

China Economics Weekly

How Worrisome Is Capital Outflow?

- **Recent capital outflow reflects mostly asset dollarization, in our view** – Economic entities in China increased foreign debt financing (liability dollarization) during 2010-11, taking advantage of low interest rates abroad and in anticipation of RMB appreciation, which led to short USD position. As appreciation expectation started to waver in 4Q/2011, the enterprises rushed to cover the short position by accumulating FX assets. Increase in FX assets was eventually shown as capital outflow in the BOP.
- **The authorities appear not to be worried about the current pace of outflow** – In public statements, the authorities see the increase in enterprises' FX assets as a healthy development that can reduce currency mismatch and slow the accumulation of FX reserves by the government. We do not think the government would tighten capital control in response. After all, the total outflow in recent three quarters was a fraction of China's \$3.2tn FX reserves.
- **Capital outflow may taper off** – The international investment position data show the net short USD position of the Chinese entities has been reduced significantly. As foreign assets and liabilities are now more balanced, the pace of capital outflow may slow down. The recent return of RMB appreciation expectation may very well reduce further capital outflow in the months ahead.
- **Aggressive RRR cuts less likely in the near term** – PBOC has held off RRR cuts recently and instead resorted to reverse repos to inject liquidity, largely due to concerns over liquidity loosening measures adopted recently in the advanced economies. While capital outflow may ease, we think the risk of large-scale capital inflow is low in the short run and inflation is likely to be contained with negative output gap. We still expect two more RRR cuts for the rest of the year, although PBOC's preference for reverse repos will reduce the chance. In the medium term, base money growth may stall as a result of falling trade surplus and rising investment abroad, and RRR will have to be cut to increase the money multiplier and support broad money growth.
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How Worrisome Is Capital Outflow?

Symptoms of capital outflow

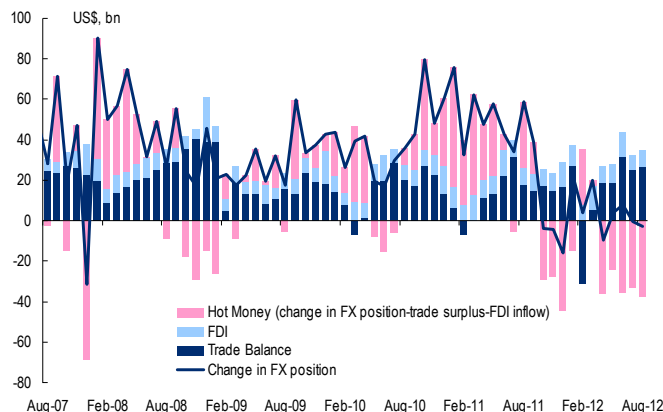
High-frequency data have shown signs of capital outflow since 4Q/2011 –

China has registered monthly trade surplus in recent years except for the month adjacent to the Chinese New Year. FDI inflow has been sizable each month. However, between Oct 2011 and Aug 2012, PBOC had to sell FX on a net basis—reflected as reduction in PBOC FX position—in 6 out of 11 months (Figure 1). The last time PBOC sold FX on a net basis was Dec 2007 when China Investment Corporation (the sovereign wealth fund) bought FX from PBOC. This implies that supply of FX through trade surplus and FDI inflow could not satisfy demand for FX from other transactions (mostly under capital account), and PBOC had to sell FX to keep the exchange rate stable. In other words, there has been outflow under the capital account.

Quarterly data on balance of payments (BOP) confirmed capital outflow –

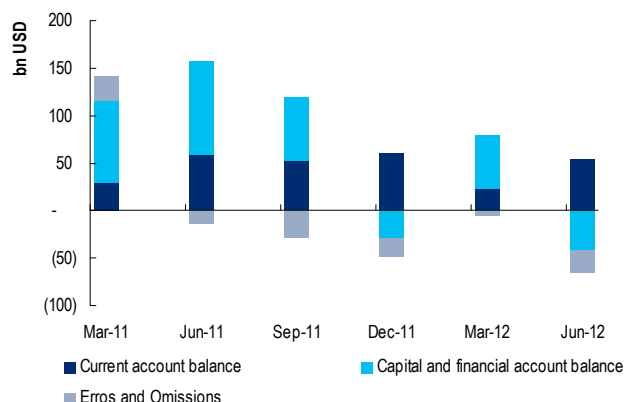
While China recorded \$137.7bn of surplus under the current account between 4Q/2011 and 2Q/2012, the reserve asset only increased by \$75.2bn (Figure 2 and 7). The BOP shows there was a deficit of \$14.1bn under the capital and financial account and a deficit of \$48.3bn under errors and omissions (E&O) during the period. Assuming half of the E&O is attributable to the capital and financial account, outflow under the capital and financial account reached nearly \$40bn in those three quarters.

Figure 1. Monthly data point to frequent capital outflow since 4Q/2011



Source: CEIC and Citi Research

Figure 2. Quarterly BOP data confirm capital outflow



Source: SAFE, CEIC and Citi Research

Nature of capital outflow

Foreign capital withdrawal was not a major factor behind capital outflow

- Net inflow under FDI reached almost \$140bn during those three quarters. In particular, foreign capital repatriation was only \$21.7bn and did not deviate significantly from the recent average.
- Portfolio investment saw net inflow of over \$20bn. Specifically, foreign investors continued to bring in capital (\$14bn) through equity and bond investment, while domestic investors withdrew overseas investment (\$7.4bn).

Capital outflow mainly took place under other investment, especially currencies and deposits

– Other investment (including trade credit, loans, and currencies and deposits) underwent a net outflow of \$178bn during those three quarters. In particular, the Chinese entities increased holdings of currencies and deposits overseas by \$151bn, the biggest contributor to capital outflow.

This corresponded to increases in corporate FX deposits in domestic banks

– FX deposits in domestic banks had increased gradually in recent years up until 3Q/2011. Between 4Q/2011 and 2Q/2012, however, FX deposits increased sharply by \$150bn, or nearly 60% (Figure 3). Enterprise FX deposits jumped by \$130bn, while household FX deposits only increased slightly. During the same period, domestic banks' FX loans in China increased by only \$44bn, suggesting that banks had to invest excess deposits abroad, either through lending or in the form of deposits in foreign banks. Increase in banks' overseas assets is reflected as capital outflow in the BOP.

Capital outflow reflects mostly asset dollarization to cover short FX position

– China's foreign debt increased by over 60% during 2010-11 (Figure 4). In our view, this was to a large extent driven by low interest rates abroad as well as the expectation for RMB to appreciate (carry trade), which led to short USD position of the Chinese entities (dollarization of liabilities). As appreciation expectation started to waver in 4Q/2011, the Chinese entities rushed to cover the short position by accumulating FX assets (dollarization of assets). Enterprises increased purchase of FX and delayed selling of FX proceeds, and the accumulated FX assets were first reflected as deposits in domestic banks and eventually shown as capital outflow in the BOP as banks placed the FX deposits abroad.

The authorities appear to be not worried about the current pace of outflow

– In public statements, the authorities see the increase in enterprises' FX assets as a healthy development that can reduce currency mismatch and slow the accumulation of FX reserves by the government. We do not think the government would tighten capital controls in response, since so far the "outflow" is equivalent to a redistribution of FX assets between PBOC and domestic economic entities (including banks). After all, the total outflow in recent three quarters was a fraction of China's \$3.2tn FX reserves, and trade and FDI are expected to remain in surplus at least in the near future.

Figure 3. Enterprise FX deposit increased rapidly since 4Q/2011

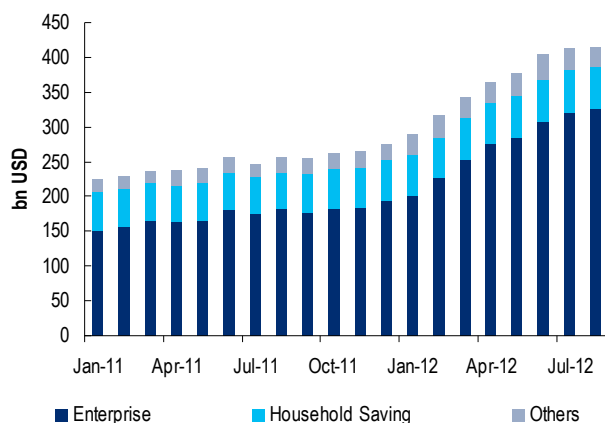
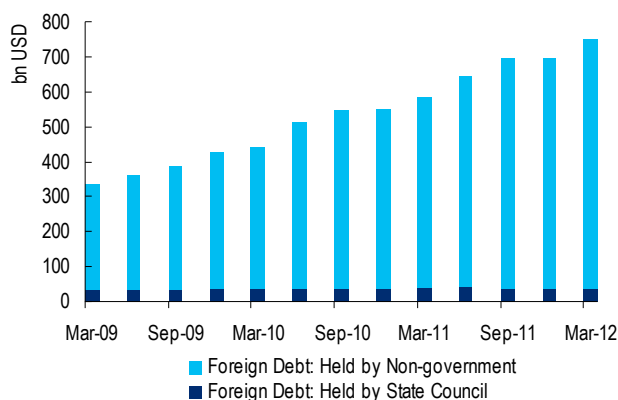


Figure 4. Carry trade led to increase in non-government foreign debt



Source: PBOC, CEIC and Citi Research

Source: CEIC and Citi Research

Outlook and policy implications

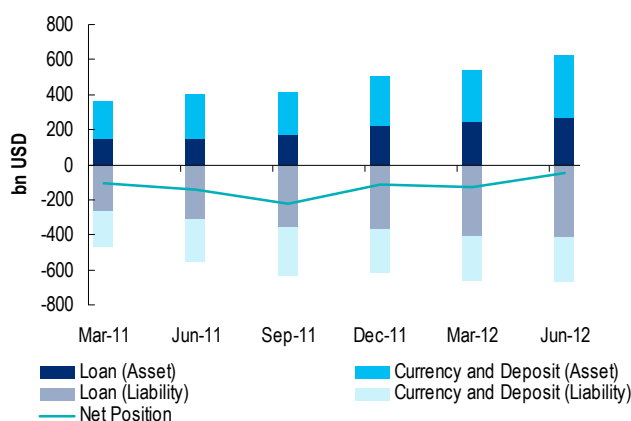
Incentive to dollarize assets may weaken as the FX short position shrinks –

The international investment position (IIP), which summarizes the stock of China's foreign assets and liabilities as a result of BOP transactions (flow), provides a good indication of the net position under different investment items (Figure 8). From end-Sep 2011 to end-Jun 2012, the net loan position became less negative (from -\$188bn to -\$144bn), and the net position of currency and deposit turned from -\$37bn to \$100bn. In other words, the capital outflow (accumulation of FX assets) during the period reduced the net position under these two items from -\$226bn to -\$44bn. As assets and liabilities are now more balanced, the pace of capital outflow may slow down (Figure 5).

Capital outflow may taper off due to a return of RMB appreciation expectation

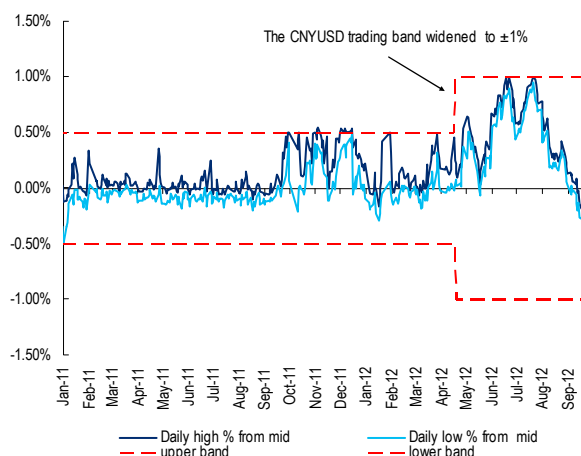
– Since the Fed announced QE3 in mid-Sep, USDCNY spot has been weaker than PBOC's fixing, a reversal of the pattern in the preceding months when RMB depreciation expectation dominated (Figure 6). While it remains to be seen whether QE3 would trigger capital inflow, the change of exchange rate expectation may very well reduce capital outflow in the months ahead.

Figure 5. FX net short position shrank



Source: CEIC and Citi Research

Figure 6. RMB appreciation expectation returned



Source: Bloomberg and Citi Research

The prospect of less outflow reduces the chance of aggressive RRR cuts in the near term –

If capital outflow eases or even reverses, the constraints on base money growth would be released. Trade account is likely to register more surplus and FDI flow may remain positive for the rest of the year. As a result, the PBOC FX purchase will likely turn positive. This partially explains why PBOC has held off RRR cut recently and instead resorted to reverse repos to inject liquidity.

We expect no more than two RRR cuts for the rest of the year –

The 3Q monetary policy committee meeting called for close monitoring of the ramification of liquidity loosening measures adopted recently in Europe and the US. We expect PBOC to be more cautious in liquidity management. We still expect two more RRR cuts by year-end, partly to retire the exceptionally high level of reverse repos, although PBOC's preference for reverse repos will reduce the chance.

RRR cuts remain necessary to support money growth in the medium term – PBOC's FX purchase—the main source of base money creation in recent years—may become insufficient to support the money growth commensurate with economic expansion.

- China's trade surplus may continue to dwindle as a percent of GDP due to expected weak external demand and rebalancing of the economy toward increased domestic consumption.
- Outward direct investment is catching up with FDI. Based on MOC data, in the first eight months this year, inward FDI decreased by 3%YoY, while outward direct investment surged by 40%YoY. Outward investment exceeded 60% of inward investment. Over time, net FDI flow may turn from surplus to deficit.
- Households may diversify investment and increase holdings of foreign assets. It is expected that China will continue to liberalize the capital and financial account and the financial system, facilitating asset re-allocation in search of higher returns.

If the base money growth stalls as a result, the exceptionally high level of RRR will have to be cut to increase the money multiplier and support broad money growth.

Figure 7. Balance of Payments (USD mn)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>4Q/2011 to 2Q/2012</u>
Current account balance	353183	420569	243257	237810	201714	137700
Trade balance	315946	360646	249511	254180	243549	183400
Exports	1220060	1434699	1203798	1581417	1903821	1465700
Imports	-904115	-1074052	-954287	-1327238	-1660272	-1282300
Service balance	-7910	-11814	-29380	-31156	-55228	-55500
Receipts	122206	147110	129476	162165	182839	138400
Payments	-130116	-158924	-158856	-193321	-238068	-193800
Income (net)	8044	28580	-8533	-25899	-11868	4400
Receipts	83476	111787	108251	142424	144606	134400
Payments	-75432	-83207	-116783	-168324	-156474	-129900
Current transfers (net)	37102	43156	31659	40686	25261	5400
Receipts	42646	52565	42645	49521	55570	38600
Payments	-5543	-9409	-10986	-8835	-30309	-33100
Capital and financial account balance	94232	40126	198470	286864	221056	-14100
Capital transfers	3099	3051	3939	4630	5446	3600
FDI (net)	139095	114792	87167	185700	170500	139100
Inbound investment (net)	156249	171535	131057	243700	220200	182200
Inflows	167460	184622	162900	265400	254300	203900
Outflows	-11211	-13087	-31843	-21700	-34100	-21700
Outbound investment (net)	-17155	-56742	-43890	-58000	-49700	-43100
Inflows	1930	2176	4171	7600	17400	15400
Outflows	-19085	-58918	-48061	-65600	-67100	-58500
Portfolio investment	16443	34852	27087	24100	19600	21600
Equity	3290	6283	-11530	23000	6400	4200
Assets	-15189	-2181	-40647	-8400	1100	2200
Liability	18478	8464	29117	31400	5300	2000
Bond (Debt)	13153	28570	38618	1100	13200	17400
Assets	10667	27379	38121	800	5100	5200
Liability	2486	1190	496	300	8100	12200
Other investment	-64405	-112570	80276	72400	25600	-178500
Trade credits	5300	-13182	-2188	-12100	-33000	-5000
Assets	-23800	5867	-34271	-61600	-71000	-38500
Liability	29100	-19049	32082	49500	38000	33500
Loans	-3527	-14880	10162	58100	59800	-16200
Assets	-20823	-18501	3095	-21000	-45300	-61900
Liability	17296	3621	7066	79100	105100	45700
Currencies and deposits	34566	-21285	13610	2300	-50400	-198100
Assets	-6265	-23987	2035	-58000	-98700	-151400
Liability	40830	2702	11575	60300	48300	-46700
Other	-100744	-63223	58693	24100	49200	40800
Assets	-103881	-60956	47555	24400	48200	40400
Liability	3138	-2267	11138	-300	1000	400
Errors and Omissions	13290	18844	-41383	-52936	-34969	-48300
Overall balance	460704	479539	400344	471739	387801	75200
Financing						
Change in reserve assets ("-" indicates increase)	-460704	-479539	-400344	-471739	-387801	-75200
of which: change in FX reserves	-460865	-478342	-382051	-469556	-384818	-75300
Memo items						
Stock of FX reserves (USD bn)	1528	1946	2399	2847	3181	--
Stock of foreign debt	389218	390161	428648	548938	694997	--

Source: SAFE, CEIC and Citi Research

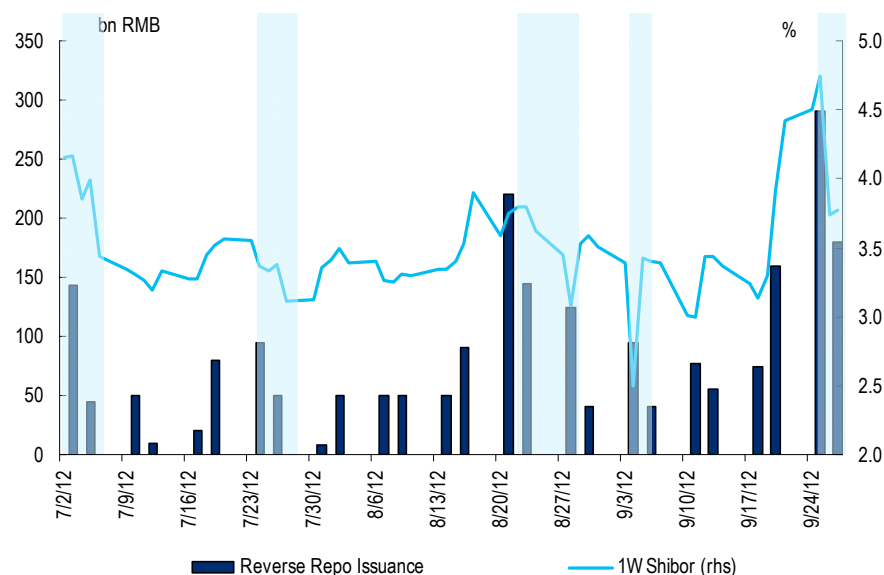
Figure 8. International Investment Position (USD bn)

	<u>3/2011</u>	<u>6/2011</u>	<u>9/2011</u>	<u>12/2011</u>	<u>3/2012</u>	<u>6/2012</u>
Asset	4,395	4,615	4,665	4,718	4,892	4,946
Outward Direct Investment	317	329	346	364	379	392
Security Investment	264	260	257	260	270	259
Equity	63	62	62	62	108	101
Debt	200	198	195	198	162	159
Other Investment	698	755	785	838	860	980
Trade Credit	233	251	292	277	277	310
Loan	151	149	169	223	243	267
Currency and Deposit	213	259	241	283	294	358
Other	102	96	84	55	46	45
Reserve	3,116	3,271	3,278	3,256	3,383	3,315
o/w: Foreign Exchange	3,045	3,198	3,202	3,181	3,305	3,240
Liability	2,461	2,630	2,776	2,943	3,101	3,197
Foreign Direct Investment	1,526	1,584	1,626	1,804	1,853	1,903
Security Investment	223	231	232	249	289	301
Equity	206	214	215	211	245	247
Debt	17	17	17	37	45	54
Other Investment	712	815	919	891	959	993
Trade Credit	219	240	257	249	271	290
Loan	265	314	357	372	409	411
Currency and Deposit	204	235	278	248	255	258
Other	24	27	27	21	25	34
Net Asset	1,934	1,985	1,889	1,775	1,791	1,749
Memorandum items						
Loan, net	-114	-165	-188	-149	-166	-144
Currency and Deposit, net	9	24	-37	35	40	100

Source: CEIC and Citi Research

Chart of the week

Figure 9. China – Interbank rate drops following aggressive reverse repos by PBOC



Source: CEIC, PBOC and Citi Research

The People's Bank of China (PBOC) issued Rmb470bn reverse repos this week, injecting Rmb365bn on a net basis via open market operations, the highest weekly liquidity injection ever on record. Although we have argued that PBOC should use RRR cut to deal with the current liquidity shortage and retire the ever-increasing balance of reverse repos, PBOC is adopting a different strategy. PBOC has been conducting reverse repos for about 14 consecutive weeks and has recently shifted to longer-tenor operations (14-day and 28-day). The reverse repos outstanding reached 650bn as of end-Sep (one RRR cut releases about 400bn liquidity). With this week's 14-day (150bn) and 28-day (320bn) reverse repos, the chance of RRR cut is declining during the golden week.

Key Data & Events Ahead

Figure 10. Data releases in next two weeks

			Citi	Survey	Previous	Comments
1-Oct	Mfg PMI	Sep	50.1	50.0	49.2	We expect the official PMI to edge up by 0.9ppt to 50.1, thanks to the rewards from seasonality and stabilizing final demand. Manufacturing production activity may remain weak according to the electricity production data in the first ten days of September by SERC. New order index may improve based on the seasonal pattern and HSBC PMI flash.
3-Oct	Non-mfg PMI	Sep	--	--	56.3	
8-Oct	HSBC Services PMI	Sep	--	--	52	
11-15 Oct	FX Reserves	Sep	--	--	\$3240.0B	
11-15 Oct	New Yuan Loans	Sep	--	--	703.9B	
11-15 Oct	M1 (YoY)	Sep	--	--	4.5	
11-15 Oct	M2 (YoY)	Sep	--	--	13.5	
13-Oct	Trade Bal (USD)	Sep	--	--	\$26.66B	
13-Oct	Exports YoY%	Sep	--	--	2.7	
13-Oct	Imports YoY%	Sep	--	--	-2.6	

Source: Bloomberg and Citi Research

* Note: China Sept Econ data preview will be published in the early next week

Figure 11. Retrospect of the political agenda in the 17th Party Congress

Date	Event
Oct 9-12, 2007	The 7th Plenary Session of the 16th Party Congress convened. It announced on Oct 12th that the 17th Party Congress will be held on Oct 15th.
Oct 15-21, 2007	The 17th Party Congress convened, and members in the Central Committee of the Communist Party were elected.
Oct 22, 2007	The 1st Plenary Session of the 17th Party Congress convened, and the 9-member Standing Committee of the Politburo was elected.
Feb 25-27, 2008	The 2nd Plenary Session of the 17th Party Congress convened. It recommended candidates of the government to the 11th People's Congress and approved the scheme to restructure the State Council.
Mar 5-18, 2008	The 11th National People's Congress convened, and the new government was formed.
Oct 9-12, 2008	The 3rd Plenary Session of the 18th Party Congress convened. It focused on rural reforms.

Source: Citi Research

Figure 12. China – Political Agenda

Mid Oct 2012	18th Party Congress will be held and the 7-member ruling Standing Committee of the Politburo will be elected. In the conference, new leaders may highlight their views and policies for next five years. It's worth noting whether the new leaders would pay less attention on quantity growth but focus more on quality growth, e.g., introducing policy to allow households to benefit from economic growth.
Early Dec 2012	Annual Central Economic Work Conference supervised by the new leadership may lay out policy for 2013. We expect the new growth target for 2013 to be lowered to 7% from this year's 7.5%.
Mar 2013	In the NPC Conference, the new government will be installed. It will likely address issues in financial reforms and inventing new growth drivers including urbanization and service sector deregulation.
Fall 2013	The 3rd Plenary Session of the 18th Party Congress will be held and a reform agenda will likely be unfolded.

Source: Citi Research

Macro and Market Outlook

Figure 13. China Forecasts vs. Consensus

Annual	2012		2013		Quarterly	3Q12		4Q12		1Q13		2Q13		3Q13		4Q13	
	Citi	Survey	Citi	Survey		Citi	Survey	Citi	Survey	Citi	Survey	Citi	Survey	Citi	Survey	Citi	Survey
GDP (YoY%)	7.9	7.7	7.6	8.0		7.6	7.4	8.2	7.7	8.0	8	7.8	8.25	7.6	8.3	7.2	8.1
CPI (YoY%)	2.9	2.8	3.3	3.3		2.1	2.0	2.7	2.8	2.8	2.9	3.3	3.5	3.5	3.8	3.5	3.6
IP (YoY%)	10.0	10.4	9.5	11.5		9.1		10.0		9.7		9.6		9.6		9.1	
Exports (YoY%)	8.1	7.7	9.2	10.9		8.7		5.5		6.0		8.0		10.0		12.0	
Imports (YoY%)	8.1	7.0	11.4	12.6		7.8		11.0		9.0		10.0		12.0		14.0	
Trade Balance (\$US bn)	167.4	178.9	141.2	167.4		72.2		25.6		-12.2		65.3		69.6		18.5	
FX reserve (\$US bn)	3301		3461			3302		3301		3289		3355		3439		3461	
Current Account (as % GDP)	2.0	2.5	1.5	2.2													
Fiscal Account (as % GDP)	-2.4	-1.9	-1.5	-1.8													
1Y lending rate (eop)	6.00	5.75	6.25	5.75		6.00	6.00	6.00	5.75	6.00	5.75	6.00	6.00	6.25	6.00	6.25	5.75
1Y deposit rate (eop)	3.00		3.25			3.00		3.00		3.00		3.00		3.25		3.25	
USDCNY (eop)	6.33	6.32	6.27	6.22		6.31	6.35	6.33	6.32	6.34	6.30	6.35	6.27	6.31	6.22	6.27	6.22
5Y Government bond Yield	2.87		2.80			2.67		2.67		2.67		2.67		2.92		2.92	

Source: Bloomberg, Consensus Economics and Citi Research estimates

Figure 14. Other Interest Rate / FX Forecasts

	28-Sep	2012 1Q	2012 2Q	2012 3Q F	2012 4Q F	2013 1Q F	2013 2Q F	2013 3Q F	2013 4Q F
US Fed Fund Rate	0.16	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10 Treasury	1.65	2.04	1.82	1.64	1.65	1.75	2.00	2.25	2.55
EUR/USD	1.29	1.33	1.27	1.32	1.27	1.20	1.15	1.17	1.19
USD/JPY	77.48	83	80	78	77	77	76	77	78

Source: Bloomberg and Citi Research estimates

Figure 15. China – Real Economy Data

%YoY	2008 1Q	2008 2Q	2008 3Q	2008 4Q	2009 1Q	2009 2Q	2009 3Q	2009 4Q	2010 1Q	2010 2Q	2010 3Q	2010 4Q	2011 1Q	2011 2Q	2011 3Q	2011 4Q	2012 1Q	2012 2Q	2012 Jul	2012 Aug
Real GDP	11.3	10.8	9.7	7.6	6.6	8.2	9.7	11.4	12.1	10.3	9.6	9.8	9.7	9.5	9.1	8.9	8.1	7.6		
Nominal GDP	21.1	21.1	19.4	13.2	5.3	5.7	8.6	13.0	18.3	17.7	17.6	17.6	17.5	17.8	18.1	16.6	11.2	9.6		
CPI	8.0	7.8	5.3	2.5	-0.6	-1.5	-1.3	0.7	2.2	2.9	3.5	4.7	5.1	5.7	6.3	4.6	3.8	2.9	1.8	2.0
PPI	6.9	8.4	9.7	2.5	-4.6	-7.2	-7.7	-2.1	5.2	6.8	4.5	5.7	7.1	6.9	7.1	3.1	0.1	-1.4	-2.9	-3.5
Exports	21.4	22.4	23.0	4.3	-19.7	-23.4	-20.3	0.2	28.7	40.9	32.2	24.9	26.4	22.0	20.6	14.3	7.6	10.5	1.0	2.7
Imports	28.9	32.7	25.7	-9.1	-30.9	-20.2	-11.6	22.7	64.8	43.6	27.3	29.8	33.0	23.1	24.9	20.1	6.9	6.5	4.7	-2.6
Trade Balance (bn USD)	41.4	58.2	83.3	114.3	62.5	34.9	39.3	61.5	14.5	41.2	65.6	63.1	-0.7	46.7	63.8	48.1	1.1	68.8	25.2	26.7
IP	16.6	15.9	13.0	6.4	9.7	9.0	12.3	17.9	15.5	16.0	13.5	13.3	14.9	13.9	13.8	12.8	11.6	9.4	9.2	8.9
Retail Sales	20.6	22.2	23.2	20.6	15.0	15.0	15.4	16.5	17.9	18.5	18.4	18.8	16.3	17.2	17.3	17.5	14.8	13.9	13.1	13.2
FAI	25.9	27.2	28.8	23.3	28.6	35.9	32.9	26.2	26.4	25.2	23.1	23.9	25.0	26.0	24.0	21.2	20.9	20.8	20.6	19.4
Electricity Consumption	13.1	10.2	6.3	-5.5	-4.0	-0.7	8.0	22.8	24.1	19.3	12.2	6.0	12.5	11.6	11.4	11.5	6.8	4.3	5.1	2.9
Steel Product Production	12.2	10.5	-1.4	-7.1	2.8	8.0	27.6	39.5	28.6	24.0	8.5	3.0	13.7	7.7	14.3	9.0	6.5	7.0	6.5	1.4
Cement Production	6.2	8.7	3.6	2.5	9.2	15.8	23.6	18.2	19.7	16.2	13.2	14.7	10.1	20.5	15.1	11.6	7.3	4.9	6.1	8.7
Baltic Index	50.0	52.7	-66.0	-91.5	-80.0	-60.8	-31.0	288.2	85.6	-36.0	10.2	-41.0	-49.0	-41.3	-22.4	-2.0	-39.0	-28.9	-29.0	-56.6
Cargo Carried Railway	8.6	7.2	8.8	-2.6	-5.9	-1.1	0.6	12.2	17.8	7.4	7.4	4.4	6.8	10.1	7.6	7.5	4.0	1.7	-10.3	-8.3
Cargo Carried by Airline	14.5	6.6	-2.3	-8.6	-12.6	-0.3	17.5	35.5	48.2	32.9	18.0	14.0	1.0	-0.6	-0.7	-3.6	-6.7	-3.4	-3.4	-2.0
Cargo Carried by Highways	10.7	15.0	15.1	6.3	8.4	11.4	20.3	13.7	23.4	17.9	14.8	14.9	14.5	14.9	15.2	19.1	13.6	14.4	13.9	13.1

Source: Bloomberg, CEIC and Citi Research

Figure 16. China – Monetary Data

%YoY	2008 1Q	2008 2Q	2008 3Q	2008 4Q	2009 1Q	2009 2Q	2009 3Q	2009 4Q	2010 1Q	2010 2Q	2010 3Q	2010 4Q	2011 1Q	2011 2Q	2011 3Q	2011 4Q	2012 1Q	2012 2Q	2012 Jul	2012 Aug
M1	18.3	14.2	9.4	9.1	17.0	24.8	29.5	32.4	29.9	24.6	20.9	21.2	15.0	13.1	8.9	7.9	4.4	4.7	4.6	4.5
M2	16.3	17.4	15.3	17.8	25.5	28.5	29.3	27.7	22.5	18.5	19.0	19.7	16.6	15.9	13.0	13.6	13.4	13.6	13.9	13.5
Loan	14.8	14.1	14.5	18.7	29.8	34.4	34.2	31.7	21.8	18.2	18.5	19.9	17.9	16.9	15.9	15.8	15.7	16.0	16.0	16.1
FX Reserve (\$US bn)	1682	1809	1906	1946	1954	2132	2273	2399	2447	2454	2648	2847	3045	3197	3202	3181	3305	3240		
Position for FX Purchase (tn RMB)	14.2	15.4	16.3	16.8	17.3	17.8	18.5	19.3	20.1	20.6	21.3	22.6	23.7	24.7	25.5	25.4	25.6	25.7	25.7	25.6
Bond Issuance *																				
Gov't Bond	1149	2810	2325	2331	1049	5969	5817	3582	2300	5558	5356	4668	3260	5114	4544	2500	2180	4749	1560	1631
Corporate Bond	1401	1466	2221	2843	3258	4444	3849	3961	3827	4363	4160	2851	5722	4574	5003	6870	6714	7673	3122	3762
Gov't Supported Bond	-	-	200	600	-	-	300	700	-	-	1540	350	-	-	-	1000	-	200	450	200

* In 100mn RMB

Source: CEIC, WIND and Citi Research

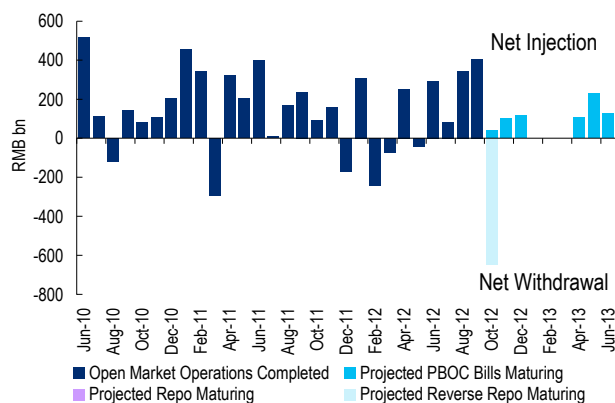
Figure 17. China Market Snapshot

	28-Sep	1 Week change	YTD change	12 months Change		28-Sep	1 Week change	YTD change	12 months Change
Foreign Exchange					Interbank Rate, %				
USD/CNY	6.29	(0.02)	(0.01)	(0.10)	1D SHIBOR	2.48	(1.81)	(0.93)	(1.52)
EUR/CNY	8.13	(0.05)	(0.00)	(0.57)	7D SHIBOR	2.83	(1.60)	(2.75)	(1.98)
100JPY/CNY	8.12	0.05	(0.07)	(0.23)	1M SHIBOR	3.97	(0.46)	(2.02)	(1.85)
1M Vol, USD/CNY	1.15	(0.20)	(1.66)	(2.03)	3M SHIBOR	3.69	0.02	(1.79)	(1.95)
3M Vol, USD/CNY	1.46	(0.19)	(1.64)	(2.01)	6M SHIBOR	4.09	0.00	(1.34)	(1.21)
					1Y SHIBOR	4.40	(0.00)	(0.84)	(0.85)
Forward					Repo Rate, %				
USD/CNY 3M Forward, onshore	6.34	(0.02)	(0.00)	(0.10)	1D Interbank Repo Rate	2.48	0.08	(0.93)	(1.42)
USD/CNY 12M Forward, onshore	6.45	(0.02)	(0.00)	(0.10)	7D Interbank Repo Rate	3.00	(1.30)	(2.75)	(1.85)
USD/CNY 3M NDF	6.35	(0.01)	(0.01)	(0.14)	1M Interbank Repo Rate	4.50	0.01	(1.49)	(1.30)
USD/CNY 12M NDF	6.41	(0.01)	0.03	(0.07)	3M Interbank Repo Rate	4.25	(0.15)	(1.20)	(1.30)
PBOC Benchmark Rate, %					IRS, %				
Demand Deposit	0.35	-	(0.15)	(0.15)	3M IRS	3.34	(0.26)	(0.31)	(0.62)
3M Deposit	2.60	-	(0.50)	(0.50)	1Y IRS	3.11	(0.18)	0.19	(0.71)
6M Deposit	2.80	-	(0.50)	(0.50)	2Y IRS	3.10	(0.14)	0.43	(0.58)
1Y Deposit	3.00	-	(0.50)	(0.50)	5Y IRS	3.16	(0.07)	0.35	(0.50)
2Y Deposit	3.75	-	(0.65)	(0.65)	10Y IRS	3.21	(0.14)	0.26	(0.56)
3Y Deposit	4.25	-	(0.75)	(0.75)	IRS Curve, bp				
5Y Deposit	4.75	-	(0.75)	(0.75)	2Y-3M	310.15	(13.85)	42.90	(57.85)
6M Lending	5.60	-	(0.50)	(0.50)	5Y-2Y	5.75	6.75	(8.00)	7.75
1Y Lending	6.00	-	(0.56)	(0.56)	10-2Y	10.35	0.35	(16.90)	2.35
1-3Y Lending	6.15	-	(0.50)	(0.50)	10-5Y	4.60	(6.40)	(8.90)	(5.40)
3-5Y Lending	6.40	-	(0.50)	(0.50)	Stock Market				
5+Y Lending	6.55	-	(0.50)	(0.50)	Shanghai Composite	2,073	46	(126)	(319)
Govn Bond, %					- Turnover, RMB bn	60	6	17	5
PBOC 3M	2.65	(0.13)	0.45	-	Shenzhen Composite	846	12	(21)	(186)
PBOC 6M	2.70	(0.10)	0.37	-	- Turnover, RMB bn	22	3	5	(1)
CGB 1Y	2.79	(0.12)	0.17	(0.77)	HSCEI	9,857	53	(79)	580
CGB 2Y	2.92	(0.10)	0.06	(0.83)	- Turnover, HKD bn	6	(9)	1	(12)
CGB 5Y	3.21	(0.10)	0.13	(0.57)	Other Indicator				
CGB 10Y	3.47	(0.06)	0.03	(0.43)	5Y Sovereign CDS	79.34	-	(62.65)	(87.73)
Govn Bond Yield Curve, bp					Required Reserve Ratio	19.50	-	(1.00)	(1.50)
2Y-3M	27.00	3.00	(39.00)	-					
5Y-2Y	29.00	-	7.00	26.00					
10-2Y	55.00	4.00	(3.00)	40.00					
10-5Y	26.00	4.00	(10.00)	14.00					

Source: Bloomberg and Citi Research

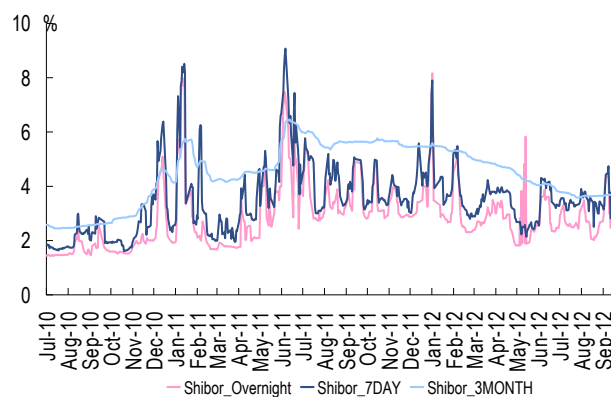
Liquidity Conditions

Figure 18. PBOC Open-Market Operations



Source: POBC, CEIC and Citi Research

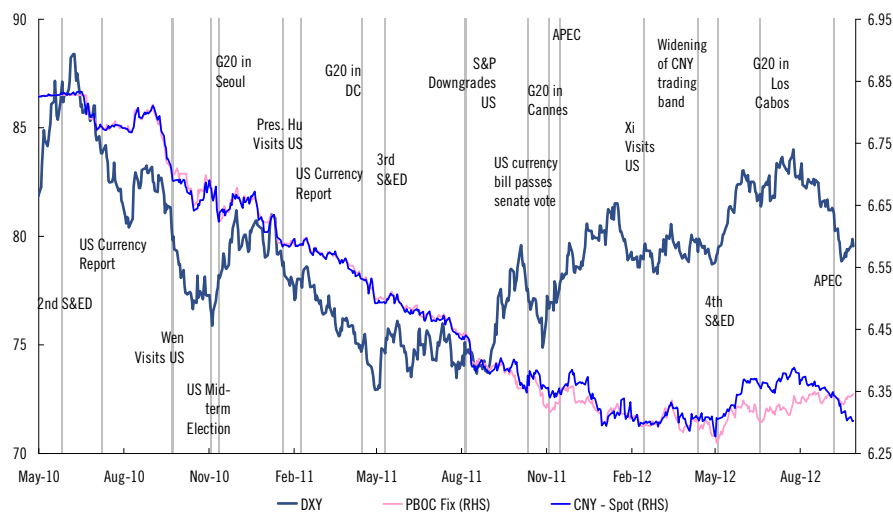
Figure 19. China Interbank Rates



Source: Bloomberg and Citi Research

FX Markets

Figure 20. USDCNY



Source: Bloomberg and Citi Research

Appendix A-1

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