CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

June 28th 2019

■ BIWEEKLY DIGEST

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[Economy]

◆New Stimulus Measures Focus on Automobiles, Home Appliances, Smartphones, Other Electronics

On June 6, the National Development and Reform Commission, the Ministry of Ecology and Environment, and the Ministry of Commerce announced an "Action Plan" (2019–2020) to promote the updating, upgrading, and smooth material recycling of important consumer goods as new stimulus measures focused on consumer electronics such as automobiles, home appliances, and smartphones.

In January this year, the government announced stimulus measures focused on energy-saving and high-end goods and services, including cars and home appliances. This new "Action Plan," however, supports supply-side upgrades by easing restrictions on purchasing vehicles and improving the usage environments and performance of automobiles and home appliances, among others. Together with this, it presents concrete plans to support consumers in replacing such goods with new ones, and putting in place the systems for collecting and recycling the discarded goods. Through improving the quality of related industries and products, and fostering a consumer-friendly environment, China hopes to stimulate consumption and expand its domestic market.

Main Details of the "Action Plan" for Consumption Stimulus

1. Spur automobile consumption
✓ Prohibit the introduction of new vehicle purchasing restrictions by local governments.[1] In cities where restrictions are currently in effect, request that they ease the restrictions based on the progress of improving traffic congestion and pollution. 1. In some cities including Beijing, Shanghai, Guangzhou, and Shenzhen, restrictions on the purchase of vehicles have been enacted by limiting the supply of license plates as a measure to combat congestion and environmental pollution. Of these cities, Guangzhou and Shenzhen have announced that they will increase the number of available license plates from June.
✓ Remove restrictions on the purchase of and road usage restrictions for new energy vehicles (NEVs). ✓ Increase the driving range of new energy vehicles, improve battery performance, and expand the number of charging stations. ✓ Have local governments provide support for households without cars to purchase their first NEV. ✓ In local government areas which meet the conditions, offer preferential parking rates for NEVs.
✓ Remove all restrictions on the transfer of registration location for used vehicles. ✓ Encourage auto makers to utilize their own dealer networks to sell used cars, and promote the transformation of used car dealers into brands and chains.
2. Spur consumption of home appliances and electronic devices
✓ Encourage the research & development and sale of 5G-certified devices. Boost the application of next-generation IT technologies in mobile phones—such as AI, bioinformatics, new display technology, and virtual reality. ✓ Support the research and development of environmentally friendly smart appliances. Set the goal to provide all-in-one smart home solutions which incorporate smart appliances, furniture, security, etc. ✓ Enhance the offerings of 4K TV content.
✓ Encourage consumers to replace refrigerators, washing machines, air conditioners, TVs etc. with new models. Give appropriate support for the purchase of energy-saving appliances and smart appliances in local government areas which meet the conditions. ✓ Give appropriate support for the purchase of new smartphones and computers in local government areas which meet the conditions.
3. Set up systems for material collection and recycling
✓ Set up a system for automobile inspection and disposal. ✓ Establish a fund for the disposal costs of electronics and electronic devices to support the operations of practicing companies. ✓ Look into new lines of business such as those which combine the internet and material collection. Advance the systematization and regulation of collecting materials.

Source: Created from various announcements by the Chinese government.

◆Jing-Jin-Ji (Greater Beijing) Area Coordinated Development: Key Projects for 2019 Announced

On June 2, the Beijing Municipal Commission of Development and Reform released a report on key projects for 2019 to promote the coordinated development of the Jing-Jin-Ji region (Beijing City-Tianjin City-Hebei Province).

The idea of "Jingjinji coordinated development" is classed as a national strategy. However, following President Xi Jinping's request for new, greater progress on his inspection visit to the region in January of this year, the Beijing government has set out to turn these ideas into reality, outlining 90 specific programs as key advancement projects for this year.

These include (1) 14 projects to decentralize the non-capital functions of Beijing; (2) 19 construction projects to establish Xiong'an New Area* in Hebei as a secondary governmental hub; (3) 36 projects for ecological restoration, transportation infrastructure, industrial transfer, and public service improvement; (4) 16 projects for reform and innovation; and (5) 16 projects to strengthen ties between government ministries.

Specifically, these plans include the shifting of public service functions such as education, healthcare, and culture to other areas outside of Beijing, with the Tongzhou district in the suburbs of Beijing being transformed into a secondary administrative center. In addition, the Caofeidian Industrial Zone will be developed to host the relocation of Beijing's industry, and the Tianjin Binhai-Zhongguancun Science Park will also be developed. The Beijing Daxing International Airport will open by the end of September this year with a view to receiving visitors for the 2022 Beijing Winter Olympics. Meanwhile, the Jingzhang (Beijing-Zhangjiakou) high-speed railway will open this year, and the Jingli Expressway (connecting Beijing with Chongli, a district in Zhangjiakou, Hebei province) will open this year for the section between the Yanqing district of Beijing and Chongli, Zhangjiakou.

*: Xiong'an New Area, Hebei: established as a national development zone in April 2017 similar to the Shenzhen Special Economic Zone or the Pudong New Area in Shanghai. The Area incorporates Xiong County, Rongcheng County, Anxin County, and some surrounding regions, and offers an area of 1,770 km2 for development in the remote regions between the cities of Beijing, Tianjin, and Baoding in Hebei Province. The Area is being developed along the four key principles of decentralizing the non-capital functions of Beijing: "greenness, ecology, and livability," "innovation," "a harmonious development model," and "leading openness." The development plans target overall completion by 2050.

◆ Main Economic Indicators for May: Industrial Production Records 10-Year Low While Consumption Growth Expands

On June 14, the National Bureau of Statistics (NBS) announced the main economic indicators for May.

Growth in industrial production (value-added) in May was 5.0% year-on-year (YoY), declining further from April's 5.4% YoY and marking a 10-year low (Figs. 1 and 2). By item, automobiles fell 21.5% YoY (down 15.8% YoY in April) and industrial robot manufacturing fell 9.3% YoY (down 7.3% YoY in April), both showing large declines. Authorities claim that the scale of industrial production is reasonable in general, but point out that the negative effects of exacerbated trade friction and the increasingly uncertain market outlook are beginning to be seen in the stagnating growth in exports of certain industrial products, and that industrial production is forecasted to be subject to further downward pressure.

For the January-May period, cumulative investment in fixed assets increased 5.6% YoY, down 0.5 point from the January-April term. Growth in both the state-owned and private sectors has stagnated since the January-April period (Figs. 1 and 2). By category, investment in manufacturing increased 0.2 point from the January-April period to 2.7% YoY, while infrastructure investment fell 0.4 point to 4.0% and real estate also fell 0.7 point to 11.2% YoY during the same time period (Fig. 3).

On the other hand, total retail sales of consumer goods in May rose 8.6% YoY, an increase of 1.4% from April, when the lowest growth rate in 15 years and 11 months was recorded (Figs. 1 and 2). By item, sales of household items maintained robust growth and saw an 11.4% increase YoY (April: up 12.6% YoY), while cosmetics increased 16.7% YoY (April: up 6.7% YoY) and communications devices increased 6.7% YoY (April: up 2.1% YoY), showing significant increases from the previous month. Authorities point out that the Labor Day holidays contributed to pushing up consumption.

Meanwhile, the urban unemployment rates for May remained unchanged from the previous month and stood at 5.0%.

[Fig. 1] Main Economic Indicators for May

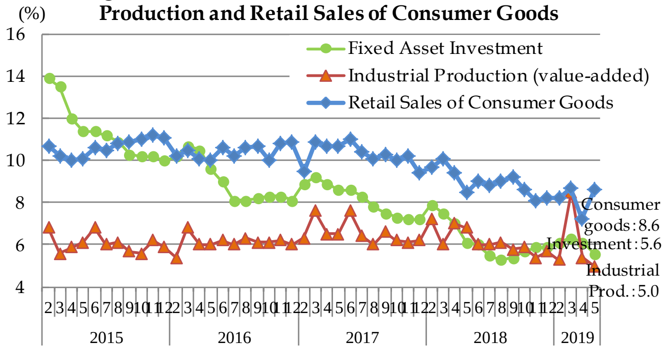
Item			April 2019			May 2019			
			Amount		YoY (%)	Growth Rate MoM	Amount		YoY (%)
Investment in fixed assets (excl. investments by rural companies)*			(RMB Bn)	15,574.7	6.1	↘	(RMB Bn)	21,755.5	5.6
	State-owned sector		(RMB Bn)	(Unreleased)	7.8	↘	(RMB Bn)	(Unreleased)	7.2
	Private sector		(RMB Bn)	9,310.3	5.5	↘	(RMB Bn)	13,082.3	5.3
	By industry	Primary	(RMB Bn)	381.3	▲ 0.1	↘	(RMB Bn)	583.7	▲ 2.3
		Secondary	(RMB Bn)	5,115.6	2.8	↗	(RMB Bn)	7,313.8	3.2
		Tertiary	(RMB Bn)	10,077.8	7.9	↘	(RMB Bn)	13,858.0	7.1
Value-added industrial production**			-	-	5.4	↘	-	-	5.0
Total retail sales of consumer goods			(RMB Bn)	3,058.6	7.2	↗	(RMB Bn)	3,295.6	8.6
Consumer price index (CPI)			-	-	2.5	↗	-	-	2.7
Industrial producer price index (PPI)			-	-	0.9	↘	-	-	0.6
Industrial producer purchase price			-	-	0.4	↘	-	-	0.2
Exports			(USD Bn)	193.49	▲ 2.7	↗	(USD Bn)	213.85	1.1
Imports			(USD Bn)	179.65	4.0	↘	(USD Bn)	172.19	▲ 8.5
Trade balance			(USD Bn)	13.84	-	-	(USD Bn)	41.66	-
Inward foreign direct investment (executed basis)			(USD Bn)	9.34	2.8	↗	(USD Bn)	9.47	4.6

* Cumulative total from January

** Independently-accounted state-run companies and non-state-run companies with annual sales of RMB 20 million or more

Source: Created based on data released by the NBS

[Fig. 2] Growth in Fixed Asset Investment, Industrial Production and Retail Sales of Consumer Goods

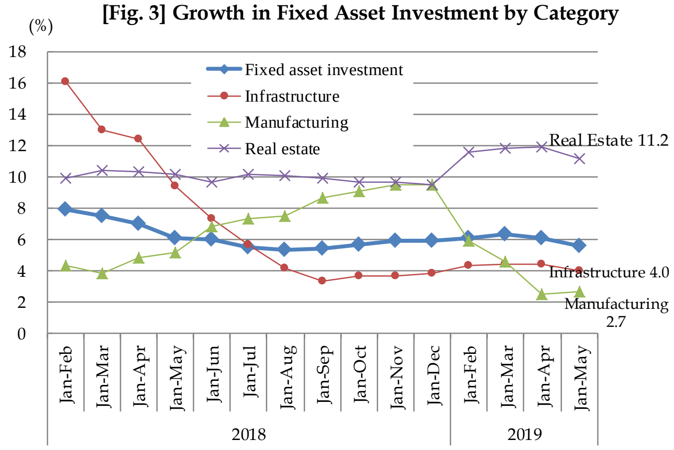


Notes: Cumulative total from January used for fixed asset investment

Cumulative January-February total used for February data for industrial production and retail sales of consumer goods

Source: Created based on data released by the NBS

[Fig. 3] Growth in Fixed Asset Investment by Category



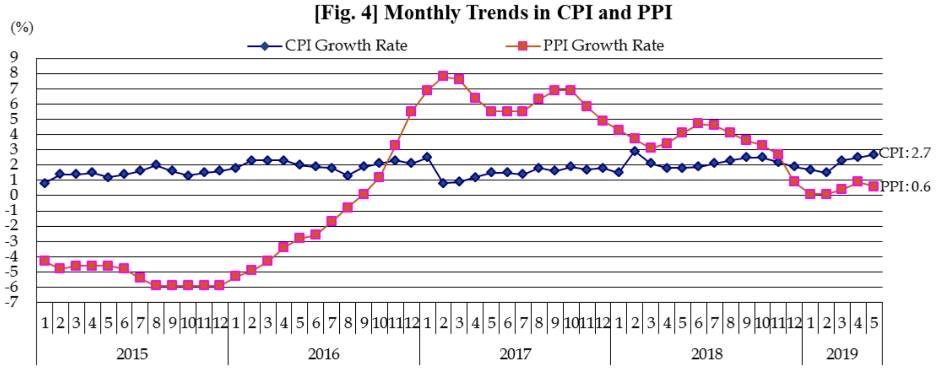
Source: Created based on data released by the NBS

The consumer price index (CPI) for May increased 2.7% YoY, with the growth rate increasing 0.2 point, rising for three consecutive months. The producer price index (PPI) increased 0.6% YoY, which is a growth rate 0.3 point lower than that of the previous month and the first decline in four months (Fig.4)

By category, CPI for food increased 7.7% YoY (April: up 6.1% YoY), while non-food also rose 1.6% YoY (April: up 1.7% YoY). As in April, CPI growth in food was significant. Due to shortages in supply, fruits were up by 26.7% YoY (April: up 11.9% YoY) and pork by 18.2% YoY (April: up 14.4% YoY). Authorities claim that prices for both will stabilize soon when seasonal fruits hit the market and demand for pork drops during the summer.

By industry, petroleum/natural gas drilling increased 6.7% YoY (April: up 10.1% YoY), showing a reduced rate of growth.

[Fig. 4] Monthly Trends in CPI and PPI



Source: Created based on data released by the NBS

[Industry]

◆May Auto Sales Fall 16.4% Year-on-Year (YoY) as Losses Expand

The China Association of Automobile Manufacturers (CAAM) announced on June 12 that May auto sales fell 16.4% YoY to 1.913 million units, with an expansion of the negative growth rate from the 14.6% YoY decrease recorded in April and falling YoY for the 11th consecutive month. Cumulative sales for January-May were down 13.0% YoY to 10.266 million units (Figs. 1 and 2).

Sales of passenger vehicles in May fell 17.4% YoY to 1.561 million units. This was a minor improvement from the negative growth rate of 17.7% recorded in April, but sales continue to be sluggish. Sales of commercial vehicles also fell, slipping 11.8% YoY to 351,000 units in a sharp decrease from the previous month (Fig. 2).

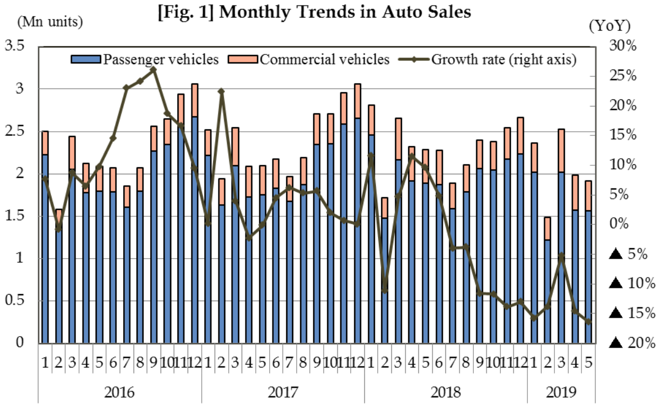
Although growth in the sales of new energy cars continues to be slow, sales in May increased 1.8% YoY to 104,000 units. The cumulative volume for January-May was up 41.5% YoY to 464,000 units (Figs. 2 and 3).

The CAAM indicated that the sluggish auto market was the result of decreased consumption amid an economic slowdown and a reluctance to purchase vehicles due to new gas emission standards being adopted ahead of schedule in July in certain regions. The CAAM indicated that in the second half of the year, new models that meet the new standards will enter the market in increasing numbers, and effects from the government's stimulus policies are expected to start appearing, leading to a recovery in the passenger and new energy vehicle markets.

The shares of passenger car sales by the automaker's country were: 36.2% (565,000 units) for China, 24.5% (383,000 units) for Germany, 23.8% (372,000 units) for Japan, 10.0% (156,000 units) for the U.S., 3.8% (60,000 units) for South Korea, and 0.6% (10,000 units) for France (Fig. 4).

The share held by Japanese auto manufacturers has increased for three consecutive months and reached the highest levels seen in recent years. Sales of Japanese passenger vehicles were up 1.9% YoY*to 372,000 units in May (Fig. 5). The growth rate was smaller than that of the previous month, but Japan was the only country of the six that maintained positive YoY growth in its share of auto sales. Some factors are considered to be underlying reasons for this. Japanese manufacturers excel in improving fuel efficiency, which is in line with the trend for strengthened emission control. Second, the expiration of tax breaks on purchases of compact cars created an accompanying reduction in sales by Chinese manufacturers, more of whose models were eligible for the tax break, while the expiration had less impact on their Japanese competitors with relatively few eligible models.

[Fig. 1] Monthly Trends in Auto Sales



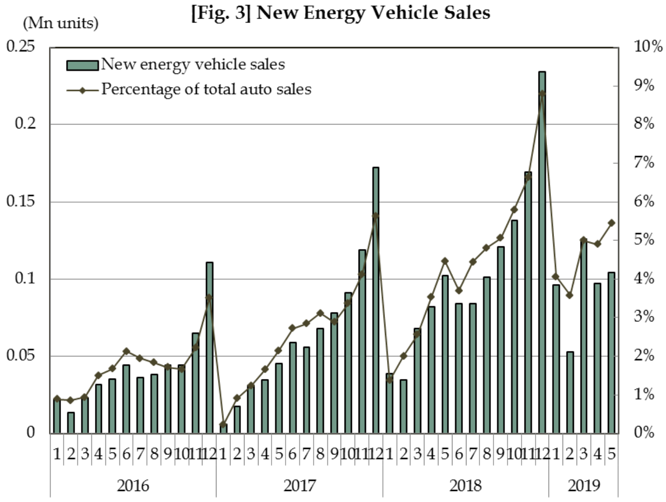
Source: Created based on data released by the CAAM

[Fig. 2] May 2019 Auto Sales and Growth Rate

	May 2019 Auto sales (Mn vehicles)	May 2019 YoY	Jan.-May 2019 Auto sales (Mn vehicles)	Jan.-May 2019 YoY
Auto sales	**1.913**	**▲16.4%**	**10.266**	**▲13.0%**
Passenger vehicles	1.561	▲17.4%	8.399	▲15.2%
Sedans	0.784	▲16.6%	4.099	▲13.4%
SUVs (sport utility vehicles)	0.643	▲15.6%	3.561	▲15.7%
MPVs (multi-purpose vehicles)	0.108	▲22.4%	0.573	▲23.9%
Crossover SUVs	0.026	▲46.0%	0.166	▲13.1%
Commercial vehicles	0.351	▲11.8%	1.867	▲1.3%
Buses	0.035	▲25.7%	0.168	▲8.8%
Trucks	0.316	▲9.9%	1.700	▲0.5%
New energy vehicles	0.104	1.8%	0.464	41.5%
Electric vehicles (EVs)	0.083	1.4%	0.361	44.1%
Plug-in hybrid vehicles (PHVs)	0.021	2.2%	0.103	32.7%
Fuel-cell electric vehicles (FCEV	315 (units)	8.0x	545 (units)	479.8%

Source: Created based on data released by the CAAM

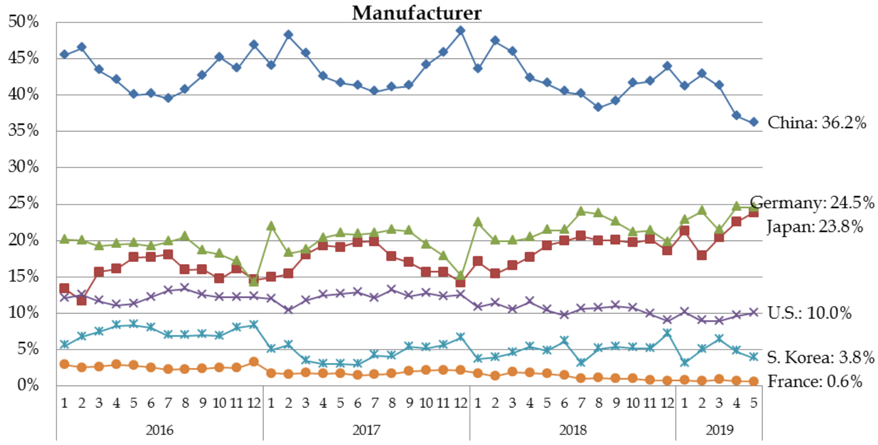
[Fig. 3] New Energy Vehicle Sales



Source: Created based on data released by the CAAM

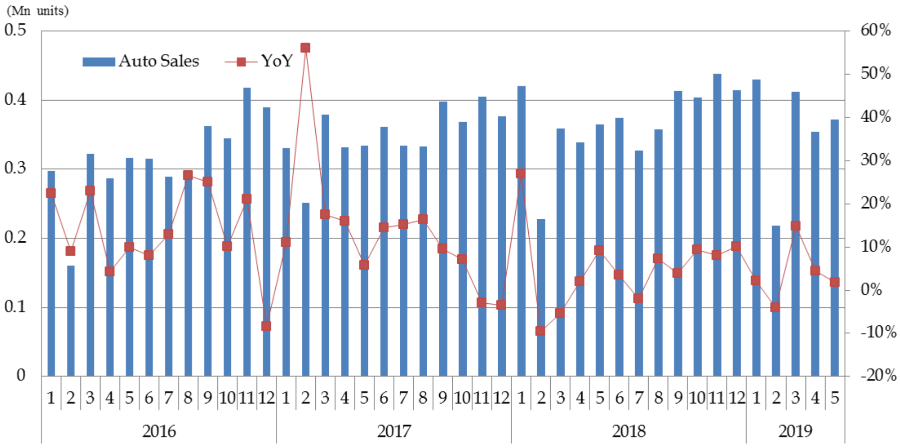
* Calculated by MUFG Bank based on sales data released by the CAAM.

[Fig. 4] Monthly Trends in Share of Passenger Car Sales by Country of Manufacturer



Source: Created based on data released by the CAAM

[Fig. 5] Auto Sales and Growth Rate of Japanese Brand Passenger Vehicles



Source: Created based on data released by the CAAM
Growth rates are calculated by MUFG Bank based on CAAM data

[Trade/Economy]

◆May: Exports Up 1.1% Year-on-Year (YoY), Imports Down 8.5% YoY

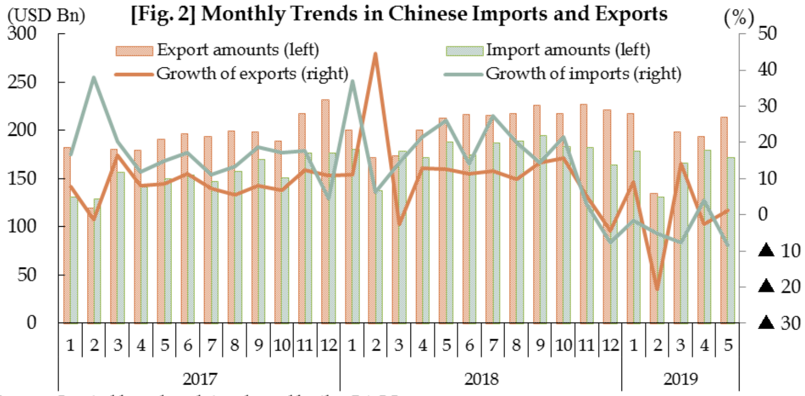
According to the trade statistics bulletin (in USD) released by the General Administration of Customs (GACC) on June 10, May exports increased by 1.1% YoY (April: down 2.7% YoY) to USD 213.85 billion, while imports decreased by 8.5% (April: up 4.0% YoY), falling to USD 172.19 billion. Comparing to the previous month, while exports turned around into positive territory, imports did the reverse (Figure 1-2). The cumulative total from January to May shows that exports are up 0.4% YoY (Jan.–Apr.: up 0.2% YoY) and imports are down 3.7% YoY (Jan.–Apr.: down 2.5% YoY) (Figure 1).

[Fig. 1] Overview of Trade Statistics for May

May 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	213.85	1.1%
Imports	172.19	▲8.5%
Trade Surplus	41.66	-
January–May 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	958.34	0.4%
Imports	827.87	▲3.7%
Trade Surplus	130.47	-

Source: Created based on data released by the GACC

[Fig. 2] Monthly Trends in Chinese Imports and Exports



Source: Created based on data released by the GACC

Trade with the United States between January and May showed a decrease in exports of 8.4% YoY (Jan.–Apr.: down 9.7% YoY) to USD 160.12 billion, with imports from the U.S. shrinking 29.6% YoY (Jan.–Apr.: down 30.4% YoY) to USD 49.57 billion. Despite both imports and exports decreasing their negative margins, the trade surplus saw its margin increase by 5.4% YoY* (Jan.–Apr.: up 4.0% YoY*) to USD 110.55 billion (Figures 3 & 4).

*Calculated by MUFG Bank based on data released by the GACC

Trade with Japan between January and May saw a decrease in exports by 1.8% YoY (Jan.–Apr.: down 2.5% YoY) to USD 57.43 billion as well as a decrease in imports by 6.7% YoY (Jan.–Apr.: down 4.1%) to USD 67.62 billion, continuing the yearly decline (Figure 3).

[Fig. 3] Jan–May 2019 Import and Export Amounts and Growth Rates by Country/Region

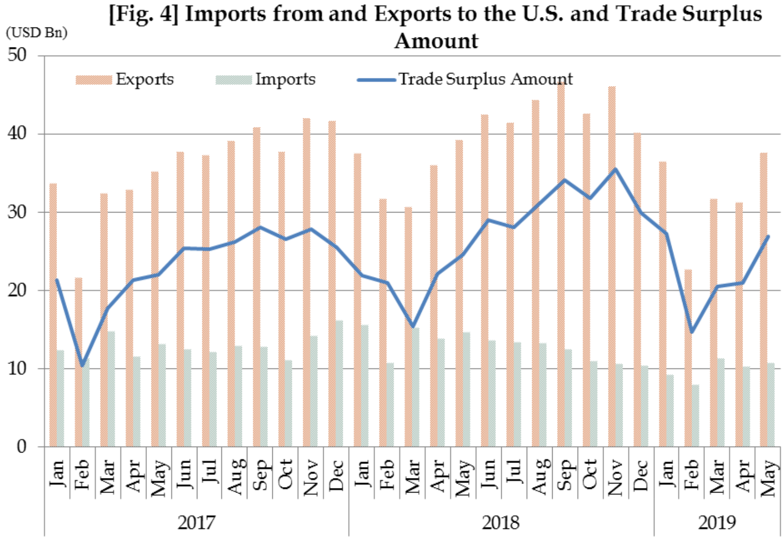
(USD Bn)

Country/Region	Exports	YoY	Imports	YoY	Trade Balance	Total Export/Import Amt.	YoY
United States	160.12	▲8.4%	49.57	▲29.6%	110.55	209.68	▲14.5%
Japan	57.43	▲1.8%	67.62	▲6.7%	▲ 10.19	125.04	▲4.5%
South Korea	45.49	2.3%	71.41	▲13.1%	▲ 25.92	116.89	▲7.7%
Hong Kong	105.83	▲6.1%	3.74	27.2%	102.09	109.57	▲5.2%
Taiwan	21.06	10.3%	65.61	▲6.9%	▲ 44.54	86.67	▲3.2%
Germany	32.18	8.1%	43.32	▲0.3%	▲ 11.14	75.50	3.1%
Australia	18.26	3.1%	46.67	7.7%	▲ 28.41	64.93	6.4%
Vietnam	36.43	13.8%	20.83	▲8.3%	15.60	57.27	4.6%
Malaysia	19.90	11.8%	27.00	8.9%	▲ 7.10	46.90	10.1%
Brazil	12.93	▲6.9%	31.20	10.7%	▲ 18.27	44.13	4.9%

Note: Top 10 countries/region by total export/import amounts

Source: Created based on data released by the GACC

[Fig. 4] Imports from and Exports to the U.S. and Trade Surplus Amount



Source: Created based on data released by the GACC

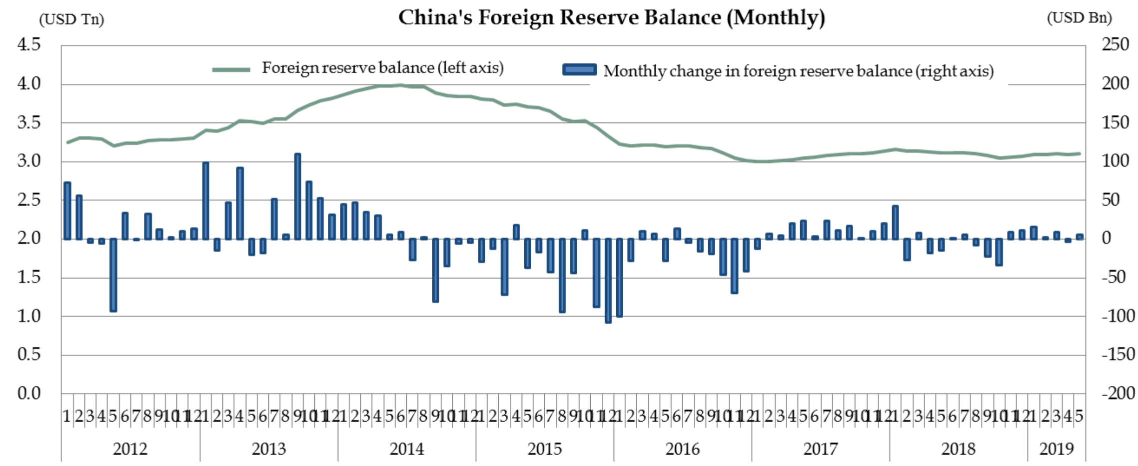
[Finance/Exchange]

◆May Foreign Reserves Increase for the First Time in Two Months

According to an announcement by the People's Bank of China (PBOC) on June 10, the foreign reserve balance in May increased USD 6 billion over last month to USD 3.101 trillion, marking the first increase in two months.

The State Administration of Foreign Exchange (SAFE) explained that the foreign reserve balance increase in May was due to movement in the foreign exchange market as well as price fluctuations in held assets.

The foreign reserves, kept as a currency intervention fund in order to prevent falling renminbi values, are subject to the IMF's Assessing Reserve Adequacy metric for emerging economies. The metric is published after being calculated by measuring the reserve balance against the amount of exports, the balance of short-term debts, the broad money supply, and other debts. However, according to this measure, China's foreign reserve balance has been falling short of the money supply since 2017, which classifies the balance as being below the adequate amount.



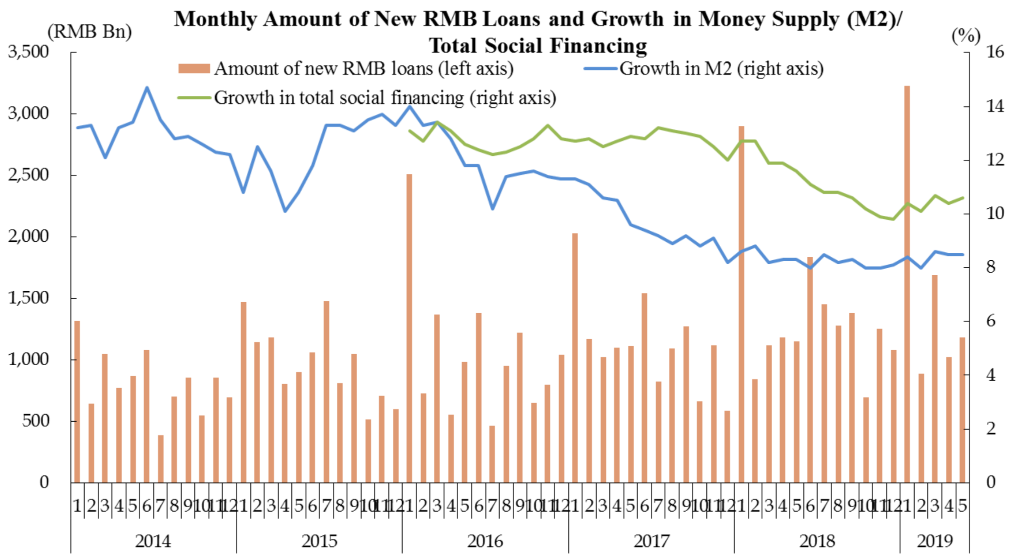
Source: Created based on data released by the PBoC

◆May New RMB Loans: Medium- to Long-Term Loans for Companies Decrease 40% YoY

According to an announcement made on June 12 by the People's Bank of China (PBOC), new RMB loans in May increased by RMB 31.3 billion YoY and RMB 160 billion MoM to the current amount of RMB 1.18 trillion. Total social financing,* which shows the amount of liquidity supplied to the real economy, increased RMB 446.6 billion and RMB 40 billion MoM to RMB 1.4 trillion. The growth rate in money supply (M2) as of the end of May rose 8.5% YoY and remained unchanged from the previous month.

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

The PBOC noted that loans are growing steadily overall and that market liquidity has reached reasonable and sufficient levels. However, new medium- to long-term loans for companies decreased 37.4% YoY to RMB 252.4 billion, which is thought to reflect the downward pressure of the actual economy.



Source: Created based on data released by PBoC
Note: Growth rates for total social financing appear on the graph starting from January 2016 when the announcement of these statistics started.

◆SWIFT: Internationalization of RMB Still in Progress. Will Africa Serve as a Favorable Tailwind?

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) announced on June 5 that RMB made up 1.88% of total transactions in its global currency transaction rankings, maintaining its position as the world's fifth largest payment currency. The Society pointed out that RMB use has stagnated in recent years and that it would take a long time before it became an international currency on par with the USD or JPY.

Ranking of Transaction Share by Currency

Rank	Upper row: currency / bottom row: share of transactions									
	2014	2015		2016	2017	2018	2019			
	January	January	August	January	January	January	January	February	March	April
1	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
	38.75%	43.41%	44.82%	42.96%	40.72%	38.53%	40.08%	39.07%	40.01%	40.76%
2	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
	33.51%	28.75%	27.20%	29.43%	32.87%	32.75%	34.17%	34.99%	33.75%	33.16%
3	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP
	9.38%	8.24%	8.45%	8.66%	7.49%	7.22%	7.07%	7.34%	7.24%	7.11%
4	JPY	JPY	**CNY**	JPY	JPY	JPY	JPY	JPY	JPY	JPY
	2.49%	2.79%	**2.79%**	3.07%	3.06%	2.80%	3.30%	3.51%	3.46%	3.47%
5	CAD	**CNY**	JPY	**CNY**	CAD	**CNY**	**CNY**	**CNY**	**CNY**	**CNY**
	1.80%	**2.06%**	2.76%	**2.45%**	1.87%	**1.66%**	**2.15%**	**1.85%**	**1.89%**	**1.88%**
6	AUD	CAD	CAD	CAD	**CNY**	CAD	CAD	CAD	CAD	CAD
	1.75%	1.91%	1.79%	1.74%	**1.68%**	1.51%	1.74%	1.75%	1.78%	1.84%
7	**CNY**	CHF	AUD	CHF	CHF	AUD	HKD	AUD	HKD	HKD
	1.39%	1.91%	1.60%	1.63%	1.53%	1.38%	1.50%	1.49%	1.57%	1.61%
8	CHF	AUD	CHF	AUD	AUD	CHF	AUD	HKD	AUD	AUD
	1.38%	1.74%	1.55%	1.47%	1.50%	1.42%	1.44%	1.37%	1.56%	1.38%
9	HKD	HKD	HKD	HKD	HKD	HKD	SGD	SGD	SGD	SGD
	1.09%	1.28%	1.41%	1.23%	1.15%	1.32%	1.02%	0.98%	1.04%	1.13%
10	THB	THB	THB	THB	SEK	SGD	THB	THB	THB	THB
	0.98%	0.98%	1.04%	0.99%	1.01%	1.01%	0.96%	0.97%	1.02%	0.97%

Source: Created based on data released by SWIFT

According to calculations by SWIFT, the total remittances by African countries to China for commercial settlements from January-March 2019 increased 27.8% compared to the same period three years earlier in 2016, and RMB-denominated remittances increased 123.0% during that time. Conversely, remittances from China to Africa increased 67.1% overall, with a 53.5% increase in RMB-denominated remittances, highlighting the rapid increase in settlements using RMB in African countries.

Since 2009, China surpassed the U.S. to become the largest investor in Africa and also Africa's largest trading partner. The momentum of investments in the area has been accelerating over the past few years. The inaugural China-Africa Economic and Trade Exhibition is scheduled to be held this year from June 27-29 in the city of Changsha in Hunan Province. With prospects of further investments and trading between China and Africa, it is anticipated that Africa will provide a favorable tailwind in the internationalization of the RMB.