., Russia, and UAE where they were established in 2016, and over 60 countries have included RMB in their foreign currency reserves.

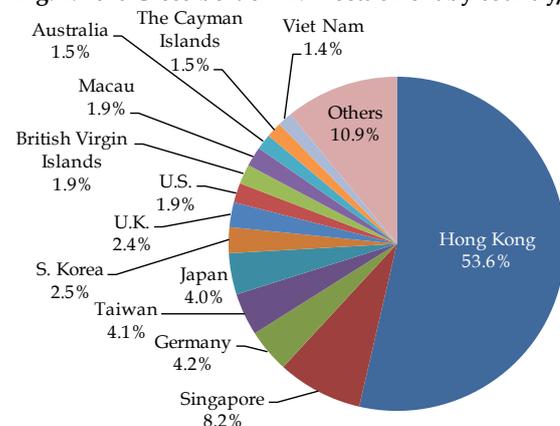
Regarding the outlook of RMB internationalization in 2017, the PBoC commented that the RMB will be accepted further as an international settlement currency, because the Chinese economy is heading toward stability and the rate forming mechanism for RMB has been improved. Also, the international status of RMB will further improve through its entry in the SDR basket in October 2016. The report anticipated that promoting the "One Belt, One Road" initiative will lead to increased use of RMB in the area.

<Fig. 1: Use of Cross-border RMB Settlements>



(Source) Prepared based on "Report on Internationalization of RMB (2015-2017)" by the People's Bank of China
(Note) Figure of capital items for 2014 was calculated based on that for 2015 and YoY growth rate because it was not published

<Fig. 2: 2016 Cross-border RMB settlement by country/region>



(Source) Prepared based on "Report of Internationalization of RMB 2017" by the People's Bank of China

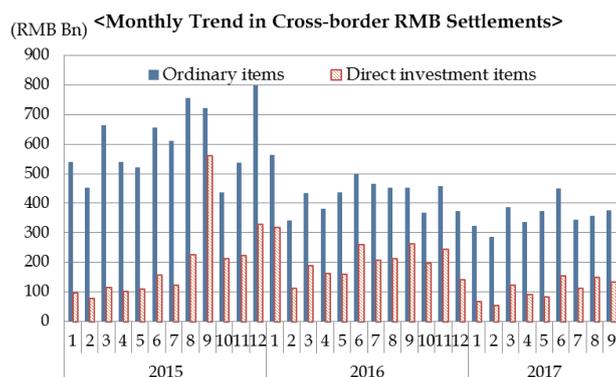
<Fig. 3: 2016 Cross-border RMB Settlements by Regions in China (Top 7 Regions)> (Bn of RMB)

Rank	Region	Ordinary	Capital/financial	Total	Ratio
1	Guangdong	1,524.5	1,165.7	2,690.2	27.3%
2	Shanghai	981.2	1,279.5	2,260.7	23.0%
3	Beijing	549.6	494.2	1,043.8	10.6%
4	Jiangsu	346.8	283.6	630.3	6.4%
5	Zhejiang	347.2	131.0	478.2	4.9%
6	Tianjin	198.1	137.6	335.7	3.4%
7	Shandong	151.3	161.9	313.1	3.2%

(Source) "2017 Report on Internationalization of RMB" by the People's Bank of China

◆September cross-border RMB settlements

The PBoC announced on October 15 that the accumulated amount of cross-border RMB settlements for January-September stood at RMB 3,233 Bn for ordinary items, of which RMB 2,410 Bn came from trade of goods and RMB 823 Bn from trade in services. The amount was RMB 962.3 Bn for direct investment items, of which RMB 715.4 Bn came from inward foreign direct investment and RMB 246.9 Bn from outward foreign direct investment.



For the month of September (MUFG: Bank's calculation basis), cross-border RMB settlements for ordinary items stood at RMB 375.6 Bn, of which RMB 267.4 Bn came from trade of goods and RMB 108.2 Bn came from trade in services. Direct investment items amounted to RMB 132.5 Bn, of which RMB 95.4 Bn was from inward foreign direct investment and RMB 37.1 Bn from outward foreign direct investment.

◆Money supply for September rises 9.2% YoY, rising for the first time in 11 months

The PBoC announced on October 15 that money supply (M2) as of the end of September rose 9.2% YoY (up 8.9% YoY as of the end of August) to RMB 165.57 Tn. Although the rate of increase has stayed below the government's annual goal of 12%, it was the first month-on-month increase in the 11 months since October 2016.

New RMB loans for September increased RMB 56.6 Bn YoY to RMB 1.27 Tn, up RMB 180 Bn MoM. Total social financing (*), which shows the amount of liquidity supplied to the real economy, grew RMB 108.4 Bn YoY to RMB 1.82 Tn, up RMB 340 Bn MoM.

(*): Total social financing = RMB loans + Foreign currency loans + Entrusted loans + Trust loans + Bank acceptance bills + Corporate bonds + Non-financial companies' equity financing + Compensations made by insurance companies + Investment properties + Other

