

Baijiu makers see revenues rise on strong middle-class demand

Other higher-end daily staples see robust sales on rising incomes

By BLOOMBERG

Drink a *baijiu* toast to the new year. China's consumer staples stocks, led by makers of the fiery Chinese liquor, are helping drive stock gains this year as sales prospects get rosier.

As China's markets endured a year of turmoil amid concerns over the economic outlook, consumer staples was the only sector on the country's key stocks exchanges with positive returns last year. Those businesses, which sell things for daily use, surged with average revenue in fiscal 2017 forecast to grow three times as quickly as their global peers.

"The *baijiu* sector will continue to outperform the industry fundamentally as it still has growing demand," Mark Chen, a Shanghai-based analyst at UOB Kay Hian Ltd, said by phone. For China's food industry as a whole, the long-term catalyst is coming from companies upgrading their product mix to satisfy Chinese customers, he said.

In 2016, investors in consumer staples companies on the CSI 300 Index recorded total returns of 11 percent in yuan terms, compared with losses for all the other sector groups. They also outdid their global peers on the MSCI World Consumer Staples Index, which slipped 0.4 percent.

"What we've seen in mainland large-cap staples over the past two years is that they've de-stocked inventory and tweaked strategies to suit the changing consumer market, such as by going more premium," said Hong Kong-based Mizuho Securities Asia Ltd analyst Jeremy Yeo. "That's returned them to top



Workers pack bottles of Moutai, a fiery Chinese liquor, at the Kweichow Moutai Co Ltd plant in Guizhou province in May 2016.

JIANG DONG / CHINA DAILY

27 percent

share of the top four *baijiu* makers in the operating profits of the global spirits industry. High-end *baijiu* is very "profitable".

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line growth and made them attractive to investors again."

Baijiu-makers such as Kweichow Moutai Co Ltd, Wuliangye Yibin Co Ltd and Luzhou Laojiao Co Ltd dominated the gains, while China's largest dairy producer Inner Mongolia Yili Industrial Group Co Ltd, and Henan Shuanghui Investment & Development Co Ltd, which sells meat products, also rose.

Makers of *baijiu*, the grain liquor known as the toast of choice for the Chinese, have bounced back from China's

campaigns against corruption and extravagance. Demand is now being buoyed by rising middle-class incomes, said Yuanta Securities Co Ltd analyst Juliette Liu.

Shares of *baijiu*-makers can provide investors with stability amid volatile markets, Liu said.

"The *baijiu* industry is mature, which lessens the likelihood of bubbles and volatility, and that's what investors want now," she said.

High-end *baijiu* is

"extremely profitable," and the top four producers in China, including Moutai and Wuliangye, are estimated to account for 27 percent of earnings before interest and taxes of the global spirits industry, according to the Bernstein Global Spirits Guide published this month.

Revenue for the distillers surged in 2016, after two years of weak sales, and analysts expect the strong growth to be sustained in 2017. But, they could be outshone by the food

producers, which are being boosted by low corn prices. Food producers are benefiting from slumping corn prices as China's government ended some price supports. Revenue at poultry producer Fujian Sunner Development Co Ltd is forecast to surge 32 percent in fiscal 2017, twice as fast as Moutai, while sweetener maker COFCO Tunhe Co Ltd's sales are expected to rise 23 percent.

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"Low corn prices are good for all agricultural businesses that buy corn as raw material, like sweetener and animal feed producers. The lower prices also feed through to the costs of pigs and chicken farmers, pushing up margins for all," said Ma Wenfeng, an analyst at Beijing Orient Agribusiness Consultants Ltd.

The 17 Chinese firms that make up the consumer staples industry on the CSI 300 Index have an average revenue growth forecast of 16 percent for fiscal 2017.

CSRC seen mulling easier rules on stock futures trading

By LI XIANG
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China's securities regulator is reportedly considering relaxing the restrictions on the trading of stock index futures. Any such move would underscore its intention to gradually restore the market function that has almost come to a halt since the market rout in 2015.

Relaxation measures will likely include reducing the minimum margin requirement from 40 percent to 20 percent of the contract value and increasing the maximum daily trading volume from 10 contracts to 20 per investor, Chinese media reported, citing people familiar with the matter.

Chinese online media outlet thepaper.cn reported that the regulator is likely to announce the decision within this month. The China Securities Regulatory Commission did not respond to media inquiries on this matter.

Short selling through index futures trading has been blamed for the market crash in the summer of 2015 that wiped out one-third of the A-share market value within a month.

The trading volume of index futures dropped dramatically by more than 90 percent in 2016 from the previous year, after the regulator implemented trading curbs to stem the market rout.

The harsh restrictions have almost dried up liquidity in the stock futures market, sparking investors' demand for the restoration of trading, which served as a necessary pricing and risk-hedging tool.

"The A-share market has been consolidating, with relatively stable movements. The basic condition for loosening the trading curbs on index futures is in place," said Xun Yugen, chief strategist at Haitong Securities Co Ltd in a research note.

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the y-o-y drop in trading volume of index futures in 2016

Relaxing the trading curbs will strengthen investors' ability to hedge risks and it will likely attract more capital into the stock market, Xun added.

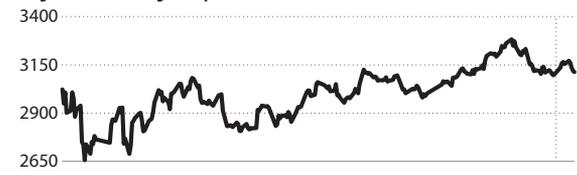
A growing number of scholars and market analysts have also been calling for restoration of trading because they believe that the trading of stock index futures was not the cause of the stock market crash in 2015.

It was reported that China's top securities regulator has set up a special team to review and assess the role of stock index futures trading during the stock market rout in 2015.

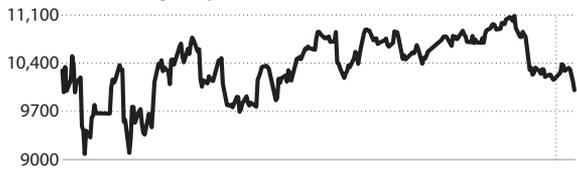
But, an index futures investor in Beijing told China Daily on condition of anonymity that the relaxation measures are more of a symbolic move, which is far from enough to substantially improve the market liquidity or to help investors hedge risks effectively.

Weekly Stock Market Performance

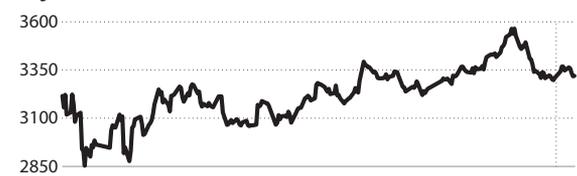
Index	Close	Weekly % Chg	YTD % Chg
Shanghai Stock Exchange Composite Index	3112.76	-1.3	+0.3



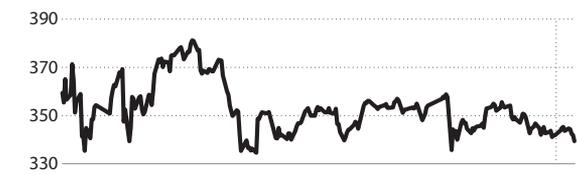
Index	Close	Weekly % Chg	YTD % Chg
Shenzhen Stock Exchange Component Index	10,008.30	-2.7	-1.7



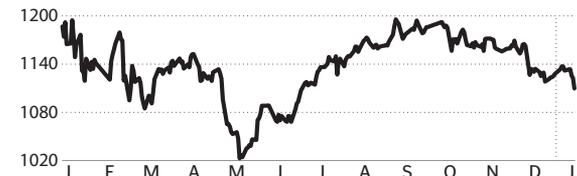
Index	Close	Weekly % Chg	YTD % Chg
Shanghai Shenzhen CSI 300 Index	3319.91	-0.8	+0.3



Index	Close	Weekly % Chg	YTD % Chg
Shanghai B-Share Stock Price Index	339.39	-1.2	-0.7



Index	Close	Weekly % Chg	YTD % Chg
Shenzhen B-Share Stock Price Index	1109.69	-2.0	-1.6



Gainers and Losers

Index	Close	Weekly % Chg	Index	Close	Weekly % Chg
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GAINERS			LOSERS		
ShanghaiTongdaVenturCp	34.70	-24.47	ShanghaiTongdaVenturCp	34.70	-24.47
Wei Long Grape Wine Co	33.89	-19.96	Wei Long Grape Wine Co	33.89	-19.96
Anhui Expressway Co	13.81	-19.62	Anhui Expressway Co	13.81	-19.62
ShanghaiYahongMoulding	53.01	-19.39	ShanghaiYahongMoulding	53.01	-19.39
QingdaoHujtngPwEqpmnt	32.53	-19.16	QingdaoHujtngPwEqpmnt	32.53	-19.16
Insigma Technology Co	13.30	-17.90	Insigma Technology Co	13.30	-17.90
A-Zenith Furniture Co	19.62	-17.32	A-Zenith Furniture Co	19.62	-17.32
Zhongzhou Healthcare	20.37	-15.90	Zhongzhou Healthcare	20.37	-15.90
Heilongjiang Trans Dev	5.71	-15.78	Heilongjiang Trans Dev	5.71	-15.78
Lily Group Co Ltd	29.00	-15.75	Lily Group Co Ltd	29.00	-15.75

Shenzhen Stock Exchange			Losers		
ShanxiTaigangStnlsStl	4.90	21.89	Zhejiang Cen Huatong	32.11	-31.52
Searainbow Holding	48.46	9.94	Thunder Software Tech	34.98	-25.65
DMG Ent & Media	32.79	8.68	Shenzhen Minkave Tech	39.67	-14.60
Zhejiang Shibao Co Ltd	36.41	6.00	Fujian Sunner Dev	17.59	-13.31
China Vanke Co Ltd	21.81	5.67	Zhejiang Runtu Co Ltd	14.30	-12.48
Angang Steel Co Ltd	5.46	5.61	Sino GeoPhysical Co	30.76	-12.31
CSG Holding Co Ltd	11.97	5.18	Shenzhen Zhenye Group	8.83	-11.79
ShenzhenTempusGblTrvl	16.97	3.92	Suning Universal Co	7.47	-11.49
Chaozhou Three-Circle	16.55	3.57	DHC Software Co Ltd	20.30	-11.04
BeijingEaspringMtrlTch	48.65	3.42	Cofco Biochemical Co	13.03	-10.94

Hang Seng			Losers		
China Resources Power	13.40	8.94	China Unicom Hong Kong	8.92	-3.25
ChinaOverseasLnd&Invst	23.00	7.73	CheungKongInfrastrctre	60.95	-1.22
Sino Land Co Ltd	12.80	7.38	Link REIT	52.35	-1.13
New World Development	9.00	6.13	Li & Fung Ltd	3.54	-1.12
China Shenhua Energy	16.38	5.95	Want Want China	4.96	-1.00

Cross Currency Rates

	USD	EUR	CNY	HKD	GBP	KRW	BRL	RUB	JPY	INR	CAD
USD		1.064	0.145	0.129	1.219	0.001	0.310	0.017	0.009	0.015	0.762
EUR	0.940		0.136	0.121	1.145	0.001	0.292	0.016	0.008	0.014	0.716
CNY	6.901	7.329		0.890	8.382	0.006	2.139	0.116	0.060	0.101	5.251
HKD	7.755	8.255	1.124		9.453	0.007	2.407	0.130	0.068	0.114	5.908
GBP	0.820	0.873	0.119	0.106		0.001	0.255	0.014	0.007	0.012	0.625
KRW	1174.980	1249.180	170.281	151.522	1432.500		364.694	19.704	10.262	17.240	895.360
BRL	3.218	3.425	0.467	0.416	3.928	0.003		0.054	0.028	0.047	2.455
RUB	59.690	63.420	8.660	7.692	72.684	0.051	18.510		0.521	0.873	45.441
JPY	114.510	121.890	16.676	14.766	139.581	0.097	35.585	1.920		1.680	87.242
INR	68.156	72.613	9.877	8.789	83.234	0.058	21.155	1.143	0.595		51.900
CAD	1.313	1.397	0.190	0.169	1.600	0.001	0.407	0.022	0.011	0.019	

Data provided by Bloomberg

International Stock Markets

Index	Close	Weekly % Chg	YTD % Chg
Hang Seng Index	22,937.38	1.9	-6%
Hang Seng China Ent Index	9,787.34	1.8	0%
TAIEX Taiwan Stock Index	9,378.83	0.1	0%
Nikkei 225	19,287.28	-0.9	0%
Sensex	27,238.06	1.8	0%
KOSPI	2,076.79	1.4	0%
S&P/ASX 200	5,721.12	-0.6	0%
New Zealand 50 Gross Index	7,046.97	1.1	0%
Straits Times Index STI	3,025.07	2.1	0%
Bangkok SET Index	1,575.24	0.2	0%
Bursa Malaysia KLCI Index	1,672.50	-0.2	0%
VN-Index	685.06	0.8	0%
Dow Jones	19,885.73	-0.4	+6%

Commodities

Commodity	Close	Weekly % Chg	YTD % Chg
Brent Crude Oil (USD/bbl)	55.54	-2.7	-9%
Gold (USD/t oz.)	1196.20	1.9	0%
Silver (USD/t oz.)	16.77	1.5	0%
Copper (USD/lb.)	2.69	5.7	0%
Aluminum (USD/MT)	1789.00	4.3	0%
Corn (USD/bu.)	3.59	0.1	0%
Wheat (USD/bu.)	4.26	0.6	0%
Soybeans (USD/bu.)	10.46	5.2	0%
Coffee (USD/lb.)	1.49	4.5	0%
Sugar #11 (USD/lb.)	0.21	-1.1	0%
Palm Oil (MYR/MT)	3120.00	1.5	0%

ETFs

ETF	Ticker	Close	Weekly % Change
China 50	510050	2.31	-0.17
China AMC CSI 300 Index	510330	3.53	-1.04
China CSI 500	510500	6.48	-2.70
China SME	159902	3.04	-3.00
China Universal CSI Consumer Staples Index	159928	1.48	-1.00
E Fund ChiNext Price Index	159915	1.82	-3.50
E Fund CSI 300	510310	1.39	-0.65
E Fund CSI 300 Financials ex Banks Index	512070	1.69	0.06
E Fund Hang Seng China Enterprises Index	510900	1.08	1.22
E FUND SZSE100 INDEX FUND	159901	3.92	-1.75
Fortune SGAM Xianjin Tianyi Money Market	511990	100.01	0.00
Guangfa CSI 500	510510	1.70	-2.91
Guotai Shanghai Stock Exchange 180 Financial Index	510230	5.24	0.67
Harvest CSI 300 Index	159919	3.57	-0.92
Huatai-Pinebridge CSI 300	510300	3.38	-0.97
Shanghai SSE180	510180	2.97	-0.54
SSE Pledge Urban Investment Bond	511220	97.61	-0.22
Yinhua Traded Money Market Fund	511880	100.19	0.04