

SCI China Market Update – July 2022

Dear Friends,

It seems my hometown of Tianjin has finally realized the “Dynamic Zero Covid-19” status. My friend Mr. Li told me that from May 20 to 29th, he had received the nucleic acid test 11 times, including two times on May 20th. Citizens of Tianjin are now allowed to travel to other low-risk cities in China.

The big news is that after more than two months of total lockdown Shanghai finally reopened. My Shanghai friend Mr. Zhang returned to his office after some three months of working from home. I am told that Shanghai will gradually resume restaurant dining beginning June 29th.

The Chinese mainland confirmed ONE locally-transmitted COVID-19 cases on June 28th in Guangdong Province, according to the National Health Commission. A total of 18 local asymptomatic carriers were newly identified on Sunday in seven provincial-level regions, including six in Liaoning. Finally, Beijing reopened schools. On Saturday the city announced it would allow primary and secondary schools to resume in-person classes shortly.

Finally, today on June 28th, Beijing and Shanghai reported no new local COVID infections, the first time both cities were in the clear simultaneously since late February.

Today’s good news is that China slashes COVID quarantine time for international travelers, finally! China slashed the quarantine time for inbound travelers by half on Tuesday, in a major easing of COVID-19 curbs that have deterred cross-border travel and resulted in international flights running at just 2% of pre-pandemic levels. Quarantine at centralized facilities has been cut to seven days from 14, and subsequent at-home health monitoring has been reduced to three days from seven, the National Health Commission said today. And earlier this month, China's aviation regulator said it had been in touch with some countries to steadily increase flight numbers in the second half of 2022.

Although business is resuming in China from Shenzhen to Shanghai to Suzhou to Tianjin to Shenyang, the impact of Shanghai's lockdown will last for a period of time. The current USD to RMB exchange rate is around \$1 = RMB 6.71 yuan, the USD is very strong to buy from China. What else is new in the China economy? Below is some of the latest news culled from various public sources:

China keeps lending benchmarks unchanged, wary of policy divergence risks

China stood pat on its benchmark lending rates for corporate and household loans, as expected, with global central banks' rate increases making it tough for Beijing to stimulate a weak domestic economy by lowering rates. The one-year loan prime rate (LPR) was kept at 3.70%, and the five-year LPR was unchanged at 4.45%.

China's power use up 2.5% in Jan-May

China's electricity consumption, a key barometer of economic activity, recorded stable growth in the first five months, official data has shown.

Total power use went up 2.5 percent year-on-year in the January-May period to 3.35 trillion kilowatt-hours (kWh), according to the National Energy Administration. Power consumed by the primary industry increased by 9.8 percent year-on-year, while that used by the secondary and tertiary industries rose by 1.4 percent and 1.6 percent, respectively. Residents' power consumption saw a year-on-year increase of 8.1 percent. In May alone, the power consumption stood at 671.6 billion kWh, down slightly by 1.3 percent from a year ago. While the electricity used in the primary sector gained 6.3 percent, that of secondary and tertiary sectors was down 0.5 percent and 4.4 percent, respectively.

Sanmen nuclear plant breaks ground on second phase construction

The second phase of the Sanmen nuclear power plant in Taizhou, Zhejiang province, commenced construction on Tuesday, its operator China National Nuclear Corporation said. The plant is expected to have an installed capacity of 5 million kilowatts after the second phase, units 3 and 4, is put into operation. It is expected to generate 40 billion kilowatt hours each year, the equivalent of reducing 30 million tons of carbon dioxide emissions.

The Sanmen nuclear power plant consists of six units, with units 1 and 2 put into operation in 2018. The two units generated 19.98 billion kilowatt hours in 2021 and more than 60 billion kilowatt hours so far, CNNC said.

China's May industrial profits slump again despite easing COVID curbs

Profits at China's industrial firms shrank at a slower pace in May following a sharp fall in April, as activity in major manufacturing hubs resumed, but COVID-19 restrictions still weighed on factory production and squeezed factory margins.

Profits fell 6.5% from a year earlier, less than the 8.5% decline in April, according to data released by the National Bureau of Statistics (NBS) on Monday. May's improvement was driven by surging profits in the coal mining and oil and gas extraction sectors, as the Russia-Ukraine war sparked a rally in global commodity prices.

China launches favorable policies to boost auto sales

China has launched a series of favorable policies to boost the sales of automobiles amid the country's efforts to resume car production and stabilize supply chains. In the latest move, the country has decided to slash the purchase tax by half for passenger cars no more than 300,000 yuan (about 44,800 U.S. dollars) with engine displacements within 2 liters purchased between June 1 and Dec. 31 this year.

The tax, which usually stands at 10 percent of a vehicle's sticker price, has now been cut to 5 percent. The market impact of the tax cut has been almost immediate as car stores have already started to get a flurry of inquiries from prospective customers. Overall, China's automobile production and sales rebounded in May from April, with total production and sales reaching 1.93 million and 1.86 million units in May, up 59.7 percent and 57.6 percent respectively month on month, according to the CAAM. As the COVID-19 infections gradually waned and logistics disruptions were addressed in the country, China's auto industry is expected to go back to normal operation soon, said the association.

BMW starts production at new \$2.2 bln China plant to ramp up EV output

Germany's BMW said on Thursday that production has formally begun at a new plant in China with an investment of 15 billion yuan (\$2.24 billion) as the carmaker accelerates electric vehicle (EV) production.

The Lydia plant, BMW's third car assembly facility in China, located in the northeastern city of Shenyang, Liaoning province, will increase BMW's annual output in the world's biggest auto market to 830,000 vehicles from 700,000 in 2021, the company said.

The plant is designed to be capable of producing battery-powered electric cars only according to market demand on its flexible manufacturing lines, BMW said. The first model that will roll off the Lydia plant's production lines is the i3, a pure electric mid-sized sports sedan, BMW said, increasing the range of its EV models for Chinese customers to 13 next year. Meanwhile BMW sold 208,507 vehicles in China, its biggest market, in the first quarter, marking a 9.2% drop from a year ago, according to a company filing.

Record numbers of Chinese graduates enter worst job market in decades

- 10.8 mln Chinese graduates to enter job market in weak economy
- Youth unemployment at 18.4%, 3 times higher than overall rate
- Graduates' jobs a top government priority amid stability risks

CATL's latest EV battery Qilin packs extra power

Battery giant Contemporary Amperex Technology Co Ltd on Thursday unveiled its Qilin battery that boasts the highest utilization efficiency in the world. The Qilin battery will power, among others, the pure electric model of Li Auto. Another knowledgeable source said CATL clinched a deal with Li Auto for the use of Qilin batteries beginning next year. For its part, CATL said on Thursday the battery model will be mass-produced from 2023.

Sized similar to other battery models in its class, such as US electric vehicle giant Tesla's 4680-format cells, Qilin batteries, however, deliver 13 percent more power, CATL claimed. With a record-breaking volume utilization efficiency of 72 percent, the latest battery is able to deliver a driving range of over 1,000 kilometers, the company said.

Qilin refers to a mythical beast that embodies the virtues of Chinese civilization and symbolizes good luck and prosperity.

Renewable energy development boosts China's pursuit for carbon goals

China has seen rapid development of renewable energy in 2021, laying a solid foundation for the country's pursuit of its carbon peaking and carbon neutrality goals, according to a report.

Last year, the country's renewable energy utilization amounts to the equivalent of saving 750 million tons of standard coal, helping reduce carbon dioxide emissions by about 1.95 billion tons, the report released by the China Renewable Energy Engineering Institute showed.

China's installed capacity of renewable energy reached one billion kilowatts in 2021, accounting for 44.8 percent of the country's total installed power capacity, the report said.

In terms of power generation, the country's renewable energy generated 2.48 trillion kilowatt-hours (kWh) of electricity in 2021, accounting for 29.7 percent of the total power generation, it said. By the end of May this year, the country's installed capacity of renewable energy hit a new record high by exceeding 1.1 billion kilowatts, the report noted. According to a five-year plan issued earlier this month, by 2025, the country's annual power generation from renewable energy sources will reach 3.3 trillion kWh, and renewable energy consumption will amount to the equivalent of saving 1 billion tons of standard coal.

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