

China's Economic & Market Perspective

Fundamentals

The market in January suffered a significant hit by the execution of circuit breaker mechanism. The first trading day of 2016, as most of the players in the market being increasingly cautious, market experienced over 4% drop in the morning, and the circuit breaker mechanism exacerbated the fall as the decline continued more sharply in the afternoon. The index quickly triggered the first and second breakers that led to suspension of all trading activities in the market of that day. Yet the pessimistic sentiment is still dominated in many investors, individual or institutional alike, even after the circuit breaker mechanism has been suspended after it has been triggered twice in one week.

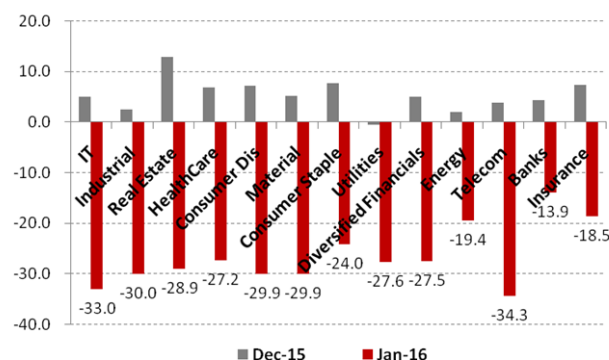
We barely find any reasons to be optimistic over macro environments in the released economic data. Official PMI for January is 48.4. It continued to slide and hit a record low point over the past 3 years, which indicates that downward pressure on economy remains immense. Industrial performance still remains unsatisfactory. Average daily coal consumption of six major power generation corporations has shown a 12.4% YoY drop, bigger than the 9.3% drop in January. Industrial added value has shown a 5.8% increase YoY. Production of raw steel dropped by 9% YoY and the cement price dropped by 20.4% YoY.

On the positive side, sales of real estate have remained a rapid growth. Sales growth in 30 major cities has realized a 17.8% growth YoY, meanwhile, the declines in land transaction expanded as land transaction of 100 major cities reported a 17.6% decline YoY. Market estimate food price of January will see significant rise QoQ, and CPI will rise 1.9% YoY.

Market

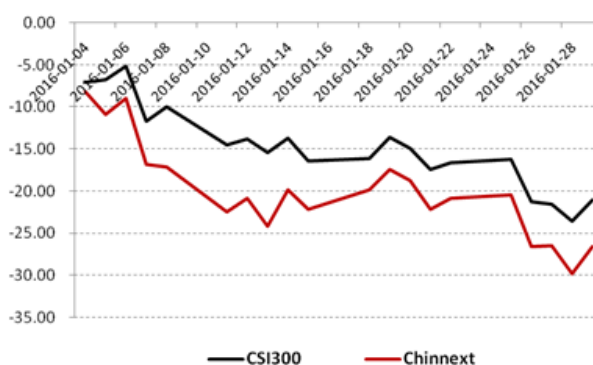
In terms of the market performance in Jan, all boards have seen a significant fall. Shanghai Composite index and CSI 300 index have dropped by over 21%. Small cap stocks have again proven to be even more vulnerable in an unfavorable market as ChiNext and SME showed decline of 26.5% and 25%, respectively. As for the sector performance, banks and insurance sectors are the best-performing sectors with a respective monthly decline of 13% and 18%. Industrials and IT are the two worst-performing sectors which have shown over 30% monthly loss, respectively.

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



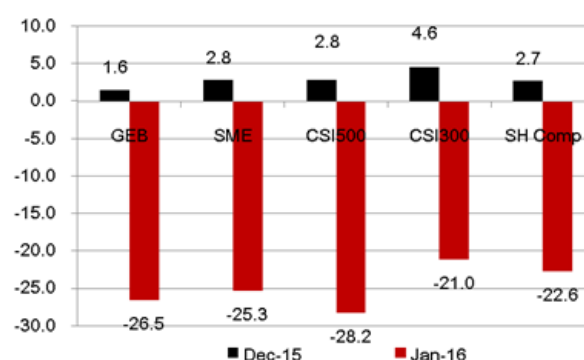
Source: Wind Info, ChinaAMC

Graph 2: Performance of Shanghai Index and ChiNext in January



Source: Wind Info, ChinaAMC

Graph 3: Performance of different indexes in January



Source: Wind Info, ChinaAMC

Outlook

As economy remains weak in the beginning of the year, related government authorities will no doubt release more incentives to keep a steady economy growth. Fiscal policies are expected to be more accommodating in two directions. Namely, to promote consumption and manufacturing upgrading. At present, Chinese economy appears to struggle in a dilemma that economy indeed requires stimulus, however, at the same time it won't

transform into a healthy and sustainable economy model if too many stimulus are introduced in a very short period of time. Thus, the problems we are facing bring challenges for related government authorities. As for now, the only effective approach to achieve actual and concrete progress is through 'supply-side reform' to stabilize the economy, and to smooth the prevailing expectation of RMB depreciations gradually.

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Contact Information

China Asset Management Co. Ltd.
12F Building B, Tongtai Plaza, 33 Jinrong Street, Beijing, China
IB@ChinaAMC.com
Tel: +86 10 8806 6688/ Fax: +86 10 8806 6330

