SCI China Market Update – November 2015

Dear friends,

After more than 30 years of a strictly enforced "one baby" policy, China has decided to make a change for its 1.3 billion people. Young Chinese even in major cities and urban areas are now permitted to have two children. Some of the immediate beneficiaries of this major policy change will be baby formula suppliers, companies that make products for infants and children, the kindergarten industry, and even Disney World in Shanghai, Hong Kong, and even in the US.

My son, Dr. Zheng Gu, was born in January 1987 in Tianjin. After obtaining his bachelor degree from Cornell University, he earned his Ph.D. in EE at the University of California, Berkeley. Then he was hired by a major Silicon Valley firm as a research engineer. Almost everyone I know around my age in my home country has only one child. To me, the major benefit of the "one baby" policy, in addition to helping to relieve China's population problem, has been education. All Chinese families I know are focused on one thing: the education of their child so he or she can succeed in the world! The financial resources of the entire family are used to educate their only child, especially in urban areas. That's probably why 31% of all international students who came to U.S. universities last year were from China.

However, the "one baby" policy also caused huge social issues. Too often, I feel, today's only child lives like a king or princess at home and becomes somewhat selfish. The special care he or she receives at home can mean that many are not fit to be good solders, good workers or good famers. Many may not be good team players. From a policy perspective, this deeply embedded policy has led to labor shortages and an aging society, and these issues are getting worse. Further, family life has changed because these generations of single children, like my son Zheng, have no brothers or sisters. Due to the Chinese cultural tradition that only a male can carry on a family name, an imbalance in sex ratio has emerged, especially in the countryside. Most American families who adopt children from China have adopted girls from the countryside – because that's all that is available! So the end of the "one baby" policy is surely good news for all Chinese families.

Beijing credits the one-child policy with preventing 400 million births and helping lift countless families out of poverty by easing the strain on the country's limited resources. It's of course a bit too early to know the impact of this policy change on society, but it will surely help to address the labor pool issue, and generally open a new era in Chinese cultural and economic development.

One Tower Bridge • 100 Front Street, Suite 1460 • W. Conshohocken, PA 19428 • P: 610-828-8060 • F: 610-828-8801 • www.s-c-i.com

Here is some very recent China market news from various public sources:

China's manufacturing PMI holds steady in October

China's factory activity held steady in October as the country's manufacturing sector saw improved but still weak demand, official data showed Sunday. China's manufacturing purchasing managers' index (PMI) came in at 49.8 in October, unchanged from September, according to data released by the National Bureau of Statistics and the China Federation of Logistics and Purchasing.

A reading above 50 indicates expansion, while that below 50 represents contraction. The production sub-index posted at 52.2 in October, slightly down from 52.3 in September, but up from 51.7 in August, showing a recovered growth in production.

China gives currency largest boost in a decade

China on Monday raised the daily reference rate for its Yuan currency by the largest margin in a decade, officials and reports said, just three months after a surprise devaluation sent shockwaves through global markets.

The central People's Bank of China adjusted the central rate of the Yuan -- also known as the Renminbi (RMB) -- upwards by 0.54 percent against the US dollar, according to a statement. The increase was the largest since 2005 when Beijing unpegged the Yuan from the dollar, Bloomberg News reported.

Analysts attributed the move to improved sentiment towards the world's second largest economy as well as an impending decision by the International Monetary Fund on whether to include the Yuan in its internal "special drawing rights" (SDR) reserve currency basket.

"The RMB rose mainly because the market is responding to an increasing chance for it to be included in the SDR," Liao Qun, chief economist of Citic Bank International, told AFP. Even so the Yuan ended at 6.3371 on Monday, down around 0.30 percent from Friday's close.

China, Britain strike 'historic' nuclear deal

China vowed to take a one-third stake in Britain's first nuclear power plant in decades, with Prime Minister David Cameron hailing an "historic deal" on the project led by French energy giant EDF. The announcement came on the second day of Chinese President Xi Jinping's business-themed state visit to Britain, which Cameron said had seen deals signed worth £40 billion (54.6 billion euros, $61.9 billion).

EDF in a statement announced the blockbuster nuclear agreement, signed in the presence of Xi and Cameron, as London rolled out the red carpet to Chinese investors and showcased joint projects including zero-emission classic London red buses and black taxis.

The agreement for the gigantic nuclear project, whose construction costs total £18 billion, is expected to be finalized in the next few weeks. "We're signing an historic deal to build the Hinkley nuclear power station," Cameron said at a joint press conference with Xi at Downing Street. Xi called it "a flagship project of cooperation".

The French utility will construct two European Pressurised Reactors (EPRs), a third-generation nuclear reactor design considered the most advanced and safest in the world, at the Hinkley Point C plant in Somerset, southwestern England.

Beijing's state-run China General Nuclear Corporation (CGN) will finance £6.0 billion of the costs, with EDF providing the remainder.

Rolls-Royce signs $2.4 billion engine agreement with HNA Group
Rolls-Royce Holding Plc signed an agreement with HNA Group for engine services worth $2.4 billion during President Xi Jinping's visit to the UK. The agreement will power a total of 44 aircrafts, which have already been ordered by HNA Group's airlines subsidiaries.

The agreement covers Trent 700 engines and TotalCare service support for HNA Group's 20 Airbus A330 orders and service support for Trent XWB engines powering 15 Airbus A350-900 orders. Also included in the deal are service support for Trent 700 engines powering five A330 freighters and four Airbus A330s.

China poised to speed up nuclear power investment
The development of nuclear power in China is set to gain momentum in the next five years as the country prepares to inject hundreds of billions of Yuan into building nuclear plants. More than 100 nuclear power plants will be put into operation by 2020, with a nationwide capacity tripling that of 2014 to reach 58 million kilowatts, the China Times reported, citing a draft for the 13th Five-Year Plan (2016-20).

According to the document, the government is expected to invest about 500 billion Yuan ($78.8 billion) to build six to eight new plants annually during the period. Export of China's nuclear power technologies, as well as high-speed railway technologies, has been a major part of the country's 'Go global' strategy, said Liu Yongde, secretary general of China Atomic Energy Authority.

China steel boss predicts 20% fall in output

China's steel production could eventually shrink by 20 percent, a top executive of industry giant Baosteel Group said recently, after the country's economic growth hit a six-year low. "If we extrapolate the previous experience in Europe, the United States, Japan, their steel sectors have all gone through painful restructuring in the past, with steel output all contracting by about 20 percent," Bloomberg News quoted Baosteel chairman Xu Lejiang as saying.

"China will eventually get there as well, regardless how long it takes," Xu told reporters at a forum in Shanghai. China has a huge steel glut, with Bloomberg reporting that a domestic industry group estimated output at 823 million tons last year. The industry recorded losses of 18 billion Yuan ($2.8 billion) in the first eight months of this year, Xu said, reversing a 14 billion Yuan profit from the same period a year ago. Steel output was down 2.1 percent year-on-year in the first nine months of 2015, according to China's National Bureau of Statistics.

China gives fresh support for new-energy cars

China's new energy vehicles (NEVs) are shifting into high gear fueled by a string of favorable policies, with strong sales despite a lackluster automobile market. The State Council, China's cabinet, asked local authorities to lift purchase restrictions and remove traffic controls for NEVs, while retaining curbs for cars running on fossil fuels, to stimulate sales and development of eco-friendly vehicles.

Buyers of electric cars will be able to obtain license plates without applying through the usual lottery systems in place in some major cities. In Beijing, 40 percent of applicants obtained permits to buy NEV cars in August, while the acceptance rate for traditional car buyers was only 0.5 percent.

On Sept 23, the government promised to build more charging stations in urban areas and fast-charge facilities between cities. New residential complexes should build chargers or save space for them, while no less than 10 percent of public parking lots should have charging facilities. In the first eight months of 2015, NEV sales surged 270 percent to 108,654, according to the China Association of Automobile Manufacturers (CAAM).

Tesla sells over 3,000 cars in China in 9 months

US electric carmaker Tesla Motors sold more than 3,000 cars in China, the world's biggest auto market, in the first nine months of this year. The company has struggled in the Chinese market despite early positive media coverage, building up an inventory of unsold cars and laying off staff.

The firm's founder Elon Musk told the media earlier this year: "China is the only place on Earth that we have excess inventory".

It has lowered its global sales target for 2015 to between 50,000 and 55,000. It has not given a specific goal for China, but called the 3,025 sales in the country "very good progress" in a statement sent to AFP.

Chinese listed company to buy Texas oil fields in 8.3 billion Yuan deal

Xinchao Shiye, a public company based in East China's Shandong province plans to buy oil fields in the United States in a transaction worth 8.3 billion Yuan ($1.3 billion). The oil fields are in Howard and Borden counties, Texas, said a Xinchao Shiye disclosure to the Shanghai Stock Exchange. Xinchao Shiye inked a Letter of Intent with Ningbo Dingliang Huitong Equity Investment Center, a limited liability partnership, and all its individual partners.

According to the disclosure, the Center will purchase the oil fields from Tall City Exploration and Plymouth Petroleum, two limited liability companies registered in Nevada, through Moss Creek Resources LLC, the Center's subsidiary. Such a transaction has already received the approval of the Committee on Foreign Investment in the United States, the disclosure added.

China completes production of own passenger plane

China's first big passenger plane rolled off the assembly line on Monday as the Asian giant seeks the prestige of having its own aviation sector, and to challenge foreign giants Airbus and Boeing for market share. Workers spent over a year putting together the C919, a narrow-body jet which can seat 168 passengers, at the Commercial Aircraft Corp. of China (COMAC) facility in Shanghai.

China is expected to add 6,330 new aircraft worth $950 billion to its commercial fleet by 2034, Boeing estimates. The single-aisle C919 targets the lucrative segment dominated by Boeing's 737 and the Airbus A320.

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