ANDBANK
Private Bankers

Flash Note
04/07/2017

Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

Fresh news of the day in Asia

CHINA

- **Geopolitics: China warns against negative US turn**:
    - Washington has just imposed sanctions on some Chinese companies and individuals that do business with North Korea, and announced a big arms sale package for Taiwan worth $1.3B, the biggest in six years (an action designed as an extra annoyance).
    - Following yesterday's phone conversation between China President Xi Jinping and US President Donald Trump, where Xi noted some "negative elements" affecting their ties but suggested they reconfirm the consensus reached at Mar-a-Lago.
    - We may well see a rise in forceful rhetoric and symbolic action, but moves that would really crimp the economic relationship remain far off.
    - The end of strategic patience and unilateral action is unthinkable (A.Kroeber).
    - The next thing to look for will be the mid-July completion of the 100-day trade and investment action period agreed at Mar-a-Lago. Under that plan, by July 16 Beijing is supposed to start licensing Visa and MasterCard to operate in China without a local partner, and to issue bond underwriting licenses to two US firms. China has a good record of meeting such commitments, so there is no reason to think it won't honor its pledges.
    - Any serious trade action against China (or any other economic partner) would wind up costing the US much more than it gains. This is why we doubt the US will launch a self-defeating trade war.

- **China looking at allowing foreign agencies to assign credit ratings on onshore bonds (**PBoC Deputy Governor Pan Gonsheng): "This could happen very soon and within this year". With the Bond Connect program underway, the pace of reform in China's domestic onshore bond market may be accelerated.

- **Central banks are still cool on yuan:** There is still lack of yuan penetration among central banks' foreign currency holdings. IMF data shows Central Banks held $82B worth of CNY as of March 2017, equivalent to just 0.9% of the $8.8T of disclosed foreign reserves. (USD holdings were $5.7T, or 64.5%, followed by EUR at 19.3%, JPY at 4.6% and GBP at 4.3%). Expectations are still of faster growth in CNY holdings after it was included in the IMF's special drawing rights in October 2016.

JAPAN

- **BoJ Tankan** all firms' inflation expectations:
    - One-year projection +0.8%, vs +0.7% in March
    - Three-year projection +1.1% vs +1.0% in March
    - Five-year projection +1.1% vs +1.1% in March
- **Economy**
    - Some 27.5% of corporate CEOs said they would consider price increases in its products due to rising costs (costs of materials were cited as a factor by 64.1%, and logistics were noted by 43.6%, while only 23.1% pointed to rising labor costs).
    - **Office REITs underperforming**: Office REITs have lost 11% since the end of last year, compared with an 8% drop for the residential sector and a 7% slide for the retail and logistics sector. The story notes concerns the real estate market is overvalued relative to economic growth, prompting foreign investors to reallocate funds into other countries with more potential.

Best regards,

Àlex FUSTE MOZO
Chief Economist
Andbank