

CHINA BIWEEKLY

RMB Internationalization Business Promotion Office

BTMU Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

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- **February 2017: CPI rises 0.8% and PPI gains 7.8% YoY**
- **Main economic indicators in February: Infrastructure and real estate investments accelerate**

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- **February auto sales increase 22.4% YoY**
- **Home prices for 70 medium and large cities for February: The number of cities with month-on-month growth increases significantly**

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- **February trade statistics show a trade deficit for the first time in three years**

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- **February: Foreign reserves increase for the first time in eight months**
- **February cross-border RMB settlement**
- **New RMB loans for February increase RMB 439.1 billion YoY and decrease RMB 1.13 trillion from the previous month to RMB 1.17 trillion**

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BIWEEKLY DIGEST

[Economy]

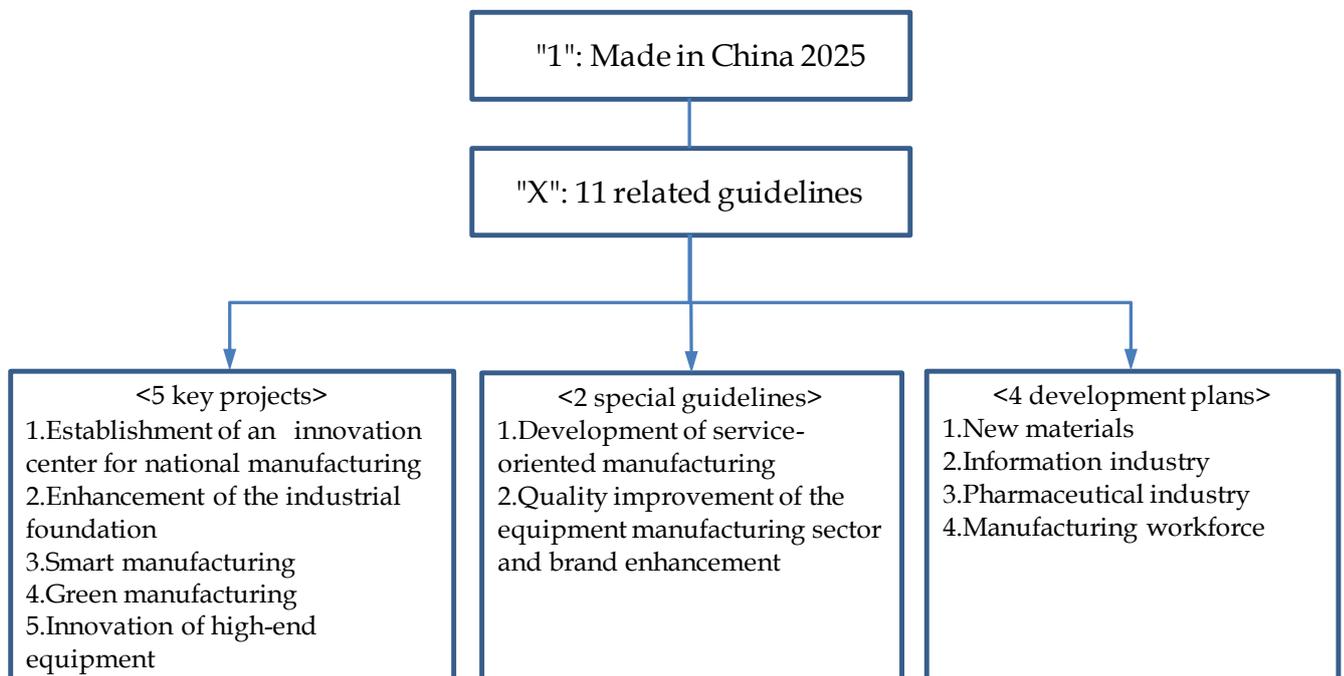
◆ **“1+X” guidelines complete for full-fledged implementation of Made in China 2025**

The Ministry of Industry and Information Technology announced on February 10 that the “1+X” plans for Made in China 2025, which had been worked on by the national manufacturing power construction leading group under the lead of Premier Li Keqiang to prepare for the implementation of the national Made in China 2025(*) strategy, had been finished.

The “1+X” plans, of which “1” stands for the Made in China 2025 strategy and “X” refers to 11 related guidelines (five key projects, two special guidelines, and four development plans), represent the policy guidelines for sectors that China should strengthen in the next 10 years to become a leading manufacturing power.

The “1+X” plans are said to have been formulated to overcome the weaknesses of the Chinese’s manufacturing sector at the initiative of the government, by sharing an understanding of the manufacturing sector and consolidating resources, and thereby boost the country’s competitiveness in anticipation of future global competition. The government stated that it would advance the “1+X” initiative by breaking down key duties and specifying roles, responsibilities, and the timeline, and emphasized that participation from wide-ranging sectors, including governments of various levels, corporations, research institutions, universities, and financial institutions, would be indispensable for doing so.

(*)Made in China 2025: A concept announced at the National People's Congress in March 2015 and a government strategy aiming at turning the country from a manufacturing giant into a leading manufacturing power by 2049 by advancing the manufacturing sector through innovation



Source: Prepared based on public government data

◆February 2017: CPI rises 0.8% and PPI gains 7.8% YoY

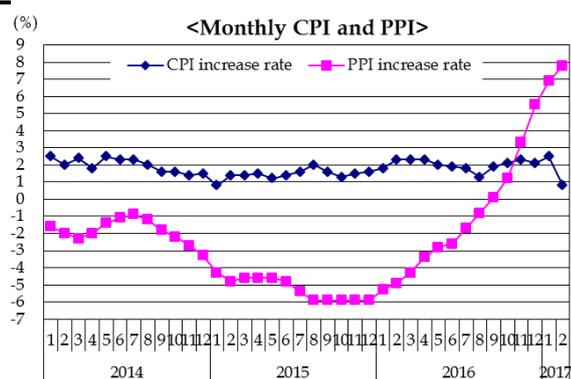
The National Bureau of Statistics (NBS) of China announced on March 9 that the overall consumer price index (CPI) for February increased 0.8% year-on-year (YoY), down 1.7 percentage points from the previous month. By category, in February, the CPI for food decreased 4.3% YoY and the CPI for non-food increased 2.2% YoY. Among food, the CPIs for vegetables, eggs, and pork all significantly fell as much as 26.0%, 14.9%, and 0.9%, YoY respectively.

As reasons of the decrease in the CPIs, the NBS mentioned that the Chinese New Year, which started from the end of January this year, fell on February last year, so that the

comparative price levels in the previous year were higher and food supplies, such as vegetables, were abundant as the temperature in February was higher than previous years.

The overall producer price index (PPI) for February increased 7.8% YoY, up 0.9 percentage points from the previous month. By industry, the respective PPI showed higher growth at the following rates in February: 85.3% YoY (up 26.8 percentage points from the previous month) for extraction of petroleum and natural gas, 40.1% YoY (up 2.4 percentage points from the previous month) for smelting and pressing of ferrous metals, 36.9% YoY (up 1.2 percentage points from the previous month) for mining, sorting and washing of coal, 30.5% YoY (up 6.1 percentage points from the previous month) for processing of petroleum, 19.5% YoY (up 2.2 percentage points from the previous month) for smelting and pressing of non-ferrous metals, and 11.9% YoY (up 2.7 percentage points from the previous month) for chemical production.

The overall PPI continued to decline for 54 months until August 2016 but has been surging after taking an upturn in September 2016. As the sharp increase in the PPI has not influenced downstream industries that are directly linked to consumers, inflationary pressure has not yet grown. The surge is expected to slow down gradually.



Source: Created based on public NBS data

◆Main economic indicators in February: Infrastructure and real estate investments accelerate

According to the March 14 announcement made by the National Bureau of Statistics (NBS), investments in fixed-assets grew 8.9% year-on-year (YoY) for January-February, up 0.8 percentage points from the full-year growth rate of 2016. Infrastructure and real estate investments grew 27.3% YoY (a 17.4% YoY increase for the full year of 2016) and 8.9% YoY (a 6.9% YoY increase for the full year of 2016), respectively, driving overall investments. Private-sector investments for January-February picked up as well, increasing 6.7% YoY, up 3.5 percentage points from the full-year growth rate of 2016.

Industrial production for January-February grew 6.3% YoY, up 0.3 percentage points from December 2016. In particular, emerging industries such as optoelectronic devices, lithium-ion batteries, industrial robots, SUVs, and ICs grew significantly. In addition, the production volumes of machine tools and trucks jumped alongside the sharp increase in infrastructure investment.

Meanwhile, total retail sales of consumer goods for January-February rose 9.5% YoY, down 1.4 percentage points from December 2016, failing to achieve double-digit growth for the first time in 11 years since February 2006. A reaction to the last-minute demand due to the termination of the tax break for small cars at the end of last year slowed down car sales, pushing down overall consumption. However, online shopping continues to grow at 25.5% YoY.

The NBS evaluated economic activities for January-February, saying that the improvements in many indicators reflect the recovery in production and demand, and improved economic vigor, and the Chinese economy has been picking up momentum to progress while strengthening the foundation for stability.

<Main Economic Indicators in February>

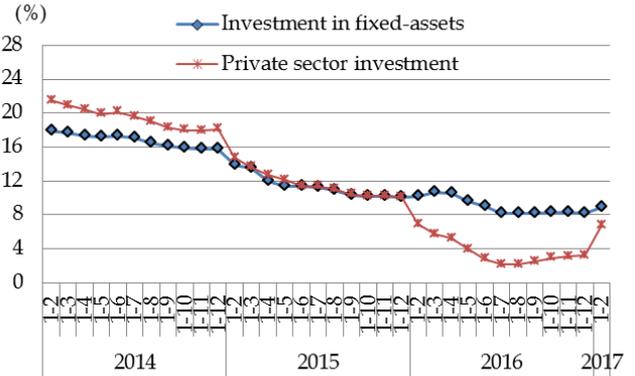
Item		Amount	YoY (%)
Investment in fixed assets *		(RMB Bn) 4,138	8.9
State-owned sector		(RMB Bn) 1,466	14.4
Private sector		(RMB Bn) 2,498	6.7
By industry	Primary industry	(RMB Bn) 89	19.1
	Secondary industry	(RMB Bn) 1,450	2.9
	Tertiary industry	(RMB Bn) 2,600	12.2
Value-added industrial production**		-	6.3
Total retail sales of social consumables		(RMB Bn) 5,796	9.5
Consumer price index (CPI)		-	0.8
Industrial producer price index (PPI)		-	7.8
Industrial producer purchase price index		-	9.9
Export		(USD Bn) 120.1	▲ 1.3
Import		(USD Bn) 129.2	38.1
Trade balance		(USD Bn) ▲ 9.1	-

*: Cumulative total for Jan-Feb (excl. investment by rural companies)

**: Cumulative total for Jan-Feb of independently-accounted state-run companies and non-state-run companies with annual sales of at least RMB 20 Mn

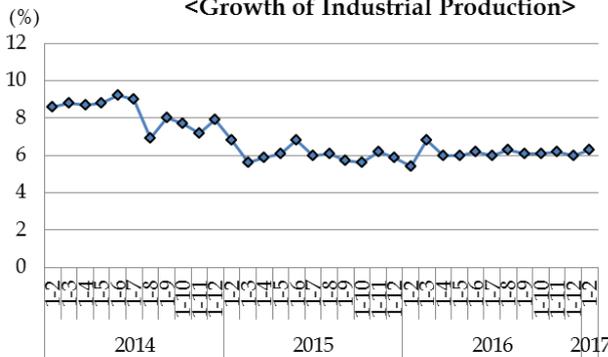
Source: Prepared based on data published by the NBS

<Growth of Fixed-asset Investment>



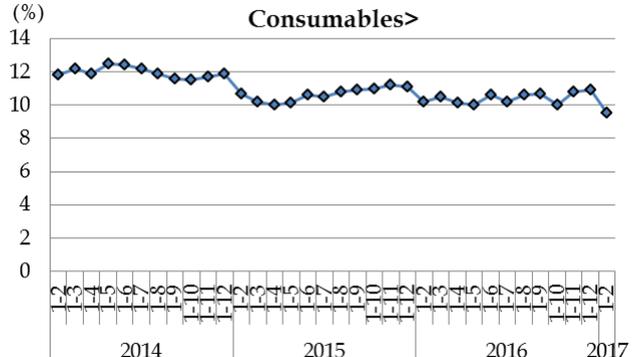
Source: Prepared based on public NBS data

<Growth of Industrial Production>



Source: Prepared based on public NBS data

<Growth of Retail Sales of Social Consumables>



Source: Prepared based on public NBS data

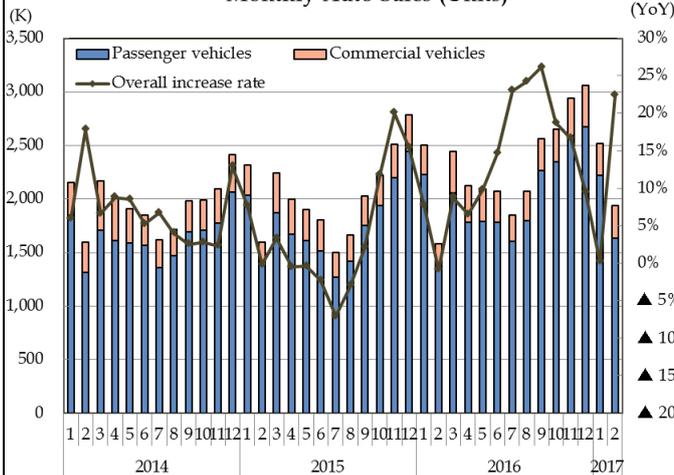
[Industry]

◆ February auto sales increase 22.4% YoY

The China Association of Automobile Manufacturers (CAAM) said on March 10 that the country's auto sales for February rose 22.4% YoY to 1.939 million units, showing a significant increase from the 0.2% YoY growth in the previous month.

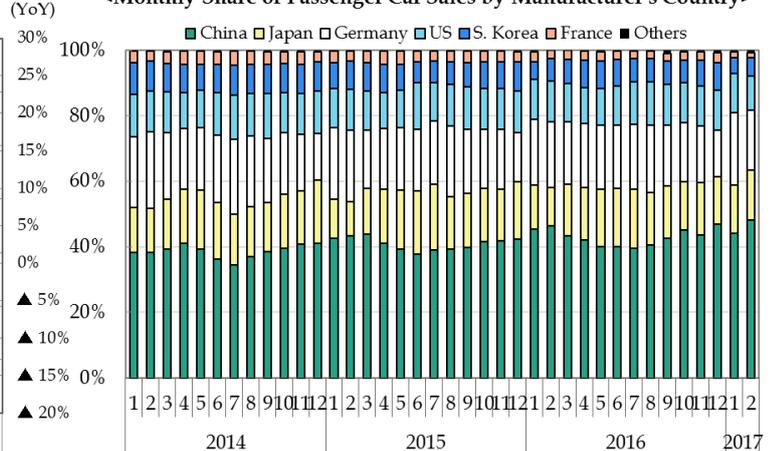
By type of vehicle, sales of passenger cars increased 18.3% YoY to 1.633 million units, of which sales of small cars with 1.6-liter or smaller engines rose 17.5% YoY to 1.157 million units, improving from the 1.3% YoY increase of the previous month. Sales of commercial cars rose 49.9% YoY to 307,000 units, of which sales of trucks grew 57.4% YoY to 282,000 units, contributing to the significant growth in commercial cars.

<Monthly Auto Sales (Units)>



Source: Created based on public CAAM data

<Monthly Share of Passenger Car Sales by Manufacturer's Country>



Source: Created based on public CAAM data

By type of passenger car, sales of sedans rose 15.1% YoY (a 3.0% YoY decrease in January) to 769,000 units, sales of sport utility vehicles (SUVs) grew 40.0% YoY (a 10.5% YoY increase in January) to 673,000 units, and sales of multi-purpose vehicles (MPVs) declined 15.2% YoY (a 21.1% YoY decrease in January) to 148,000 units. SUV sales continued to grow steadily.

Meanwhile, sales of new energy vehicles grew 30.3% YoY to 18,000 units (a 74.4% YoY decrease to 5,682 units in January), of which sales of electric vehicles (EVs) rose 49.5% YoY to 14,000 units (a 67.8% YoY decrease to 4,978 units in January) and sales of plug-in hybrid vehicles (PHVs) fell 12.4% YoY to 3,677 units (a 89.5% YoY decrease to 704 units in January), showing a wide increase for EVs.

Turning to the sales shares in the Chinese passenger car market, Chinese automakers acquired 48.2% (44% in January), German automakers had 18.3% (21.9% in January), Japanese automakers seized 15.4% (14.9% in January), U.S. automakers held 10.4% (12% in January), South Korean automakers took 5.6% (5% in January) and French automakers kept 1.6% (1.7% in January). Japanese and South Korean automakers were the only foreign automakers which slightly increased their shares.

The total sales of automobiles for January-February grew 8.8% YoY to 4.459 million units.

◆ Home prices for 70 medium and large cities for February: The number of cities with month-on-month growth increases significantly

On March 18, the National Bureau of Statistics (NBS) announced the home price indices for 70 medium and large cities for February.

For newly constructed homes, prices rose month-on-month (MoM) in 56 cities, up 11 cities from the previous month, and dropped in 12 cities, down 8 cities from the previous month.

The rise was steepest in Sanya City (Hainan Province), Xian City (Shaanxi Province), and Chongqing City at 1.3%, 1.1%, and 1% MoM, respectively, while the fall was sharpest in Shenzhen City (Guangdong Province), Chengdu City (Sichuan Province), and Zhengzhou City (Henan Province) at 0.6%, 0.4%, and 0.3% MoM, respectively.

The average rise in home prices from the previous month was 0.1% for first-tier cities (no change in January), 0.3% for second-tier cities (a 0.1% increase in January), and 0.4% for third-tier cities (no change in January), increasing in the cities of all three tiers from the previous month. On a YoY basis, home prices rose in 67 cities, up one city from the previous month, and dropped in three cities, down one city from the previous month.

Specifically, home prices rose sharply in Hefei City (Anhui Province) at 40.7% YoY, Xiamen City (Fujian Province) at 36.9% YoY, and Wuxi City (Jiangsu Province) at 34% YoY, and declined the most in Jinzhou City (Liaoning Province) at 2.5% YoY, and Mudanjiang City (Heilongjiang Province) and Urumqi City (Xinjiang Autonomous Region) at 0.3% YoY, respectively.

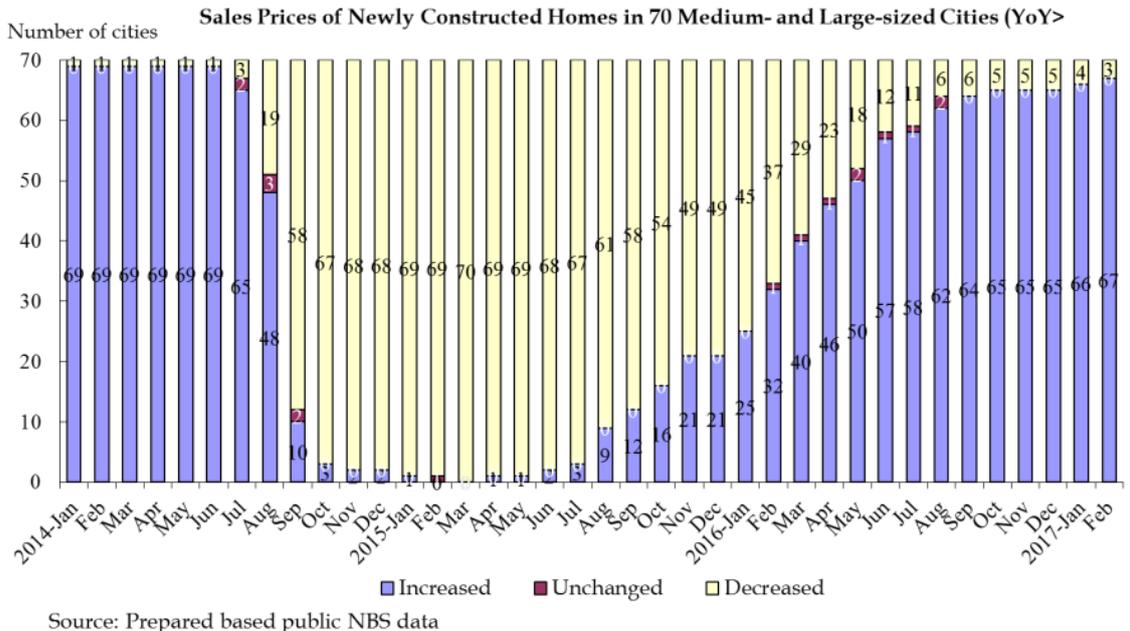
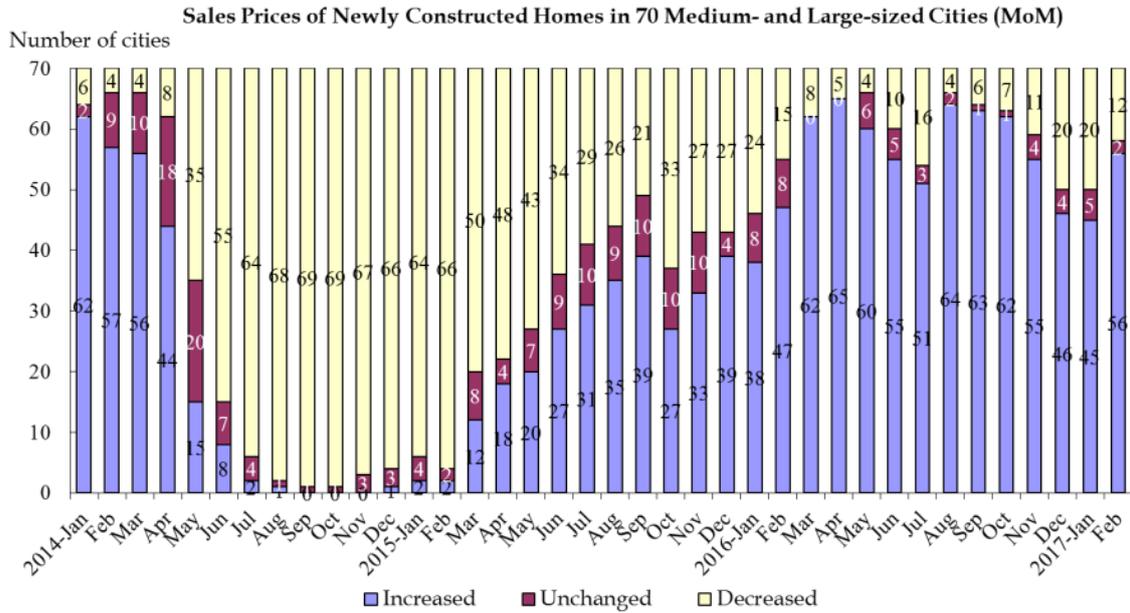
The average YoY growth in home prices fell 3.0 percentage points from the previous month for first-tier cities and 0.4 percentage points for second-tier cities, while increasing 0.3 percentage points for third-tier cities.

The surge in home prices slowed down once, but started to show signs of overheating again. Since March, city governments, such as of Sanya City (Hainan Province), Hangzhou City (Zhejiang Province), Nanchang City (Jiangxi Province), Ganzhou City (Jiangxi Province), Qingdao City (Shandong Province), Nanjing City (Jiangsu Province), Beijing City, Shijiazhuang City (Hebei Province), Guangzhou City (Guangdong Province), and Zhengzhou City (Henan Province), have successively announced new regulations on home purchases, such as tightening conditions for unregistered nationals to purchase homes and increasing the down payment ratio.

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

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

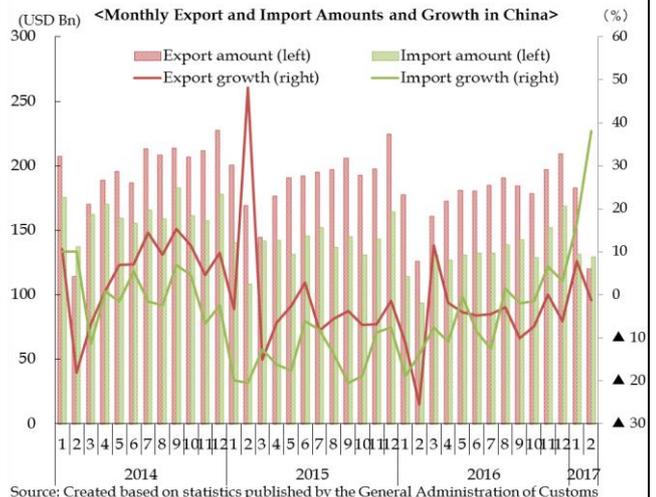
Third-tier cities: 35 of the 70 cities excluding first- and second-tier cities



【Trade/ Investment】

◆February trade statistics show a trade deficit for the first time in three years

According to the preliminary trade statistics (in USD) announced by the General Administration of Customs on March 8, total exports and imports in February rose 15.8% YoY, (an 11.4% YoY increase in January) to USD 249.31 billion. Exports fell 1.3% YoY (a 7.9% YoY increase in January) to USD 120.08 billion and imports rose 38.1% YoY (a 16.7% YoY increase in January) to USD 129.23 billion. Imports showed a significant growth while export saw a decline. The trade balance ended in a USD 9.15 billion deficit, falling into a deficit for the first time in three years since February 2014.



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Total exports and imports in January and February grew 13.3% YoY to USD 563.5 billion. Exports rose 4.0% YoY to USD 302.81 billion, and imports increased 26.4% YoY to USD 260.69 billion. The trade balance showed a USD 42.13 billion surplus.

For trade with Japan in January and February, exports rose 2.4% YoY and imports grew 24.7% YoY. Both exports and imports rose from the previous year.

The Ministry of Commerce (MOC) explained the reasons for the trade deficit in February, saying that (1) the volumes and prices of large-scale products rose, especially the prices of imports, such as iron sand,

crude oil, and coal, increased dramatically, (2) increased domestic demand boosted imports, (3) demand for importing fresh food rose during the Chinese New Year, and (4) the comparative figures of February 2016 were lower. By contrast, the trade balance in January and February 2017 maintained a surplus and the MOC forecasted that a trade surplus would continue throughout the year.

The MOC stated that China's trade would remain stable amid the current severe external environment and should not only achieve target figures but also accelerate the shift from a major trading country to a powerful trading country with a focus on enhancing added value, establishing brands, and optimizing the trade structure.

<Export and Import Amount and Growth by Country and Region>

Country/Region	Total Exports and Imports (Jan-Feb)	YoY	Exports (Jan-Feb)	YoY	Imports (Jan-Feb)	YoY
USA	79.2	11.6%	55.5	4.4%	23.7	32.8%
Japan	42.7	13.1%	20.2	2.4%	22.5	24.7%
South Korea	40.5	15.9%	14.4	16.3%	26.1	15.7%
Hong Kong	36.6	▲ 1.5%	35.5	1.5%	1.1	▲ 48.9%
Taiwan	26.7	19.5%	5.9	13.1%	20.8	21.5%
Germany	23.3	10.9%	10.2	3.4%	13.1	17.6%
Australia	20.7	47.2%	5.7	1.7%	15.0	77.6%
Vietnam	14.0	16.2%	8.6	16.0%	5.4	16.5%
Malaysia	13.0	20.0%	5.5	17.8%	7.4	21.8%
India	11.8	14.7%	9.1	5.3%	2.7	63.8%

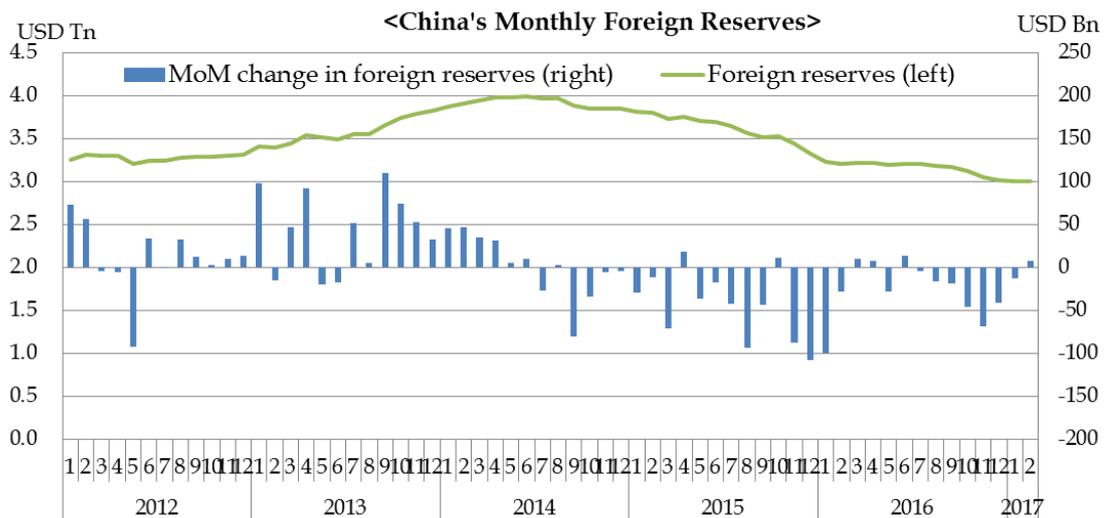
Source: Created based on statistics published by the General Administration of Customs

【Finance/ Exchange】

◆February: Foreign reserves increase for the first time in eight months

The People's Bank of China (PBoC) announced on March 7 that the country's foreign reserves in February increased for the first time in eight months by USD 6.9 billion from the previous month to USD 3.0051 trillion, recovering to exceed USD 3 trillion.

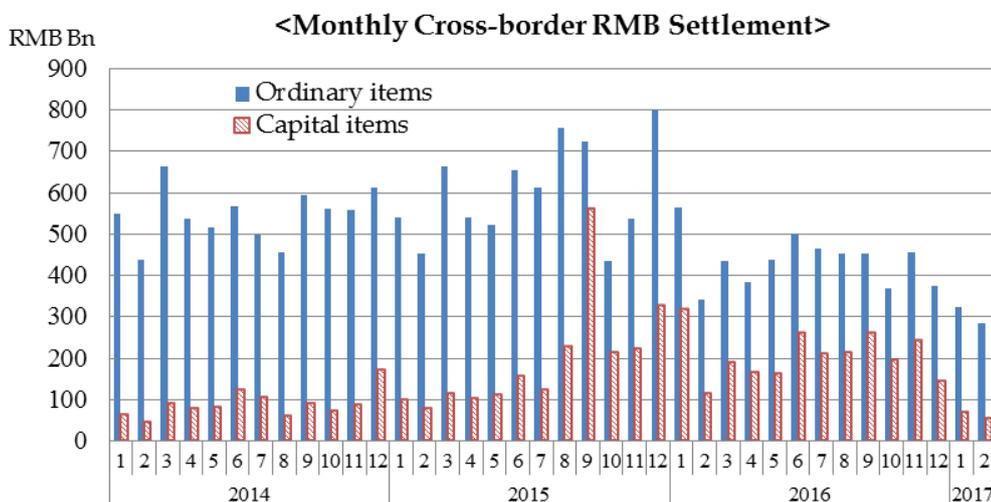
The State Administration of Foreign Exchange (SAFE) pointed out that an overall stable flow of cross-border funds and increased asset prices contributed to the increase in foreign reserves in February. Regarding the outlook of the Chinese economy, the PBoC predicted that fund outflow pressure would be eased by strengthening the economic growth engine, while foreign reserves would continue to fluctuate but gradually stabilize amid prevailing uncertainty in the global financial market.



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

◆February cross-border RMB settlement

The PBoC announced on March 9 that the amount of cross-border RMB settlements in February stood at RMB 286 billion for ordinary items, of which RMB 230.1 billion came from trade of goods and RMB 55.9 billion from trade in services. The amount was RMB 53.7 billion for capital items, of which RMB 40.2 billion came from inward foreign direct investment and RMB 13.5 billion from outward foreign direct investment.



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

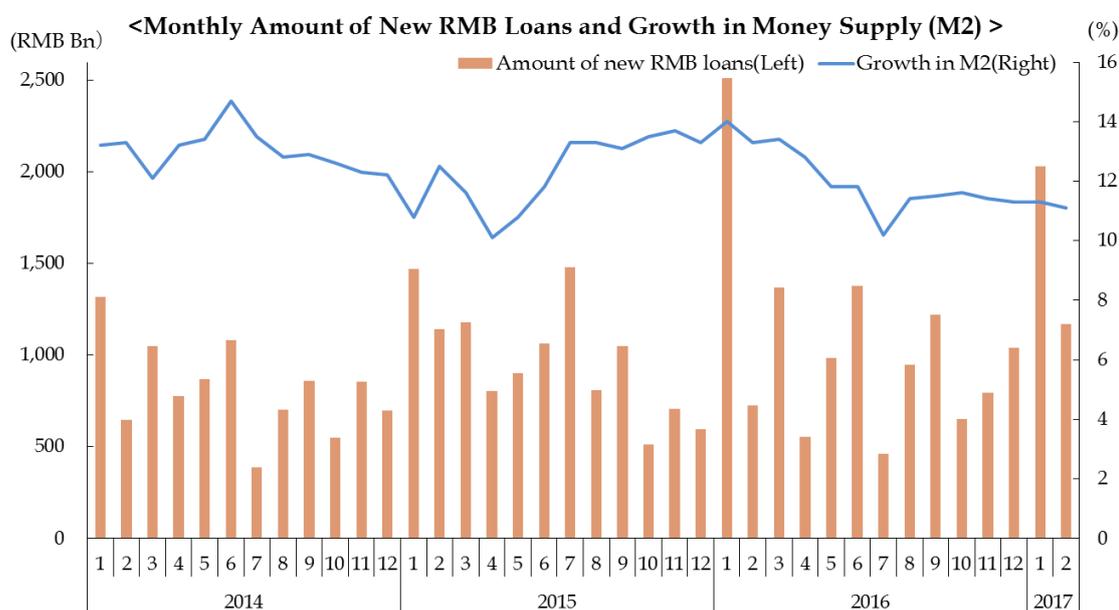
◆New RMB loans for February increase RMB 439.1 billion YoY and decrease RMB 1.13 trillion from the previous month to RMB 1.17 trillion

The PBoC announced on March 9 that new RMB loans for February increased RMB 439.1 billion YoY to RMB 1.17 trillion, down RMB 860 billion from the previous month.

Total social financing(Note), which shows the amount of liquidity supplied to the real economy, grew RMB 316.6 billion YoY to RMB 1.15 trillion, down RMB 2.59 trillion from the previous month.

Money supply (M2) as of the end of February rose 11.1% YoY to RMB 158.29 trillion. The rate of increase was 0.2 percentage points below the figure at the end of January.

Note: Total social financing = RMB loans + foreign currency loans + entrusted loans+ trust loans + bank acceptances + corporate bonds + stocks issued by non-financial firms + insurance company payouts + investment properties + other



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