

CHINA BIWEEKLY

RMB Internationalization Business Promotion Office

BTMU Global Business Division

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■ BIWEEKLY DIGEST

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- **November auto sales rose 16.6% year over year**
- **House prices in 70 medium and large cities for November: The rise eases month-on-month**

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- **Main economic indicators for November: Production and consumption increased**
- **Central Economic Work Conference decides on the economic management policy for 2017**
- **Chinese Academy of Social Sciences projects China's GDP growth rate at 6.7% for 2016 and 6.5% for 2017**

[Trade/Investment]

- **January-November direct investment: Inbound investment up 3.9%, outbound investment up 55.3%**

[Finance/Exchange]

- **November cross-border RMB settlements**
- **New RMB loans for November stood at RMB 794.6 Bn, up RMB 143.3 Bn from the previous month**

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BIWEEKLY DIGEST

[Industry]

◆ Tax break for small cars extended until the end of 2017

On December 13, the Ministry of Finance and the State Administration of Taxation announced to extend the tax break for small cars from the end of 2016 as initially planned to the end of 2017, halving however the reduction rate.

The current preferential policy was introduced in October 2015 with the aim to stimulate the sale of small cars, cutting the purchase tax from 10% to 5% for cars with engines up to 1.6 liters and nine seats or less until the end of December 2016. The announcement revealed that the preferential policy would continue by increasing the tax rate from 5% to 7.5% from January to the end of December 2017, eventually returning the tax rate to 10% in January 2018.

Since automobile sales have been driving consumption, it is thought that concerns over a drop in sales of small cars after ending the tax break have led to the announcement.

◆ November auto sales rose 16.6% year over year

The China Association of Automobile Manufacturers (CAAM) said on December 12 that the country's auto sales for November rose 16.6% year on year (YoY) to 2.939 Mn units, continuing to mark double-digit growth.

By type of vehicle, sales of passenger cars increased 17.2% YoY to 2.59 Mn units, of which sales of small cars with 1.6-liter or smaller engines increased 20.5% YoY to 1.876 Mn units, marking a decline in the year-on-year growth of 28.1% in October. Sales of commercial cars rose 11.7% YoY to 348,000 units.

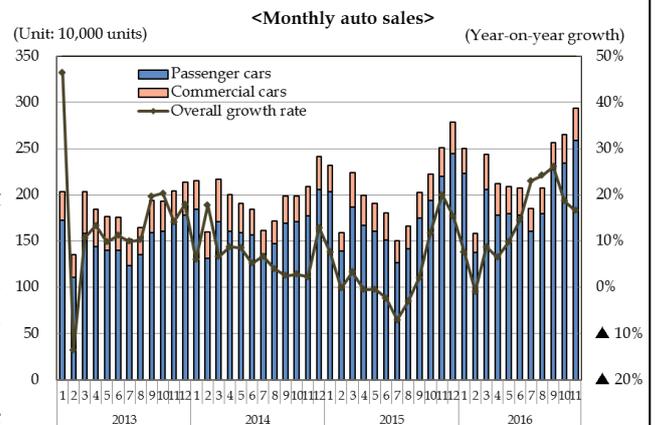
By type of passenger car, sedan sales rose 8.8% YoY (down from 10.1% in October) to 1.284 Mn units, sport utility vehicle (SUV) sales jumped 41.5% (down from 43.3% in October) to 1.019 Mn units, and multi-purpose vehicle (MPV) sales climbed 7.9% (down from 20.2% in October) to 236,000 units. The growth of SUV sales fell from the previous month but overall sales remained at a high level.

Turning to the shares of sales in the passenger car market, Chinese automakers control a 43.6% share (down from 45.1% in October), German automakers held 17.1% (down from 18.1% in October), Japanese automakers accounted for 16.1% (up from 14.7% in

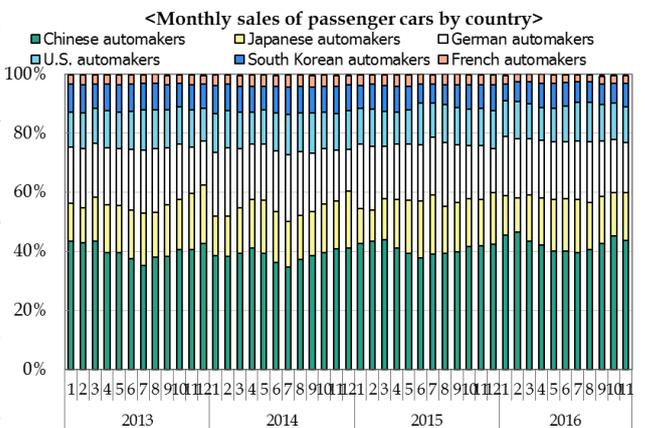
October), U.S. automakers took 12.1% (down from 12.2% in October), South Korean automakers had 8% (up from 6.8% in October) and French automakers cornered 2.5% (down from 2.6% in October). Japanese and South Korean automakers slightly increased their shares from October.

Meanwhile, sales of new energy vehicles for November rose 6.4% YoY to 65,000 units (down from the 8.1% increase to 44,000 units in October). Electric vehicle (EV) sales were up 27.4% to 58,000 units (up from the 19.7% increase to 39,000 units in October), while plug-in hybrid vehicle (PHV) sales fell 56.6% to 7,000 units (down from the 38.6% decrease to 5,000 units in October).

In the first 11 months of 2016, Chinese auto sales rose 14.1% YoY to 24.95 Mn units, making a significant step to reaching the projected full-year auto sales of 26.04 Mn units announced by the CAAM at the beginning of 2016.



Source: Data released by the China Association of Automobile Manufacturers



Source: Data released by the China Association of Automobile Manufacturers

◆ House prices in 70 medium and large cities for November: The rise eases month on month

On December 19, the National Bureau of Statistics (NBS) released the sales prices of residential buildings in 70 medium- and large-sized cities for November.

The sales prices of newly constructed commercial residential buildings rose from the previous month in 55 cities, down 7 cities month on month (MoM), and dropped in 11 cities, up 4 cities MoM.

The rise was steepest in Quanzhou City (Fujian Province) at 2.1% MoM, and in Yangzhou City (Jiangsu Province) and Shaoguan City (Guangdong Province) at 1.9%, while the fall was sharpest for Hangzhou City (Zhejiang Province) and Shenzhen City at minus 0.4% and minus 0.3%, respectively.

On a year-on-year (YoY) basis, house prices rose in 65 cities and fell in 5 cities, remaining unchanged from the previous month.

Specifically, prices soared year on year in Hefei City (Anhui Province) at 47.6%, Xiamen City (Fujian Province) at 43.9% and Nanjing City (Jiangsu Province) at 42.8%, and declined most year on year in Jinzhou City (Liaoning Province) at minus 3.3% and Urumqi City (Xinjiang Uyghur Autonomous Region) at minus 1.9%.

The NBS noted that for November, house prices remained generally stable month on month for first-tier cities(Note), second-tier cities(Note) and third-tier cities(Note), and that the rise for first-tier cities dulled also year on year for the second consecutive month. It also observed that in a total of 15 cities of first-tier cities and some popular second-tier cities, housing prices clearly calmed for the latter half of November as the effect of measures to limit house purchases introduced in September began to appear.

(Note) First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen

Second-tier cities: 31 cities including provincial capitals and sub-provincial cities

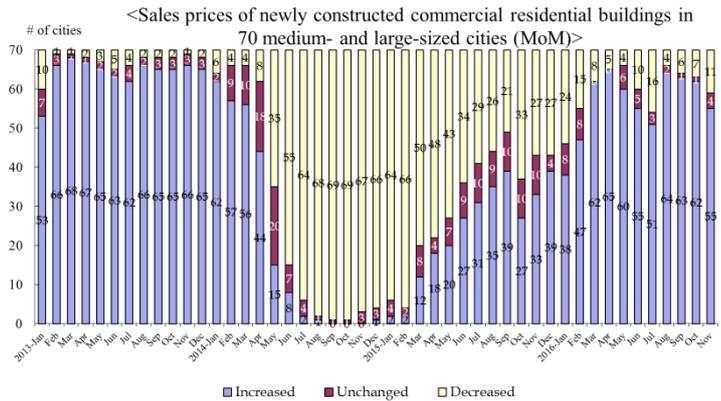
Third-tier cities: 35 of the 70 cities excluding first- and second-tier cities

[Economy]

◆ Main economic indicators for November: Production and consumption increased

On December 13, the National Bureau of Statistics (NBS) announced the main economic indicators for November and assessed that the overall Chinese economy remained stable as many indicators showed improvement.

Investment in fixed-assets grew 8.3% YoY for January-November (January-October: up 8.3% YoY), remaining unchanged from the previous month. Particularly, infrastructure investment increased 18.9% YoY (January-October: up 19.4% YoY), maintaining the high growth from the previous month. Real estate investment grew 6.5% YoY (January-October: up 6.6% YoY), marking the first drop in four months of 0.1 point from January-October.



Industrial production (value-added basis) for November slightly recovered, increasing by 0.1 percentage points from the previous month to 6.2% YoY (October: up 6.1% YoY). The high-tech industry grew 10.6% (October: 10.5% YoY) and the equipment manufacturing industry rose 10.5% YoY (October: up 10.1% YoY), leading production overall and showing that a structural shift and sophistication of industry has been advancing.

Total retail sales of consumer goods for November rose 10.8% YoY (October: up 10.0% YoY), increasing 0.8 percentage points from the previous month. The indicator marked the highest growth in 2016. This was contributed by the brisk automobile sales resulting from the tax break for small cars and the sales promotion activities on Single's Day, which boosted online retail sales for January-November by 26.2% YoY.

In the real estate sector, provincial price control measures curbed the increase in property prices in first-tier cities* and some second-tier cities*, showing some effects of the measures.

(*)First-tier cities: the four cities of Beijing, Shanghai, Guangzhou and Shenzhen

Second-tier cities: 31 cities including provincial capitals and sub-provincial cities

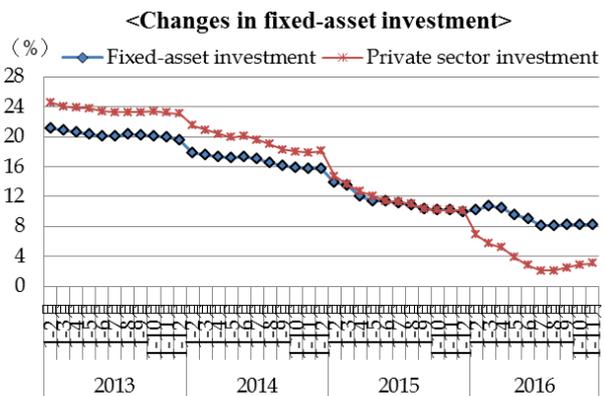
<Main economic indicators for November>

Item		Amount	YoY (%)	
Investment in fixed-assets*		(RMB Bn)	53,855	8.3
Public sector		(RMB Bn)	19,108	20.2
Private sector		(RMB Bn)	33,107	3.1
By industry	Primary industry	(RMB Bn)	1,710	21.9
	Secondary industry	(RMB Bn)	21,006	3.3
	Tertiary industry	(RMB Bn)	31,139	11.3
Value-added industrial production**		-	-	6.2
Total retail sales of social consumables		(RMB Bn)	3,096	10.8
Consumer price index (CPI)		-	-	2.3
Industrial producer price index (PPI)		-	-	3.3
Industrial producer purchase price index		-	-	3.5
Export		(USD Bn)	196.8	0.1
Import		(USD Bn)	152.2	6.7
Trade balance		(USD Bn)	44.6	-

*: Cumulative total for January-November. excl. corporate investment in rural areas

** : State-run firms accounted for independently and non-state-run firms with annual sales of at least RMB 200 Mn

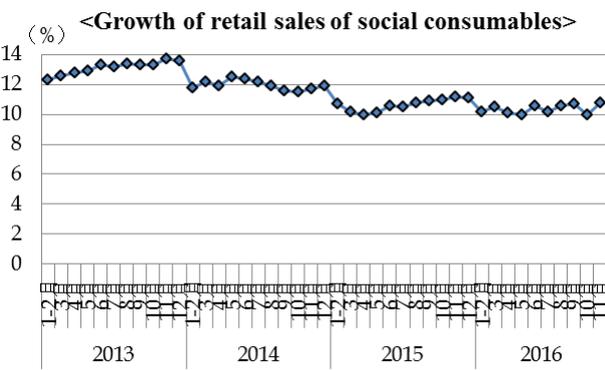
Source: Prepared based on data published by the NBS



Source: Prepared based on data published by the NBS



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◆ **Central Economic Work Conference decides on the economic management policies for 2017**

The Central Economic Work Conference was held in Beijing from December 14 through 16 to decide on the economic management policies for 2017.

The conference acknowledged the problems of the Chinese economy, such as over-capacity, structural contradiction concerning supply and demand, lack of economic drive, a further rise in financial risk, and rising difficulty in the economic management in some regions, and decided on the economic management policy for 2017, as follows.

<Major economic management policies for 2017>

- Set “seeking progress in stability” as the basic tone of economic management
- Maintain a proactive fiscal policy and a moderate and neutral financial policy
- Increase the flexibility of the exchange market, and maintain the RMB at a rational and well-balanced level
- Raise the priority of preventing financial risk, and bring the real estate bubble under control
- Continue to advance the reforms of the supply side, and ensure thorough adherence to the action guideline of “three eliminations, one reduction and one improvement” (Note)
- Invigorate the real economy, and improve supply quality and competitiveness

(Note) Reducing overcapacity, real estate destocking, corporate deleveraging, reducing corporate costs and shoring up weaker industries

This year’s conference expressed strong concerns about the real estate bubble, clarified that “houses are for living in and not for investment”, and stressed the policy to place strict limitations on loans for buying houses for investment while supporting the purchase of houses to live in. However, as controlling real estate could work negatively on economic growth, a policy was also indicated to avoid significant fluctuations of the real estate market and to continue to reduce real estate inventory in small- and medium-sized regional cities. Since the end of September, measures to control real estate purchase has already been implemented, including raising the ratio of down payment to mortgage loans and imposing stricter qualifications and requirements for buying houses.

◆ **Chinese Academy of Social Sciences projects China’ s GDP growth rate at 6.7% for 2016 and 6.5% for 2017**

On December 19, government think-tank the Chinese Academy of Social Sciences released the Blue Book of Chinese Economy 2017, which projects the GDP growth rate of China for 2016 at around 6.7%. The book states that China’s economic growth rate has remained at 6.7% year on year for the first through the third quarters and is likely to achieve the government’s annual target of 6.5%-7.0%, and remains within an appropriate range.

Regarding the near-term Chinese economy, five characteristics were indicated: (1) rising downward pressure despite a stable economic growth rate, (2) increase in inflationary factors as deflationary pressure weakens, (3) slowing growth in fixed asset investment and diversifying investment structure, (4) personal mortgage loans soar while the growth of medium- to long-term corporate loans declines sharply, and (5) rising downward pressure on the RMB as foreign currency reserves continue to decline while the balance of payments remains even. For the future, the book suggests that it is important to focus on a proactive fiscal policy centered on easing corporate tax burdens, and to maintain a financial policy that ensures appropriate liquidity.

For 2017, the book projects a GDP growth rate of around 6.5%. Among the major economic indices, the growth rate will slow to 8.7% for fixed asset investment and 8.8% for the total retail sales of consumer goods, and the CPI will rise moderately by 2.2%.

[Trade/Investment]

◆ January-November direct investment: Inbound investment up 3.9%, outbound investment up 55.3%

In a press conference on December 15, the Ministry of Commerce (MOFCOM) announced the statistical data for inbound and outbound direct investment for January-November.

<Inbound direct investment>

For inbound direct investment (excluding financial business) for January-November, the number of newly-established foreign companies in China increased by 3.0% YoY to 24,355, worth USD 113.79 Bn on an actual basis, up 3.9% YoY.

By region, investment from the U.S. and the EU soared at 55.4% YoY and 43.9% YoY, respectively.

By type of business, investment is growing remarkably in the service industry, particularly for computer application services at up 123.0% YoY and information/consultation services at up 71.9% YoY. For manufacturing, investment grew significantly for pharmaceutical manufacturing and general-purpose equipment manufacturing at up 65.3% YoY and 16.6% YoY, respectively.

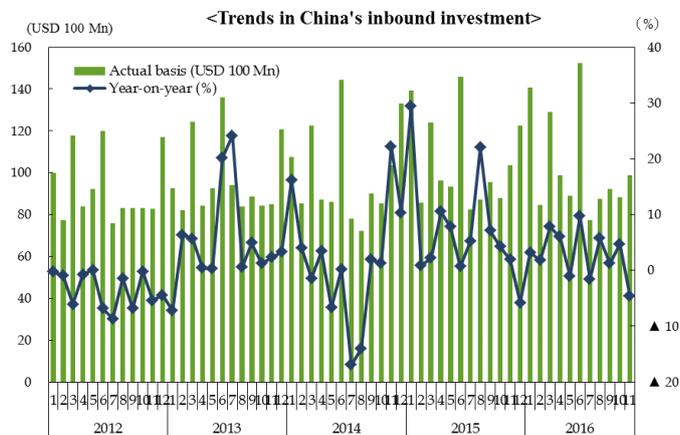
<Outbound direct investment>

Outbound direct investment (excluding financial business) for January-November increased by 55.3% YoY to USD 161.7 Bn.

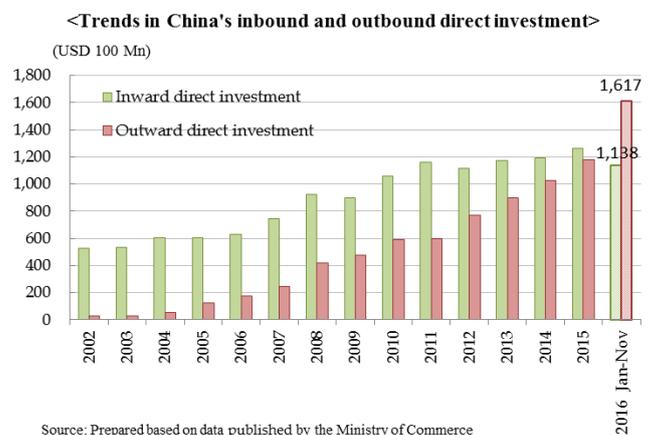
In terms of breakdown by type of business, business services accounted for 24.9%, manufacturing for 18.4%, wholesale/retail for 16.3% and information communications/information technology services for 11.9%, with business services attracting the most investment. Investment in equipment manufacturing increased 280% YoY, reaching USD 16.76 Bn.

Outbound investment was also active among regional companies (state-run and private companies under the jurisdiction of regional governments). Outbound investment by regional companies increased 210% YoY to USD 141.84 Bn for January-November and accounted for approximately 90% of outbound investment, with companies in Shanghai City, Guangdong Province and Beijing City being the largest investors.

On December 6, the Ministry of Commerce, the National Development and Reform Commission, the People's Bank of China and the State Administration of Foreign Exchange (SAFE) jointly announced that the supervisory authorities are closely monitoring the recent rise in the number of irrational outbound investments in areas such as real estate, hotels and entertainment, especially large-scale outbound investments in areas that are unrelated to companies' core businesses, "outbound investment by a small capital company in one with a larger capital" and "outbound investment made immediately after a company is established".



Source: Prepared based on data published by the NBS

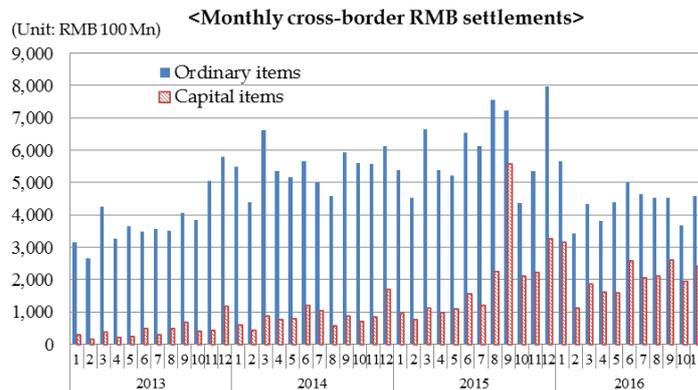


Source: Prepared based on data published by the Ministry of Commerce
 Note: Excluding the financial services industry. According to the Statistical Bulletin on China's Outward Direct Investment in 2015 (including finance business) released by the MOFCOM, NBS and SAFE, outward direct investment exceeded inward direct investment in 2015.

[Finance/Exchange]

◆November cross-border RMB settlements

The People's Bank of China (PBoC) said on December 14 that the amount of cross-border RMB settlements in November stood at RMB 457.2 Bn for ordinary items, of which RMB 358.3 Bn came from trade of goods and RMB 98.9 Bn from trade in services. The amount was RMB 242.8 Bn for capital items, of which RMB 142.1 Bn came from inward foreign direct investment, and RMB 100.6 Bn from outward foreign direct investment.



Source: Data released by the People's Bank of China

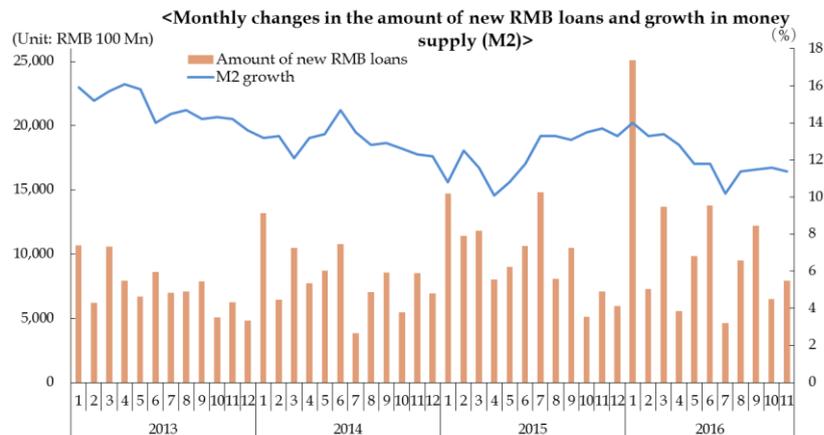
◆New RMB loans for November stood at RMB 794.6 Bn, up RMB 143.3 Bn from the previous month

The PBoC said on December 14 that the amount of new RMB loans issued in November rose to RMB 794.6 Bn, up RMB 143.3 Bn from the previous month and up RMB 85.7 Bn YoY. By sector, corporate loans were RMB 165.6 Bn, while personal loans stood at RMB 679.6 Bn.

In November, China's total social financing(*), which is a measurement of liquidity in the real economy, was RMB 1.74 Tn, up RMB 711.1 Bn YoY and up RMB 843.7 Bn from the previous month.

Money supply (M2) was RMB 153.04 Tn, up 11.4% YoY, at the end of November. Its growth declined by 0.2 percentage points from the previous month and it is still below the government's annual growth target of 13%.

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



Source: Data released by the People's Bank of China