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

Data reveals insufficiency of Beijing's new housing policies

Beijing authorities raised down payment requirements for homebuyers in the capital city, representing another attempt to cool off the surging Tier 1 property market. The regulations increase down payment ratios for first-time property buyers from 30% to 35%. And for those who already own one residential property and wish to buy a second, mortgage down payment ratios will exceed 50%.

At first glance, the policy seems sensible. However, according to data from Beijing's largest commercial banks, the average down-payment ratio for first-time residential property buyers already hovers around 36%. In other words, the increase of the required ratio to 35% is lower than the actual current ratio, rendering the new rules largely inconsequential.

The major takeaway? Regulators lack enthusiasm for curbing residential property market growth in Tier 1 cities and the policies are merely an empty gesture to placate the public.[1]

Top 5 Chinese banks' assets reach record RMB 10 trillion mark

According to a research from a leading Chinese University and PwC, China's top 5 biggest banks' overseas assets reached RMB 10 trillion (USD 1.5 trillion) for the first time.[2, 3]

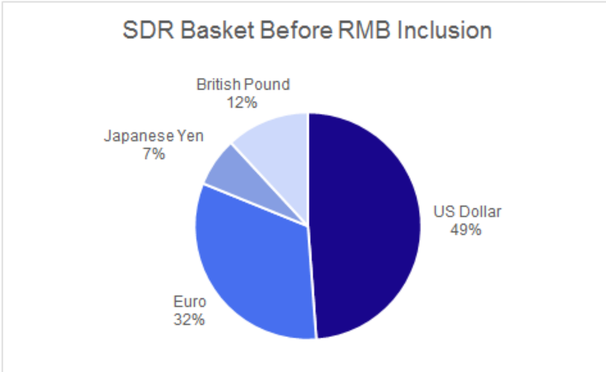
Although this sum represents a milestone for Chinese banks, the country's asset internationalization remains undeveloped when compared to overseas peers. On average, leading global banks derive 60% of operational profit from outside of their home market; this statistic for Chinese banks is only 8%. Despite the gap, the IMF expects continued growth of China's overseas loans due to government support for foreign acquisitions and ongoing RMB internationalization.[4]

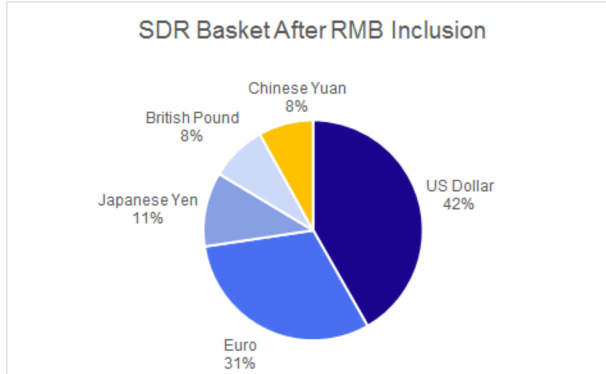
RMB demand and long-term currency appreciation: expected impacts of SDR inclusion

Like China's accession to the WTO in 2001, the October 1st inclusion of RMB in the SDR basket is heavily symbolic.[5, 6] It formally signifies the IMF's recognition of China's role as a key global financial player and codifies the acceleration of RMB internationalization. Although speculation is rampant regarding the impact of RMB inclusion, we believe several trends will emerge:

1. In the short term, RMB may depreciate slightly given China's lukewarm export data and double-digit monetary supply growth. However, currency appreciation will likely follow. Not only has Premier Li Keqiang assured global investors that China lacks a basis for continued RMB depreciation, parallels can also be drawn from Japan's SDR inclusion experience. In late 1973, JPY was included in the SDR basket. Although the 1974 oil crisis hit Japan's economy badly, forcing a currency depreciation, JPY appreciated more than 30% in the five years following SDR inclusion.[7]

2. Because RMB will account for 10.92% of the SDR basket, the demand for RMB is expected to increase by around SDR 22.29 billion (or RMB 211 billion) in the next few years. IMF member countries will seek RMB denominated assets.





Source: International Monetary Fund website, as of 10.3.2016

National Holiday tourism up 12% YoY

China's National Tourism Administration (CNTA) announced that 589 million tourists are expected to travel during the National Holiday (October 1 to October 7), up 12% YoY.[8]

Mirroring the CNTA's conclusion, the China Tourism Research Institution predicts total tourism revenue will grow to RMB 478.2 billion (USD 70 billion), a 13.5% increase YoY. On average, each tourist is expected to spend RMB 800 (USD 120) during the seven-day holiday. The most popular domestic hot spots include Hangzhou, which recently held the G20 summit, and Shanghai, which opened a Disney resort earlier this summer. For mainlanders travelling overseas, Japan, South Korea, Russia, Canada and the US are the destinations of choice.

QFII regulations loosened, 50% quota allocation to equity removed

China's regulators verbally loosened restrictions on the Qualified Foreign Institutional Investor (QFII) scheme, a move that further liberalizes the nation's capital market. Although no written restrictions limited QFII equity investment *de jure*, *de facto* practices mandated that QFII invest more than 50% of their total quota in equity. The China Securities Regulatory Commission verbally informed custodian banks that the 50% limit has been cancelled, enabling QFII to allocate capital to a broader range of asset classes. In addition, the restriction prohibiting QFII from holding more than 20% of total quota in cash assets was also canceled.

Despite the overhaul, two major restrictions remain for QFII asset allocation:

1. Single QFII cannot hold more than 10% of total shares outstanding in any public company
2. The total outstanding shares held by QFII collectively cannot exceed 30% in any public company

Notes:

1. Tier 1 City: City directly controlled by central government with GDP over $US 300 billion and 15 million people
2. RMB: Renminbi, the national currency of China
3. USD: US Dollar, the national currency of the United States
4. IMF: International Monetary Fund
5. SDR: Special Drawing Right, an international reserve asset
6. WTO: World Trade Organization
7. JPY: Japanese Yen, the national currency of Japan
8. YoY: Year-over-year