



Issue of March 2011

Demand to slow down slightly

Highlights

- ❖ **Industrial growth to remain steady.** In January and February, industrial value added output grew by 14.1%YoY. Excluding the impact of statistical criteria adjustments, industrial value added output grew by 13.6%YoY, which was largely the same as December, but slightly above market expectations of 13.3% and our expectations of 13.4%. On a QoQ basis, seasonally adjusted annualized industrial growth reached 16% in January and February from 12% in December, reflecting a steady industrial growth.
- ❖ **Demand remains relatively stable, but to slow down slightly.** In January and February, consumption declined modestly, whereas investment and exports rebounded from December last year. Overall, demand has been relatively stable. Lower-than-expected growth in retail sales was mainly due to the exit of policy stimulus and the implementation of restrictive policies. Exports rebounded in January and February, growing by 21.4% from 17.9% in December last year. Rapid growth in real estate investment and industrial prices explain the pickup of investment. Due to the impact of measures targeting the real estate sector, investment will decline modestly, leading to a slight decline in demand.
- ❖ **Inflation to rise to around 5.2% in March.** February CPI inflation reached 4.9%, higher than our expectations of 4.7% and market expectations of 4.6%. PPI inflation reached 7.2%, higher than our and market expectations. We expect CPI inflation to reach 5.2% in March and remain at a high level in 2Q11. Overall, we expect inflation to be at a high level before declining later in 2011.
- ❖ **Monetary policies to tighten first before becoming stable.** Considering the high inflationary pressure and large volumes of Central Bank bills and repos that will be maturing in March and April, we expect the Central Bank to further raise the deposit reserve requirement ratio in March and April. As interest rates remain low and inflation is likely to continue its rising trend, the Central Bank may raise benchmark interest rates by 25 bp in April. Meanwhile, the RMB will continue to appreciate by 5-6% in 2011. As inflation is likely to fall in the second half of 2011, we expect monetary policies to become increasingly stable in the second half of this year.

CITICS macroeconomic forecast (%)

	2007	2008	2009	2010	2011F
GDP	14.2	9.6	9.2	10.3	9.6
CPI inflation	4.8	5.9	-0.7	3.3	3.9
PPI inflation	3.1	6.9	-5.4	5.5	5.9
Fixed asset investment for the society at large	24.8	25.5	30.1	23.8	23.4
Total retail sales of social consumer goods	16.8	21.6	15.5	18.4	18.5
Exports	25.6	17.2	-16.0	31.3	18.2
Imports	20.6	18.5	-15.7	38.7	20.7
Interest rates (1-year deposit)	4.14	2.52	2.25	2.75	3.50
Exchange rate (RMB/USD)	7.31	6.83	6.83	6.62	6.22

	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011(F)	2Q2011(F)	3Q2011(F)	4Q2011(F)
GDP	11.9	10.3	9.6	9.8	9.2	9.4	9.7	10.0
CPI inflation	2.2	2.9	3.5	4.7	4.8	4.9	4.0	3.0

Source: CITICS Research forecast Note: Historical data released by National Bureau of Statistics

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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