CHINESE MACHINE TOOL MARKET - WEEKLY BULLETIN

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Desk ICE-UCIMU in CHINA

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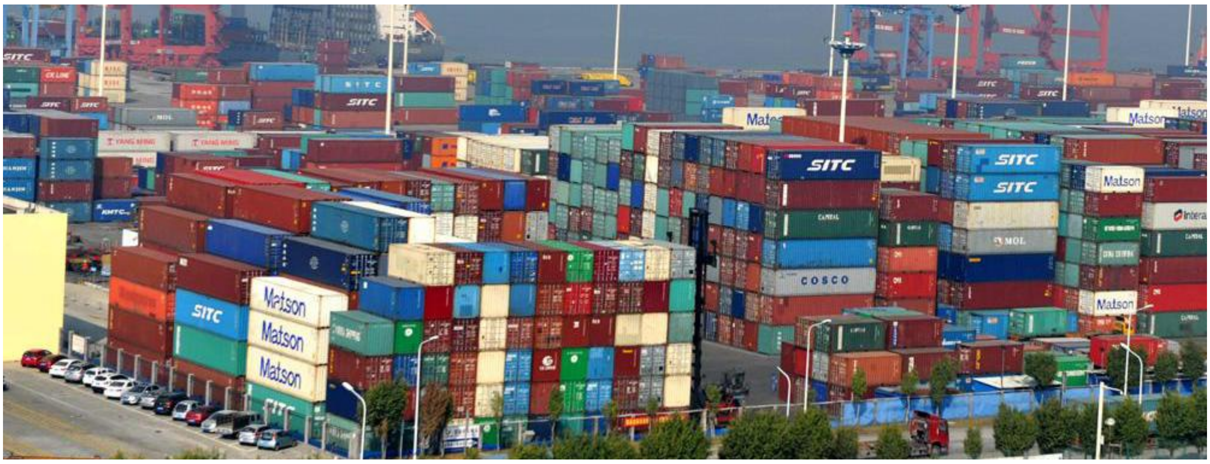
China's economic activity holds steady despite uncertainties



China's economic activity held largely stable in April, with strong momentum in the industrial sector buffering impacts from slowing retail sales and fixed asset investment, data showed on May 15th.

China's industrial output grew 7 percent last month, quickening from the 6-percent rise in March and easily beating market expectations of around 6.4 percent, according to data from the National Bureau of Statistics (NBS).

In the first four months, industrial output rose 6.9 percent, compared with the 6.8-percent gain in the first quarter.

"China's economy maintained its trend of steady development in April," NBS spokesperson Liu Aihua said.

However, it is worth noting that the economy still faces growing external uncertainties and the acute problems of unbalanced and inadequate domestic development, Liu added.

Asked about the trade frictions between China and the United States, Liu said the possible influence on the Chinese economy has not been fully reflected in the short term.

A breakdown of the data showed the industrial structure continued to improve, with production in high-tech industries and the equipment manufacturing sector expanding by 11.8 percent and 10.3 percent, respectively, last month.

Output of new energy vehicles saw a surge of 82.2 percent year on year during the period, while industrial robot production jumped by 35.4 percent.

Industrial output, officially called industrial value added, is used to measure the activity of designated large enterprises with annual turnover of at least 20 million yuan (about $3 million).

Output in the mining sector fell 0.2 percent year on year amid a government drive to restructure and optimize the industry.

China plans to cut ineffective steel capacity by 30 million tonnes and coal capacity by 150 million tonnes in 2018, according to a government work report released earlier this year.

Ownership analysis showed that industrial output of state-holding enterprises was up 7.7 percent, while industrial output of enterprises funded by overseas investors increased 6.8 percent.

While the supply side of the economy is showing strong resilience, data showed consumer and investment demand is under downward pressure.

China's retail sales of consumer goods grew 9.4 percent year on year to reach 2.85 trillion yuan in April, retreating slightly from the 10.1-percent rise seen in March.

Fixed-asset investment rose 7 percent in the first four months, down from 7.5 percent for January-March and marking growth deceleration for two consecutive months.

Although fixed-asset investment growth eased, the structure of investment continued to optimize, with more support for economic transformation and improving supplies, the NBS pointed out.

In April, the job market remained steady, with the surveyed unemployment rate in urban areas at 4.9 percent, 0.2 percentage point lower than that in March.

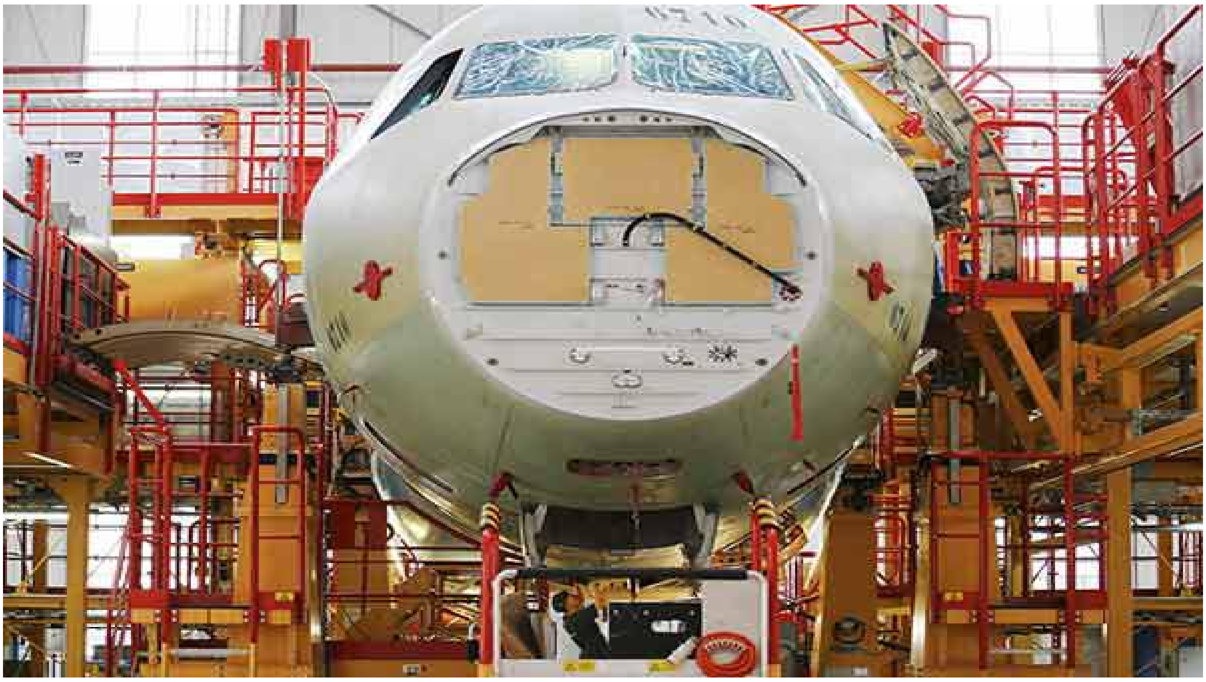
Taking note of the bright spots of restructuring, Zhang Yiping, an analyst with China Merchant Securities, predicted China's economy will stay steady in the second quarter.

"There is no need for pessimism over the whole year's performance," Zhang said.

Commenting on Tuesday's data, Asian investment bank Nomura said China will further fine-tune its policy stance to ensure more stable growth, with programs such as pledged supplementary lending to support homebuyers in lower-tier cities and speed up fiscal spending.

Earlier data showed China's economy expanded 6.8 percent year on year at comparable prices in the first three months of 2018, well above the government's annual target of around 6.5 percent.

China's wider manufacturing opening up benefits world



The constant widening of opening up in China's manufacturing sector will not only help domestic industrial upgrading but benefit all foreign companies, industry experts say.

"The manufacturing sector has consistently expanded the fields and raised the level of opening up," said Huang Qunhui, head of the industrial economics institute under the Chinese Academy of Social Sciences.

Among 609 sub-categories of the manufacturing sector, 96.1 percent were completely open to foreign investment, according to the Ministry of Industry and Information Technology (MIIT).

In 2017, the manufacturing sector attracted total foreign direct investment of $33.5 billion, while outbound investment by domestic companies in the sector totaled $120.1 billion.

The MIIT data also showed that 4,986 foreign-invested manufacturing firms were set up last year, up 24.3 percent year-on-year. The main fields of foreign investment covered computers, integrated circuits, smart manufacturing and other high-tech sectors.

The sector's open attitude towards foreign investment "not only raised the country's own strength, but also provided handsome returns for foreign companies and institutions," Huang said.

Last month, China announced plans to open the automobile sector wider to foreign investment, with a timetable to phase out the shareholding limits for foreign investors.

Shareholding limits for special-purpose vehicles and new energy vehicles will be scrapped for foreign investors in 2018, while those for commercial vehicles will be lifted in 2020, according to the National Development and Reform Commission, the country's top economic planner.

MIIT chief engineer Chen Yin said the ministry has been working with other departments on reducing automobile import tariffs "by a considerable amount," and would make the cuts public as soon as possible.

Opening up the automobile sector to foreign firms put an end to a "protection period" for domestic brands, said Dong Yang, vice-director of the China Association of Automobile Manufacturers.

"Instead of having huge impact on domestic automakers, wider opening up will be conducive to encouraging competition and pushing the industry to raise quality and efficiency," Dong said.

Industrial development depends hugely on global economic integration, said MIIT chief engineer Chen Yin.

"The Chinese manufacturing sector will further expand opening up to stimulate the innovation of advanced technology, realize compliance with international economic and trade rules, and offer more and better investment opportunities to foreign firms," Chen said.

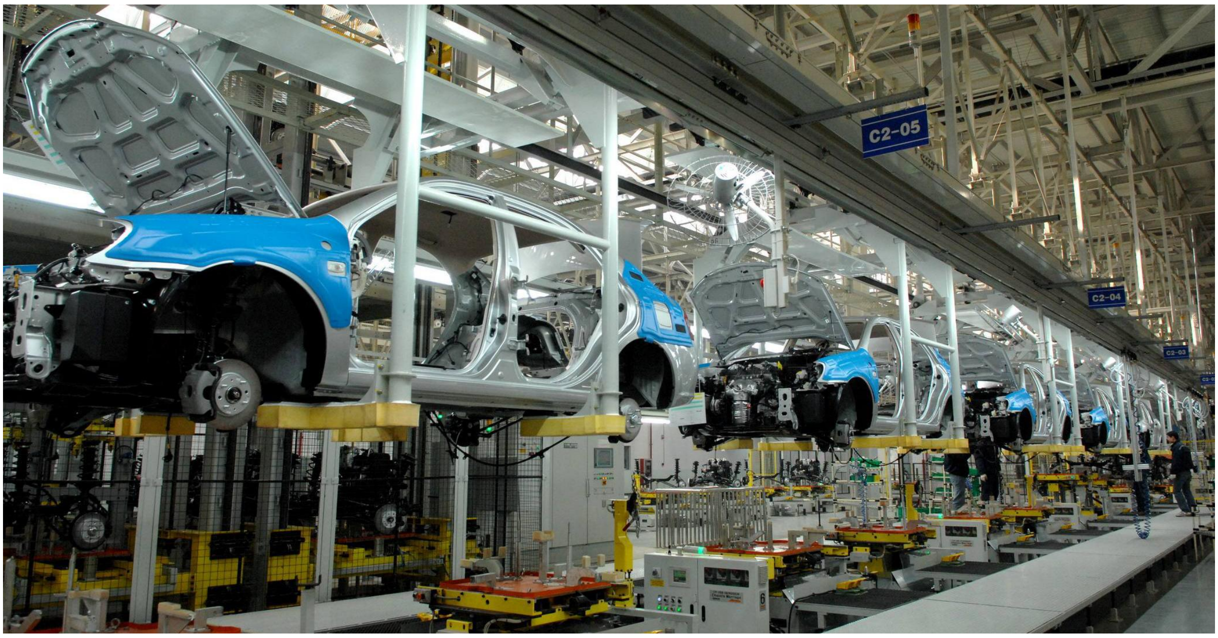
Minister of Industry and Information Technology Miao Wei said that while continuing to uphold its stance on introducing foreign investment, the government also encouraged Chinese manufacturers to invest overseas.

By the end of last year, Chinese companies had invested more than $30 billion in overseas economic and trade cooperation zones, creating 258,000 local jobs.

"A pattern of all-round opening up of the manufacturing sector has come into being," Miao said. "The fundamental principle for China's manufacturing development was, is and will always be pursuing mutual benefits through open cooperation."

"China will continue to raise policy transparency and stability, optimize government services and improve the business environment for investors from all around the globe," he said.

China's industrial production beats expectations



China's industrial production grew 7 percent year-on-year in April led by rapid growth in high technology and equipment manufacturing sectors, data from the National Bureau of Statistics showed on May 15th.

April's industrial production grew faster than economists' expectation and was 1 percentage point higher than the previous month, according to the NBS.

Investment in the first four months saw slower growth, with total investment in fixed assets expanding by 7 percent year-on-year, which was 0.5 percentage point lower than that of the first three months, official data showed.

Consumption continued to grow steadily in April. Total retail sales of consumer goods grew 9.4 percent year-on-year to 2.85 trillion yuan ($450 billion). The growth rate was 0.7 percentage point lower than the previous month.

Liu Aihua, an NBS spokeswoman, said at a news conference that some economic indicators showed fluctuations in April but the long-term economic trend remains sound and the country's growth has been increasingly driven by new industries and high-tech sectors.

China's employment was also sound with unemployment rate dropping in April, another indication of steady economic growth, Liu said. The surveyed unemployment rate in urban areas was 4.9 percent in April, 0.2 percentage point lower than that of the previous month, according to the NBS.

Passenger car sales climb 10% in April

Passenger car sales in China rose nearly 10 percent annually in April and the growth pace is expected to continue this month, according to the China Passenger Car Association.

Around 1.81 million passenger vehicles were sold last month, up 9.6 percent year on year, data from the association showed. April's growth rate easily beat the average growth rate of 4.5 percent from January to March.

Premium cars and new-energy vehicles drove the sales growth in April. Premium car sales jumped 17 percent year on year, said the association whose data didn't reveal detailed figures.

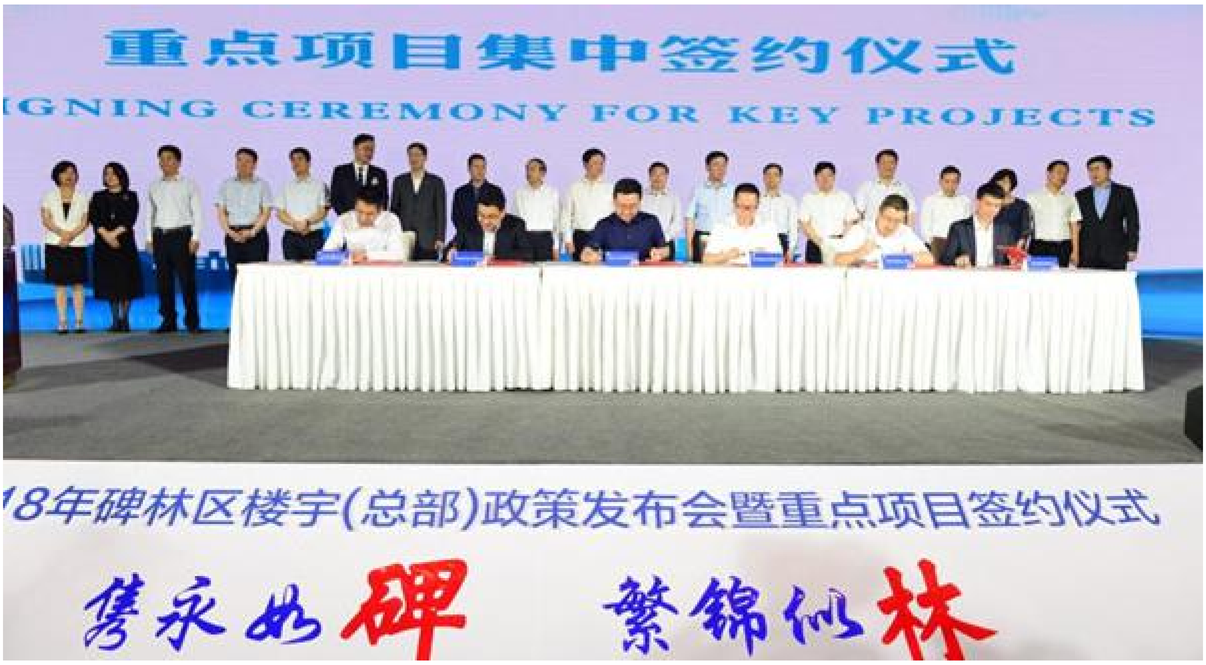
Premium car brands all rose strongly last month in China. Mercedes-Benz sold 57,221 new cars, up 20.1 percent while Audi sold 52,411 vehicles, up 13.5 percent. BMW hasn't released its sales figures for April.

The spotlight of the passenger car market was that sales of new-energy passenger cars propelled 150 percent year on year to 730,145 in April. And electric car sales surged 131.8 percent to 56,468 units in April from a year ago while sales of plug-in hybrids soared 243 percent annually to 16,677 units last month.

"The sales growth momentum in May is likely to continue from April. Passenger car sales will further grow steadily. We are expected to see a relatively high growth rate of car sales this month," said Cui Dongshu, secretary-general of the association.

The higher number of 22 working days in May is set to fuel the sales pace, said Cui, adding that new models shown at the recent Beijing auto show "will also boost car sales in May."

Robots activated in Xi'an



The Beilin district government of Xi’an, capital of Shaanxi province, signed an agreement with Avic Creation Robot Company on key robot industrial development projects on May 13th.

The company was launched by the China Aviation Industry Group especially for the development of artificial intelligence including three core products of medical robots, service robots and military robots.

The company’s core research and development arm, Xi’an Novoskeleton Robot Technology Co., Ltd., was established in April, 2017 in Beilin district and successfully developed China's first and internationally leading lower limb exoskeleton rehabilitation robot.

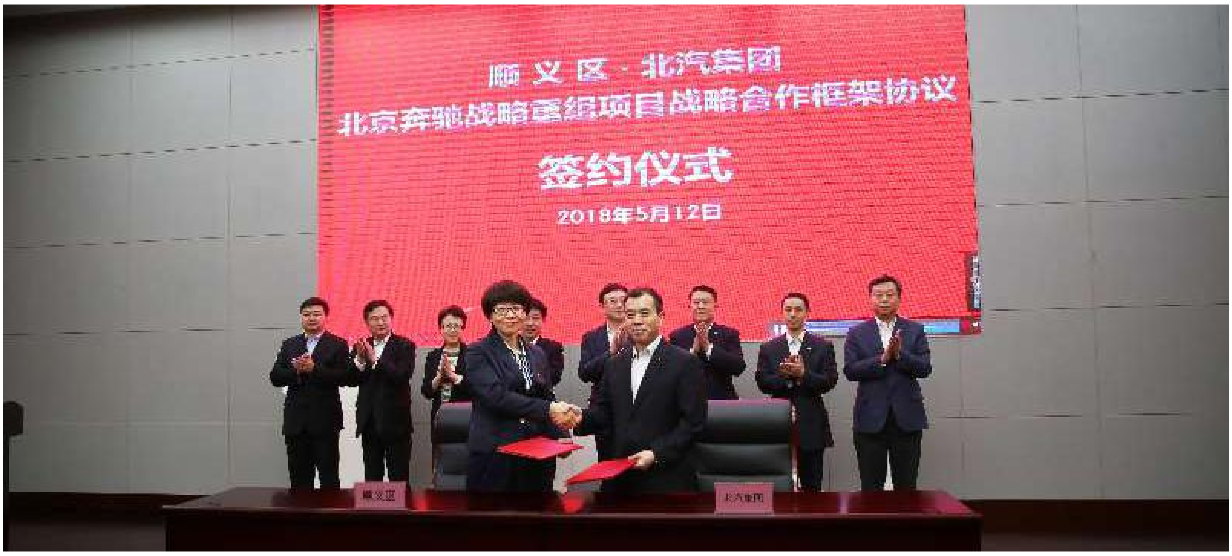
With the product, Xi’an Novoskeleton became a new research and development enterprise for civil-military integration.

The Beilin government had offered substantial support to encourage the project to settle down in the district.

Chu Guosong, chairman of Avic Creation Robot Company, said that service provided by the local government shortened the original product development time from one year to four months.

The two sides said they will cooperate more closely to further develop the robot industry and to realize industrialization of medical, service and military robots.

New energy Mercedes to be built in Shunyi district



Beijing Automotive Group Co and Beijing Shunyi district signed an agreement to build a high-end new energy Mercedes-Benz vehicle production base with the most advanced production standards in the world on May 12.

With total investment of 11.9 billion yuan ($1.88 billion), the project will make full use of BAIC’s current base in Shunyi district with the addition of upgrades.

According to the company, during the first phase of the project it plans to produce 150,000 vehicles annually, with the first batch expected to roll off the production line by the end of 2019. The first phase is expected to achieve annual output value of 50 billion yuan and tax revenue of 7 billion yuan.

In future, the annual productivity will expand to 300,000 vehicles, on the basis of the development demands, according to BAIC.

The production line will be 90 percent automated and will manufacture a series of new pure electric high-end models.

The project will also promote the transformation of traditional warehousing logistics, with the building of an intelligent, automated and integrated component distribution platform.

Shunyi district is accelerating the construction of its innovative industry clusters and its national 2025 demonstration zone, focusing on the development of intelligent new energy vehicles, third generation semiconductors and aerospace.

Beijing Benz Automotive Co, BAIC's subsidiary, is a leading high-end passenger car provider in China, and its latest project corresponds with the development direction of Beijing high-end industry.

Officials of Shunyi said that the project is an important move for the district's construction of the capital's national technological innovative center, which will accelerate the automobile industry’s transformation and upgrading.

According to Shunyi district, its intelligent new energy vehicle industry will achieve a gross industrial output value of 150 billion yuan by 2025.

The district will become an ecological industry demonstration zone for intelligent new energy vehicles with advanced innovative technology, complete with supporting facilities and leading demonstration application by then, said local officials.

Honeywell planning to take digital strides in China

US industrial conglomerate Honeywell International Inc is planning to further accelerate its core business in China in the next 10 years, including digital economy, refinery and aerospace, to capitalize on its solid business foundation in the country during the last 15 years.

China has long been a second home for Honeywell and the company raked in revenue of $2.9 billion in 2017, a year-on-year growth of 25 percent, said Shane Tedjarati, president for Honeywell's Global High Growth Regions, which includes China.

"Honeywell has witnessed rapid development in China over the past decade and the country has become one of its largest markets outside the US since 2013. Last year Honeywell achieved 25 percent year-on-year growth in China," said Tedjarati.

"Looking forward to the next decade, Honeywell's strategies are well aligned with China's national agenda, including digital economy, beautiful China, and so on."

Honeywell will also strive for more innovation in its core businesses, including petrochemicals, refineries and aerospace, he said in Beijing on Tuesday.

The US firm moved its corporate headquarters for the Asia-Pacific to Shanghai from Singapore in 2003, as part of its business strategy to capitalize on growth opportunities across the region, one of the few to do so 15 years ago.

According to Tedjarati, the multinational has recently come up with a corporate plan called China 2030, which will adjust the company's future strategies and prepare itself to be part of the picture where China is going in the next decade, especially with respect to the digital economy.

Software, the Belt and Road Initiative and Chinese companies globalizing are all major elements of the company's outlook for future development in the country, he said.

"We help and globalize with Chinese partners, which means instead of just looking at the Chinese companies as competitors, we look at them as partners," he said.

Honeywell has appointed Shen Bin, former vice-president of corporate strategy and new business development at Verizon Communications, as president of Honeywell China in May.

Tedjarati said Shen's experience in the field of connectivity and digital economy would be a definite asset for the company as it accelerates toward becoming an industrial software leader in the China market.

"Honeywell has made a long-standing commitment to China, and we greatly value our presence here," said Tedjarati.

Honeywell China is now the single largest contributor to the company's growth. Its four strategic business groups are substantially present in China, with Shanghai serving as the company's Asia-Pacific headquarters.

ABB sets up new robotics center in Chongqing

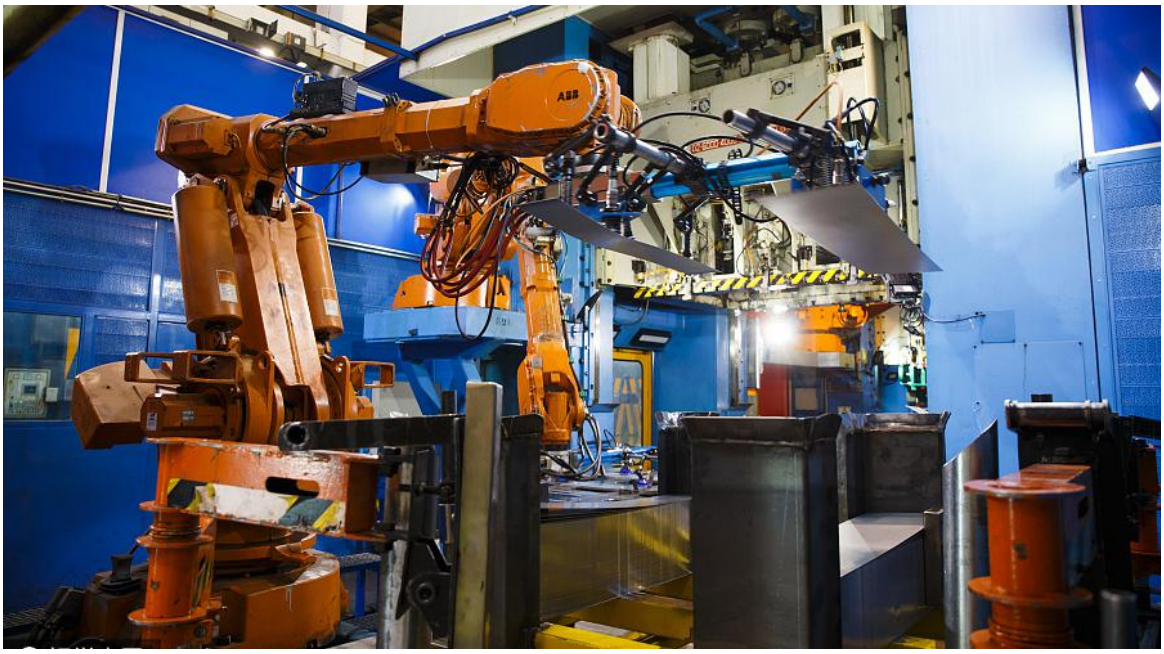


ABB Group of Switzerland said it plans to enhance its business presence in Chongqing and support the development of the robotics industry in China's western regions, by stepping up smart manufacturing and driving an industrial upgrade.

On May 17, a new ABB robotics application center was set up in Chongqing Liangjiang New Area, a national development zone modeled after Shanghai Pudong and Tianjin Binhai.

ABB's Chongqing center, the fourth one after the centers in Shanghai, Zhuhai in Guangdong province and Qingdao in Shandong province, aims to integrate resources in Southwest China by providing robots, application, system integration and related customer service.

The center will develop robots for its clients from various industries, including automobiles, computers, communications, consumer electronics, equipment and consumer goods manufacturing.

"Chongqing plays a critical role in China's economy, especially in manufacturing," said Li Gang, head of the Robotics and Motion Division at ABB China, at the launch ceremony.

China has been the world's largest market for robot applications since 2013, according to data from the International Federation of Robotics.

As the only municipality in western China, the city is one of the country's leading economic centers and a major manufacturing base. It has the country's largest auto manufacturing base and one third of the laptops in the world are made in Chongqing.

Facing a shortage of labor and rising labor costs, China unveiled an ambitious plan in 2016 to triple its annual production of domestic industrial robots to 100,000 in five years.

ABB Group, the Zurich-headquartered industry giant, has been a pioneer promoting robotics applications in China since 1994. In 2015, it started robotics research, development and manufacturing in China.

"ABB's relationship with China dates back to 1907 when it delivered a steam boiler to the country. Today, we continue this relationship with our technology innovation, which has promoted the development of many industries," said GuChunyuan, ABB's president for Asia, Middle East and Africa.

"In the past four decades, ABB has experienced, participated in and benefited from China's reform and opening-up. In the future, we will keep leading technology innovation to better serve Chinese people."

Bosch's China sales rise 24% in 2017

BOSCH posted a nearly 24 percent jump in sales in China last year amid rapid growth in the country's new energy vehicle market and accelerated industrial upgrading, it said on May 17th.

However, the German engineering and electronics company sees sales to grow moderately in China in 2018 "due to rising geopolitical risks and economic uncertainties caused by trade tensions" between China and the US. The group expects sales to grow only 2-3 percent annually in China this year,

Bosch's sales totaled 113.4 billion yuan (US$17.8 billion) in China last year, up nearly 24 percent from a year ago.

China remains Bosch's largest single market outside its home, taking up over 60 percent of sales growth in Asia Pacific, said Peter Tyroller, a management board member at the company.

Although China's auto market grew at the slowest since 2012 overall, sales of new-energy vehicles soared 53.3 percent to 777,000 units last year, said the China Association of Automobile Manufacturers.

"That has bolstered our performance last year as mobility remains the key sector of our business in China," Tyroller said.

Bosch's industrial technology and smart city businesses also grew rapidly as China quickened its upgrading in manufacturing and consumer industries last year, according to Tyroller.

TRUMPF believes in the Chinese economy

Despite recent debate over trade policy, the machine manufacturer and laser specialist TRUMPF is committed to China. The company employs more than 1,300 people at two Chinese sites, which together recently generated 404 million euros in annual revenue. During this past fiscal year, China was the third-largest market worldwide - surpassed only by Germany (622 million euros) and the United States (421 million euros).

JFY, a TRUMPF subsidiary in Yangzhou, held a festive event to open its new production site. Ms. Susanne Lada'a, a representative of Germany's Consulate General in Shanghai, attended the event - as did TRUMPF Managing Partner Mathias Kammüller, who emphasized that the Chinese market is tremendously important to TRUMPF. Heinz-Jürgen Prokop, who oversees TRUMPF's business activities in China, was also at the ceremonial opening. He said: "Our two different brands in China, JFY and TRUMPF, allow us to supply our customers and business partners in the country with products and solutions tailored to different market segments."

TRUMPF has stated that it invested 12 million euros in the new JFY production site - now the Group's largest production site worldwide, comprising some 19,000 square meters of floor space. JFY's 771 employees manufacture primarily laser, punching, and bending machines. Its annual production output of over 1,000 CNC bending machines makes JFY the market leader in China. The company also produces more bending machines than the entire TRUMPF Group. JFY, acquired by TRUMPF in 2013, also manufactures several hundred laser-cutting and punching machines every year. This subsidiary recently generated 86 million euros in annual revenue.

"With this in mind, we're fundamentally concerned about the ongoing trade dispute between China and the United States, especially when it comes to a potential rise in steel prices. But this trade quarrel hasn't affected our business in China," said Prokop. "TRUMPF prioritizes consolidating its position in the Chinese market with a strong local presence; we're not shifting development endeavors back to Germany. We will instead tap into the dynamic Chinese market by boosting our commitment to development, production and service on Chinese soil. A lot of people are talking about making an exit from China, but that's not an option for TRUMPF. We're doing exactly the opposite!"

In addition to opening the new site in Yangzhou, TRUMPF is also investing in its own company in the country: TRUMPF China. Construction crews broke ground in late April for a new multipurpose facility, an eight-million-euro investment. With a workforce of 590 people, TRUMPF China has already generated more than 300 million euros in revenue during this fiscal year. High-quality laser cutting machines that process sheet metal are the company's primary driver of revenue. By contrast, JFY is positioned in the low to mid-range segment. TRUMPF China and JFY both produce almost exclusively for Chinese customers.

Mathias Kammüller, who is also Chief Digital Officer of the TRUMPF Group, pointed out that JFY and TRUMPF China are achieving good rates of growth in automation services and strong growth in machine sales. Kammüller added that TRUMPF can therefore supply its customers with complete, state-of-the-art solu-tions for intelligent manufacturing - inspired by the TRUMPF smart factory that opened in Chicago last fall.

Machinery exports to rise up to 10%

The Chinese Taiwan's machinery exports this year are estimated to grow 5 percent to 10 percent on the back of better market sentiment, the Taiwan Association of Machinery Industry (TAMI for short) said on May 9th.

"The growth momentum should be driven by increasing demand for machine tools and key components used in machinery equipment, such as ball screws," TAMI machine tool committee chairman David Chuang said.

The industry has this year seen improving demand for machine tools in major markets, Chuang told a news conference in Taipei, referring to Turkey and India.

In the first quarter of this year, machinery exports rose 18.3 percent to US$6.43 billion, with machine tool exports increasing 19.1 percent annually to about US$820 million.

The machinery industry, one of Chinese Taiwan's trillion-dollar businesses, aims to add US$3.34 billion in output every year, local Chinese-language media quoted TAMI chairman Alex Ko as saying on May 9th.

Within the next decade, the sector could generate production value of NT$2 trillion per year, Ko said at the opening ceremony of the Taipei Intelligent Machinery & Manufacturing Technology Show.

The production value of Chinese Taiwan's machinery industry last year reached NT$1.1 trillion, with exports climbing 21.1 percent to US$25.6 billion, TAMI data showed.

The industry, whose largest cluster surrounds Taichung's Dadu Mountain, has created more than 300,000 jobs, the data showed.

The Taiwan External Trade Development Council, a government-backed trade promotion agency, said it plans to expand the size of next year's Taipei International Machine Tool Show to attract more foreign buyers.

The two-yearly event is next year expected to be Asia's largest and the world’s third-biggest trade show for machine tool manufacturers, TAITRA exhibition department executive director Thomas Huang said, adding that about 1,450 companies would join the event.

Participants would use 7,000 booths to display their products at the show, up from 5,430 booths last year, Huang told reporters.

The six-day event is to be held at the Taipei World Trade Center Nangang Exhibition Hall from March 4 to March 9 next year, TAITRA said.