In Case You Missed It: CSOP's Weekly China Wrap Up

Officials announce pending launch of Shenzhen-Hong Kong Stock Connect

Portending continued financial liberalization, Chinese officials announced the pending launch of the Shenzhen- Hong Kong Stock Connect. The scheme enables investors in Hong Kong to buy stocks listed on Shenzhen's exchange, while allowing mainland investors to access shares in Hong Kong. Known as the NASDAQ of China, the $3.2 trillion Shenzhen market lists fast-growing small/mid cap and technology firms. Such a focus contrasts Shanghai's market, which is dominated by state-owned banks, oil companies, and large cap firms. After Shenzhen-Hong Kong Stock Connect launches, overseas investors will be able to access 1448 China A-Share names through the two schemes, representing 80% of total market cap. Similarly, Chinese investors will be able to access 438 HK stocks, covering 90% of total market cap.

Although no definitive launch date has been announced, the move is nonetheless anticipated. It demonstrates China's continued commitment to capital market liberalization, an encouraging piece of evidence to support the inclusion of A-Shares in MSCI's emerging market indices.

	Shanghai-Hong Kong Stock Connect	**Shenzhen-Hong Kong Stock Connect**
Launch	November 2014	Expected end of 2016
Eligible stock universe-Northbound	568 stocks. SSE 180 Index and SSE 380 Index, plus A/H dual listed names on the SZ Stock Exchange	880 stocks. SZSE Component Index (399001) and the SZSE Small Mid-Cap Innovation Index (399015) with at least Rmb6b market cap, plus A/H dual listed names on the SZ Stock Exchange
Eligible stock universe-Southbound	318 stocks. Hang Seng Large-cap Index and Hang Seng Mid-cap Index, plus A/H dual listed stocks on the HK Exchange	417 stocks. Hang Seng Large-cap index, Hang Seng Mid-cap Index, and Hang Seng Small-cap Index (with at least HK$5b market cap), plus A/H dual listed stocks on the HK Exchange
Aggregate quota- Northbound	None. Abolished as of August 16, 2016. Was RMB 300 billion.	None
Aggregate quota- Southbound	None. Abolished as of August 16, 2016. Was RMB 250 billion.	None
Daily quota- Northbound	RMB 13 billion	RMB 13 billion
Daily quota- Southbound	RMB 10.5 billion	RMB 10.5 billion

Appendix:
1. Quota from the two Connect programs are not fungible, i.e. Chinese investors who buy Hong Kong stocks through Shanghai-Hong Kong Stock Connect cannot sell the stocks through Shenzhen-Hong Kong Stock Connect.
2. ETFs will be eligible at a later stage pending relevant conditions are met after the start of SZ-HK Connect.
3. ChiNext Stocks are open only to professional investors as defined by relevant regulations in Hong Kong.

China's property price growth slows down in July

China's National Bureau of Statistics announced that 51 of 70 Chinese cities saw property prices rise MoM in July, a decrease from the 55 of 70 reported in June.[1] The figure represents the fourth consecutive month of decline, potentially signifying slight deflation of China's much-hyped real estate bubble. Despite the slowdown, price pressure admittedly remains. Media reported the ascendency of a new "land king" in Shanghai, whose purchase of a central Shanghai residential plot set a record high price of $1,400 per square foot. By comparison, the July average in Shanghai was $284 per square foot, according to Wind.

The mixed signals hint at the government's continued difficulty with calibrating housing policy. On the one hand, measures to reduce excess housing in smaller cities by cutting rates and relaxing mortgage rules released excess credit used to speculate in Tier 1 cities.[2] However, imposing tightening measures to cool land prices can harm economic growth, as China's property sector disproportionately impacts related sectors such as construction and consumer goods.

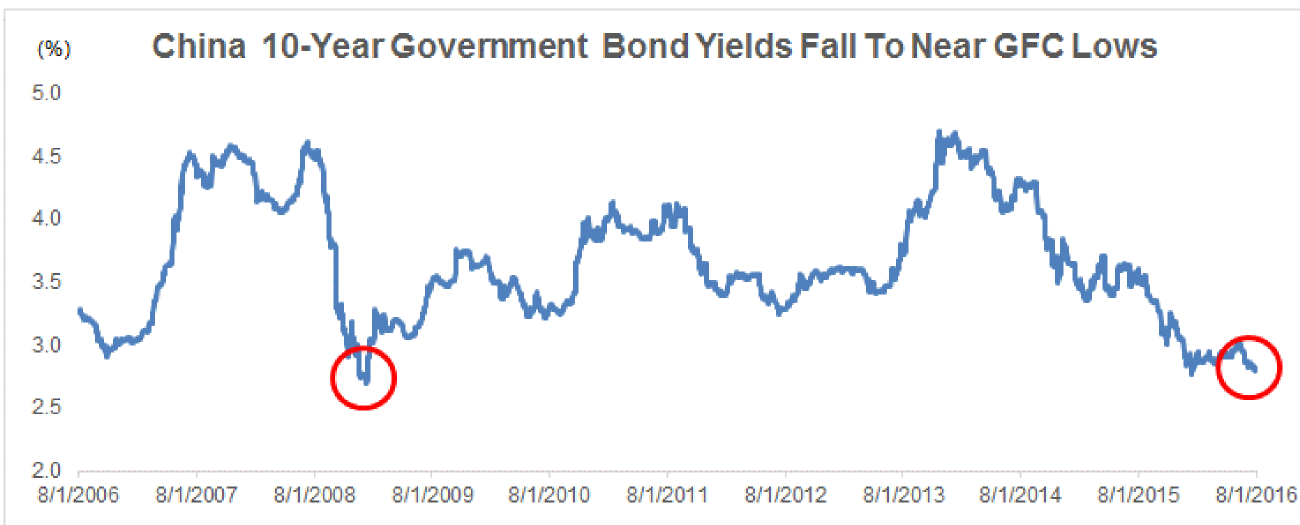
President Xi touts benefits of One Belt, One Road project

Chinese President Xi Jinping reaffirmed the benefits that international investors will reap by participating in China's One Belt, One Road (OBOR) project, the seminal foreign policy initiative of Xi's government. Touted as the Silk Road of the 21st century, OBOR is a trade and infrastructure network that will link Asia with Europe and Africa along historical trade routes. Already, China has signed agreements with 100 nations and intergovernmental organizations to develop public private partnerships in advance of the project's October launch.

Xi's continued championing is considered a signal that China will rely heavily upon infrastructure construction as a method for economic stimulus, extolling the fact that the project will help deleverage local government debt burdens. To garner additional interest, Xi hinted that the public private projects would be eligible for relaxed funding through bank credit or bond issuance.

China's 10-year government bond yields fall to lowest point since Global Financial Crisis

China's 10-year government bond yields fell to their lowest point since the Global Financial Crisis (GFC). Investors hunting for yield instead chased high dividend stocks such as banks and property developers. As a result, Exchange Traded Funds (ETFs) tracking the FTSE China A50 Index saw considerable inflows, as the index is concentrated in high dividend financial services names-- banks, property developers, and insurance brokerages—that yield 2.9%.[3]



Source: Bloomberg, as of 8.19.2016

Notes:

1. MoM: month over month
2. A Tier 1 city is a Chinese city under direct control of the central government with a Gross Domestic Product exceeding US 300 billion and a population exceeding 15 million.
3. The FTSE China A50 Index is the benchmark for investors to access the China domestic market through A Shares – securities of companies incorporated in mainland China and traded by Chinese and institutional investors under the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor (QFII & RQFII) regulation. **Note that one cannot invest directly in an index.**