

SCI China Market Update – February 2012

Dear friends,

The weeklong holiday celebrating the Chinese New Year - the Year of the Dragon - is over. The Year of the Dragon is a very “big year” according to the lunar calendar, but it is not clear if this means “big good” or big bad”. It is strong; it is powerful, and we hope it will bring good fortune to all of us: China, the US, the Eurozone and the whole world. Below is some very recent market news to help kick off the New Year.

China's manufacturing rises again in January

China's manufacturing activity improved in January despite weaker demand for exports, raising hopes the world's second-largest economy is heading for a soft landing.

The official purchasing managers index (PMI) rose to 50.5 in January, up slightly from 50.3 in December, the China Federation of Logistics and Purchasing said in a statement. Manufacturing expanded for the second month, after contracting for the first time in 33 months in November, when the PMI stood at 49. A reading above 50 indicates the sector is expanding while a reading below 50 suggests a contraction. The improvement came despite mounting evidence that China's overall economy is slowing as Europe's sovereign debt crisis and weakness in the United States economy hits exports, a key engine for growth.

China's economy grew 9.2 % last year, well down from 10.4 % growth in 2010, and most forecasts put this year's expansion at between 8.0 % and 8.5 %. Slowing export growth could spell trouble for China's economy later this year.

China's yuan retreats to 6.3108 against USD Monday

The Chinese currency Renminbi (RMB), or the yuan, lost 6 basis points to 6.3108 against the U.S. dollar on Monday, according to the China Foreign Exchange Trading System. In China's foreign exchange spot market, the yuan is allowed to rise or fall by 0.5 % from the central parity rate each trading day. The central parity rate of the yuan against the U.S. dollar is based on a weighted average of prices before the opening of the market each business day.

China says retail sales hit \$74 billion during holiday

China said retail sales surged 16.2 % year on year to 470 billion yuan (\$74 billion) during the week-long Lunar New Year holiday, as consumers splurged on food, wine and clothes. Hundreds of millions of people journey across the country during the holiday to celebrate with their families and consumer

spending typically soars during the period. The commerce ministry said sales of clothes, jewellery and food rose 18.7 %, 16.4 % and 16.2 % respectively. The number of passenger trips on trains, planes, boats and buses was expected to reach 3.2 billion during the peak travel period from January 8 to February 16, up 9.1 % from last year.

China's electricity supplies to remain tight this year

The China Electricity Council (CEC) said Friday that China will face tightened supplies of electric power this year, with a shortage estimated to reach up to 40 million kilowatts. Both regional and seasonal power shortages will occur in 2012, the council warned.

The CEC predicated the country's electric power consumption this year will reach 514 million kilowatt-hours, up 9.5 % year-on-year. The growth rate represents an 11.7% decrease from 2011, as China is expected to experience slower economic growth this year, according to the council. The council said China will need to improve its coal-producing capacity and increase imports to support rising demand for power-generating coal. An estimated 85 million kilowatts of power-generating capacity will be added this year, the council said.

Cold wave maintains grip over north China

China's meteorological authority said recently that the country's northern regions remain in the grip of severe cold, with temperatures plunging to minus 40 degrees C. Minimum temperatures in the county of Mohe in Northern Heilongjiang province and some parts of Inner Mongolia have stayed below minus 40 degrees C for more than a week. On Sunday, minimum temperatures in the city of Manzhouli in Inner Mongolia reached a record low of minus 44.9 degrees Celsius. The center forecast a fresh cold wave will hit the country over the next three days, bringing heavy winds and causing temperatures in the northern regions to drop by at least 4 to 6 degrees C.

EU says China may become its biggest market in 2012

The EU ambassador to China said Monday the Asian powerhouse could become Europe's biggest export market this year, overtaking the United States, as Beijing boosts domestic demand. His comments come after Premier Wen Jiabao said China was considering helping the crisis-hit Eurozone by contributing to regional bailout funds, and that a stable Europe was crucial for Beijing. "There are indications that in 2012, China may become Europe's biggest export market," Markus Ederer told reporters in Beijing.

"European exports are growing at a higher pace than European imports from China," he said. The European Union has long been the biggest market for Chinese goods, and trade between the two grows every year, reaching \$567 billion in 2011. But while Chinese exports to the European Union grew by

14.5 % last year from 2010, the Asian country's imports of European goods rose at a higher rate of 25.6 % in 2011, according to official Chinese data. Beijing is increasingly looking to reduce its dependency on exports and focus more on domestic demand.

Tianjin and Chongqing are new growth stars

As of the end of January, a total of 28 municipalities and provinces in China released their 2011 economic data, China Business News (CBN) reported Monday. Only Beijing, Shanghai and Zhejiang have an economic growth lower than the nation's average level. Tianjin and Chongqing both have the fastest economic growth, which stood at 16.4 % in the past year. According to statistics released by Tianjin, the city's GDP reached 1.12 trillion yuan (\$176.69 billion) in 2011, narrowing the gap between it and Guangzhou (1.24 trillion yuan). In 2011, Chongqing's GDP hit 1 trillion yuan, up 16.4 % year-on-year. Sichuan province's GDP increased by 15 % year-on-year to 2.10 trillion yuan.

China has a new plan for petrochem development

China has mapped out a Five-Year Plan (2011-15) for the petrochemical industry that will see the country form as many as four refining bases in the coastal regions, each with a refining capacity of 20 million metric tons by the end of 2015. The country also plans to set up three ethylene production bases, with a production capacity of 2 million metric tons each, over the same period, according to a general plan released by the Ministry of Industry and Information Technology (MIIT) on Friday.

Figures from China Petrochemical Corp, the country's biggest oil refiner, show that the country had 17 refineries with at least 10 million metric tons of refining capacity. The MIIT plan said the nation will also raise the annual processing capacity of crude oil to 600 million metric tons by 2015, up from 450 million tons last year. Analysts said China will consolidate its refineries by focusing on establishing large-scale facilities and shutting down smaller units that have obsolete refining capacity. These are mainly operated by small private companies. In addition, MIIT estimates that oil product demand will reach 320 million tons by the end of 2015, with a compound annual growth rate of 5.5 % in five years starting from 2011. Growth will slow from the 7.8% annually in the previous Five-Year Plan period, which ended in 2010.

China's largest electric car charging station opens in Beijing

China's largest electric vehicle (EV) charging and battery swapping station has been put into operation in Beijing. Gaoantun charging station, located in the eastern Beijing district of Chaoyang, has been installed with more than 10 types of EV charging or battery swapping machines, covering all charging modes that are available in China.

The station can charge up to eight vehicles simultaneously and it takes only four to six minutes to swap a battery of an EV. The charging station has been verified by experts from Beijing New Energy Vehicle Association. Beijing is striving to build a new energy vehicle grid as part of the nation's plan to usher in more energy-saving and environmentally friendly vehicles. Beijing hopes to build a three-level EV charging and battery swapping network that consists of six large-scale concentrated charging stations, 250 charging and battery swapping stations and 210 small-sized delivery stations by the end of 2015. So far, Beijing has completed construction of 12 charging and battery swapping stations and 274 charging posts. Beijing was chosen as one of 25 pilot cities in China for the utilization of new-energy vehicles. China plans to have more than 500,000 electric, hybrid and fuel-cell vehicles on the road by 2015 and 5 million by 2020.

China car maker SAIC says 2011 profit surged

China's SAIC Motors, the largest domestic auto maker, said on Tuesday that unaudited net profit rose more than 40 % last year, despite an overall slowdown in the world's biggest car market. SAIC gave no net profit figure for 2011 in a statement to the Shanghai stock exchange, but said net profit was 13.73 billion yuan (\$2.18 billion) in 2010. The Shanghai-based company, which has joint ventures with US auto giant General Motors and Germany's Volkswagen, sold more than 4.0 million vehicles in 2011, up 12 % from 2010. China's total auto sales rose just 2.5 % to 18.51 million units last year, the China Association of Automobile Manufacturers said, compared with an increase of more than 32 % in 2010.

Growth in auto sales slowed in 2011 after Beijing rolled back purchasing incentives and some cities imposed restrictions on car numbers. GM said earlier this month that its joint venture with SAIC, Shanghai GM, was the leader in passenger car sales in 2011. It sold more than 1.2 million vehicles domestically, up more than 16 % from 2010.

For more information about today's China market and opportunities please visit our website at www.s-c-i.com or call me at 610-828-8061, or Dr. Tim Weckesser at 610-828-8060. We look forward to hearing from you. I will leave Philadelphia for Shanghai again for business on this weekend. Thanks.

Happy Year of Dragon!

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