

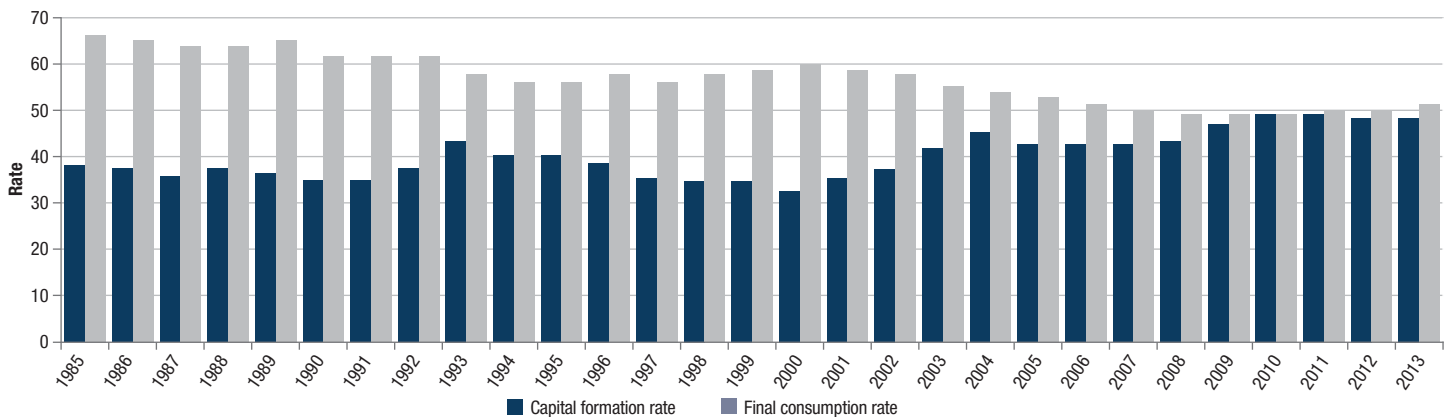
CHINA – Late Stage Participant in Global Deflation

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This year, interest rates have fallen globally far more than many expected, but have stayed flat in China until recently. Van Eck Global believes that China has room to cut interest rates further, potentially leading to a bond rally.

China – Shares of Investment and Consumption in GDP

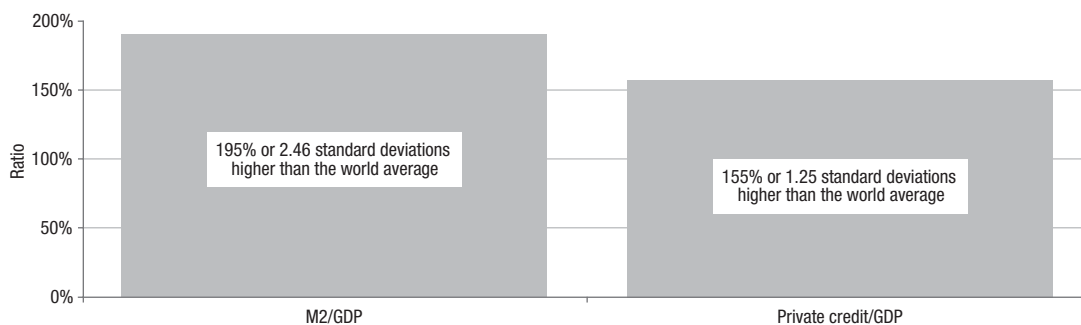
In China, the old economic growth model is still in place – investments still account for approximately 50% of Gross Domestic Product (GDP), and many policy initiatives of the past year, in general, have been aimed at stimulating and supporting investment growth.



Source: Van Eck Research, Bloomberg. Data as of December 2013.

China – Leverage in the Economy

Leverage in the economy is high – M2/GDP ratio is currently among the highest in the world.



Source: Van Eck Research, Bloomberg, World Bank via Bloomberg. Data as of November 2014.

However, there are positive counterbalancing trends

- The government is implementing structural reforms generally aimed at boosting consumption
- The property sector will likely be reformed and standardized

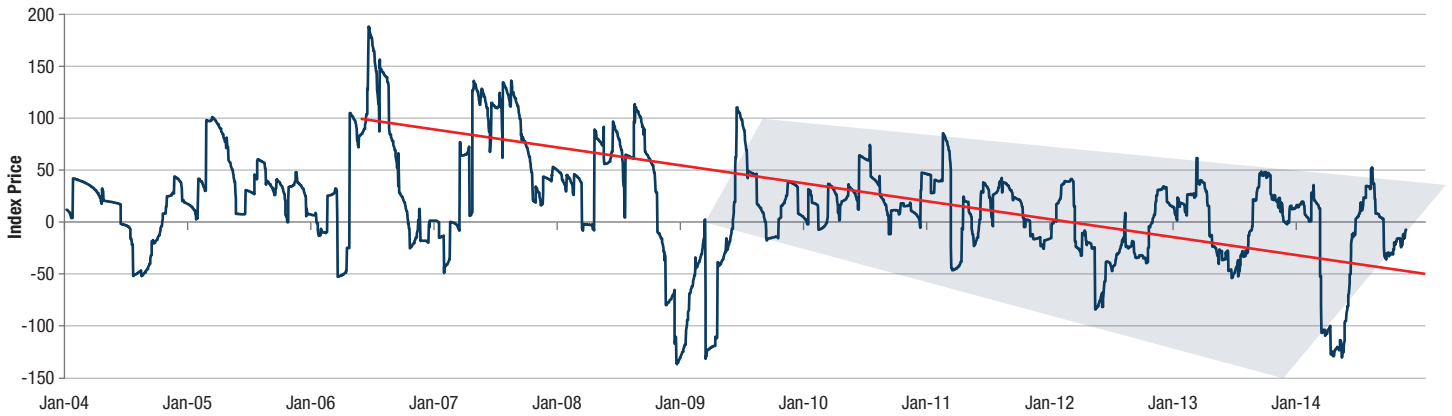
The use of leverage may magnify losses. See back for index and term definitions.

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RECENT ECONOMIC TRENDS

China Macroeconomic Surprises Index

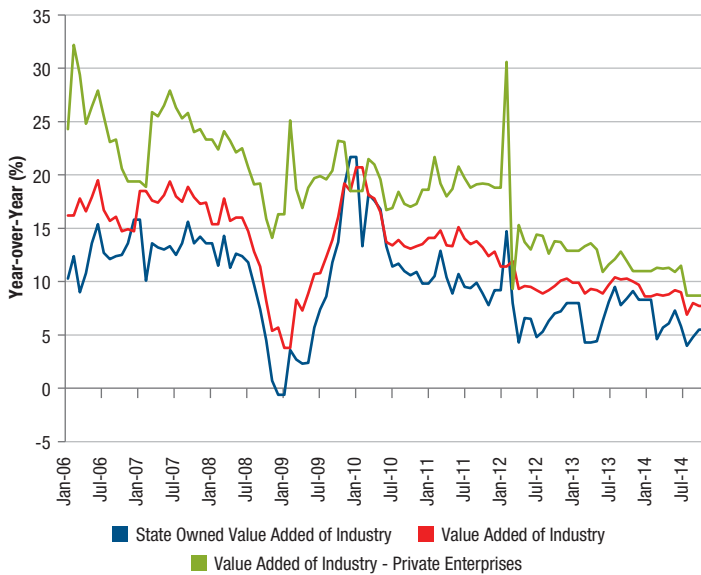
China's macroeconomic surprises have trended down (red line) and index data has recently been more volatile.



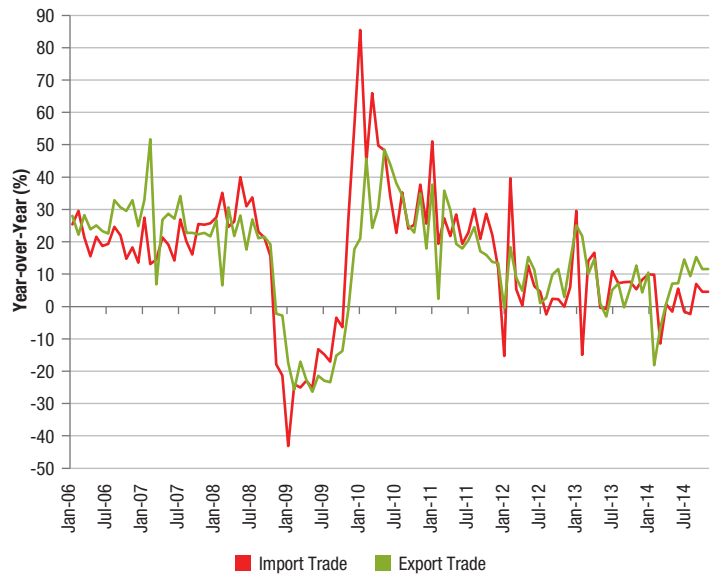
Source: Van Eck Research, Bloomberg. Data as of November 2014.

China Activity and External Trade Indicators (Year-over-Year)

The private sector output has continued to grow faster than that of the state sector.
Import growth has looked anemic in recent months.



Source: Van Eck Research, Bloomberg. Data as of November 2014.



Source: Van Eck Research, Bloomberg. Data as of November 2014.

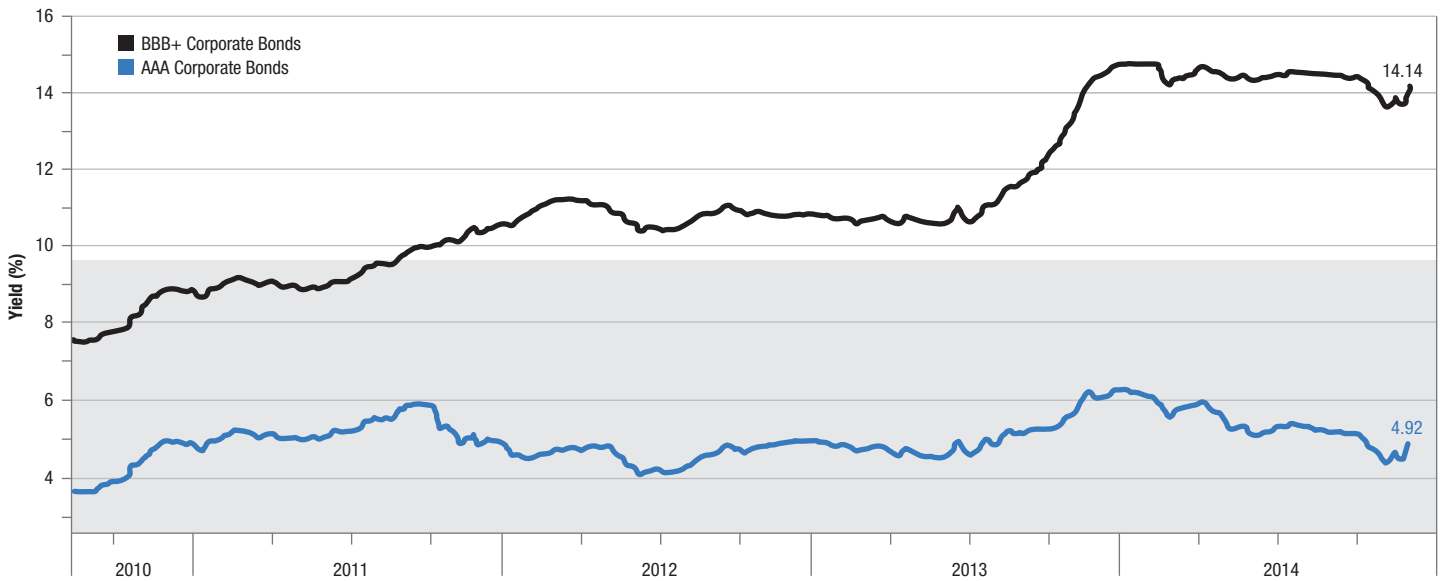
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China Five-Year Corporate Bond Yields (AAA and BBB)

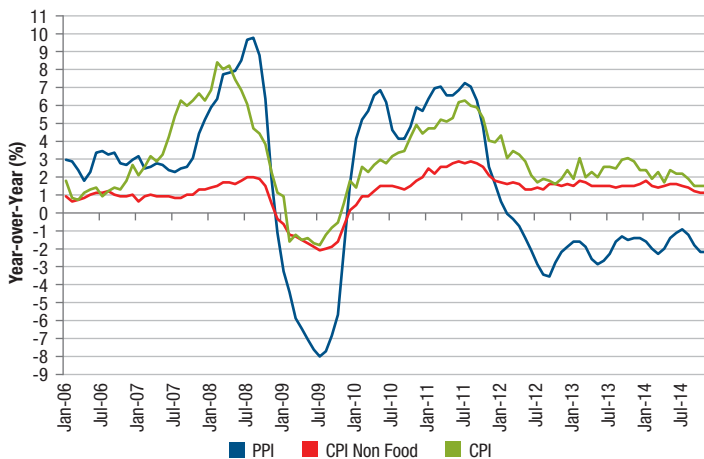
Real interest rates and the nominal borrowing costs for the private sector are high – we believe both need to come down to support the growth momentum during the “readjustment phase” that is possibly set to ensue due to various reforms.

- Real policy rate is high – especially relative to the output gap – and might be higher if inflation continues to trend down
- BBB corporate bond yields have been trending down – which is positive – but are still above 10%



Source: Van Eck Research, Bloomberg. Data as of December 2014.

China Inflation is Low



Source: Van Eck Research, Bloomberg. Data as of November 2014.

China Real Policy Rate (CPI-adjusted)*



Source: Van Eck Research, Bloomberg. Data as of November 2014.
*Similar to Fed Funds rate.

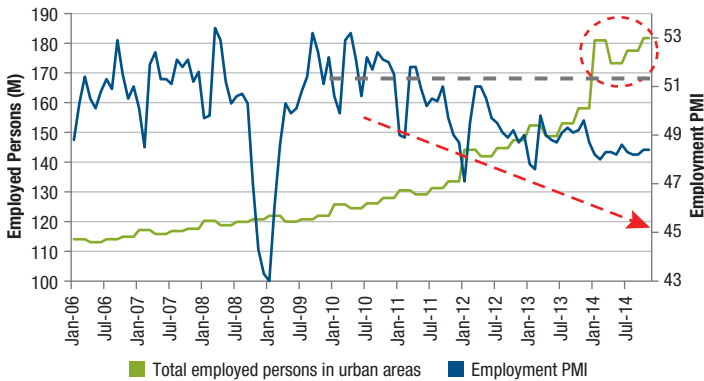
Some macro trends could be interpreted in a more positive light – even though real growth has been weaker, there might be signs of rebalancing/structural changes:

- Consumption and the private sector are currently in a stronger shape versus real activity/investment
- Lower energy production/consumption numbers in part might reflect energy conservation and stronger environmental concerns

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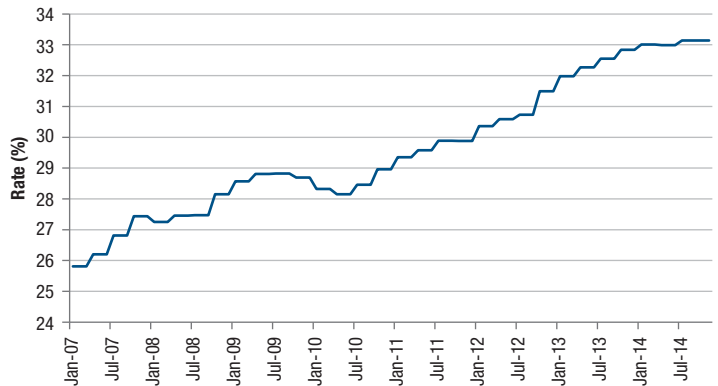
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China Employment Indicators



Source: Van Eck Research, Bloomberg. Data as of November 2014.

Savings Rate



Source: Van Eck Research, Bloomberg. Data as of November 2014.

As previously mentioned, consumption is currently in better shape as compared to investment growth, but certain trends in the labor market are a concern:

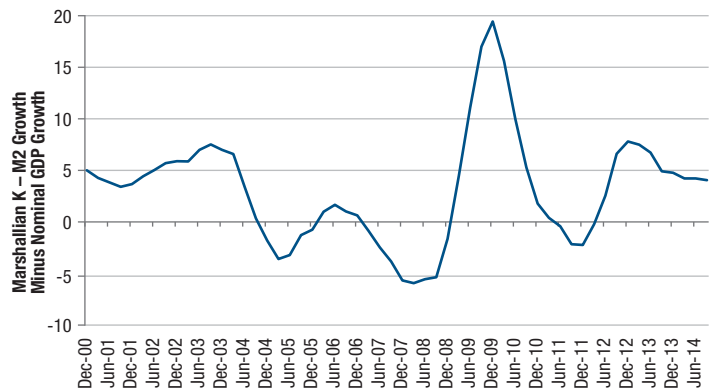
- The total number of employed in urban areas is close to peaking
- Employment Purchasing Managers Index (PMI) is not just trending down, but is firmly contractionary (below 50 since mid-2012)
- Savings rate is significantly high and has continued to increase for several years

Real M2



Source: Van Eck Research, Bloomberg. Data as of November 2014.

China M2-Based Marshallian K Shows Expansion



Source: Van Eck Research, Bloomberg. Data as of November 2014.

“Excess” liquidity in the economy has been reduced after the 2010 boom, but there has been virtually no evidence of a further liquidity squeeze – at least for now – that may undermine the potential growth outlook:

- China’s M2-based Marshallian K has been grinding down slowly – Marshallian K is the difference between nominal money supply growth (money supply) and nominal GDP growth (proxy for demand for real balances in the economy). A positive Marshallian K indicates that the monetary policy is in an expansionary phase, as money supply is greater than the economy’s demand for money
- Real M2 growth has been stable for the past two years

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Ratings: Standard & Poor's Credit Ratings: credit ratings of A or better are considered to be high credit quality; credit ratings of BBB are good credit quality and the lowest category of investment grade; credit ratings BB and below are lower-rated securities ("high-yield"); and credit ratings of CCC or below have high default risk. Equivalent Fitch and Moody's ratings are BB/Ba, B/B, CCC/Caa, CC/Ca, C/Ca and D/C. Net Leverage is the amount of debt used to finance a firm's assets.

INDEX TERMS AND DEFINITIONS:

Indices are unmanaged and are not securities in which investments can be made. You cannot invest in an index.

Gross Domestic Product "GDP" is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory. **Capital Formation** is the net addition of capital stock such as equipment, buildings, and other intermediate goods. A nation uses capital stock in combination with labor to provide services and produce goods. **Final Consumption Rate** is the proportion of final consumption to gross domestic product. It represents government expenditure on goods and services that are used for the direct satisfaction of individual needs. **M2** is currency in circulation plus savings accounts and non-interest bearing bank accounts. **Consumer Price Index (CPI)** is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights and components are based on consumer spending patterns. **Producer Price Index (PPI)** measures the change in the price of goods as they leave their place of production (i.e., prices received by domestic producers for their outputs either on the domestic or foreign market). **Purchasing Managers' Indices (PMI)** are economic indicators derived from monthly surveys of private sector companies. **The Citi Economic Surprise Indices** (China) measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected. **China Value Added of Industry Indices** measures the value added of an industry, also referred to as gross domestic product (GDP)-by-industry, and is the contribution of a private industry or government sector to overall GDP. **China Export Trade** measures the movement of merchandise trade leaving a country. This measure tracks the value of merchandise trade. **China Import Trade** measures the movement of merchandise trade entering a country. This measure tracks the value of merchandise trade. **China Savings Rate** represents data from the household survey conducted by China's National Bureau of Statistics to calculate saving as a share of disposable income for urban households. **Private Credit** refers to financial resources provided to the private sector by financial corporations such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment. **Standard Deviation** is the statistical measurement of dispersion about an average, which depicts how widely a stock's or portfolio's returns varied over a certain period of time. **China Real Policy Rate** is the interest rate at which a depository institution lends funds maintained by the People's Bank of China.

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