

Summary: Much anticipated quarterly and monthly indicators released today point to very strong growth momentum in the fourth quarter of 2010. Full-year GDP growth for 2010 came to 10.3% (BBVA: 10.1%), underpinned by Q4 growth of 9.8%y/y (BBVA: 9.1%). Headline CPI inflation for December eased to 4.6% y/y (BBVA: 4.9%) from 5.1% in November due to base effects and a softening in food prices. Underlying inflationary pressures nevertheless remain high, and the December outturn is still well above the authorities' comfort range. Given the strong growth momentum we anticipate more monetary tightening measures, including three interest rate hikes in 2011, and at least 100 bp increases in the required reserve ratio (RRR), in addition to last week's 50bp RRR hike. We maintain our GDP growth outlook of 9.2% in 2011.

Data points to strong growth momentum and some moderation in inflation

- GDP growth in Q4 edged up to 9.8% y/y (BBVA: 9.1% Consensus: 9.4%) from 9.6% in Q3, ending a moderating trend in y/y growth rates since Q2 (Chart 1). We estimate quarterly growth (seasonally adjusted and annualized) at a very strong 12.1%, compared to 8.0% in Q3. The outturn brings full-year growth for 2010 to 10.3% (BBVA: 10.1%).
- CPI inflation moderated to 4.6% y/y in December (BBVA: 4.9%, Consensus: 4.6%) from 5.1% in November (Chart 2). The main driver of inflation has been food prices, which eased somewhat in December following government measures to slow price increases (December food price inflation declined to 9.6% y/y from 11.7% in the previous month). Producer price inflation in December eased to 5.9% y/y, from 6.1 y/y of November. The moderation in December inflation is due in part to strong base effects. We believe that inflationary pressures remain high, with the non-food components continuing to show rising trends, especially for housing costs.
- On the demand side December retail sales grew faster-than-expected at 19.1% y/y (Consensus: 18.7%), indicating robust consumer spending (Chart 3). Urban fixed asset investment was in line with expectations at 24.5% y/y for December (consensus: 25.0%) On the supply side, industrial output was also in line with expectations, at 13.5% y/y in December (consensus 13.4%).
- Previously released data on property prices (NBS data for the largest 70 cities) show further strength in the sector, despite recent steps to cool the market (Chart 4). Prices rose by 6.4% y/y (or 0.3% m/m) in December, down from 7.7% y/y in November, but still registering a fourth straight month-on-month increase. Trading volumes surged.
- We expect further monetary tightening from the PBoC in the months ahead; on top of the aggressive steps it has already taken (Chart 5). We anticipate three interest rate hikes during the course of 2011 (25 bp), including one in the current quarter, and additional hikes in the RRR of at least 100bp (on top of the 50bp increase announced last week) The RRR for large commercial banks now stands at a record high of 19%. Going forward, the PBoC has signaled it may implement differentiated and more aggressive RRR hikes to curb rapid lending by certain banks.

Chart 1 Fourth quarter GDP growth picks up

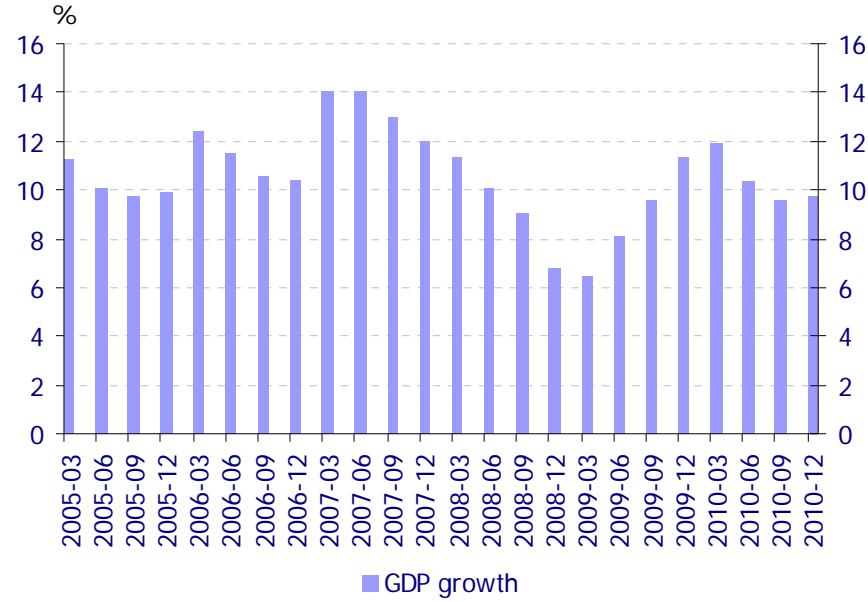


Chart 2 CPI inflation eases, although underlying pressures remain

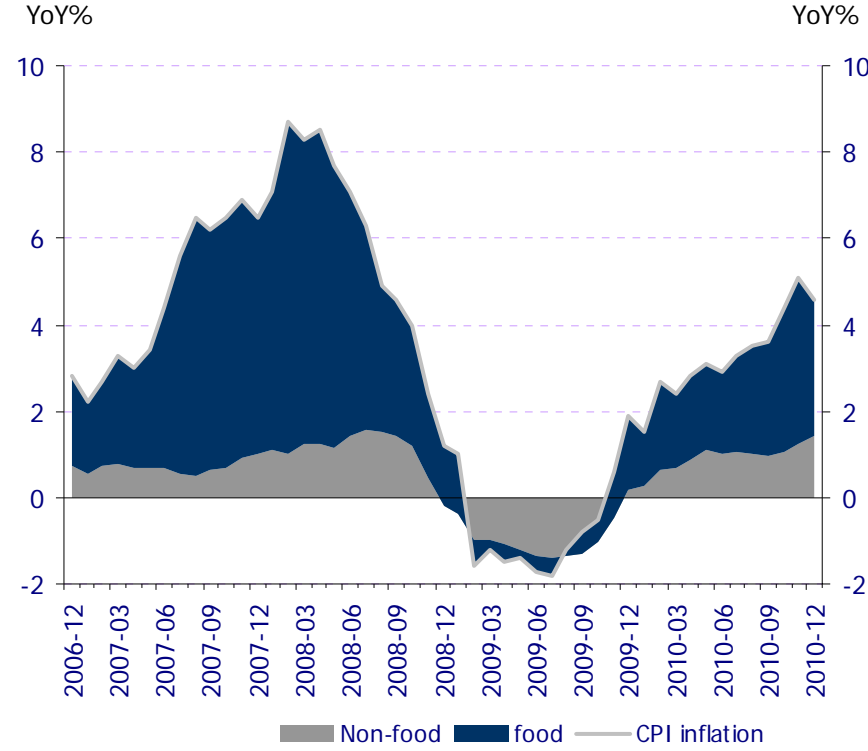


Chart 3 Retails sales continue to growth strongly

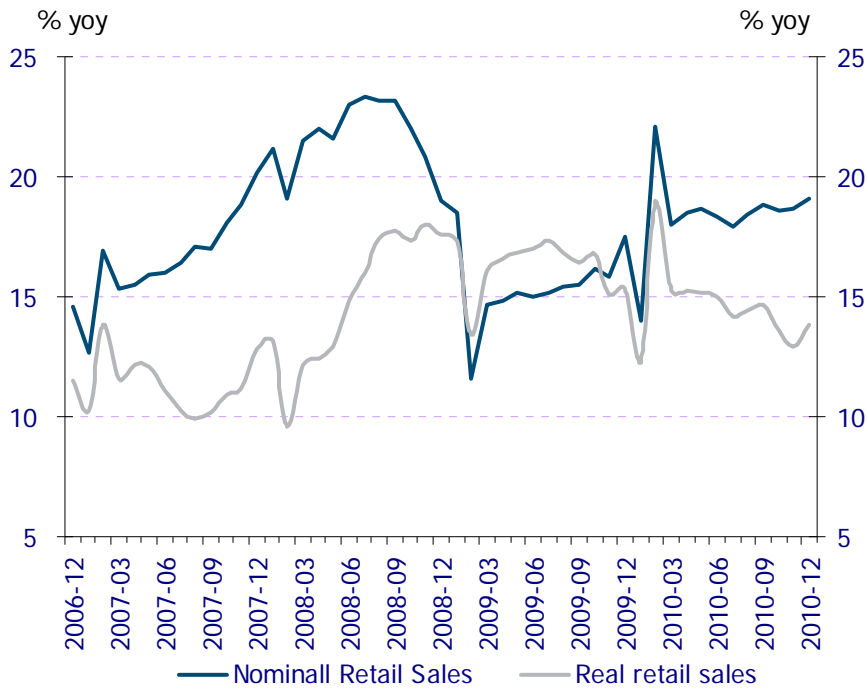


Chart 4 A surge in property transactions, with further price moderation

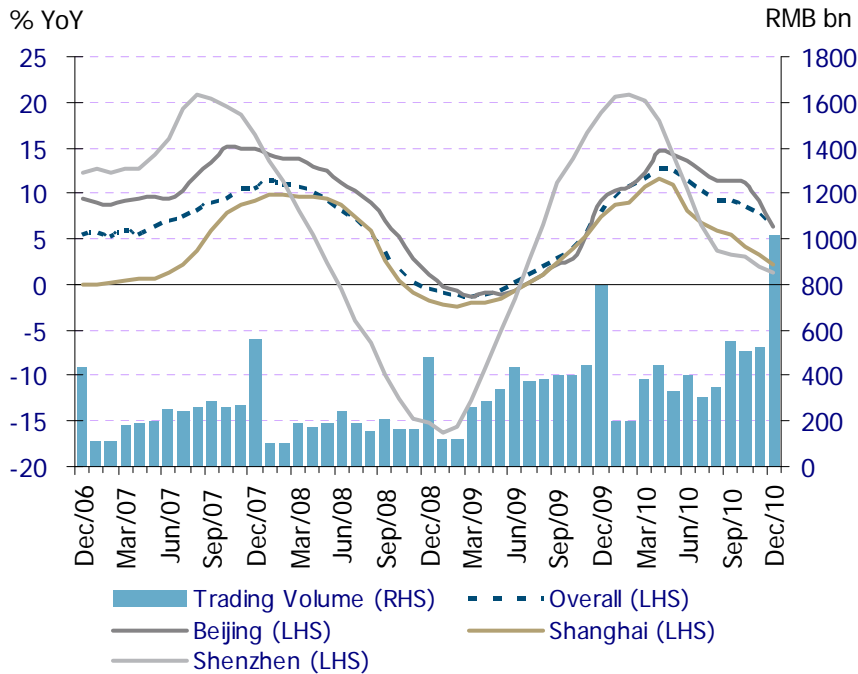
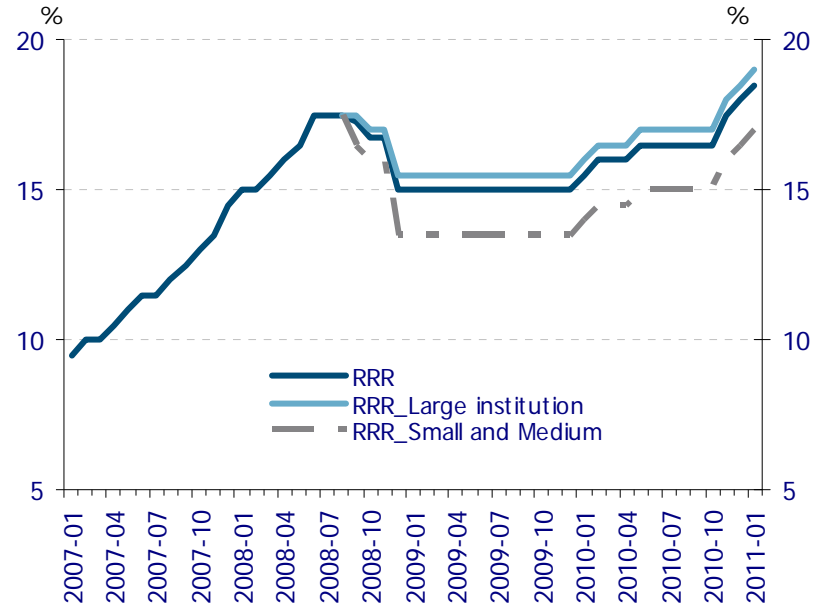


Chart 5 PBoC has been hiking the RRR



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