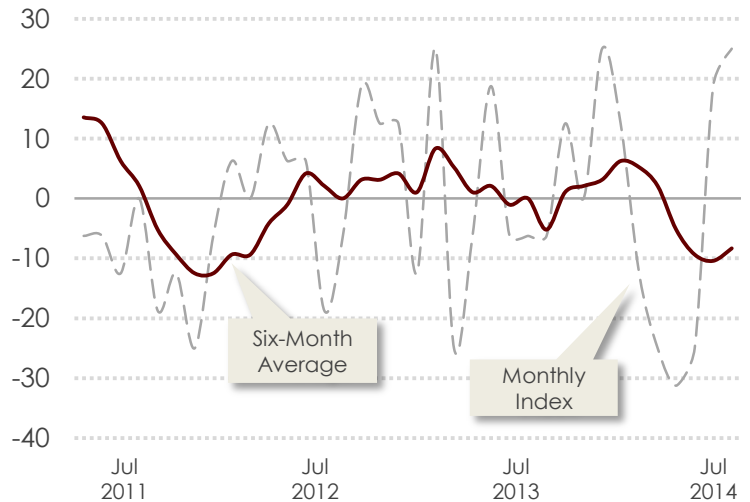


CHINA ECONOMIC & INFLATION MOMENTUM MONITOR

JULY 2014

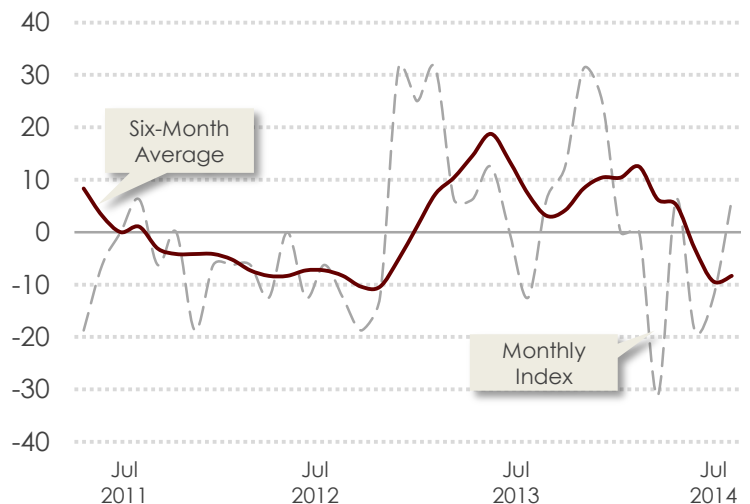
China Economic Momentum Index

The China Economic Momentum Index increased from 18.8 in June to 25.0 in July. Exports, Consumers & Households, Real Estate & Construction, and Business Activity all made equally positive contributions to the Index, while Industrial Production was neutral. GDP growth picked up slightly to 7.5% year-over-year in Q2, confirming that government stimulus measures have helped support the economy in the near term. Overall, the Index's 6-month moving average increased slightly yet remains at a subdued level. Its recent movement, however, indicates that there may be a moderate improvement in economic momentum over the next 3 to 6 months.

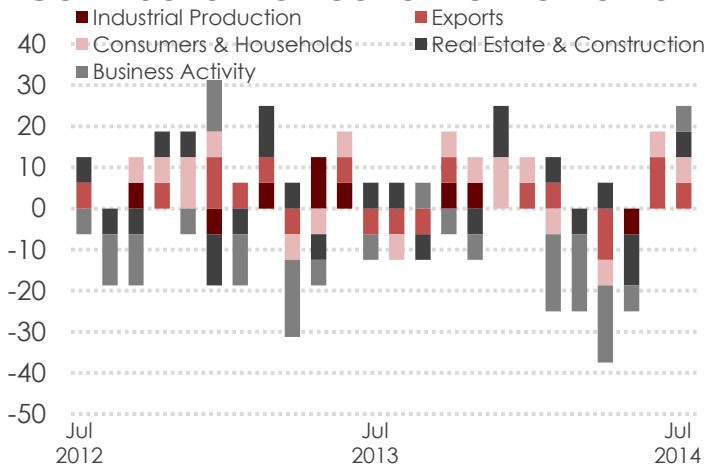


China Inflation Momentum Index

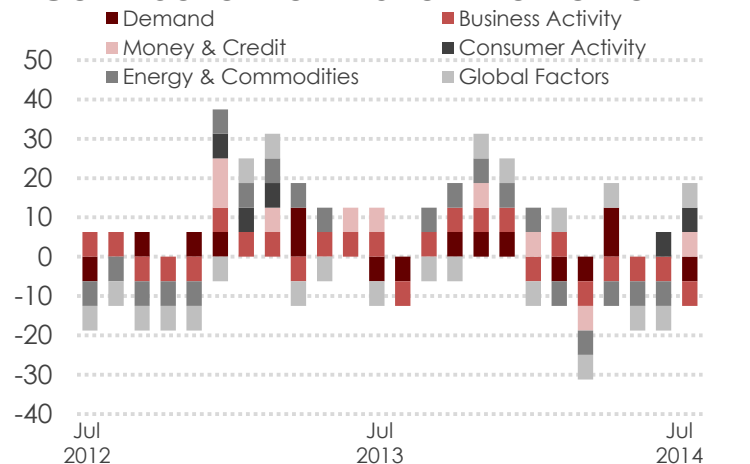
The China Inflation Momentum Index increased from 12.5 in June to 6.3 in July. Money & Credit, Consumer Activity, and Global Factors each made equally positive contributions to the Index, which were slightly offset by negative contributions from Demand and Business Activity. The Energy & Commodities sector was neutral. CPI Inflation slowed from 2.5% in May to 2.3% in June, as it came back down from a four-month high. Given the cyclical nature of food price inflation, it is unlikely that there will be added pressure in the second half of the year. Overall, the Index's 6-month moving average continues to suggest mild inflationary pressures over the next 3 to 6 months.



Contribution to Economic Momentum



Contribution to Inflation Momentum



Growth Drivers



Industrial Production held steady at 4.2. Casutic Soda and Cement Production were both in near neutral positions, while Fertilizer Production decelerated.



The **Consumer & Household** sector decelerated from 4.3 to 3.5. Despite modest acceleration in Retail Sales, Consumer Confidence was muted and Auto Sales were weak, pulling down the entire sector.



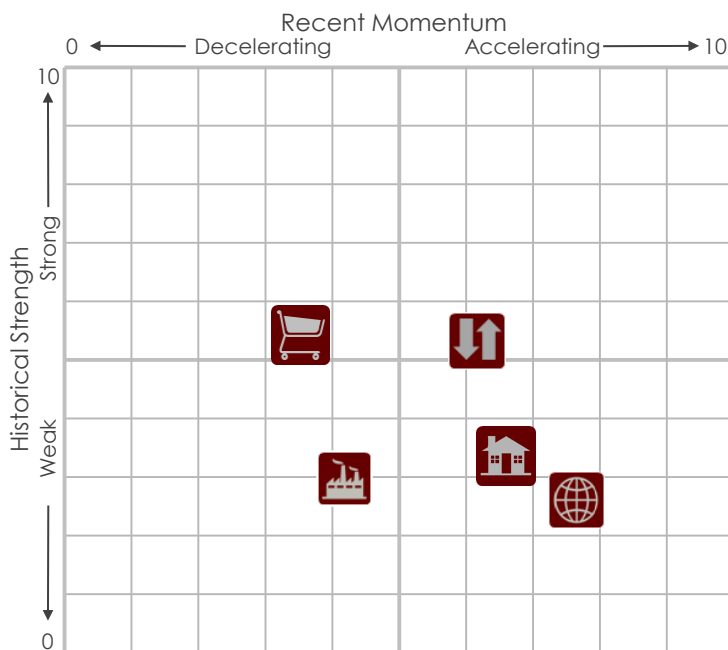
Real Estate & Construction accelerated from 4.6 to 6.6. Commercial & Residential Investment accelerated sharply, while Floor Space Under Construction continued to decelerate.



Business Activity accelerated from 5.5 to 6.2. Even as the PMI for New Orders remained contractionary, the Shanghai Stock Exchange and Electricity Production reached moderately positive positions, and Waterway Shipments accelerated rapidly.



Exports eased slightly from 8.1 to 7.6. All indicators – Exports to the US, Asia, and the EU – continued to accelerate.



Inflation Drivers



Demand decelerated from 5.0 to 3.7. Electricity Output was mildly inflationary, while the PMI Manufacturing, Motor Vehicle Output, and Plate Glass Output exerted disinflationary pressure.



Consumer Activity eased from 7.3 to 5.3. The PPIs for Food was inflationary, while the PPI for Consumer Durable Goods was disinflationary.



Money & Credit accelerated from 3.9 to 5.1. Although the Reserve Requirement Ratio remained disinflationary, the Repurchase Rate and M1 accelerated sharply.



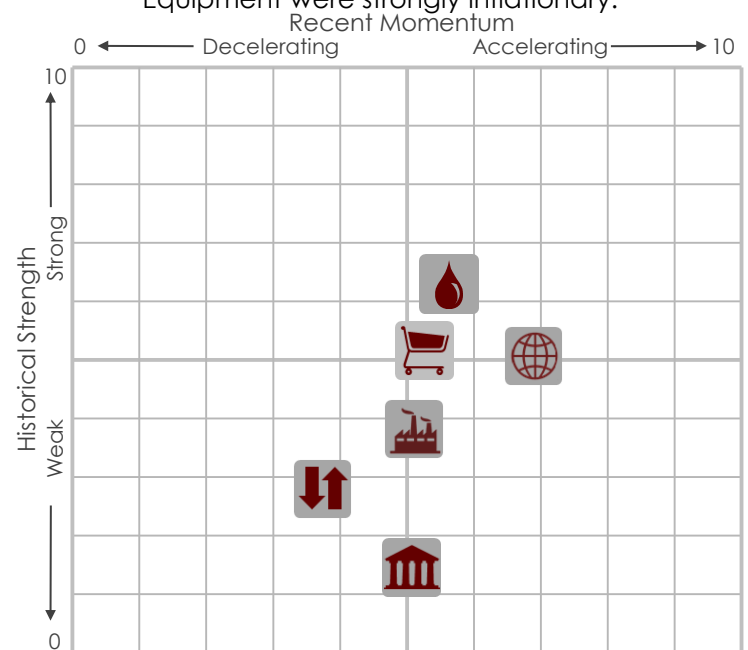
Business Activity accelerated mildly from 4.0 to 5.1. Prices of Office Buildings decelerated, but were outweighed by inflationary pressure from the MSCI.



Global Factors improved from 5.1 to 6.9. Acceleration in the Broad Nominal Exchange Rate was offset by disinflationary pressure from Export Prices.



Energy & Commodities held steady at 5.6. While the PPI for the Production & Supply of Natural Gas decelerated sharply, the PPIs for Metals & Mining and for Transportation Equipment were strongly inflationary.



About The China Economic & Inflation Momentum Monitor

The China Economic & Inflation Momentum Monitor is designed to anticipate shifts in the economy likely to affect China's GDP and headline CPI inflation over the following 3 to 6 months. The two indices are each based on analysis of 16 high-frequency indicators (i.e., published at least once per month), respectively, with a proven history of signaling the direction of the Chinese economy and inflation in the near term. Overall shifts in the economy and inflation are signaled by the Momentum Index, a diffusion index that reflects the percentage of indicators increasing relative to the percentage decreasing. Sources of momentum are identified through the Sector Performance Matrix, which is based on a combination of each sector's recent momentum and historical strength. For additional information contact Adam Karson at akarson@keybridgedc.com.