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Part One: Major Price Indicators

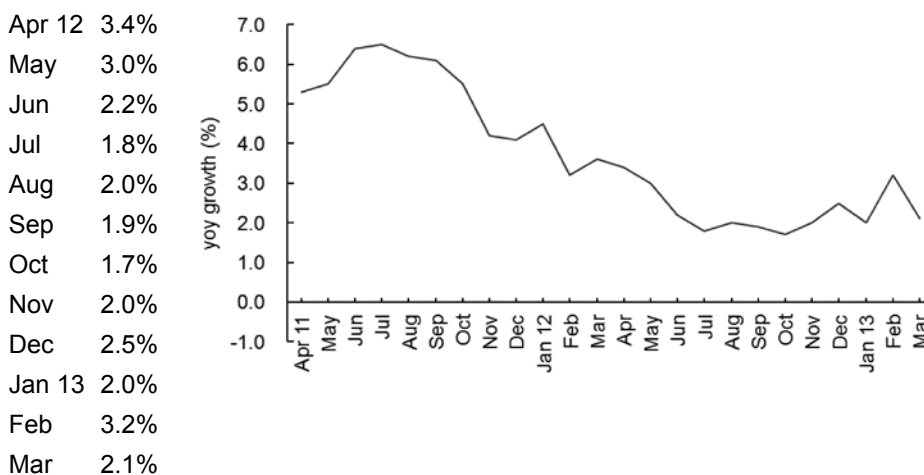
1. China's CPI growth has continued to fluctuate in recent months

After dropping from 2.5% yoy in December to 2.0% yoy in January, the year-on-year (yoy) growth rate of China's consumer price index (CPI)¹ rose to 3.2% yoy in February, the highest in ten months. Nevertheless, China's CPI growth fell again to 2.1% yoy in March. The fluctuations in the CPI growth were largely driven by the food component of the CPI, which registered growth of 4.2% yoy, 2.9% yoy, 6.0% yoy, and 2.7% yoy in December, January, February and March respectively. The growth of consumer price of the non-food component, on the other hand, stayed relatively stable at 1.7% yoy, 1.6% yoy, 1.9% yoy and 1.8% yoy in December, January, February and March respectively. (See exhibits 1 & 2)

On a month-on-month (mom) basis, China's CPI rose by 0.8%, 1.0% and 1.1% in December, January and February respectively, before dropping by 0.9% in March. The decline in March was due to the seasonal drop in food prices after the Chinese New Year Holidays.² In March, the food component of the CPI went down by 2.9 % mom, while the non-food CPI edged up by 0.1% mom.

Looking forward, we forecast that the CPI growth will stay relatively high at around 2.5-3.0% yoy in 2Q13, given a lower comparison base of the same period last year.

Exhibit 1: China's CPI growth, Apr 2011 - Mar 2013



Source: National Bureau of Statistics, PRC

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1 The CPI, compiled by the National Bureau of Statistics of China, measures the price of a basket of goods and services that a typical household purchases.
 2 In 2013, the Chinese New Year Holidays were in February.

Exhibit 2: China's CPI growth by selected commodity, Oct 2012 - Mar 2013

yoy growth (%)	Oct 12	Nov	Dec	Jan 13	Feb	Mar
Clothing	2.7	2.3	1.9	2.5	2.1	2.3
Household services, maintenance and renovation	1.5	1.5	1.7	1.5	1.6	1.6
Recreational, educational products & services	1.1	0.9	1.1	0.5	2.0	1.7

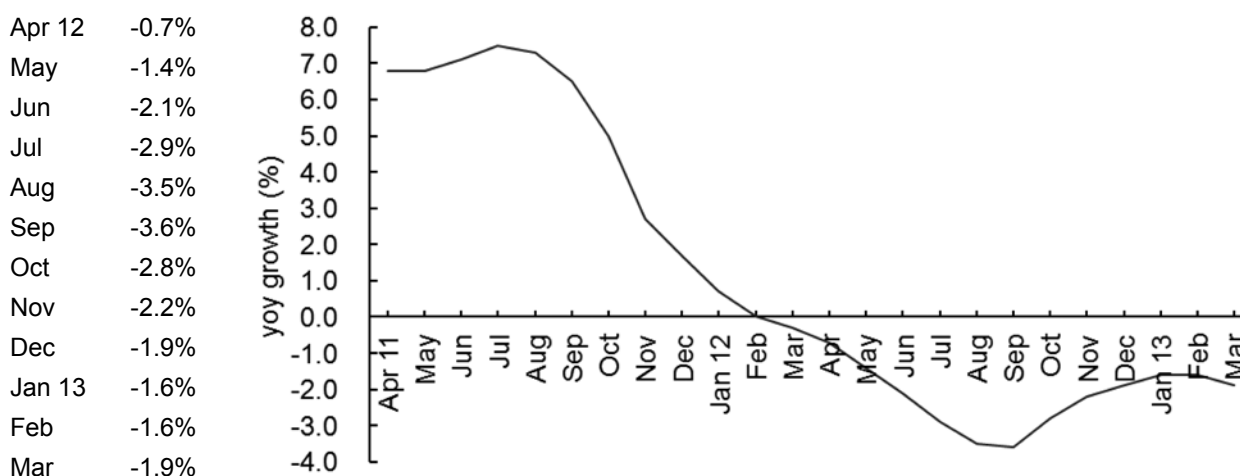
Source: National Bureau of Statistics, PRC

2. China's ex-factory prices of industrial products increased in the first two months of 2013

The yoy growth rate of China's producer price index of industrial products (PPI)³ went up from -1.9% yoy in December to -1.6% yoy in January and in February, but then dropped to -1.9% yoy again in March. On a mom basis, after falling by 0.1% mom in December, the PPI rose by 0.2% mom in January and in February, and then stayed stable in March. These figures indicate that China's ex-factory prices of industrial products increased in the first two months of 2013. (See exhibits 3 & 4)

Going forward, we expect China's PPI growth in yoy terms to turn positive in coming months, given the lower comparison base in 2Q12.

Exhibit 3: China's PPI growth, Apr 2011 - Mar 2013



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, Sep 2012 - Feb 2013

yoy growth (%)	Sep 12	Oct	Nov	Dec	Jan 13	Feb
Textile industry	-2.8	-2.7	-2.1	-1.6	-1.0	-1.2
Textile, clothing and footwear production	1.9	1.9	1.8	1.2	1.5	1.3
Leather, furs, down and related products	1.6	1.5	1.6	1.7	1.9	2.3
Timber processing & wood, bamboo, cane, palm fiber and straw products	1.6	1.7	1.7	1.7	1.4	1.2

Source: National Bureau of Statistics, PRC

³ The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

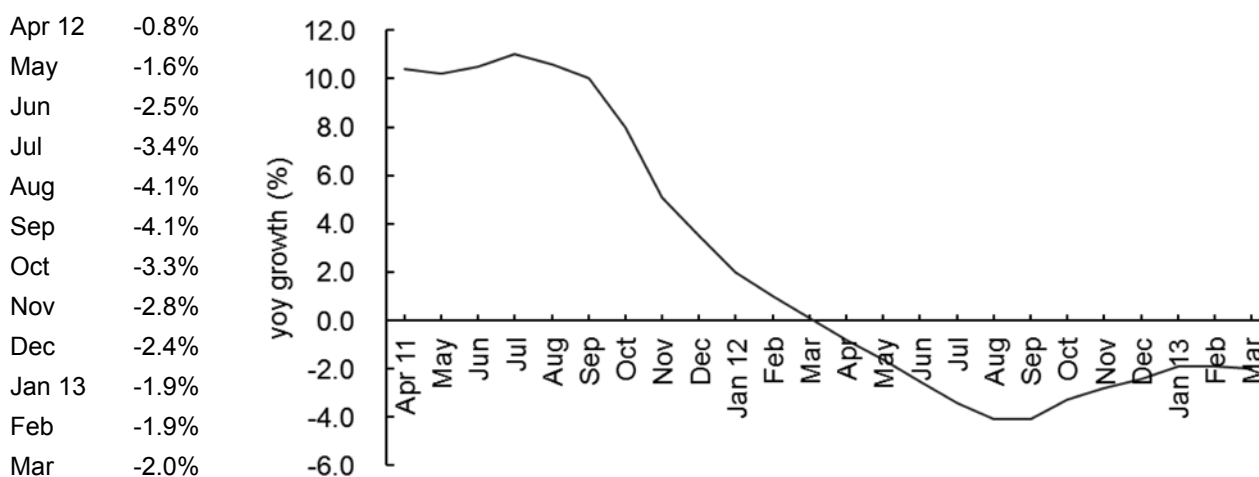
Part Two: Raw Material Prices

1. Domestic prices of production inputs dropped slightly in March

The yoy growth rate of the purchaser price index of industrial products⁴ rose from -2.4% yoy in December to -1.9% yoy in January and in February, before edging down to -2.0% yoy in March. On a mom basis, after gaining 0.3% mom and 0.2% mom in January and February respectively, the purchaser price index edged down by 0.1% mom in March, indicating a slight drop in domestic prices of production inputs in March. (See exhibits 5 & 6)

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, fell markedly by 4.9 pts. to 50.6 in March, suggesting that upstream cost pressure has eased. Looking ahead, we expect that the domestic prices of production inputs will stay stable or trend slightly upward in the near term.

Exhibit 5: The purchaser price index of industrial products, Apr 2011 - Mar 2013 (% yoy growth)



Source: National Bureau of Statistics, PRC

Exhibit 6: The purchaser price index of industrial products by selected commodity, Oct 2012 - Mar 2013

yoy growth (%)	Oct 12	Nov	Dec	Jan 13	Feb	Mar
Fuel & power	-1.5	-1.6	-2.5	-2.6	-2.9	-3.2
Non-ferrous metals	-3.1	-3.9	-2.5	-1.5	-2.4	-3.7
Raw materials for the chemical industry	-5.7	-4.5	-3.7	-3.1	-2.9	-3.1
Timber and paper pulp	-1.3	-1.1	-0.8	-0.5	-0.5	-0.2
Textile raw materials	-2.2	-1.8	-1.5	-0.9	-0.9	-0.9

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel & power

The purchaser price index of fuel & power has dropped at a faster pace in recent months, down by 2.5% yoy, 2.6% yoy, 2.9% yoy and 3.2% yoy in December, January, February and March respectively. (See exhibit 6)

⁴ The purchaser price index of industrial products, compiled by the National Bureau of Statistics of China, measures the prices of production inputs such as raw materials, fuels and power purchased by industrial enterprises.

(ii) Purchaser price index of non-ferrous metals

The growth rate of the purchaser price index of non-ferrous metals went up from -2.5% yoy in December to -1.5% yoy in January, but then fell again to -2.4% yoy in February and -3.7% yoy in March. (See exhibit 6)

(iii) Purchaser price index of raw materials for the chemical industry

After registering -3.7% yoy in December, the growth rate of the purchaser price index of raw materials for the chemical industry fluctuated within the range of -2.9% yoy to -3.1% yoy throughout January to March. (See exhibit 6)

(iv) Purchaser price index of timber and paper pulp

The growth rate of the purchaser price index of timber and paper pulp has trended upward in the past few months, rising all the way from -1.3% yoy in October to -0.2% yoy in March. (See exhibit 6)

(v) Purchaser price index of textile raw materials

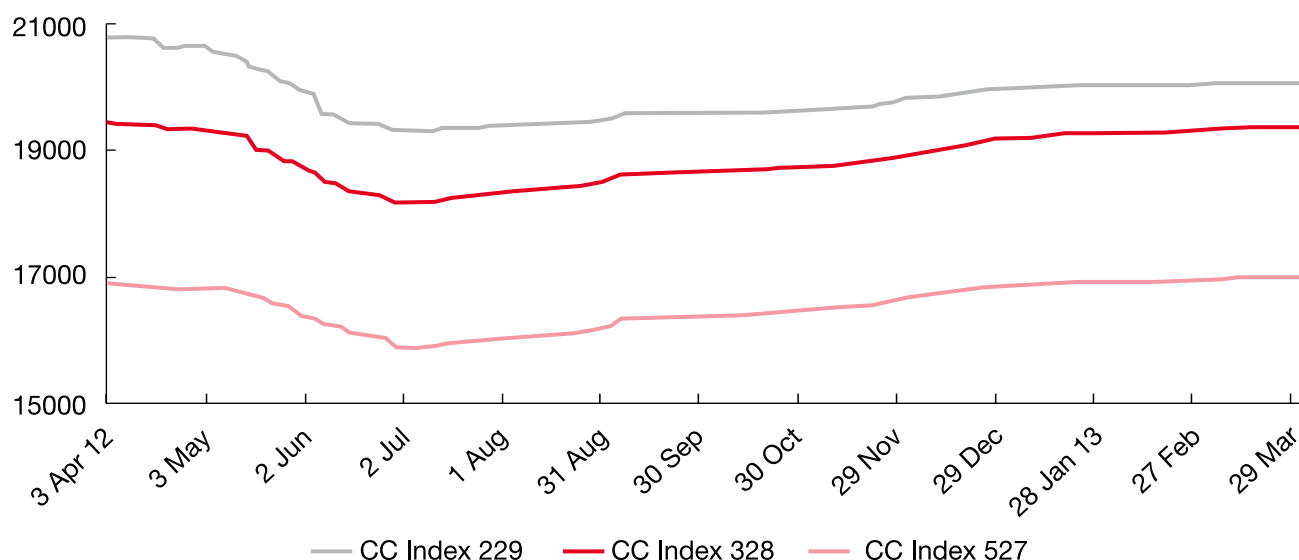
After declining by 1.5% yoy in December, the purchaser price index of textile raw materials continued to post negative growth of -0.9% yoy in January, February and March. (See exhibit 6)

2. China's cotton price indices has trended slightly upward in the past few months

China's cotton price indices⁵ have continued to trend slightly upward in the past few months. The CC Index 328, for example, rose from 19,207 on 4 January to 19,380 on 2 April. According to the local media, the demand for the domestic cotton has remained weak in recent months. We therefore believe that the high domestic cotton prices were supported by the government actions to purchase cotton. To encourage farmers to maintain their cotton output, the Chinese government implemented the stockpiling scheme throughout September 2012 to March 2013. (See exhibit 7)

As the stockpiling scheme was ended in March, we expect China's cotton prices to reverse the uptrend in the near term. However, the domestic cotton prices are unlikely to drop much, as the international cotton prices have been on a strong upward trend in recent months. The gap between the domestic and international cotton prices has therefore narrowed. If the trend continues, the competitiveness of Chinese textile manufacturers, which mainly rely on domestic cotton for production, will gradually improve against foreign players. In our view, this would in turn support the demand for the domestic cotton and the domestic cotton prices.

⁵ The indices, compiled by the China Cotton Association, track cotton prices quoted from two hundred textile enterprises.
<http://www.china-cotton.org/>

Exhibit 7: China's cotton price indices, Apr 2012 - Apr 2013

Source: China Cotton Association

3. The Nanjing Wool Market Composite Index has gone up in recent months

The Nanjing Wool Market Composite Index⁶, one of the major wool price indices in China, went up all the way from 72.01 yuan per kg at end-November 2012 to 75.10 yuan per kg at end-February 2013. The rise in prices of wool was mainly driven by the improvement in domestic demand. (See exhibit 8)

Looking forward, we expect wool prices to rise further in the near term, boosted by increasing domestic demand.

Exhibit 8: Nanjing Wool Market Composite Index, Mar 2012 - Feb 2013

	Mar 12	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb
Month-end index (yuan/kg)	84.68	81.52	78.20	75.15	74.66	71.05	69.86	70.32	72.01	73.55	74.56	75.10

Source: The Nanjing Wool Market

4. Price indices of polyester have been on a strong downward trend since late February

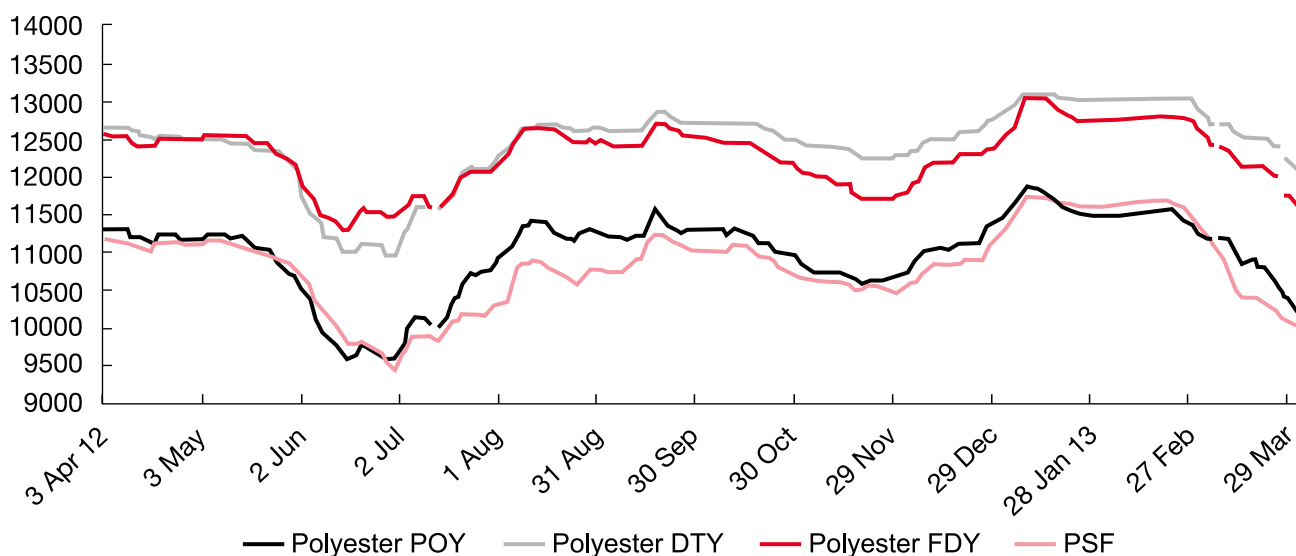
After falling in mid-late January, the price indices of polyester⁷ showed a slight rebound in the following weeks. However, due largely to the drop in global crude prices and a weakening in downstream demand, the polyester prices have fallen markedly since late February. The price index of polyester POY, for example, went down from 11,550 on 21 February to 10,150 on 2 April, the lowest since mid-July 2012. (See exhibit 9)

Looking ahead, we expect the polyester prices to fall further in the near term amid sluggish downstream demand. According to the local media, many manufacturers are still cautious about placing orders for polyester.

⁶ <http://www.woolmarket.com.cn/>

⁷ The indices are compiled by the China Chemical & Fiber Economic Information Network (CCFEI).

Exhibit 9: Price indices of polyester, Apr 2012 - Apr 2013



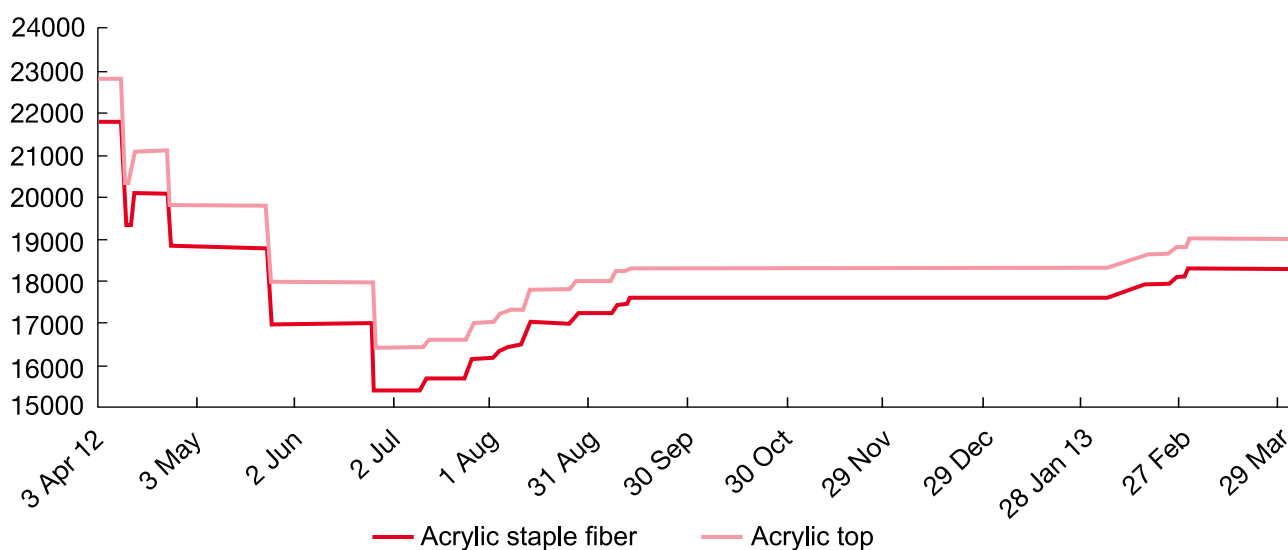
Source: China Chemical & Fiber Economic Information Network

5. Price index of acrylic staple fiber trended upward in early-late February

After stabilizing at 17,600 throughout mid-September 2012 to early February 2013, the price index of acrylic staple fiber⁸ trended upward in the following weeks, reaching 18,300 on 28 February. We believe that the uptrend of the prices of acrylic staple fiber was highly associated with the rise in prices of acrylonitrile, the major raw material of acrylic staple fiber, in the second half of January. Since early March, the price index of acrylic staple fiber has stabilized at 18,300. (See exhibit 10)

Going forward, the prices of acrylic staple fiber are likely to fall in the near future. Given the recent drop in prices of acrylonitrile, the domestic producers of acrylic staple fiber have more room to reduce the prices of their products.

Exhibit 10: Price indices of acrylic, Apr 2012 - Apr 2013



Source: China Chemical & Fiber Economic Information Network

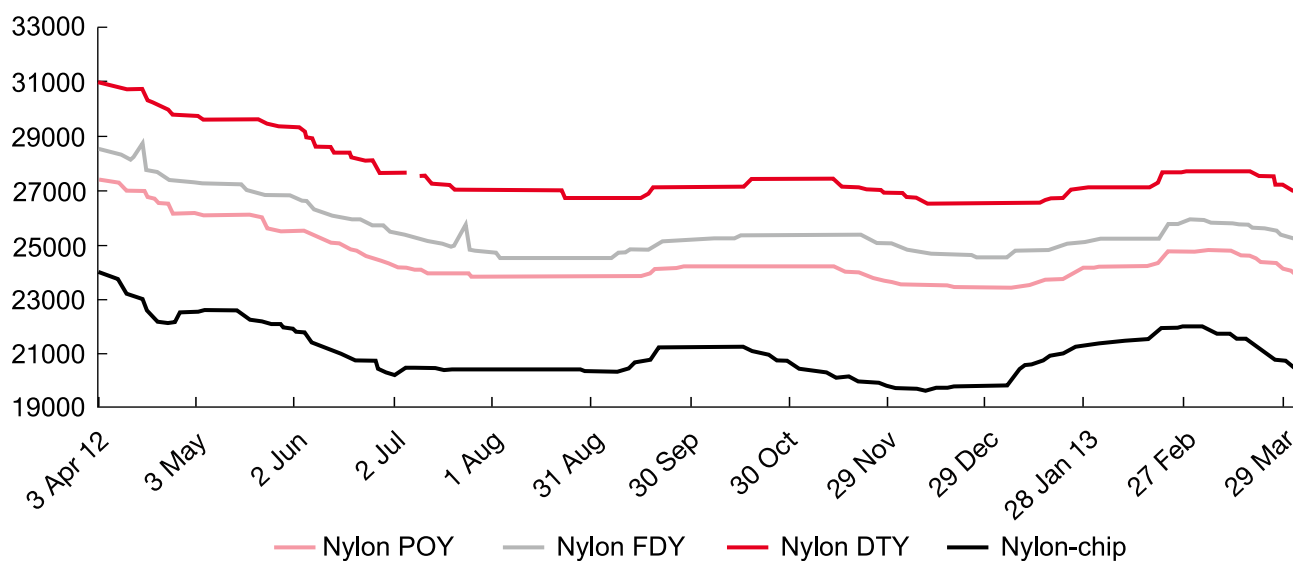
⁸ The index is compiled by the China Chemical & Fiber Economic Information Network (CCFEI).

6. Price indices of various types of nylon have fallen since March

Driven by the increase in upstream prices, the price indices of nylon⁹ trended upward throughout early January to late February. Since early March, however, the price indices of nylon-clip and nylon FDY have gone down. The price index of nylon POY has also started to fall since mid-March. The downtrend of the prices of various types of nylon was attributable to the drop in the price of caprolactam, one of the major raw materials of nylon. (See exhibit 11)

Despite the recent decline in nylon prices, the downstream demand for nylon has remained weak, according to the local media. We therefore expect nylon prices to stay soft in the near term.

Exhibit 11: Price indices of nylon, Apr 2012 - Apr 2013



Source: China Chemical & Fiber Economic Information Network

7. Price index of viscose staple fiber has been on a downward trend since early March

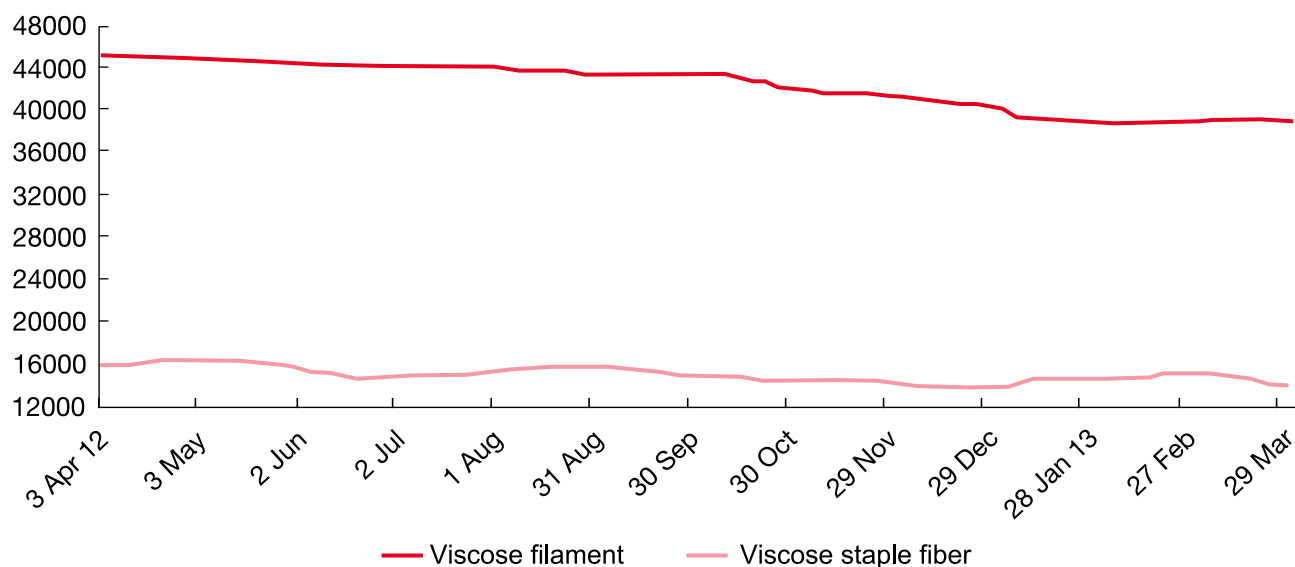
Boosted by the restocking demand by textile manufacturers, the price index of viscose staple fiber¹⁰ rose all the way from 13,600 on 13 December to 15,000 on 21 February. Afterwards, the price index stayed stable in the following weeks. Nevertheless, owing to the weaker-than-expected demand for viscose staple fiber, the price index has started a downward trend since early March, falling all the way to 13,800 on 2 April. (See exhibit 12)

According to the local media, the downstream demand for viscose staple fiber has been very weak lately. Looking ahead, we expect the prices of viscose staple fiber to stay low, unless the downstream demand recovers.

⁹ The index is compiled by the China Chemical & Fiber Economic Information Network (CCFEI).

¹⁰ The indices are compiled by the China Chemical & Fiber Economic Information Network (CCFEI).

Exhibit 12: Price indices of viscose, Apr 2012 - Apr 2013



Source: China Chemical & Fiber Economic Information Network

8. Price index of ABS resin dropped in March

After falling by 1.4% mom in December, the price index of ABS resin¹¹ gained 2.9% mom and 2.4% mom in January and February respectively. According to the local media, in response to the rise in upstream prices, many domestic petrochemical enterprises raised their ex-factory prices of ABS resin. Afterwards, triggered by the drop in prices of styrene, one of the major raw materials of ABS resin, the price index of ABS resin slid 2.3% mom in March. (See exhibit 13)

Looking ahead, we expect the prices of ABS resin to drop further in the near term, due to the recent fall in crude prices. (Acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, are derived from petroleum.)

Exhibit 13: Price index of ABS resin, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
ABS resin (mom growth %)	-0.3	-1.8	-4.0	0.5	-0.5	1.7	0.3	-3.4	-1.4	2.9	2.4	-2.3
ABS resin (yoy growth %)	-10.0	-9.8	-8.3	-9.5	-11.5	-7.4	-1.3	-0.9	-0.4	1.2	-1.9	-6.0

Source: China Logistics Information Center

9. Price index of PP has trended downward in recent months

The price index of polypropylene (PP)¹² has trended downward in recent months, down by 1.9% mom, 1.1% mom, 0.3% mom and 2.0% mom in December, January, February and March respectively. According to the local media, the downstream demand for PP has been sluggish, thereby putting downward pressure on the PP prices. (See exhibit 14)

¹¹ The index is compiled by the China Logistics Information Center (CLIC). The CLIC is a sub-division of the China Federation of Logistics & Purchasing (CFLP), which is the first logistics and purchasing industry association approved by the State Council. One of the CFLP's missions is to push forward the circulation of factors of production in China.

¹² The index is compiled by the China Logistics Information Center (CLIC).



Going forward, we expect the PP prices to stay soft in the near term, unless the downstream demand recovers.

Exhibit 14: Price index of PP, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
PP (mom growth %)	2.4	-1.8	-1.3	-0.2	0.8	1.7	-0.9	-0.9	-1.9	-1.1	-0.3	-2.0
PP (yoy growth %)	-7.0	-8.9	-6.7	-8.0	-6.7	-3.5	-2.5	-2.4	0.5	0.6	-1.1	-5.4

Source: China Logistics Information Center

10. Price index of natural rubber plunged in March

After declining by 0.6% mom in December, the price index of natural rubber¹³ rose by 4.1% mom and 0.4% mom in January and February respectively. We believe that the pick-up in the natural rubber prices was highly associated with the improvement in the speculative demand as well as tyre manufacturers' moves to increase their inventory of natural rubber. However, in March, the price index plunged by 7.4% mom. A major reason was that the demand for tyre had been weaker than market expectation, and consequently the demand for natural rubber from tyre manufacturers had decreased. (See exhibit 15)

Looking forward, the domestic supply of natural rubber is expected to increase with more harvesting activities in coming months. (There is a seasonal reduction in harvesting activities in major rubber producing regions every December to April.) Given the increased supply, we expect the natural rubber prices to stay soft in the near term.

Exhibit 15: Price index of natural rubber, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
Natural rubber (mom growth %)	-1.3	-5.6	-9.7	0.5	-5.0	-3.2	6.3	-3.5	-0.6	4.1	0.4	-7.4
Natural rubber (yoy growth %)	-24.6	-25.2	-30.9	-27.5	-28.3	-28.1	-16.2	-12.9	-14.2	-10.3	-14.7	-23.5

Source: China Logistics Information Center

11. Prices of various types of non-ferrous metals fell in March

The price trends of different types of non-ferrous metals diverged from December to February.¹⁴ For example, the price index of zinc gained 3.2% mom, 0.5% mom and 1.6% mom in December, January and February respectively. In contrast, the price index of aluminum fell by 0.4% mom, 0.6% mom and 1.9% mom in December, January and February respectively. In March, the prices of various types of non-ferrous metals fell. The price indices of copper, aluminum, lead and zinc were down by 2.7% mom, 1.0% mom, 2.0% mom and 3.3% mom respectively in the month. (Exhibits 16, 17, 18, 19 & 20)

Looking ahead, we expect the prices of non-ferrous metals to stabilize in the near term, given the mild recovery of the Chinese economy.

¹³ The index is compiled by the China Logistics Information Center (CLIC).

¹⁴ The indices are compiled by the China Logistics Information Center (CLIC).

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Exhibit 16: Price index of non-ferrous metals, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
Non-ferrous metals (mom growth %)	-1.5	-0.9	-2.6	-0.6	-1.2	3.3	-0.1	-2.8	1.0	0.5	-0.6	-2.1
Non-ferrous metals (yoy growth %)	-12.1	-10.6	-13.8	-17.0	-16.5	-9.5	-2.6	-5.9	-3.0	-2.6	-5.8	-7.4

Source: China Logistics Information Center

Exhibit 17: Price index of copper, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
Copper (mom growth %)	-3.2	-1.2	-3.8	1.2	-0.9	5.6	0.6	-4.3	1.3	1.3	-0.2	-2.7
Copper (yoy growth %)	-19.0	-16.5	-20.0	-21.8	-19.0	-7.8	4.9	-3.6	0.4	1.1	-3.7	-6.5

Source: China Logistics Information Center

Exhibit 18: Price index of aluminum, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
Aluminum (mom growth %)	0.1	0.2	-1.5	-1.7	-1.3	0.5	-0.8	-1.3	-0.4	-0.6	-1.9	-1.0
Aluminum (yoy growth %)	-3.9	-3.4	-7.6	-11.9	-14.6	-11.7	-8.1	-6.7	-6.9	-7.4	-8.5	-9.5

Source: China Logistics Information Center

Exhibit 19: Price index of lead, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
Lead (mom growth %)	-1.3	-1.1	-2.9	-0.4	0.4	3.2	0.2	-3.5	-1.0	-0.2	0.7	-2.0
Lead (yoy growth %)	-10.2	-5.4	-7.7	-11.4	-8.7	-1.3	4.2	-3.1	-4.0	-3.9	-6.7	-7.8

Source: China Logistics Information Center

Exhibit 20: Price index of zinc, Apr 2012 - Mar 2013

	Apr 12	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar
Zinc (mom growth %)	-1.4	-1.3	-2.6	-0.2	-0.6	3.9	-0.8	-2.2	3.2	0.5	1.6	-3.3
Zinc (yoy growth %)	-13.0	-9.4	-14.3	-17.6	-13.5	-5.5	0.5	-4.9	0.7	3.2	-0.5	-3.4

Source: China Logistics Information Center

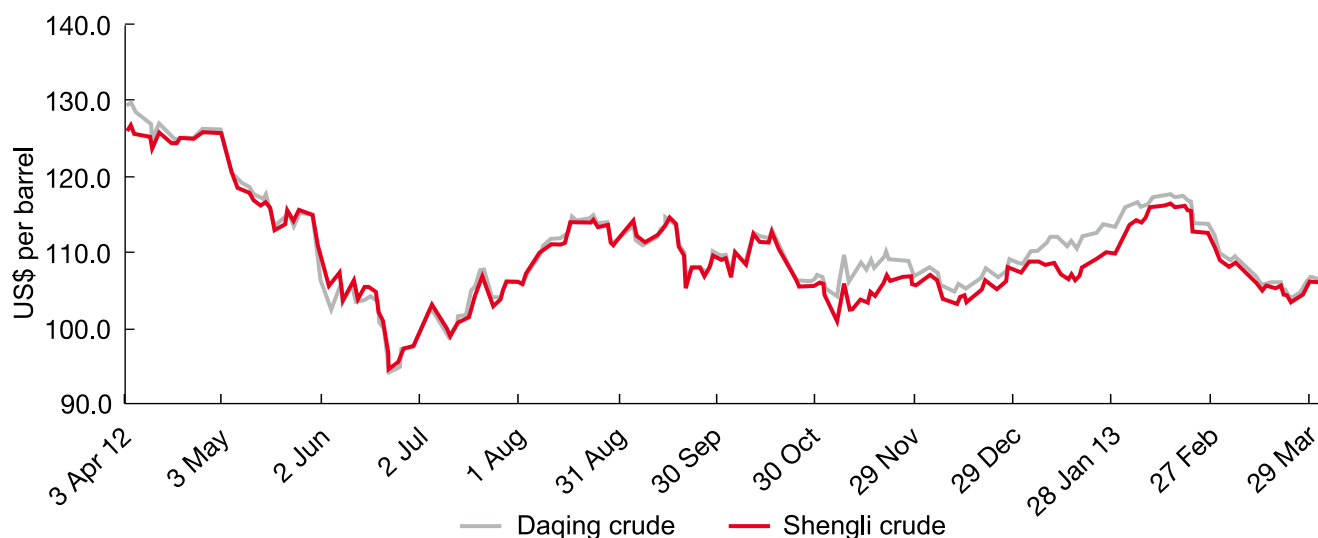
Part Three: Other Costs of Production (Energy, Transportation and Labour) and Exchange Rate

1. China's crude prices have shown a slight rebound since late March

In line with the movement of global crude prices, China's crude prices were on the rise throughout mid-December 2012 to mid-February 2013. Afterwards, the domestic crude prices were on a downward trend till late March.¹⁵ For example, the Daqing¹⁶ crude price dropped from US\$ 117.5 per barrel on 14 February to US\$ 103.6 per barrel on 22 March. Since late March, however, China's crude prices have shown a slight rebound. (See exhibit 21)

Looking ahead, we do not expect global crude prices to go up in the near term, given the weakening global oil demand. In mid-March, the International Energy Agency (IEA) announced to lower its growth forecast for global oil demand in 2013, due to the continued deterioration in the European economy, signs of a potential slowdown in China and the negative impact of the automatic government spending cuts in the US. According to the IEA, the global oil demand is projected to increase by 820,000 barrels a day (or 0.9%) in 2013, down by 20,000 barrels a day from its previous projection made in February.

Exhibit 21: China's crude prices, Apr 2012 - Apr 2013



Source: ifeng.com

2. Wholesale price index of refined oil products dropped again in March

The wholesale price index of refined oil products¹⁷ slid 0.9% mom and 0.3% mom in December and January respectively. The price index then gained 2.4% mom in February. The main reason was that the government raised the maximum retail and wholesale prices of gasoline and diesel on 25 February, in response to the rise in global crude prices. Afterwards, in March, the wholesale price index of refined oil products fell by 0.8% mom. The drop in the fuel prices was attributable to the government action to reduce the maximum retail and wholesale prices of gasoline and diesel on 27 March. (See exhibit 22)

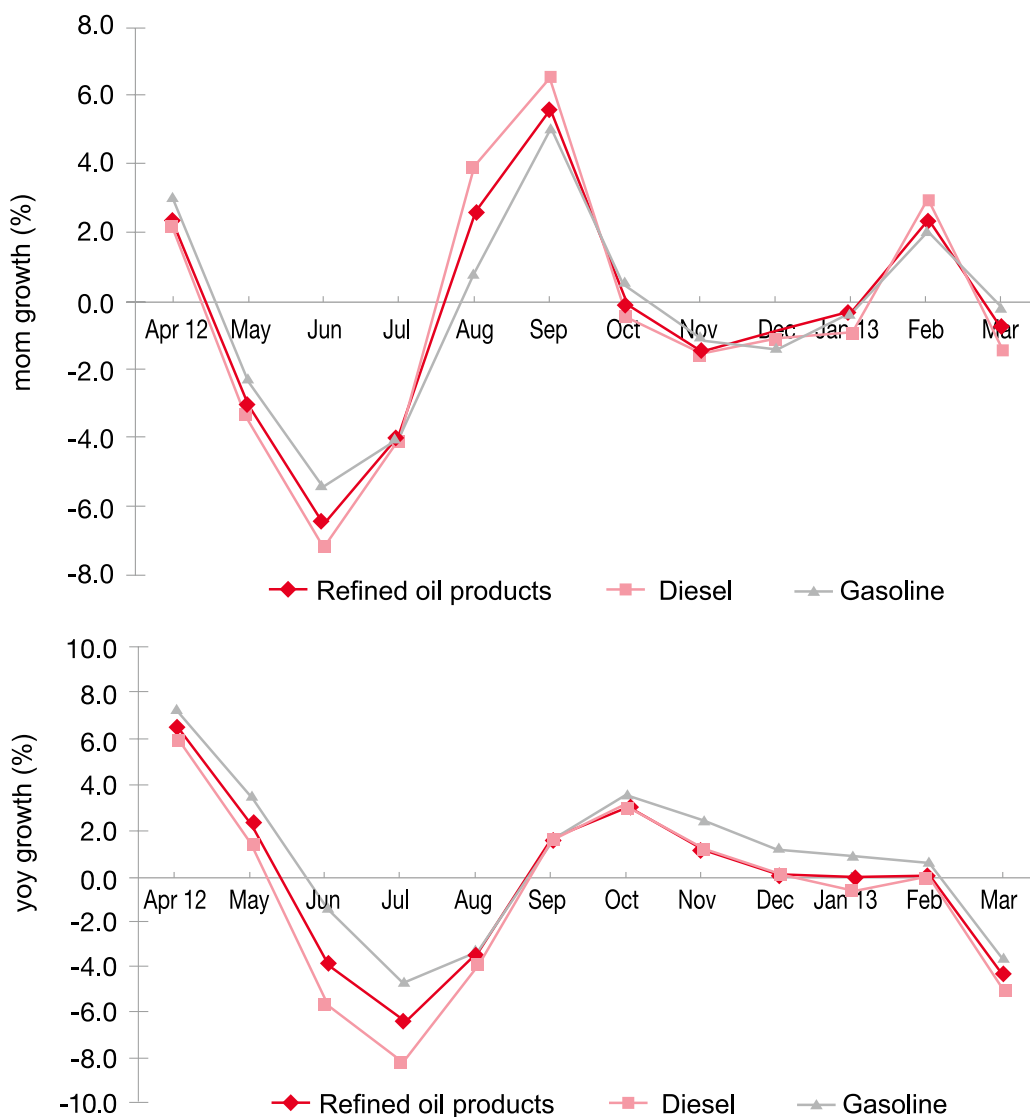
¹⁵ From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

¹⁶ Daqing Field (大庆油田) is the largest oil field in China.

¹⁷ The index is compiled by the China Logistics Information Center (CLIC).

Looking ahead, the future movement of the wholesale prices of refined oil products will depend mainly on the movement of global crude prices. According to the refined oil pricing mechanism, the government officials would adjust the fuel prices based on the changes of a basket of global crude prices. It is noteworthy that the government has revised the refined oil pricing mechanism, effective 26 March 2013. For more details, please see *Part Four: Highlights*.

Exhibit 22: China's wholesale price indices of refined oil products, Apr 2012 - Mar 2013



Source: China Logistics Information Center

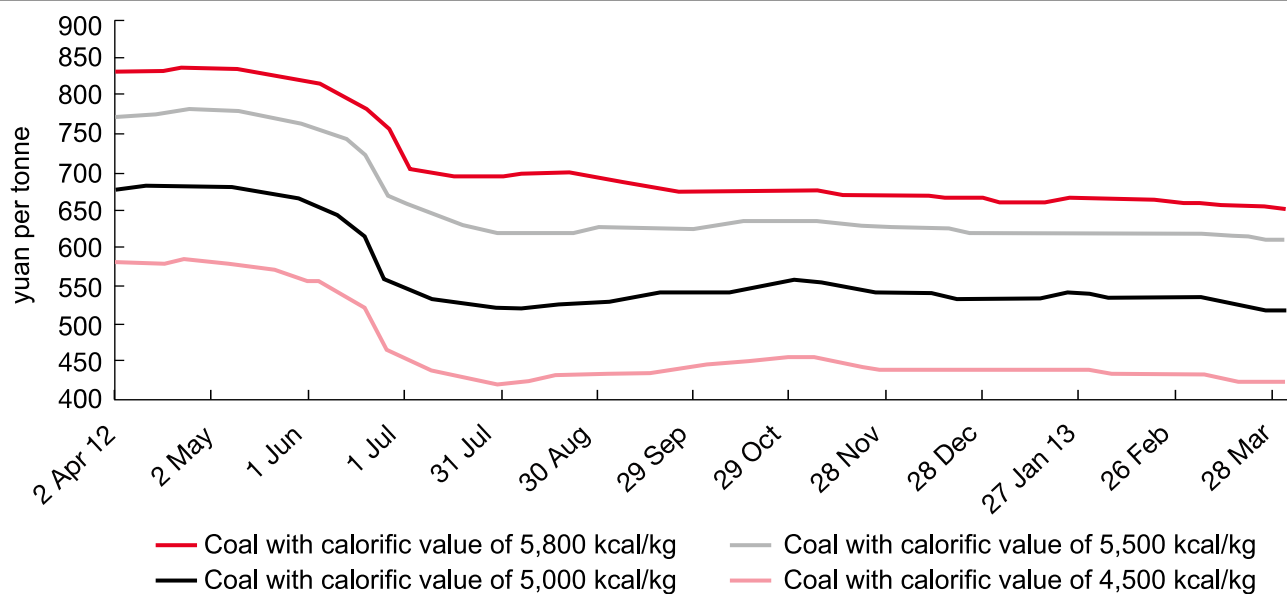
3. The benchmark Qinhuangdao coal prices have trended downward since early February

The benchmark Qinhuangdao coal prices have trended downward since early February. The price of coal with calorific value of 5,000 kcal/kg, for instance, fell to 520 yuan per tonne on 1 April, compared to 540 yuan per tonne on 28 January. (See exhibit 23)

Looking ahead, we expect the domestic coal prices to stay soft in the near term, owing to the sluggish demand from power producers in China as well as the increasing supply of imported coal.



Exhibit 23: Qinhuangdao coal prices, Apr 2012 - Apr 2013



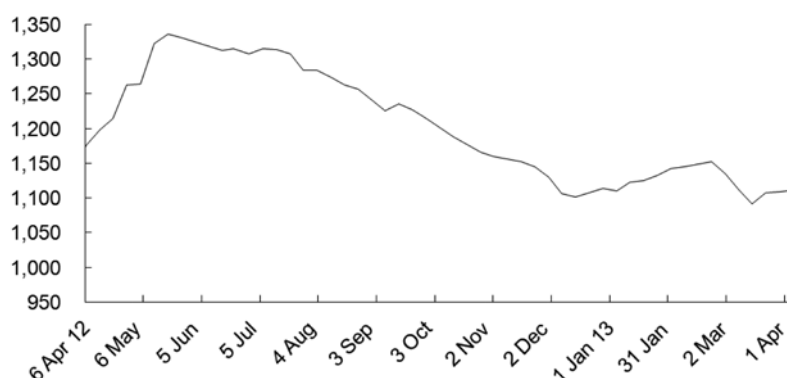
Source: Cqcoal.com

4. The China Containerized Freight Index fell in late February to mid-March

The China Containerized Freight Index (CCFI)¹⁹ rose all the way from 1,101.46 on 14 December to 1,152.47 on 22 February. Nevertheless, amid the weak demand for container transport, the freight index reversed the uptrend in the following weeks, falling all the way to 1,090.92 on 15 March. Since then, the freight index has shown a slight rebound, rising to 1,111.86 on 5 April. (See exhibit 24)

Recently, the demand for container transport has recovered gradually. Meanwhile, according to the local media, the major shipping carriers have continued to increase their active capacity. Going forward, we expect the container freight rates to stay relatively stable in the near term.

Exhibit 24: China Containerized Freight Index, Apr 2012 - Apr 2013



Source: Shanghai Shipping Exchange

¹⁹ The index, compiled by the Shanghai Shipping Exchange, measures the freight rates of eleven freight routes. The destinations of these routes include Hong Kong, Korea, Japan, Southeast Asia, Australia and New Zealand, the Mediterranean, Europe, East and West Africa, America West, America East, South Africa and South America. The freight rates data are collected from the major shipping companies in the market, such as CMA-CGM, COSCO Container Lines, China Shipping Container Lines, Hanjin Shipping, Hapag-Lloyd, Kline, Maersk, MOL, NYK, OOCL, P&O Nedlloyd, PIL, Shanghai Hai Hua Shipping, Shanghai Jin Jiang Shipping, Sinotrans Container Lines, SITC Container Lines, etc.

5. The spot exchange rate of the RMB against the US dollar hit a 19-year high on 15 April

The daily fixing rate (also known as the central parity rate) of the RMB against the US dollar depreciated from 6.2691 on 15 January to the recent low of 6.2898 on 7 February, but then appreciated to 6.2454 on 15 April.¹⁹

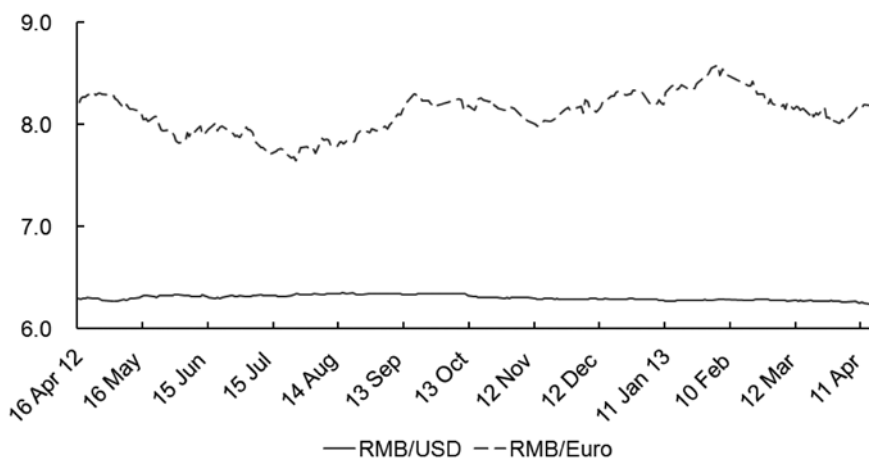
The RMB/USD spot exchange rate, which is allowed to fluctuate within the daily trading band of $\pm 1.0\%$ around the daily fixing rate, has continued to be higher than the daily fixing rate in recent months. For example, the RMB/USD spot exchange rate has stayed between 6.19 and 6.24 since early January (as of 15 April)²⁰; while the daily fixing rate of the RMB against the US dollar has stayed between 6.2454 and 6.2898 since early January (as of 15 April). This suggests that the RMB has been under pressure to appreciate against the US dollar. Also noteworthy is that the RMB/USD spot exchange rate once reached 6.1860 on 15 April, the highest level since China unified the official and swap market exchange rates in January 1994.

On the other hand, the daily fixing rate of the RMB against the Euro appreciated from the recent low of 8.5772 on 4 February to 8.0166 on 1 April, but then depreciated to 8.1837 on 15 April. So far this year, the daily fixing rate of the RMB against the Euro has appreciated by 1.6%. (See exhibit 25)

According to the Bank for International Settlements, the real effective exchange rate (REER) of the RMB has continued its upward trend in recent months, rising all the way from 110.13 in December to 113.72 in February.²¹ Overall, the RMB appreciated by 3.3% in real terms against its trading partners in the first two months of 2013. (See exhibit 26)

In view of the fluctuations in export demand and the frequent changes in the direction of capital flows, we expect the daily fixing rate of the RMB against the US dollar to fluctuate in the near term. That being said, the RMB is still likely to appreciate in the medium to long term, albeit at a slow and gradual pace, against the US dollar.

Exhibit 25: RMB/USD and RMB/Euro (daily fixing rate), Apr 2012 - Apr 2013



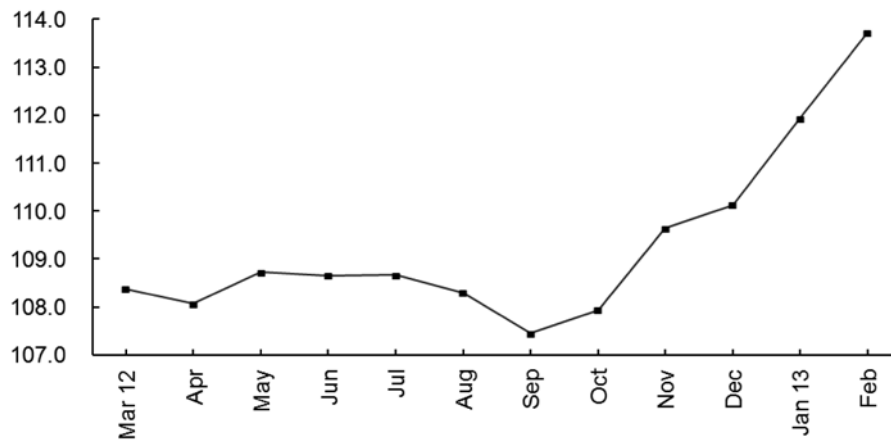
Source: State Administration of Foreign Exchange

¹⁹ The daily fixing rate (also known as the central parity rate) of the RMB against the US dollar is released by the China Foreign Exchange Trade System (CFETS), a sub-institution of the People's Bank of China, at 9:15 am on each working day.

²⁰ <http://www.bloomberg.com/quote/USDCNY:CUR>

²¹ The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual euro area countries and, separately, the euro area as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real EERs are the same weighted averages of bilateral exchange rates adjusted by relative consumer prices. The weighting pattern is time-varying, and the most recent weights are based on trade in 2008-10.

Exhibit 26: RMB REER, Mar 2012 - Feb 2013



Source: Bank for International Settlements

Part Four: Highlights

1. The minimum wage levels in several provinces were adjusted upward in recent months

In recent months, the minimum wage levels in some provinces/ municipalities such as Guangdong, Shandong, Jiangxi, etc. were adjusted upward. See below for more details:

Guizhou province

On 1 January 2013, the minimum wage levels in various regions within Guizhou province were raised to 1,030 yuan, 950 yuan and 850 yuan.²²

Guangxi Zhuang autonomous region

On 1 February 2013, the minimum wage levels in various districts within the Guangxi Zhuang autonomous region were adjusted upward to 1,200 yuan, 1,045 yuan, 936 yuan and 830 yuan.²³

Shenzhen

On 1 March 2013, the minimum monthly wage in Shenzhen was raised to 1,600 yuan, up from the previous level of 1,500 yuan.²⁴

Shandong province

On 1 March 2013, the minimum wage levels in various districts within Shandong province were increased to 1,380 yuan, 1,220 yuan and 1,080 yuan, up by 12% on average.²⁵

Jiangxi province

On 1 April 2013, the minimum wage levels in various districts within Jiangxi province were increased to 1,230 yuan, 1,150 yuan, 1,070 yuan and 980 yuan.²⁶

Gansu province

On 1 April 2013, the minimum wage levels in various districts within Gansu province were increased to 1,200 yuan, 1,140 yuan, 1,080 yuan and 1,020 yuan, up from the previous levels of 980 yuan, 940 yuan, 900 yuan and 860 respectively.²⁷

Guangdong province

On 4 February 2013, the Guangdong provincial government announced to raise the levels of minimum monthly wage in its jurisdiction, effective on 1 May 2013.²⁸ After the adjustment, the minimum wage in Guangzhou (the 'class 1 district') will be increased to 1,550 yuan; the minimum wage levels in the 'class 2 districts', including Zhuhai, Foshan,

22 <http://gz.hrss.gov.cn/web/865256277431812096/20130131/2251416.html>

23 http://www.gx.lss.gov.cn/127/2013_2_27/127_22962_1361956295333.html

24 http://big5.xinhuanet.com/gate/big5/www.cs.com.cn/xwzx/hg/201302/t20130221_3868149.html

25 http://www.gov.cn/fwxx/sh/2013-03/01/content_2342851.htm

26 http://www.chinajob.gov.cn/LabourRelations/content/2013-03/22/content_795246.htm

27 http://big5.gov.cn/gate/big5/www.gov.cn/gzdt/2013-03/26/content_2362388.htm

28 http://zwgk.gd.gov.cn/006939748/201302/t20130205_365944.html

Dongguan and Zhongshan, will be raised to 1,310 yuan; the minimum wage levels in the 'class 3 districts', including Shantou, Huizhou, Jiangmen and Zhaoqing, will be increased to 1,130 yuan; and the minimum wage levels in the 'class 4 districts' such as Shaoguan, Heyuan, Meizhou, etc. will be raised to 1,010 yuan.

It is noteworthy that the Chinese government plans to continue to increase the minimum wage levels in coming years. According to the 12th Five-year Plan, the minimum wage levels in China are targeted to increase by at least 13% per annum during 2011-2015. Besides, according to the '*opinions on deepening reform of the income distribution system*' approved by the State Council on 5 February, the government targets to increase the minimum wage levels in most regions of China to at least 40% of the average wages in the respective regions by 2015. We therefore expect that the local governments in many provinces will raise the minimum wages this year.

2. The Chinese government adjusted the fuel prices on 25 February and on 27 March

To reflect the movement in global crude prices between mid-November 2012 and late February 2013, the Chinese government raised the maximum retail prices of gasoline and diesel by 3.2%-3.8% on 25 February 2013. Afterwards, on 27 March, the government reduced the maximum retail prices of gasoline and diesel by 3.2%-3.8%, due to the recent drop in the global crude prices. The fluctuation in fuel prices would cause changes in transportation costs, as well as energy costs for manufacturers who run their own electrical generators in China.

3. China's government revised its refined oil pricing mechanism in late March

On 26 March 2013, the Chinese government revised its refined oil pricing mechanism.²⁹ According to the newly revised pricing mechanism of refined oil, the fuel prices would be adjusted every 10 working days, based on the change in a basket of global crude prices. If the computed amount of fuel price adjustment is less than 50 yuan per tonne, no adjustment will be made, and the adjustment amount will be accumulated for the next round of adjustment.

We expect that the revision in the pricing mechanism would lead to more frequent change in China's fuel prices, as the adjustment interval was shortened from 22 working days to 10 working days and the 4% threshold for the change in a basket of global crude prices was removed. Under the previous refined oil pricing mechanism, the government officials would consider adjusting the fuel prices when the 22-day moving average of a basket of global crude prices changed by more than 4%.

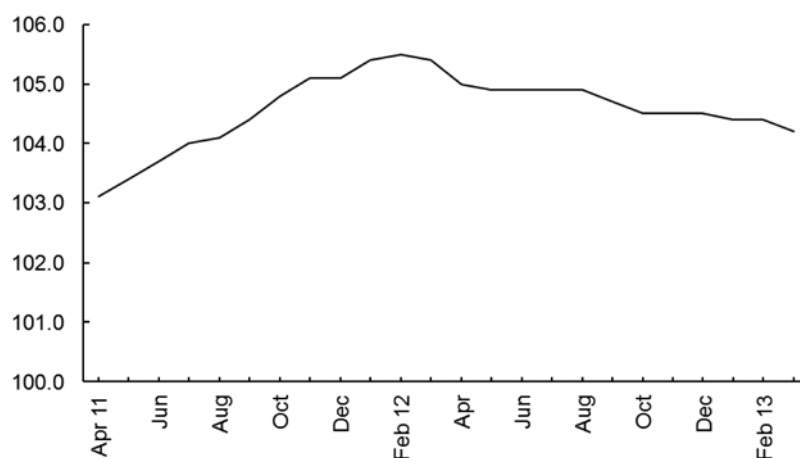
4. The price index for US imports from China fell further in March

According to the US Department of Labour, the price index for US imports from China edged down from 104.5 in December to 104.4 in January and in February, before falling further to 104.2 in March. Compared with the same month of the previous year, the index dropped by 1.2 points in March 2013.

Looking ahead, we expect the price index to stay stable or trend slightly upward in the near term, given the recent rise in ex-factory prices of Chinese products in RMB terms. (See exhibit 27)

²⁹ http://www.ndrc.gov.cn/zcfb/zcfbtz/2013tz/t20130326_534068.htm

Exhibit 27: Price index for US imports from China, Apr 2011 - Mar 2013



Source: US Department of Labour

5. China's export growth accelerated in 1Q13

In 1Q13, China's exports amounted to US\$ 508.9 billion, an increase of 18.4% yoy compared to the same quarter last year. The acceleration in export growth from 9.4% yoy in 4Q12 indicates a big improvement in export demand. However, some market observers suspect that the export figure recorded in 1Q13 was distorted upward by hot money inflow, as exporters might have overstated their export figures in order to channel capital into China. (See exhibits 28, 29 and 30)

In the first three months of 2013, China's exports to several emerging economies recorded strong growth. Growth of China's exports to the Association of South East Asian Nations (ASEAN) soared to 28.0% yoy in 1Q13, up from the 20.1% yoy growth recorded in 2012. Meanwhile, China's export growth to Russia and South Africa registered 19.6% yoy and 35.5% yoy respectively in 1Q13. In comparison, China's exports to the European Union (EU) and the US showed weak growth. China's exports to the EU and the US rose slightly by 1.1% yoy and 6.8% yoy respectively in 1Q13. China's exports to Japan even fell by 3.6% yoy during the same period.

China's trade surplus fell sharply from US\$ 83.0 billion in 4Q12 to US\$ 43.1 billion in 1Q13, due largely to the seasonal drop in the total export value.

Exhibit 31 plots the new export orders sub-index of China's manufacturing PMI against the yoy growth rates of China's exports. The correlation between the two is fairly high, with the new export orders sub-index leading the export yoy growth rate by about 3 months. As the new export orders sub-index rebounded strongly and rose above 50 in March, we have become relatively optimistic over China's export outlook. Overall, we expect China's export growth to stay robust at around 13-18% yoy in 2Q13. It is also noteworthy that China has been diversifying its export markets; exports to the ASEAN and the BRIC economies will become an increasingly important driver of China's export growth.

Exhibit 28: China's quarterly foreign trade data, 2Q12 - 1Q13

USD billion (yoy growth)	Exports		Imports		Trade Balance
FY12	2,048.8	(7.9%)	1,818.1	(4.3%)	230.8
2Q12	523.9	(10.4%)	455.6	(6.4%)	68.3
3Q12	540.9	(4.4%)	461.8	(1.4%)	79.1
4Q12	554.0	(9.4%)	471.0	(2.8%)	83.0
1Q13	508.9	(18.4%)	465.8	(8.4%)	43.1

Source: China Customs

Exhibit 29: China's monthly foreign trade data, Apr 2012 - Mar 2013

USD billion (yoy growth)	Exports		Imports		Trade Balance
Apr 12	163.1	(4.8%)	144.6	(0.2%)	18.5
May	181.0	(15.3%)	162.9	(13.0%)	18.1
Jun	179.8	(11.1%)	148.2	(6.1%)	31.6
Jul	176.9	(1.0%)	151.6	(4.6%)	25.3
Aug	177.9	(2.7%)	151.5	(-2.5%)	26.4
Sep	186.1	(9.8%)	158.7	(2.4%)	27.4
Oct	175.5	(11.6%)	143.4	(2.3%)	32.1
Nov	179.4	(2.9%)	159.8	(0.0%)	19.6
Dec	199.1	(14.1%)	167.8	(6.0%)	31.3
Jan 13	187.4	(25.0%)	158.5	(29.0%)	28.9
Feb	139.4	(21.8%)	124.1	(-15.2%)	15.3
Mar	182.2	(10.0%)	183.1	(14.1%)	-0.9

Source: China Customs

Exhibit 30: Growth rates of exports and imports, Apr 2011 - Mar 2013

Source: China Customs

Exhibit 31: New export orders index and export growth, Apr 2008 - Mar 2013



Source: China Customs, China Federation of Logistics & Purchasing, China National Bureau of Statistics



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