

China's Economic & Market Perspective

Fundamentals

The economical data in first quarter sent a mixed signal, showing that some areas of the economy have seen recovery but there are some industries still facing grim challenges. Looking at the key economical data in January and February, we can easily observe a deviation between industrial added value (IAV) and fixed asset investment (FAI). On one hand, IAV YoY growth has dropped to the level of 5.4%, a new record low since April 2009. Decline of price of Industrial products like Automobile, Steel, Cement and Nonferrous Metal continue to expand, this along with a downslide of PMI, suggesting that industrial production is still shrinking.

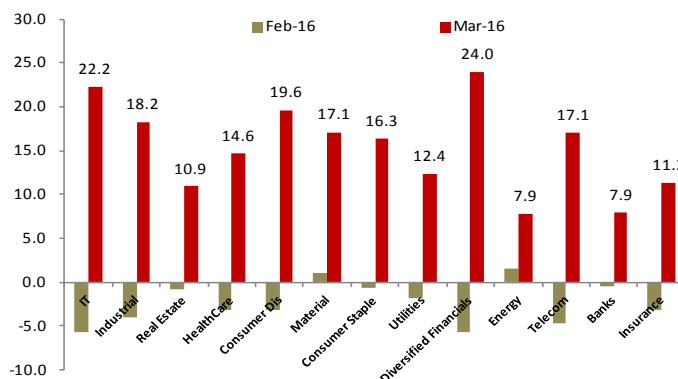
On the other hand, investment growth has seen a rebound that beyond market's prior expectation. Manufactory, Infrastructure and Real Estates growth have all exhibited a strong rebound. Particularly, with a growth rate of 3% in Real Estates investment, indicating a sign of demand improvement.

On the policy side, the 'steady growth policy' is stimulating the economy as government is now executing more policies to stimulate the real estate market such as by lowering transaction taxes. On the press conferences of National People's Congress and Chinese People's Political Consultative Conference, Premier Li Keqiang reconfirmed that government will be able to achieve the goal of 6.5% GDP growth. The announcement no doubt eased concerns of investors both domestic and abroad to a certain extent.

Market

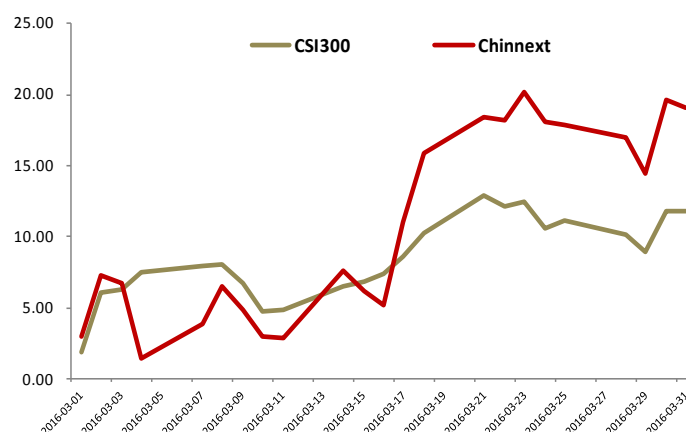
In terms of the market performance in March, all boards reported increase, with some sectors exhibiting remarkable differences from performance in February. Shanghai Composite Index and CSI 300 Index have increased 11.8%. Small cap stocks had a better performance with ChiNext and SME showed performance of 19% and 14.4%, respectively. As for the sector performance, all sectors reported solid rally. IT, Industries and Consumer Discretionary sectors show a better performance than that Energy, Banks and Healthcare sectors.

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



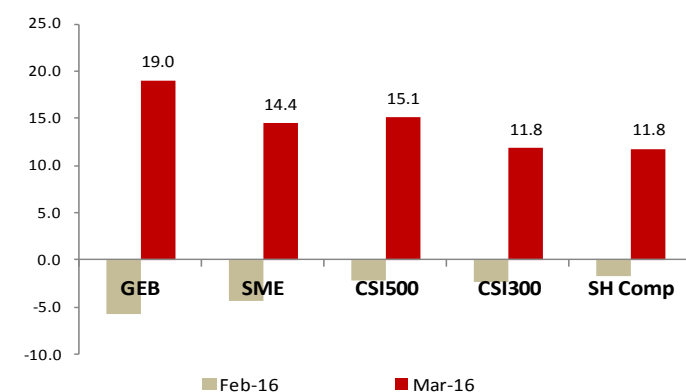
Source: Wind Info, ChinaAMC

Graph 2: Performance of Shanghai Index and ChiNext in March



Source: Wind Info, ChinaAMC

Graph 3: Performance of different indexes in March



Source: Wind Info, ChinaAMC

Outlook

Looking ahead, with the strengthening steady growth policy, and the improvement of some readings on economy, we still hold optimistic view on equity market. Fiscal income is now in a steady growth, and fiscal spending is on a sharp rise. In March, fiscal income of national budget has a 7.1% YoY growth, but the fiscal spending of national budget is on a rise of 20.1% YoY, indicating a strong motive of government to stabilize the economy with the spending. In addition, Currency rate is

now stabilizing, and SOE reform is underway. The debit equity swap is beneficial to the economy in long-term in a sense that it will dismiss or at least postpone the exposure of unhealthy corporate or local government asset. Nevertheless, there are still some factors we ought to pay close attention to. First, we should look closely on the current recovery of real estate economy and prepare for the possible halt of growth on sales readings as related restriction might be pushed forward. Second, we are still not completely confident about the improvement of earnings of those listed companies as we are still in the process of real estate destocking.

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