

China's Economic & Market

Local bonds becoming more attractive to foreign investors

A low interest rate environment has made China's local bond market attractive to global investors. But careful scrutiny of individual corporate bonds is also essential, according to a leading global asset manager. Ricardo Adrogué, head of emerging markets debt at Babson Capital Management, said the weaker growth is not necessarily a bad thing in the eyes of investors, because that could spur further rate cuts, which in turn could spark a rally in local bond sales. "Should China open its onshore market, it's most likely I would increase exposure to it. But I would be more selective in which corporate names we picked," he said.

Property developers turn to domestic bonds for money

Chinese property developers, which used to issue most of their bonds to overseas investors, are turning to the domestic bond market for money as financing at home becomes cheaper and less risky amid liquidity loosening. According to Moody's, Chinese real estate developers rated by the agency issued bonds worth around \$35 billion between January 1 and October 30 in 2015, and onshore bonds made up about 80 percent of the borrowing. Last year, those developers only issued \$1.9 billion of bonds in the domestic market, which accounted for less than 10 percent of their total bond issuance. The shift from overseas to the domestic market came as Chinese central bank cut benchmark interest rates, eased banks' reserve requirement and helped reduce overall financing costs with various policy tools.

China resumes IPOs

China resumed initial public offerings (IPOs) on Monday, with an industrial explosives maker becoming the first to offer shares to investors following a four-month freeze. The China Securities Regulatory Commission (CSRC) froze IPOs in July as part of efforts to slow a market rout, but the country's stock exchanges have since become more stable, and the resumption of IPOs was announced in a statement on Nov 20. The CSRC said in the statement that 10 Chinese companies have completed the required preparations for IPOs and will go public soon, adding that half will be listed on the Shanghai stock exchange, while the other half will be listed on the Shenzhen bourse. Shares of Shenzhen-listed Hubei Kailong Chemical Group Co, Ltd., the first of the 10 firms to go public, were priced at 28.68 yuan (\$4.48).

China, Britain studying feasibility of Shanghai-London Stock Connect

CSRC vice head Fang Xinghai met with London Stock Exchange CEO Nikhil Rathi this week. They discussed the Shanghai-London Stock Connect and other financial cooperation measures, according to a CSRC statement. "The CSRC will actively push ahead with the feasibility study for the program," said Fang, adding that the commission is also willing to cooperate with the British side in more areas. Similar to the Shanghai-Hong Kong Stock Connect already operating, the Shanghai-London Stock Connect is expected to allow British investors to trade Chinese shares listed in Shanghai. The stock connect programs come amid government efforts to open up China's tightly controlled financial market. The two countries agreed to conduct a feasibility study for the program when Chinese President Xi Jinping visited Britain in October.

More companies to seek listing in domestic market over US

Fewer Chinese companies will seek listing in the United States in the coming years due to the broadened financing access and more attractive valuations in the domestic market, a leading industry expert said. Such trend is expected to accelerate after Focus Media Holdings Ltd, the country's largest commercial screen-advertising network became the first Chinese company that delisted from the US Nasdaq market and will soon be listed in the domestic A-share market through a reverse merger. The easier access to capital and loosened administrative restriction for initial public offerings will prompt more companies to float their shares in the Chinese market, said Sun Qiang, chairman of China Venture Capital and Private Equity Association.

Historical macro economy data and projections

% change, unless otherwise stated

| % chg, unless otherwise stated | | Oct-15 | Nov-15 |
|--------------------------------|-----------------------|--------|--------|
| IP | yoy | 5.6 | 5.6 |
| | sequential annualized | 3.7 | 4.2 |
| Nominal FAI | yoy (ytd) | 10.2 | 10.0 |
| | yoy (monthly) | 9.5 | 7.9 |
| Nominal retail sales | yoy | 11.0 | 11.2 |
| Exports | yoy | -7.0 | -3.5 |
| Imports | yoy | -19.0 | -10.3 |
| Trade balance | USD bn | 62 | 63 |
| CPI | yoy | 1.3 | 1.1 |
| | sequential annualized | 1.8 | -0.4 |
| PPI | yoy | -5.9 | -5.8 |
| | sequential annualized | -7.0 | -6.7 |
| M2 | yoy | 13.5 | 13.5 |
| New Loans | RMB bn | 514 | 600 |
| TSF | RMB bn | 477 | 700 |

Source: CEIC, CICC Research

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