China Vulnerability Sentiment Index

China | Vulnerability sentiment edging towards neutral

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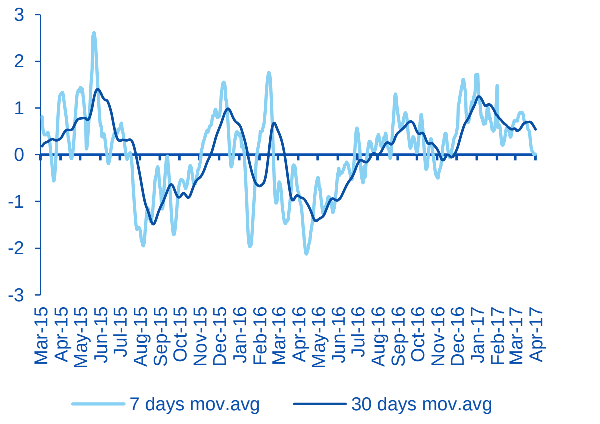
Our China Vulnerability Sentiment Index (CVSI) continued to moderate in April after improving uninterruptedly since July 2016. The CVSI is now edging down to neutral, however the components of the index show some divergence. The moderation in April can be traced back to a decline in the housing and FX components. In contrast, the shadow banking component remained positive on a tighter monetary policy stance and macroprudential measures.

Vulnerability sentiment moderates on housing and FX pressures

Our China Vulnerability Sentiment Index (CVSI), a proprietary measure to track vulnerability sentiment in China in real time (refer to our previous report here), edged closer to neutral after remaining in positive territory several months. The recent moderation marks a disruption from the upside trend observed in 2H16. Declines were led by the FX speculative pressure component, which dropped sharply on yuan depreciation. A weaker currency, coinciding with PBoC's lowering of the mid-point rate in April, had a detrimental effect on vulnerability sentiment. This was enough to offset gains stemming from the fact that China's FX reserves increased in 1Q17. The housing bubble component edged down on rising housing prices, despite the implementation of tightening measures in a number of large cities. On a more optimistic note, the shadow banking component continued to reflect improving sentiment in response to a tighter monetary policy stance since the beginning of the year (see Figure 7) and remains very positive despite presenting significantly negative values only one year ago. This is also partially the result of the People's Bank of China's (PBoC) latest efforts to include off-balance sheet wealth management products (WMPs) in its macro prudential assessment. Meawhile, the SOE component improved compared to March but remains below levels observed in February. A significant proportion of key SOEs present better sentiment than a year ago according to our sentiment diffusion index (Figure 8).

Figure 1

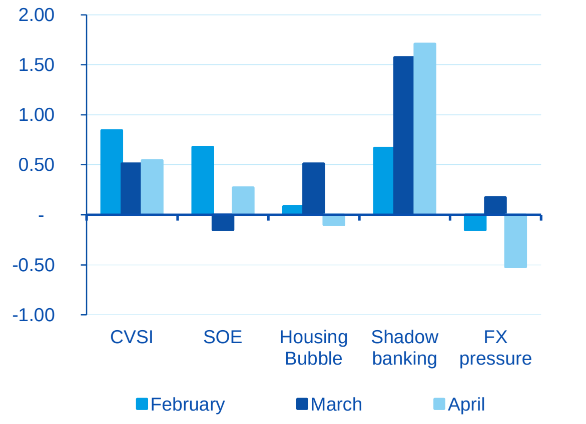
China Vulnerability Sentiment Index (CVSI)



Source: BBVA Research based on figures by Gdelt, Bloomberg, CEIC and Wind

Figure 2

Evolution of the CVSI over the past 3 months



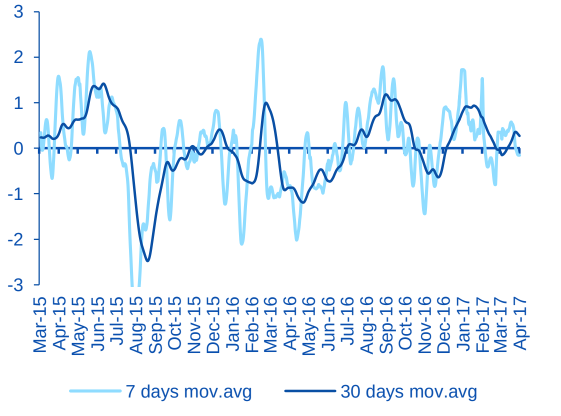
Source: BBVA Research based on figures by Gdelt, Bloomberg, CEIC and Wind

In sum…

Our CVSI edged closer to neutral, while remaining positive in April. We expect some downside pressure in the following months, in line with our projections of growth moderation in China. Moreover, a series of risks will continue to require close monitoring going forward. Most importantly, the housing bubble component has deteriorated on rising prices while FX speculative pressures could intensify in case the U.S. Fed adopts a more hawkish stance, leading to a faster-than-expected pace of interest rate hikes and exerting further depreciatory pressure on the yuan.

Figure 3

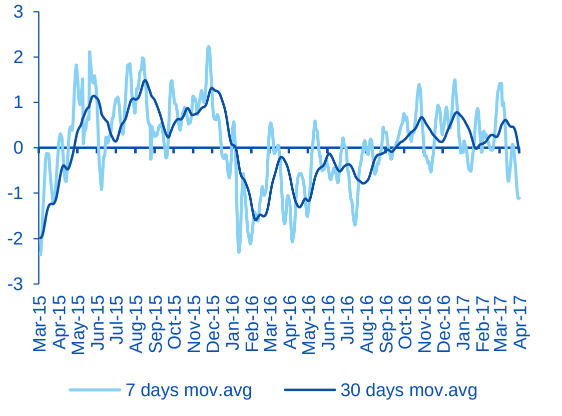
SOE Vulnerability Index



Source: BBVA Research, www.gdelt.org, Bloomberg, CEIC, Wind

Figure 4

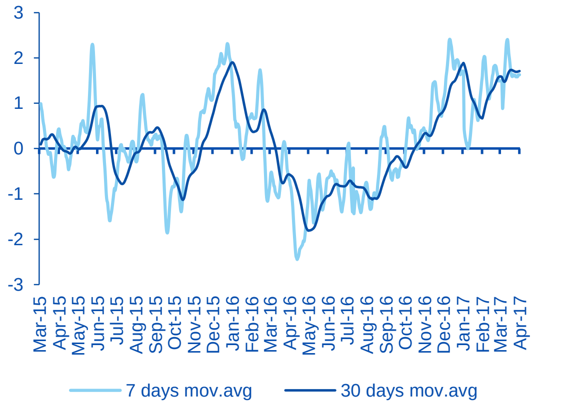
Housing Bubble Vulnerability Index



Source: BBVA Research, www.gdelt.org, Bloomberg, CEIC, Wind

Figure 5

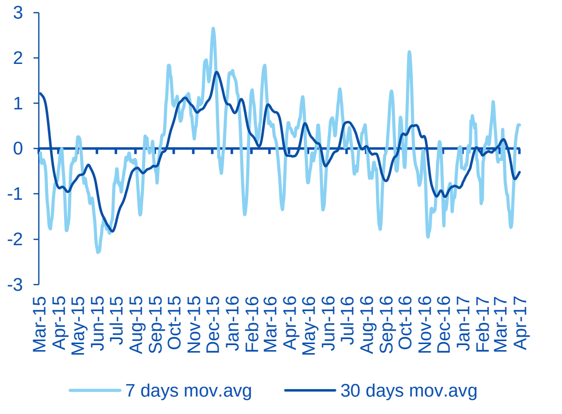
Shadow Banking Vulnerability Index



Source: BBVA Research, www.gdelt.org, Bloomberg, CEIC, Wind

Figure 6

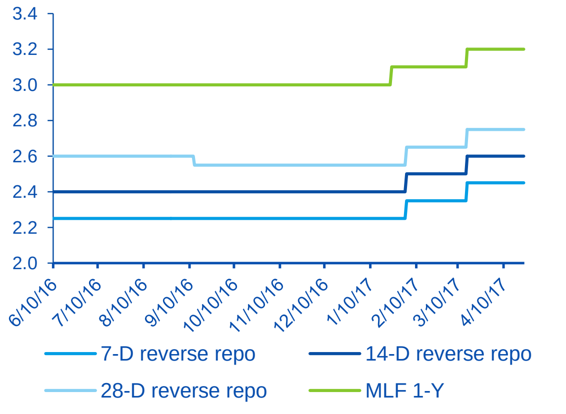
FX Speculative Pressure Vulnerability Index



Source: BBVA Research, www.gdelt.org, Bloomberg, CEIC, Wind

Figure 7

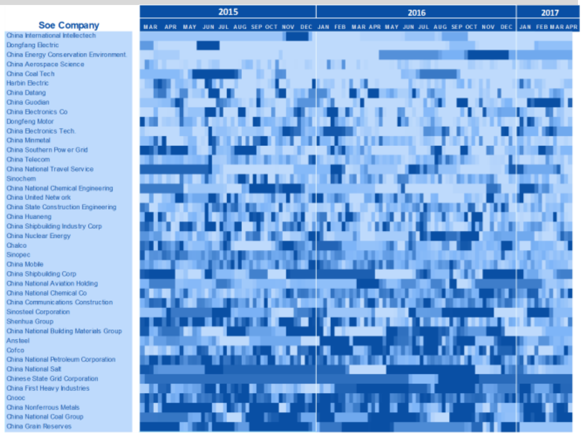
PBoC lifts rates by 0.10% again



Source: BBVA Research and Bloomberg

Figure 8

SOE Sentiment improved vs. last year



Source: BBVA Research and www.gdelt.org.
*Light colors indicate positive sentiment while dark indicates negative sentiment

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