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This Week in China

China Likely To Become World's Second Largest Economy Before End of 2009

As reported in Newsweek last week, China is poised to take over Japan's spot as the No. 2 economy in the world by the end of 2009. GDP figures from Q1 showed Japan's economy declined by 15.2 percent on an annualized basis while the Chinese economy delivered growth of 6.1% and 7.9% in Q1 and Q2, respectively. Japan's Q2 figures are scheduled to be released on August 17th. The IMF currently projects Japan's GDP to fall by 6% in 2009 while China's GDP is projected to grow by at least 7.5%. Many analysts expect China to post growth above 8% in 2009, including Merrill Lynch, which projects growth of 8.7% for the year.

"Japan has two main problems; the enormous public debt handicaps the

China Manufacturing at 12-Month High, Index Shows

Manufacturing in China hit a 12-month high in July mainly driven by domestic demand, a leading independent index showed in a further sign the

government's ability to spend additional money to boost the economy and we are too reliant on exports," said Takashi Kamiya, chief economist at T&D Asset Management Co. in Tokyo, which helps oversee some \$16 billion. "There's no way to expect the emergence of a domestic growth driver that can propel us out of this funk."

In recent years, the Chinese government has worked hard to shift the country's economic engine further away from the export of cheap goods to the West. They have made it clear that they want to go for higher-end goods by offering such incentives as subsidies to innovative companies, payments for patent filings, and many tax breaks and a wide array of support to entrepreneurs in sectors such as energy efficient technologies and green products and services.

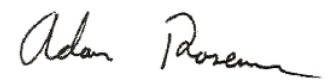
economy has recovered.

The CLSA China Purchasing Managers Index, or PMI, rose to 52.8 last month, the highest since July 2008, when it stood at 53.3.

The PMI sank to a record

Newsweek journalist Rana Foroohar writes that "the speed at which the shift is taking place and the fact that China has remained so stable and prosperous while the financial crisis and recession has called into question Japan's entire high-savings, export model is a huge blow to the Japanese. China is moving up the food chain faster than anyone thought possible, and even beginning to challenge Japan at the very core of its economy: high-end manufacturing."

The center of economic power in Asia is shifting solidly into China's corner and will enable the country to exert greater influence within the region for years to come.



Adam Roseman,

Founder & CEO

ARC China

low of 38.8 in November as the global financial crisis bit, but improved continuously in the following months, moving back into expansion territory above 50 in March.

Source: AFP

This Week in China (cont'd)

Beijing Orders State Banks to Slow Loans

China's central bank has told the heads of the largest state-controlled banks to slow the pace of new lending, after new loan volume in the first half of the year tripled from same period a year earlier.

The pressure from the People's Bank of China signals an unstated shift in policy and comes as it steps up its open-market operations to control liquidity and slow loan growth.

Over the past two weeks, China's leaders have emphasized the country will adhere for now to its policy of "moderately loose" monetary conditions.

While there has been no formal change to what is an extremely loose monetary policy, the central bank and regulators have signaled an intention to rein in excessive lending through various policy announcements.

The PBOC has raised interest rates in recent weeks on its weekly sales of short-term bills in the

Beijing Reconsiders Foreign Listings

The Chinese government is moving closer to allowing foreign companies to sell shares in mainland China for the first time as part of a strategy approved this year to try to develop Shanghai into an

inter-bank market and has ordered the most profligate lenders to buy set amounts of special low-interest, one-year central bank notes, increasing pressure on banks to toe the line.

Dorris Chen, an analyst with BNP Paribas, said: "The central bank is being forced to tread a fine line between forestalling a serious credit bubble and maintaining the overall easy monetary policy."

Officials fear some of the RMB 7.4 trillion (\$1.08 trillion) in new loans extended in the first half of the year has found its way into the bubbling stock and property markets, reinflating prices that had slumped in the global financial crisis.

After years of curbs on new bank lending, the government opened the gates late last year, telling banks to flood the economy with money to revive growth. Banks quickly exceeded the RMB 5.0 trillion full-year target for new lending set by Beijing at the start of the year.

China Construction Bank

international financial center.

"We will definitely want to do it," Stephen Green, HSBC chairman, said at the bank's first-half results conference in Hong Kong. "That is the strategic statement that we'd like to make – that China is our natural home."

has told Bloomberg that the world's second-largest lender by market capitalization plans to extend RMB 200 billion of loans in the second half, down from RMB 709 billion in the first half.

It is usual in China for banks to frontload lending in the first part of the year and extend much less in the latter half but a 70 per cent drop would be extreme.

The rival Bank of China and Industrial and Commercial Bank of China said they did not have targets for new loan growth in the second half but ICBC said it would "adjust lending in accordance with changes in economic development".

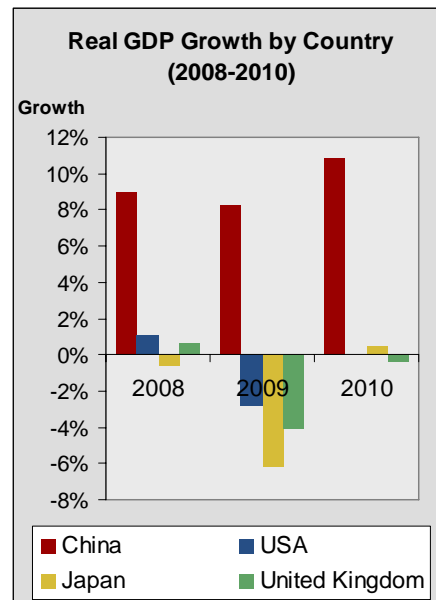
In the first half, ICBC's loans rose by RMB 826 billion and BOC's rose by RMB 902 billion.

The central bank hinted at shifting priorities when it said in a quarterly report it would carry out "market-based fine-tuning measures" while "unswervingly implementing the moderately loose monetary policy".

Source: Financial Times

While HSBC and other foreign companies with a large presence in China would welcome the opportunity to raise renminbi in the booming mainland stock markets, a timetable for when the government will allow it to happen has still not been set.

Source: Financial Times



Source: Goldman Sachs; Euromonitor

Metals and Mining

July Iron Ore Imports Rise 35% YoY, Supported by Strong Demand from Steel Industry

China's Ministry of Transport revealed that imports of iron ore continued at a robust pace in July – reaching 56.5 million tons, which is a 35% YoY increase or a 2.2% rise from a month earlier. This represents the second highest monthly level and indicates strong demand from Chinese steel mills as they benefit from the revival in industries ranging from infrastructure and property to autos and appliances.

Stockpiles at major ports stood at 70.93 million tons at the end of last week, according to consultancy Mysteel.

Average spot iron ore prices at major Chinese ports stood at \$110/ton at the end of July, a gain of 38.5% since late April. Smaller Australian iron ore

China Iron Ore Prices Top \$110, Up 10% Last Week

Iron ore prices topped \$110 into China as the country's steel mills kept soaking up material.

Sharp rises in iron ore prices, driven largely by China's seemingly insatiable demand for the steel-making raw material, have driven prices up from a low of \$58 in April, undermining attempts by

suppliers indicated at the recently that some Chinese steel mills have been fielding orders at 20% above benchmark for magnetite iron ore pellets.

Chinese mills have ramped up output quite rapidly, with industry production reaching a record high of 1.65 million tons/day in June. The China Iron & Steel Association has forecast that annual crude steel production will exceed 500 million tons this year.

Chinese spot steel prices have reached the highest level since last October, with prices for hot-rolled sheet reaching RMB 4415/ton (up 31.9% since mid-April), wire-rod at RMB 4666/ton (up 41.9% since mid-April), and steel plate at RMB 4238/ton (up 30.2% since mid-April).

Major steel mills are hiking their offer prices for August and September. Wuhan Iron and Steel

the country's steel industry to secure a 40 percent cut 2009 in term iron ore prices.

Indian ore of 63/63.5 percent iron content for future delivery was quoted at \$110 a ton, up 10 percent on the previous week, while some ores for immediate delivery were bid at more than 900 yuan (\$131.8) a ton, industry consultancy Mysteel said. "The feeling at the moment is that there is no

plans to raise September prices for major steel products by RMB 700 - 1,600 per ton over August levels (about 20% over August prices).

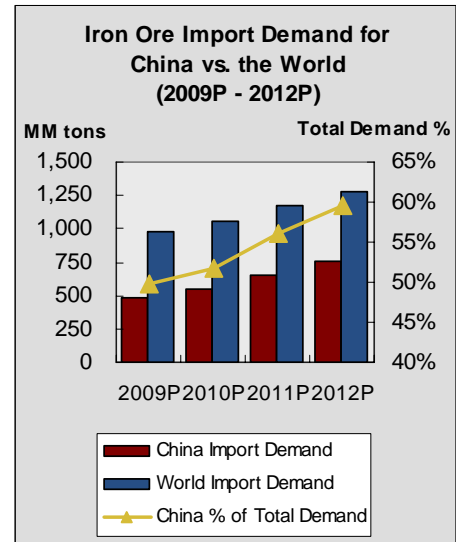
Baosteel is reportedly set to raise September prices by 5-6% for major hot-rolled and cold-rolled products. Demand for steel is particularly strong from the car and home appliance industries (each representing ~15% of Baosteel revenue). Even though production volumes have returned to near-record levels, Baosteel is having difficulty meeting the explosive demand from these two industries. Demand from the machinery industry (7-10% of revenue) is seeing a steady increase, although exports remain weak. The only area of weakness seen by the company is from the shipbuilding industry.

Source: JPMorgan

stoppage," said a large east-India miner and exporter. "At whatever rate a deal is getting closed, sellers are asking for more for the next one."

The east India miner said he concluded a deal at \$108.5 per ton C&F on Wednesday for ores with 63.5 percent iron content, but on Thursday, he was prepared to ask for "\$110, maybe \$112 or \$114."

Source: Reuters



Source: Morgan Stanley

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Alternative Energy



Source: Zero2IPO

The Chinese government is targeting solar power capacity of between 10 and 20 gigawatts by 2020 and is ratcheting up funding to achieve it.

China's Solar Plans Could Stall Without Installers

China is on its way to becoming a solar power - with financial incentives coming from every corner of the country - but a lack of experienced project developers and equipment installers may cast a shadow over the growing industry.

The country is already a powerhouse when it comes to solar manufacturing, with several large solar cell and module manufacturers located in the country. But unlike the U.S. and Europe, China has not had much experience developing and installing solar projects. For instance, in 2008 the country had an installed base of solar power of only 50 megawatts.

"In the midterm, installers could be the key factor preventing China from expanding its global market share in annual solar installations at such a rapid rate as Spain did from 2005 to 2008," said Charles Yonts, an analyst with the firm CLSA. "But I don't think lack of installers will prevent China from reaching a 1500 (megawatt) 2011 target and then some."

The Chinese government is targeting solar power capacity of between 10 and 20 gigawatts by 2020 and is ratcheting up funding to achieve it.

China recently announced

'details of the country's "Golden Sun" program. Under this program the Ministry of Finance will subsidize half of the total construction costs of an on-grid solar power plant and will also pay for up to 70% of off-grid installations.

Its sweeping subsidy program is also not limited to one or two provinces around the country. Instead, China is offering the subsidies for up to 20 megawatts of demonstration projects in each of China's 22 provinces, and in its five autonomous regions.

Given those targets, analysts expect that China could develop more than 500 megawatts of solar power over the next two to three years.

Analysts say that figure could rise, noting that some Chinese solar manufacturers have an even larger pipeline thanks to several non-binding contracts that were signed ahead of the ministry's announcement. Those contracts aim to take advantage of local subsidies that are being offered at the provincial level.

However, of the big module manufacturers in China, only Suntech Power Holdings Co. Ltd. (STP) in Wuxi, Xinyu-based LDK Solar Co. Ltd. (LDK); and Yingli Green Energy Holding Co. Ltd. (YGE) in Baoding have integration and installation

businesses.

Around two years ago, Suntech created a subsidiary company called Suntech Energy Engineering to gain more experience in the installation and component integration business. Then, in October 2008, Suntech acquired the U.S.-based solar integrator and installer El Solutions Inc.

Meanwhile, in July, LDK acquired a majority stake in a Milan, Italy-based system integration company Solar Green Technology SpA. Yingli has a small installation and renewable energy project development group.

The lack of installation expertise could represent an opportunity for international companies, even if Chinese solar companies have an advantage in bidding for new projects because of their ties to local government.

Shanghai-based JA Solar Holdings Co. Ltd. (JASO), for instance, has joined with longtime partner BP Solar on many of its bids in China, according to Anthea Chung, JA Solar's chief financial officer. "We don't have the EPC team, or the system engineering team in house," Chung said in an interview. "And we don't want to build a big team and spend all of that money (so) at the preliminary stage we team up with other companies."

Source: Wall Street Journal

Recent Transactions

Nobao Renewable Energy Receives \$25 million from Tsing Capital

Tsing Capital has announced a total investment of \$25 million into Nobao Renewable Energy Holdings Limited. Nobao provides integrated energy management solutions for its customers including hotels, shopping centers, office buildings, and residential houses with ground source heat pump technology. This investment, made under Tsing Capital's "China Environment Fund III" (CEF), represents the first round of venture capital injection for Nobao and will be used to fund Nobao's Energy

China Wind Power International Raises \$26 Million

China Wind Power International Corp. (TSXV: CNW) ("China Wind" or the "Company"), a wind

Yanzhou Coal in talks to buy Felix Resources

China's Yanzhou Coal Mining is in advanced talks to buy Felix Resources in a cash takeover bid expected to value the Australian coal mining group at about A\$3.7bn (\$3.1bn).

If the deal is agreed and is cleared by regulators, it would be one of China's largest foreign takeovers and the country's biggest Australian deal.

The shares last traded at

Management Contract (EMC) projects. Tsing Capital is the sole investor of this round.

Successfully combining its proprietary technologies with advanced German ground source heat pump equipment, Nobao has become an expert of energy management services for China's building energy efficiency space. It offers services from design, construction and installation to fully integrated EMC solutions. Nobao's fast interchange system allows old air-conditioning, heat, and hot water systems to be transferred to new ones within minutes, thereby

energy company that develops and operates wind farms in Heilongjiang Province, China, has completed a private placement financing for gross proceeds of \$26 million.

A\$16.90 but the Chinese group is understood to have pitched its offer at about A\$19 a share.

Yanzhou has been interested in Felix since 2008. However, early talks broke down as the financial crisis deepened and commodity prices collapsed.

A rebound in commodity markets has led to a re-rating in coal miners' share prices, which have also been helped by an upturn in M&A activity. Noble, the

eliminating the cost burdens and time disruptions of installing energy efficiency systems for existing buildings. The multi-split design of Nobao's systems ensures greater flexibility by allowing modular components to be added /removed, switched on/off according to clients' specific needs. Moreover, the possibility of remote control via the internet enhances overall system monitoring flexibility and easiness. Nobao's unique technology and solutions for buildings could result in energy savings of up to 60%-70%.

Source: Zero2IPO

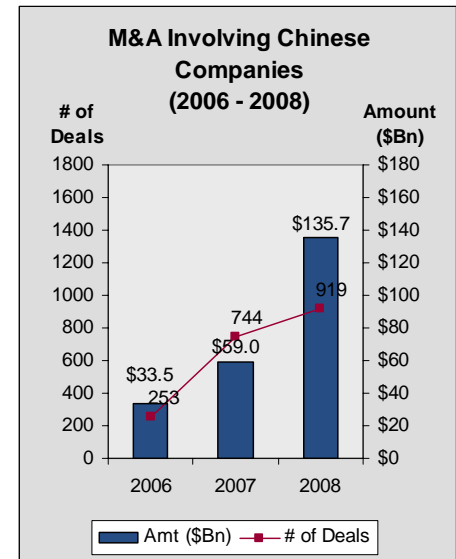
China Wind will apply the net proceeds of the financing to continue construction at its first two wind farms, representing an aggregate capacity of 98.5MW.

Source: Capital IQ

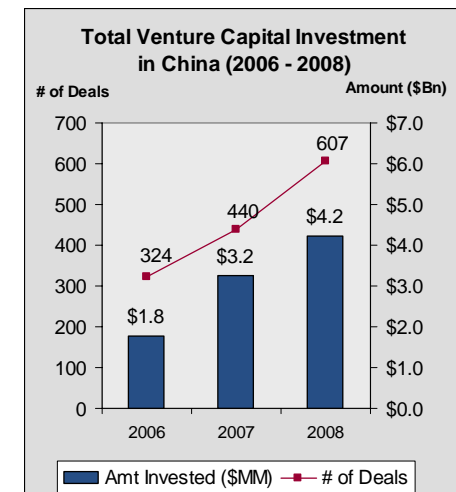
Hong Kong-based commodity supplier, won control of Australia's Gloucester Coal earlier this year when it agreed to pay A\$460m for the 43 per cent of shares it did not already own.

Felix is a coal mining and exploration company with projects in Queensland and New South Wales. It produces high-grade semi-soft coking and thermal coals. Its main markets are Japan, Europe and Korea.

Source: Financial Times



Source: Capital IQ



Source: Zero2IPO