

China: Imminent Asset Inflation?



Last week, China released a series of economic figures, indicating China's economy is still in a booming cycle. Figure-wise, retail sales rose 18.7% in May, compared with an 18.5% gain in the previous month. Urban fixed-asset investment climbed a more-than-forecast 25.9% in the five months through May, compared with 26.1% in the first four months, according to the statistics bureau. The median estimate by Bloomberg was for a 25.7% increase. On the other hand, China's industrial output rose 16.5% in May from a year earlier. With regard to market liquidity, lending in May exceeded the median forecast of 600 billion yuan in a Bloomberg News survey of 24 economists. In April, the amount was 774 billion yuan. M2, the broadest measure of money supply gained last month 21% from a year earlier, after a 21.5% gain in April. These figures show there is a risk of overheating.

On a broad measure, China's inflation accelerated in May to the quickest pace in 19 months. Consumer prices rose 3.1% from a year earlier. That was more than the median 3% estimate in a Bloomberg News survey of 32 economists and April's 2.8% gain. In fact, the increase in consumer prices tops the government's targeted 3% ceiling for the year as a whole, highlighting the threat of inflation getting out of control after banks flooded the economy with money to drive the nation's recovery. In coming months, we may see the supply-sided inflation will intensify. For example, wage increases at companies such as Foxconn Technology Group and Honda Motor Co. are adding to inflationary pressures. Still, consumer-price gains may be capped by month-on-month declines in commodity and vegetable costs. In May, consumer prices fell 0.1%

from April. It is expected the economic growth will moderate as the government cools the property market, the effects of a November 2008 stimulus package fade, and comparisons are made with higher year-earlier bases.

Europe's sovereign-debt crisis could also damp exports in coming months. There is also hidden risk of corporate earnings and revaluation of yuan. For example, PPI quickened to 7.1% from 6.8%, eroding corporate earnings. Combined with surging exports and near-record property-price gains, US will argue for a more flexible yuan ahead of a Group of 20 nations meeting in Toronto in two weeks' time. US Treasury Secretary Timothy F. Geithner told the Senate Finance Committee last week that a move could redress global economic distortions and help China cool prices.



Microscope

Yuan forwards strengthened to the highest level this month as US government officials stepped up calls for China to allow appreciation, according to Bloomberg. US politicians argue that Chinese policy makers have limited the currency to trading at about 6.83 to the greenback since July 2008, intensifying criticism from some US lawmakers, who already saw the yuan as undervalued and giving China an unfair advantage in trade. Obviously, the frustrations with China's trade practices are growing by the moment. Money market rates climbed after government reports last week showed China's exports last month rose the most in more than three years, while inflation was faster than expected. In fact, strong exports data in China acts in unison to fuel further expectations of a revaluation. The yuan's 12-month non-deliverable forwards rose significantly last week. In coming months, Chinese officials may de-peg the US from the yuan. It is expected that investors may use non-deliverable forward contracts to bet on yuan gains as both fundamental factors and political pressure for a stronger Chinese currency intensify. 

MARKET BRIEFING

YTD % (local curr)


US DJ	10,211 (-2.1%)
Nasdaq	2,243 (-1.1%)
Euro Stoxx 50	2,638 (-11.1%)
HSI	19,872 (-9.1%)
Japan NK225	9,705 (-8.0%)
China Shanghai Composite	2,569 (-21.6%)
Singapore	2,796 (-3.5%)
India BSE30	17,064 (-2.3%)
Brazil BOVESPA	63,605 (-7.3%)
Aus All Ord	4,516 (-7.5%)
US-10yr Bond Yield	3.23%

As at 11/06/10

Insight: "Keyman Insurance Planning"


When a company carries out such as providing their services, recruitment, paying the bills and so on, they often overlook important issues like insurance specifically, key man insurance. Companies purchase this life insurance policy on the life of the company's key executive. Many small businesses depend on a key person or few key employees to manage and run their business. Since these people are crucial to the success of a business, companies invest in key man insurance, which is actually a life insurance on the business. The company is the beneficiary of the plan and therefore pays the insurance policy premiums. The payout

provided from the death of those executives buy time to find a new person or to implement other strategies in order save the business. If the key person unexpectedly dies, the company receives the

insurance payoff. This coverage compensates for the death, which affect the success of the company. Key man insurance protects the company from drowning when they lose the executive who holds the business together. The company uses the insurance proceeds for expenses towards replacement of the person, to pay off debts, distribute money to investors, pay severance to employees or even close the business down in an orderly manner. Sometimes key man insurance does give companies better options than immediate bankruptcy. In HK, this type of insurance premium expenses may be tax-deductible. 

Financial "In & Out"

IN: High yield currencies, including AUD and NZD will resume its bull run amid the optimism that China's economic growth remains intact and risk appetite of investors is increasing.

OUT: UK pound will face profit-taking pressure in recent price rebound due to concerns over her debt level and the slow economic growth in the coming year. 



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