



BNP PARIBAS
INVESTMENT PARTNERS

CHINA A Shares FLASH Q4 GDP Growth: Above expectations



Q4 GDP GROWTH DATA: ABOVE EXPECTATIONS

Today, China's National Statistics Bureau released fourth quarter economic growth, which saw quarterly GDP rising by 8.9% from a year earlier. The release above economists' expectations has reduced fears of a hard-landing – as a consequence, the local stock market index (Shanghai Composite) has rallied sharply in today's session, rising by 4.2% in higher volumes.



KEY INFORMATION

- GDP growth was 8.9% QoQ, and 9.2% YoY.
- Although fixed assets investments were lower, consumption and trade surplus positive were higher, GDP growth in Q4 2011 only decreased by 0.2% compared to Q3, which was less than expected.
- Overall fixed asset investment decreased by 0.7%; while the manufacturing component rebounded, real estate investment decreased by 2% and government investment was down by 1%.
- Nominal and real growth of consumption in December showed positive momentum.
- A higher-than-expected trade surplus was also a major driver to economic growth in December.



In our view, this positive result shows the resilience of China's economy. Directional easing policy in the last few months was also another major contributor. On one hand, we believe that future policies, including the possibility of lowering the Required Reserve Rate (RRR), may only be gradually adapted. This conviction is all the more supported by the moderately-weaker macro data, however if the risk of a real economic slowdown becomes significant, monetary policy will move entirely towards an easing stance.

PORTFOLIOS RETAIN A DEFENSIVE STANCE

We do not believe that this data will encourage a major shift in our policy. In the absence of monetary easing or stimulus, the investment strategy will remain defensive in all our China A shares portfolios.

Consequently, we will continue to increase the exposure to Financials, including undervalued Property and Consumer Discretionary stocks. We are generally cautious on cyclical and industrial names at present. However, we are selectively increasing engineering equipment manufacturers and also some coking coal stocks, due to tight supply. According to us, small caps may continue to underperform.





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