CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

July 31st 2020

■ BIWEEKLY DIGEST

[Economy]

- **June Manufacturing PMI at 50.9, Above 50 for Four Consecutive Months**
- **People's Bank of China Survey: Q2 Business Sentiment in Both Banking and Corporate Sectors Improves, but No Sign of Returning to Pre-COVID-19 Normal**
- **June CPI Rises 2.5% Year-on-Year (YoY); PPI Falls 3.0%**

[Industry]

- **2019 Cross-Border E-commerce Records RMB 186.21 Billion Retail Sales, 38% Increase Year-on-Year (YoY)**
- **Auto Sales in June Up 11.6% YoY, Rising for the Third Consecutive Month**

[Trade/Investment]

- **CR Express China-Europe Freight Trains up 36% YoY in H1**

[Finance/Exchange]

- **Foreign Reserve Balance Up in June for the Third Consecutive Month**

[Economy]

◆June Manufacturing PMI at 50.9, Above 50 for Four Consecutive Months

On June 30, the National Bureau of Statistics (NBS) and China Federation of Logistics & Purchasing (CFLP) announced that the June manufacturing PMI increased 0.3 point month-on-month (MoM) to 50.9, rising above the economic sentiment benchmark figure of 50 for four months in a row. The June non-manufacturing PMI also increased 0.8 point MoM to 54.4, staying over 50 for four consecutive months.

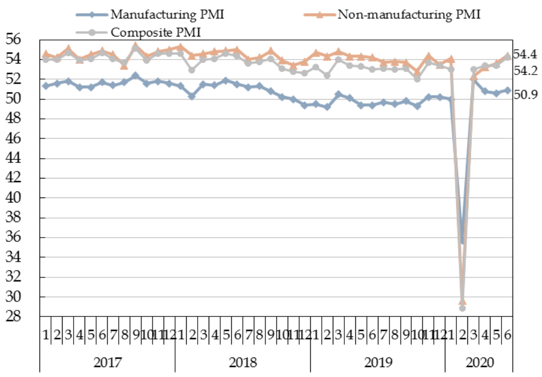
By manufacturing component, both production (53.9, up 0.7 point MoM) and new orders (51.4, up 0.5 point MoM) showed MoM increases, reflecting the resumption of economic activities. On the other hand, while new export orders significantly increased to 42.6 (up 7.3 points MoM), they remained below 50, indicating a continued slowdown in overseas demand. In addition, employment decreased to 49.1 (down 0.3 point MoM), and expected production and business activities, which indicates future business confidence, decreased to 57.5, down 0.4 point MoM (Fig. 2).

The NBS and CFLP state that uncertainties remain regarding the COVID-19 pandemic despite the improvement of the June manufacturing PMI. Looking at manufacturing sectors, textiles, apparel, wood processing, and other sectors continue to record figures below 50. By business size, small businesses decreased by 1.9 points MoM to 48.9. According to these organizations, this indicates that small businesses have been faced with more severe difficulties in manufacturing and management than large businesses.

In non-manufacturing, construction saw a drop to 59.8 (down 1.0 point MoM), while services experienced a rise to 53.4 (up 1.1 points MoM). Taking a closer look at services, transport, warehousing, postal service, information technology and finance marked high scores exceeding 59, whereas culture, sports, and leisure have continued to been suffer a slowdown.

The composite PMI, which reflects the overall business confidence derived by weighted averages of the manufacturing PMI and the non-manufacturing PMI, increased 0.8 point MoM to 54.2 (Fig. 1).

[Fig. 1] PMI Trends



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

[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
	Feb	35.7	27.8	29.3	28.7	51.4	31.9	31.8	41.8
	Mar	52.0	54.1	52.0	46.4	45.5	48.4	50.9	54.4
	Apr	50.8	53.7	50.2	33.5	42.5	43.9	50.2	54.0
	May	50.6	53.2	50.9	35.3	51.6	45.3	49.4	57.9
	Jun	50.9	53.9	51.4	42.6	56.8	47.0	49.1	57.5

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

◆People's Bank of China Survey: Q2 Business Sentiment in Both Banking and Corporate Sectors Improves, but No Sign of Returning to Pre-COVID-19 Normal

On July 2, the People's Bank of China (PBOC) announced the results of its survey on business sentiment for the second quarter of 2020 which was conducted with corporations, financial institutions, and individuals. Business sentiment rose from the previous quarter in both the banking and corporate sectors, but neither sector got back to the levels seen in the fourth quarter of 2019 before the COVID-19 pandemic.

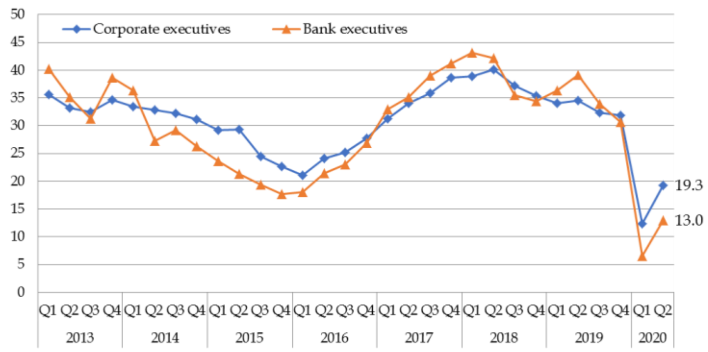
Macroeconomic sentiment among bank executives increased by 6.5 to 13.0, up 6.5 points from the previous quarter (Fig. 1). The proportion of these respondents who feel the economy is "cooling down" decreased from 87.2% in the previous quarter to 74.9% (Fig. 2).

Macroeconomic sentiment among corporate executives rose from 12.4 to 19.3, up 6.9 points from the previous quarter (Fig. 1). The proportion of these respondents who feel the Chinese economy is "cooling down" decreased from 75.5% to 62.0% (Fig. 3). Meanwhile, domestic orders showed a strong recovery from 17.4 in the previous quarter to 50.9, and export orders also increased from 19.1 in the previous quarter to 32.0.

In a survey of depositors in urban areas on their willingness to save, spend, or invest their money, 23.4% of respondents indicated their intention to "spend more", up from 22.1% in the previous quarter. Conversely, the proportion of respondents who want to "save more" decreased from 53.0% to 52.9%, and those who want to invest more also decreased from 25.0% to 23.8% (Fig. 4).

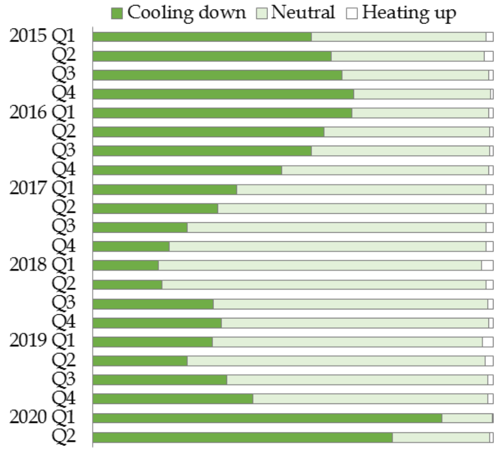
The employment confidence index, which indicates urban depositors' sentiment with regard to the current employment conditions, went down for the third consecutive quarter, dipping 0.2 point from 37.7 in the previous quarter to 37.5 (Fig. 5).

[Fig. 1] Macroeconomic Sentiment Index



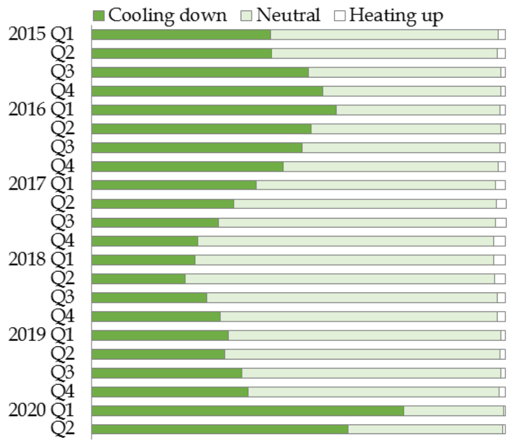
Source: Created based on data released by the PBOC

[Fig. 2] Business Sentiment Among Bank Executives



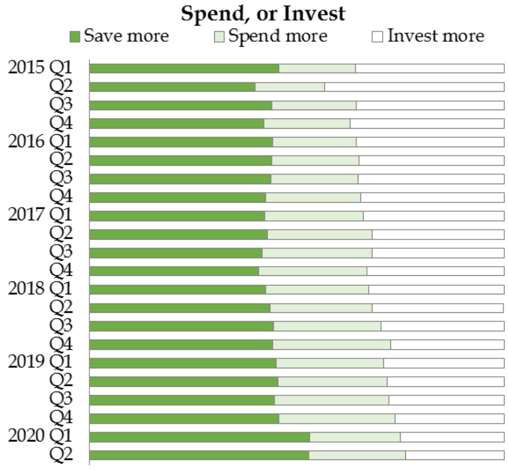
Source: Created based on data released by the PBOC

[Fig. 3] Business Sentiment Among Corporate Executives



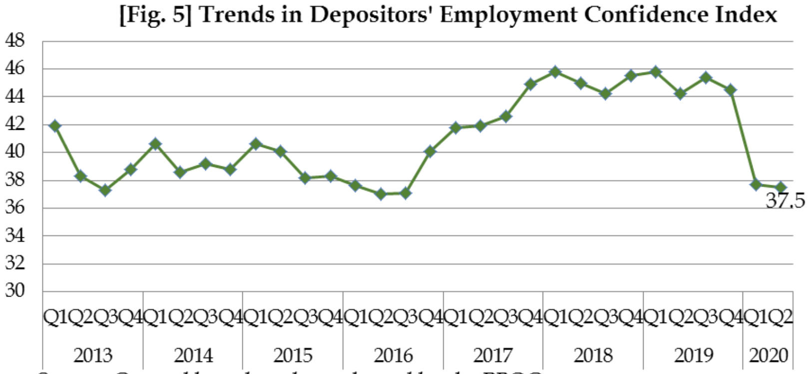
Source: Created based on data released by the PBOC

[Fig. 4] Intention of Depositors to Save, Spend, or Invest



Source: Created based on data released by the PBOC

[Fig. 5] Trends in Depositors' Employment Confidence Index



Source: Created based on data released by the PBOC

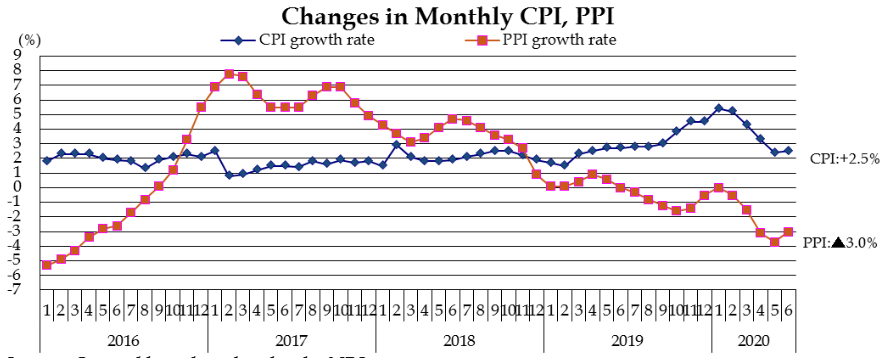
◆June CPI Rises 2.5% Year-on-Year (YoY); PPI Falls 3.0%

According to statistics released by the National Bureau of Statistics (NBS) on July 9, the consumer price index (CPI) rose 2.5% year-on-year (YoY) in June, a 0.1 percentage point increase over the previous month (see chart). By category, foods were up 11.1% YoY (May: up 10.6%) and non-foods were up 0.3% YoY (May: up 0.4% YoY), indicating that food prices are continuing to push up prices as a whole.

Among foods, pork prices remain high, increasing 81.6% YoY (May: up 81.7%). The prices of fresh vegetables and marine products also increased, due to flooding in various parts of the country and a COVID-19 cluster linked to a wholesale food market in Beijing.

The industrial producer price index (PPI) for June fell 3.0% YoY, a decline that was 0.7 point smaller than in the previous month (see chart). The NBS attributes the smaller decline to an improvement in international prices for energy and other items, as well as recovering production and demand in domestic manufacturing.

By industry segment, all segments exhibited slowing declines. Oil and natural gas extraction dropped 39.1% YoY (May: down 57.6% YoY), processing of oil, coal, and other fuels fell 21.6% YoY (May: down 24.4% YoY), and manufacturing of chemical raw materials and chemical products declined 7.9% YoY (May: down 9.2% YoY).



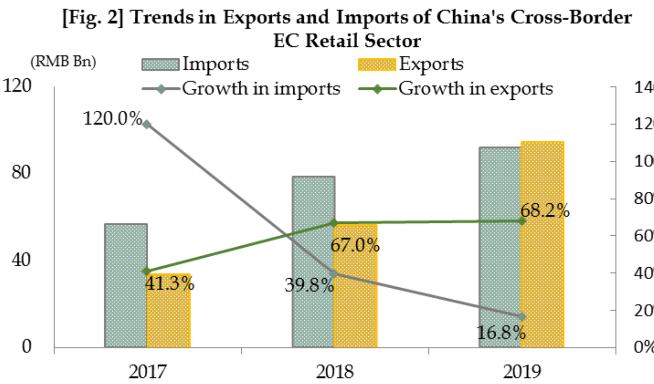
Source: Created based on data by the NBS

[Industry]

◆2019 Cross-Border E-commerce Records RMB 186.21 Billion Retail Sales, 38% Increase Year-on-Year (YoY)

On June 30, The Ministry of Commerce (MOFCOM) released the "E-Commerce in China 2019." According to the report, China's cross-border ecommerce (EC) retail sales for 2019 increased by 38.3% YoY to RMB 186.21 billion. Even though the growth slowed down from 49.3% in 2018, the figures indicate China's EC continued to enjoy high growth (Fig. 1). While exports showed a sharp YoY rise at 68.2%, accounting for RMB 94.4 billion of the cross-border EC retail sales, imports accounted for RMB 91.81 billion, up 16.8% YoY (Fig. 2).

Source: Created based on MOFCOM's "E-Commerce in China 2019"

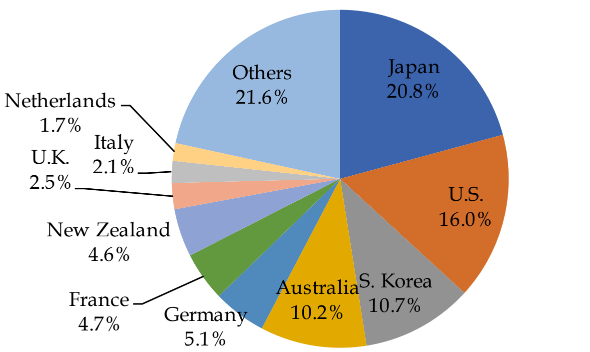


Source: Created based on MOFCOM's "E-Commerce in China 2019"

In the cross-border EC retail business, China imported the most from Japan (20.8%), the U.S. (16.0%) and South Korea (10.7%) (Fig. 3). Among them, South Korea showed the highest YoY increase in China's imports at 55.1%, followed by the U.S. (up 29.8%) and Japan (up 12.3%).

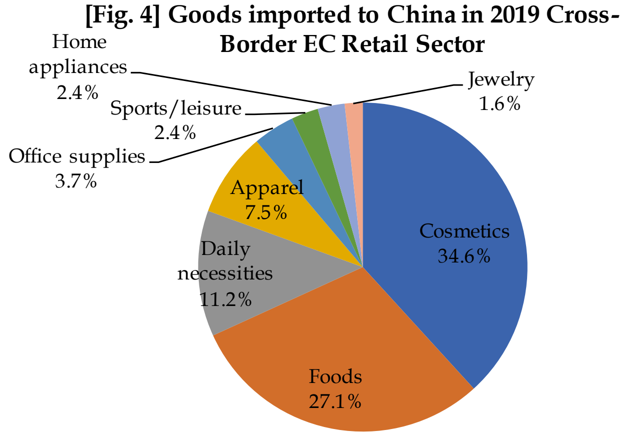
By goods category, cosmetics (34.6%), foods (27.1%), and daily necessities (11.2%) were the goods most imported to China through cross-border EC (Fig. 4). Cosmetics showed the highest YoY growth in China's imports at 46.2%, followed by telecommunications devices at 33.1%.

[Fig. 3] Exporters to China in 2019 Cross-Border EC Retail Sector



Source: Created based on MOFCOM's "E-Commerce in China 2019"

[Fig. 4] Goods imported to China in 2019 Cross-Border EC Retail Sector



Source: Created based on MOFCOM's "E-Commerce in China 2019"

The cross-border EC sector has continued to grow, backed by the accelerated establishment of global logistics networks by leading Chinese logistics companies. As of the end of 2019, Cainiao, a major logistics company affiliated with Alibaba Group, provided delivery services transporting Chinese goods to over 200 countries and regions around the world, and goods made in nearly 80 countries and regions to China through partnership with more than 100 overseas logistics companies. Furthermore, in April 2019, Cainiao struck a partnership with a French EC logistics company whose franchise chain enabled Cainiao to accept and send out goods at its 5,200 franchisees across France, a significant move towards resolving last-mile delivery issues for consumers.

Other logistics companies have also worked hard on developing new delivery areas. Best Logistics launched an express delivery service in Thailand in January 2019, and YTO did the same in Vietnam in November 2019. In December 2019, SF Express obtained a license from the U.S. Department of Transportation for a U.S.-China intercity shipping service.

Moreover, Chinese logistics companies are building smart delivery networks. This includes developing bonded warehouses at home and abroad and improving cargo processing capabilities through the use of AI and other new technologies to make same-day delivery possible for cross-border EC goods.

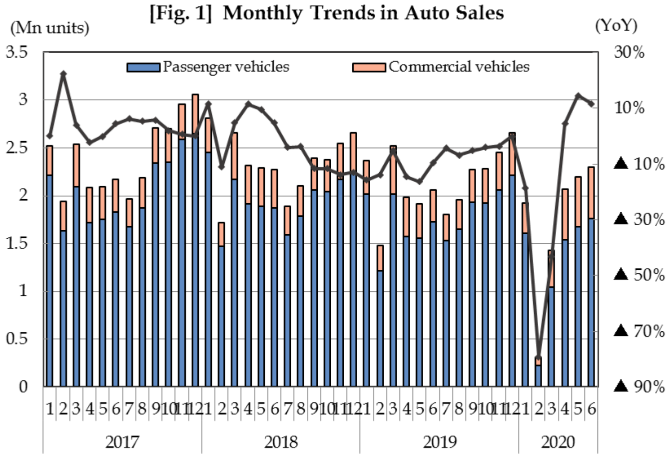
◆Auto Sales in June Up 11.6% YoY, Rising for the Third Consecutive Month

China's auto sales in June rose 11.6% YoY to 2.3 million units, the China Association of Automobile Manufacturers (CAAM) announced on July 10. (The figure for May was 2.194 million units, up 14.5% YoY.) While growth slowed slightly from the previous month, it nonetheless marked the third consecutive month of expansion, and a record high for June sales. Cumulative sales for January through June marked 10.257 million units, a 16.9% decline YoY (Figs. 1 and 2).

By category, June sales of passenger cars grew 1.8% YoY to 1.764 million units (May: 1.674 million units, up 7.0% YoY.), marking the second consecutive month of growth. Sales of commercial vehicles increased significantly—up 63.1% YoY—to 536,000 units (May: 520,000 units, up 48.0% YoY), helping to push up overall sales (Fig. 2).

Breaking down passenger cars by vehicle type, sales grew dramatically for sports utility vehicles (SUVs), which rose 10.5% YoY to 822,000 units, and crossover vehicles, which were up 26.1% YoY to 35,000 units. On the other hand, sedans and multipurpose vehicles (MPVs) underperformed,

[Fig. 1] Monthly Trends in Auto Sales



Source: Created based on data published by CAAM with sedans declining by 4.9% YoY to 820,000 units and MPVs dropping 11.8% YoY to 86,000 units.

Among commercial vehicles, truck sales rose 72.6% YoY to 494,000 units, an even bigger surge than the 52.5% increase in the previous month. Buses declined 0.1% YoY to 43,000 units.

June sales of passenger vehicles by Chinese-owned brands declined once again, falling 11.6% YoY to 590,000 units. They accounted for 33.5% of all passenger car sales, and market share decreased by 0.6 point from the previous month. Cumulative sales for January through June were down 29.0% YoY to 2.854 million units for a market share of 36.3%. Of the foreign brands, CAAM cites Japanese brands as growing steadily.

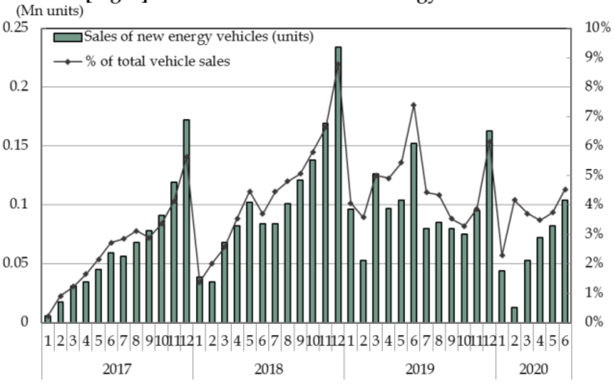
Sales of new energy vehicles have continued to flag; June sales fell by 33.1% YoY to 104,000 units, an even greater gap than in May. (The decline was 23.5% YoY in May to 82,000 units.) Monthly sales have now fallen below prior-year figures for 12 consecutive months (Figs. 2 and 3).

[Fig. 2] Auto Sales in June 2020, YoY Change

	June 2020		Jan.-Jun. 2020	
	Units sold (thousands)	YoY change	Units sold (thousands)	YoY change
Auto sales	**2,300**	**11.6%**	**10,257**	**▲16.9%**
Passenger cars	1,764	1.8%	7,873	▲22.4%
Commercial vehicles	536	63.1%	2,384	8.6%
New energy vehicles	104	▲33.1%	393	▲37.4%
Electric vehicles (EVs)	82	▲37.6%	304	▲39.2%
Plug-in hybrid vehicles (PHVs)	21	▲6.0%	88	▲29.8%
Fuel cell vehicles	81 units	▲83.3%	403 units	▲63.4%

Source: Created based on data published by CAAM

[Fig. 3] Trends in Sales of New Energy Vehicles



Source: Created based on data published by CAAM

[Trade/Investment]

◆CR Express China-Europe Freight Trains up 36% YoY in H1

China State Railway Group (China Railway, CR) announced on July 10 that its regular international freight service between China and Europe, the CR Express, ran 36.0% more trains YoY in January through June, making 5,122 trips across the Eurasian continent. The CR Express carried 461,000 TEU during this period, an enormous increase of 41.0% YoY. A highest record 1,169 trains ran the route in June alone. Due to growing numbers of COVID-19 infections, air freight services to and from China have been suspended or reduced, and domestic truck freight has faced restrictions. Such developments have allowed China Railway to greatly increase the freight handled through its China-Europe service.

The CR Express regular cargo service was launched in 2011 between Chongqing, China, and Duisburg, Germany, and rapidly expanded after the Belt and Road Initiative* was introduced in 2013. As of April 2019, service is offered on 68 routes that link 62 cities in China to 51 cities in 15 European countries. The network is an important trade channel linking the inland cities of China to the outside world.

*The Belt and Road Initiative is a development strategy introduced by President Xi Jinping in 2013, envisioning two new economic corridors created through the Silk Road Economic Belt (a “Belt” from China to Europe via Central Asia and Russia) and the 21st Century Maritime Silk Road (a maritime “road,” or route, to Europe from the South China Sea through the Indian Ocean and the Mediterranean Sea).

China Railway gave a number of reasons for the surge in service on the CR Express in the first half of this year. When the COVID-19 pandemic set off significant declines in international air and sea cargo, rail became a viable alternative means of moving freight. Additionally, trains have been used to move upwards of 27,000 tons of personal protective equipment and other medical supplies since March as part of China’s international cooperation. China Railway also said transport efficiency had been vastly improved with the introduction of digital customs systems at all originating stations and destinations across China, allowing quick processing of customs declarations, automated translation between languages, and real-time data sharing with rail companies and other entities in countries along the routes. Interruptions in air and sea transport and the sudden spike in charges appear to be among the factors encouraging shippers to reconsider the merits of rail transport.

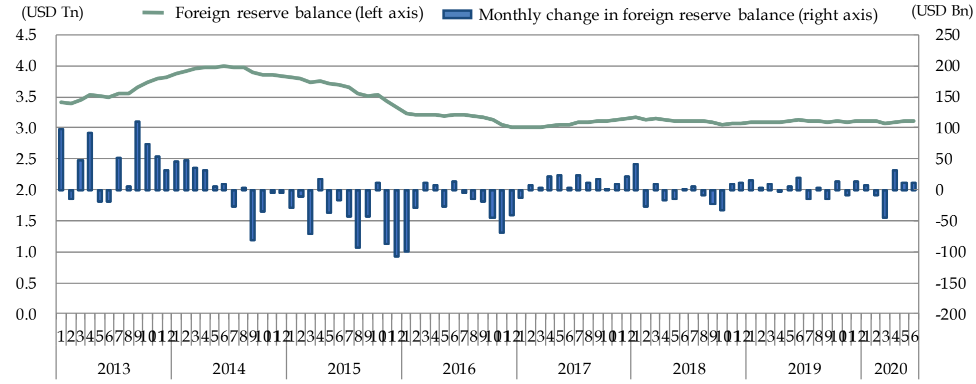
[Finance/Exchange]

◆Foreign Reserve Balance Up in June for the Third Consecutive Month

The People's Bank of China (PBOC) announced on July 7 that its foreign exchange reserves at the end of June had increased by USD 10.64 billion over the previous month to USD 3.11233 trillion, rising for the third consecutive month.

The State Administration of Foreign Exchange (SAFE) pointed to the drop in the U.S. Dollar Index and concurrent rise in the asset prices of the major economies as factors contributing to China's rising foreign reserves. Going forward, SAFE noted continuing uncertainty over the direction of the pandemic and world economy but stated that it expected the forex balance to be stable as China's economy was beginning to reflect the country's success in halting further infections and restarting production activities, with improvements in recent data for various economic indicators.

Changes in China's Monthly Foreign Reserve Balance



Source: Created based on data released by the PBOC