

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

Passenger Vehicle Sales Increase 26% YoY; SUV Demand Up 44%

Passenger vehicle sales-- one of China’s main consumption indicators-- evidenced major growth in August, representing the fourth consecutive month of double-digit gains. According to the China Passenger Car Association (CPCA), total sales for passenger vehicles reached 919,000 in August. The number represents an increase of 26% YoY-- the highest YoY growth in the first 8 months of 2016. The demand for SUVs has been especially strong (44% YoY), benefitting domestic brands such as Geely Automobile Holdings, Chery Automobile Co., and Changan Automobile.¹

Market watchers attribute the gains to the looming expiration of a major tax break, which halved the 10% purchase tax on cars with engines smaller than 1.6 liters. 70% of Chinese cars qualify for the tax break, which was implemented in October 2015 to spur the then-flagging market. Analysts predict continued industry growth before the tax break expires at the end of 2016.

China Takes Second Place in 2015 Outward Direct Investment

China was the second largest outward direct investor (ODI) in 2015, according to the country’s Ministry of Commerce. The United States led the pack of outbound direct investors with USD 300 billion, followed by China (USD 145.67 billion) and Japan (USD 128.7 billion).² Although China’s government encourages state-owned enterprises to invest overseas, private companies are responsible for the most high-profile recent purchases. Among the major transactions were Dalian Wanda Group’s purchase of American movie theater chain AMC, Midea’s procurement of German robotics manufacturer Kuka, and Anbang Insurance’s acquisition of New York’s famed Waldorf Astoria hotel.

Premier Li Keqiang Reiterates Promise to Keep RMB Strong in Advance of October 1 Induction into SDR basket

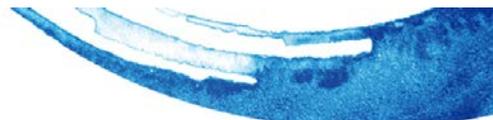
During his visit to the United Nation General Assembly, China’s Premier Li Keqiang asserted that China’s economy has bottomed and will continue its upward trajectory. Keqiang reiterated that there is no basis for a sustained depreciation of the RMB, an announcement that comes ahead of the RMB’s October 1st induction into the IMF’s SDR basket of currencies.^{3,4}

Keqiang discussed the induction’s logistics, appointing the Bank of China’s New York branch as the RMB’s main clearinghouse in the United States.⁵ He also encouraged US institutions to apply for RMB clearing bank status, an effort to further showcase China’s commitment to internationalization and integration into international financial markets.

Below is the table for RMB clearing banks in major global cities:

	Bank of China	ICBC	China Construction Bank	Bank of Communication
New York	*			
London			*	
Zurich			*	
Toronto		*		
Luxembourg		*		

The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles.



Singapore		*		
Seoul				*

Sunshine’s Yili Takeover Maneuver Reveals Untapped Value in Blue Chip Sector Leaders

Yili, China’s largest dairy producer (600887) suspended trading on Sep 15, 2016 after Sunshine Insurance announced its holding of Yili exceeded 5%. The case marked the second time this year that a large insurer has taken a majority position in a leading A-Share blue chip name. In the first instance, Foresea Life Insurance’s aggression toward property developer Vanke has led to a yearlong battle for control over the company. Like Vanke’s management, Yili was unnerved by the maneuver and halted trading to seek solutions to fight back against Sunshine.

The two cases share many similarities:

- 1) Both companies are leaders in their specific sectors;
- 2) Neither has a dominant majority shareholder;
- 3) Both are trading at relatively low valuations like most other A-Share blue chip stocks.

Despite the combativeness, the results are unmistakable. Vanke’s stock price has nearly doubled since Foresea Life began accumulating shares last year. Investors expect Yili’s shares to rally similarly if Sunshine Insurance continues buying the secondary market.

The main takeaway? Blue chip names, especially sector leaders, offer good risk-reward at current valuations.

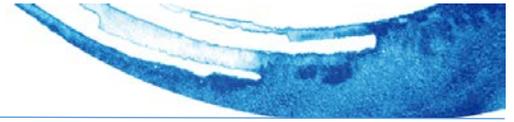
Hangzhou’s 1-Day Housing Market Transactions Top \$1 Billion in Advance of Regulation

China’s property market continued its upward tear in August, with China’s Statistics Bureau reporting a MoM rise in new home prices in 63/70 cities, compared with 51/70 in July. The boom is particularly evident in Hangzhou. After hosting the G20 in September, the city saw a flurry of buying from investors predicting Hangzhou’s ascendance to China’s first tier of cities, joining the likes of Beijing and Shanghai⁶. Because 40% of August buyers were external speculators, local officials imposed rules restricting home sales to non-local residents or non-residents with at least one house. As a result, residents lined up to buy before the restrictions went into effect, resulting in a record 5,105 homes sold in a single day—transactions worth an estimated \$1.4 billion.



Source: Wind, September 19, 2016.

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Notes:

1. YoY: Year-over-year
2. USD: US Dollar, the national currency of the United States
3. IMF: International Monetary Fund
4. SDR: Special Drawing Right, an international reserve asset
5. RMB: Renminbi, the national currency of China
6. G20: An international forum for the governments and central bank governors from 20 major economies