

JESA INVESTMENT & MANAGEMENT CO. LTD.

NEWSLETTER

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NEWS FROM JESA! Medici volontari italiani

By Saro Capozzoli, Founder and GM of JESA
Investment & Management Co., Ltd

This month we could write about many topics and events that are happening in China and in Shanghai, starting from the Expo, the biggest in the history, to comments about the current situation in Europe and the impact that this could have on the global economy still weak after the global financial crisis.

Despite this situation, this month we take the chance to write about the association of Medici Volontari Italiani that we have been supporting for several years. This non-profit association is engaged in providing medical assistance in Italy to immigrants and other categories that do not have access to public services.

Sometimes the globalization takes us to look far away from our borders while we underestimate the needs of our neighbors. Several thousands of immigrants in Italy do not have access to public medical care and several diseases that we were able to defeat in the recent past, are reappearing due to lack of prevention and care in immigrants communities.

The tireless work of the volunteers provides services in the territory with mobile units in camper vans where immigrants and homeless can get access to primary health care.

What does this association have to do with Jesa? Since we do believe in the efforts of these volunteers we wanted to dedicate once a year this part of our newsletter to them. Moreover this

makes us think about the fact that in the Western countries we are often distracted by business discussions and development, that makes us proud, while we do not realize that some basic, granted achievements are somehow lacking and can undermine our development.

With this newsletter that reaches also foreign countries, we would like to invite also foreign readers to consider to sustain local associations that may provide useful territorial support to people in need. For Italian readers at page 5 you can find the details of the association.

Moreover it is interesting to consider that many new technologies, included the telemedicine, could be implemented on the mobile units that could be developed and could provide a more capillary service.

ITALIAN VERSION

Questo mese avremmo potuto parlare di tante cose e avvenimenti che stanno interessando la Cina e Shanghai, a partire dall'Expo, il più faraonico della storia, al commentare l'attuale situazione in Europa e all'impatto che questa potrebbe avere sull'economia globale ancora convalescente dopo la crisi finanziaria mondiale.

Nonostante ciò, abbiamo deciso di parlare dell'associazione Medici Volontari Italiani che supportiamo da diversi anni. Questa è un'associazione non-profit impegnata nel fornire servizi di assistenza medica in Italia ad immigrati e altre categorie di persone che non hanno accesso ai servizi di pubblica assistenza.

A volte la globalizzazione ci porta a guardare lontano dai nostri confini, mentre sottostimiamo i bisogni di chi ci sta intorno. Diverse migliaia di immigrati in Italia non hanno accesso all'assistenza medica e alcune malattie, che eravamo riusciti a debellare, stanno ritornando a causa della mancanza di prevenzione e cure in alcune comunità di immigrati.

L'instancabile lavoro dei volontari fornisce servizi sul territorio con unità moduli in camper dove gli immigrati e senza tetto possono accedere ad assistenza primaria.

Cosa ha a che fare questo con Jesa? Siccome crediamo nel contributo che tali volontari danno alla nostra società, vogliamo dedicare una volta all'anno questa parte di newsletter a loro. Inoltre la loro attività ci fa riflettere sul fatto che la società occidentale è spesso distratta da discussioni relative a business e sviluppo, che ci rendono orgogliosi, mentre perdiamo di vista il fatto che alcune basilari e scontate conquiste in alcuni casi mancano e possono minare il nostro stesso sviluppo.

Con questa newsletter che raggiunge anche paesi esteri, vogliamo anche invitare i lettori stranieri a considerare di sostenere associazioni locali che possono fornire un importante supporto alle persone in difficoltà. Per i lettori italiani, a pagina 5 sono disponibili i dettagli dell'associazione.

Inoltre è interessante riflettere su quante nuove tecnologie, inclusa la telemedicina, potrebbero essere implementate su questi mezzi mobili che potrebbero fornire un servizio più capillare sul territorio.

How long Chinese moderately easy monetary policy will continue?

China will continue to implement a proactive fiscal policy and a moderately easy monetary policy in 2010, says a Government work report which will be presented by Premier Wen Jiabao to the Parliament's annual session.

However, according to the author's analysis, Chinese moderately easy monetary policy will not go on for a long period, and continuing this policy would face many difficulties.

Pressure for increasing CPI exists and there is no evidence of improvement till now

Yao Jingyuan, director of Chinese National Statistic Bureau, made a speech in the "Chinese Development High Forum". Mr Yao said that keeping CPI below 3% is a very difficult task for Chinese Government. Risk of inflation have influenced investors for more than the last 6 month.

| INDEX | Feb 10 | Jan 10 | Dec 09 | Nov 09 | Oct 09 | Sept 09 |
|-------|--------|--------|--------|--------|--------|---------|
| CPI | 2.07 | 1.05 | 1.09 | 0.06 | -0.5 | -0.8 |
| PPI | 5.04 | 4.03 | 1.07 | -2.1 | -5.8 | -7.0 |

On March 11th, Chinese National Statistic Bureau issued economic data of Feb 2010. CPI increased 2.7% compared to the same period last year. This means that to date real interest rate is negative, since one year term deposit interest rate is 2.25%. So investors are wondering: when basic deposit interest rate will rise?

The author also thinks that CPI can increase more than

expected in the next three months because of two reasons: first, because of bad weather from last autumn, which was very dry in the south of China. The drought, which was expected to push rice's price, had already increased the price of sugar and vegetables compared to last winter. Second, PPI's increase has not transferred to a CPI's rise and there is not enough evidence that PPI's acceleration has been controlled effectively.

If real deposit interest rate is negative for more than three months, the probability of an increase of basic interest rate will be very high.

Commercial banks have already lost capability for increasing credit supply compared to last year.

Chinese commercial banks followed the policy of "meeting demands of economic development through money supply while maintaining risks under control". According to Statistic Report by Central Bank (PBC, People's Bank of China), the number of new loans provided by financial institutions was 9.59 trillion RMB in 2009 and an acceleration of 4.69 trillion RMB year on year took place.

Speaker said PBC plans to keep a similar credit scale in 2010. This means that the number of new RMB loan will be still around 10 trillion RMB. The author thinks PBC has already held in the gross credit scale since October 2009. In order to keep market sentiment high, PBC did not provide monthly data on "acceleration year on year of increasing new loan" from December 1st. The number of "acceleration increasing new loan year on year" was 5.2 trillion RMB by the end of the 3rd

Quarter, which decreased to 4.69 trillion. This means that the speed of new loans' increase is already negative.

The number of new RMB loans increase in Chinese financial system (unit: billion RMB)

| ITEM | Feb 10 | Jan 10 | Dec 09 | Nov 09 | Oct 09 | 4th Q 2009 | 3rd Q 2009 | 2nd Q 2009 |
|---------------------------|---------|---------|--------|--------|--------|------------|------------|------------|
| Increasing new loan | 700,10 | 1390,00 | 379,80 | 294,80 | 253,00 | 9590 | 8700 | 7370 |
| Acceleration year on year | -371,40 | -224,30 | | | | 4690 | 5200 | 4900 |

Notes: the numbers in black represent what happened in the related month; numbers in red represent what happened by the end of 4th, 3rd and 2nd quarter 2009.

Although the banking system brought enough capital to support large fixed investments which had a big contribution to China's GDP, it also brought risk to commercial banks. The ratio of RMB deposit to RMB loan is 74.74%, which is close to the red alarm-line of 75%. PBC is already worried about safety of Bank system and it has already increased by 50 basis points the legal required reserve rate of deposit on Jan 11th and on Feb 25th.

However this is a common situation and most of commercial banks will not be able to fulfill the capital requirements if they continue increasing the scale of credit. China Construction Bank, China Huaxia Bank, China CITIC Bank had already approved the plan for issuing subordinate debt in order to increase capital.

The author thinks that there is enough evidence to believe commercial banks will not be able to provide the same credit

scale of 2009.

Decreasing acceleration of supply of currency

Outstanding balance of broad money M2/M1/M0 within last 6 months.

| | Feb 10 | Jan 10 | Dec 09 | Nov 09 | Oct 09 | Sept 09 |
|---------------------------|--------|--------|--------|--------|--------|---------|
| M2 Balance (trillion RMB) | 63,60 | 62,51 | 60,62 | 59,46 | 58,62 | 58,54 |
| Acceleration rate (%) | 25,52 | 25,98 | 27,68 | 29,74 | 29,42 | 29,31 |
| M1 Balance (trillion RMB) | 22,43 | 22,96 | 22,00 | 21,25 | 20,75 | 20,17 |
| Acceleration rate (%) | 34,99 | 38,96 | 32,35 | 34,63 | 32,03 | 29,51 |
| M0 Balance (trillion RMB) | 4,29 | 4,08 | 3,82 | 3,63 | 3,57 | 3,68 |
| Acceleration rate (%) | 21,98 | -0,79 | 11,77 | 14,99 | 14,09 | 15,96 |

The table above seems to enlighten the influence of Chinese Spring Festival (Spring Festival is new year holiday for lunar Calendar. PBC provides more currency for the consumption during holiday. Spring festival of 2010 is in Feb, spring festival in 2009 is in Jan).

The acceleration of M2 balance has been already decreasing since last November and deflation stopped in Nov 2009. PBC has already held in the supply of cash in the market, especially when PPI went up quickly in Dec 2010.

Conclusion

The author pointed out that PBC faced higher potential CPI increasing pressure, and capability of increasing credit scale from commercial bank system is already limited. Apart from operation in open market, PBC can't rely on enough effective instrument to realize "easy monetary policy".

For this reason the author thinks "moderately easy monetary policy" has already stopped. To date the current monetary can be considered "neutral". According to the writer's opinion, Beijing Central Government announcement aims only to avoid a loss of confidence of the market.

The Chinese Economy - First Quarter Results 2010

According to the preliminary estimation, the gross domestic product (GDP) of China in the first quarter of this year was 8,057.7 billion yuan, a year-on-year increase of 11.9 percent, which was 5.7 percentage points higher than that in the same period last year as Li Xiaochao, spokesman of the National Bureau of Statistics of China has reported on 15th April. He also listed the following achievements for the Chinese economy for the first quarter:

- ü The agricultural production was good with increased acreage of grain crops.
- ü Industrial production picked up with a substantial increase in economic efficiency of enterprises.
- ü Investment in fixed assets increased rapidly and that in real estate continued to accelerate.
- ü Sales on domestic markets enjoyed steady and fast growth and the new areas for consumption increased rapidly.
- ü The year-on-year consumer prices went up while producer prices for manufactured goods increased rapidly.

- ü Foreign trade recovered rapidly and trade deficit was seen in March.
- ü The urban and rural population's income continued to grow with rapid growth in income transfer.
- ü The growth rate of money supply dropped from the high level while the newly increased credits declined as compared with that a year ago.

This brief summary makes some relevant points, but is far from painting the whole picture.

China posted a \$7.24 billion trade deficit in March, its first in almost six years, the official Xinhua News Agency reported, citing customs figures. Although the return to deficit after many years of surplus could help ease pressure on China to allow the value of its currency to rise against the dollar - a key source of contention with the US and other developed trading partners - Chinese officials, including China's minister of commerce, Chen Deming, described March's deficit as only temporary. Although part of the rebalancing package as suggested by the IMF, Chinese officials still resist pressure to allow the yuan to rise in value, saying the trade sector remains weak and prey to weaknesses elsewhere. 'China must be prudent about the outlook for exports as the risk of a double-dip slowdown in world economic growth exists'-said chief engineer of the Ministry of Industry and Information Technology, Zhu Hongren at a press conference. 'Pressure to appreciate the RMB from some developed countries may also have a negative effect on Chinese exporters'-Zhu added.

Zhang Liqun, a researcher with the State Council's Development Research Center said that the country's economy was not yet on a path of sustainable growth as domestic demand still largely relied on government incentives. Zhang said that China needs to expand consumption demand by readjusting income distribution and stepping up urbanization. Economic restructuring and a change of growth model at the same time should be promoted for longer-term sustainable growth.

Above mentioned, at the same time an urbanization process is taking place as tens of millions of workers have been laid off during the global financial crisis. Many of them are leaving their native villages, drifting back to the cities, where they are not however finding as many openings as needed which led to an unemployment rate of 4.2% for the first quarter as reported by Xinhua News Agency.

Another problem arising - as pointed out by Stephen Green, Standard Chartered's head of Greater China research in Shanghai - is that Chinese central planners could be faced with an asset-price bubble in the second half of the year that could trigger a sharp credit contraction in 2011 unless growth is coaxed onto a more sustainable pathway. Although a lot of experts share this idea, the IMF sees this jump in prices as a sign of healthy growth, rather than a real estate bubble.

On the inflation front, March's consumer price index was 2.4% higher than a year earlier, easing slightly from a 2.7% rise in

February. Meanwhile wholesale prices for the month were up 5.9% year-on-year, compared to a 5.4% rise in February.

Regarding the future for potential investors in China, James McGregor, a bestselling author on China business says 'There is no market like China in the world. It is a continental-sized market that has another billion people to reach the middle class. If you develop a product here and could scale it up enough, you can be a global winner.' In a number of ways, doing business in China has become easier in recent years because business practices have become more established and there is a better legal framework. Still there is a sense among some in the foreign business community that regulations and rules are selectively applied to the advantage of Chinese companies. Other set-backs exist as well, like China's indigenous innovation policy, which has a clause to allow re-innovation of foreign technology. This policy is a barrier to intellectual property protection that discourages innovation in China. Still, many foreign companies now have little choice but to enter China since it is emerging as the really key market of the 21st century.

Last but not least, a survey conducted by the Development Research Center of the State Council through its Chinese Entrepreneurs Survey System (CESS) reveals that nearly 80 percent of Chinese entrepreneurs view rising costs of raw materials and labor as the biggest challenge for the future.

Notice for Italian Tax Payers

Invitation to donate part of the taxes for an association that takes care of medical treatments for immigrants without medical rights in Italy and for the start up of an hospital in Rwanda

Jesa sostiene la causa dei Medici Volontari Italiani ed invita anche voi a donare il 5 per mille.

Donazioni dirette a:

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Medici Volontari Italiani – Onlus - Via Bambaia 10 – 20131
Milano - Tel. (+39) 02 28970226 – Fax (+39) 02 99987184
posta@medicivolontariitaliani.org
www.medicivolontariitaliani.org*

CONTRIBUTORS

Scott Sun (supervisor)
Saro Capozzoli
Elena Veneziani
Colin Wang
Luca Barberis
Leila Vezendi

For inquires and suggestions regarding this newsletter or for any other concerns, please contact us anytime at:

elena@jesa.com.cn

And please visit our website:

www.jesa.com.cn

ADDRESS IN SHANGHAI



HOUSE 4, LANE 112, FENYANG RD.
200031 SHANGHAI
CHINA

Tel +86 21 64331555
Fax +86 21 62880072

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