Flash

China

China: Third quarter GDP and activity indicators are in line with a soft landing

China's third quarter GDP growth was released today, showing a further moderation in growth to 9.1% y/y (BBVA: 9.2% y/y; consensus: 9.3%), slightly below consensus and down from 9.5% y/y in the second quarter. On a sequential basis, quarterly growth was still quite strong, at 2.3% q/q seasonally adjusted (9.5% annualized). Other monthly activity indicators released today also showed strength, with retail sales, industrial production, and fixed asset investment, all above consensus. The outturns are broadly consistent with our 9.2% annual growth projection for 2011, although uncertainties to the global outlook pose downside risks to our 8.9% growth projection for 2012. With inflation and growth moderating in line with expectations, we believe monetary policy will remain on hold for the next few months. We anticipate support for the economy from fiscal measures and a relaxation of credit policies to SMEs.

- **Q2 GDP growth eased to 9.1% y/y (BBVA: 9.2%; consensus: 9.3%) from 9.5% y/y in the second quarter, continuing to track our Real Activity Indicator closely (Chart 1).** According to the National Bureau of Statistics' (NBS), the economy grew by 9.5% q/q (SAAR), down from 10.0% q/q (SAAR) in Q2. The moderation in year-on-year growth in our view reflects the impact of previous tightening measures, a dampening effect from slowing property prices and rising debt burdens of SMEs, as well as a gradual slowdown in export growth. Nevertheless, the robust outturn should help to keep risks of a hard landing at bay. Although there is some modest downside risk, our previous annual growth projection of 9.2% appears on track, assuming a Q4 outturn of 8.7%y/y.

- **Robust growth momentum is also reflected on the readings of other activity indicators for September.** On the demand side September retail sales growth rose to 17.7% y/y (consensus: 17.0%), up from 17.0% y/y in August (Chart 2). Urban fixed asset investment (YTD) grew by 24.9% y/y (consensus: 24.8%) up from 22.9% y/y in August (Chart 3). On the supply side, industrial output increased to 13.8% y/y in September (consensus 13.3%) from 13.5% y/y in August. Taken together, the data show both strong production and domestic demand conditions for the month of September.

- **Money and credit data released last week show a further tightening of financing conditions**. New loans in September came in at RMB 470.0 billion (consensus: RMB 550.0 billion), down from RMB 548.5 billion in August, implying year-on-year credit growth of 15.9%. That said, new loans for first three quarters were RMB 5.7 trillion, in line with what we believe to be the authorities' (unannounced) full-year target of RMB 7.0-7.5 trillion. M2 growth in September further slipped to 13.0% y/y from 13.5% y/y in August, well below market consensus of 14.0%, possibly reflecting a shift in deposits toward higher yielding wealth management products.

- **On the external front, September trade data released last weak registered weaker-than-expected export and import growth, in contrast to the otherwise robust set of indicators noted above**. The trade surplus shrank to USD 14.51 billion (consensus: USD 16.35 billion). Export growth in September was 17.1% y/y (consensus: 20.4%), down from 24.5% in August, mainly due to the weaker demand from EU, Japan, and the US. Import growth was 20.9% y/y in September (consensus: 23.9% y/y), sharply down from the previous month's strong reading of 30.2% y/y. The decline could have reflected lower commodity prices, with import volumes likely remaining strong. In addition, foreign exchange reserves for September were essentially flat at USD 3.2 trillion, mostly likely due to valuation effects from currency fluctuations.

Stephen Schwartz
stephen.schwartz@bbva.com.hk
+852 2582 3218

Zhigang Li
zhigang.li@bbva.com.hk
+852 2582 3162

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.