# In Case You Missed It:  CSOP's Weekly China Wrap Up

### Tier 2 cities announce new property cooling policies

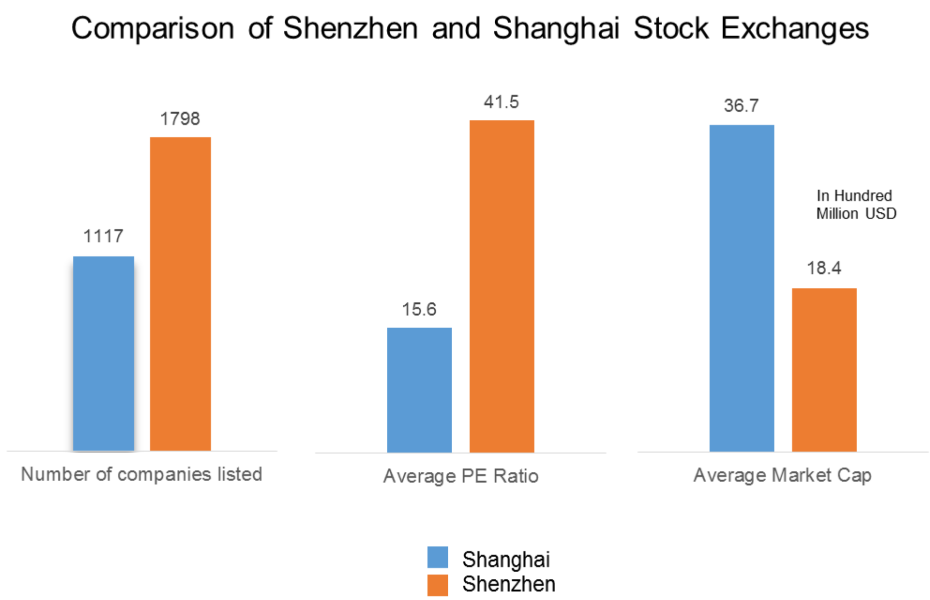
Following the lead of Tier 1 counterparts, China's Tier 2 cities have begun implementing policies to cool surging property prices.[1] Nanjing and Suzhou, two of the biggest cities in coastal Jiangsu Province, will raise second home down-payment requirements from 40%-45% to 50%. The reforms come in the midst of a recent report in which second-tier cities claimed nine of the top ten spots in a measure of fastest growing real estate prices.

The measures represent a reversal of policies introduced in 2014 to stimulate stagnating property demand in Tier 2 cities. Such policies reduced interest rates, slashed down payment requirements, and nearly eliminated real estate transaction taxes. However, the rapid price increase that resulted signals that the policies went too far. The announcement of this reversal indicates that stricter rules are forthcoming and suggests that the Politburo's July promise to curb asset bubbles is being taken seriously.

### CEO of Hong Kong Exchange reports:  Shenzhen-Hong Kong Connect "technically ready," awaits regulatory approval

The CEO of Hong Kong Stock Exchange announced that the Shenzhen-Hong Kong Stock Connect program is technically ready for implementation and is waiting for regulatory approval. Modeled after the Shanghai-Hong Kong Stock Connect scheme, the cross-border investment program opens up China's second largest exchange, enabling mainland investors to buy Hong Kong stocks and foreign investors to purchase mainland shares. The program is expected to launch by the end of the year.

The scheme represents the continued internationalization of China's capital market, giving foreign investors access to a new universe of financial products. While Shanghai's exchange lists China's largest companies and State Owned Enterprises (SOEs), Shenzhen's borse focuses on small and medium caps. The Shenzhen program will thus allow international investors access to this fast-growing sector of China's economy.




Source:  Shenzhen Stock Exchange website; Shanghai Stock Exchange website, as of 8.15.2016.

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**China’s banking regulator orders Shanxi banks to support steel and coal producers**

China's banking regulator has asked banks in the Shanxi region to support stagnating steel and coal producers. As the sector struggles with massive oversupply and lagging demand, lenders are contending with an onslaught of non-performing loans, a figure that exceeds two trillion yuan ($301 billion) and represents 2.15% of total bank lending. To prop up the struggling industry, the CBRC has instructed banks to extend or restructure loans, waive interest, or write-off debts for steel and coal companies that pledge to cut capacity.

The policies attempt to help reach Beijing’s supply side reform goals of shedding excess capacity and restoring economic growth in China’s largest coal production region.

**CBRC implores banks to produce reports on key business areas to improve sector transparency**

CBRC ordered financial institutions to undertake a wholesale investigation into key business areas such as deposits, loans, interbank business and wealth management products. China’s Securities Regulator similarly asked brokerage firms, funds, and futures companies to perform similar checks.

These parallel moves by the Banking and Securities Regulators echo recent actions in the property markets which, when considered jointly, potentially signal a trend toward overarching regulatory tightening.

**PBOC’s second quarter report suggests return of inflationary environment**

Market attention focused on the PBOC's 2Q report, which discussed the impact of RRR cuts and revealed concern about looming inflation risk.[2,3] Although inflation declined for the third straight month to 1.8% in July, the report indicated that absolute price levels were high and headline CPI remained stable, suggesting return of an inflationary environment.[4] Despite calls for monetary stimulus, the Central Bank refused to undertake a RRR cut, citing the desire to minimize devaluation pressure on the Yuan and efforts to continue deflating asset bubbles.

Although acknowledging that growth has receded to the lowest level in 25 years, the Central Bank appears optimistic about a near-term turnaround and thus seems hesitant to signal a further loosening of monetary policy.

Notes:

1. A Tier 1 city is a Chinese city under direct control of the central government with a Gross Domestic Product over USD 300 billion and more than 15 million inhabitants. Tier 2 cities consist of provincial capital cities and are populated with 3-15 million inhabitants.
2. RRR: Required Reserve Ratio
3. PBOC: People’s Bank of China
4. CPI: Consumer Price Index. The Consumer Price Index reflects changes in the prices paid by urban consumers for a representative basket of goods and services. **Note that one cannot invest directly in an index.**