

Discussion

“China’s Savings Glut and Investors Hunt for Safe Assets”
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Summary

- ▶ Does China's growing shadow banking system aim to fill a demand for safe assets among Chinese investors?
- ▶ Answer by looking at the Wealth Management Products (WMP) market.
 - ▶ WMP: structured financial product backed by public or private assets.
 - ▶ Much larger than markets for deposits, commercial paper.
- ▶ Strategy: estimate safety premia and test for substitution between Chinese T-bills and WMPs.
 - ▶ Chinese T-bills and WMPs carry a safety premium.
 - ▶ Changes in T-bill supply affect the safety premium of WMPs.
 - ▶ This effect is stronger for shorter maturity, government-backed, public banks issued, retail investors oriented WMPs.
- ▶ Contribution: (1) quality and granularity of the data (issuer, underlying assets, maturity, investor), (2) institutional settings of the Chinese financial system.

FT a few weeks ago...

Chinese sovereign bond trading suspended after frantic retail buying

Small investors hunting for haven assets take advantage of easier access to special 30-year debt

Trading in China's much-anticipated Rmb40bn (\$5.5bn) issue of special 30-year sovereign bonds was suspended twice on its market debut on Wednesday, as exchanges warned of "abnormal fluctuations" and urged investors to be rational and pay attention to the risks.

Main Comment 1: Measurement

- ▶ Safe Asset = “information insensitive”
- ▶ Safety premium measured empirically as $SP_{i,t} = r_{i,t} - r_{f,t}$
 - ▶ r_f is an interest rate swap on the 7-day interbank rate.
 - ▶ Can we fully interpret this spread as a safety premium?
 - ▶ Why is there no mention of default risk?
- ▶ Authors: “Results driven by demand for safety and not liquidity”.
- ▶ That would be a big contribution, but:
 - ▶ There is no secondary market for WMPs, and this might endogenously affect their maturity. The fact that there is only a substitution for mat. of less than 2 weeks makes me worried.

Main Comment 2: Substitution

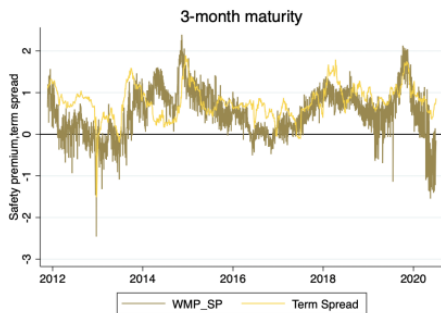
- ▶ “Substitution” is captured by the effect of T-bill supply on the safety premium of WMPs.
- ▶ Is this the best way to capture substitution?
- ▶ If they are perfect substitutes, and WMPs supply offset changes in T-bill supply, then these regressions will show no effects!
- ▶ We need more information on the Treasury market. Who absorbs new T-bills? If it's the banks (to back new WMPs), or some other actor, then how to interpret the regressions?
- ▶ Authors could look into a substitution in quantities, following Krishnamurty and Vissing-Jorgensen (2015, JFE).
- ▶ Even then, the degree of substitution is hard to capture.
 - ▶ In KV 2015, Treasury issuance crowds out less liquid banking liabilities and crowds in checkable deposits (the safest!).
 - ▶ Why? Because Treasuries are absorbed by banks to back checkable deposits! They are positively correlated!

Main Comment 3: Results

- ▶ The paper has at least 6 empirical results.
- ▶ Authors should pick one or two that are large contributions and leave the other as secondary findings.
- ▶ In my opinion (FWIW), the distinction between supply characteristics and types of investors (demand) allows for a cool analysis of the determinants of safe assets.
- ▶ On the retail vs institutional investor distinction, what do we learn?
 - ▶ Why are they different? Constraints? Horizons? Preferences? More detail could make for a big contribution.
 - ▶ What if institutional investors show no effect, but they are the ones buying the new T-bills? Again, we need to know their portfolio.

Other Comments

- ▶ Check for segmentation of asset markets. Are they being priced by the same marginal investor? Relevant given capital controls/regulations in China.
- ▶ No actual link between the results and a “saving glut”. There is mention of capital controls and restrictions on foreign assets. Did they cause a “domestic” saving glut?
- ▶ Price series seems very noisy:



Panel B: Principal Guaranteed WMPs

To sum up

- ▶ The data available for this paper can help us understand new things about safe assets.
- ▶ Authors could focus more on one or two specific results that could make the largest significant contribution.
- ▶ If they want to disentangle the substitutability of WMPs, a more explicit model of the banking sector would help to guide the empirical exercise.