

China Weekly Economic Monitor

Stronger growth in October

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- The Party Congress started on 8 November, but gave few hints of future policy direction
- IP growth jumped to 9.6% YoY in October, pointing to a recovery in 4Q12 GDP growth
- October CPI inflation fell to a 33-month low of 1.7% YoY

■ Summary

Macro data for October points to a strong recovery of growth in production and domestic demand.

■ Fundamentals

The 18th National Congress of the Communist Party of China (CPC) started on 8 November. But the first two days of the meeting

provided little information about future policy bias. As the meeting will last for a week and will end on 14 November, we look for more clues from the meeting, which should reduce political uncertainty and help to boost market confidence.

CPI inflation fell to 1.7% YoY for October from 1.9% YoY for September, lower than the Bloomberg-consensus forecast of 1.9%. It was mainly driven by lower food-price inflation, which fell from 2.5% YoY to 1.8% YoY (non-food CPI inflation was unchanged at 1.7% YoY). Marking-to-market, we are lowering our 2012 CPI inflation forecast from 2.7% YoY to 2.6% YoY.

The **PPI** fell by 2.8% YoY in October after a 3.6% YoY decline in September. On a MoM basis, it turned from a decline of 0.1% to a rise of 0.2%, possibly inking a turning point for PPI inflation.

Industrial production (IP) growth rose to 9.6% YoY for October from 9.2% YoY for September, higher than the consensus forecast of 9.4%. This bodes well for a rebound in real GDP growth in 4Q12, in our view.

Fixed asset investment (FAI) growth rose to 20.7% YoY (YTD) for

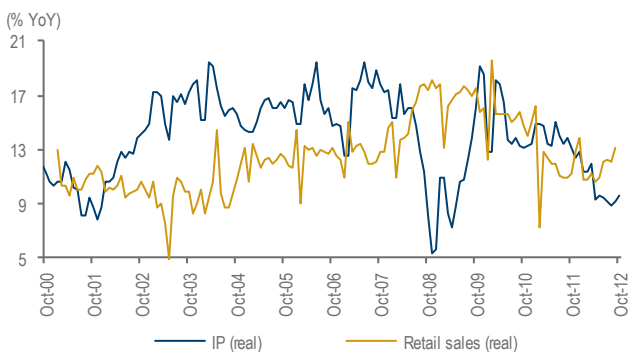
October from 20.5% for September, exceeding the consensus forecast of 20.6%. Our calculation shows that FAI growth for October was even stronger at 21.3% YoY. Growth in the planned investment amount for newly started FAI projects rose to 26.7% YoY YTD in October, from 25.7% YoY in September.

Nominal retail sales growth rose to 14.5% YoY for October from 14.2% YoY for September (versus the Bloomberg-consensus forecast of 14.3% YoY). Real growth also increased from 13.2% YoY to 13.5% YoY, strengthening the uptrend since April 2012.

Property investment growth remained unchanged at 15.4% YoY YTD for October. But the sales volume rose sharply, by 23.2% YoY, with the sales value up 31.7% YoY in October. The combination of this data shows that the property sector has stabilised and improved.

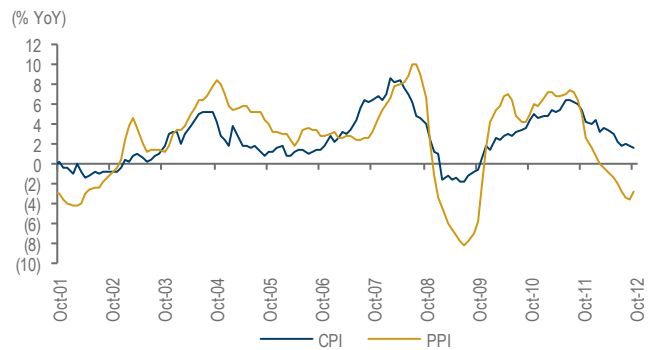
Although the **PBOC** withdrew CNY101.0bn of liquidity from the inter-bank market this week, the overnight SHIBOR fell from 3.0% to 2.6%, showing relatively loose liquidity in the inter-bank market.

■ Industrial production and retail sales



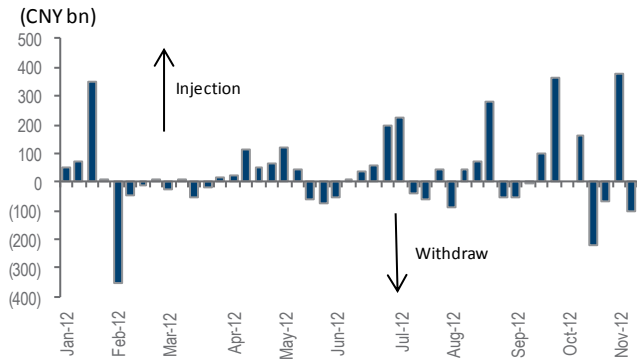
Source: CEIC, Daiwa

■ CPI and PPI



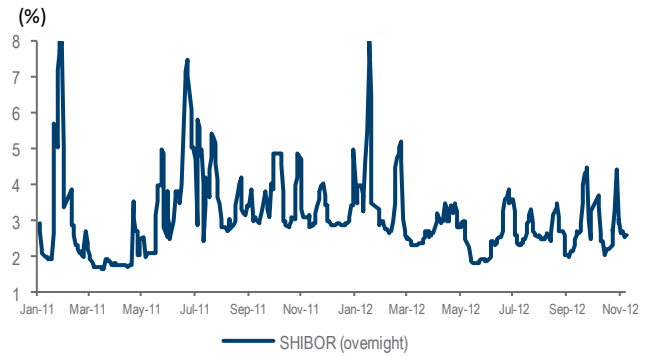
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■ **Open market operation: funds injected/withdrawn**



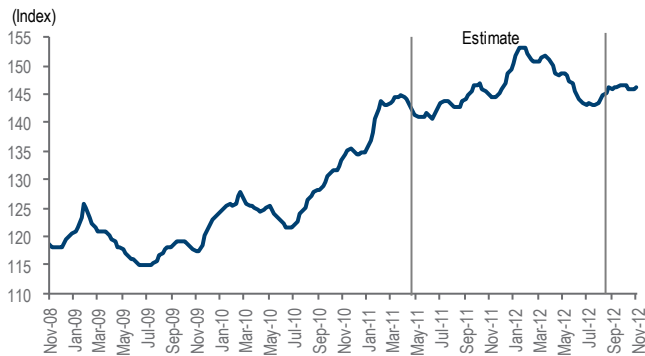
Source: CEIC, Daiwa

■ **Interbank market interest rate**



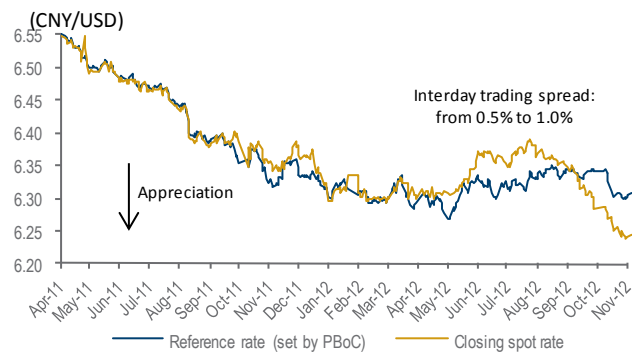
Source: CEIC, Daiwa

■ **Food price index (Ministry of Commerce)**



Source: MOC, Daiwa estimate

■ **Renminbi exchange rate against the USD**



Source: CEIC, Daiwa

■ **China macroeconomic indicators: actual and Daiwa forecasts**

		1Q12	2Q12	3Q12	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E	2011	2012E	2013E
Real GDP	YoY %	8.1	7.6	7.4	8.2	8.5	8.6	8.0	7.0	9.3	7.8	8.0
CPI	YoY %	3.8	2.8	1.9	2.1	2.2	2.8	3.7	4.3	5.4	2.6	3.3
PPI	YoY %	0.1	(1.4)	(3.3)	(2.0)	(0.2)	(0.2)	2.1	2.7	6.1	(1.6)	1.1
Fixed assets investment (nominal, ytd)	YoY %	20.9	20.4	20.5	20.5	20.5	20.2	19.2	18.0	23.8	20.5	18.0
Retail sales (nominal)	YoY %	15.8	13.9	13.5	13.8	14.6	15.3	15.4	14.9	17.1	14.2	15.0
Industrial production	YoY %	11.5	9.5	9.1	9.6	9.9	10.3	10.1	9.8	13.8	9.9	10.0
Exports	YoY %	7.6	10.5	4.5	11.0	7.2	10.0	10.7	11.7	20.3	8.4	10.0
Imports	YoY %	6.9	6.5	1.4	15.7	9.0	15.0	14.0	20.0	24.9	7.7	14.0
Trade balance	USDbn	0.3	68.5	79.4	31.9	(2.4)	58.5	67.9	(0.1)	155	180	124
Exchange rate (end of period)	CNY/USD	6.29	6.32	6.28	6.25	6.20	6.15	6.12	6.10	6.30	6.25	6.10
M2	YoY %	13.4	13.6	14.8	14.0	13.7	13.2	12.6	12.0	13.6	14.0	12.0
1-year base lending rate (end of period)	% pa	6.56	6.31	6.00	6.00	6.00	6.00	6.25	6.50	6.56	6.00	6.50
1-year deposit rate (end of period)	% pa	3.50	3.25	3.00	3.00	3.00	3.00	3.25	3.50	3.50	3.00	3.50
Required reserve ratio (end of period)	%	20.0	19.5	19.5	19.5	19.5	19.5	19.5	19.5	20.5	19.5	19.5
Current account balance	% of GDP									2.8	2.6	1.5
Foreign reserves (end of period)	USDtn	3.3	3.2	3.3	3.4	3.4	3.5	3.5	3.5	3.2	3.5	3.5
Fiscal balance	% of GDP									(1.8)	(1.5)	(1.6)

Source: CEIC, Daiwa forecasts

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