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

World Bank to issue SDR-denominated bonds in China for first time since 1981

The World Bank is set to issue USD$500 million worth of 3-year SDR-denominated (Special Drawing Rights) bonds in China on August 31, 2016.[1] The noteworthy event marks the first time SDR bonds have been issued in the country since 1981. As China lobbies for continued use of SDR instruments to reduce the US Dollar's status as preeminent global reserve currency, the World Bank's maneuver is expected to inspire wider usage of SDR-denominated debt instruments.

As for the transaction's logistics, the bond's base currency is SDR and settlement currency is RMB. In SDR baskets, the proportions of the five included currencies (USD, EUR, GBP, JPY and RMB) are fixed.[2,3,4,5] Therefore, investors can employ a weighted average coupon rate of the five currency denominated 3-year on-the-run bonds issued by the World Bank to estimate a ~0.59% coupon (in SDR) for the bond.

Such a rate closely resembles that of the 3-year Panda bond issued by overseas sovereign issuers. A Panda bond is a RMB-denominated bond from a non-Chinese issuer, sold in the People's Republic of China.

P2P lending regulations tightened in attempt to combat popular shadow banking vehicle

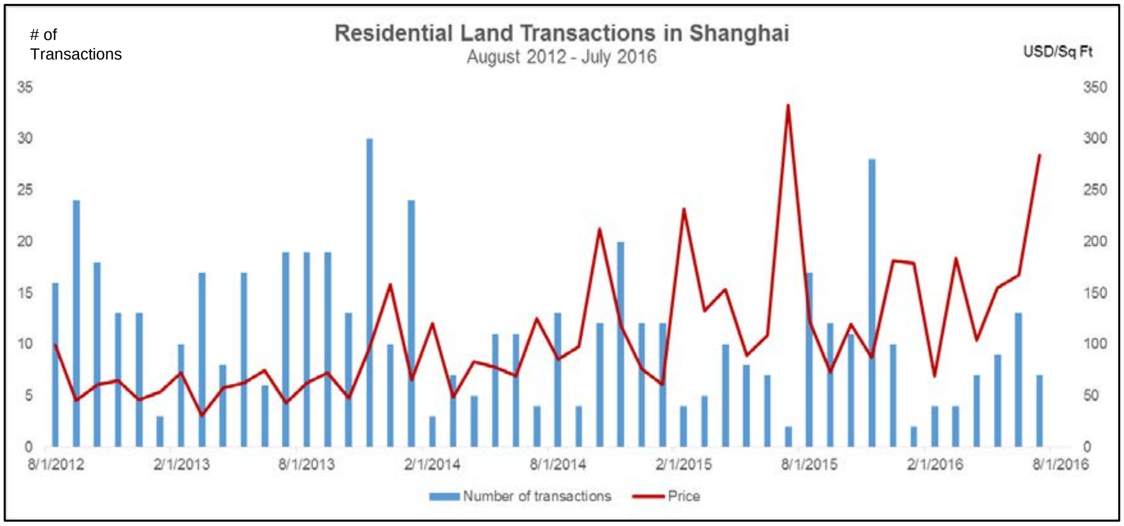
China tightened regulations on the Peer to Peer (P2P) lending sector with publication of a "To Don't" list and imposition of a cap on borrowing limits. The list includes rules forbidding P2P platforms from providing any form of guarantee to lenders selling wealth management products. As a result, the restrictions will severely disrupt plans of major P2P platforms to distribute third-party wealth management products.

In addition, the new rules prohibit individuals from borrowing more than RMB 200,000 (USD 30,000) from any single P2P platform or more than RMB 1 million (USD 150,000) from all platforms. For enterprises, the limits are RMB 1 million (USD 150,000) from any single platform and RMB 5 million (USD 750,000) from all platforms. The rule changes aim to curb the USD 60 billion sector's efficacy, which has quickly morphed into one of the most potent vehicles for shadow banking in China.

Shanghai halts land auctions to help curb property bubble

Shanghai halted two land auctions in August, a move believed to avoid more "Land King" news of record price sales. Meanwhile, some investors expect Shanghai to impose tighter home loan policies to curb property bubbles.

On the other side, the China Insurance Regulatory Commission is expected to impose tighter regulations on short and mid-term insurance products, a move to prevent life insurance from being employed to fund aggressive takeovers.[6] As some of the largest practitioners of the maneuver, domestic companies such as Anbang Life and Foresea Life may be disproportionality impacted by the policy.



Source: Wind; August 1, 2016.

CSRC announces plans to 'substantially' lower business costs within three years

The China Securities Regulatory Commission unveiled detailed plans to substantially lower business costs within 3 years.[7] Seeking to bolster economic growth by improving the business environment, the plans include measures to waive taxes, cut borrowing costs, and reduce red tape and similar administrative inefficiencies. Specific reforms include:

1.) Reduce the tax burden by RMB 500 billion (USD$75 billion) per year by imposing a nationwide Value Added Tax to replace business taxes;
2.) Decrease financing outlays by cutting borrowing and service costs for financial intermediaries;
3.) Trim administrative expenses by standardizing the approval process;
4.) Lower labor costs by controlling the wage growth rate;
5.) Ease energy prices by reforming utility (electricity and gas) markets;
6.) Cut logistics-related costs by improving supply chain efficiency.

These measures, if successfully implemented, will help companies lower operating costs and survive the current down-market environment. In addition, the State Council hopes the supportive measures will spur sputtering economic growth, which at 6.7% is at the lowest level since the Global Financial Crisis in 2009.

President Xi categorizes public health as a strategic development priority

At last week's National Health and Wellness Conference, President Xi urged government officials at all levels to consider public health a strategic development priority, framing all future policy deliberations through the lens.

In the past, projects meant to stimulate the local economy were frequently imposed at the expense of public health, compromising water and air quality and inspiring a rash of pollution-related sicknesses. Articulating that "an all-around moderately prosperous society cannot be achieved without the people's all-around health," Xi's speech signaled that, for the first time, the Chinese Communist Party would be explicitly promoting a more balanced and sustainable growth model.

The impact of the policy shifts will be far-reaching, but China's healthcare sector is expected to see especially rapid growth across all time horizons.

Notes:

1. SDR: Special Drawing Right, an international reserve asset
2. USD: US Dollar, the national currency of the United States
3. EUR: Euro, the official currency of the Eurozone
4. GBP: Pound Sterling/Great British Pound, the national currency of the United Kingdom
5. JPY: Japanese Yen, the national currency of Japan
6. RMB: Renminbi, the national currency of China
7. CSRC: China Securities Regulatory Commission