CHINA BIWEEKLY

RMB Internationalization Business Promotion Office

BTMU Global Business Division

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■ **BIWEEKLY DIGEST**

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- **CPI in November rose 2.3% year on year with a 0.2 point increase from October**

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- **China's National Holidays for 2017**
- **The draft amendment of the Catalogue for the Guidance of Foreign Investment Industries has been put to public opinion consultation. The negative list will be reduced from 93 to 62 items**
- **The statistics show export and import in November rose 0.1% and 6.7% year on year, respectively**
- **20 regions published Salary Guidelines for Enterprises for 2016: Wage increases have slowed down**

[Finance/Exchange]

- **Foreign reserves in November decreased by USD 69.1 billion from October**
- **Shenzhen-Hong Kong two-way stock trading opened on December 5**

RMB REVIEW

◆Recap of 2016 and Outlook for 2017

・Recap of 2016

On-shore RMB began the year at around 6.51 yuan to the dollar and weakened as the market leaned toward risk-aversion, falling temporarily to 6.5956 yuan on January 7. The drop then stopped expecting a RMB buying intervention by the authorities, and the currency rebounded as the expectations for the U.S. rate hike subsided and caused dollar selling, sending the currency to an all-year high of 6.4480 on March 31. The RMB remained stable in the high range for some time, but dropped sharply as the risk-off returned following Britain's EU referendum. As views spread that the authorities are allowing the RMB to decline, on October 10, the RMB breached the key level of 6.70. It remained weak there onwards, and as the dollar strengthened following Donald Trump's win and weighed heavily on the currency, it marked 6.9270, the lowest in the 8 years and 5 months since June 2008.

・Outlook for 2017

More investors are expecting a further fall of the RMB. The stronger dollar after Donald Trump's victory is one reason, but many of the factors are China's own: (1) looming concerns of an economic slowdown, (2) the authorities' stance to allow the RMB to depreciate, and (3) mentally connecting the inclusion of the RMB in the SDR basket to its becoming a hard currency. This report projects the prospects of the RMB market by analyzing these factors.

①Concerns of an economic slowdown

The Chinese economy remains under downward pressure as the adjustment of its excessive stock continues. The real GDP growth rate for July-September increased 6.7% year-on-year, just making the government target range of 6.5%－7.0%. However, it must be noted that the growth relies on the up-thrust effect of soaring house prices on the real-estate sector, front-loading of consumption through automobile tax breaks, and government policies centered on infrastructure investment. In reality, capital investment in the manufacturing industry and private investment that make up fixed asset investment are lacking strength, and uncertainty persists for the future. Furthermore, there is a risk of a decline in housing-related investment and consumption as the government and the authorities try to bring house prices under control. The environment surrounding China remains tough amid declining auto sales as the tax break for small vehicles ends, slower infrastructure investment, and concerns that the trade surplus against the U.S. will shrink when Donald Trump takes office. The economy is likely to continue to slow down gradually (slowdown in growth rate) in 2017.

②Authorities' stance to allow RMB depreciation

Following the National Day holidays, on October 10, the RMB breached the 6.70 level that had been considered the line of defense. Accordingly, the view spread in the market that the authorities were once again "allowing" RMB depreciation, sending the currency falling straight down. The price of the yuan temporarily reached the 6.90 range in the second half of November after Donald Trump secured victory. The lackluster export statistics at down 7.3% year-on-year announced at this time also reinforced the view that the authorities were once again "allowing" the RMB's depreciation to underpin exports. Furthermore, as suggested by the widening gap between the M1 (more liquid) and M2 (less liquid) money supply, the damp response of corporate investment to monetary easing (lower policy interest rate) is also received as a limit to traditional monetary policies, resulting in the view that the authorities may pick a currency policy that can prop up the economy (promotion of RMB depreciation).

③Globalization of the RMB

The inclusion of the RMB in the IMF's SDR (special drawing rights) basket has made the RMB into a major global currency alongside the U.S. dollar, euro, British pound, and Japanese yen. It has the third highest percentage among the currencies at 10.92%, after the U.S. dollar at 41.73% and the euro at 30.93%. Its percentage is higher than the Japanese yen (8.33%) and the British pound (8.09%), reflecting the growing presence of the RMB in the international monetary market. Regarding this decision, the People's Bank of China commented that "the inclusion of the RMB in the SDR basket will contribute to the stability of the currency." Behind this comment is the view that the growing importance of the RMB will raise the central banks' needs to retain the currency, propping it up. Indeed, on October 24, the Philippine central bank announced adding the RMB to its foreign reserves, and such moves are likely to expand in the medium- to long-term, though not dramatically in the short-term, given that China's capital controls are still in force. On the other hand, the SDR inclusion may escalate concerns for RMB's downslide in the short-term as IMF members may now press China to accelerate their currency's internationalization, which the market would mentally connect with the "easing of capital controls" and "transition to a floating rate system." In its annual review report, the IMF commented that "adopting a floating rate system by 2018 is an important goal." On September 29, U.S. Secretary of the Treasury Jack Lew expressed that "the Chinese Yuan is "quite a ways" from becoming a global reserve currency despite inclusion in the International Monetary Fund's currency basket", and on September 30, Japan's Finance Minister Taro Aso remarked that "China needs to be more transparent about its currency control" and "price control makes a currency unqualified as an SDR currency." This is only the beginning of the interference by IMF member states, which is likely to intensify in the future, and Chinese authorities will have a hard time for a while guiding the exchange rate through intervention and the use of reference rates. Concerns for the RMB's fall are likely to mount as the market becomes more conscious of the lifting of capital controls and transition to a floating-rate system.

・Discussion of scenarios

Main scenario (60%) RMB to fall in the short-term but rise in the medium- to long-term

Concerns for the RMB's decline will mount in the short-term due to the persisting concerns for an economic slowdown and mounting pressure for capital outflow, the government's stance to allow the RMB depreciation to prop up the economy, mental connection of the internationalization of RMB with the possible liberalization of capital and transition to the floating rate system, the stronger dollar after Donald Trump's victory, and the gap in the monetary policies between the U.S. and China. In the main scenario, we project that the RMB could fall to as low as 7.20 in the next six months. Nevertheless, the lower price will be propped up in the medium- to long-term by the expansion of the current account surplus, the disinflationary pressure as structural reforms advance (real interest rate remaining at high levels), and the demand for buying the RMB as its importance as a reserve asset grows. There is a possibility for the RMB to rebound versus the dollar should the U.S.'s inclination toward protectionism spur dollar selling. Thus, the main scenario projects that the RMB will depreciate in the short-term but recover in the medium- to long-term.

Sub scenario (30%) RMB falls throughout the year, though at a somewhat moderate pace

This scenario projects that pessimism toward the Chinese economy will re-emerge, causing the authorities to strengthen the RMB depreciation policy to support exports and invigorate domestic consumption. In such a case, the authorities are likely to lower the pace of intervention (buying the RMB) and continue to allow the depreciation of the RMB for longer periods. Nevertheless, the authorities are likely to refuse an excessive RMB depreciation that involves capital outflows. Should the fall of RMB accelerate, they may adjust the speed each time by controlling capital by hinting intervention and through window guidance. The sub scenario projects a fall of around 6% which is the same as this year. It expects a drop to around 7.35 in the coming year.

Risk scenario (10%) Foreign reserves fall sharply, causing the RMB to plummet

In this scenario, the authorities take the bold step to intervene in both the on-shore (domestic) and off-shore (foreign) markets, but the sharp decline in foreign reserves fuel distrust toward the authorities' intervention capacity, accelerating "yuan selling" operations by speculators. This would force the authorities to devalue the RMB, possibly causing the currency to fall beyond 7.35 projected in the sub scenario.

Figure 1: Expected range for 2017 (main scenario)

Expected scenario	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
vs dollar	6.850-7.150	6.900-7.200	6.750-7.000	6.700-6.900
vs yen	15.1-16.4	14.8-16.2	14.5-16.0	14.2-15.8

BIWEEKLY DIGEST

[Industry]

◆Policies announced for boosting consumption in the “happiness industries”

On November 28, the General Office of the State Council announced the “Opinions on Further Expanding Consumption in the Field of Tourism, Culture, Sports, Health and Elderly Education and Training, etc.” (Office of the State Council (2016) No. 85). The Opinions seek to unearth potential demand by improving the quality of service and increasing its supply in the “happiness industries” of tourism, culture, sports, health, elderly care, and education, and consists of 35 policies in total. Below are the specific policies for the major areas.

Tourism: Study measures to support recreational agriculture and the construction of agricultural tourism facilities, promote the development of cruise tours, and construct 50 to 80 public yacht harbors or water sports centers.

Culture: Establish multifunction cultural complexes combining brick-and-mortar bookstores, learning, exhibition, exchange, and gathering, and promote the development of the digital culture industry.

Sports: Reform professional leagues including soccer, basketball, and volleyball, upgrade sports meets, and formulate plans to develop winter sports, mountain sports, water sports, and sky sports, etc.

Health: Rollout the tax deduction of private health insurance premiums that began in 31 cities from January 1 this year nationwide, and promote medical tours.

Elderly care: Lower the hurdle for entering the care service market by abolishing the review and licensing of applications for establishing care facilities, support the conversion of unused buildings into care facilities, and build the framework for a long-term elderly care insurance system.

Education: Further ties with “mass entrepreneurship and innovation”, and realize high-level cooperation with other countries in the subjects that the government seeks to strengthen.

[Economy]

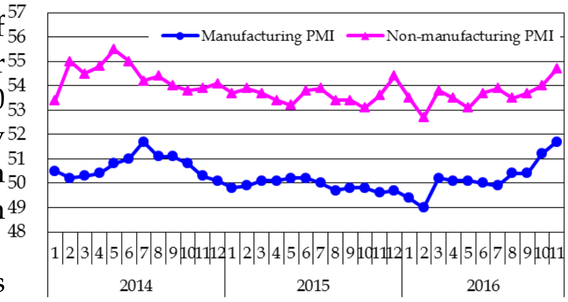
◆Manufacturing PMI for November rises to 51.7, up 0.5 points from the previous month

According to the December 1 announcement by the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP), the manufacturing PMI for November increased 0.5 points to 51.7, remaining above 50 points which is the turning point in judging the economy and marking the highest level since July 2014. The main reasons are thought to be the further recovery of production and demand and higher buying appetite of companies.

In terms of the main indexes, production added 0.6 points month-on-month (m-o-m) to 53.9 and new orders gained 0.4 points m-o-m to 53.2, imports rose 0.7 points m-o-m to 50.6, and new export orders climbed 1.1 points m-o-m to 50.3, all marking an all-year-high. Meanwhile, the expected production and business activities index, which indicates the business confidence for future, dropped 3.0 points to 55.5, the first fall in five months.

The NBS pointed out latent problems in production and business of companies, including the rise in raw material prices and transportation costs for more than 30% of the companies, the strong impact of the higher raw material import cost on the electronic device manufacturing industry caused by the depreciation of the RMB, and the more difficult production and business situations faced by small companies compared to large- and medium-sized ones.

<Trends in PMI>



(Source) Created based on public data from the NSB and CFLP

<Trends in the Main Manufacturing PMI Indexes>

2016	Manufacturing PMI	Production	New orders	New export orders	Import index	Employment index	Expected production and business activities
Jan	49.4	51.4	49.5	46.9	46.4	47.8	44.4
Feb	49.0	50.2	48.6	47.4	45.8	47.6	57.9
Mar	50.2	52.3	51.4	50.2	50.1	48.1	62.6
Apr	50.1	52.2	51.0	50.1	49.5	47.8	60.3
May	50.1	52.3	50.7	50.0	49.6	48.2	55.9
Jun	50.0	52.5	50.5	49.6	49.1	47.9	53.4
Jul	49.9	52.1	50.4	49.0	49.3	48.2	55.3
Aug	50.4	52.6	51.3	49.7	49.5	48.4	58.2
Sep	50.4	52.8	50.9	50.1	50.4	48.6	58.4
Oct	51.2	53.3	52.8	49.2	49.9	48.8	58.5
Nov	51.7	53.9	53.2	50.3	50.6	49.2	55.5

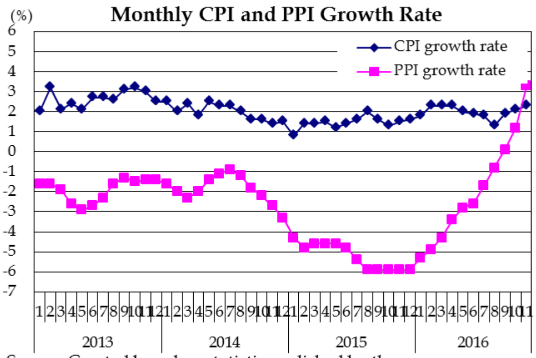
(Source) Created based on public data from the NSB and CFLP

Meanwhile, the non-manufacturing PMI for November increased 0.7 points m-o-m to 54.7, rising for the third consecutive month. The rise is attributed to the sharp increase in business volumes in wholesale and retail sectors, and in the post and delivery services associated with the "Singles' Day" sales promotion activities.

◆CPI in November rose 2.3% year on year with a 0.2 point increase from October

According to the publication of the National Bureau of Statistics on December 9, the consumer price index (CPI) rose 2.3% year on year in November with a 0.2 point increase from October (3 consecutive months of increase).

By category, foods and non-foods rose 4.0% and 1.8% respectively. Among foods, vegetables recorded a significant 15.8% jump year on year with (+13.0 yoy in Oct) due to nation-wide cold weather, and pork rose 5.6% year on year (+4.8% yoy in Oct) as well. On the other hand, eggs continue to decline with a drop of 2.2% year on year (-2.4% yoy in Oct), but the pace slowed down.



Source: Created based on statistics pulished by the National Bureau of Statistics

The producer price index (PPI) of November rose 3.3% year on year; the growth rate increased for 3 consecutive months with a 2.1 point increase from October. The significant rise of PPI is mainly due to the rise of resource prices: a jump of 28.6% year on year for coal (+15.4% yoy in Oct), 22.2% for iron and steel (+13.1% yoy in Oct), 12.6% for non-ferrous metal (+3.7% yoy in Oct) and 9.0% for processing of petroleum (+3.6% yoy in Oct).

[Trade/ Investment]

◆China's National Holidays for 2017

On December 1, the General Office of the State Council announced the country's statutory national holidays for 2017. In 2017, the National Day is combined with the Mid-Autumn holidays for an eight-day public holiday from October 1 through 8.

Date		Holiday Name
Jan.1	Sun	New Year
Jan.2	Mon	
Jan.27	Fri	Spring Festival
Jan.28	Sat	
Jan.29	Sun	
Jan.30	Mon	
Jan.31	Tue	
Feb.1	Wed	
Feb.2	Thu	
Apr.2	Sun	Tomb-Sweeping Day
Apr.3	Mon	
Apr.4	Tue	
May.1	Mon	Labour Day
May.28	Sun	Dragon Boat Festival
May.29	Mon	
May.30	Tue	

Date		Holiday Name
Oct.1	Sun	Mid-Autumn Festibal National Day
Oct.2	Mon	
Oct.3	Tue	
Oct.4	Wed	
Oct.5	Thu	
Oct.6	Fri	
Oct.7	Sat	
Oct.8	Sun	

Below Dates are treated as the business day

Date	
Jan.22	Sun
Feb.4	Sat
Apr.1	Sat
May.27	Sat
Sep.30	Sat

◆The draft amendment of the Catalogue for the Guidance of Foreign Investment Industries has been put to public opinion consultation. The negative list will be reduced from 93 to 62 items

On December 7, the National Development and Reform Commission (NDRC) and the Ministry of Commerce of the People's Republic of China (MOFCOM) jointly published a draft amendment of the Catalogue for the Guidance of Foreign Investment Industries (hereinafter referred to as the "Catalogue") and the public opinion consultation will be open until January 6, 2017.

The current Catalogue classifies foreign investment industries into Encouraged Foreign Investment Industries, Restricted Foreign Investment Industries and Prohibited Foreign Investment Industries and enumerates the relevant industries in detail. The Catalogue has been revised 6 times since its first publication in 1995 until the last amendment in April 2015. This time, the revision aims to further promote the opening of the market to foreign business and to improve the transparency of the foreign capital system.

These are the points of the amendment:

① Integration of the negative list: In addition to the Restricted Foreign Industries and Prohibited Foreign Industries defined in the Catalogue, the current negative list (Note) sets restrictions on the equity ratio and the management team for the items enumerated in Encouraged Foreign Industries. After the revision, all of these items will be integrated into a negative list in the Catalogue.

② Reduction of items on the negative list: The items on the negative list will be reduced from 93 to 62. As a consequence, some regulations on foreign investments will be eased (refer to the following table).

(Note) The Order of the National Development and Reform Commission and the Ministry of Commerce No.22, 2016 (issued and executed on October 8, 2016) clarified the range of the negative list.

Main changes in the Catalogue and Negative List after Amendment

Item			Before Amendment	After Amendment (draft for public opinion consultation)
Structure of the Catalogue and negative list			Catalogue - Encouraged Foreign Investment Industries - Restricted Foreign Investment Industries - Prohibited Foreign Investment Industries Negative list (93 items in total) - Encouraged Foreign Investment Industries (19 items) - Restricted Foreign Investment Industries (38 items) - Prohibited Foreign Investment Industries (36 items)	Catalogue - Encouraged Foreign Investment Industries - Negative list (62 items in total) ~ Restricted Foreign Investment Industries (35 items) ~ Prohibited Foreign Investment Industries (27 items) * The items on the negative list of the Catalogue of Encouraged Foreign Investment Industries will be classified into the Catalogue of Restricted Foreign Investment Industries or deleted.
Eased Areas	Services	Corporate of highway passenger transport	- Restricted Foreign Investment Industries	- Deleted from the Catalogue
Eased Areas	Services	Tally for foreign vessels	- Restricted Foreign Investment Industries (limited to equity joint ventures or contractual joint ventures)	- Deleted from the Catalogue
Eased Areas	Services	Status enquiry and grade service companies	- Restricted Foreign Investment Industries	- Deleted from the Catalogue
Eased Areas	Manufacturing Industries	Equipment for railway transportation	- Encouraged Foreign Investment Industries (limited to equity joint ventures or contractual joint ventures)	- Deleted from the Catalogue
Eased Areas	Manufacturing Industries	Production as well as research and development of automobile electronic devices (automobile electronic bus network technology, electronic control systems for power steering)	- Encouraged Foreign Investment Industries (limited to equity joint ventures)	- The condition limiting it to equity joint ventures will be deleted.
Eased Areas	Manufacturing Industries	Manufacturing of energy power battery	- Encouraged Foreign Investment Industries (energy density of 110Wh/kg or above, cycle life of 2,000 or more times, and foreign investment proportion of not more than 50%)	- Deleted from the Catalogue
Eased Areas	Manufacturing Industries	Motorcycle	- Restricted Foreign Investment Industries (shares of Chinese partner is no less than 50% and the same foreign company can set up less than two (including two) joint ventures manufacturing the same kinds of vehicles in China. If joint acquisition of other domestic automobile production enterprises is done with the Chinese partner, the foreign company cannot be restricted by the conditions mentioned above.)	- Deleted from the Catalogue
Eased Areas	Manufacturing Industries	Processing of edible oil	- Restricted Foreign Investment Industries (Chinese partner shall hold the majority of shares)	- Deleted from the Catalogue
Eased Areas	Manufacturing Industries	Deep-processing of corn	- Restricted Foreign Investment Industries	- Deleted from the Catalogue
Eased Areas	Manufacturing Industries	Manufacturing of fuel ethanol	- Restricted Foreign Investment Industries (Chinese partner shall hold the majority of shares)	- Deleted from the Catalogue
Eased Areas	Mining and Quarrying	Prospecting and exploitation of petroleum, natural gas (unconventional oil resources)	- Encouraged Foreign Investment Industries (limited to equity joint ventures or contractual joint ventures)	- Deleted from the Catalogue
Eased Areas	Mining and Quarrying	Exploring and mining of precious metals (gold, silver, platinum families)	- Restricted Foreign Investment Industries	- Deleted from the Catalogue
Eased Areas	Mining and Quarrying	Exploring and cradling of lithium	- Restricted Foreign Investment Industries	- Deleted from the Catalogue

Source: Created based on the draft Catalogue for Foreign Investment Industries for public opinion consultation (published on December 7, 2016)

◆The statistics show export and import in November rose 0.1% and 6.7% year on year, respectively

The General Administration of Customs published the preliminary figures for trade statistics (in USD) on December 8. The total exports and imports in November rose 2.9% year on year to USD 349.0 billion (-4.9% yoy in Oct). Exports rose 0.1% year on year to USD 196.81 billion (-1.4% yoy in Oct) and imports rose 6.7% year on year to USD 152.2 billion (-1.4% yoy in Oct). The trade balance ended in surplus with USD 44.61 billion.

The total exports and imports from January to November 2016 fell by 6.9% year on year to USD 3,319.24 billion (-7.6% yoy in Jan-Oct). Exports fell by 7.5% to USD 1,897.17 billion (-7.7% yoy in Jan-Oct), and imports fell by 6.2% year on year to USD 1,422.08 billion (-7.5% yoy in Jan.-Oct.). The trade balance maintained a surplus with USD 475.09 billion.

From January to November 2016, exports to Japan fell by 4.6% year on year (-5.3% yoy in Jan-Oct), and imports from Japan rose 1.1% year on year (+1.1% yoy in Jan-Oct): exports continued to decline, but imports turned positive.

Monthly Export and Import Amounts and Growth in China

Source: Created based on statistics published by the General Administration of Customs

Export and Import Amount and Growth by Country and Region (USD Bn)

Country/ Region	Export and import balance (Jan-Nov)	Year-on-year growth	Exports (Jan-Nov)	Year-on-year growth	Imports (Jan-Nov)	Year-on-year growth
USA	468.3	▲ 7.5%	349.2	▲ 6.6%	119.1	▲ 9.9%
Hong Kong	274.3	▲ 7.1%	258.2	▲ 9.3%	16.1	51.9%
Japan	248.8	▲ 1.7%	118.1	▲ 4.6%	130.8	1.1%
South Korea	226.7	▲ 9.4%	83.7	▲ 9.1%	143.0	▲ 9.5%
Taiwan	161.4	▲ 4.9%	36.4	▲ 11.1%	125.0	▲ 1.0%
Germany	137.5	▲ 3.3%	59.3	▲ 4.8%	78.1	▲ 2.1%
Australia	96.9	▲ 6.9%	33.8	▲ 7.7%	63.0	▲ 6.5%
Vietnam	87.8	1.6%	54.9	▲ 7.3%	33.0	20.8%
Malaysia	76.9	▲ 12.7%	33.4	▲ 16.9%	43.5	▲ 9.2%
Thailand	68.5	0.0%	33.9	▲ 2.9%	34.6	3.0%

Source: Created based on the statistics published by the General Administration of Customs

◆20 regions published the Salary Guidelines for Enterprises for 2016: Wage increases have slowed down

A total of 20 local governments of provinces, municipalities and autonomous regions published their respective Salary Guideline for Enterprises for 2016 by December 2016. The reference base lines for wage increase in these 20 regions rose 8.1% in average and the pace of increase slowed down of 2.1 points from the average wage increase of 10.2% of 21 regions that published the Salary Guidelines for Enterprises for 2015. The reference base lines in those 20 regions fell from those of the previous year: In particular, the reference base line recorded a significant drop of 5% year on year in Ninxia Hui Autonomous Region, but Hainan Province and Guizhou Province maintained 10% levels with 10.4% and 10.0% respectively.

The Salary Guidelines for Enterprises is a wage increase index that the human resources and social security departments of the local governments formulate in consideration of economic growth, price level and unemployment rate; they indicate the reference base line as well as upper and lower guidelines. The Guidelines are not legally binding, but they are referred to by enterprises to set wage increases along with their performances and paying capacities and they are the basis of labor-management negotiations.

Growth Rate of the Salary Guidelines for Enterprises of 20 Regions

upper row: reference base line; medium row: upper guideline; lower row: lower guideline

	2012	2013	2014	2015	2016
Beijing	11.5%	12.0%	12.0%	10.5%	9.0%
	16.5%	16.5%	16.0%	16.0%	15.0%
	4.5%	5.0%	4.5%	3.5%	4.0%
Tianjin	16.0%	16.0%	13.0%	10.0%	9.0%
	22.0%	22.0%	22.0%	18.0%	16.0%
	7.0%	7.0%	4.0%	3.0%	3.0%
Shanghai	12.0%	12.0%	12.0%	10.0%	9.0%
	16.0%	16.0%	16.0%	16.0%	14.0%
	5.0%	5.0%	5.0%	4.0%	4.0%
Shandong Province	15.0%	15.0%	12.0%	10.0%	8.0%
	22.0%	22.0%	20.0%	18.0%	13.0%
	6.0%	6.0%	4.0%	4.0%	3.0%
Hebei Province	15.0%	–	14.0%	11.0%	8.0%
	23.0%		22.0%	18.0%	13.0%
	5.5%		6.0%	4.0%	3.0%
Shaanxi Province	13.0%	–	13.0%	10.0%	7.0%
	19.0%		17.0%	15.0%	11.0%
	5.0%		6.0%	5.0%	3.0%
Qinghai Province	–	10.0%	10.0%	9.0%	7.0%
		17.0%	17.0%	16.0%	13.0%
		5.0%	4.0%	4.0%	3.0%
Gansu Province	15.0%	17.0%	14.0%	11.0%	8.0%
	19.0%	20.0%	18.0%	16.0%	14.0%
	7.0%	7.0%	6.0%	5.0%	4.0%
Yunnan Province	13.0%	–	12.0%	10.0%	8.0%
	20.0%		18.0%	17.0%	13.0%
	4.0%		4.0%	3.0%	3.0%
Guizhou Province	15.0%	–	12.0%	–	10.0%
	20.0%		15.2%		15.0%
	3.0%		2.7%		4.0%

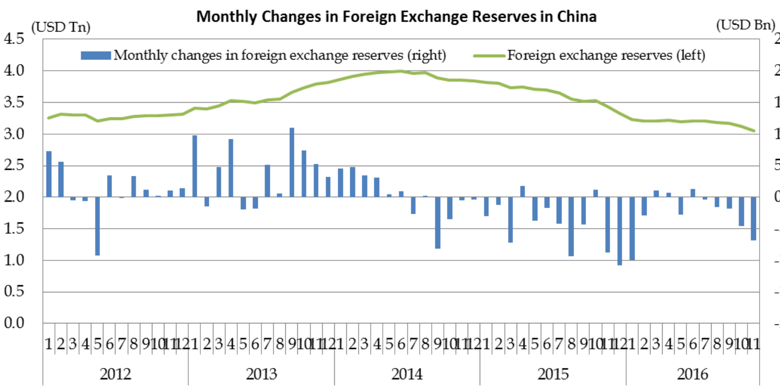
	2012	2013	2014	2015	2016
Fujian Province	13.0%	13.0%	12.0%	10.0%	8.0%
	18.0%	-	-	15.0%	12.0%
	4.0%	3.5%	3.5%	2.0%	2.0%
Hainan Province	–	14.6%	13.0%	11.3%	10.4%
		16.0%	14.4%	12.3%	11.3%
		0.0% or less	0.0% or less	4.0%	3.5%
Shanxi Province	15.0%	–	13.0%	10.0%	7.0%
	22.0%		20.0%	18.0%	11.0%
	4.0%		4.0%	4.0%	4.0%
Jiangxi Province	13.0%	13.0%	14.0%	12.0%	8.0%
	18.0%	17.0%	-	-	-
	6.0%	6.0%	6.0%	5.0%	3.0%
Sichuan Province	13.0%	14.0%	11.0%	11.0%	8.0%
	20.0%	20.0%	18.0%	17.0%	13.0%
	5.0%	7.0%	4.0%	4.0%	3.0%
Jilin Province	15.0%	–	12.0%	8.0%	6.0%
	20.0%		16.0%	13.0%	11.0%
	7.0%		4.0%	3.0%	3.0%
Xinjiang Uyghur Autonomous Region	16.0%	16.0%	15.0%	12.0%	8.0%
	20.0%	19.0%	18.0%	15.0%	10.5%
	6.0%	6.0%	5.0%	3.0%	3.0%
Inner Mongolia Autonomous Region	14.0%	12.0%	11.0%	10.1%	8.5%
	18.0%	17.0%	16.0%	14.5%	13.5%
	4.0%	3.5%	3.5%	3.0%	3.0%
Guangxi Zhuang Autonomous Region	13.0%	12.0%	11.0%	10.0%	8.0%
	22.0%	19.0%	18.0%	16.0%	12.0%
	-	0.0%	2.0%	3.0%	3.0%
Ningxia Hui Autonomous Region	14.0%	15.0%	13.0%	13.0%	8.0%
	17.0%	19.0%	17.0%	17.0%	-
	0.0% or less	0.0%	0.0%	0.0%	0.0%

Source: Created based on publications of the local governments

[Finance/ Exchange]

◆Foreign reserves in November decreased by USD 69.1 billion from October

On December 7, the People's Bank of China published that the foreign reserves in November had decreased USD 69.1 billion from October to USD 3,051.6 billion. It was the largest drop since January 2016 and the worst level in 5 years and 8 months.



Source: Created based on statistics published by the People's Bank of China

The People's Bank of China said the drop was due to (1) foreign exchange intervention by the People's Bank of China such as renminbi buying and dollar selling, (2) decline in the price of investment assets such as U.S. bonds, and (3) drop of the dollar value of assets in other currencies due to higher dollar value against other currencies.

◆Shenzhen-Hong Kong two-way stock trading opened on December 5

The two-way stock trading between Shenzhen and Hong Kong, or the Shenzhen-Hong Kong Stock Connect, opened on December 5. It is the second trading link following the Shanghai-Hong Kong Stock Connect that opened in November 2014, and marks another step for China in opening up its capital market.

At the opening ceremony on December 5, Liu Shiyu, Chairman of the China Securities Regulatory Commission, commented that "the newly opened Shenzhen-Hong Kong Stock Connect will be a positive influence on the global financial market which is currently unstable," emphasizing that opening up further would improve the function of the capital market to support the real economy and putting forth China's stance to further open up its capital market.

The newly opened Shenzhen-Hong Kong Stock Connect will not only accelerate the internationalization of the RMB, but is also expected to lead to the inclusion of China A shares(*) in the US MSCI Emerging Markets Index by providing better access to the Chinese capital market from overseas.

As of the end of trading on the opening day, December 5, RMB 0.85 Bn in investments flowed into Hong Kong from Shenzhen, accounting for approx. 8% of the RMB 10.5 Bn investment limit for one day for this direction, while RMB 2.71 Bn flowed into Shenzhen from Hong Kong, accounting for approx. 21% of the RMB 13 Bn investment limit for this direction.

<Comparison of Stock Connects: Shanghai-HK and Shenzhen HK>

		Shanghai-Hong Kong	Shenzhen-Hong Kong
Items		Northbound Trading link (Flow of funds: Hong Kong → Shanghai)	Shenzhen Northbound Trading link (Flow of funds: Hong Kong → Shenzhen)
Stock listings	Scope	・Constituents of the Shanghai Stock Exchange 180 Index ・Stocks listed in both the Shanghai and the Hong Kong Stock Exchanges (A shares + H shares) (*)	・Constituents of the SZSE Component Index or the SME/ChiNext Indexes worth RMB 6 Bn or more ・Stocks listed on both the Shenzhen and the Hong Kong Stock Exchanges (A shares + H shares) (*)
	Number of listings (as of end-July 2016)	・567 listings	・881 listings -Main board: 267 listings -SME board: 411 listings -ChiNext board: 203 listings
Investor requirements		・All foreign investors (Trading possible through brokers in Hong Kong)	・All foreign investors (Trading possible through brokers in Hong Kong) ・However, the stocks on the ChiNext board will be available for trading only by institutional professional investors authorized by the Hong Kong authorities
Investment limit	Cumulative from first day	・Abolished on August 16, 2016 (formerly RMB 300 Bn)	・N/A
	One-day total	・RMB 13 Bn	・RMB 13 Bn
Items		Southbound Trading link (Flow of funds: Shanghai → Hong Kong)	Shenzhen Southbound Trading link (Flow of funds: Shenzhen → Hong Kong)
Stock listings	Scope	・Constituents of the Hang Seng Composite LargeCap and MidCap indexes ・Stocks listed in both the Shanghai and the Hong Kong Stock Exchanges (A shares + H shares) (*)	・Constituents of the Hang Seng Composite LargeCap and MidCap indexes ・Constituents of the Hang Seng Composite SmallCap index worth HKD 5 Bn or more ・Stocks listed in both the Shenzhen and the Hong Kong Stock Exchanges (A shares + H shares) (*)
	Number of listings (as of end-July 2016)	・318 listings	・417 listings
Investor requirements		・Institutional investors of mainland China ・Individual investors of mainland China whose securities and deposit accounts have a combined balance of RMB 0.5 Mn or more	・Institutional investors of mainland China ・Individual investors of mainland China with a combined securities and deposit account balance of RMB 0.5 Mn or more
Investment limit	Cumulative from first day	・Abolished on August 16, 2016 (formerly RMB 250 Bn)	・N/A
	One-day total	・RMB 10.5 Bn	・RMB 10.5 Bn

(Source) Created based on information from the central government, China Securities Regulatory Commission, HKEX, and various media reports

(*) A shares are stocks of Chinese companies listed in mainland China, available for trading exclusively by mainland Chinese investors as well as foreign institutional investors meeting certain conditions. H shares are stocks of Chinese companies registered in mainland China but listed in Hong Kong.