

### **SCI China Market Update – December 2011**

I will leave Philadelphia tomorrow for a two week trip to China for our clients - our last trip for 2011. We hired three new sales engineers in China in 2011, and overall it has been a very good year. Below are some key market highlights pulled together from various sources:

#### China to lower RRR for first time in three years

The People's Bank of China, the country's central bank, said Wednesday it will lower banks' reserve requirement ratio (RRR) by 50 basis points for the first time in three years in order to replenish liquidity in the country's banking system as inflation eases.

The latest cut, effective on Dec 5, drops the RRR to 21% for large commercial banks and 17.5 % for mid- and small-sized banks. An estimated 396 billion Yuan (\$62.38 billion) in capital will be released into the market. The move signals that the government is set to stabilize economic growth after easing inflationary pressures, although it is not yet known if the change will bring about a full-on move toward a looser monetary policy, analysts said.

The economy's growth slowed to a two-year low of 9.1 % in the third quarter of this year, down from 9.7 % and 9.5 % in the first and second quarters, respectively, according to data from the National Bureau of Statistics. "The reduced RRR rate will ease banks' credit crunch, caused by a high RRR and decreased yuan funds from foreign exchanges, as well as promote reasonable growth in banking loans and stabilize economic growth," said Lian Ping, chief economist at the Bank of Communications.

#### Yuan is close to equilibrium rate: Economist

China's RMB, or the yuan, is getting close to the equilibrium value, a government think tank economist said, in an attempt to refute the US accusation that the currency is undervalued. The Yuan's previous downward moves and the slowing growth of China's foreign exchange reserve signaled the currency "may" already have entered a new stage, according to Li Yang, vice president of the Chinese Academy of Social Sciences at a finance forum,.

According to the latest statistics, the country's forex reserve increment in the third quarter was \$50.9 billion less than that of the second quarter, dragged down mainly by the narrowing trade surplus. A report issued by the PBOC's financial research center last month said the RMB has risen against the dollar by 30.2 % since July 2005, when China started to reform its currency mechanism.

## Yuan starts trading with Australian, Canadian dollars

China opened its currency market to direct trading of the Yuan against the Australian and Canadian dollars on Monday, bringing the total of foreign currencies that can be directly traded with it to nine. The central parity rate for the Yuan against Australian dollar was set at 6.2491 on Monday while the Canadian dollar/Yuan central parity rate was 6.1048, according to the China Foreign Exchange Trading System. On the spot market, the Yuan can rise or fall 3 % against the two foreign currencies from their daily central parity rates. The two foreign currencies join seven others -- the U.S. dollar, HK dollar, Japanese yen, euro, British pound, Malaysian ringgit and Russian ruble -- that are allowed to be traded on China's interbank foreign exchange market.

## China to raise industrial power prices

China will raise prices for industrial power and thermal coal for the first time in two years to ease power shortages and "reduce financial pressure" on power companies, state media reported Wednesday. The price hike comes after a government warning in October that the country faces power shortages this winter amid soaring coal prices and a shortage of hydropower after a drought.

From Thursday, prices for industrial electricity will rise by an average of 0.03 Yuan (\$0.47) per kilowatt-hour (kwh), the NDRC said, according to the official news agency. Prices of thermal coal also will be allowed to float next year "by no more than five %", the NDRC said, topping out at 800 Yuan per ton for coal traded at ports in north China.

China's overall power consumption in October was up 11.35 % from a year earlier to 379.7 billion kwh, the National Energy Administration said earlier this month. On Wednesday, the China Electricity Council said the country would likely face a power shortage of 30-40 million kilowatts this winter and next spring, worse than the 26 million-kilowatt shortfall seen by the State Electricity Regulatory Commission in October. Power outages and rationing have been imposed in 17 provinces this year and shortages could worsen if the coal supply is not increased or weather turns bitterly cold.

## Largest ethylene installation hits target output, Tianjin

It was reported that Sinopec/SABIC Tianjin Petrochemical Company's largest single ethylene installation in China reached its goal of annually producing 1 million tons of ethylene at 3:00 p.m. on Nov. 24, 38 days ahead of schedule, and will certainly surpass its production plan in 2011. The

cracked-gas compressor, known as the "heart" of the installation, is still in good condition after running for 23 months. The project's newly added water consumption of 3,000 tons per hour completely comes from desalinized seawater, demonstrating the installation's circular economy.

### China to eliminate outdated cement production capacity, cut emissions

China aims to eliminate 250 million tons of outdated production capacity in the cement industry in the 2011-2015 period, the Ministry of Industry and Information Technology (MIIT) said Tuesday. The country's top 10 cement companies will see their combined output account for 35% of the national total by 2015, up from 25% in 2010, according to the 12th Five-Year Plan for the building material industry released by the MIIT.

Cement producers are expected to cut emissions of nitrogen oxides and sulfur dioxide by 10% and 8% respectively in the period, said the ministry. During the five-year period, emissions of carbon dioxide per unit of industrial added value will be reduced by 17 %, according to the plan.

### Shipbuilders will soon undergo major consolidation

Pressed by the difficult market conditions, China plans to enhance the competitiveness of its shipbuilding industry by developing a handful of major players, said Guo Yanyan, a senior official at the Ministry of Industry and Information Technology (MIIT). The government will further consolidate the sector by encouraging mergers and acquisitions and reorganization among Chinese shipbuilders, said Guo, at the Senior Maritime Forum of the 2011 International Maritime Conference in Shanghai on Tuesday. "We will strive to foster more than five Chinese shipbuilders so they will be among the world's top 10 (in terms of production capacity) by the end of 2015," he said. According to the plan, industrial consolidation will see China's 10 biggest shipbuilders account for more than 70 % of the country's domestic shipbuilding production. Small and medium-sized companies will be encouraged to develop specialized shipbuilding techniques, Guo added.

The number of orders for new vessels at Chinese shipyards - particularly for tankers and bulk-carriers - has been much lower than in 2010, said Zhang Shengkun, the president of the Shanghai Society of Naval Architects and Marine Engineers. In 2010, China replaced South Korea as the world's top shipbuilder and the volume of completed shipbuilding orders accounted for 43% of the global total. Meanwhile, orders for new ships accounted for 5% and orders in hand were 41%. So far this year, orders for new ships made in South Korea have outstripped China by 17%, Zhang said. In 2010, China's accomplished shipbuilding output exceeded a total deadweight tonnage of 60 million tons for

the first time, a fivefold increase from 2005. By the end of the third quarter of this year, the accomplished shipbuilding output exceeded a total deadweight tonnage of 51 million tons.

### China prepares for big entry into vaccine market

The world should get ready for a new Made in China product - vaccines. China's vaccine makers are gearing up over the next few years to push exports in a move that should lower costs of lifesaving immunizations for the world's poor and provide major new competition for the big Western pharmaceutical companies. China's entry into this market will be a "game changer," said Nina Schwalbe, head of policy at the GAVI Alliance, which buys vaccines for 50 million children a year worldwide. "We are really enthusiastic about the potential entry of Chinese vaccine manufacturers," she said.

China's vaccine-making prowess captured world attention in 2009 when one of its companies developed the first effective vaccine against swine flu – in just 87 days - as the new virus swept the globe. In the past, new vaccine developments had usually been won by the U.S. and Europe. Then, this past March the World Health Organization announced that China's drug safety authority meets international standards for vaccine regulation. It opened the doors for Chinese vaccines to be submitted for WHO approval so they can be bought by U.N. agencies and the GAVI Alliance. "China is a vaccine-producing power" with more than 30 companies that have an annual production capacity of nearly 1 billion doses - the largest in the world, the country's State Food and Drug Administration told The Associated Press.

### Deal by deal, U.S. ambassador turns salesman in China

Businessmen in sober suits leapt to their feet, jostling with cameras and mobile phones to snap a quick shot as the new U.S. ambassador to China strode to the podium at a hotel ballroom in Jinan, in coastal Shandong province. Nine hours later, after a speech on energy cooperation, signing ceremonies for deals of a few million dollars each, and dinner with the governor, he was back on the train to Beijing. This is how Gary Locke, the first Chinese-American ambassador to Beijing and a local celebrity, is trying to raise U.S. sales in China -- deal by deal, ballroom by hotel ballroom, in cities most Americans have never heard of. While every U.S. ambassador has put in a plug for American goods and services, Locke takes the effort to a new level. The former commerce secretary has hit the pavement in six provincial cities to try to narrow the trade deficit that gives his boss, President Barack Obama, political heartburn.

American exports to China rose by nearly a third to \$91.9 billion in 2010, reversing a fall in sales the previous year, according to the U.S. Department of Commerce. But they are still dwarfed by Chinese exports to the United States of \$365 billion. "Too often U.S. ambassadors get stuck in the geopolitics, things like nuclear negotiations," said James McGregor, senior consultant for APCO Worldwide in Beijing. "But they should be out promoting American business. That's what the Europeans and Japanese do."

#### Ex-NBA star Yao Ming seeks slam dunk with new wine

Former NBA star Yao Ming hopes his 7-foot star power combined with China's thriving wine market will help his new vintage score a slam dunk with Chinese connoisseurs. The recently retired Houston Rockets center on Monday released the first-ever bottles of his new Yao Ming-branded wine.

The 2009 Napa Valley Cabernet Sauvignon is currently available only in mainland China, where the market for imported wines has boomed over the past decade. Yao's company, Yao Family Wines, has produced 5,000 cases of its first release at a cost of \$289 per bottle, which includes hefty Chinese import fees. The wine will be available in the U.S. later next year for \$170 per bottle.

For more information about today's China market and opportunities please visit our website at [www.s-c-i.com](http://www.s-c-i.com) or call me at 610-828-8061 or Dr. Tim Weckesser at 610-828-8060.

Best regards,

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