

China Economics Weekly

Growth Likely Rebounded to 7.8% in 4Q, But Upside Limited

- **The cyclical rebound appears on track** – Since Sep, data on final demand and supply have consistently pointed to an upward momentum of economic activity. Increased conviction of a growth rebound has contributed to a year-end stock market rally. We expect the Dec data on IP, FAI and retail sales to confirm a mild cyclical upturn, with GDP growth accelerating from 7.4%YoY in 3Q to 7.8% in 4Q, implying an annual growth of 7.7%. CPI inflation may have jumped to 2.6%YoY in Dec driven by seasonal food price increases, but generally benign inflation prospect should not derail the supportive macro policies in the near term.
- **The policy stance may gradually return to neutral in 2013** – The central economic work conference last Dec maintained the current mix of proactive fiscal and prudent monetary policy, while attaching more emphasis to growth quality. As external and domestic downside risks decline and inflation starts to trend up, macro policies may gradually shift from an easing bias to a neutral position. Under the working assumption of 7.5% growth and 3.5% inflation, the government may reduce budget deficit (Citi definition) from 2.4% of GDP in 2012 to 2.0% of GDP in 2013. PBOC may target M2 growth at 13% and RMB new lending at 8.5-9.0tn.
- **The rebound may last into 1H, but the upside potential appears limited** – The lagged effect of policy easing of 2012 may sustain growth momentum in the next couple of quarters, elevating growth to slightly above 8%YoY in 1H this year. However, slowing potential growth and sluggish global recovery would cap the upside potential. As policy stance gradually return to neutral, growth may fall below 8%YoY in 2H, and we expect the economy to grow by 7.8% annually in 2013.

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Figure 1. China Economic Data Releases for December / 4Q 2012

Data	Date	For	Citi Fcst	Mkt Fcst	Prev	2012F (citi)
M0 Supply (%YoY)	Jan 10-15	Dec	11.1	-	10.7	11.1
M1 Supply (%YoY)			6.5	6.0	5.5	6.5
M2 Supply (%YoY)			14.2	13.9	13.9	14.2
New Yuan Loans (RMB bn)			655.0	550.0	522.9	8406
Total Social Financing (RMB tn)			1.2	-	1.14	15.4
Trade Balance (\$bn)	Jan 10-13	Dec	21.8	21.0	19.6	220.0
Exports (YoY%)			4.9	5.5	2.9	7.0
Imports (YoY%)			2.0	3.0	0.0	4.0
CPI (% YoY)	Jan 11	Dec	2.6	2.3	2.0	2.7
PPI (% YoY)			-1.8	-1.8	-2.2	-1.7
Real GDP (YoY)	Jan 18	4Q	7.8	-	7.4	7.7
IP (% YoY)		Dec	10.4	-	10.1	10.0
FAI - urban (% YoY ytd)			20.5	-	20.7	20.5
Retail Sales (% YoY)			15.2	-	14.9	14.4

Source: Bloomberg and Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Growth Likely Rebounded to 7.8% in 4Q, But Upside Limited

Dec data should confirm a cyclical rebound

PMI data indicate a mild growth rebound is on track – The official manufacturing PMI has improved gradually since Aug and stayed above 50 in the past three months, suggesting the economy has bottomed in 3Q. Meanwhile, the index stayed below 51, implying a modest pace of economic expansion in 4Q. The policy-driven recovery, which appears to have been led by large enterprises, is spreading to smaller enterprises, as manifested by more tangible increases in the HSBC PMI and the official PMI for small enterprises. The official non-manufacturing PMI also improved in the past three months, indicating acceleration of construction and service activities. Resilient new orders should help sustain the rebound in the next couple of quarters.

Jan 18,
Industrial Value Added
Headline: 10.4%YoY

Industrial production (IP) growth may have accelerated to 10.4%YoY – The official PMI production index dropped by 0.5ppt in Dec. However, the index remained high at 52.0, suggesting the manufacturing activity continued to expand at a decent pace MoM. New order index was flat at 51.2, indicating the final demand was stable. We estimate that IP growth may have quickened a bit from 10.1%YoY in Nov to 10.4%YoY in Dec. For the year as a whole, IP may have grown by 10%.

Jan 18,
Urban FAI, YTD
Headline: 20.5%YoY

Fixed-asset investment (FAI) growth may have fallen slightly to 20.5% – Supported by accelerated implementation of government investment projects, nominal FAI grew by 20.7%YoY in the first eleven months. Budget resources, total social financing (including loans and bond issuances) and improved housing sales should continue to support investment. However, historically, the pace of FAI tended to slow down in Dec. This year in particular, social housing investment may lose steam following the ahead-of-schedule achievement of the targets for new starts (7 million units) and completion (5 million units). We estimate that YTD FAI growth may have slowed to 20.5%YoY in Dec.

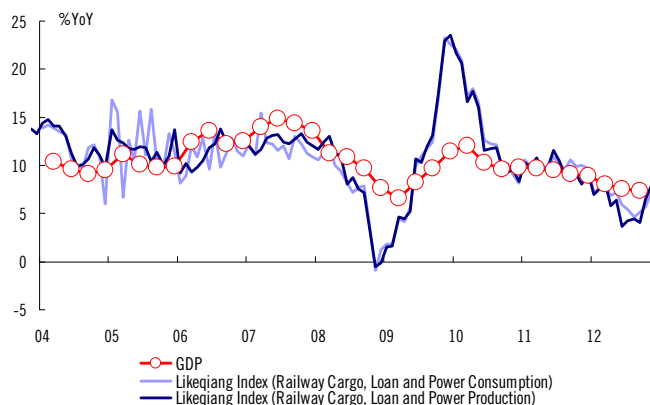
Jan 18,
Retail Sales
Headline: 15.2%YoY

Retail sales growth may have risen to 15.2%YoY – Nominal retail sales growth improved further from 14.5%YoY in Oct to 14.9% in Nov, benefiting from improved car sales. Retail sales growth may have continued to accelerate, supported by strong home sales, a slight improvement in the official PMI employment index and possibly higher inflation due to seasonal rise in food prices. We estimate that retail sales may have grown by 15.2%YoY in Dec and by 14.4% in 2012.

Jan 18,
Real GDP
Headline: 7.8%YoY

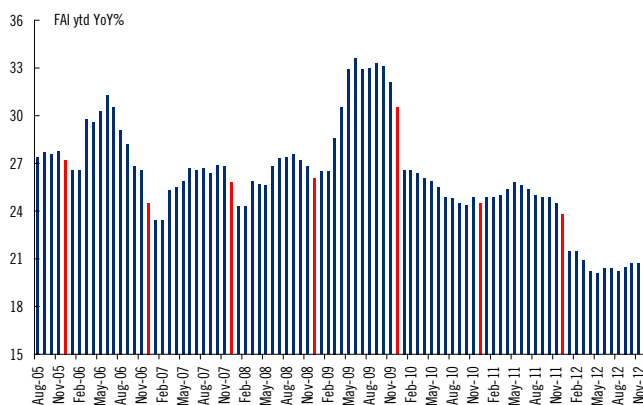
Growth likely accelerated to 7.8%YoY in 4Q implying 7.7% annual growth – Our estimate shows IP may have grown by 10.0%YoY in 4Q, relative to 9.1% in 3Q. The construction PMI was above 60 in the past three months, slightly higher than the 3Q. Both suggest an acceleration of the secondary industry. In addition, China achieved another bumper harvest in 2012, with total grain output reaching almost 590 million ton, 3.2% higher than that of 2011. The service PMI remained above 54 in 4Q implying steady growth of the tertiary industry. Based on the correlation between GDP and its components (especially IP), we estimate that growth rebounded from 7.4%YoY in 3Q to 7.8% in 4Q, and annual GDP grew by 7.7%.

Figure 2. Growth likely accelerated to 7.8%YoY in 4Q



Source: CEIC and Citi Research

Figure 4. FAI growth may have fallen slightly due to year-end pattern



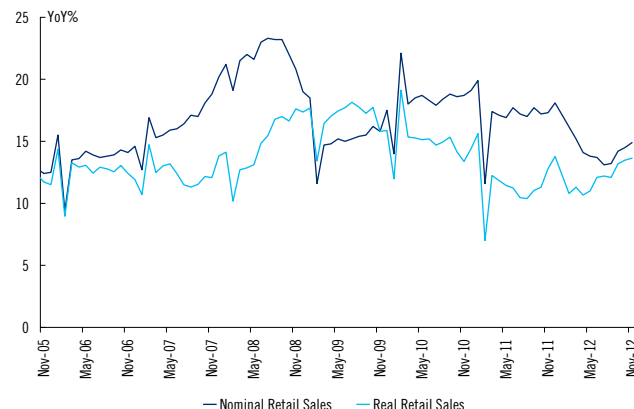
Source: CEIC and Citi Research

Figure 3. PMI suggests the manufacturing activity continued to expand



Source: CEIC and Citi Research

Figure 5. Retail sales growth may have continued to accelerate



Source: CEIC and Citi Research

Jan 11,

CPI

Headline: 2.6%YoY

Food: 4.3%YoY

Nonfood: 1.8%YoY

CPI inflation likely jumped to 2.6%YoY in Dec but annual inflation likely fell to 2.7% – Since Jun, YoY CPI inflation has hovered around 2%. In Dec, CPI inflation may have broken out of the tight range, and will likely stay above 2% in the months ahead except for brief fluctuations around the Chinese New Year.

■ **Food inflation likely surged to 4.3%YoY from 3.0% in Nov** – Interim data from the Ministry of Commerce (mostly wholesale prices) showed broad-based food price increases during the month reflecting seasonal factors. In particular, average price for vegetables increased by 25.8%MoM while meat prices increased by 3.2% MoM, of which pork prices rose by 4.7%MoM. The NBS interim data (measuring retail prices) showed less price increases. As CPI measures retail prices, we rely more on the NBS data in estimating inflation. Food prices may have risen 2.5%MoM, and 4.3%YoY.

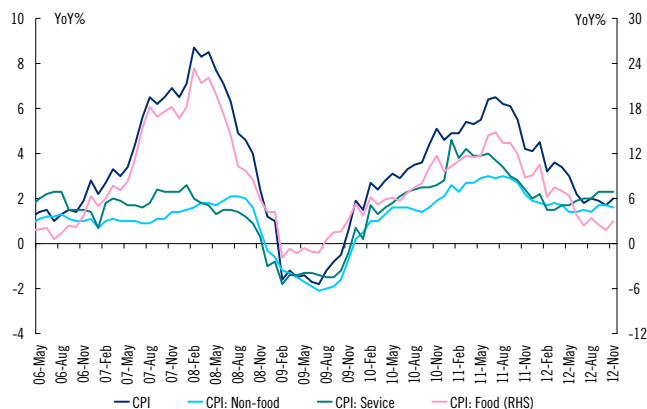
■ **Non-food inflation may have risen to 1.8%YoY from 1.6% in Nov** – Seasonally, non-food prices tend to increase slightly in Dec, and the recent signs of economic rebound may have capped the downside. We estimate that non-food prices rose 0.1%MoM and 1.8%YoY.

According to our estimate, the base effect for Nov (cumulative inflation during Nov-Dec 2011) was 0.3%. Since the base effect for Dec is zero by definition, the base effect in Dec was 0.3ppt lower than that for Nov. Overall price level may have risen 0.9%MoM, and YoY inflation likely rose from 2.0% in Nov to 2.6%. Annual average inflation may have dropped from 5.4% in 2011 to 2.7% in 2012, significantly below the 4% target for the year.

Jan 11,
PPI
Headline: -1.8%YoY

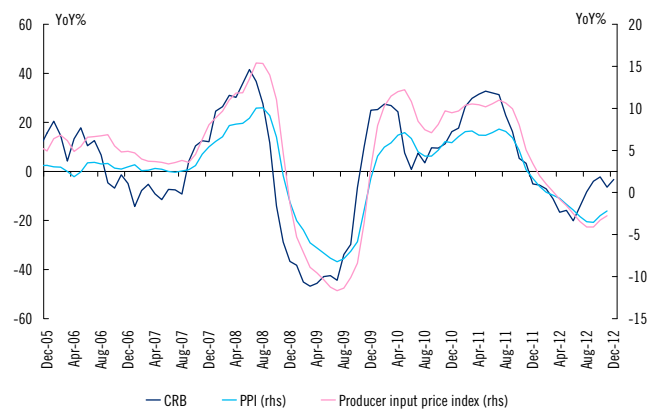
PPI deflation may have eased further to -1.8%YoY – The international commodity prices as measured by the CRB index rose slightly by 0.1%MoM. Interim data from the Ministry of Commerce showed that producer good prices for raw materials increased in the past three weeks. The manufacturing PMI input price index jumped by 3.2ppts to 53.3 in Dec, indicating acceleration of price increases. Overall PPI may have increased slightly by 0.1%MoM, and YoY deflation may have eased from -2.2% in Nov to -1.8%, as the base effect contributed to roughly 0.3ppt of YoY inflation. Annual average PPI likely dropped by 1.7% in 2012, compared with a 6% rise in 2011.

Figure 6. CPI inflation likely surged to 2.6% due to rising food prices



Source: CEIC and Citi Research

Figure 7. PPI deflation may have eased further



Source: CEIC, Bloomberg and Citi Research

Jan 10-13,
Trade
Balance: \$21.8bn
Exports: 4.9%YoY
Imports: 2.0%YoY

Exports may have expanded by 4.9%YoY – Both the official and HSBC manufacturing PMI new export order index weakened slightly in Dec, suggesting lackluster external demand in the context of the US fiscal cliff debate and recession in the euro area and Japan. The official PMI import index continued to increase, consistent with stronger domestic consumption and investment demand. We think the sharp decline in export growth to 2.9%YoY in Nov may have reflected holiday and reporting issues and the combined growth for Oct-Nov (about 7% YoY) may better reflect the underlying momentum. In that light, we estimate China's export growth at 4.9%YoY in Dec. Import growth may have picked up to 2.0%YoY. As a result, we may see a trade surplus of \$21.8bn. For the year as a whole, total trade value appears to have exceeded \$3.8tn, with exports and imports growing by about 7% and 4%, respectively. Annual trade surplus may have reached around \$220bn, roughly 40% higher than that for 2011.

Jan 10-15

Money

M0: 11.1%YoY

M1: 6.5%YoY

M2: 14.2%YoY

New RMB Loans: 655.0bn

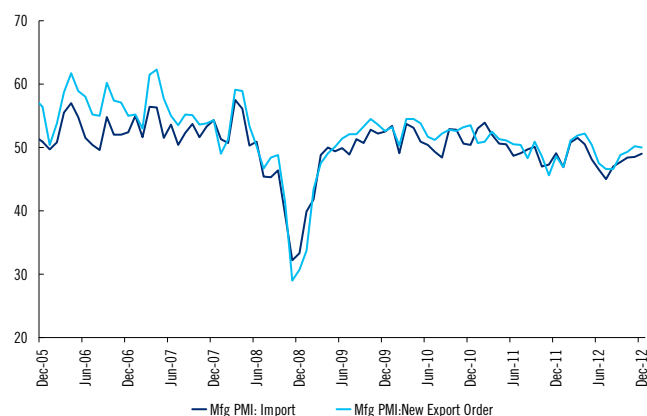
Broad money (M2) growth may have risen to 14.2% – The following factors affected M2 growth during the month:

- PBOC injected Rmb95bn of liquidity to the banking system through open market operations. In particular, PBOC issued Rmb749bn of reverse repos, largely offsetting the amount maturing during the month (Rmb772bn).
- Trade account may have run a sizable surplus (about \$22bn by our estimate), and inward FDI may have continued to outstrip outward investment. Meanwhile, other capital outflow may have eased. We assume PBOC resumed small-scale intervention during the month to purchase FX and release RMB, with limited impact on the base money.
- Government deposits at the PBOC may have decreased by more than Rmb1tn in Dec, mainly due to seasonal increase in government spending toward the year-end. This is equivalent to liquidity injection.
- We expect banks to engage in year-end balance sheet window dressing by engineering a temporary transfer of off-balance-sheet funds (e.g., from wealth management products) onto the balance sheet, inflating the deposit base. Meanwhile, demand for cash usually increase before the New Year holiday, depressing money multiplier.

Taking these factors into consideration, M2 growth may have increased from 13.9%YoY in Nov to 14.2%YoY in Dec, slightly above PBOC's annual target of 14%. M1 growth may have accelerated to 6.5%YoY, benefiting from accelerating economic activity and higher demand for money for transaction purpose. M0 (cash) growth may have risen from 10.7%YoY in Nov to 11.1% in Dec.

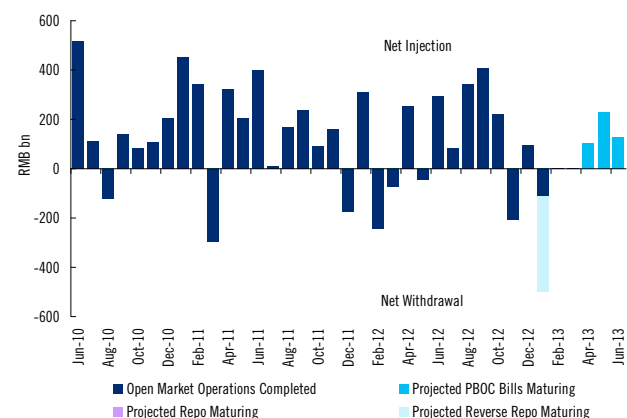
New RMB lending likely increased to Rmb655bn bringing annual lending to Rmb8.4tn – New lending was lower than expected in Nov mainly due to loan-to-deposit ratio (LDR) constraints in our view. We estimate total deposits may have increased by more than Rmb2tn in Dec, making it possible for banks to extend more loans. We estimate that new RMB lending increased to 655bn in Dec, and annual RMB lending may have reached 8.4tn (equivalent to growth of credit outstanding of 15.3%). Total social financing (TSF) may have increased by Rmb1.2tn during the month, bringing annual TSF to about Rmb15.4tn, relative to Rmb12.8tn in 2011.

Figure 8. Exports and imports may have expanded a bit in Dec



Source: CEIC and Citi Research

Figure 9. PBOC net injection in December



Source: CEIC and Citi Research

Upside potential may be limited

Supportive policies will likely remain in the near term – The central economic work conference (CEWC) in Dec confirmed our expectation of policy continuity, featuring proactive fiscal policy, prudent monetary policy and continued property market regulation. Meanwhile, the government is aiming to achieve sustainable and healthy development, attaching more premiums to the quality of growth. We think growth stabilization is still the short-term priority and do not expect abrupt policy shift, but fresh stimulus is neither necessary given the recent positive growth momentum nor desirable because that risks making the current economic distortion more entrenched and increasing the cost of reform in the future.

Macro policies may be set on the assumption of 7.5% growth and 3.5% inflation – While the CEWC did not make public any quantified targets, the vice chairman of the NDRC (Mr. ZHANG Xiaoqiang) remarked on Dec 31 that growth and inflation may reach 7.5% and 3.5% in 2013. This is the first such statement by a government official that can be seen as the working assumptions underlying the budget and monetary policy formulation.

The policy stance may gradually return to neutral – The mix of proactive fiscal policy and prudent monetary policy leaves sufficient room for maneuver for the government. The CEWC emphasized that macro policies will be "countercyclical." In case of unexpected negative shocks, policies can turn expansionary. A more likely scenario is that as external and domestic downside risks decline and inflation starts to trend up, macro policies may gradually shift from an easing bias to a neutral position, since the overheating/inflation risks tend to be higher than recession/deflation risks in China due to investment zeal from the local governments.

The government may reduce budget deficit from 2.4% of GDP in 2012 to 2.0% of GDP in 2013¹ – The reform measures—including tax cuts for small businesses, introduction of VAT in the service industries, broadening social safety net and equal access to basic public service—involve reduction of revenues and increase in expenditure. The State Administration of Taxation has recently set the central tax revenue growth target at 8% for 2013, relative to 9.2% for 2012. Therefore maintaining a reasonable level of deficit is necessary. Meanwhile, with government debt level exceeding 40% of GDP and rising contingent liabilities associated with an aging population, we expect the government to gradually reduce deficit/GDP level in the absence of major external shocks. Since the government may slightly undershoot the budget deficit in 2012, the 2013 budget deficit/GDP ratio may not differ significantly from the 2012 execution.

PBOC may target M2 growth at 13% and RMB new lending at Rmb8.5-9.0tn – Money and credit growth at this rate is consistent with the above working assumptions on growth and inflation.

- We think 3-5 RRR cuts (50bps each) would be necessary in 2013 to achieve the money growth target. The first cut may take place by the Chinese New Year (Feb 10).
- Benchmark interest rates will likely be raised by 25bps in late 2013 as inflation is likely to rise above the deposit rate, leading to negative real interest rate. Alternatively, PBOC may increase the upward floating range of the deposit rate to effectively increase the rate.

¹ Fiscal balance based on Citi definition is different from the official one because Citi treats withdrawal from and injection into fiscal stabilization fund as financing items instead of revenue and spending. Citi also counts the carry-forward spending in the year when the spending takes place instead of in the year when the spending is assigned.

- The RMB may continue to appreciate gradually against the USD and reach 6.12 at end-2013. The appreciation path is likely to be driven by fundamentals (current account surplus and growth stabilization), interest rate differential and abundant liquidity in the context of quantitative easing in the developed world.

The government may not loosen the property policy – Home prices have been increasing for six months in a row, implying strong demand, especially in the first- and some second-tier cities. Without further policy tightening, the pent-up demand is likely to be released in the months ahead. On the other hand, property investment appears to have stabilized, reducing a major downside risk. On balance, unless property investment plunges, the room for policy loosening is limited. The government has recently reiterated that home purchase restriction will stay in 2013 to curb investment and speculation demand while living and upgrading demand will be supported.

The cyclical rebound may last into 1H this year – The accommodative monetary policy and frontloaded fiscal spending in 2012 have kept final demand (consumption and investment) stable, leading to a supply response evidenced by accelerating production. We estimate that 4Q growth picked up to 7.8%YoY, and the growth rebound may last into 1H of 2013, due to lagged effect of policy easing of 2012. Growth in 1H of 2013 may rise slightly above 8%YoY.

But annual growth may fall short of 8% in 2013, containing inflationary pressures – According to our estimate, China's potential growth is not significantly above 8% right now and may continue to drop in the years ahead, reflecting the exhaustion of demographic dividends and reform dividends. In addition, global economy is expected to remain sluggish in 2013, growing by only 2.6%. As policy stance gradually return to neutral, and reform measures are introduced to correct the distortions in the economy, actual growth may fall below the potential level. Growth may fall below 8%YoY in 2H of 2013, and we expect the economy to grow by 7.8% annually in 2013. Under such a scenario, we estimate that inflation will rise to about 3.5%YoY by the end of 2013, mainly driven by food prices, but average inflation may stay below 3%.

Chart of the Week

Figure 10. China – Cloudy Prospects for Exports



Source: CEIC and Citi Research

Exports growth will likely remain sluggish in 2013, with prospects clouded by sub-par growth outlook in the US coupled with recession in the euro area. The Canton Trade Fair last November signaled challenges for China's exports through 1H 2013 given a fall of 9.3% in total contracted export value compared to the Fair last spring. The contracted turnover confirmed the harsh external situations especially in EU and Japan, with contracted export value slipping by 10.5% and 36.6%, respectively. With Christmas factor fading out, the Dec PMI new export orders index retreated to 50. The officials also seem to realize this challenging environment. According to Ministry of Commerce (MOC) estimation, the growth of foreign trade in 2012 will come in at about 6% while it sets a growth target of 8% for 2013. We expect exports to continue to grow at single digits in 2013.

Key Data Ahead

Figure 11. China December / 4Q Data Release

Data	Date	For	Citi Fcst	Mkt Fcst	Prev	2012F (citi)	Comment
M0 Supply (%YoY)	10~15-Jan	Dec	11.1	-	10.7	11.1	
M1 Supply (%YoY)			6.5	6.0	5.5		6.5 M1 growth may have accelerated, benefiting from accelerating economic activity and higher demand for money for transaction purpose.
M2 Supply (%YoY)			14.2	13.9	13.9		14.2 M2 growth may have increased from 13.9%YoY in Nov to 14.2%YoY in Dec, slightly above PBOC's annual target of 14%.
New Yuan Loans (RMB bn)			655.0	550.0	522.9		8400 We estimate total deposits may have increased by more than Rmb2tn in Dec, making it possible for banks to extend more loans.
Trade Balance (\$bn)	10~13-Jan	Dec	21.8	21.0	19.6	220.0	
Exports (YoY%)			4.9	5.5	2.9		7.0 Both the official and HSBC PMI new export order index weakened slightly in Dec, suggesting lackluster external demand in the context of the US fiscal cliff debate and recession in the euro area and Japan.
Imports (YoY%)			2.0	3.0	0.0		4.0 The official PMI import index continued to increase, consistent with stronger domestic consumption and investment demand.
CPI (% YoY)	11-Jan	Dec	2.6	2.3	2.0		2.7 CPI inflation likely stay above 2% in Dec due to food price.
PPI (% YoY)			-1.8	-1.8	-2.2		-1.7 The PMI input price index jumped by 3.2ppts to 53.3 in Dec, indicating acceleration of price increases.
Real GDP (YoY)	18-Jan	4Q	7.8	7.8	7.4		7.7 Based on the correlation between GDP and its components (especially IP), we estimate that growth rebounded from 7.4%YoY in 3Q to 7.8%YoY in 4Q.
IP (% YoY)		Dec	10.4	-	10.1		10.0 the PMI production index remained high at 52.0 in Dec, suggesting the manufacturing activity continued to expand at a decent pace MoM.
FAI - urban (% YoY ytd)			20.5	-	20.7		20.5 FAI growth may have fallen slightly as the pace of FAI tended to slow down in Dec historically.
Retail Sales (% YoY)			15.2	-	14.9		14.4 Retail sales growth may have continued to accelerate, supported by strong home sales, a slight improvement in the official PMI employment index and possibly higher inflation due to seasonal rise in food prices.

Source: Bloomberg and Citi Research estimates

Macro and Market Outlook

Figure 12. China Forecasts vs. Consensus

Annual	2012		2013		2014		Quarterly	4Q12		1Q13		2Q13		3Q13		4Q13		1Q14	
	Citi	Survey	Citi	Survey	Citi	Survey		Citi	Survey	Citi	Survey	Citi	Survey	Citi	Survey	Citi	Survey	Citi	Survey
GDP (YoY%)	7.7	7.7	7.8	8.1	7.3	8.0		7.8	7.8	8.0	8.0	8.2	8.2	7.7	8.2	7.5	8.1	6.9	
CPI (YoY%)	2.7	2.6	2.8	3.1	3.6	3.5		2.1	2.1	2.3	2.6	2.5	3.0	2.9	3.5	3.5	3.5	3.5	
IP (YoY%)	10.0	10.0	10.1	11.0	9.3			10.0		10.3		10.5		9.8		9.6		8.8	
Exports (YoY%)	7.5	7.0	6.8	9.3	11.2			7.8		6.0		9.0		7.0		5.0		8	
Imports (YoY%)	5.5	5.1	9.2	11.0	13.1			7.4		9.0		12.0		9.0		7.0		10	
Trade Balance (\$US bn)	202.2	199.8	171.0	187.4	151.5			53.9		-12.5		61.1		75.7		46.7		-23	
FX reserve (\$US bn)	3341		3517		3603			3341		3328		3389		3465		3517		3,475	
Current Account (as % GDP)	2.5	2.6	2.0	2.3	1.5	2.1													
Fiscal Account (as % GDP)	-2.4	-1.7	-2.0	-1.6	-2.0	-1.6													
1Y lending rate (eop)	6.00	6.00	6.25	6.00	6.25			6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.00	6.50	
1Y deposit rate (eop)	3.00		3.25		3.75			3.00		3.00		3.00		3.00		3.25		3.50	
USDCNY (eop)	6.23	6.25	6.12	6.12	6.05	6.02		6.23	6.25	6.18	6.21	6.16	6.18	6.14	6.15	6.12	6.12	6.10	
5Y Government bond Yield	3.24		3.49		3.74			3.24		3.24		3.24		3.24		3.49		3.74	

Source: Bloomberg, Consensus Economics and Citi Research estimates

Figure 13. Other Interest Rate / FX Forecasts

	3-Jan	2012 1Q	2012 2Q	2012 3Q	2012 4Q F	2013 1Q F	2013 2Q F	2013 3Q F	2013 4Q F
US Fed Fund Rate	0.17	0.25	0.25	0.09	0.04	0.09	0.09	0.09	0.25
10 Treasury	1.82	2.04	1.82	1.64	2.05	2.04	1.82	1.64	1.65
EUR/USD	1.31	1.33	1.27	1.29	1.32	1.23	1.22	1.21	1.20
USD/JPY	87.18	83	80	78	87	84	85	85	84

Source: Bloomberg and Citi Research estimates

Figure 14. China – Real Economy Data

%YoY	2008 2Q	2008 3Q	2008 4Q	2009 1Q	2009 2Q	2009 3Q	2009 4Q	2010 1Q	2010 2Q	2010 3Q	2010 4Q	2011 1Q	2011 2Q	2011 3Q	2011 4Q	2012 1Q	2012 2Q	2012 3Q	2012 Oct	2012 Nov
Real GDP	10.8	9.7	7.6	6.6	8.2	9.7	11.4	12.1	10.3	9.6	9.8	9.7	9.5	9.1	8.9	8.1	7.6	7.4		
Nominal GDP	21.1	19.4	13.2	5.3	5.7	8.6	13.0	18.3	17.7	17.6	17.6	17.5	17.8	18.1	16.6	11.2	9.6	9.5		
CPI	7.8	5.3	2.5	-0.6	-1.5	-1.3	0.7	2.2	2.9	3.5	4.7	5.1	5.7	6.3	4.6	3.8	2.9	1.9	1.7	2.0
PPI	8.4	9.7	2.5	-4.6	-7.2	-7.7	-2.1	5.2	6.8	4.5	5.7	7.1	6.9	7.1	3.1	0.1	-1.4	-3.3	-2.8	-2.2
Exports	22.4	23.0	4.3	-19.7	-23.4	-20.3	0.2	28.7	40.9	32.2	24.9	26.4	22.0	20.6	14.3	7.6	10.5	4.5	11.6	2.9
Imports	32.7	25.7	-9.1	-30.9	-20.2	-11.6	22.7	64.8	43.6	27.3	29.8	33.0	23.1	24.9	20.1	6.9	6.5	1.4	2.4	0.0
Trade Balance (bn USD)	58.2	83.3	114.3	62.5	34.9	39.3	61.5	14.5	41.2	65.6	63.1	-0.7	46.7	63.8	48.1	1.1	68.8	79.4	32.0	19.6
IP	15.9	13.0	6.4	9.7	9.0	12.3	17.9	15.5	16.0	13.5	13.3	14.9	13.9	13.8	12.8	11.6	9.5	9.1	9.6	10.1
Retail Sales	22.2	23.2	20.6	15.0	15.0	15.4	16.5	17.9	18.5	18.4	18.8	16.3	17.2	17.3	17.5	14.8	13.9	13.5	14.5	14.7
FAI	27.2	28.8	23.3	28.6	35.9	32.9	26.2	26.4	25.2	23.1	23.9	25.0	26.0	24.0	21.2	20.9	20.8	21.0	22.4	20.0
Electricity Consumption	10.2	6.3	-5.5	-4.0	-0.7	8.0	22.8	24.1	19.3	12.2	6.0	12.5	11.6	11.4	11.5	6.8	4.3	3.8	6.1	7.6
Steel Product Production	10.5	-1.4	-7.1	2.8	8.0	27.6	39.5	28.6	24.0	8.5	3.0	13.7	7.7	14.3	9.0	6.5	7.0	4.3	11.7	16.5
Cement Production	8.7	3.6	2.5	9.2	15.8	23.6	18.2	19.7	16.2	13.2	14.7	10.1	20.5	15.1	11.6	7.3	4.9	8.9	11.5	9.4
Baltic Index	52.7	-66.0	-91.5	-80.0	-60.8	-31.0	288.2	85.6	-36.0	10.2	-41.0	-49.0	-41.3	-22.4	-2.0	-39.0	-28.9	-59.7	-47.8	-41.2
Cargo Carried Railway	7.2	8.8	-2.6	-5.9	-1.1	0.6	12.2	17.8	7.4	7.4	4.4	6.8	10.1	7.6	7.5	4.0	1.7	-8.9	-4.8	0.9
Cargo Carried by Airline	6.6	-2.3	-8.6	-12.6	-0.3	17.5	35.5	48.2	32.9	18.0	14.0	1.0	-0.6	-0.7	-3.6	-6.7	-3.4	0.4	-2.8	5.6
Cargo Carried by Highways	15.0	15.1	6.3	8.4	11.4	20.3	13.7	23.4	17.9	14.8	14.9	14.5	14.9	15.2	19.1	13.6	14.4	14.0	15.2	16.5

Source: Bloomberg, CEIC and Citi Research

Figure 15. China – Monetary Data

%YoY	2008 2Q	2008 3Q	2008 4Q	2009 1Q	2009 2Q	2009 3Q	2009 4Q	2010 1Q	2010 2Q	2010 3Q	2010 4Q	2011 1Q	2011 2Q	2011 3Q	2011 4Q	2012 1Q	2012 2Q	2012 3Q	2012 Oct	2012 Nov
M1	14.2	9.4	9.1	17.0	24.8	29.5	32.4	29.9	24.6	20.9	21.2	15.0	13.1	8.9	7.9	4.4	4.7	7.3	6.1	5.5
M2	17.4	15.3	17.8	25.5	28.5	29.3	27.7	22.5	18.5	19.0	19.7	16.6	15.9	13.0	13.6	13.4	13.6	14.8	14.1	13.9
Loan	14.1	14.5	18.7	29.8	34.4	34.2	31.7	21.8	18.2	18.5	19.9	17.9	16.9	15.9	15.8	15.7	16.0	16.3	15.9	15.7
FX Reserve (\$US bn)	1809	1906	1946	1954	2132	2273	2399	2447	2454	2648	2847	3045	3197	3202	3181	3305	3240	3290		
Position for FX Purchase (tn RMB)	15.4	16.3	16.8	17.3	17.8	18.5	19.3	20.1	20.6	21.3	22.6	23.7	24.7	25.5	25.4	25.6	25.7	25.8	25.8	25.7
Bond Issuance *																				
Gov't Bond	2810	2325	2331	1049	5969	5817	3582	2300	5558	5356	4668	3260	5114	4544	2500	2180	4749	4673	1138	1132
Corporate Bond	1466	2221	2843	3258	4444	3849	3961	3827	4363	4160	2851	5722	4574	5003	6870	6714	7673	10561	4097	3735
Gov't Supported Bond	-	200	600	-	-	300	700	-	-	1540	350	-	-	-	1000	-	200	850	450	-

* In 100mn RMB

Source: WIND, CEIC and Citi Research

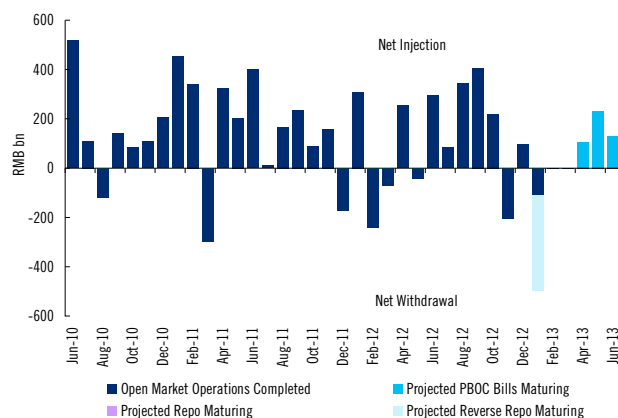
Figure 16. China Market Snapshot

	3-Jan	1 Week change	YTD change	12 months Change		3-Jan	1 Week change	YTD change	12 months Change
Foreign Exchange					Interbank Rate, %				
USD/CNY	6.23	(0.01)	0.00	(0.07)	1D SHIBOR	3.87	1.56	0.46	0.46
EUR/CNY	8.19	(0.08)	(0.02)	0.02	7D SHIBOR	4.58	0.69	(1.00)	(1.00)
100JPY/CNY	7.15	(0.09)	(0.03)	(1.06)	1M SHIBOR	4.90	0.30	(1.09)	(1.09)
1M Vol, USD/CNY	1.45	(0.39)	(0.27)	(1.24)	3M SHIBOR	3.90	0.00	(1.58)	(1.58)
3M Vol, USD/CNY	1.52	(0.35)	(0.24)	(1.35)	6M SHIBOR	4.10	-	(1.33)	(1.33)
					1Y SHIBOR	4.40	(0.00)	(0.84)	(0.84)
Forward					Repo Rate, %				
USD/CNY 3M Forward, onshore	6.27	(0.01)	0.00	(0.07)	1D Interbank Repo Rate	3.86	1.36	-	0.45
USD/CNY 12M Forward, onshore	6.37	(0.01)	0.00	(0.07)	7D Interbank Repo Rate	4.58	2.28	-	(1.17)
USD/CNY 3M NDF	6.30	(0.02)	(0.01)	(0.09)	1M Interbank Repo Rate	5.43	0.38	-	(0.56)
USD/CNY 12M NDF	6.31	(0.03)	(0.02)	(0.09)	3M Interbank Repo Rate	4.00	(0.20)	-	(1.65)
PBOC Benchmark Rate, %					IRS, %				
Demand Deposit	0.35	-	(0.15)	(0.15)	3M IRS	3.63	0.03	-	(0.09)
3M Deposit	2.60	-	(0.50)	(0.50)	1Y IRS	3.37	0.03	0.03	0.45
6M Deposit	2.80	-	(0.50)	(0.50)	2Y IRS	3.35	-	-	0.55
1Y Deposit	3.00	-	(0.50)	(0.50)	5Y IRS	3.64	0.01	-	0.83
2Y Deposit	3.75	-	(0.65)	(0.65)	10Y IRS	3.78	-	-	0.86
3Y Deposit	4.25	-	(0.75)	(0.75)	IRS Curve, bp				
5Y Deposit	4.75	-	(0.75)	(0.75)	2Y-3M	335.00	-	-	55.00
6M Lending	5.60	-	(0.50)	(0.50)	5Y-2Y	29.00	1.00	-	28.00
1Y Lending	6.00	-	(0.56)	(0.56)	10-2Y	43.00	-	-	31.00
1-3Y Lending	6.15	-	(0.50)	(0.50)	10-5Y	14.00	(1.00)	-	3.00
3-5Y Lending	6.40	-	(0.50)	(0.50)	Stock Market				
5+Y Lending	6.55	-	(0.50)	(0.50)	Shanghai Composite	2,269	110	(0)	70
Govn Bond, %					- Turnover, RMB bn	106	38	63	63
PBOC 3M	2.65	-	0.45	0.45	Shenzhen Composite	881	45	-	15
PBOC 6M	2.70	-	0.37	0.37	- Turnover, RMB bn	38	12	21	21
CGB 1Y	2.84	(0.05)	0.22	0.22	HSCEI	11,987	716	551	1,752
CGB 2Y	3.10	(0.05)	0.24	0.24	- Turnover, HKD bn	23	16	16	13
CGB 5Y	3.22	(0.06)	0.14	0.14	Other Indicator				
CGB 10Y	3.59	-	0.15	0.15	5Y Sovereign CDS	59.34	-	-	(82.65)
Govn Bond Yield Curve, bp					Required Reserve Ratio	19.50	-	(1.00)	(1.00)
2Y-3M	45.00	(5.00)	(21.00)	(21.00)					
5Y-2Y	12.00	(1.00)	(10.00)	(10.00)					
10-2Y	49.00	5.00	(9.00)	(9.00)					
10-5Y	37.00	6.00	1.00	1.00					

Source: Bloomberg and Citi Research

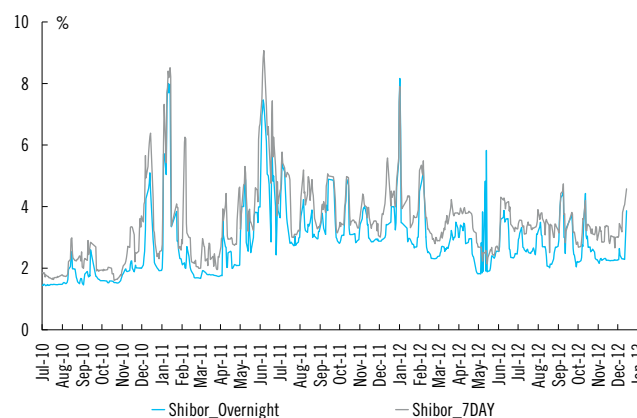
Liquidity Conditions

Figure 17. PBOC Open-Market Operations



Source: POBC, CEIC and Citi Research

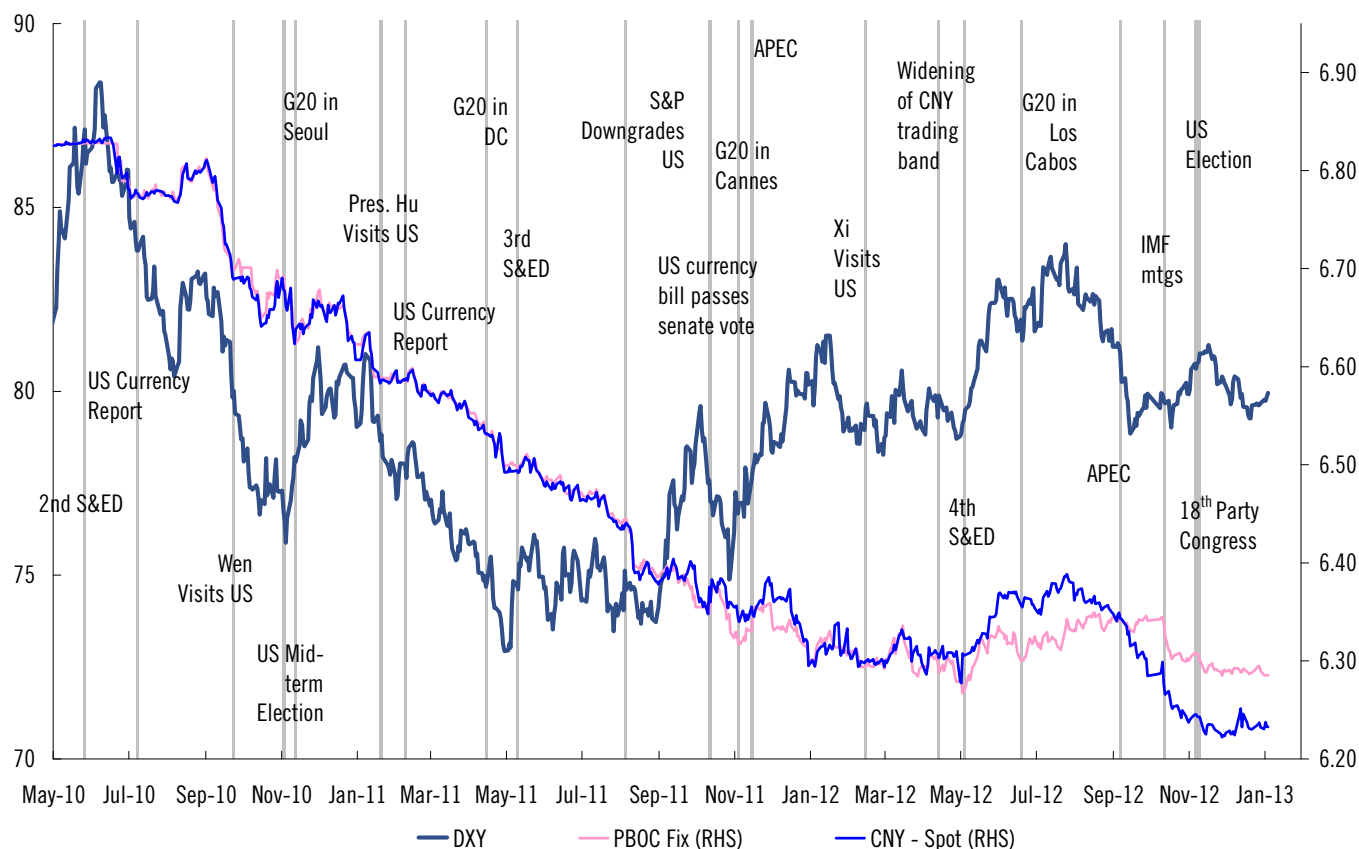
Figure 18. China Interbank Rates



Source: Bloomberg and Citi Research

FX Markets

Figure 19. USDCNY



Source: Bloomberg and Citi Research

Our Recent Notes

Figure 20. Report list

Name	Date
China Macro Flash - Dec PMI Signals Modest Growth Rebound	01-Jan 13
China Macro Flash - Policy Planning Conference Stresses Reform and Growth Quality	16-Dec 12
China Economics Weekly - Corporate China: High Leverage Amplifies Earnings Volatility	14-Dec 12
China Macro Flash - Monetary Conditions Supportive, but Demand Recovery Modest	11-Dec 12
China Macro Flash - Nov Export Slowdown Highlights Uncertainty in External Demand	10-Dec 12
China Macro Flash - Nov Data: A Great Mix of Growth Recovery and Benign Inflation	10-Dec 12
China Economics Weekly - Land Consolidation Essential for Releasing Surplus Rural Labor	07-Dec 12
China Macro Flash - Nov Data Preview: Cyclical Upturn Gaining Traction	03-Dec 12
China Macro Flash - Nov PMI Points to Further Expansion of Manufacturing	03-Dec 12
China Economics Weekly - The Path of Growth in 2013 and Beyond	30-Nov 12
China Macro View - Economic Prospects 2013-14: Cyclical Upturn Restrained by Structural Gravity	27-Nov-12
China Economics Weekly - Policy Agenda Next Year	23-Nov-12
Citi GPS: CHINA IN TRANSITION - What We Know, What We Don't Know	21-Nov-12
China Economics Weekly - Expect Efficient Policy Delivery But No Big Bang	16-Nov-12
China Macro Flash - New Leaders Installed, Challenges Remain	15-Nov-12
China Macro Flash - Supportive Monetary Stance Unchanged Despite Data Disappointment	12-Nov-12
China Macro Flash - October Data: Exports Held Up Well For Now	11-Nov-12
China Macro Flash - Oct Data Stays Broadly on Uptrend	09-Nov-12
China Macro Flash - Oct CPI Fell on Pork Price But PPI Bottomed Out	09-Nov-12
China Economics Weekly - New Leadership, New Action	08-Nov-12
China Macro Flash - PBOC Report Suggests a Return to Neutral Stance Over Time	05-Nov-12
China Macro Flash - Canton Trade Fair Signals Challenges Ahead for China's Exports	05-Nov-12
China Economics Weekly - An Uneven Rebound	02-Nov-12
China Macro Flash - Oct Data Preview: Upward Momentum to be Confirmed	02-Nov-12
China Macro Flash - October PMI Enters Expansion Territory	01-Nov-12
China Macro View - Takeaways from China Investor Conference 2012	31-Oct-12
China Economics Weekly - What to Expect from Leadership Transition?	26-Oct-12
China Macro View - The Urbanization Dividend	23-Oct-12
China Economics Weekly - A Restrained Rebound	19-Oct-12
China Macro Flash - Real Activity Stages a Quarter-End Rebound	18-Oct-12
China Macro Flash - Sep Data: Inflation May Have Bottomed But Not Yet a Threat	15-Oct-12
China Macro Flash - Sep Monetary Data Confirm Accommodative Stance	15-Oct-12
China Macro Flash - Sep Data: Trade Surplus Supportive of GDP Growth	15-Oct-12
China Macro Flash - Sep Data: Credit Conditions Remained Supportive	12-Oct-12
China Economics Weekly - Testing the Employment Bottom Line	12-Oct-12

Source: Citi Research

Appendix A-1

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