SCI China Market Update – September 2013

Dear friends,

Last month we mentioned the investigation into the apparently widespread bribery charges against GlaxoSmithKline in China. Over the past year, new party and state leaders under President Xi Jinping took office acknowledging popular dissatisfaction with the government and vowing to clean it up. This general issue of corruption is still very much on everyone's radar screen. To many, August was the month that would show whether Mr. Xi Jinping's government was really any different from previous administrations in terms of anti-corruption policy. In fact, it does seem that his new government is really targeting and ensnaring ever more senior figures, with speculation that the powerful former security tsar, Zhou Yongkang, will be the next big target. If it happens, Zhou would become the most senior figure in decades to face investigation, after executives from a top state-owned oil company and a province that he headed came under investigation. In just the past week inquiries were announced into Jiang Jiemin, former chairman of the giant National Petroleum Corp -- which Zhou headed from 1996 to 1998 -- and four other executives of the company.

All of this intensification of the drive against corruption comes just after the sensational trial of former Communist Party bigwig Bo Xilai. It's really quite a remarkable "August show". We are hopeful that Mr. Xi's government can enhance efforts to control government corruption while at the same time addressing the huge air and water pollution issues. Here let me share some very recent China market news for from various sources:

China manufacturing rebounds to 50.1 in August: HSBC
A key index of China's manufacturing activity rebounded to 50.1 in August, its first month of expansion since April as market conditions improved. The British banking giant's purchasing managers' index (PMI) for last month improved from an 11-month low of 47.7 in July and came after three months of contraction, HSBC said. The government's official PMI for August, released by the National Bureau of Statistics on Sunday, came in at a 16-month high of 51.0. The August rebound suggested that growth in the sector has started to stabilize thanks to a modest improvement in new orders and output. Authorities are targeting 2013 growth of 7.5%, which is the same as the objective set last year.

India manufacturing hits over 4-year low
India's manufacturing shrank for the first time in over four years in August, dealing a fresh blow to efforts to boost a slumping currency, figures showed Monday, as rival China's factory activity rose. The India Purchasing Managers' Index (PMI) tumbled to an unexpected low of 48.5 in August from 51.1 in

July, led by a slump in new orders. A reading over 50 spells expansion of activity while one below 50 suggests contraction. The data comes amid fears India's once-booming economy could be on the cusp of a full-blown crisis.

China government approves free trade zone for Shanghai

China has approved an "experimental" free trade zone in its commercial hub Shanghai as it tries to promote economic reforms. The State Council, or cabinet, recently approved the zone after giving the preliminary go-ahead in July, the commerce ministry said in a statement. It said the government would later give details of what would be allowed in the free trade zone, which will combine four existing development zones in Shanghai. A free trade zone, in principle, allows goods to be imported, manufactured and re-exported without the "intervention" of customs, Chinese state media has reported.

China to add 1,500 gigawatts of power capacity by 2030: study

China will add some 1,500 gigawatts of power production capacity by 2030, or the equivalent of Britain's existing capacity every year, a study showed recently. Although the world's biggest carbon emitter will continue to draw considerable capacity from coal-fired plants, about half of the new capacity will be generated from renewable sources, reports Bloomberg New Energy Finance. China is expected to install some 10 gigawatts a year until 2030. Thanks to more gas-based and renewable power generating sources, however, the share of coal-fired power generation capacity will drop to 44 percent in 2030 from 67 percent in 2012. The BNEF said that on the back of a cleaner energy shift, China's power sector emissions could start shrinking as of 2027.

China halts environmental approvals for oil giants

China's environment ministry has suspended approvals of new projects by the country's two biggest oil firms for failing to achieve pollution reduction goals, it said Thursday. The ministry said it had temporarily halted approval of new refining projects, and renovation or expansion of existing facilities, for China National Petroleum Corp (CNPC) and China Petroleum and Chemical Corp (Sinopec). CNPC failed to meet the target for reducing chemical oxygen demand -- a measure of the amount of pollution in water -- for last year, the ministry said in a statement. Separately, it said Sinopec failed to achieve the required cut in its emissions of nitrogen oxide, an air pollutant.

Sinopec has previously pledged to invest 22.9 billion Yuan ($3.7 billion) on a total of 803 environmental protection projects in the next three years. China has been trying to tackle air pollution, which has become a key source of social discontent, especially after toxic smog blanketed northern cities earlier this year. This month, China's top economic planner called for greater efforts in energy-saving and emission reduction, adding assessments of government officials will be partly based on their achievements in the area.

China pledges safe rural drinking water by 2015

China will ensure the safety of drinking water by the year 2015 in rural areas, where it still remains inaccessible to more than 100 million people, a senior official said Thursday. At the end of 2012, there were 298 million people in rural areas suffering from lack of access to safe drinking water, but by the end of this year, 63 percent of them will have safe water, said Li Guoying, vice minister of water resources. The problem for the remaining 110 million people, including 15 million students and teachers in rural areas, will be solved in the following two years. The government had allocated nearly 179.1 billion Yuan (29 billion U.S. dollars) for drinking water safety projects from 2005 to 2012, Li said.

China oil giant buys into strife-hit Egypt for $3.1 billion

Chinese oil giant Sinopec is entering Egypt despite the country's political strife, announcing on Friday it is buying a $3.1 billion stake in an existing operation as China scours the globe for energy reserves. State-owned Sinopec will buy a one-third share in the Egyptian oil and natural gas business of US firm Apache Corp., the companies said. The deal, which is still subject to regulatory approval, marks Sinopec's first entry into exploration and production for oil and gas in Egypt, Sinopec said.

Bank of America to sell China Construction Bank stake

Bank of America will sell its entire stake in China Construction Bank (CCB) for around $1.5 billion, a report said Tuesday, exiting an investment it made eight years ago. The US lender is selling two billion Hong Kong-listed shares in China's second biggest bank at between HK$5.63 ($0.73) and HK$5.81, Dow Jones Newswires reported.

Home prices keep rising in August

New home prices in 100 major Chinese cities averaged 10,442 Yuan ($1,706) per square meter in August, rising for 15 consecutive months in month-on-month terms, and indicating the recovery of the property sector, a survey has shown. Of the 100 cities tracked by the China Index Academy, the research arm of Soufun, China's largest property website, 71 cities posted month-on-month increases, with 31 of them seeing prices rising at a pace above 1 percent, two cities fewer than in July. Among the 10 largest cities, Beijing saw the biggest property inflation with a 3.22% month-on-month increase in August, trailed by Wuhan, Hubei province, which posted a 2.16% month-on-month increase.

Chinese shoppers set to become world leaders online

China's e-commerce market is expected to leapfrog that of the United States this year to become the world's largest by total customer spending, management consultancy firm Bain & Company says. Online spending could account for half of all Chinese retail spending within a decade, according to Chinese e-commerce firm Alibaba Group. The change in shopping habits comes as almost half of the country's 1.3 billion population now have direct access to the Internet, and of that number nearly 80 percent own smart phones or tablets. China's e-commerce market has grown at an average rate of 71 percent from 2009 to 2012, versus 13 percent in America, and its total size is expected to reach 3.3 trillion Yuan ($539.07 billion) by 2015, Bain & Company said in a report released on Wednesday. Total spending by Chinese consumers on online shopping reached $212.4 billion in 2012, compared to $228.7 billion in the U.S., the report said.

FDI surges 24% in July

Foreign direct investment in China surged 24.13% from a year earlier to $9.41 billion in July, the largest expansion since March 2011 and also the sixth consecutive monthly increase since February, according to the Ministry of Commerce. The first half of this year saw foreign investors establishing 10,630 companies in China, down 9.18% year-on-year, while FDI inflow rose 4.9% year-on-year to $61.98 billion. The country attracted $111.72 billion in FDI last year, down 3.7% from a year earlier.

Largest importer

Starting in October, China is set to overtake the United States as the world's largest net oil importer, according to US figures, spurred by rising Chinese demand and increasing US production. Next year, China's net oil imports will exceed those of the US, and the gap will continue to widen, the US Energy Information Administration said. China is already the world's biggest energy user and the second-largest oil consumer after the US. The shift has been driven by steady growth in Chinese demand, increased US oil production and stagnant or weakening demand in the US, the EIA said.

Sinopec Q2 net jumps 22% on improved refining margins

Asia's largest refiner Sinopec Corp posted a 22% rise in second-quarter net profit, helped by better refining margins after China introduced measures to let domestic fuel prices follow the international market more closely. Net profit at Sinopec rose to 13.58 billion Yuan (US$2.22 billion) in April-June from 11.09 billion Yuan a year earlier, according to Reuters calculations based on first-half results released through the Shanghai stock exchange today. The figure lagged an average forecast of 15.23 billion Yuan by five analysts polled by Thomson Reuters.

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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