

IN THIS ISSUE :

Part One :	1
Major Price Indicators	
Part Two:	3
Raw Material Prices	
Part Three:	11
Other Costs of Production (Energy, Transportation and Labour) and Exchange Rate	
Part Four:	16
Highlights	

Part One: Major Price Indicators

1. China's CPI growth has rebounded in recent months

After falling to a 33-month low in October, the year-on-year (yoy) growth rate of China's consumer price index (CPI)¹ rebounded to 2.0% yoy in November and further to 2.5% yoy in December, the highest level in seven months. (See exhibits 1 & 2)

On a month-on-month (mom) basis, China's CPI growth has also rebounded lately. After falling to -0.1% mom in October, the CPI growth rose to 0.1% mom in November, and then picked up to 0.8% mom in December.

The rise in the CPI growth in November and December was mainly driven by the increase in food prices. The CPI of the food component gained 0.4% mom in November, and then rose sharply by 2.4% mom in December. In contrast, the CPI of the non-food component stayed stable in November and in December.

Looking forward, we forecast the CPI growth to stay relatively high at 2.5-3.0% yoy in 1H13, given the lower comparison base of the previous year.

Exhibit 1: China's CPI growth, Jan 2011 - Dec 2012

Jan 12	4.5%
Feb	3.2%
Mar	3.6%
Apr	3.4%
May	3.0%
Jun	2.2%
Jul	1.8%
Aug	2.0%
Sep	1.9%
Oct	1.7%
Nov	2.0%
Dec	2.5%



Source: National Bureau of Statistics, PRC

Helen Chin, Timothy Cheung
 Tel: (852) 2300 2471
 helenchin@fung1937.com
 timothycheung@fung1937.com

The Fung Business Intelligence Centre

10/F, LiFung Tower,
 888 Cheung Sha Wan Road,
 Hong Kong
 Tel : (852) 2300 2470
 Fax : (852) 2635 1598
 E-mail: lfdc@lf1937.com
 http://www.funggroup.com

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.



Exhibit 2: China's CPI growth by selected commodity, Jul - Dec 2012

yoy growth (%)	Jul	Aug	Sep	Oct	Nov	Dec
Clothing	3.3	3.1	3.4	2.7	2.3	1.9
Household services, maintenance and renovation	1.9	1.8	1.6	1.5	1.5	1.7
Recreational, educational products & services	0.4	0.4	1.0	1.1	0.9	1.1

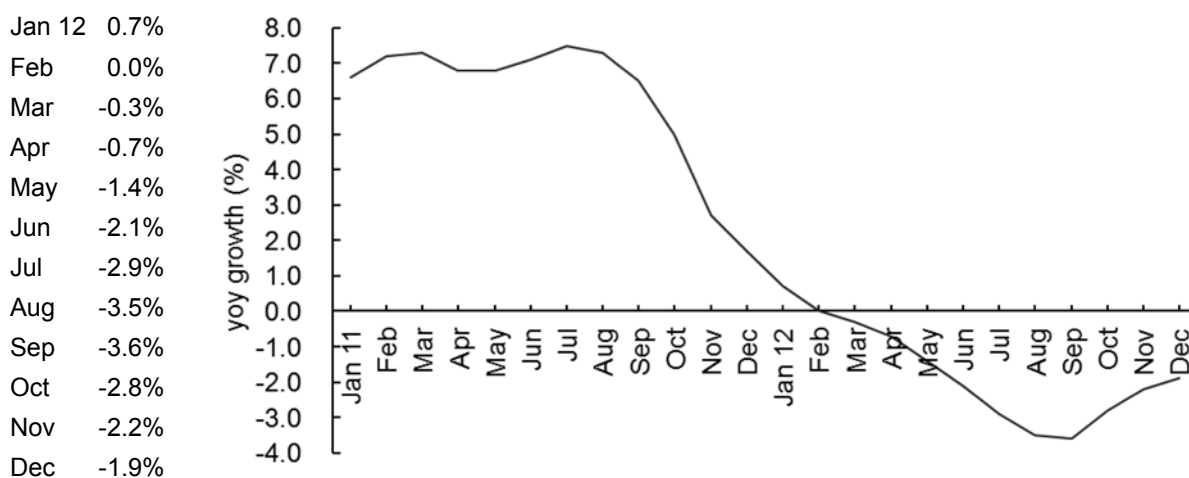
Source: National Bureau of Statistics, PRC

2. China's ex-factory prices of industrial products have been fluctuating

The yoy growth rate of China's producer price index of industrial products (PPI)² bottomed at -3.6% yoy in September, and then rose all the way to -1.9% yoy in December. However, on a mom basis, after declining by 0.1% mom in September, the PPI rose by 0.2% mom in October, but then fell again by 0.1% mom in November and in December. These figures indicate the fluctuations in China's ex-factory prices of industrial products in recent months. (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 1H12.

Exhibit 3: China's PPI growth, Jan 2011 - Dec 2012



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, Jun - Nov 2012

yoy growth (%)	Jun	Jul	Aug	Sep	Oct	Nov
Textile industry	-4.3	-4.1	-3.1	-2.8	-2.7	-2.1
Textile, clothing and footwear production	2.3	2.2	1.8	1.9	1.9	1.8
Leather, furs, down and related products	2.4	2.1	1.8	1.6	1.5	1.6
Timber processing & wood, bamboo, cane, palm fiber and straw products	2.3	2.1	1.8	1.6	1.7	1.7

Source: National Bureau of Statistics, PRC

² 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.

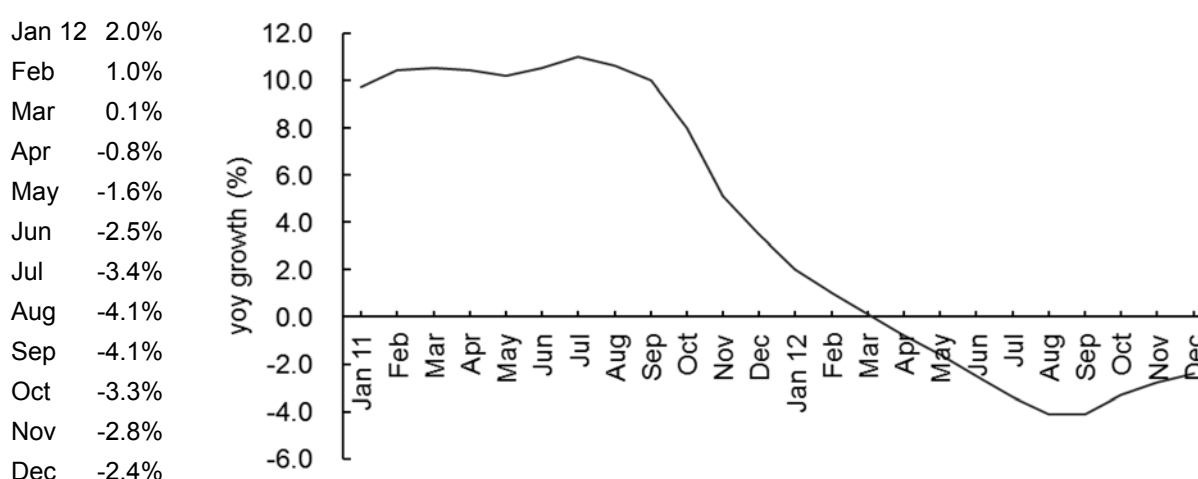
Part Two: Raw Material Prices

1. Domestic prices of production inputs fell in November and December

The yoy growth rate of the purchaser price index of industrial products³ rose all the way from -4.1% yoy in September to -2.4% yoy in December. Nevertheless, on a mom basis, the purchaser price index fell by 0.2% mom and 0.1% mom in November and December respectively, indicating the drop in domestic prices of production inputs. (See exhibits 5 & 6)

It is noteworthy that the input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, has stayed above the neutral level of 50 for four consecutive months. The index reading suggests that domestic prices of production inputs are likely to trend upward again in coming months.

Exhibit 5: The purchaser price index of industrial products, Jan 2011 - Dec 2012 (% yoy growth)



Source: National Bureau of Statistics, PRC

Exhibit 6: The purchaser price index of industrial products by selected commodity, Jul - Dec 2012

yoy growth (%)	Jul	Aug	Sep	Oct	Nov	Dec
Fuel & power	-1.7	-2.6	-1.8	-1.5	-1.6	-2.5
Non-ferrous metals	-9.1	-9.9	-8.3	-3.1	-3.9	-2.5
Raw materials for the chemical industry	-6.0	-6.5	-6.5	-5.7	-4.5	-3.7
Timber and paper pulp	-0.1	-0.9	-1.0	-1.3	-1.1	-
Textile raw materials	-1.8	-1.4	-2.3	-2.2	-1.8	-

Source: National Bureau of Statistics, PRC

³ 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.

(i) Purchaser price index of fuel & power

The growth rate of the purchaser price index of fuel & power rose all the way from -2.6% yoy in August to -1.5% yoy in October, but dropped again to -1.6% yoy in November and -2.5% yoy in December. (See exhibit 6)

(ii) Purchaser price index of non-ferrous metals

The purchaser price index of non-ferrous metals posted slighter drop in the recent months, down by 9.9% yoy, 8.3% yoy, 3.1% yoy, 3.9% yoy and 2.5% yoy in August, September, October, November and December respectively. (See exhibit 6)

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

The growth rate of the purchaser price index of raw materials for the chemical industry improved from -6.5% yoy in September to -5.7% yoy in October, and further went up to -4.5% yoy in November and -3.7% yoy in December. (See exhibit 6)

(iv) Purchaser price index of timber and paper pulp

The purchaser price index of timber and paper pulp has continued to record yoy decline in recent months, down by 1.0% yoy, 1.3% yoy and 1.1% yoy in September, October and November respectively. (See exhibit 6)

(v) Purchaser price index of textile raw materials

The purchaser price index of textile raw materials posted negative growth of -2.3% yoy, -2.2% yoy and -1.8% yoy in September, October and November respectively. (See exhibit 6)

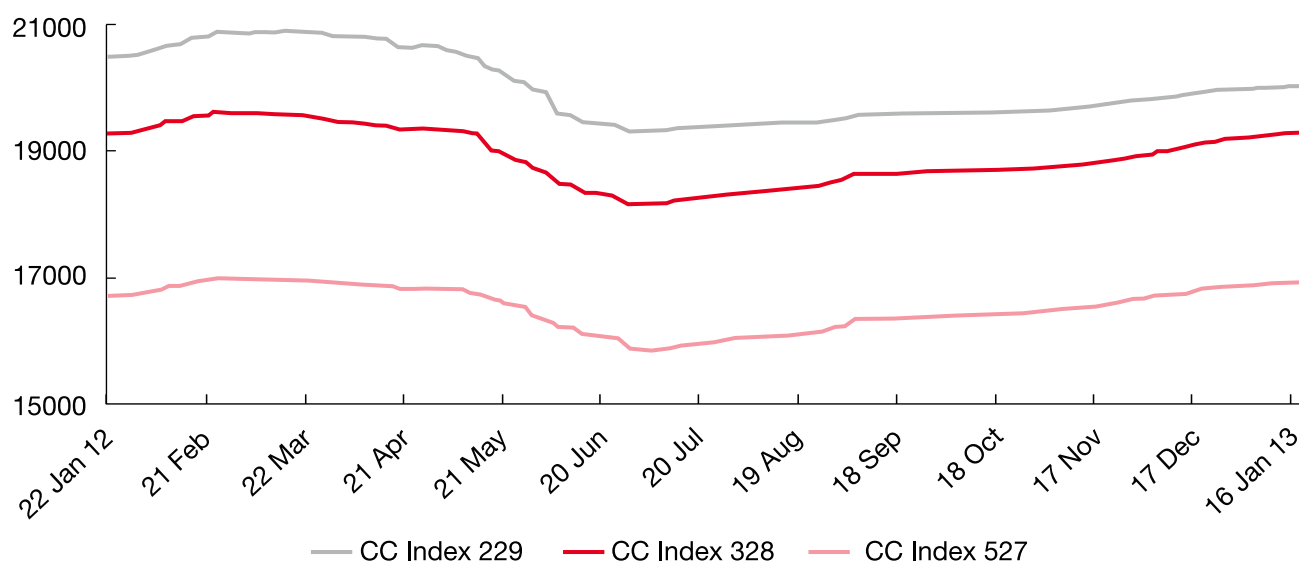
2. China's cotton price indices have maintained a slight upward trend

China's cotton price indices⁴ have continued to trend slightly upward in the past few months. The CC Index 328, for example, rose from 18,639 on 18 September to 19,286 on 21 January. (See exhibit 7)

It is noteworthy that the Chinese government has implemented the stockpiling scheme again since early September 2012, which has in turn supported the domestic cotton prices.⁵ Indeed, the Chinese government has been the major buyer of the domestic cotton in recent months. Discouraged by the high cotton prices, the demand from downstream manufacturers in China has remained weak. Nevertheless, the government has started to sell the state stockpiles of cotton since 14 January. In our view, such a measure is likely to bring down the prices of domestic cotton in the coming future.

⁴ The indices, compiled by the China Cotton Association, track cotton prices quoted from two hundred textile enterprises. <http://www.china-cotton.org/>

⁵ According to the scheme, the government will buy cotton for its state reserve, if the market prices of cotton drop below the specific levels set by the policymakers. The Chinese government last implemented the stockpiling scheme throughout September 2011 to March 2012.

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

Source: China Cotton Association

3. The Nanjing Wool Market Composite Index has rebounded since October

The Nanjing Wool Market Composite Index⁶, one of the major wool price indices in China, fell all the way from 74.66 yuan per kg at end-July to 69.86 yuan per kg at end-September. Afterwards, in October, the trend reversed. The wool price index rose to 70.32 yuan per kg at end-October and 72.01 yuan per kg at end-November, driven by the rise in prices of wool imported from Australia and the improvement in domestic demand. (See exhibit 8)

According to the local media, the demand for wool from the Far Eastern countries has increased lately. Looking forward, we expect wool prices to trend further upward in the near term.

Exhibit 8: Nanjing Wool Market Composite Index, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Month-end index (yuan/kg)	80.10	82.30	86.20	84.68	81.52	78.20	75.15	74.66	71.05	69.86	70.32	72.01

Source: The Nanjing Wool Market

4. Price indices of polyester showed a rebound between early December and early January

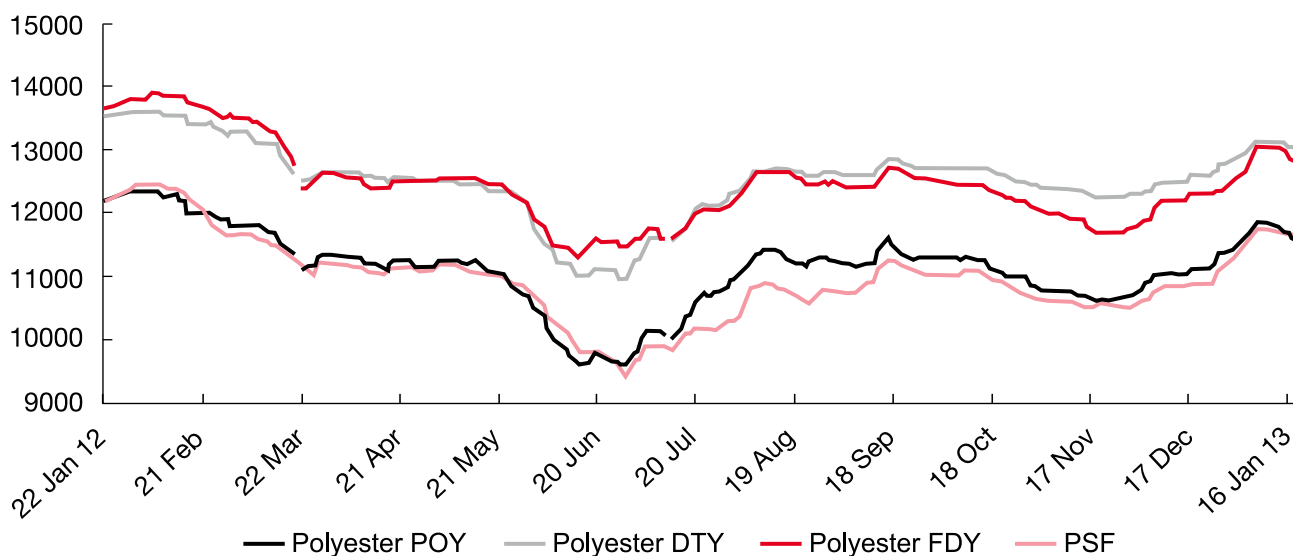
The price indices of polyester⁷ trended downward throughout mid-September to late November, due largely to the drop in upstream prices and the weakening downstream demand. The price index of polyester POY, for example, went down from 11,600 on 17 September to 10,625 on 23 November. Afterwards, owing to the rise in upstream prices and low stockpiles of polyester, the price indices of polyester showed a rebound between early December and early January. However, since mid-January, the polyester prices have started to fall. (See exhibit 9)

According to the local media, the domestic demand for polyester has been soft lately. We expect the polyester prices to trend slightly downward in the near term.

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, Jan 2012 - Jan 2013



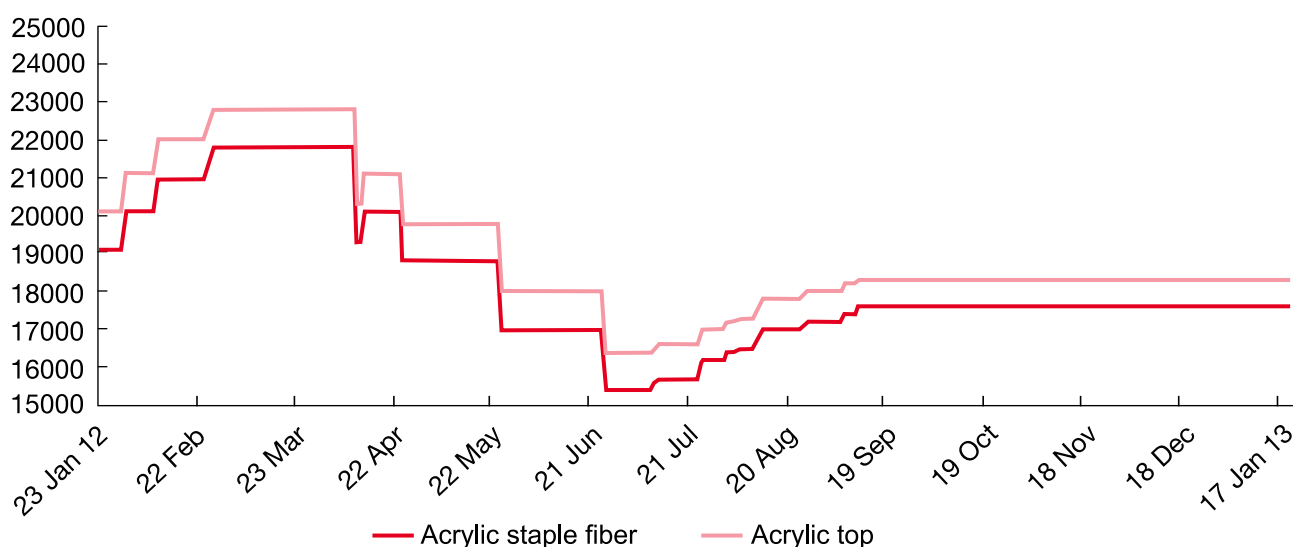
Source: China Chemical & Fiber Economic Information Network

5. Price index of acrylic staple fiber has stayed flat in recent months

The price index of acrylic staple fiber⁸ has stabilized at 17,600 since mid-September. According to the local media, the downstream demand for acrylic staple fiber has remained weak. Nevertheless, against the backdrop of low stockpiles of acrylic staple fiber, domestic producers have been able to maintain the prices of their products. (See exhibit 10)

Looking ahead, we expect the prices of acrylic staple fiber to remain stable in the near term, unless downstream demand improves significantly.

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



Source: China Chemical & Fiber Economic Information Network

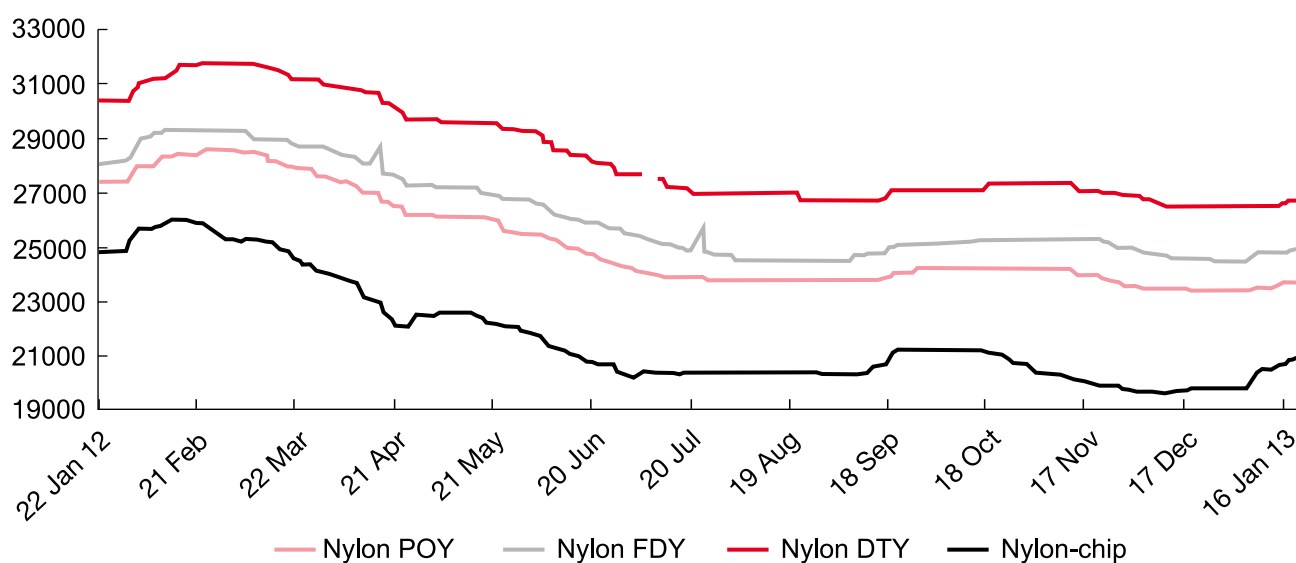
⁸ The index is compiled by the China Chemical & Fiber Economic Information Network (CCFEI).

6. Price indices of nylon have edged up since early January

The price indices of nylon⁹ plateaued throughout mid-September to mid-November, and then trended downward until mid-December. The drop in nylon prices was mainly associated with the fall in prices of caprolactam, one of the major materials of nylon, as well as the sluggish downstream demand. Afterwards, the price indices of nylon stayed flat in the following weeks, and have edged up since early January. (See exhibit 11)

Going forward, it is unlikely that nylon prices will show a strong rebound in the near term, amid the weak downstream demand.

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



Source: China Chemical & Fiber Economic Information Network

7. Price index of viscose staple fiber has risen since late December

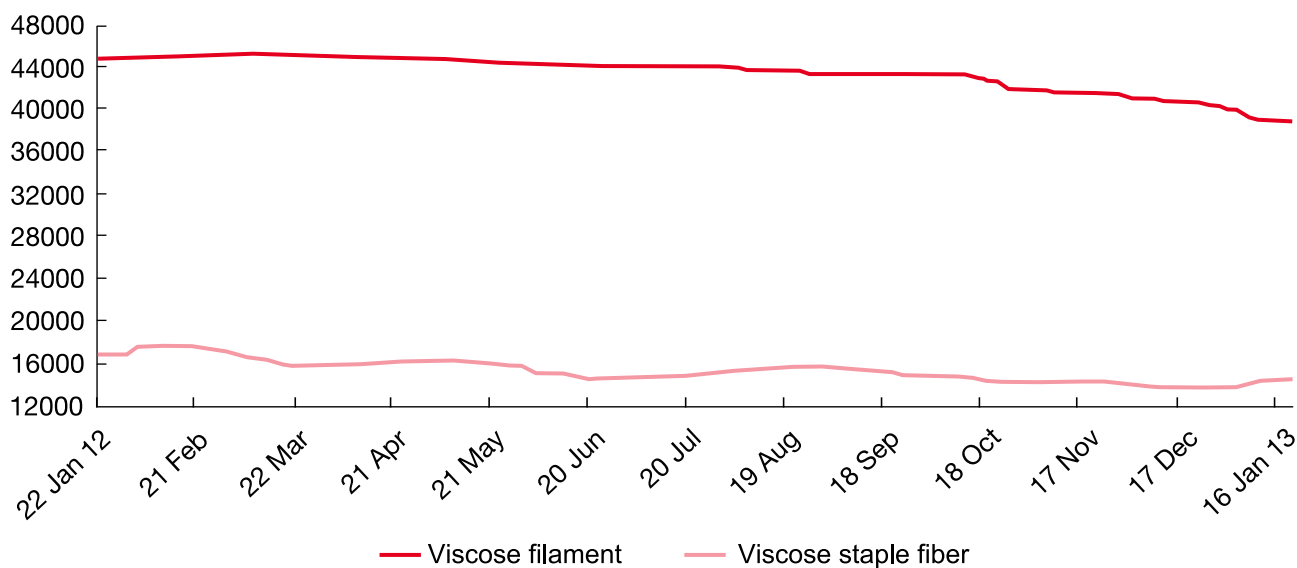
Due largely to the sluggish demand, the price index of viscose staple fiber¹⁰ was generally on a downward trend throughout late August to mid-December. The price index fell from 15,700 on 29 August to 13,600 on 13 December, where it bottomed out. Afterwards, the index rose all the way to 14,450 on 21 January, boosted by restocking demand by textile manufacturers. (See exhibit 12)

Looking ahead, we expect that the prices of viscose staple fiber will peak soon, as restocking activities are likely to be short-lived.

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

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

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



Source: China Chemical & Fiber Economic Information Network

8. Price index of ABS resin fell in November

The price index of ABS resin¹¹ gained 1.7% mom and 0.3% mom in September and October respectively, as many domestic petrochemical enterprises raised their ex-factory prices of ABS resin. Afterwards, in November, the price index fell by 3.4% mom, largely due to the sharp drop in prices of acrylonitrile and butadiene, the major raw materials of ABS resin. Meanwhile, the downstream demand for ABS resin has remained weak. (See exhibit 13)

Looking ahead, we predict that prices of ABS resin will rebound in the near term, driven by the recent increase in prices of crude. (Acrylonitrile and butadiene are derived from petroleum.)

Exhibit 13: Price index of ABS resin, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
ABS resin												
(mom growth %)	-1.9	1.3	5.5	2.0	-0.3	-1.8	-4.0	0.5	0.5	1.7	0.3	-3.4
ABS resin												
(yoy growth %)	-15.3	-14.6	-10.8	-11.3	-10.0	-9.8	-8.3	-9.5	-11.5	-7.4	-1.3	-0.9

Source: China Federation of Logistics & Purchasing

9. Price index of PP dropped in October and November

The price index of polypropylene (PP)¹² gained 1.7% mom in September, but then dropped by 0.9% mom in October and in November. According to the local media, in response to poor downstream demand, some petrochemical enterprises have cut prices of their products in recent months. (See exhibit 14)

Looking ahead, PP prices are likely to start rising in the near term, owing to the recent rebound in prices of crude, a major raw material of PP.

¹¹ The index is compiled by 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 Federation of Logistics & Purchasing (CFLP).



Exhibit 14: Price index of PP, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
PP												
(mom growth %)	-4.7	1.2	1.3	2.5	2.4	-1.8	-1.3	-0.2	0.8	1.7	-0.9	-0.9
PP												
(yoy growth %)	-8.0	-9.3	-8.5	-8.4	-7.0	-8.9	-6.7	-8.0	-6.7	-3.5	-2.5	-2.4

Source: China Federation of Logistics & Purchasing

10. Price index of natural rubber fluctuated in a wide range in recent months

The price index of natural rubber¹³ fluctuated in a wide range in recent months. After falling by 3.2% mom in September, the price index of natural rubber rebounded strongly by 6.3% mom in October. In our view, the rise in natural rubber prices in October was highly associated with the reduction of exports of natural rubber from Thailand, Indonesia and Malaysia, the world's major rubber producing countries. However, in November, the price index of natural rubber dropped by 3.5% mom again. (See exhibit 15)

Looking ahead, as harvest activities in major rubber producing regions in China decrease every December to April, the supply of natural rubber will become tighter in the coming months, which would in turn support natural rubber prices. We therefore expect the domestic prices of natural rubber to stabilize soon.

Exhibit 15: Price index of natural rubber, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Natural rubber												
(mom growth %)	0.9	-0.4	5.6	3.2	-1.3	-5.6	-9.7	0.5	-5.0	-3.2	6.3	-3.5
Natural rubber												
(yoy growth %)	-19.9	-27.6	-29.5	-22.9	-24.6	-25.2	-30.9	-27.5	-28.3	-28.1	-16.2	-12.9

Source: China Federation of Logistics & Purchasing

11. Prices of various types of non-ferrous metals have declined in recent months

The price indices of several types of non-ferrous metals rose markedly in September.¹⁴ For example, the price index of copper and zinc gained 5.6% mom and 3.9% mom respectively in the month. In the following months, however, the price indices of various types of non-ferrous metals fell again. The price index of zinc, for instance, declined by 0.8% mom and 2.2% mom in October and November respectively. (Exhibits 16, 17, 18, 19 & 20)

Looking ahead, we expect the prices of non-ferrous metals to rebound in the near term, boosted by the recent improvement in domestic demand.

¹³ The index is compiled by the China Federation of Logistics & Purchasing (CFLP).

¹⁴ The indices are compiled by the China Federation of Logistics & Purchasing (CFLP).

China Sourcing Quarterly

Exhibit 16: Price index of non-ferrous metals, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Non-ferrous metals												
(mom growth %)	-2.0	0.1	2.9	-0.4	-1.5	-0.9	-2.6	-0.6	-1.2	3.3	-0.1	-2.8
Non-ferrous metals												
(yoy growth %)	-8.9	-11.6	-11.7	-10.6	-12.1	-10.6	-13.8	-17.0	-16.5	-9.5	-2.6	-5.9

Source: China Federation of Logistics & Purchasing

Exhibit 17: Price index of copper, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Copper												
(mom growth %)	-2.7	0.7	4.7	0.2	-3.2	-1.2	-3.8	1.2	-0.9	5.6	0.6	-4.3
Copper												
(yoy growth %)	-15.2	-18.5	-17.7	-15.7	-19.0	-16.5	-20.0	-21.8	-19.0	-7.8	4.9	-3.6

Source: China Federation of Logistics & Purchasing

Exhibit 18: Price index of aluminum, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Aluminum												
(mom growth %)	-0.2	-0.1	-0.8	0.1	0.1	0.2	-1.5	-1.7	-1.3	0.5	-0.8	-1.3
Aluminum												
(yoy growth %)	-0.7	-2.9	-4.7	-3.5	-3.9	-3.4	-7.6	-11.9	-14.6	-11.7	-8.1	-6.7

Source: China Federation of Logistics & Purchasing

Exhibit 19: Price index of lead, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Lead												
(mom growth %)	0.0	-0.3	3.7	-0.8	-1.3	-1.1	-2.9	-0.4	0.4	3.2	0.2	-3.5
Lead												
(yoy growth %)	-10.8	-11.8	-8.4	-9.7	-10.2	-5.4	-7.7	-11.4	-8.7	-1.3	4.2	-3.1

Source: China Federation of Logistics & Purchasing

Exhibit 20: Price index of zinc, Dec 2011 - Nov 2012

	Dec 11	Jan 12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Zinc												
(mom growth %)	-2.5	-1.9	5.4	-0.4	-1.4	-1.3	-2.6	-0.2	-0.6	3.9	-0.8	-2.2
Zinc												
(yoy growth %)	-16.0	-19.9	-16.6	-12.7	-13.0	-9.4	-14.3	-17.6	-13.5	-5.5	0.5	-4.9

Source: China Federation of Logistics & Purchasing

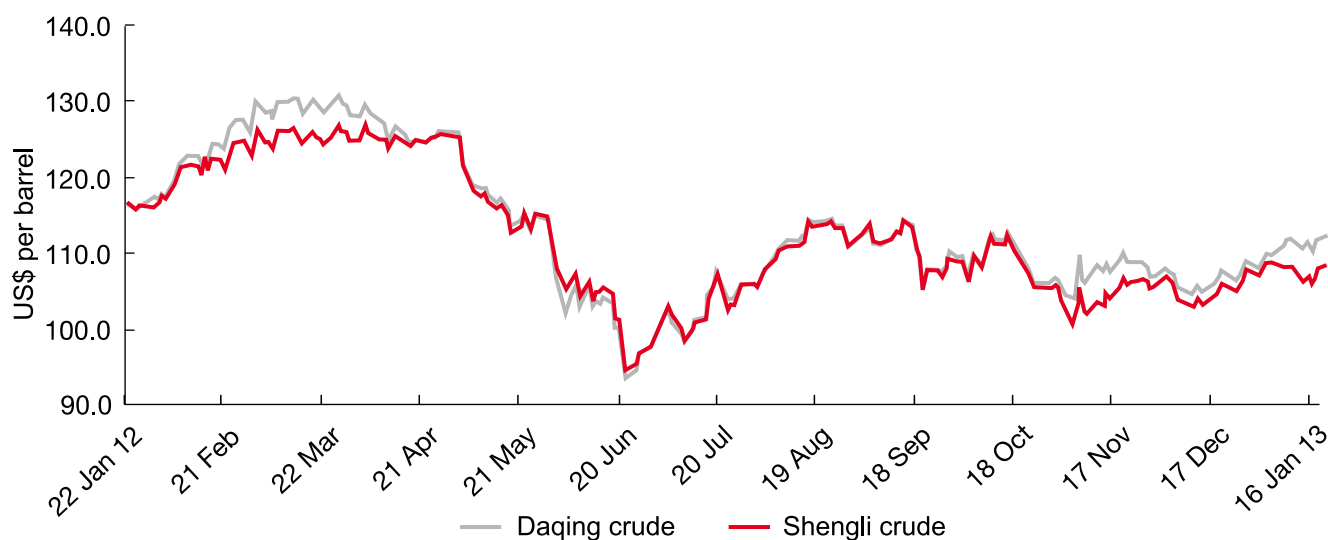
Part Three: Other Costs of Production (Energy, Transportation and Labour) and Exchange Rate

1. China's crude prices have continued to fluctuate in recent months

In line with the movement of global crude prices, China's crude prices have continued to fluctuate in recent months.¹⁵ For example, the Daqing¹⁶ crude price fluctuated within the range of US\$ 103.9-113.7 per barrel throughout 17 September to 21 January. (See exhibit 21)

Looking ahead, we expect that the future movements of the crude prices will depend mainly on the global crude oil supply and the world economic situations. It is noteworthy that, in mid-December 2012, the Organization of the Petroleum Exporting Countries (OPEC), whose members supply about 40% of the world's crude oil, announced to maintain the current production level of 30.0 million barrels a day. On the other hand, due to the rise in crude output from North America, Africa, Eurasia and Latin America, the non-OPEC production is predicted to increase by 0.9 million barrels a day in 2013, according to the OPEC Monthly Oil Market Report published by the OPEC in December 2012.¹⁷ Meanwhile, the OPEC also forecasts that the world oil demand will increase by 0.8 million barrels a day in 2013. Taking all these factors into account, we expect that the global crude prices are unlikely to rise markedly this year.

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



Source: ifeng.com

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.

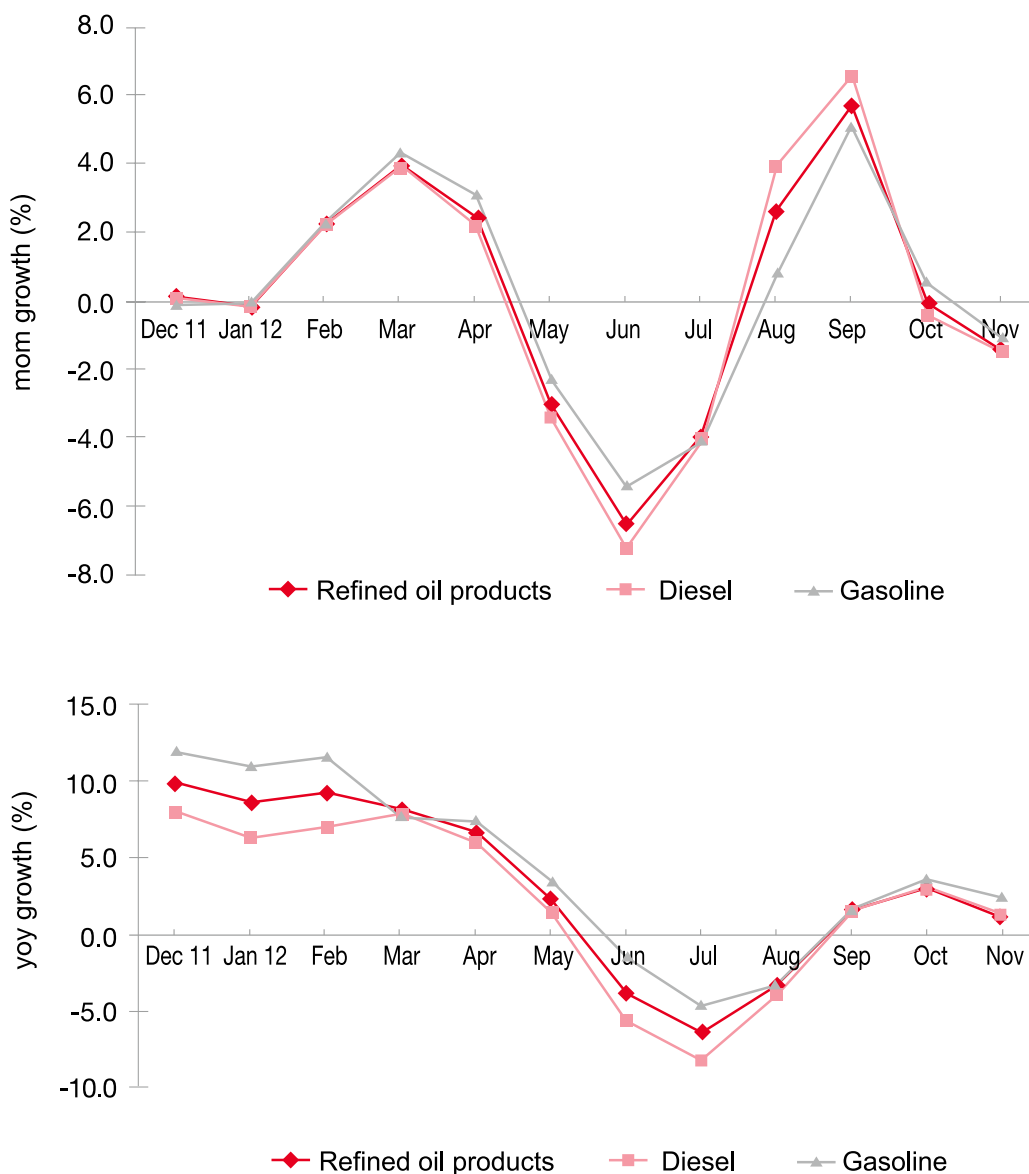
¹⁷ http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_December_2012.pdf

2. Wholesale price index of refined oil products declined in November

After gaining 5.7% mom in September, the wholesale price index of refined oil products¹⁸ stayed stable in October. Afterwards, in November, the price index declined by 1.4% mom. The main reason was that the government reduced the maximum retail and wholesale prices of gasoline and diesel on 16 November. The purpose of the government action was to allow the domestic fuel prices to reflect the downward movement in the global crude prices between mid-September and mid-November. (See exhibit 22)

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 consider adjusting the fuel prices when the 22-day moving average of a basket of global crude prices has changed by more than 4%.

Exhibit 22: China's wholesale price indices of refined oil products, Dec 2011 - Nov 2012



Source: China Federation of Logistics & Purchasing

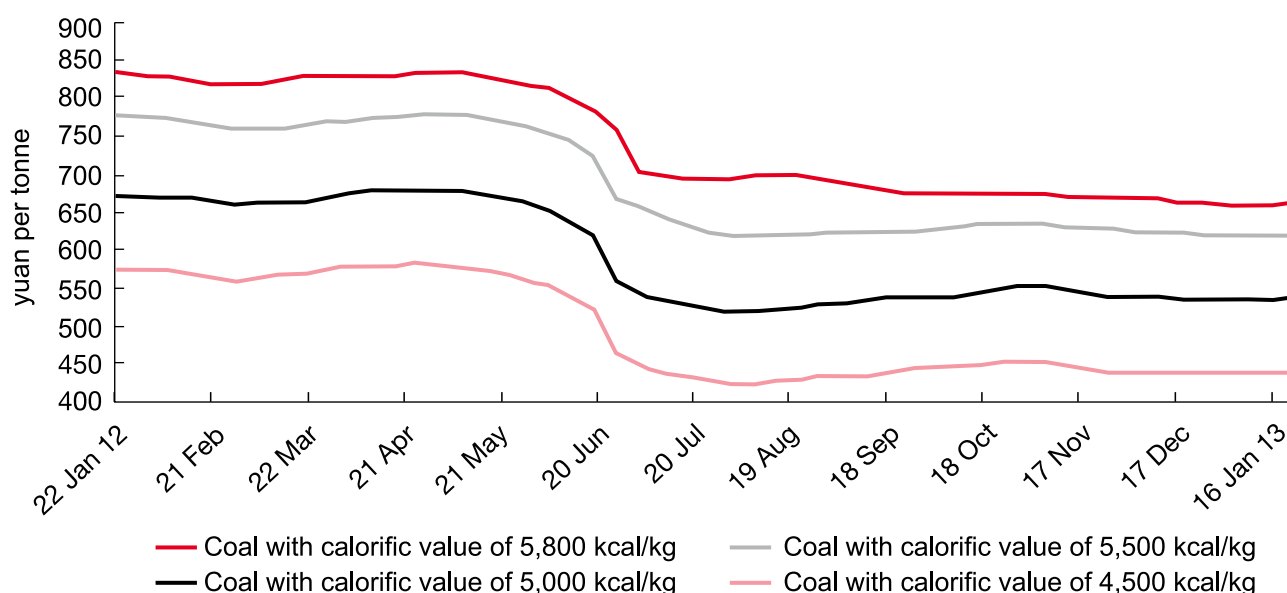
¹⁸ The index is compiled by the China Federation of Logistics & Purchasing (CFLP).

3. The benchmark Qinhuangdao coal prices have stayed stable in recent months

The benchmark Qinhuangdao coal prices have stayed stable in recent months. The price of coal with calorific value of 5,500 kcal/kg, for instance, was 620 yuan per tonne on 21 January, not deviating much from 625 yuan per tonne on 24 September. (See exhibit 23)

Looking ahead, we expect the domestic coal prices to rebound soon. According to the local media, major power producers reported that their inventory levels of coal were decreasing in recent months. On the other hand, the manufacturing sector in China has shown signs of improvement. For example, China's manufacturing PMI has stayed above the neutral level of 50 for three consecutive months. This bodes well for the power demand and in turn the demand for coal.

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



Source: Cqcoal.com

4. The China Containerized Freight Index has shown a slight rebound in recent weeks

The China Containerized Freight Index (CCFI)¹⁹ was on a downward trend until mid-December. It fell all the way from 1,214.62 on 28 September to 1,101.46 on 14 December. However, since late December, the freight index has shown a slight rebound, rising to 1,122.36 on 11 January. We believe that the rebound in the freight index was due largely to the seasonal rise in export demand, as well as the major shipping companies' move to tighten the active capacities of their carriers. (See exhibit 24)

Going forward, it is likely that the major shipping companies will continue to regulate tightly the active capacities of their carriers. We therefore expect the container freight rates to stabilize in the near term.

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.

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



Source: Shanghai Shipping Exchange

5. Average monthly income of migrant workers in China increased by 11.8% in 2012

According to the National Bureau of Statistics of China, the average monthly income of migrant workers in China increased to 2,290 yuan as of end-2012. The 2012 growth rate (11.8% yoy) was significantly weaker than that of 2011 (21.2% yoy), indicating the deceleration of wage growth in 2012. In our view, this was attributable to the economic slowdown, both globally and in China, in 2012. Enterprises, especially the manufacturing enterprises, were under less pressure to substantially increase the wages of their workers.

6. The daily fixing rate of the RMB against the US dollar appreciated by 0.25% in FY12

The daily fixing rate (also known as the central parity rate) of the RMB against the US dollar appreciated rapidly from 6.3449 on 10 October to 6.2881 on 14 November. Since then, it has fluctuated within the narrow range of 6.2852 to 6.2975 (as of 31 December).²⁰ Overall, in FY12, the daily fixing rate of the RMB against the US dollar appreciated by 0.25%, compared to the 5.1% appreciation in FY11.

It is noteworthy that 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 fluctuated within the range of 6.21-6.25 since mid-November (as of 31 December)²¹; while the daily fixing rate of the RMB against the US dollar has stayed between 6.2852 and 6.2975 since mid-November (as of 31 December). This suggests that the RMB has been under pressure to appreciate against the US dollar. Overall, in FY12, the spot exchange rate of the RMB against the US dollar appreciated by 1.0%.

On the other hand, the daily fixing rate of the RMB against the Euro depreciated to 8.3176 on 31 December, after appreciating from 8.1630 on 10 October to the recent peak of 7.9887 on 13 November. Overall, in FY12, the RMB depreciated against the Euro by 1.9%. (See exhibit 25)

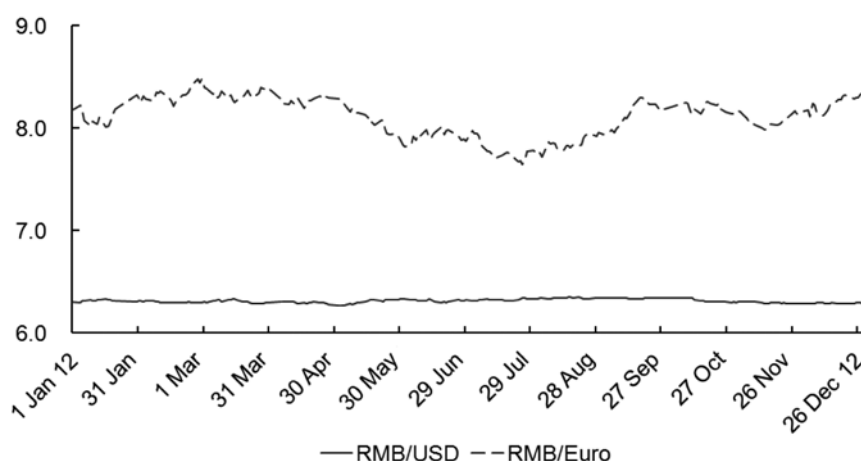
²⁰ The daily fixing rate (also known as the central parity rate) of the RMB against the US dollar is released by the China Foreign Exchange Trade System (CFETS), a sub-institution of the People's Bank of China, at 9:15 am on each working day.

²¹ <http://www.bloomberg.com/quote/USDCNY:CUR>

According to the Bank for International Settlements, after falling from 108.29 in August to 107.45 in September, the real effective exchange rate (REER) of the RMB rose all the way to 110.16 in December, the highest level in 2012.²² Overall, the RMB appreciated by 2.2% in real terms against its trading partners in FY12. (See exhibit 26)

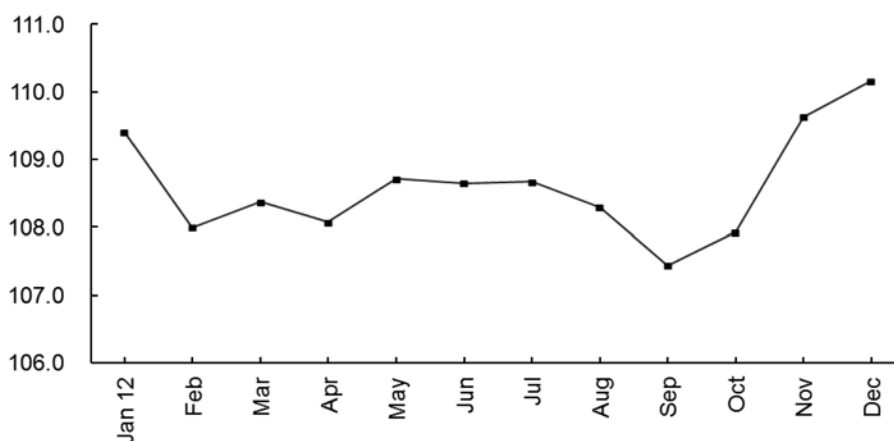
In view of the fluctuations in export demand, we expect the daily fixing rate of the RMB against the US dollar to fluctuate in the near term. That being said, the RMB is still likely to appreciate in the medium to long term, albeit at a slow and gradual pace, against the US dollar.

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



Source: State Administration of Foreign Exchange

Exhibit 26: RMB REER, Jan - Dec 2012



Source: Bank for International Settlements

²² 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.

Part Four: Highlights

1. The minimum wage levels in some provinces/ municipalities were adjusted upward in recent months

In recent months, the minimum wage levels in some provinces/ municipalities were adjusted upward. See below for more details:

Jilin province

On 1 October 2012, the Jilin provincial government raised the levels of minimum monthly wage in various districts within the province to 1,150 yuan, 1,050 yuan and 950 yuan.²³

Inner Mongolia autonomous region

On 1 November 2012, the minimum wage levels in various districts within Inner Mongolia autonomous region were increased to 1,200 yuan, 1,100 yuan, 1,000 yuan and 900 yuan.²⁴

Heilongjiang province

On 1 December 2012, the minimum wage levels in various districts in Heilongjiang province were raised to 1,160 yuan, 1,050 yuan, 900 yuan and 850 yuan.²⁵

Shaanxi province

On 1 January 2013, the minimum wage levels in various districts within Shaanxi province were adjusted upward to 1,150 yuan, 1,050 yuan, 950 yuan and 870 yuan.²⁶

Henan province

On 1 January 2013, the minimum wage levels in various districts within Henan province were increased to 1,240 yuan, 1,100 yuan and 960 yuan respectively, up from the previous levels of 1,080 yuan, 950 yuan and 820 yuan respectively.²⁷

Beijing

The minimum monthly wage in Beijing was raised to 1,400 yuan on 1 January 2013, up by 11.1% from the previous level.²⁸

Zhejiang province

On 1 January 2013, the minimum wage levels in various regions within Zhejiang province were raised to 1,470 yuan, 1,310 yuan, 1,200 yuan and 1,080 yuan, up by 13% on average.²⁹

23 http://www.jl.gov.cn/html/2012/Releaseparty_1010/2755.html

24 http://www.chinajob.gov.cn/LabourRelations/content/2012-11/08/content_747770.htm

25 <http://www.hl.lss.gov.cn/hljhrss/newsView.jsp?id=0000000014>

26 <http://www.shaanxihrss.gov.cn/Html/2012-12-21/151015.Html>

27 http://news.xinhuanet.com/local/2012-12/31/c_114218621.htm

28 <http://210.75.193.158/gate/big5/zhengwu.beijing.gov.cn/gzdt/gggs/t1295071.htm>

29 http://www.zjhrss.gov.cn/art/2012/12/24/art_1161_4581.html



Overall, in 2012, the local governments in twenty-two provinces/ municipalities and one special economic zone (i.e. Shenzhen) in China raised the minimum wage levels in their jurisdictions. 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. We therefore expect the local governments in a number of provinces to raise the minimum wages this year.

2. New guidelines on salary rise were issued in Fujian and Guangxi in October

In October, the local governments in Fujian and Guangxi issued new guidelines on salary rise. (See exhibit 27)

According to the announcement issued by the Guangxi provincial government, enterprises with improving performance in the province are recommended to raise salaries of their workers by around 13%, the pay rise benchmark for 2012. Enterprises with good performance are recommended to offer pay rise of at most 22% to their workers in 2012; while enterprises with worsening performance may consider maintaining the current level of salaries of their workers.³⁰

Although these guidelines are not mandatory for employers to follow, they will affect workers' expectations of salary rise and are thus regarded as an important reference.

Exhibit 27: Guidelines on salary rise issued by local governments in recent months

Province/ municipality	Upper limit	Benchmark	Lower limit
Fujian	18%	13%	4%
Guangxi	22%	13%	0

Source: Announcements by various local governments

3. The Chinese government reduced the fuel prices on 16 November

To reflect the movement in global crude prices between early September and mid-November, the Chinese government lowered the maximum retail prices of gasoline and diesel by 3.2%-3.8% on 16 November. The drop in fuel prices would reduce transportation costs, as well as energy costs for manufacturers who run their own electrical generators in China.

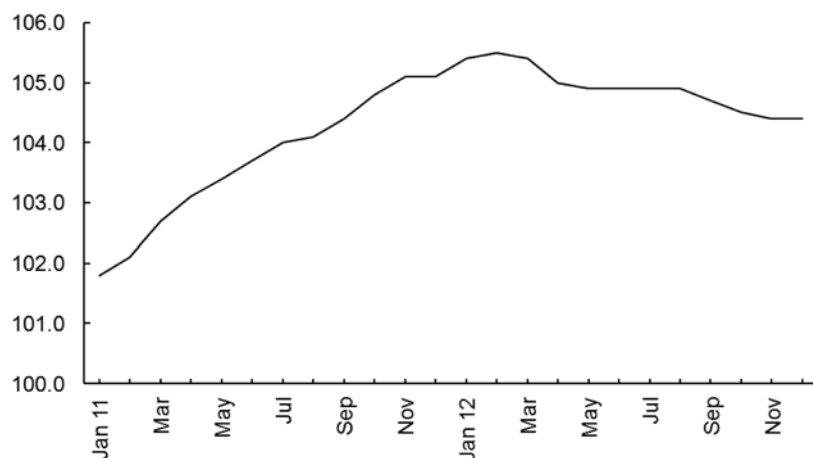
4. The price index for US imports from China has declined slightly

According to the US Department of Labour, the price index for US imports from China declined all the way from 104.9 in August to 104.4 in November and in December, the lowest level since October 2011. Compared with the same month of the previous year, the index fell by 0.7 points in December 2012. (See exhibit 28)

Looking ahead, we expect the price index to stay stable or trend slightly downward in the near term, given the recent drop in ex-factory prices of Chinese products in RMB terms.

³⁰ <http://www.gxgl.lss.gov.cn/contents/4/1688.html>

Exhibit 28: Price index for US imports from China, Jan 2011 - Dec 2012



Source: US Department of Labour

5. China's export growth improved in 4Q12

China's export growth rose from 4.5% yoy in 3Q12 to 9.4% yoy in 4Q12, indicating the improvement in export demand. Overall, China's exports grew by 7.9% yoy to reach US\$ 2,049.8 billion in 2012. The 2012 growth rate was significantly lower than the 2011 growth rate (20.3% yoy). (See exhibits 29, 30 and 31)

Growth of China's exports to the Association of South East Asian Nations (ASEAN) moderated to 20.1% yoy in 2012, compared to the 23.1% yoy growth recorded in 2011. In comparison, the growth rates of China's exports to other major destinations decelerated more rapidly. For example, China's export growth to the European Union (EU), the US and Japan registered -6.2% yoy, 8.4% yoy and 2.3% yoy respectively in 2012, compared to the growth rates of 14.4% yoy, 14.5% yoy and 22.5% yoy respectively in 2011. Also noteworthy is that the US overtook the EU to become China's largest export destination in 2012. China's exports to the US amounted to US\$ 351.8 billion, while China's exports to the EU totaled US\$ 334.0 billion in 2012.

Exports from some central and western provinces recorded robust growth in 2012. For example, exports from Chongqing, Anhui, Henan and Sichuan soared by 94.5% yoy, 56.6% yoy, 54.3% yoy and 32.5% yoy respectively in 2012. We believe that the strong growth of exports from these central and western provinces was highly associated with the relocation of factories from the eastern provinces.

Amid the weak import growth, China's trade surplus increased to US\$ 83.2 billion in 4Q12, compared to US\$ 79.5 billion in 3Q12.

Exhibit 32 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 has stayed at 50 or above for two consecutive months, we have become relatively optimistic over China's export outlook. Nevertheless, China's export growth will continue to be constrained by the stagnant economies in the EU, the US and Japan, although China's exports will continue to be cushioned by orders from emerging markets. Downside risks also include a deterioration in the European sovereign debt crisis and failure to reach a deal on the US debt ceiling. Overall, we expect China's export growth to be 7-10% yoy in 1Q13.

Exhibit 29: China's quarterly foreign trade data, 1Q12 - 4Q12

USD billion (yoy growth)	Exports		Imports		Trade Balance
FY12	2,049.8	(7.9%)	1,817.8	(4.3%)	231.1
1Q12	430.0	(7.6%)	429.4	(6.9%)	0.6
2Q12	524.6	(10.5%)	455.8	(6.5%)	68.9
3Q12	541.2	(4.5%)	461.8	(1.4%)	79.5
4Q12	554.2	(9.4%)	471.0	(2.8%)	83.2

Source: China Customs

Exhibit 30: China's monthly foreign trade data, Jan - Dec 2012

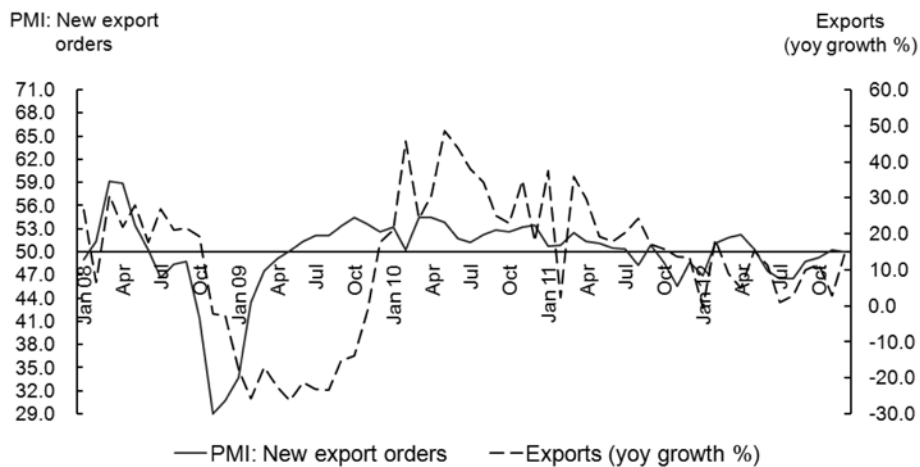
USD billion (yoy growth)	Exports		Imports		Trade Balance
Jan 12	149.9	(-0.5%)	122.7	(-15.3%)	27.3
Feb	114.5	(18.4%)	146.0	(39.6%)	-31.5
Mar	165.7	(8.9%)	160.3	(5.3%)	5.3
Apr	163.3	(4.9%)	144.8	(0.3%)	18.4
May	181.1	(15.3%)	162.4	(12.7%)	18.7
Jun	180.2	(11.3%)	148.5	(6.3%)	31.7
Jul	176.9	(1.0%)	151.8	(4.7%)	25.2
Aug	178.0	(2.7%)	151.3	(-2.6%)	26.7
Sep	186.4	(9.9%)	158.7	(2.4%)	27.7
Oct	175.6	(11.6%)	143.6	(2.4%)	32.0
Nov	179.4	(2.9%)	159.8	(0.0%)	19.6
Dec	199.2	(14.1%)	167.6	(6.0%)	31.6

Source: China Customs

Exhibit 31: Growth rates of exports and imports, Jan 2011 - Dec 2012

Source: China Customs

Exhibit 32: New export orders index and export growth, Jan 2008 - Dec 2012



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

© Copyright 2013 The Fung Business Intelligence Centre. All rights reserved.

Though the Fung Business Intelligence Centre endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence Centre is prohibited.