

SCI China Market Update – October 2011

China's weeklong National Day holiday is over. Businesses are back to normal. The next weeklong holiday will be the Spring Festival (Chinese New Year). During the week of the October National Holiday, China's railways carried a record total of 67.3 million passengers. The total number of flights during this period hit 42,263, an increase of 8.2% over the same period last year, and China's roads carried some 520 million passengers, an increase of 9.8% over the same period last year. Trips made by water reached 11.3 million, up 2.4% from last year. So, the weeklong holiday provided the Chinese people with time to tour, visit friends and relatives and, of course, shop, which all served to stimulate the economy.

Three of our clients will participate the huge China Coal & Mining Expo 2011 in Beijing in late October. Dr. Weckesser, President & CEO of SCI, will attend and support our clients at the exhibition. This is an important event in this particular field. In case you are interested, here is the website: <http://www.chinaminingcoal.com/2009/>.

Although China's export sales are being challenged by increasing costs and continuing RMB revaluation, the huge domestic market remains strong. Some very recent economic and industrial data from multiple sources are provided below for your information:

China's fuel-price drops: good news

Gasoline and diesel prices will be reduced for the first time this year beginning Sunday, as oil and gas prices in international markets continue to fall. The wholesale price of regular gasoline and diesel prices will decline by 300 yuan (US\$47) per ton, according to the National Development and Reform Commission, China's top economic planner.

The decrease would cut the benchmark retail price of gasoline by 0.22 Yuan per liter and diesel by 0.26 yuan per liter. The price cut was welcomed by Chinese commuters as fuel prices reached their highest points since a hike in April and stayed unchanged despite the price fluctuations in international market.

China's ship-building industry suffers slumped market

Affected by the continuously slumped international ocean-going market, China's ship-building industry is having a difficult time. Ship delivery was only 4.7 million DWTs in August, down 9% year-on-year. A report on the website of the National Development and Reform Commission said in the first 8 months, China's ship-building industry finished 43.16 million DWTs, up 6.9% year-on-year, but new

orders fell 36.9% to 28.07 million DWTs. In August, new orders were 4.49 million DWTs, dropping 60%.

This year so far, some 40% of the country's dockyards have had no new orders at all, the report said. By the end of August, the ship-building industry had 175.78 million DWTs of orders in hand, down 9.4% from the same period last year and 10.3% from the end of 2010.

GM China sales up 15.3% in September

US auto giant General Motors said on Monday its sales in China jumped 15.3% in September from a year earlier to 240,244 units, despite government moves to phase out incentives for buyers. In the first 9 months of the year, GM and its joint ventures sold a record 1.89 million vehicles in the world's biggest auto market, up 6.6% year on year, the company said in a statement. "GM has maintained our momentum in China, with all of our major brands setting new September sales marks," said GM China Group president Kevin Wale.

GM said its September sales - the second-highest for a single month - puts the auto maker on track to surpass two million units for the 10 months ending October and set a record for the entire year. China has been phasing out incentives such as tax breaks for small engine vehicles, originally implemented to ward off the impact of the global financial crisis. Total sales in China are expected to grow 5% in 2011, lower than an earlier forecast of 10-15% and less than the 32% increase last year, according to the China Association of Automobile Manufacturers.

China's crude steel output rises 10.6%

China's crude steel output increased 10.6% year-on-year to 469.28 million tons in the first 8 months, according to the National Development and Reform Commission (NDRC). The growth rate was 4.7 percentage points lower than that in the same period a year ago, the ministry said on its website. In August, the steel output rose 13.8% year-on-year, compared with a drop of 1.1 percent a year earlier.

Steel prices edged up in August. The composite domestic price index advanced to 135.17 points, up 1.07 points from July, and 18.93 points from a year ago. Steel export dipped 250,000 tons from July to 4.19 million tons, while imports increased 110,000 tons to 1.35 million tons. The steel industry earned 180.3 billion yuan (US\$28.35 billion) in profit in the first 7 months, up 29.2% year-on-year.

China's petrochemical industry Jan-Aug output up 34.9%

The output of China's petrochemical industry rose 34.9% year-on-year to 6.4 trillion yuan (US\$1 trillion) in the first 8 months of this year, according to China Petroleum and Chemical Industry Federation (CPCIF).

Of the total output value, 2.02 trillion yuan came from the oil refining sector, while the chemical industry contributed 4.2 trillion yuan, up 30.6% and 37.1% year-on-year respectively, according to the CPCIF. All production indicators pointed to slower growth of the petrochemical industry from January to August.

The crude oil processed added only 6.6% year-on-year to 297.44 million tons, compared with 13.4% in the same period of last year. Finished oil output rose 7% from a year earlier to 176.56 million tons, while ethylene products increased 14.6% to 10.34 million tons in January-August. The growth of finished oil and ethylene was 3 percentage points and 17.1 percentage points lower than the same period of last year, respectively.

Sinopec to buy Canada's Daylight for \$2b

Canadian oil and gas explorer Daylight Energy Ltd said on Oct 9 it has agreed to be acquired by China's Sinopec International Petroleum Exploration and Production Corp (SIPEPC) for about C\$2.2 billion (US\$2.1 billion).

The deal for Calgary, Alberta-based Daylight is for C\$10.08 per share. That is more than double the closing price of Daylight's closing price of C\$4.59 on Oct 7, but the company noted it is only a 43.6% premium over the 60-day weighted average trading price.

The transaction would mark the latest energy sector deal between China and Canada. In July, China's top offshore oil producer, CNOOC Ltd., agreed to buy struggling Opti Canada Inc for \$34 million and \$2 billion in debt. But this deal could be large enough to face review under the Investment Canada Act, which must determine if foreign purchases of domestic firms are of net benefit to Canada.

Energy giant puts 'great effort into inland nuclear power projects'

The power giant, Huaneng Group, said it has ambitious targets to achieve an installed capacity of 1.45 million kilowatts (kW) of nuclear power by 2015 and 7.7 million kW by 2020. "We are a latecomer to the nuclear power sector, but we are taking gradual and solid steps to boost our presence in the area," said Cui Shaozhang, deputy general-manager of Huaneng Nuclear Power Development Co Ltd. at the China (Chengdu) New Energy International Summit 2011.

Since nuclear accidents at Japan's Fukushima Nuclear Power Plant in March, Chinese companies have been taking added precautions in their nuclear development to ensure safety. Huaneng now ranks as second globally and No 1 in Asia in terms of general power generation.

By January, the total installed power capacity of its 175 power plants, coal and new energy, hit 118 million kW. Its installed capacity and power generation account for more than 10% of the China's total.

Huaneng has made most of its investments in high temperature gas cooled reactors, which have a higher safety level and the best emission treatment facilities. It has launched a project with this technology in Shidaogang port, in eastern Shandong province, with current installed capacity of 200,000 kW.

The company has a current installed capacity of 500,000 kW in nuclear projects it owns independently and a combined installed capacity of 640,000 kW of nuclear power it operates for other companies. Also at the forum was an executive with China Power Investment Corp, who said the company expects the installed capacity of its nuclear projects to account for 15% of its total power by 2020.

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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