

China remains the destination for stable return for foreigners

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- The aggressive Fed tightening weighed down China’s balance of payment and investment return globally.
- The BoP outflows under non-reserve financial account were well offset by the resilient basic balance, which stood at 2.75% of GDP in the first half of 2022.
- China’s total net foreign assets returned to US\$2 trillion mark.
- China’s annualized investment return from its US\$9.16 trillion foreign assets fell sharply to about 1.5% in the first half from the usually 3%.
- China still offered about annualized 5.5% return to foreign investors in the first half on par with historical norm.

Volatility surged in the global market as the US Fed turned more hawkish to fight inflation. The aggressive Fed tightening also weighed down China’s balance of payment with the non-reserve financial account deficit widened to US\$100.66 billion in the first half of 2022 (Chart 1) led by the unwind of RMB bond positions by foreign investors (Chart 2). This is not surprising given the reversal of China-US rate differential.

Chart 1: Non-reserve financial account deficit widened due to bond outflows

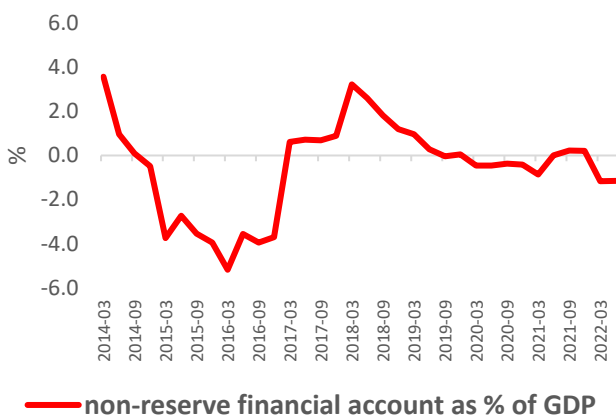
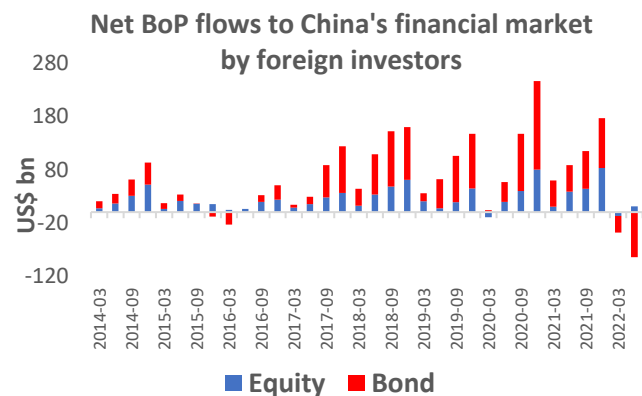


Chart 2: Bond outflows accelerated due to widening US-China yield differential despite equity inflows



Source: Wind, CEIC, OCBC Bank

Nevertheless, the outflows under financial account were well offset by inflows under China’s current account and foreign direct investment. China’s basic balance as % of GDP remained strong at 2.75% in the first half of 2022 (Chart 3). As such, China’s overall balance of payment as % of GDP remained positive at 0.76% albeit moderating from 2% in 2021 when China recorded twin surplus.

Greater China

3 October 2022

China remains one of the largest net creditors in the world with total net foreign assets increased to US\$2.08 trillion as of end of June 2022 from US\$1.98 trillion in 2021 (Chart 4).

Chart 3: Basic balance remained strong



Chart 4: China owns more than US\$2 trillion net foreign assets

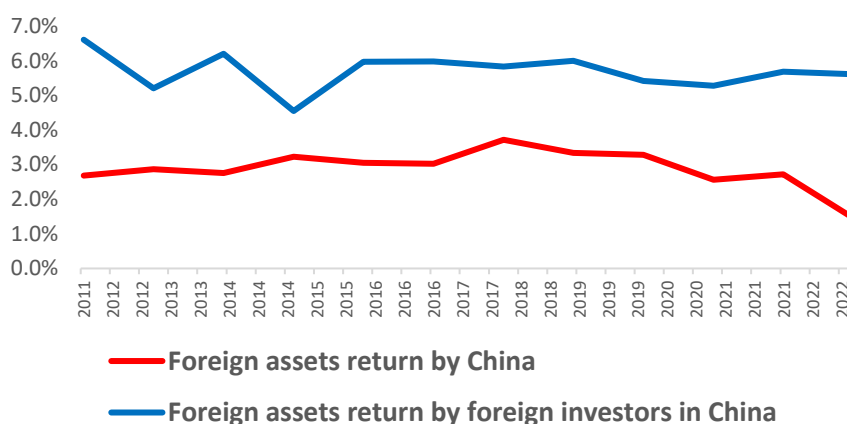


Source: Wind, CEIC, OCBC Bank

However, China's investment return from its foreign assets fell significantly to about annualized 1.5% in the first half of 2022 from usual 3% handle probably due to the rising volatility in the financial market. Nevertheless, China continued to provide stable return to foreign investors with foreign investors earned about US\$196 billion return in China in the first half. This is equivalent to about annualized 5.5% return from their US\$7 trillion total investment in China, on par with historical return in the past decade. (Chart 5)

The widening gap between investment return overseas and investment return in China reinforced China's attractiveness as investment destination with stable return.

Chart 5: No golden September this year in property market.



Source: Wind, CEIC, OCBC Bank

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