SCI China Market Update – November 2011

Wall Street volatility continues along with nervousness about U.S. market recovery, endless Euro zone debt issues, and China's real estate bubble. Dr. Tim Weckesser, President & CEO of SCI, just returned from China yesterday. He visited the huge China Coal & Mining Expo 2011 in Beijing to support three of our clients participating in the show. Our Weihai Office in Shandong Province has represented both Pennsylvania Crusher (PCC) and Gundlach crushers in China for many years and our Tianjin Rep Office represents J.K. Hydraulics and Hotfoil-EHS focused on coal mining equipment. In Tianjin, Tim visited China's #1 hydraulic press manufacturer, Tianjin Hydraulic Press, as well as a burgeoning new special economic zone, Xiqing Economic Development Area, and many other facilities to gain a fresh picture about today's China market. We think that China's buying power is still strong (even if pricing is always an issue), that China will continue to pull the global economy along and, therefore, that it continues to offer good opportunities for US companies. Some very recent China economic and industrial data are provided below for your information:

China's economy may slow in fourth quarter

China's Purchasing Managers' Index (PMI) dropped to 50.4 percent in October, down 0.8 percentage points from September, the China Federation of Logistics and Purchasing said on Nov. 1. After rising for two consecutive months, the country's PMI experienced a slight drop, but remains above 50 percent. Industry insiders said that the decline indicates China's economic growth may continue to slow in the fourth quarter, but the country's economy will not lose steady growth momentum and is expected to grow over 9 percent this year.

The Chinese economy may register its slowest pace of growth in a decade in 2012, but the country's macroeconomic policies are likely to remain stable next year, said central bank adviser Li Daokui on Friday. Li said the GDP growth rate of the world's second-largest economy could be around 9.2 percent this year, before slowing to 8.5 percent in 2012. Last year, China reported a GDP growth rate of 10.4 percent.

Incomes for urban, rural residents up 13.7% in Q1-Q3

The income of China's urban and rural residents continued to increase in the first nine months this year according to China's National Bureau of Statistics (NBS). In the past three quarters, urban and rural residents' per-capita disposable income reached 16,301 Yuan ($2,557), up 13.7 percent year-on-year. After deducting inflation, actual growth was 7.8 percent, said NBS spokesman Sheng Laiyun. The growth of per-capita cash income of rural residents hit 20.7 percent to reach 5,875 Yuan. The actual growth after factoring in price adjustments was 13.6 percent, Sheng said. Sheng attributed the income growth to the country's stable economic development and better-than-expected employment figures.

PetroChina joins world's top 5 energy ranks

Chinese oil giant PetroChina came in the fourth place in a ranking of world's top 250 energy companies unveiled last week, making it the first Asian firm to join the top five ranks. The 2011 Platts Top 250 Global Energy Company Rankings was compiled by energy information provider Platts based on the performance of the companies last year in terms of asset worth, revenues, profits and return on invested capital.

The assets of PetroChina has increased almost fivefold to $255 billion in 2010 from 52 billion dollars ten years ago, when the company was ranked the 12th among world energy firms. Its revenues increased 7.5 times over the same period. In the 2011 rankings, ExxonMobil and Chevron held the first and second place, respectively. Gazprom of Russia took the third place. Total SA of France finished in the fifth place. Among the world's top 250, there were 70 from the Asia Pacific region.

Steel companies see low profits in Jan-Sept

Steel companies made low profits in the first three quarters of this year, restricted by rising costs and decreased demand, an industrial group said recently. Profits for China's 77 major steel companies rose 27.7 percent year-on-year during the January-September period, but the growth largely came from the companies' mines, power plants and investments rather than steel business, the China Iron and Steel Association said in a report. The companies' average rate of profit in selling steel products was only 2.99 percent in the period, significantly lower than that of the country's other sectors, it said.

As China's domestic tightening measures have impacted demand, the real estate and manufacturing sectors are experiencing slower growth this year, resulting in an excessive supply in the steel industry, it said. China produced 525.7 million metric tons of crude steel in the first three quarters, up 10.7 percent. Its pig iron output rose 10.4 percent to 485.5 million metric tons, while steel products grew 13.9 percent to 667.3 million metric tons. China's annual consumption of crude steel is expected to reach 750 million tons by 2015, according to the industry's five-year plan issued Monday. Annual demand for crude steel will peak between 770 million tons and 820 million tons from 2015 to 2020, according to a plan posted on the Ministry of Industry and Information Technology's website.

Nippon Steel, Wuhan Steel launch joint venture in central China

China's Wuhan Iron and Steel (Group) Corp. and Japan's Nippon Steel Corp. announced the launch of a new joint venture last week. The steelmakers each have a 50-percent stake in a new tin plate plant in Wuhan, the capital of central China's Hubei province, built at a total cost of 1.85 billion Yuan (291 million U.S. dollars), according to a joint statement issued by the companies.

The plant is expected to start operation in the summer of 2013. The tin plates will be used to make cans for food and beverages, as well as for products like paint, oil and medicine. The joint venture is a "major move," as both companies are joining hands amid a grim global economy and fierce market competition, Shoji Muneoka, president of Nippon Steel, said at a launching ceremony for the joint venture.

Electricity to play bigger role in China's future energy consumption

China will rely more on electricity as total energy consumption eases, but reforming the power sector is essential to ensure supply, according to experts. With the rapid development in clean energy generation, electricity will account for a larger part in China's terminal energy consumption in the coming years. A report from the energy research institute of the SGCC estimates that more coal and natural gas will be used to generate electricity instead of being burned directly and electric cars will become widely accepted in the future.

Electricity will account for 27.5 percent of terminal energy consumption in 2020 from 20.9 percent in 2010, according to the report. The report forecasts that non-fossil energy will account for 15 percent of the country's primary energy by 2020, compared with 8.3 percent in 2010. It also predicts that 84 percent of non-fossil energy will at that time be used to generate electricity. Shi Lishan, deputy director of New and Renewable Energy Department of the NEA, said energy consumption growth will slow -- predicting that annual energy consumption will stand at 6 billion tonnes of coal equivalent by 2040 from 3.25 billion tonnes last year, with total installed power capacity jumping to 3 billion kilowatts from the current 1 billion kilowatts.

China's State Electricity Regulatory Commission warned last week that power shortages will hit China during the coming winter and spring, as rising coal prices will further increase supply pressures, and the maximum power shortage could reach 26 million kilowatts this winter.

China's daily maximum power load lowered to 548 million KW in September

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China's daily maximum power load declined 50 million kilowatts month-on-month to 548 million kilowatts in September, according to the country's top economic planner. To ease supply pressure in September, 13 provincial power grids resorted to power rationing policies during peak times that limited the total kilowatt hours of power to 6.26 billion, said the National Development and Reform Commission(NDRC) in a statement on its website.

China to phase out energy-inefficient light bulbs

China announced on last Friday it will phase out incandescent light bulbs within five years in an attempt to make the world's most polluting nation more energy efficient. China will ban imports and sales of 100-watt and higher incandescent bulbs from Oct. 1, 2012, the country's main planning agency said. It will extend the ban to 60-watt and higher bulbs on Oct. 1, 2014, and to 15-watt and higher bulbs on Oct. 1, 2016.

Last year, China produced 3.85 billion incandescent light bulbs, and 1.07 billion were sold domestically, the agency said. Lighting is estimated to account for about 12 percent of China's total electricity use, it said. The planning agency said China will save 48 billion kilowatt hours of power per year and reduce emissions of carbon dioxide by 48 million tons annually once the bulbs are phased out.

China spacecraft dock together in orbit over Earth

Two unmanned Chinese spacecraft docked successfully and were orbiting the Earth together last Thursday in a step that moves China closer to manning its own space station in about a decade.
The Shenzhou 8 craft that was launched last Tuesday docked with the already orbiting Tiangong 1 module, said Wu Ping, spokeswoman for China's manned space program. The assembly has orbited Earth six times, with onboard instruments working normally, she said.

The U.S. and Russia are the only other countries to master the space docking technique. It was "a milestone success and sets a sound foundation for continued missions," Wu said. The joint assembly will fly for another 12 days doing tests, then a second docking will be followed by two days' flight. Shenzhou 8 is scheduled to return to Earth on Nov. 17, she said. China launched its own space station program after being turned away in its repeated attempts to join the 16-nation International Space Station. That was largely on objections from the United States, which is wary of the Chinese space program's military links. Experts see no explicit military function for the Chinese space station.
For more information about us, please take a look at our full approach and advantages on our website at www.s-c-i.com, or call Shiqiang Gu at 610-828-8061, or Dr. Timothy Weckesser at 610-828-8060.

Best regards,

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