

China Market Update – January 2023

Dear Friends,

The Chinese New Year, the Year of the Rabbit, will officially begin on January 22nd. So we will say Goodbye to 2022, the Year of the Tiger. The big question today is, can China say Goodbye to the severe outbreak of COVID-19 affections nationwide?

Since China's sudden ending of the 3-year long Zero-Covid policy and the re-opening of the country, new infections have soared - including our staff in China as well as my relatives, classmates and friends in Beijing, Tianjin, Suzhou, Shanghai, Shenzhen and elsewhere. The good news is that they recovered for the most part after, typically, about 3 days of high temperature and a cough. However, it's said that the top hospitals in my hometown Tianjin and other major cities are still full of patients and beds are scarce. The wealthy are trying to buy the imported Pfizer Paxlovid at extremely high prices on the black market.

On January 8th, the Chinese New Year holiday "Chunyun" started under the shadow of COVID. Beijing expects more than 2 billion passengers to take trips over the next 40 days, an increase of 99.5% year-on-year and reaching 70.3% of trip numbers in 2019. So, we have to keep our fingers crossed and hope these New Year trips will not cause a second wave of pandemic in smaller cities and even the countryside.

Also on the 8th, China reopens its borders in a final farewell to its Zero-COVID policy. Thus, international flights were increasing in and out of all major airports. Below is the BBC's report:

"China has reopened its borders to international visitors for the first time since it imposed travel restrictions in March 2020.

Incoming travelers will no longer need to quarantine - marking a significant change in the country's Covid policy as it battles a surge in cases.

They will still require proof of a negative PCR test taken within 48 hours of travelling.

The move has been welcomed by many eager to reunite with family.

In Hong Kong, 400,000 people are expected to travel into mainland China in the coming weeks with long queues for flights into cities including Beijing and Xiamen.

On Sunday, double-decker coaches packed with travelers arrived at the Hong Kong-Zhuhai-Macau Bridge to catch buses to the Guangdong province - among them were college students returning home.

One man told the BBC he hadn't seen his extended family in five years and could not hold back his excitement, having just bought a ticket back to China.

A woman told news agency Reuters she had not seen her parents in years - despite one of them suffering from colon cancer - and said she was 'so, so happy'."

Many people believe more than 50% of the population in major cities including Beijing, Shanghai and Tianjin were affected since China's recent re-opening. One report was saying that 90% of the population in Henan Province were COVID infected by today and most of them were removed or recovering from the Omicron infections.

Although Beijing is saying that major cities have passed peak COVID-19 infections, based on my understanding of China's outbreak situation, my advice is that it will be a lot safer to wait and see and to begin travel to China no earlier than March, 2023.

Anyway, Asian shares rallied on Monday as hopes for less aggressive U.S. rate hikes and the opening of China's borders bolstered the outlook for the global economy. The current USD to RMB exchange rate is around \$1 = RMB6.77 yuan. What else is new in the China economy? Below is some of the latest news culled from various public sources:

Airlines lift China int'l flight capacity as border opens

Airlines have boosted January international seat capacity to and from China by 9.5% over the last week as they ramp up flights after its border opening, according to aviation data provider Cirium, though flights remain at a fraction of pre-pandemic levels.

Hong Kong's Cathay Pacific Airways Ltd. added more than 52,000 seats as its border with the mainland opened, putting it ahead of China's Xiamen Airlines, Juneyao

Airlines Co Ltd. and others in the 160,000 round-trip seat additions, schedules data from Cirium.

International capacity to and from China scheduled for the month of February has risen by 23% over the last week and for March by 13% over the same period, Cirium data showed.

A major jump in capacity is expected in April, after the start of the summer airline schedule season that begins on March 26. Seats to and from China will rise to 4.3 million a month in April, up from about 1.85 million in January, 2 million in February and 2.7 million in March, according to Cirium data. The April figure would represent around 25% of the capacity seen in 2019.

China foreign-exchange reserves rise \$11 billion to \$3.128 trillion in December

China's foreign exchange reserves rose in December, official data showed on Saturday, as the dollar fell against other major currencies. The country's foreign exchange reserves - the world's largest - rose \$11 billion to \$3.128 trillion last month, compared with \$3.154 trillion predicted by a Reuters poll of analysts and \$3.117 trillion in November.

The RMB yuan rose 2.8% against the dollar in December, while the dollar last month fell 2.3% against a basket of other major currencies.

Chinese-made mRNA vaccine starts trial production

China's CanSino Biologics Inc. has entered "test production phase" for its COVID-19 mRNA booster vaccine, the company said in a post on its social media account late on Thursday.

The vaccine, known as CS-2034, targets new Omicron variants of the virus, which are responsible for the vast majority of infections that have swept across China since the country began dismantling strict COVID curbs last month.

Until now, China has relied on nine domestically-developed COVID vaccines approved for use, including inactivated vaccines, but none have been adapted to target the highly-transmissible Omicron variant and its offshoots that are currently in circulation.

The CanSino booster vaccine is one of China's first home-grown potential vaccines based on mRNA technology similar to that employed in vaccines produced internationally by Pfizer-BioNTech and Moderna.

Pfizer working to send COVID pill Paxlovid to China

Pfizer is working with Chinese authorities to send its COVID-19 pill, Paxlovid, to the country that is dealing with a surge in COVID-19 cases, Chief Executive Officer Albert Bourla said in an interview with CNBC on Monday.

In February last year, China approved Paxlovid to treat high-risk patients in several provinces. The drug was supposed to be largely available via hospitals. Pfizer has also reached an agreement to export Paxlovid to China through a local company to make the medicine more widely available.

Oil jumps 2% on demand optimism as China's borders reopen

Oil prices jumped about 2% on Monday after China's move to reopen its borders boosted the outlook for fuel demand and overshadowed global recession concerns.

The rally was part of a wider boost for risk sentiment supported by both the reopening of the world's biggest crude importer and hopes for less-aggressive increases to U.S. interest rates, with equities rising and the dollar weakening.

Brent crude was up \$1.53, or 2%, at \$80.10 a barrel by 11:15 a.m. EST (1615 GMT). U.S. West Texas Intermediate crude rose \$1.69, or 2.3%, to \$75.46.

China's energy output in high gear in 2022

China has seen steady increases in a variety of energy resources in 2022 as the country stepped up efforts to ensure energy security against a volatile global market. The following is the output of the world's largest energy consumer's fossil fuel as well as clean energy in 2022:

- § China produced some 4.45 billion tons of coal last year, up 8 percent year-on-year.
- § Natural gas output topped 217 billion cubic meters, registering an annual increase of over 10 billion cubic meters for a sixth straight year.
- § Crude oil production climbed back to over 200 million tons.
- § The newly installed capacity of renewable energy reached 140 million kW, bringing the tally of total installed capacity to exceed 1.2 billion kW.

- § Wind and solar power saw their newly installed capacity surpass 120 million kW, a record high.
- § Major energy projects completed a total investment of about 2 trillion yuan (about \$290.2 billion), lending strong steam to the country's economic growth.
- § China also saw several landmark energy projects completed in 2022, including the world's largest clean energy corridor, and the most efficient compressed air energy storage station.

For 2023, China expects to produce 205 million tons of crude oil and secure an annual natural gas output growth of over 6 billion cubic meters.

By the end of this year, the installed capacity of wind power, solar power, and hydropower might reach about 430 million kW, 490 million kW, and 423 million kW, respectively.

China-Central Asia gas pipeline transports 43.2 bln cubic meters of gas in 2022

The China-Central Asia Gas Pipeline supplied 43.2 billion cubic meters of natural gas to China in 2022, according to PipeChina West Pipeline Company.

Currently, the pipeline transports around 100 million cubic meters of natural gas per day. By the end of last year, it had delivered a total of 423.2 billion cubic meters of natural gas to China since its operation in 2009.

Very large oil tanker delivered in China

Dalian Shipbuilding Industry Company (DSIC), a subsidiary of China State Shipbuilding Corporation, delivers the 300,000-metric-ton Kaihui to China Merchants Group on Wednesday.

The very large crude carrier (VLCC) features an air-layer drag reduction system and a multi-energy-saving integrated control and energy efficiency system with independent intellectual property rights owned by DSIC.

China National Nuclear Corporation reports steady growth in power generation

China National Nuclear Corporation (CNNC), one of the country's largest nuclear power operators, said the company had generated nearly 218.74 kilowatt-hours of electricity from commercial operation in 2022, up 11.17 percent year on year.

The CNNC said all its nuclear power units combined to generate a total of 185.2 billion kilowatt-hours of electricity last year -- up 7 percent from the 2021 level.

The company also reported a large expansion in new energy installed capacity -- such as wind and solar power -- with new energy power generation from such sources surging by 51.16 percent year on year to about 22.48 billion kilowatt-hours in 2022.

The CNNC said it aims to generate 228.5 billion kilowatt-hours of electricity this year, of which 183.5 billion kilowatt-hours will be nuclear power.

Tesla's Shanghai gigafactory delivers 710,000 vehicles in 2022

Tesla's Shanghai plant delivered 710,000 vehicles in 2022, an increase of 48 percent from 2021, the US electric carmaker said Thursday.

Delivery of the Model Y at the Shanghai Gigafactory exceeded 450,000 vehicles last year, while that of the Model 3 surpassed 250,000, it said.

In August 2022, the factory saw its 1 millionth vehicle leave the assembly line, less than three years after its first made-in-China car was delivered.

Established in 2019, the Tesla Gigafactory in Shanghai is the carmaker's first Gigafactory outside the United States, with an industrial chain localization rate of more than 95 percent and 99.99 percent of the employees being Chinese.

Foxconn's Zhengzhou factory resumes production to peak capacity

Foxconn has resumed its production capacity to peak season at its major manufacturing factory in Zhengzhou, central China's Henan Province.

The current production capacity has returned to the same as that in 2022. The current number of employees in the factory is about 200,000, returning to the normal staffing level, the Foxconn Zhengzhou Science and Technology Park said Saturday.

The Foxconn Zhengzhou Science and Technology Park is the largest manufacturing facility of Foxconn, covering nearly 5.6 million square meters. It handles nearly 80 percent of Foxconn's smartphone production capacity on the Chinese mainland.

In the fourth quarter of 2022, its production slowed due to COVID-19. Now, at the factory's shipping terminal, every day, more than 200 container truck trips will be made

to the Zhengzhou Xinzheng International Airport, where the smartphones produced in the park will be delivered to consumers across the world.

For more information about doing business with China please visit our website at www.s-c-i.com or call me at 610-457-8380. Thanks!

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