



**[For Immediate Release]**

## **Xinhua Finance/MNI China Business Survey: Sentiment Rises Again**

**Shanghai, March 30, 2007** – Xinhua Finance (TSE Mothers: 9399) and Market News International (MNI), a part of the news service line of Xinhua Finance, today announced the March Xinhua Finance/MNI China business sentiment survey. The results of the survey suggest that expectations for tighter government policy, including rising interest rates, don't appear to be hurting the sentiment of Chinese companies.

The survey index posted the highest reading in its more-than-two year history for interest rate expectations, but also the highest-ever result for overall business conditions.

The findings come amid widespread concerns that the central government is set to tighten monetary and administrative policies further in the coming months following the release of economic data showing a pick-up in credit generation and industrial output at the start of the year.

The survey was conducted March 13-27 with 154 listed companies responding. A result greater than 50 implies growth or improving conditions (See accompanying story for more on the survey methodology). The full survey results can be found at <http://www.xinhuafinance.com/en/main/chinabizsurvey.html>.

The index was suspended for February owing to distortions created by the Chinese New Year holiday which fell in that month.

"The survey results seem to indicate that the central government is going to have a tougher time slowing rapid growth in lending and investment this year," said Logan Wright, an analyst with Stone & McCarthy Research Associates, a sister company of Market News.

Sub-indices measuring current new orders, production and productive capacities all back at levels last seen at the beginning of 2006.

The results suggest a broad pick-up in economic activity from the mild slowdown seen in the second half of last year and point to a further increase in the coming months.

"Despite higher interest rates, companies are confident that conditions will improve and are keen to expand productive capacity," Wright said.

The index measuring overall business conditions hit a new high of 80.84 while that covering firm's expectations out to three months rose for a third month in a row to 83.77, the second highest level in the survey's history and the highest in a year.

The strong overall business sentiment is underlined by the strength seen in the index measuring new orders, which increased to its highest level in a year. Orders are expected to remain strong in the coming months too, with the index measuring future expectations also at its highest level since the January-March survey of 2006.

Production appears to be keeping pace with orders so far, though the survey suggests the need, and ability, for increasing output in the months ahead. The production index rose to 73.90 in March from 72.46 in January, also the highest level since the first quarter of last year. Moreover, the index measuring the backlog of orders fell back below the 50 mark for the first time since the July-September 2006 survey, indicating production is keeping up with orders.

But the index measuring inventory levels remained below 50 for a second consecutive month. At the same time, that covering production capacity jumped to 74.29, its highest level in two years, while future capacity expectations are also at their highest level since the beginning of 2005.

The March survey results suggest that Beijing is going to have to tighten monetary and administrative policies further this year if it is to meet its stated goal of keeping loan and investment activity under control.

The People's Bank of China raised benchmark interest rates for a third time in under twelve months on March 18, less than a week after the March surveying period began. The impact of the higher rates is reflected in the survey, the results suggest, with the index measuring the level of interest rates paid spiking up from 54.89 in January to 66.04 in March -- the highest reading since the third quarter survey last year, a period during which the central bank also raised deposit and lending rates. Respondents see rates rising for the near future, the survey



results suggest, with the index measuring future rate expectations hitting their highest level in the survey's history at 67.54.

Costs appear to be under control, the results suggest, with the index measuring input prices standing at 60.95 in March, above January's 59.71 and well below the average 65.04 during last year.

Sales prices also remain stable, with the index standing at 57.66 in March, down only slightly from January's 58.21. The index measuring currently received prices for products has edged lower for three consecutive months, while that for future price expectations rose for a third month in a row.

The index measuring the financial positions of respondents remained comfortably above the 50 mark, but nonetheless fell back to 75.99 in March from 77.70 the previous month.

But higher borrowing costs don't seem to have hurt companies' access to funds, with the indices measuring current and future credit availability both hitting record highs in March. One oft-stated reason for the inefficacy of interest rates in China is that companies simply don't need to raise funds in the current business environment. "Since we have a lot of cash, we don't need loans," said one respondent.

Analysts such as Nicholas Lardy of the Institute for International Economics have noted that reinvested profits are the largest source of investment capital in China while data released earlier this week showed profits of industrial firms rising 43.8% during the first two months of 2007 over the same period last year. That could mean a more draconian response from Beijing in the coming months as policy-makers are once again forced to scramble to head off the threat of another credit and investment binge.

"Market-based tools such as interest rates may be less effective than blunter administrative instruments in slowing economic activity in China, where a large portion of the economy remains under the influence of the state," said SMRA's Wright.

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## **Xinhua Finance/MNI China Business Survey Methodology**

The Xinhua Finance/MNI China Business Sentiment Survey was conducted March 13-27 with 154 listed companies taking part.

Survey questions were modeled on Japan's Tankan survey and the U.S. Institute for Supply Management's Report on Business.

Results were compiled for both current conditions compared with a month ago and for expectations of conditions one month ahead.

Indexes were compiled using the Institute for Supply Management's example: adding half of the percentage saying conditions were unchanged to the percentage of those saying conditions had improved generated the index. Therefore, a result higher than 50 indicates a net positive response.

Companies agreed to participate in the survey, and to provide comments about business conditions, under the assurance that individual survey responses would not be divulged except as part of the overall results.

Companies surveyed were all listed on domestic stock markets or in Hong Kong, although some also have foreign listings. The companies chosen were a mix of manufacturers and non-manufacturers with about 75% of the companies responding to the survey in manufacturing.

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**Notes to Editors:**

**About Xinhua Finance Limited**

Xinhua Finance Limited is China's unchallenged leader in financial information and media, and is listed on the Mothers board of the Tokyo Stock Exchange (symbol: 9399) (OTC ADRs: XHFNY). Bridging China's financial markets and the world, Xinhua Finance serves financial institutions, corporations and re-distributors through four focused and complementary service lines: Indices, Ratings, Financial News and Investor Relations. Founded in November 1999, the Company is headquartered in Shanghai with 20 news bureaus and offices in 19 locations across Asia, Australia, North America and Europe.

For more information, please visit [www.xinhuafinance.com](http://www.xinhuafinance.com).

**About Market News International**

Market News International (MNI), a Xinhua Finance company ([www.xinhuafinance.com](http://www.xinhuafinance.com)), is a financial news and information company dedicated to the global fixed income and foreign exchange markets. MNI joined the Xinhua Finance family in March 2004, bringing its niche expertise and extensive distribution network. Headquartered in New York, MNI has news bureaus and offices throughout the US, Europe and Asia.

With more than twenty years of history, MNI is a fully accredited news agency providing focused, timely, relevant and critical intelligence for market professionals. Its press



credentials are accepted by all operations of the U.S. Government, including the White House, the Federal Reserve, both houses of Congress, all major agencies and cabinet departments, all similar government operations in the G-7 countries, as well as by supranational organizations such as the World Bank and the International Monetary Fund.