

## SCI China Market Update – May 2019

Dear friends,

I returned from China on April 29<sup>th</sup> after a two-week trip that took me from north to south. One day later, U.S. negotiators arrived in Beijing again just before China's weeklong May Day holiday to try to finalize the new trade agreement to end the trade war. Ironically, the timing of my last China trip was very much the same – just ahead of the U.S. negotiators' arrival in Beijing.

Just as China's May Day (Labor Day) holiday began, all the news media reported U.S. Treasury Secretary Mnuchin's Twitter that, "Ambassador Lighthizer and I just concluded productive meetings with China's Vice Premier Liu He. We will continue our talks in Washington, D.C. next week". So, let's keep our fingers crossed for next week's D.C. round of meetings and hope they can work out the final version of the trade agreement for approval by Mr. Trump and Mr. Xi. We can then expect a ceasefire in the U.S. –China trade war to help trade get onto a new and better track. If this happens, China's tariffs and VAT should be reduced and "Made in USA" products can be more competitive in China, while sourcing from China can be cheaper and investment easier both ways. We hope the new agreement will encourage Chinese to buy U.S. products at better prices to the benefit of both nations. We should see pretty soon.

Anyway, it seems Beijing and Washington are working hard to try to hammer out a trade agreement that satisfies the political and economic needs of both sides. Let's keep our eyes open for the next steps. Here is some very recent China market news from various public sources:

### **Manufacturing remains in expansion territory**

The growth of manufacturing activity in China eased in April but remained within expansion territory, adding to the confidence that the country's economy is stabilizing.

The purchasing managers index for the country's manufacturing sector came in at 50.1 in April, slightly down from 50.5 in March, the National Bureau of Statistics said on Tuesday.

A reading above 50 indicates expansion, while one below it reflects contraction.

Senior NBS official Zhao Qinghe said in a statement that factory activity continued a steady expansion in April, with the subindexes for production and for new orders standing respectively at 52.1 and 51.4. The readings are slightly lower than those in March, but they are higher than the average performance of the first quarter.

### **Over 90% of Chinese listed firms report profit gains**

More than 90 percent of listed companies in China reported profit gains in 2018 despite economic headwinds, with the private sector showing better-than-expected results, Shanghai Securities News reported.

As of April 29, around 3,500 listed companies on the two major stock exchanges in the Chinese mainland have released their 2018 annual performance results, and over 3,100 firms made profit gains during the period. Combined revenues of the listed firms came in at around 45 trillion Yuan (6.7 trillion U.S. dollars), rising 11 percent year on year, while profits exceeded 3.4 trillion Yuan, edging up 0.05 percent.

Nearly 30 percent of the companies saw profit growth of more than 30 percent, the paper reported. Of the profitable companies, private businesses accounted for 61 percent, a positive sign for the broader economy for the sector's key role in driving growth of employment.

Construction materials, petrochemicals, steel and coal are among the industries that nailed high profit growth, with the average profit growth in the construction sector reaching 60 percent, the paper reported.

### **Tesla races ahead with work on Shanghai plant**

Tesla's Gigafactory 3 plant in Shanghai, which is under accelerated construction, may produce cars in September this year, a worker at the site told the Global Times.

That would be several months earlier than Tesla CEO Elon Musk's original plan. He announced at the plant's ground-breaking ceremony in early January that the factory would start to produce Model 3s at the end of this year. However, the rapid construction speed might lead to some problems such as insufficient testing of equipment, an expert cautioned on Sunday.

### **Chinese electric car maker BYD's first-quarter profit up 632%, sees first-half profit up**

Chinese electric vehicle maker BYD Co Ltd, backed by U.S. investor Warren Buffett, reported on Sunday a 632 percent jump in its first-quarter net profit, buoyed by strong demand for its new energy vehicles.

The Shenzhen-based car and battery maker, which has a joint venture with Daimler AG in China, said last month it expected first-quarter profit to rise by up to nearly 800 percent.

Profit surged to 749.73 million Yuan (\$111.4 million), up from just 102.4 million Yuan a year ago, when its earnings fell sharply due to cuts to subsidies for electric vehicles.

BYD said it expected half-year net profit to rise to 1.45 billion Yuan to 1.65 billion Yuan, versus 479.1 million Yuan in the same period last year.

The company sold 117,578 vehicles in the first three months this year, up 5.2 percent from a year earlier. BYD, whose popular models include its Tang-series electric cars, has said it aims to sell 650,000 vehicles in 2019.

### **Copper prices supported by progress in U.S.-China trade talks**

Copper rose on Wednesday, supported by a softer dollar and as preparations began for a new round of U.S.-China trade talks following comments from officials that this week's discussions went well.

Benchmark copper gained 0.2 percent to \$6,424 per ton by 1040 GMT, having lost 1 percent in April.

### **Estee Lauder raises 2019 forecast on increased China demand**

Estee Lauder Cos Inc. raised its 2019 forecast for profit and sales on Wednesday after beating Wall Street expectations for third-quarter results on booming demand for luxury beauty products in China. The company and its rivals such as Lancome owner L'Oreal have thrived in recent years on strong demand for cosmetics from affluent Chinese shoppers, who spend more on high-end luxury goods. Sales in Asia-Pacific (APAC), which includes China, grew 25 percent to \$966 million in the quarter, allaying investor concerns of a potential slowdown in China's economy due to the U.S.-China trade war.

"We had anticipated a gradual moderation of growth in China and travel retail starting in the quarter, which didn't happen and that contributed to our overachievement," Chief Executive Fabrizio Freda said in a statement.

### **IMF upbeat on China's 2019 growth**

Prospects supported by expected stability, policies, analysts say

The International Monetary Fund said that it expects China's economy to grow 6.3 percent in 2019—up 0.1 percentage point from its prediction in January. Analysts said the world's second-largest economy is set to remain stable as authorities continue to implement supportive policies.

The outlook for China falls within the range of the country's targeted goal of securing between 6 percent and 6.5 percent growth for this year and is very close to that of Chinese researchers.

For more information about today's China market and opportunities please visit our website at [www.s-c-i.com](http://www.s-c-i.com) or call me at (610) 457 8380.

Best regards,

Shiqiang Gu  
President & CEO

-----  
Sino Consulting (SCI)  
8010 Fairview Lane  
Eagleville, PA 19403  
U. S. A.  
Tel: (610) 457 8380  
Email: [sgu@s-c-i.com](mailto:sgu@s-c-i.com)  
Web: [www.s-c-i.com](http://www.s-c-i.com)