



北京华通人商用信息有限公司

ALL CHINA MARKETING RESEARCH CO., LTD.

# ACMR Newsletter

China Industry and Economic Review

October 2010



## Economic Spotlight:

### Fed QE2: Reducing China's Options on Monetary Policies

#### U.S. Inflation Lower than Expected

U.S. Labor Department data showed that U.S. inflation level in September was lower than expected, and the Federal Reserve might still have to take measures to alleviate the downward pressure on prices. Although retail sales experienced growth in September, U.S. consumer prices increased by a tiny 0.1% in the same month and the core index for all items excluding food and energy remained flat for the second straight month. The core index rose 0.8% from September 2009, the smallest year-on-year growth since 1961. Fed Chairman Ben Bernanke's recent comments suggested that the Fed was inclined to resort to more stimulus to drive up inflation and spur the slowing recovery. However, it appeared to be undecided on what the timing and the scale of the next round of quantitative easing should be.

#### China's Newly Added Forex Reserves Hit Record High

In the meantime, China newly added foreign exchange reserve (FER) hit record high in the third quarter with continuing appreciation of RMB. At the end of September, China's total FER rose to a record \$2.65 trillion, 16.5% up from September 2009. Newly added FER in the third quarter of 2010 amounted to \$194 billion, compared with \$7.2 billion in the second quarter.

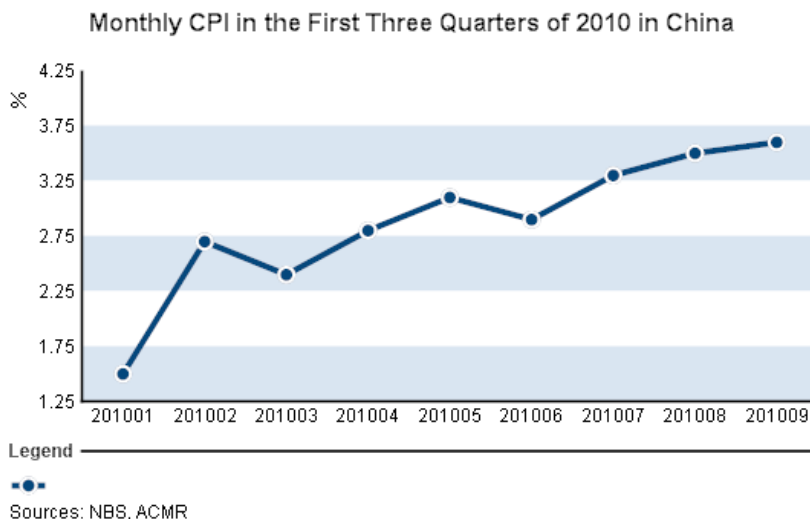
RMB exchange rate has become more flexible since the reform on RMB exchange mechanism in June 2010. In the context of weak dollar and external pressure, RMB exchange rate against U.S. dollar rose by 1.74% during September while the number was less than 1% in July and August combined. By the end of October 13, RMB exchange rate against U.S. dollar had increased more than 2% since the exchange mechanism reform.

A slightly higher surplus added to the acceleration in China's reserve accumulation, but the main reason is that speculative capital inflows have increased significantly in the belief that China will further appreciate its currency. It is noteworthy that, although newly added FER amounted to as high as \$194 billion in the third quarter, it varies greatly from month to month. Newly added FER was \$84.5 billion, \$9 billion, and \$100.5 billion in July, August, and September, respectively, showing high degree of correlation between FER growth and RMB exchange rate changes.

#### CPI in China Climbed to New High in September

RMB outstanding for foreign exchange has grown for two straight months and new loans began to rebound in September. These will create further liquidity and increase inflationary pressures. The latest data released by National Bureau of Statistics showed that CPI in September rose to 3.6%, even higher than that of 3.5% in August. Some analysts believe that high inflation level in the near future is practically

inevitable based on seasonal factors and excessive money supply, and monthly CPI is not very likely to fall below 3% in the fourth quarter.



In order to contain inflation and asset price bubbles, the People's Bank of China raised RMB benchmark interest rate by 0.25 percentage point unexpectedly, which is the first time of interest rate hike since 2007. However, in the context of worldwide low interest rate and loose monetary policy, global capital inflows could increase significantly if China adopts high-interest-rate policy. Therefore, interest rate hike in China is confined within a narrow range; otherwise it will increase the pressure on RMB appreciation.

## Mining Equipment Manufacturing Industry:

### Benefiting from Downstream M&A

Enterprises within Mining Equipment Manufacturing Industry in China manufacture equipment that is used in mining metals, coal, petroleum, chemicals, and building stones. These firms also manufacture specialized equipment that is used for the screening, classification, separation, washing, and rolling of mine products, or similar processes in both underground and open-pit mines.

With steady economic growth in China in recent years, demand for basic mine products such as coal and metal increased rapidly. Production volume of raw coal increased from 1.82 billion tons in 2005 to 2.96 billion tons in 2009 and during the same period production volume of iron ore increased from 420 million tons to 880 million tons. Construction of mines in China has accelerated to meet the rapidly increasing demand from downstream markets, with fixed assets investment in mining sector rising from \$39.1 billion in 2005 to \$118.5 billion in 2009. Of this investment, around 30% is spent on purchasing mining equipment.

Driven by substantial demand from mining sector, Mining Equipment Manufacturing Industry in China developed rapidly during this period, with industry revenue increasing from around \$7 billion to \$23.8 billion. Major industry players such as Sany Heavy Equipment International Holdings Company Limited, International Mining Machinery Group and Zhengzhou Coal Mining Machinery Group Co., Ltd. went public in capital markets at home and abroad to raise fund to expand their production bases.

During the “12th five-year period”, merge and acquisition of coal mining enterprises will be more frequent in China’s coal industry. China plans to reduce the number of coal mining enterprises from the current 11,000 to 4,000 and increase average output per coal mining enterprise to over 800,000 tons in three years. As of 2015, there will be six to eight large coal mining groups with annual coal output of over 100 million tons per year and over ten coal mining groups with annual coal output between 50 million tons and 100 million tons per year. Total coal output of super-huge type coal mining groups will hold a share of over 50% in total domestic output.

ACMR Industry Research expects that as the introduction of merge and acquisition of coal mining enterprises in the next five years, the average scale of coal mines will enhance. This will generate new demand for high-end intelligent combined mechanization coal mining equipment and large coal washing and screening equipment and promote technology advancement of the whole industry and growth of major players.

## Key Statistics of Mining Equipment Manufacturing in China, 2009

| Indicator                                  | Value   | Year-on-year Growth (%) |
|--|---------|-------------------------|
| Revenue (USD Million)                      | 22545.8 | 22.1                    |
| Profit (USD Million)                       | 1397.9  | 34.8                    |
| Exports (USD Million)                      | 3033.8  | -30.1                   |
| Imports (USD Million)                      | 2299.3  | -13.8                   |
| Edible Vegetable Oil Output (Million Tons) | 339.2   | 35.1                    |

Source: National Bureau of Statistics of China, China Customs, ACMR Industry Research

Note: Value is current price in 2009; Industry revenue and profit is estimated based on data during the first eleven months of 2009.

## Major Industry Participants List

| Company Name  | Market Share (%) |
|---|------------------|
| China National Coal Mining Equipment Co., Ltd.              | 4.0              |
| Zhengzhou Coal Mining Machinery Group Co., Ltd.             | 3.6              |
| China Coal Technology & Engineering Group Corp              | 3.2              |
| Sany Heavy Equipment International Holdings Company Limited | 1.5              |
| Northern Heavy Industries Group Co., Ltd.                   | 1.4              |

Source: Annual Reports, Public Information, ACMR Industry Research

## Tire Manufacturing in China: Challenges and Disturbances Encountered

In 2009, rubber supply decreased significantly due to the drought in Thailand and Malaysia. As rubber is the key raw material in tire manufacturing, rising rubber prices increased the purchasing costs of manufacturers in the industry. In January 2010, Bridgestone announced to raise the prices of Firestone series tires and its side-brand tires by 5%. In April 2010, the company further increased the tire prices in North America region by 5%. From September 2010, prices of all its car tires increased by 10%, and large passenger car tires increased 5%.

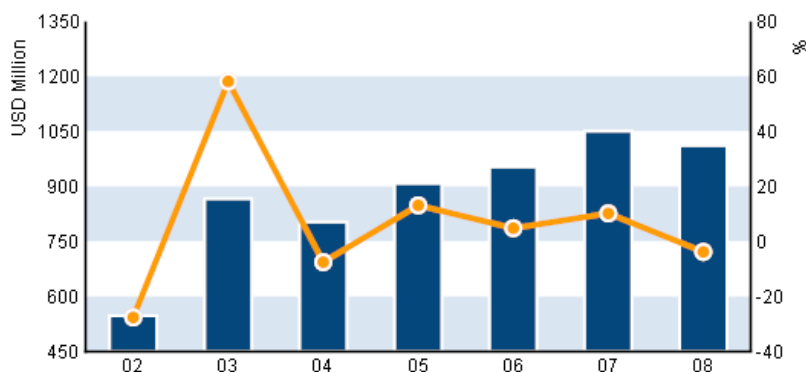
However, domestic manufacturers generally can not easily pass the price pressure to consumers. This is because competition in domestic market is quite intensive, and manufacturers have to provide low product prices in order to maintain market shares. In 2010, domestic tire prices only increased in March, by 6% on average, which is much lower compared with Bridgestone. As a result, profit margins of domestic tire manufacturers declined considerably.

Meanwhile, demand for tires in foreign markets was negatively affected by global financial crisis. In 2009, total tire exports amounted to \$7.89 billion, down 5.6% from 2008. In addition, the protective trade policy in developed countries also had significant impact on foreign trade. Since September 2009, the US started to levy penalty tariff for China-made sedan tires and light truck tires for three years. In January 2010, EU raised the barrier to entry of tires by limiting the content of polycyclic aromatic hydrocarbons (PAHs). In September 2010, EU planned to increase the import tariff to 22.3% on China-made tires for five years to protect the local tire manufacturers.

Besides markets in developed countries, tire exports were challenged in developing countries as well. In June 2010, South Africa restarted anti-dumping investigation on China-made tires. In August 2010, India government issued a midterm review of the anti-dumping investigation on Chinese tires, which disclosed that tires imported from China were still considered to bring damage to India's tire manufacturing industry.

In the first eight months of 2010, the export value of this industry totaled \$6.9 billion. As tire exports are closely related to the demand in North American and European markets, the monthly export value fluctuated during this period. For example, exports amounted to \$548 million in February 2010, 27.5% down from February 2009.

Tire Export Value, Feb.2010 - Aug.2010



图例

■ Export Value

—●— Growth Rate

Source: China Customs, ACMR

## Key Statistics of the Tire Manufacturing Industry in China, 2009

| Indicator                                    | Amount  | Year-on-year Growth (%) |
|--|---------|-------------------------|
| Industry Revenue (USD Million)               | 33124.7 | 14.0                    |
| Industry Profit (USD Million)                | 2385.0  | 228.4                   |
| Exports (USD Million)                        | 7889.2  | -5.6                    |
| Imports (USD Million)                        | 445.2   | 12.7                    |
| Pneumatic Tire Output Volume (Million Units) | 654.6   | 19.9                    |

Source: National Bureau of Statistics, China Customs, ACMR

## Major Industry Participants List

### Company Name

Hangzhou Zhongce Rubber Co., Ltd.

Triangle Group

GITI Tire (China) Investment Company Limited

Shandong Linglong Rubber Co., Ltd.

Double Coin Holdings Co., Ltd.

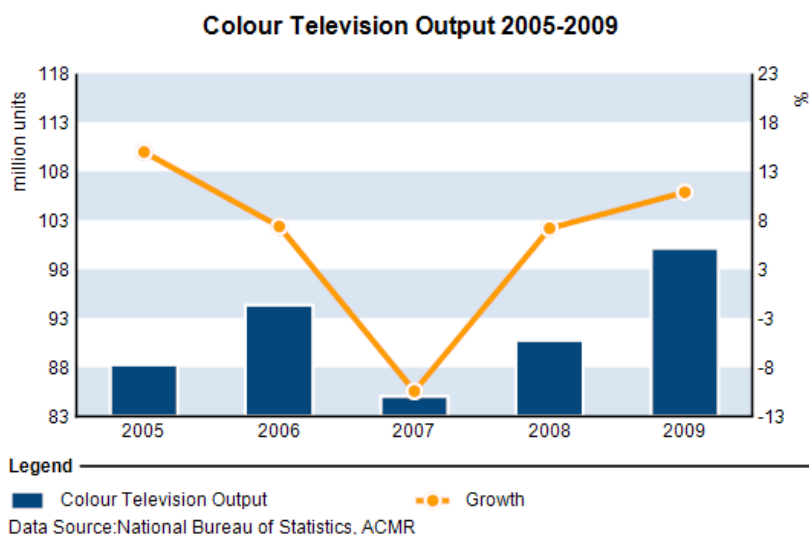
Source: National Bureau of Statistics, ACMR

## Color Television Industry:

### LED Television Enters Rapid Development Period

From 2005 to 2009, Chinese color television output increased from 87.8 million units to 99.7 million units, representing an annualized growth rate of 3.2%. In the first half of 2010, the color television output amounted to 53 million units, up by 16.4% from the same period of last year.

In the first five months of 2010, Chinese LCD television output was about 29.1 million units, accounting for 65.7% of total color televisions output during this period. Since the second half of 2009, Chinese LCD televisions have entered the new round of replacing the old generation by new ones. The new products, such as LED televisions, Internet TVs and 3D televisions, etc, have been launched constantly in the market.



With rapid upgrade of Chinese flat-panel TVs, LED televisions have become the television market development trend. Moreover, in 2010, National Development and Reform Commission of the People's Republic of China will continue to support the strategic transition of Chinese color television industry, which will help promote development of LED television market.

In 2010, foreign manufacturers, such as Samsung, LG, Sony, and Sharp, attach great importance in the production of LED televisions. Samsung plans to manufacture ten million units of LED televisions, accounting for one third of its total planned production. LG plans to manufacture 23 million LCD televisions, including six million units of LED televisions. Sony's LCD television target is about 18 million units, including about five million units of LED television. Sharp is expected to manufacture five million units of LED televisions, including 11 million units of LCD televisions. At the same time, under the



## ACMR Newsletter

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October 2010

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assistance of National Development and Reform Commission of the People's Republic of China, domestic manufacturers, such as Skyworth and Konka, have begun to enter the upstream part of industry chain of LED televisions, which will help them get more advantages and higher profitability in the LED television market.

With rapid output expansion, LED televisions are expected to become the mainstream television type in the market instead of high-end products in 2010. LED televisions of various sizes and prices will be introduced to market for the year. 2010 is expected to mark the beginning of LED televisions popularization in China with joint efforts made by various television manufacturers.



## ACMR Newsletter

October 2010

### What's New?

We currently have 177 China industry reports available across 18 economy sectors, and the number of reports is expected to reach 182 by the end of October 2010.

Recent reports and reports to be released include:

#### Published in September 2009:

- 0330** Poultry Farming in China
- 3421** Metal Cutting Tools Manufacturing in China
- 3761** Aircraft Manufacturing and Repairing in China
- 5110** Inter-urban Railway Transportation of Passengers in China
- 5531** Airports in China
- 7220** Realty Management in China

#### To be released in October/November 2010:

- 0916** Aluminum Ore Mining in China
- 1320** Pet Food and Animal Feed Manufacturing in China
- 1451** Canned Food Manufacturing in China
- 4062** Bare Printed Circuit Board Manufacturing in China
- 7230** Real Estate Intermediation (Brokers and Agents) in China

#### Updated in September 2010

- 0790** Support Activities for Oil and Gas Mining in China
- 7440** Advertising Agencies in China
- 8511** General Hospitals in China
- 0810** Iron Ore Mining in China
- 2614** Organic Chemical Material Manufacturing in China
- 1711** Cotton Fabric and Yarn Manufacturing in China
- 3613** Building Construction Equipment Manufacturing in China
- 3070** Plastic Parts Manufacturing in China
- 3931** Wire and Cable Manufacturing in China
- 2411** Stationery and Office Supplies Manufacturing in China
- 6620** Motels in China
- 2421** Sporting Equipment Manufacturing in China
- 6592** Mail-order and Electronic Shopping Operators in China
- 8441** Higher Education in China
- 6020** Internet Services in China
- 4411** Thermal Power Generation in China
- 1440** Liquid Dairy and Dairy Products Manufacturing in China



## ACMR Newsletter

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October 2010

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- 3711** Rail Transportation Equipment Manufacturing in China
- 7433** Business Management Consulting Services in China
- 4042** Computer Network Equipment Manufacturing in China
- 6930** Securities Investment in China
- 0610** Coal Mining in China
- 3726** Automobile Repair Services in China
- 0221** Timber Logging in China
- 5320** Underground Rail and Subway Transportation in China

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