

Housing Bubble Brewing In China

Shenshen Wang
Senior Economist
Global Monetary Research Dept.
Okasan Securities Co., Ltd
March 8, 2013

Housing Bubble Brewing In China



Contents

1. Global liquidity increases after financial crisis

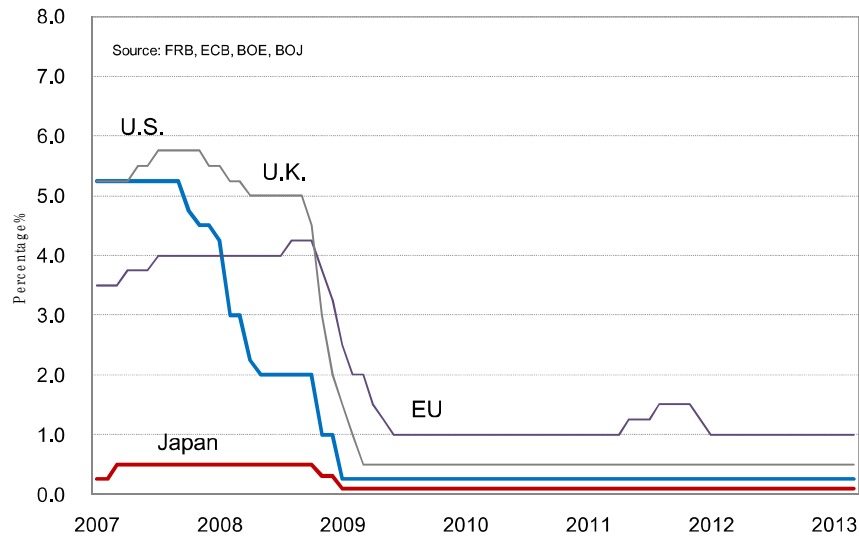
- Central banks pump easy money after financial crisis
- Easy money leads to the rapid recovery of the U.S. housing market
- Central banks signal continuation of quantitative easing

2. In China, housing bubble brewing amid excessive liquidity

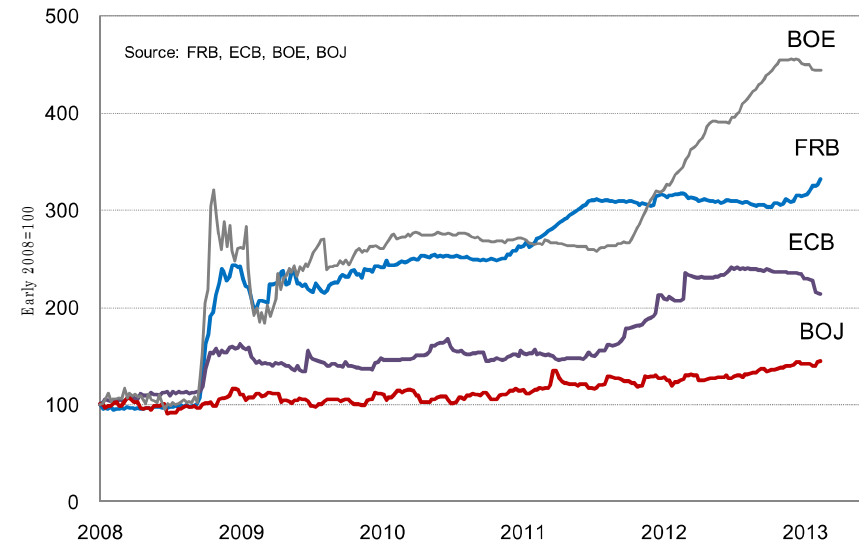
- Housing bubble signs appear
- Mortgage loan and housing prices increase
- Government acts to curb since 2010, but liquidity remains in surplus.

Central Banks Pump Easy Money

Policy Interest Rates



Asset of Central Banks' Balance Sheets

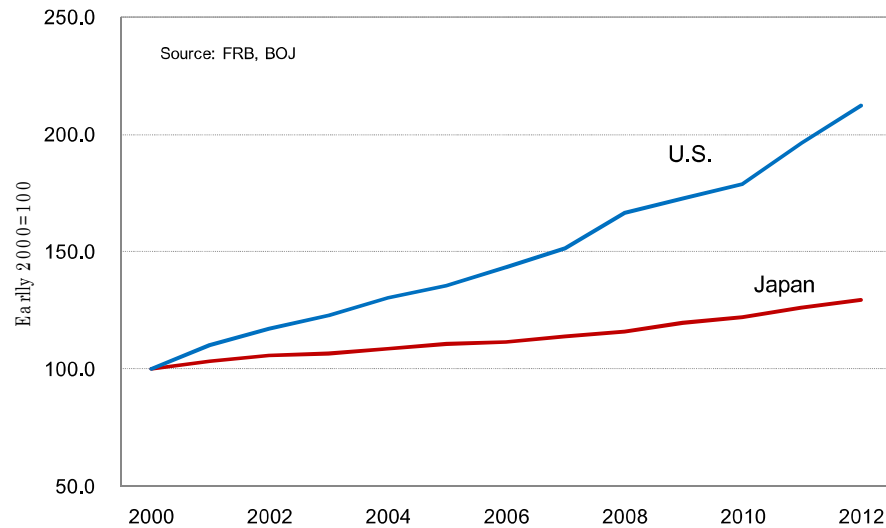


- Central banks cut rates and carry out major purchases of bonds.
- Fed and BoJ retain zero-interest rate policy, and their assets keep increasing.

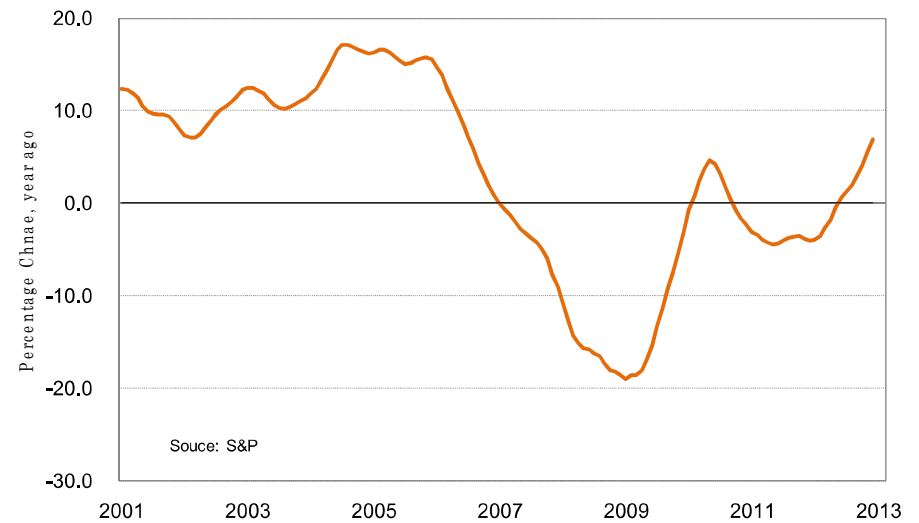
Easy Money Leads to Housing Market Recovery



Money Supply M2



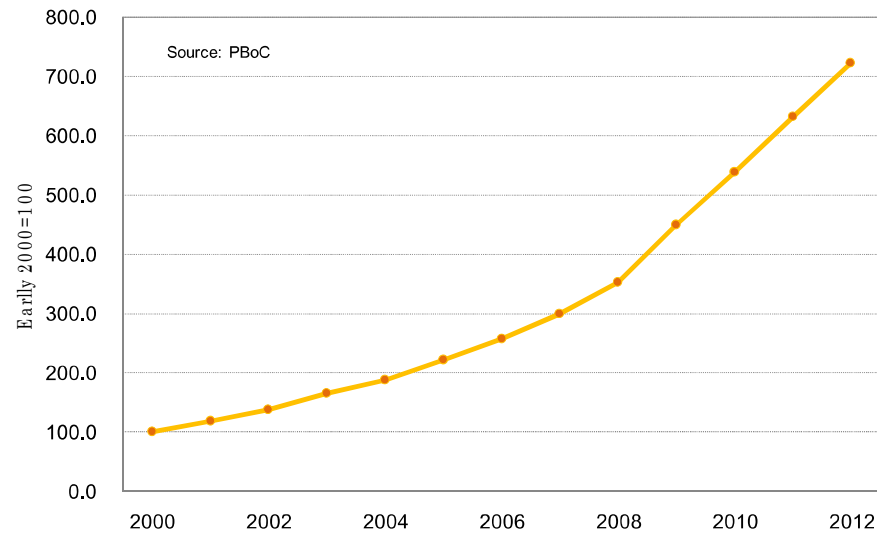
The S&P/Case-Shiller Home Price Index, 20-City Composite



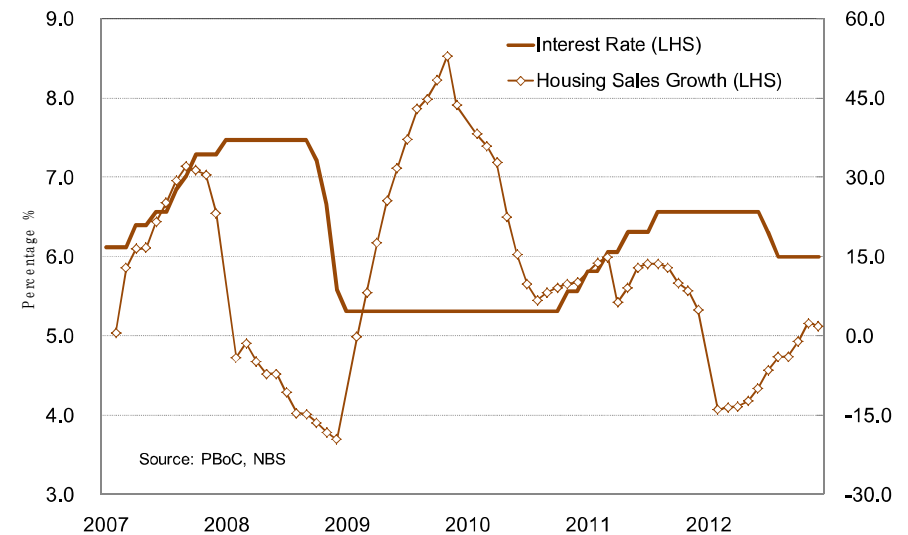
- Japan's money supply increased 8.3%, and U.S. rose 23.1% from 2009 to 2012.
- U.S. housing market has bottomed out.

In China Housing Bubble Signs Appear

Money Supply M2, China



Interest Rate and Housing Sales, China

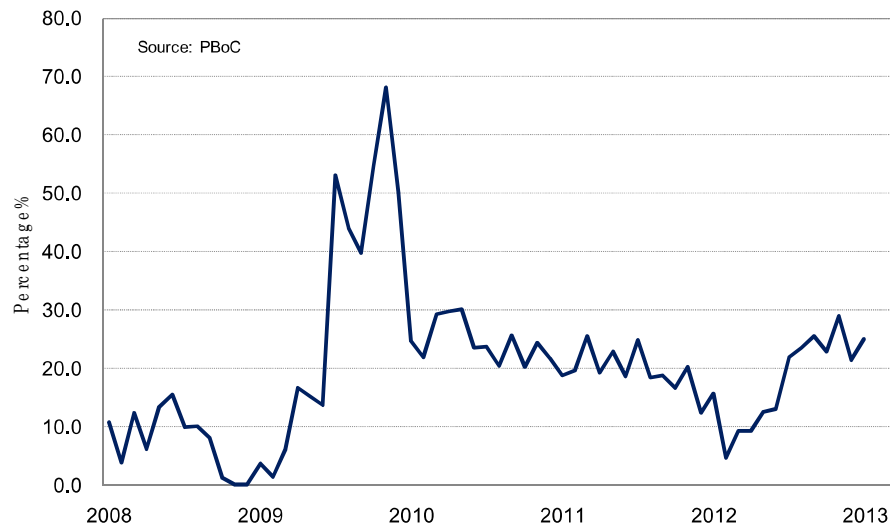


- China's money supply rose 60.7% from 2009 to 2012.
- Triggered by two rate cuts, housing sales growth entered positive territory.

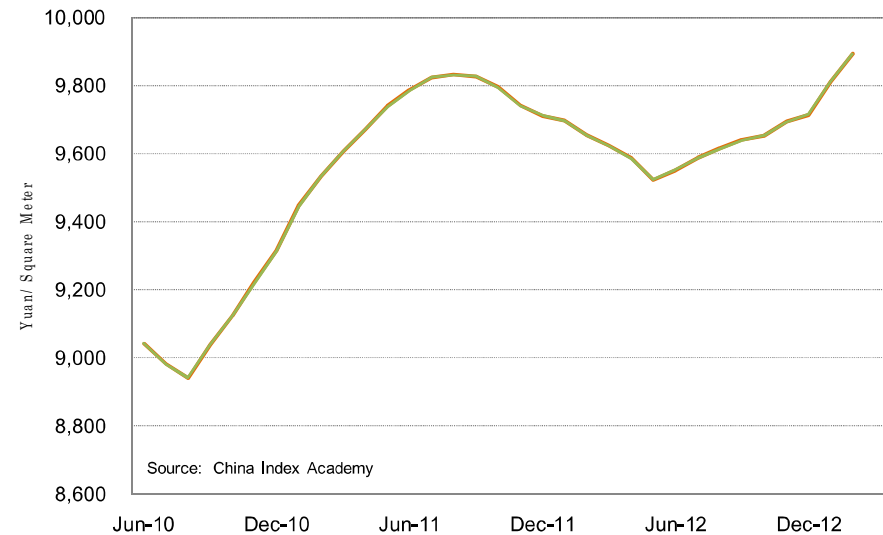
Mortgage Loan and Housing Prices Increase



Long-term Consumer Loan/ Total Bank Loan, China



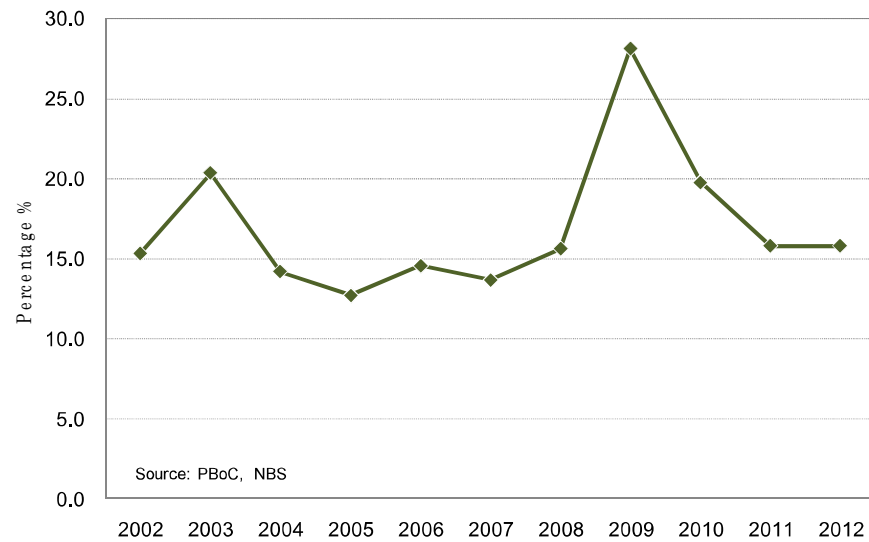
Average Housing Price of 100 Cities, China



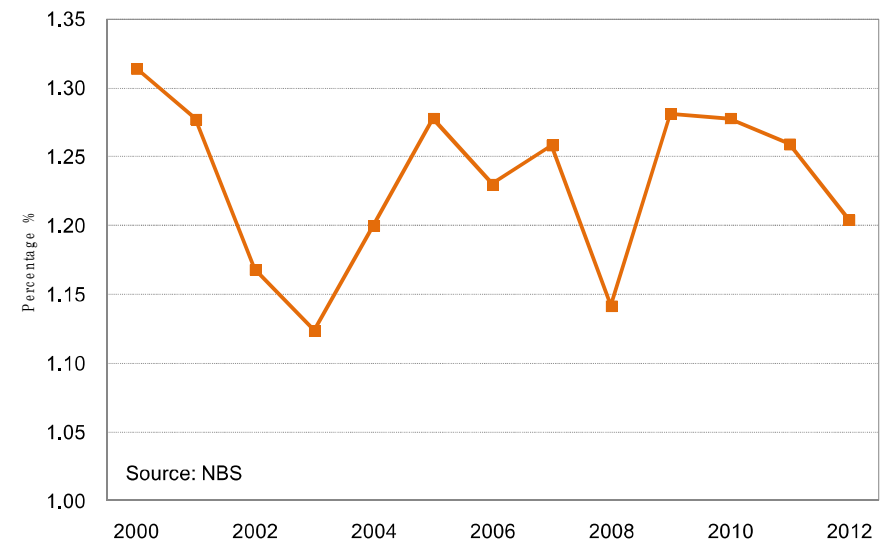
- Long-term consumer loan/ total bank loan ratio trends upward.
- Housing prices have climbed since mid-2012.

Government Acts to Curb Housing Market

Bank Credit/GDP, China

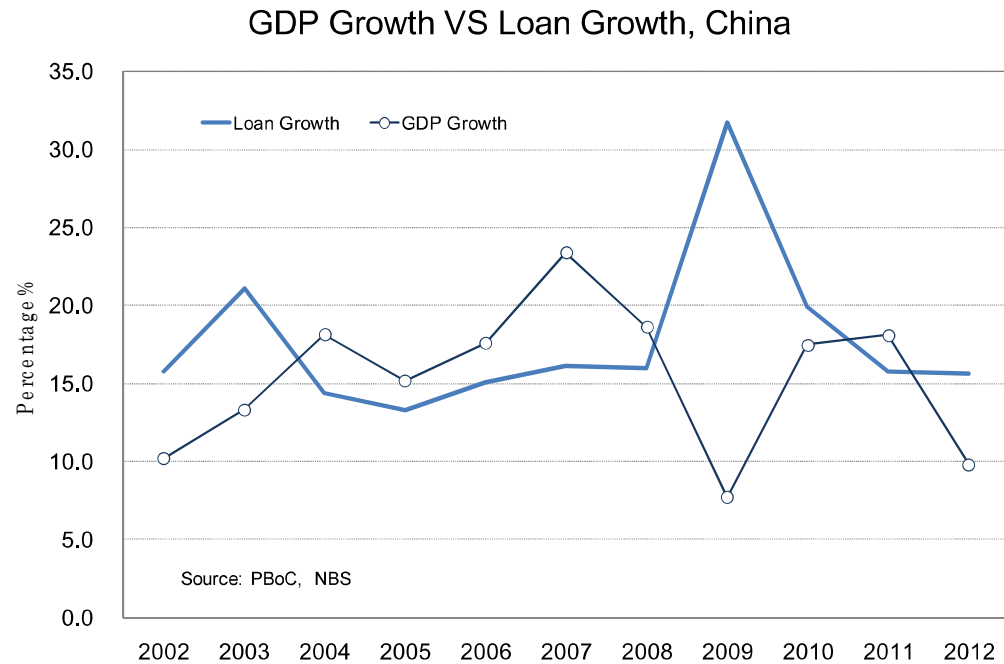


Housing Price/Income, China



- Bank credit-to-GDP ratio remains flat.
- Price-to-income ratio shows greater affordability.

Liquidity Remains in Surplus



- Loan growth trending above GDP growth, liquidity remains in surplus.
- Excessive liquidity limits administrative measures' effect to curb asset bubble.

This material has been prepared solely for the purpose of providing investment information to be used as reference in making investment decisions and does not take into consideration specific investment objectives or requirements of individual investors. The value of securities in which investments are made and income gained from investments may vary depending upon many factors including changes in management and financial conditions of the issuer, changes in the interest rates and foreign exchange markets and other factors in addition to the volatility of the prices of securities, and may result in values that are less than the original investment amount. Historical performance does not necessarily indicate future performance. The final decision regarding investments should be made based upon the judgment and at the risk of the investor.

The report contained herein has been prepared by Okasan Securities from sources believed to be reliable but nothing herein warrants the completeness or the accuracy of the information. Further, views and forecasts contained herein are those of Okasan Securities as of the time of preparation and may be changed without prior notice.