

SCI China Market Update – April 2024

Dear Friends,

U.S. Treasury Secretary Janet Yellen arrives in Guangzhou April 4th to continue her economic dialogue with top Chinese officials, hopefully to help balance the relationship. It's interesting that China's 3-day Qingming Festival holiday also officially begins on April 4th. So, Yellen will keep her Chinese counterparts busy during the Festival from Guangzhou to Beijing. She is scheduled to leave Beijing for home on April 9th. This is Yellen's second in-person visit to China since July 2023. Although the tensions between the world's two largest economies, it seems both sides want to improve the relationship and avoid conflict. On April 2nd, Biden spoke to China's Xi again on Taiwan, Ukraine, Philippines and, of course, U.S. – China relations. The reports below on this event are from BBC, CNN, China Daily and Reuters:

BBC: Biden and Xi discuss US-China cooperation and conflict

US President Joe Biden and Chinese President Xi Jinping held a call on Tuesday in an effort to keep tensions between the two countries at a simmer. They discussed avenues of cooperation, including recent shared efforts to combat climate change and narcotics, according to summaries of the call. But there was significant disagreement on Taiwan and economic issues. Mr Biden stressed support for Taiwan, but Mr Xi called US interference in the South China Sea a "red line".

Mr Xi also took issue with sanctions the US has put on China and Chinese-owned companies, calling it an "endless stream of measures to suppress China's economy, trade, science and technology". "If the United States insists on suppressing China's high-tech development and depriving China of its legitimate right to development, we will not sit idly by," the Chinese leader said, according to a state media summary.

US Treasury Secretary Janet Yellen will soon visit China - after an American business delegation met with Mr Xi last week - and US Secretary of State Antony Blinken is expected to make a trip in the coming weeks.

CNN: Biden and Xi speak for first time since November summit amid global tensions

The White House described the one-hour-45-minute conversation as “candid and constructive” on a range of issues on which the leaders agreed and disagreed. Biden stressed the need to maintain “peace and stability” across the Taiwan Strait and he also raised his concerns over China’s support for Russia’s defense industry, the White House added.

Biden also noted his worries about China’s trade tactics that the White House said harm American workers and emphasized that the US will do what it must to prevent “advanced US technologies from being used to undermine our national security, without unduly limiting trade and investment.”

“The two leaders welcomed ongoing efforts to maintain open channels of communication and responsibly manage the relationship through high-level diplomacy and working-level consultations in the weeks and months ahead,” the readout stated, noting Secretary of State Antony Blinken will travel to China.

China Daily: Xi, Biden agree to advance cooperation

President Xi Jinping and United States President Joe Biden affirmed in a phone conversation on Tuesday the progress achieved so far in bilateral ties since their meeting in San Francisco in November, and agreed to strengthen communication to avoid misjudgment in order to push for the steady development of China-US relations.

The two heads of state considered their phone conversation to be "candid and constructive", according to a news release from the Foreign Ministry after the phone talk. The phone call was their latest interaction after exchanging congratulations on the 45th anniversary of diplomatic ties between the two countries on Jan 1.

Xi said that the stabilizing trend of bilateral ties in recent months has been welcomed by both societies and the international community. On the other hand, there has been an increase in negative factors that require attention from both sides, he added.

Xi stressed that the issue of strategic perception is always fundamental to the China-US relationship, just like the first button of a shirt that must be put right. Two big countries like China and the US should not cut off their ties or turn their backs on each other, still less slide into conflict or confrontation, he said. The two countries should

respect each other, coexist in peace and pursue win-win cooperation, he added, and the relationship should continue moving forward in a stable, sound and sustainable way, rather than going backward.

Reuters: Biden, Xi call navigates Philippines and Taiwan tensions

U.S. President Joe Biden sought to manage tensions over the South China Sea and Taiwan's May presidential inauguration in a call with Chinese President Xi Jinping on Tuesday, their first direct talks since meeting in November.

Biden used the call to emphasize "the importance of maintaining peace and stability across the Taiwan Strait and the rule of law and freedom of navigation in the South China Sea," the White House said in a statement.

Xi said ties between the China and the U.S. are beginning to stabilize, but warned that they could "slide into conflict or confrontation," according to China's official Xinhua news agency.

The nearly two-hour call between the leaders - described by Kirby as "business-like" - comes ahead of meetings next week between Biden, Japanese Prime Minister Fumio Kishida and Philippines President Ferdinand Marcos as China flexes its military might.

The current USD to RMB exchange rate is \$1 = RMB7.23 yuan. What else is new in the China economy? Below is some of the latest news culled from various public sources:

Worst Taiwan Quake in 25 Years Leaves 9 Dead, Hundreds Injured and 50 Missing

Taiwan's biggest earthquake in at least 25 years killed nine people on Wednesday, injuring more than 900, while 50 hotel workers were missing en route to a national park, authorities said, as rescuers used ladders to bring others to safety. Television broadcast images of buildings tilted at precarious angles in the mountainous, sparsely populated eastern county of Hualien, near the epicentre of the 7.2 magnitude quake, which struck just offshore at about 8am on April 3rd.

China's new factory data shows a bright start to the year

China's manufacturing activity expanded at the fastest pace in 13 months in March, with business confidence hitting an 11-month high, driven by growing new orders from customers at home and abroad, a private survey showed on Monday. The Caixin/S&P Global manufacturing PMI rose to 51.1 in March from 50.9 the previous month, above

analysts' forecasts of 51.0 and marking an expansion for the fifth consecutive month. The 50-point mark separates growth from contraction.

The upbeat results followed recent better-than-expected export and retail sales data, suggesting a bright start to the year for the world's second-biggest economy. Expansion in manufacturers' output and new orders accelerated last month, the PMI survey showed. External demand also picked up, pushing the gauge for new export orders to its highest level since February 2023. Businesses' confidence towards the year-ahead rose to its highest point since April 2023 on good news such as a reduction in input costs.

China's cabinet on March 1 approved a plan aimed at promoting large-scale equipment upgrades and sales of consumer goods. The head of the country's state planner told a news conference earlier in March the plan could generate market demand of over 5 trillion yuan (\$691.63 billion) annually.

China's services activity growth speeds up in March, Caixin PMI shows

China's services activity growth accelerated in March as new business rose at the quickest pace in three months, a private-sector survey showed on Wednesday, a sign sentiment was staging a tentative recovery in the world's second-largest economy. The Caixin/S&P Global services purchasing managers' index (PMI) edged up to 52.7 from 52.5 in February, above the 50-mark that separates expansion from contraction for the 15th consecutive month.

COSCO Shipping to bulk up with 80 new vessels

COSCO Shipping Specialized Carriers Co, a unit of State-owned China COSCO Shipping Co. based in Guangzhou, will add more than 80 vessels with different functions into its fleet over the next two years, said a senior executive on Tuesday.

Driven by the upgrading and diversification of China's foreign trade products, these new ships, including 24 car carriers with operational capacities between 7,000 and 8,600 units, 20 pulp carriers and a number of heavy lifting ships, will expand COSCO Shipping Specialized Carriers' fleet capacity to over 10 million deadweight tons by 2026. This expansion will further bolster China's ability to secure its supply chain.

China's foreign trade expanded 8.7 percent year-on-year to 6.61 trillion yuan (\$914 billion) in the first two months, while the country's exports of mechanical and electrical products amounted to 2.22 trillion yuan, an increase of 11.8 percent on a

yearly basis, accounting for 59.1 percent of its total export value, said the General Administration of Customs.

China eases car loan policy for first time since 2018 to boost demand

China's central bank on Wednesday announced revisions to car loans to promote auto trade-ins and scrap government-set minimum down payments for consumers financing new car purchases. The revisions, the first since the start of 2018, are the latest attempt to boost consumer confidence in the world's largest auto market, where a cut-throat price war and slowing demand have vexed both automakers and authorities. Prior to the revision, which takes effect immediately, NEVs were subject to a minimum down payment of 15%, and internal combustion vehicles to a 20% down payment limit.

Xiaomi's EV launch propels market value by \$4 billion, near GM and Ford

Shares of China's Xiaomi surged as much as 16% on Tuesday as the electronics maker's sporty electric vehicle launched last week drew strong interest, though a brokerage forecast the firm would lose nearly \$10,000 per car this year. Xiaomi has advised potential buyers of its sedan that they could face wait times of four to seven months, a sign of robust demand.

On Friday, the company said it had received 88,898 pre-orders for the car in the first 24 hours of sales. The company, which earns the majority of its \$37.5 billion revenue from selling smartphones, has already produced 5,000 SU7 vehicles it dubbed the "Founder's Edition" that it says come with additional accessories for early buyers. Due to surging demand, Xiaomi has asked suppliers to raise the SU7's monthly production capacity to 10,000 units, up from 3,000 in March and 6,000 in May, Chinese financial news outlet Yicai reported, citing sources.

Xiaomi Auto asks suppliers to ramp up production capacity

Xiaomi Auto recently required suppliers for its SU7 electric car to increase production capacity to 10,000 vehicles per month, news portal yicai.com reported on Tuesday. The production capacity for the high-end version has been specially asked to increase, said the news portal.

As of early morning of April 2, the number of confirmed order for SU7 reached 40,000 vehicles. According to research reports issued by multiple institutions, deliveries of SU7 are expected to reach 60,000 to 80,000 units this year.

Tesla's China-made EV sales edge up 0.2% y/y in March

U.S. automaker Tesla sold 89,064 China-made electric vehicles in March, a 0.2% increase from a year earlier, China Passenger Car Association (CPCA) data showed on Tuesday. Deliveries of China-made Model 3 and Model Y vehicles were up 47.5% from February. Chinese rival BYD with its Dynasty and Ocean series of EVs and plug-in hybrids, sold 302,459 vehicles last month, a 46% increase from a year earlier and its second-highest monthly sales tally after December.

Alibaba makes biggest ever quarterly share repurchase worth \$4.8 billion

Alibaba Group has bought back shares worth \$4.8 billion in the quarter ended March, the Chinese e-commerce giant said on Tuesday, in its biggest-ever repurchase after beefing up its stock buyback plan in February. The company had raised its share buyback plan by another \$25 billion in a bid to appease investors concerned over its growth prospects as it faces new market rivals such as PDD. The internet company in February reported net income to ordinary shareholders for the third quarter of 14.4 billion yuan (\$1.99 billion), a 77% slump, mainly due to impairments related to hypermarket operator Sun Art and online video streaming service Youku.

China generates over 32 zettabytes of data in 2023

It is estimated that China created more than 32 zettabytes of data in 2023, according to a survey on data resources conducted by the National Data Administration (NDA). By the end of 2023, the country had installed over 1.05 million standard racks across eight national computing hubs, with an average rack utilization rate of 61.9 percent, 3.9 percentage points higher than that in 2022, according to NDA.

China's COMAC wide-body C929 jet in 'detailed design stage', official says

Chinese state-owned planemaker COMAC's first wide-body jet is in its "detailed design stage", an executive said on Tuesday, following a report from the jet's fuselage manufacturer aiming to deliver the first fuselage section by September 2027. China is also working on a domestic wide-body engine. A COMAC representative at the Singapore Airshow last month said the C929's engine had not yet been chosen.

China's new home prices rise at fastest pace in over 2-1/2 years

New home prices in China rose at the fastest pace in more than two and a half years in March versus a month earlier, a private survey showed on Monday, driven by a slew of supportive steps to prop up the crisis-hit property sector. The average new home price across 100 cities rose 0.27% on month in March, the biggest rise since July 2021,

showed data from real estate researcher China Index Academy. That compared with a 0.14% on-month gain in February.

China's property sector, a pillar of the economy, has lurched from one crisis to another since 2021 after a regulatory crackdown on high leverage among developers triggered a liquidity crisis.

A series of stimulus and easing measures from local policymakers have struggled to boost sales or increase liquidity.

Beijing city authorities marginally eased home purchase regulations last week, repealing a rule which restricted individuals from buying a home in the city within three years of divorce.

The number of cities with on-month price rises for new homes in March was 43, an increase of three from February.

Mega city Shanghai logged the highest price rise of 1.09%, whereas the northeastern city of Changchun experienced the steepest drop of 0.68%.

However, total sales by value among 100 real estate companies plunged 49.0% year-on-year in the first three months of the year, indicating a turnaround for the sector is not yet in sight. Beijing has announced various measures in a bid to boost housing demand.

Coal production in China reach historic highs last year

Coal production and import volumes in China reached historic highs last year, driven by several factors, such as economic recovery and the rapid development of high-energy-consuming tech industries like computing power, said a trade body on Thursday. The national raw coal production in 2023 reached 4.71 billion metric tons, representing a year-on-year increase of 3.4 percent. Coal imports soared to 474 million tons, a 61.8 percent increase compared to the previous year. Coal exports also saw a rise, reaching 4.47 million tons, an 11.7 percent increase year-on-year.

Data from the association showed that over 1.03 billion kilowatts of coal-fired power plants have undergone ultra-low emission transformations, leading to a 0.2 percent decrease in coal consumption per kilowatt-hour of thermal power generation.

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