



# Monthly Chart Book

22 December 2008

Li-Gang Liu

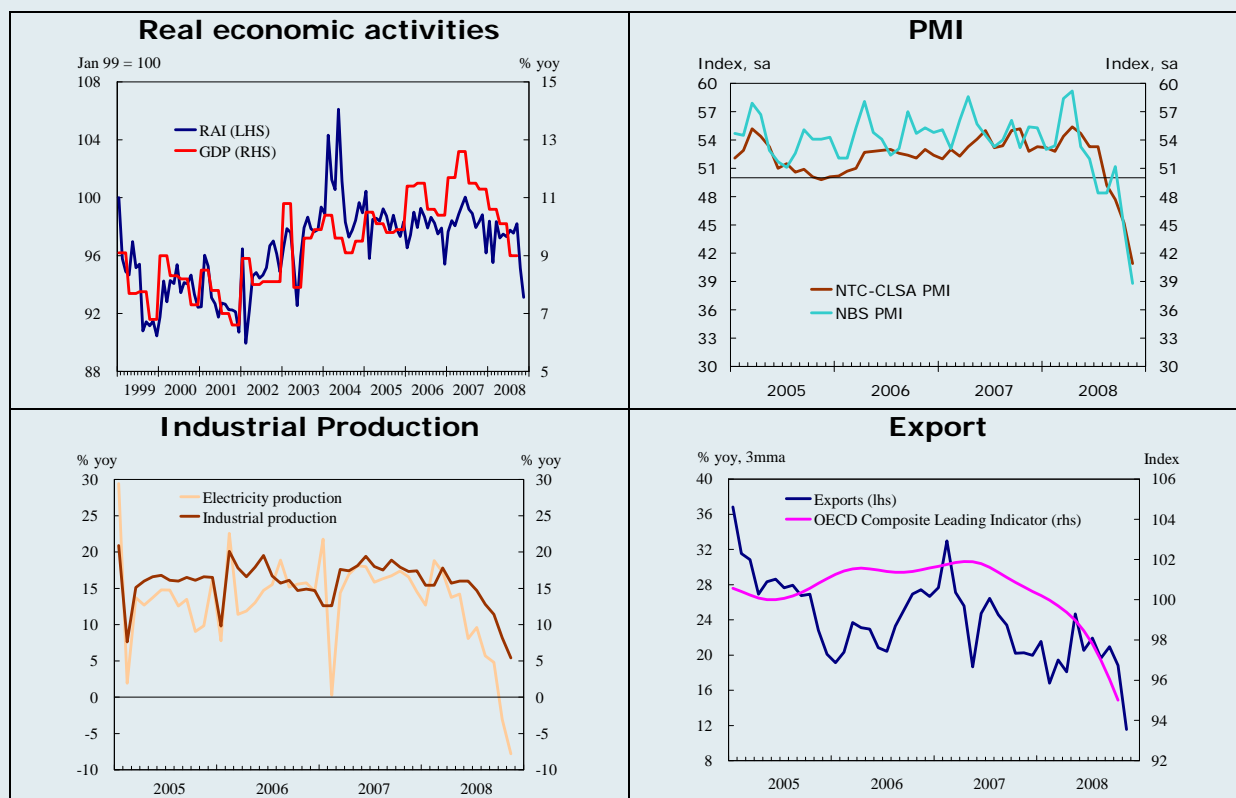
[lliu@bbva.com.hk](mailto:lliu@bbva.com.hk)

Andrew Tsang

[andrew.tsang@bbva.com.hk](mailto:andrew.tsang@bbva.com.hk)

## Highlights of the month: Further Aggressive Monetary Ease is Expected

The simultaneous G-3 recession has finally made its impact felt in China. The November exports registered the first yoy decline in 7 years; industrial production grew at the lowest rate over a decade, while the electricity production fell further; and China's manufacturing PMI recorded a historical low, showing the market's pessimistic view on the economic outlook. Indeed, our real activity index also showed that the economic momentum fell further in November, continuing the steeply declining trend. Therefore, the contraction in economic activities would have intensified in Q4, absence of a fiscal stimulus of RMB 100 billion earmarked for Q4. Given the slowing domestic and external demand, disinflation process accelerated, confirming our earlier observations. To facilitate the implementation of the RMB 4 billion fiscal stimulus package over the next two years and prevent the deflation risk, we believe the central bank will have to ease monetary policy aggressively by cutting both interest rate and the reserve requirement ratio again in the near future. Despite the sharply deteriorating external conditions, we continue to maintain the view that China will be able to grow by 8% in 2009 given the potent fiscal and monetary policy mix that is to be implemented in the near future.

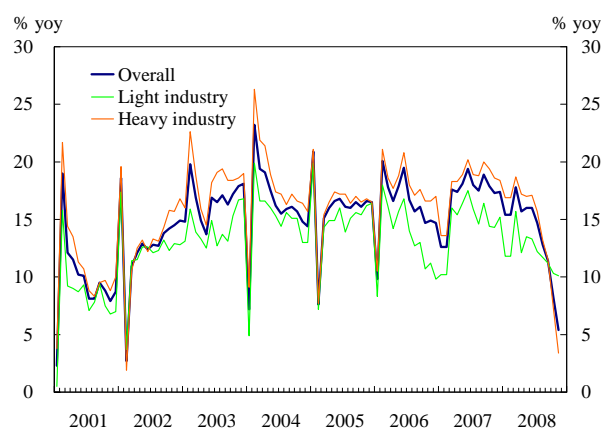


Sources: CEIC, Datastream and BBVA estimates.

## I. Real Economic Activities

### (a) Industrial production

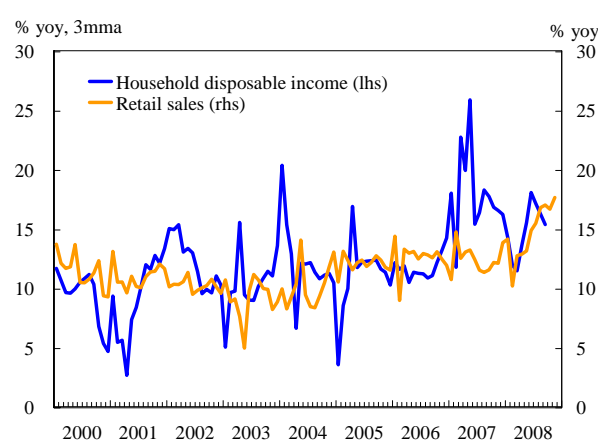
Growth in industrial production contracted sharply to 5.4% in November from 8.2% in October, recording the lowest growth over a decade (after adjusting for the Chinese new year effect). In particular, the steeper decline in heavy industry growth dominated the sharp slowdown in industrial production growth, partly reflecting a more moderated export growth.



Sources: CEIC and BBVA estimates.

### (b) Household income and real retail sales

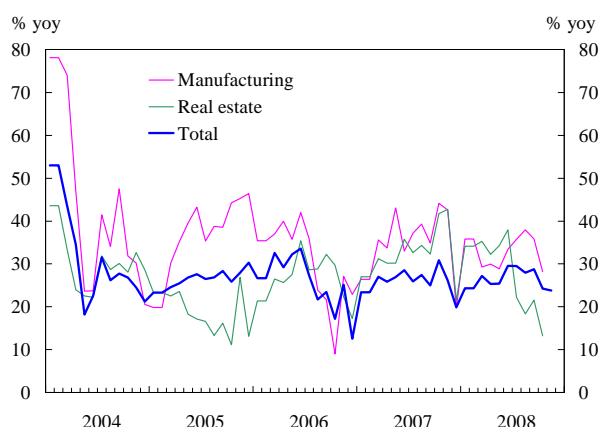
Household disposable income in nominal terms grew at a slower pace, after the rebound in growth in Q2. Growth in real urban income stood at around 9.5% in Q3, almost unchanged from that in Q2. Growth in nominal retail sales moderated further to 20.8% yoy in November from 22.0% in October. However, adjusted for the effect of falling inflation, growth in real retail sales picked up slightly to 17.6% yoy in November from 16.6% in October.



Sources: CEIC and BBVA estimates.

### (c) Fixed Asset Investments

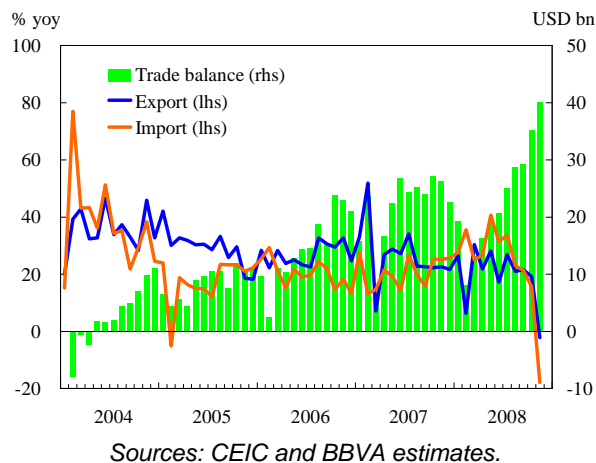
Growth in nominal fixed asset investment (FAI) contracted to 23.7% yoy in November from 24.3% in October, while real growth in FAI picked up to 21.3% from 16.6% in October. It is expected that the growth in real estate investment would decline further in reminder of the year.



Sources: CEIC and BBVA estimates.

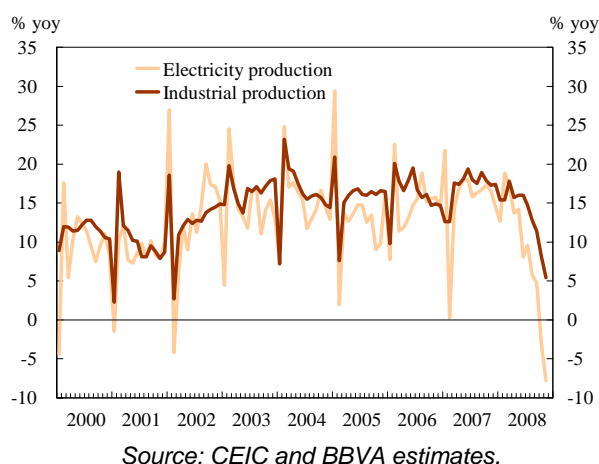
### (d) External Trade

November exports fell for the first time in 7 years by 2.2% yoy from an increase of 19.2% in October. The monthly trade surplus registered a record-high of US\$ 40.1 billion as imports collapsed, declining to a negative 17.9% yoy from an increase of 15.6% in October. However, trade surplus is expected to fall in the coming months on a sharply falling external demand.



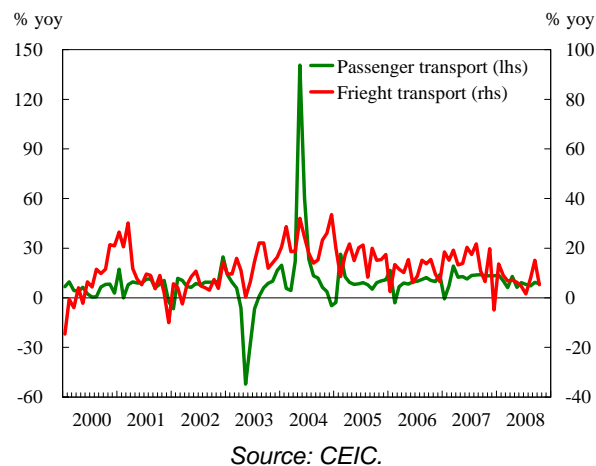
### (e) Industrial production and electricity

Electricity production fell further by 7.8% yoy in November from 3.0% October, continuing the contraction trend. The decline in electricity production in this year is mostly reflected by a slowing growth in activities of those heavy industries.



### (f) Transportation

Growth in passenger transport was stable in recent months. However, growth in freight transport fell again after some rebound in the post-Olympic months. It is expected that the transport activity will moderate soon, as the economic activities slow sharply.

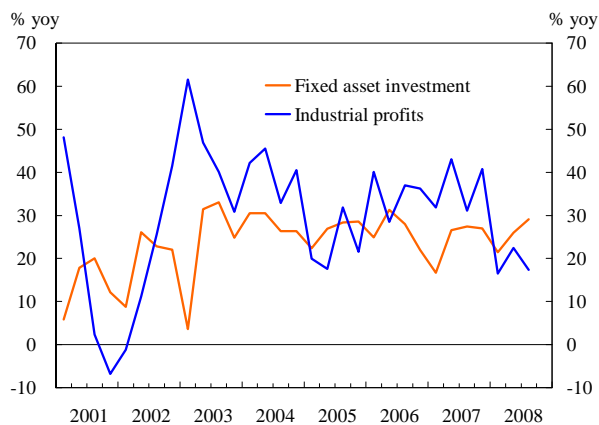


### (g) General industry profitability

Growth in industrial profits fell again in 2008 Q3, after rebounding in Q2. The decline in profit growth is expected to continue as global slowdown intensifies.

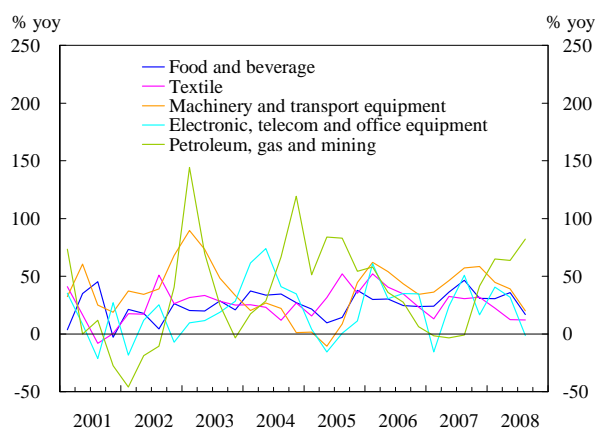
### (h) Profitability by industry

Energy sector continued to experience the fastest growth in profits, while profit growth slowed sharply for electronic, telecom, and the office equipment industry.



Source: CEIC.

Note: 2008Q3 figures of industrial profits are up to August 2008.



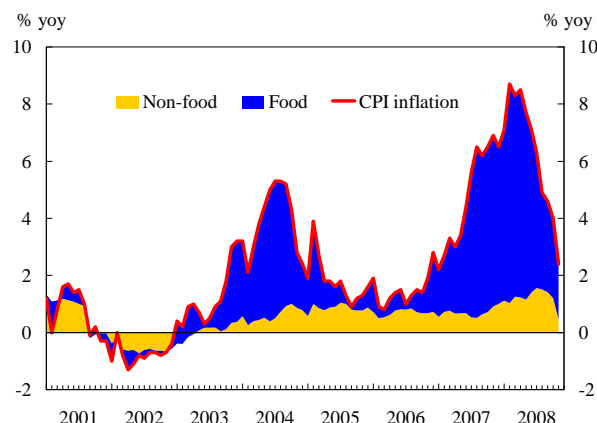
Source: CEIC.

Note: 2008Q3 figures of industrial profits are up to August 2008.

## II. Price Developments

### (a) Consumer price inflation

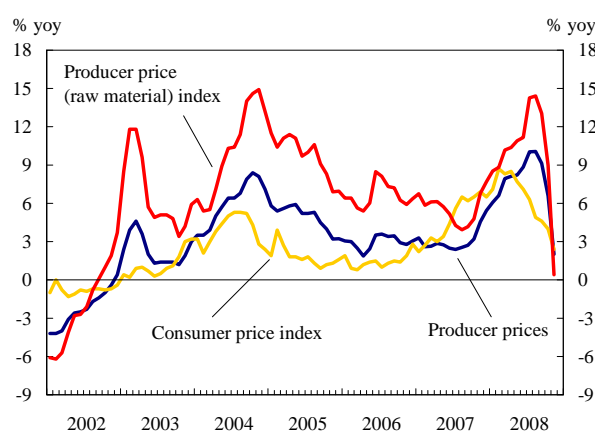
China's inflationary pressure eased sharply in November. CPI inflation fell to 2.4% yoy in November from 4.0% in October, the slowest rise in the recent 22 months. The fall in CPI was led by falling food prices and a high base effect while imported inflation from international energy and commodity prices eased sharply.



Sources: CEIC and BBVA estimates.

### (b) Producer prices

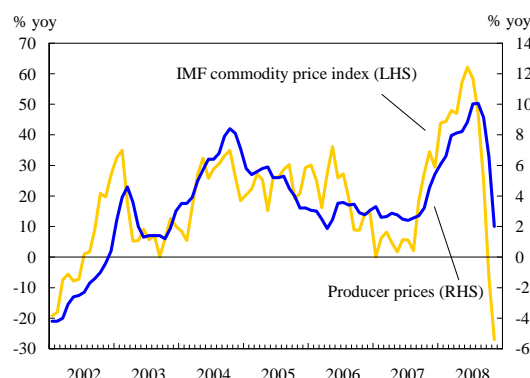
Given the slower domestic demand and lower commodity price inflation, PPI inflation dropped sharply by 4.6 percentage points to 2% yoy in November from that in October, an unprecedented fall since the PPI inflation data were published in 1996.



Sources: CEIC and BBVA estimates.

### (c) Commodity prices and PPI

China's PPI inflation is highly correlated to price changes in international commodity prices. As the year-to-date price increases in international commodities eased sharply from 62% yoy in June to -27% in November, the pass-through effect on PPI inflation has attenuated in recent months.

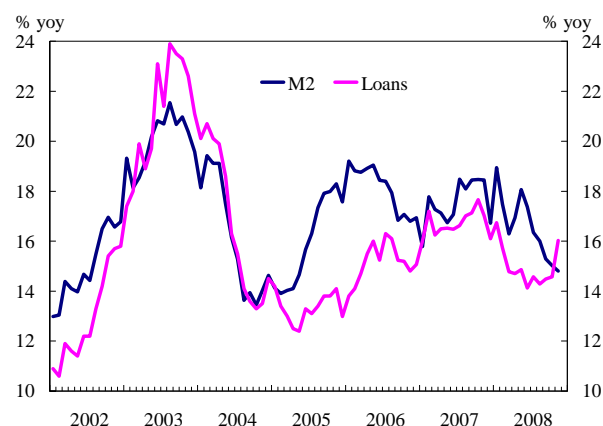


Sources: IMF, CEIC and BBVA estimates.

### III. Monetary Conditions

#### (a) Money supply and credit

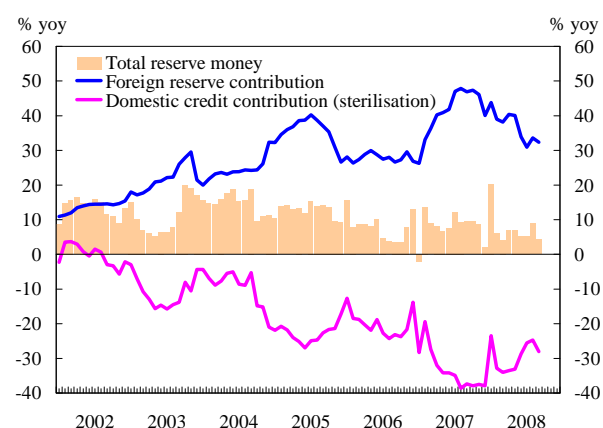
Growth in broad money (M2) continued to fall to 14.8% yoy in November from 15.02% in October, despite the recent monetary policy ease. Meanwhile, growth in domestic credit picked up further to 16.03% in November from 14.58% in October, reflecting the relaxed credit policy has started to work through the banking system.



Sources: CEIC and BBVA estimates.

#### (c) Reserve money

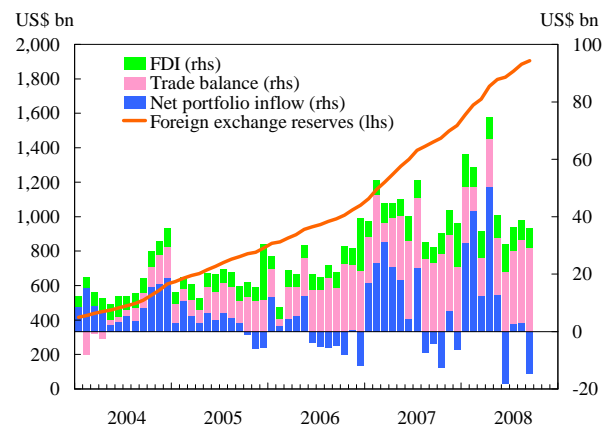
Reserve money growth has fallen sharply after February due to increased sterilization measures by the monetary authorities. However, the cut in interest rates and reserve requirement ratio signaled that monetary policy has been easing.



Sources: CEIC and BBVA estimates.

#### (d) External capital inflows

China's FX reserves continued to increase, rising by US\$97 billion in Q3 alone on large trade surplus and FDI inflows. Though still large, the pace of reserve accumulation has slowed, compared to an increase of US\$ 154 and 127 billion in Q1 and Q2, respectively. Portfolio investment experienced another large outflow in September. By the end of September 2008, China's FX reserves stood at US\$1.906 trillion.

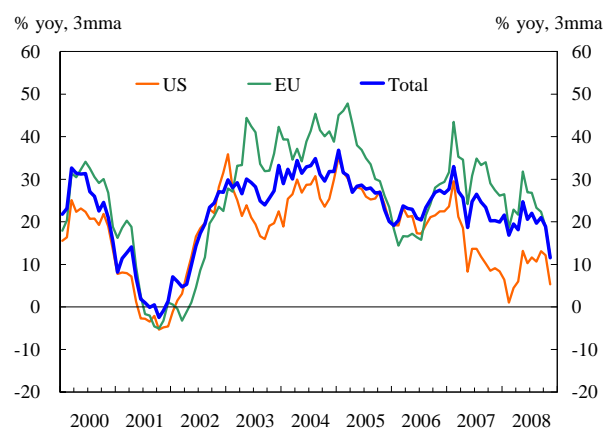


Sources: CEIC and BBVA estimates.

## IV. External Trade

### (a) Exports by region

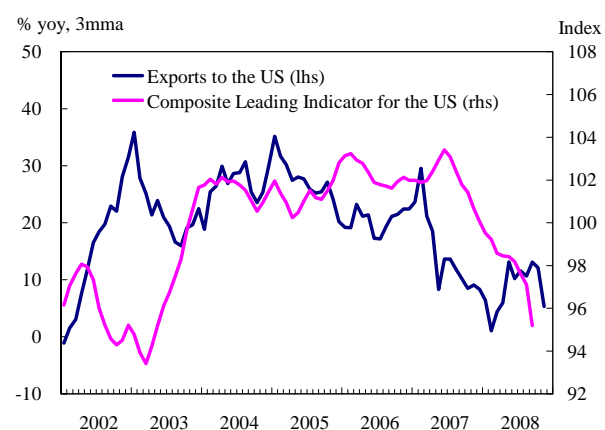
Export growth declined sharply in November, on a 3-month moving average basis. Declines in exports appeared to be across all markets, particularly for the G-3 markets.



Source: CEIC.

### (b) Exports to US

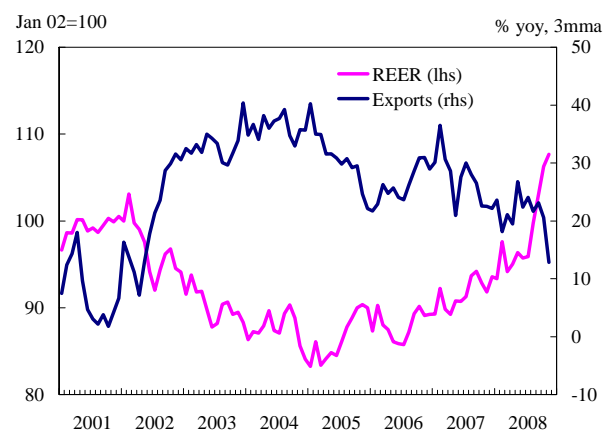
In line with the economic outlook of the US--shown by the leading indicator for the US, the export growth to US has been on a declining trend since 2007.



Source: OECD, CEIC and BBVA estimates.

### (c) Real exchange rate and exports

REER appreciation continued to exert a negative impact on China's export growth since the end of 2007. Combined with slowing external demand, China's export growth should continue to decline in the rest of 2008.

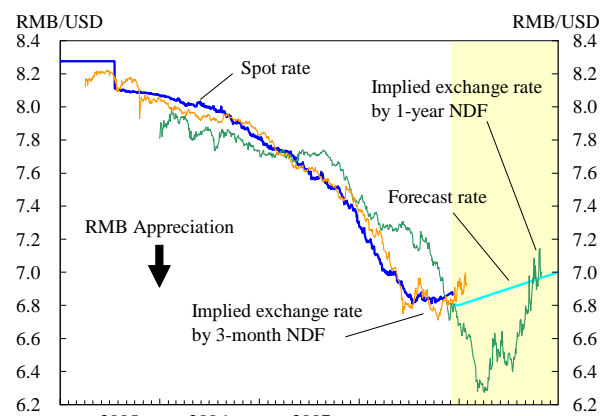


Sources: CEIC and BBVA estimates.

## V. Exchange Rate

### (a) Spot and expected appreciation of renminbi

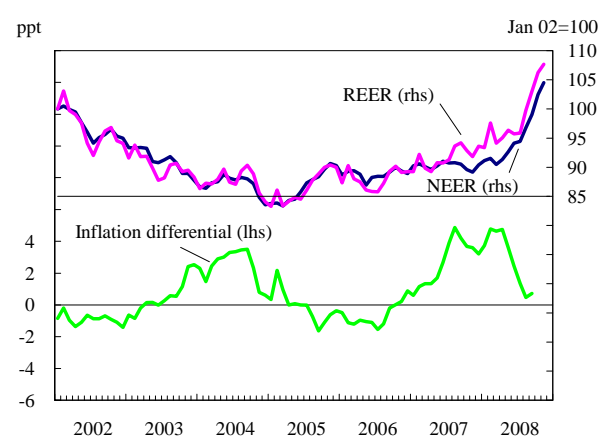
Renminbi stabilized at around the RMB/USD 6.8 level. A sharp rebound of US dollar recently may explain the stabilization of the RMB since July. To avoid the protectionist pressures and facilitate the transformation of growth pattern, we forecast that the renminbi exchange rate will stay at around 6.8 per US dollar by the end of 2008 and may experience some slight depreciation in 2009.



Sources: CEIC and BBVA estimates.

### (b) REER, NEER, and inflation differential with trading partners

China's REER and NEER of the renminbi continued to appreciate reflecting large depreciation in some key trading partners' currencies and China's relatively low inflation rate to its key trading partners.



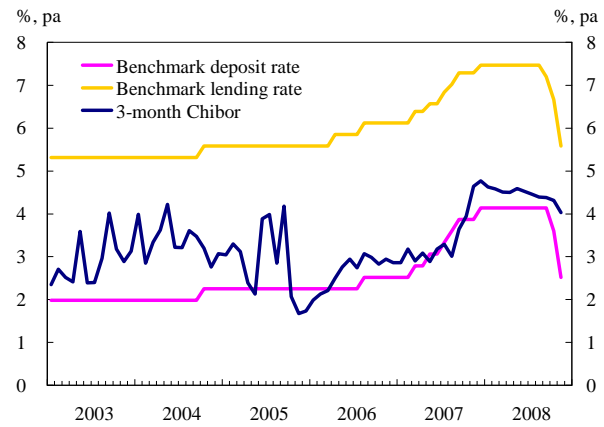
Sources: BIS, CEIC, Datastream and BBVA estimates.



## VI. Financial Markets

### (a) Benchmark interest rates and Chibor

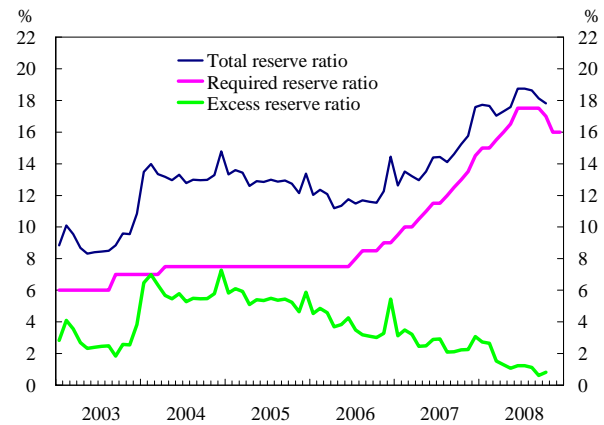
To ease external slowdown, PBoC lowered the benchmark (one-year) lending rate by 108 bps to 5.58% in late November, while the deposit rate was also cut by 108 bps to 2.52%. Meanwhile, the 3-month Chibor, continued to fall, but still higher than the benchmark deposit rate.



Sources: People Bank of China and CEIC.

### (b) RRR & Excess reserves

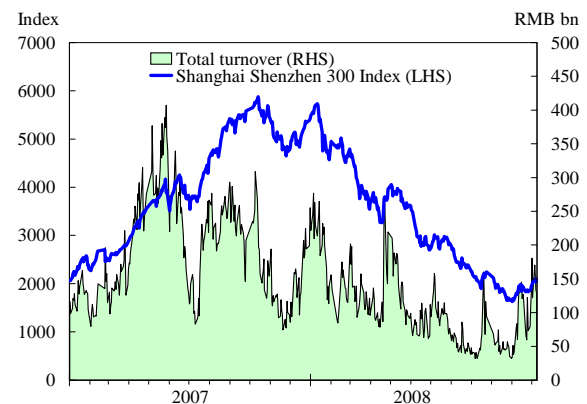
To inject liquidity to the banking system, PBoC also cut the reserve requirement ratio (RRR) for all banks effective on December 5. The required reserve ratio (RRR) for small- and medium-sized financial institutions is cut by 2 percentage points to 14.0%, and for the six largest banks (the Big Four (ABC, BOC, CCB, and ICBC), Bank of Communications, and Postal Savings Bank of China) is cut by 1 percentage point to 16.0%.



Sources: CEIC and BBVA estimates.

### (c) Stock Market Performance

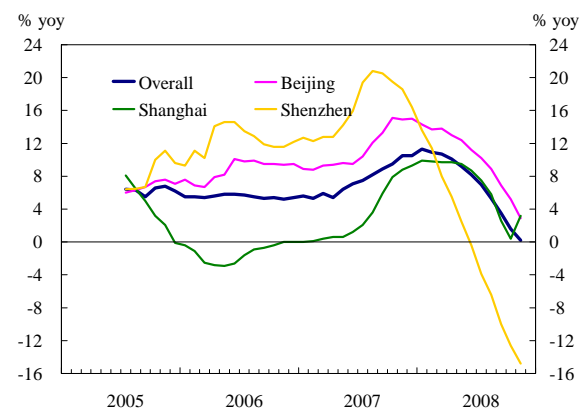
China's stock prices fell by close to 70% from the peak in last October. The decline in stock prices was particular large since September before the stabilization in this month, led by global market falls. However, trading value picked up to about recently, although it is still one-fourth of the turnover at the peak level.



Source: CEIC.

### (d) Property market

Growth in real estate prices has experienced a fall nationwide since 2007 Q3. It turned negative sharply in Shenzhen since June. Tight monetary policy since the end of 2007 has contributed to the slowdown in price rises in the real estate market nationwide. Although the monetary policy has been relaxed recently, slowing income growth and the uncertain expectation may continue to restrain the growth in property prices.



Source: CEIC.