CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

February 27th 2020

■ BIWEEKLY DIGEST

[Economy]

- **January Manufacturing PMI Falls 0.2 Point Month-on-Month (MoM) to 50.0**
- **January CPI Up 5.4% Year-on-Year (YoY); Highest in Eight Years and Three Months**

[Industry]

- **December Housing Prices for 70 Medium- to Large-Sized Cities: 50 Cities with Month-on-Month (MoM) Growth, 6 More than Previous Month**
- **China to Fully Open Up Oil and Gas Development to Foreign and Private Enterprises from May**

[Trade/Investment]

- **U.S.-China Trade Dispute: Both Countries Reduce Their Respective Fourth Round Additional Tariff Rates on February 14**

[Finance/Exchange]

- **Foreign Reserve Balance Increases by USD 7.6 Billion MoM in January for Second Consecutive Month**

[Economy]

◆January Manufacturing PMI Falls 0.2 Point Month-on-Month (MoM) to 50.0

On January 31, the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced that the January manufacturing PMI decreased 0.2 point month-on-month (MoM), hitting the exact benchmark figure of 50.0 (Fig. 1). The NBS pointed out that the data does not reflect the serious effects caused by the spread of the COVID-19 coronavirus as the survey was conducted before January 20. It suggested that closer attention should therefore be paid to future developments.

Looking at the manufacturing PMI by component, both production (51.3, down 1.9 points MoM) and new orders (51.4, up 0.2 point MoM) went above 50. On the other hand, there was a MoM decrease in imports (49.0, down 0.9 point) and new export orders (48.7, down 1.6 points), relapsing once more to below the 50-point line (Fig. 2).

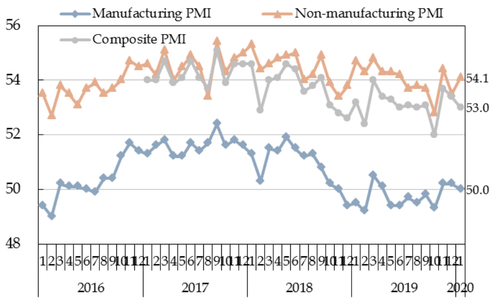
Expected production and business activities, which indicates future business confidence, also rose to 57.9 (up 3.5 points MoM), getting closer to the record in June 2018 (Fig. 2).

By business size, large businesses recorded 50.4 (down 0.2 point MoM), medium-sized businesses 50.1 (down 1.3 points MoM), and small businesses 48.6 (up 1.4 points MoM).

The non-manufacturing PMI for January rose to 54.1, up 0.6 point MoM (Fig. 1). Looking by industry, services and construction increased to 53.1(up 0.1 point) and 59.7 (up 3.0 points) MoM respectively.

The composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall business confidence in China, decreased 0.4 point MoM to 53.0 (Fig. 1).

[Fig. 1] PMI Trends



Source: Created based on data released by the NBS and the CFLP
Note: Composite PMI data has been released since 2017

[Fig. 2] Trends of Major Components in the Manufacturing PMI

		Manufacturing PMI	Production	New orders	New export orders	Raw materials prices	Imports	Employment	Expected production and business activities
2019	Jan	49.5	50.9	49.6	46.9	46.3	47.1	47.8	52.5
	Feb	49.2	49.5	50.6	45.2	51.9	44.8	47.5	56.2
	Mar	50.5	52.7	51.6	47.1	53.5	48.7	47.6	56.8
	Apr	50.1	52.1	51.4	49.2	53.1	49.7	47.2	56.5
	May	49.4	51.7	49.8	46.5	51.8	47.1	47.0	54.5
	Jun	49.4	51.3	49.6	46.3	49.0	46.8	46.9	53.4
	Jul	49.7	52.1	49.8	46.9	50.7	47.4	47.1	53.6
	Aug	49.5	51.9	49.7	47.2	48.6	46.7	46.9	53.3
	Sep	49.8	52.3	50.5	48.2	52.2	47.1	47.0	54.4
	Oct	49.3	50.8	49.6	47.0	50.4	46.9	47.3	54.2
	Nov	50.2	52.6	51.3	48.8	49.0	49.8	47.3	54.9
	Dec	50.2	53.2	51.2	50.3	51.8	49.9	47.3	54.4
2020	Jan	50.0	51.3	51.4	48.7	53.8	49.0	47.5	57.9

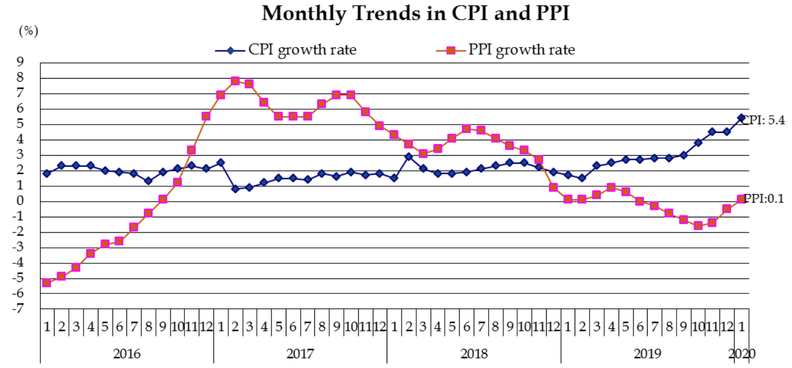
Source: Created based on data released by the NBS and the CFLP

◆January CPI Up 5.4% Year-on-Year (YoY); Highest in Eight Years and Three Months

On February 10, the National Bureau of Statistics (NBS) announced that the consumer price index (CPI) for January 2020 rose by 5.4% year-on-year (YoY), a 0.9 MoM increase. This significant YoY increase is the highest recorded since it reached 5.5% in October 2011 (see the figure below). The NBS attributed the Chinese New Year and the coronavirus pandemic to this significant increase. It infers that prices were raised not only by increased demand in association with the Chinese New Year, but also by the effects of the new coronavirus pandemic that has hindered distribution and disrupted supplies.

Looking at the CPI in January by category, foods rose by 20.6% YoY (December 2019: up 17.4% YoY) and non-foods rose by 1.6% YoY (December: up 1.3% YoY). Within the food category, the rate of increase in meats further widened from the previous month, as pork surged by 116.0% (December: up 97.0% YoY), followed by beef (up 20.2% YoY), and lamb (up 10.4% YoY). Vegetables also had a remarkable surge of 17.1% YoY.

The producer price index (PPI) for January rose 0.1% YoY, turning positive for the first time in seven months (see the figure below). By industry, petroleum and natural gas extraction rose considerably from the previous month, increasing by 17.5% (December: up 5.8% YoY).



Source: Created based on data released by the NBS

[Industry]

◆December Housing Prices for 70 Medium- to Large-Sized Cities: 50 Cities with Month-on-Month (MoM) Growth, 6 More than Previous Month

On January 16, the Chinese National Bureau of Statistics (NBS) released the housing price indices for 70 medium- and large-sized cities for December.

Sale prices for newly constructed residential buildings increased over the previous month in 50 cities—six cities more than in the previous month, marking the first rise seen in seven months. 16 cities experienced declines, which is 5 fewer than last month (Fig. 1). On the other hand, the number of cities with year-on-year (YoY) price increases remained the same at 68 of the 70, with the remaining 2 cities seeing YoY price decreases (Fig. 2).

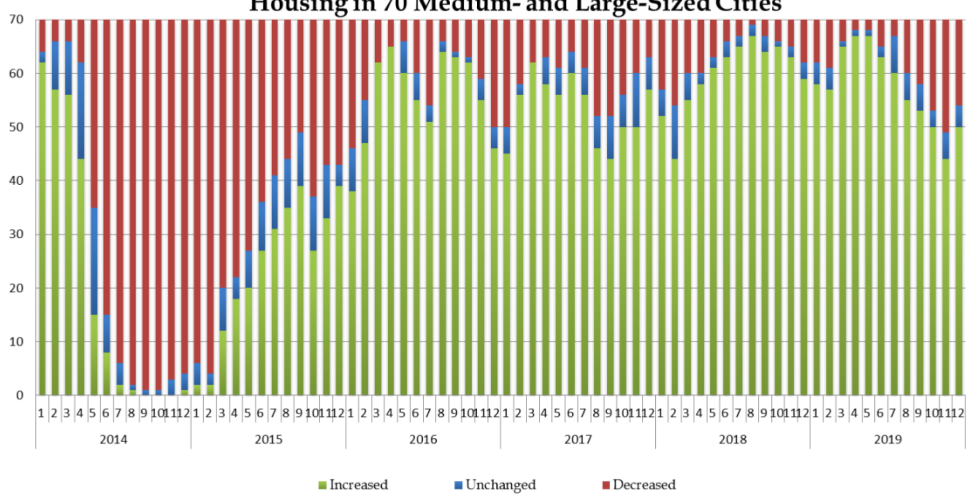
The cities with the highest rises in house prices on a MoM basis were Yangzhou (Jiangsu) at 1.3%, and Yinchuan (Ningxia Hui Autonomous Region), Jinzhou (Liaoning), and Xuzhou (Jiangsu) at 1.2% each. The largest drops were in Taiyuan (Shanxi) and Jinan (Shandong), both dropping 0.8%, and in Yueyang (Hunan) and Nanchong (Sichuan) which both fell 0.5%. When looking at the cities by size, while the price growth rate in first-tier* cities shrunk from 0.6% to 0.2%, the growth rate increased modestly in both second-tier cities* from 0.2% to 0.3%, and in third-tier cities* from 0.5% to 0.6% (Fig. 3).

On a YoY basis, the cities which saw substantial growth include Hohhot (Inner Mongolia Autonomous Region) at 15.9% and Dali (Yunnan) at 15.4%. Declines were seen in the same cities as last month; Yueyang dropped 2.2% YoY and Luzhou (Sichuan) fell 0.9%. The rate of growth declined from the previous month across all tiers; the rate fell from 4.9% to 3.8% for first-tier cities, from 7.9% to 7.3% for second-tier cities, and from 7.0% to 6.7% in third-tier cities (Fig. 4).

In related news, the Ministry of Housing and Urban-Rural Development iterated its stance regarding the real estate market for 2020 at a working conference held at the end of last year. The ministry emphasized that it will continue for the long-term its efforts to stabilize land prices, house prices, and the market outlook, and its policies that "houses are for living in, not for speculation" and that property is not to be used for short-term economic stimulus.

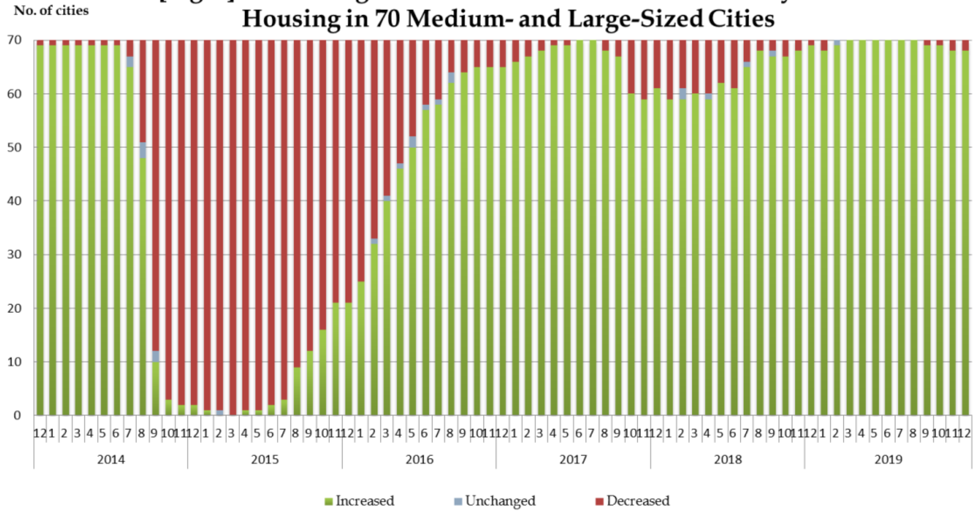
* First-tier cities: Beijing, Shanghai, Guangzhou, and Shenzhen
Second-tier cities: 31 cities including provincial capitals and sub-provincial cities
Third-tier cities: The 35 remaining cities of the 70, excluding the above first- and second-tier cities

[Fig. 1] MoM Changes in the Commercial Prices of Newly-Built Housing in 70 Medium- and Large-Sized Cities



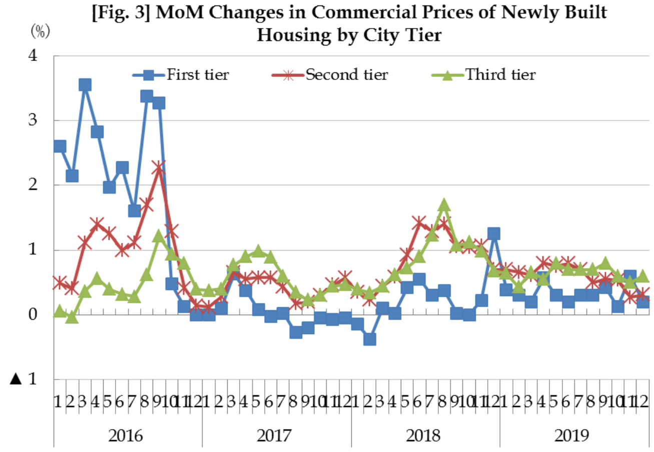
Source: Creased based on data released by the NBS

[Fig. 2] YoY Changes in the Commercial Prices of Newly-Built Housing in 70 Medium- and Large-Sized Cities



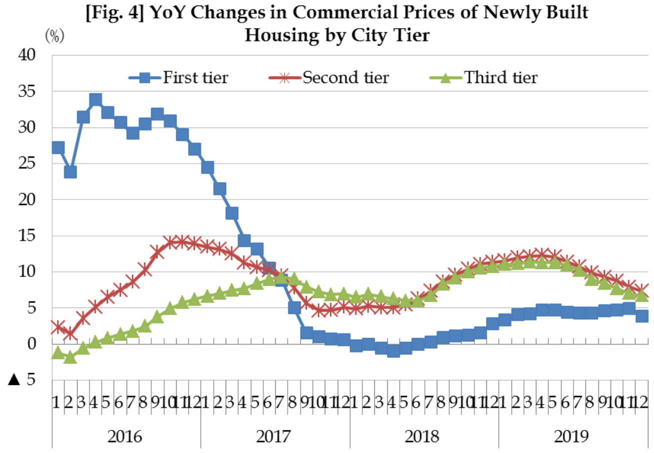
Source: Created based on data released by the NBS

[Fig. 3] MoM Changes in Commercial Prices of Newly Built Housing by City Tier



Source: Created based on data released by the NBS

[Fig. 4] YoY Changes in Commercial Prices of Newly Built Housing by City Tier



Source: Created based on data released by the NBS

◆China to Fully Open Up Oil and Gas Development to Foreign and Private Enterprises from May

On January 9, the Ministry of Natural Resources of the People's Republic of China released a document outlining a range of suggested pilot reforms relating to mineral resource management (Ziranzigui [2019] No. 7). This document announced a full-scale opening up of crude oil and natural gas exploration and extraction to foreign enterprises and private enterprises in a three-year trial starting in May 2020.

The development of oil and gas resources in China was previously the sole domain of state-owned enterprises. However, in May 2017 the Chinese government announced its plans to open up the market globally for the first time in a document outlining a range of suggestions for deepening reforms in the petroleum and natural gas sector. Then, in a revised edition of its "Catalogue of Industries for Guiding Foreign Investment" published in June of that year, the government set out provisions for permitting Chinese-foreign equity joint ventures and Sino-foreign contractual joint ventures to engage in petroleum and natural gas exploration and extraction. Later, the joint venture condition was abolished in July 2019 with the revision of the foreign investment negative list. This most recent document is another part of China's efforts to establish legal provisions for opening up these markets.

The January 9 document stipulates that, regarding market entry into petroleum or natural gas exploration and extraction, enterprises registered within China, with either domestic or foreign capital, that hold net assets of RMB 300 million or more may obtain mining rights (for exploration and extraction). This is with the provision that the enterprise satisfies the safety and environmental protection requirements and has the necessary technical capacity. The document also requires the government to handle the tendering of petroleum and natural gas mining rights to enterprises through a process of bidding, auction, and public disclosure, with tendering processes publicly announced on government websites.

Timeline of Policies Regarding the Opening Up of Oil and Gas Development to the Global Market

Announcement Date	Government Agency	Publication	Outline
May 2017	State Council	Suggestions on Deepening Oil and Gas Sector Reforms	・Improve and open up the crude oil and natural gas production structure in an organized manner. ・Enact a competitive system for the tendering of exploration/extraction rights. ・Production company structure shall involve mixed ownership with state-owned company as main.
June 2017 (Effective from July 28, 2017)	National Development and Reform Commission /Ministry of Commerce	Catalogue of Industries for Guiding Foreign Investment (2017 Revision)	・The following entry was included in the Catalogue of Restricted Industries for Foreign Investment: "Exploration and [extraction] of oil and natural gas (including coal-bed gas and excluding oil shale, oil sand, shale gas and so on) (limited to Sino-foreign equity or contractual joint ventures)."
June 2019 (Effective from July 30, 2019)		Foreign Investment Negative List for Market Access (2019 Revision)	・The following text from the previous revision in 2018 was removed: "Exploration and [extraction] of oil and natural gas (including coal-bed gas and excluding oil shale, oil sand, shale gas and so on) (limited to Sino-foreign equity or contractual joint ventures)."
January 2020 (Effective for three years from May 1, 2020)	Ministry of Natural Resources	Suggested Pilot Reforms Relating to Mineral Resource Management (Ziranzigui [2019] No. 7)	・The opening up of the market for the exploration and extraction of crude oil and natural gas and the market entry conditions thereof are clarified: Conditions of entry: An enterprise registered within China, regardless of whether capital is domestic or foreign, that holds net assets of RMB 300 million or more may obtain mining rights. The enterprise shall satisfy the safety and environmental protection requirements as stipulated, and the enterprise must have the technical capacity necessary for operations. ・On the execution of competitive tendering of mining rights for mineral resources: The assignment of mining rights for all mineral resources excluding rare-earth minerals and radioactive minerals must be conducted through a process of bidding, auction, and public disclosure. The tendering of mining rights must be publicly announced on a government website with a notice period of no less than 20 business days.

The impetus for the Chinese government delving into opening up its oil and gas production market is the pressing matter of bolstering energy security in the face of a growing dependence on imports of crude oil and natural gas resulting from the dramatic surge in the nation's energy demand. China became the world's largest importer of crude oil in 2017 and the largest importer of natural gas in 2018.

As the world's energy supply is engulfed in an expanding cloud of uncertainty due to rising geopolitical risks, the government believes that it is essential to introduce foreign and private capital and make them active in the market in order to strengthen the domestic energy supply. Some experts have pointed out, however, that the complexity of China's topography and geotechnical conditions relative to other countries mean that costs and risks of producing oil and gas there are high, so foreign enterprises entering the market must pay due consideration to profitability among other factors.

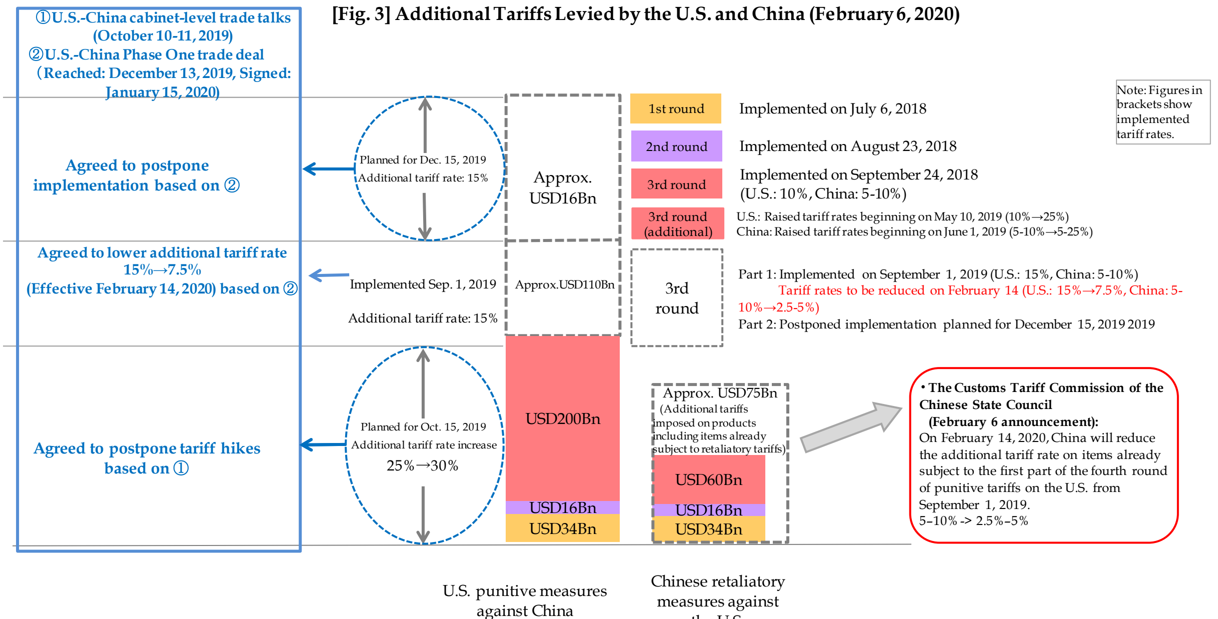
[Trade/Investment]

◆U.S.-China Trade Dispute: Both Countries Reduce Their Respective Fourth Round Additional Tariff Rates on February 14

On February 6, the Customs Tariff Commission (CTC) of the Chinese State Council announced that it will reduce the additional tariff rates by half on 1,717 items from the currently imposed 5–10% to 2.5–5% on February 14. The 1,717 items include beef, fishery products, soybeans, and crude oil; products on which the Chinese government started imposing additional tariffs on September 1, 2019, as the first part of the fourth round of punitive tariffs on the U.S. (5-10% additional tariffs imposed on U.S. products worth USD 75 billion).

The U.S. government had already announced in relation to the signing the Phase One Trade Deal on January 15 that it would reduce the additional tariff rates by half from 15% to 7.5% from February 14, which was to be implemented as the first part of the fourth round of punitive tariffs on China. According to the CTC, China will reduce the tariff rates on the U.S. in line with the U.S.'s prior tariff reduction announcement. The CTC stated that it would consider additional adjustments on tariffs depending on the economic and trade situation between both countries in the future, adding that it would work with the U.S. government to ultimately abolish the additional tariffs completely.

[Fig. 3] Additional Tariffs Levied by the U.S. and China (February 6, 2020)



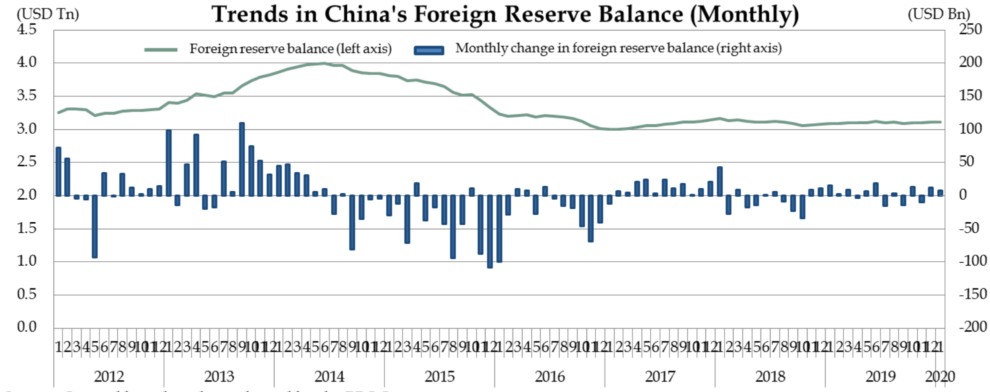
Source: Created based on announcements by the U.S. and Chinese governments

[Finance/Exchange]

◆Foreign Reserve Balance Increases by USD 7.6 Billion MoM in January for Second Consecutive Month

According to an announcement by the PBOC on February 7, the foreign reserve balance at the end of January increased by USD 7.6 billion from the previous month to USD 3.1155 trillion, a modest increase for the second consecutive month.

An analysis by the State Administration of Foreign Exchange (SAFE) determined that the modest increase in the foreign reserve balance in January was caused primarily by the RMB rising in the wake of the Phase One Trade Deal agreed to through the U.S.-China trade talks, and rising prices of major sovereign bonds held by the Chinese government. It viewed that the coronavirus outbreak would have just a temporary impact.



Source: Created based on data released by the PBOC