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## **Yuan Only BRIC Winner on Resilience to Debt Crisis: China Credit**

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By LilianKarunungan

Sept. 14 (Bloomberg) -- China, with its centrally controlled economy, managed currency and restrictions on capital inflows, has become a haven for investors fleeing widening global debt turmoil.

The yuan is the only currency among the biggest emerging nations to strengthen against the dollar this quarter, and yuan-denominated notes in Hong Kong are the only domestic bonds among the so-called BRICs to provide a positive return. Sales of dim sum debt have tripled in 2011 and new loans in China rallied in August, after sliding in July.

Chinese markets have shown resilience as global equities tumbled 13 percent since Aug. 1 on concern the declining U.S. economy and European debt crisis will stoke the worldwide slowdown. Exports from China grew a more-than-forecast 24.5 percent in August from a year earlier, government data released on Sept. 10 showed. Italy, saddled with more debt than Spain, Greece, Ireland and Portugal combined, has sought support from the world's fastest growing major economy for its bond market.

"The renminbi remained stable versus the dollar during the global crisis in 2008 and early 2009 while most of the rest of the Asian currencies fell sharply," said Chia Tse Chern, co-head for Asia fixed income at UOB Asset Management in Singapore, which manages the equivalent of \$14 billion, including dim sum bonds. "High-grade renminbi bonds or those quasi-government renminbi bonds will remain resilient."

Dim sum bonds, yuan debt issued in Hong Kong and accessible to foreign investors, returned 0.8 percent for dollar-funded investors this quarter, compared with losses of 7.4 percent for local-currency bonds in Brazil, 7.1 percent for Russia and 4.8 percent for India, according to indexes compiled HSBC Holdings Plc and JPMorgan Chase & Co.

### BRIC Beater

The yuan, known as the renminbi in Chinese, has climbed 1 percent versus the dollar since June 30, while India's rupee dropped 5.9 percent, Russia's ruble slid 7.9 percent and the Brazilian real slumped 8 percent. China limits yuan conversions for investment purposes and buys dollars to slow the currency's advance and preserve the competitiveness of the nation's exports.

The yuan fell less than 0.1 percent in 2009 and gained 7 percent in 2008, while the rupee plunged 19 percent against the dollar in 2008, and Malaysia's ringgit slipped 4.5 percent, data compiled by Bloomberg show.

Chia, who also manages the United Renminbi Bond Fund, says the yuan is one of the most undervalued currencies in Asia and policy makers will allow gains to curb inflation. Consumer prices rose 6.2 percent in August from a year earlier, near the 6.5 percent level in July that was the fastest since June 2008.

## No 'Hard Landing'

China is the world's second-largest economy and has \$3.2 trillion of foreign-exchange reserves, compared with a combined \$1.1 trillion for Brazil, India and Russia. Italy's Finance Minister Giulio Tremonti met with Chinese officials in Rome this month, seeking investment as the nation's debt slumped, his spokesman Filippo Pepe said by phone yesterday.

The People's Bank of China allowed the yuan to advance 0.9 percent last month, the most this year, as the U.S. lost its top AAA credit rating from Standard & Poor's and the Federal Reserve pledged to maintain near-zero interest rates for at least two years. Gross domestic product expanded 9.5 percent in the second quarter, the fastest of the BRICs.

"Data is showing that the economy is not heading toward a hard landing," said Nathan Chow, an economist in Hong Kong at DBS Group Holdings Ltd., Southeast Asia's biggest lender. "That gives a signal to markets that the PBOC will allow faster appreciation of the renminbi again to curb inflation."

## Greek Concerns

The yield on China's benchmark 10-year bonds rose 15 basis points, or 0.15 percentage point, to 4.04 percent this quarter, according to data compiled by Bloomberg. That's 210 basis points more than the rate for similar-maturity U.S. Treasuries.

Speculation that Greece may be nearing a default may prompt policy makers to slow the yuan's appreciation, said Leong Sook Mei, the regional head of global currency research at Bank of Tokyo Mitsubishi UFJ Ltd. in Singapore.

The yuan dropped 0.2 percent to 6.3991 per dollar in Shanghai yesterday. Twelve-month non-deliverable forwards slid 0.33 percent to 6.3305.

Five-year credit-default swaps on China's debt rose 48 basis points this quarter to 132 basis points, while swaps for Italy jumped 334 to 506, according to CMA, which is owned by CME Group Inc. and compiles prices quoted by dealers in the privately negotiated market. Moody's Investors Service rates China one level lower than Italy at Aa3. The derivatives contracts are used to insure debt against default and traders use them to speculate on credit quality.

## Bank Profits

Dim sum bond sales doubled to 19.5 billion yuan (\$3 billion) last month, from July's 9.5 billion yuan, as regulators said they will ease transfers of funds into China. Sales have totaled 117 billion yuan this year from 35.7 billion yuan in 2010. Air Liquide SA, the world's biggest producer of industrial gases, issued 2018 yuan debt at 3.95 percent on Sept. 9, while Hainan Airlines Co. sold 2014 notes at 6 percent on Sept. 8.

New loans in China rose 11 percent in August to 548.5 billion yuan (\$86 billion), after dropping 22 percent in July.

China's five biggest banks posted first-half profits that surpassed the total of their 14 largest U.S. and European rivals. Industrial & Commercial Bank of China Ltd. said on Aug 25 that net

income rose 29 percent to a record \$17 billion, pushing the combined profits of the nation's biggest banks to \$57 billion. Industrial earnings gained 28 percent in July from a year earlier, the National Bureau of Statistics reported on Aug. 27.

### More Investment

Foreign direct investment in China added \$8.3 billion in July, boosting the total amount to \$69.2 billion in 2011.

Exports grew 24.5 percent in August from a year-earlier, exceeding the 21.9 percent median in a Bloomberg News survey of economists.

Vice Premier Li Keqiang pledged on Aug. 17 that regulators will encourage foreign direct investment in yuan and draft rules were published four days later explaining the approval process for bringing funds across the border into the mainland.

"There's a lot of confidence in yuan appreciation," said Andy Ji, a currency strategist at Commonwealth Bank of Australia in Singapore. "New measures are relaxing a lot of capital controls between onshore and offshore."

The yuan will probably appreciate 1.6 percent to 6.30 per dollar by the end of 2011, according to the median estimate of 23 analysts in a Bloomberg News survey.

### 'Strong Currency'

Ji, whose Sydney-based bank had the most-accurate forecast for the yuan in the six quarters through June, predicts a 1.9 percent jump to 6.28 per dollar by Dec. 31. The yuan's "fundamental value" is 5.5, a level it should reach within five years, he said. DBS is predicting the currency to end 2011 at 6.30.

"I expect the yuan will be a strong currency as China's economy continues to grow and inflation is under control," Yim Fung, chief executive officer of GuotaiJunan International Holdings Ltd., a unit of China's second-largest brokerage, said in an interview on Sept. 7. "The yuan will also strengthen on a relative basis given Europe's debt crisis and the slowdown of the U.S. recovery."

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