

Monthly Chart Book

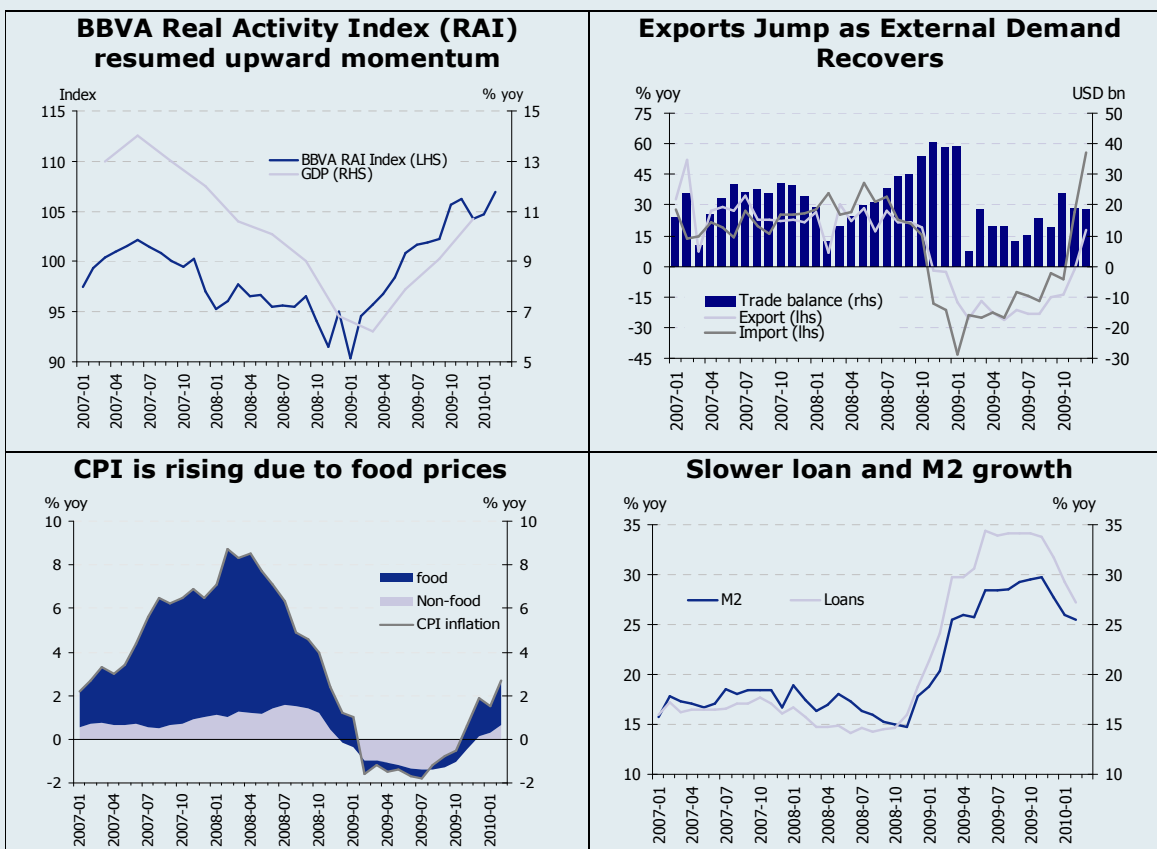
1 April 2010

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Highlights of the month:

Inflation in February ticked up while growth momentum remains strong, although some indicators are distorted by the Chinese New Year effect

- February CPI inflation came in higher than expected at 2.7% yoy, largely due to seasonal increases in food prices due to the week-long Chinese New Year (CNY) effect. While year-on-year inflation is likely to rise in coming months due to base effects, underlying pressures remain weaker, with core inflation of 0.5% yoy and 1.0% yoy in January and February, respectively.
- There was a moderation in export and import growth from their peak in December showed up after taking away the seasonal factor of the CNY effect.
- Extension of new loans decreased in line with expectation amid government efforts to curb excessive bank lending and tighten credit conditions.

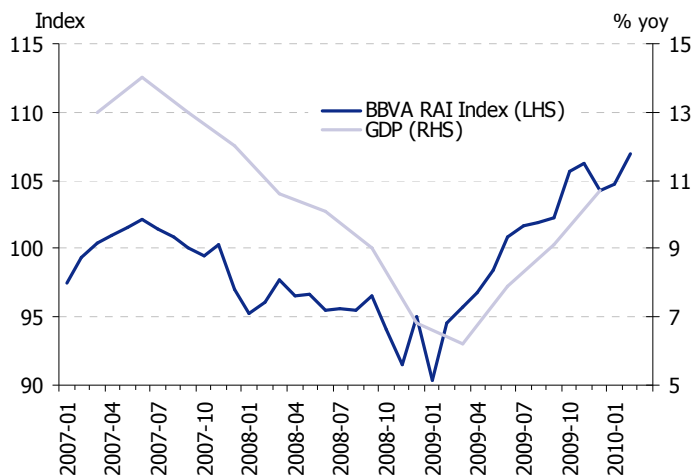


Source: CEIC and BBVA ERD

I. Real Economic Activity

BBVA Real Activity Index (RAI)

China's Q4 GDP registered a robust growth of 10.7% year-on-year, which was driven by the government's massive stimulus package, record-high credit growth and, at the same time, rebounding exports as external demand improved. During January and February, BBVA RAI went further up, supporting an even stronger GDP expansion in 2010Q1.

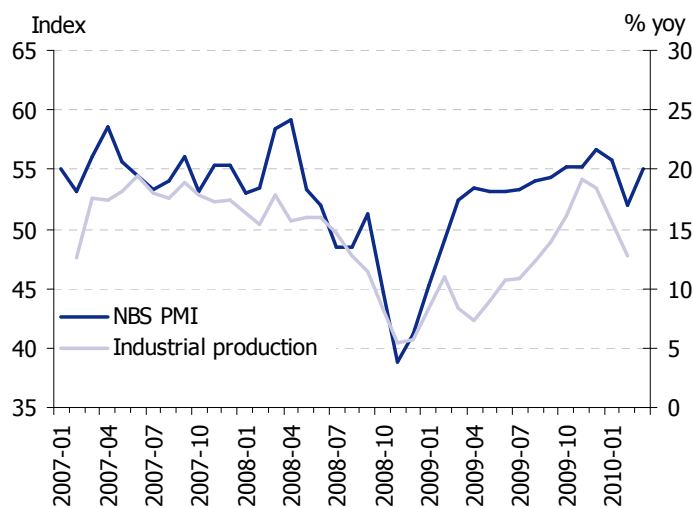


Note: BBVA Real Activity Index is a composite real activity index constructed with several monthly economic activity indicators, to monitor the momentum of China's aggregate economic performance before the official release of the quarterly GDP data

Sources: CEIC and BBVA estimates

(a) Purchasing Managers Index (PMI)

The latest PMI in March issued on April 1 rose to 55.1, in line with expectations, suggesting that industrial activity growth has regained momentum last month after slowing in February due to holidays. The components of output and forward-looking orders showed particular strength. February's PMI was 52.0, down from 55.8 in Jan and 56.6 in last Dec, although above the expansion-contraction threshold of 50.

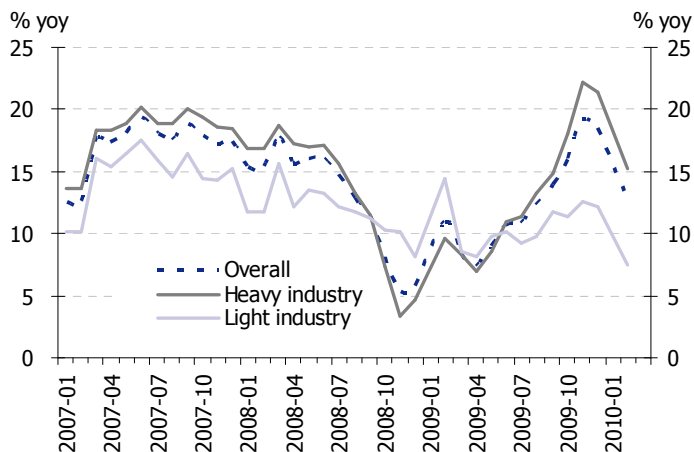


Source: CEIC.

(b) Industrial production

Industrial production held up well in this first two months, although the pace of growth slowed to 12.8% yoy in February from 18.5% yoy in last December.

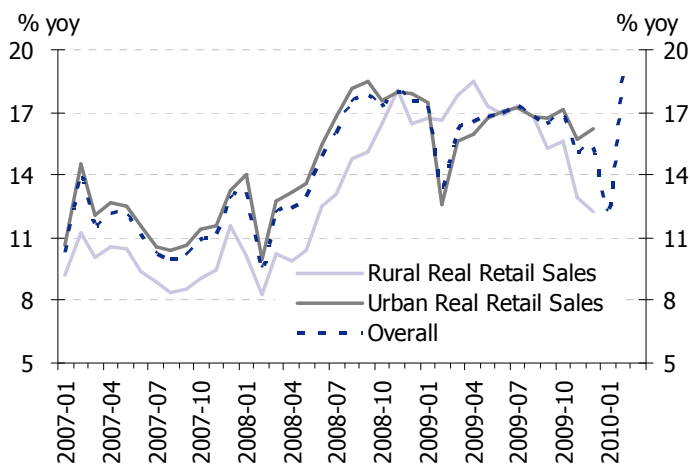
By category, heavy industry continued its strong momentum at 15.2% yoy in February, down from 21.4% yoy in last December. Meanwhile, light industry expanded by 7.5% yoy, slowed down from 12.1% yoy last December. The slow-down expansion trend exhibited by these three indicators is mainly due to the Chinese New Year effect.



Sources: CEIC and BBVA estimates

(c) Real retail sales

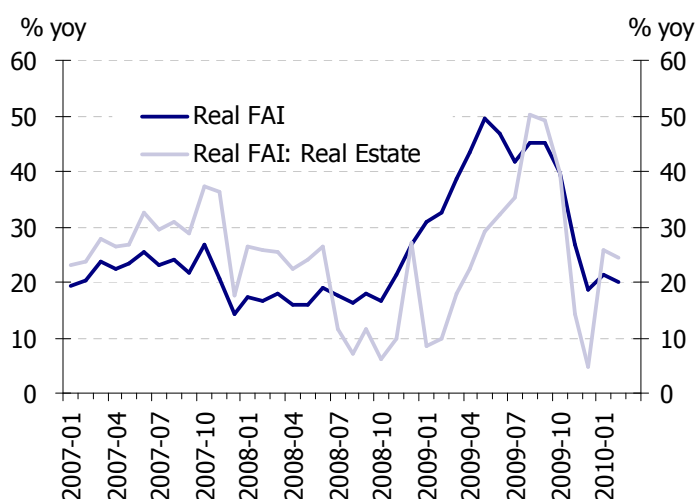
Overall real retail sales gained its pace by rising 18.9% yoy in February compared to 12.3% yoy in January and 15.3% yoy in last December. Apart from Chinese New Year effect, consumption was also boosted by extended favorable policies, such as tax cuts and subsidies to home appliances and automobile purchase in 2010.



Sources: CEIC and BBVA estimates

(d) Urban Fixed Asset Investment (FAI)

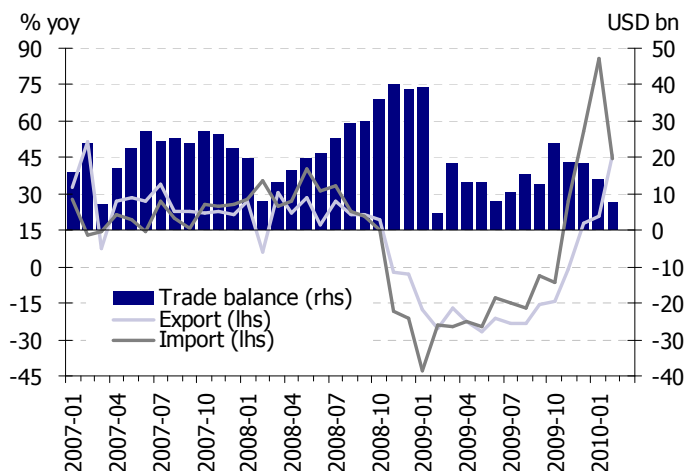
During the January-February period, fixed asset investment in China's urban areas rose by 26.6% yoy in nominal terms. Meanwhile, real FAI growth came in at 20.1% yoy in February, up from 18.8% in last December. FAI over real estate also accelerated, with a real growth of 24.4% yoy in February compared to 4.8% in last December. The accelerated growth was due to a re-start of investments backed by renewed banking credit at year beginning. In coming months, we expect FAI growth to weaken as more authority's restrictions on the approval of new investments and measures to slow loan growth.



Sources: CEIC and BBVA estimates.

(e) External Trade

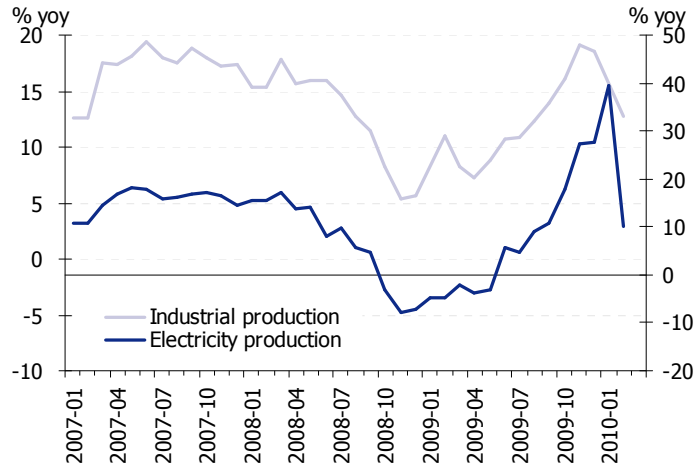
Export data showed an increase of 45.7% yoy in February from 21.0% in January. Import growth slumped to 44.7% yoy from 85.5% in January. The monthly trade surplus narrowed to USD 7.6bn in February from USD 14.2bn last month. Given distortions from the Chinese New Year effect, it is more meaningful to look at the first two months as a whole. On this basis, exports surged 31.4% in the first two months over the same period last year, while Imports up 63.6%. That said, sequential data (CNY effect excluded) indicated a moderation in export and import growth from their peak in December.



Sources: CEIC and BBVA estimates.

(f) Industrial and Electricity Production

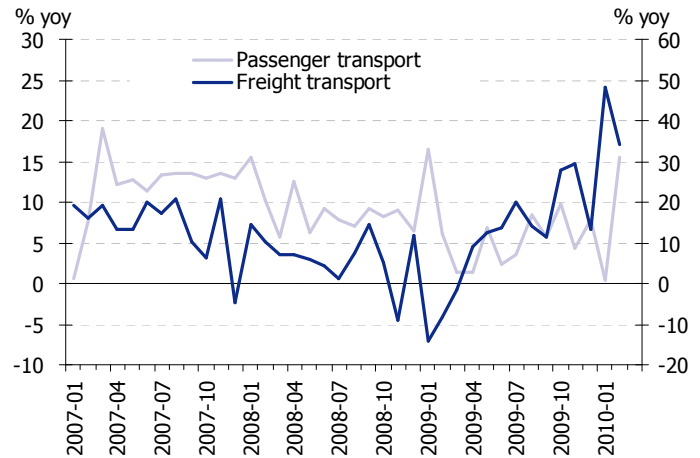
Electricity production recorded a surge of 39.5% yoy in January, and then its growth rate adjusted downward to 10.0% yoy in February. To strip out the CNY effect, electricity production rose by 24.7% for the Jan-Feb period compared to a year earlier. Given the 27.7% yoy growth rate of last December, it suggests that the strong momentum in industrial activity has been carried forward.



Source: CEIC and BBVA estimates.

(g) Transportation

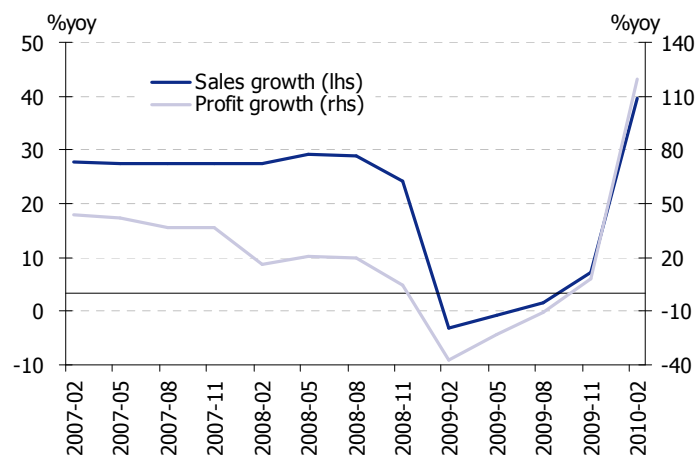
Freight and passenger transport fluctuated significantly during the previous two months because of the Chinese New Year. Freight transport growth registered 34.1% yoy in Feb and 48.1% yoy in Jan, both up from 13.3% yoy of last December. On the other hand, passenger transport peaked in Feb by growing at 15.5% yoy, accelerating from 0.3% in Jan.



Source: CEIC.

(h) Nationwide Industry Profitability

Total industrial sales revenue in the first two months was up 39.7% yoy at RMB 8.56tn, improved from 7.1% during the Jan-Nov period last year. Industrial companies' profits rose by 119.7% yoy in the first two months of 2010, arriving at RMB 486.74bn, up from a 7.8% growth during the first 11 months of last year. In spite of the low comparison last year, those figures are still convincing enough to illustrate better price margins of those industrial companies backed on expanding domestic demand and gradually recovering global demand



Source: CEIC.

II. Price Developments

(a) Consumer Price Inflation

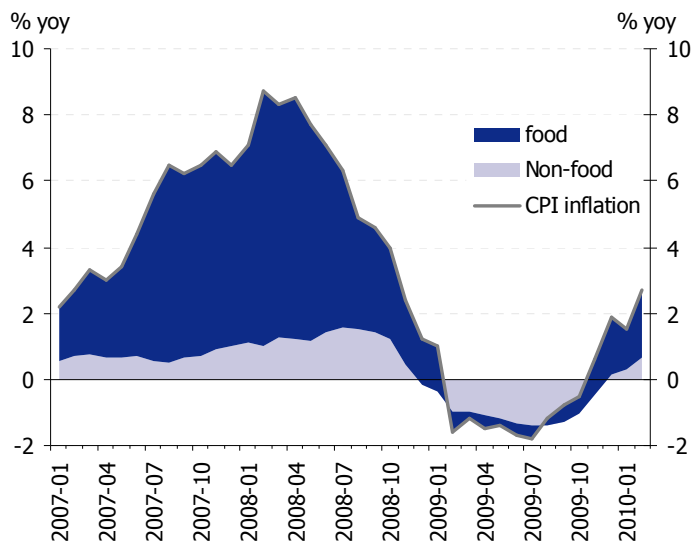
CPI inflation ticked up to 2.7% yoy from 1.5% yoy in January. Among the components, food contributed 2.04 percentage points to the hike, while non-food price added the rest 0.66 percentage point. Inflation excluding food rose by 1.0%, edging up from 0.5% in January. This rise in inflation is mainly due to the CNY effect and the low comparison base of a year ago (CNY occurred in February this year, in contrast to January last year).

(b) Producer Prices

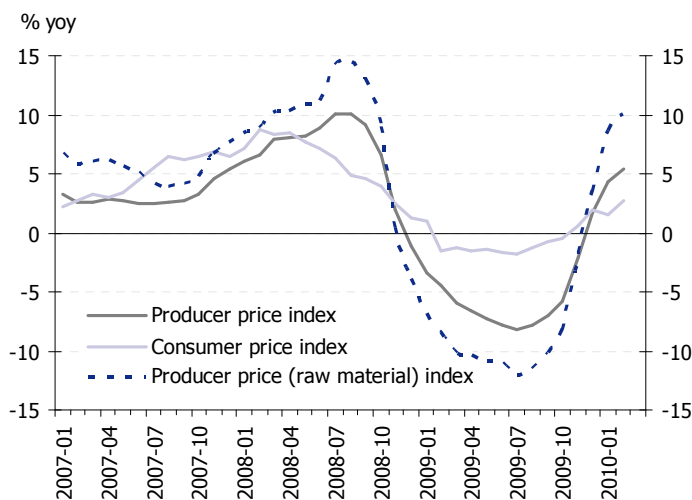
Upstream costs continue to increase. The overall PPI inflation rose 5.4% yoy in February, from 4.3% yoy in January. Meantime, PPI in the raw material industry climbed 10.1% yoy in Feb up from 8.6% yoy in Jan. Going forward, as the low comparison base effect fades, the year-on-year inflation in PPI will gradually converge to its underlying level. Also, the pass-through effect from PPI to CPI should be mild in the near future, considering that overcapacity still exists in the manufacturing sector and labor productivity has been growing rapidly.

(c) Commodity Prices and Producer Price Index (PPI)

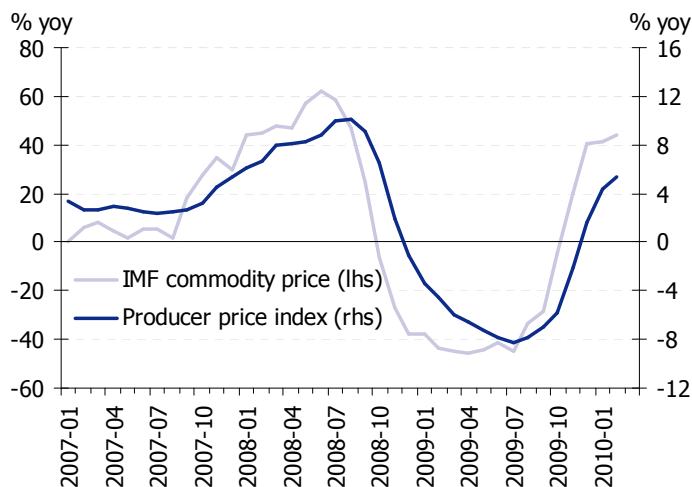
Global commodity prices and China's PPI have historically had a high correlation. In February, The growth momentum of global commodity prices continued, on the back of improving global demand. The IMF commodity price index has been on a solid recovery path from the bottom since April 2009 and registered a strong growth of 44.4% yoy in February from January's 41.1% yoy. However, the stronger US dollar in March might probably suggest a relatively slower inflation in commodity price.



Sources: CEIC and BBVA estimates.



Sources: CEIC and BBVA estimates.



Sources: IMF, CEIC and BBVA estimates.

III. Monetary Conditions

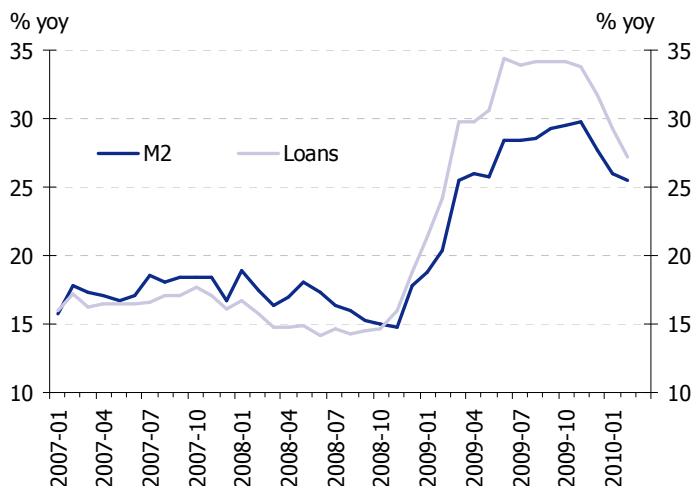
(a) Money Supply and Credit

Chinese banks extended new loans of RMB 700.1 billion in February, down sharply from RMB 1.4 trillion in January. As such, outstanding loan growth further eased to 27.3% in Feb 29.3% y/y. M2 growth slowed further to 25.5% y/y in February, slightly down from the 26.0% y/y rise last month.

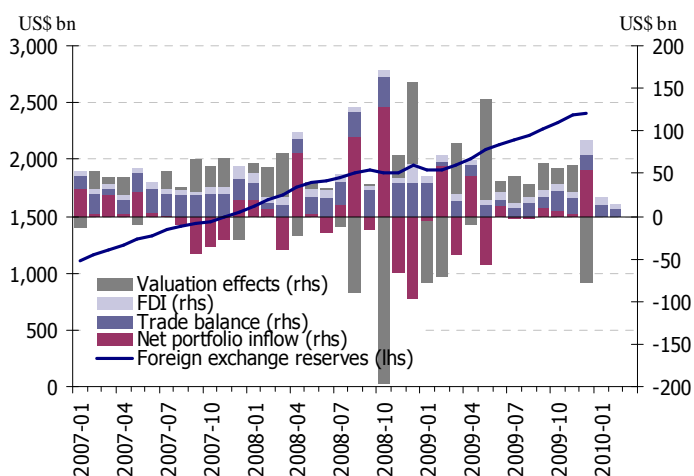
Those figures are largely in line with market expectations amid government efforts to curb bank lending. Also, the Chinese New Year might also drag the figure down because much business activity shuts down during this important holiday. The central bank's efforts to rein in property prices through two hikes in the RRR by 50bps each so far, may also have limited the banks' capacity to issue new loans.

(b) External Capital Inflows

Foreign exchange reserves accumulated to USD 2.40 trillion at end-2009, an increase of USD 453 billion for the year. In this Feb, trade surplus and year-to-date utilized FDI registered at USD 7.61 billion and USD 5.90 billion respectively. On the back of strong exports growth and FDI momentum, foreign reserve could reach a higher figure in 2010, which has been fueling expectations of the restart of RMB appreciation.



Sources: CEIC and BBVA estimates.

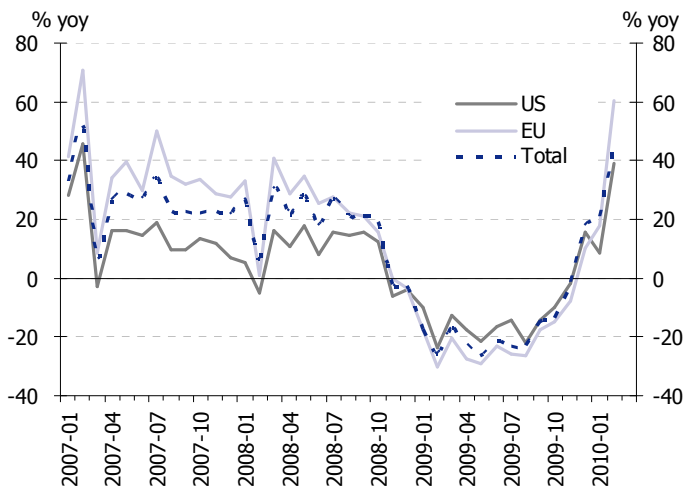


Sources: CEIC and BBVA estimates.

IV. External Trade

(a) Exports by Region

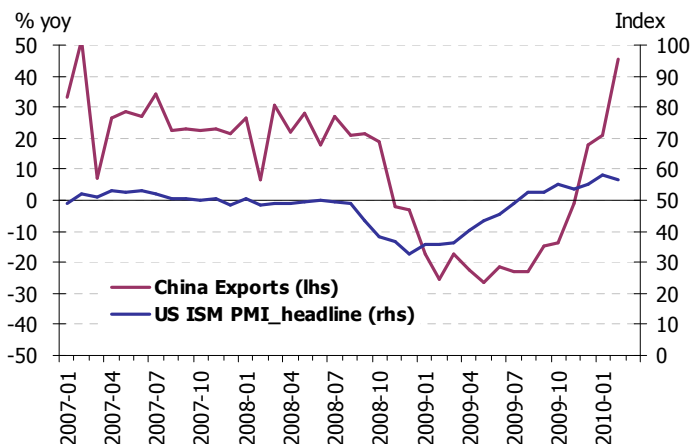
China's exports have been quickly rebounding mainly due to stronger global demand. By destination, the EU and US still remained China's No.1 and No.2 trade partners. In February, exports to the EU surged by 45.7% yoy after 21.0% yoy in Jan, while exports to US expanded by 60.1% yoy up from 17.7% yoy in Jan. Both of them gained a third straight month growth after reversing the contraction in last Nov.



Source: CEIC.

(b) Exports and US PMI

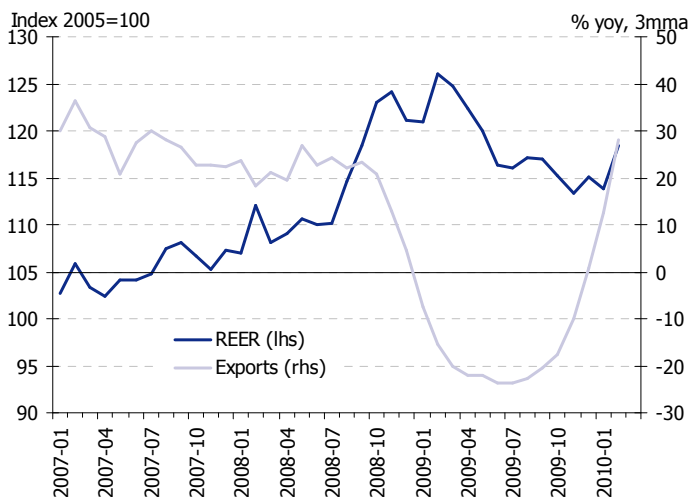
In addition, the US ISM headline PMI, an indicator of the economic health of the US manufacturing sector, came at 56.5 in February and has stayed above the expansion-contraction threshold of 50 for 7 consecutive months, suggesting that the US economy has stepped into a continuous recovery.



Source: CEIC.

(c) Real Effective Exchange Rate (REER) and Exports

The continuous yuan depreciation in real effective terms in 2009 has also helped the increase of competitiveness of China's exporters. However, moving into 2010, REER starts to picking up which means that RMB has been appreciating recently against the currencies of the bulk of its trading partners again since the pegging against the US dollar in the end of 2008.

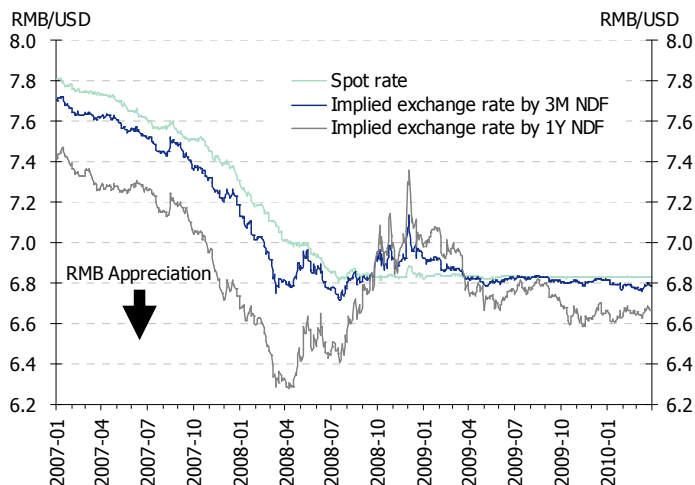


Sources: CEIC and BBVA estimates.

V. Exchange Rate

(a) Spot Rate and RMB NDF

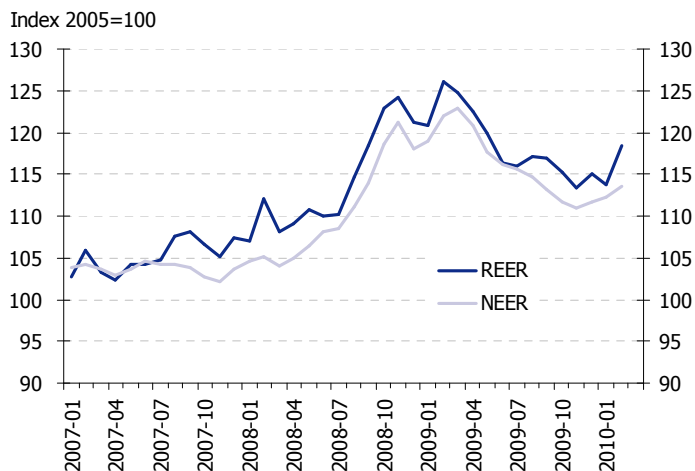
Expectations of renewed appreciation can be seen in the forward NDF market. The 3-month NDF and 1-year NDF have implied expectations of appreciation to around 6.66 in one year's time. Expectations of appreciation have been fueled by external political pressure on China to appreciate.



Sources: CEIC and BBVA estimates.

(b) REER and Nominal Effective Exchange Rate (NEER)

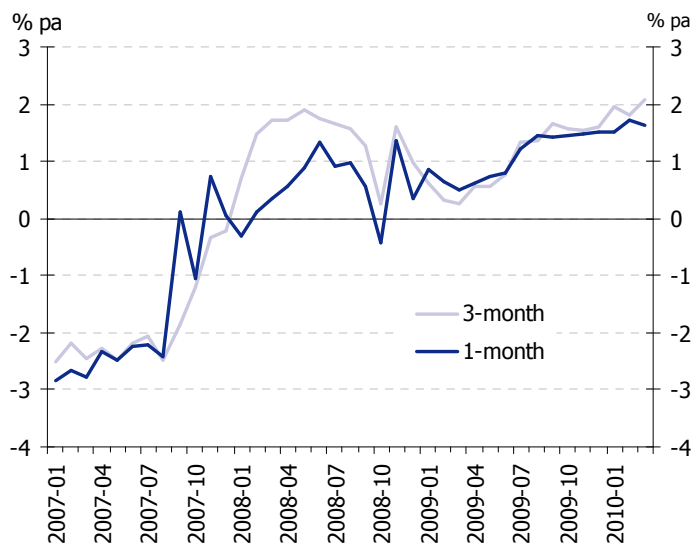
Despite the stability against the USD, China's REER and NEER edged up in December 2009 on the rebound of US dollar, as currencies of most other major trading partners depreciated against US dollar.



Sources: BIS, CEIC, DataStream and BBVA estimates.

(c) Interest Rate Differential (spreads of Chibor over Libor)

Market expectation of monetary tightening policies pushed up the interest rate differential between Chibor and Libor further in this first two months. The 1-month differential edged up to 1.63% in Feb from 1.52% in last Dec, while the 3-month differential rose to 2.07% from 1.96%

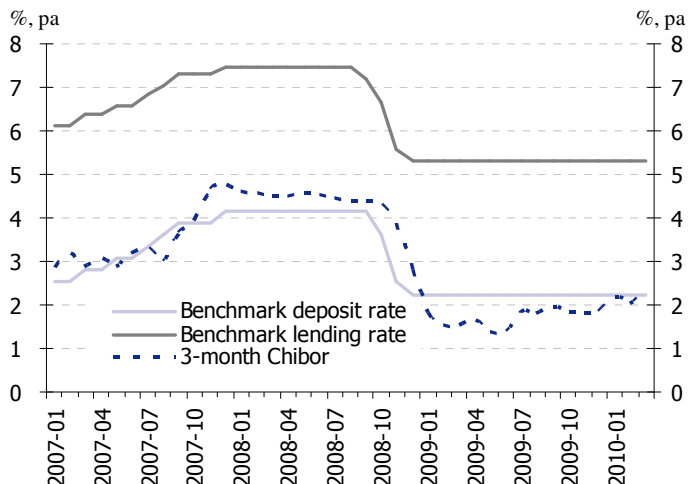


Sources: CEIC and BBVA estimates.

VI. Financial Markets

(a) Benchmark Interest Rate and Interbank Rate (Chibor)

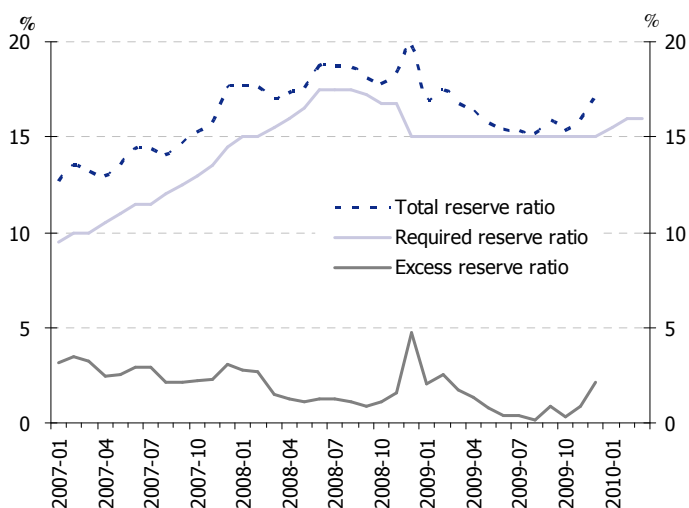
In February, the 3-month Chibor marginally adjusted upward to 2.34 percentage point from previous 2.05 percentage point, which is consistent with the tightening credit condition, since the government's has shifted towards a more moderate stimulus.



Sources: People Bank of China and CEIC.

(b) Required Reserve Requirement Ratio (RRR) and Excess Reserves

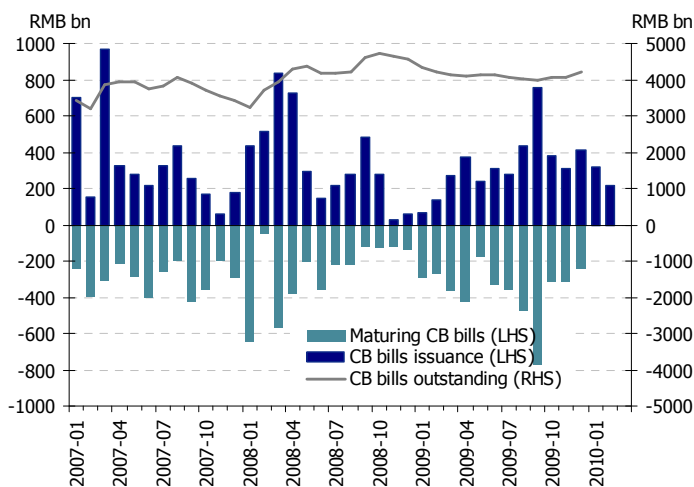
The central bank has already increased the bank's required reserve ratio by 50bps twice this year, in order to reduce the risk of property bubbles fueled by the excess liquidity. The authorities' overall target for bank lending in 2010 is set at RMB 7.5tn. To accomplish the target, we expect bank lending to be strictly managed. Thus, further quantitative tightening measures are expected with multiple RRR hikes and quotas on bank lending.



Sources: CEIC and BBVA estimates.

(c) Open Market Operations

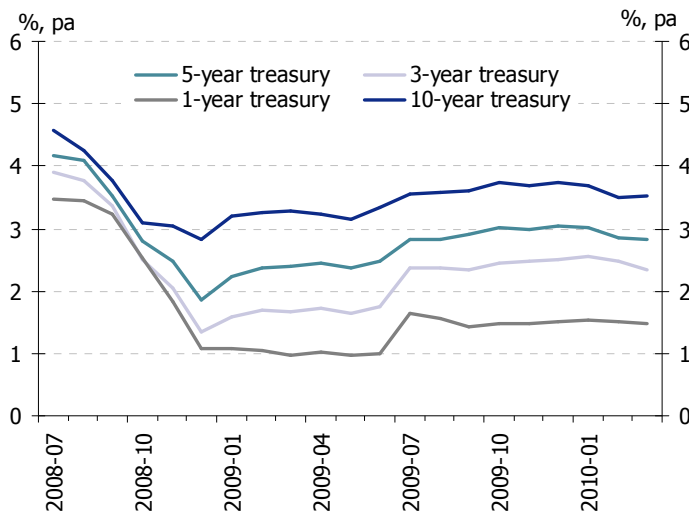
To neutralize maturing central bank bills, the central bank issued bills worth RMB 316bn and 213bn in Jan and Feb separately. Meanwhile, the central bank announced that it will maintain appropriate liquidity, though less compared to last year, to support the economy growing steadily going forward.



Source: CEIC.

(d) Treasury Yields

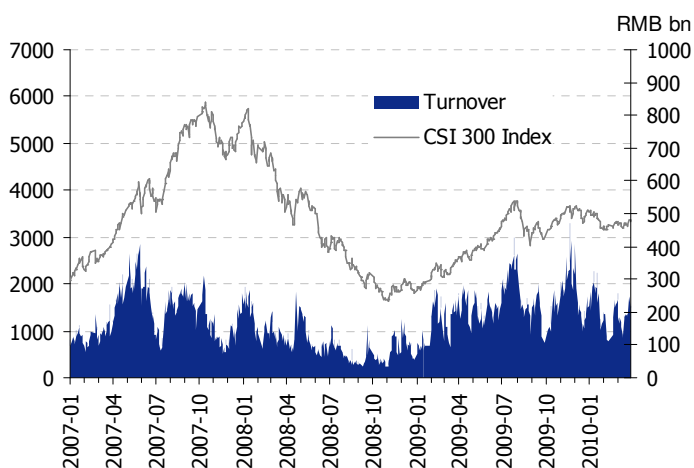
Short-term and mid-term treasury yields all edged down in February, while the long-term yield in the interbank market maintained unchanged at 3.51% pa, reflecting investors' preference on long term treasury in the recent market.



Source: CEIC.

(e) Stock Market Performance

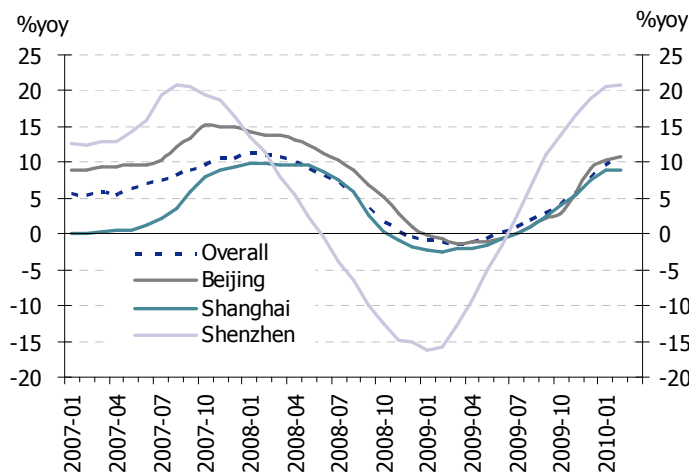
China's stock market performance is highly correlated with the stance of monetary policy. The potential for a tighter monetary policy in China sent the stock markets some calm. Nevertheless, the approval for margin trading, index futures and short selling spurred investor optimism for liquid stocks in Shanghai. Chinese insurers, large financial institutions and insurers are primary beneficiaries of the change.



Source: CEIC.

(f) Property Market

The rise in overall property prices increased to 10.7% yoy in February from 9.5% yoy in January, with Beijing up 10.7%, Shanghai 9.0% and especially Shenzhen 20.9% yoy. After the National People's Congress, authorities had taken a series of measures aimed at cooling down the surge and maintaining it at a reasonable level.



Source: CEIC.

Appendix: China databank

	Unit	2009												2010	
		01	02	03	04	05	06	07	08	09	10	11	12	01	02
I. Real Economic Activities															
BBVA Real Activity Index (RAI)	Index	90.3	94.6	95.8	96.8	98.4	100.8	101.6	102.0	102.2	105.7	106.2	104.2	104.7	107.0
GDP	% yoy			6.2			7.9			9.1			10.7		
a. NTC-HSBC PMI	Index	45.3	49.0	52.4	53.5	53.1	53.2	53.3	54.0	54.3	55.2	55.2	56.6	55.8	52.0
b. Overall industrial production															
Heavy industrial production	% yoy		11.0	8.3	7.3	8.9	10.7	10.8	12.3	13.9	16.1	19.2	18.5		12.8
Light industrial production	% yoy		9.6	8.3	6.9	8.6	10.9	11.3	13.2	14.8	18.1	22.2	21.4		15.2
c. Rural real retail sales															
Urban real retail sales	% yoy	16.7	16.6	17.8	18.5	17.3	16.9	17.3	16.8	15.3	15.6	12.9	12.3		
Real retail sales	% yoy	17.5	12.6	15.7	16.0	16.7	17.1	17.2	16.8	16.7	17.1	15.7	16.2		
d. Nominal FAI															
Real FAI	% yoy	26.5	26.5	30.2	33.9	38.7	35.3	29.9	33.6	35.0	31.6	24.3	20.8	26.6	26.6
Real FAI: Real Estate	% yoy	30.9	32.5	38.5	43.4	49.4	46.7	41.6	45.0	45.1	39.8	26.9	18.8	21.4	20.1
e. Exports															
Imports	% yoy	8.6	9.8	18.0	22.2	29.2	32.1	35.2	50.3	49.2	39.6	14.2	4.8	25.7	24.4
Trade balance	USD bn	-17.6	-25.7	-17.2	-22.8	-26.5	-21.3	-23.0	-23.4	-15.3	-13.9	-1.2	17.7	21.1	45.7
f. Electricity production															
Freight transport	% yoy	-4.9	-4.9	-2.2	-3.6	-3.2	5.6	4.7	8.9	10.7	18.0	27.3	27.7	39.5	10.1
Passenger transport	% yoy	-14.0	-8.4	-1.5	9.1	12.7	13.9	20.1	14.1	11.4	27.9	29.5	13.3	48.1	34.1
g. Industrial sales growth															
Industrial profit growth	% yoy	16.5	6.1	1.4	1.3	6.8	2.3	3.5	8.5	5.6	9.9	4.4	7.8	0.3	15.5
h. Industrial sales growth															
Industrial profit growth	% yoy		-3.1			-0.8			1.6			7.1			39.7
II. Price Development															
a. CPI inflation															
Non-food price index inflation	% yoy	1.0	-1.6	-1.2	-1.5	-1.4	-1.7	-1.8	-1.2	-0.8	-0.5	0.6	1.9	1.5	2.7
Food price index inflation	% yoy	-0.4	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.3	-1.0	-0.5	0.2	0.3	0.7
b. Producer price index (PPI)															
PPI (raw material)	% yoy	1.4	-0.6	-0.2	-0.4	-0.2	-0.4	-0.4	0.2	0.5	0.5	1.1	1.7	1.2	2.0
c. IMF commodity price															
	% yoy	-3.3	-4.5	-6.0	-6.6	-7.2	-7.8	-8.2	-7.9	-7.0	-5.8	-2.1	1.7	4.3	5.4
	% yoy	-6.8	-8.4	-10.2	-10.3	-10.9	-11.0	-12.1	-11.5	-10.2	-8.3	-1.7	3.6	8.6	10.1
	% yoy	-37.8	-43.7	-45.2	-45.5	-44.2	-41.2	-44.6	-33.5	-28.5	-4.7	20.2	40.5	41.1	44.4
III. Money supply and credit															
a. M2 supply															
Loans	% yoy	18.8	20.4	25.5	26.0	25.7	28.5	28.4	28.5	29.3	29.5	29.7	27.7	26.0	25.5
b. Foreign direct investment															
Net portfolio inflows	USD bn	21.3	24.2	29.8	29.7	30.6	34.4	34.0	34.1	34.2	34.2	33.8	31.7	29.3	27.2
Foreign exchange reserves	USD bn	7.5	5.8	8.4	5.9	6.4	9.0	5.4	7.5	7.9	7.1	7.0	16.2	8.1	5.9
	USD bn	-79.2	-12.0	14.9	36.3	61.2	25.2	27.4	13.2	41.1	24.8	34.5	-24.2		
	USD bn	1,913	1,912	1,954	2,009	2,089	2,132	2,175	2,211	2,273	2,328	2,389	2,399		
IV. External Trade															
a. Exports to US															
Exports to EU	% yoy	-9.8	-23.9	-12.6	-17.7	-21.2	-16.6	-14.1	-21.8	-14.3	-9.9	-1.7	15.9	8.3	39.2
b. US ISM PMI															
	Index	-17.5	-30.2	-20.2	-27.6	-29.2	-23.0	-26.0	-26.6	-17.4	-14.9	-8.0	10.2	17.7	60.1
V. Exchange Rate															
a. Real effective exchange rate															
Nominal effective exchange rate	Index*	120.9	126.1	124.7	122.4	120.0	116.4	116.0	117.1	116.9	115.2	113.4	115.1	113.8	118.4
	Index*	119.0	122.0	122.9	120.8	117.6	116.2	115.6	114.7	113.1	111.6	110.9	111.7	112.2	113.6
VI. Financial Markets															
a. Benchmark deposit rate															
Benchmark lending rate	%, pa	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
3-month Chibor	%, pa	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
b. Total reserve ratio															
Required reserve ratio	%	1.8	1.6	1.5	1.7	1.4	1.4	1.9	1.8	2.0	1.8	1.8	1.9	2.2	2.0
Excess reserve ratio	%	17.0	17.5	16.7	16.4	15.8	15.4	15.4	15.1	15.9	15.3	15.9	17.1		
c. Maturing CB bills															
CB bills issuance	RMB bn	-296	-268	-364	-425	-178	-331	-355	-476	-770	-316	-321	-246		
CB bills outstanding	RMB bn	70	140	270	375	240	310	280	438	753	381	309	408	316	213
d. 1-year treasury yield															
3-year treasury yield	%, pa	4,352	4,224	4,130	4,080	4,142	4,121	4,046	4,008	3,992	4,056	4,045	4,206		
5-year treasury yield	%, pa	1.1	1.1	1.0	1.0	1.0	1.0	1.6	1.6	1.4	1.5	1.5	1.5	1.5	1.5
10-year treasury yield	%, pa	1.6	1.7	1.7	1.7	1.6	1.8	2.4	2.4	2.3	2.4	2.5	2.5	2.6	2.5
e. Overall property price index															
Beijing property price index	% yoy	2.2	2.4	2.4	2.4	2.4	2.5	2.8	2.8	2.9	3.0	3.0	3.0	3.0	2.9
Shanghai property price index	% yoy	3.2	3.3	3.3	3.2	3.2	3.3	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.5
Shenzhen property price index	% yoy	-0.9	-1.2	-1.3	-1.1	-0.6	0.2	1.0	2.0	2.8	3.9	5.7	7.8	9.5	10.7
	% yoy	-0.2	-0.7	-1.3	-1.0	-1.1	-0.7	0.1	1.0	2.2	2.8	5.7	9.2	10.2	10.7
	% yoy	-2.3	-2.4	-2.0	-2.0	-1.6	-0.6	0.1	1.1	2.3	3.9	5.5	7.4	8.8	9.0
	% yoy	-16.3	-15.7	-12.7	-9.2	-5.1	-1.6	2.7	6.5	11.1	13.8	16.6	18.9	20.6	20.9

* based on year 2005.