

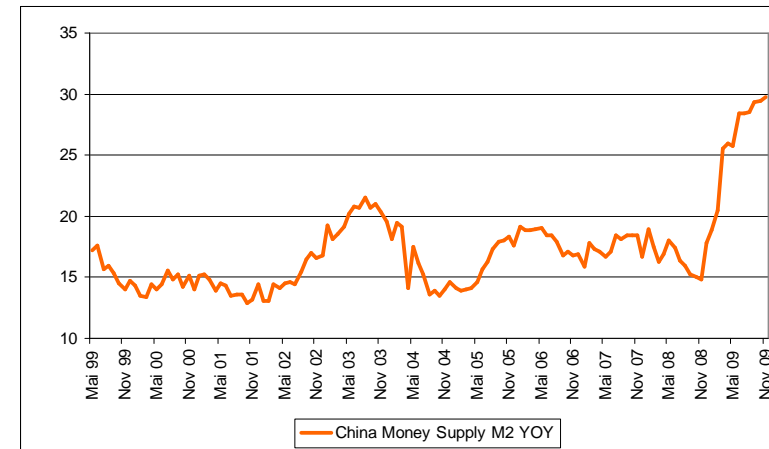
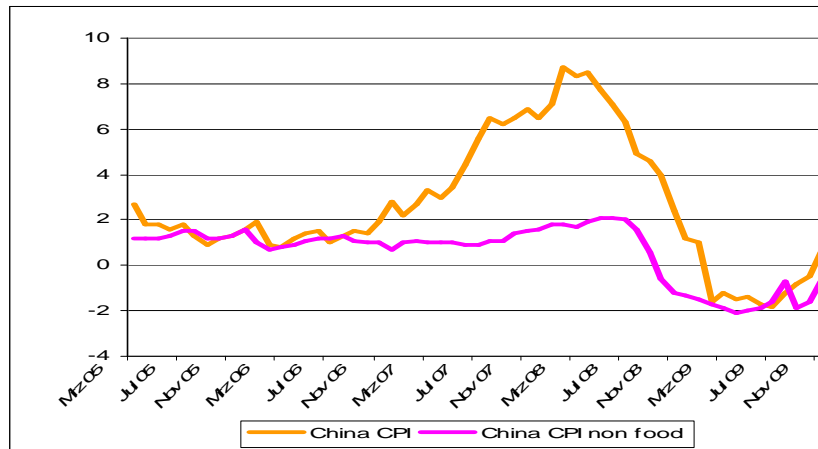
Handout

January 19, 2010

China: Signs of overheating

- soaring demand for housing; residential and commercial real estate prices rose at the fastest pace in 18 months in December
- mounting inflation; the State Council Development Research Center estimates CPI will rise 3-3.5 % this year; BNP forecasts CPI to rise to 5 % before the middle of the year; CPI may reach 8 % in 2H
- continuing foreign inflows of speculative capital into its asset markets; foreign direct investment more than doubled from a year earlier
- Banks are still lending; the RMB600 billion of new loans in the first week of January was not far off the monthly average of Rmb800 billion last year

China's future challenge: inflation



- In the focus this week: CPI data released on January 21st
 - Expectations 1.4 %
 - Was 0.6 % in November, when it swung above zero y-y for the first time in ten months
- The State Council Development Research Center estimates CPI to climb to 3-3.5 % this year
- Private institutes anticipate a much harsher increase
 - BNP: acceleration to 5 % before the middle of the year; may reach 8 % in 2H
 - Asian Development Bank expects inflation to become China's most pressing economic problem

China: Bank loans

- **Bank loans in China** rose by RMB 380 billion (EUR 38.3 billion) in December, bringing the total amount of new loans issued last year to RMB 9,590 billion. **That was more than double the amount of new loans extended in 2008.**
- The China Banking Regulatory Commission denied an Apple Daily report that it required Bank of China to cut new lending this year. The regulator said it “never directly controls banks’ loans quota”
- **Greater than expected inflationary pressures would increase downside risk to loan growth, net interest margins and asset quality**

China: expected data on Jan 21

- China data package will be highlighted by the Q4 GDP forecast accelerating to 10.6 % to 11.0% y/y from +8.9% y/y, reflecting rebounding exports together with momentum in domestic demand.
- Most interesting data release might be that for annual consumer price inflation, which is forecast to have jumped from 0.6 % in November to 1.4-1.5 % in December; in November it swung above zero y/y for the first time in 10 months.
- Monthly data will include December retail sales projected rising to +17.0% y/y from +15.8% y/y and December cumulative fixed investment narrowing slightly to 31.7% y/y from 32.1% y/y through November.



Corporate bonds: Higher risk is not rewarded

