

SCI China Market Update – January 2014

Dear Friends,

Happy Western New Year! FYI, the weeklong Chinese New Year holiday, the Year of Horse, will officially begin on January 31st.

As mentioned in our last newsletter, the 3rd Plenary Meeting of the 18th Congress of the Chinese Communist Party, held in last Beijing November 9-12, very much decided China's reform and development path under the Xi Jinping government. Politically, it seems this new regime is working hard and tough to try to establish a clean government image. While most people are aware of the high profile cases of Bo Xilai, the powerful former party boss of Chongqing, and his wily wife, most people do not know that investigations have been conducted on almost 37,000 officials suspected of corruption in over 27,000 cases between January and November last year. Most Chinese people believe the new Party chief has taken a hard line against graft since coming to power, believing that corruption could destroy both party and country if not checked.

Economically, it seems that China is now paying much more attention to the quality of growth and development, rather than the quantity. In earlier times, GDP growth was the key to promotion of officials in most cities and provinces. As a consequence, heavy investment and over-capacity became commonplace in almost all major industrial sectors. Thus local government debt exploded by 70% in just 3 years, reaching 17.7 trillion Yuan (\$2.9tn). And pollution has become so severe that dangerous smog levels have become routine in most Chinese cities, from Beijing to Shanghai to Suzhou to Shenzhen, to Harbin in the far north and Chengdu and Chongqing in the west, and even to beautiful Hainan Island. So China's new government is now trying to rein in this overcapacity and the over heated real estate market to keep inflation under control. We think the new government is doing the right thing so far and it is winning the trust of the people. As with many China experts, we also hope Beijing will continue to maintain a "prudent" monetary policy in 2014 so it can reach its needed annual economic growth target of at least 7%, while minding the overcapacity problem and investing in pollution control – among many other urgent concerns. Below we present other very recent news for your information:

China Yuan strengthens to new high against USD

The Chinese currency Renminbi (RMB), or the Yuan, strengthened 26 basis points to a new high of 6.1024 against the US dollar last 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 1 percent from the central parity rate each trading day.

Asia's manufacturers buoyant at end 2013, China a question mark

Asia's manufacturing sector ended 2013 on a strong note, with expansion hitting multi-year highs in export-driven Japan and Taiwan, but signs of moderation in China raises concerns about the outlook for the new year.

Both official and private measures of manufacturing activity in China fell in December, reinforcing views that the world's second-largest economy lost some steam in the final quarter of 2013.

China manufacturing index slips in December

China's manufacturing growth slowed in December for the first time in six months, official figures showed. The purchasing managers' index (PMI) was at 51.0, down from November's 51.4, the National Bureau of Statistics said on its website. A reading above 50 signals expansion while a figure below indicates contraction. It marked the 15th straight month of growth but it is the first time the figure has dipped from the previous month since June.

The result came in below the median 51.2 forecast of eight economists by The Wall Street Journal as reported by Dow Jones Newswires. China's economy expanded 7.8% from July to September, snapping two quarters of slowing, but analysts warn vulnerabilities remain. A government report cited by state media last week suggested China's economy grew 7.6% in 2013, slightly above its official target for the year and just below the 7.7% expansion in gross domestic product in 2012 -- the slowest growth rate for 13 years.

China set to overtake US as world's biggest goods trader

The value of trade in China's goods in 2013 is set to exceed that of the United States, making the world's second-largest economy the world's top trader for the first time, certainly in modern times. Commerce Ministry spokesman Shen Danyang said in late September that thanks to a recovery in the global economy and reform in China, 2013 was likely to see the nation replace the US as the world's largest trader. In 2009, China became the world's largest exporter and second-largest importer.

In the January-November period, the value of China's goods trade reached \$3.77 trillion, according to the General Administration of Customs. In the January-October period, the US goods trade registered \$3.26 trillion, according to data from the US Bureau of Census.

China makes 'giant leap' with Jade Rabbit moon rover landing

China's Jade Rabbit rover vehicle drove onto the moon's surface after the first lunar soft landing in nearly four decades, a huge advance in the country's ambitious space program. The Yutu, or Jade Rabbit, was deployed at 4:35 am (2035 GMT Saturday), several hours after the Chang'e-3 probe landed on the moon, said the official news agency Xinhua. China is the third country to complete a lunar rover mission after the United States and the then-Soviet Union -- a decade after it first sent an astronaut into space. It plans to establish a permanent space station by 2020 and eventually send a human to the moon.

China auto sales hit record high in November

Auto sales in China, the world's largest car market, rose 14.1% year-on-year to a record high in November, reflecting the solid demand for passenger vehicles in China. A total of 2.04 million vehicles were sold in China in November, the China Association of Automobile Manufacturers (CAAM) said in a statement. That brought the number of vehicles sold in the first 11 months to 19.86 million, up 13.5% year-on-year and surpassing the 19.31 million units sold in the whole of last year. US auto giant Ford announced that its sales in China jumped 47% from a year earlier to 99,157 vehicles in November. Its counterpart General Motors said earlier this month that November sales increased 13.3% year-on-year to 294,500 vehicles.

Peugeot board approves outline Dongfeng deal

PSA Peugeot Citroen's board has approved a plan for an alliance with Dongfeng in which the Chinese carmaker and the French state would buy large minority stakes at a 40% discount to Peugeot's current share price, a source familiar with the matter said. The board agreed to enter final negotiations on a 3.5 billion euro (\$4.8 billion) share issue that would see France and Dongfeng Motor Group take matching 20% holding. The capital increase would be priced at below 7 euros per share. The Financial Times reported they plan to transfer some Peugeot technologies to Dongfeng while targeting new markets in southeast Asia.

Tianjin becomes latest Chinese city to restrict car ownership

China's northern city of Tianjin will restrict issuance of new car licenses, the latest city to clamp down on car ownership in a bid to ease traffic congestion and combat air pollution. The city government will issue new plates via auction and lottery. It will also introduce a quota system similar to Beijing's traffic restriction scheme, which allows cars access to the city on certain days depending on the last digit of their plates, the official Xinhua news agency quoted Miao Hongwei, head of the city's traffic management bureau, as saying.

The capital Beijing, infamous for its choking smog, announced last month it will slash the city's new car sales quota by almost 40% in 2014. Other major cities such as Shanghai and Guangzhou have also

implemented measures to restrict car ownership. The Chinese government has announced many plans to fight pollution over the years but the country's manufacturing base and heavy dependency on coal for energy continues to dog efforts to clean up the smog that has enveloped many cities.

Steel sector still facing profitability problems

Chinese steelmakers' profits will remain low in 2014 as output remains high and demand growth slows, said industry experts. The ratings agency Moody's Investors Service said that its outlook for the Asian steel and coal sectors is negative for 2014. According to its just-released report 2014 Outlook - Asian Steel and Coal, Oversupply and Weak Prices Drive Negative Outlooks - demand for steel will increase a modest 2 to 3% next year as the Chinese government tolerates slower gross domestic product growth and shifts economic growth drivers to domestic consumption from infrastructure spending.

The severe overcapacity problem has been the biggest obstacle for China's steel industry. The China Iron and Steel Association predicts that steel industry profits in 2014 will reach 21 billion Yuan (\$3.44 billion), 12 times as much as the industry's profits last year. However, Xu Xiangchun, information director of industrial information consultancy Mysteel, said the dramatic growth of the profit will be caused by the extremely low base in 2012. China's steel industry had a total profit of 1.58 billion Yuan in 2012, a 98.22% year-on-year drop, caused by rising iron ore prices and a weak market.

China to adjust some customs duties

China will adjust some of its customs duties on Jan 1, 2014 to aid economic restructuring and achieve balanced trade growth, the Ministry of Finance said on Wednesday. Tariffs on some 760 imported commodities will be lowered by an average of 60%, the ministry said. The commodities range from devices for emerging industries such as aero-engines to natural grass and audio life detection instruments. New tariff items will be added and duties will be levied on products like 3D printers, welding robots and crystal. This will raise the total number of China's import-export tariff items from 8,238 in 2013 to 8,277 in 2014.

Airbus China plant delivers 153 A320 aircraft

The Airbus assembly plant in China's northern port city of Tianjin has delivered 153 A320 aircraft since it began operation in 2008, according to an Airbus press briefing. "The Tianjin plant delivered 37 A320 aircraft last year. The production efficiency has improved this year with one aircraft being delivered every week," said Andreas Ockel, general manager of Airbus (Tianjin) Final Assembly Company, Ltd. Airbus delivered 588 aircraft from January to October of this year. Among them, 125 were delivered to the Chinese market and 37 were assembled in the Tianjin plant, he said.

Overseas investing sees large jump

Spending from January to November exceeds amount for all of last year

Chinese outbound investment rose a dramatic 28.3% in the first 11 months of 2013 as the world's second-largest economy acquired foreign assets amid its growing global economic clout. Outbound investment, calculated on the basis of deals closed, rose to \$80.2 billion in the January-November period, exceeding the \$77.2 billion for all of last year, the Ministry of Commerce said recently.

Apple, China Mobile sign long-awaited deal to sell iPhones

Apple said it has signed a long-awaited agreement with China Mobile to sell iPhones through the world's biggest network of mobile phone users. In a deal that could add billions of dollars to its revenue, Apple said its smartphones will be available to China Mobile customers starting January 17. Pricing and availability details for the iPhone 5S and 5C lines will be disclosed at a later date, it said in a statement. China Mobile, which has about 760 million customers, will begin registering orders for iPhone from December 25, the company said on its account on the Sina-Weibo micro-blogging service.

Dependency on natural gas imports rises

China's dependency on natural gas imports will continue to increase as the country is trying to reduce its fossil fuel consumption and improve air quality, experts said. Up to 32% of China's natural gas will be imported this year. In 2012, China used 151.4 billion cubic meters of natural gas, up 16% year-on-year. In the first 10 months of 2013, the country's natural gas consumption was at 134.3 billion cubic meters.

China's railways mileage tops 100,000 km

China's railways network topped 100,000 km in total mileage by the year-end. Of the 100,000 km of track, more than 10,000 km are high-speed, said Hu Yadong, vice general manager of the China Railway Corporation. According to the national railway network plan, high-speed rails will reach 19,000 km by 2015. By 2020, the total railway mileage will top 120,000 km.

China coal mine accidents kill 1,049 in 2013

Accidents in Chinese coal mines killed 1,049 people last year, down 24% from 2012, authorities said, reflecting both risks and improvements in the country's thriving and often under-regulated sector. China is the world's largest consumer of coal and its mining industry sometimes skirts safety regulations, although authorities have shut small operations in recent years to try to improve conditions.

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,

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