

November 12, 2015

**Anne Stevenson-Yang**  
+852 2534 7405  
anne@jcapitalresearch.com

## Survey Structure

- ▶ Five loan officers at Big Four, mid-tier, and city commercial banks in different regions
- ▶ The interbank finance manager at a mid-tier bank based in Beijing
- ▶ Two Forex managers at medium-sized banks in Guangzhou and Dalian
- ▶ Three shadow bankers: an online P2P, a fund manager, and a small loan company in Hefei, Anhui; Beijing; and Nanjing, Jiangsu
- ▶ Interviews conducted by email with additional information collected by phone November 2-6
- ▶ Additional in-person interviews with 5-6 customer managers at mid-tier banks and trust executives in Tier 2 cities

## Objectives

- ▶ To understand whether recent drops in rates and the reserve ratio have stimulated lending and if so, to which sectors
- ▶ To check on growth or decline in demand for hard currency and capital flight and understand better how financiers are thinking about the exchange rate
- ▶ To understand liquidity conditions between banks

# An Excess of Caution

## Bankers hoard their cash, customers seek an exit

- ▶ **Loan officers have grown risk-averse and say there are few creditworthy projects to lend to.**
- ▶ **China's finance world appears to be** in agreement that the RMB will depreciate but probably by bouncing up and down in staged ranges. Authorities may want to depreciate only gradually in order to give companies time to shift their debt out of U.S. dollars and into RMB.
- ▶ **October capital flight appears to have abated,** largely because of the long holiday but also because the exchange rate strengthened. There is no panic to ship out money.
- ▶ **The PBOC is deeply concerned about falling** reserves and appears to be taking steps to hide them from public scrutiny.
- ▶ **U.S. dollar loans are now cheaper in China,** than they are overseas, with interest rates less than 1% for a one-year loan.

November 12, 2015

### Overview

Our recent survey indicated that bankers and shadow bankers alike are finding few good credit risks to lend to, and the new loans they are extending are mostly rollovers, though not technically designated as such. They say that NPLs are rising at both banks and trusts, and shadow bankers are energetically coming up with workout strategies that will help banks avoid booking losses on loans they sell.

All of the five loan officers surveyed had reduced proportionately the amount of loans to private businesses compared with SOEs. One bank had raised lending to private companies in October, by 10% but overall lending was up 28% for this bank. The banks were increasing or seeking to increase lending to government financing platforms. Two of them had extended new loans in October to manufacturing companies.

**Table 1. Finance Survey Summary Results**

Loan Officers	New Loan Growth YTD YoY	Loan Growth this Month YoY	Deposit Growth YTD YoY	Concentration of the Top 10 Borrowers	NPL Growth in October	Growth in Credit to SOEs vs to Private Companies
Mid-Tier Bank, Shanghai	19%	12%	19%	32%	300%	SOE up 84%, private down 164%
Big Four Bank, Shanghai Branch	-10%	0%	5%	50%	0%	SOE 0%, Private 0%
Big Four Bank, Beijing Branch	-15%	0%	-20%	85%	0%	SOE 0%, Private 0%
Mid-Tier Bank, Zhengzhou	1000%	100%	1000%	30%	0%	SOE 100%, private 0%
City Commercial Bank, Chengdu	28.0%	16%	37%	63%	14%	SOE 16%, private 40%

November 12, 2015

Interbank Finance Manager	Rate for Loans You Extended in the Interbank Market, YoY	YoY Growth in Your Borrowing and Lending in the Interbank Market	Reasons for Growth in Interbank Lending	Your Estimate for the RMB/USD Exchange Rate this Year?
<b>Mid-Tier Bank, Beijing</b>	3.25%, down 40 bps	Borrowing: down 100%, Lending: up 73%	The drop in the RRR and in interest rates has increased interbank transactions and lowered the rates.	There will be depreciation.

  

Forex Managers	Sales of Forex in October YoY	October Purchases of Forex YoY	Average Transaction Value	Exchange Rate at Underground Banks	Capital Flight Expectations for October	Your Estimate for the RMB/USD Exchange Rate this Year?
<b>City Commercial Bank, Dalian</b>	-22%	-23%	USD 46 mln	6.65-6.75	Drop of about RMB 350 bln	6.35-6.4
<b>Mid-Tier Bank, Guangzhou</b>	-48%	-97%	USD 5.2 mln	Premium of 1-1.2%	Drop of about 1.5% of total reserves	6.4

  

Shadow Bankers	Average Interest Rates this Month	MoM Lending growth	NPL YoY	Cost of Capital	What is your estimate for the RMB/USD exchange rate this year?
<b>Hefei</b>	18-24%	Down 30%	One 1.2 mln RMB loan	13.2-14.4%	It will depreciate but I don't know by how much.
<b>Beijing</b>	30%	Up 5%	Nothing new	15.6-18%	About 6.5
<b>Nanjing</b>	18%	Up 12%	The NPL rate drops a few points because collections went smoothly this month and there were no new NPLs.	7%	N/A

Source: J Capital survey November 2-6

November 12, 2015

All of our interviewees believed that the central bank is deeply concerned about capital flight. One said that the bank is trying to hide reserve loss by asking banks to sell dollars without purchasing more from the reserve and by using one-year duration forwards, which are not recorded as reserve declines.

Forex managers said that demand for dollars had abated somewhat in October. They chalked this up mostly to the long holiday but said also that the slight appreciation had called the market.

The interbank finance manager in our survey reported that interbank rates had declined and said that authorities were intervening very regularly in the market through administrative means that are intended to be invisible externally.

## Notable Quotes

### Loan Officers

"We're really focusing on property, both office and commercial. We are gradually adding to our equity investment and factoring. The reason is that companies' liquidity is gradually improving."

"The competition for lending to government finance platforms is getting very intense."

"The anti-corruption movement and limits on bankers' compensation are leading to an increase in both executives and working level employees leaving their jobs."

### Interbank Finance Managers

"The main influences on interbank volumes and rates in the first six months were MOF Document 43, which brought local government platform loans into the Ministry of Finance's LGFV loan management system. Since July, the main issues have been 1) deterioration in the economy. There's an obvious decline in qualified borrowers. Commercial banks and other financial institutions are demanding more collateral. They are demanding that more capital circulate internally to avoid a monetary crisis. 2) There has been continual decline in the RRR and interest rates, which has led to falling interest rates overall."

"The exchange rate will depreciate: interest rates have declined and will continue to do so. The economy is weakening and they will use depreciation to pull up exports. How much, I can't say."

November 12, 2015

### Forex Managers

"I think capital flight will moderate in October because of the long holiday in October and because the exchange rate stabilized. The panic to buy dollars that we saw a little while ago is gone."

"The things to watch for in November are: will the RMB be accepted into the SDR? Will the EU loosen monetary policy again? How will American unemployment look?"

"This depends on whether the RMB is accepted as part of the SDR basket in November. I am pretty optimistic about that. If nothing untoward happens, the RMB should trade at 6.35-6.4. If it's refused, the RMB will depreciate."

### Shadow Bankers

"The biggest growth area is Internet finance and crowd funding."

"The P2P industry is developing quite fast. Their interest rates are usually about 20% higher than ours. Some lending companies have started their own P2Ps."

"Several of the major e-commerce companies offer money-market investment products and post fixed returns offered daily. In October, the JD fund rates spiked above 6%. Alibaba's rates are consistently the lowest."

## Money Market Rates Offered by E-Commerce Companies

Date	Yuebao	Wechat	JD	Suning
11-Nov	2.894%	3.493%	3.513%	3.449%
10-Nov	2.915%	3.510%	3.504%	3.468%
9-Nov	2.899%	3.332%	3.386%	3.361%
8-Nov	2.883%	3.345%	3.047%	3.272%
7-Nov	2.885%			
6-Nov	2.887%	3.327%	3.054%	3.295%
5-Nov	2.881%	3.315%	3.049%	3.114%
4-Nov	2.895%	3.372%	3.054%	3.253%
3-Nov	2.899%	3.425%	3.412%	3.247%
2-Nov	2.879%	3.490%	3.437%	3.249%
1-Nov	2.887%	3.220%	3.428%	3.251%
31-Oct	2.898%			

November 12, 2015

30-Oct	2.909%	3.208%	3.402%	3.253%
29-Oct	2.930%	3.204%	3.401%	3.251%
28-Oct	2.929%	3.106%	3.427%	3.246%
27-Oct	2.944%	3.165%	3.060%	3.230%
26-Oct	2.957%	3.382%	3.030%	3.340%
25-Oct	3.011%	3.631%	4.227%	3.468%
24-Oct	3.017%			
23-Oct	3.024%	3.668%	4.214%	3.470%
22-Oct	3.021%	3.686%	4.880%	3.447%
21-Oct	3.025%	3.874%	4.854%	3.312%
20-Oct	3.029%	3.836%	5.380%	3.331%
19-Oct	3.028%	3.566%	6.616%	3.189%
18-Oct	2.977%	3.375%	5.401%	2.953%
17-Oct	2.975%			
16-Oct	3.018%	3.421%	5.422%	3.316%
15-Oct	3.011%	3.472%	4.753%	3.316%
14-Oct	3.187%	3.504%	4.745%	3.419%
13-Oct	3.171%	3.388%	4.228%	3.417%
12-Oct	3.171%	3.362%	3.022%	3.449%
11-Oct	3.170%	3.289%	3.018%	3.559%

Source: Company websites

## Disclaimer

This publication is prepared by J Capital Research Limited (“J Capital”), a Hong Kong registered company. J Capital is regulated as a company advising on securities by the Hong Kong Securities and Futures Commission (CE# AYS956) and is registered as an investment adviser with the U.S. SEC (CRD# 165324). This publication is distributed solely to authorized recipients and clients of J Capital for their general use in accordance with the terms and conditions of a Services Agreement and the J Capital Authorized User Content Agreement available [here](#). Unauthorized copying or distribution is prohibited. If you are reading this publication without having entered into a Services Agreement with J Capital, or having received written authorization to do so, you hereby agree to be bound by the J Capital Non-Authorized User Content Agreement that can be viewed [here](#). J Capital does not do business with companies covered in its publications, and nothing in this publication should be construed as a solicitation to buy or sell any security or product. In preparing this document, J Capital did not take into account the investment objectives, financial situation and particular needs of the reader. This publication is intended by J Capital only to be used by investment professionals. Before making an investment decision, the reader needs to consider, with or without the assistance of an adviser, whether the contents are appropriate in light of their particular investment needs, objectives and financial circumstances. J Capital accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this publication and/or further communication in relation to this document.