



## Natixis China Capital Flow Tracker

### Capital outflows reduced more than half in 2017



January 2018  
Monthly publication

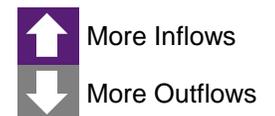
#### Bloomberg Tickers

Total	NXSHCCFT Index
FC	NXSHCCFF Index
RMB	NXSHCCFR Index

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<p><b>Current Capital Flows</b></p>		<p><b>Natixis China Capital Flow Tracker</b> indicates that capital outflows in Q4 2017 have stabilized at 81 USD billion. The overall capital outflow remains relatively small and the part which is denominated in the RMB is also steady at 20%.</p> <p>On an annual basis, total capital outflows from China amounted to 408 USD billion in 2017, halved the total amount of 2016 (-54% from 884 USD billion). By currency, 21% of the outflows are denominated in the RMB, falling from around one-third in 2016. A major reason is the decline of RMB settlements to total trade in goods from as high as 27% in January 2016 to 11% in end 2017.</p>
<p><b>Going Forward</b></p>		<p>The much weaker-than-expected dollar has increased the strength of the RMB in line with other international currencies. The RMB's rally against the dollar has created the incentive to hold assets denominated in the yuan, which could help stemming off capital outflows. Future pressure could come from the widened yield differentials with US, which may only increase with the FED monetary policy normalization. We expect the capital outflows condition in 2018 to remain stable as the scrutiny measures on cross border capital movement are certainly working and the market appears to accept a higher volatility in the RMB.</p>

Natixis China Capital Flow Tracker is the broad indicator in measuring China's capital flows condition. Analysis on the financial instruments only represent part of the capital flows.



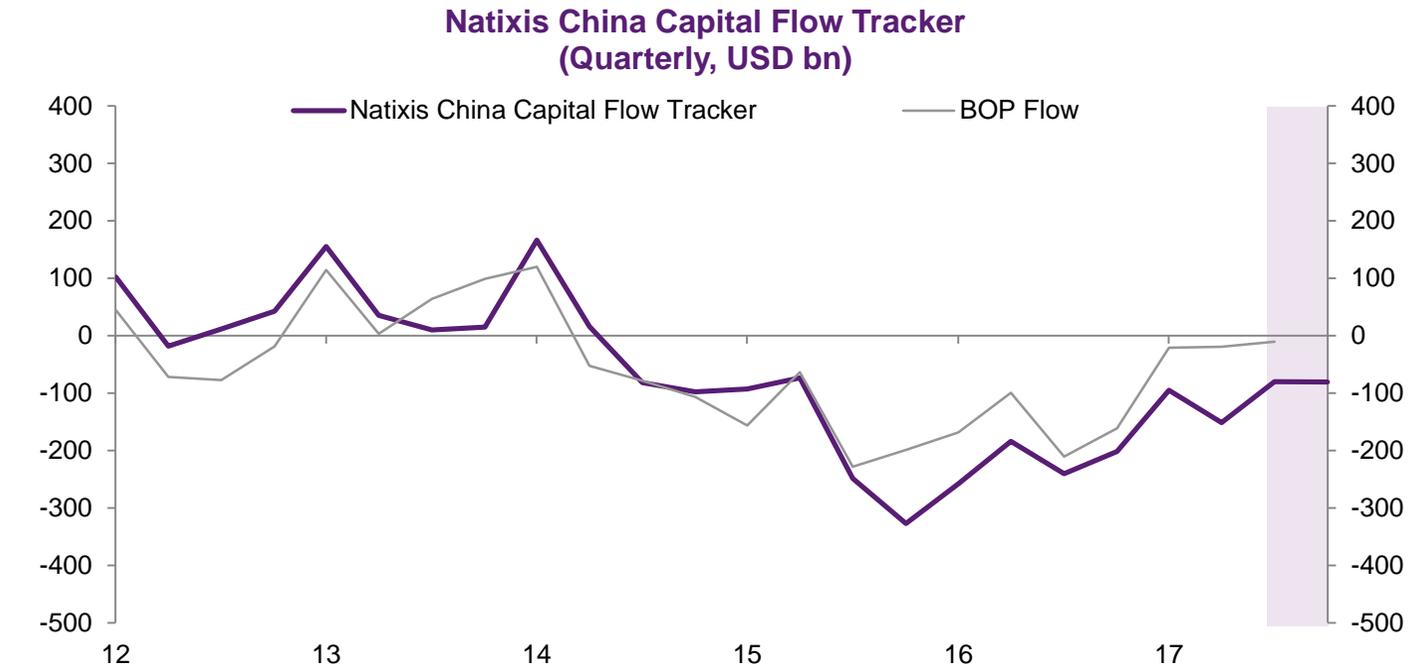
## Some Components in Portfolio and Direct Investments

<b>Funds</b>		Net Hong Kong fund issuance sales have reverted into capital inflows. The underlying reason could be the improvement in the stock market atmosphere has reduced the selling pressure and investors tend to buy-and-hold.
<b>Equities</b>		Capital outflows continue through the stock connect but in a smaller scale than last month. However, the contribution of the southbound stock connect to total turnover in Hong Kong exchange has further increased to 12.1%, indicating the fall is mainly due to overall market condition and the stock connect channel is playing an increasingly important part on capital movement for Chinese corporates.
<b>Bonds (Foreign Holdings)</b>		The rise in foreign bond holdings accelerated in December at a pace of 3.63% MoM, reaching 1.84% of outstanding bonds. Treasury bond is the key contributor on the back to an improved RMB prospect against the USD and higher return on yield.
<b>Direct Investment</b>		Net non-financial FDI remained negative in December.

Equities only include stock connects. Other schemes, such as QDII, are not within coverage. Bonds include overall holding through bond connects, QDII and CIBM.



# Natixis China Capital Flow Tracker indicates that capital outflows in Q4 2017 will remain steady



Source: Natixis



# Future pressure could come from the widened yield differentials with US, which may only increase with the FED monetary policy normalization

### China Capital Flows and Yield Differentials



Source: Natixis, Bloomberg, CEIC

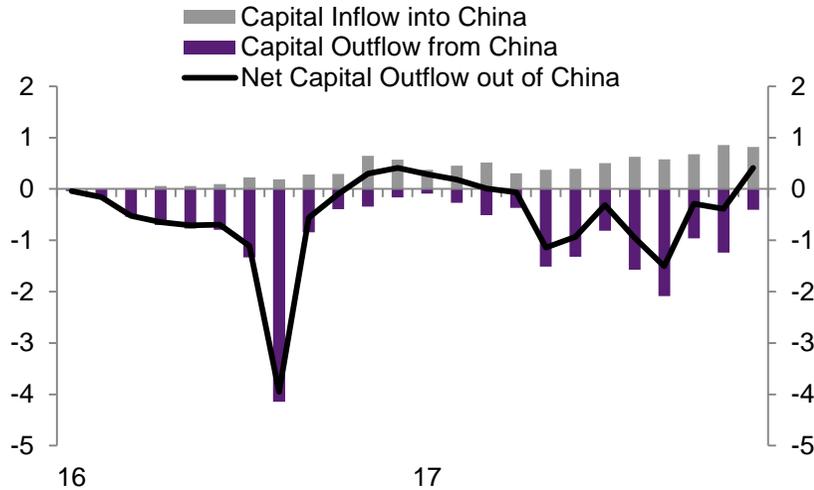
### Foreign Reserves and Dollar Index



Source: Natixis, Bloomberg, CEIC

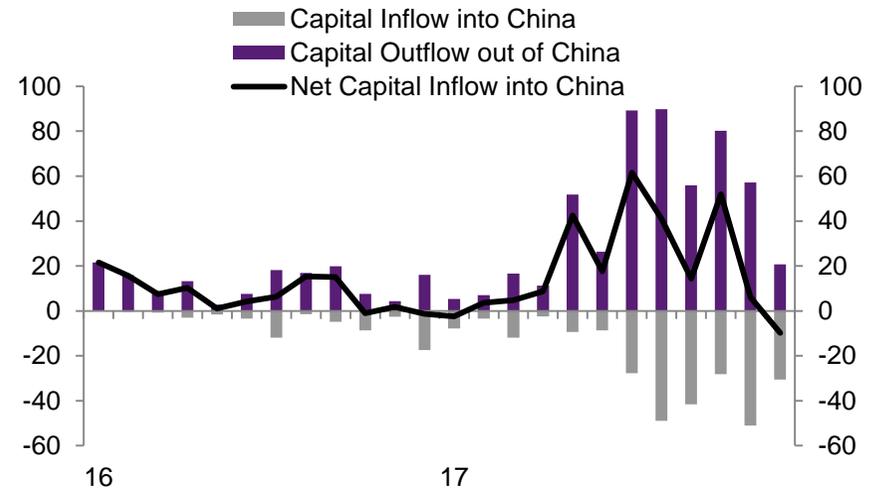
# Net Hong Kong fund issuance sales have reverted into capital inflows

### Hong Kong Fund Issuance Sales in Mainland China (RMB bn)



Source: Natixis, CEIC

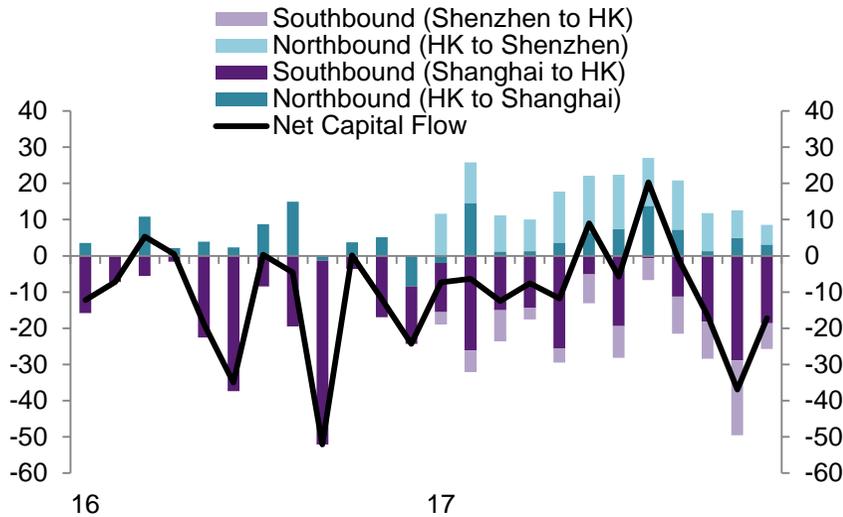
### Mainland China Fund Issuance Sales in Hong Kong (RMB m)



Source: Natixis, CEIC

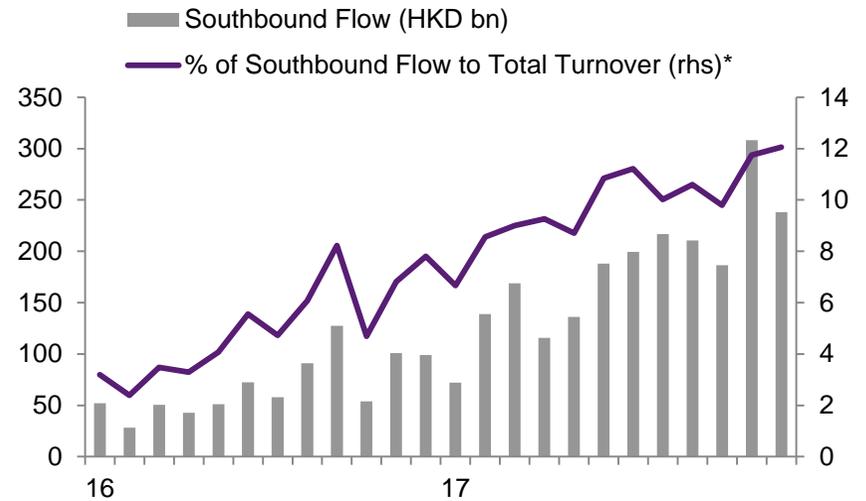
# Southbound stock connect continues to flow into Hong Kong with a even higher proportion in total turnover

### Stock Connect Net Capital Flows (RMB bn)



Source: Natixis, CEIC Data as of 31 Dec 2017

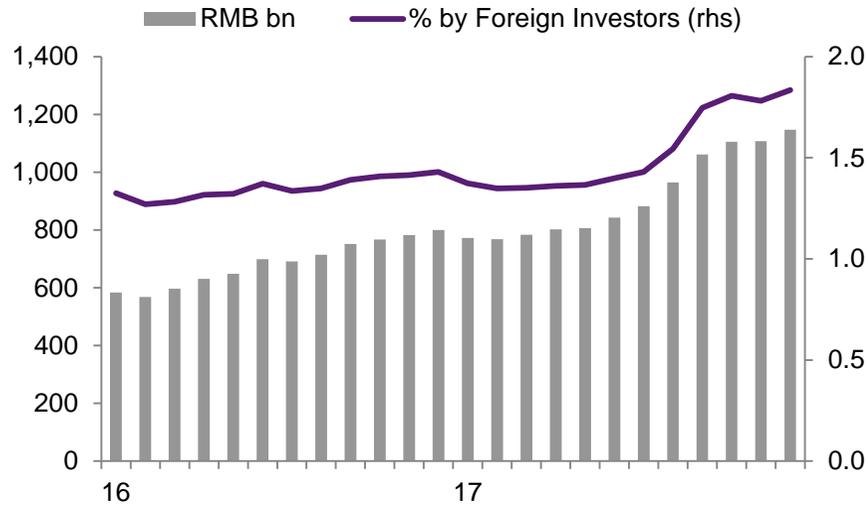
### Southbound Flow into Hong Kong



Source: Natixis, Bloomberg, CEIC

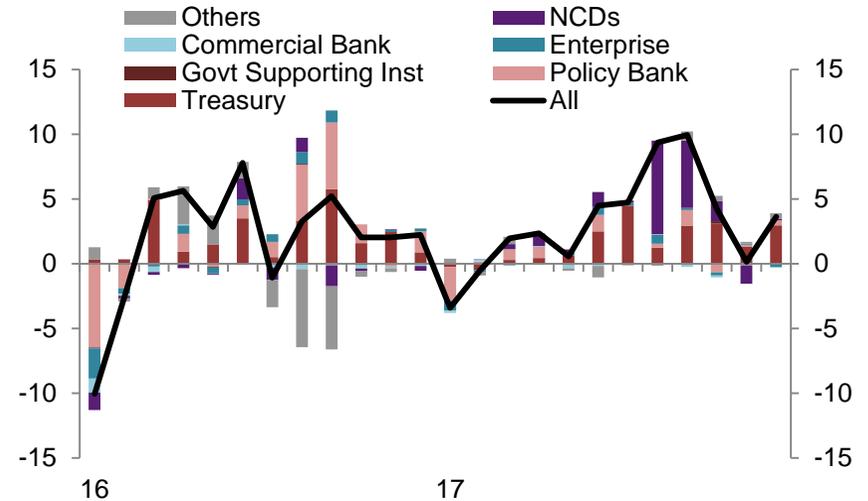
# Foreign bond holdings continued to increase in December, reaching 1.84% of outstanding bonds, mainly driven by treasuries

Foreign Bond Holding



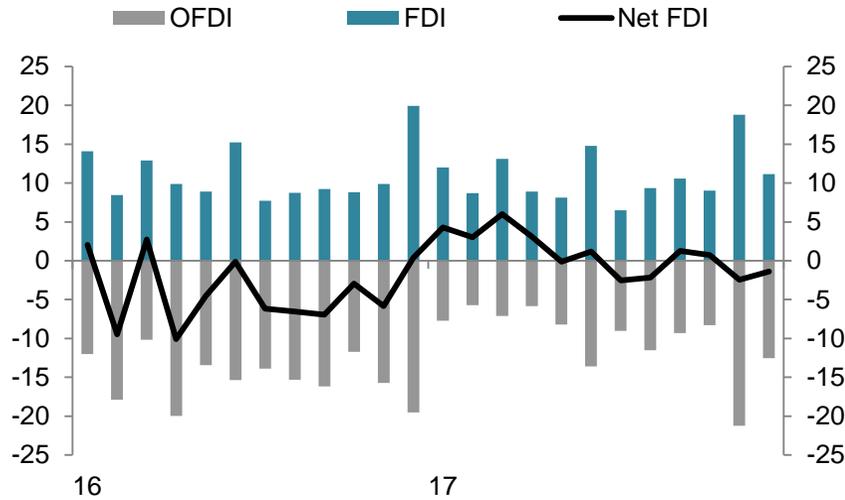
Source: Natixis, CCDC, SHCH, CEIC

Foreign Bond Holding by Instrument (%MoM contribution)



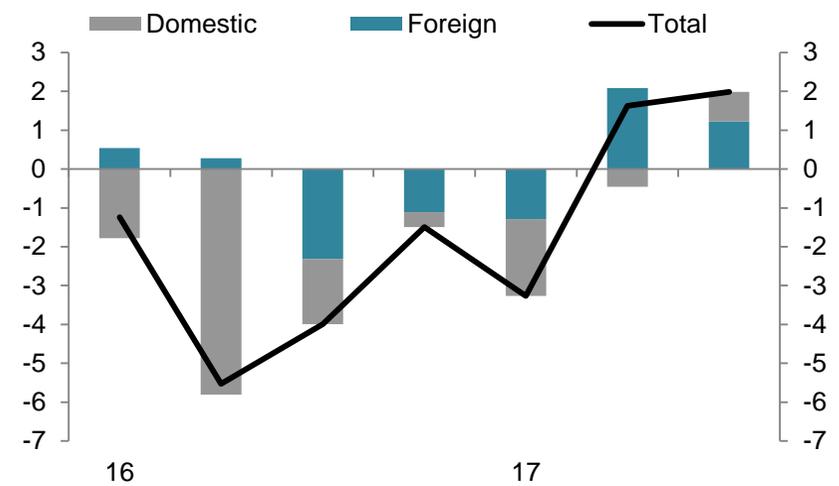
Source: Natixis, CCDC, SHCH, CEIC

### Non-Financial Foreign Direct Investment (USD bn)



Source: Natixis, CEIC

### Financial Net Foreign Direct Investment (Quarterly, USD bn)



Source: Natixis, WIND

# BOP data for Q3 confirms the improving trend predicted by our tracker

## Comparing Natixis China Capital Flow Tracker and actual outflows from the official BOP (USDbn)

	16 Q3	16 Q4	17 Q1	17 Q2	17 Q3	17 Q4 est
<b>China Capital Flow Tracker</b>	<b>-240</b>	<b>-202</b>	<b>-95</b>	<b>-152</b>	<b>-80</b> ↓	<b>-81</b>
Foreign Currency	-148	-144	-68	-117	-72	-65
RMB	-92	-57	-28	-35	-8	-16
<b>BOP Capital Outflows</b>	<b>-210</b>	<b>-161</b>	<b>-21</b>	<b>-19</b>	<b>-11</b> ↓	<b>*</b>
Direct Investment	-30	33	13	1	9	*
Portfolio Investment	-11	-19	-8	-12	4	*
Derivatives	-1	-2	0	0	0	*
Other Investment	-93	-116	32	41	-3	*
Errors of Omission	-75	-58	-58	-50	-55	*
Reserve Assets (Positive indicates fall in reserves)	39	156	1	-48	2	-21#

Source: Natixis, Bloomberg \*China final BOP will be released on 29 Mar 2017. #November data

### Natixis Tracker: Release schedule

February Tracker 28-Feb-2018

Access to our previous tracker [here](#).

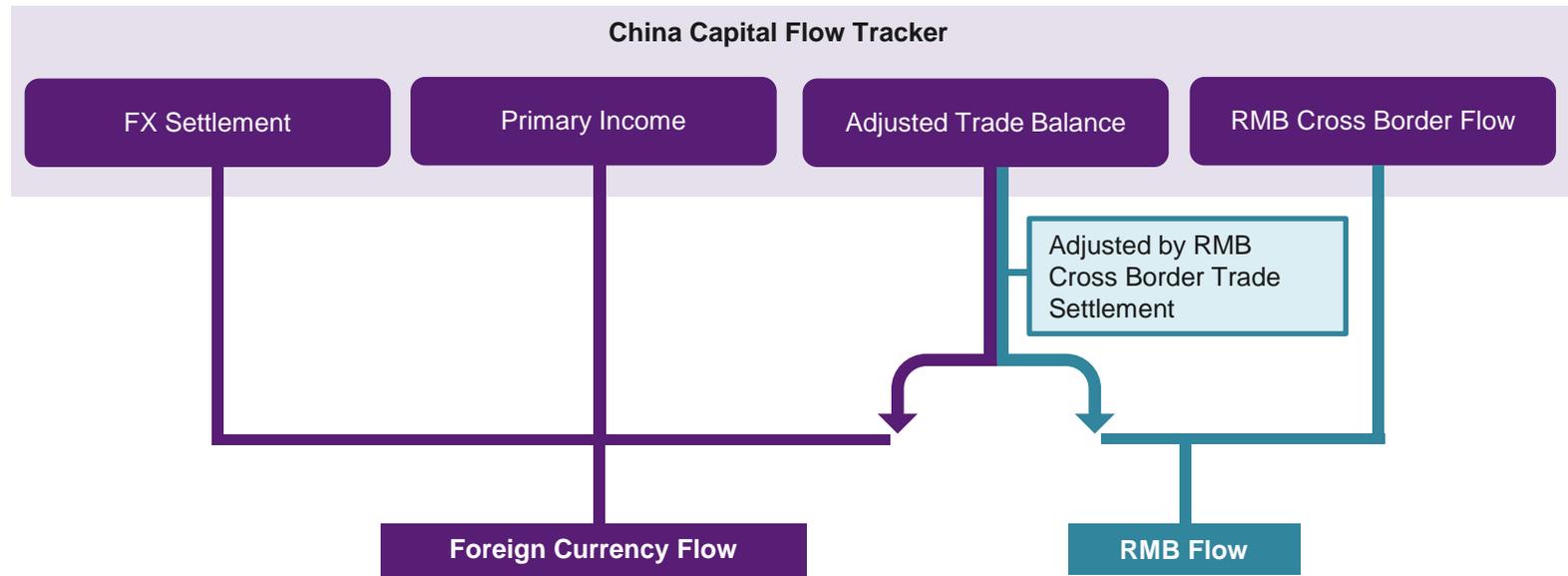
### Official Quarterly BOP Release Schedule

Indicator	Date
Q1 Final	29-Mar-2018

Source: Natixis, Bloomberg

Next Page: Methodology

## Illustration of Natixis China Capital Flow Tracker



Source: Natixis

### Full Description:

[Navigating through the mist: Introducing Natixis China Capital Flow Tracker](#)

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