

## SCI China Market Update – May 2020

Dear Friends,

From my hometown, Tianjin, to Beijing, Shanghai, Suzhou, Chongqing and Wuhan, China is still very much a “Kingdom of Face Masks”. But it does appear that the COVID-19 pandemic is finally coming under control.

Believe or not, China says all coronavirus patients in Wuhan have now been discharged. There are currently no remaining COVID-19 cases in Wuhan hospitals, a health official told reporters on Sunday. The city had reported 46,452 cases, 56% of the national total. It saw 3,869 fatalities, or 84% of China’s total. Wuhan and all of Hubei Province were really locked down by the end of January. No passenger planes, trains or cars could move in or out of Hubei Province for more than two months.

China’s strict stay-at-home quarantine practices and required face masks were strictly enforced from late January or early February till now and it seems to have paid off. China’s focus has already shifted from Wuhan to the northeast border province of Heilongjiang, which seems to have imported many coronavirus cases from Russia. Northeastern cities like Harbin and Shenyang are now under a strict system of monitoring, tracking and quarantine.

Regarding masks, SCI’s partner in Jiangsu Province developed high quality face mask production lines using melt blowing nonwoven technology. We have direct access to such face mask producers, as well as to PPE and hand sanitizer manufacturers. Please let me know if you may need any such products.

What’s new with today’s Chinese economy after the nation’s re-opening? Below are some very recent China market and economic news from various public sources:

### **China's April factory activity seen expanding**

Earnings of Chinese industrial firms saw a narrower drop last month and are set to further pick up as domestic demand recovers, officials and analysts said on Monday. They also urged more efforts to rescue exporters and small manufacturers facing mounting headwinds from the COVID-19 pandemic.

Profits of major industrial firms in China fell 34.9 percent on a yearly basis in March, improving from a 38.3 percent decline for the first two months of the year. Total first quarter industrial profits stood at 781.45 billion yuan (\$110.4 billion), down more than one-third year-on-year.

China's factory activity likely rose for a second straight month in April as more businesses re-opened from strict lockdowns. The official manufacturing Purchasing Manager's Index (PMI), due for release on Thursday, is forecast to fall to 51 in April, from 52 in March, according to the median forecast of 32 economists polled by Reuters. A reading above the 50-point mark indicates an expansion in activity.

### **3 COVID-19 vaccines enter Phase II trials in China**

Three vaccines - one adenovirus vector and two inactivated - have entered phase two of clinical trials in China, and more research is needed to evaluate their safety and efficacy, a researcher said on Monday.

### **Per capita GDP in 14 Chinese cities hits \$20,000**

The per capita GDP of 14 cities in China reached \$20,000 in 2019, with Shenzhen, Wuxi and Suzhou taking the top three spots, according to 21st Century Business Herald. The 14 cities, with a population of 143 million, range from first-tier cities such as Beijing, Shanghai to second- and third-tier cities such as Changzhou, Zhuhai and Erdos.

According to 21st Century Business Herald, per capita GDP is not only related to the total economic volume and employed population size, but also closely ties to the cities' industrial structure.

### **Average net worth of Chinese urban household nears RMB3 million yuan**

China's urban households posted 2.89 million yuan (about 408,000 U.S. dollars) in net assets on average, with generally stable debt levels, according to a survey. A team with the People's Bank of China, the central bank, carried out the survey over assets/liability among more than 30,000 households in cities across the country in October 2019. The survey was published on China Finance, a journal run by the central bank.

The survey showed that the median net worth of Chinese urban household stood at 1.41 million yuan. Total assets of the surveyed households averaged 3.18 million yuan, with the median at 1.63 million yuan. Households with higher income and college education have more assets on average, so do families engaged in company management or individually-owned businesses, according to the survey.

Nearly 60 percent of the surveyed household assets are real estate, and around one-fifth are financial assets, which averaged 649,000 yuan per family. In the meantime, 56.5 percent of the surveyed households have debts, which mainly consist of mortgage loans.

### **Exxon Mobil's \$10 billion China petrochemical complex**

Exxon Mobil kicked off construction on Wednesday of its \$10 billion petrochemical complex in south Chinese city Huizhou, state news agency Xinhua reported. The complex, which consists of a 1.6 million tonnes per year ethylene facility, is one of the few mega petrochemical projects in China wholly owned by a foreign investor.

### **China buys U.S. soybeans for third day in a row**

China agreed to buy 136,000 tons of U.S. soybeans, the U.S. Agriculture Department said on Friday morning, the third straight day in a row an export deal with the world's top soy importer has been announced.

Chinese buyers have booked 606,000 tons of U.S. soybeans this week - all for delivery in the 2019/20 marketing year - as futures prices fell to an 11-month low due to fallout from the coronavirus pandemic. China is preparing to buy more than 30 million tons of crops for state stockpiles.

### **British Airways increases flights from London to China**

British Airways is increasing the frequency of its cargo flights from China to import more supplies for UK healthcare workers. The airline announced that from next month it will operate 21 flights per week from Shanghai or Beijing to London, up from the current level of 13.

These flights from Shanghai and Beijing will be able to carry up to 770 tons of cargo for the NHS each week, including personal protective equipment (PPE) and

ventilators - aircraft will also carry private cargo. British Airways is operating the flights in partnership with its sister company, IAG Cargo, and the Government.

### **Nuclear energy providers powering on amid outbreak**

China National Nuclear Corp will balance epidemic control measures with business operations to ensure full-year targets are met while technological innovation and safety will continue to be stressed, said a senior executive of the State-owned company. Currently, about 99.5 percent of production subsidiaries of CNNC have resumed operations despite the ongoing COVID-19 pandemic, according to Gu Jun, general manager of the country's biggest nuclear power conglomerate in terms of production.

The company's 21 nuclear power units generated more than 20 billion kilowatt-hours of electricity since Jan 20, thus helping meet energy output demand amid ongoing work to fight the contagion. In March, China Nuclear Power Engineering, a subsidiary of CNNC, completed a key test in a nuclear power unit using Hualong One technology — a domestically developed third-generation reactor design — in Fuqing, Fujian province, marking an important step in the development of the unit before fuel loading begins.

The country's 47 nuclear power units in operation meet all safety standards, while the quality of the 15 sites under construction is also ensured, said Guo Chengzhan, director of the ministry's department of nuclear facilities safety supervision, at the conference.

### **China's Baosteel reports 43.6% drop in profit as pandemic hits demand**

Baoshan Iron & Steel, China's top listed steelmaker, reported a 43.6% plunge in first-quarter net profit on Tuesday and warned of a big first-half drop citing the coronavirus pandemic. Known as Baosteel, its January-March net income fell to 1.54 billion yuan (\$217 million) from 2.73 billion a year earlier, a filing to the Shanghai Stock Exchange showed.

### **China steel inventories extend fall fueled by construction demand, nonferrous stocks ease**

Steel stockpiles in China fell for a sixth straight week helped by accelerating demand in construction sector, but were still hovering near a five-year high as mills ramped up production after slowing output during the height of the

coronavirus outbreak. Stocks of steel products held by traders fell by 1.15 million tons to 20.13 million tons as of Thursday, data compiled by Mysteel consultancy showed. More than 70% of the fall was accounted for by construction use rebar and wire rod.

### **Chinese bank ICBC posts 3% profit rise despite pandemic**

Industrial and Commercial Bank of China Ltd (ICBC), the world's biggest commercial lender by assets, said net profit grew 3.04% in the first quarter despite the impact of the coronavirus pandemic. Profit rose to 84.49 billion yuan (\$11.94 billion) in the three months through March from 82.01 billion a year earlier, the bank said in a filing on Tuesday.

China's economy posted the first quarterly contraction since at least 1992 due to the coronavirus pandemic. The government restricted people from travelling and going back to work to contain the spread, reducing revenue for companies and income for residents.

### **Retail losses from Bank of China oil investment product could hit \$1.3 billion**

Retail investors may have lost more than 9 billion yuan (\$1.27 billion) from a structured crude oil product marketed by the Bank of China, financial news outlet Caixin reported on Sunday citing official sources. More than 60,000 individual investors have lost deposits worth as much as 4.2 billion yuan, it said. A third of the total had invested more than 50,000 yuan each.

The Bank of China's crude oil "bao" is sold to individual customers and linked to domestic and foreign crude oil futures contracts, including Brent and West Texas Intermediate (WTI). The Bank of China last week settled trades after WTI futures prices fell below \$0 for the first time, ending at minus \$37.63 per barrel as traders paid to get rid of their oil.

### **Daimler says China business picks up again: report**

Mercedes-Benz maker Daimler has seen business stabilize in China after the country ended coronavirus lockdowns, a senior manager at the German carmaker told a newspaper on Sunday. "In China alone, we sold around 50,000 vehicles again in March. That makes us confident," said Markus Schaefer, managing board member for production, told Bild am Sonntag newspaper.

Mercedes-Benz delivered a total of approximately 477,400 passenger cars worldwide between January and March. The report did not say how many of those went to customers in China, who bought 694,200 Mercedes-Benz cars last year, 29% of total sales.

### **Tesla's China-made Model 3 prices rise after EV subsidies cut**

U.S. electric vehicle maker Tesla's prices for two China-made model 3 variants rose after authorities cut subsidies in the world's biggest auto market. China cut subsidies on electric vehicles by 10% this year, effective April 23, but there will be a three-month transition period.

After the adjustment, the starting price for the Shanghai-made Standard Range Model 3 sedans will rise to 303,550 yuan (\$42,900) from 299,050 yuan, while Long Range Model 3 cars, which Tesla plans to roll out from June this year, will be priced at 344,050 yuan versus 339,050 yuan, a company website showed. Prices for those models before subsidies remain unchanged.

### **Sweden's Autoliv profit beat lifts shares amid Chinese recovery**

Autoliv, the world's largest producer of airbags and seatbelts, reported a much smaller than expected fall in the quarterly earnings on Friday and said it had seen a recovery in demand and output in China as pandemic restrictions eased. First-quarter adjusted operating earnings at Autoliv fell to \$134 million from a year-ago \$173 million, but beat a consensus estimate of \$72 million by analysts published by the company. Sales fell 15%.

### **Swatch CEO says China sales rise but global situation still grim**

Swatch Group's sales at its own stores in China are up by almost a quarter during April, the watchmaker's Chief Executive Nick Hayek told Blick newspaper, but the global situation following the coronavirus outbreak remains tough.

"You will hardly believe it, but in our own shops in China where the crisis seems to be over, sales are 24% higher than they were in April 2019," Hayek said in an interview published on Friday. But elsewhere nearly all the company's stores are closed, he said.

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

Best regards,

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