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SCI China Market Update – August 2020

Dear Friends,

China's market continues to recover from the COVID-19 pandemic. SCI's China market reps have already resumed their normal business travel for our clients by air, train, taxi and subway.

China reported 36 new coronavirus cases nationwide for August 3rd, compared to 43 cases the day before. Of the new infections, 6 were imported versus 7 the previous day, according to a statement by the National Health Commission. And China reported 21 new asymptomatic patients compared to 11 a day earlier. So travel domestically in China has become safe, in general, although it is still common practice to wear a mask for indoor activities.

As a sign of recovery, a total of 207 million passenger train trips were made in July as summer holidays drove up travel demand. This figure is 24% higher than that in the previous month, according to the China State Railway Group.

Another sign of recovery is that after nearly 6 months of closure, more and more cinemas are reopening from Shanghai to Suzhou to Tianjin to Beijing and so on. People can again enjoy movies while wearing masks and continuing to social distance.

So what else is new in the China market and economy? Below is some of the latest news culled from various public sources:

China's factories accelerate recovery in July

China's factories stepped up activity in July for a fifth straight month as improving prospects for electrical and pharmaceutical goods helped sustain a broader recovery from earlier coronavirus shutdowns.

The government's manufacturing Purchasing Manager's Index (PMI), released on Friday, unexpectedly rose to 51.1 in July from June's 50.9. That was the highest reading since March and dashed analyst expectations for a fall to 50.7. The 50-point mark separates growth from contraction on a monthly basis.

The PMI echoed upbeat readings from other major Asian export nations, with factory production in South Korea jumping at the fastest rate in more than 11 years, and Japan’s output snapping four months of decline.

China forex regulator vows greater opening, eyes reform on private equity investment

China will continue to expand financial market opening, including exploring reforms to the rules governing cross-border investment management involving private equity funds, the country’s foreign exchange regulator said on Saturday.

The State Administration of Foreign Exchange (SAFE) said in a statement it would maintain a push to “steadily expand two-way opening and interconnectivity of financial markets,” following a conference hosted by the regulator on Friday.

China has moved to relax restrictions on access to its financial markets in recent months amid rising tensions with the United States, including revising rules to scrap quotas under two major inbound investment schemes. SAFE also pledged on Saturday to keep fighting foreign exchange risks, including those involving cross-border capital flows, and vowed zero tolerance on criminal exchange activities, including underground money changers and cross-border gambling.

Market exchange rates in China -- Aug. 4

The following are the central parity rates of the Chinese currency RMB, or the yuan, against major currencies announced on Tuesday by the China Foreign Exchange Trade System:

§ U.S. dollar 100 / 698.03
§ Euro 100 / 820.50
§ Japanese yen 100 / 6.5809
§ Hong Kong dollar 100 / 90.065
§ British pound 100 / 912.46
§ Australian dollar 100 / 496.53
§ New Zealand dollar 100 / 461.41
§ Singapore dollar 100 / 506.99
§ Swiss franc 100 / 760.37
§ Canadian dollar 100 / 521.01
§ Korean won 17,092 / 100
§ UAE dirham 52.628 100

§ Saudi riyal 53.743 / 100
§ Hungarian forint 4,197.37 100
§ Swedish krona 125.39 / 100
§ Turkish lira 99.80 / 100
§ Mexican peso 324.48 / 100

The central parity rate of the yuan against the U.S. dollar is based on a weighted average of prices offered by market makers before the opening of the interbank market each business day.

The central parity rate of the yuan against the Hong Kong dollar is based on the central parity rate of the yuan against the U.S. dollar and the exchange rate of the Hong Kong dollar against the U.S. dollar at 9 a.m. in international foreign exchange markets on the same business day.

The central parity rates of the yuan against the other major currencies are based on the average prices offered by market makers before the opening of the interbank foreign exchange market.

China's goods, services trade surplus tops 243 bln yuan
China's international trade surplus in goods and services stood at 243.9 billion yuan (about 34.4 billion U.S. dollars) in June, official data showed. Trade income amounted to 1.57 trillion yuan while expenditure stood at 1.33 trillion yuan, according to the State Administration of Foreign Exchange.

Breaking it up, China's goods trade income stood at 1.44 trillion yuan with an expenditure of 1.12 trillion yuan, leading to a 317.8-billion-yuan surplus, data showed.

Meanwhile, services trade saw a 73.9-billion-yuan deficit, as services income and expenditure stood at 131 billion yuan and 204.9 billion yuan, respectively.

China's export tax rebates, exemptions top 812b yuan in H1
China granted export tax rebates or exemptions worth 812.8 billion yuan ($116.2 billion) in the first half of the year to relieve the financial pressure on enterprises amid the COVID-19 pandemic.

Starting from March 20, the country raised the export tax rebate rates for 1,464 items from 10 percent to 13 percent, or from 6 percent to 9 percent, according to the State Taxation Administration.

By the end of June, nearly 25,000 export firms benefited from the favorable policies. The country saw its foreign trade rise 5.1 percent year-on-year in June, with exports and imports up 4.3 percent and 6.2 percent, respectively, official data showed.

China's shipbuilding industry continues leading position globally: ministry
China's shipbuilding industry maintained its leading position globally in the first half of the year (H1) as it held sway in three key aspects, the Ministry of Industry and Information Technology has said.

The completion volume of shipbuilding in China, dropping by 10.6 percent year on year to 17.58 million deadweight tonnes (dwt) in H1, accounted for 37.2 percent of the global market share.

New shipbuilding orders, up by 3.4 percent from last year to reach 12.47 million dwt in H1, took up 67.5 percent of the market share worldwide. The volume of holding orders, down by 6.3 percent year on year to 76.54 million dwt in H1, accounted for 48.2 percent of the global market share.

China's oil, gas exploration investment hits record high in 2019
China's investment in oil and gas exploration set a record high of 82.13 billion yuan (about 11.76 billion U.S. dollars) in 2019, up 29 percent year on year, according to the Ministry of Natural Resources.

National exploitation of oil and gas saw a total investment of 252.71 billion yuan last year, rising 24.4 percent from the previous year, the ministry said in a report on its website.

During the period, newly added proven oil reserves saw year-on-year growth of 17.2 percent to reach 1.12 billion tons, while new proven natural gas reserves declined 2.7 percent year on year to 809.1 billion cubic meters.

Meanwhile, China's petroleum output in 2019 rallied by 1.1 percent year on year to 191 million tons, recovering from a 1.2-percent decline in 2018, the ministry said.

The country's natural gas industry also reported faster expansion, with the sector's production hitting 150.9 billion cubic meters, up 6.6 percent from a year ago. By the end of last year, the country's accumulated oil production stood at 7.13 billion tons while the output of natural gas reached 2.23 trillion cubic meters, the report said.

China's new coal projects account for 90% of global total in first half - study
China built more than half of the world’s new coal-fired power plants this year and accounted for 90% of new planned capacity, a study showed on Monday, with Beijing still commissioning new projects even as capacity worldwide declines.

Global coal-fired generation capacity saw a net decline of 2.9 gigawatts (GW) from January to June, the first drop on record for a six-month period, thanks to plant retirements in Europe and elsewhere, the U.S.-based think tank Global Energy Monitor (GEM) said in the study. But China added 53.2 GW of capacity to its project pipeline in the first half of this year - 90% of the global total - even as the world’s second-largest economy seeks to boost its use of renewable energy as part of a broader anti-pollution drive.

China, the world’s biggest coal consumer, also completed 11.4 GW of new capacity over the period, 62% of the global total, and the 12.8 GW that went into construction also amounted to 86% of the world’s total, GEM said. While coal as a share of China’s total energy consumption fell below 58% last year, a drop of more than 10 percentage points since 2012, the country’s overall coal use has continued to rise.

China said that most of its new generation capacity would come from renewables this year but also set targets allowing another 60 GW of coal-fired projects to go into operation. It has more than 250 GW of new capacity either proposed or under construction. But it remains unclear how much will be completed, with existing plants already facing losses as a result of overcapacity and low utilization rates. China has issued investment warnings to 10 regions, saying returns from coal-fired power would fall below government bond yields.

Christine Shearer, GEM’s coal program director, said it was unlikely that all of the proposed capacity would be completed, but much depends on China’s 2021-2025 five-year plan. “At the very least there will be pressure to allow the 98.5 GW under construction to carry through to commissioning, although there is also plenty of analysis at this point that suggests China would be better off financially just cancelling these plants," she said.

China's renewable energy capacity up in H1

China saw a robust growth in renewable energy capacity in the first half of the year (H1), data from the National Energy Administration showed. The generating capacity of photovoltaic (PV) power increased 20 percent year-on-year to 127.8 billion kWh, while that of wind power rose 10.9 percent over the same period last year to 237.9 billion kWh in H1.

During this period, new PV installations amounted to 11.52 million kilowatts and new wind power installations totaled 6.32 million kilowatts. China is forging ahead in renewable energy development amid its transition to a low-carbon economy. By the end of 2020, renewable energy will supply 1.9 trillion kilowatt-hours of electricity, which is 27 percent of total power generation, according to the government's 2016-2020 plan for renewable energy.

China auto sales expected to rise 15% in July: industry body

China's auto sales for July are expected to rise 14.9% year-on-year to 2.08 million vehicles. It expects January to July auto sales in China, the world's biggest auto market, to fall 12.7% year-on-year to 12.34 million units.

Sinopec-SK Wuhan Petchem plans Oct-Dec refinery overhaul

Sinopec-SK Wuhan Petrochemical Co, a subsidiary of state oil and gas group Sinopec Corp, plans to shut down its 170,000 barrels per day (bpd) refinery in late October for about 50 days of maintenance, three industry sources said.

Separately, the Wuhan-based company is due to switch off 800,000 tons a year ethylene plant from around mid-October for a regular overhaul for a similar duration, according to a report on Sinopec's website. The ethylene facility is a joint venture between Sinopec and South Korea's SK Innovation.

Home appliance sales rebound in second quarter

China's home appliance sector saw a strong rebound during the second quarter of this year, with total revenue rising by 2.64 percent on a yearly basis to 248.6 billion yuan ($35.6 billion), on the back of a healthy surge in online e-commerce retail, a new report said.

Retail sales of home appliances in China during the first six months of this year stood at 369 billion yuan, down 14.13 percent on a yearly basis due to the COVID-19 outbreak, said a report released by the China Center for Information Industry Development under the Ministry of Industry and Information Technology.

Home appliance manufacturers and retailers in the country have been readjusting their sales strategies in accordance with the various measures implemented to keep the epidemic under control and also to benefit from the consumption promotion policies. The strategy has paid off with overall sales improving significantly and returning to the levels seen last year, the report said. Online sales revenue of home appliances stood at 191.3 billion yuan during the January-June period, up 7.23 percent on a yearly basis. Online channels accounted for 51.84 percent of the total home appliance sales via retail channels, despite the challenges posed by the COVID-19 outbreak.

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Best regards,

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