

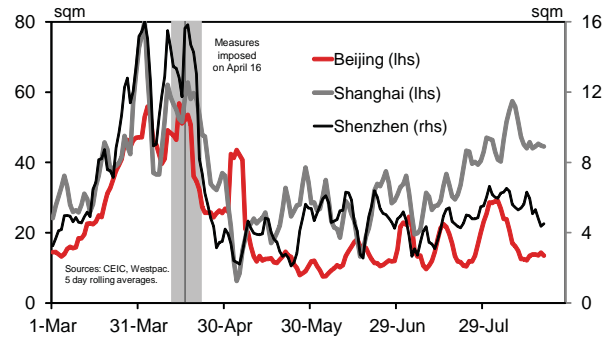
24 August 2010

- Phat Dragon's** reading of the housing situation is that after the initial shock of the April 16 measures, the degree of local autonomy embedded in that edict is beginning to show through. The various regional and city markets are beginning to show divergent trends fully consistent with a varied practical application of the measures. Consider Beijing and Shanghai. Beijing was the centre of the affordability problem, with house price to income ratios jumping from 9 to 16 between end-2004 and end-2009. Shanghai was the major problem in the previous spurt of 2003-04 and was subject to bespoke policy treatment that hammered its market in 2005-06. This time around both markets were running hot, but only Beijing seemed to represent a destabilising scenario. Hence the strictures have been applied more tightly in the capital. Shanghai has been successful in leveraging itself off the carpet, but the authorities still have their feet firmly planted on Beijing's larynx, and rightly so.
- Phat Dragon** received a variety of responses to last week's poser regarding Japan's ascent to #2 in the global pecking order. The answer was that *Nihon* surpassed **the USSR in 1986**, not the popular choice of the *Bundesrepublik Deutschland* in 1967.
- Phat Dragon** was not surprised by last week's announcement that insurance firms were being allowed to raise their equity holdings. The follow-up, lifting the cap on corporate pension fund equity holdings from 20% to 30% was a little surprising, but more in terms of timing than in principle. The pension funds represent a smaller pool of capital than the insurers, but they are a more natural holder of equities, so the relevance of the two announcements is roughly equivalent.
- Developments on the internationalisation of the RMB are coming at a rapid clip. No sooner had last week's chronicle gone to press than a further measure hit the newswires: foreign financial institutions will be allowed to invest in China's domestic bond market with RMB procured through trade settlement. This was a missing link in the story so far: an incentive for external parties without RMB liabilities to hold the currency. With no desirable assets denominated in RMB available outside the Mainland, banks were not exactly falling over themselves to accumulate the stuff. Now, maybe they will. Foreign central banks are also included in the pilot. They are a particularly interesting inclusion. As the repositories of reserve assets, **Phat Dragon** wonders if they will they now begin to build up holdings of RMB bonds for their national treasure chests that China's ascent to global prominence and regional pre-eminence predicts?
- A curious thing happened in the week ending August 20. The iron ore freight rate between WA and China *maintained a premium* over coking coal freight from Qld to Japan for the second week in a row. Why is this curious? As the latter voyage is more expensive, the premium is almost always in the coking freight price. What does **Phat Dragon** surmise from this? That the recent rise in Mainland iron ore prices has been driven more by supply disruptions (Indian export bans, locals withdrawing supply), as proposed in this chronicle last week, rather than an unlooked for rally in heavy industrial activity.
- Stats of the week: Oil import volumes grew at a compound rate of 17.4% between 1993 & 2009, multiplying 13 times.**

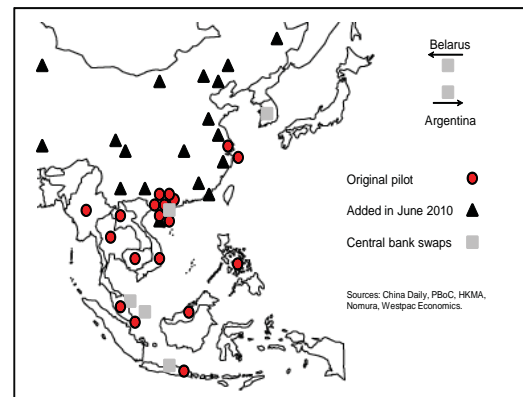
# Phat dragon

a weekly chronicle of the Chinese economy

## Daily house sales in the tier one cities



## Locations for trade settlement in Chinese yuan



## Aust to Asia: coking coal & iron ore freight

