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

**Friday, December 9th: China's statistics director calls for more accurate data, acknowledges prior fraud**

The new Director of China's National Bureau of Statistics urged more accurate reporting from local governments and pledged harsher punishments for those who falsify data. Although China rarely accepts challenges to the veracity of official economic figures, the Director's comments reflect formal acknowledgement of an issue that has long plagued domestic and overseas investors. Mistrusting official data, the global investment community has instead historically resorted to alternative methods of verification. Analyzing weekly power generation data instead of government GDP figures is but one method employed to estimate economic activity.[1]

Widespread data falsification is a systemic issue, stemming from misaligned incentives. GDP has historically been used as the primary metric by which local projects are evaluated and local leaders are granted promotions. However, as the country transitions into a more balanced growth model, critics point to the need for new, more holistic key performance indicators to evaluate the performance of local officials.

**Thursday, December 8th: Another month, another record fall in China's FX reserves**

China's Foreign Exchange regulator, SAFE, announced that the country's foreign reserves fell 2.2% in November to USD 3.05 trillion.[2, 3] The move was the largest single-month drop since January 2016 and comes as the US dollar approaches a 13 year-high, buoyed by the election of Donald Trump. As a result of the RMB's yearlong decline, reserves have been cut by one fourth compared with their 2014 peak of USD 4 trillion.[4]

Despite the negative coverage surrounding China's capital outflows, there remains a silver lining for overseas investors. The deleveraging of Chinese companies' USD-denominated debt has contributed to the foreign reserve drop, though in a productive way. Firms have been rushing to repay USD-denominated debt before the RMB falls further, resulting in the decline of net overseas debt from USD 650 billion in 1Q2014 to USD 140 billion at present, according to the International Clearing Bank. The debt pay down systematically reduces the country's financial risk, despite the ongoing currency battles.

**Wednesday, December 7th: Insurance companies regulated as vehicle for takeover attempts**

Following through on promises to curb "barbaric" takeover attempts from insurance companies, China's insurance regulator revoked the license of Evergrande Life to hold equity securities. The company is the insurance arm of China Evergrande Group and the preferred vehicle for aggressive blue-chip stock purchases—including the contentious bid for property developer Vanke (000002). As a result of the new regulations, Evergrande will have be forced to sell all existing shares of their portfolio.

In attempt to avoid similar restrictions, Foresea Life announced it will sell existing holdings in Gree Electric (000651) and halt future purchases of the security. Forsea hopes to avoid further spotlight with the precautionary maneuver, as the company is already under heightened scrutiny. Earlier in the week, China's insurance regulator forced Forsea to halt sales of "universal life insurance" products until the company can address issues with account oversight and management. The prohibition bodes poorly for Forsea's balance sheet, which relies on the products for 90% of premium income. The move is helpful for China, though, as Forsea's "insurance" offerings have long masqueraded as Wealth Management Products, risky off-balance sheet products with "guaranteed" returns and higher yields. Although the life insurance companies are supposed to invest prudently in asset classes that match future payout obligations, Forsea instead relied on the sale proceeds to fund the company's equity acquisition spree.

To be certain, Forsea is not alone in such practices. Since June 2015, China's private insurance companies have invested more than RMB 170 billion (USD 25 billion) in around 40 listed companies, covering banking, property development and building materials sectors. Among them, Foreside Insurance's hostile acquisition of Vanke and Forsea's purchase of Gree Electric are the most high-profile cases. Critics question whether the acquisitions would destroy some of China's best manufacturing companies, as the insurance firms lack both related experience and intention to grow the acquired companies.

**Insurance Companies Buying more than 5% of Listed A-Share Companies in 2016**

| Insurance Company | Significant Holdings (5% or Above) |
|---|---|
| Evergrande Insurance | Vanke (000002) |
| | Meiyan Jixiang (600868) |
| | Nationz Tech (300077) |
| Foresea Life | Vanke (000002) |
| | CSG Holdings (000012) |
| Sunshine Insurance | Yili Industrial (600887) |
| | Jilin Aodong Medicine (000623) |
| Anbang Insurance | China State Construction (601668) |
| Gaohua Life | Changjiang Securities (000783) |

**Tuesday, December 6th: China doubles down on planned international expansion with new OBOR fund**

China's Central Government has launched an offshore RMB 150 billion (USD 21.8 billion) fund designed to support both outbound investments by Chinese companies and the country's "One Belt, One Road" initiative.

Named the Guotong Fund, the investment vehicle was registered on November 25th in Hangzhou, the site of the 2016 G20 Summit. The Fund is anticipated to support major overseas merger and acquisition deals launched by Chinese equipment manufacturing companies. China Reform Holding Company, China Postal Saving Bank, Zhejiang State-owned Asset Management Company are among the 11 SOEs behind its launch. Although generally viewed positively, hints of favoritism are tainting the deal's announcement China's President Xi was previously a party boss in Zhejiang Province, of which Hangzhou is the capital city.

**Monday, December 5th: President Xi set to attend Davos, world awaits economic messaging**

China's President Xi will reportedly attend the famed World Economic Forum in Davos during his state visit to Switzerland in January. The move appears to onlookers as the latest step in President Xi's globalization tour. Whereas China's Davos presence has been scant in year's past—midlevel officials were the country's only representation—Xi's Davos appearance signals the president's ambition to promote himself as a global leader and China's ambition for a bigger role on the world's stage.

As Trump will likely not attend the meeting (nor be invited), the global audience eagerly looks to the head of the world's second largest economy to hear assurances about China's health. As China transitions to a more consumption-driven growth model, the country struggles with shrinking foreign reserves, depreciating currency, production overcapacity, and an expansive shadow banking sector. Domestic investors are closely watching for hints from the CCP's annual central economic conference in late December, when Chinese leaders gather to set economic targets for the following year. Many believe that Xi will deliver China's agreed-upon 2017 plans during his speech at Davos.

Notes:

1. GDP: Gross domestic product
2. SAFE: State Administration for Foreign Exchange
3. USD: US Dollar, the national currency of the United States
4. RMB: Renminbi, the national currency of China