

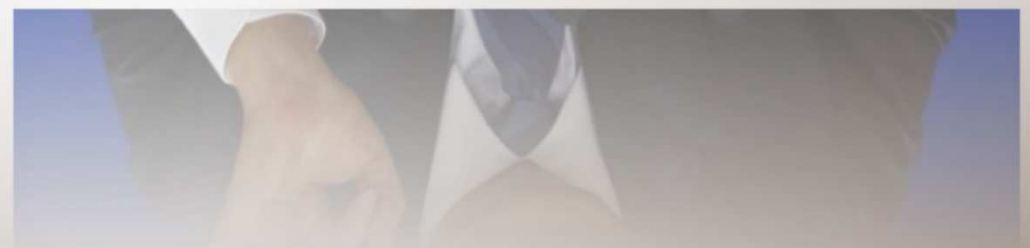
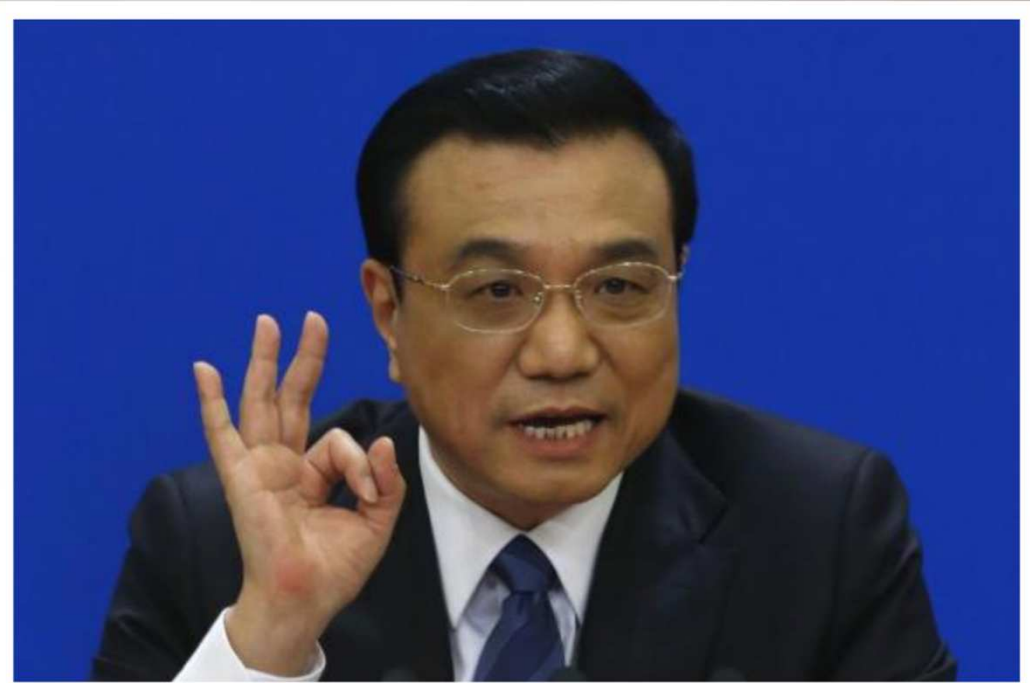
## ANDBANK RESEARCH

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## Working paper - 84

***China – Everything is under control!***

*Everywhere I look ... I like what I see*

*Recommended instruments*

October 14 , 2014

ANDBANK /  
Private Bankers

# China – And finally ... the beast awoke!



... and, what from now?  
**I think there is more to come.**

## China – No changes in its policy stance: “Towards a more sustainable footing”

- ❑ China to keep its “fine tuning” intact ... although some major investments may be announced
  - ✓ Fiscal and monetary policies will be kept flexible and appropriate, with targeted adjustments made when needed to support the real economy.
  - ✓ In this regard the PBoC cut the interest rate for 14-day repos for the second time in a month, selling CNY20B yuan (\$3.3B) of the contracts at 3.4% today, compared with 3.5% in a similar auction on 9-Oct. // PBoC: “We will use various monetary tools to maintain adequate liquidity and reasonable growth in credit and social financing”.
  - ✓ About some major investments to be announced: Premier Li Keqiang said on Sept.8 that China will launch major investment projects in formation of networks, water, conservancy and environmental projects this year.
  - ✓ Li: “Outsiders misunderstand policy goals”. He argued that “the economy can grow below 7.5% so long as jobs and income continue to point to stable levels of activity”.
  
- ❑ PBOC points to a continued rigorous policies and continued reforms.
  - ✓ PBoC’s Chief Economist Ma Jun said that there is no reason for large-scale fiscal or monetary stimulus in the foreseeable future. “Leverage in certain sectors is too high to warrant stimulus”.
  - ✓ An editorial of the PBoC talked down the stimulus potential saying that there is too much liquidity in the system to warrant a rate cut.
  - ✓ The WSJ cited comments from PBoC reiterating its commitment to pushing reforms in the areas of interest rate and exchange rate liberalization.

## China – Activity: Mixed figures but the economy keeps expanding.

### □ Activity figures are in general better than expected.

- ✓ September HSBC PMI services at 53.5 (vs 54.1 in August)
- ✓ Major container port's volumes grew steadily in September as international trade activity continued to recover. Traffic at coastal container ports grew 6% y/y (above the 5.3% average pace seen in summer)
- ✓ Golden week retail sales at +12.1% (from a 13.6%). Auto sales at 7% y/y (lowest in 19 months)
- ✓ Exports +15.3% y/y (vs 13% consensus), fastest pace in 19 months. This rebound was partly due to a low base in Sept. although it also signaled some improvement in growth in DM.
- ✓ Imports +7.0% y/y (vs 2.2% consensus): Renewed strength in imports appeared to be largely the result of a surge in inward shipments for processing and re-export rather than a pick-up in domestic demand.
- ✓ **PBoC**: "Labor market remains strong and employment figures are robust". "The labor market is performing better than expected and the economy is likely to grow at 7.5% this year".
- ✓ **NDRC** (National Development and Reform Commission): "Economic growth will remain in a proper range in Q4". "We are confident in achieving the growth target". (Li Pumin, Secr. General)
- ✓ GDP estimates: World bank: 2014 GDP down to 7.4% (from 7.6%), "due to the policies aimed at putting the economy on a more sustainable footing".

## China – Housing market. “Hard landing will be avoided despite worries over a flagging real state market” (Li Keqiang)

### □ Chinese property market shows signs of stabilization.

- ✓ Xinhuanet noted on October that home sales bottomed out after months of falling, thanks to a relaxation of mortgage rules (fine tuning policies). The paper also noted that sentiment is improving in the sector, as reflected by the higher number of home buyers visiting sales offices.
- ✓ China will scrap some charges for homebuyers who borrow from a government housing fund, in another move to boost the housing market by reducing costs. The government will exempt notarial, guarantee and mortgage insurance fees as well as valuation charges for new and existing homes that are financed by the government housing provident fund.
- ✓ China daily pointed in an article that “analysts are optimistic that a significant upswing in the housing market could take place later this year, due to the recent easing of mortgage policies”.
- ✓ China Vanke (the largest property developer) said its September sales jumped 28.5% y/y, recording its highest monthly sales since February, due by easing policies from government.

### □ Rating Agencies see the new easing of mortgage rules will alleviate downside pressures on property sales.

- ✓ Fitch Ratings has noted that “the easing measures will support the growth in demand from buyers who intend to upgrade, since they are able now to enjoy the same mortgage benefits as first-time buyers”, although the agency also warned that “it will also facilitate speculation”.
- ✓ Moody’s said that “the easing of mortgage availability and the lower costs of mortgages will benefit property developers and partially alleviate the downside in sales”.
- ✓ World Bank: “A major nationwide correction in real state prices remains unlikely, although there may be pressure on prices in the less rapidly growing provinces.

## **China** – US Rating Agencies see Chinese policies as a steps that will effectively limit the risks.

### ❑ China's caps on local and regional debt will help to mitigate risks.

- ✓ Fitch Ratings noted that the decisions by the central government to place caps on local and regional debt represent "significant changes that will ultimately help to mitigate risks associated with the rapid rise in local borrowing since 2010".
- ✓ Additionally, Fitch also see the new ban on additional borrowing through financing vehicles, as "rules that will significantly improve local government's budget and debt transparency"

### ❑ Diversification as a hedging against systemic risks

- ✓ Most of Chinese developers have started to speed up their diversification strategies with an eye on sustained, long-term growth. This is a consequence of sales falling and inventory pressures building (which has prompted profit margins to decline from 40% to 10%), according to the China Real State Information Corp.
- ✓ Evergrande Group (famous for owning a soccer team) has established three subsidiaries for grain and oil products, dairy products and cattle farming.

## China – The Yuan ... unstoppable in its “wild” internationalization

### □ China’s plans to ease capital controls boost the use of Yuan.

- ✓ China has released plans to allow citizens to invest in overseas stocks and property (via a Qualified Domestic Retail Investor scheme) ...
- ✓ ... as well as allow the nation’s companies to sell yuan-denominated shares abroad (so, foreign investors can buy them).
- ✓ This decision represents a further step in the internationalization of the Yuan.
- ✓ UK Treasury moved a step closer to becoming the first country to issue bonds in Yuan. The proposed deal underscores the UK’s ambitions to become a Western hub for Asian finance.

### □ Yuan climbs to 7-month high.

- ✓ The yuan hit a seven-month high despite signs of an economic slowdown. The rise in the yuan comes as the PBoC guides the currency stronger. The central parity rate was fixed at the stronger level against the US dollar in more than a month at 6.1408. The yuan touched 6.1230 today, and is up 2.2% since its April low.

### □ The Yuan has risen in the internationalization index from 0.92 in 2012 to 1.69 by the end of 2013.

## **China** – Chinese Financial Markets: “Big, and positive, changes in a very short time”.

### ❑ Stocks investors’ confidence at 6 year high.

- ✓ Xinhuanet reported how September’s survey placed investor’s confidence for the A-share market at 70.5 (up 1.3% from August and up 20.5% from a year ago).
- ✓ Nearly 60% of respondents expect the Shanghai Composite Index to rise in the October-March period. Only a 7.7% think the equity market could fall in this period.

### ❑ US demand for China ETFs soars:

- ✓ Bloomberg reported that the Harvest CSI 300 China A-Shares ETF pulled in \$130M in the span of five days last month, sending assets surging by 33% to \$515M and nearly exhausting its Chinese government-imposed A-share purchasing quota. A clear example of growing US demand for Chinese assets.
- ✓ Reuters noted that US firms are also readying the first line of ETFs designed to give American investors access to China's onshore bond market, which has been largely closed off to foreigners.

### ❑ Chinese demand for foreign assets soars:

- ✓ Chinese property buyers buy a record amount of Australian real estate. They have spent a record \$400 M in the last financial year, a 43% y/y increase.



## **China** – Chinese Financial Markets:

### **“Although admittedly, protests in Hong Kong do not help”**

- ❑ Protests could delay Shanghai-Hong Kong stock connect:
  - ✓ Sources at mainland Chinese brokerage houses said that the protests in Hong Kong could postpone the launch of the Shanghai-Hong Kong connect.
  - ✓ The sources said that the arrangement is ready to be launched and are just awaiting regulatory approval. (Recall that Hong Kong regulators are to issue a statement two weeks in advance of the launch of the program, and no statement has yet been given).

## Recommended investment vehicles

### ❑ Investment Funds (all are mostly exposed to the Chinese mid & small-cap universe)

- |   |              |
|---|--------------|
| ✓ Threadneedle China Opportunities Retail Net EUR | GB00B1PRW957 |
| ✓ Threadneedle China Opportunities Retail Net USD | GB00B1PRWC80 |
| ✓ GAM Star China Equity C EUR Acc                 | IE00B1W3X261 |
| ✓ GAM Star China Equity C USD Acc                 | IE00B1W3X592 |
| ✓ Quam China Focus (USD)                          | KYG731201425 |

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