

SCI China Market Update – February 2015

Dear Friends,

The Chinese New Year, the Year of Sheep, will begin officially on February 19th and the long holiday celebration will run through the 28th. In fact, most companies will resume business on March 2nd even though some of their workers may still be on their way back to the big cities from their hometowns. I just returned from Beijing and United's Boeing 747-400 was already packed. More than 100 Chinese middle school students took their economy class seats to come to the U.S. to visit "Ivy League" universities and tour the America of their future. Some of them were accompanied not only by their teachers but also by their parents. It seems the *nouveau riche* Chinese families are really becoming a big market for U.S. business - from the airlines to major universities to all the big retail brands.

I learned that Chinese citizens are swarming the US embassy for the new 10-year visa. The number of Chinese receiving the new US B1 business and B2 tourist extended visas surged 68% in December and January compared to the same period last year. This comes just a few months after the US and China announced a change to their international visa reciprocity agreement.

Believe it or not, China has become the fastest-growing outbound tourist market in the world. According to the White House, the new visa policy will attract as many as 7.3 million Chinese travelers to the US by 2021, contributing nearly \$85 billion a year to the US economy and supporting as many as 440,000 US jobs. So it seems the Chinese people have not only the freedom to travel overseas for education and touring, but they are also carrying a lot of dollars with them. In any event, to many Chinese the Year of the Sheep means a soft, sweet and lucky year. We do hope the Year of Sheep will bring good fortune to all of us. Here is some very recent China market news from various public sources:

China manufacturing shrank again in January, HSBC data shows

Chinese factory activity contracted in January for a second straight month, a closely watched private survey showed, a day after the government announced the first official decline in the sector in more than two years. British banking giant HSBC said a preliminary reading of its purchasing managers' index (PMI) showed it had edged up to a final reading of 49.7 last month, from 49.6 in December. But the result still showed shrinkage in the manufacturing sector of the world's second-largest economy, a key driver of global growth. PMI reading is above 50 point to growth.

RMB-USD spot price to depreciate 2-3 percent: HSBC

The spot price of the RMB against the U.S. dollar will depreciate 2-3 percent in 2015, HSBC forecast. It said in a report that the depreciation range will be acceptable for Chinese policymakers in the face of a strong dollar, and will not derail their plan to make the RMB a more global currency.

The spot price against the U.S. dollar weakened 87 basis points to 6.2597, the lowest closing price since Oct. 16, 2012.

The dollar's strengthening has piled pressure on the RMB. Onshore demand for dollars remains strong, which reflects importers' foreign exchange hedging needs and corporates repaying external debt, HSBC said.

China's Internet population hits 649 million, 86 percent on phones

China had 649 million Internet users by the end of 2014, with 557 million of those using handsets to go online, said a government report, as the world's biggest smartphone market continues its shift to mobile. While growth is slowing, China's total Internet population still rose by 31 million in 2014, said the report by the China Internet Network Information Center (CNNIC). Growth in mobile Internet users was faster, at 57 million.

China's dependency on foreign oil nears 60% in 2014

China's dependency on imported oil and natural gas grew to about 60 percent and 32.2 percent respectively in 2014, according to a report released by a research team with the country's largest oil and gas producer. China imported 308 million tons of oil and 59 billion cubic meters of natural gas last year, according to a report released by China National Petroleum Corporation (CNPC) Economics & Technology Research Institute. The report put China's annual energy consumption at 3.85 billion tons of standard coal last year, growing slower at 2.7 percent year on year.

Electricity consumption is estimated to grow 3.7 percent in 2014, the slowest growth since 2009.

Car ownership tops 154 million in China in 2014

China added a record 17 million new cars on the road in 2014 as car ownership reaches 154 million, said the Ministry of Public Security. China's auto sales continued to expand in 2014, cementing its position as the world's biggest auto market, the China Association of Automobile Manufacturers (CAAM) said recently.

Approximately 23.49 million cars were sold in China last year, a year on year increase of 6.9 percent, according to a CAAM report.

However, the growth is a sharp drop from the 13.9 percent increase recorded a year earlier. Vehicle sales in 2015 would top 25.13 million, CAAM forecast, a year on year rise of 7 percent.

China's coal output suffers record fall last year: report

China's coal output may have dropped 2.5 percent in 2014, the first fall since 2000, according to an industrial report. Over 70 percent of the enterprises in the coal sector suffered losses last year, according to a report by the National Coal Association (CNCA). Weak demand, overcapacity and cheap imports have compounded the sector's woes. China's coal capacity is over four billion tons, with another one billion under construction and amounts to over 90 percent of the country's total energy resources.

China workers decline as demographic time bomb ticks

China's working-age population continued to fall in 2014, the government said recently, as Beijing struggles to address a spiraling demographic challenge made worse by its one-child policy. Mainland China's total population stood at 1.37 billion at the end of 2014, according to the National Bureau of Statistics, an increase of 7.1 million over the end of 2013. It remains the world's largest, although India has been catching up in recent years.

The working-age population -- which China defines as those between the ages of 16 and 59 -- dropped to 915.8 million last year, the NBS said, down 3.7 million from the end of 2013.

The population aged 60 and over, by contrast, rose by more than 10 million to 212.4 million, or 15.5 percent of the total population.

Projections show that one in four of the population -- or 350 million Chinese -- will be aged 60 or older by 2030, compared with just five percent as late as 1982. China's wealth gap and population imbalances are major concerns for the ruling Communist Party, which places huge importance on preserving social stability to avoid any challenge to its grasp on power.

US slaps heavy duties on Chinese tires

The United States set large import duties on car and light-truck tires made in China, saying producers were dumping them into the US market. The US Commerce Department said it would begin collecting anti-dumping duties of between 19.17 percent and 87.99 percent on the tires, depending on the producer/exporter. Most of the dozens of companies affected by the ruling will face duties of 27.72

percent. The duties hit tire imports from China that were valued at \$2.1 billion in 2013, according to the department.

China sees 55% rise in M&A

Merger and acquisitions activity reached a record high in China last year, with the number of deals amounting to 6,899 and the total value surging to \$407 billion, both of which went up by around 55 percent. Real estate remained the biggest sector by value. Foreign-inbound strategic M&A also hit a record high in value, reaching nearly \$25 billion and led by the increase in banking and financial services sectors.

The year 2014 was also a banner year for new investments by private equities, with the announced deal volume went up by 51 percent to reach a record high of 593 and the announced value surged 101 percent to reach \$73.2 billion. It was also the year that PEs participated in State-owned enterprises' reform at scale.

PEs also looked for overseas businesses, which have a strong China-angle in their growth strategies in 2014, with the outbound deal value reaching a record high of \$14.3 billion.

China's subway manufacturer inks landmark US deal

China CNR Corporation Limited, a leading manufacturer of locomotives in China, announced a subway export contract with the United States recently. It is the country's first foray into the US rail transit market. China CNR will sell 284 subway trains worth 4.118 billion Yuan (\$670 million) to the transportation regulator in Massachusetts, to equip Boston's Red and Orange subway lines, according to the announcement.

The subway trains are designed to run 102 kilometers per hour and up to 129,000 kilometers a year on regular maintenance for at least 30 years. The Chinese company also plans to tap markets in New York, Washington D.C. and other US cities. They will set up a R&D base in the country to promote localized production by recruiting and training locals. The United States contract means, throughout the value chain, China's rail companies now cover the world's six continents.

More than 1,800 foreign dairy producers approved in China

China has approved the registration of 1,836 overseas milk producers including 64 baby formula makers at the end of last year, according to the country's quality watchdog on Friday.

China banned the imports of unregistered foreign dairy products last May with the aim to ensuring food safety.

Volkswagen's transmission plant in Tianjin to operate in 2016

Volkswagen will open a new plant to produce DL382 transmission, a kit for Audi cars, in north China's Tianjin municipality in 2016.

Volkswagen Automatic Transmission (Tianjin) Co. Ltd. said Tuesday that the project, which involves investment of 576.6 million euros (643.4 million U.S. dollars), has had its civil engineering works completed and installed. China is Volkswagen's largest market worldwide.

For more information about today's China market and opportunities please visit our website at www.s-c-i.com or call me at the number below, or Dr. Tim Weckesser at 610-828-8060.

Best regards

Shiqiang Gu
Vice President & COO

Sino Consulting (SCI)
One Tower Bridge
100 Front St., Suite 1460
West Conshohocken, PA 19428
U. S. A.
Tel: (610) 828 8061
Fax: (610) 828 8801
Web: www.s-c-i.com