

Taking Part in the China Growth Story

Hubbis Active and Passive Strategies Forum

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Presenter :

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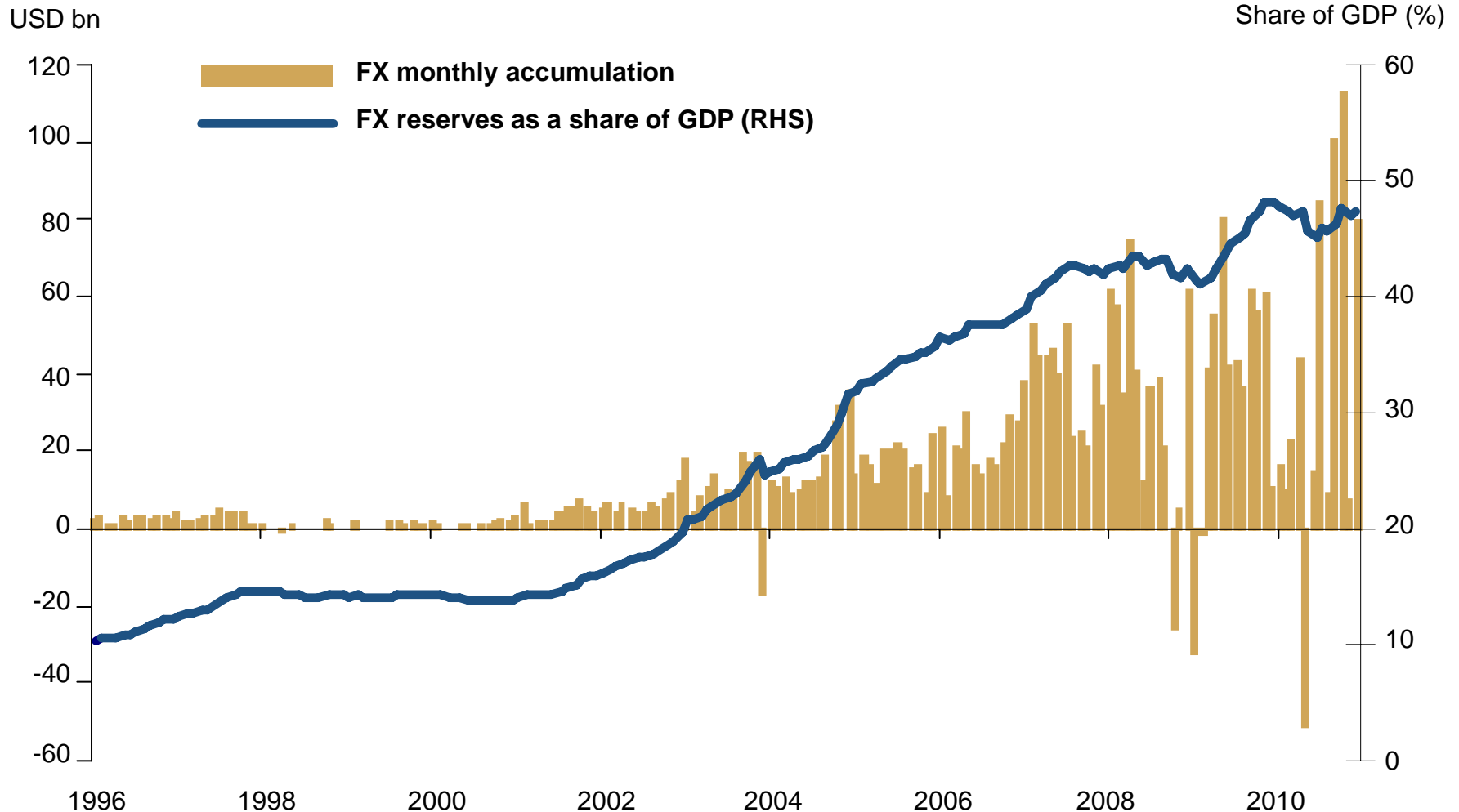
Agenda

- Will the growth story continue in China despite possible slow down this year?
- Prospect of RMB - looks promising?
- Main challenges and headwinds: inflation and slowing growth
- Favourable sectors and opportunities for investors



Liquidity management continues

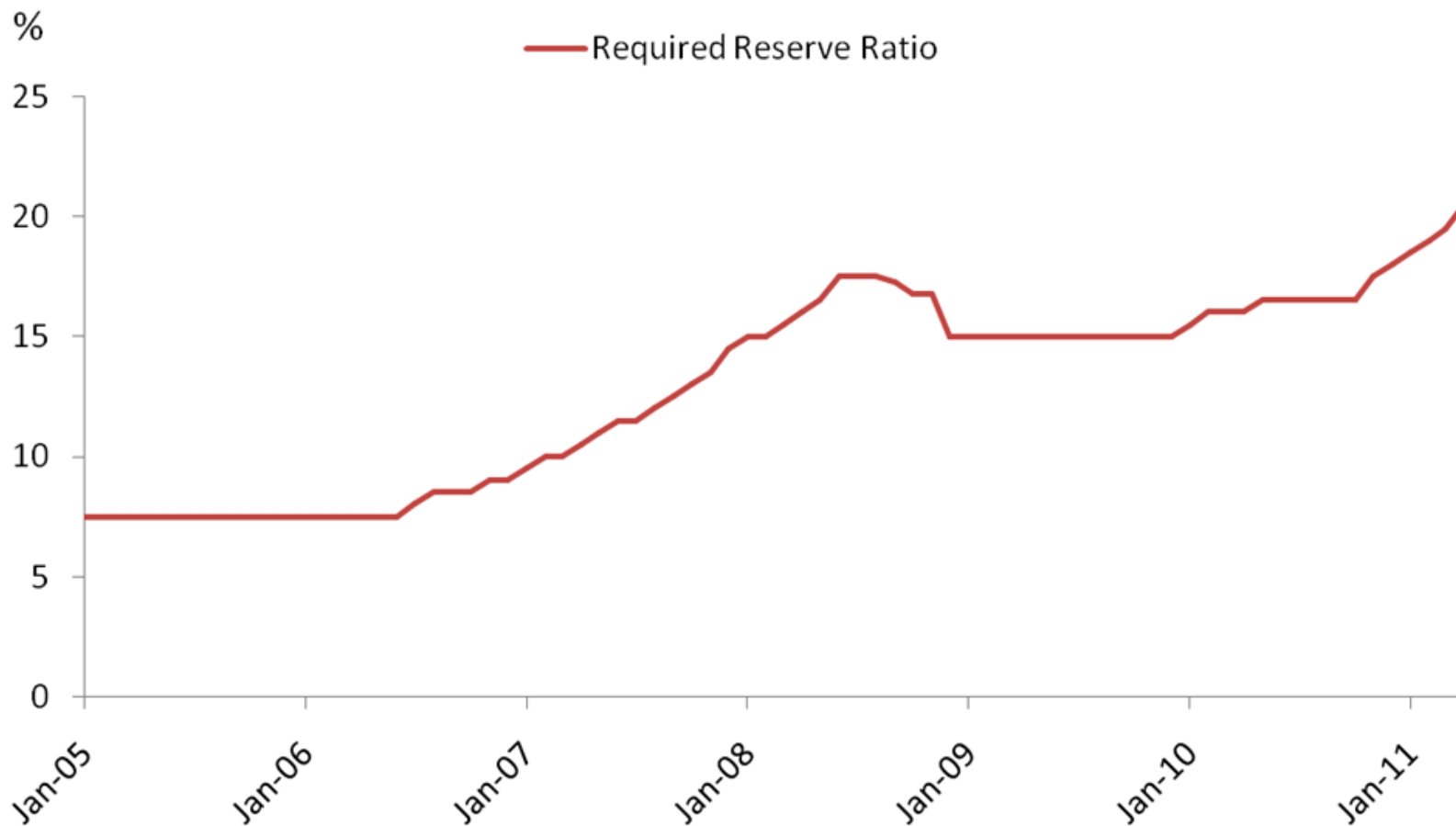
Net official FX accumulation in China



Source : CEIC, UBS estimates 201104

Reserve requirement ratio is still on the rise as well as,

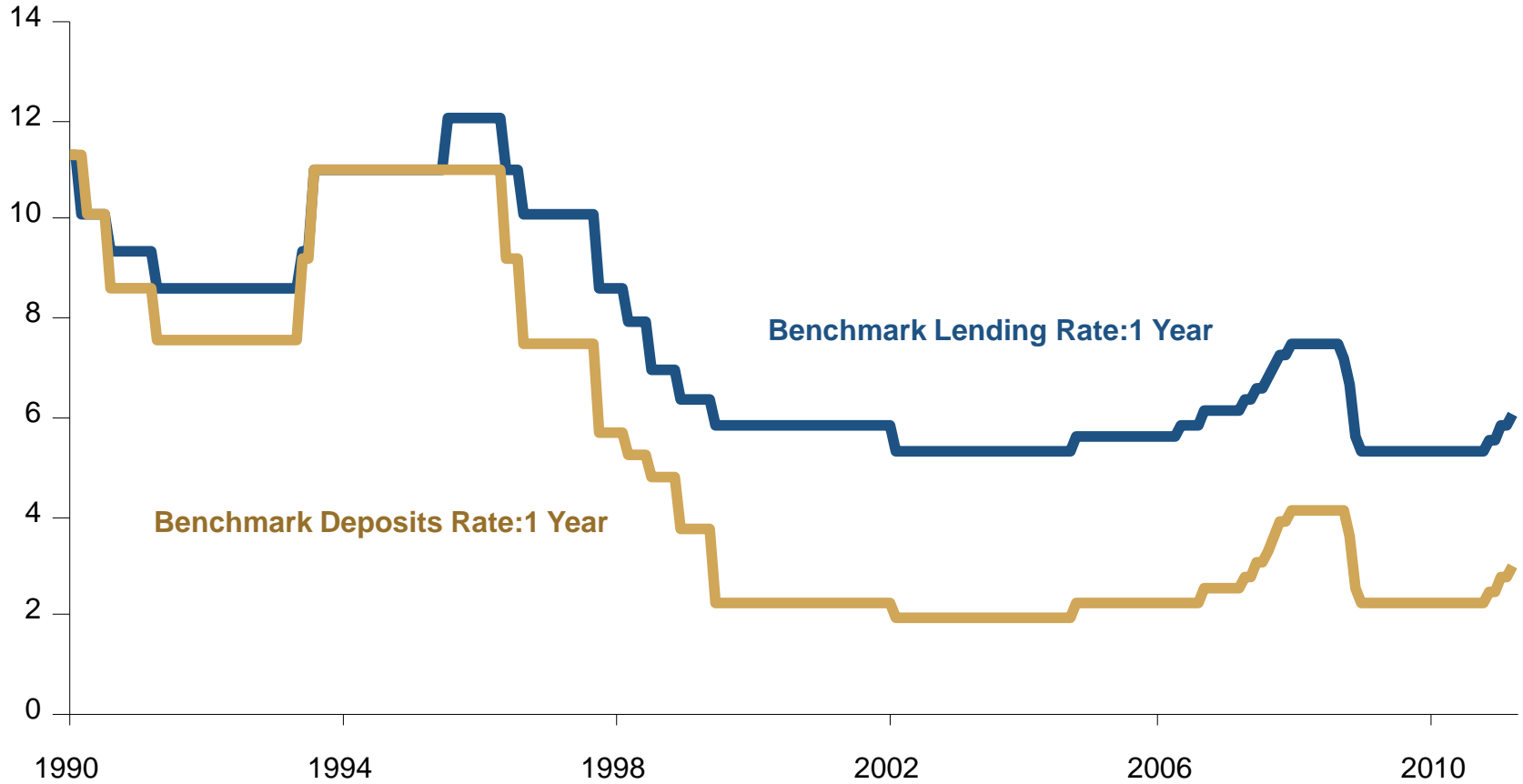
Reserve requirement ratio



Remarks: Latest RRR hike by PBOC on 21 April 2011 - raised 50 bp to 20.5% for large banks and 18.5% for mid/small banks
Source: CEIC, UBS estimates 201104

interest rate increase and, Interest rate

Benchmark Rate (%)



Remarks: Latest rate hike by PBOC on 5 April 2011 - raised 25 bp to 6.31% for 1 yr lending rate and to 3.25% for 1 yr deposit rate

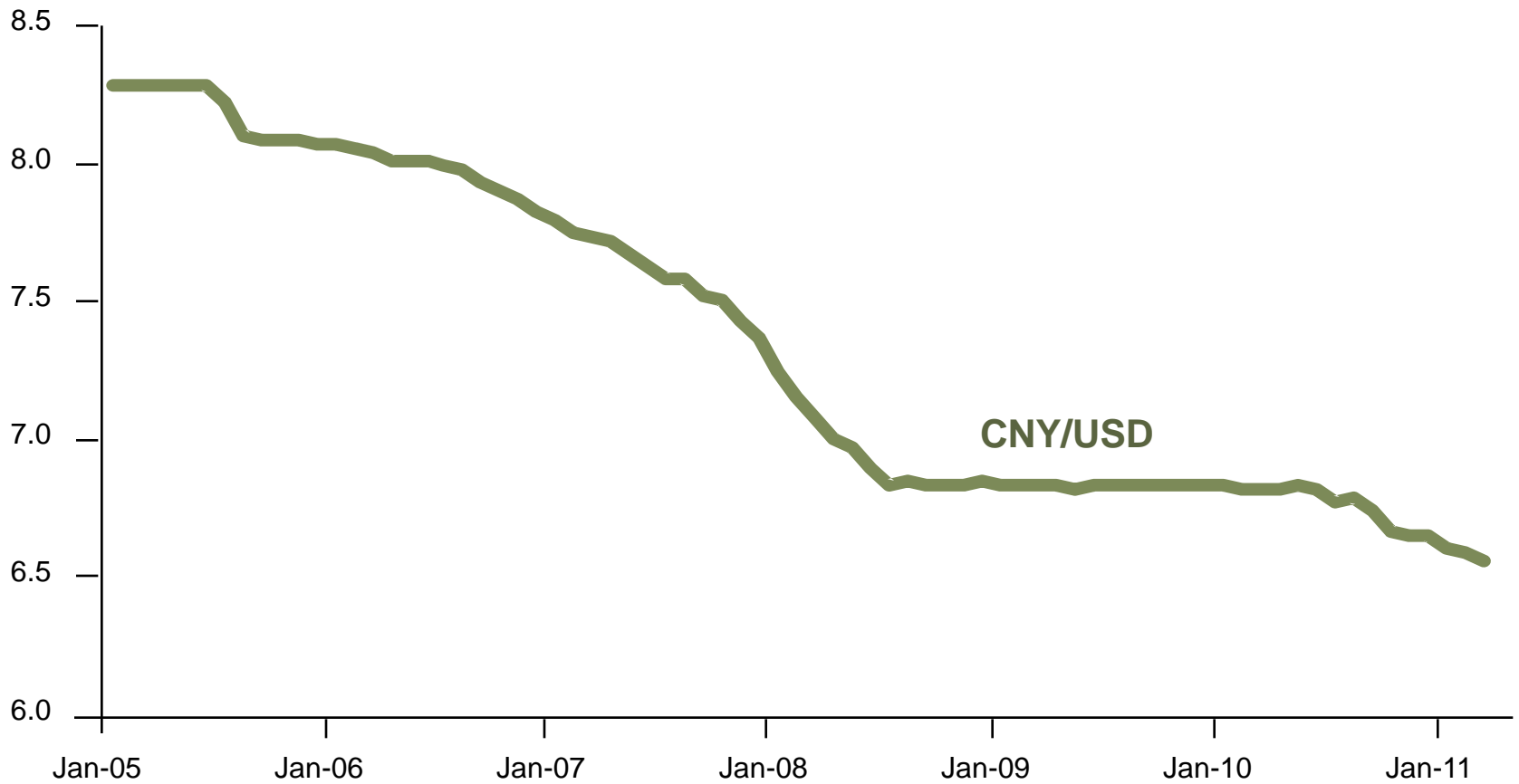
Source: CEIC, UBS estimates 201104

RMB.....in demand



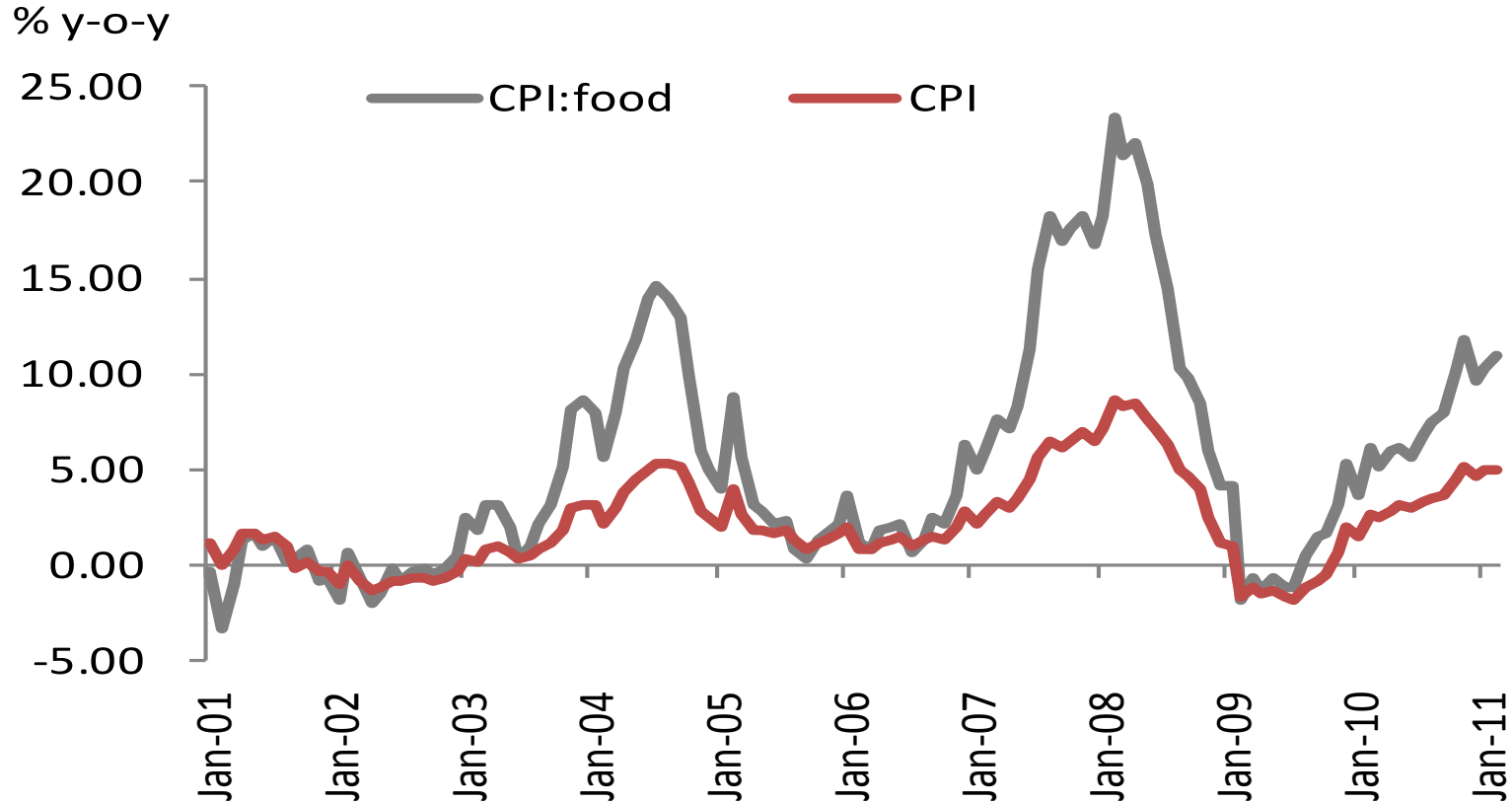
gradual appreciation of RMB/USD exchange rate

RMB/USD exchange rate



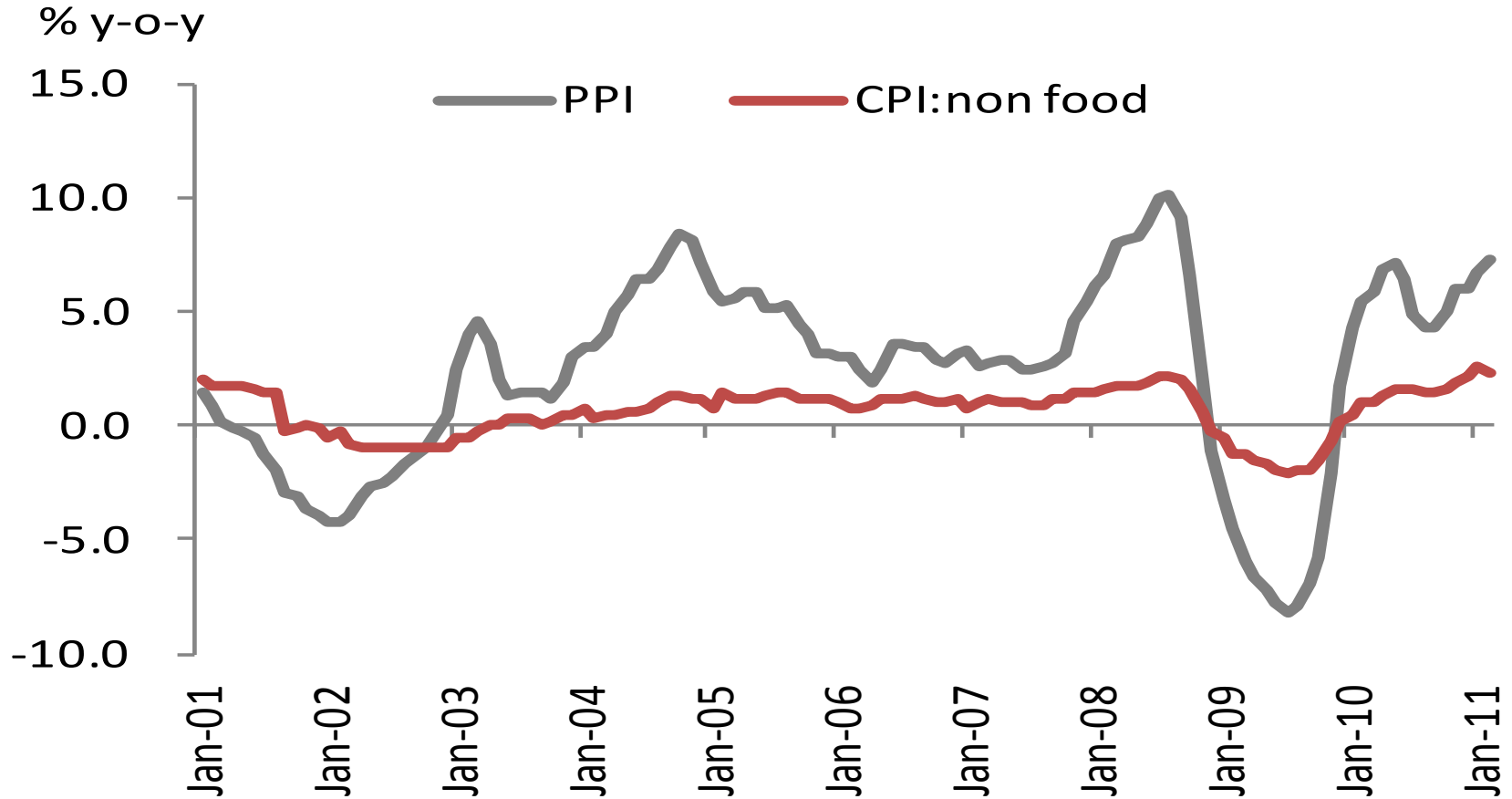
Inflation control is top priority

Consumer Price Index: Food versus Total



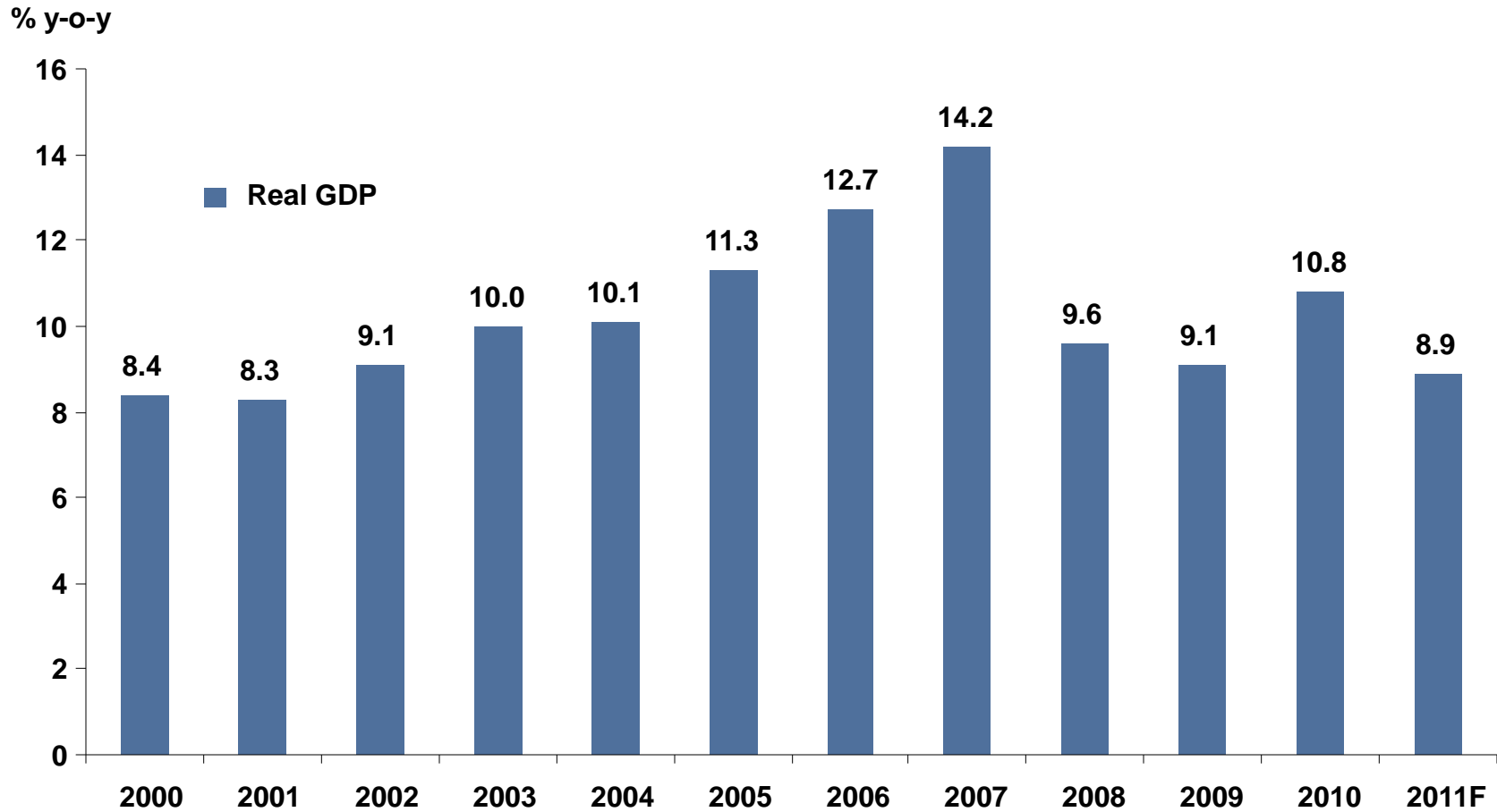
But inflationary pressure could be structural

Consumer Price Index: non food & Producer Price Index



Economic growth is not a cause for concern

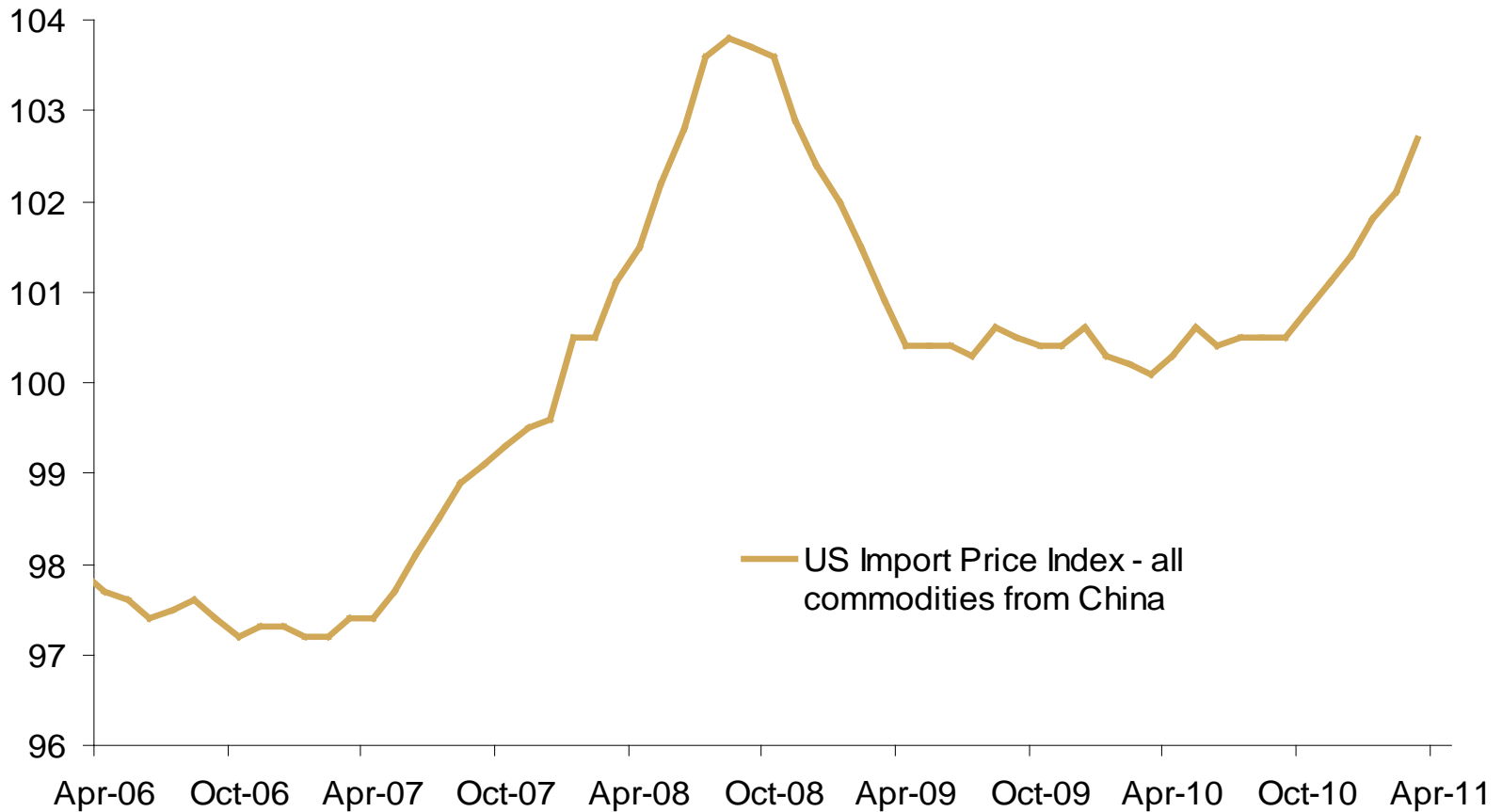
China Real GDP growth



China's Export Prices

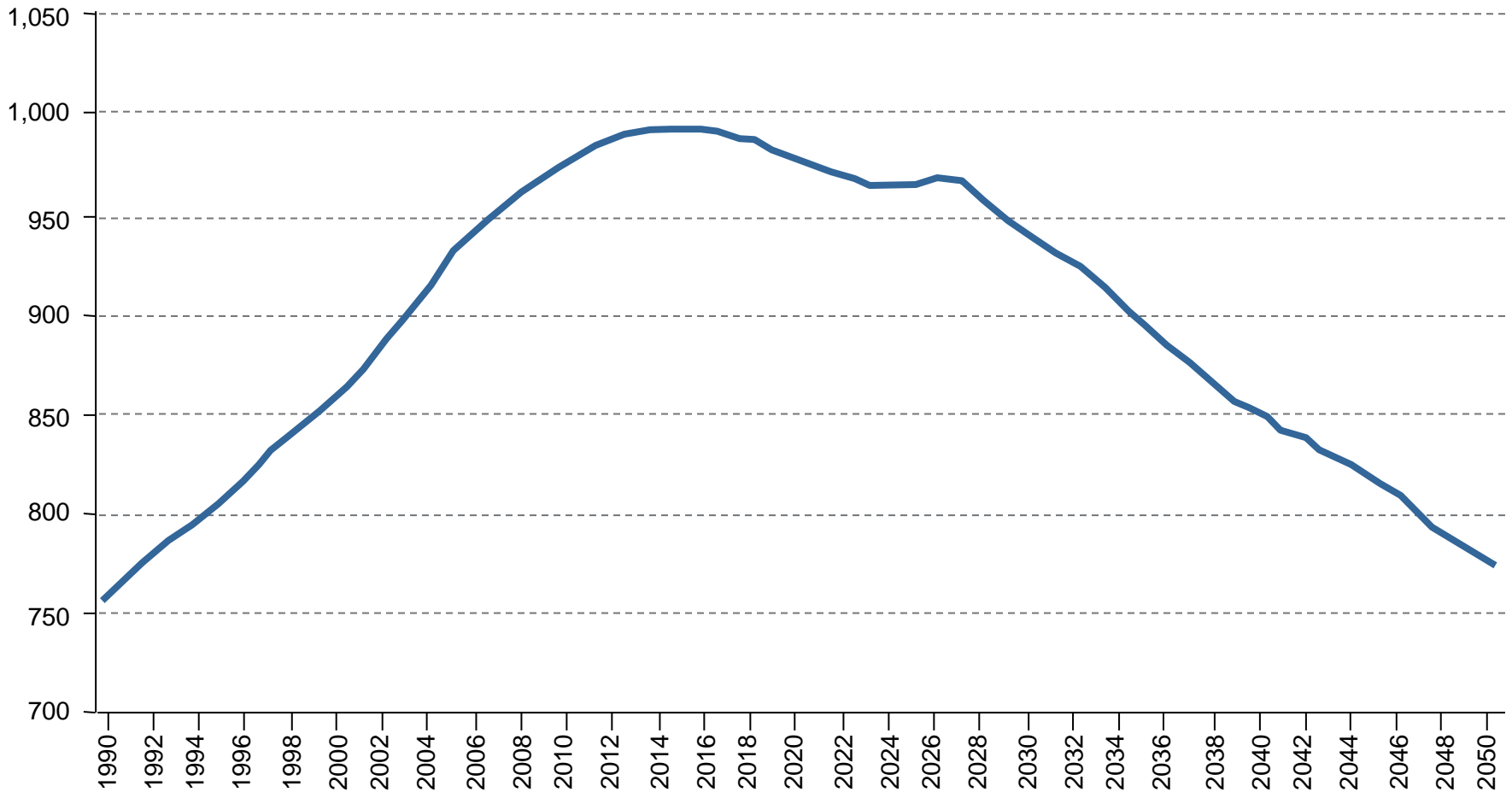
Starting to creep up

US Import Prices – all commodities from China



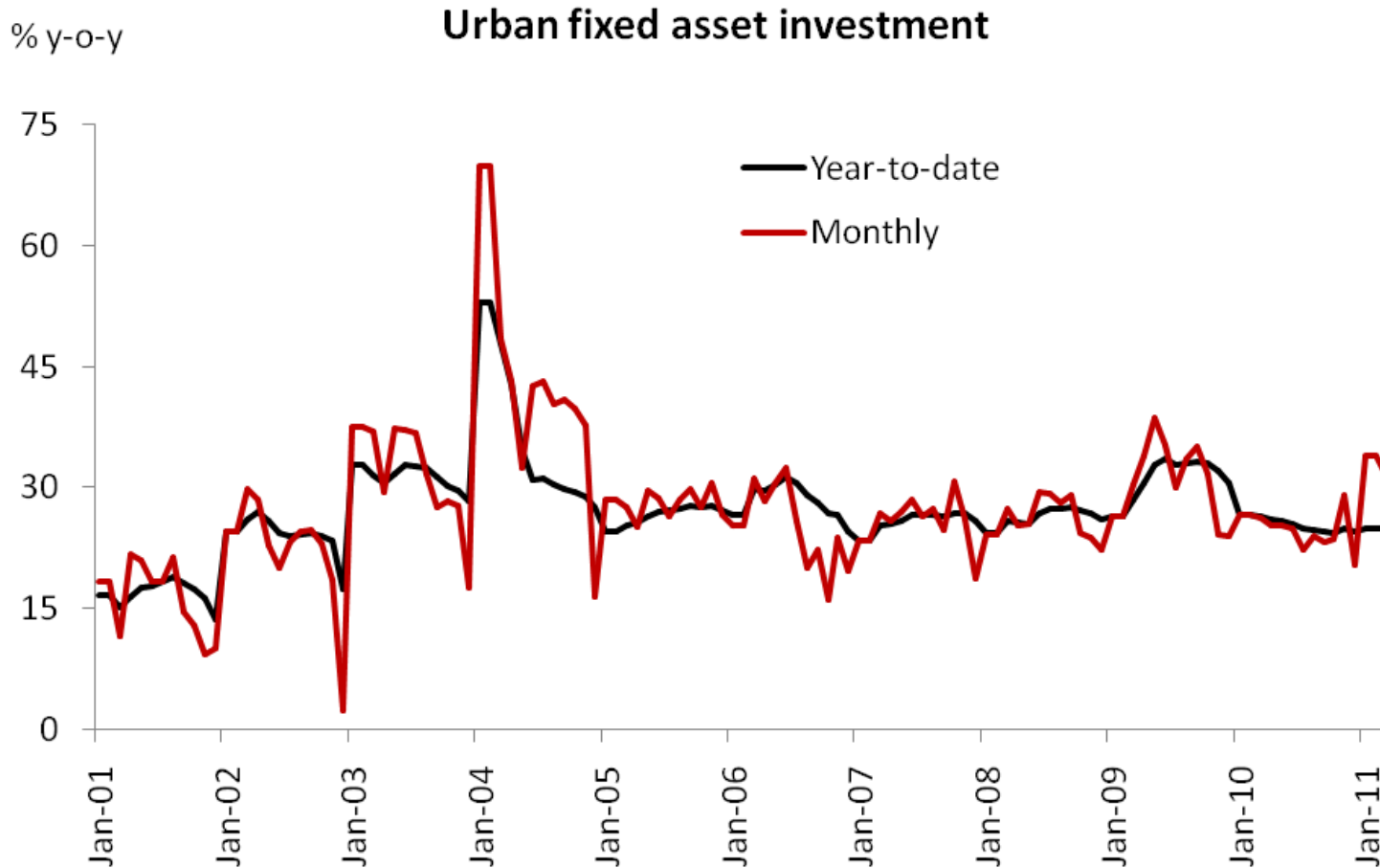
In fact, there will be a shortage of labor as labor force will shrink

Working age population (age 16-65), mn persons



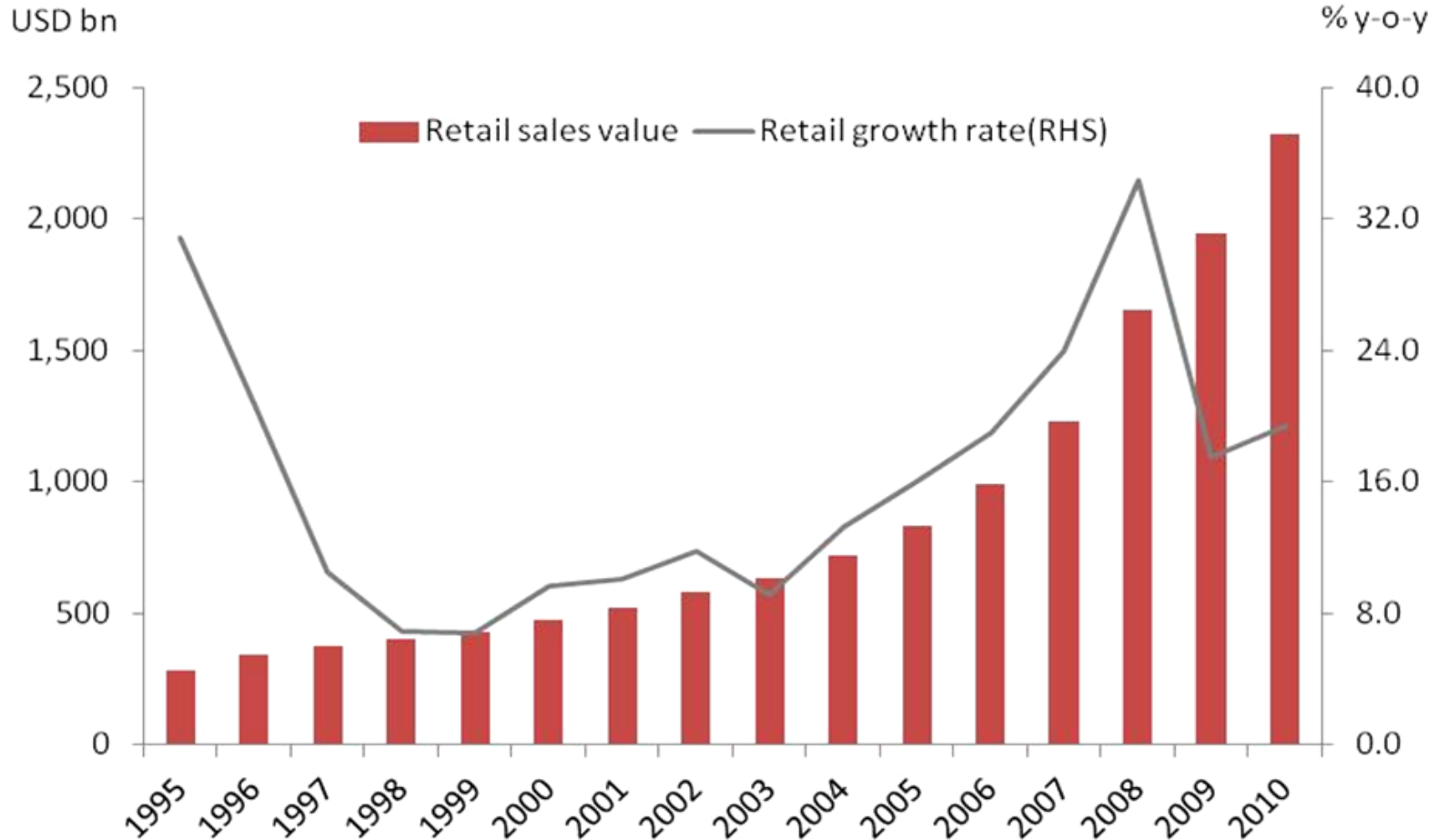
FAI will moderate

China Fixed asset investment



Consumption will remain steady but short term undermined by inflation

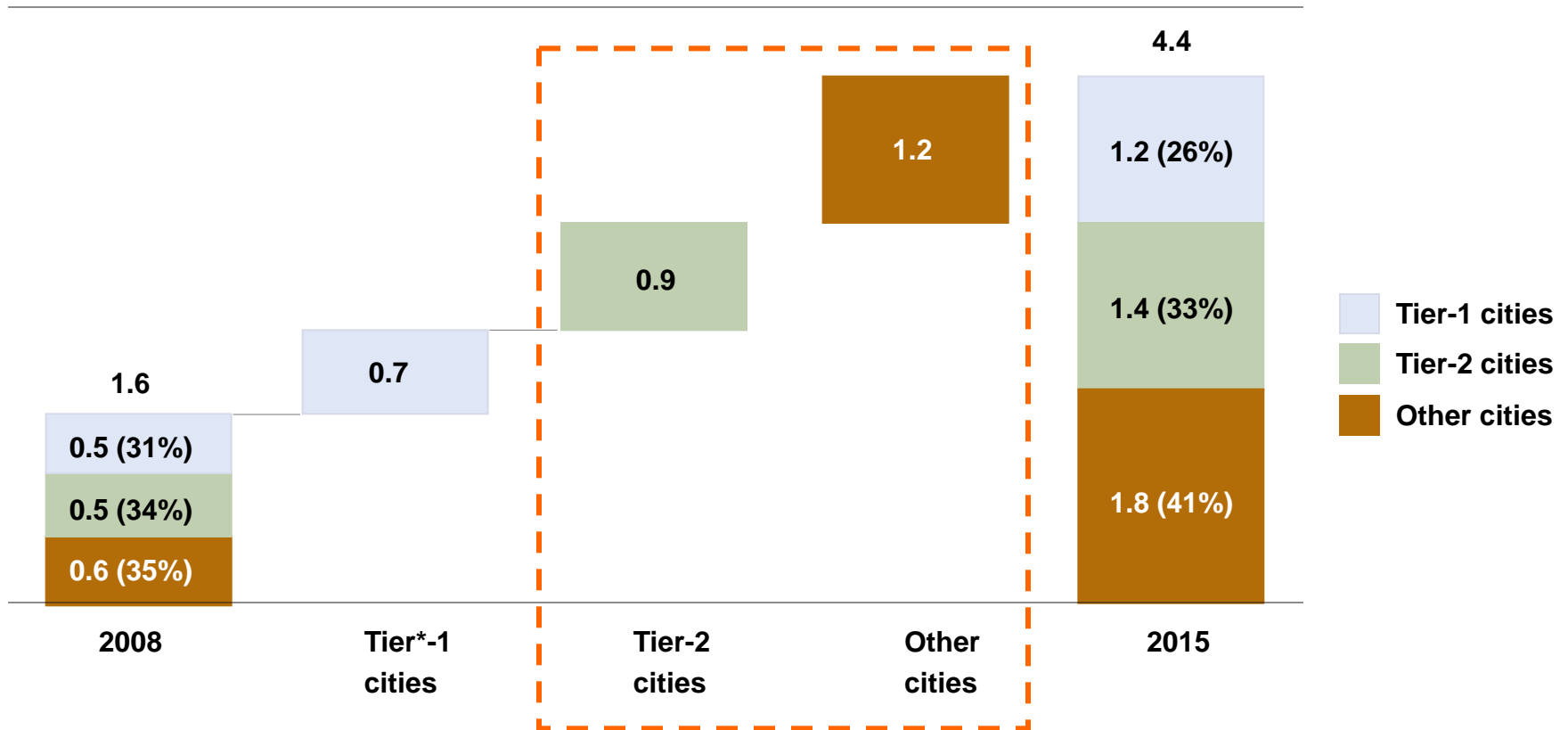
China consumption



Geographic evolution of HNWI

Where will the wealthy be living in 2015

Wealthy households, millions

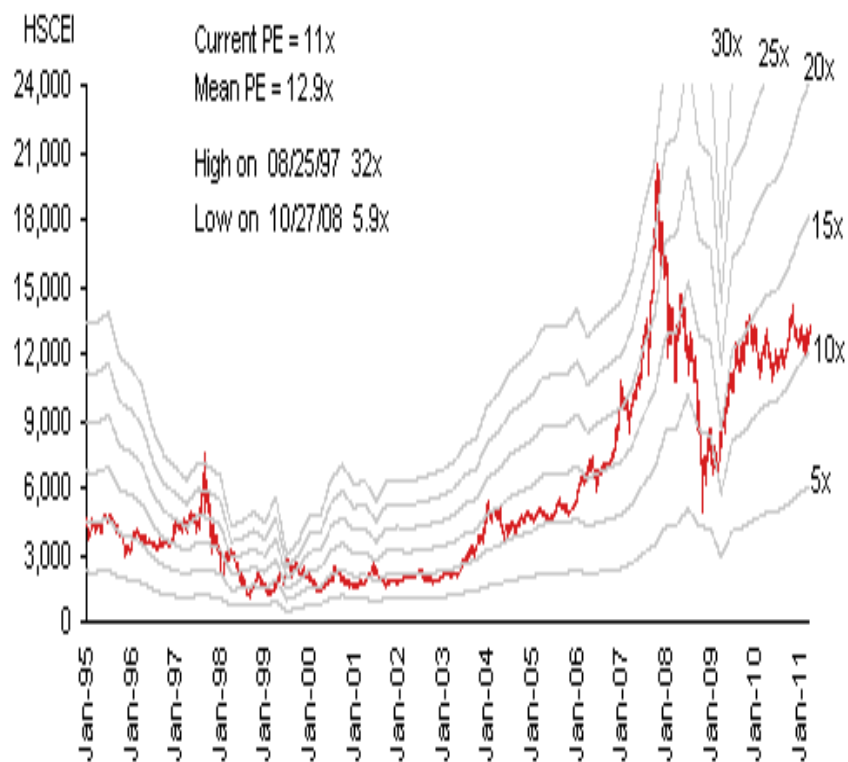


* About 800 Chinese cities are grouped into four different tiers according to their level of total consumption and future growth of total consumption on Source : McKinsey Global Institute, Insights China by Mckinsey – 2008 Wealthy Chinese Consumer Survey

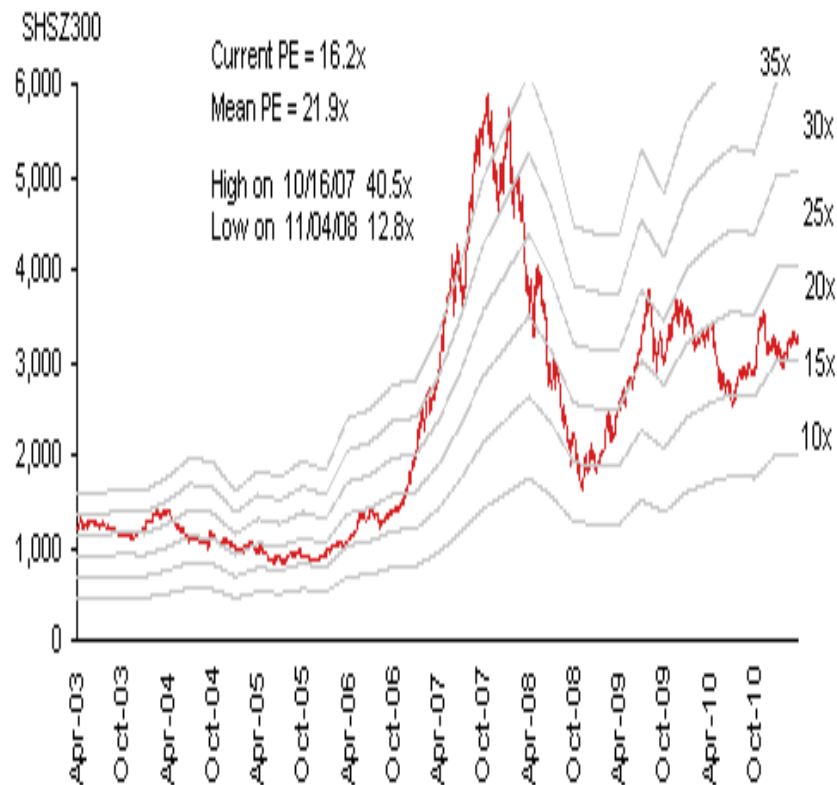
Market valuations are reasonable

PE band charts for H-shares and A-share index

HSCEI - Price to Earnings Bands Chart



SHSZ300 - Price to Earnings Bands Chart



Conclusion

- Easing food inflation will support equity market
- However, no significant policy easing is expected
- Structural themes remain intact:
 - Consumption
 - Environment
 - Renewable and clean energy
 - Technological upgrade and IT software development
- Relating to some of the above themes is another emerging trend:
 - Changing demographics => increasing automation
- Corporate sector evolution
 - Management buyout and incentives for state-owned companies
 - Family owners of private enterprises bringing in professional management to help grow the companies

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