CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
BTMU Global Business Division

June 29th 2017

■ BIWEEKLY DIGEST

[Economy]

- **May: CPI rises 1.5% and PPI gains 5.5% YoY**
- **Main economic indicators for May: Industrial production and consumption remain level while investment slows slightly**
- **The IMF revises China's GDP growth rate for 2017 up to 6.7% and proposes an acceleration to reforms**

[Industry]

- **May auto sales fall 0.1% YoY**

[Trade/ Investment]

- **May: Exports rise 8.7% YoY and imports grow 14.8% YoY**
- **UNCTAD: China becomes the number two country in the world in terms of outward foreign direct investment for the first time**
- **Tianjin City and Qinghai Province announce a hike in minimum wage**

[Finance/ Exchange]

- **May: Foreign reserves increase for the fourth consecutive month**
- **The State Administration of Foreign Exchange (SAFE) strengthens monitoring of extraterritorial bank card usage**
- **May cross-border RMB settlement**
- **The May rate of increase in the money supply slows to +9.6% YoY, the lowest ever, and new RMB loans increase RMB 10 Bn MoM to RMB 1.11 Tn**

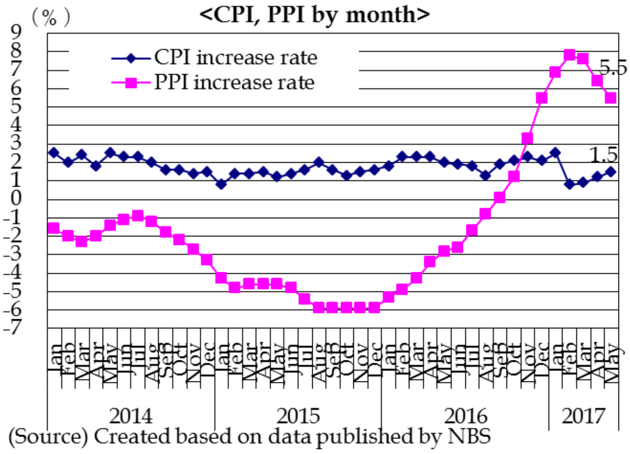
[Economy]

◆May: CPI rises 1.5% and PPI gains 5.5% YoY

According to the June 9th announcement by the National Bureau of Statistics (NBS) of China on, the consumer price index (CPI) rose 1.5% year on year (YoY), up 0.3 points from the previous month.

By item, foods dropped by 1.6% YoY, while non-foods rose 2.3% YoY. In foods, both eggs and pork plummeted by 14.4% and 12.8% YoY respectively, while fruits jumped 11.8% YoY. In non-foods, healthcare rose 5.9% YoY, education and culture increased 2.6% YoY, and housing climbed 2.6% YoY. Producer price index (PPI) in May rose 5.5% year on year, the increase shrinking 0.9 points from the previous month. By industry, the largest increases were extraction, cleaning and beneficiation for coal mining which rocketed up 37.2% YoY (down 3.2 points from the previous month), extraction of petroleum and natural gas which leaped 27.0% YoY (down 16.0 points from the previous month), petroleum processing which jumped 22.0% YoY (down 5.5 points from the previous month), steel manufacturing and rolling which climbed 17.7% YoY (down 4.6 points from the previous month), non-ferrous metal manufacturing and rolling which rose 13.6% YoY (down 2.2 points from the previous month) and manufacturing of chemical products which increased by 7.7% (down 1.5 points from the previous month).

<CPI, PPI by month>



(Source) Created based on data published by NBS

◆Main economic indicators for May: Industrial production and consumption remain level while investment slows slightly

On June 14, the National Bureau of Statistics (NBS) announced its major economic indicators for May. The Jan-May investment in fixed assets increased 8.6% YoY, the rate of increase slowing by 0.3 points from Jan-Apr. Out of that, investment in infrastructure rose 20.9% YoY (Jan-Apr: +23.3% YoY) and investment in real estate grew 8.8% YoY (Jan-Apr: +9.3% YoY), the rate of increase slowing for both.

Industrial production (added value basis) for May remained level from April at 6.5% YoY, but there was strong growth in the areas of production of general-purpose equipment (11.5% YoY), specialized equipment (11.1% YoY), computer, telecommunications and other electronic equipment (11.1% YoY), pharmaceuticals (10.7% YoY) and more.

In addition, the total retail sales of consumer goods for May remained level from April at a 10.7% YoY increase.

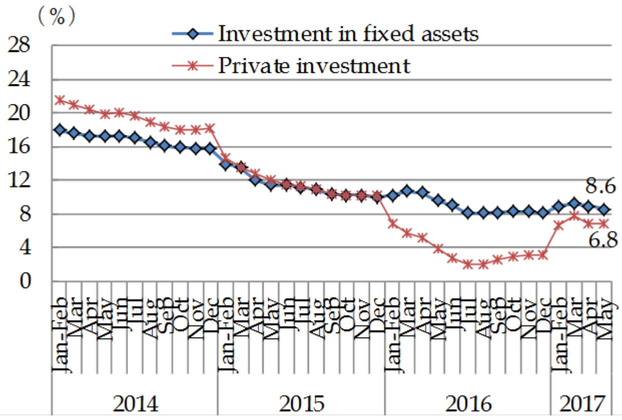
The NBS praised the current economic management, stating that growth in consumption and exports are strong, foreign and domestic demands are balanced and the overall situation is stable. Regarding employment, the NBS stated that the number of persons employed in urban areas for Jan-May increased by 220,000 YoY to 5.99 million people, coming more than halfway to exceeding the goal of 11 million people for 2017 in less than half a year, emphasizing that the situation is extremely stable.

<Main Economic Indicators in May>

Item		Amount		YoY (%)
Investment in fixed assets*		(RMB Bn)	20,372	8.6
State-owned sector		(RMB Bn)	7,291	12.6
Private sector		(RMB Bn)	12,433	6.8
By industry	Primary industry	(RMB Bn)	594	16.9
	Secondary industry	(RMB Bn)	7,757	3.6
	Tertiary industry	(RMB Bn)	12,021	11.6
Value-added industrial production**		-	-	6.5
Total retail sales of consumer goods		(RMB Bn)	2,946	10.7
Consumer price index (CPI)		-	-	1.5
Industrial producer price index (PPI)		-	-	5.5
Industrial producer purchase price		-	-	8.0
Export		(USD Bn)	191.0	8.7
Import		(USD Bn)	150.2	14.8
Trade balance		(USD Bn)	40.8	-

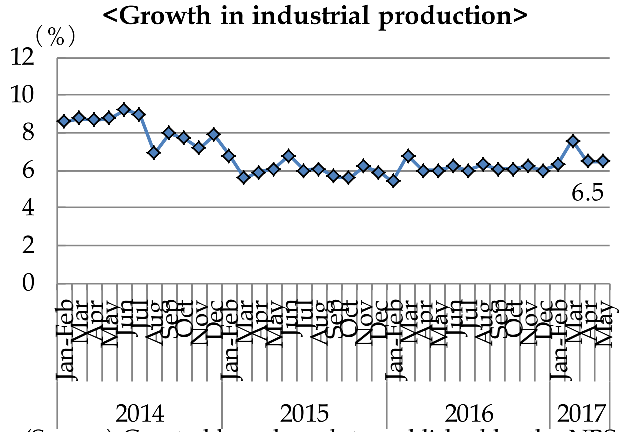
*: Cumulative total for January-May(excl. investment by rural companies)
**: Of state-run companies with independent accounting and non-state-run companies with annual sales of at least RMB 20 million
Source: Created based on data published by the NBS

<Growth in investment in fixed assets>



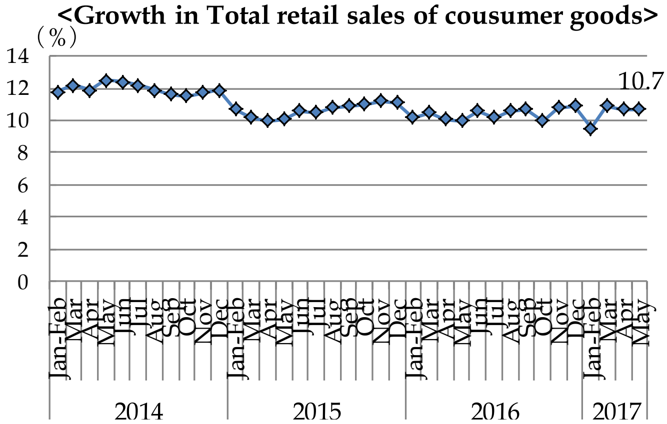
(Source) Created based on data published by the NBS

<Growth in industrial production>



(Source) Created based on data published by the NBS

<Growth in Total retail sales of cousumer goods>



(Source) Created based on data published by the NBS

◆The IMF revises China's GDP growth rate for 2017 up to 6.7% and proposes an acceleration to reforms

On June 14, the International Monetary Fund (IMF) announced the results of its annual review of the Chinese economy.

The IMF stated that regarding China's GDP growth rate, currently policy support including an expansion in loans and public investment are serving as a support to economic growth, and gave a forecast of 6.7% for 2017 and a yearly average of 6.4% for 2018-2020. This was the second upward revision in 2017, after April (January forecast: 6.5%, April forecast: 6.6%).

However, since the current path of growth dependent on loans and public investment could ultimately lead to drastic consolidation, they stated that an acceleration in reforms is needed to maintain medium-term stable growth, and proposed that now is the perfect opportunity to progress reforms, as growth is strong and there is room to mitigate the pressure of a structural shift.

The IMF also pointed out the going forward, reforms should include specifically an accelerated shift from investment to consumption, expansion of the market's role, accelerated reforms of state-run enterprises, reduction of corporate liabilities, resolution of risk in the financial sector and a sustainable policy mix.

[Industry]

◆May auto sales fall 0.1% YoY

According to the China Association of Automobile Manufacturers (CAAM)'s announcement on June 12th, May auto sales fell 0.1% YoY to 2.10 million units, lower than the previous year for two consecutive months. Cumulative January-May sales were up +3.7% YoY to 11.18 million units.

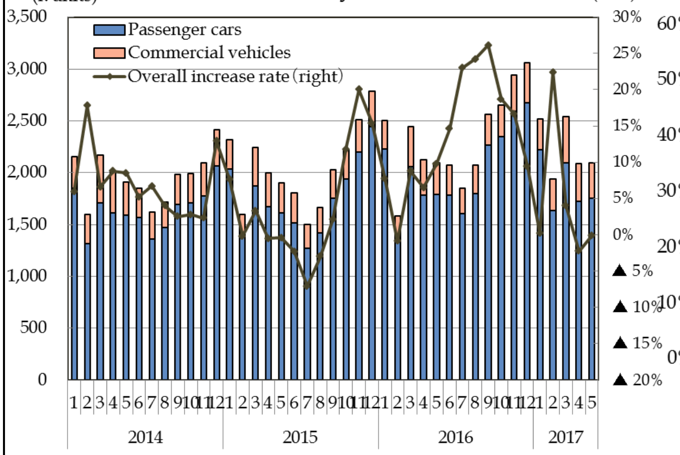
By type of vehicles in May, sales of passenger cars fell 2.6% YoY to 1.75 million units (a 17.8% YoY decrease to 1.72 million units in April), the amount of decrease shrinking from the previous month. Among passenger cars, sales of small cars with 1.6 liter or smaller engines fell 9.2% YoY to 1.15 million units (a 10.2% decrease to 1.14 million units in April). On the other hand, sales of commercial vehicles jumped 15.2% YoY to 345,000 units (a 5.3% YoY increase to 362,000 units in April), marking the first double-digit increase in two months.

By type of passenger car, sales of sedans fell 9.3% YoY to 839,000 units (a 7.7% YoY drop to 838,000 units in April), sport utility vehicles (SUVs) jumped 13.5% YoY to 715,000 units (a 11.1% YoY increase to 684,000 units in April), and multi-purpose vehicles (MPVs) dropped 16.9% YoY to 150,000 units (a 19.9% YoY drop to 144,000 units in April). SUVs maintained steady growth.

Sales of new energy vehicles rocketed up 28.4% YoY to 45,000 units (a 7.9% YoY increase to 34,000 units in April). Out of those, sales of electric vehicles (EVs) skyrocketed up 49.0% YoY to 39,000 units (a 19.4% YoY increase to 29,000 units in April) while sales of plug-in hybrid vehicles (PHVs) plummeted 28.3% YoY to 7,000 units (a 26.8% YoY decrease to 5,791 units in April).

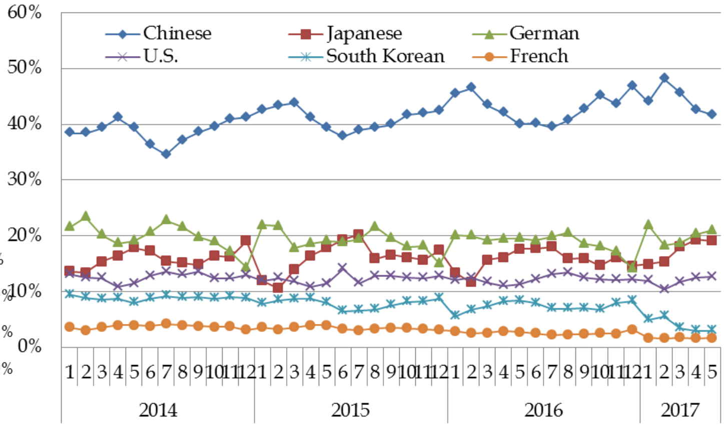
Turning to the sales shares in the Chinese passenger car market, Chinese automakers acquired 41.7% (42.6% in April), German automakers had 21.0% (20.3% in April), Japanese automakers seized 19.1% (19.3% in April), U.S. automakers held 12.6% (12.5% in April), South Korean automakers took 3.0%(3.0% in April) and French automakers kept 1.7% (1.7% in April). Out of foreign automakers, the Japanese share slipped slightly.

<Auto sales by month>



(Source) Created based on data published by CAAM

<Share of passenger car sales by country by month>



(Source) Created based on data published by CAAM

[Trade/Investment]

◆May: Exports rise 8.7% YoY and imports grow 14.8% YoY

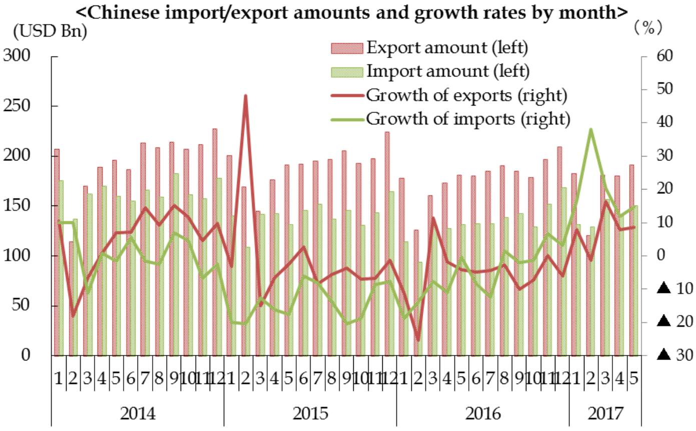
According to the trade statistic flash report (on a USD basis) published by the State Administration of Taxation (SAT) on June 8th, the total amount of exports/imports for May increased by 11.3% YoY (April: +8.0% YoY) to USD 341.25 Bn. Out of that figure, exports increased 8.7% YoY to USD 191.03 Bn (April: +8.0% YoY) and imports increased 14.8% YoY to USD 150.22 Bn (April: +11.9% YoY). The increased in both exports and imports grew from the previous month.

On a January-May cumulative basis, the total amount of exports/imports grew 13.0% YoY to USD 1562.93 Bn. Breaking the figure down, exports grew 8.2% YoY to USD 853.35 Bn and imports jumped 19.5% YoY to USD 709.58 Bn. The growth of imports greatly exceeded the growth of exports, as in the January–April period.

Regarding trade with Japan for January-May, exports increased 6.4% YoY (Jan-Apr: +6.9% YoY), while imports jumped 15.4% YoY (Jan-Apr: +16.1% YoY), however the amount of growth decreased for both.

In addition, regarding the trade balance for major trading partners (on an RMB basis), the surplus increased 12.2% YoY versus the U.S. and 8.0% YoY versus the EU, while the surplus dropped 14.7% YoY versus ASEAN and the deficit increased 170.0% YoY versus Japan.

<Chinese import/export amounts and growth rates by month>



(Source) Created based on data published by SAT

<Import/export amounts and growth rates by country/region for May 2017>

(USD Bn)

Country or region	Total import/ export (Jan.-May)	YoY	Exports (Jan-May)	YoY	Imports (Jan-May)	YoY
U.S.	219.3	14.1%	156.1	11.5%	63.2	21.4%
Japan	116.7	11.0%	54.2	6.4%	62.5	15.4%
South Korea	107.9	11.8%	40.9	14.2%	67.0	10.4%
Hong Kong	102.5	▲ 8.6%	99.7	▲ 4.1%	2.8	▲ 65.6%
Taiwan	71.7	9.7%	16.6	7.4%	55.1	10.4%
Germany	63.2	7.1%	27.2	8.2%	36.0	6.4%
Australia	55.5	42.1%	15.4	11.0%	40.1	59.3%
Vietnam	41.9	16.3%	26.2	14.3%	15.7	19.9%
Malaysia	37.4	18.9%	16.6	21.8%	20.8	16.6%
Brazil	33.3	38.0%	10.2	35.4%	23.1	39.1%

(Source) Created based on data published by SAT

◆UNCTAD: China becomes the number two country in the world in terms of outward foreign direct investment for the first time

According to the ”World Investment Report 2017” issued by the United Nations Conference on Trade and Development (UNCTAD) on June 7th, China’s foreign direct investment (including the financial sector) in 2016 decreased 1.0% YoY to USD 133.7 Bn in terms of inward foreign direct investment, and China's position rose from 4th to 3rd. In terms of outward foreign direct investment, the amount dramatically increased by 44.0% YoY to USD 183.1 Bn, and China's position rose from 5th as of the previous year, to 2nd for the first time ever.

The report pointed out that regarding China's outward foreign direct investment, M&As by Chinese companies targeting foreign companies increased drastically over a wide range from the manufacturing industry to the service industry. The report also analyzed that real estate purchases in developed countries (Australia, UK, and the U.S.) by Chinese individuals was one factor behind the foreign investment boom for China.

The report also indicated that establishing their own brands, enhancing their capability to innovate and developing distribution channels in foreign countries through foreign investment led to the creation of value chains in high-value added manufacturing fields (including high-end chemical products, IT, electronics, automobiles, and aircraft) and the expansion of market shares for Chinese companies. The report provided some specific examples: local companies obtained four-fifths of the share in the Chinese domestic market for the manufacturing of smartphones, major Chinese communications device maker “Huawei” obtained more than a 20% market share in five European countries, and the total market share of the four Chinese brands “Huawei,” “OPPO,” “Vivo,” and “Xiaomi” reached 46% in India.

On the other hand, regarding China's inward foreign direct investment, even though the reduction of investment to the financial sector affected the whole investment trend, investment to the non-financial sector remained strong. A shift to high-value added manufacturing was especially noticeable, as in large investment deals involving USD 100 Mn or more, there were 840 new deals and 450 increases in loan amounts. In addition, the report suggested that efforts such as the promotion of reform and opening-up policies from the central government to local governments, and the establishment of 4 Pilot Free Trade Zones contributed to the steady flow of direct investment.

Also, according to a survey conducted of major multinational companies, China continued from last year in its position as the second-most promising destination after the U.S. for foreign direct investment for 2017 to 2019, showing that China continues to be seen as an attractive destination for investment.

Furthermore, the total amount of direct investment in the world during 2016 was affected by the low growth of the global economy and increase in policy risk, resulting in a 2.0% YoY drop to USD 1750 Bn, but it is predicted to make a mild recovery in 2017 and grow by 5.0% YoY to USD 1800 Bn.

<2016 global ranking of FDI amounts / Top 20>

(Unit: USD Bn)

Inward foreign direct investment			Outward foreign direct investment		
Rank	Country/region	Amount	Rank	Country/region	Amount
1 (1)	U.S.	391	1 (1)	U.S.	299
2 (14)	UK	254	2 (5)	China	183
3 (4)	China	134	3 (3)	Netherlands	174
4 (3)	Hong Kong	108	4 (4)	Japan	145
5 (7)	Netherlands	92	5 (9)	Canada	66
6 (5)	Singapore	62	6 (8)	Hong Kong	63
7 (8)	Brazil	59	7 (12)	France	57
8 (16)	Australia	48	8 (2)	Ireland	45
9 (10)	India	45	9 (11)	Spain	42
10 (25)	Russia	38	10 (7)	Germany	35
11 (11)	Canada	34	11 (10)	Luxembourg	32
12 (15)	Belgium	33	12 (6)	Switzerland	31
13 (17)	Italy	29	13 (17)	South Korea	27
14 (9)	France	28	14 (15)	Russia	27
15 (21)	Luxembourg	27	15 (13)	Singapore	24
16 (13)	Mexico	27	16 (21)	Sweden	23
17 (2)	Ireland	22	17 (18)	Italy	23
18 (38)	Sweden	20	18 (186)	Finland	23
19 (24)	Spain	19	19 (14)	Belgium	18
20 (20)	Angola	14	20 (22)	Taiwan	18

(Note) The values in () indicate the previous year's ranks

(Source) Created based on data from the ”World Investment Report 2017” (UNCTAD)

<Promising destinations selected by multinational companies for 2017-2019/ Top 15 countries and regions>

Rank	Country / region	Rate
1 (1)	U.S.	40%
2 (2)	China	36%
3 (3)	India	20%
4 (8)	Indonesia	11%
5 (14)	Thailand	11%
6 (7)	Brazil	9%
7 (4)	UK	7%
8 (5)	Germany	7%
9 (7)	Mexico	7%
10 (9)	Philippines	6%
11 (25)	Spain	5%
12 (14)	Vietnam	4%
13 (18)	Singapore	4%
14 (18)	Canada	4%
15 (13)	Australia	3%

(Note) The values in () indicate the previous year's rank

(Source) Created based on data from the ”World Investment Report 2017” (UNCTAD)

◆Tianjin City and Qinghai Province announce a hike in minimum wage

The governments of Tianjin City and Qinghai Province recently announced a hike in their minimum wages.

Tianjin City raised its minimum wage from RMB 1,950 (July 2016 revision) to RMB 2,050, to be applied from July 1, 2017.

Qinghai Province raised its minimum wage from RMB 1,250 (May 2014 revision) to RMB 1,500, to be applied retroactively from May 1, 2017.

Aside from those two regions, Shanghai City, Shenzhen City, Shaanxi Province, Fujian Province and Shandong Province have applied or announced hikes in minimum wage this year, for a total of seven regions.

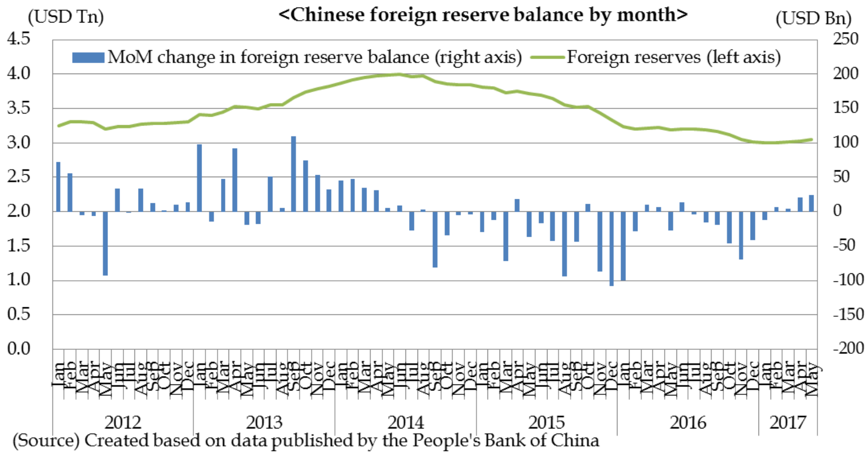
【Finance/Exchange】

◆May: Foreign reserves increase for the fourth consecutive month

According to an announcement by the People's Bank of China on June 7th, foreign reserves in May increased USD 24 Bn month on month to USD 3053.6 Bn, marking an increase for four consecutive months.

The State Administration of Foreign Exchange (SAFE) analyzed the foreign reserves in May and indicated that cross-border transfers of funds have maintained equilibrium, supply and demand of foreign exchange are also in balance, and that an increase of the converted USD value of assets denominated in other currencies due to the weak dollar was a factor behind the increased foreign reserve balance.

The report also indicated that the international financial market became stable this year, and since a rising trend can be seen in the exchange rate for the RMB, both individuals and companies refrain from selling RMB and buying foreign currencies, and the situation of foreign reserves is proceeding in a rational direction.



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

◆ The State Administration of Foreign Exchange (SAFE) strengthens monitoring of extraterritorial bank card usage

SAFE issued “Circular on reporting information on extraterritorial transactions using banking cards issued by financial institutions” (2017 No.15) on June 2nd. This circular requires banks issuing banking cards (e.g. debit cards and credit cards) to individuals within their regions to report information on extraterritorial cash withdrawal amounts and usage amounts to SAFE.

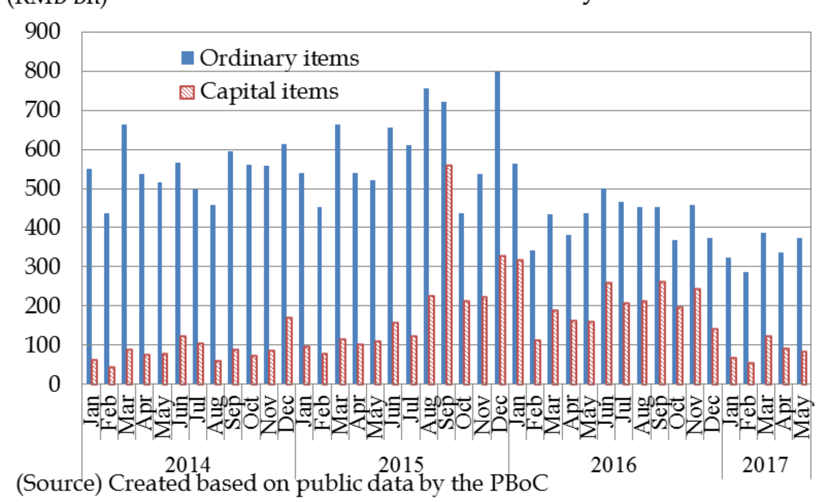
Specifically, banks will be required to report all information on cash withdrawals made via tellers, ATMs, etc. at extraterritorial financial institutions, as well as usage amounts exceeding RMB 1,000 per transaction for transactions conducted extraterritorially at brick-and-mortar stores or internet-based companies. The bank which issued the card must report relevant information on the extraterritorial usage of the card for the previous day to SAFE by 12:00 (Beijing time) each day.

SAFE has already adopted a total volume control system for extraterritorial transactions made with banking cards, but the new circular was announced as a measure to prevent issues such as money laundering, providing funds for terrorist activities and international tax evasion

◆May cross-border RMB settlement

The People's Bank of China (PBoC) announced on June 14 that the amount of cross-border RMB settlements in May stood at RMB 374.1 Bn for ordinary items, of which RMB 270.9 Bn came from trade of goods and RMB 103.2 Bn from trade in services. The amount was RMB 83.6 Bn for capital items, of which RMB 61.5 Bn came from inward foreign direct investment and RMB 22.1 Bn from outward foreign direct investment.

<Cross-border RMB settlement by month>



(Source) Created based on public data by the PBoC

◆The May rate of increase in the money supply slows to +9.6% YoY, the lowest ever, and new RMB loans increase RMB 10 Bn MoM to RMB 1.11 Tn

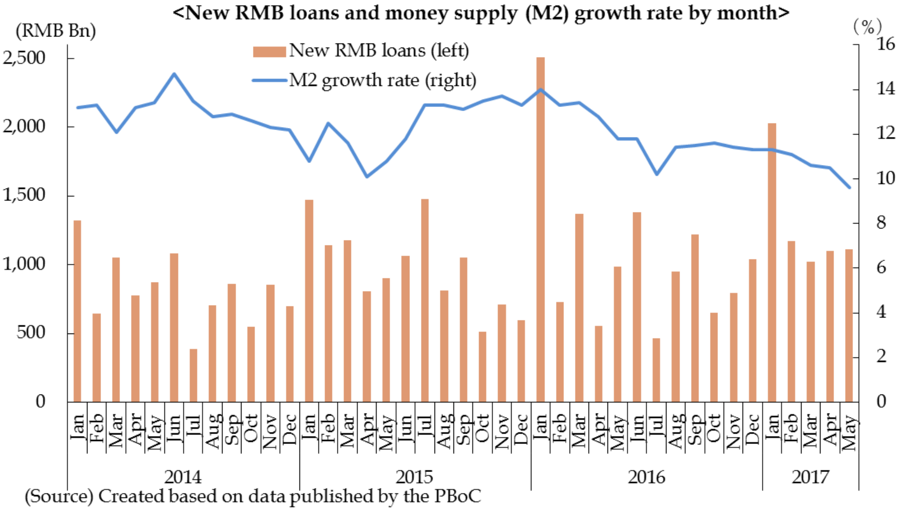
According to an announcement by the PBoC on June 14th, the money supply (M2) as of the end of May had increased 9.6% YoY to RMB 160.14 Tn, the rate of increase slowing 0.9 points from April to a historic low. The announcement stated that the deceleration was a reflection of lower leverage in the financial system resulting from the increased regulation of the financial industry by the authorities, which in turn prevented credit expansion through shadow banking.

New RMB loans for May increased RMB 126.4 Bn YoY and increased RMB 10 Bn from the previous month to RMB 1.11 Tn. Total social financing (Note), which shows the amount of liquidity supplied to the real economy, grew RMB 385.5 Bn YoY to RMB 1.6 Tn, down RMB 330 Bn from the previous month.

The PBoC stated that with regards to supervisory control over the financial industry, while they would continue to gradually reduce leverage, they would pay close attention to the strength and timing of the decreases and focus on striking a balance between reducing leverage and maintaining stable liquidity.

(*) 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

<New RMB loans and money supply (M2) growth rate by month>



(Source) Created based on data published by the PBoC