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business

CHINA DAILY 中国日報 chinadaily.com.cn/business

FRIDAY, AUGUST 3, 2012

ONE U$D EQUALS

RMB	HKD	JPY	EUR	GBP	AUD	INR	CAD	KRW	THB	BRL
▲6.3671	▼7.7552	▼78.24	▼0.8143	▼0.6424	▼0.9502	▼55.79	▼1.0024	▼1131.39	▼31.51	▲2.0438

SOURCE: REUTERS, 9PM THURSDAY

Bank vows to keep economy on steady course

PBOC report warns that inflation may rebound slowly after August

By **CHEN JIA**
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ECONOMY

China's central bank pledged to maintain its prudent monetary policies and further adjust banks' lending practices to ensure important projects can obtain financing, while warning that inflation may rebound in the country.

"Stabilizing economic growth will be more important in the next stage and macroeconomic controls should be ... relevant and flexible," according to a People's Bank of China report released on its website on Thursday.

The report called for China's monetary policies to manage liquidity in the country's financial system, saying that is the best way to accelerate economic growth.

"After August, the year-on-year consumer price index is likely to rebound slowly," the report said. At a time when labor and resource production are becoming more expensive, a resurgence in demand could lead to a high rate of inflation.

"The monetary policies might start to lose efficacy and yet spur inflation," the report said.

China has tried to bring consumer inflation back under control after it spiked to a three-year high of 6.5 percent in July 2011. That increase followed the country's adoption of a monetary and fiscal easing plan that injected 4 trillion yuan ($635 billion) into the economy in the 2008-09 global financial crisis.

In June, China's inflation rate decreased to a 29-month low of 2.2 percent, far below the government's official target of 4 percent. Seeing that, many investors began to worry that the monetary policies were constricting the country's economy and foiling measures the government had taken over nearly 10 months to spur growth, such as reducing benchmark interest rates in June and July.

A report published by Financial News, a newspaper affiliated to the central bank, said: "Some contributors to the latest round of inflation have not been eliminated and the prices of goods previously under control could rebound again."

The report called for the government to maintain restrictions meant to eliminate speculation in the country's real estate market, which saw the prices of homes double in important cities from 2009 to 2011. That quick increase pushed housing beyond the means of many middle-class Chinese, the report said.

The world's second-largest economy may see its economy continue to slow down in the third quarter of the year, Jing Ulrich, chairwoman of global markets China at JPMorgan Chase & Co, said on Thursday in an interview with Bloomberg News.

If that does happen, JP Morgan may predict an even lower rate of growth for China's 2012 GDP, which it now says will be 7.7 percent.

The National Bureau of Statistics will release July consumer price index and industrial product data next week.

"We expect the data to demonstrate that government infrastructure projects and policy support are helping the economy gain traction," said Wang Tao, chief economist in China at UBS AG.

Although the central government confirmed at a meeting on Tuesday that a moderate easing stance in support of growth will remain in place, officials are unlikely to announce another large stimulus package, Wang said.

Reuters contributed to this story.

LI SHENGLI / FOR CHINA DAILY

The headquarters of the People's Bank of China in Beijing. The central bank vowed on Thursday to maintain a prudent monetary policy and intensify structural adjustment of banks' lending to satisfy the financing needs of important projects.

YU FANGPING / FOR CHINA DAILY

A seaman cleans a tail light on his boat near the coast in Qingdao, Shandong province. Home sales and prices will continue to go up in China over the next five years, supported by increasing fundamental demand, according to a research report.

Fundamental demand to fuel home sales in next five years

By **LI TAO** in Hong Kong
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REALTY

Housing sales and prices are expected to continue going up in China in the next five years, supported by increasing fundamental demand, although the pace of the price rises could be dampened by government curbs, said a report by the China Index Academy released on Thursday.

Residential prices are expected to increase 5.5 percent annually to reach an average of 6,428 yuan ($1,010) per square meter nationwide by 2016.

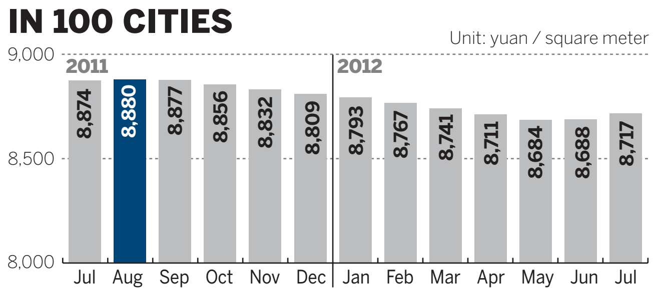
Residential sales, new construction areas, as well as new completion areas are expected to reach 1.4 billion, 2.76 billion and 1.33 billion square meters in 2016, representing a compound growth of 8.3 percent, 14.5 percent and 7.8 percent, respectively, for the period.

Huang Yu, executive vice-president at the academy, said the property market on the mainland will undergo a transition from rapid growth to steady growth.

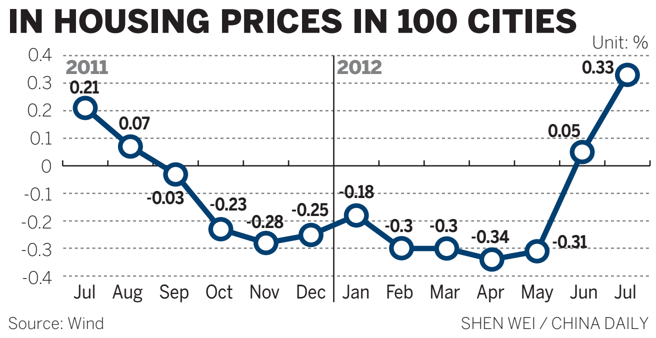
"Home demand is directly driven by the steady progress of urbanization on the mainland," Huang said at a media briefing in Hong Kong on Thursday.

"The urban population between the ages of 20 and 34 will increase by 3.76 million every year, which will bring about inelastic demand to the market with those first-time homebuyers," she said.

AVERAGE HOUSING PRICES IN 100 CITIES



MONTH-ON-MONTH CHANGES IN HOUSING PRICES IN 100 CITIES



Source: Wind

SHEN WEI / CHINA DAILY

Huang said that her study showed that home purchases driven by fundamental demand constituted 64 percent of the total home sales in first-tier cities last year, up 3 percentage points from 61 percent in 2009.

However, Du Jinsong, head of China property research with Credit Suisse (Hong Kong) Ltd, disagreed with the view that the mainland property market had basically become a fundamentally demand-driven market.

"It's a contradictory model (the one stated in the China Index Academy report)," Du said. "If home prices continue to rise, while primary fundamental demand comes from people who have migrated from the countryside to cities, according to the research, how can these people possibly afford a home even if their current income increases by 20 percent a year?"

In a July report, Credit Suisse said that "housing prices are a function of money supply", but it warned that the current property price increase was "not sustainable" given that property prices had outgrown household income significantly during the past five years — the same as in smaller cities.

But the bank said that with the current round of credit loosening, home prices are likely to surge again on the mainland until the central government comes out with tighter housing policies.

According to the academy study, the average home price in 100 cities it monitored had increased by 0.33 percent month-on-month in July, after the rebound registered in the previous month.

Home prices in 10 cities, including Beijing and Shanghai, rose 0.27 percent on average month-on-month in July, the study showed. It, nevertheless, noted that prices in these hot spot areas had declined in the past seven consecutive months year-on-year.

"Cities and regional centers bear greater risks of (facing) new policies, and we expect local governments to start stabilizing average selling prices," said a research note from CCB International Securities Ltd earlier this week.

"In contrast with first-tier and key cities, lower-tier cities still have room for local governments to introduce supportive policies for end users, which in turn will raise sales volume, encouraging banks to offer discounts to first-time homebuyers," Edison Bian from the bank wrote in the note.

Mainland developers to offer dim sum bonds in HK

By **WU YIYAO** in Shanghai
and **OSWALD CHAN**
in Hong Kong

BONDS

Real estate developers on the Chinese mainland are offering privately sold bonds in the Hong Kong market as they seek alternative sources of financing.

After early reservations, Hong Kong investors have begun to respond well to mainland developers' offers of dim sum bonds — which are bonds denominated in renminbi and issued in Hong Kong — according to the newspaper The Economic Observer, citing a source from the financial services company Morgan Stanley.

The source said Hong Kong investors have become more welcoming toward developers from the mainland. Even so, some investors are staying away from realty developers' offers of bonds.

On July 19, the Shanghai-listed realty developer Gemdale (Group) Co Ltd raised 1.2 billion yuan ($189 million) — 200 million yuan more than it had planned — by offering dim sum bonds with 9.15 percent yields through an overseas subsidiary.

That marked a turning point for Hong Kong investors, who showed that they were ready to embrace developers' dim sum bonds after keeping their distance from them for 18 months, said Kerry Lam, a Shanghai-based private investment consultant.

"The trend is likely to continue into the future," said Dickie Wong, research manager at the Hong Kong-based Kingston Securities Ltd.

In Hong Kong, financing costs are much lower than on the mainland, making the city's bond market attractive to mainland developers, Wong explained.

On the other hand, Hong Kong investors are being drawn to the bonds' relatively good interest rates; in general, yields in the city are extremely low, Wong said.

To many investors, the 9.15 percent yield offered on Gemdale Group's bonds was appealing, especially compared with the 5 percent yields on most bonds sold in Hong Kong, Lam said.

The popularity of mainland developers' bonds will largely depend on their ratings and yields, Lam said.

If more developers with good credit offer dim sum bonds in Hong Kong, that will benefit both investors and developers, Lam said.

The cost of bank loans has decreased in recent months after the People's Bank of China reduced the country's benchmark interest rates in June. Even so, obtaining credit is not easy.

Lam said bonds remain attractive because they usually offer a cheaper means of raising money than do trusts or other channels.

Zhang Liangjun, managing director of the China operation of the property service company Cushman & Wakefield Inc, said that mainland real estate developers are contending with reduced cash flows, and many are under pressure to refinance and deal with large property inventories.

For the first half of the year, 17 developers expect to report losses, 22 expect higher profits and 13 expect lower profits, according to industry performance forecasts.

Analysts said many developers are offering discounts on newly built homes to boost their sales revenue and to improve cash flow.

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