

# ECONOMIC Bulletin

Economic Research Department



## China: Reassessing Inflation Risk

- Consumer prices have risen more rapidly, triggering a debate whether a fresh inflation risk is creeping in. Our findings show that almost all inflation pressures are concentrated in a narrow range of food items. Non-food CPI remains surprisingly contained.
- The headline CPI will lean towards the high side in the short term. Our full-year CPI forecast has been revised slightly to 3% from 2.8% for 2007. However, we remain comfortable with our medium-term inflation outlook. We continue to expect two interest rate rises, each by 27 bps. In response to the unrelenting challenge of liquidity build-up, we now expect three increases of required reserve ratio, each at 50 bps.

## Hong Kong Update. P. 6

- Fund flows are now the most important determinant of Hong Kong's money supply and interest rates. The growth of fund flows has been easing since the beginning of this year as indicated by the banking sector's net foreign assets position.
- Rising HIBORs, a narrowing of HIBOR-LIBOR spread and a weakening HKD indicates a likely decrease of fund inflows in May and June. Banks are now under pressure to raise local interest rates.

## China Update. P. 8

- Chongqing and Chengdu have been identified as the new batch of reform trial zones, reflecting the government's new policy direction to develop inland areas. Former trial zones can only be found in the eastern coast-board.
- At the Strategic Economic Dialogue with the US, China has agreed to open further its market access - raising the QFII quota, allowing foreign banks to offer RMB-denominated cards and opening access for foreign securities firms.

## Economic Forecasts. P. 10

## Statistics. P. 11

June 2007

### Vincent Kwan

Chief Economist  
vincentkwan@hangseng.com

### Kevin Lai

Senior Economist  
kevinlai@hangseng.com

### Irina Fan

Senior Economist  
irinafan@hangseng.com

### Thomas Shik

Economist  
thomasshik@hangseng.com



HANG SENG BANK

Member HSBC Group

## China: Reassessing Inflation Risk

Pork prices have surged across the country, causing social uproars and repercussions. Commentators have been quick to point to a renewed and rising inflation threat in China. There have also been inflation forecast revisions in the market. The pork market itself may not mean much from a macroeconomic perspective. The underlying trends and implications are worth investigating. What kind of inflation risk are we talking about? More importantly, are we seeing sustained inflation risk over the horizon?

### What Contribute to the Spike of Food Prices?

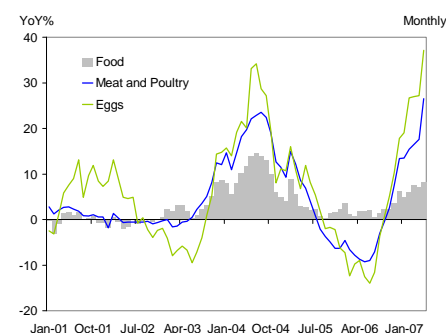
The headline CPI rose to 3.4% yoy in May, the highest since February 2005. The food component, accounting for about one third of the overall CPI, jumped 8.3% yoy. Effectively, four-fifths of the CPI increase were caused purely by food price increases.

More interestingly, the food price rises were predominantly driven by price surges in meat/poultry and eggs (up 26.5% and 37.1% yoy respectively). Retail pork prices in 36 major cities jumped 30.3% yoy to Rmb19/kg in May, a record high, according to the National Price Monitoring Centre. Retail prices of chicken and eggs also surged by 21.8% and 47.1% respectively. Why are these food prices rising so drastically? We believe seasonal and cost-push factors are the main culprits.

First, feed prices have been surging. The global demand for bio-fuel has suddenly jumped since late last year, for example, driving corn prices to a record high. Wholesale corn price rose by 20.4% yoy to reach Rmb1,600/ton. The expense on feed consists of some 60-70% of the total cost of raising pigs. This is a major and direct cost-push factor.

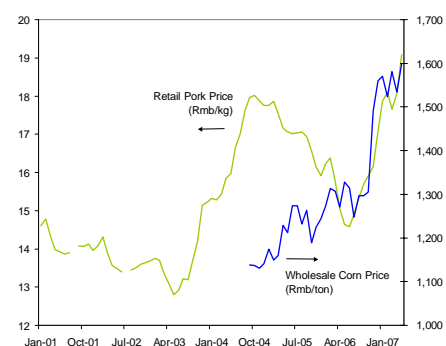
Second, an outbreak of pig disease and bird-flu caused a major disruption to the supply chain of the pork and poultry markets. Between August 2005 and October 2006, there was a protracted period of price decline in pork, chicken and eggs, because of the outbreak. Consumers reduced consumption. As a result, farmers significantly reduced their husbandry sizes. For the first time in ten years, total number of hogs dropped by 1.78% yoy or 8.9 million in 2006. This set stage for sharp price rises this year as consumers gradually resume consumption but supply has not been able to catch up.

Chart 1: Meat, Poultry and Eggs Play a Key Role in Food Price Inflation



Source: CEIC

Chart 2: Feed Price Rising Sharply



Source: CEIC

# Feature

## Non-food Inflation Remains Contained

Elsewhere in the CPI categories, prices remain broadly stable. The CPI for non-food items was up only 1.0% yoy while that for services increased by only 1.7% yoy in May. Some individual components exhibit still a deflationary trend. Prices of clothing dropped by 0.1% yoy. Those of recreation, education and culture were still down 1.2% yoy.

These figures show that almost all inflationary pressures are concentrated in the food category. Food prices are inherently volatile. Retail prices of pork and eggs are unlikely to sustain at the current levels as farmers will react to higher prices and increase supply accordingly.

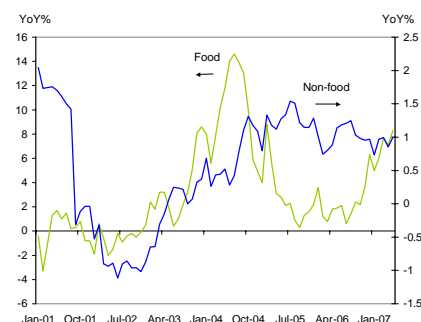
From a monetary perspective, increases in the cost of goods and services (or upstream prices) are usually not sufficient to lead to sustained inflation without the central bank at the same time increasing the money supply. The argument is that if the money supply is constant, increases in the cost of a good or service will decrease the money available for other goods and services, and therefore the price of some those goods will fall and offset the rise in price of those goods. The continued rise of money supply has offered the fuel to the price pressures. This is commonly described as "too much money chasing too few goods" since only money that is spent on goods and services can cause inflation.

In summary, the inflation upswing is due to a combination of (1) supply-side cost-push factors; and (2) accumulated effects of excess money supply growth.

Inflation of these two different natures requires different policy treatments. A pure cost-push or supply-side inflation shock requires little monetary actions. If interest rates were to be increased, inflation can be contained but would lead to weaker GDP growth or even a recession. In case of an extreme cost-push inflation shock, such as an oil crisis, there should be a cut in interest rates to boost aggregate demand. This would however lead to higher and sustained inflation. In many cases, if cost-push factors are purely transitory, there should be no monetary actions.

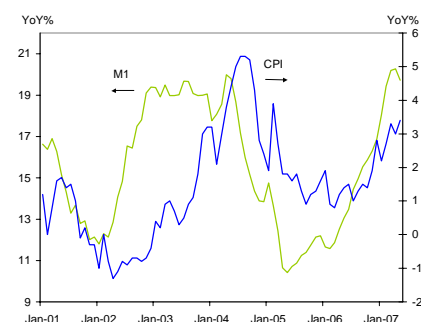
In case of (2), the policy response is more well-defined. Money supply should be tightened to help reduce inflation pressures. Stability in both prices and GDP growth can be achieved. This is what the PBOC has been doing, raising the required reserve ratio and interest rates and engaging in open market operations to control money supply growth.

Chart 3: No Inflation Pressure at Core



Source: CEIC, Hang Seng Economic Research.

Chart 4: Money Supply Vs CPI



Source: CEIC

## Feature

---

### No Compelling Reasons for the PBOC to Raise its Guard

Coexistence of various inflation factors and drivers, of different natures, explains why the PBOC has not yet firmly responded to the latest CPI spikes. In the past 12 months, when the PBOC tightened its monetary policy, it has only emphasized the challenge from the rapid growth of liquidity or, more precisely, excessive money supply.

The PBOC has rarely mentioned the risk from the price front. The only major reference that appeared in its policy statements was on 18 May 2007, when both interest rates and required reserve ratio were raised. The adjustments were to “strengthen liquidity management in the banking system, guide money and credit as well as investment to grow at a proper pace, and *safeguard the stability of general price level*”. In its more detailed First-quarter Monetary Report, released on 14 May 2007, it carried only a rather brief mention of inflation risk, saying “*the risk of the future price movements remains on the upside and the trend warrants monitoring*”.

As such, we can only detect a modest change of policy stance towards in its inflation assessment. By and large, the PBOC is not sounding or acting hawkish towards inflation risk.

### Conclusion

The latest headline CPI inflation, at 3.4%, is now running above the PBOC’s “not more than 3%” assumption. The CPI readings in the coming months will lean towards the high side, reflecting the ongoing price pressure of a well-defined range of food items. To reflect this, we have revised our full-year CPI forecast for 2007 slightly upward, from 2.8% to 3%. However, we remain comfortable with our medium-term inflation outlook. Pressure of food prices will gradually ease and the CPI will gradually revert to mean.

We do not think the latest CPI surge will prompt the PBOC to change its ongoing policy stance towards tightening. We continue to expect two interest rate rises, each by 27 bps, to bring the benchmark one-year lending rate to 7.11% by the year end. However, in response to the unrelenting challenge of liquidity build-up in the monetary system, we now expect three increases of required reserve ratio, each at 50 bps, bringing our year-end forecast from 12% to 13% for this year.

**Kevin Lai**  
[kevinlai@hangseng.com](mailto:kevinlai@hangseng.com)

# Hong Kong Update

## ◆ The Make-up of Total M3

Expressing money supply and customer deposits as a function of net assets of the banking sector balance sheet, total M3 can be derived by adding up domestic credit, net foreign assets and net other assets. This relationship helps trace the source of change of the money supply.

<b>Total M3 = Customer Deposits + Currency in Circulation</b> = (A) + Currency in Circulation = (C) – (B) + Currency in Circulation = Domestic Credit + Net Foreign Assets + Net Other Hong Kong Assets
--

**Balance Sheets of All Authorized Institutions**  
April 07, HKD bn

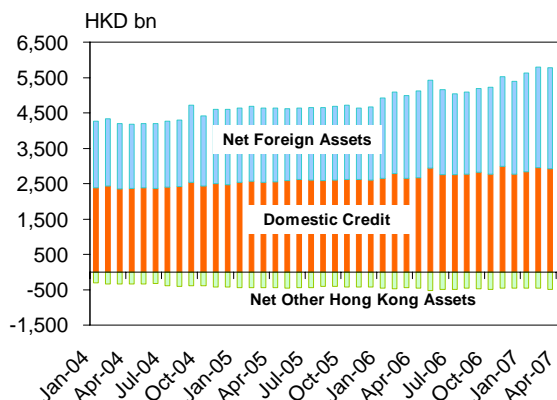
Liabilities			Assets		
A	Customer Deposits	4,937	Loans for use in Hong Kong	2,195	C
	NCDs (net)	134	Loans for use outside Hong Kong	932	
B	Due to Banks Abroad	229	Due from Banks Abroad	2,997	
	Capital & Others	3,350	Other Assets	2,526	

Source: Hong Kong Monetary Authority, Hang Seng Bank Economic Research Department

## ◆ Fund Flows Become the Most Important Drivers of Money Supply

Domestic credit and fund flows are the key drivers of money supply in Hong Kong. Net foreign assets – a direct indicator of fund inflows – have been growing rapidly, overtaking domestic credit as the largest component of total M3 in April 2007. The size of net foreign assets grew by 1.5 times in about three years, from HKD1,891 billion in January 2004 to HKD2,917 billion in April 2007, accounting for about 56% of the total M3.

**Source of Total M3**

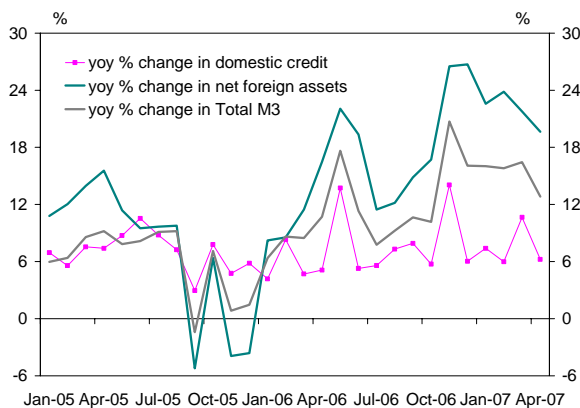


Source: Hong Kong Monetary Authority, Hang Seng Bank Economic Research Department

## ◆ Easing of Fund Inflows

By de-composing the balance sheet of the banking sector, we can trace the source of deposits growth. The strong deposit/money supply growth since the beginning of 2006 was due to inflows of fund, driven by buoyant IPO and stock market activities, whereas fund outflows were the main cause for the drop in total M3 in the second half of 2005. The growth of fund flows has been easing since the beginning of this year, which can be seen from a slower growth of net foreign assets, from 28% in December 2006 to 20% in April 2007.

**Source of Growth of Total M3**

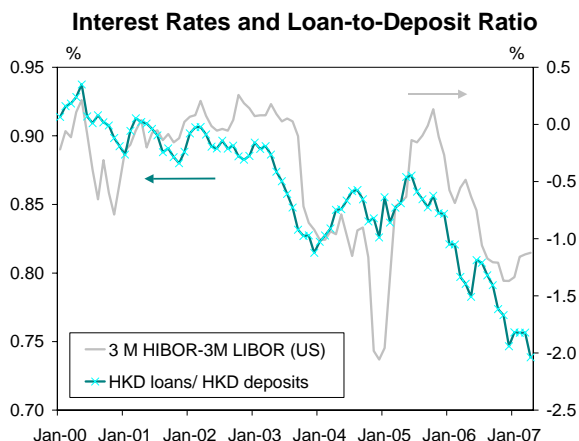


Source: Hong Kong Monetary Authority, Hang Seng Bank Economic Research Department

# Hong Kong Update

## ◆ Continued Drop in Loan-to-Deposit Ratio

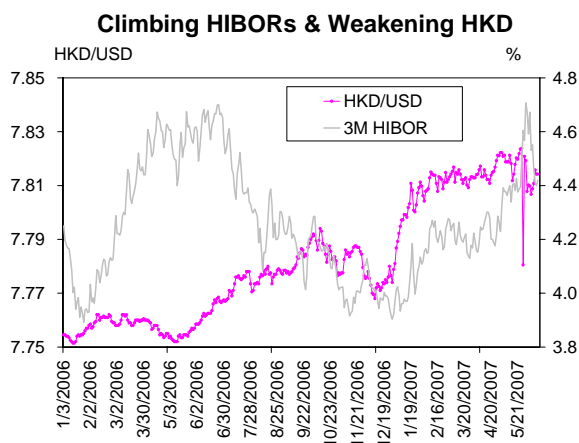
The inflow of funds can be observed from the change of the HKD loan-to-deposit ratio. The continued drop of HKD loan-to-deposit ratio from 0.82 in January 2006 to 0.74 in April 2007 suppressed local interest rates persistently below LIBORs. Nevertheless, fund inflows had been easing, which has resulted in a narrowing of the 3-mth LIBOR-HIBOR spread, from 146 bps at December 2006 to 109 bps in April.



Source: CEIC

## ◆ Sharp Slowing of Fund Inflows

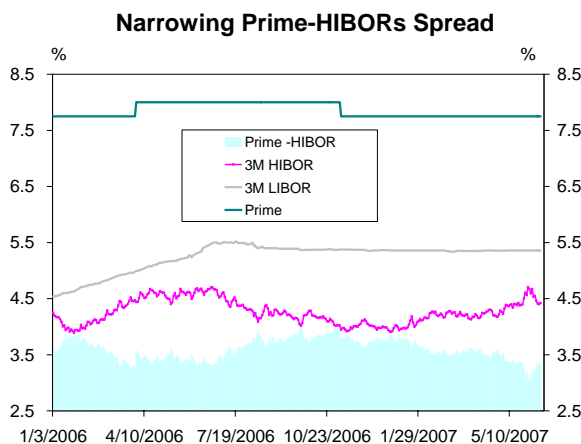
Although we may gauge the direction and size of capital inflow from the banking sector balance sheet, the data has more than one-month time lag. Currency and interest rate market data provide more timely indicators. There has been a sharp rise of HIBORs to 4.8% on 4 June, from 4.3% in end-April. Rising HIBORs, a narrowing of HIBOR-LIBOR spread, and a weakening HKD all indicate a likely decrease of fund inflows in May and June. Although HIBORs have been easing in the last few days, it stays at a high level of around 4.4%.



Source: Hong Kong Bankers Association, CEIC

## ◆ Expecting Local Interest Rates to Rise

Instead of two rate cuts in H2 07, we now expect no cuts in the US this year, as the Fed remains vigilant towards inflation risk. Local interest rates are expected to remain at discount to US rates, underpinned by buoyant IPO and stock market activities. Nevertheless, we expect the 3-mth LIBOR-HIBOR spread to stay narrow, at around 80-90 bps. Banks relying on interbank borrowing will be subject to higher funding costs and under pressure to raise rates. In fact, a number of banks have started raising mortgage rates even though the prime rate stays unchanged. We expect the prime rate to go up by 25 bps in Q3 07.



Source: Hong Kong Bankers Association, CEIC

# China Update

## ◆ Sino-US SED Agreement

China has agreed to increase its market access, open the financial sector, promote energy security, and strengthen the rule of law following its Strategic Economic Dialogue (SED) with the US. In particular, China agreed to raise the QFII quota from USD10bn to USD30bn, allow foreign banks to offer their own RMB-denominated credit and debit cards, and remove a block on the entry of new foreign securities firms in Q2 07. In the aviation, both countries consented to double the number of daily passenger flights from the US to China by 2012; and China will lift all limits on the number of cargo flights and carriers by 2011.

### SED Accord between China and the U.S.

<b>Increase Market Access</b> <ul style="list-style-type: none"> <li>● Double daily passenger flights</li> <li>● Lift limits on no. of cargo flights and carriers</li> </ul>
<b>Opening Financial Sector</b> <ul style="list-style-type: none"> <li>● Allow entry of new foreign securities firms</li> <li>● Raise QFII quota from \$10bn to \$30bn</li> </ul>
<b>Promoting Energy Security and Protecting the Environment</b> <ul style="list-style-type: none"> <li>● Reduce or eliminate tariffs and barriers to environmental goods and services</li> </ul>
<b>Strengthening the Rule of Law</b> <ul style="list-style-type: none"> <li>● Strengthen the enforcement of intellectual property rights laws</li> </ul>

Source: U.S. Treasury

## ◆ Property Prices Up Again in Major Cities

New residential property prices in 70 large-and medium-sized cities rose 6.6% yoy in April, according to the National Development and Reform Commission. Sharpest rises were found in Beihai and Shenzhen, rising by 15.1% and 12.3% respectively. Shanghai, once the most red-hot market, stays at the bottom of the league, with prices dropping 0.3% yoy. Prices of existing homes rose 6.8% yoy in April, while non-residential property prices rose 5.39%. The latest property price rebound is likely to attract more government tightening measures.

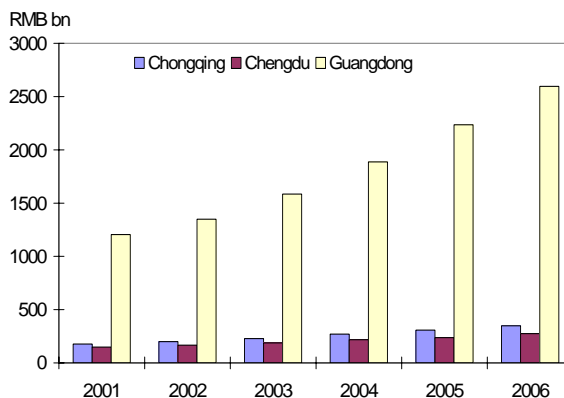
Property Price Change: New Residential Buildings	May 07 yoy%
Beihai	+15.1%
Shenzhen	+12.3%
Wenzhou	+10.9%
Beijing	+10.3%
Nanjing	+9.2%
Xuzhou	+8.5%
Guangzhou	+7.1%
Xiamen	+6.4%
Fuzhou	+6.2%
Hangzhou	+3.2%
Hefei	+1.0%
Shanghai	+0.3%

Source: CEIC

## ◆ Chongqing and Chengdu Put on a New Reform Trial

Chongqing and Chengdu have been selected by the State Council to be the new batch of reform trial zones, following the Shanghai Pudong and Tianjin Binhai New Areas. It is the first time a municipality city and a provincial capital city were chosen. It is in line with the government's new policy direction to develop the less developed inland areas to bridge their income gap with the urban areas. Currently, Chongqing has a population of 31 mn, with Rmb349 bn GDP in 2006, while Chengdu has 11 mn, with Rmb275 bn GDP, compared to Rmb2,597 bn of Guangdong.

### GDP Size: Chongqing & Chengdu Vs Guangdong



Source: CEIC

# China Update

## ◆ Export Tax Raised Again

China has implemented another series of export and import tax adjustments. Starting from 1 June, a 5-10% export tax will be levied on a list of 114 commodity products, including steel, non-ferrous metals and several other raw materials. Import VAT rates will be cut for 209 commodity products, by 3-9% for selected machinery and machinery parts, and by 5-16% for a range of small household appliances, household electronics as well as consumer goods. Although adjustments in trade taxes have been actively used to contain the growth of trade surplus, it has surged to USD85.7 billion for the first five months, nearly half of last year's total surplus.

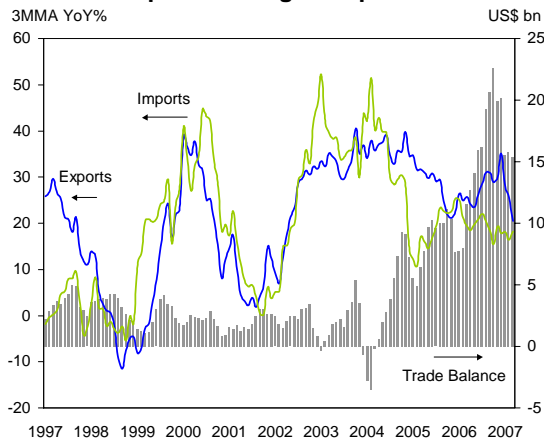
## ◆ Permission to issue RMB bonds in HKSAR

On 8 June the National Development and Reform Commission announced provisional rules for Chinese policy banks and commercial banks to issue RMB bonds in Hong Kong. The rules mainly include: a) the issuer should have a core capital adequacy ratio of no less than 4%; b) the bank should record profits for the past 3 years; c) the bonds issued should have maturity of at least one year. At least five banks have expressed interests in issuing such bonds in Hong Kong.

## ◆ Rapid M1 Growth Continues to be Challenging

Money M1 growth remained uncomfortably high, rising by 19.3% yoy in May. Deposit growth continued to slow to 14.6% yoy, from 15.7% in April. The faster M1 over deposit growth indicates higher transactional money demand for stock trading. On the other hand, loans growth kept at the 16.5% yoy level. The liquidity problems continue to be challenging despite more reserve requirement and interest rate rises. The PBOC will not let off its guard, especially when the stock market has bounced back after a brief correction following the increase of the stamp duty.

**Trade Surplus Still High Despite Measures**



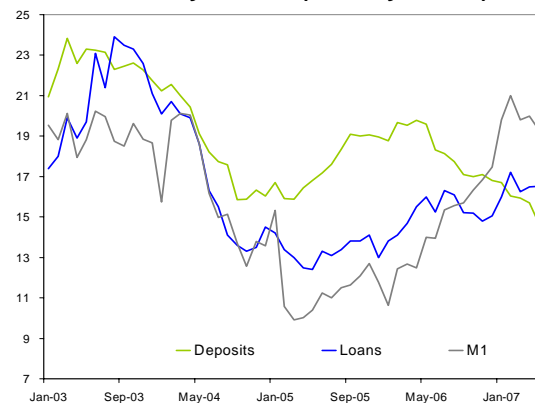
Source: CEIC

**Provisional Rules on RMB Bond Issuance in HK**

<b>Issuers</b>	<ul style="list-style-type: none"> <li>● Mainland commercial and policy banks</li> <li>● Have a core capital adequacy ratio of no less than 4%</li> <li>● Profitable for the past 3 years</li> </ul>
<b>Maturity &amp; Pricing</b>	<ul style="list-style-type: none"> <li>● Maturity of at least one year</li> <li>● Pricing would be determined by the issuers and underwriters</li> </ul>
<b>Proceeds</b>	<ul style="list-style-type: none"> <li>● Proceeds must be remitted back to the mainland within 30 days</li> </ul>

Source: National Development and Reform Commission

**Monetary Growth (Monthly, YoY%)**



Source: CEIC

## Economic Forecasts

GDP, Annual & Quarterly				(yoy % change)		
	Annual			2007		
	2005	2006	2007 (F)	Q1	Q2 (F)	Q3 (F)
Hong Kong Real GDP	+7.5	+6.9	+5.6	+5.6	+5.8	+5.6
China Real GDP	+10.4	+10.7	+10.7	+11.1	+10.9	+10.7

Interest Rates, Year-end & Quarter-end				(Period-end figures)		
	Annual			2007		
	2005	2006	2007 (F)	Q1	Q2 (F)	Q3 (F)
Hong Kong Prime Rate	7.75	7.75	8.00	7.75	7.75	8.00
Hong Kong HIBOR (1-mth)	4.10	3.91	4.30	4.23	4.40	4.30
China Lending Rate (1-Yr)	5.58	6.12	7.11	6.39	6.57	6.84
China Interbank T-Bill Rate (1-Yr)	1.54	2.19	3.02	2.26	2.48	2.75

Hong Kong Statistics, Annual & Monthly				(yoy % change)		
	Annual			2007		
	2005	2006	2007 (F)	Apr	May (F)	Jun (F)
Total Exports	+11.4	+9.4	+8.0	+12.6	+7.5	+7.5
Re-exports	+11.7	+10.0	+9.6	+14.3	+9.4	+9.3
Imports	+10.3	+11.6	+9.1	+14.7	+9.5	+9.4
Visitor Arrivals	+7.1	+8.1	+6.8	+2.3	+6.8	+6.5
Retail Sales Value	+6.8	+7.3	+8.1	+3.4	+7.9	+7.8
Inflation (CPI)	+1.0	+2.0	+2.0	+1.3	+1.6	+1.7
Unemployment (%)	5.6	4.8	4.3	4.3	4.3	4.3
Total M3	+5.2	+15.7	+13.0	+13.0	+14.2	+14.3

China Statistics, Annual & Monthly				(yoy % change)		
	Annual			2007		
	2005	2006	2007 (F)	Apr	May	Jun (F)
Merchandise Exports	+28.4	+27.2	+22.0	+26.8	+28.7	+23.8
Merchandise Imports	+17.6	+19.9	+18.0	+21.3	+19.1	+18.2
Retail Sales Value	+19.0	+13.7	+14.5	+15.5	+15.9	+15.3
Foreign Direct Investment	+19.4	-4.1	+10.0	+5.5	+8.6	+6.3
Industrial Value-added	+16.4	+16.6	+17.0	+17.4	+18.1	+16.3
Fixed Asset Investment	+28.1	+24.5	+21.0	+25.9	+26.9	+20.8
Inflation (CPI)	+1.8	+1.5	+3.0	+3.0	+3.4	+3.5
M2	+17.6	+16.9	+16.5	+17.1	+16.7	+16.6

Notes: Forecast (F)

# Economic & Financial Statistics: Hong Kong

	2005	2006	2006	2007	2007			
			Q4	Q1	Feb	Mar	Apr	Jan-Apr
<b>General Economy</b>								
GDP								
- At Current Prices, HKD Billion	1,383	1,474	399	370	—	—	—	—
- Real Growth, % YOY	+7.5	+6.9	+7.3	+5.6	—	—	—	—
- Nominal Growth, % YOY	+7.1	+6.6	+6.9	+6.6	—	—	—	—
Total Exports								
- HKD Billion	2,250	2,461	674	586	171	207	213	798
- Growth, % YOY	+11.4	+9.4	+11.8	+9.0	+11.6	+6.9	+12.6	+10.0
Imports								
- HKD Billion	2,329	2,600	707	626	179	235	233	859
- Growth, % YOY	+10.3	+11.6	+14.0	+9.0	+1.3	+11.1	+14.7	+10.5
Trade Balance								
- HKD Billion	-79.3	-138.8	-32.8	-40.3	-7.5	-28.3	-20.6	-60.9
Inflation								
- Composite CPI, %	+1.0	+2.0	+2.1	+1.7	+0.8	+2.4	+1.3	+1.6
Unemployment Rate								
- %	5.6	4.8	4.4	4.3	4.3	4.3	4.3	4.3
Retail Sales								
- HKD Billion	205	220	56	60	21	19	19	80
- Growth, % YOY	+6.8	+7.3	+8.8	+9.4	+28.6	+4.9	+3.4	+7.9
Tourist Arrivals								
- Number, ('000)	23,359	25,251	6,679	6,616	2,286	2,163	2,177	8,793
- Growth, % YOY	+7.1	+8.1	+4.3	+6.3	+18.2	+2.9	+2.3	+5.3
<b>Property Sector</b>								
Residential Property Price								
- Index	92.0	92.7	93.3	96.4	96.5	97.4	97.8	96.7
- Growth, % YOY	+18.0	+0.8	+3.5	+5.3	+5.9	+5.2	+4.7	+5.2
Office Rental								
- Index	96.4	117.2	121.4	125.3	126.0	126.3	127.1	125.8
- Growth, % YOY	+23.4	+21.6	+15.3	+13.8	+13.1	+13.5	+8.8	+12.5
<b>Monetary Sector (Period-End)</b>								
Total Deposits								
- HKD Billion	4,068	4,766	4,766	4,973	5,008	4,973	4,937	—
- Growth, % YOY	+5.2	+17.1	+17.1	+18.2	+17.2	+18.2	+14.4	—
HKD Deposits								
- HKD Billion	2,131	2,568	2,568	2,736	2,770	2,736	2,669	—
- Growth, % YOY	+5.6	+20.5	+20.5	+21.7	+18.2	+21.7	+16.1	—
USD Deposits								
- HKD Billion	1,337	1,605	1,605	1,639	1,624	1,639	1,672	—
- Growth, % YOY	+2.1	+20.1	+20.1	+21.5	+22.4	+21.5	+20.3	—
FCY Deposits								
- HKD Billion	600	592	592	597	614	597	595	—
- Growth, % YOY	+11.3	-1.3	-1.3	-2.1	+1.8	-2.1	-4.6	—
Total Loan								
- HKD Billion	2,312	2,468	2,468	2,671	2,690	2,671	2,586	—
- Growth, % YOY	+7.2	+6.7	+6.7	+14.8	+10.0	+14.8	+9.3	—
Loans Used in HK								
- HKD Billion	2,072	2,126	2,126	2,288	2,315	2,288	2,195	—
- Growth, % YOY	+7.8	+2.6	+2.6	+10.8	+5.4	+10.8	+4.7	—
Loans Used Outside HK*								
- HKD Billion	241	341	342	383	375	383	392	—
- Growth, % YOY	+3.2	+41.9	+42.3	+46.3	+51.1	+46.3	+44.7	—
Residential Mortgages								
- HKD Billion	533	529	529	530	529	530	531	—
- Growth, % YOY	+1.0	-0.7	-0.7	+0.4	-0.3	+0.4	+0.8	—
Trade Finance								
- HKD Billion	142	152	152	150	152	150	156	—
- Growth, % YOY	+9.1	+7.4	+7.4	+8.8	+8.3	+8.8	+9.9	—

Note: \* Including those where place of use is unknown

# Economic & Financial Statistics: China

	2005	2006	2006	2007	2007			
			Q4	Q1	Mar	Apr	May	Jan-May
<b>General Economy</b>								
GDP								
- RMB Billion	18,387	20,941	6,793	5,029	—	—	—	—
- Real Growth, % YOY	+10.4	+10.7	+10.4	+11.1	—	—	—	—
Fixed Asset Investment (Urban)								
- RMB Billion	7,510	9,347	3,159	1,454	801	805	945	3,205
- Growth, % YOY	+28.1	+24.5	+19.9	+25.3	+26.8	+25.9	+26.9	+25.9
Retail Sales								
- RMB Billion	6,718	7,641	2,132	2,119	669	667	716	3,502
- Growth, % YOY	+19.0	+13.7	+14.4	+14.9	+15.3	+15.5	+15.9	+15.2
Industrial Value-added								
- RMB Billion	6,643	7,975	2,324	n.a.	n.a.	n.a.	n.a.	n.a.
- Real Growth, % YOY	+16.4	+16.6	+14.8	18.3	+17.6	+17.4	+18.1	+18.1
Electricity Production								
- kWh Billion	2,397	2,749	726	695	247	247	n.a.	n.a.
- Growth, % YOY	+13.4	+14.7	+15.3	+12.4	+14.4	+16.9	n.a.	n.a.
Inflation								
- CPI, %	+1.8	+1.5	+2.0	+2.7	+3.3	+3.0	+3.4	+2.9
- PPI, %	+4.9	+3.0	+2.9	+2.9	+2.7	+2.9	+2.8	+2.8
<b>External Sector</b>								
Exports								
- US\$ Billion	762.0	969.0	278.0	252.0	83.4	97.5	94.1	443.5
- Growth, % YOY	+28.4	+27.2	+28.9	+27.8	+6.9	+26.8	+28.7	+27.8
Imports								
- US\$ Billion	660.0	792.0	210.1	205.6	76.6	80.6	71.6	357.8
- Growth, % YOY	+17.6	+19.9	+15.4	+18.2	+14.5	+21.3	+19.1	+19.1
Trade Balance								
- US\$ Billion	+102.0	+177.5	+67.7	+46.4	+6.9	+16.9	+22.5	+85.7
FDI (Utilised)								
- US\$ Billion	72.4	69.5	26.9	15.9	6.2	4.5	4.9	25.3
- Growth, % YOY	+19.4	-4.1	-7.8	+11.6	+9.3	+5.5	+8.6	+9.9
FDI (Contracted)								
- US\$ Billion	189.0	200.2	67.3	n.a.	n.a.	n.a.	n.a.	n.a.
- Growth, % YOY	+23.2	+5.9	+14.7	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Monetary Sector (Period-End)</b>								
Foreign Reserves								
- US\$ Billion	819	1,066	1,066	1,202	1,202	n.a.	n.a.	—
- Growth, % YOY	+34.3	+30.2	+30.2	+37.4	+37.4	n.a.	n.a.	—
Money Supply (Period-End)								
- M0, Growth, % YOY	+11.9	+12.7	+12.7	+16.7	+16.7	+15.1	+13.9	—
- M1, Growth, % YOY	+11.8	+17.5	+17.5	+19.8	+19.8	+20.0	+19.3	—
- M2, Growth, % YOY	+17.6	+16.9	+17.0	+17.3	+17.3	+17.1	+16.7	—
RMB Deposits Outstanding								
- RMB Billion	28,716	33,546	33,546	35,425	35,425	35,875	36,030	—
- Growth, % YOY	+18.9	+16.8	+16.8	+15.9	+15.9	+15.7	+14.6	—
RMB Loans Outstanding								
- RMB Billion	19,469	22,535	22,535	23,959	23,959	24,381	24,630	—
- Growth, % YOY	+13.0	+15.1	+15.1	+16.3	+16.3	+16.5	+16.5	—
RMB Lending Rates								
- 6 Month	5.22	5.58	5.58	5.67	5.67	5.67	5.85	—
- 1 Year	5.58	6.12	6.12	6.39	6.39	6.39	6.57	—
- 1-3 Years	5.76	6.30	6.30	6.57	6.57	6.57	6.75	—
- Over 5 Years	6.12	6.84	6.84	7.11	7.11	7.11	7.20	—
RMB Deposit Rates								
- Current Account	0.72	0.72	0.72	0.72	0.72	0.72	0.72	—
- 1 Year	2.25	2.52	2.52	2.79	2.79	2.79	3.06	—
- 5 Years	3.60	4.14	4.14	4.41	4.41	4.41	4.95	—

### **Disclaimer**

The research analyst(s) who prepared this report certifies(y) that the views expressed herein accurately reflect the research analyst's(s)' personal views about the subject security(ies), issuer(s) and financial instrument(s) and that no part of his/her/their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

This document has been issued by Hang Seng Bank Limited ("HASE") and the information herein is based on sources believed to be reliable and the opinions contained herein are for reference only. This document is not and should not be considered as an offer or solicitation to buy or sell foreign exchange contracts, securities or other financial instruments. Re-distribution of all or any part of this document by any means is strictly prohibited. In particular, neither this document nor any copy hereof may be taken or transmitted into Japan, Canada or the United States or distributed, directly or indirectly, into the United States or to any U.S. person (within the meaning of Regulation S under the U.S. Securities Act of 1933).

The information contained in this document may be indicative only and has not been independently verified and no guarantee, representation, warranty or undertaking, express or implied is made as to the fairness, accuracy, completeness or correctness of any information, projections or opinions contained in this document or the basis upon which any such projections or opinions have been based and no responsibility or liability is accepted in relation to the use of or reliance on any information, projections or opinions whatsoever contained in this document. Investors must make their own assessment of the relevance, accuracy and adequacy of the information and opinions contained in this document and make such independent investigations as they may consider necessary or appropriate for the purpose of such assessment. All such information, projections and opinions do not necessarily represent those of HASE and are subject to change without notice.

HASE and its affiliates may trade for their own account in, may have underwritten, or may have a position in, all or any of the companies, securities or investments mentioned in this document. Brokerage or fees may be earned by HASE or its affiliates in respect of any business transacted by them in all or any of the companies, securities or investments referred to in this document.

The investments mentioned in this document may not be suitable for all investors. Investors must make investment decisions based on their own investment objectives, financial position and particular needs and consult their own professional advisers where necessary. This document is not intended to provide professional advice and should not be relied upon in that regard. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

Investment involves risk. Investors should note that value of investments can go down as well as up and past performance is not necessarily indicative of future performance. Foreign securities carry additional risks not generally associated with securities in the domestic market, including but not limited to adverse changes in currency rate, foreign laws and regulations. This document does not purport to identify all the risks that may be involved in the securities or investments referred to in this document.