



China: what you need to worry about

February 2017



What not to worry about:

The renminbi and capital outflows



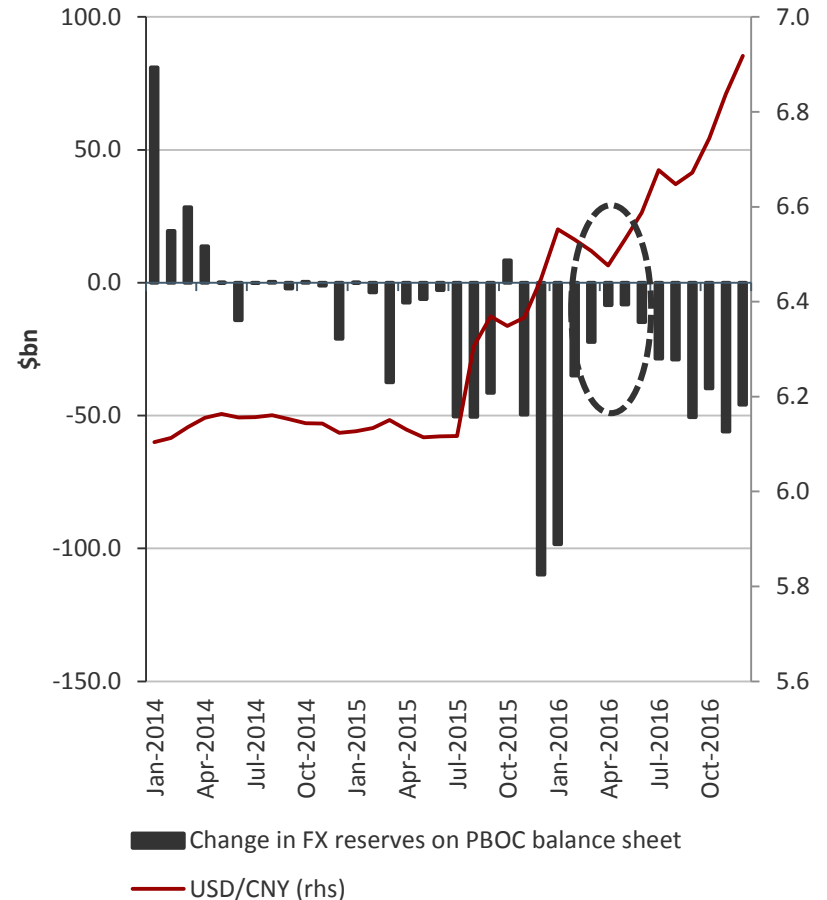
Weaker renminbi is function of dollar strength

CFETS basket: renminbi vs trade-weighted basket of currencies



Source: Wind, NSBO China

FX reserves vs dollar/renminbi rate

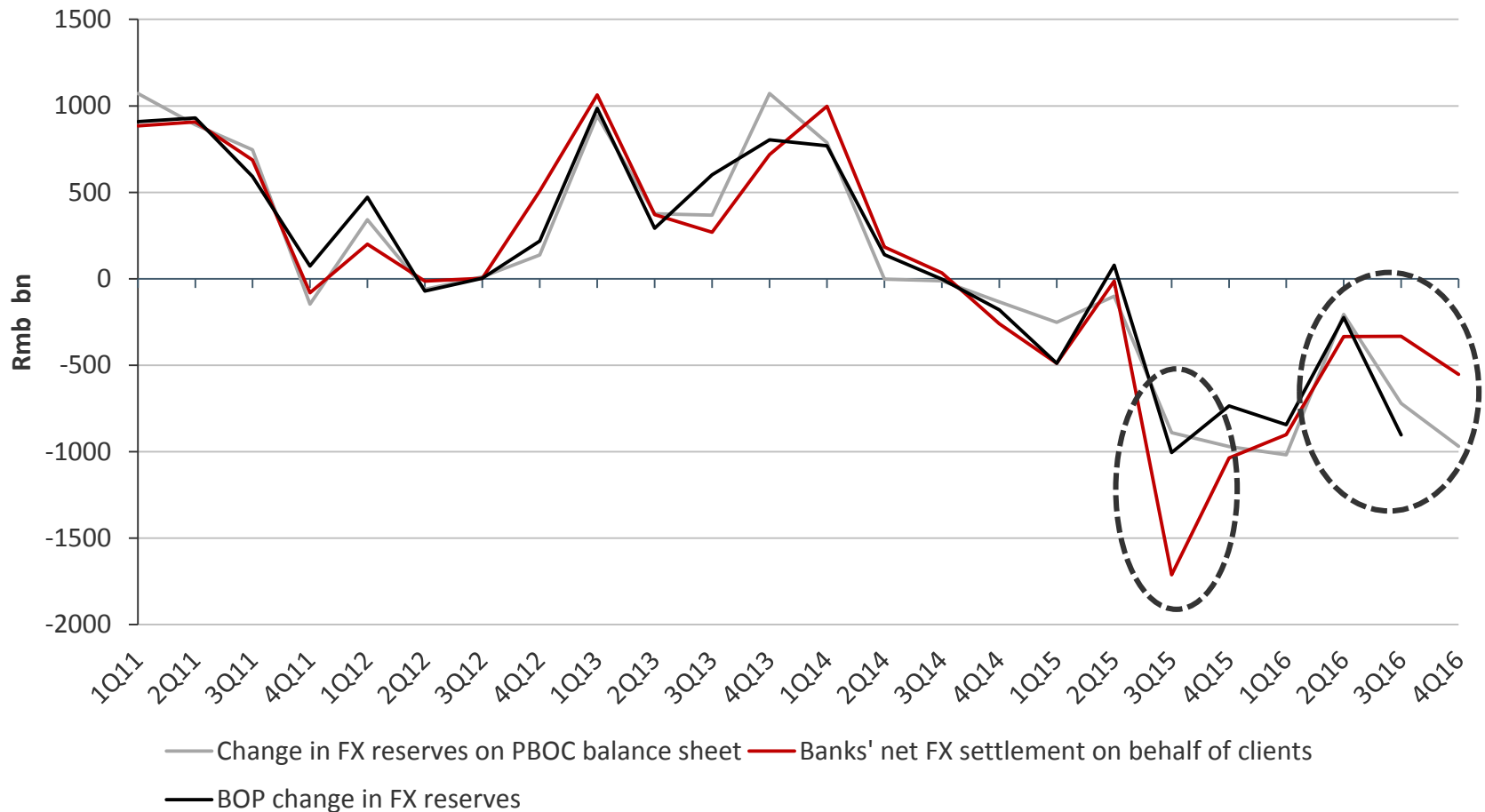


Source: Wind, SAFE, NSBO China



FX reserves are falling at a slower pace than they appear to be

Alternative measures of change in China's FX reserves

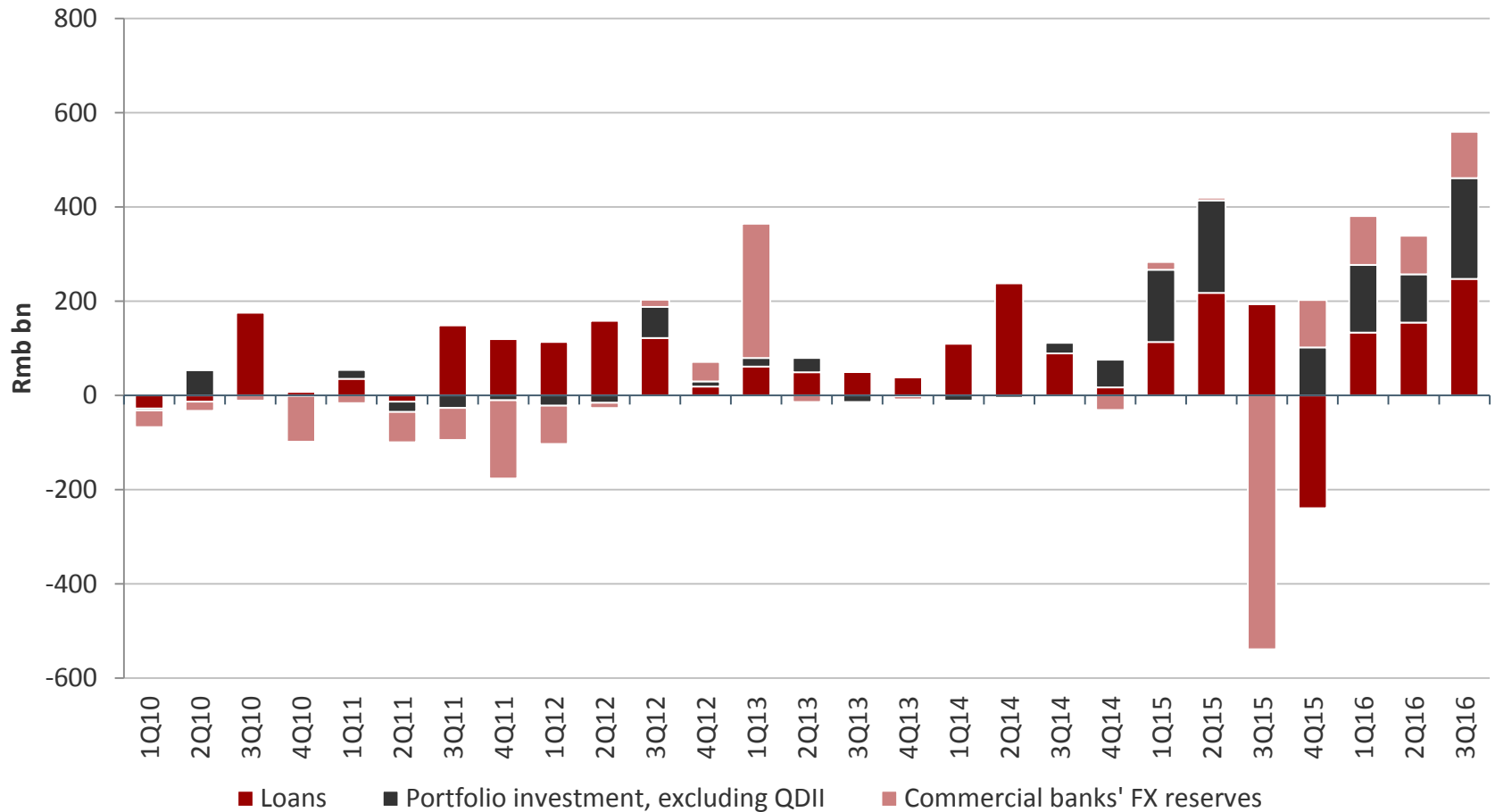


Source: PBOC, SAFE, NSBO China



Part of recent reserves drawdown has been due to state build-up of foreign assets

Change in state claims on foreign assets, excluding PBOC foreign reserves

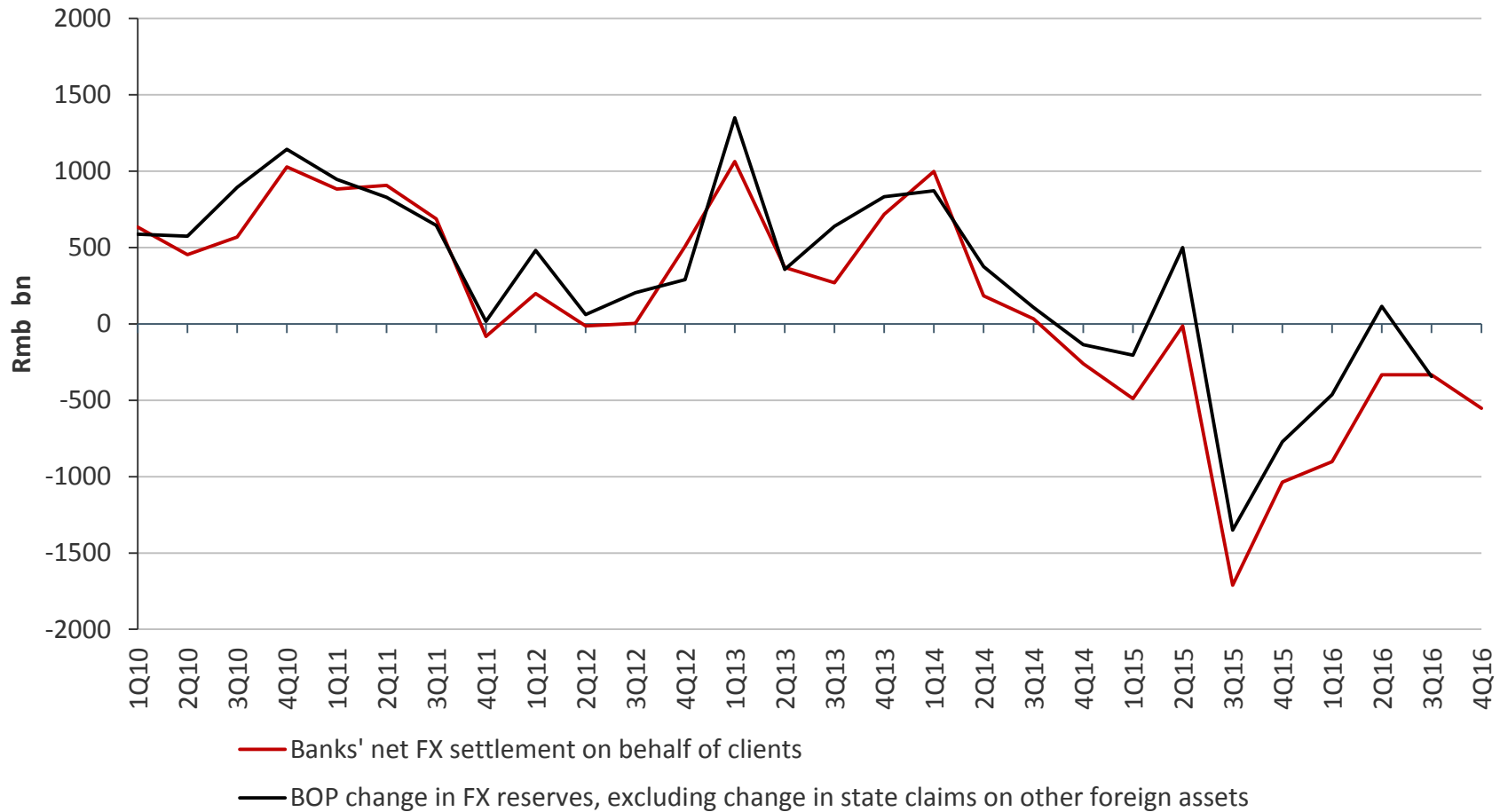


Source: SAFE, NSBO China



Non-state claims on foreign assets have risen by less

Adjusted alternative measures of change in China's FX reserves

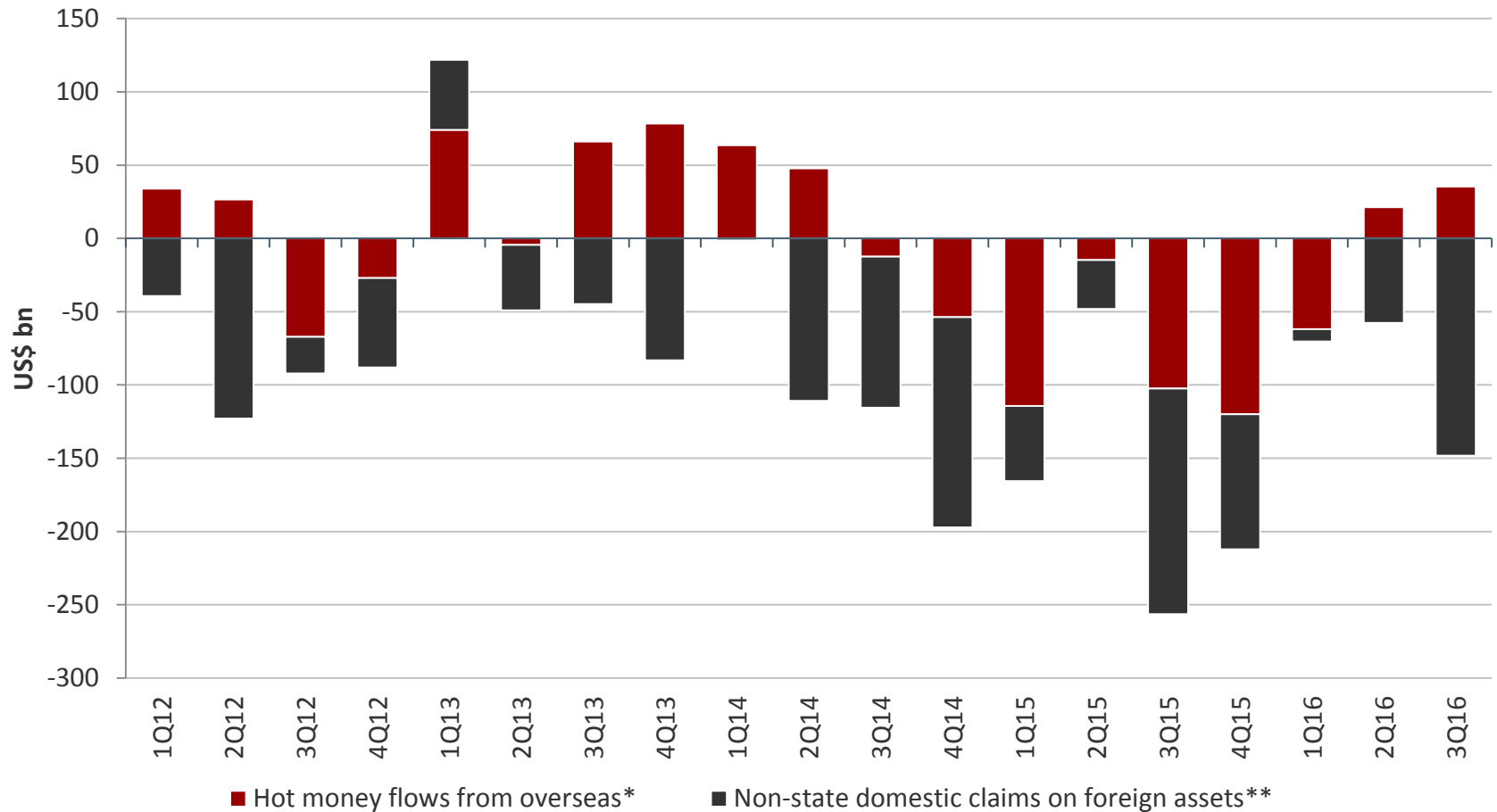


Source: PBOC, SAFE, NSBO China



Non-state capital outflows are now mainly via domestic entities

Capital outflows via non-state channels



Source: SAFE, NSBO China

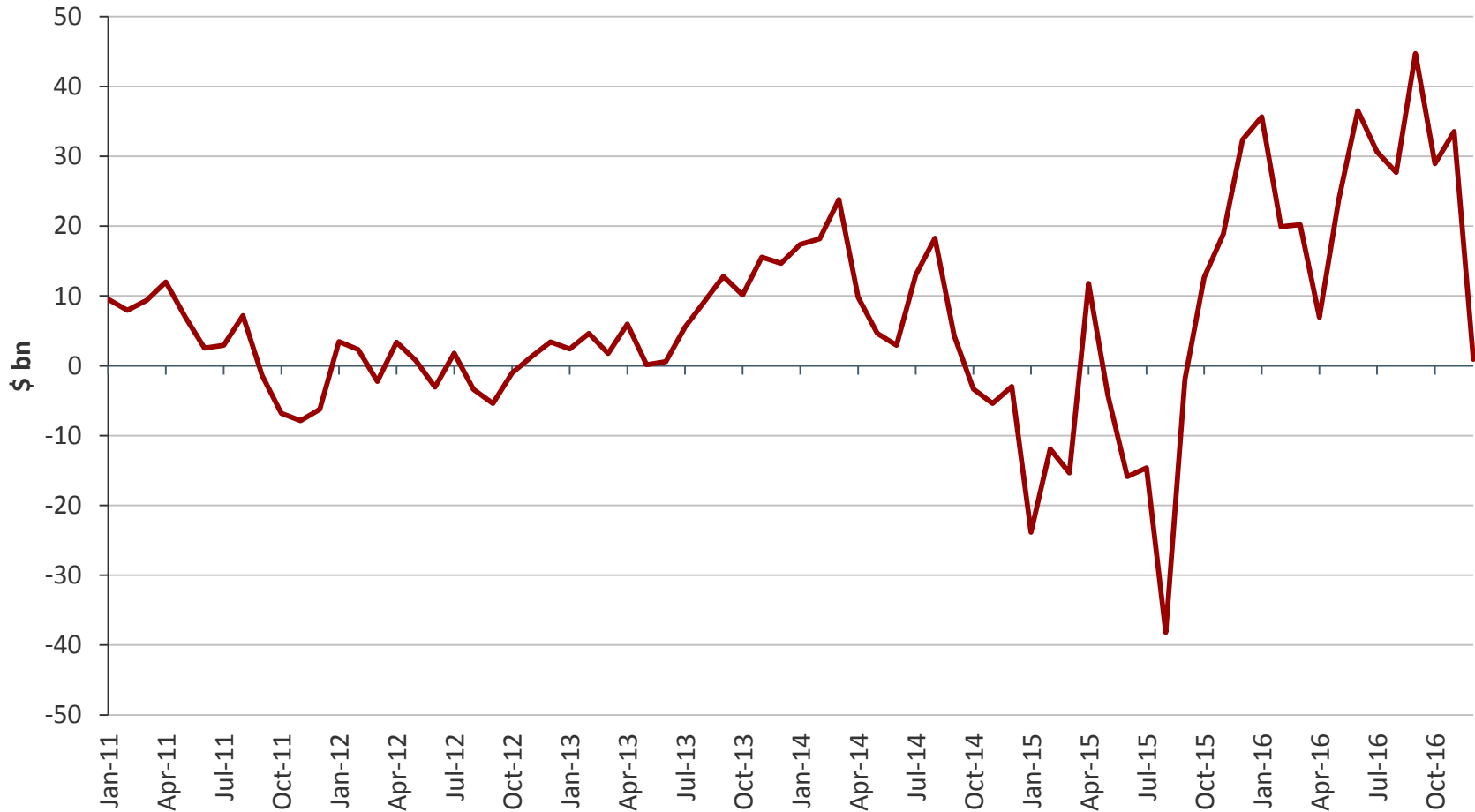
*net change in Chinese foreign debt and foreigners' deposits at onshore banks

**net errors and omissions, foreign deposits, overseas insurance and pensions, trade credit and QDII investment



Recent capital control measures have been successful

Net cross-border renminbi transactions



Source: SAFE, NSBO China



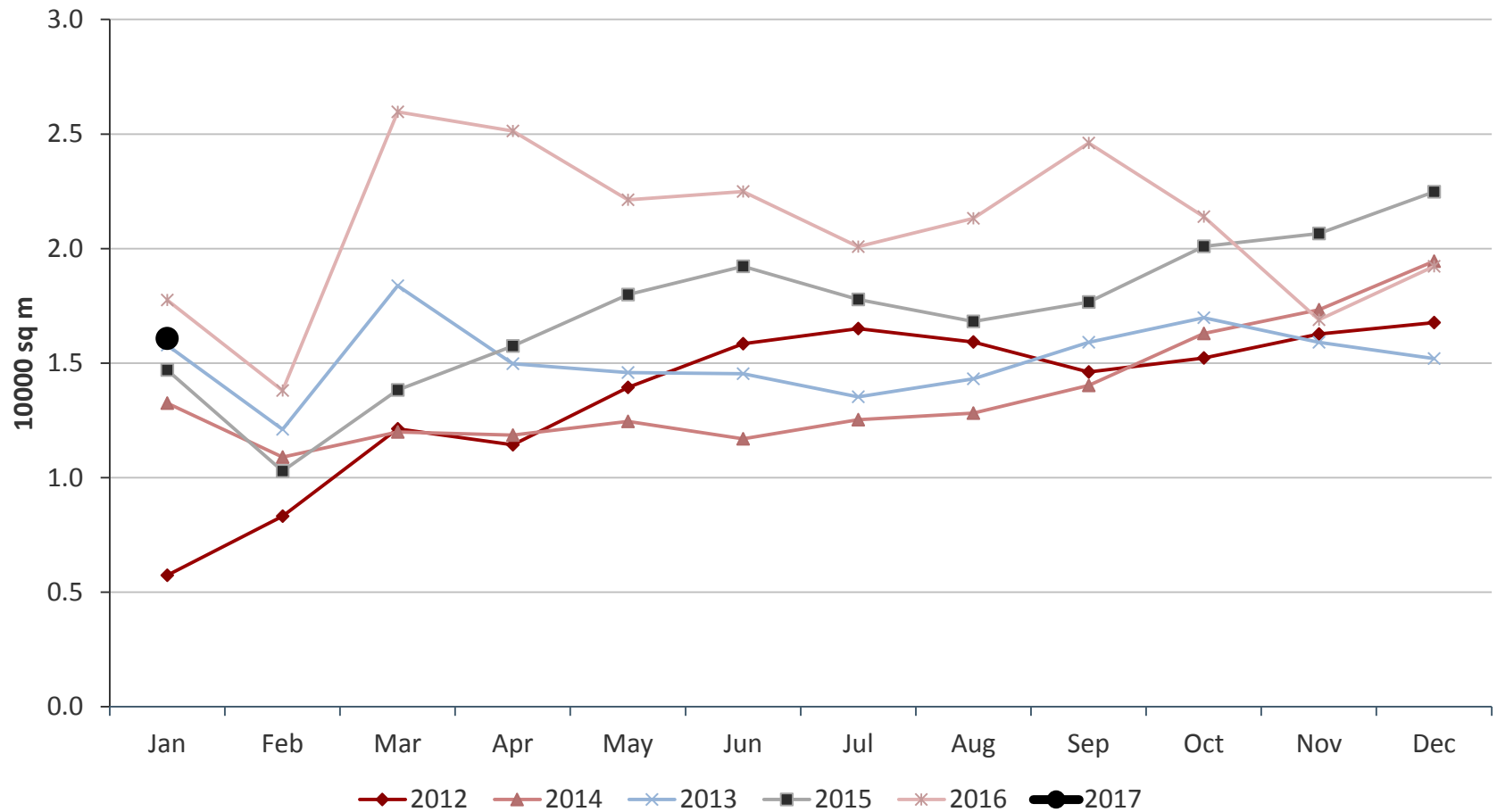
What to worry about:

*China has already shifted from
stimulus to tightening*



Home sales are falling on the back of policy tightening

Average daily home sales in 52 cities

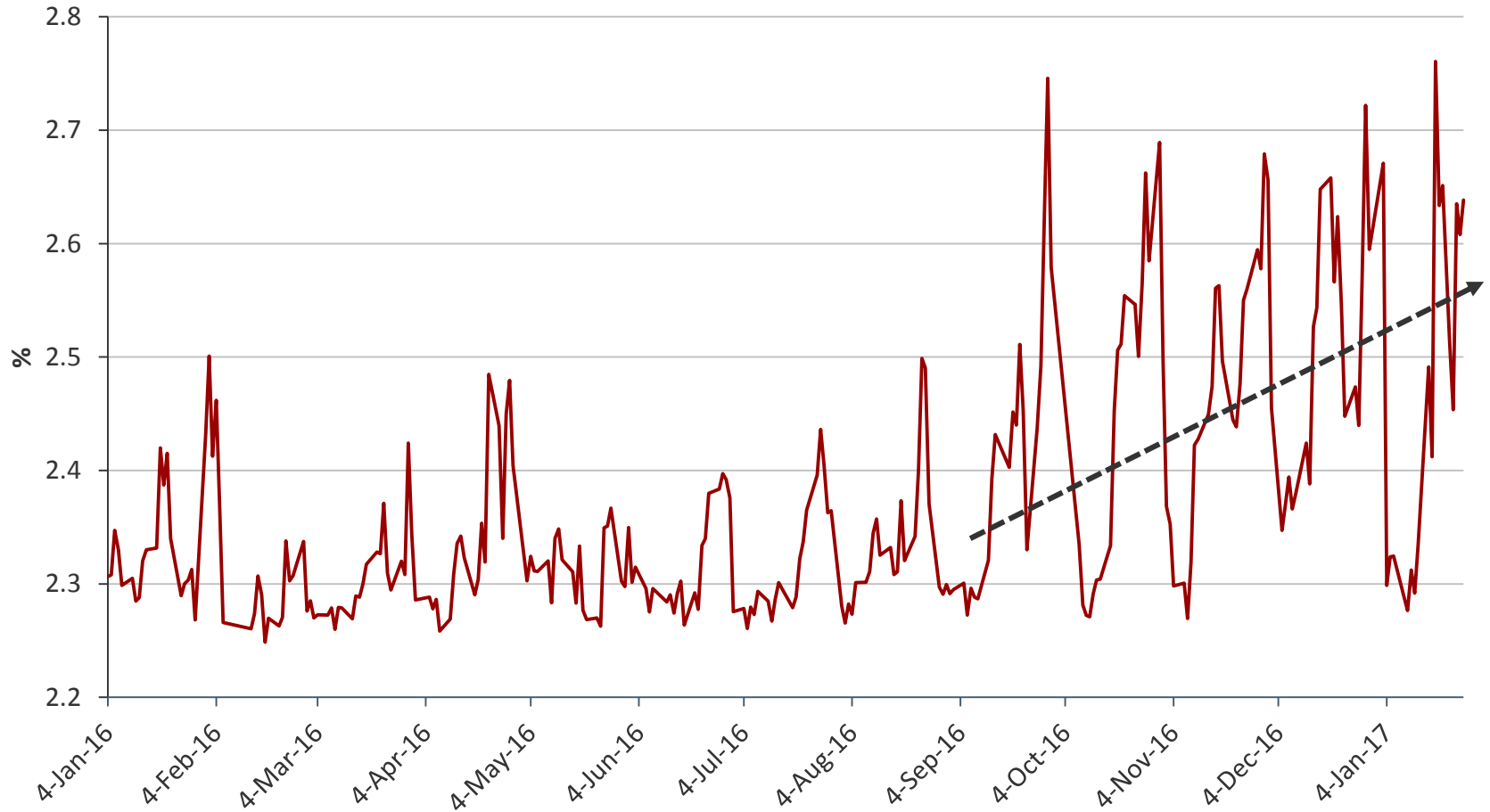


Source: Wind, CEIC, NSBO China



Monetary policy is being tightened

7 day interbank repo rate (weighted average)

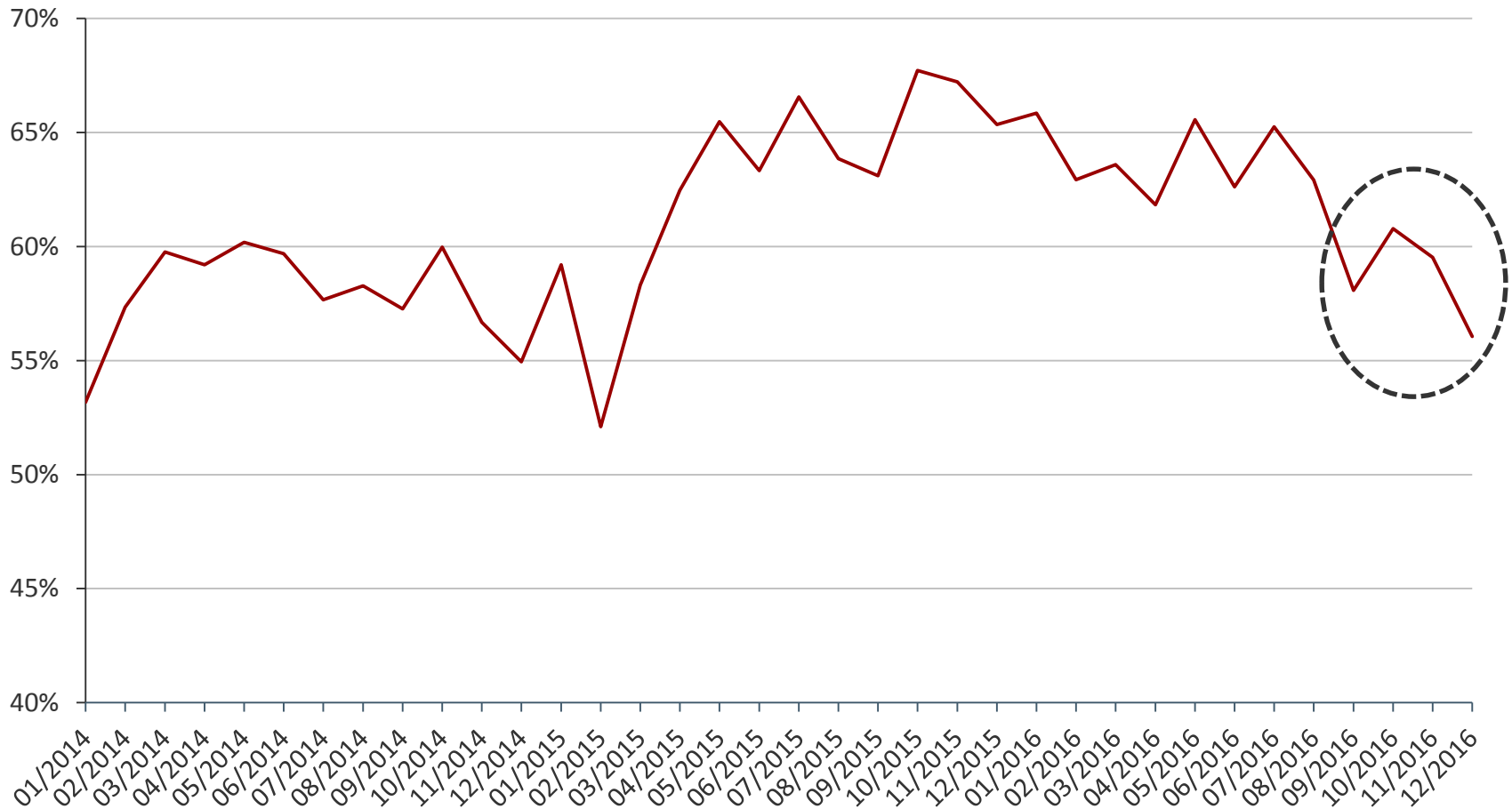


Source: Wind, NSBO China



PBOC tightening initially focused on the interbank market...

Overnight repos as proportion of total interbank market turnover

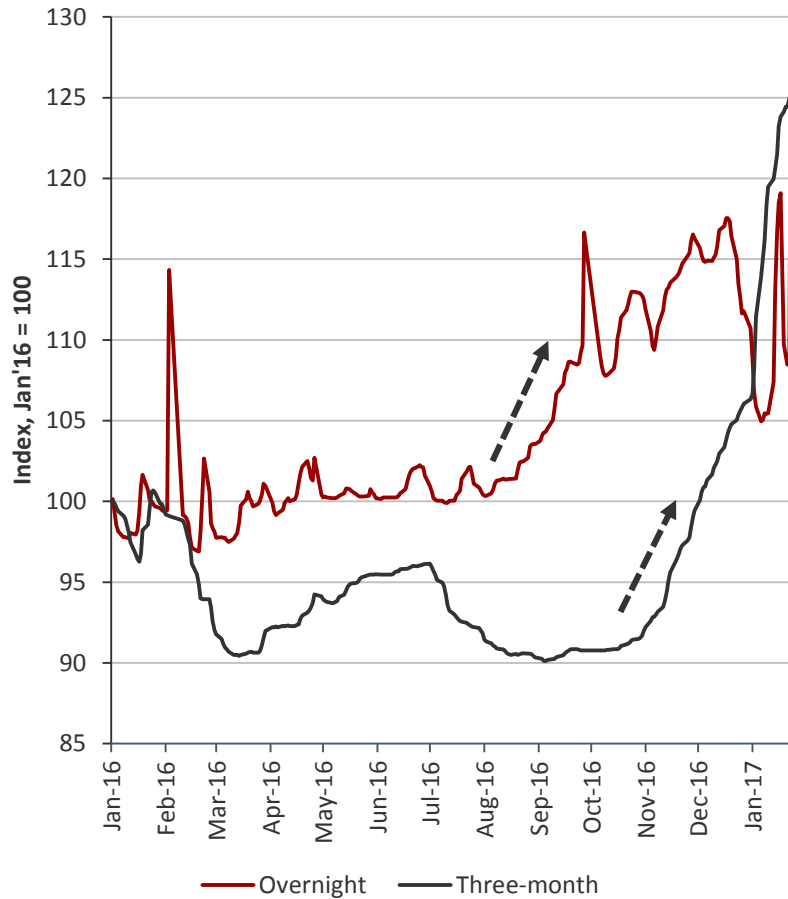


Source: Wind, NSBO China



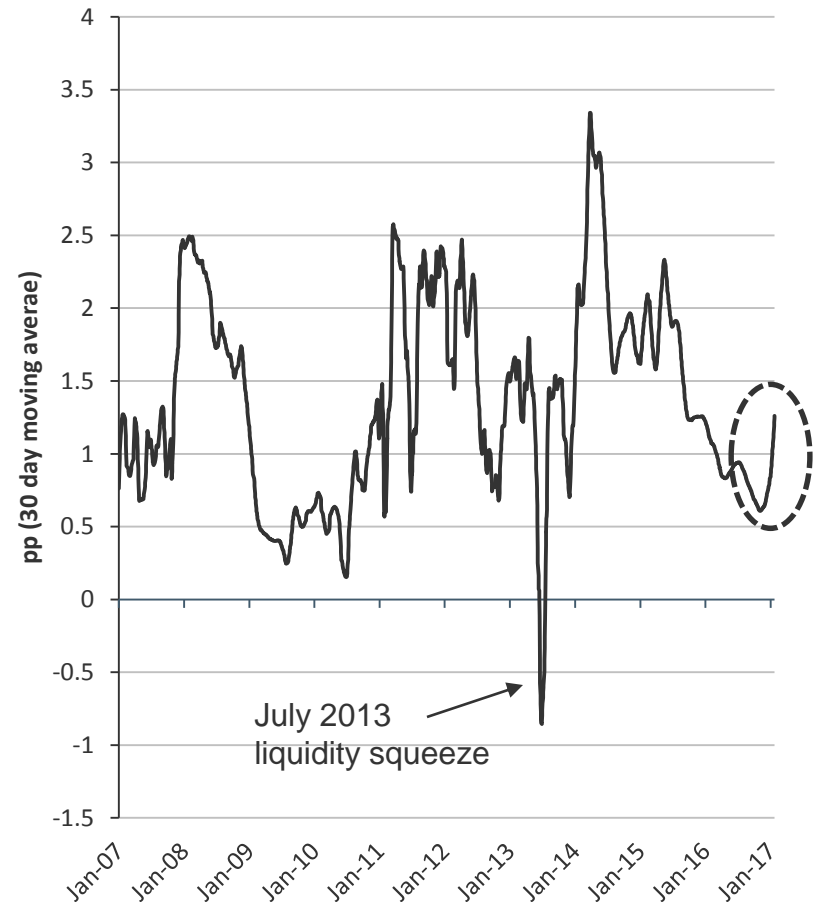
...but is now shifting to the real economy

Overnight vs three-month SHIBOR



Source: Wind, NSBO China

Spread between three-month and overnight SHIBOR

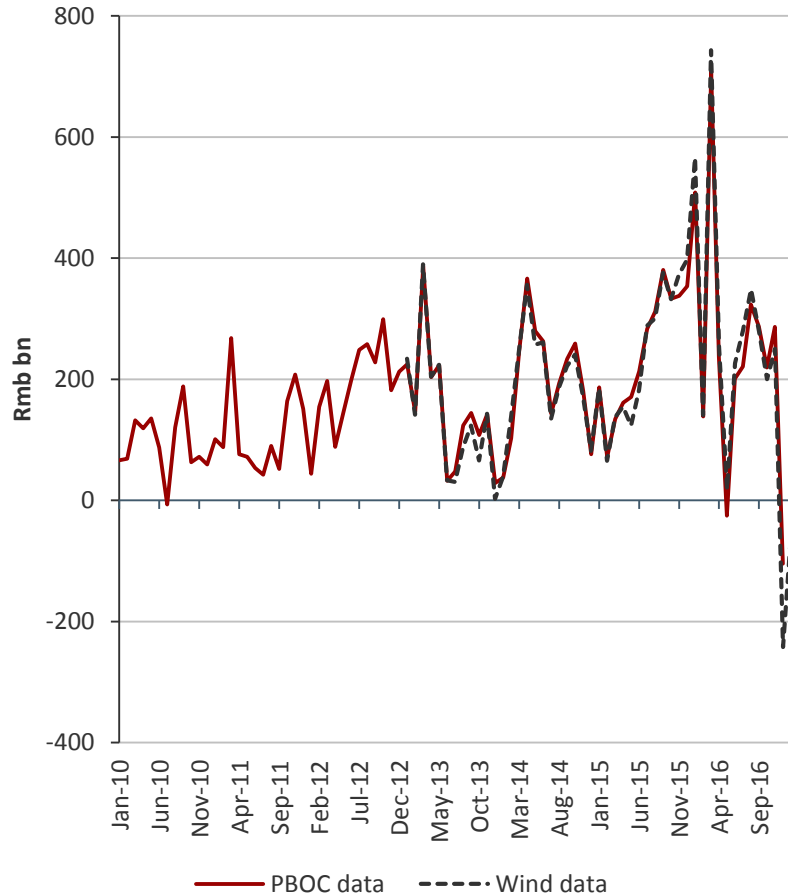


Source: Wind, NSBO China



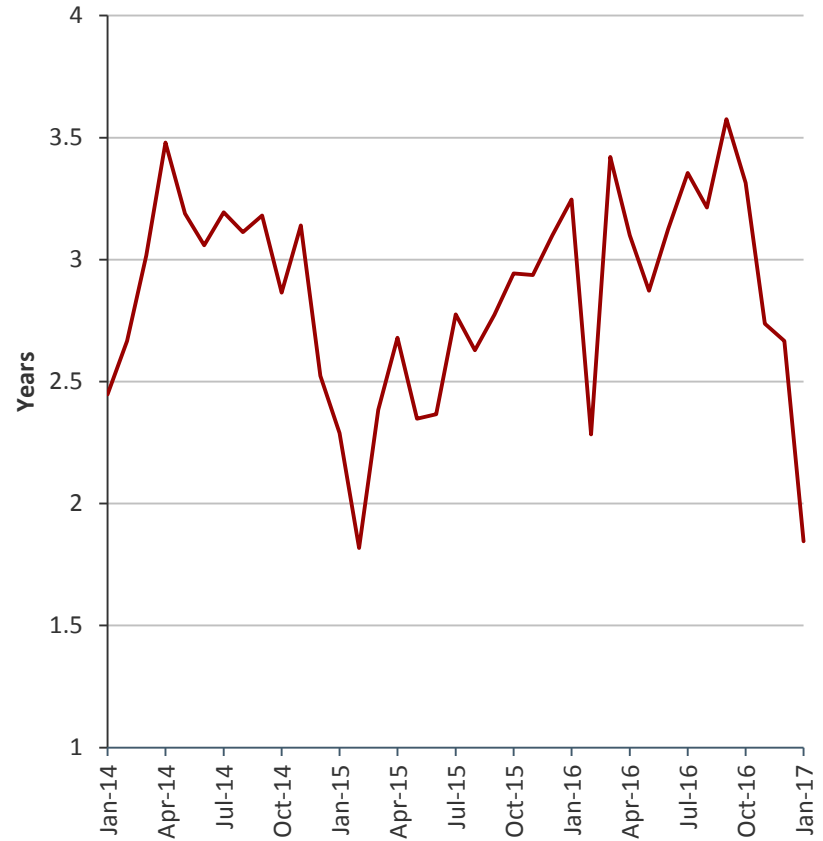
Corporate bond issuance is collapsing...

Net new bond issuance by non-financial corporates



Source: PBOC, Wind, NSBO China

Weighted average maturity of newly issued bonds

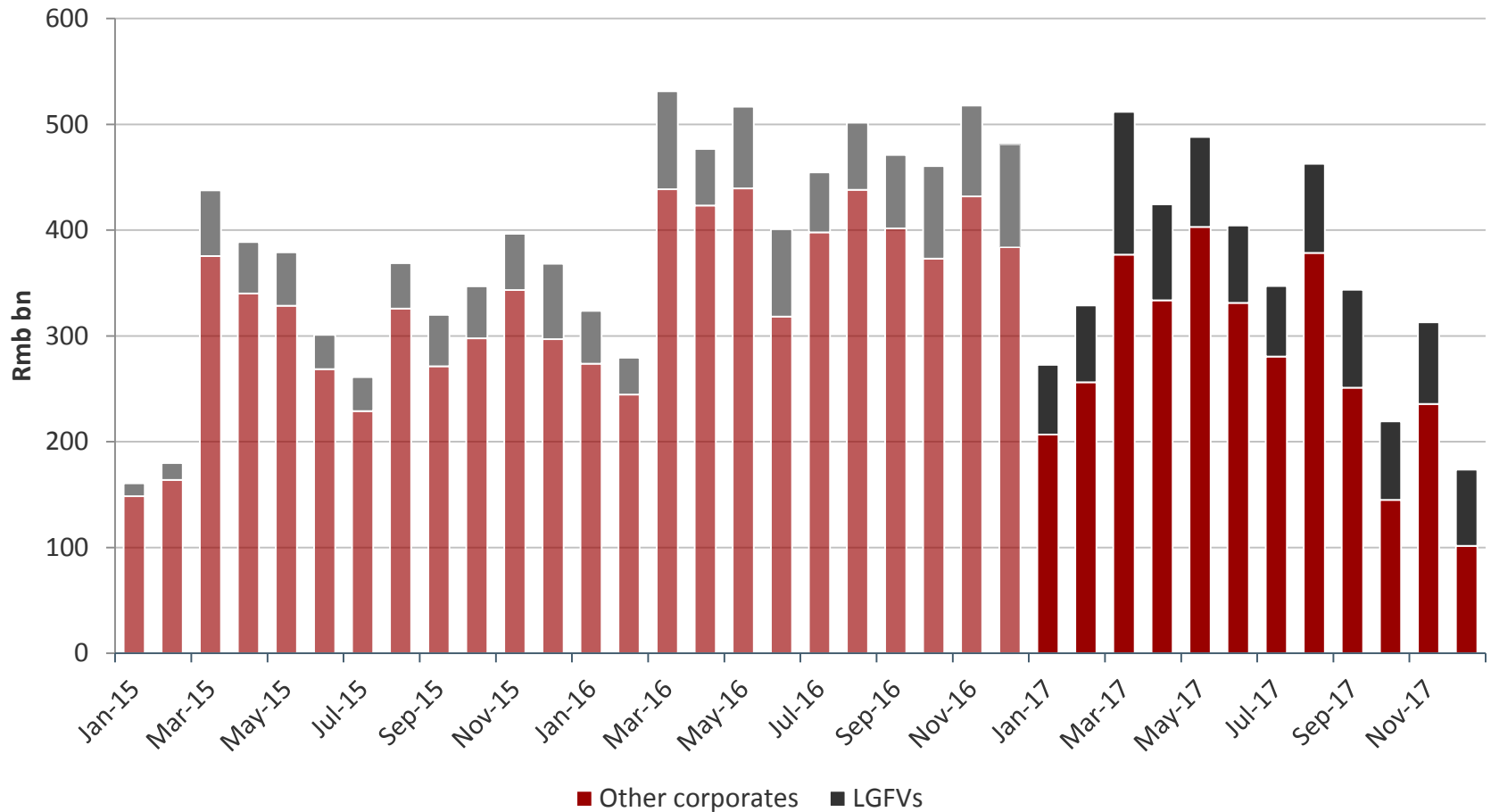


Source: Wind, NSBO China



...raising default risks

Maturing bonds of non-financial corporates

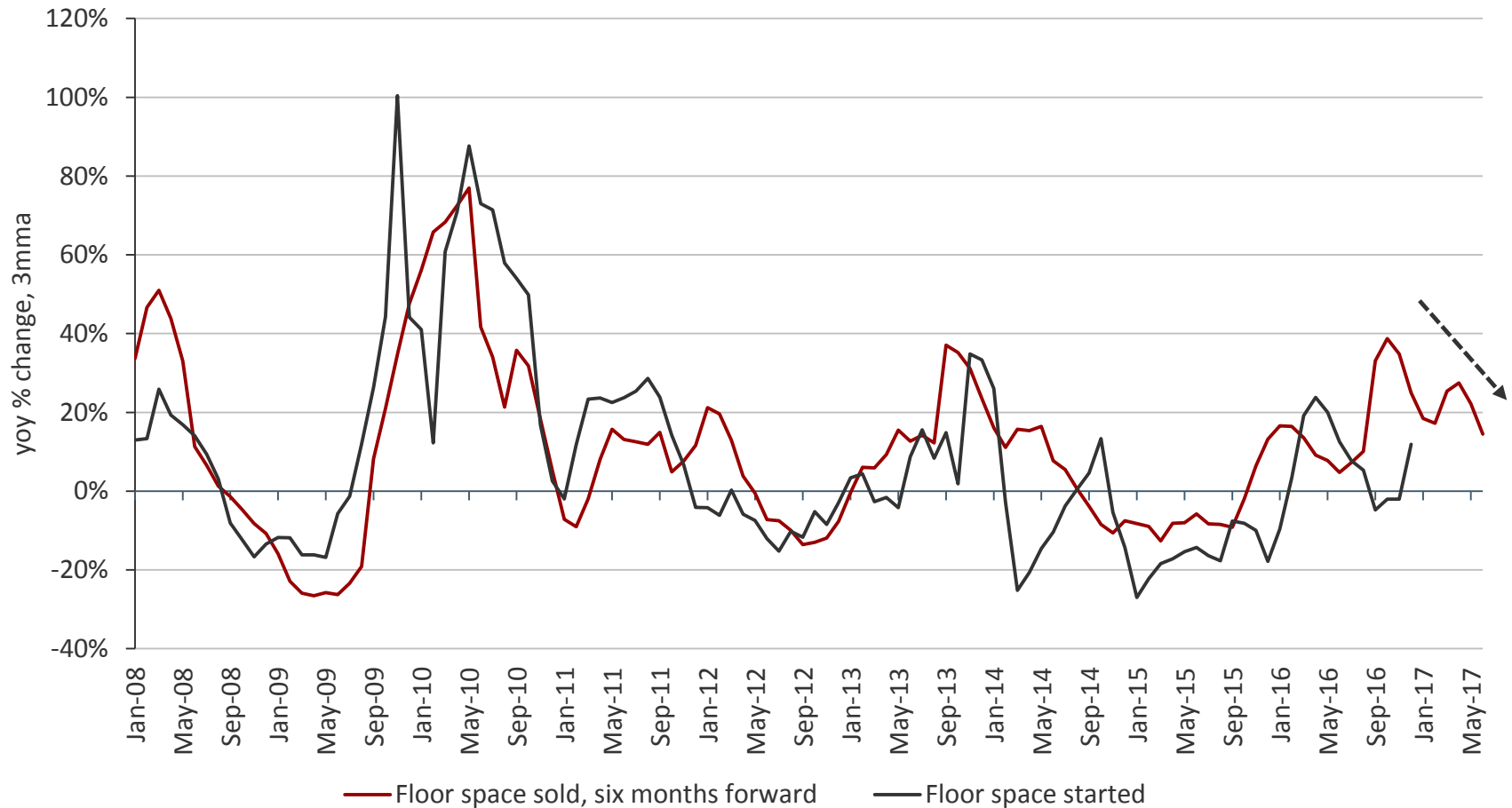


Source: Wind, NSBO China



Construction sector recovery will roll off as home sales slow

Home sales vs new construction starts

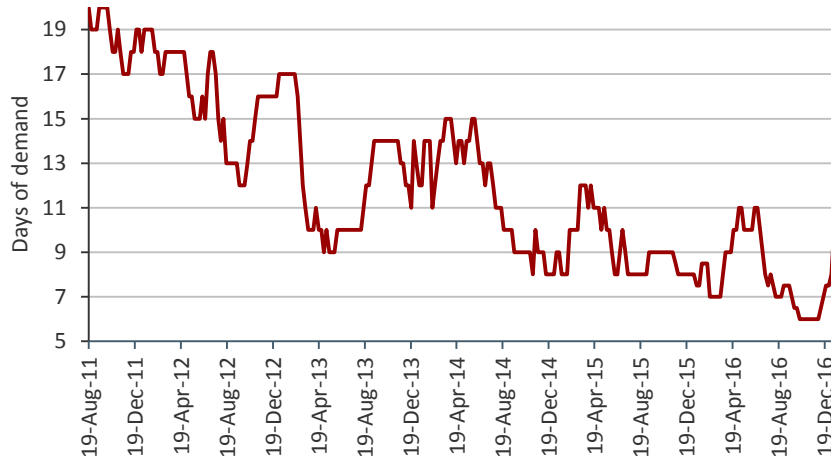


Source: NBS, NSBO China

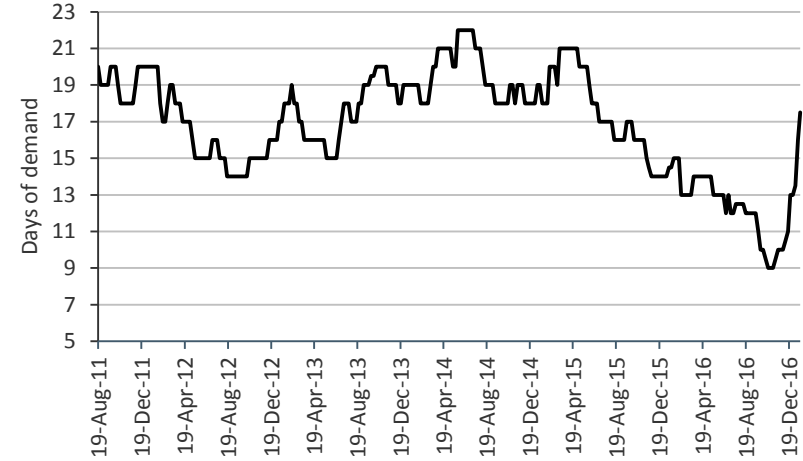


But industry thinks things are going to continue to get better

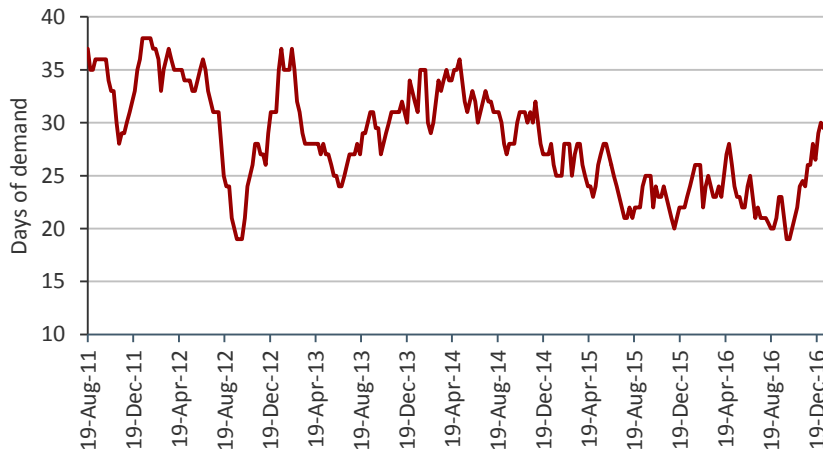
Coke inventories at surveyed steel mills



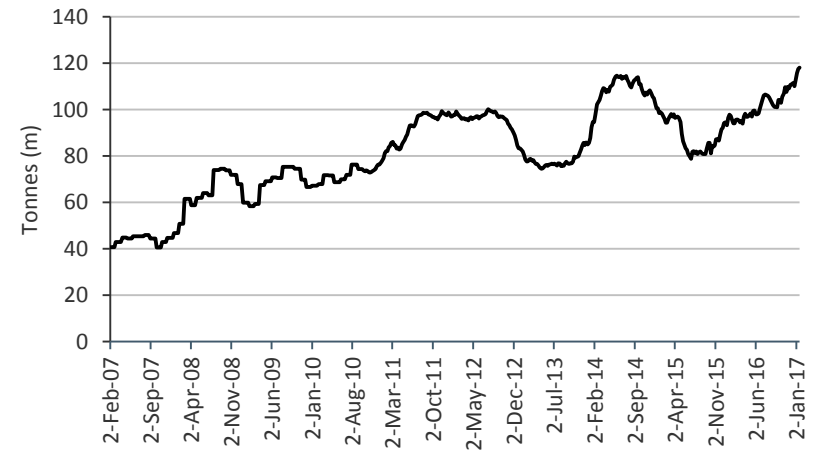
Coking coal inventories at surveyed steel mills



Imported iron ore inventories at surveyed steel mills



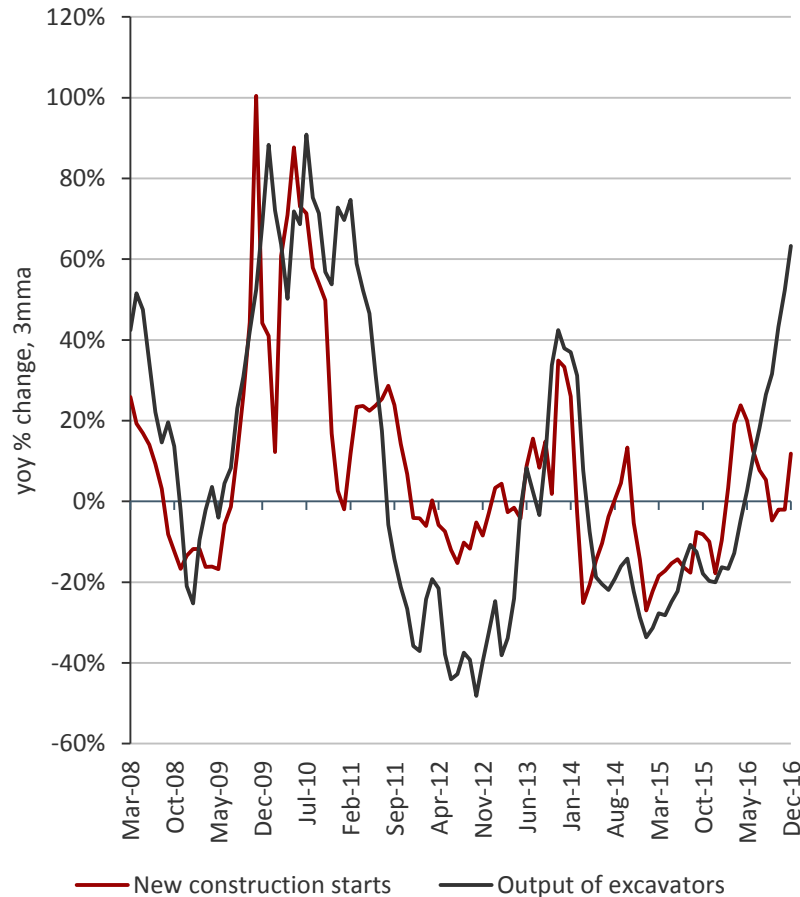
Imported iron ore inventories at ports





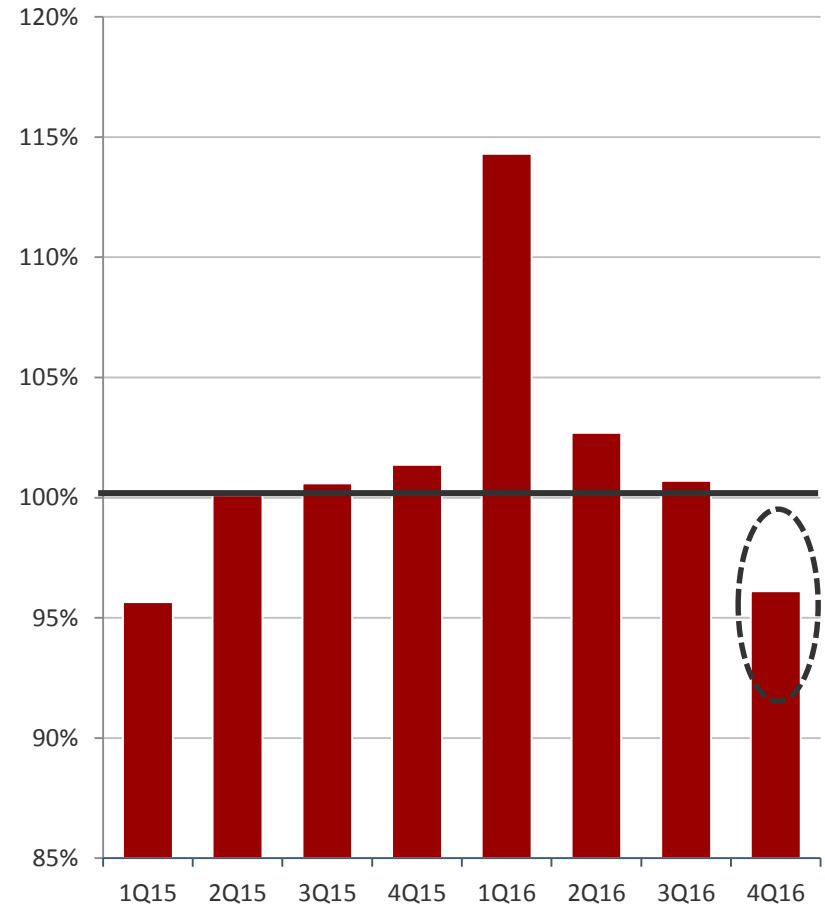
Industry over-optimism is not confined to the steel sector

New construction starts vs output of excavators



Source: NBS, Wind, NSBO China

Proportion of excavators sold, YTD

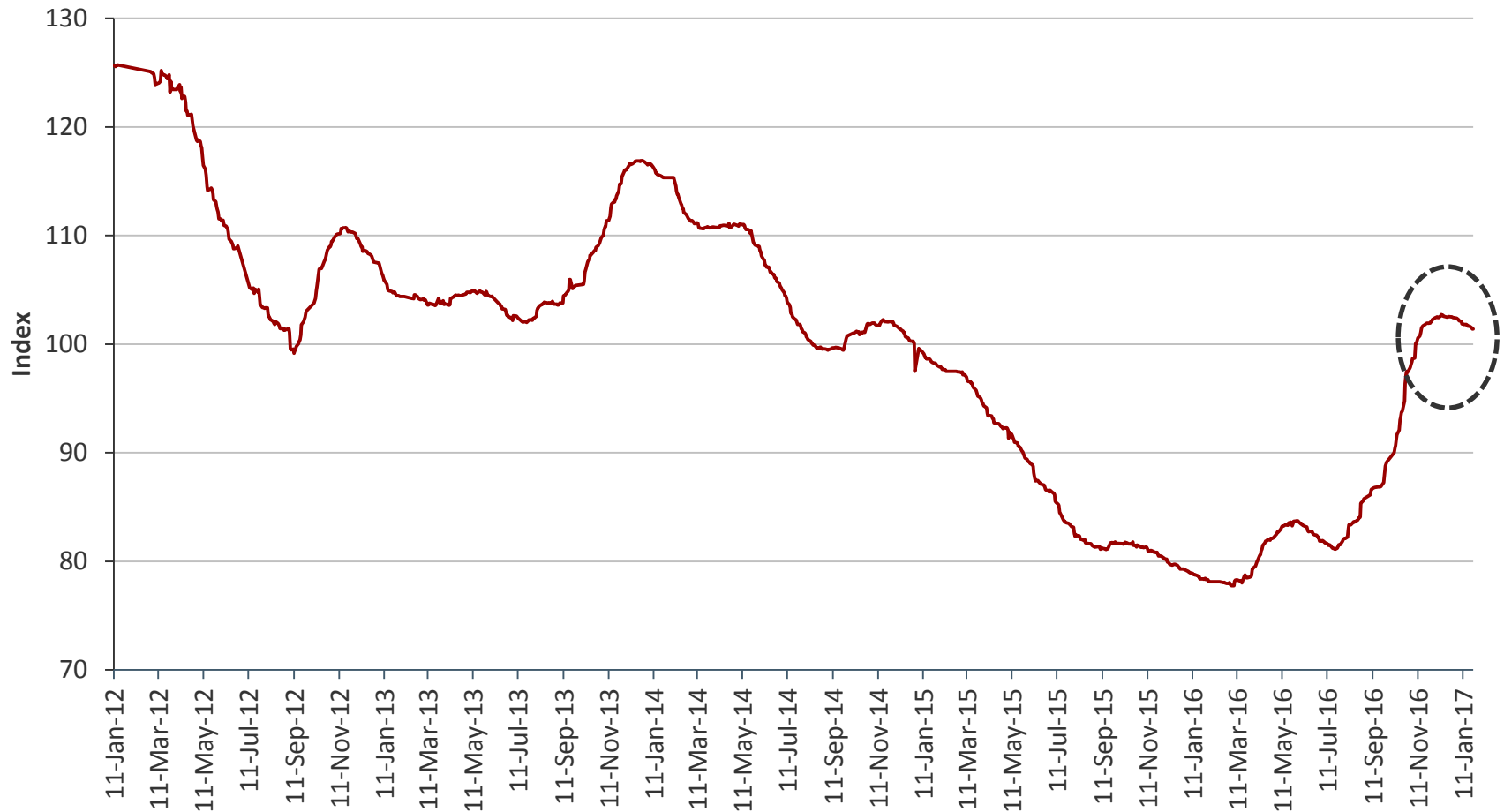


Source: Wind, NSBO China



Materials less prone to hoarding have seen less of a price rise

CC Cement.com national cement price index

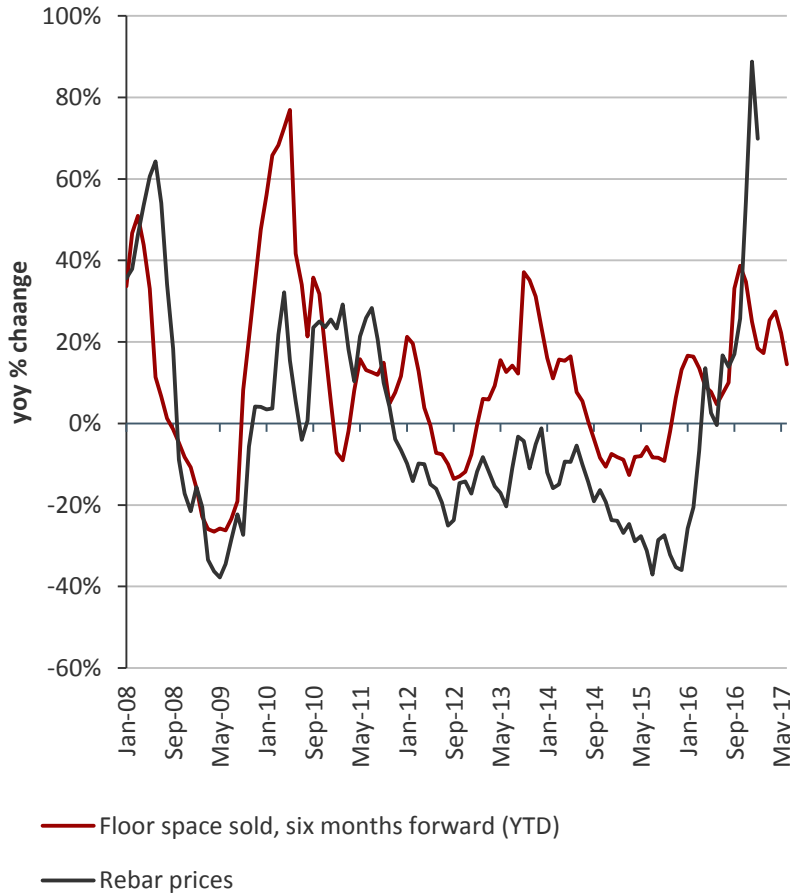


Source: Wind, NSBO China



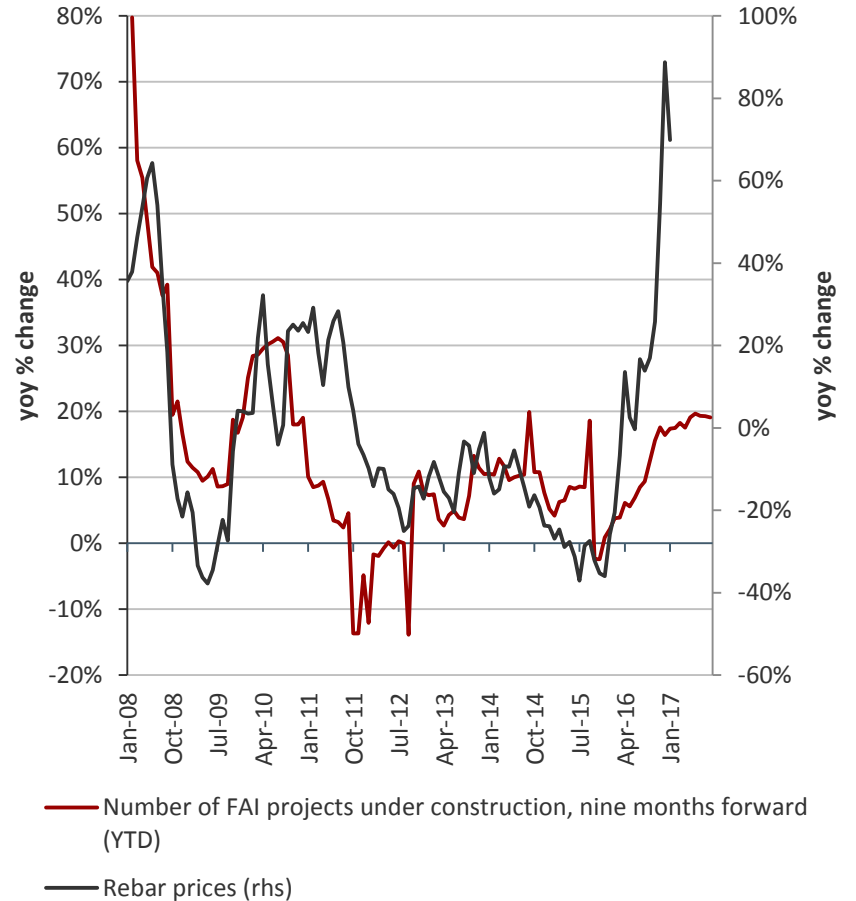
Market is not pricing in a slowdown as stimulus boost fades

Real estate sales vs steel prices



Source: NBS, Wind, NSBO China

FAI projects vs steel prices



Source: NBS, Wind, NSBO China



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