ECONOMICS & GLOBAL MARKETS RESEARCH
CHINA MONTHLY CHARTBOOK

22 NOVEMBER 2010

CONTRIBUTORS

Li-Gang Liu
Head of China Economic Research
+852 3929 5376
LiGang.Liu@anz.com

Hao Zhou
Economist, China
+86 21 61696348
Hao.Zhou2@anz.com

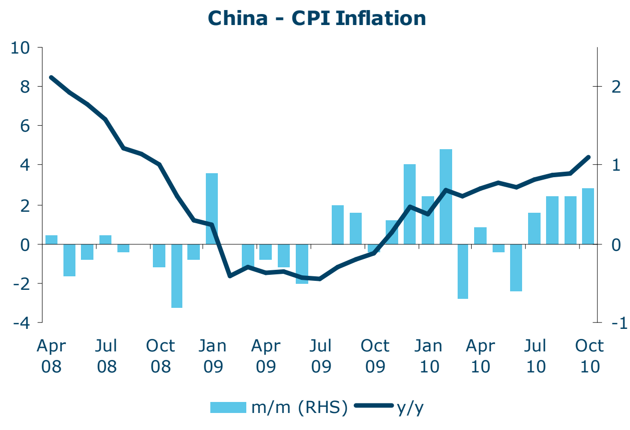
Felix Leung
Analyst
+852 3929 5303
Felix.Leung@anz.com

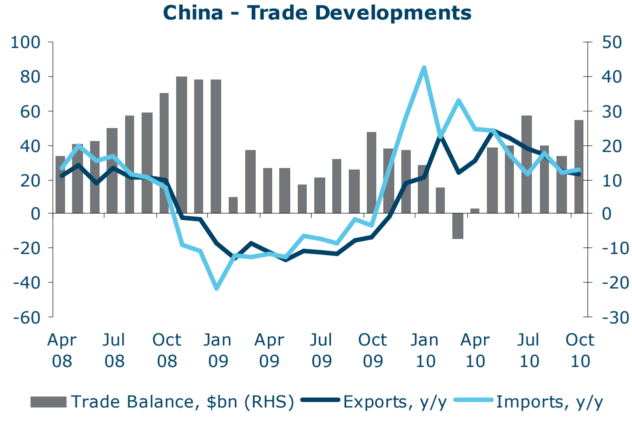
Louis Lam
Research Intern
+852 2843 7245
Louis.Lam@anz.com

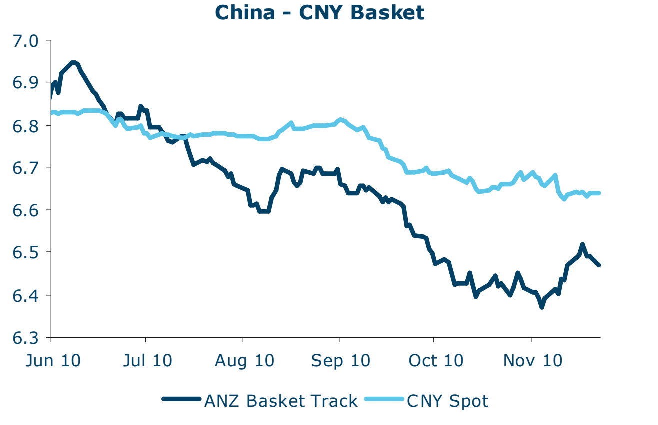
CHINA'S INFLATION SURGED IN OCT

- Inflation rose far more than expected. The CPI rose 0.8ppts to 4.4% (y/y) in Oct, well above the market consensus of 4.0%. PPI inflation also surged by 0.7ppts to 5.0%, again, above the market consensus. Property prices across 70 cities remained high, despite the government's latest round of cooling measures.
- The surprising rise in CPI inflation in Oct prompted the PBoC to act, twice raising the reserve requirement ratio for all commercial banks by 50bps (10 and 19 Nov), in order to meet this year's credit target of RMB7.5trn. We expect another interest rate hike before year-end.
- The RMB exchange rate reached a new high in Nov ahead of the G20 Summit in Seoul. As inflation has surged, we think the Chinese authorities will need to allow the RMB to strengthen further so as to dampen the affect of imported inflation. We maintain our view that the RMB will gain another 2-2.5% over the remainder of 2010, leading to a year-end rate of CNY6.5 against one USD.

FEATURE CHARTS OF THE MONTH



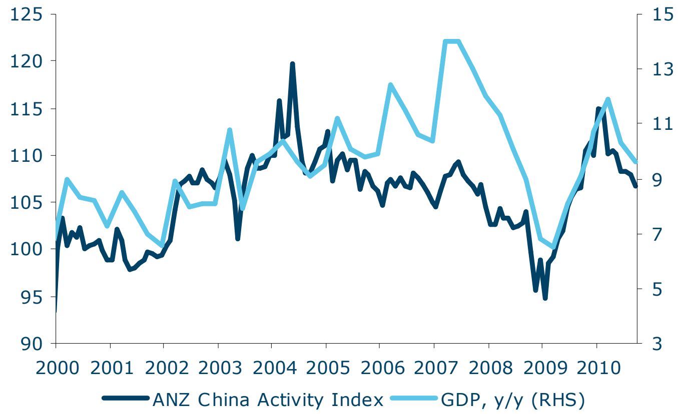




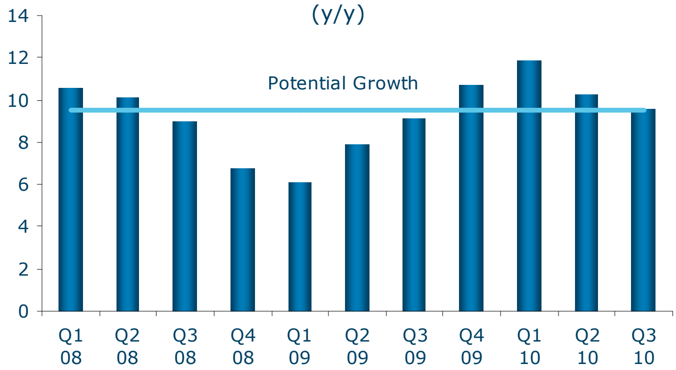
REAL ACTIVITY: DOMESTIC ACTIVITIES PAINT A MIXED PICTURE

- China’s official PMI deviated from its regular seasonal pattern, peaking in Sep and rising to a surprising 54.7 in Oct. The input price index made the greatest contribution to Oct’s increase, rising 4.6ppts to 69.9 after a 4.8ppt gain in Sep.
- Domestic demand indicators were mixed in Oct. Industrial production growth eased to 13.1% (y/y), down from Sep’s 13.3%. Retail sales grew 18.6%, compared with an 18.8% gain in Sep. Meanwhile, fixed asset investment registered a growth of 24.4%, on par with market expectations but down from Sep’s 24.5% gain.

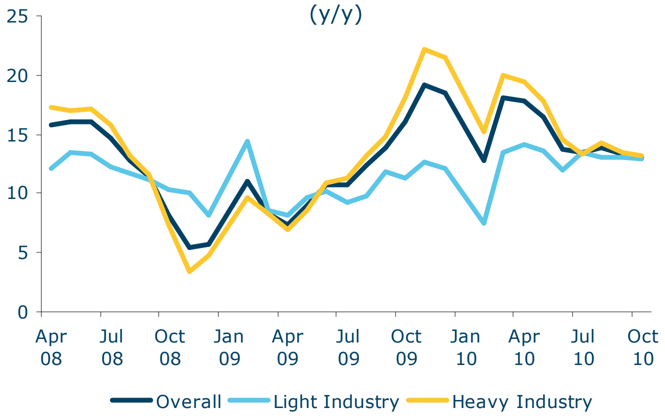
China - ANZ Activity Index



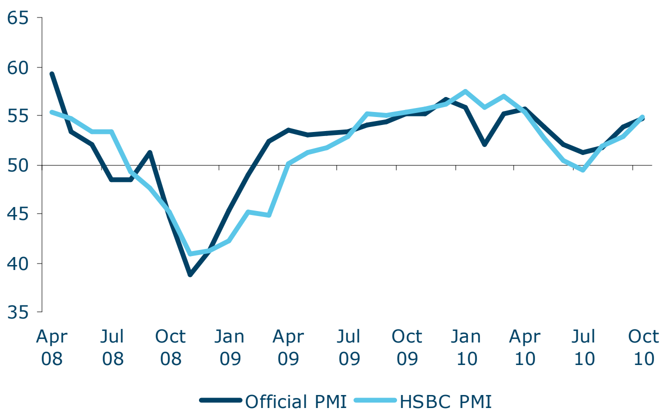
China - GDP Growth
(y/y)



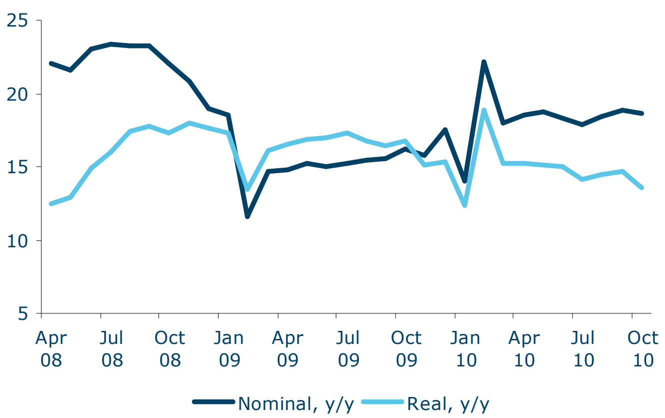
China - Industrial Production
(y/y)



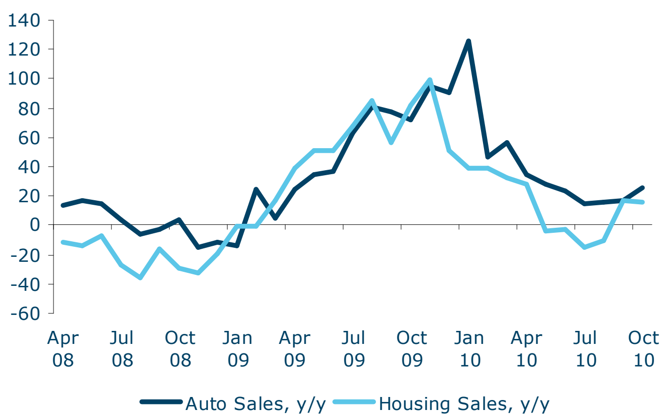
China - PMI



China - Retail Sales

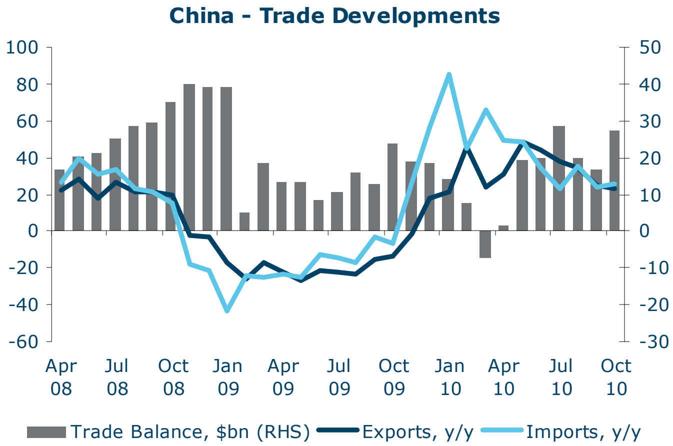


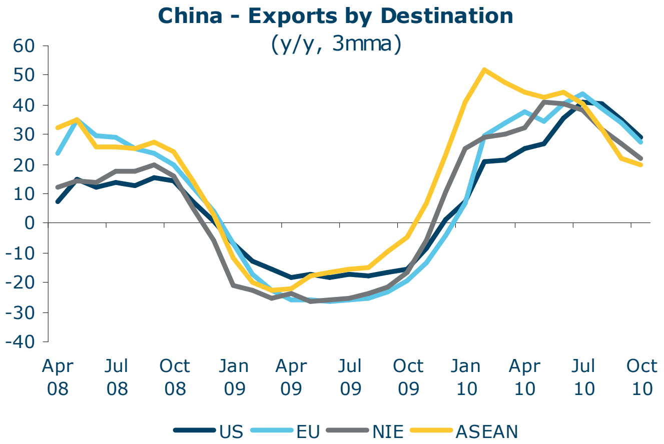
China - Housing and Auto Sales

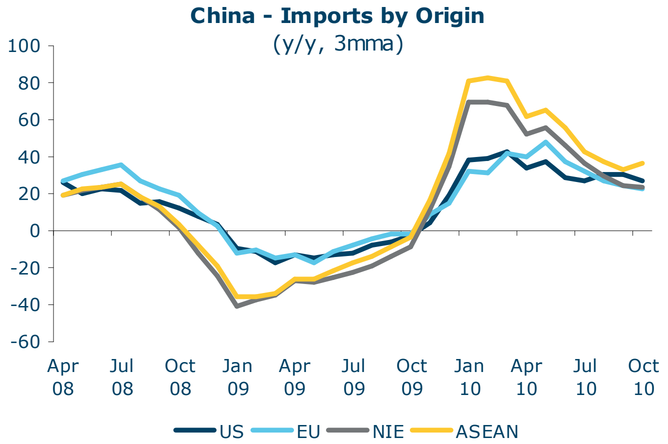


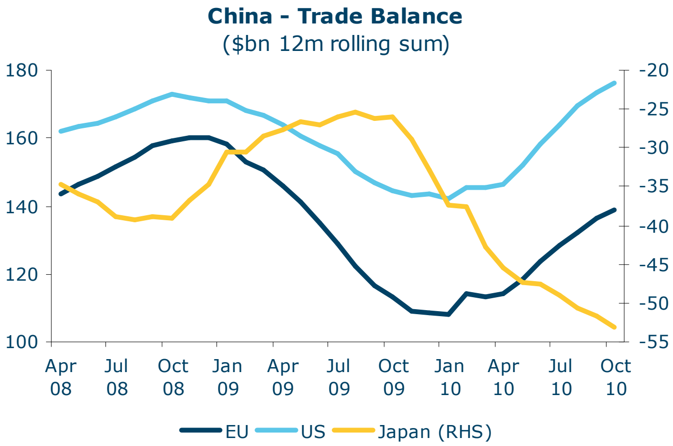
EXTERNAL TRADE: CHINA'S TRADE SURPLUS HAS SURGED AGAIN

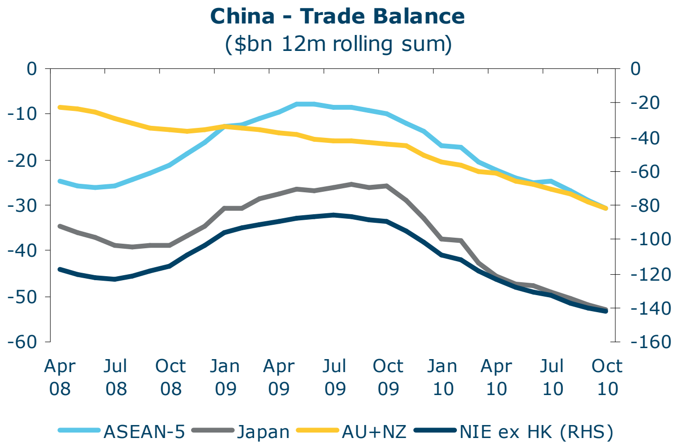
- Exports rose 22.9% (y/y) in Oct, in line with market expectations, and less than Sep's 25.1% gain. Imports gained 25.3% in Oct, 1.2ppts higher than Sep's 24.1%, but below the market's expectation of a 28.3% gain. As a result, the Oct trade surplus jumped to $27.1bn from Sep's $16.9bn.
- A large trade surplus continued to put more pressure on the RMB to appreciate. Meanwhile, rising trade protectionism will continue to be a risk for China going forward.





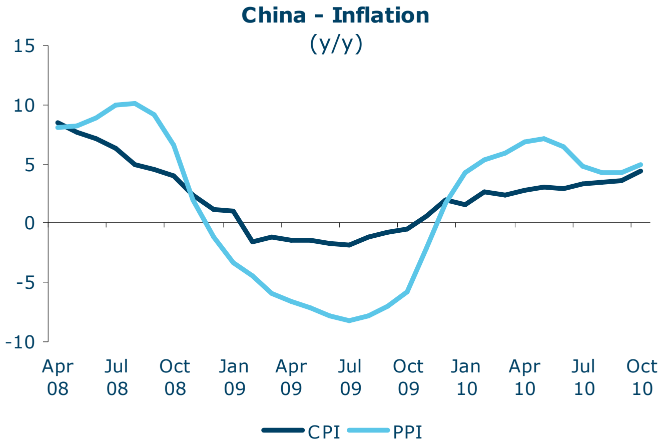


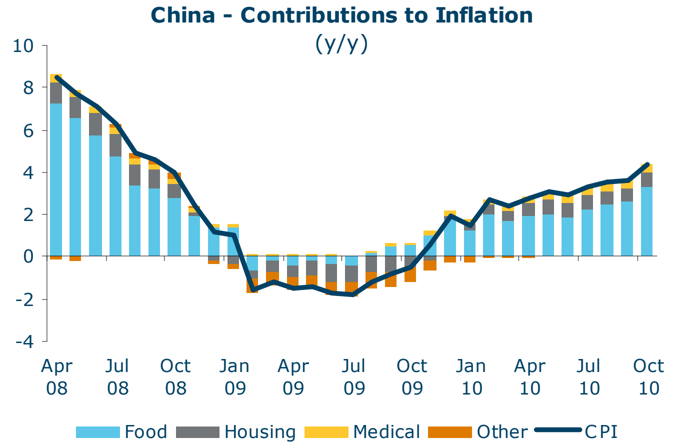


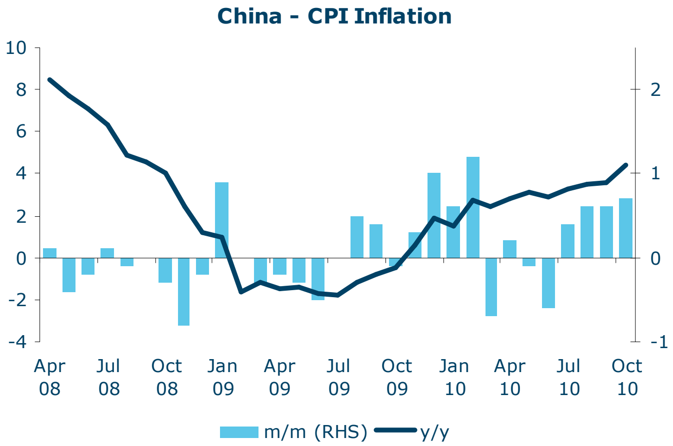


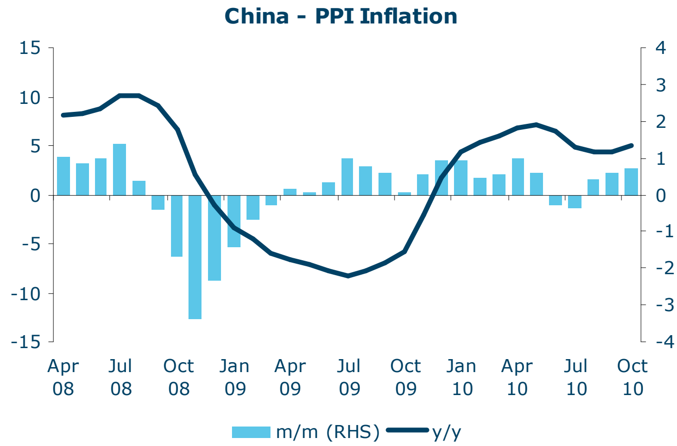
PRICES: INFLATION SURGED IN OCT

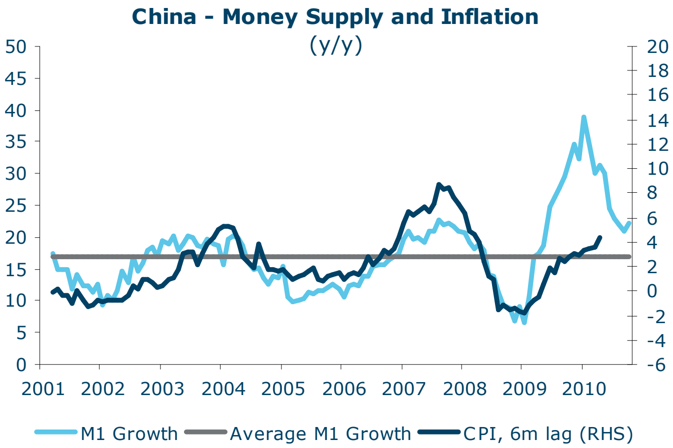
- Inflation rose much faster than expected. The CPI was up 4.4% (y/y) in Oct, far higher than the market expectation of 4.0%, and 0.8ppts higher than in Sep. On a monthly basis, CPI rose by 0.7% (m/m), driven by higher prices for food and services. PPI inflation also surged by 0.7ppts to 5.0%, well above the market consensus.
- China's four consecutive quarters of above-trend growth, combined with a huge money overhang, confirms our view that inflation will rise further in the months ahead.

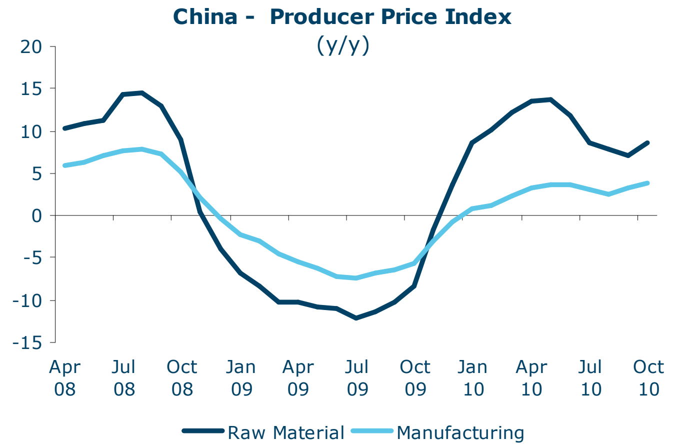






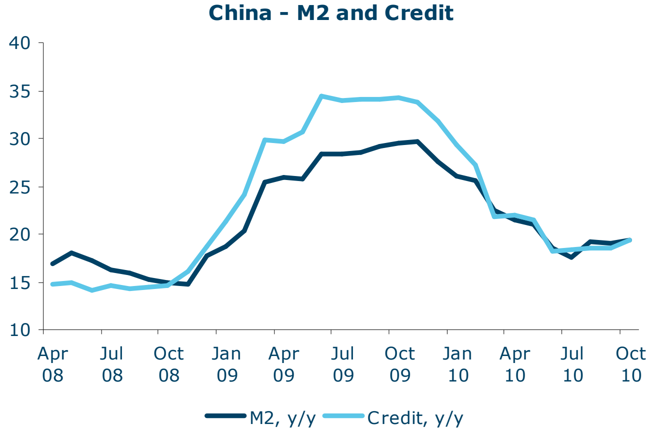


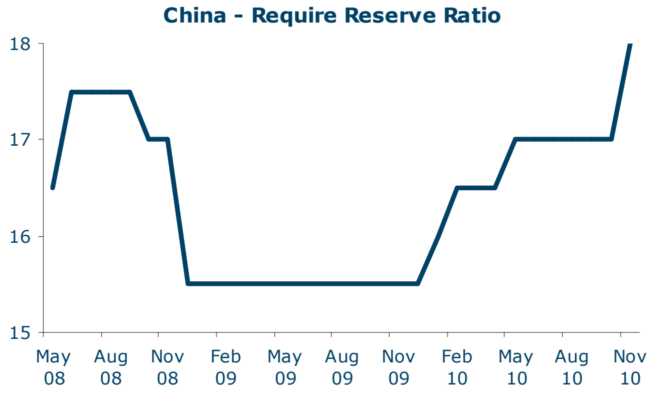


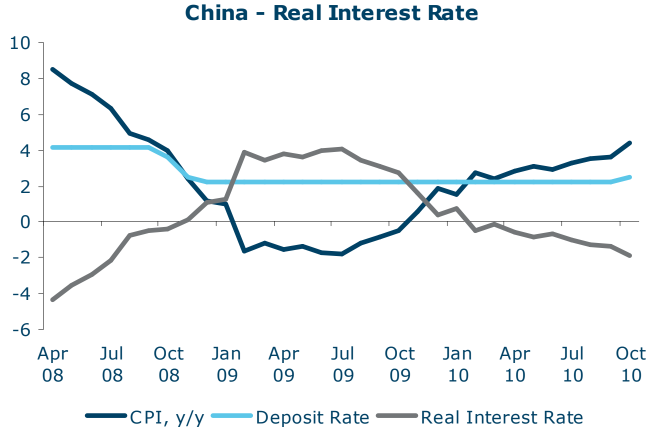


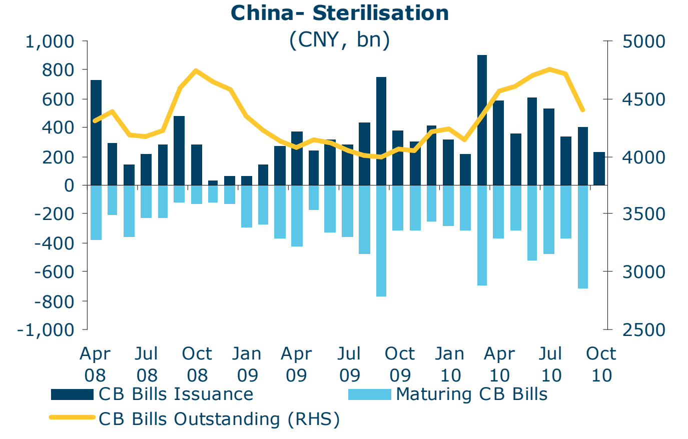
MONETARY POLICY: SOARING INFLATION SPURS MORE POLICY TIGHTENING

- M2 money supply growth accelerated to 19.3% (y/y) in Oct, compared with a 19.0% gain in Sep. M1 growth also picked up 22.1%, from 20.9% in the previous month. New yuan loans beat market expectations by a large margin, reaching CNY587.7bn in Oct.
- Oct's high-than-expected CPI inflation results prompted the PBoC to raise the commercial banking sector's reserve requirement ratio by 50bps twice this month in an urgent attempt to meet this year's credit target of RMB7.5trn. We expect another interest rate hike before the year-end.



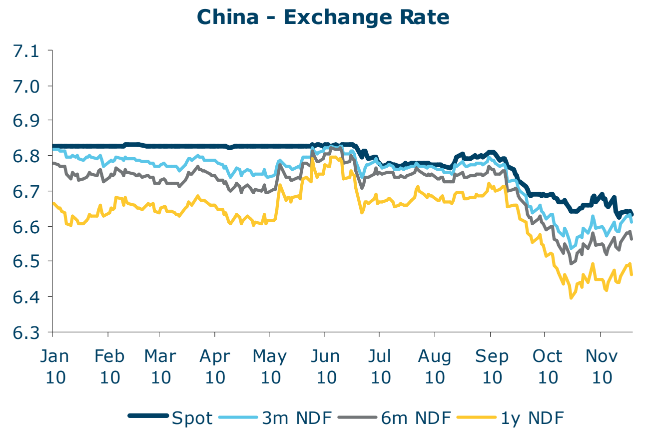


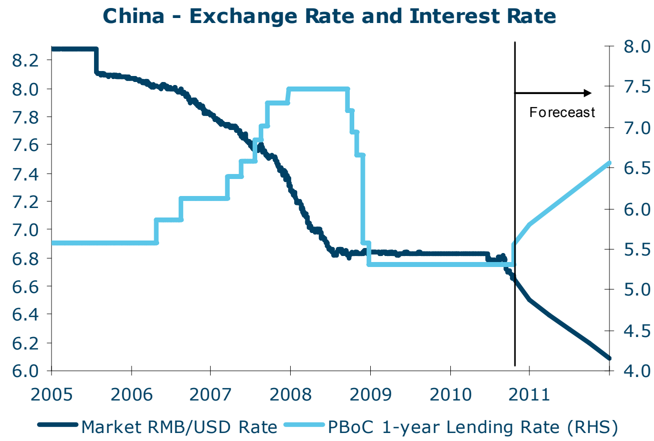


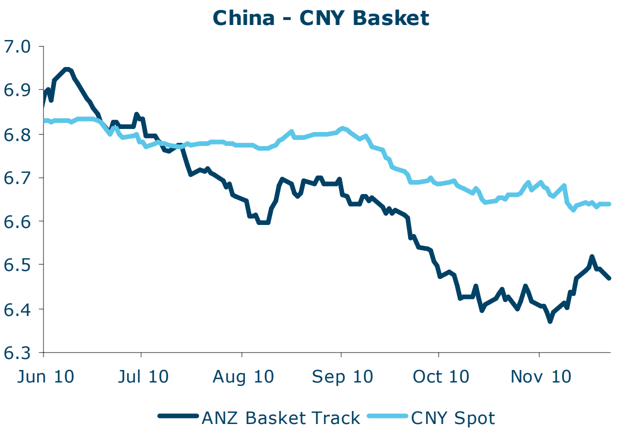


EXCHANGE RATE: A STRONGER RMB COULD HELP TO COUNTER IMPORTED INFLATION

- The RMB spot rate has been increasingly volatile in the past few weeks, fuelling speculation that the Chinese authorities are likely to widen its trading band soon. The intra-day trading range of the RMB spot rate reached 500 pips several times, very close to the 1% trading band (around 660 pips). In our view, widening the trading band will help break the one-way bet on an RMB appreciation.
- The RMB reference rate reached a new high in Nov, ahead of the G20 Summit in Seoul. As inflation has surged, we think the monetary authorities will need to allow the RMB to strengthen even more so as to dampen the affect of imported inflation. We maintain our view that the RMB will gain another 2-2.5% over the remainder of 2010, leading to a year-end rate of CNY6.5 against one USD.

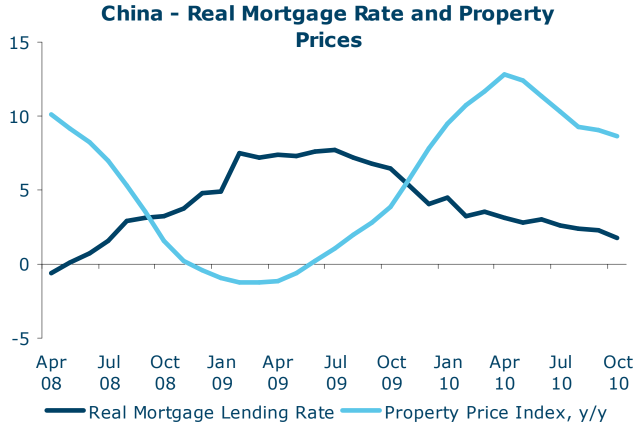


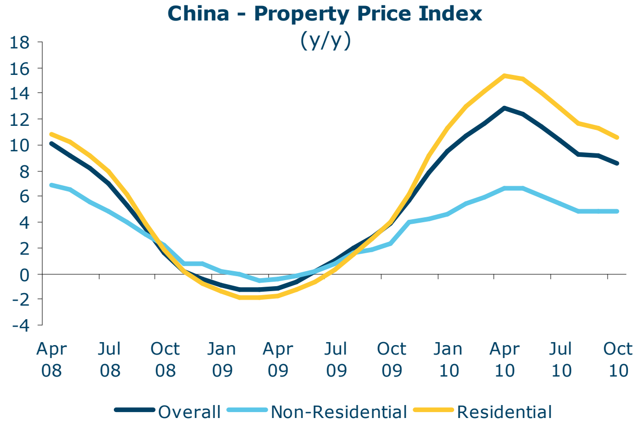


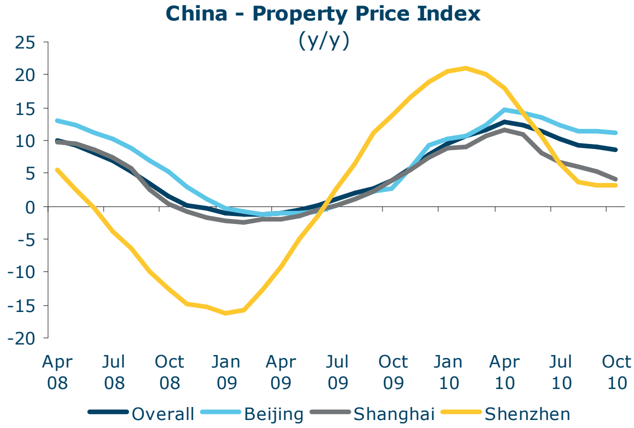


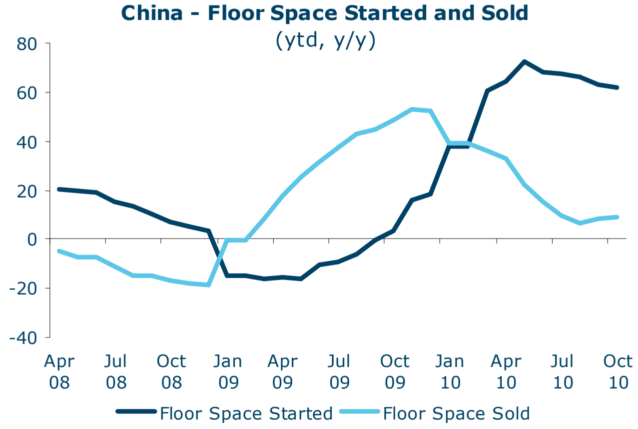
PROPERTY MARKET: PRICES REMAIN STUBBORNLY HIGH

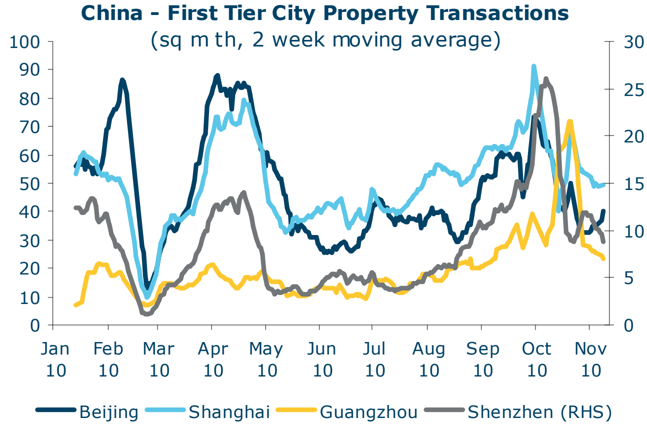
- The property price index eased to the slowest pace in 2010, rising 8.6% (y/y) in Oct, compared with a 9.1% gain in Sep. However, on a monthly basis, property prices rose 0.2% from a month ago, indicating that prices are still climbing.
- Transaction volumes declined slightly in Oct, due to a second round of tightening policies targeted at the property market. Specifically, transactions in first-tier cities returned to more subdued levels after an early Oct surge.





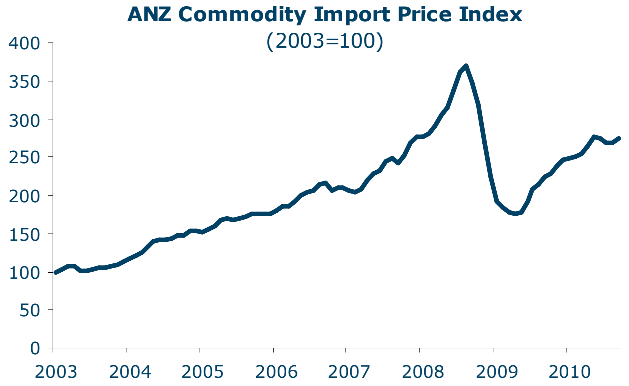


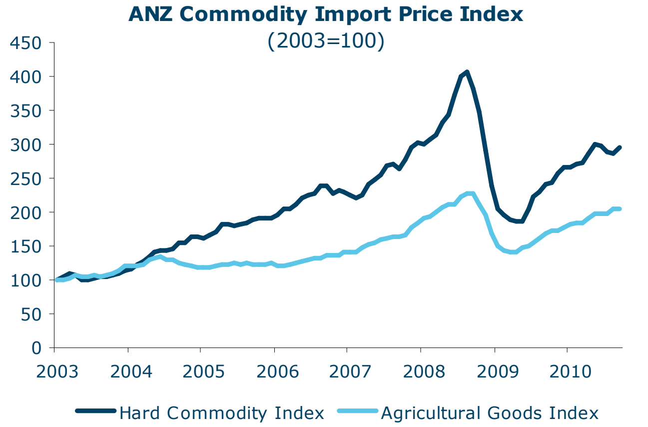


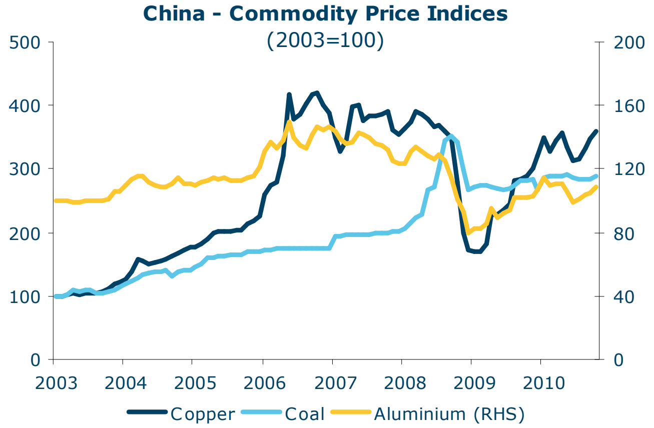


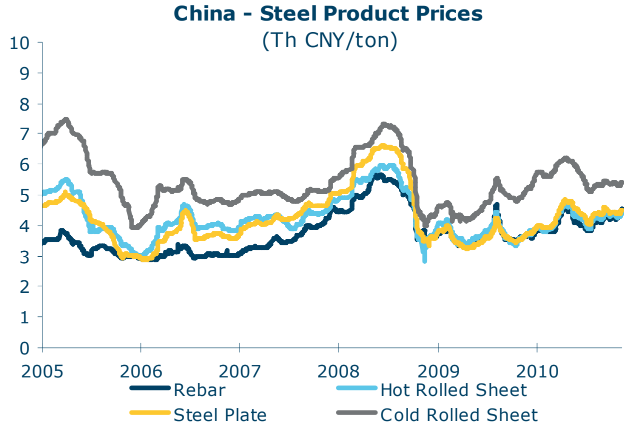
COMMODITY PRICES: BACK ON THE UPTREND

- The ANZ Commodity Import Price Index rebounded after a soft Q3. Prices recovered in Oct, led by hard commodities.
- Base metals rallied on robust demand expectations based on China's growth story. In early Nov, copper and tin recorded their highest prices in over two years. However, the PBoC's decision to drain liquidity by raising the commercial banking sector's reserve requirement ratio has cooled the market somewhat.



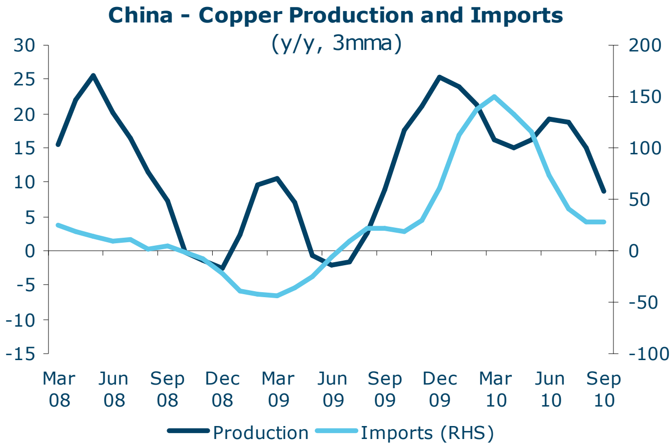


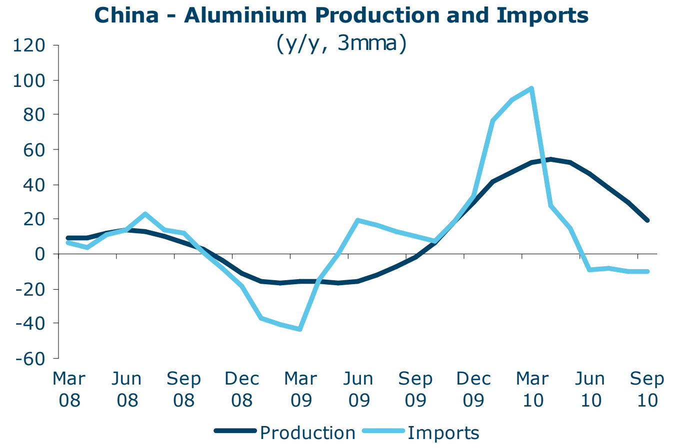


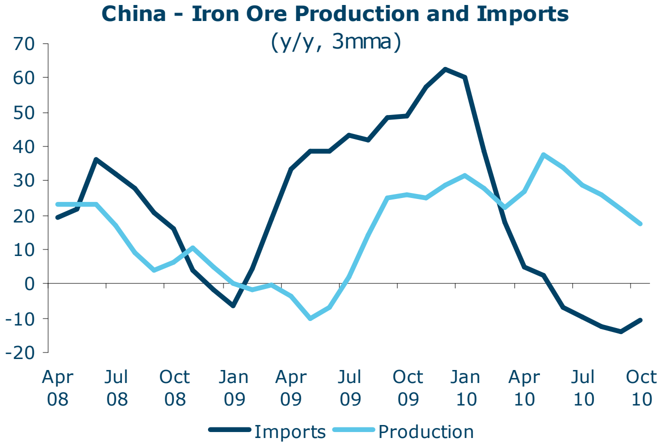


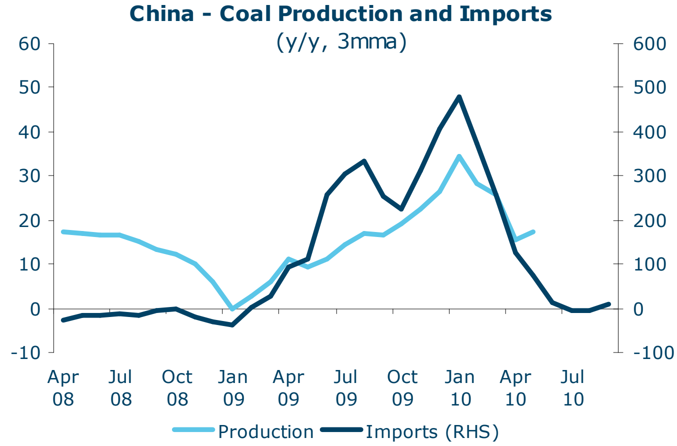
COMMODITY IMPORTS: SET TO REBOUND

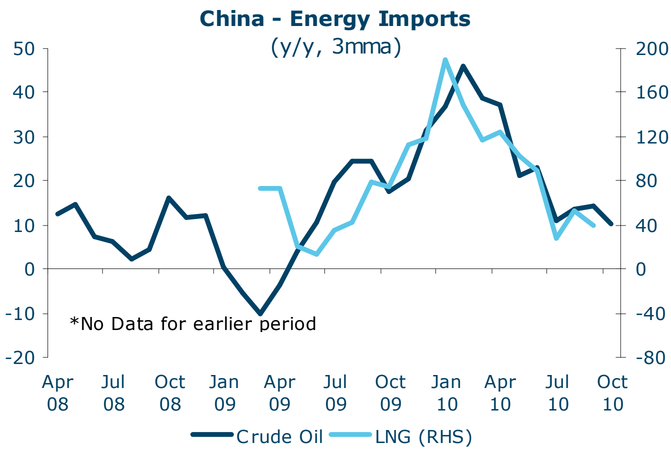
- Commodity imports are likely to rebound in the near term due to a buoyant outlook on commodity prices as well as seasonal factors.
- China's energy imports are also set to pick up as winter sets in. China's National Development and Reform Commission (NDRC) recently announced an increase in the price of natural gas.

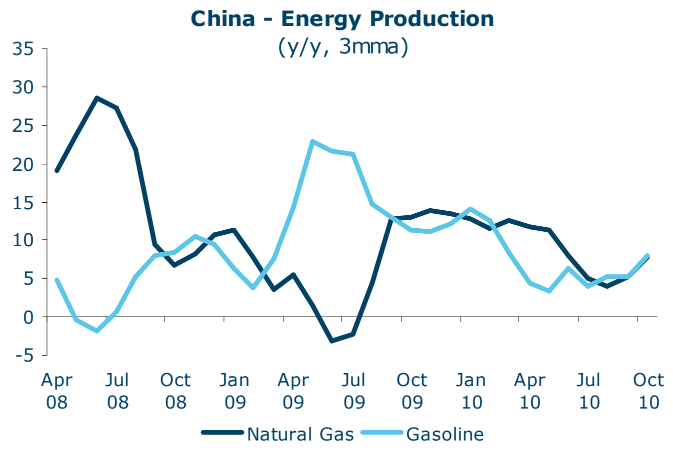






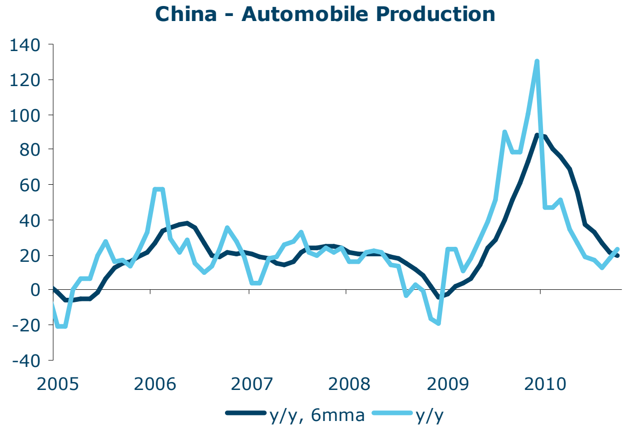


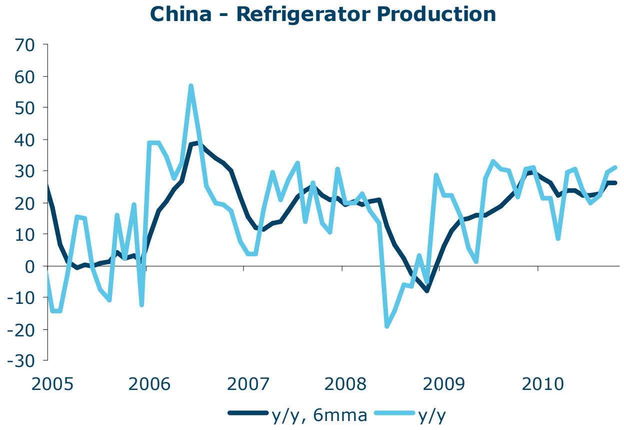


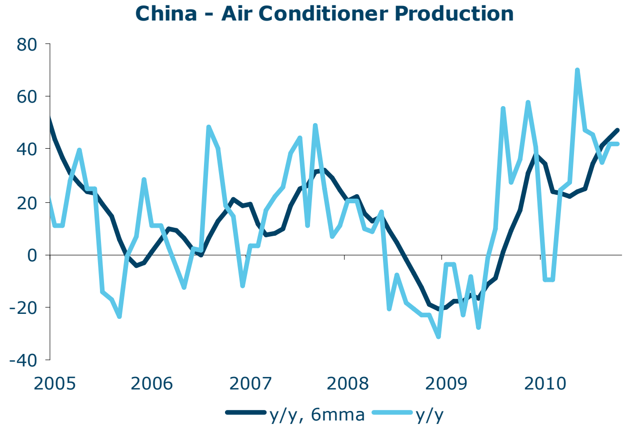


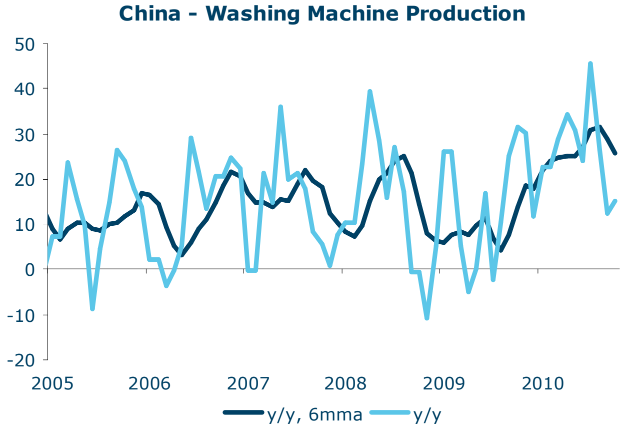
WHITE GOODS/CAR PRODUCTION: A REBOUND IN OCT AFTER EASING IN Q3

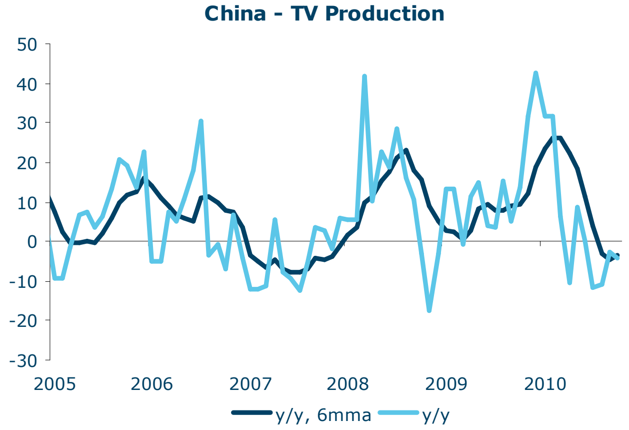
- After a slowdown in Q3, production of white goods started to improve in Oct. Automobile production rose 23.0% (y/y), from a 17.8% gain in Sep. Refrigerator, air conditioner and washing machine production climbed by 30.8%, 42.2% and 15.2%, respectively. Meanwhile, TV production contracted by 4.4%.
- Going forward, durable consumption is expected to remain robust in the lead up to Chinese New Year.

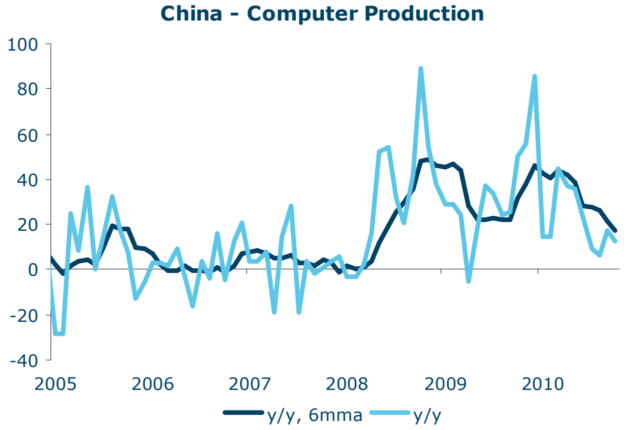






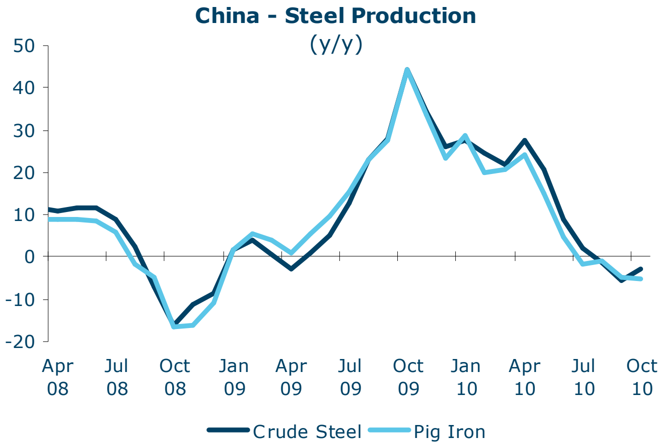


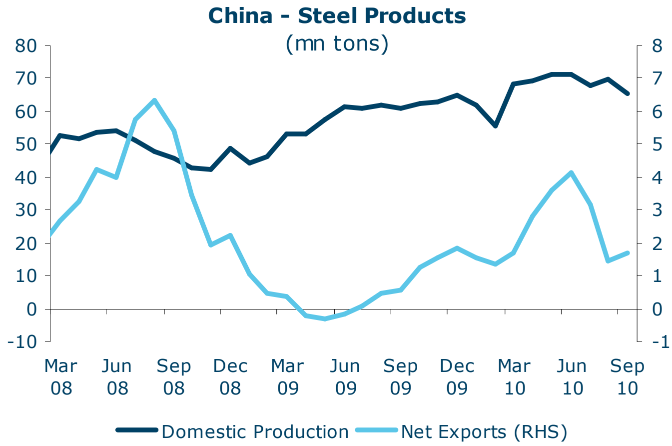


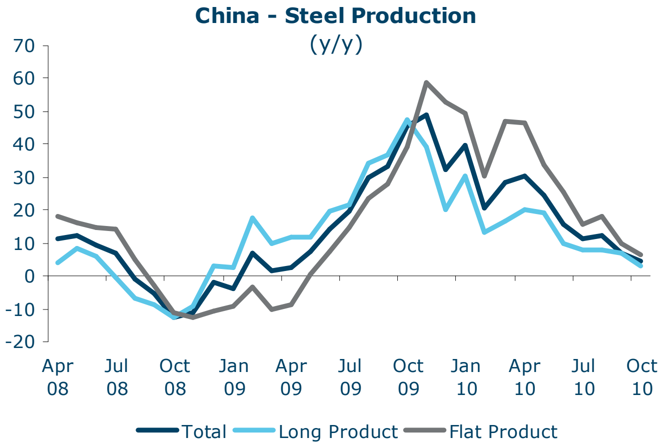


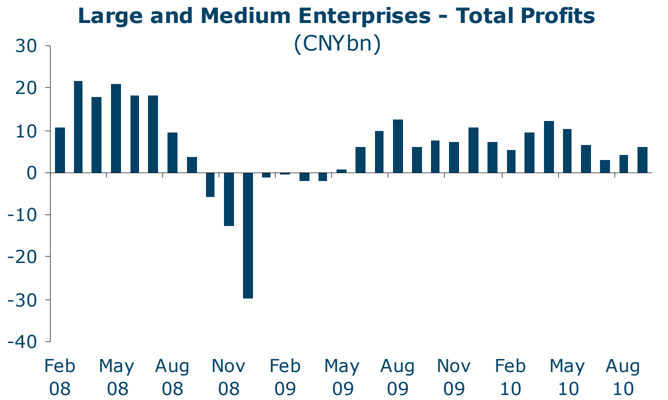
STEEL INDUSTRY: STEEL PRODUCTION REMAINED SOFT

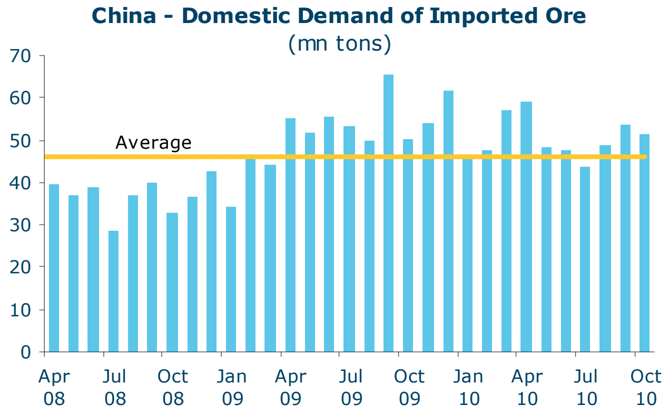
- Steel production continued to slow on a year-on-year basis. However, monthly production remains at normal levels. The outlook for the steel industry will be highly dependent on China's property market.
- Iron ore prices picked up throughout the month, following a rise in global commodity prices.



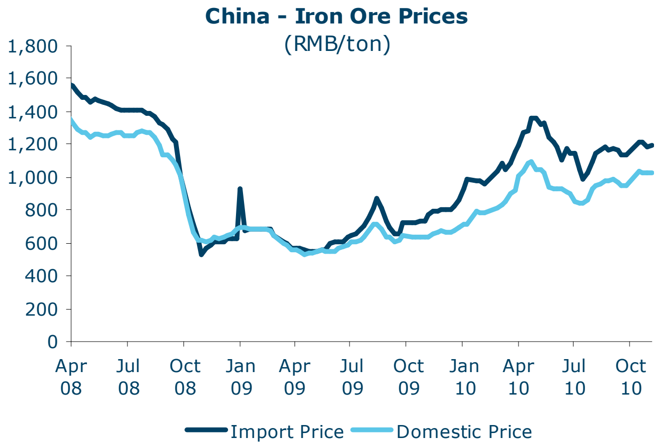






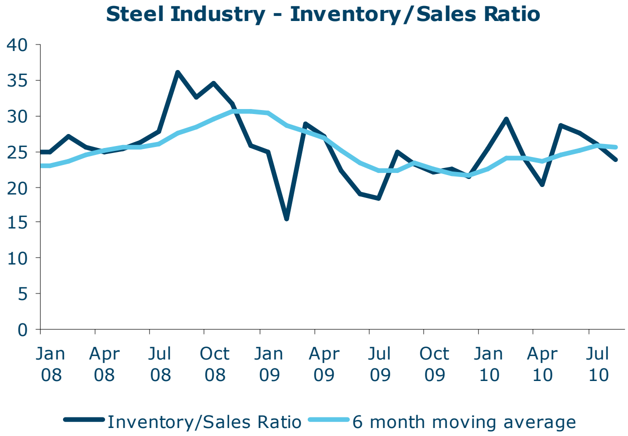


*Defined as monthly imports less monthly change of inventories



STEEL INVENTORIES: INVENTORIES START THE ANNUAL END-OF-YEAR DECLINE

- Iron ore inventories continued to decline in Oct as the whole-year production cycle draws to an end. Steel products held by traders also declined in the month.



IMPORTANT NOTICE

Australia and New Zealand Banking Group Limited is represented in various countries including:

AUSTRALIA

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia
Telephone +61 3 9273 5555 Fax +61 3 9273 5711

CHINA

Australia and New Zealand Bank (China) Company Limited
15th Floor and Unit 12B, Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong, Shanghai, 200120, People's Republic of China
Telephone +86 21 6169 6000 Fax +86 21 6169 6199

HONG KONG

Australia and New Zealand Banking Group Limited
Level 31, One Exchange Square, 8 Connaught Place, Central, Hong Kong
Telephone +852 2176 8888

NEW ZEALAND

ANZ National Bank Limited
Level 7, 1-9 Victoria Street, Wellington, New Zealand
Telephone +64 4 802 2000

SINGAPORE

Australia and New Zealand Banking Group Limited
1 Raffles Place, Level 46, One Raffles Place, Singapore 048616
Telephone +65 6535 8355 Fax +65 6539 6111

UNITED KINGDOM

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom
Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA

ANZ Securities, Inc. (Member of FINRA (www.finra.org) and registered with the SEC)
31st Floor, 277 Park Avenue, New York, NY 10172, United States of America
Telephone +1 212 801 9160 Fax +1 212 801 9163

IMPORTANT NOTICE