

China's Financial Growth: An Asset Pricing Perspective

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School of Business**

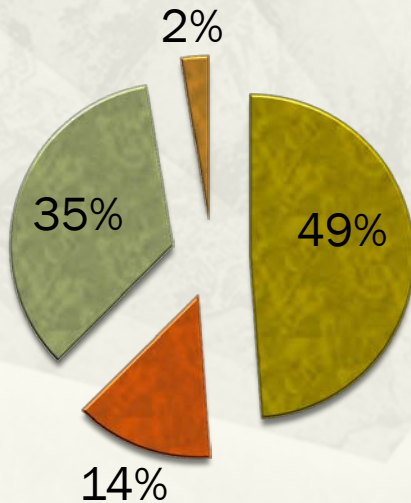
China's Financial Growth: An Asset Pricing Perspective

- * An Overview of the Economy
- * Equity
- * Bonds
- * Grain
- * Iron Ore
- * Real Estate
- * Art

Investment crowding out Consumption

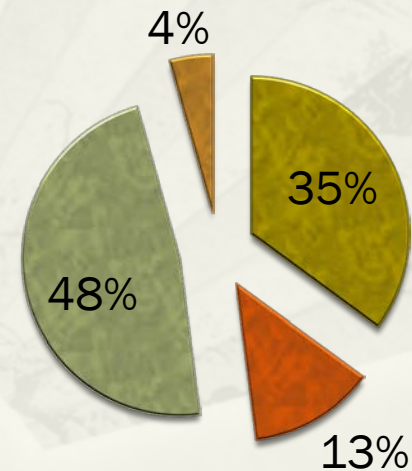
Composition of GDP in 1990

- Household Consumption
- Government Consumption
- Gross Capital Formation
- Net Export



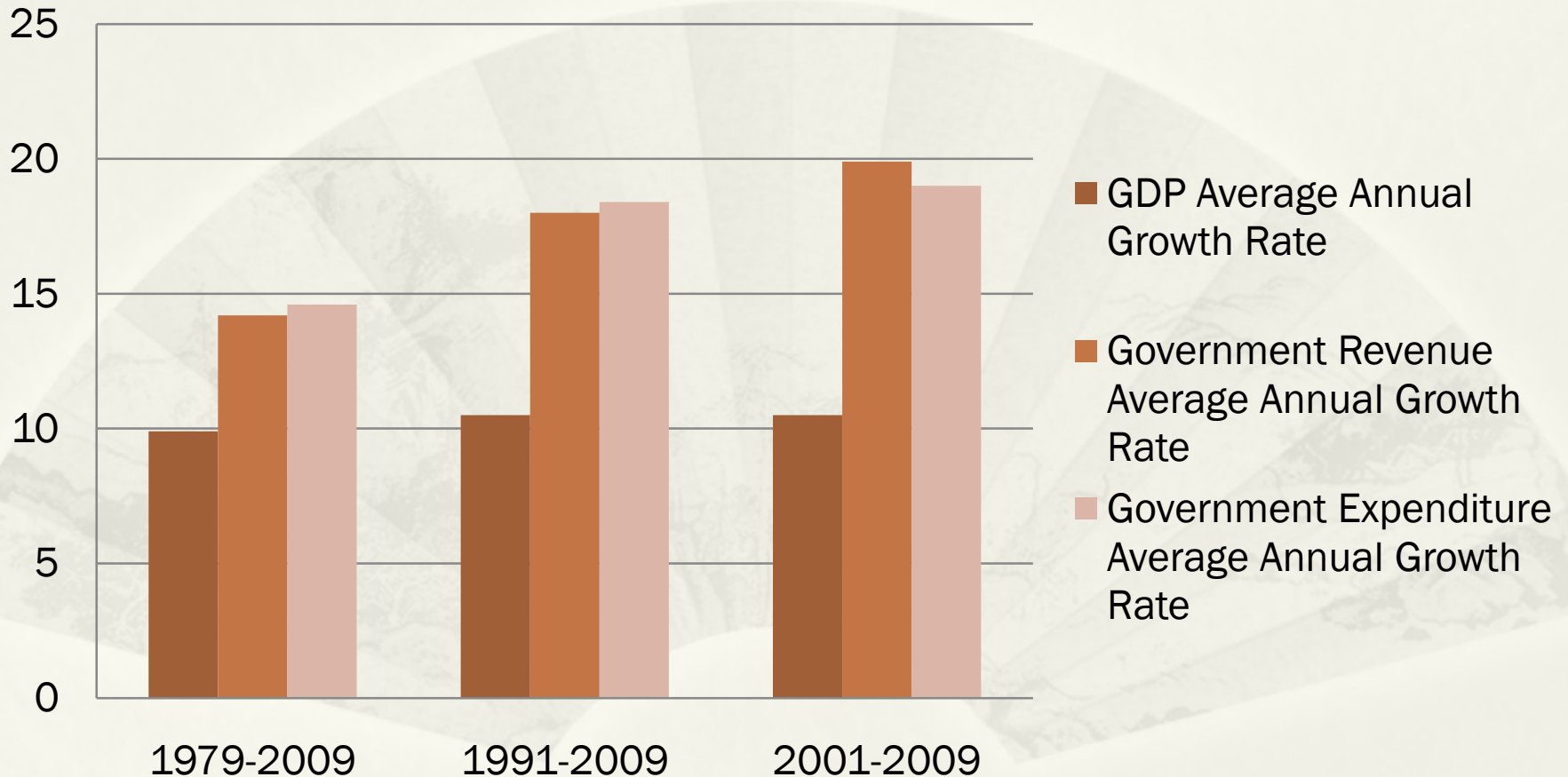
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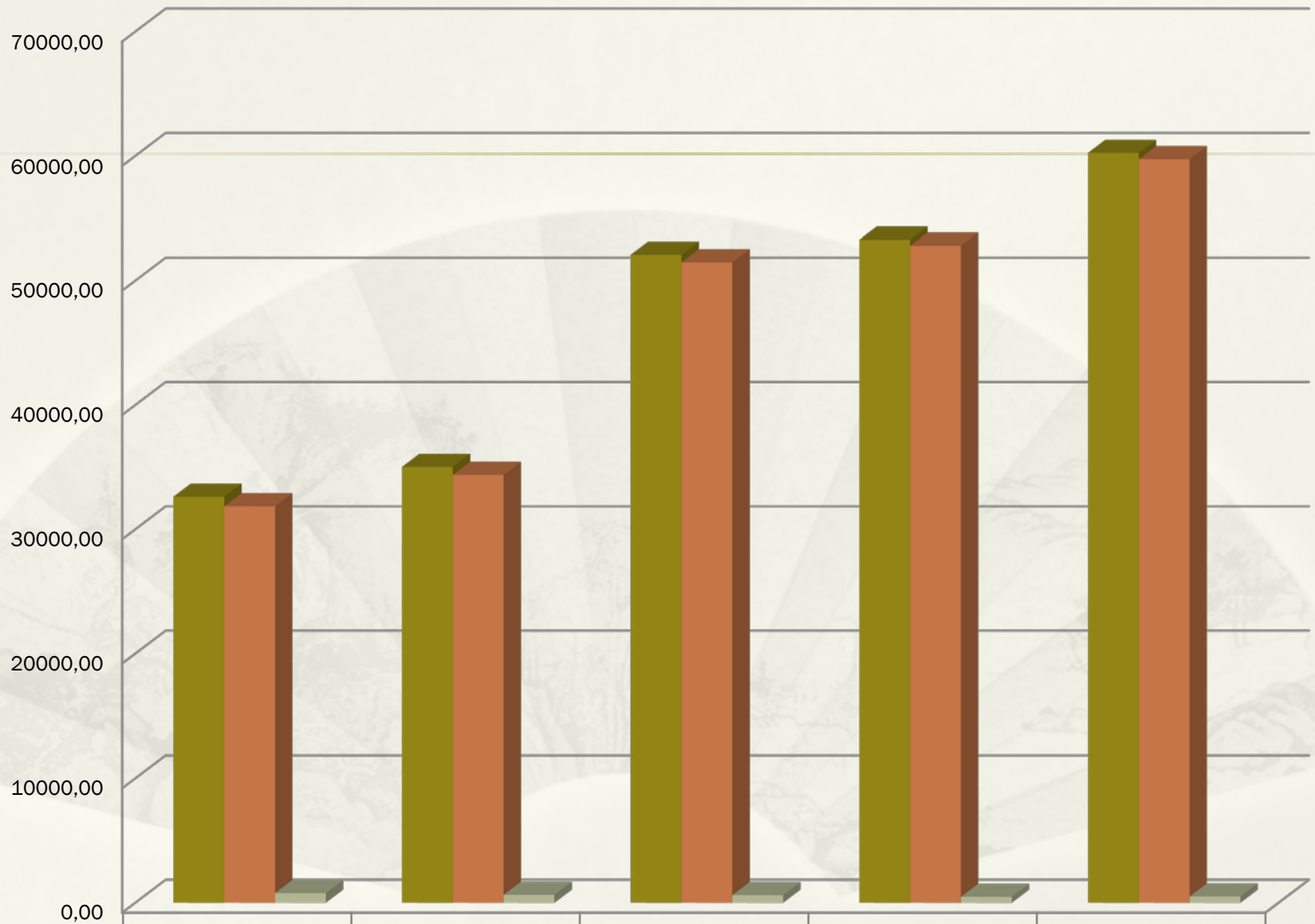


The Growth of the State Sector

Average Annual Growth Rate(%)



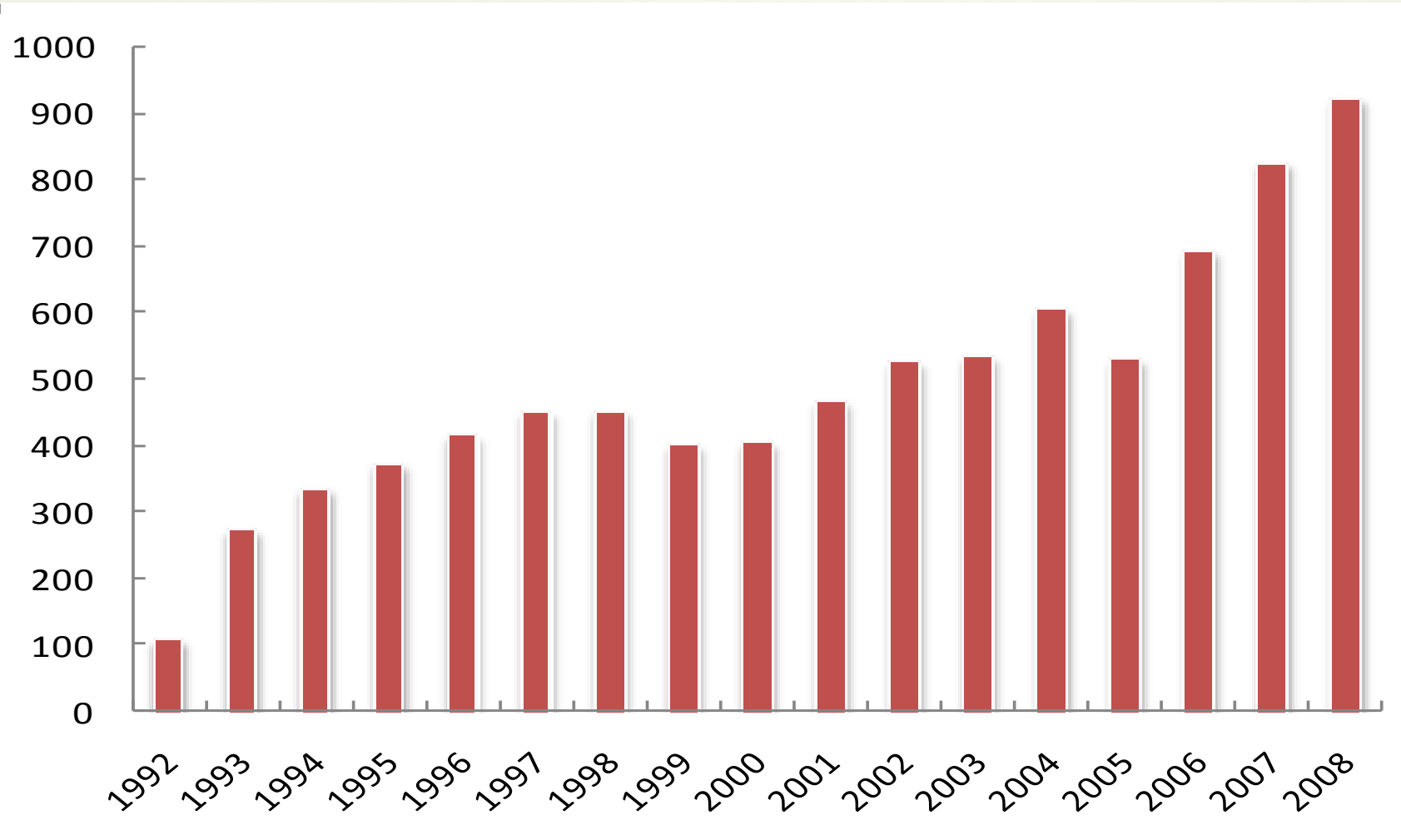
Outstanding of Debts of Central Government(100 million yuan)



■ Total	32614,21	35015,28	52074,65	53271,54	60237,68
■ Domestic Debts	31848,59	34380,24	51467,39	52799,32	59736,95
■ External Debts	765,52	635,02	607,26	472,22	500,73

International Capital Flow into China

FDI (100 mn \$)



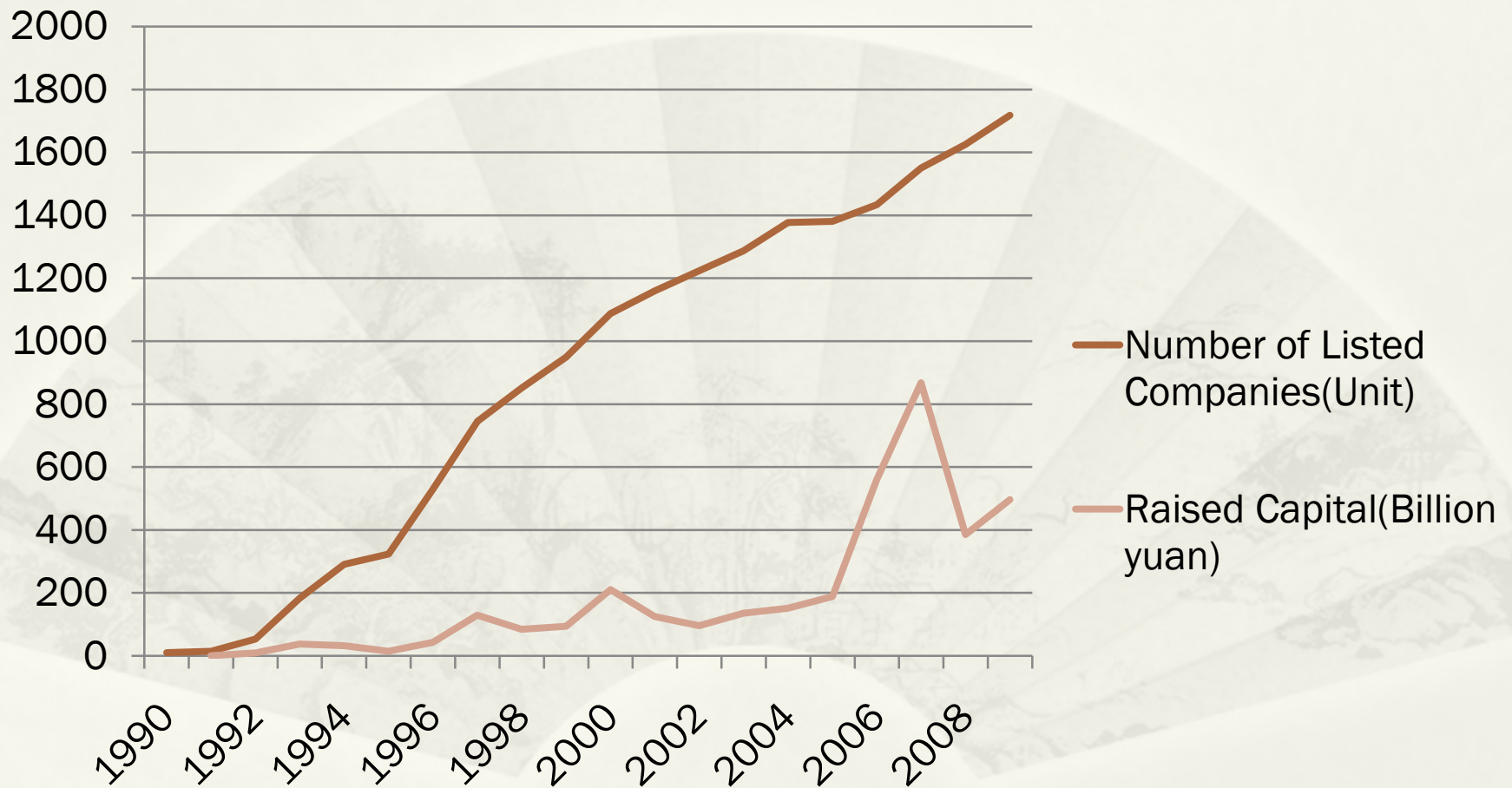
An Overview of the Economy

- * Rapid yet unbalanced growth
- * A large state sector that is crowding out private consumption and investment
- * Healthy fiscal condition leads to a underdeveloped government bond market
- * Large FDI continue to play an important role in China's development

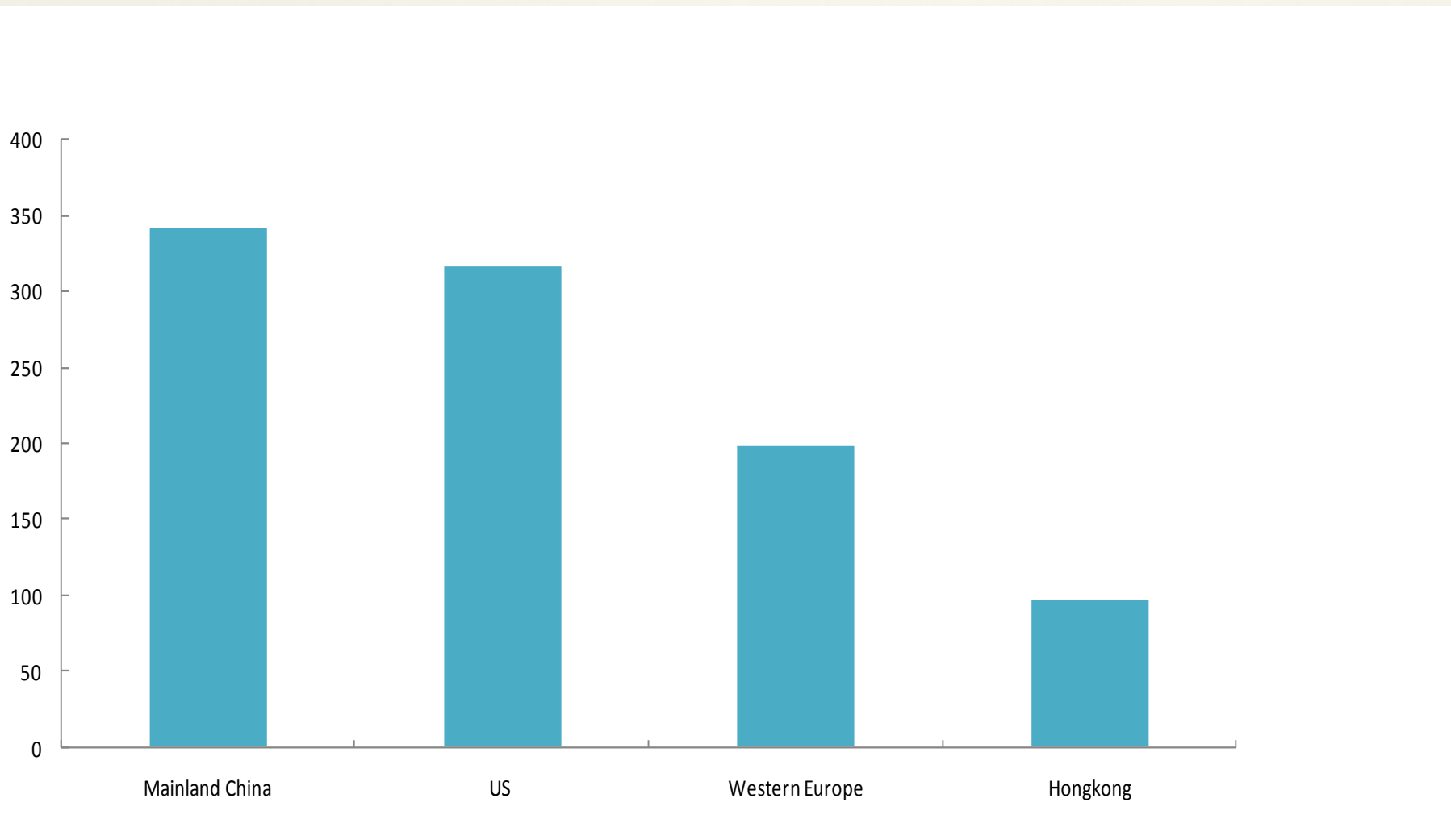
Economy and Financial Market Size (2009)

		US	Euro Zone	UK	Japan	China
GDP	\$Bil.	14256.3	12456	2174.5	5067.5	4984.7
GDP (PPP)	\$Bil.	12927.1	9689.4	1987.9	3787	8255.3
Gov Debt	\$Bil.	12334.8	8515.6	1483	9688.7	881.8
Market Cap	\$Bil.	13740.1	5948.1	2989.9	3466.6	3302.9

Significant Growth of Equity Market

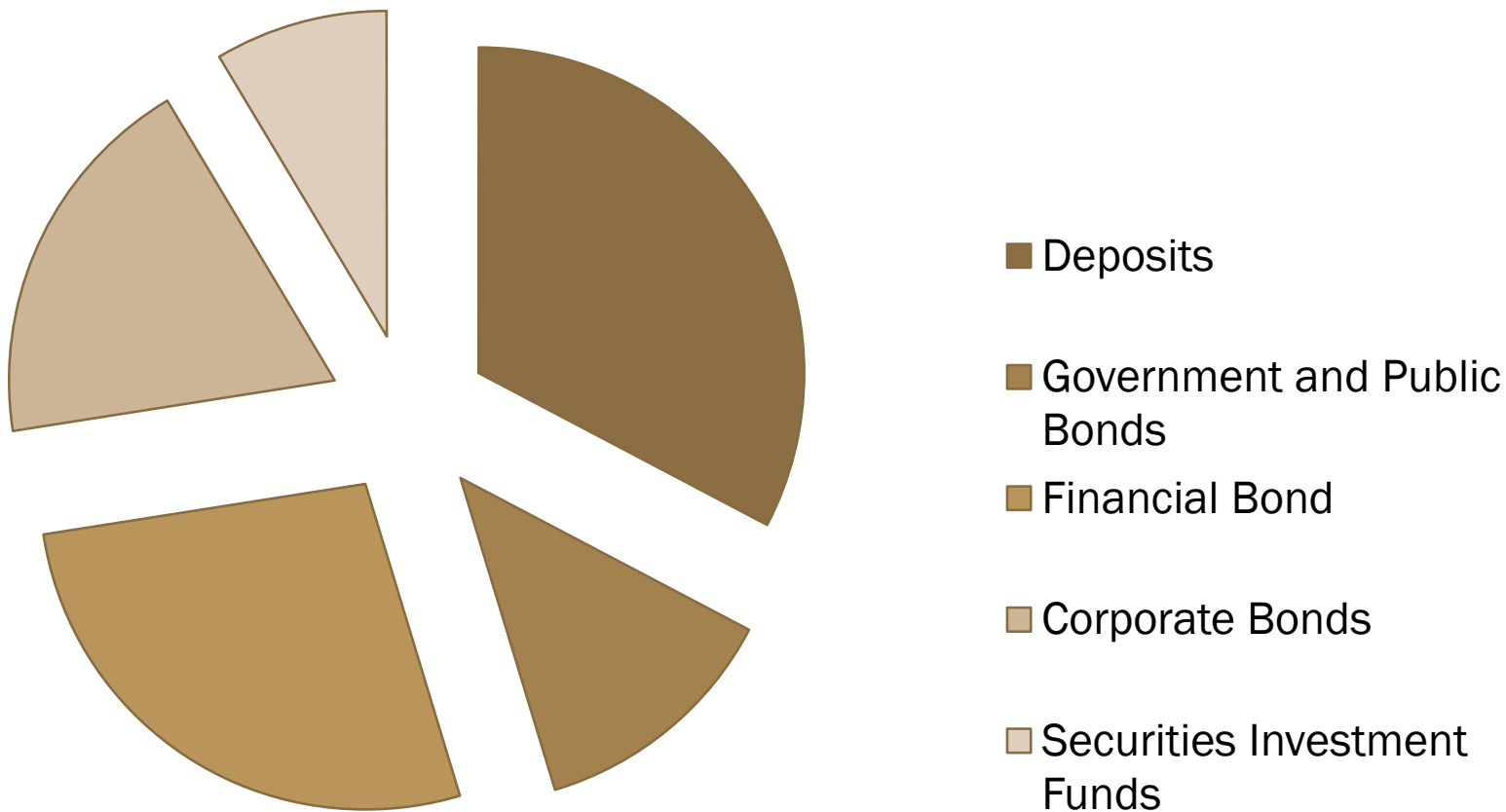


2010 IPO deals

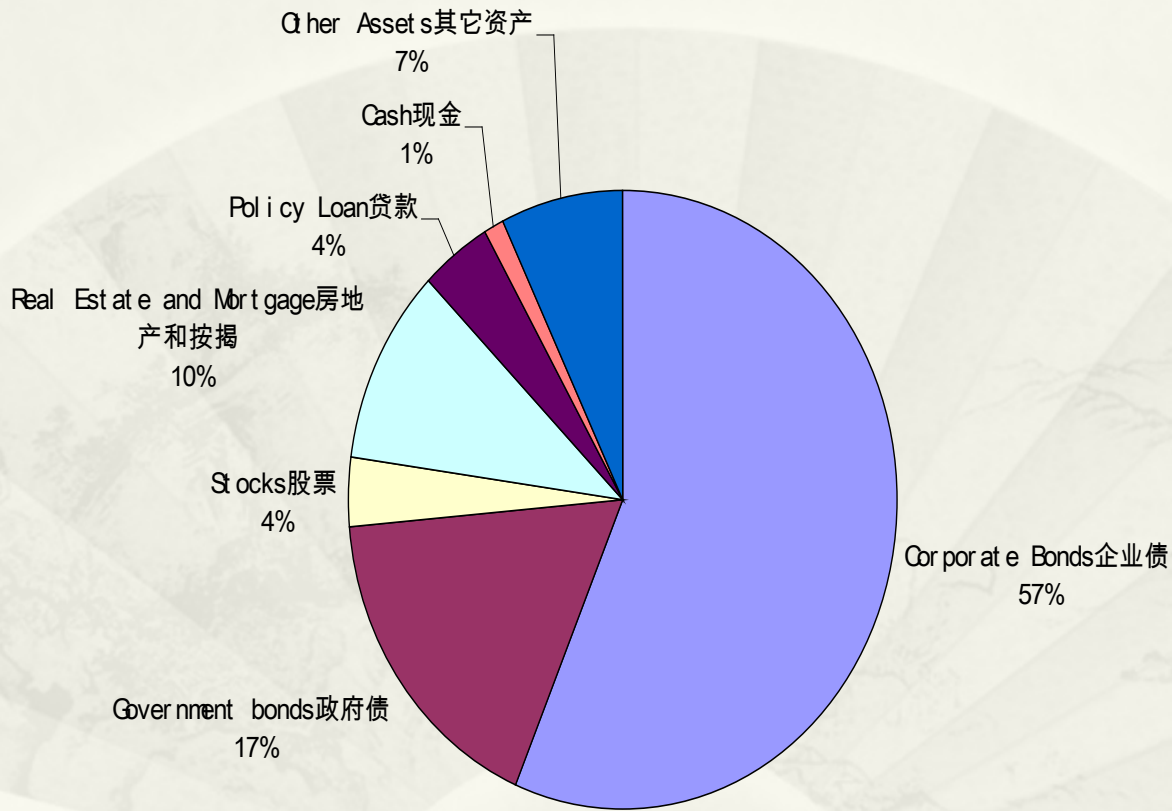


Underdeveloped Capital Markets

Fund Uses of Insurance Company(100 million yuan)



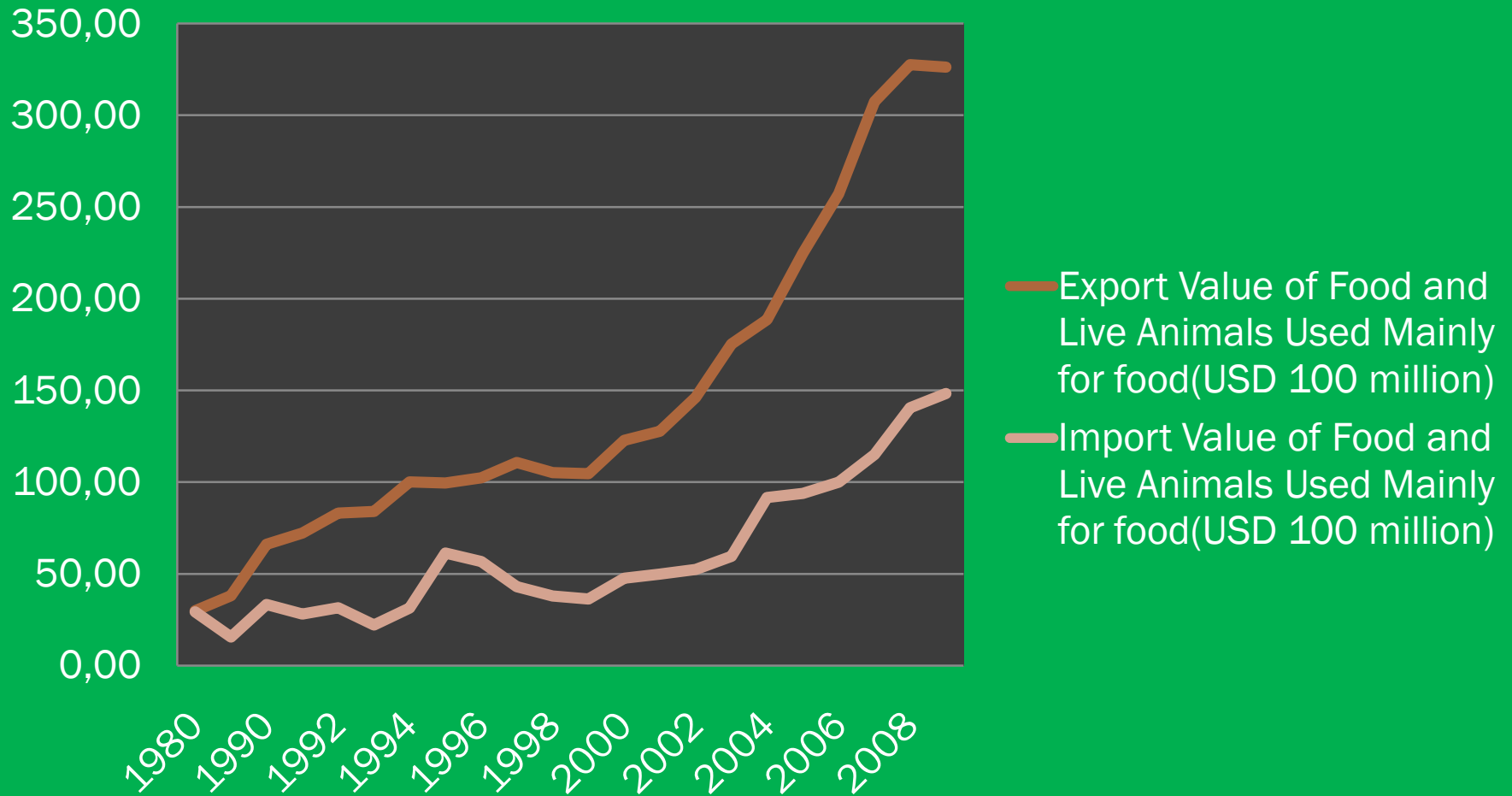
2006 Typical US Life Insurance Company Asset Allocation



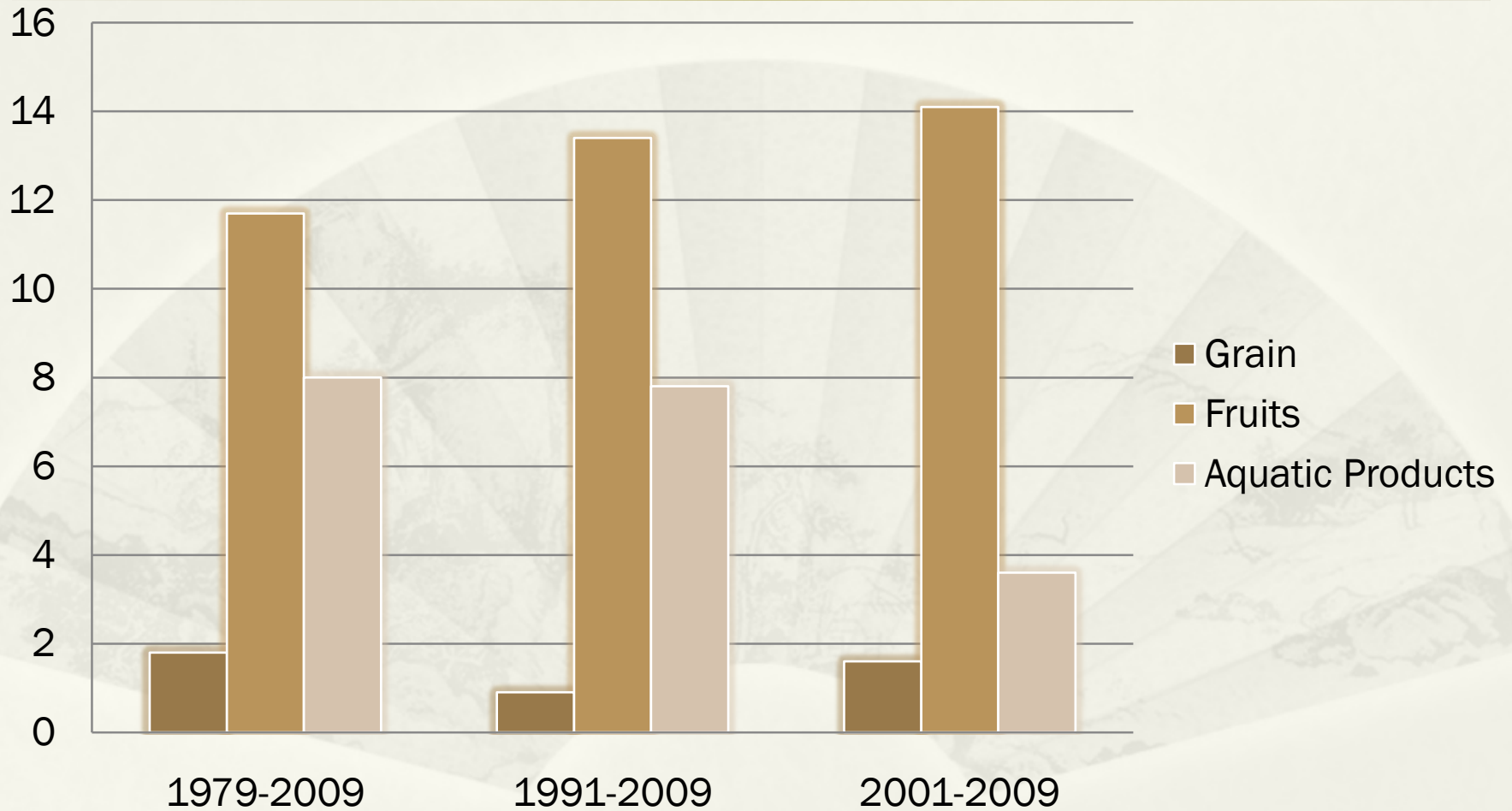
Underdeveloped Capital Markets

- * Rapid yet still uneven growth
- * Large room for corporate bond market growth
- * Liberalization of listing process will trigger huge increase in number of listing companies and a possible drop in valuation
- * Expected to be the most active equity market in the world

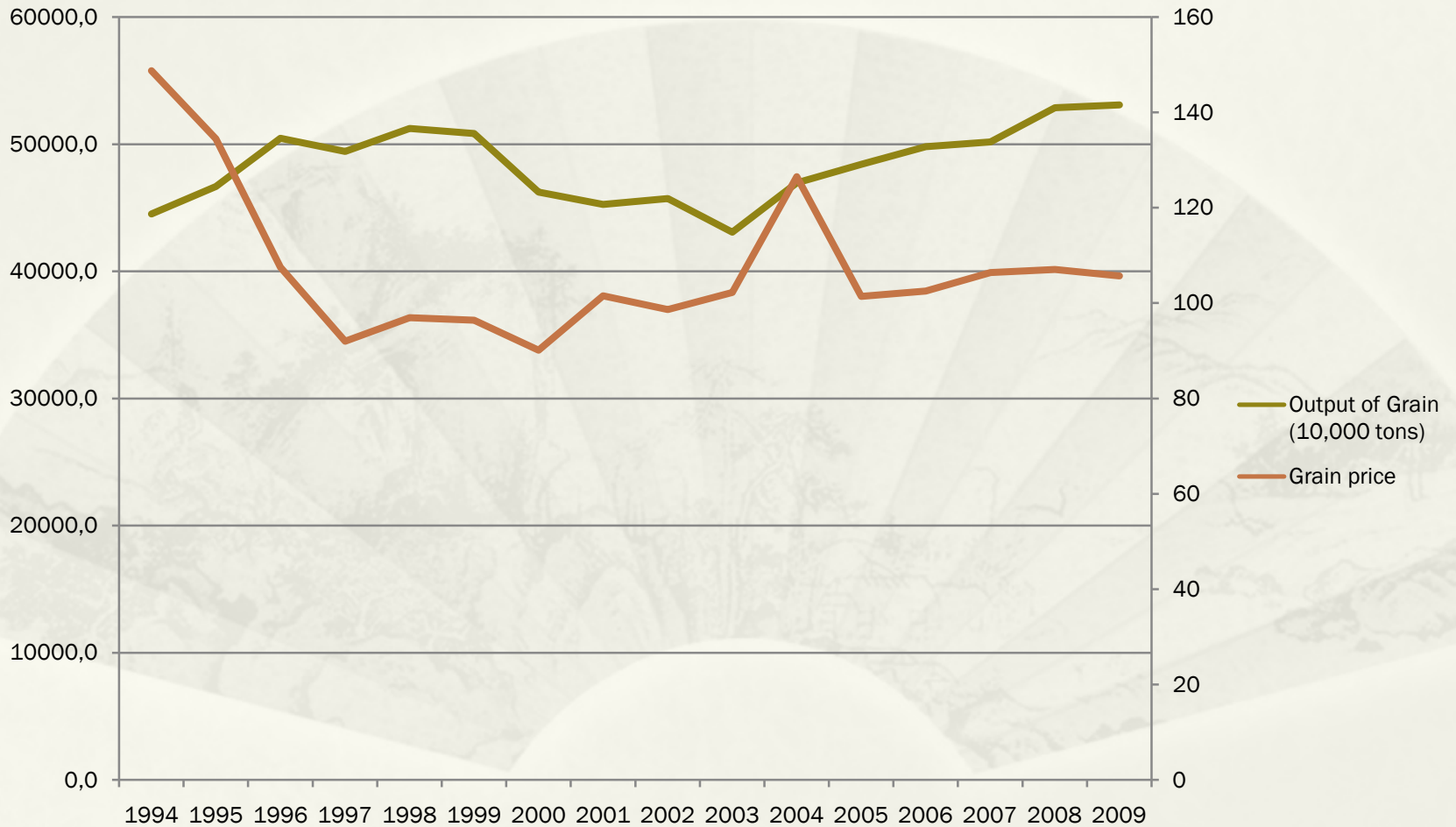
Export/Import Value of Food and Live Animals Used Mainly for food (USD 100 million)



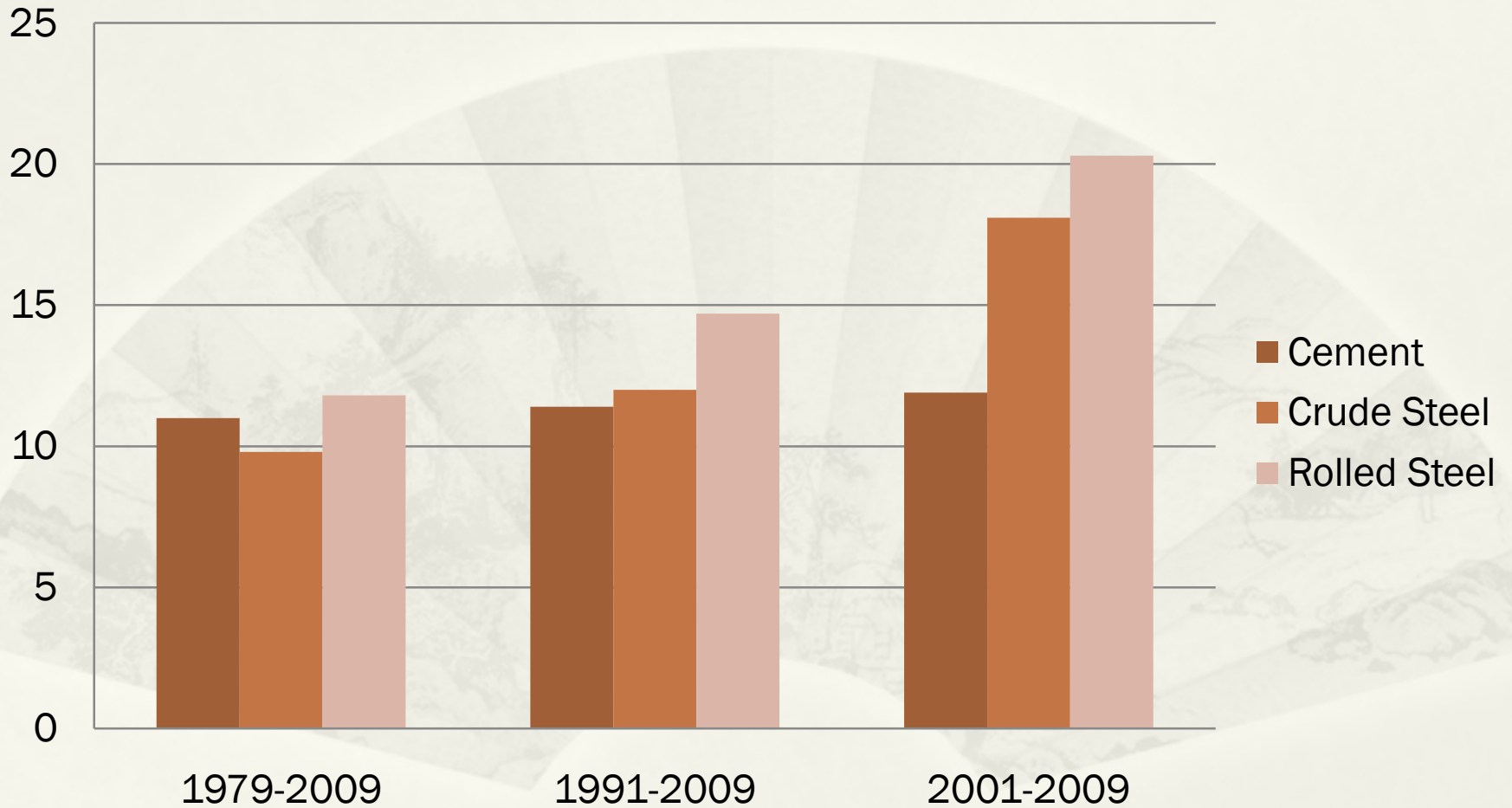
Average Annual Growth Rate of Major Farm Products Output(%)



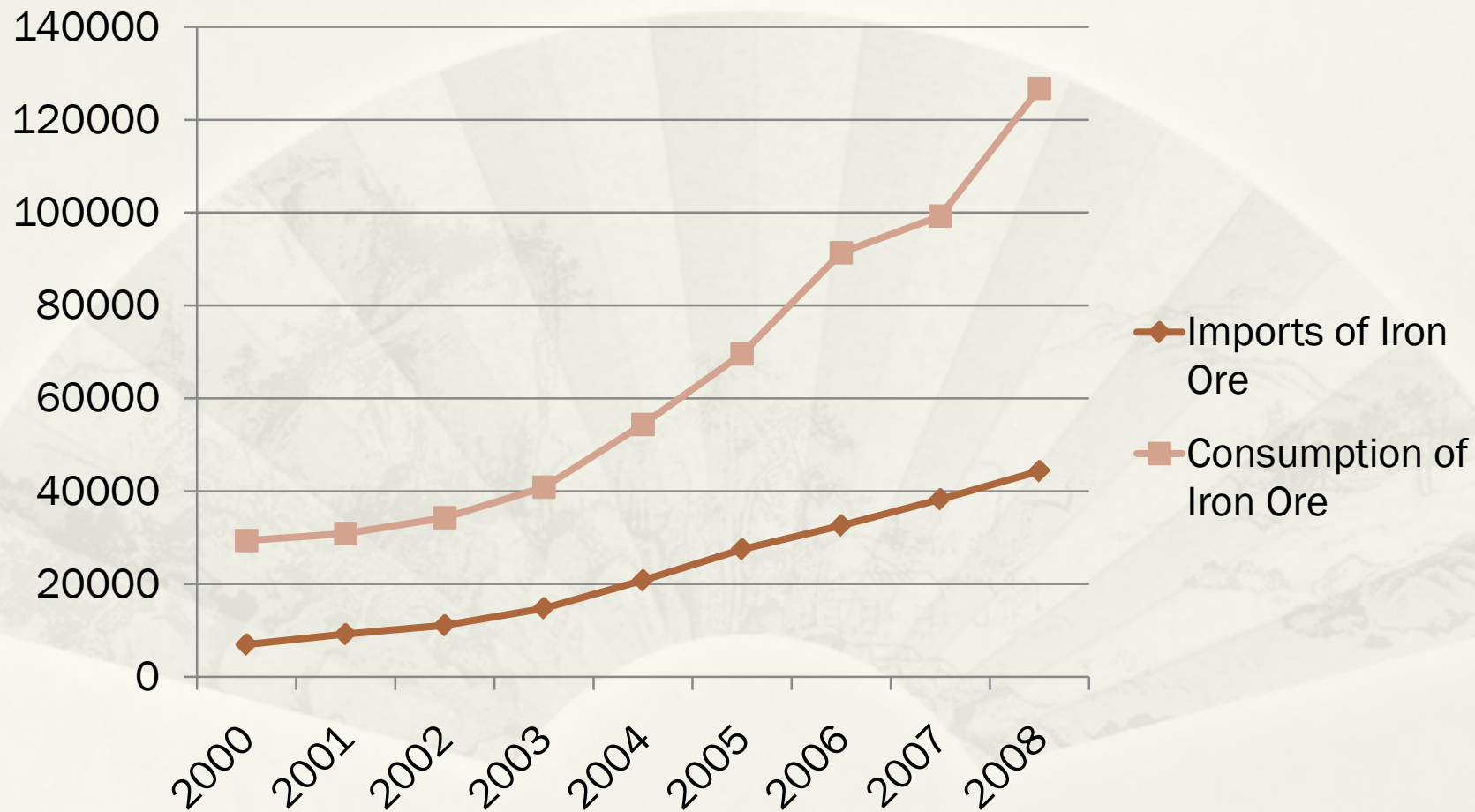
Grain Production and Prices



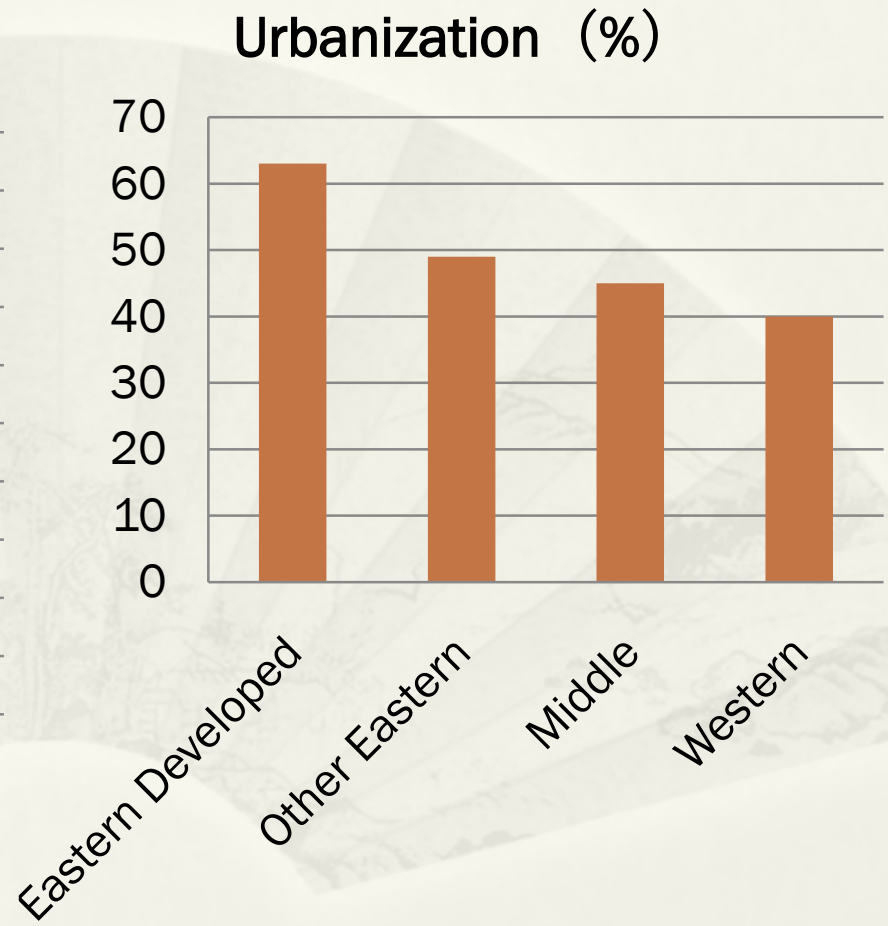
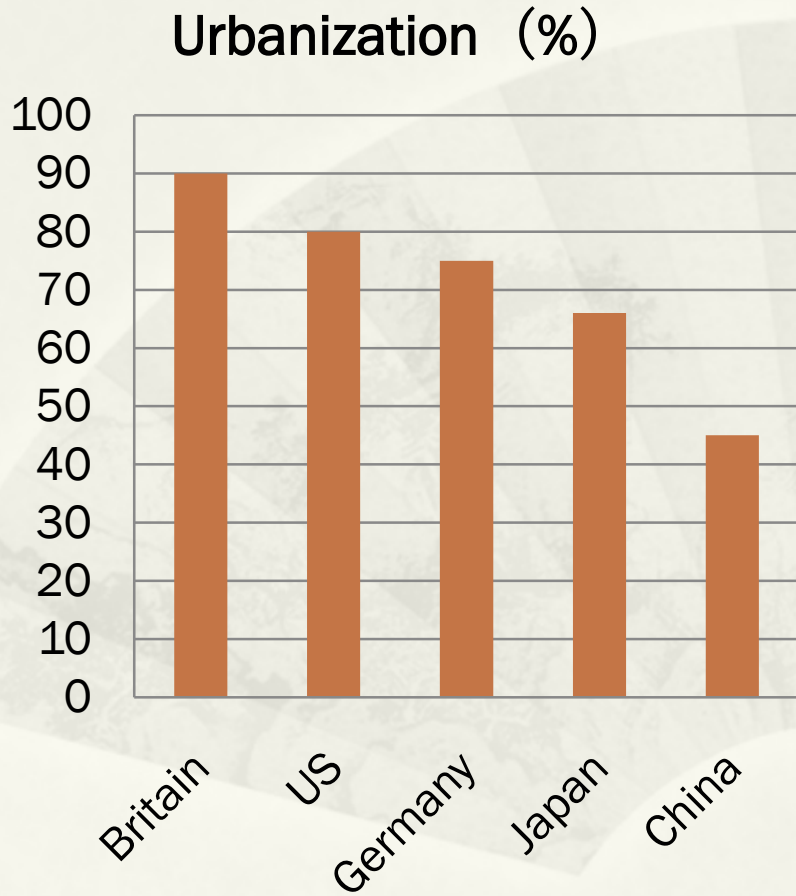
Average Annual Growth Rate of Major Industrial Products Output(%)



Import/Consumption of Iron Ore in China (10,000 tons/year)



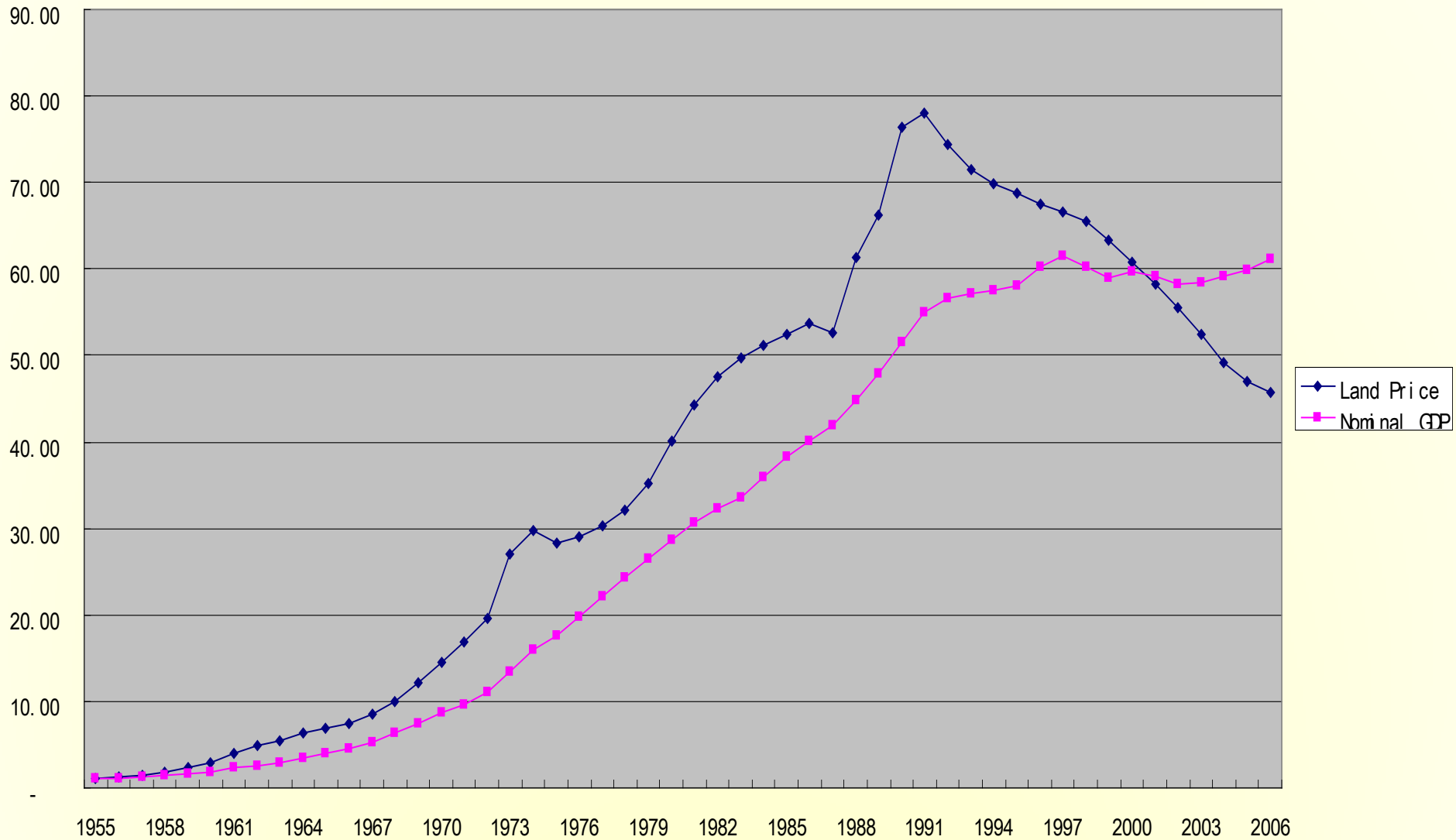
Continued Urbanization Will Sustain Large Iron Ore Consumption



A few words on commodities

- * Largely self sufficient in food
- * Rapidly moving up the food chain
- * Better logistics can reduce price fluctuations
- * Urbanization means continued construction boom and demand for cement and steel
- * Increase in domestic capacity can meet some of the demand

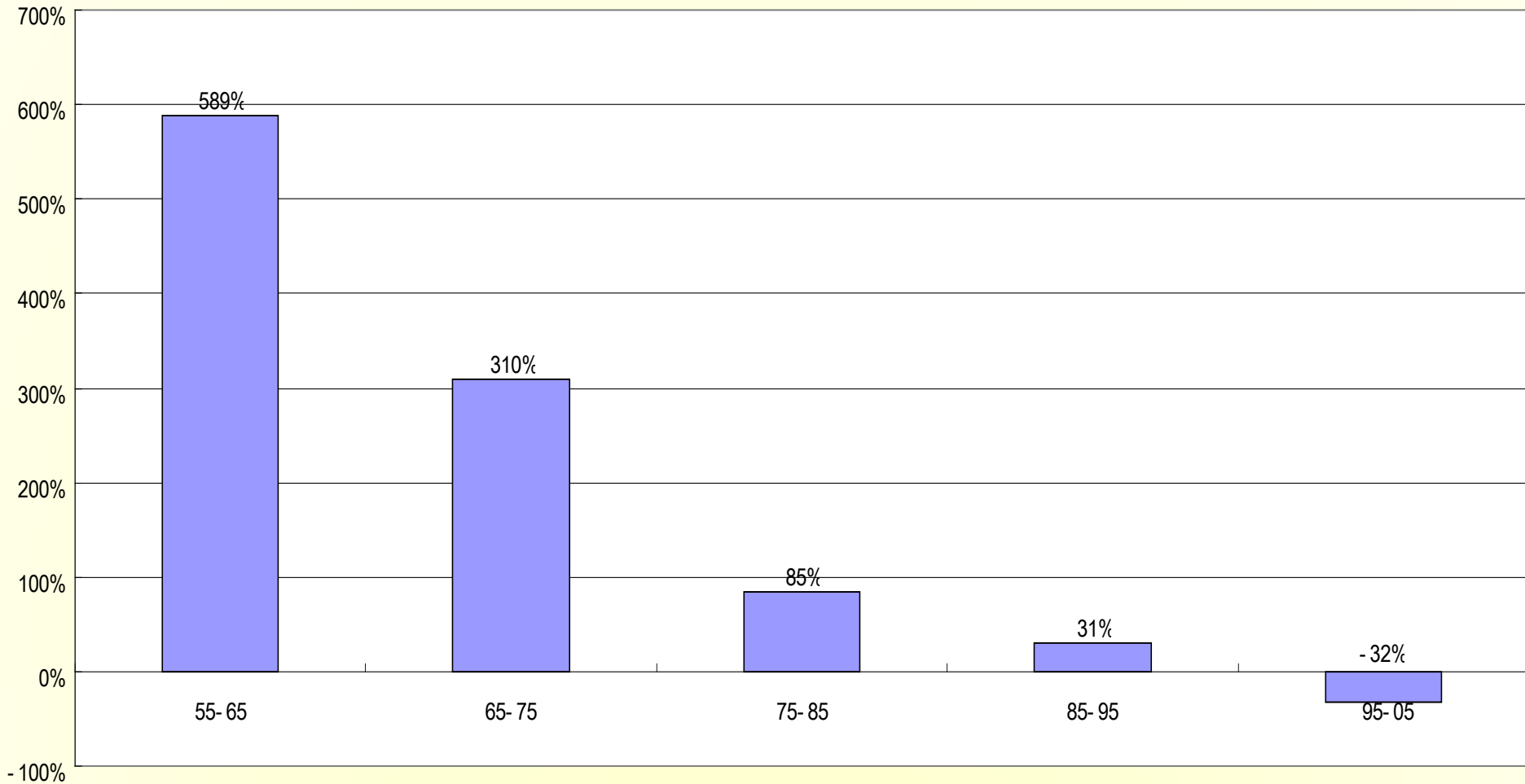
Japanese Land Price and Nominal GDP(1955=1)



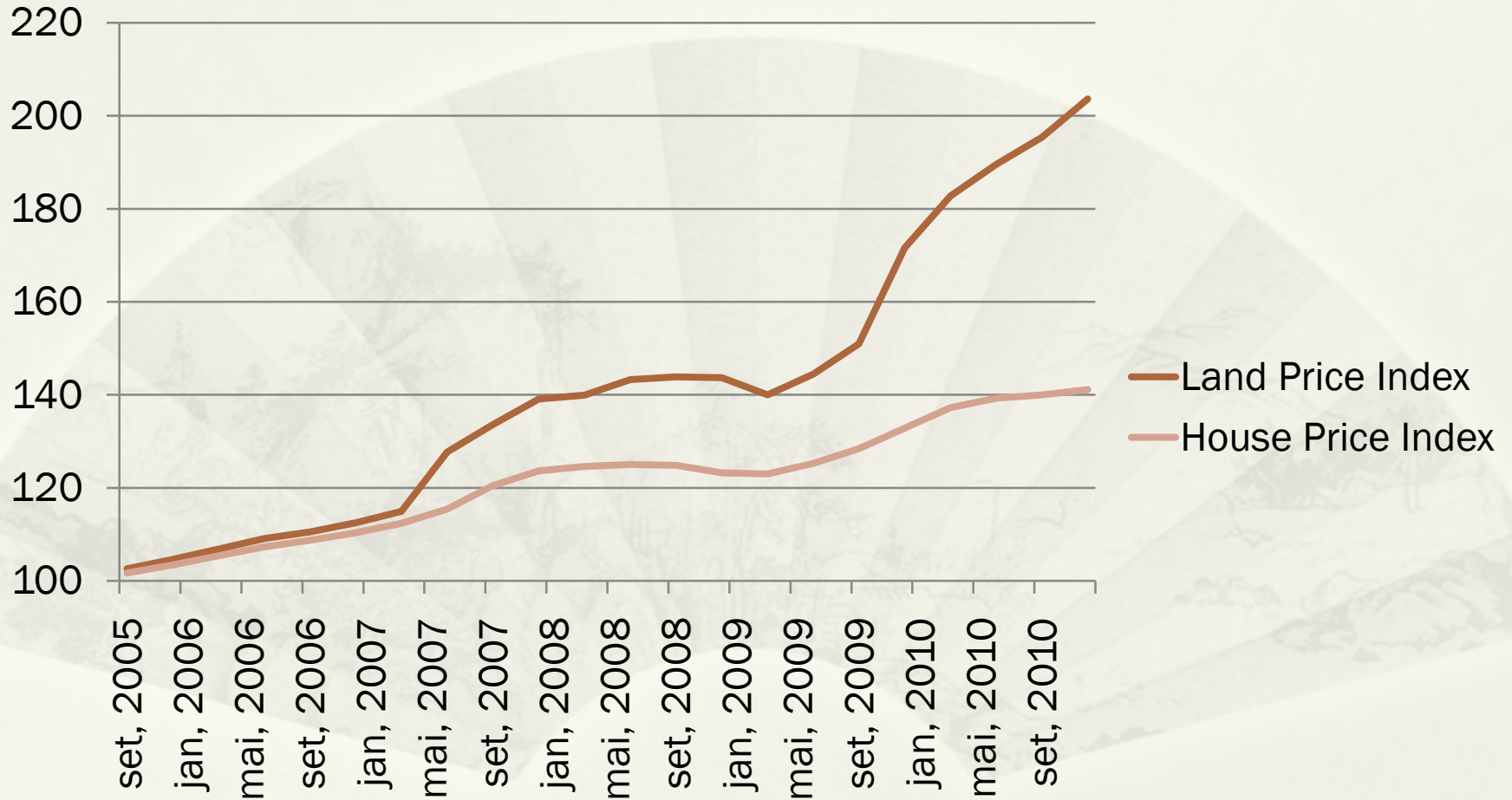
Source: Japan Statistical Yearbook

Land Price Appreciation

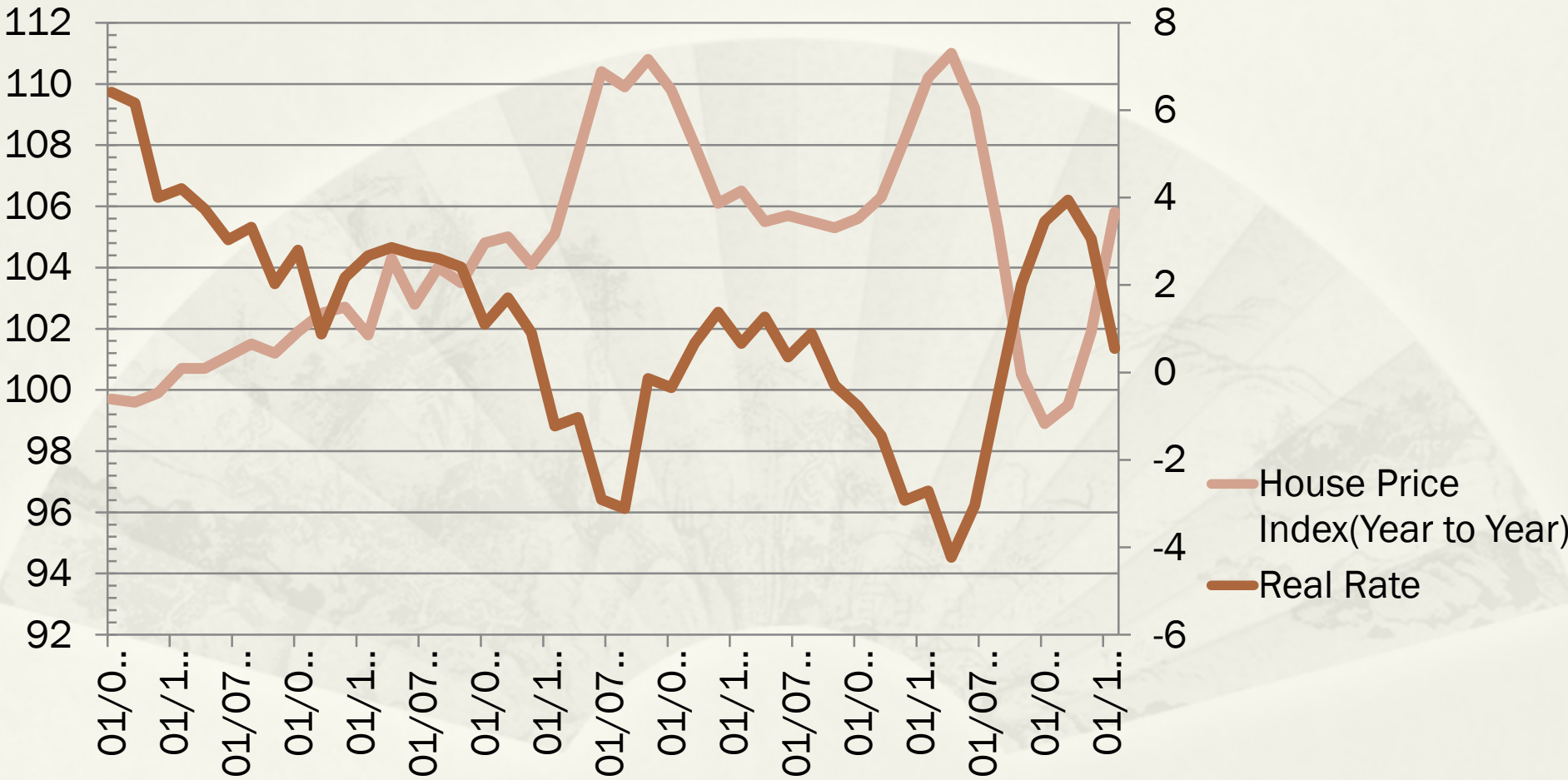
Appreciation



Chinese Land and House Prices



Is China's Real Estate Market Rational?

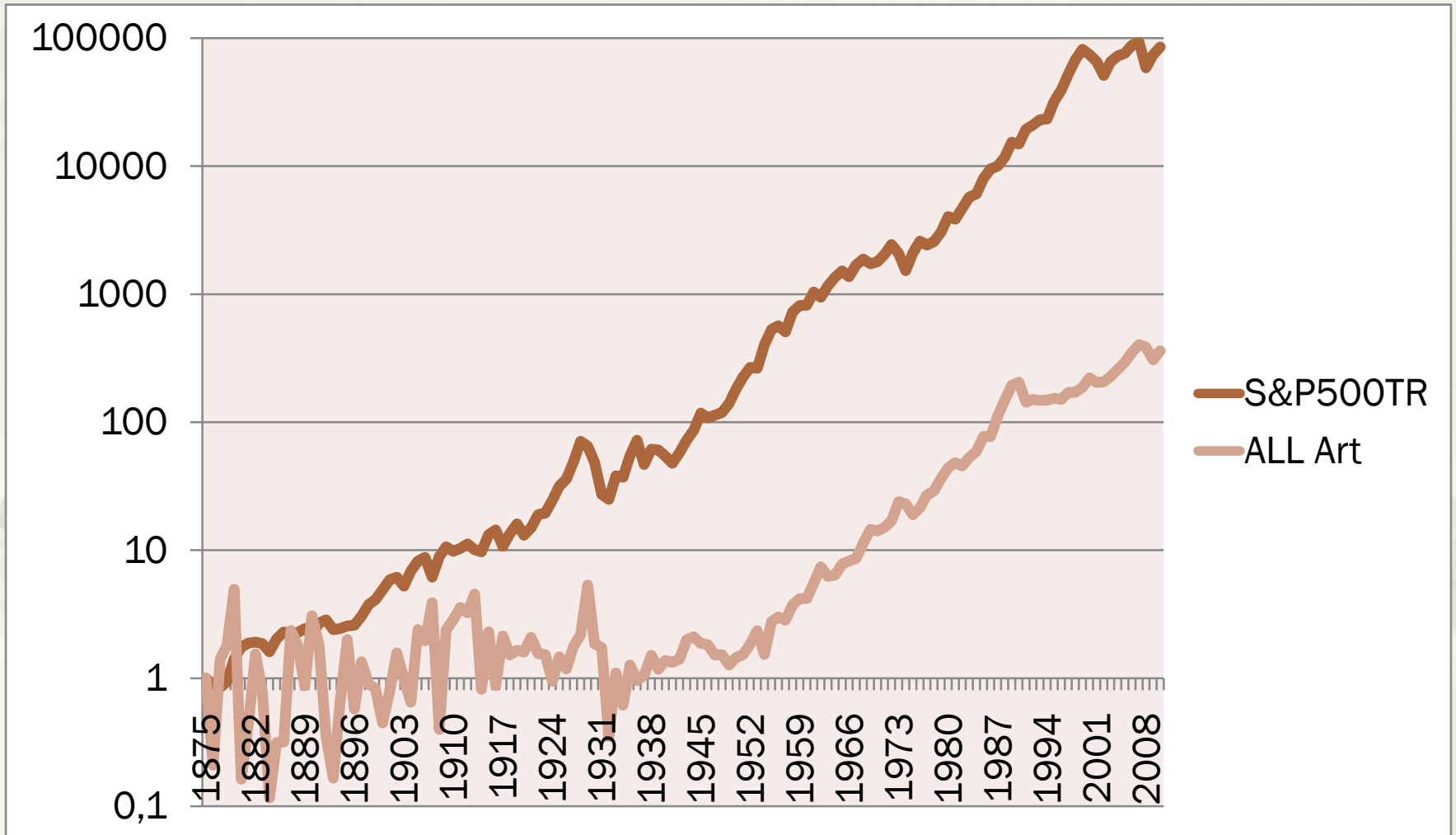


Observation on China's Real Estate Market

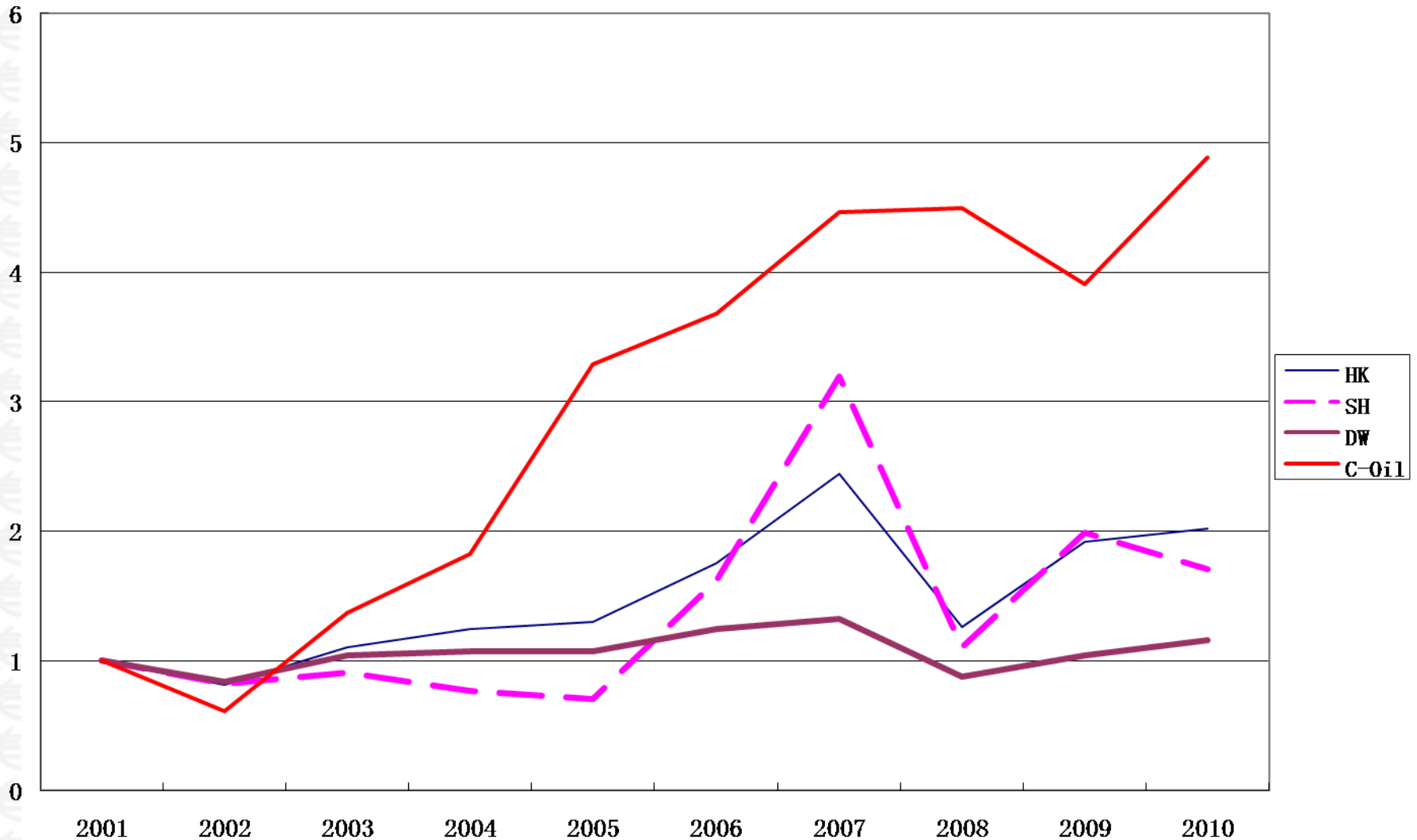
- * Not unusual at this stage of economic growth
- * Side effects of rapid growth
- * Largely driven by increase in land prices
- * Fueled by huge liquidity and negative real interest rate

US Stocks and Art Performance

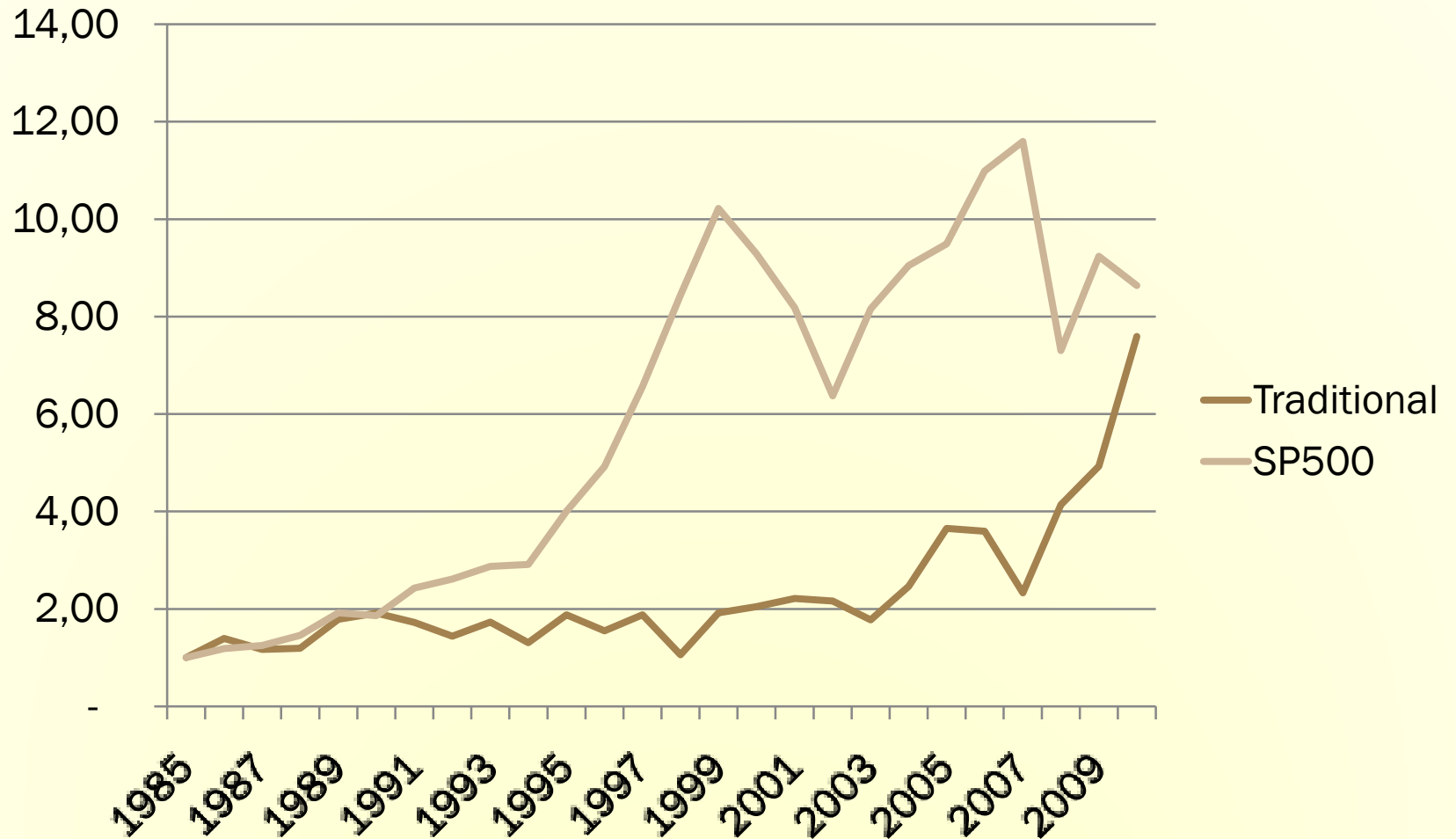
since 1875



Chinese Contemporary Art vs. Stock Indices



Traditional Chinese Art vs. S&P500

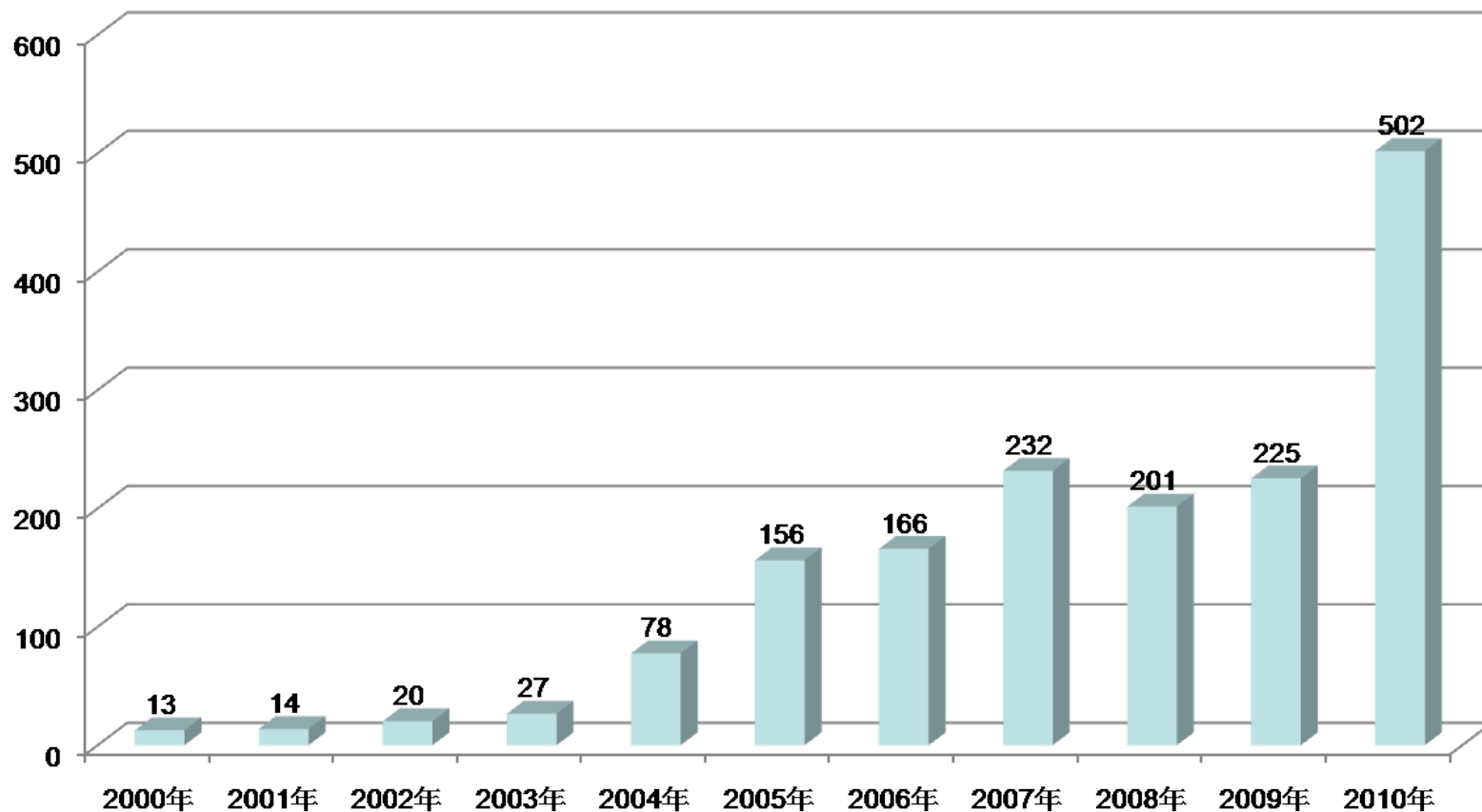


Chinese Art Auction Market Volume



(in 100 million RMB)

2000年-2010年中国艺术品主要拍卖市场春拍及秋拍成交总额(单位: 亿元)



■ 2000年-2010年中国艺术品主要拍卖市场春拍及秋拍成交总额

Art as an Asset

- * Art has generated comparable returns to stocks in the US Post War II.
- * China's auction market has grown from zero to the 3rd largest in the world in 18 years.
- * Chinese contemporary art has outperformed major equity indices over last 10 years.
- * Chinese traditional art has generated 12.5% annualized returns from 2000-2010 in the overseas market.
- * Likely to be the best performing Chinese asset class in the next ten years.

Wang YiDong



《Letter》

Oil on Canvas

2005年 150×180cm

2010-11-23

China Guardian

RMB17,920,000元