

SCI China Market Update – June 2021

Dear Friends,

In 2016, Beijing replaced its decades-old one-child policy with a two-child limit to try to address the economic risks of a rapidly aging population. But the new policy failed to result in a surge in births, largely because of the high cost of raising children in Chinese cities, a challenge that still persists.

Now Beijing allows couples to have up to three children. The new “three-child policy” is a big step intended to deal with the increasingly aging society, labor shortages, and other problems that will affect China’s future. But some experts still doubt if this will really have sufficient impact on the long-term problem of a low birthrate.

The policy change will come with "supportive measures, which will be conducive to improving our country's population structure, fulfilling the country's strategy of actively coping with an ageing population", the official Xinhua news agency said following a politburo meeting chaired by President Xi Jinping.

Among those measures, China will lower educational costs for families, step up tax and housing support, guarantee the legal interests of working women and clamp down on "sky-high" dowries, it said, without giving specifics. It would also look to educate young people "on marriage and love".

I’ve talked with my friends and relatives about this in big cities like Tianjin, Beijing, Shanghai, Suzhou and Shenzhen. They told me that housing is extremely costly compared to their income levels, and that the cost of living in general is extremely high - from weddings, quality baby formula and diapers, to nursing and medical care, to education, to even daily food and drink. These costs frighten young people away from having more than one child. Still, I hope China can find a way for this new “three child policy” to make a difference. Otherwise, this nation of now 1.41 billion people will have to face near impossible demographic shifts.

Well, the current USD to RMB exchange rate is around **\$1 = RMB 6.40 yuan**. What else is new in the China economy? Below is some of the latest news culled from various public sources:

China administered total of 777.88 mln doses of COVID-19 vaccines as of June 6

China administered about 14.8 million doses of COVID-19 vaccines on June 6, bringing the total number administered to 777.88 million, data from the National Health Authority showed on Monday.

Sinopharm can provide more than 1 bln COVID-19 shots beyond China in second half of year

China National Pharmaceutical Group (Sinopharm) has the capacity to provide more than 1 billion COVID-19 vaccine doses to the world beyond China in the second half of this year, the firm's chairman Liu Jingzhen said late on Wednesday.

That level of supply capability assumes vaccination demand in China is being met, Liu said at a panel of the Global Health Forum of the Boao Forum for Asia. China promised in February to provide 10 million doses to COVAX.

China's imports grow at fastest pace in decade as materials prices surge

China's imports grew at their fastest pace in 10 years in May, fueled by surging demand for raw materials, although export growth slowed more than expected amid disruptions caused by COVID-19 cases at the country's major southern ports.

China's exports in dollar terms in May grew 27.9% from a year earlier, slower than the 32.3% growth reported in April and missing analysts' forecast of 32.1%. Imports increased 51.1% on year last month in dollar terms, the fastest growth since January 2011 but slower than the 51.5% rise tipped by the Reuters poll.

However, that figure -- a gauge of import values, not volumes -- was partly flattered by hot raw materials prices with demand for commodities such as coal, steel, iron ore and copper driven by easing pandemic lockdowns in many countries and ample global liquidity.

China posted a \$45.53 billion trade surplus for the month, wider than the \$42.86 billion surplus in April but less than the \$50.5 billion expected.

China factory growth picks up in May but inflation pressures build -Caixin PMI

China's factory activity expanded at the fastest pace this year in May as domestic and export demand picked up, though sharp rises in raw material prices and strains in supply chains crimped some companies' production, a business survey showed on Tuesday.

The Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) rose to 52.0 last month, the highest level since December and inching up from April's 51.9.

Analysts polled by Reuters had expected the index to remain at 51.9. The 50-mark separates growth from contraction on a monthly basis.

New orders rose at the strongest pace so far this year and a gauge for export orders was the highest since November, but the output reading, while still solid, was slightly lower than the previous month. China's economy posted record growth in the first quarter as it recovered quickly from the pandemic although analysts expect the brisk expansion to moderate later this year.

PBOC raises requirement for banks' forex deposits

China's central bank has decided to increase the amount of foreign-currency deposits that financial institutions need to hold as reserves starting on June 15, a move aimed at curbing sell-offs of foreign currencies after the renminbi's value climbed to a record high.

The People's Bank of China announced the increase in the required reserve ratio on foreign exchange deposits in financial institutions to 7 percent from 5 percent, to improve forex liquidity management in financial institutions. The new policy will take effect on June 15, a statement said on Monday.

The last time the central bank did so was in May 2007, when it boosted the ratio to 5 percent from 4 percent. This tightened the supply of foreign currencies in the onshore market and increased the costs of foreign currency denominated loans, according to experts.

The central parity of the RMB against the US dollar was 6.3682 on Monday - the strongest level since May 17, 2018.

The boosting of the forex deposit reserve ratio by 2 percentage points is a major move that is expected to reduce forex liquidity in China's onshore market, which is worth about \$20 billion, said Guan Tao, chief economist at BOC International. This tool is rarely used, and there are many other choices in the central bank's toolkit for tackling speculative forex trading, Guan said.

Long bets on yuan near six-month high; ringgit bears firm

Bullish bets on the Chinese yuan hit a near six-month high after a rally against the U.S. dollar, a Reuters poll showed on Thursday, while investors were long on most Asian currencies as nations ramped up their COVID-19 vaccination plans.

After turning bearish on several units last month, market participants were now long on Singapore dollar , the Taiwanese dollar and the South Korean won , according to a fortnightly poll of 12 respondents.

There was no respite for Malaysia's ringgit , however, as bearish views edged up, with the nation in the midst of a two-week lockdown that could weigh on its 2021 economic growth forecast.

Malaysia is seeing a surge in coronavirus infections, with the recent number of new daily cases higher than that of India on a per capita basis.

The yuan hit a three-year high against the dollar in May and enjoyed its best month in nine, prompting China's central bank to raise the FX reserve requirement ratio (FRR) for banks and warn against speculative bets on the currency.

Investors also remained short on the Thai baht . Thailand has seen the death toll from the virus rise ten-fold over two months.

Growth in China home prices to sustain momentum in 2021

China's home prices are expected to grow faster this year than anticipated a few months earlier fuelled by hot demand in major cities and easy liquidity, despite Beijing's heightened cooling measures, a Reuters poll showed.

As China's economy recovers from the COVID-19 shock, authorities have stepped up curbs on the property sector to guard against financial risks as concerns mount over speculative behaviour in some parts of the market. Home prices, however, extended a rising streak in recent months with heat spilling over into some smaller towns from metropolises. Average residential property price growth is estimated to grow 5% in 2021, according to 11 analysts and economists surveyed by Reuters.

The forecast topped a 3.3% gain tipped in a February survey, and slightly higher than around 4.9% gain in 2020. Home prices are seen slowing to 3% in the first half of 2022.

China's service trade rises 3.3% in first four months

China's service trade rose 3.3 percent to 1.56 trillion yuan (\$245.21 billion) in the first four months, the Ministry of Commerce said Thursday.

Of the total, service exports reached 746.21 billion yuan, up 23.2 percent year-on-year, and service imports stood at 818.24 billion yuan, down 10 percent year-on-year.

Compared with the same period in 2019 or the pre-pandemic level, however, service trade dropped 10.3 percent, with service exports up 20.5 percent and service imports down 27.3 percent.

Trade of knowledge-intensive services has been rising in the first four months as it hit 732.53 billion yuan, up 14.9 percent year-on-year, accounting for 46.8 percent of the total service trade, up 4.7 percentage points year-on-year.

Trade of travel services continued to decline. In the first four months, China's trade of travel services stood at 248.19 billion yuan, down 41.3 percent year-on-year.

In April alone, China's service trade hit 406.19 billion yuan, up 12.3 percent year-on-year, with service exports climbing 24.3 percent and imports growing 2.7 percent. The fastest growth was registered in three sectors -- financial, transport and insurance services.

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