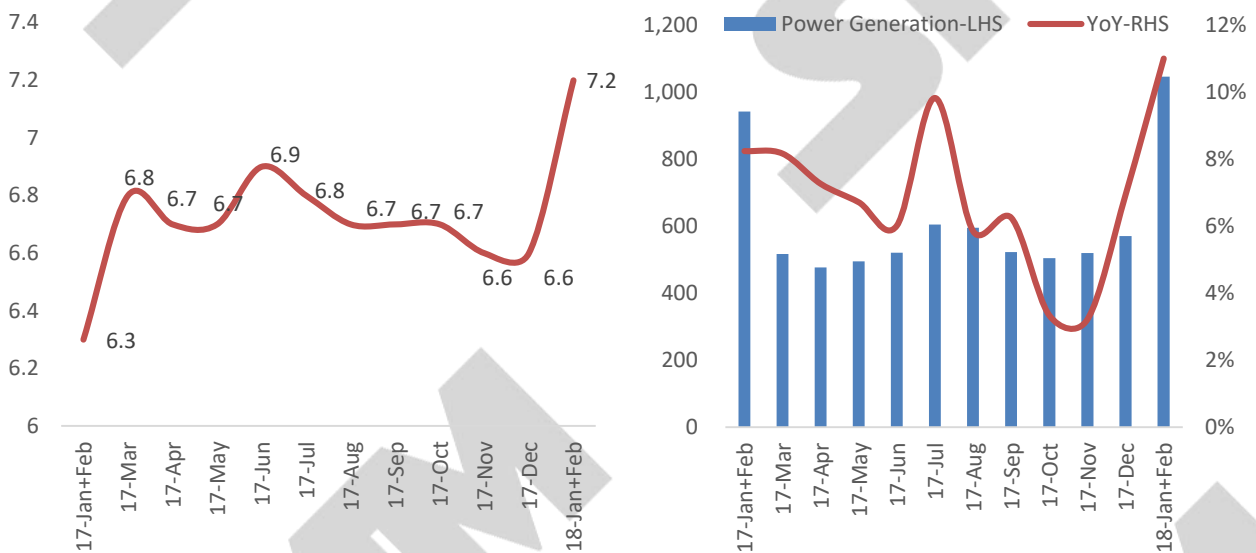


## Short-Term Demand is not Weak, NBS Data Shows

On Mar 14<sup>th</sup>, China's NBS released economic data for January-February, the first release this year, for indication of the year-to-date demand. The value added of the industrial enterprises above designated size (revenue>20 million yuan) was up 7.2% yoy in January-February, and up 0.6% from December, above the market expectation of 6.2%. Total power generation was 1,046 TWh, up 11% yoy. It's a good start for China's economy in the first two months, above expectations, and re-affirms SMM's view that demand is good in spite of the delay of production resumption in Spring.

Chart1. China's Value Added of Industry YoY (%) cumulative Chart 2. Total Power Generation (TWh) and YoY (%)



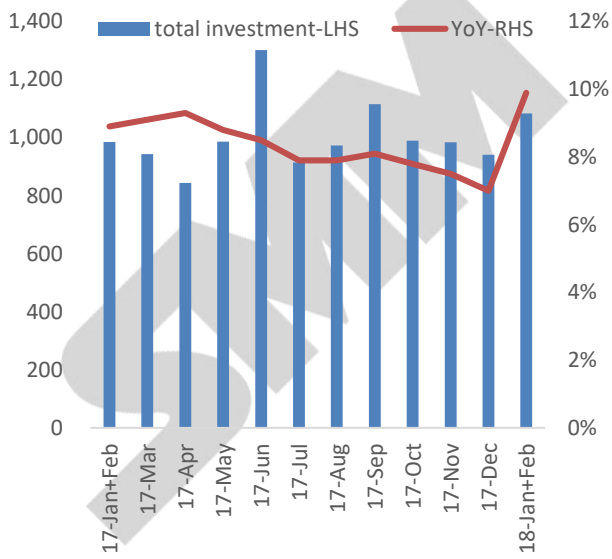
Source: SMM

At the beginning of the year, there were market concerns on China's real estate industry due to the expectation of interest rate hikes, China's financial deleveraging and the high sales base in 2017. According to NBS, the total investment in real estate development was 1,083.1 billion yuan in January-February, up 9.9% yoy. The growth rate was 2.9 percentage points higher than that of last year. Floor space of houses newly started was 177.5 million square meters, up 2.9% yoy. Specifically, the floor space of residential buildings newly started increased by 5%. The floor space of commercial buildings sold reached 146.3 million square meters, up 4.1% yoy. The sales of commercial buildings were 1,245.4 billion yuan, up 15.3% yoy. As of end-February, the inventory of commercial buildings was 584.7 million square meters, down 17.3% yoy.

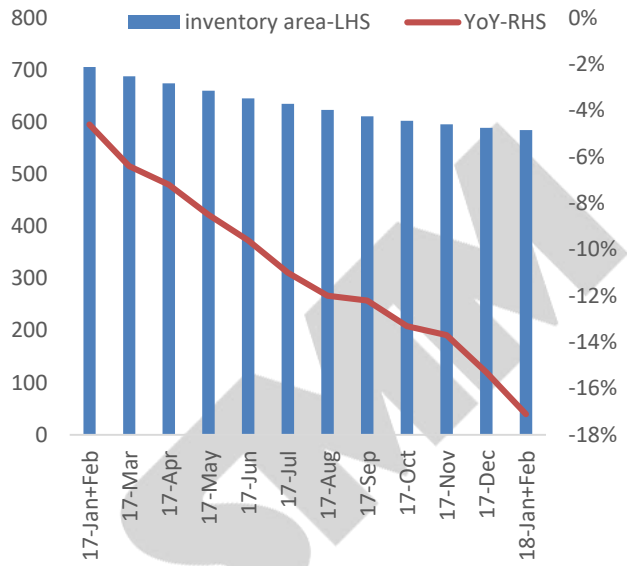
SMM reiterates our view that the real demand of the real estate industry in 1H 2018 is not weak due to the restocking and the recovery of newly start.

Remark: Following charts describe the China domestic commodity house market.

**Chart1. Total Investment & YoY (billion yuan, %)**

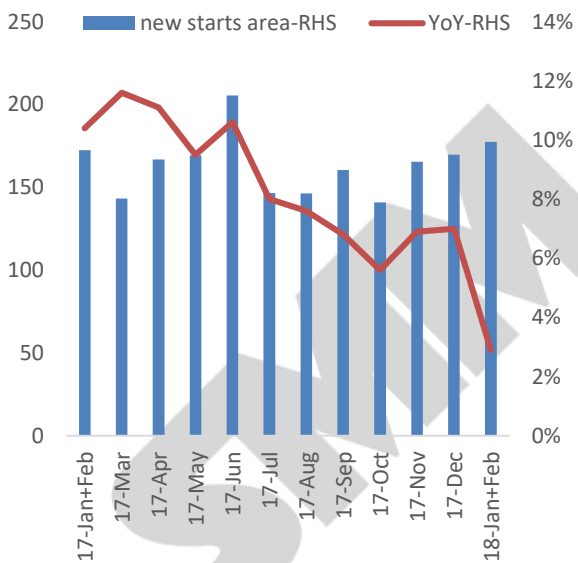


**Chart 2. Inventory & YoY (billion square meters, %)**

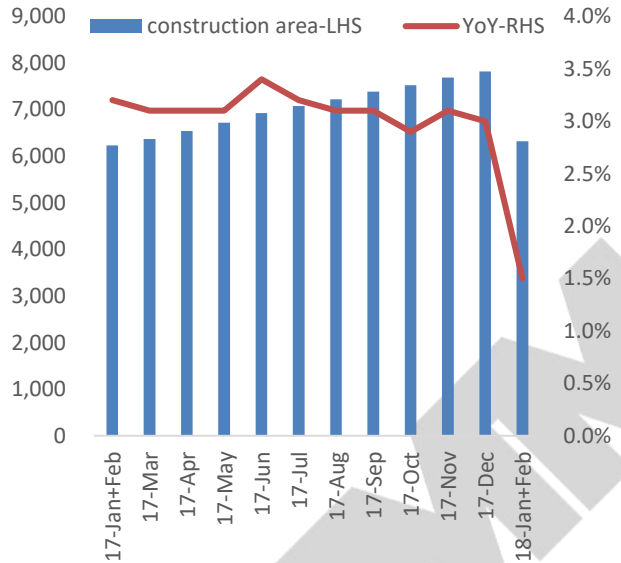


Source: SMM

**Chart1. New Starts Area & YoY (billion square meters, %)**



**Chart 2. Construction Area & YoY (billion square meters, %)**



Source: SMM

Chart1.Sales Area & YoY (billion square meters, %)

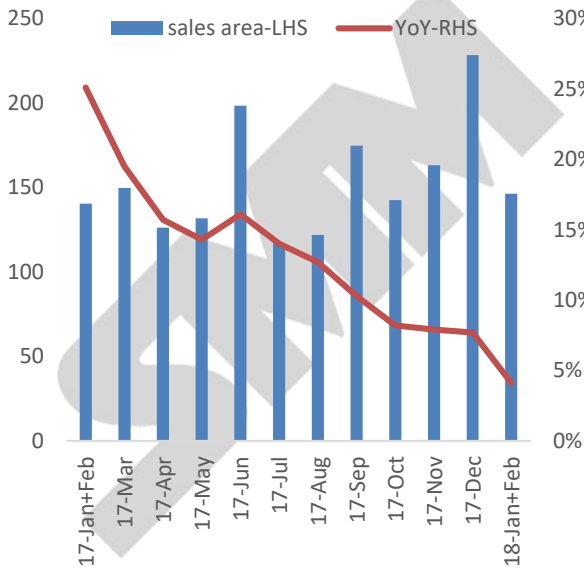
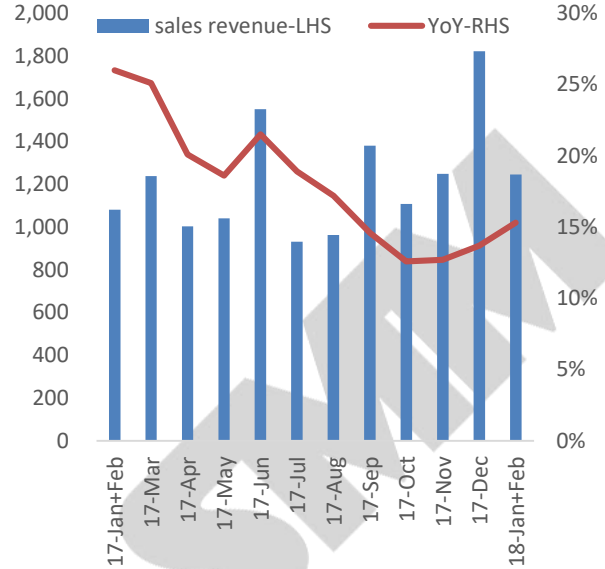


Chart 2. Sales Revenue & YoY (billion yuan, %)



Source: SMM

## Unqualified PPP Projects are Removed from the Approved List, Invested Capital Hit a New Record High.

According to the Ministry of Finance, The newly approved number of PPP projects in February was 446, with the approval rate slightly up to 40.5% and back to the normal level. The net number of constructed qualified PPP projects was 89 with total investment of approved projects was 561.7 billion yuan, hit a new record high. The Ministry of Finance issued notice to clean up projects in areas with poor financial ability in Q4 2017, and financial institutions including banks suspended the new credit approval for PPP projects. SMM sees that that local government will increasingly rely on qualified PPP projects going forward. As the removal of unqualified PPP projects will end in end-March, SMM expects banks and other financial institutions to speed up the lending to qualified PPP projects.

Chart 1. NO. of PPP

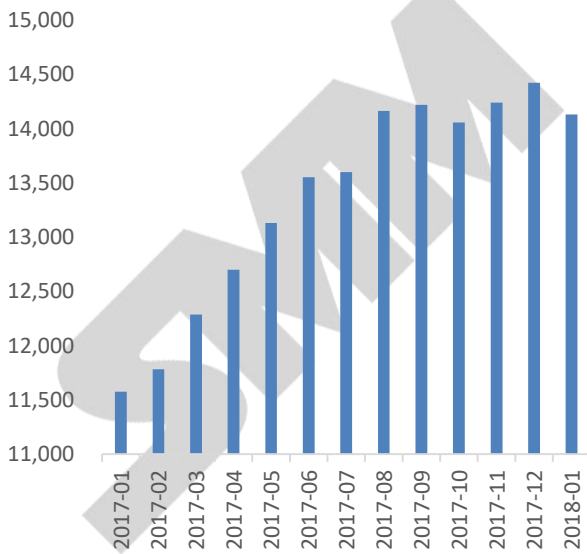
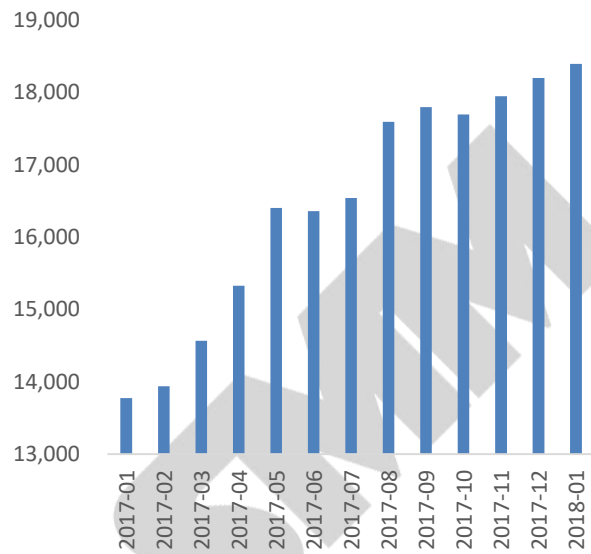


Chart 2. Total Investment Capital of PPP (billion yuan)

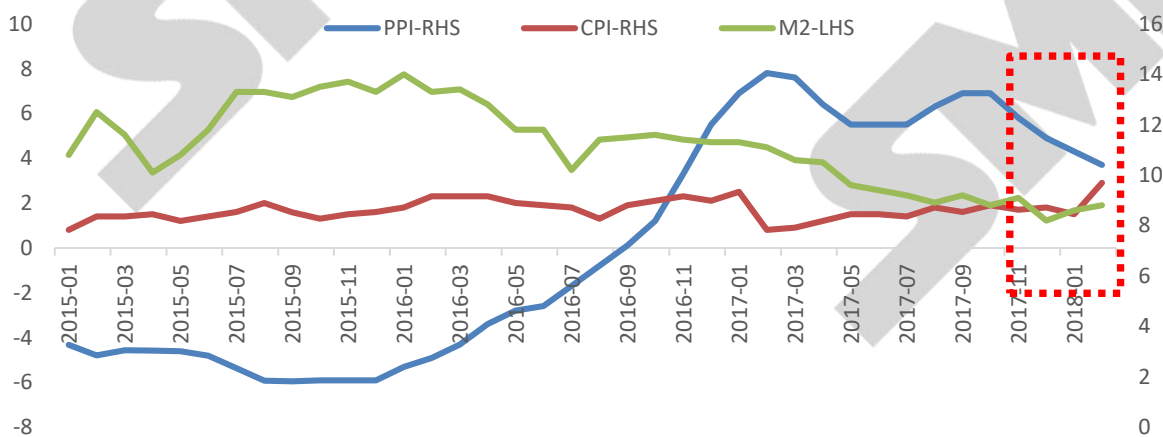


Source: SMM

## PPI/CPI Gap Narrows, SMM Remain Neutral in the Medium-to-Long-Term

SMM is bullish on the demand in the short term due to the production resumption in spring. However, the gap between PPI and CPI has narrowed since 4Q 2017, and the price inflation moves from upstream to downstream. On the other hand, the growth rate of M2 rebounded slightly in February, though still in the downward trend. SMM re-affirms our view that the recovery in spring is a short-term opportunity and we remain neutral in the medium-to-long-term.

Chart 3. PPI/CPI/M2 Growth Rate Year over Year (%)



Source: SMM

SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

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