

*Bimonthly
report*

Observations and Trends of China's Agrochemical Industry in Macroeconomic Landscape

Nov. to Dec. 2023 Observation—Weak in production and demand, plus policies to ensure sustained economic recovery

Manufacturing production and demand have slowed down. On the one hand, under the background of the traditional off-season, production has slowed; on the other hand, market demand still needs to be boosted.

A number of macro data in China in Nov. and Dec. 2023 continued to fall slightly, but the overall economy was still in the process of recovery. To stably and effectively expand demand is the focus of the current policies.

Nov. - Dec. 2023

Prepared by

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Nov. to Dec. 2023 Observation—Macro indicators reflect weak supply and demand

Indicator	Sept. 2023	Oct. 2023	Nov. 2023	Dec. 2023	Comment
Finished goods inventory index(%)	46.70	48.50	48.20	47.80	Supply • These days, some manufacturing industries have entered the traditional production off-season, and the production indices of textile, petroleum fuel processing, chemical fiber and rubber plastic products and other industries have been below the critical value. • Inventories of finished goods have been at a low level. For some industries, production has become active as the Year-end as well as the Spring Festival approaches. However, for pesticide industry, it is an off-season with slack demand and the producers take a rather cautious attitude.
Expected production and business activities index(%)	55.50	55.60	55.80	55.90	
Manufacturing Purchasing Managers' Index (%)	50.20	49.50	49.40	49.00	Demand
New orders index(%)	50.50	49.50	49.40	48.70	• In Nov., the manufacturing PMI fell slightly by 0.1 percentage points (PPs) to 49.4%, the second lowest level since 2013 and only higher than the same period last year; the new orders index fell 0.1 PPs MoM, and new export orders index fell 0.5 PPs MoM, reflecting weaker domestic and foreign demand. • In Dec., the manufacturing PMI fell by another 0.4 PPs to 49%. The new orders index dropped by 0.7 PPs MoM, and new export orders index continued a 0.5-PP MoM decrease. Domestic and foreign demand remained weak. • Active efforts have been made to jumpstart economic recovery, yet purchasing enthusiasm has remained dull—there have been small number of domestic and overseas orders. Producers tend to maintain production with the support of in-hand orders. Meanwhile, USD/RMB exchange rate has experienced decreases on both monthly and yearly bases, and it is possible that appreciating RMB may dampen overseas demand.
New export orders index(%)	47.80	46.80	46.30	45.80	
In hand orders Index(%)	45.30	44.20	44.40	44.50	
USD/RMB exchange rate, Growth Rate (Year-on-Year)(%)	4.31	1.12	-0.42	-0.17	
USD/RMB exchange rate, Growth Rate (Month-on-Month)(%)	0.71	0.00	-0.02	-0.94	
Money and Quasi-Money (M2) supply, Growth Rate (Year-on-Year)(%)	10.30	10.30	10.00	9.70	
Money and Quasi-Money (M2) supply, period-end, Growth Rate (Month-on-Month)(%)	0.95	-0.50	1.03	0.37	
Main raw material purchase price index(%)	59.40	52.60	50.70	51.50	Price
Producer prices index(%)	53.50	47.70	48.20	47.70	• In Nov., CPI down 0.5% YoY, and down 0.5% MoM, the third consecutive month of decline; PPI (general) down 3.0% YoY, and down 0.3% MoM, the decline widened. Purchase by downstream sectors has weakened. • In Dec., CPI down 0.3% YoY, while up 0.1% MoM; PPI (general) down 2.7% YoY, and down 0.3% MoM. • Overall price of manufactured goods has been at a low level. In general, the prices of pesticide raw materials and pesticides have been kept low.
Purchasing Price Indices for manufactured goods (The same month last year=100), raw chemicals	92.70	93.70	93.70	93.90	
Consumer Price Index (The same month last year=100)	100.00	99.80	99.50	99.70	

Sources: National Bureau of Statistics(NBS), the People's Bank of China

To stably and effectively expand demand is the focus of the current policies

From Jan. to Dec. 2023, China's economic policies were favorable to expanding domestic demand. Hopefully, these policies will favor the growth of domestic demand for pesticides in the near future. Policies favoring cross-border trade will also serve as a guarantee for export growth of herbicide TC products after the 2024 Chinese Spring Festival.

Tax incentives continue to favor expanding domestic demand

China has continued to implement, optimize and innovate a number of preferential policies concerning taxes and fees, thus further boosting market confidence and stabilizing market expectations. The latest data from the State Taxation Administration show that in 2023, China's newly implemented tax and fee cuts, tax refunds and deferrals exceeded RMB2.2 trillion.

Loose fiscal policy to expand aggregate demand

In the face of insufficient aggregate demand, fiscal expenditure in 2023 grew to push for a growth of aggregate demand. From Jan. to Nov. 2023, China's general public budget expenditure amounted to RMB23,846.20 billion, up 4.9% YoY. The government reasonably sped up the process of making budgetary funds available for fiscal expenditures. By planning in advance the issuance and use of special bonds by local governments, funding needs of major projects could be effectively guaranteed. In Q4 2023, an additional RMB1 trillion of government bonds were issued.

Policies to ensure sustained economic recovery

China Customs' 16 measures to optimize business environment help facilitate cross-border trade

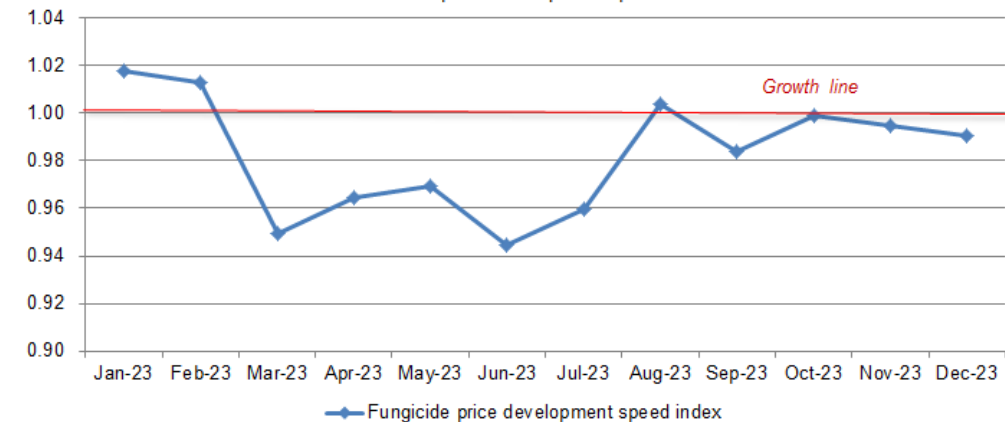
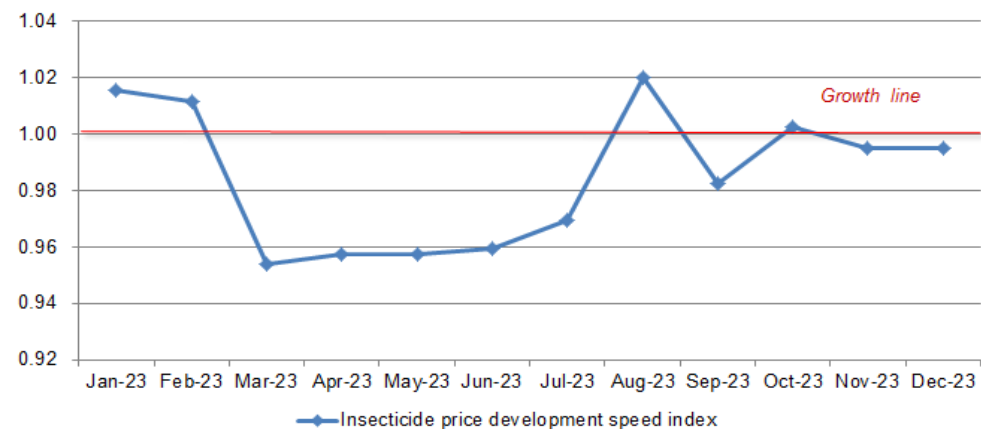
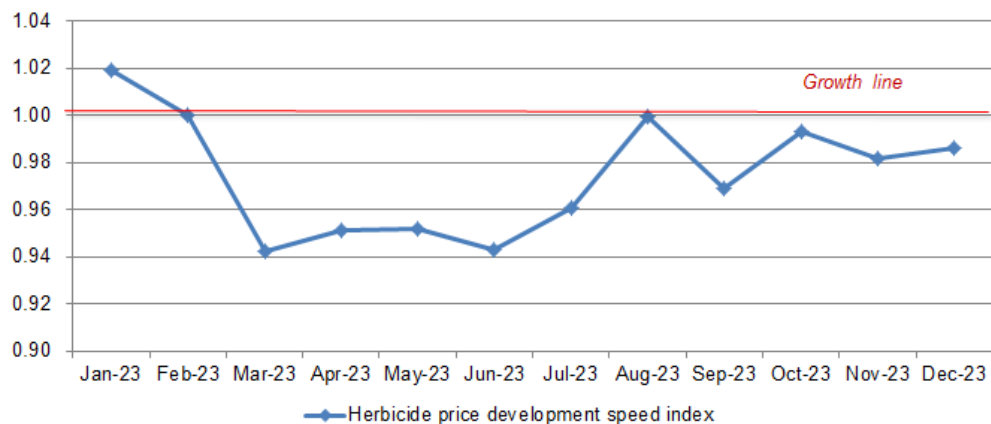
The 16 measures mainly serve to:

- Improve cross-border logistics efficiency
- Promoting cross-border trade facilitation
- Reduce burdens on enterprises while increase benefits to them
- Advance innovative development of foreign trade

Loose monetary policy to attract more money into the market

The People's Bank of China cut the required reserve ratio twice in 2023, which released more than RMB1 trillion of medium- and long-term funds; it also twice lowered the policy rate, bringing down market interest rates. Most banks, large and small, lowered time deposit rate by at least 10BP in late Dec., and the pressure on net interest margins has been eased to some extent. Regarding interest rate cut, its necessity lies in that costs of financing for entity enterprises could be reduced and economic growth expectations lifted.

Agrochemical industry development from Jan. to Dec. 2023 and the trend



Herbicides

In Nov, herbicides TC had an average 1.81% MoM slip in the ex-works price in general in China; the price fell by 24.76% YoY on average. The continuous price fall is closely related to the sluggish downstream demand. There's no positive sign indicating most herbicides price will be increased in upcoming month.

In Dec., herbicides TC had an average 2.17% MoM slip in the ex-works price in China. Downstream demand remained sluggish. Although certain products had MoM price increases, the momentum was soon lost and by late-Dec. weak price performance was shown, simply because the increases were single-handedly created by suppliers.

Insecticides

In Nov., overall operating rate of Chinese insecticide TC producers averaged at about 58%, which is a relatively low level. The majority of insecticides TC were in ample supply in the market, and there even was a glut of some products due to large inventories. Although the supply of pyrethroid insecticides became a little tight in early Nov. for some producers went into temporary production suspension, the supply improved in late Nov. as producers were gradually back to normal production.

In Dec., the price of nicotinoid insecticides TC dropped MoM, the overall price of pyrethroid insecticides TC edged down slightly, and the price of organophosphorus insecticides TC had bigger decreases. For acaricides, carbamates, insect growth regulators and other insecticides, the market was weak, and the price of most TC products was steady.

Fungicides

In Nov., China's fungicide market remained gloomy. Most fungicides TC suffered a price downturn; a few varieties saw price grow due to rising cost of raw materials or intense supply. The demand was generally soft and mainly from rigid stock replenishment. It is predicted that fungicide TC market will continue the weak trend next month.

In Dec, China's fungicide market stayed gloomy, overall demand was soft, and overseas market was tepid. Most fungicides TC saw ex-works price drop, with a few rising on price hikes of raw materials or tight supply; TC producers were under pressure of high-level stocks. In the short term, the weak trend is expected to continue on TC market.

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