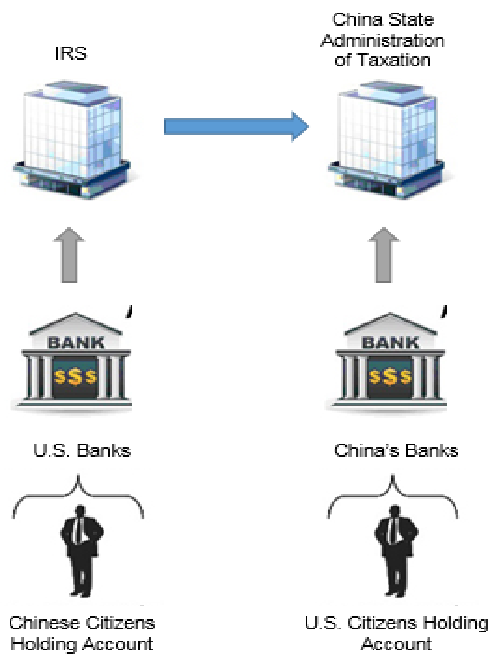
In Case You Missed It: CSOP's Weekly China Wrap-Up

New Chinese FATCA Policies Help Prevent International Tax Evasion[1]

As promised during the G20 meeting in 2014, China announced its own version of FATCA to limit international tax evasion.[2] The new tax rules ask domestic financial institutions-- of both Chinese and foreign ownership-- to report client information from non-resident individual and corporate accounts. Beginning January 1, 2017, information from new accounts opened by non-Chinese individuals and corporations will be reported to Chinese tax authorities. By Dec 31, 2018, information from all existing accounts owned by non-Chinese individual and corporations will be reported to Chinese tax authorities.

As a result of the policy, Chinese tax authorities will offer unprecedented cooperation with foreign governments seeking information about citizens hiding accounts in China. In exchange, Chinese tax authorities will request similar transparency with foreign governments, requesting delivery of information about Chinese citizens sheltering money in offshore accounts.



PBOC Delivers Clear Message to Banks: Reduce Mortgage Lending

The PBOC convened a meeting with China's 5 largest state-owned banks and 12 largest joint-equity banks on Wednesday.[2] During the gathering, the Central Bank released guidance imploring major commercial banks to limit issuance of mortgage loans and related mortgage risk.

The PBOC's declaration comes in response to this year's leverage-driven property rally. Of the RMB 3.48 trillion of new loans issued to individuals from March through August, mortgage loans represented 85% of the debt, or RMB 2.97 trillion.[3] More worrisome is the debt's concentration. The PBOC identified 40% of China's mortgage loans as collateralized by properties in the 10 cities that saw this year's biggest price hikes, a statistic with frighteningly cascading implications should urban property prices fall.

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.

Measures to prevent a rapid decline in property prices have already been implemented. During early October's National Holiday, around 20 Chinese cities announced housing market tightening policies such as home purchase limits or down payment ratio increases. The PBOC's complementary policies are encouraged by international onlookers who consider China's property market as highly overleveraged. However, because of the profitability of the existing lending arrangements, some investors are concerned that the commercial banks will not fully implement the guidance.

State Council Plans to Resettle 100 Million Rural Residents in Cities

China's State Council announced a new policy to encourage 100 million residents in rural areas to settle in cities. If implemented effectively, the policy could significantly change China's demographic landscape in the next 3-5 years. According to official data, China's urbanization rate is 56.1% as of December 2015, considerably lower than developed Asian economies like Japan who boast an urbanization rate exceeding 90%.

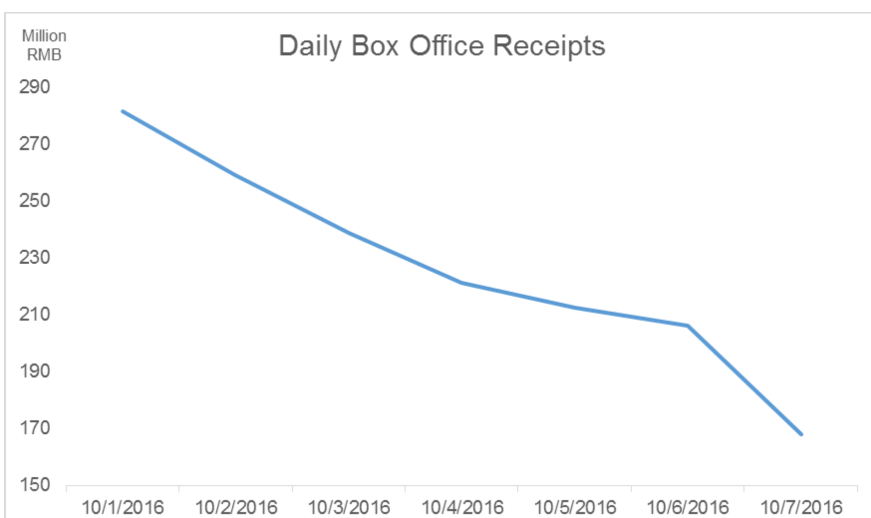
The policy intends to boost China's economy in an environment of limited remaining fiscal and monetary stimulus policy options. However, urbanization is a systematic project and requires local governments to invest in basic infrastructure, housing, education, medical care and social security systems. As such, the investments will definitely increase the fiscal burden on local governments. However, the policy announcement was devoid of details regarding who will bear the cost of the migration, leaving investors wondering about the policy's efficacy.

Box Office Receipts Fall 15% YoY During National Holiday

China's box offices saw a 15% YoY drop in ticket sales during the 7-day National Holiday, according to online movie ticket seller Maoyan.[4] The week's box office receipts totaled RMB 1.58 billion, compared with RMB 1.86 billion in 2015. The pattern is evidenced by plunging daily box office revenues, which fell from RMB 281.50 million on October 1, 2016 to RMB 168.00 million on October 7 (see chart below). It is the first year in the past decade that the popular consumption indicator has fallen.

Worryingly for movie producers and macro forecasters alike, the trend extends past the National Holiday; falling ticket sales were also apparent during this year's Mid-Autumn Festival (September 15 – 16, 2016). Receipts from the September holiday fell from RMB 605 million in 2015 to RMB 509 million this year, a 15.8% decline.

Local investors blamed tighter box office regulations and a pessimistic macroeconomic outlook as the two major drivers of lackluster performance. Some industry observers also referenced the popular practice of movie producers subsidizing theaters to boost box office receipts, a scheme that is now forbidden.



Source: Maoyan, as of 10.12.2016

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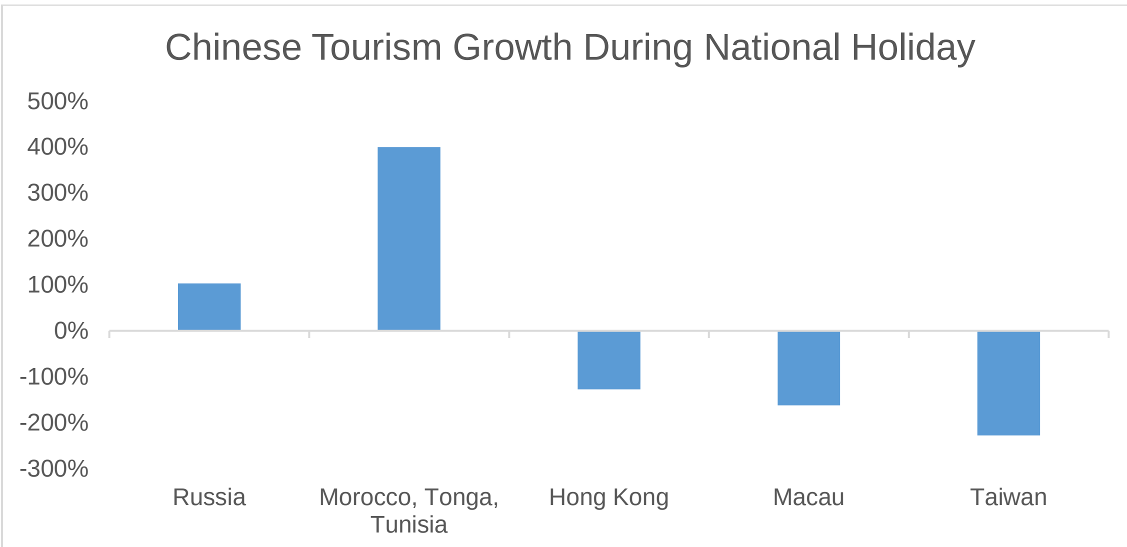
Data Sees Chinese Travelling Further Abroad During National Holiday

Newly released data dissecting National Holiday travel patterns reveals that 593 million people traveled during the festive period, representing 12.8% growth YoY. Of those voyagers, 1.4 million group tours ventured abroad, 11.9% growth YoY.



Source: Banyuetan.org, as of 10.10.2016

The most popular foreign destinations included Korea, Japan, Russia, Thailand, Taiwan, Australia, Vietnam, Malaysia, France, and Singapore. Because of the consumer spending bump inherent to the extended vacation periods, some market onlookers have called for the government to introduce additional weeklong holidays. The estimated total spending during National Holiday was RMB 482.2 billion ($71.92 billion), a 14.4% growth YoY.

Notes:

1. FATCA: Foreign Account Tax Compliance Act
2. G20: An international forum for the governments and central bank governors from 20 major economies
3. PBOC: People's Bank of China
4. RMB: Renminbi, the national currency of China
5. YoY: Year over year