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Domestic Trade

- Retail sales of consumer goods gain 10.5% yoy in 1-3Q15.
- Producer price index continues to drop.
- Household income shows high single-digit growth in 1-3Q15.
- Purchase tax reduced on passenger-vehicles with less than 1.6 litre engines.
- Minimum down-payment ratio lowered for first-time home buyers in cities without purchase restrictions.
- Entrepreneurs in the secondary industry become less optimistic.
- October PMI suggests a slow contraction in the manufacturing sector.

Foreign Trade

- Both exports and imports drop at a faster pace in 3Q15.
- Exports to the US, ASEAN and India post single digit growth in 1-3Q15.
- Value of deals signed at the 118th Canton Fair drops by 3.7%.
- FDI maintains positive yoy growth during 3Q15.
- Foreign exchange reserves fall for the fifth consecutive quarter.
- Exchange rate of the Chinese yuan against the US dollar fluctuates.
- 12 Pacific-rim nations conclude the Trans-Pacific Partnership deal.

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Executive Summary

Domestic Trade

Retail sales of consumer goods reached 21,608.0 billion yuan in 1-3Q15, up nominally by 10.5% yoy. Online retail sales of goods, which accounted for 10.0% of total retail sales, rose strongly by 34.7% yoy in 1-3Q15.

Ex-factory prices of industrial products have continued to drop. The producer price index fell by 0.4% mom in September, falling for twenty one consecutive months.

Household income showed high single-digit growth in 1-3Q15. The per capita disposable income of households in China amounted to 16,367 yuan in 1-3Q15, up by 9.2% yoy in nominal terms.

The purchase tax rate on passenger-vehicles with less than 1.6 litre engines has been reduced from 10% to 5%, effective from 1 October 2015 through 31 December 2016. According to the China Association of Automobile Manufacturers, the sales of passenger-vehicles registered strong growth of 13.3% yoy (or 10.6% mom) in October.

The minimum down-payment ratio for first-time home buyers in cities without purchase restrictions has been reduced from 30% to 25%. The government has continued its efforts to support the property market.

Entrepreneurs in the secondary industry have become less optimistic. The Entrepreneur Confidence Index for the secondary industry continued to trend downward, falling to 112.1 in 3Q15.

PMI came in at 49.8 in October, still below the critical 50-mark. The index reading suggests a slow contraction in the manufacturing sector.

Foreign Trade

Both exports and imports dropped at a faster pace in 3Q15. Exports and imports fell by 5.9% yoy and 14.4% yoy respectively in 3Q15, after declining by 2.0% yoy and 13.6% yoy respectively in 2Q15.

Exports to the US, ASEAN and India grew by 6.0% yoy, 5.7% yoy and 8.6% yoy respectively in 1-3Q15, showing that the demand for Chinese products from the US and major economies in South and Southeast Asia has remained relatively strong.

Total value of deals signed at the 118th Canton Fair dropped by 3.7% from the previous session. 46.0% of the orders signed in this session were scheduled to be fulfilled within three months. 116 of the top 250 global retailers visited the fair in this session.

FDI maintained positive yoy growth during 3Q15. By sector, FDI in the service sector and the manufacturing sector grew by 19.2% yoy and 0.7% yoy, respectively, in 1-3Q15.

Foreign exchange reserves fell for the fifth consecutive quarter in 3Q15. China's foreign exchange reserves fell by US$ 179.7 billion in 3Q15, amounting to US$ 3.51 trillion as at the end of 3Q15.

Exchange rate of the Chinese yuan against the US dollar has fluctuated in recent months. After a sharp depreciation in mid-August, the daily fixing rate of the Chinese yuan against the US dollar appreciated from 6.4085 on 27 August to 6.3154 on 2 November, before depreciating again to 6.3740 on 17 November.

12 Pacific-rim nations including the US and Japan announced the successful conclusion of the Trans-Pacific Partnership (TPP) deal on 5 October 2015. In terms of trade in goods, the TPP members commit to eliminating most of the tariffs on industrial goods and progressively on agricultural products traded among the member countries. As China is not a member country of the TPP, the trade pact may present a challenge to Chinese exporters.

Part 1 :

Domestic Trade

A Recent developments

1. China's real GDP growth decelerates

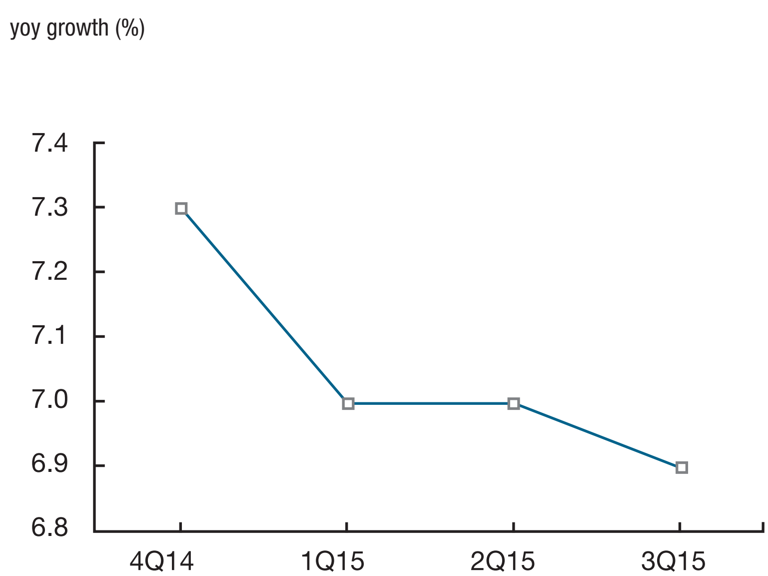
According to the National Bureau of Statistics, China's real GDP growth edged down to 6.9% year-on-year (yoy) in 3Q15 from 7.0% yoy in 2Q15 (see exhibit 1). The latest growth figure indicates that the Chinese economy has been growing at a moderating pace. Overall, in 1-3Q15, China's nominal GDP amounted to 48.8 trillion yuan.

The tertiary industry has continued to grow faster than the secondary industry. The value-added of the tertiary industry, which contributed 51.4% of China's nominal GDP in 1-3Q15, gained 8.4% yoy in real terms in 1-3Q15. Meanwhile, the value-added of the secondary industry, which contributed 40.6% of the country's nominal GDP, increased 6.0% yoy in real terms over the same period.

Since November last year, the government has taken a series of actions to support the economic growth. For example, China's central bank has cut the benchmark interest rates and the required reserve ratios (RRR) for financial institutions a few times, and mortgage policies have been relaxed. Also noteworthy is that, on 1 October, the government reduced the purchase tax rate on passenger-vehicles with less than 1.6 litre engines to 5%.

Looking ahead, we expect that the government will continue its efforts to support the economic growth in coming future. On the monetary front, we expect to see further interest rate reductions and RRR cuts this year. On the fiscal front, the government is likely to speed up the construction of railways, highways, airports and national underground pipe systems, as well as the redevelopment of shanty towns and the renovation of dilapidated houses in near future. Meanwhile, the government will still place heavy emphasis on structural reforms. It is expected that reform packages on fiscal and taxation systems, financial system and legal system will be introduced in near future. Supported by the positive impact of the pro-growth policies, we predict that China's real GDP growth will be around 6.9% yoy in 4Q15.

Exhibit 1 China's real GDP growth, 4Q14 to 3Q15



FY14	7.3%
4Q14	7.3%
1Q15	7.0%
2Q15	7.0%
3Q15	6.9%

Source: National Bureau of Statistics, PRC

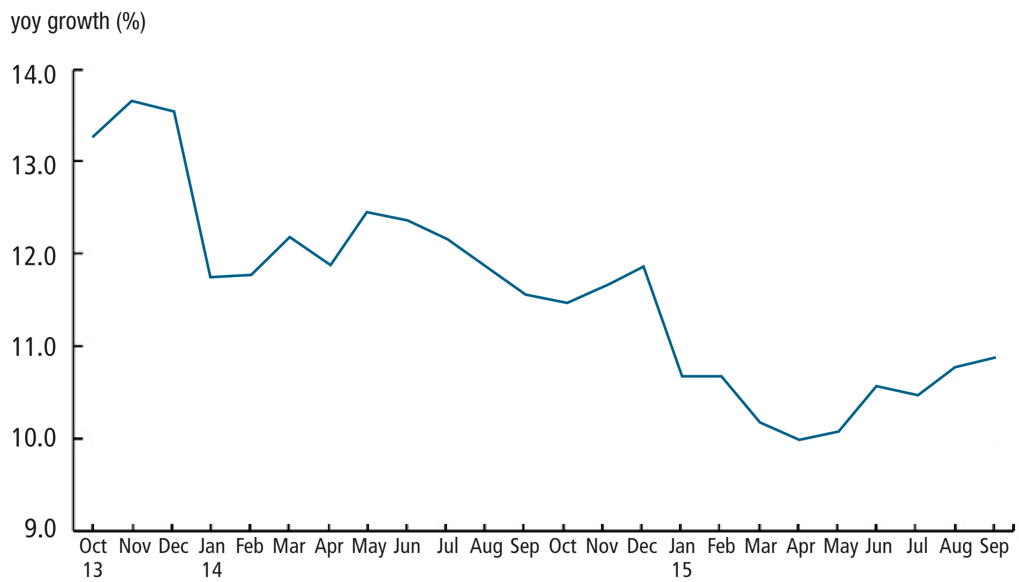
2. Growth of retail sales accelerates

According to the National Bureau of Statistics, the growth of China's total retail sales has bottomed out since April, accelerating to 10.9% yoy in September. On a month-on-month (mom) basis, the growth of seasonally-adjusted retail sales rose from 0.79% in July to 0.91% in August, and then stayed high at 0.87% mom in September. These figures indicate an improvement in consumer spending, despite the sharp fall in the A-share market in June to August.

Overall, in 1-3Q15, the total retail sales of consumer goods reached 21,608.0 billion yuan. The nominal growth rate was 10.5% yoy in 1-3Q15, compared to the 12.0% yoy growth seen in FY14 (see exhibits 2 and 3).

In 1-3Q15, China's online retail sales of goods rose strongly by 34.7% yoy to reach 2,151.0 billion yuan, accounting for 10.0% of China's total retail sales.

Exhibit 2 China's total retail sales, year-on-year nominal growth, October 2013 to September 2015



FY14	12.0
Oct 14	11.5
Nov	11.7
Dec	11.9
Jan-Feb 15	10.7
Mar	10.2
Apr	10.0
May	10.1
Jun	10.6
Jul	10.5
Aug	10.8
Sep	10.9

Source: National Bureau of Statistics, PRC

Exhibit 3 China's total retail sales, month-on-month nominal growth, April to September 2015

mom growth (%), seasonally adjusted

	Apr 15	May	Jun	Jul	Aug	Sep
Total retail sales	0.80	0.87	0.98	0.79	0.91	0.87

Source: National Bureau of Statistics, PRC

Rural retail sales have been growing faster than urban retail sales. In 1-3Q15, rural retail sales expanded by 11.7% yoy to 3,023.7 billion yuan, while urban retail sales rose by 10.3% yoy to 18,584.3 billion yuan.

The pace of retail sales growth diverged for different modes of sales: The nominal growth for catering services sales improved from 9.7% yoy in FY14 to 11.7% yoy in 1-3Q15. In contrast, the nominal growth for sales of goods decelerated to 10.4% yoy in 1-3Q15 from 12.2% yoy in FY14.

Retail sales of goods by enterprises above a designated size[1] rose 7.5% yoy to reach 9,492.6 billion yuan in 1-3Q15. By product category, sales of 'telecommunications equipment' achieved the fastest growth (35.8% yoy), boosted by the strong demand for smartphones. In contrast, sales of 'petroleum and related products' dropped by 6.9% yoy, partly attributed to the fall in fuel prices. The growth in sales for 'clothing, shoes, hats and textiles' came in at 10.2% yoy over the same period, down slightly from the 10.9% yoy growth seen in FY14. Exhibit 5 demonstrates the growth of China's retail sales by product among enterprises above a designated size.

Exhibit 4 China's total retail sales, 2014 to 1-3Q15

Nominal growth, yoy (%)	FY14	1Q15	1H15	1-3Q15
Total retail sales	12.0	10.6	10.4	10.5
Goods	12.2	10.5	10.3	10.4
Sales by enterprises above a designated size	9.8	7.8	7.4	7.5
Catering services	9.7	11.3	11.5	11.7

Source: National Bureau of Statistics, PRC

3. Consumer confidence improves

After dropping all the way from 109.9 in May to 104.0 in August, the consumer confidence index[2] rebounded to a four-month high of 105.6 in September, indicating an improvement in consumer confidence (see exhibit 6).

4. Household income shows high single-digit growth in 1-3Q15

In 1-3Q15, the per capita disposable income of households in China amounted to 16,367 yuan, up by 9.2% yoy in nominal terms (or 7.7% yoy real).

Growth of rural household income has outpaced growth of urban household income. In 1-3Q15, the per capita disposable income of rural households increased nominally by 9.5% yoy (or 8.1% yoy real) to reach 8,297 yuan; while the per capita disposable income of urban households rose by 8.4% yoy in nominal terms (or 6.8% yoy real) to reach 23,512 yuan.

1 'Enterprises above a designated size' refers to enterprises with annual sales of 5 million yuan or more and with an employee strength of 60 or more.

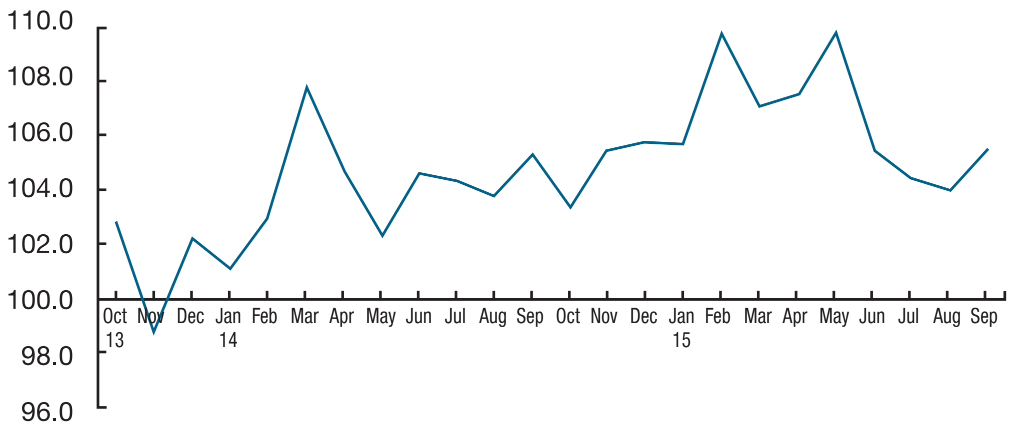
2 A reading above 100 indicates that consumers tend to be optimistic; a reading below 100 indicates that consumers tend to be pessimistic.

Exhibit 5 China's retail sales by enterprises above a designated size, by product, 2014 to 1-3Q15

Nominal growth, yoy (%)	FY14	1Q15	1H15	1-3Q15
Grain, oil and food	11.6	10.9	12.6	14.2
Beverages	11.6	12.8	13.8	15.4
Tobacco and liquor	9.1	9.7	10.9	12.1
Clothing, shoes, hats and textiles	10.9	10.5	10.7	10.2
Cosmetics	10.0	10.1	9.2	9.0
Gold, silver and jewellery	0.0	3.6	5.2	7.4
Products for daily use	11.6	14.9	12.7	11.8
Sports and entertainment products	1.8	8.9	11.7	14.5
Home appliances and video equipment	9.1	13.7	10.7	10.8
Chinese and Western medicines	15.0	15.1	14.5	14.7
Stationery and office accessories	11.6	14.2	14.3	15.3
Furniture	13.9	15.4	16.5	16.7
Telecommunications equipment	32.7	38.0	37.0	35.8
Petroleum and related products	6.6	-7.2	-6.5	-6.9
Automobiles	7.7	6.5	4.6	4.2
Building and decoration materials	13.9	15.8	17.4	18.6

Source: National Bureau of Statistics, PRC

Exhibit 6 China's consumer confidence index, October 2013 to September 2015



Oct 14	103.4
Nov	105.5
Dec	105.8
Jan 15	105.7
Feb	109.8
Mar	107.1
Apr	107.6
May	109.9
Jun	105.5
Jul	104.5
Aug	104.0
Sep	105.6

Source: National Bureau of Statistics, PRC

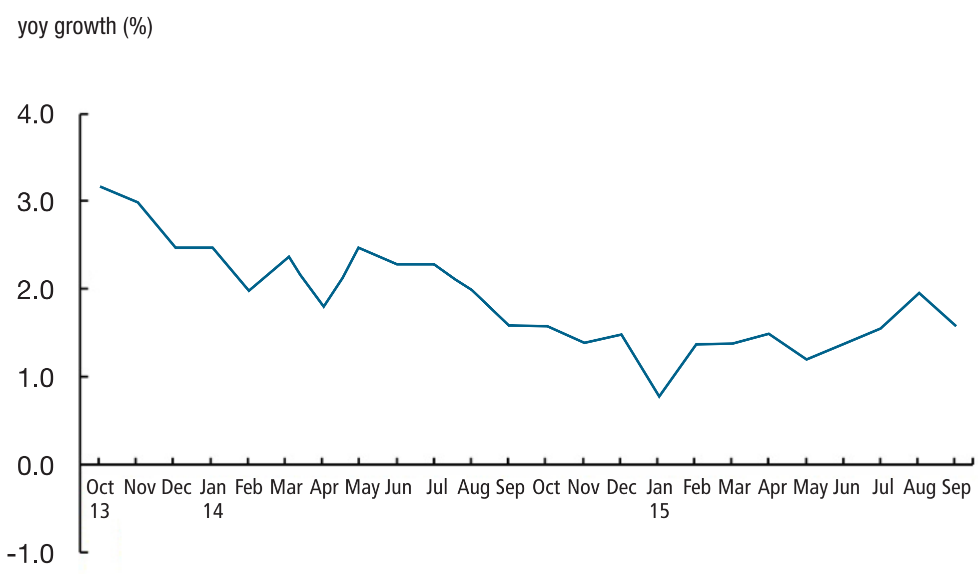
5. CPI growth fluctuates

The year-on-year (yoy) growth rate of China's consumer price index (CPI)[3] fluctuated between 1.6% and 2.0% throughout July to September.

The change in the CPI growth was due largely to the fluctuation in the yoy growth of the food component in the CPI, which rose from 2.7% yoy in July to 3.7% yoy in August, before dropping to 2.7% yoy in September. Meanwhile, the yoy growth of the non-food component in the CPI stayed relatively stable at 1.1%, 1.1% and 1.0% in July, August and September respectively (see exhibits 7 and 8).

Looking ahead, we expect that the non-food inflation will stay at low level in the near term, as domestic demand is likely to remain weak. Also, food prices are widely expected to be low in the coming months. Overall, therefore, the CPI growth is likely to stay mild in the near future.

Exhibit 7 China's CPI growth, October 2013 to September 2015



Oct 14	1.6%
Nov	1.4%
Dec	1.5%
Jan 15	0.8%
Feb	1.4%
Mar	1.4%
Apr	1.5%
May	1.2%
Jun	1.4%
Jul	1.6%
Aug	2.0%
Sep	1.6%

Source: National Bureau of Statistics, PRC

3 The CPI, compiled by the National Bureau of Statistics of China, measures the price of a basket of goods and services purchased by a typical household.

Exhibit 8 China's CPI growth by commodity, April to September 2015

yoy growth (%)	Apr 15	May	Jun	Jul	Aug	Sep
Food	2.7	1.6	1.9	2.7	3.7	2.7
Tobacco and liquor	-0.5	1.7	3.5	3.6	3.8	3.8
Clothing	2.9	2.8	2.9	2.9	2.9	2.8
Household goods and maintenance services	1.1	1.0	1.0	1.0	1.0	1.0
Medical and healthcare and personal care	1.8	1.8	1.9	1.9	1.9	2.1
Transportation and communication	-1.6	-1.3	-1.5	-1.8	-2.1	-2.1
Recreational, educational products and services	1.6	1.7	1.7	1.7	1.8	1.4
Housing	0.6	0.7	0.8	0.8	0.8	0.8

Source: National Bureau of Statistics, PRC

The yoy growth rate for China's producer price index of industrial products (PPI)[4] dropped from minus 5.4% in July to a 72 month-low of minus 5.9% in August and September (see exhibits 9 & 10). On a month-on-month (mom) basis, the PPI fell by 0.8% and 0.4% in August and September respectively, indicating that the ex-factory prices of industrial products have dropped at a slower pace lately.

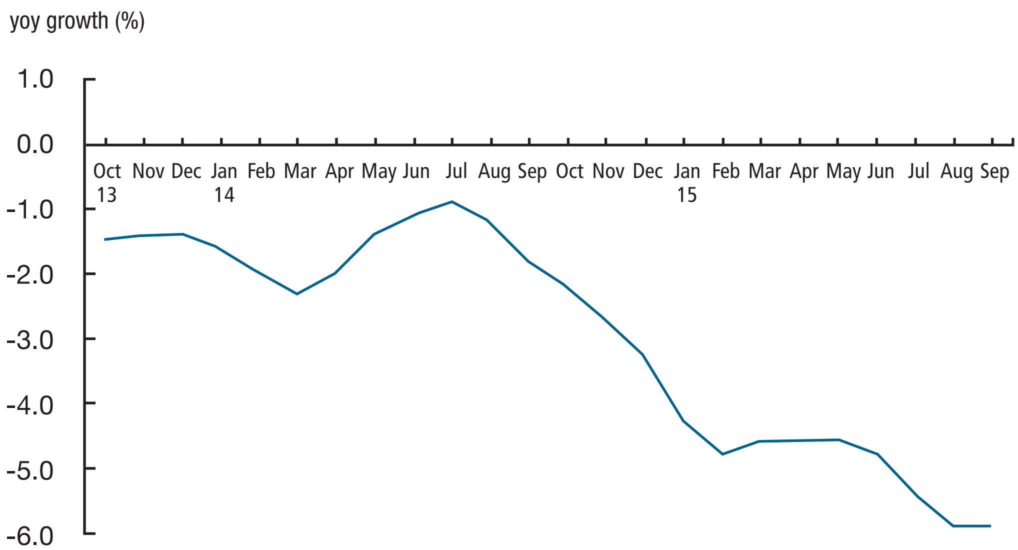
Going forward, we believe that China's PPI will continue to drop, though at a slower pace, in the coming months, as domestic demand and foreign demand are likely to remain weak.

The yoy growth rate of the purchaser price index of industrial products continued its downward trend, falling to minus 6.8% in September, the lowest since November 2009 (See exhibits 11 & 12). On a mom basis, the purchaser price index dropped further by 0.6%, 0.7% and 0.6% in July, August and September, indicating a continued downward trend in the domestic prices of production inputs.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, fell to 44.4 in October from 45.8 in September. The sub-index stayed below the critical 50-mark in October, suggesting that the domestic prices of production inputs are likely to fall further in the near term.

4 The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

Exhibit 9 China's PPI growth, October 2013 to September 2015



Oct 14	-2.2%
Nov	-2.7%
Dec	-3.3%
Jan 15	-4.3%
Feb	-4.8%
Mar	-4.6%
Apr	-4.6%
May	-4.6%
Jun	-4.8%
Jul	-5.4%
Aug	-5.9%
Sep	-5.9%

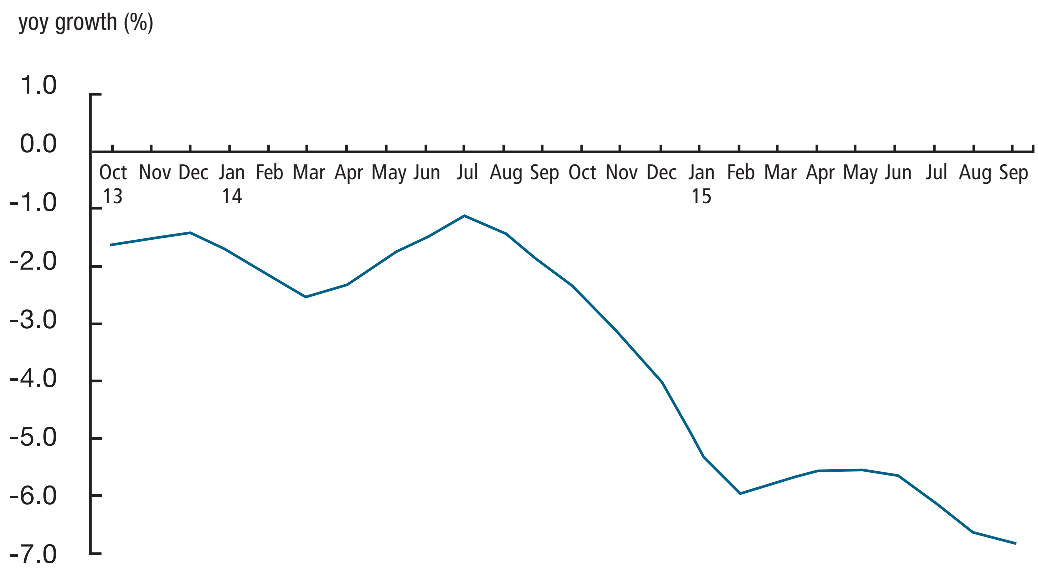
Source: National Bureau of Statistics, PRC

Exhibit 10 China's PPI growth by selected industry, April to September 2015

yoy growth (%)	Apr 15	May	Jun	Jul	Aug	Sep
Textile industry	-2.4	-2.3	-2.3	-2.5	-2.5	-2.5
Textile and clothing	0.6	0.6	0.7	0.7	0.7	0.9
Timber processing & wood, bamboo, cane, palm fiber and straw products	0.4	0.0	-0.3	-0.3	-0.6	-0.5

Source: National Bureau of Statistics, PRC

Exhibit 11 Growth of China's purchaser price index of industrial products, October 2013 to September 2015



Oct 14	-2.5%
Nov	-3.2%
Dec	-4.0%
Jan 15	-5.2%
Feb	-5.9%
Mar	-5.7%
Apr	-5.5%
May	-5.5%
Jun	-5.6%
Jul	-6.1%
Aug	-6.6%
Sep	-6.8%

Source: National Bureau of Statistics, PRC

Exhibit 12 China's purchaser price index of industrial products by selected commodity, April to September 2015

yoy growth (%)	Apr 15	May	Jun	Jul	Aug	Sep
Fuel & power	-11.2	-10.9	-10.6	-11.1	-11.8	-12.3
Non-ferrous metals	-3.7	-3.9	-5.3	-7.5	-9.4	-9.7
Raw materials for the chemical industry	-5.4	-4.8	-5.0	-5.8	-7.0	-7.6
Timber and paper pulp	-0.8	-0.7	-0.8	-0.9	-0.7	-0.5
Textile raw materials	-2.4	-2.3	-2.0	-2.2	-2.2	-2.1

Source: National Bureau of Statistics, PRC

6. Growth of industrial production decelerates

The growth of China's value-added for industry (industrial production, IP) fell from 6.8% yoy in June to 6.0% yoy in July, before edging up to 6.1% yoy in August. Afterwards, in September, the IP growth decelerated to a six month-low of 5.7% , indicating the weakness of the manufacturing sector in China (see exhibit 13).[5] Overall, in 1-3Q15, China's IP expanded by 6.2% yoy, slower than the 8.3% yoy growth recorded in 2014.

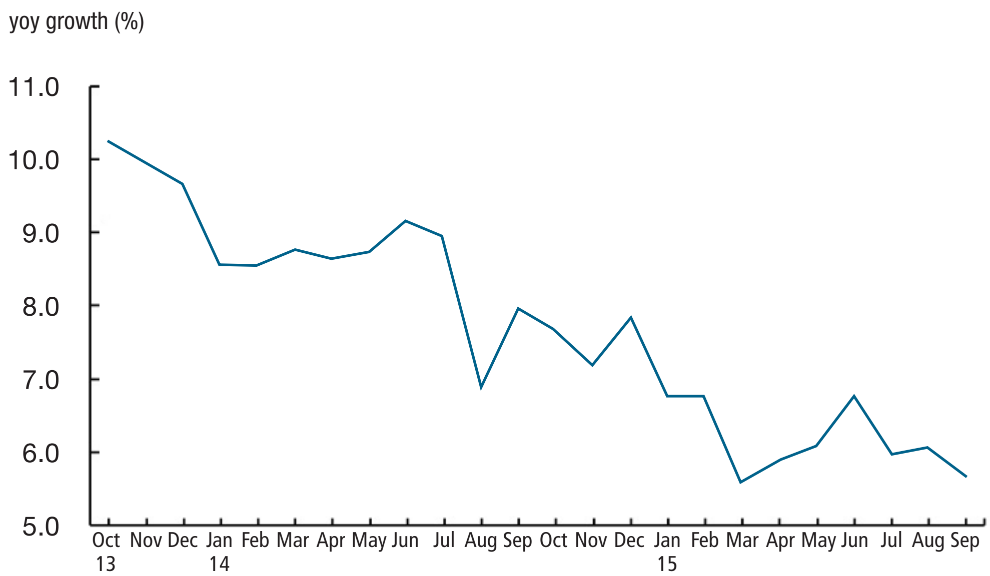
In the coming months, industrial activities will be supported by the positive impact of the accommodative monetary policy and the accelerating construction of infrastructure. Negative factors, however, include the rising labour and environmental costs, intense competition in the international market, foreign protectionism, weaker luxury spending and the overcapacity problem. Overall, we expect the industrial production (VAIO) growth to be around 6% yoy in 4Q15.

7. Industrial profits drop at a slower pace

The total profits earned by large and medium industrial enterprises above a designated size[6] have dropped at a slower pace recently. After falling by 8.8% yoy in August, China's industrial profits decreased slightly by 0.1% yoy in September. Overall, in 1-3Q15, China's industrial profits amounted to 4,303.2 billion yuan, posting negative growth of minus 1.7% yoy, compared to the positive growth of 3.3% yoy seen in 2014 (see exhibit 14).

Profits of upstream industries such as 'coal mining and washing', 'extraction of petroleum and natural gas' and 'mining of ferrous metals' plunged by 64.4% yoy, 66.1% yoy and 60.5% yoy respectively in 1-3Q15. In contrast, profits of industries of 'petroleum refining and coking and processing of nuclear fuels', 'waste recycling' and 'chemical fibres' increased strongly by 53.4% yoy, 35.8% yoy and 35.1% yoy respectively over the same period.

Exhibit 13 China's industrial production growth, October 2013 to September 2015



Oct 14	7.7%
Nov	7.2%
Dec	7.9%
Jan-Feb 15	6.8%
Mar	5.6%
Apr	5.9%
May	6.1%
Jun	6.8%
Jul	6.0%
Aug	6.1%
Sep	5.7%

Source: National Bureau of Statistics, PRC

5 The National Bureau of Statistics has changed the method of compiling the value added for industry (industrial production, IP), effective January 2011. The statistical threshold for industrial enterprises has been raised to cover those with annual revenues of 20 million yuan or above, up from the previous threshold of 5 million yuan or above.

6 'Industrial enterprises above a designated size' refers to industrial enterprises with annual sales of 20 million yuan or more.

8. Growth of fixed asset investment decelerates

The growth of China's nominal fixed asset investment (FAI) (excluding rural households) decelerated to 10.3% yoy in 1-3Q15 from 15.7% yoy in 2014.[7] Overall, in 1-3Q15, China's nominal FAI (excluding rural households) amounted to 39.5 trillion yuan (see exhibit 15).

The growth of FAI (excluding rural households) for real estate development fell to 2.6% yoy in 1-3Q15 from 10.5% yoy in 2014, despite the recent signs of recovery in the property market in China. A major reason is that the inventories of new homes remain high.

The growth of FAI (excluding rural households) in the secondary industry decelerated to 8.0% yoy in 1-3Q15, down from the 13.2% yoy growth recorded in 2014. In our view, the fall in FAI growth can be attributed to the overcapacity problem in several heavy industries and weakening competitiveness of light industries in China.

The growth of FAI in infrastructure (excluding power infrastructure) remained high at 18.1% yoy in 1-3Q15. Of which, the growth of FAI in the 'public facilities management' sector rose by 20.0% yoy, and the FAI in the 'road transportation' sector gained 18.1% yoy.

Exhibit 14 China's industrial profits growth, April to September 2015

yoy growth (%)	Apr 15	May	Jun	Jul	Aug	Sep
Total profits made by industrial enterprises above a designated size	2.6	0.6	-0.3	-2.9	-8.8	-0.1

Source: National Bureau of Statistics, PRC

Exhibit 15 China's FAI (excluding rural households) growth, April to September 2015

	Apr 15	May	Jun	Jul	Aug	Sep
FAI (excluding rural households) *(year-to-date, yoy growth %)*	12.0	11.4	11.4	11.2	10.9	10.3
FAI (excluding rural households) *(mom growth %, seasonally adjusted)*	0.75	0.78	0.76	0.75	0.72	0.68

Source: National Bureau of Statistics, PRC

7 The National Bureau of Statistics has expanded coverage of the monthly statistics for FAI from the urban areas to rural enterprises and institutions, effective from 2011. Thus: 'FAI (excluding rural households)', the new indicator, has been released by the bureau as from March 2011 to replace 'urban FAI', the previous indicator. Also, a new statistical criterion has been adopted. The statistical threshold for the size of investment projects has been adjusted upwards from 500,000 yuan to 5 million yuan.

B Highlights

1. China cuts purchase tax rate on passenger-vehicles with less than 1.6 litre engines

On 29 September, the Chinese government announced to reduce the purchase tax rate on passenger-vehicles with less than 1.6 litre engines from 10% to 5%, effective from 1 October 2015 through 31 December 2016.[8]

In our view, the major purpose of the latest policy move is to boost the automobile industry in China. According to the China Association of Automobile Manufacturers, the volume growth rates of output and sales of automobiles were weak, registering minus 0.8% yoy and 0.3% yoy respectively in the first nine months of 2015. The tax cut can lower the total costs of purchasing passenger-vehicles, thereby stimulating demand from consumers.

According to the media, several major players in the industry are reported to have seen positive impact from the tax cut.[9] In fact, the sales of passenger-vehicles registered strong growth of 13.3% yoy (or 10.6% mom) in October, according to the China Association of Automobile Manufacturers. We believe this shows that the spending power of Chinese consumers is still strong and thus is an encouraging sign for retailers in China.

2. China reduces the minimum down-payment ratio for first-time home buyers in cities without purchase restrictions

On 30 September, China's central bank and the China Banking Regulatory Commission jointly announced to reduce the minimum down-payment ratio for first-time home buyers in cities without purchase restrictions from 30% to 25%.[10]

We believe that the latest policy action will further boost the demand for homes in China. This also shows that the government has continued its efforts to support the property market. Earlier in March this year, the minimum down-payment ratios for second home buyers were reduced from 60%-70% to 40%. These moves, together with the interest rate reductions in recent months, have helped improve the sales of homes in China, in our view. According to NBS, the sales of new homes in China posted strong growth of 18.2% yoy in 1-3Q15, compared to the negative growth of minus 7.8% yoy seen in 2014. Besides, 39 of the 70 surveyed cities reported mom rise in new home prices in September.

As the growth of investment in real estate development has stayed weak and housing inventories in China have remained high, the government is likely to continue its supportive policies for the property sector in near future. This may benefit the sales of new homes, which will in turn support the demand for housing-related items such as furniture, home textile products and home appliances.

3. Growth of money supply accelerates

Growth of broad money supply (M2) has trended upward in recent months. The M2 growth accelerated to 13.5% yoy as at the end of October, compared to the recent low of 10.1% yoy as at the end of April. Meanwhile, the growth of outstanding RMB loans registered 15.4% yoy as at the end of October, an acceleration from the 13.4% yoy growth as at the end of June. The amount of new RMB loans reached 10.41 trillion yuan in January to October 2015, already exceeding the amount of new RMB loans in 2014 (i.e. 9.78 trillion yuan) (see exhibit 16). These indicators are in line with the monetary easing actions by China's central bank in recent months. .

The People's Bank of China (PBOC) has continued to take moves to ease the credit conditions in China. For example, on 6 September, the PBOC cut the required reserve ratios (RRRs) for financial institutions; and on 24 October, both the RRRs for financial institutions and the benchmark interest rates were reduced.

Looking ahead, in response to the weak domestic demand, the government is likely to continue its efforts to boost economic growth. We therefore expect to see more monetary easing measures in the near future.

4. 'Total social financing' drops

'Total social financing' (covering sources of financing such as RMB loans, foreign currency loans, trust loans, entrusted loans, bank acceptance bills, corporate bonds, equity issuance and other instruments) amounted to 12.42 trillion yuan in January to October 2015, lower than the same period of the previous year (i.e. 13.57 trillion yuan) (see exhibit 17). The yoy drop in 'total social financing'

8 http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201509/t20150930_1484040.html

9 http://www.bloomberg.com/news/articles/2015-11-06/china-october-auto-sales-gain-11-after-tax-cut-boosts-demand

10 Currently, the cities with home purchase restrictions include Beijing, Shanghai, Guangzhou, Shenzhen and Sanya.

was due to the reductions in new foreign currency loans, new entrusted loans, new trust loans and bank acceptance bills.

In January to October 2015, the share of new RMB loans in 'total social financing' was 76.9%, much higher than 59.4% in 2014, indicating that the role of RMB loans as a source of financing has strengthened significantly.

Exhibit 16 Broad money supply (M2) and RMB loans, November 2014 to October 2015

As of	Broad money supply (M2) Amount (trillion yuan)	Broad money supply (M2) yoy growth	Total outstanding RMB loans Amount (trillion yuan)	Total outstanding RMB loans yoy growth
End-Nov 14	120.9	12.3%	81.0	13.4%
End-Dec	122.8	12.2%	81.7	13.6%
End-Jan 15	124.3	10.8%	83.7	13.9%
End-Feb	125.7	12.5%	84.7	14.3%
End-Mar	127.5	11.6%	85.9	14.0%
End-Apr	128.1	10.1%	86.6	14.1%
End-May	130.7	10.8%	87.5	14.0%
End-Jun	133.3	11.8%	88.8	13.4%
End-Jul	135.3	13.3%	90.3	15.5%
End-Aug	135.7	13.3%	91.1	15.4%
End-Sep	136.0	13.1%	92.1	15.4%
End-Oct	136.1	13.5%	92.7	15.4%

	New RMB loans (trillion yuan)
FY14	9.78
Jan-Oct 15	10.41
Nov 14	0.85
Dec	0.70
Jan 15	1.47
Feb	1.02
Mar	1.18
Apr	0.71
May	0.90
Jun	1.27
Jul	1.48
Aug	0.81
Sep	1.05
Oct	0.51

Source: People's Bank of China

Exhibit 17 Total social financing, 2014 to January-October 15

	FY14 Amount (billion yuan)	FY14 Share (%)	Jan-Oct 15 Amount (billion yuan)	Jan-Oct 15 Share (%)
Total social financing	16,457.0	100.0	12,416.7	100.0
RMB loans	9,781.6	59.4	9,547.4	76.9
Foreign currency loans	355.4	2.2	-397.7	-3.2
Trust loans	517.4	3.1	36.5	0.3
Entrusted loans	2,507.0	15.2	1,149.0	9.3
Bank acceptance bills	-128.5	-0.8	-956.5	-7.7
Corporate bonds	2,425.3	14.7	2,101.6	16.9
Equity issuance	435.0	2.6	550.4	4.4

Source: People's Bank of China

C Outlook

1. Entrepreneurs become less optimistic

China's Entrepreneur Confidence Index (ECI) for the secondary industry came in at 112.1 in 3Q15, falling for the second consecutive quarter. The downtrend of the index indicates that Chinese entrepreneurs in the industry have become less optimistic (see exhibit 18).[11]

The 'manufacturing', 'mining' and 'electricity, gas & water' sectors all recorded lower index readings in 3Q15, compared to the previous quarter. The indices for 'manufacturing', 'mining' and 'electricity, gas & water' sectors dropped to 113.6, 74.8 and 125.1 respectively in 3Q15. It is noteworthy that the index for the 'mining' sector has stayed below the critical 100-mark since 2Q13, indicating that entrepreneurs in this sector have continued to be pessimistic (see exhibit 19).

Exhibit 18 China's Entrepreneur Confidence Index (Secondary Industry), 4Q13 to 3Q15

	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Entrepreneur Confidence Index (Secondary Industry)	121.0	124.3	121.4	119.0	115.1	120.6	114.5	112.1

Source: National Bureau of Statistics, PRC

Exhibit 19 Entrepreneur Confidence Index by sector, 2Q15 and 3Q15

	2Q15	3Q15	Compared with the previous quarter
Secondary industry	114.5	112.1	Lower
Mining	77.0	74.8	Lower
Manufacturing	116.0	113.6	Lower
Electricity, gas & water	127.5	125.1	Lower

Source: National Bureau of Statistics, PRC

11 China's Entrepreneur Confidence Index (ECI) ranges from 0 to 200. A reading above 100 indicates that entrepreneurs tend to be optimistic; a reading below 100 indicates that they tend to be pessimistic.

2. October PMI suggests slow contraction of the manufacturing sector

China's manufacturing Purchasing Managers' Index (PMI) rose slightly from 49.7 in August to 49.8 in September and October. The index reading in October was slightly below the critical 50-mark, indicating the slow contraction of the manufacturing sector in China (see exhibit 20).

Output growth has softened recently. The output index fell slightly to 52.2 in October from 52.3 in September.

A good news is that the domestic demand for industrial products has shown sign of recovery. Since September, the growth of overall new orders has turned positive. The new orders index went up from 49.7 in August to 50.2 in September, returning to the expansionary zone, and further rose to 50.3 in October.[12] In contrast, the new export orders index registered 47.4 in October, still below the critical 50-mark. In fact, the index has stayed in the contractionary zone for thirteen months, indicating the continued weakening of foreign demand.

The purchases of inputs index came in at 48.8 in October, staying below the critical 50-mark since August. The decline in purchasing activities points to weaker business confidence among manufacturers.

Destocking activities have continued. The stocks of finished goods index fluctuated within the range of 46.8 to 47.2 throughout August to October, remaining below the critical-50 mark. Meanwhile, the stocks of major inputs index fell from 48.3 in August to 47.5 in September, and further to 47.2 in October. Manufacturers have reduced their inventory of major inputs at a faster pace lately.

Domestic prices of major inputs have continued to trend downward. The input prices index fluctuated within the range of 44.4 to 45.8 throughout August to October, still below the critical 50-mark.

The business expectations index dropped all the way from 54.1 in August to 52.5 in October, another evidence of the weakening confidence among purchasing managers in China.

3. Non-manufacturing sector expands at a moderating pace

After reaching its recent peak of 53.9 in July, China's Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), has been on a downward trend in recent months. The NMI fell to 53.1 in October, the lowest level since January 2009, indicating that the non-manufacturing sector has been expanding at a moderating pace (see exhibit 21).

The growth of new orders has reaccelerated lately. After dropping from 50.1 in July to 49.6 in August, the new orders index rebounded to 50.2 in September and 51.2 in October.

The sales prices index came in at 48.8 in October. In fact, the index has stayed below the critical 50-mark since June, showing that enterprises have continued to reduce their service charges. In contrast, the input prices index has risen above 50 since September, indicating a rise in the costs of inputs.

Despite facing difficult situations, purchasing managers in the non-manufacturing sector remain optimistic about the near-term outlook for their respective sub-sectors: The business expectation index came in at 61.1 in October, well above the neutral level of 50.

12 The 'new orders index' covers both domestic and export orders. That is to say, the manufacturers are not asked to differentiate between domestic and export orders when filling in questionnaires.

Exhibit 20 China's manufacturing PMI at a glance, October 2015

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	49.8	Same	Contracting
Output	52.2	Lower	Expanding
New orders	50.3	Higher	Expanding
New export orders	47.4	Lower	Contracting
Backlogs of orders	44.4	Higher	Contracting
Stocks of finished goods	47.2	Higher	Contracting
Purchases of inputs	48.8	Higher	Contracting
Imports	47.5	Lower	Contracting
Input prices	44.4	Lower	Falling
Stocks of major inputs	47.2	Lower	Contracting
Employment	47.8	Lower	Contracting
Suppliers' delivery time	50.6	Lower	Quickening
Business expectations	52.5	Lower	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

Exhibit 21 China's non-manufacturing purchasing managers' index (NMI) at a glance, October 2015

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	53.1	Lower	Expanding
New orders	51.2	Higher	Expanding
Input prices	51.2	Higher	Rising
Sales prices	48.8	Higher	Falling
Business expectations	61.1	Higher	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

Snapshot: Chinese leaders approve the proposal of the 13th Five-Year Plan

The Fifth Plenum of the 18th Central Committee of the Communist Party of China (CPC) was held on 26-29 October 2015. During the meeting, the Chinese leaders approved the proposal of the 13th Five-Year Plan (FYP), the policy blueprint for the country's development in the next five years. Afterwards, the proposal and President Xi's statement on the proposal were published on 3 November.[13]

The key takeaways from the proposal and President Xi's statement are:

1. China is adapting to an era of the 'new normal'.[14] The 13th Five-Year Plan sets out a new path for this new stage of development, with the following objectives:

    - adjustment of economic structure to develop new drivers of growth;
    - deepening reforms to unleash productivity;
    - inclusive development;
    - environmental sustainability;
    - opening up and international integration.

2. The party reiterates its goal of building 'a moderately prosperous society' by 2020. The major quantitative targets are to double China's GDP and per capita income of both urban and rural households between 2010 and 2020.

3. China's economy is targeted to maintain medium to high pace of growth in 2016-2020. According to President Xi, the annual average economic growth should be at least 6.5% during the period.

4. Eradicating poverty in rural areas is one of the major goals of the 13th Five-Year Plan. China will take a series of measures to lift 70 million rural dwellers out of poverty by 2020.

5. All couples will be allowed to have two children.

6. To promote the inclusion of the Chinese yuan in the Special Drawing Right (SDR) basket; and to make the Chinese yuan a fully convertible and freely usable currency.

7. China will push for the establishment of the Free Trade Area of the Asia Pacific (FTAAP).

It is noteworthy that the Chinese leaders have only set the policy directions and targets for the country's development in 2016-2020. The details of the tasks to be taken will not be finalized until the government submits the 13th FYP to the National People's Congress in March 2016 for approval.

13 See http://news.xinhuanet.com/fortune/2015-11/03/c_1117027676.htm for the proposal; also see http://cpc.people.com.cn/n/2015/1103/c64094-27772663.html for President Xi's statement on the proposal.

14 The 'new normal' is marked by a shift from high growth to medium-high growth; growing domination of services in the economy; consumption and innovation becoming the new drivers of growth; and narrowing urban-rural and regional income gap.

A Recent developments

1. Both exports and imports show negative yoy growth in 3Q15

China's export growth has turned negative since July, registering minus 8.3% yoy in the month. Afterwards, China's exports fell by 5.5% yoy in August and 3.7% yoy in September (see exhibits 22, 23 and 24). The negative export growth in the past few months indicate that foreign demand remains sluggish for Chinese products. Overall, China's exports amounted to US$ 597.5 billion in 3Q15, down by 5.9% yoy.

China's imports have fallen at a faster pace in recent months. China's imports dropped by 8.1% yoy, 13.8% yoy and 20.4% yoy in July, August and September respectively. The decrease in imports was mainly due to the weak domestic demand and the sharp fall in commodity prices. Overall, in 3Q15, China's imports totalled US$ 433.9 billion, down by 14.4% yoy.

With imports dropping faster than exports, China's trade surplus continued to widen, reaching US$ 163.6 billion in 3Q15.

The demand for Chinese products from the US and major countries in Southeast Asia and South Asia has been relatively strong. In 1-3Q15, China's exports to the US, ASEAN and India grew by 6.0% yoy, 5.7% yoy and 8.6% yoy respectively, faster than China's total export growth over the same period (i.e. minus 1.9% yoy). In contrast, China's exports to the EU, the largest trading partner of the country, fell by 4.3% yoy in 1-3Q15.

Exhibit 22 China's quarterly foreign trade data, 4Q14 to 3Q15

USD billion (yoy growth)

	Exports		Imports		Trade Balance
FY14	2,342.7	(6.1%)	1,960.3	(0.4%)	382.5
4Q14	646.1	(8.5%)	496.6	(-1.6%)	149.5
1Q15	513.9	(4.7%)	390.2	(-17.6%)	123.7
2Q15	559.1	(-2.0%)	418.9	(-13.6%)	140.2
3Q15	597.5	(-5.9%)	433.9	(-14.4%)	163.6

Source: China Customs

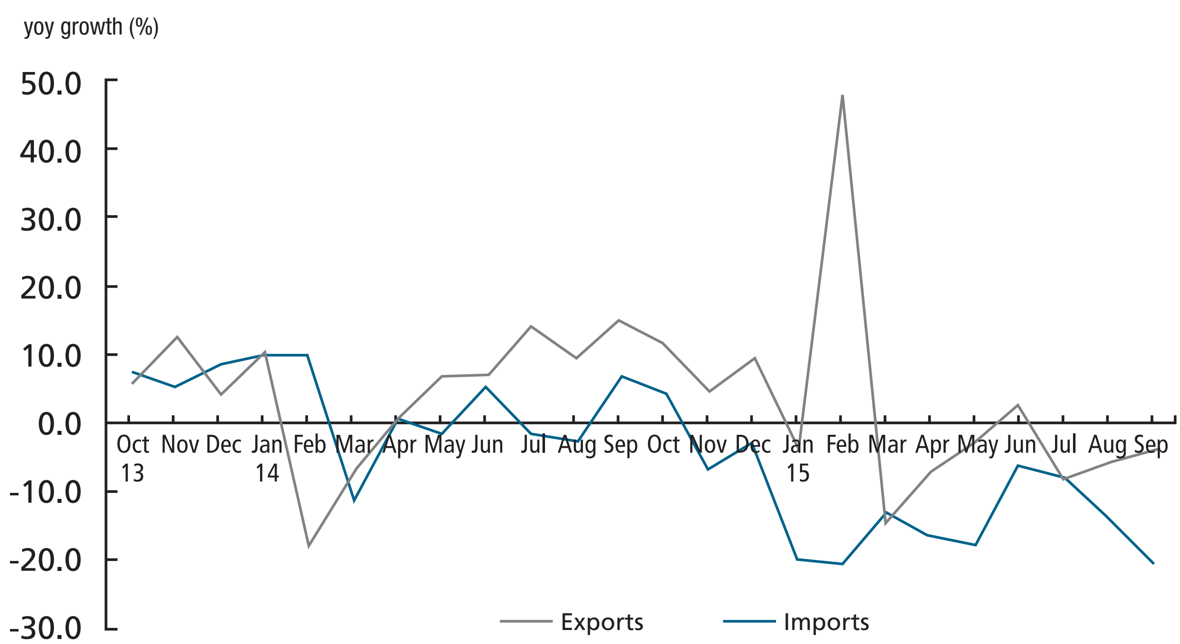
Exhibit 23 China's monthly foreign trade data, October 2014 to September 2015

USD billion (yoy growth)

	Exports		Imports		Trade Balance
October 2014	206.9	(11.6%)	161.5	(4.6%)	45.4
November	211.7	(4.7%)	157.2	(-6.7%)	54.5
December	227.5	(9.7%)	177.9	(-2.4%)	49.6
January 2015	200.3	(-3.3%)	140.2	(-19.9%)	60.0
February	169.2	(48.3%)	108.6	(-20.5%)	60.6
March	144.6	(-15.0%)	141.5	(-12.7%)	3.1
April	176.3	(-6.4%)	142.2	(-16.2%)	34.1
May	190.8	(-2.5%)	131.3	(-17.6%)	59.5
June	192.0	(2.8%)	145.5	(-6.1%)	46.5
July	195.1	(-8.3%)	152.1	(-8.1%)	43.0
August	196.9	(-5.5%)	136.6	(-13.8%)	60.2
September	205.6	(-3.7%)	145.2	(-20.4%)	60.3

Source: China Customs

Exhibit 24 Growth rates of exports and imports, October 2013 to September 2015



Source: China Customs

Exhibit 25 Exports by category, 2014 and 1-3Q15

yoy growth (%) of export value, calculated in USD	2014	1-3Q15
Textile materials and products	4.9	-1.5
Garments and clothing accessories	5.2	-6.7
Footwear	10.8	-4.3
Toys	14.2	12.3
Coal	-34.5	-27.0
Crude oil	-66.3	383.6
Refined oil	5.2	-27.1
Steel	33.1	-4.8
Mechanical and electrical products	3.7	1.2

Source: China Customs

Exhibit 26 Imports by category, 2014 and 1-3Q15

yoy growth (%) of import value, calculated in USD	2014	1-3Q15
Cereal and cereal flour	21.9	62.1
Soybean	6.0	-15.5
Iron ore	-11.8	-42.0
Crude oil	3.9	-40.9
Refined oil	-26.8	-36.5
Steel	5.0	-18.7
Textile yarns, fabric and textile products	-6.0	-4.6
Vehicles and related parts	24.4	-25.2

Source: China Customs

2. Growth of general trade exports turns negative in 3Q15

The growth rate of general trade[15] exports turned negative, falling to minus 3.7% yoy in 3Q15 from 1.6% yoy in 2Q15. Meanwhile, the growth of processing trade[16] exports dropped from minus 8.7% yoy in 2Q15 to minus 11.2% yoy in 3Q15 (see exhibit 27).

Both general trade imports and processing trade imports continued to post negative growth in 3Q15. The growth in general trade imports improved slightly from minus 15.5% yoy in 2Q15 to minus 15.3% yoy in 3Q15, while the growth of processing trade imports deteriorated from minus 12.8% yoy in 2Q15 to minus 19.6% yoy in 3Q15. The sharp fall in processing trade imports suggests that the processing trade exports is likely to continue its negative growth in the near future, as processing trade imports serves as a leading indicator of processing trade exports performance.

The share of processing trade in China's total trade stayed low at 30.9% in 3Q15. Nevertheless, with a large surplus of US$ 90.9 billion in 3Q15, processing trade still plays a key role in China's overall total foreign trade. Also noteworthy is that the general trade surplus has been catching up – The general trade surplus increased from US$ 55.1 billion in 1Q15 to US$ 71.0 billion in 2Q15, and further to US$ 81.0 billion in 3Q15.

15 'General trade' refers to China's import or export of goods by enterprises holding import-export rights. According to China's National Bureau of Statistics, the scope of general trade covers: Imports and exports using loans or aids; the import of materials by foreign invested enterprises (FIEs) for processing of goods for sale in the domestic market; the export of goods purchased by FIEs or manufactured by processing domestically-produced materials; the import of food and beverages by restaurants and hotels; the supply of domestically-produced fuels, materials, parts and components to foreign vessels or aircraft; the import of goods as payment in kind, in lieu of wages in labour service cooperation projects with foreign countries; and the export of equipment and materials by enterprises in China for their investment abroad.

16 'Processing trade' refers to the business of importing all or part of the raw and auxiliary materials, parts and components, accessories and packaging materials from abroad, and re-exporting the finished products after processing or assembly by enterprises within the Chinese Mainland.

Exhibit 27 China foreign trade (general and processing trades), 2014 to 3Q15

Item	yoy growth (%)			Share (%)		
	FY14	2Q15	3Q15	FY14	2Q15	3Q15
Exports	6.1	-2.2	-5.9	100.0	100.0	100.0
Of which:						
General Trade	10.7	1.6	-3.7	51.4	54.7	53.3
Processing Trade	2.7	-8.7	-11.2	37.7	34.2	34.3
Imports	0.4	-13.7	-14.4	100.0	100.0	100.0
Of which:						
General Trade	0.0	-15.5	-15.3	56.6	56.0	54.7
Processing Trade	5.5	-12.8	-19.6	26.8	25.8	26.2
Total of Imports and Exports	3.4	-7.4	-9.7	100.0	100.0	100.0
Of which:						
General Trade	5.3	-6.6	-9.0	53.8	55.3	53.9
Processing Trade	3.8	-10.3	-14.4	32.7	30.6	30.9

Source: China Customs

3. Sino-US trade still manages to show positive yoy growth in 1-3Q15

The EU was China's largest trading partner in 1-3Q15. Accounting for 14.5% of China's total foreign trade, Sino-EU trade amounted to US$ 420.4 billion in 1-3Q15. Sino-EU trade dropped by 8.0% yoy in 1-3Q15, compared to the positive growth of 9.9% yoy in 2014. China's exports to the EU fell by 4.3% yoy in 1-3Q15. China's imports from the EU dropped even more, by 13.6% yoy, in 1-3Q15 (see exhibits 28 and 29).

The US continues to be China's second largest trading partner in 1-3Q15, accounting for 14.2% of China's total foreign trade. The total Sino-US trade still managed to record positive growth of 2.0% yoy in 1-3Q15, while China's trade with other major trading partners such as the EU, ASEAN and Japan showed negative growth over the same period. The growth of China's exports to the US was 6.0% yoy in 1-3Q15, down slightly from 7.5% yoy in 2014. Meanwhile, the growth of China's imports from the US declined to minus 7.5% yoy in 1-3Q15, compared to the positive growth of 4.2% yoy seen in 2014.

The Association of South East Asian Nations (ASEAN), China's third largest trading partner, accounted for 11.8% of China's total foreign trade in 1-3Q15. China's trade with ASEAN dropped by 1.2% yoy to US$ 342.4 billion in 1-3Q15. The growth of China's exports to ASEAN decelerated from 11.5% yoy in 2014 to 5.7% yoy in 1-3Q15; and the growth of China's imports from ASEAN fell to minus 9.7% yoy in 1-3Q15 from 4.4% yoy in 2014.

Sino-Japan trade contracted by 11.1% yoy to US$ 206.9 billion in 1-3Q15. China's exports to Japan fell by 9.7% yoy, while China's imports from Japan went down by 12.4% yoy over the period.

4. China's exports to India post high single-digit growth in 1-3Q15

China's exports to India still managed to post high single-digit growth of 8.6% yoy in 1-3Q15, though decelerating from 12.0% yoy in 2014. However, China's imports from India contracted sharply by 22.2% yoy in 1-3Q15, after dropping by 3.5% yoy in 2014. Overall, growth of Sino-Indian trade decelerated to 1.1% yoy in 1-3Q15 from 7.9% yoy in 2014.

China's foreign trade with Russia posted negative yoy growth of minus 29.3% yoy in 1-3Q15. In fact, both exports and imports dropped markedly for Sino-Russian trade, mainly due to Russia's deteriorating domestic economy and falling oil prices. Specifically, growth of China's exports to Russia turned from a positive 8.2% yoy in 2014 into a negative 36.0% yoy in 1-3Q15; while growth of China's imports from Russia declined from a positive 4.9% yoy in 2014 to minus 20.9% yoy in 1-3Q15 (see exhibits 28 and 29).

China's foreign trade with Brazil dropped by 18.4% yoy in 1-3Q15. Over the period, China's imports from Brazil fell by 20.7% yoy, and China's exports to Brazil declined by 14.5% yoy.

Together, these three BRIC members accounted for 5.4% of China's total exports and 5.5% of China's total imports in 1-3Q15, down from 6.1% and 5.6%, respectively, in 2014.

Exhibit 28 China's trading partners, 1-3Q15

Country/ Region	Trade value (USD billion)	Share of total trade (%)	Export value (USD billion)	Import value (USD billion)	yoy growth (%)		
					Total trade	Exports	Imports
EU	420.4	14.5	262.2	158.2	-8.0	-4.3	-13.6
US	412.7	14.2	302.8	110.0	2.0	6.0	-7.5
ASEAN	342.4	11.8	203.5	138.9	-1.2	5.7	-9.7
Japan	206.9	7.1	100.5	106.4	-11.1	-9.7	-12.4
Brazil	55.5	1.9	22.0	33.5	-18.4	-14.5	-20.7
Russia	50.0	1.7	25.2	24.8	-29.3	-36.0	-20.9
India	53.3	1.8	43.3	10.0	1.1	8.6	-22.2

Source: China Customs

Exhibit 29 China's trading partners, comparing growth rates for 2014 and 1-3Q15

yoy growth (%)

Country/Region	Total Trade		Exports		Imports	
	2014	1-3Q15	2014	1-3Q15	2014	1-3Q15
EU	9.9	-8.0	9.4	-4.3	10.7	-13.6
US	6.6	2.0	7.5	6.0	4.2	-7.5
ASEAN	8.3	-1.2	11.5	5.7	4.4	-9.7
Japan	0.0	-11.1	-0.5	-9.7	0.4	-12.4
Brazil	-4.0	-18.4	-2.8	-14.5	-4.8	-20.7
Russia	6.8	-29.3	8.2	-36.0	4.9	-20.9
India	7.9	1.1	12.0	8.6	-3.5	-22.2

Source: China Customs

5. Share of top seven provinces/ municipalities in terms of foreign trade rises in 1-3Q15

China's top seven provinces and municipalities in terms of foreign trade value – Guangdong, Jiangsu, Shanghai, Zhejiang, Beijing, Shandong and Fujian – jointly accounted for 78.4% of China's total foreign trade in 1-3Q15, up from 77.4% in 2014 (see exhibit 30).

Among the top seven provinces/ municipalities in terms of foreign trade, Fujian saw the fastest growth in exports, up by 3.7% yoy in 1-3Q15. Meanwhile, Shanghai witnessed the slightest drop in imports among these seven provinces, down by 0.6% yoy in 1-3Q15.

It is noteworthy that some provinces in China's central and western regions posted fast growth in exports, as a result of industrial upgrade and relocation. For example, exports from Henan, Hubei, Hunan, Guangxi, Guizhou and Shaanxi grew by 14.6% yoy, 14.2% yoy, 9.6% yoy, 19.9% yoy, 9.4% yoy and 11.1% yoy respectively in 1-3Q15.

Exhibit 30 Top seven provinces and municipalities in terms of foreign trade value, 1-3Q15

Provinces/ Municipalities	Foreign trade value (USD billion)	Share of total trade (%)
Guangdong	730.7	25.2
Jiangsu	407.7	14.0
Shanghai	334.7	11.5
Zhejiang	241.0	8.3
Beijing	258.6	8.9
Shandong	175.3	6.0
Fujian	128.9	4.4

Source: China Customs

6. China's FDI maintains positive year-on-year growth in September

China's foreign direct investment (FDI) has continued to show positive yoy growth in recent months, up by 5.2% yoy, 20.9% yoy and 6.1% yoy in July, August and September respectively. Overall, in 1-3Q15, China's FDI amounted to US$ 94.9 billion, up by 8.6% yoy (see exhibit 31).

Among the sectors, FDI in the service sector rose strongly by 19.2% yoy to US$ 58.0 billion in 1-3Q15. The share of the service sector in China's total FDI reached 61.1% in 1-3Q15, up from 55.4% in 2014.

Meanwhile, FDI in the manufacturing sector increased slightly by 0.7% yoy in 1-3Q15, accounting for only 31.4% of China's total FDI. The figure also suggests that foreign enterprises are less optimistic about the prospects in this sector. That being said, the 'telecommunication equipment' and 'aviation and aerospace equipment' saw high growth in FDI, which increased by 171.7% yoy and 49.2% yoy respectively in 1-3Q15.

FDI in the eastern region increased by 10.1% yoy in 1-3Q15. In comparison, FDI in the central and the western regions gained 0.3% yoy and 2.2% yoy respectively over the same period.

The top ten countries/ regions in terms of FDI value jointly accounted for 94.2% (US$ 89.4 billion) of China's total FDI in 1-3Q15. Among these countries/ regions, FDI from the EU, ASEAN and Singapore registered relatively high yoy growth of 14%, 15% and 12.3%, respectively, in 1-3Q15.

Exhibit 31 China's FDI, October 2014 to September 2015

	Amount (USD billion)	yoy growth
FY14	119.6	1.7%
1-3Q15	94.9	8.6%
October 14	8.5	1.3%
November	10.4	22.2%
December	13.3	10.3%
January 15	13.9	29.4%
February	8.6	0.2%
March	12.4	1.3%
April	9.6	10.2%
May	9.3	8.0%
June	14.6	1.1%
July	8.2	5.2%
August	8.7	20.9%
September	9.6	6.1%

Source: Ministry of Commerce, PRC

7. China's foreign exchange reserves fall for the fifth consecutive quarter

Amounting to US$ 3.51 trillion as at the end of 3Q15, China's foreign exchange reserves fell sharply by US$ 179.7 billion in 3Q15, faster than the US$ 36.2 billion drop seen in 2Q15 (see exhibit 32).

It was the fifth quarter in a row that China saw a decrease in foreign exchange reserves. The decrease was attributable to outflows of hot money, which could be associated with the depreciation of the Chinese yuan against the US dollar in mid-August.

Looking ahead, we expect China's foreign exchange reserves to drop further in 4Q15, as the market expectations of yuan depreciation may lead to further hot money outflows from China.

Exhibit 32 Foreign exchange reserves by quarter, 4Q14 to 3Q15

USD billion	Accumulation	End of the quarter
FY14	21.7	
4Q14	-44.7	3,843.0
1Q15	-113.0	3,730.0
2Q15	-36.2	3,693.8
3Q15	-179.7	3,514.1

Source: State Administration of Foreign Exchange, PRC

B Highlights

1. Exchange rate of the Chinese yuan against the US dollar fluctuates

The exchange rate of the Chinese yuan against the US dollar has fluctuated in recent months. After a sharp depreciation triggered by the exchange rate reform in mid-August, the daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar appreciated from 6.4085 on 27 August to 6.3154 on 2 November, before depreciating to 6.3740 on 17 November (see exhibit 33).[17] In line with the trend of the daily fixing rate, the USD-CNY spot exchange rate appreciated throughout late August to late October, and has softened since early November. On 17 November, the USD-CNY spot exchange rate closed at 6.3786, a 2.7% depreciation from 6.2097 on 10 August 2015, the day before the exchange rate reform.

According to the Bank for International Settlements, the real effective exchange rate (REER) of the yuan has depreciated in the past few months.[18] The REER of the yuan fell from the record high of 130.91 in July to 129.13 in October. Despite the recent depreciation, the REER of the yuan was still at a relatively high level – the October REER represents a 3.0% appreciation from the REER in December 2014. The Chinese yuan appreciated in real terms against its trading partners by 3.0% in the first ten months of this year (see exhibit 34).

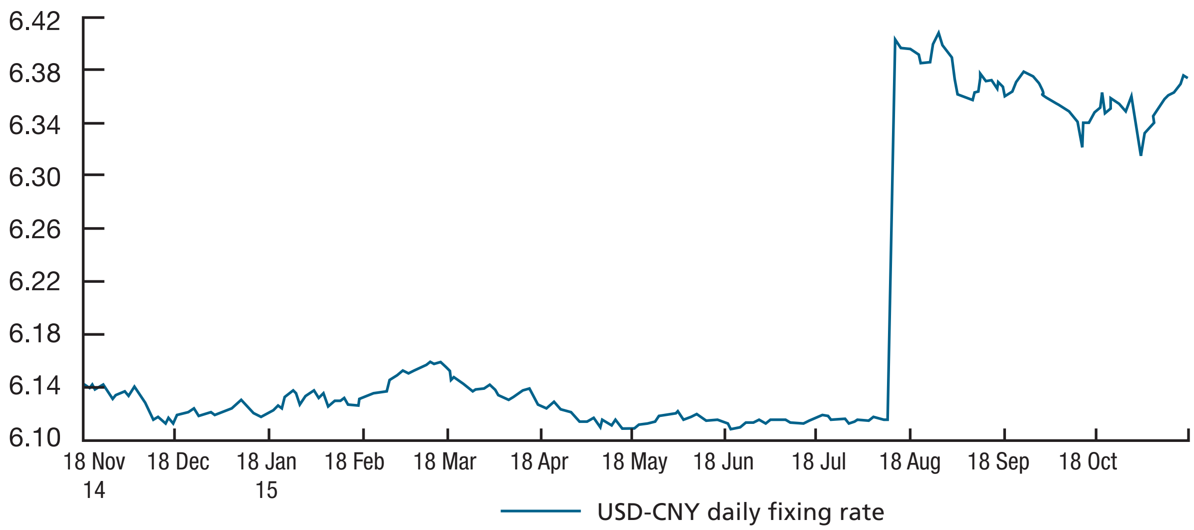
Looking ahead, the future trend of the yuan exchange rate will be more determined by market forces, as the Chinese government has determined to promote a more liberalized yuan. In view of the week growth momentum of the Chinese economy and the poor export performance, we expect the Chinese yuan to show more fluctuations and depreciate slightly against the US dollar in coming months.

The daily fixing rate of the Chinese yuan against the Euro has also shown fluctuations in recent months. After depreciating from 6.7226 on 10 August to 7.3989 on 25 August, the daily fixing rate of the Chinese yuan against the Euro appreciated again to 6.8114 on 17 November (see exhibit 35).

17 According to the PBOC, the daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the supply-demand conditions in the market and the movements of major international currencies.

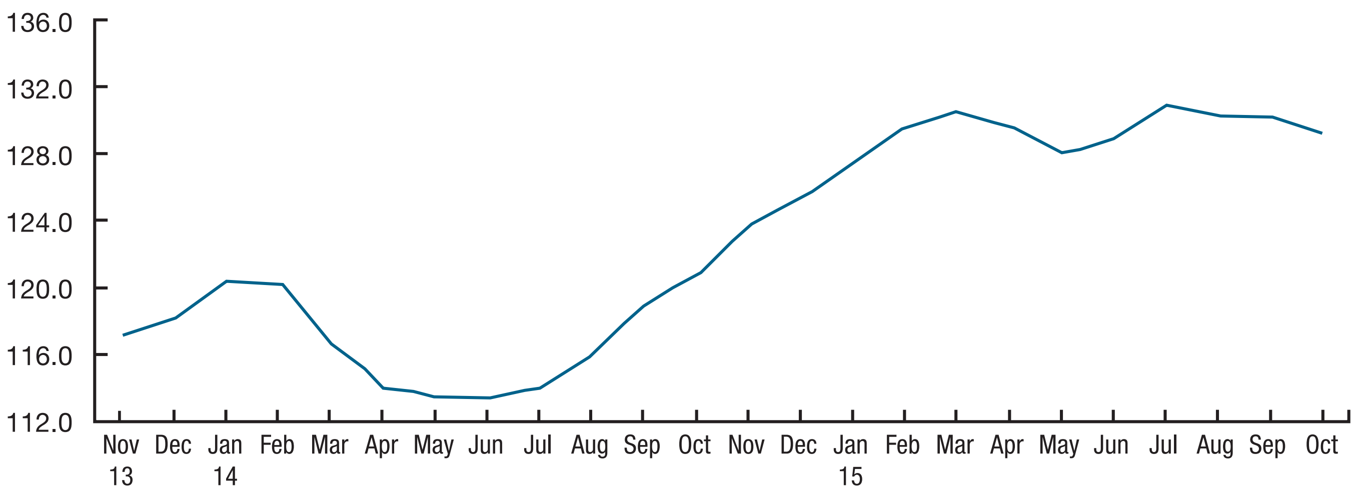
18 The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real EERs are the same weighted averages of bilateral exchange rates adjusted by relative consumer prices. The weighting pattern is time-varying, and the most recent weights are based on trade in 2008-10.

Exhibit 33 USD-CNY daily fixing rate, November 2014 to November 2015



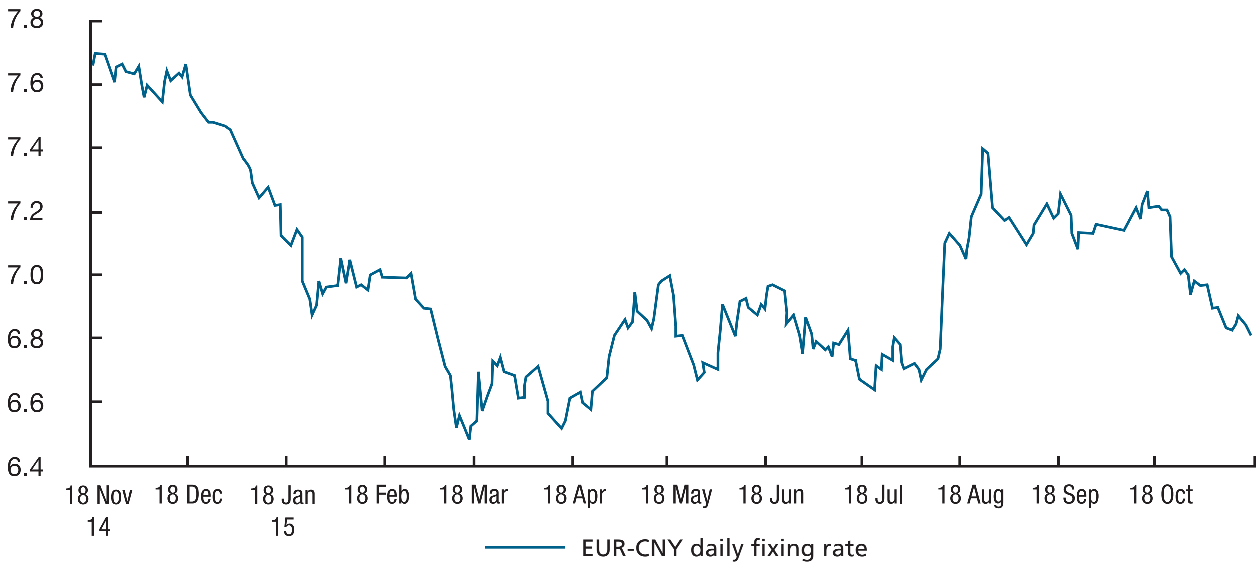
Source: State Administration of Foreign Exchange

Exhibit 34 Real effective exchange rate of the Chinese yuan, November 2013 to October 2015



Source: Bank for International Settlements

Exhibit 35 EUR-CNY daily fixing rate, November 2014 to November 2015



Source: State Administration of Foreign Exchange

2. Conclusion of TPP and China's move to pursue FTAs with trading partners

On 5 October 2015, 12 Pacific-rim nations including the US and Japan announced the successful conclusion of the Trans-Pacific Partnership (TPP) deal. Currently, the 12 member countries of the TPP include Australia, Canada, Japan, Malaysia, Mexico, Peru, the US, Vietnam, Chile, Brunei, Singapore, and New Zealand.

The TPP agreement covers commitments on trade in goods, trade in services, investment and other policy areas. In terms of trade in goods, the TPP members commit to eliminating most of the tariffs on industrial goods and progressively on agricultural products traded among the member countries.

As China is not a member country of the TPP, the trade pact may present a challenge to Chinese exporters. Currently, the US is China's largest export market, with the Chinese exports to the US accounting for 18.2% of China's total exports in 1-3Q15. As most industrial products exported from the TPP member countries to the US will eventually enjoy zero tariffs, whereas products exported from China to the US are still subject to tariffs, the TPP is set to undermine the competitiveness of Chinese products.

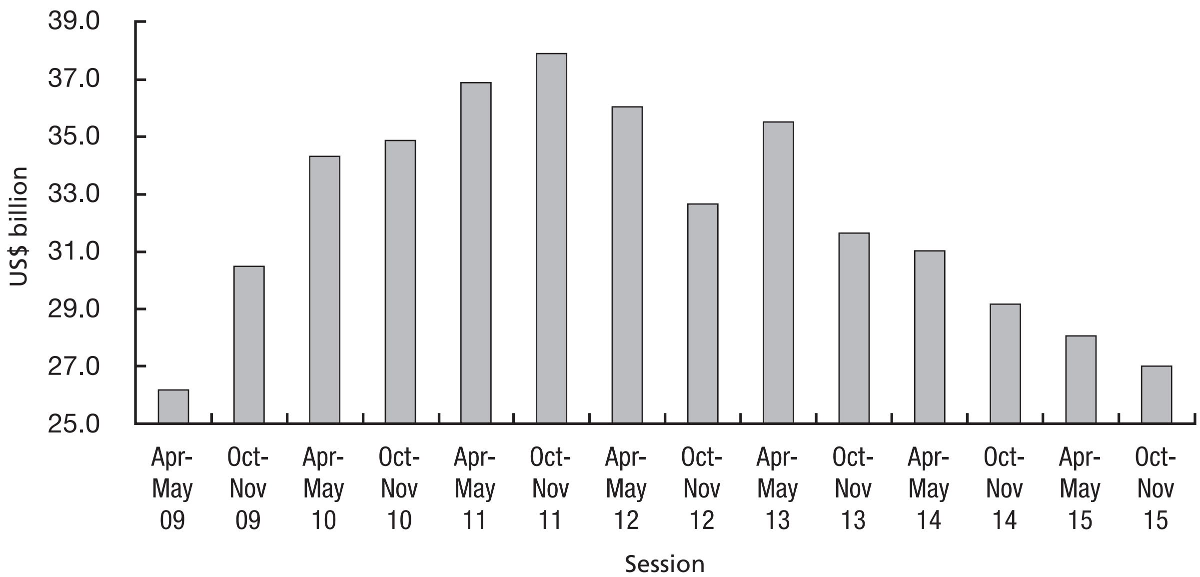
That being said, the impact of the TPP may be alleviated by China's active move to pursue free trade agreements (FTAs) with its trading partners in recent years. China has already signed FTAs with 8 of the 12 TPP members respectively, Besides, China is now negotiating FTAs with countries such as Japan, Korea, Norway and Sri Lanka, to name just a few. Particularly noteworthy is that the Regional Comprehensive Economic Partnership (RCEP), which is heavily influenced by China, is now under negotiation. If successfully concluded, the RCEP, which covers ASEAN and 6 other countries, will help China to expand its FTA network and economic influence in the Asia Pacific Region.

3. Total value of deals signed at the Canton Fair drops by 3.7%

The total value of deals signed at the 118th China Import and Export Fair (more widely known as the Canton Fair), held in October and November 2015, fell by 3.7% to US$ 27.0 billion, compared with the previous session (see exhibit 36).[19] 46.0% of the orders signed in the October-November session were scheduled to be fulfilled within three months.

The Canton Fair is widely regarded as the barometer of China's trade activity. In our view, these figures suggest that China's exports still lack strong momentum in the near term. That being said, we believe that China is still a major sourcing country for retailers. According to the organizer, of the top 250 global retailers in 2015, 116 visited the fair in this session, including Walmart, Carrefour, Metro, Home Depot and Tesco.

Exhibit 36 Total value of deals signed at the Canton Fair, 2009 to 2015



Source: Official website of the China Import and Export Fair

19 The China Import and Export Fair is China's largest and oldest trade exhibition.

C Outlook

1. US economic growth moderates

The US economic growth decelerated in 3Q15, due largely to slower accumulation of inventories. The real annual growth rate of the US GDP fell from 3.9% in 2Q15 to 1.5% in 3Q15. Meanwhile, the real annual growth rate of personal consumption expenditures stayed high at 3.2% in 3Q15, after registering 3.6% in 2Q15.

On the production side, industrial production fell by 0.2% mom in September, posting negative mom growth for two consecutive months (see exhibit 38). Meanwhile, according to the Institute for Supply Management, the manufacturing Purchasing Managers' Index (PMI) fell all the way from 53.5 in June to 50.1 in October, indicating the weakness of the manufacturing sector. Also noteworthy is that the new orders for manufactured durable goods fell by 2.9% mom and 1.2% mom in August and September, respectively, on a seasonally adjusted basis.

However, the non-manufacturing sector has expanded at a fast pace lately. The non-manufacturing index (NMI), compiled by the Institute for Supply Management, rose from 56.9 in September to 59.1 in October, well above the critical 50-mark.

The mom growth of the US retail sales decelerated from 0.8% in July to 0.0% in August, and then stayed low at 0.1% in September. The Reuters/University of Michigan Index of consumer sentiment dropped from all the way from 96.1 in June to 87.2 in September, before rebounding to 90.0 in October, the second lowest level this year (see exhibit 39). This indicates the relatively weak confidence among consumers in the US.

The pace of job creation has improved recently. After rising by 153,000 and 137,000 in August and September respectively, the non-farm payroll employment increased at a faster pace by 271,000 in October. In the meantime, the US unemployment rate dropped to 5.0% in October, the lowest level since May 2008 (see exhibit 40).

Looking ahead, we expect the US economic growth to pick up in coming quarters, as the labour market has continued to improve. According to the latest projection by the International Monetary Fund (IMF), the US real GDP growth is forecast to accelerate to 2.6% in 2015 and 2.8% in 2016, up from 2.4% in 2014.[20] Downside risks, in our view, come mainly from further appreciation of the US dollar and the faster-than-expected increase in interest rates.

Exhibit 37 US national accounts, 2013 to 3Q15

Annual growth (%)	2013	2014	4Q14	1Q15	2Q15	3Q15
Real GDP	1.5	2.4	2.1	0.6	3.9	1.5

Source: US Department of Commerce

Exhibit 38 US industrial production growth, April to September 2015

mom growth (%), seasonally adjusted	Apr 15	May	Jun	Jul	Aug	Sep
Industrial production	-0.2	-0.4	0.0	0.8	-0.1	-0.2

Source: US Federal Reserve

20 IMF, *World Economic Outlook*, October 2015

Exhibit 39 US consumer market, May to October 2015

	May 15	Jun	Jul	Aug	Sep	Oct
Retail and food services sales *(mom growth %, seasonally adjusted)*	1.2	0.0	0.8	0.0	0.1	-
Reuters/University of Michigan index of consumer sentiment	90.7	96.1	93.1	91.9	87.2	90.0
CPI *(yoy growth %)*	0.0	0.1	0.2	0.2	0.0	-

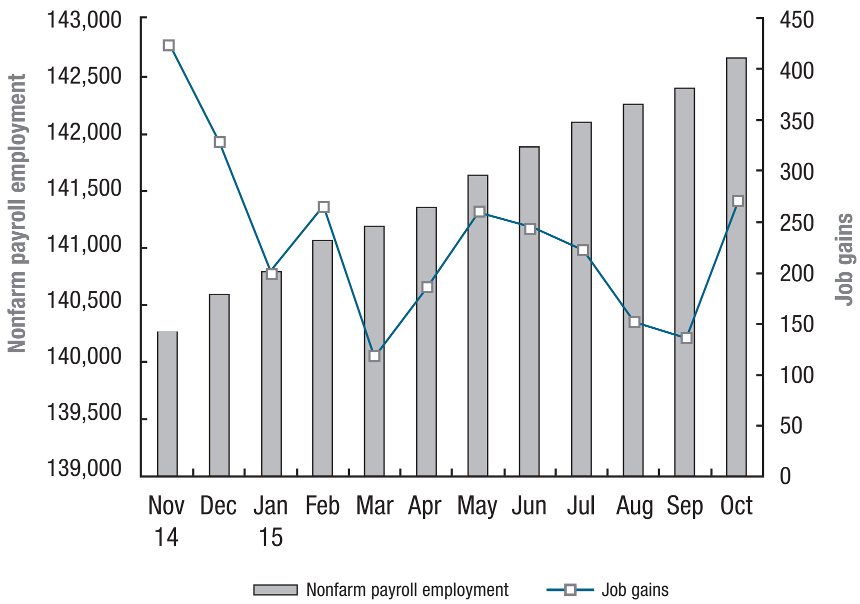
Source: US Department of Commerce, Reuters/University of Michigan Surveys of Consumers, US Department of Labor

Exhibit 40 US employment

	Unemployment rate (%)
2013	7.4
2014	6.2
Nov 14	5.8
Dec	5.6
Jan 15	5.7
Feb	5.5
Mar	5.5
Apr	5.4
May	5.5
Jun	5.3
Jul	5.3
Aug	5.1
Sep	5.1
Oct	5.0

Yearly figures: Annual average
Monthly figures: Seasonally adjusted

Nonfarm payroll employment, November 2014 to October 2015
In thousands, seasonally adjusted



Source: US Department of Labor

2. Eurozone economy improves

The Eurozone economy has improved lately.[21] According to the global survey firm Markit Economics, the Eurozone manufacturing PMI rose from 52.0 in September to 52.3 in October, close to the recent peak of 52.5 recorded in June. The relatively high PMI figure in October indicates that growth of the manufacturing sector in the Eurozone has remained relatively robust.

Meanwhile, the Eurozone services PMI went up to 54.1 in October from 53.7 in September, indicating that the services sector in the Eurozone has expanded at a faster pace.

21 Lithuania has become the 19th member of the Eurozone as from 1 January 2015. Other member countries include Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

On a seasonally adjusted basis, the retail trade volume in the Eurozone stayed stable in August, and then fell by 0.1% in September, indicating stagnant consumption demand (see exhibit 42). Nevertheless, the labour market conditions in the region have shown signs of improvement lately. The unemployment rate dropped gradually from 11.0% in June to 10.9% in July and August, and further to 10.8% in September (see exhibit 43).

The Eurozone's economic sentiment indicator (ESI) rose all the way from 103.5 in June to 105.9 in October, indicating a continuous improvement in economic sentiment (see exhibit 44).

Going forward, the Eurozone economic growth is set to improve further in the near term, due to favourable factors such as low oil prices and interest rates and the weak Euro. According to the projections by the IMF, the Eurozone's real GDP growth is forecast to accelerate from 0.9% in 2014 to 1.5% in 2015 and 1.6% in 2016.[22]

Exhibit 41 Eurozone's real GDP growth, 2013 to 2Q15

	2013	2014	3Q14	4Q14	1Q15	2Q15
Real GDP *(qoq growth %)*			0.3	0.4	0.5	0.4
Real GDP *(yoy growth %)*	-0.3	0.9	0.8	0.9	1.2	1.5

*** The figures in 2013 and 2014 do not reflect Lithuania's membership of the Eurozone, which began on 1 January 2015.**

Source: Eurostat

Exhibit 42 Eurozone consumer market, April to September 2015

	Apr 15	May	Jun	Jul	Aug	Sep
Volume of retail trade (*mom growth %, seasonally adjusted*)	0.4	0.2	0.0	0.6	0.0	-0.1
Annual inflation (%)	0.0	0.3	0.2	0.2	0.1	-0.1

Source: Eurostat

Exhibit 43 Eurozone labour market, April to September 2015

seasonally adjusted	Apr 15	May	Jun	Jul	Aug	Sep
Unemployment rate (%)	11.1	11.0	11.0	10.9	10.9	10.8

Source: Eurostat

22 IMF, *World Economic Outlook*, October 2015

Exhibit 44 Eurozone economic sentiment indicator, May to October 2015

seasonally adjusted	May 15	Jun	Jul	Aug	Sep	Oct
Economic sentiment indicator	103.8	103.5	104.0	104.1	105.6	105.9

Source: Eurostat

3. China's exports are expected to show single-digit decline in 4Q15

In its *World Economic Outlook* released on 6 October, the IMF cuts its 2015 growth forecasts for a number of economies, including Germany, Japan, Russia, India, Brazil, South Africa, etc. The IMF's 2015 growth forecast for the advanced economies is adjusted downward to 2.0%, from its previous prediction of 2.1% made in July this year. Meanwhile, its 2015 growth forecast for the emerging markets and developing economies is revised downward by 0.2 ppts to 4.0% (see exhibit 45). The downward adjustments in growth forecasts suggest that the global economic recovery is weaker than the IMF's previous expectations. We remain pessimistic over China's export outlook, and expect to see single-digit decline in China's exports in 4Q15.

Exhibit 45 Latest GDP growth forecasts by the International Monetary Fund

yoy growth (%)	2014	2015 (Forecasts)	2016 (Forecasts)
World economy	3.4	3.1	3.6
Advanced economies	1.8	2.0	2.2
US	2.4	2.6	2.8
Eurozone	0.9	1.5	1.6
Japan	-0.1	0.6	1.0
Emerging markets and developing economies	4.6	4.0	4.5
China	7.3	6.8	6.3
India [23]	7.3	7.3	7.5
ASEAN-5 [24]	4.6	4.6	4.9
Brazil	0.1	-3.0	-1.0
Russia	0.6	-3.8	-0.6

Source: International Monetary Fund, World Economic Outlook, October 2015

23 Data and forecasts are presented on a fiscal year basis. India's fiscal year runs from 1 April to 31 March.

24 Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

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