

Analyst Express

A-share Market Strategy Thematic: Watch for the “four major effects” from the comeback of severe energy conservation and emission reduction efforts

- ❖ The energy conservation and emission reduction (ECER) targets for the “11th Five-Year” were successfully fulfilled, but the rush to meet the targets left material negative impacts. During the “11th Five-Year”, China over-fulfilled the emission reduction targets but fell slightly short of the energy conservation plan. In order to ensure accomplishment of the targets, the local governments adopted multiple administrative measures (such as power rationing, production restriction, mandatory closure of enterprises or even comprehensive suspension of power supply to the electricity consumers including the households), which caused negative impact on the macroeconomic operation and the residents' living.
- ❖ Annual assessment of the ECER performance bears critical importance at the current moment. The ECER targets for 2011 include: reducing the energy consumption per unit of GDP by 3.5%, lowering the carbon dioxide emission intensity by approximately 3.5% and slashing the emission of four major pollutants (i.e. sulfur dioxide, COD, ammonia nitrogen and nitric oxide) each by 1.5%. Although the central government announces the annual ECER indicators every year, we believe the significance of this year's ECER target is quite different from that of the previous years under the backdrop of “new political championships”: fulfilment of the annual targets are more compulsory due to lessons learnt from the end of the “11th Five-Year”; as the term of this government session approaches an end, it becomes imperative to fulfil the ECER targets and present it as a major political achievement; and the central and local governments reach further consensus on the transformation of economic structure and the assessment of local governments will become increasingly stringent.
- ❖ Policies tolerate a slower GDP growth rate as a result of the ECER efforts. Supposing the energy consumption per unit of GDP is reduced by 3.5% in 2011E, the growth rate of industrial value added in the same year may slip to a low level of around 9.58% and the GDP growth rate may drop to around 9.01%. Even if the economic growth will be undermined, the government's determination to step up efforts on ECER is unshakable. Recent meetings of the CPC Political Bureau and the NDRC both regard the ECER as one of their top priorities in 2H11E. The confidence of the government lies in the not low growth rate and the stable employment condition. Moreover, the economic slowdown extent accepted by the decision makers is also enhancing.
- ❖ New requirements on the ECER for 2011E and the “12th Five-Year”. On one hand, the Ministry of Industry and Information Technology (MIIT) published four binding indices for the industrial ECER during the “12th Five-Year” and in 2011, which come out slightly stricter than requirements of the “12th Five-Year Plan”. On the other hand, the MIIT unveiled the name list of industrial enterprises subject to elimination of obsolete capacities in 2011, which involves 2255 enterprises in 18 industries. By sectors, the obsolete capacity elimination tasks for the cement, steel, iron and coking industries all exceed 10mn tonnes (the quota for the cement industry is more than 150mn tonnes); and by province, the respective targets for Hebei, Shanxi, Liaoning, Zhejiang, Shandong, Henan and Sichuan surpass 10mn tonnes. The energy conservation pressure in the abovementioned industries and provinces/municipalities remains relatively grave.

Principal Market Indices

Index	Close	Change %		
		1-d	5-d	YTD
CSI 300	2756.11	-0.83	-2.8	-12
S&P/CITIC300	2320.81	-0.80	-2.9	-13
S&P/CITIC 50	1876.65	-0.71	-2.1	-9
Shanghai Composite	2498.94	-0.68	-2.2	-11
Hang Seng Index	19912.82	-0.67	-3.3	-14
H-share index	10499.89	-0.43	-3.9	-17
Red Chip	3898.06	-0.33	-3.8	-7
Nikkei 225	8793.12	0.34	-3.0	-14
Dow Jones	11295.81	-1.04	-2.7	-2
S&P 500	1185.90	-1.06	-2.7	-6
Nasdaq	2529.14	-0.78	-2.0	-5
DAX	5408.46	0.05	-5.6	-22
CAC	3085.83	0.41	-5.5	-19
FTSE 100	5340.38	0.41	-1.4	-9
BDI	1782.00	2.18	6.0	1

Major mercantile futures

Futures	Close (USD)	Change %		
		1-d	5-d	YTD
NYME Oil	89.05	-0.32	0.1	-3
NYME Gold	1857.50	2.20	1.4	31
LME Copper	9100.00	0.24	-0.4	-6
LME Aluminum	2390.25	0.63	-1.5	-3
LME Zinc	2251.00	0.49	0.5	-8
Spot silver	42.31	1.76	1.8	37
Corn futures	734.00	-1.87	-4.4	17
Soybean futures	1418.25	-0.18	-2.7	1
Wheat futures	738.00	-1.80	-6.8	-7
Cotton futures	113.63	2.98	7.4	-22
Rough rice futures	17.83	-1.76	-0.6	25
Sugar	28.73	1.13	-3.2	-11

Major foreign exchanges

FX	Close	Change %		
		1-D	5-D	YTD
USD index	76.24	1.02	2.4	-4
USD-RMB	6.38	-0.20	0.0	-3
USD-JPY	77.46	0.17	0.9	-5
EUR-USD	1.39	-0.92	-2.5	4
GBP-USD	1.60	0.28	-1.1	3

Major stock index futures in China

Futures	Chg%	Basis	Position	Chn in position
IF1108	-0.42	6.30	30845	-2301
IF1109	-0.50	10.89	6197	769
IF1112	-0.47	23.30	3465	54
IF1203	-0.45	54.30	516	10

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Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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