China's Economic & Market Perspective

Fundamentals

In November, the economy still has not yet seen any real signs of recovery. Demand for real estate, home appliance, steel, cement and chemical products still remain weak. Powering related coal consumption is also facing severe downward pressure, indicating production of industrials sector has not improved. Inventory level of real estate remains high for second and third tiers cities while consumptions for automobile and home appliance are at reasonable level. Coal and rare metal inventory remains high.

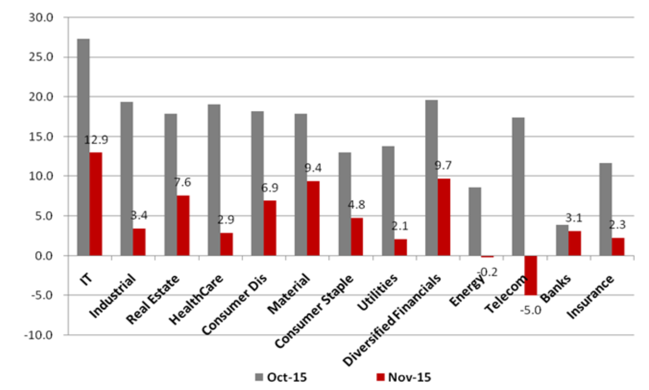
According to the released data from CNBS, profit in Industrial sector continues to worsen, and profitability continues to deteriorate. In November, industrial enterprises with over 20 million RMB in primary operating revenue in the whole nation has realized a profit of RMB 559.5 billion, fallen by a margin of 4.6% YoY, as decline is also expanded by 4.5% over the previous month. Impacted by a rising labor cost and the decline in the primary operating revenue, profit of industrial enterprises accelerate declining. As deflation pressure on produce is on the rise and the demand remains sluggish, profitability may still being suppressed in the coming quarter.

Statistics has also shown that, the weak demand has led to the deterioration in corporate profitability. Demand for industrial products continues to weaken due to lack of investment intentions in real economy. Revenue of operating business has fallen by a margin of 1.4% YoY, yet the expansion in such decline over September has reached to 0.9% and the decline has been reported for two consecutive months. Despite of the recovery of sales in real estate sector and the steady rise in infrastructure investment, the demand of industrial finished goods remains unsatisfactory. High frequency data of power generation capacity and capacity utilization indicates that industrial production is still relatively weak and economic downward pressure continues.

Market

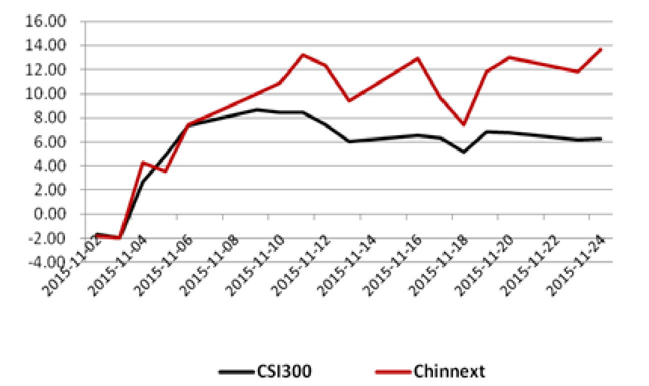
In terms of market performance in November, all indices and most of sectors have continued to rise after the reversal in October, yet the rise has unilaterally slowed down. Shanghai Composite and CSI 300 had brought moderate monthly gains of 1.9% and 0.9%, respectively. Small cap stocks still exhibited better performance this month as GEB showed the best performance of 7.8%. As for the sector performance, IT was the best-performing sector with a monthly increase of 12.9%. Materials and Diversified Financials also generated sound performance of over 9% monthly gain. Energy and Telecom were the two worst-performing sectors that had 0.2% and 5.0% monthly loss, respectively.

Graph 1: China A-share sector performance (%) in November



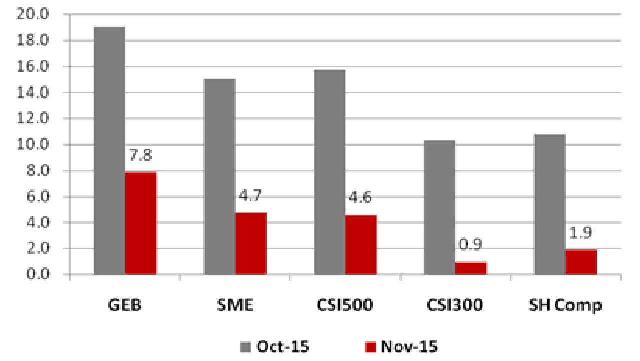
Source: Wind Info, ChinaAMC

Graph 2: Performance of Shanghai Index and ChiNext in November



Source: Wind Info, ChinaAMC

Graph 3: Performance of different indexes in November



Source: Wind Info, ChinaAMC

Outlook

With a promise to double GDP by 2020, the government is now facing unprecedented pressure as they are compelled to maintain an average of 6.5% GDP growth in the next 5 years to achieve that target. However, 7% GDP growth of this year was largely contributed by financials sector and the high turnover volume in the bull market. While the economic growth will slow down in the next year as the bull market comes to an end, the recovery of other sectors is required in order to maintain a 6.5% GDP growth. To achieve that, easing policy need to intensify to bolster the enthusiasm of investment in real economy. We believe this will not contradict with the newly proposed supply side reform, which is designed to improve long-term development of economy. Stabilizing the economy and countering the economic downward pressure require more stimulus plans and monetary policies. We will remain sector neutral strategy and will turn our focus to intelligent manufacturing and companies engaged in clean energy and environment protection business.

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