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SCI China Market Update – July 2015

Dear friends,

Since the heat of mid-June, the wild fluctuations in China's stock market have caught everyone's attention and have had a huge impact on New York and world stock markets. But for so many years the Chinese stock market has never really been a reasonable reflection of China's economic development. IMF chief economist Olivier Blanchard said that the 30% "meltdown" in the Shanghai and Shenzhen markets since mid-June is "very much a sideshow" to the greater economy and would not undermine overall growth.

The Shanghai exchange surged 5.76% on Thursday, and more than 1,100 stocks on both the Shanghai and Shenzhen markets surged to their 10% daily limits - quite a show. The immediate impact is that U.S. stocks jumped higher. Almost all of the Chinese stocks listed on the NYSE were up sharply, including SHI, YUKU, WB, JD and so on. We really don't know where it will go tomorrow, but we'd like to share the following China market news with you today. These items are taken from a variety of public sources:

China official PMI unchanged in June at 50.2, lags forecasts

Activity in China's manufacturing sector expanded slightly in June though not as much as expected, offering some signs that the world's second-largest economy may be starting to level out after a raft of support measures.

The official Purchasing Managers' Index (PMI) stood at 50.2 in June, even with the previous month's reading. Analysts polled by Reuters had predicted it would edge up to 50.3. But growth remained tepid, with the reading just above the 50 points level that separates contraction from expansion on a monthly basis.

The flash HSBC/Markit PMI released last week showed factory activity contracted for the fourth straight month in June but at a slower pace, suggesting the economy may have stopped losing steam, albeit there is no sign of a recovery. The central bank cut lending rates for the fourth time since November and trimmed the amount of cash that some banks must hold as reserves, stepping up efforts to support the slowing economy.

China to inject $41 billion to BRICS FX pool
China will contribute $41 billion to a BRICS currency reserves pool which aims to ensure the central banks of BRICS members can provide US dollars to each other in case of dollar liquidity problems, said a statement by the Bank of Russia.

The central banks of BRICS countries signed an operational agreement on the BRICS pool of currency reserves in Moscow, Russia's central bank said in the statement. China is the largest contributor to the total pool of $100 billion, of which Brazil, India and Russia will contribute $18 billion each and South Africa will contribute $5 billion, according to Russia's central bank. China's foreign exchange reserves stood at $3.73 trillion as of the end of March, according to data from the State Administration of Foreign Exchange.

China-backed multilateral bank to take concrete shape
One of China's biggest ever foreign policies successes will take concrete shape when delegates from 57 countries sign an agreement on the Asian Infrastructure Investment Bank (AIIB) in Beijing.

The founding members of the China-backed AIIB will sign articles of agreement that decide each member's share and the bank's initial capital. The multilateral institution, seen as a rival to the Western-dominated World Bank and Asian Development Bank, was initially opposed by the United States but has attracted many prominent U.S. allies including Britain, Germany, Australia and South Korea. Other founding members include most Asian nations and countries from the Middle East and South America. Japan and the United States are the most prominent nations not represented in the bank. China has said it has left the door open for them to join.

The AIIB will begin with authorized capital of $50 billion, eventually to be raised to $100 billion. China is likely to hold a 25-30 percent stake, while India will be the second-biggest shareholder with a possible 10-15 percent. Germany plans to take a 4.1 percent stake to become the fourth-biggest member after China, India and Russia, according to a finance ministry draft document seen by Reuters earlier this month.

China proposes double taxes on excess emissions
The State Council, China's cabinet, released for public opinion a draft law on environmental taxes, which proposes business taxes for pollutants, solid waste and noise.

The draft proposed rates ranging from 350 Yuan ($57) to 11,200 Yuan on various industrial noises according to the decibels level. It also set rates of 1.2 Yuan on a stipulated quantity of air pollutants, 1.4

Yuan on a stipulated quantity of water pollutants, and a range of 5 to 30 Yuan for each ton of different kinds of solid waste. Rates will be doubled for emissions in excess of the stipulated amount. Taxes may also be halved if emissions are below half the national standard.

Chinese company acquires Czech turbine manufacturer

Xi'an Shaangu Power, a Chinese engineering company based in northwestern Shaanxi province, paid 318 million Yuan (51 million U.S. dollars) for a 75 percent stake of Brno Ekol, a leading Czech turbine manufacturer.

According to an agreement signed by the two companies in January, the acquisition will take place in two steps, with delivery of the remaining stake completed in the years to come. It is the biggest amount paid by China into Czech's manufacturing industry over the recent years, accounting for about 17 percent of China's total investment into the European country. Shaangu Power, established in 1999, is a major industrial compressor producer in China.

Premier Li Keqiang pledges nuclear boost

China will promote nuclear power on a larger scale at home and abroad as it steps up the upgrading of manufacturing and seeks more global deals, Premier Li Keqiang said recently. Li backed the Hualong One Reactor, a domestically developed third-generation reactor design, saying it is the latest on his list for businesses to go global.

The premier also said that it is time for Chinese equipment makers to explore overseas markets, and that demonstrations of this equipment are needed to boost such exports. While China’s high-speed railways are gaining a global reputation, Chinese nuclear power technology and its facilities should also have a place abroad, he said. He made the comments during a visit to China Nuclear Power Engineering Co., Ltd. in Beijing.

In April, for the first time in four years, China approved the construction of two nuclear reactors using third-generation technology in Fujian province. Overseas, the country has invested in Britain’s Hinkley Point C, the first nuclear power project in the UK for two decades, and it plans more involvement in the British nuclear sector. Last year, China National Nuclear Corp signed a $2 billion deal with Argentina to build a reactor. China has also completed two nuclear reactors in Pakistan, and four more are being built.

Chinese taxi app 'raising $1.5 billion to battle Uber

China's top taxi hailing app backed by tech giants Alibaba and Tencent will raise at least $1.5 billion, Bloomberg News reported recently, as the company gears up to take on Uber in the country's expanding transportation market. The amount values Xiaoju Kuaizhi, which runs the combined Didi and Kuadi apps, at $12 billion to $15 billion and the money will come from new and old investors, Bloomberg said, without elaborating.

The popularity of private-car booking enterprises such as Uber and China's dominant taxi-hailing apps Kuaidi and Didi has soared in the country, where traditional taxis are criticized for poor service with rude drivers who routinely ignore customers on the street.

Uber takers in China were making almost one million trips per day with business doubling in the last month, according to a leaked company e-mail reported last week by the Financial Times.
Uber plans to invest seven billion Yuan ($1.1 billion) in China during 2015, according to the e-mail.

China's Alibaba launches Internet bank
Chinese e-commerce behemoth Alibaba launched an Internet bank aimed at serving small businesses, which often struggle to obtain credit from large banks.

MYbank, which is 30-percent owned by Alibaba-linked Ant Financial Services Group, said in a microblog post it will offer loans of up to 5 million Yuan ($800,000). The bank, based in the city of Hangzhou where Alibaba is headquartered, added it will serve "small businesses, individual consumers and rural users."

Last year China approved several private banks including one invested in by Internet giant Tencent, a key rival of Alibaba.

China previously had only two private banks, Minsheng and Ping An. Its state-run banks have been seen as reluctant to lend to small and medium-sized enterprises.

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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