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## China: A strong start to 2017

Our bottom line on the February data dump was that it imparted upside risk to our 6.6% GDP growth forecast for 1Q17 (consensus 6.7%). The authorities release combined January-February activity data to control for Lunar New seasonality, which this year was especially pronounced owing to the holiday falling in January this year and in February last year. Year-to-date, year-over-year growth in two of the three principal releases, industrial production (IP) and fixed asset investment (FAI), was above expected and up from December. The reverse was the case for retail sales.



### The big three FAI components

FAI grew 8.9% YTD YoY in February, close to the "around 9%" 2017 target – the 2016 target was 10.5% – and up from 8.1% in December. Stronger real estate and infrastructure FAI growth drove the acceleration.

The big three FAI components are manufacturing (31% of the total in 2016), infrastructure (21%) and real estate (17%). Infrastructure FAI growth was the highest in nearly four years (Fig 10). However, we think it was a rebound from unusually weak growth in the third and fourth quarters of 2016. Since the boom-bust associated with the 2009-10 credit boom infrastructure FAI growth has averaged 18% annually ((Figure 9). Our baseline is it will be close to that again this year.

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# Manufacturing and real estate PBOC surprised

The PBOC surprised in March by raising the interest rates at which it lends to banks by 10bp. The move put the 7-, 14- and 28-day reverse repo rates at 2.45%, 2.60% and 2.75%, respectively. The PBOC also extended the 10bp hike to its 6-month and 1-year medium-term lending facility (MLF) rates, putting them at 3.05% and 3.20% respectively.

### CNY appreciation/depreciation expectations "Mission accomplished" tone

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