

China Macro Flash

Oct Data Stays Broadly on Uptrend

- **The economy gained broad-base support** – Oct data confirms that the monthly macro indicators troughed in Aug and remained on an uptrend. Growth momentum will likely continue alongside the pickup of project investment, improved retail sales, and falling finished goods inventory. This is beyond the simple low base effect from last year. We continue to expect a mild GDP growth rebound in 4Q and probably in 1H13. The key downside risk is exports which could be under pressure if the concern over the US fiscal cliff intensifies.
- **Industrial production inched higher for the second month** – Oct industrial production growth measured by value added industries accelerated modestly to 9.6% yoy, up 0.4ppt from a month ago, or 0.81% mom, in-line with our expectation. Heavy industry that grew 9.7% yoy (from 9.3% yoy in Sept) sped up a bit more than light industry which stayed flattish at 9.1% yoy (vs. 9% yoy a month ago). This is again consistent with ending of the 18-month-old destocking process. Daily steel production increased by 11.7% yoy in Oct, up 10.3ppts from the bottom in Aug and 6.8ppts from Sept, and also the fastest growth since Oct last year. Ten non-ferrous metals also gained similar momentum, with growth up from 7.1% yoy in Sept to 14% yoy in Oct.
- **Retail sales gained momentum** – Retail sales increased by 14.5% yoy, and 1.34% mom in Oct. In real terms, growth achieved of 13.5% yoy was the second fastest growth since January 2011. Top sectors with accelerated growth were food, beverage and tobacco (up 21.8% yoy in Oct vs. 17.1% yoy in Jan-Aug) and furniture (29.8% yoy vs. 25.4%). The steady improvement in retail sales should be positive to downstream sectors that suffered from weak exports this year.
- **Fixed asset investment was flattish** – The investment structure has been changing, although the growth of fixed asset investment has been around 20% yoy since Mar this year. Infrastructure investment had picked up firmly from negative year-on-year growth at the beginning of the year to around 25% in Sept and Oct, while growth in property sector investment dropped 15.4% yoy in Oct, halved from the levels in early-2011. The gain in the infrastructure sector had largely offset the loss in the property sector. In the manufacturing sector, investment in non-metal mineral mining and dressing and computer, communication and other electronic equipment, all had better growth than previous years.

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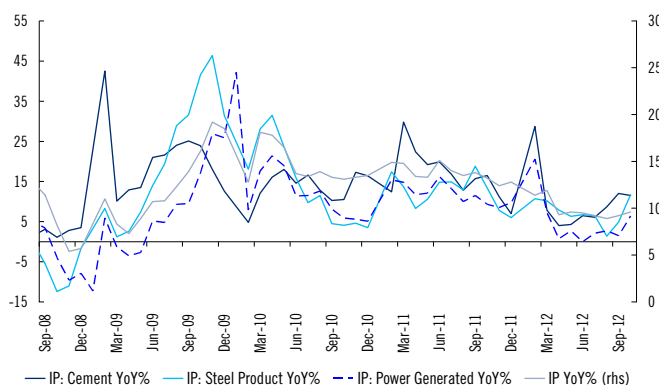
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Figure 1. China Data Releases

	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev
IP (% YoY)	9-Nov	Oct	9.6	9.6	9.4	9.2
Retail Sales (% YoY)			14.5	13.8	14.4	14.2
FAI - Urban (% YoY ytd)			20.7	20.4	20.6	20.5

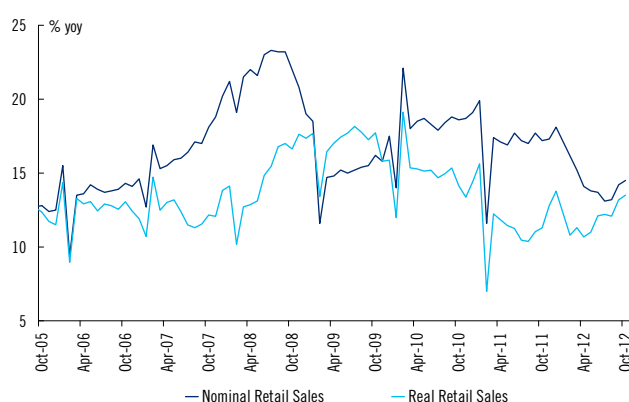
Source: NBS, Bloomberg and Citi Research

Figure 2. IP: Materials Picked Up Ahead of Others



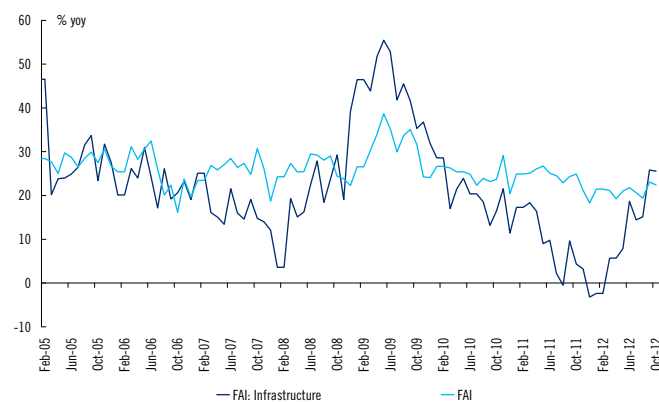
Source: NBS and Citi Research

Figure 3. Retail Sales Accelerated in Both Nominal and Real Terms



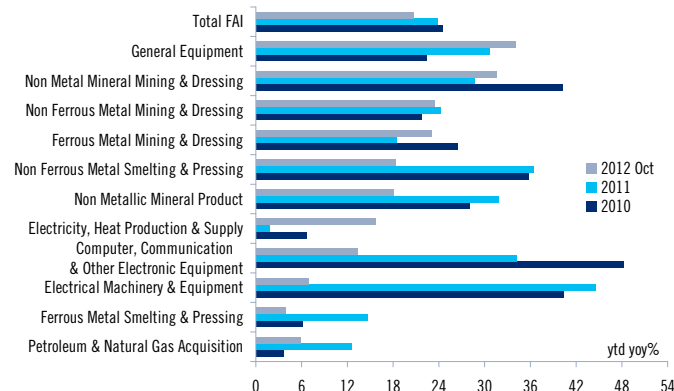
Source: NBS and Citi Research

Figure 4. Infrastructure Investment Stayed At Elevated Level



Source: NBS and Citi Research

Figure 5. Fixed Asset Investment Growth By Selected Sector



Source: NBS and Citi Research

Appendix A-1

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