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HD **Record flood of Chinese cash keeps rally running**

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A surge in Chinese lending helped extend the Australian sharemarket's eight-day rally to 6 per cent yesterday but weak US and Japanese data dampened the bullish global growth outlook.

Miners led the charge after the data showed Chinese authorities were again forced to stomp on the growth accelerator in January as fears mounted of defaults across the shadow banking sector.

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The S&P-ASX 200 index closed 26.6 points, or 0.5 per cent, up at 5382.9 as total new financing in China rose 17.5 per cent to a record high of 2.48 trillion yuan ($450 billion), easily beating forecasts.

Chinese lending is often front-loaded in January, so the flood of new money entering the economy could moderate. But strategists have warned it indicated new lending remained on a diminishing path of returns.

The People's Bank of China appeared to be keeping a tight rein on liquidity in January as interbank rates climbed, but it still provided 800 billion yuan of new liquidity into the financial system to calm credit markets ahead of the managed default of a coal miner-backed China Credit Trust investment.

The Shanghai composite index climbed 0.9 per cent.

"The data will continue to make the market nervous about how the economy responds to gradual policy tightening as the authorities lean against rapid credit growth," Royal Bank of Scotland currency strategist Greg Gibbs said. "The market will continue to maintain a degree of risk premium for a possible deeper economic downturn, and this is likely to remain a limiting factor to a rebound in global investor confidence."

Alliance Bernstain Asian strategist Antony Chan downgraded his China growth forecast by 0.3 percentage points to 7.1 per cent and, consequently, broader Asian growth, too.

"The stress on its financial system and a tough outlook for exports are weighing on China's near-term growth prospects," he said. "We think the chances are quite high that Beijing will allow low-profile credit defaults in trust and wealth management products, especially those associated with borrowings by notoriously problematic mining and commodities firms."

In Tokyo, the Nikkei index shrugged off poor GDP data to gain 0.5 per cent.

Underscoring claims of the limited economic impact of quantitative easing, the Japanese economy grew just 0.3 per cent in the December quarter, less than half the 0.7 per cent forecast, almost a year after the country began its radical asset-purchase program.

The Australian dollar climbed US0.5¢ to US90.50¢ as the US dollar lost ground against most risk assets. US industrial production fell 0.3 per cent in January, a result blamed on the cold weather, while consumer sentiment held steady.

Gold jumped $US20 to $US1326 an ounce, **copper** rose 0.5 per cent to $US7180 a tonne and spot **iron ore** climbed one per cent to $US123.20/t on Friday.

CO pbchin : The People's Bank of China

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