

# CHINA BIWEEKLY

RMB Internationalization Business Promotion Office  
Global Business Division

July 9th 2019

## ■ BIWEEKLY DIGEST

### [Economy]

- **June Manufacturing PMI at 49.4, below 50 for Two Consecutive Months**

### [Industry]

- **Housing Prices in May for 70 Medium-Sized and Large Cities: Month-on-Month (MoM) Growth in 67 Cities, Year-on-Year (YoY) Growth in 70 Cities**
- **Total Amount of Chinese E-Commerce Transactions in 2018 Up 8.5% YoY to RMB 32 Trillion**

### [Trade/Investment]

- **May Inward Foreign Direct Investment Increases 4.6% while Outward Decreases 19.6%**
- **U.S.-China Summit Meeting: U.S. Defers Fourth Round of Punitive Tariffs on China, with China Accelerating Market Opening-Up**

### [Finance/Exchange]

- **MUFG Bank Becomes First Japanese Bank Designated as RMB Clearing Bank**

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## [Economy]

### ◆ June Manufacturing PMI at 49.4, Below 50 for Two Consecutive Months

On June 30, the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced that the June manufacturing PMI was 49.4. It stayed flat month-on-month (MoM), below 50, the benchmark for judging the economy, for the second consecutive month (Fig. 1).

By item, new export orders decreased to 46.3 (down 0.2 percentage point MoM), and imports fell to 46.8 (down 0.3 percentage point MoM). Indexes for both exports and imports showed a further decline from the previous month.

New orders fell to 49.6 (down 0.2 percentage point MoM), below 50 for the second straight month. Production stayed above 50, but on a declining trend decreasing to 51.3 (down 0.4 percentage point MoM).

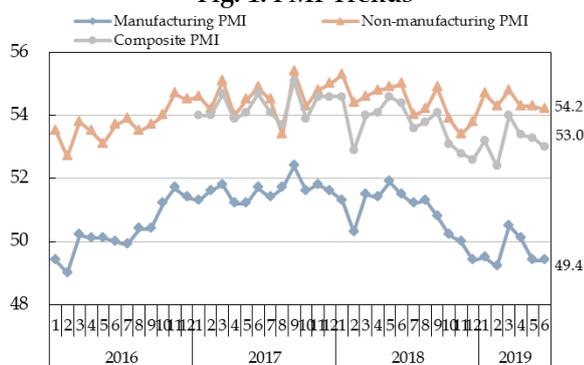
Moreover, the expected production and business activities index, which indicates future business confidence, dropped for the third consecutive month, to 53.4 (down 1.1 percentage points MoM) (Fig. 2).

Manufacturing PMI by company size was 49.9 for large companies (down 0.4 percentage point MoM), falling below 50 for the first time since February 2016 (49.9). On the other hand, the index was 49.1 for medium companies (up 0.3 percentage point) and 48.3 for small companies (up 0.5 percentage point MoM). Although remaining under 50, both indexes showed improvement from the previous month.

The non-manufacturing PMI for June decreased 0.1 percentage point MoM to 54.2 (Fig 1). By industry, services fell 0.1 percentage point MoM to 53.4, while construction rose 0.1 percentage point to 58.7.

The composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall economic sentiment in China, decreased 0.3 percentage point to 53.0 (Fig 1).

**Fig. 1: PMI Trends**



Source: Created based on data released by NBS and CFLP  
Note: Composite PMI has been released since 2017.

**Figure 2: Trends of Major Components in the Manufacturing PMI**

		Manufacturing PMI	Production	New orders	New export orders	Raw materials prices	Imports	Employment	Expected production and business activities
2018	Jan	51.3	53.5	52.6	49.5	59.7	50.4	48.3	56.8
	Feb	50.3	50.7	51.0	49.0	53.4	49.8	48.1	58.2
	Mar	51.5	53.1	53.3	51.3	53.4	51.3	49.1	58.7
	Apr	51.4	53.1	52.9	50.7	53.0	50.2	49.0	58.4
	May	51.9	54.1	53.8	51.2	56.7	50.9	49.1	58.7
	Jun	51.5	53.6	53.2	49.8	57.7	50.0	49.0	57.9
	Jul	51.2	53.0	52.3	49.8	54.3	49.6	49.2	56.6
	Aug	51.3	53.3	52.2	49.4	58.7	49.1	49.4	57.0
	Sep	50.8	53.0	52.0	48.0	59.8	48.5	48.3	56.4
	Oct	50.2	52.0	50.8	46.9	58.0	47.6	48.1	56.4
	Nov	50.0	51.9	50.4	47.0	50.3	47.1	48.3	54.2
	Dec	49.4	50.8	49.7	46.6	44.8	45.9	48.0	52.7
2019	Jan	49.5	50.9	49.6	46.9	46.3	47.1	47.8	52.5
	Feb	49.2	49.5	50.6	45.2	51.9	44.8	47.5	56.2
	Mar	50.5	52.7	51.6	47.1	53.5	48.7	47.6	56.8
	Apr	50.1	52.1	51.4	49.2	53.1	49.7	47.2	56.5
	May	49.4	51.7	49.8	46.5	51.8	47.1	47.0	54.5
	Jun	49.4	51.3	49.6	46.3	49.0	46.8	46.9	53.4

Source: Created based on data released by NBS and CFLP

## [Industry]

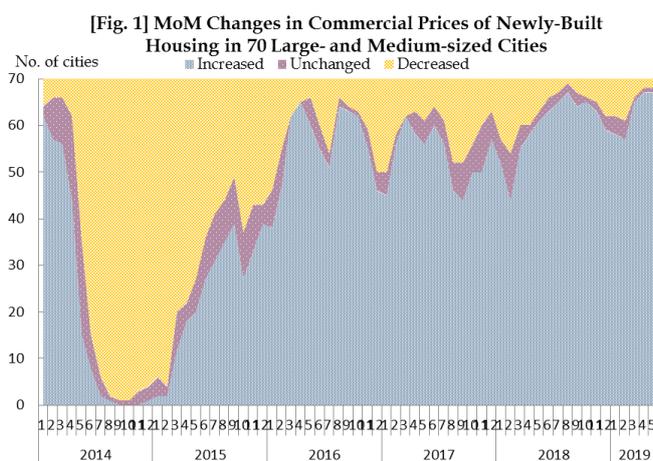
### ◆ Housing Prices in May for 70 Medium-Sized and Large Cities: Month-on-Month (MoM) Growth in 67 cities, Year-on-Year Growth in 70 Cities

On June 19, the National Bureau of Statistics (NBS) announced the housing price indices for 70 medium- and large-sized cities for May.

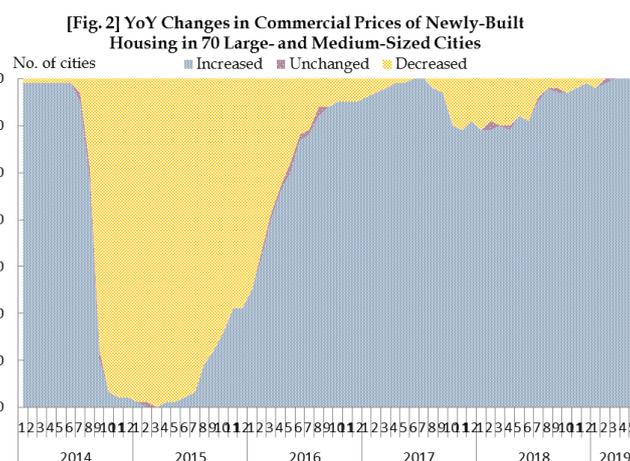
Sale prices for newly constructed residential buildings rose on a MoM basis in 67 cities, the number of cities remaining unchanged from the previous month. Prices decreased in two cities, also the same as last month (Fig. 1). On a YoY basis, prices increased in all 70 cities for the third month in a row (Fig. 2).

Prices that saw considerable MoM increases include Xi'an, Shaanxi Province at 2.0%, and Chongqing Municipality and Dali, Yunnan Province at 1.8% each. The cities in which prices fell were Shanghai

Municipality and Yueyang, Hunan Province, at 0.1% each. The cities with the largest YoY rises include Xi'an, Shaanxi Province (24.4%); Dali, Yunnan Province (22.2%); and Hohhot, Inner Mongolia (21.4%).



Source: Created based on data published by the NBS



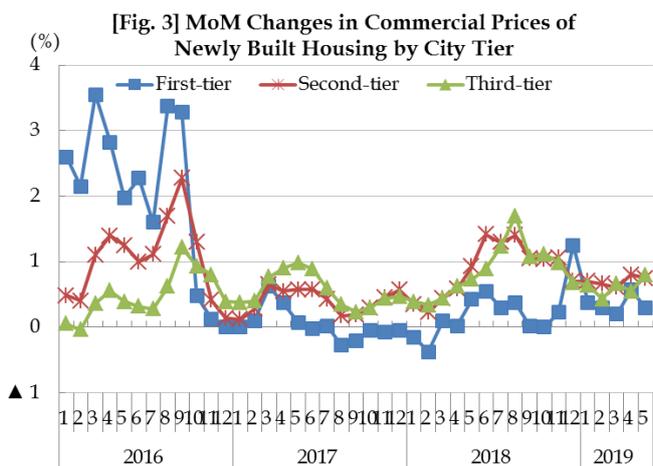
Source: Created based on data published by the NBS

Comparing MoM growth by the size of the cities, growth in the first-tier cities\* shrunk from the previous month, from 0.6% to 0.3%. Second-tier city\* growth remained unchanged at 0.8%, and third-tier cities\* increased their growth from 0.5% in the previous month to 0.8% (Fig. 3). Regarding YoY growth, first- and third- tier city growth remained unchanged at 4.7% and 11.3% respectively, and second-tier city growth contracted from 12.3% in the previous month to 12.1% (Fig. 4).

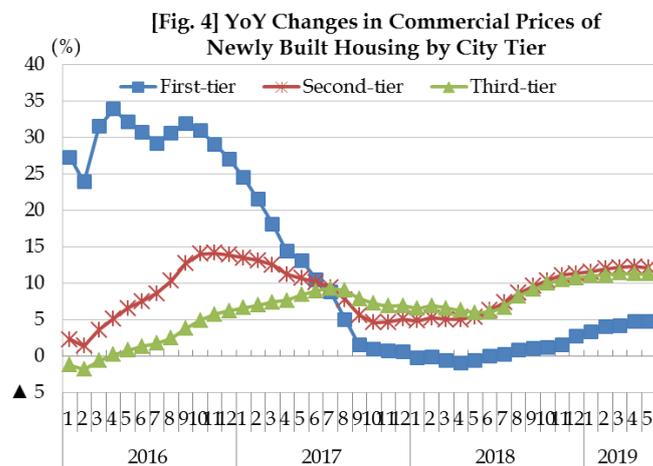
\* First-tier cities: Beijing, Shanghai, Guangzhou, and Shenzhen

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

Third-tier cities: The remaining 35 cities



Source: Created based on data published by the NBS



Source: Created based on data published by the NBS

On May 23, the Chinese Academy of Social Sciences, a governmental think tank, released the Real Estate Blue Book: China Real Estate Development Report (2019), with an outlook on the 2019 real estate market. The report stated that the government is keeping with its policies based on the principles of houses being for habitation and not speculation, and that housing policy should be set according to local regions. It thus predicts a drop in the nationwide average growth rate for newly constructed housing from 12.2% in the previous year to 7.6% this year.

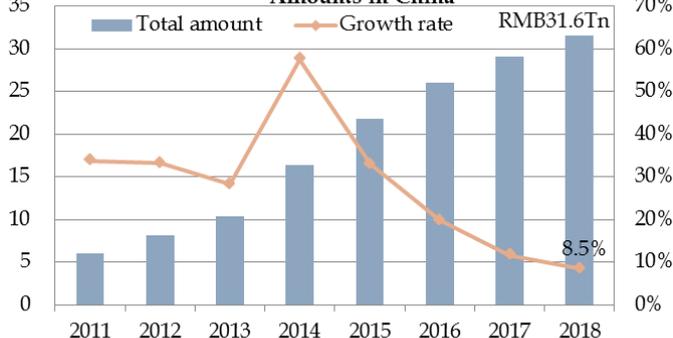
### ◆ Total Amount of Chinese E-Commerce Transactions in 2018 Up 8.5% YoY to RMB 32 Trillion

According to a report on e-commerce in 2018 released by MOFCOM on May 30, the total amount of e-commerce transactions in China in 2018 increased by 8.5% over last year to RMB 31.63 trillion (Fig. 1).

The amount of online retail transactions, which represents the amount of goods and services purchased by consumers, rose 23.9% YoY to RMB 9.01 trillion. Of that, transactions in rural areas increased 30.4% to RMB 1.37 trillion, surpassing the overall increase in the growth rate. Meanwhile, B2C-type transactions accounted for 62.8% of the total online retail transactions, while C2C-type transactions accounted for the remaining 37.2% (Fig. 3).

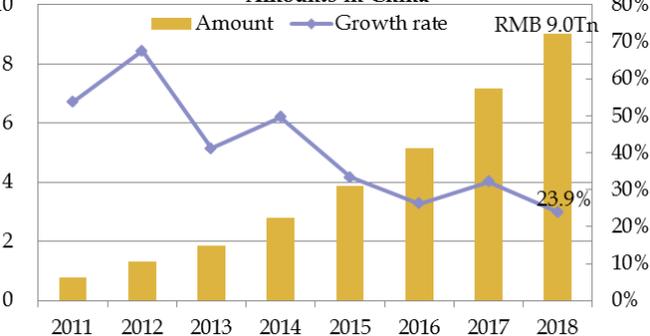
The three largest product categories in online retail transactions in order were apparel (accounting for 25.2% of all transactions), daily necessities (14.4%), and home appliances (10.6%). The three product categories with the highest growth rates were cosmetics (36.2%), foodstuffs (33.8%), and furniture (30.1%).

**[Fig. 1] Trends in Total E-commerce Transaction Amounts in China**



Source: Created based on MOFCOM 2018 e-commerce report

**[Fig. 2] Trends in Online Retail Transaction Amounts in China**



Source: Created based on MOFCOM 2018 e-commerce report

Looking at the market for electronic payment services for e-commerce, electronic transactions by non-bank payment institutions in 2018 increased by 45.2% YoY to RMB 208.07 trillion. The total number of transactions increased by 85.1% YoY to 530.6 billion.

2018 cross-border e-commerce retail trade involving customs increased by 50% YoY to RMB 134.7 billion. Although this is a considerable slowdown from the YoY growth rate of 80.6% to RMB 90.24 billion seen in 2017, the expansion is still pressing on. Breaking down that figure, imports increased 39.8% to RMB

78.58 billion while exports increased 67% to RMB

56.12 billion. Cross-border e-commerce retail is special in that the amount of household necessities, goods which are frequently purchased and used every day, is increasing. MOFCOM points out that cross-border e-commerce platforms are changing to look less like department stores and more like hypermarkets.

Turning to cross-border e-commerce retail imports, the top 3 product categories by import amount were cosmetics (35.9% of all imports), foodstuffs (24.2%), and apparel (13.3%). Furthermore, according to an e-commerce market research report by the Japanese Ministry of Economy, Trade and Industry,\* the top three regions for imports from China via e-commerce were Japan (21.5%), the U.S. (16.4%), and South Korea (14.7%).

\*2018 Report: Laying Foundations for Data-Driven Companies in Japan (Market Research in E-Commerce)

In related developments, e-commerce in China has been subject to a comprehensive e-commerce law since January 1, 2019. This law sets definitions for e-commerce sole traders, standards for performing transactions, and protections for consumer interests. It is expected to play a large role in creating order and building further industrial developments in the e-commerce market.

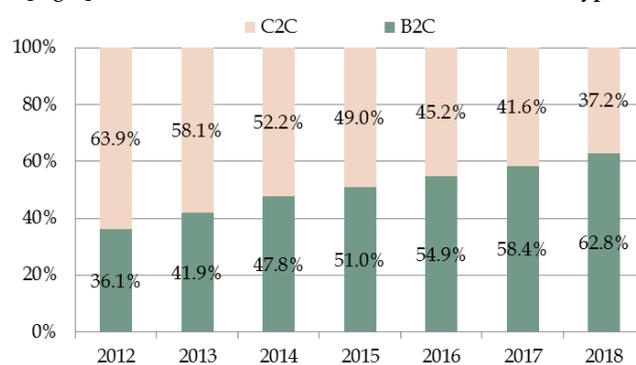
## [Trade/Investment]

### ◆ May Inward Foreign Direct Investment Increases 4.6% while Outward Decreases 19.6%

On June 13 and 18, the Ministry of Commerce (MOFCOM) released the statistics for inward and outward foreign direct investment (FDI; on an executed basis and excluding financial institutions) for May.

Inward FDI in May rose 4.6% YoY to USD 9.47 billion, growing 2.8% from the previous month. Outward FDI shrank 19.6% YoY\* to USD 9.90 billion, a 6.5% reduction and larger decrease from last month. However, the per-month investment amount has been on the rise for two months since April (Figs. 1 & 2). The cumulative total for January–May showed a YoY increase in inward FDI of 3.7% to

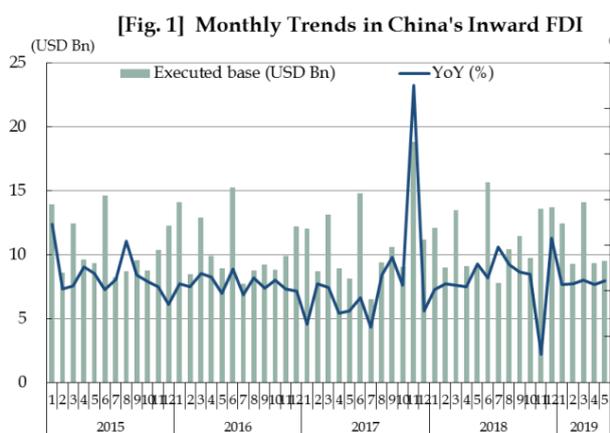
**[Fig. 3] Trends in the Ratio of Online Retail Transaction Types**



Source: Created based on MOFCOM 2018 e-commerce report

USD 54.61 billion, growing 3.5% over the January–April total. On the other hand, there was a YoY decrease in outward FDI of 7.0% to USD 44.54 billion, a further decline of 2.6%\* over the January–April total (Fig. 3).

\*Calculated by MUFG Bank based on data published by MOFCOM.



Source: Created based on data published by MOFCOM



Source: Created based on data published by MOFCOM.

Note: YoY calculated by MUFG Bank based on data published by MOFCOM.

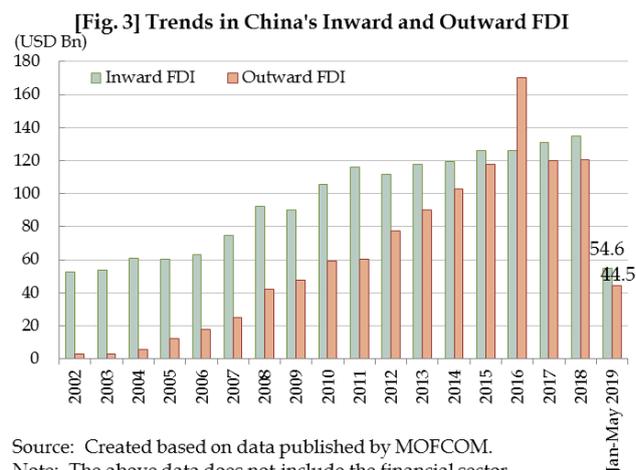
## <Inward FDI>

The number of foreign companies newly established in China from January to May decreased 31.5% YoY to 16,460, a sizeable drop from last year.

Looking at countries and regions, investment from Japan went up 13.8% YoY\* to USD 1.73 billion, entering into positive growth from the negative YoY growth of 2.1%\* seen in January–April figures. Extremely high growth was seen from both South Korea, rising 81.5% YoY\* to USD 3.14 billion, and Germany, which rose 94.3% YoY\* to USD 1.64 billion. On the other hand, Taiwan saw the largest drop, falling 25.1% YoY to USD 1.64 billion. This is thought to be an effect of the trade friction between the U.S. and China and of policies enacted by the Taiwanese government in January of this year to encourage local firms who were expanding in the PRC to return to invest in Taiwan (Fig. 4).

\*Calculated by MUFG Bank based on data published by MOFCOM.

By industry, investment in manufacturing rose 8.3% YoY to USD 16.64 billion, and services increased by 1.6% YoY to USD 37.08 billion.



Source: Created based on data published by MOFCOM.  
Note: The above data does not include the financial sector.

[Fig. 4] Top 10 Countries/Regions Contributing to China's Inward FDI for Jan–May 2019

Rank	Country/Region	Investment Amount (USD Bn)	YoY (%)
1	Hong Kong	37.90	0.9
2	South Korea	3.14	81.5
3	Singapore	2.48	▲ 12.1
4	Japan	1.73	13.8
5	Taiwan	1.64	▲ 25.1
6	USA	1.44	3.6
7	UK	1.06	7.1
8	Germany	1.03	94.3
9	Macau	0.71	▲ 1.4
10	The Netherlands	0.57	▲ 18.6

Source: Created based on data published by MOFCOM.

Note: YoY calculated by MUFG Bank based on data published by MOFCOM.

## <Outward FDI>

Looking at outward FDI for January–May by country or region, investment in countries along the Belt and Road routes decreased 5.1% to USD 5.63 billion, following on from the decrease from the previous year seen in January–April figures. Among them, investment in Vietnam, Pakistan, UAE and Malaysia is the largest. By industry, the biggest rises were in telecom/software and IT services at 47.4% YoY and manufacturing at 16.1% YoY.

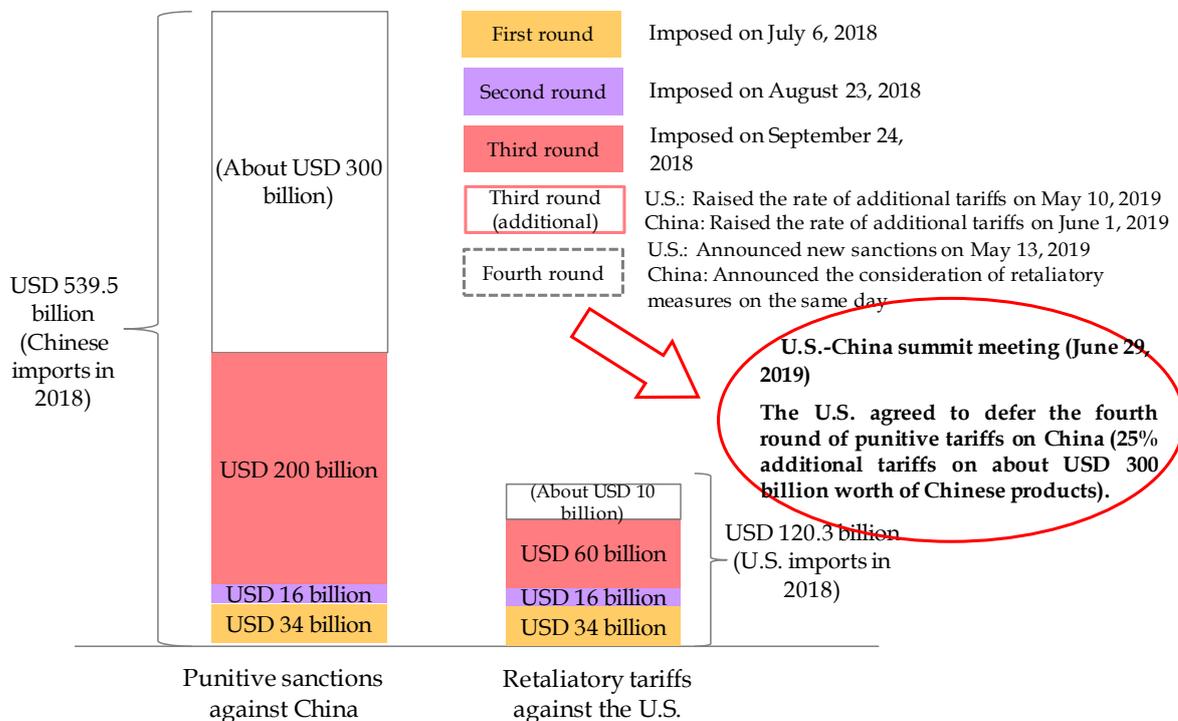
## ◆U.S.-China Summit Meeting: U.S. Defers Fourth Round of Punitive Tariffs on China, with China Accelerating Market Opening-Up

On June 29, a bilateral meeting between U.S. President Donald Trump and Chinese President Xi Jinping was held in Osaka, Japan on the sidelines of the G20 Summit. The trade friction between the two countries which has been the center of attention was discussed, with the outcome being that the U.S. agreed to defer the decision on the fourth round of punitive tariffs\*1 on China, and both sides agreed to resume trade negotiations, which have been stalled since the middle of May.

\*1 The planned fourth round calls for the imposition of additional tariffs of up to 25% on the remaining Chinese imports worth about USD 300 billion. The tariffs apply to 3,805 types of imports, excluding items such as pharmaceuticals, rare earths, and critical minerals, while including many consumer goods such as mobile phones, personal computers, and clothing.

Nonetheless, uncertainties over their trade negotiations remain due to a large gap between the two countries that still exists due to issues related to the U.S.'s demands for the correction of trade imbalance and structural reforms in the five areas of forced transfer of technology, protection of intellectual property, non-tariff barriers, cyberattacks, and services/agriculture, and China's three principles of the complete abolition of additional tariffs, the setting of a realistic numerical target for expanding U.S. imports, and the conclusion of a balanced final agreement.

### <Imposition of Additional Tariffs between the U.S. and China>



Note: The exports/imports for 2018 are based on announcements by the United States Department of Commerce.

On June 28, President Xi announced five initiatives related to China's future external policy during the discussion session on the world economy, trade, and investment at the G20 summit. The initiatives consist of ① further market opening-up, ② import expansion, ③ sustainable improvement of the business environment, ④ full-scale promotion of fair treatment, and ⑤ strong promotion of economic and trade negotiations. These initiatives are aimed at accelerating the opening-up of China, specifically by means such as establishing six new pilot free trade zones, concluding the EU-China investment treaty, and accelerating negotiations on the free trade agreement between China, Japan, and South Korea.

On June 30, after the summit ended, the Chinese government started moves towards further mitigation of regulations on foreign investment by announcing that revisions were to be made to the Special Administrative Measures for Foreign Investment Access (the Negative List), which is a list of industries for which foreign companies' investment in China is restricted or forbidden, and the Catalogue of Encouraged Industries for Foreign Investment.

Moreover, during a speech at the opening ceremony of the 2019 Summer Davos Forum in Dalian, China on July 2, Premier Li Keqiang announced the policy to accelerate the opening-up of the Chinese financial sector by abolishing foreign investment restrictions on companies such as securities companies and life insurance companies in 2020, one year earlier than the originally scheduled date of 2021.

### **[Finance/Exchange]**

#### **◆MUFG Bank Becomes First Japanese Bank Designated as RMB Clearing Bank**

As of June 27, the People's Bank of China (the central bank) designated MUFG Bank as an RMB clearing bank, whereby the bank will be responsible for RMB clearing business in Japan.

RMB clearing banks are established by the People's Bank of China in countries or regions outside China in order to enable RMB settlements in offshore markets. The establishment of such a bank in Japan was agreed upon by Premier Li Keqiang and Prime Minister Abe during a meeting held in May 2018. In addition to the Tokyo Branch of the Bank of China being designated as such in October of that year, MUFG Bank has now become the first Japanese bank designated as an RMB clearing bank.

Designation as a clearing bank will allow MUFG Bank to provide more stable RMB financing support than before. Moreover, MUFG Bank will contribute to the development of the RMB offshore market in Tokyo and the vitalization of Japanese investment in China.