

SCI China Market Update – November 2023

Dear Friends,

I spent several fruitful weeks in China in September and October visiting clients and friends in cities Beijing, Tianjin, Suzhou, Shenyang, Luoyang and Kunming. It was a long overdue and eye-opening trip, my first since the pandemic began. I personally witnessed China's fast recovery in the service sectors including high-speed trains, domestic flights, tourism and shopping. However, I also witnessed and heard a lot about the issues in real estate, manufacturing, the job market, foreign investment and deflation as well as concerns about US-China relations, Taiwan and the currency exchange rate. I met with our SCI staff, visited our business partners in both the South and North, and finally had a chance to visit with my brothers, relatives and friends in Beijing and my hometown Tianjin. I was so pleased to see that all of them, including SCI's clients, are doing very well.

It seems that U.S.-China relations have been warming-up recently. Here are some of the headlines taken from various sources on yesterday's Xi-Biden summit in San Francisco during the APEC:

BBC: US and China pledge to stabilize tense relationship after talks; US and China agree to resume military communications after summit.

CNN: Biden hails talks with Xi as some of the most productive the two leaders have had.

Reuters: Biden says 'blunt' talks with Xi yield deals on military, fentanyl, AI; Xi told Biden Taiwan is biggest, most dangerous issue in bilateral ties

Bloomberg: Biden-Xi Meeting Delivers Small Wins and Promises of Better Ties; Xi Says China Seeks to Be Friends With US, Won't Fight 'Hot War'

People's Daily: Pandas have long been envoys of friendship between Chinese, American peoples, says Xi

China Daily: Xi, Biden tackle pressing issues

Leaders agree to initiate more contacts on military, AI, climate, air travel, and exchanges
President Xi Jinping and US President Joe Biden agreed to enhance dialogue and cooperation in various fields during a summit on Wednesday, with both sides pledging to initiate intergovernmental talks on artificial intelligence, step up counter-narcotics cooperation and jointly tackle the climate crisis.

The two presidents agreed to, on the basis of equality and respect, resume high-level military-to-military communication. This includes the China-US Defense Policy Coordination Talks and the China-US Military Maritime Consultative Agreement meetings, as well as telephone conversations between theater commanders. They also agreed to commit to working toward a significant increase in scheduled passenger flights early next year, and expand educational, student, youth, cultural, sports and business exchanges.

The current USD to RMB exchange rate is \$1 = RMB7.24 yuan. What else is new in the China economy? Below is some of the latest news culled from various public sources:

China's factory output, consumption beat forecasts but property still a drag on economy

Summary:

- Industrial output, retail sales growth better than expected
- Property sales extend declines, investment slumps
- Oct indicators still show significant areas of economic weakness
- Economists expect RRR, interest rate cuts

China's industrial output and retail sales growth beat expectations in October, but the underlying economic picture highlighted significant pockets of weakness with the crisis-hit property sector continuing to forestall a full-blown revival. The world's second-biggest economy has struggled to mount a strong post-COVID recovery as distress in the housing market, local government debt risks, slow global growth and geopolitical tensions have dented momentum. A flurry of policy support measures have proven only modestly beneficial, raising pressure on authorities to roll out more stimulus.

China's industrial output grew 4.6% in October year-on-year, accelerating from the 4.5% pace seen in September, data from the National Bureau of Statistics (NBS) showed on Wednesday, beating expectations for a 4.4% increase in a Reuters poll. It also marked the strongest growth since April. Retail sales rose 7.6% in October with improvement in both auto and restaurant sales growth, quickening from a 5.5% gain in September and hitting the fastest pace since May. Analysts had expected retail sales to grow 7.0% due to the low base effect in 2022 when COVID curbs disrupted consumers and businesses.

Property investment fell 9.3% in January-October year-on-year, after a similarly sharp 9.1% drop in January-September. Fixed asset investment disappointed with a 2.9% expansion year-on-year in the first 10 months, missing expectations for a 3.1% rise. It grew 3.1% in the January-September period.

China's forex reserves down in October

China's foreign exchange reserves came in at 3.1012 trillion U.S. dollars at the end of October, down 13.8 billion dollars from the end of September, the State Administration of Foreign Exchange said recently.

The country's foreign exchange regulator attributed this decrease to the combined impact of currency translation and asset price changes. The U.S. dollar index rose in October, and the prices of global financial assets declined, affected by the monetary policy expectations of major economies and their macroeconomic data as well as geopolitics, the regulator said.

China's Jan-Oct property sales fell 6.8% y/y, investment down 9.3%

Property sales by floor area in China fell 6.8% year-on-year in January-October, compared with a 7.5% slide in the first nine months of 2023, suggesting China's property sector is yet to emerge from its slump. Property investment in the first 10 months of 2023 fell 9.3% from a year earlier, after dropping 9.1% in January-September, according to data from the National Bureau of Statistics (NBS) released on Wednesday. New construction starts measured by floor area fell 23.2% year-on-year, after a 23.4% slump in the first nine months. Funds raised by China's property developers were down 11.0% year-on-year after a 13.5% fall in January-September.

More Chinese cities report falling home prices in October

More Chinese cities reported falling home prices in October, official data showed Thursday. The National Bureau of Statistics said 56 of 70 large and medium-sized cities saw month-on-month drops in new home prices, up from 54 in September, and 67 registered price declines for second-hand homes, compared to 65 in the previous month.

Next-gen internet accelerates data flow

China has launched the world's first ultra-high-speed next-generation internet backbone, with a transfer rate of bandwidth reaching 1,200 gigabits per second (1.2T), marking a milestone in global internet infrastructure, experts said on Monday at a news conference at Tsinghua University in Beijing. The backbone is a high-speed data transmission line that can provide network facilities to internet service providers.

Jointly developed by Tsinghua University, China Mobile, Huawei and The China Education and Research Network, the ultra-high-speed internet backbone covers more than 3,000 kilometers linking Beijing, Wuhan in Hubei province and Guangzhou in Guangdong province.

North American airlines bet on Asia to drive profit

The return of North American flights to Asia-Pacific is accelerating heading in to 2024, as carriers bet on the region as the next source of high-margin revenue at a time of soaring costs. A rebound in Asia is especially important for airlines where long-haul travel makes up a bigger mix of revenue. Carriers tapped pent-up demand last summer with sky-high fares on flights to Europe, but a return of those prices may not be in the cards next year as capacity grows, some analysts said.

Air Canada's estimated traffic to Asia would be "closer to 80-something percent" of 2019 levels next year, the carrier's vice president of network planning told Reuters. The planned capacity, which has not been previously reported, is a strong rebound from 2022, when the carrier's Asia-Pacific traffic was 33% of 2019 levels.

While United Airlines, American Airlines, and Delta Air Lines are offering fewer seats to Asia Pacific in the current quarter compared with 2019, the numbers are up 75% on an annual basis, according to aviation analytics company Cirium. In the first three months of 2024, the numbers will be up about 79% year-on-year. In contrast, seats on the flights of the three U.S. carriers to Europe will grow an annual 6%.

Nvidia plans to release three new chips for China - analysts

Nvidia plans to release new AI chips aimed at the Chinese market less than a month after U.S. officials tightened the rules on selling high-end AI chips to China. The chip industry newsletter SemiAnalysis said that the Nvidia chips are called the HGX H20, L20 PCIe and L2 PCIe and that Nvidia could announce them on Nov. 16 at the earliest. Nvidia's shares were up 3.3% in midday trading after the report.

The chips include most of Nvidia's newest features for AI work, but have had some of their computing power measures cut back to comply with new U.S. rules, according to the newsletter's analysis of the chip's specifications.

Nvidia has commanded more than 90% share of China's \$7 billion AI chip market, and analysts have said the U.S. curbs are likely to create opportunities for domestic firms such as Huawei to make inroads. Chinese internet giant Baidu placed a sizeable order for Huawei AI chips this year, sources have said. One said Baidu had done so before the U.S. curbs were announced as it was preparing for a future when it would no longer be able to purchase from Nvidia.

Huawei sales up 83%, boosting China's October smartphone sales

Strong sales growth at Huawei helped power an 11% rise in China's total smartphone shipments in October, data from research firm Counterpoint showed on Tuesday, indicating signs of recovery in its lagging mobile market. Huawei was a major contributor to the average year-on-year growth in the first four weeks of October, with its sales surging 83%, a note from the firm showed. In August, Huawei launched its Mate 60 smartphone series powered by what analysts said are a self-developed advanced chip.

China's natural gas consumption up 7% in Jan-Sept

China's natural gas consumption logged a steady rise in the first three quarters of 2023 amid efforts to achieve green development, data from the country's top economic planner shows. During the period, apparent consumption of natural gas stood at 288.75 billion cubic meters, up 7 percent year on year, according to the National Development and Reform Commission. In September alone, apparent consumption of natural gas rose 5.8 percent from the same period last year to 29.61 billion cubic meters. From January to August, China's natural gas output rose 5.7 percent year on year to 152.1 billion cubic meters, earlier data shows.

Mega gas field project in China's Bohai Sea commences production

China's largest offshore crude oil and natural gas producer announced Tuesday that its Bozhong 19-6 Condensate Gas Field Phase I Development Project has commenced production. The explored natural gas reserves of the project, located in the central Bohai Sea, exceed 200 billion cubic meters, and the reserves of condensate oil exceed 200 million cubic meters, China National Offshore Oil Corporation (CNOOC) Ltd. said in a statement. The main production facilities include one newly built central processing platform, three unmanned wellhead platforms, and one gas process terminal. Meanwhile, 65 development wells are planned to be commissioned, according to the statement.

China opens the deepest oil and gas well in Asia

China Petroleum and Chemical Corp struck sizable oil and gas flows on Wednesday in the deepest oil and gas well in Asia, a major milestone in the country's exploration of deep energy resources that will further guarantee China's national energy security. The Yuejin 3-3XC well of the Shendi-1 project in the Tarim Basin of Xinjiang Uygur autonomous region, achieved a daily crude production of 200 metric tons and natural gas of 50,000 cubic meters, a record for the deepest oil and gas well in Asia, said the company, also known as Sinopec. With a depth of 9,432 meters, the breakthrough marks significant advances in the exploration of oil and gas resources in ultra-deep areas in China, it said. The Tarim Basin sees its oil resources buried

between 6,000 meters and 10,000 meters accounting for 83.2 percent of its total, while the corresponding figure for natural gas is as high as 63.9 percent, it said.

China's installed capacity of household photovoltaic power tops 100m kW

China's installed capacity of distributed photovoltaic power generated by households has reached about 105 million kilowatts by the end of September, covering more than five million households in the country's rural areas, data from the National Energy Administration (NEA) showed Tuesday.

China's auto exports up 44.2% in October

China's automobile exports logged steady growth in October, data from the China Association of Automobile Manufacturers showed. The country shipped 488,000 vehicles overseas last month, up 44.2 percent year on year, according to the association. In breakdown, the exports of passenger vehicles stood at 421,000 units in October, soaring 50.5 percent from the same period last year. China's exports of commercial vehicles rose 14.5 percent year on year to 67,000 units during the same period.

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