Economic Research Department

BBVA

China

Monthly Chart Book

30 Oct 2009

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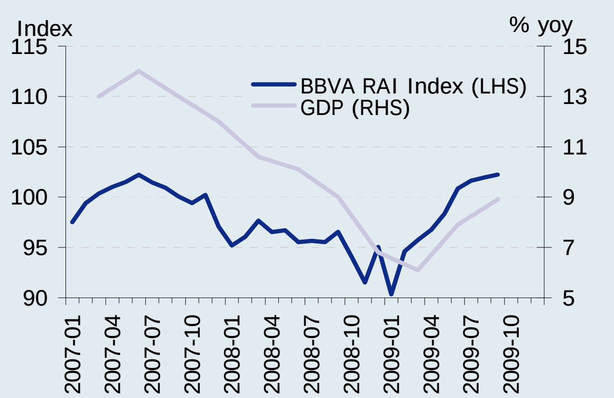
Highlights of the month: more solid recovery but credit risk concern heightened

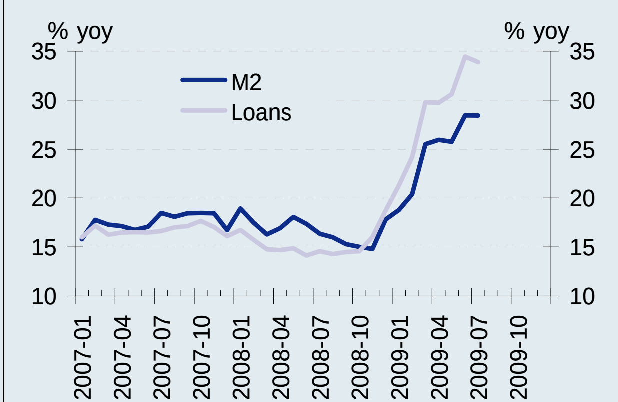
China's GDP realized a V-shape rebound at 8.9% year-on-year growth in Q3 2009, and it is well set to achieve its target of 8% this year.

- GDP growth has been fueled by the government stimulus spending, and largely channeled through fixed asset investment and bank credit.
- With the rapid money supply and loan growth rates at the top of the central bank concerns, the policy emphasis will be switched to China's growth quality and balance.
- Although foreign trade sector remains sluggish, the declines in both exports and imports have been mitigated as the restocking begins with world-wide economic recovery.
- The fast pace of housing prices in large cities have raised the bubble concern, and might invite a gradual tightening in housing sector.

GDP Growth and BBVA RAI Index

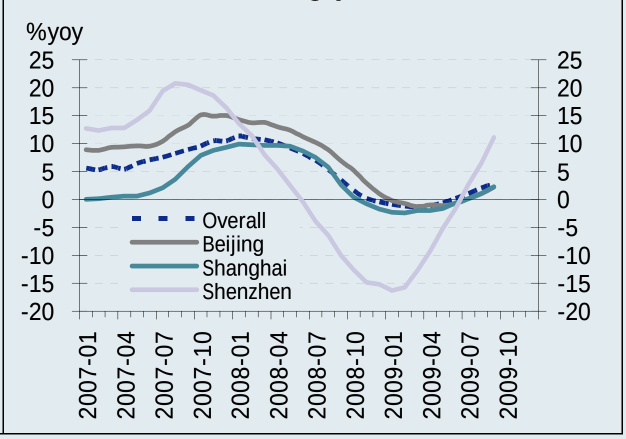


M2 and Loans Growth



Growth in Exports and Imports

Housing prices

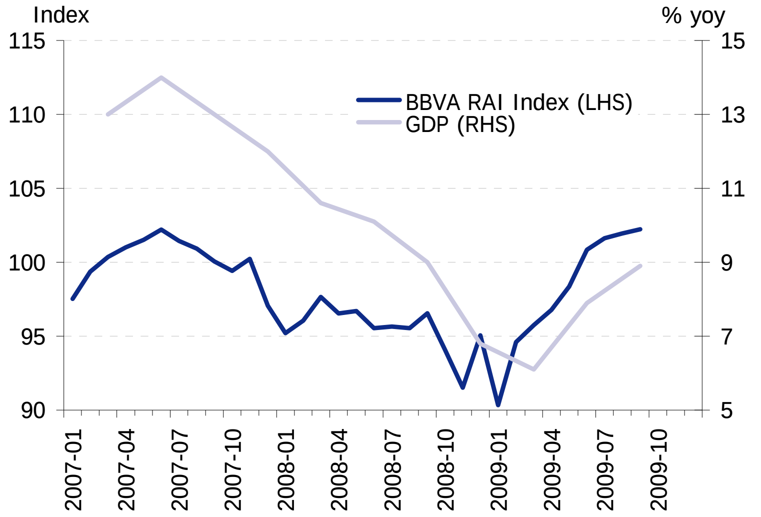


Source: CEIC and BBVA ERD

I. Real Economic Activities

BBVA Real Activity Index

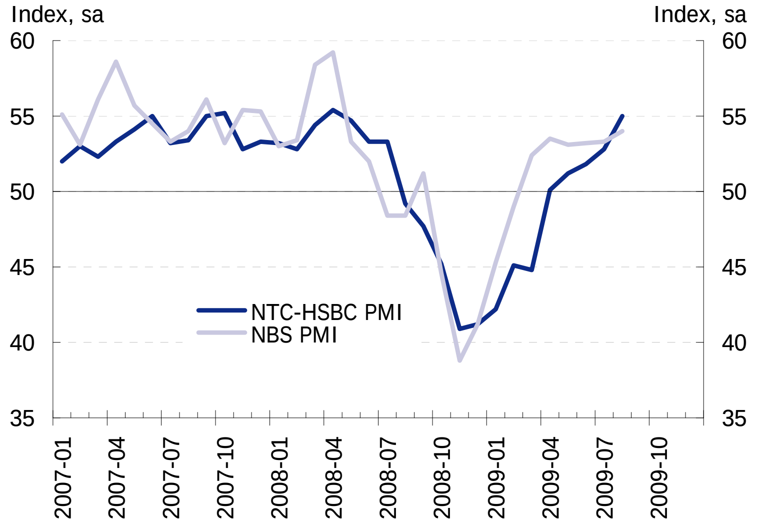
BBVA Real Activity Index indicated a robust and stable recovery of China's economy in this September. In Q3, GDP surged to 8.9% yoy, up from 7.9% yoy in Q2. China's GDP had expanded by 7.7% in the first nine months. Since GDP growth in Q4 will be even faster (BBVA: 9.9%), there is a very good chance that China will meet its economic growth target of 8 percent for this year and will focus on deeper economic restructuring in 2010.



Sources: CEIC and BBVA estimates

(a) PMI

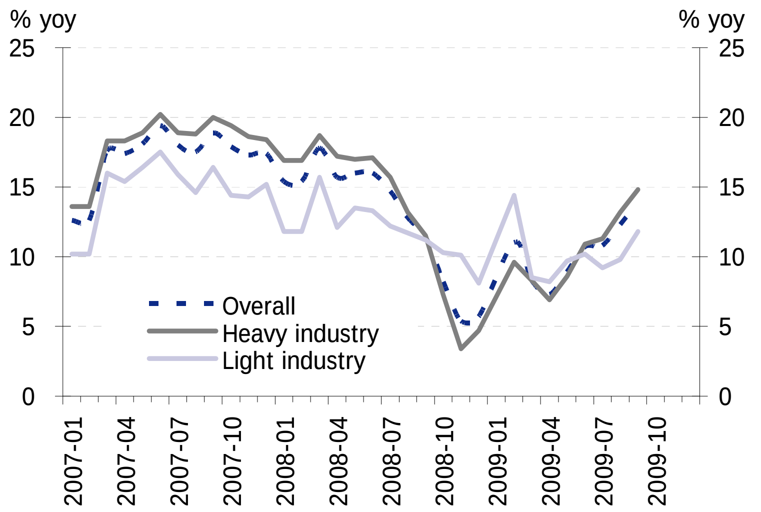
China's manufacturing sector expanded further in October and at its fastest pace in 18 months, PMI from NBS climbed to 55.2 in October from 54.3 in September. The PMI has been above the boom-bust line of 50 since March. Similarly, NTC-HSBC PMI rose to 55.4 in October from 55 last month. The strong PMI is a sign that the momentum has continued after the economy grew 8.9% from a year earlier in the third quarter.



Source: CEIC.

(b) Industrial production

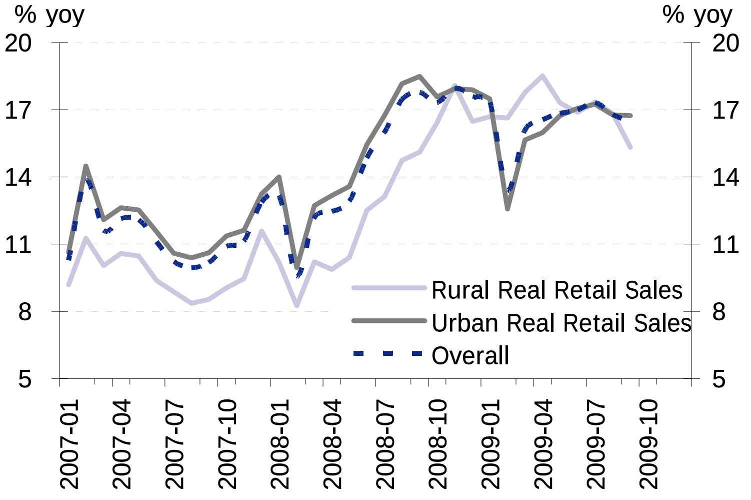
In September, industrial production growth rate accelerated to 13.9% yoy from 12.3% yoy in August, with heavy industry leading the overall industrial growth, 14.8% yoy in heavy industries. While light industry continued to exhibit a modest recovery, registered at 11.8% yoy, due to the continuing weak external demand.



Sources: CEIC and BBVA estimates

(c) Real retail sales

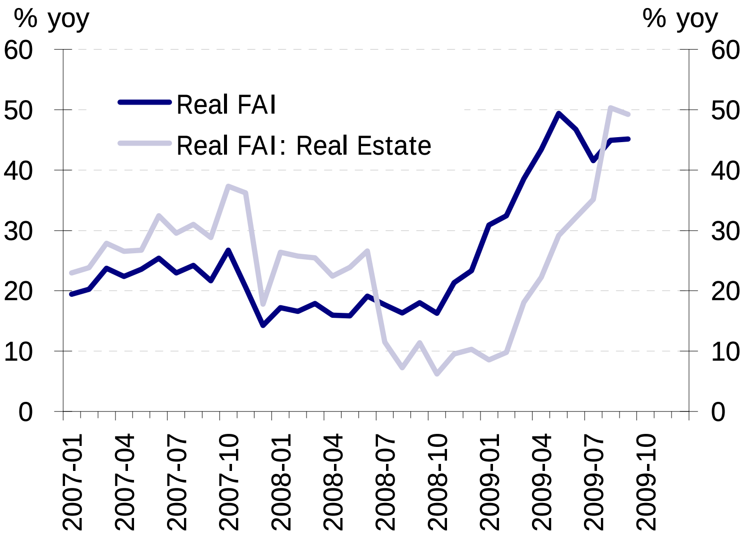
Real retail sales gained a 16.4% yoy growth in September, slightly slowed down from 16.8% yoy of last month. Real retail sales in urban areas increased by 16.7% yoy, while rural retail sales rose 15.3% yoy, both moderated a growth of 16.8% yoy in last month. Retail sales in rural area slowed quickly because rural consumption boost policies, including subsidies for home appliance and automobile consumption, started to wane.



Sources: CEIC and BBVA estimates

(d) Fixed Asset Investments

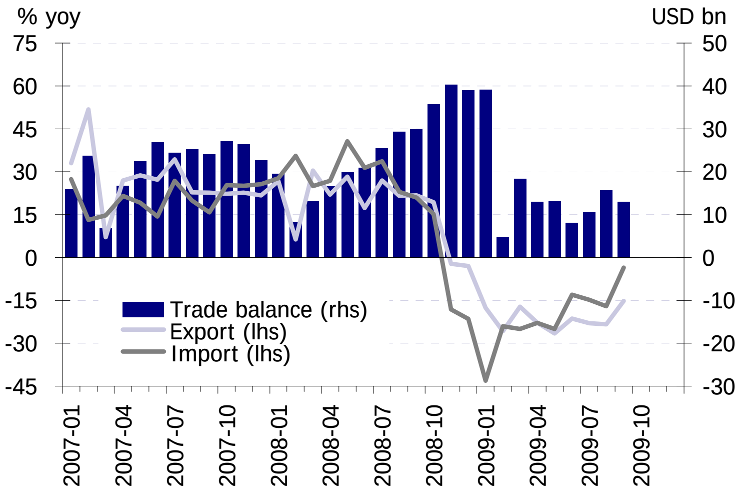
Real FAI had kept its fast pace in last month at 45% yoy thanks to massive government stimulus and investment. The recovery in real estate market has spurred more enthusiasm to invest, and real estate FAI's growth rate had advanced 49.2% yoy in September, keeping a fast pace compared to 50.3% yoy last month.
In the next quarter, given Chinese government is overhauling the industries with overcapacity, FAI growth will probably slow down.



Sources: CEIC and BBVA estimates.

(e) External Trade

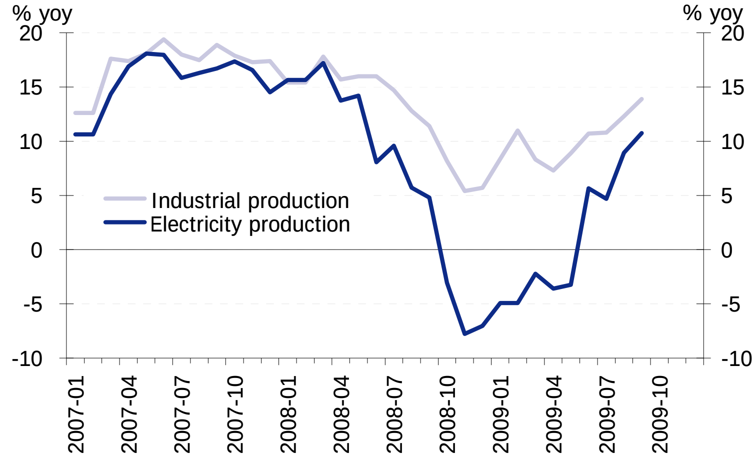
The contraction of China's exports slowed to -15.2% yoy in September, up 8.2 percent points from that in August. Although the exports remain sluggish by far, the recovery of external demand would help to drag exports out of the gloomy period next year.
An even optimistic sign was seen in imports, which slid 3.5% yoy, much improved from -17.0% in last month.
The trade surplus was left at 12.9 billion US dollars, slightly less than 15.7 billion US dollars in August.



Sources: CEIC and BBVA estimates.

(f) Industrial production and electricity production

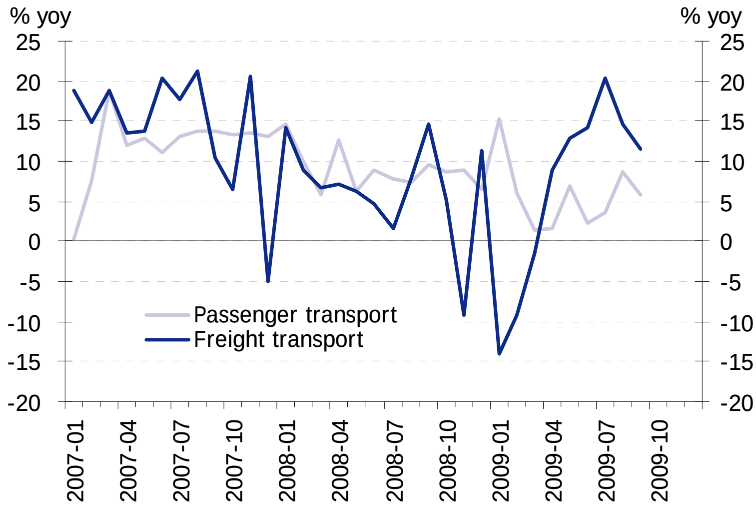
In September, the electricity sector witnessed a further surge of 10.7% yoy from 8.9% yoy in August. This is the forth consecutive month staying at a positive growth level. The two digital growth rates in electricity production along with industrial production reflected an intensive economic activity recovery in September.



Source: CEIC and BBVA estimates.

(g) Transportation

Freight transport in September gained a growth rate of 11.6% yoy, moderated from 14.6% yoy in last month. At the same time, the growth rate for passenger transport also showed some slowing down from 8.6% yoy in last month to 5.8% yoy in September. Transportation, as a leading economic indicator, implies that China's economy might anticipate a mild growth next month.

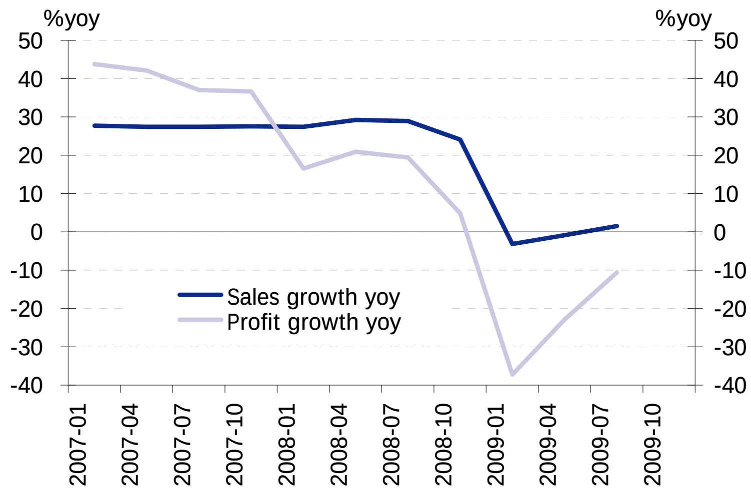


Source: CEIC.

(h) Nationwide industry profitability

Chinese nationwide industrial companies posted a profit of CNY 1.675 trillion in the January-August period, down 10.6% from a year earlier. The decline in industrial companies' earnings narrowed from the 22.9% decline in the January-May period. The growth of sales revenue reached 1.6% yoy in August mainly due to the pick-up in domestic demand.

The improvement provided evidence that industry profitability is picking up after being battered by the economic downturn at the start of this year.

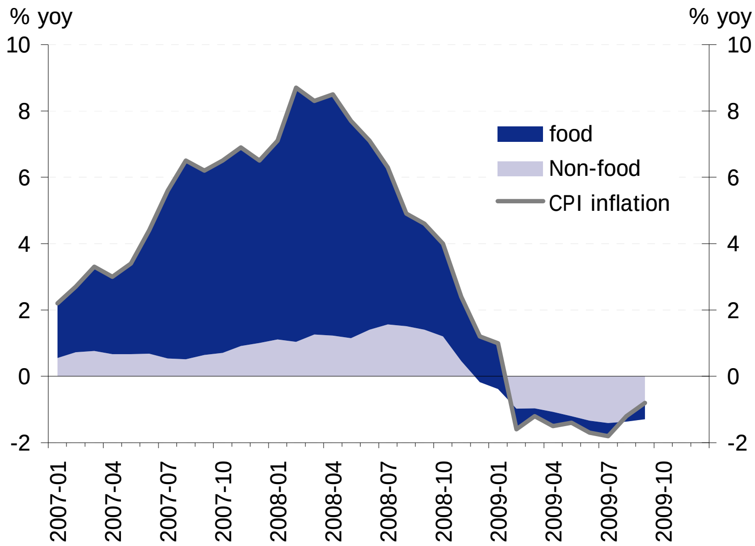


Source: CEIC.

II. Price Developments

(a) Consumer price inflation

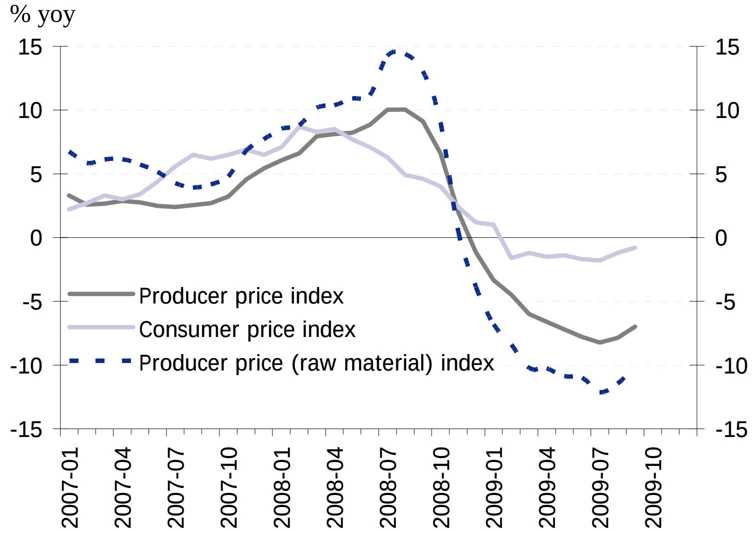
Consumer price index (CPI) was recorded a decline of 0.8% yoy in September, another 0.4 percent points improvement from last month. On a mom basis, CPI rose 0.4%.
Non-food price contributed -1.3 percentage points to the 0.8 percent drop while food price gave a 0.5 percent offset.
A moderation of the drop in CPI is more and more clearly, and we come to our projection that CPI inflation will become neutral in this Q4, and in the meantime, inflation risk still remains under control.



Sources: CEIC and BBVA estimates.

(b) Producer prices

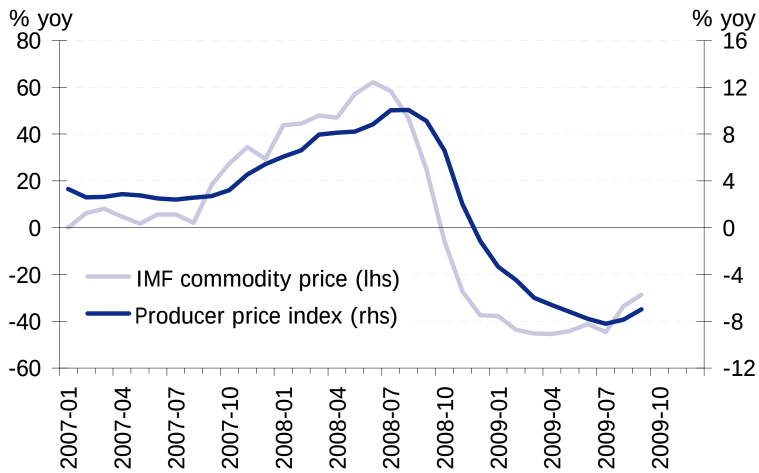
The producer price index (PPI) slid by 7.0% yoy in September, narrowed slightly compared to -7.9% in August. The PPI of raw materials slumped by 10.2% yoy in this time, also moderating from -11.5% yoy in August. The similar trend in PPI as that in CPI had reinforced our opinion about price index will turn to positive in the coming period.



Sources: CEIC and BBVA estimates.

(c) Commodity prices and PPI

In September, the decline in IMF commodity price index slowed further to 28.6% yoy from 33.5% yoy in August. Since China's PPI inflation is highly correlated to changes in international commodity prices, both IMF commodity price index and local produce price index exhibited a rebound in a mom basis growth, representing a positive sign of reviving demand for industrial goods.

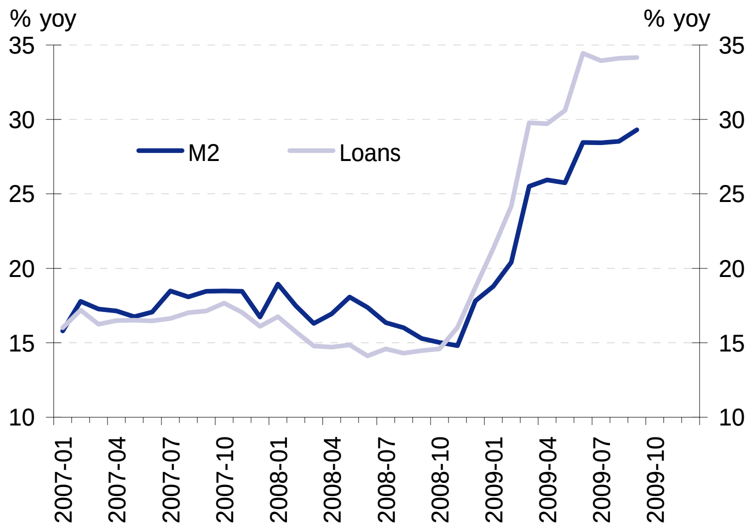


Sources: IMF, CEIC and BBVA estimates.

III. Monetary Conditions

(a) Money supply and credit

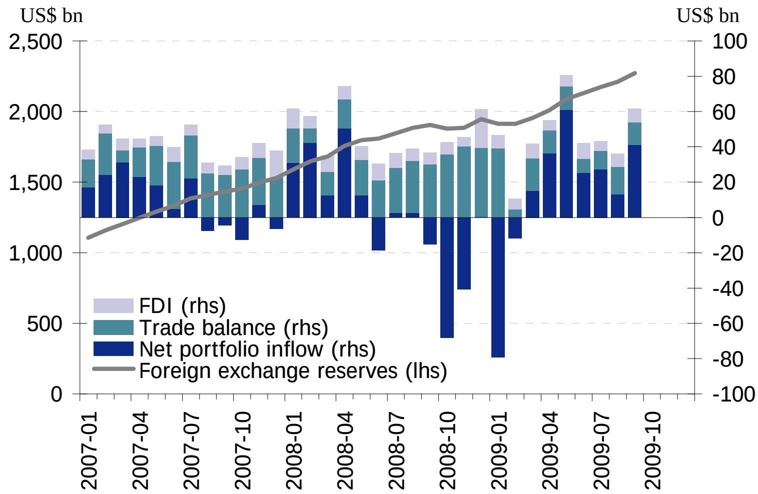
M2 growth hit 29.3% yoy at the end of Q3, the fastest rate this year. Growth rate of loans (34.11% yoy) kept stable at a relatively high level, partially due to seasonal reason that bank lending usually slows after H1, and partially due to regulator's concern that huge loan expansion may bring more NPL in the future.
However, it will not change the fact that a record credit will be created in 2009.



Sources: CEIC and BBVA estimates.

(b) External capital inflows

China's foreign trade contracted to USD 12.9 billion from USD 15.7 billion last month, and at the same time, FDI inflow rose slightly from USD 7.5 billion in August to USD 7.9 billion in September, while the net portfolio inflow hiked to USD 40.9 billion this month, attracted by the bright outlook in stock market and continuous rising property market in China.

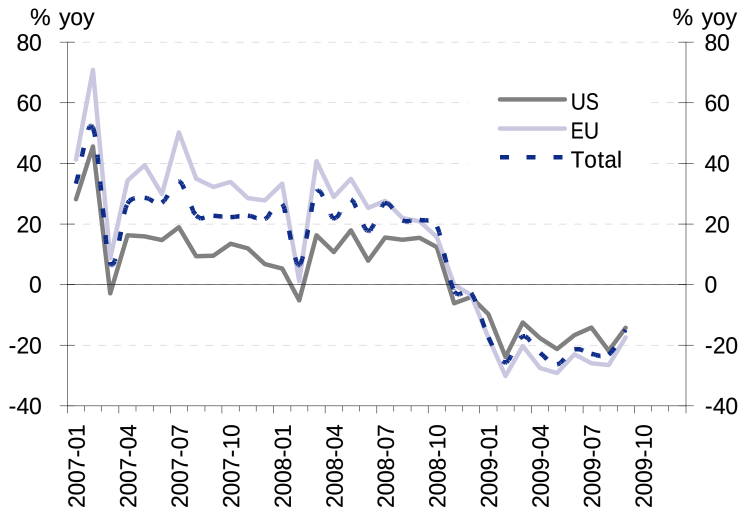


Sources: CEIC and BBVA estimates.

IV. External Trade

(a) Exports by region

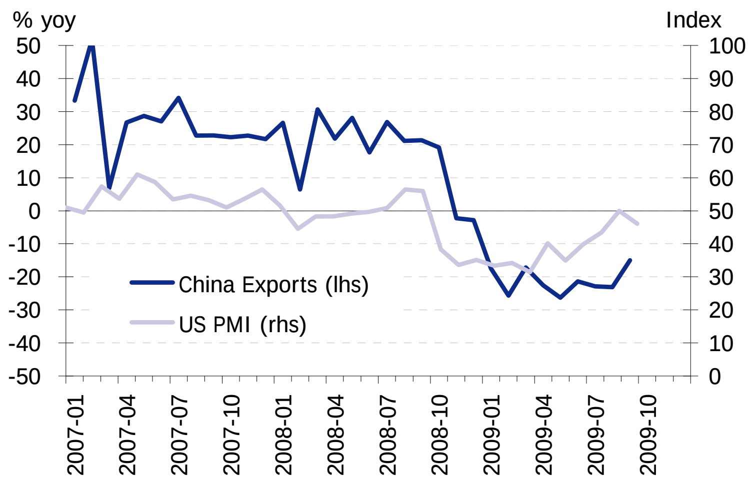
China's exports fell the least in nine months in September, with exports declining 15.2 percent from a year earlier. China's shipments to the US and EU fell by the least since exports collapsed in November, led by restocking worldwide on optimism the global economy is strengthening.



Source: CEIC.

(b) Exports and US PMI

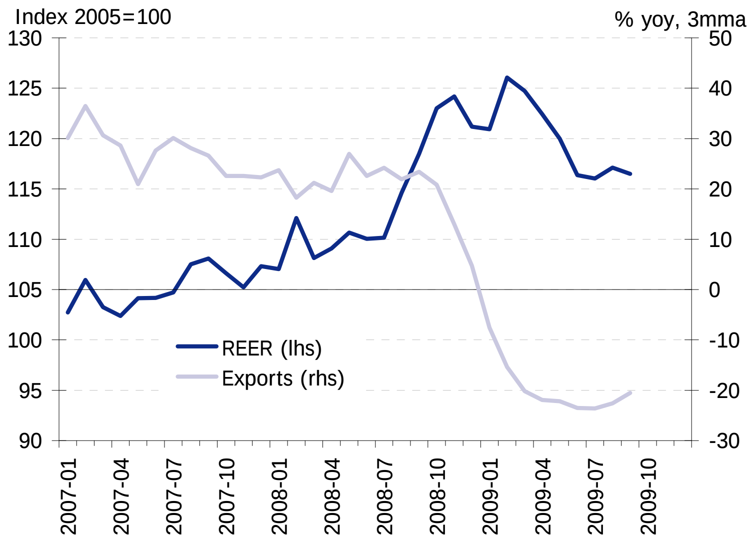
In September, the Chicago PMI, an indicator of the economic health of the manufacturing sector, moderated from 50 to 46.1, representing the recovery in US is still volatile and fragile, but the trend is pointing upwards. The growth rate of China's exports to US has not been affect much and is running on a recovery path.



Source: OECD, CEIC and BBVA estimates.

(c) Real exchange rate and exports

China's REER is indeed depreciating since RMB is de facto pegged to USD and the weak dollar dragged Chinese yuan down. China's exports is experiencing the hardest time, a lower REER might relieve the pressure in exports to a certain degree. In September, REER fell slightly to 116.5 from 117.1 in August.

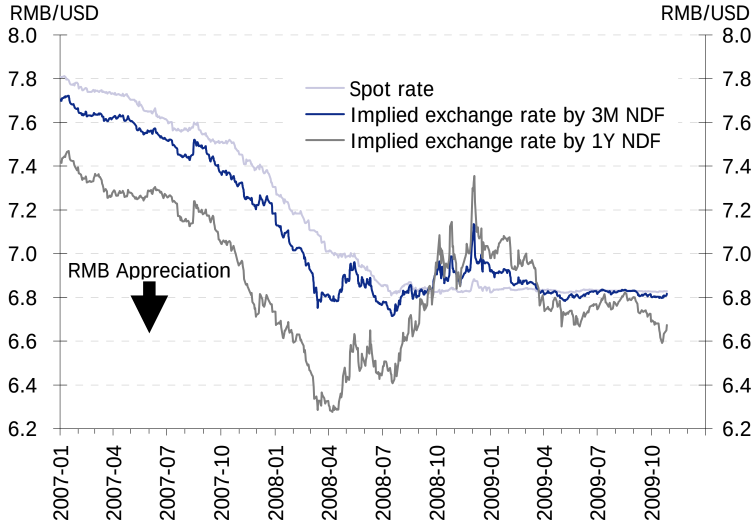


Sources: CEIC and BBVA estimates.

V. Exchange Rate

(a) Spot rate and RMB NDF

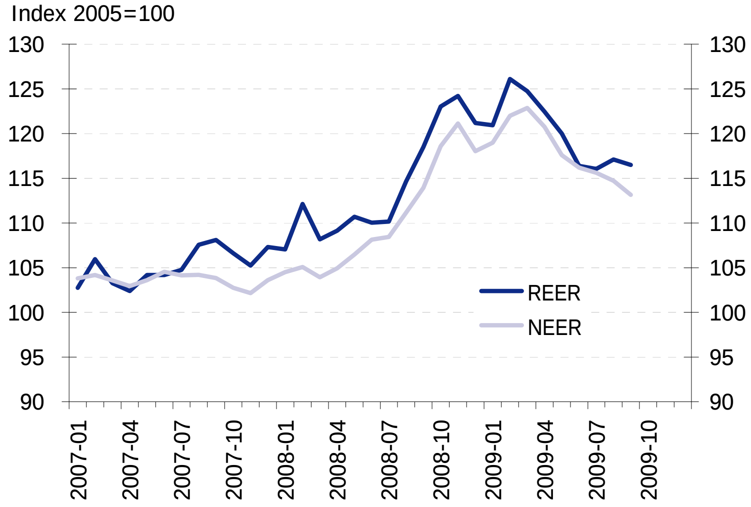
Since July 2008, when the global financial crisis broke out, the RMB has slowed its pace of appreciation and stayed trading within a narrow band of CNY 6.83 to the dollar. Since the recovery in Chinese economy is on a solid footing, the market re-ignited the RMB appreciation expectation. The 3-month non-deliverable futures (NDF) rate of CNY/USD kept its track close to spot rate since the market has factored in no radical macro policy change by the end of 2009, but the 1-year NDF implies CNY/USD will appreciate to 6.6 in one year.



Sources: CEIC and BBVA estimates.

(b) REER and NEER

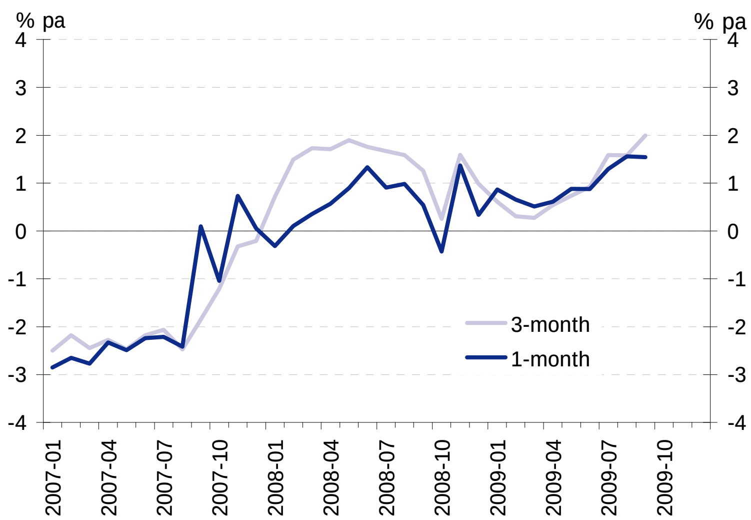
China's REER and NEER of the RMB started to fall from March as USD continued to weaken. NEER exhibited a continuous drop, but after the inflation adjustment, the REER trend had stabilized since June. The low REER and NEER are helpful for Chinese exports through the sluggish external demand.



Sources: BIS, CEIC, DataStream and BBVA estimates.

(c) Interest rate differentials (spreads of Chibor over Libor)

The interest rate differentials between 1-month Chibor and Libor had been swinging up for the 7th month to 1.54% while the 3-month one stayed the same at 1.98%. This is mainly driven by recent interest rate rise in Chinese credit market since the regulator started to fine-tune the massive credit expansion since July.

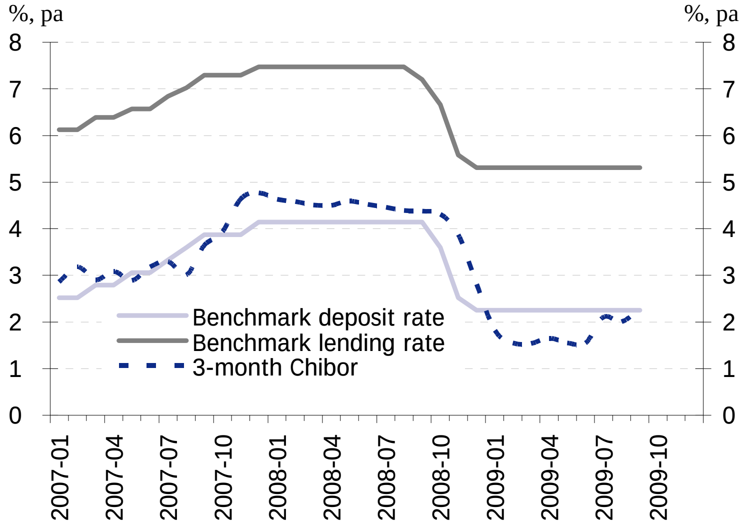


Sources: CEIC and BBVA estimates.

VI. Financial Markets

(a) Benchmark interest rates and Chibor

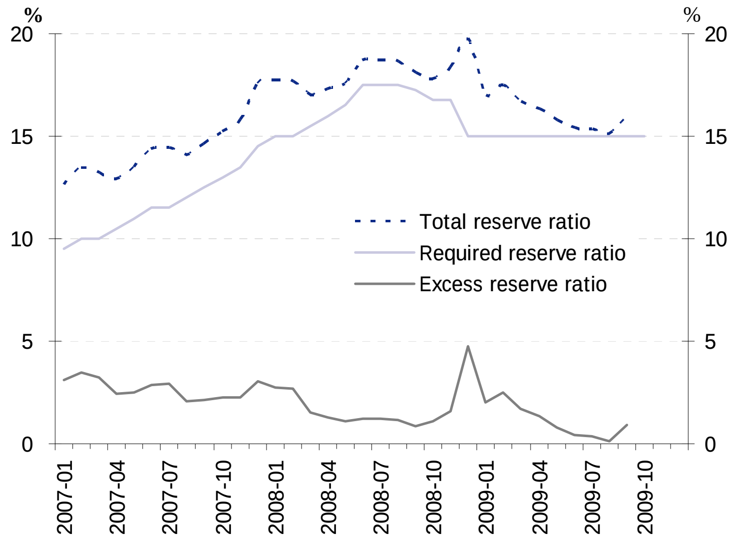
Although the monetary policy is kept at moderately easy monetary policy. Indeed, the real policy is switch from ultra-loose to moderately easy. Therefore, The 3-month Chibor continued to rise in September to 2.29% from 2% in August.



Sources: People Bank of China and CEIC.

(b) RRR & Excess reserves

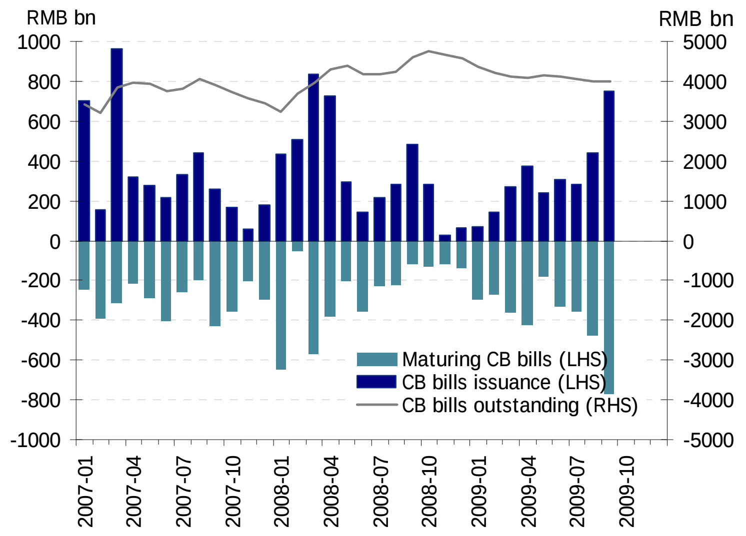
While the RRR has remained unchanged since last December, excess reserve ratio began to rise after its continuous drop until August. This is mainly due to slowed credit growth on the caution of credit risk from both regulators and banks themselves. Banks start to deposit the extra liquidity in Central Bank.



Sources: CEIC and BBVA estimates.

(c) Open market operations

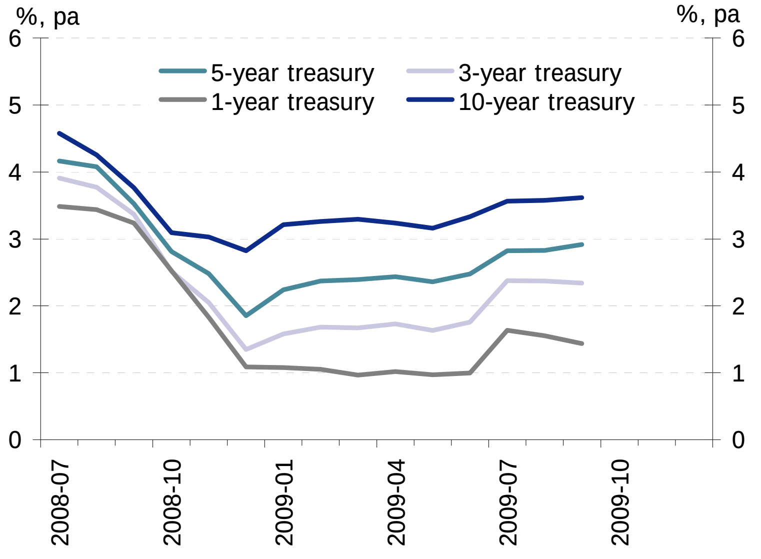
China has strengthened the open market operations in the recent months as the maturing of central banks bills increased rapidly. As a net effect, the outstanding central bank bills has fallen to RMB 4 trillion in September, implying the central bank continue to inject liquidity to support economic growth.



Source: CEIC.

(d) Treasury yields

Treasury yields with longer maturities stayed stable in September, while 1-year treasury yield is tilting downward, partially due to that the demand for 1-year treasury notes is larger than other maturities.

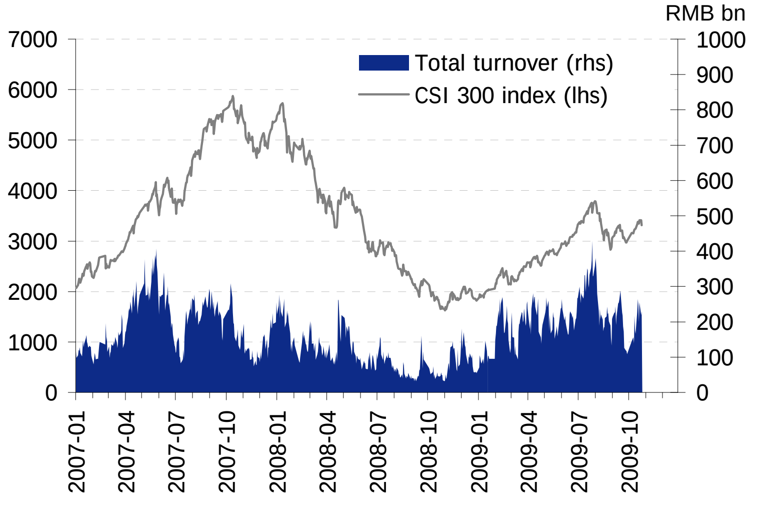


Source: CEIC.

(e) Stock Market Performance

Chinese stock market changed its one-way upward trend in the first half year to a more volatile way. The liquidity could be one reason since the credit grew slower in the recent months than that in the first half year. Moreover, the accelerated IPOs divert funds from secondary market to the first market. Both reasons resulted in the fluctuation in the stock market.

ChiNext, a Nasdaq-style stock board in China, is officially launched in October, which is seen as a watershed moment for the country's capital markets, providing a new alternative source of financing for start-up companies, also more volatile opportunities for mainland Chinese investors.

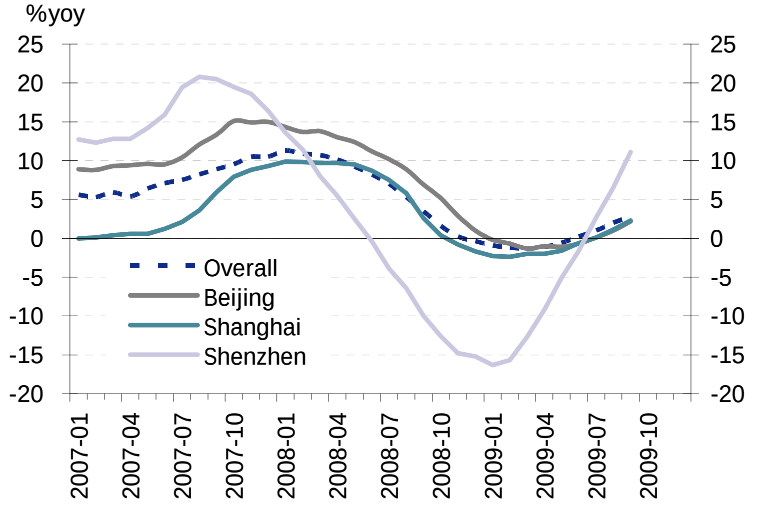


Source: CEIC.

(f) Property market

In line with China's recovery outlook, the property market had gained an even faster growth in September, with Beijing up 2.2%, Shanghai 2.3% and especially Shenzhen 11.1% yoy.

However, the fast pace in housing prices have raised concern from regulators of bubble forming, which might introduce gradual tightening measures to the overheating market. Furthermore, the high housing prices have been far beyond the affordability to most households, spurring more discontent from mass people. As a response, government should build more affordable housings for the low income people, which also can be an effective tool to mitigate the rapid rise in prices.



Source: CEIC.

Appendix

		Unit	2008 01	2008 02	2008 03	2008 04	2008 05	2008 06	2008 07	2008 08	2008 09	2008 10	2008 11	2008 12	2009 01	2009 02	2009 03	2009 04	2009 05	2009 06	2009 07	2009 08	2009 09
I. Real Economic Activities																							
	BBVA Real Activity Index (RAI)	Index	95.2	96.0	97.7	96.5	96.7	95.5	95.7	95.5	96.6	94.1	91.5	95.1	90.3	94.6	95.8	96.8	98.4	100.8	101.6	102.0	102.2
	GDP	% yoy			10.6			10.1			9.0			6.8			6.1			7.9			8.9
(a)	**Overall industrial production**	% yoy	15.4	15.4	17.8	15.7	16.0	16.0	14.7	12.8	11.4	8.2	5.4	5.7		11.0	8.3	7.3	8.9	10.7	10.8	12.3	13.9
	Heavy industrial production	% yoy	16.9	16.9	18.7	17.2	17.0	17.1	15.7	13.2	11.5	7.3	3.4	4.7		9.6	8.3	6.9	8.6	10.9	11.3	13.2	14.8
	Light industrial porduction	% yoy	11.8	11.8	15.7	12.1	13.5	13.3	12.2	11.7	11.2	10.3	10.1	8.1		14.4	8.5	8.2	9.7	10.2	9.2	9.8	11.8
(b)	**Rural real retail sales**	% yoy	10.2	8.2	10.2	9.9	10.4	12.5	13.1	14.7	15.1	16.4	18.1	16.5	16.7	16.6	17.8	18.5	17.3	16.9	17.3	16.8	15.3
	Urban real retail sales	% yoy	14.0	9.9	12.7	13.2	13.6	15.5	16.8	18.2	18.5	17.6	17.9	17.9	17.5	12.6	15.7	16.0	16.7	17.1	17.2	16.8	16.7
	Real retail sales	% yoy	13.2	9.6	12.2	12.4	12.9	14.8	16.0	17.4	17.8	17.3	18.0	17.6	17.3	13.4	16.1	16.5	16.8	17.0	17.3	16.8	16.4
(c)	**Nominal FAI**	% yoy	24.3	24.3	27.2	25.3	25.4	29.6	29.5	28.0	28.8	23.9	23.7	21.9	26.5	26.5	30.3	33.9	38.7	35.3	29.9	33.6	35.0
	Real FAI	% yoy	17.2	16.6	17.9	15.9	15.9	19.1	17.7	16.3	18.0	16.3	21.3	23.3	30.9	32.4	38.6	43.4	49.4	46.7	41.6	45.0	45.1
	Real FAI: Real Estate	% yoy	26.4	25.7	25.4	22.4	23.9	26.6	11.5	7.3	11.4	6.2	9.5	10.3	8.5	9.8	18.1	22.2	29.2	32.1	35.2	50.3	49.2
(d)	**Exports**	% yoy	26.7	6.3	30.4	22.1	28.3	17.3	26.9	21.5	21.7	19.3	-2.2	-2.9	-17.6	-25.8	-17.2	-22.8	-26.5	-21.3	-23.0	-23.4	-15.2
	Imports	% yoy	27.6	35.6	25.0	26.8	40.7	31.4	33.7	22.9	21.0	15.1	-18.1	-21.5	-43.1	-24.1	-25.0	-22.9	-25.0	-13.0	-14.8	-17.0	-3.5
	Trade balance	USD bn	19.5	8.2	13.1	16.6	19.9	20.9	25.4	29.4	30.0	35.8	40.3	39.0	39.1	4.8	18.3	13.0	13.1	8.1	10.5	15.7	12.9
(e)	**Electricity production**	% yoy	15.7	15.7	17.2	13.7	14.2	8.1	9.6	5.7	4.8	-3.0	-7.8	-7.0	-4.9	-4.9	-2.2	-3.6	-3.2	5.6	4.7	8.9	10.7
(f)	**Freight transport**	% yoy	14.1	8.9	6.6	7.1	6.3	4.7	1.5	7.9	14.6	5.2	-9.2	11.3	-14.1	-9.1	-1.4	9.0	12.9	14.1	20.3	14.6	11.6
	Passenger transport	% yoy	14.5	10.0	5.8	12.7	6.3	9.0	7.8	7.3	9.5	8.6	8.9	6.6	15.4	6.0	1.5	1.5	6.9	2.3	3.6	8.6	5.8
(g)	**Industrial sales growth**	% yoy		27.4			29.3			29.0			24.1			-3.1			-0.8			1.6	
	Industrial profit growth	% yoy		16.5			20.9			19.4			4.9			-37.3			-22.9			-10.6	
II. Price Development																							
(a)	**CPI inflation**	% yoy	7.1	8.7	8.3	8.5	7.7	7.1	6.3	4.9	4.6	4.0	2.4	1.2	1.0	-1.6	-1.2	-1.5	-1.4	-1.7	-1.8	-1.2	-0.8
	Non-food price index inflation	% yoy	1.1	1.0	1.3	1.2	1.2	1.4	1.6	1.5	1.4	1.2	0.5	-0.2	-0.4	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.3
	Food price index inflation	% yoy	6.0	7.7	7.0	7.3	6.5	5.7	4.7	3.4	3.2	2.8	1.9	1.4	1.4	-0.6	-0.2	-0.4	-0.2	-0.4	-0.4	0.2	0.5
(b)	**Producer price index**	% yoy	6.1	6.6	8.0	8.1	8.2	8.8	10.0	10.1	9.1	6.6	2.0	-1.1	-3.3	-4.5	-6.0	-6.6	-7.2	-7.8	-8.2	-7.9	-7.0
	Producer price index (raw material)	% yoy	8.5	8.8	10.2	10.4	10.9	11.2	14.3	14.4	13.0	9.0	0.4	-3.9	-6.8	-8.4	-10.2	-10.3	-10.9	-11.0	-12.1	-11.5	-10.2
(c)	**IMF commodity price**	% yoy	43.8	44.5	48.0	47.0	57.2	62.2	58.5	46.8	24.7	-6.0	-27.2	-37.4	-37.8	-43.7	-45.2	-45.5	-44.2	-41.2	-44.6	-33.5	-28.6
III. Money supply and credit																							
(a)	**M2 supply**	% yoy	18.9	17.5	16.3	16.9	18.1	17.4	16.4	16.0	15.3	15.0	14.8	17.8	18.8	20.4	25.5	26.0	25.7	28.5	28.4	28.5	29.3
	Loans	% yoy	16.7	15.7	14.8	14.7	14.9	14.1	14.6	14.3	14.5	14.6	16.0	18.7	21.3	24.2	29.8	29.7	30.6	34.4	34.0	34.1	34.2
(b)	**Foreign direct investment**	USD bn	11.2	6.9	9.3	7.6	7.8	9.6	8.3	7.0	6.6	6.7	5.3	21.9	7.5	5.8	8.4	5.9	6.4	9.0	5.4	7.5	7.9
	Net portfolio inflows	USD bn	30.9	42.2	12.6	50.3	12.6	-18.6	2.6	2.6	-15.2	-68.4	-40.6	0.4	-79.2	-12.0	14.9	36.3	61.1	25.1	27.2	13.0	40.9
	Foreign exchange reserves	USD bn	1,590	1,647	1,682	1,757	1,797	1,809	1,845	1,884	1,906	1,880	1,885	1,946	1,913	1,912	1,954	2,009	2,089	2,132	2,175	2,211	2,273
IV. External Trade																							
(a)	**Exports to US**	% yoy	5.3	-5.3	16.2	10.8	17.9	7.8	15.6	14.8	15.4	12.4	-6.1	-4.1	-9.8	-23.9	-12.6	-17.7	-21.2	-16.6	-14.1	-21.8	-14.3
	Exports to EU	% yoy	33.3	1.2	40.7	28.9	34.9	25.3	27.6	22.0	20.8	15.7	-0.0	-3.5	-17.5	-30.2	-20.2	-27.6	-29.2	-23.0	-26.0	-26.6	-17.4
(b)	**US PMI**	Index	51.5	44.5	48.2	48.3	49.1	49.6	50.8	56.4	55.9	38.3	33.6	35.1	33.3	34.2	31.4	40.1	34.9	39.9	43.4	50.0	46.1
©	**Real effective exchange rate**	Index*	107	112	108	109	111	110	110	115	118	123	124	121	121	126	125	122	120	116	116	117	116.5
V. Exchange Rate																							
(a)	**Spot rate**																						
	Implied exchange rate by 3M NDF																						
	Implied exchange rate by 1Y NDF																						
(b)	**Nominal effective exchange rate**	Index*	104	105	104	105	106	108	108	111	114	119	121	118	119	122	123	121	118	116	116	115	113
VI. Financial Markets																							
(a)	**Benchmark deposit rate**	%, pa	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	3.6	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
	Benchmark lending rate	%, pa	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.2	6.7	5.6	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
	3-month Chibor	%, pa	4.6	4.6	4.5	4.5	4.6	4.5	4.5	4.4	4.4	4.3	3.9	2.8	1.8	1.6	1.5	1.7	1.5	1.5	2.1	2.0	2.3
(b)	**Total reserve ratio**	%	17.7	17.7	17.0	17.3	17.6	18.7	18.7	18.6	18.1	17.8	18.4	19.8	17.0	17.5	16.7	16.4	15.8	15.4	15.4	15.1	15.9
	Required reserve ratio	%	15.0	15.0	15.5	16.0	16.5	17.5	17.5	17.5	17.3	16.8	16.8	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
	Excess reserve ratio	%	2.73	2.66	1.53	1.30	1.07	1.24	1.24	1.14	0.88	1.07	1.61	4.76	2.02	2.50	1.73	1.36	0.76	0.40	0.36	0.15	0.91
(c	**Maturing CB bills**	RMB bn	-649	-53	-569	-380	-206	-354	-227	-224	-119	-128	-120	-136	-296	-268	-364	-425	-178	-331	-355	-476	-770
	CB bills issuance	RMB bn	433	510	834	729	296	142	219	281	482	280	30	61	70	140	270	375	240	310	280	438	753
	CB bills outstanding	RMB bn	3,231	3,688	3,953	4,302	4,392	4,180	4,172	4,228	4,591	4,743	4,653	4,578	4,352	4,224	4,130	4,080	4,142	4,121	4,046	4,008	3,992
(d)	**1-year treasury yield**	%, pa							3.5	3.4	3.2	2.5	1.8	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.6	1.6	1.4
	3-year treasury yield	%, pa							3.9	3.8	3.4	2.5	2.0	1.4	1.6	1.7	1.7	1.7	1.6	1.8	2.4	2.4	2.3
	5-year treasury yield	%, pa							4.2	4.1	3.5	2.8	2.5	1.9	2.2	2.4	2.4	2.4	2.4	2.5	2.8	2.8	2.9
	10-year treasury yield	%, pa							4.6	4.3	3.8	3.1	3.0	2.8	3.2	3.3	3.3	3.2	3.2	3.3	3.6	3.6	3.6
(e)	**Total stock market turnover**																						
	CSI 300 index																						
(f)	**Overall property price index**	% yoy	11.3	10.9	10.7	10.1	9.2	8.2	7.0	5.3	3.5	1.6	0.2	-0.4	-0.9	-1.2	-1.3	-1.1	-0.6	0.2	1.0	2.0	2.8
	Beijing property price index	% yoy	14.3	13.7	13.8	13.0	12.4	11.2	10.2	8.9	6.9	5.2	2.9	1.0	-0.2	-0.7	-1.3	-1.0	-1.1	-0.7	0.1	1.0	2.2
	Shanghai property price index	% yoy	9.9	9.8	9.7	9.7	9.5	8.7	7.5	5.8	2.6	0.4	-0.8	-1.7	-2.3	-2.4	-2.0	-2.0	-1.6	-0.6	0.1	1.1	2.3
	Shenzhen property price index	% yoy	13.6	11.4	8.0	5.5	2.5	-0.4	-3.9	-6.4	-10.0	-12.6	-14.8	-15.2	-16.3	-15.7	-12.7	-9.2	-5.1	-1.6	2.7	6.5	11.1

* based on year 2005.