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

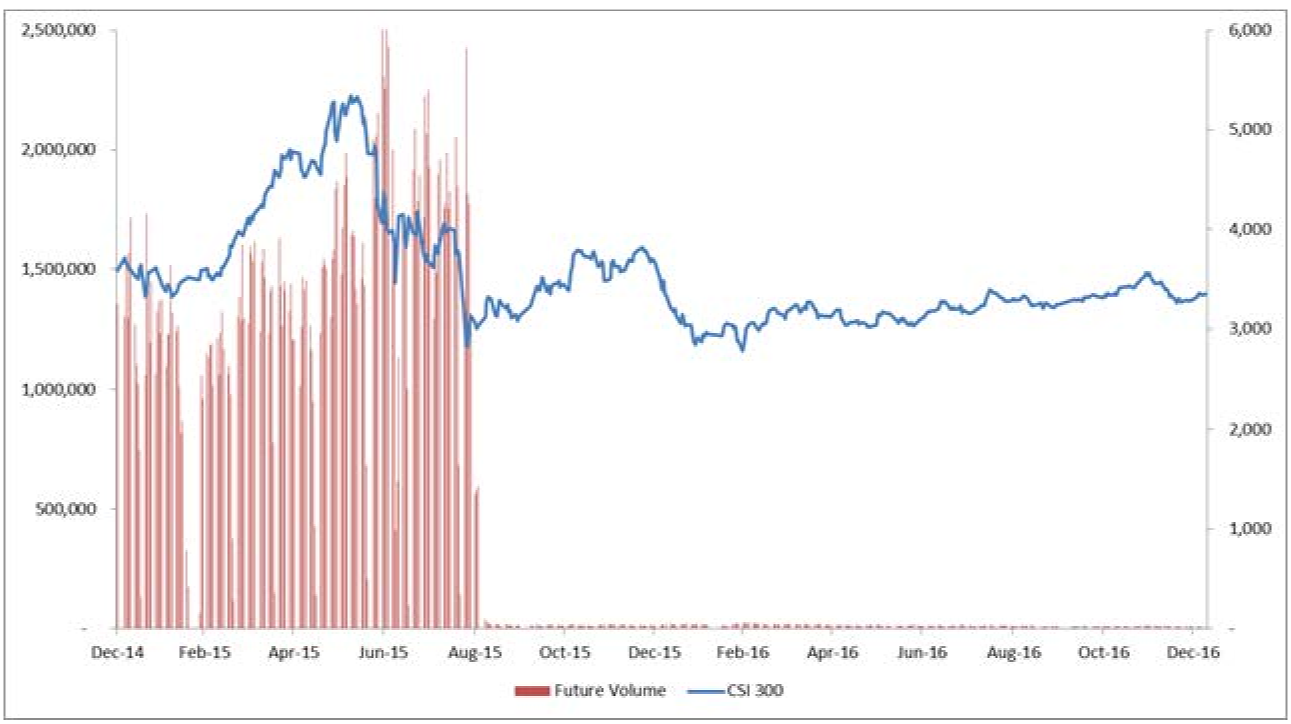
**China's Securities Regulator to lay groundwork for reversing restrictions on index futures trading**

During a high-profile visit to the China Financial Futures Exchange, the chairman of the China Securities Regulatory Commission instructed the exchange to research the role of index futures in the mid-2015 equity market turmoil. Short selling through index futures has been widely blamed for the mid-2015 crash, a month-long disturbance that erased a third of A-Share market value. To halt the mid-summer slide, regulators announced stopgap measures including stricter margin requirements, restrictions on new short positions, and maximum limits to daily trading volume. As a result of the restrictions, trading volumes dropped precipitously, falling 90% YoY. The drop robbed liquidity from the system and spurred vociferous complaints from investors both foreign and domestic, who relied heavily on the futures for both pricing and hedging.

Thrilling investors, recent reports indicate that a special team has been established to study the feasibility of loosening the restrictions on trading index futures. Although a strict timeline for reform is not yet forthcoming, regulators are anticipated to announce a rollback of the 2015 rules within the first several months of 2017.

***Index Futures Trading Volume and Index Performance***

***Before and After 2015 Restrictions***




Source: Wind, January 10, 2017

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### PBOC investigates bitcoin trading platforms ahead of likely regulation

China's central bank has launched an investigation into the country's bitcoin trading platforms, a move expected to result in heightened regulation of the virtual currency. Due to bitcoin's widespread use as a yuan hedge and vehicle for bypassing limits on foreign currency purchases, regulators are attempting to gain a better understanding of the popular currency.

The investigation has the potential to reverse PBOC's 2013 decision to define bitcoin as a "commodity" rather than a "currency," a classification which allows bitcoin traders to sidestep the $50,000 per year limit on foreign exchange transactions. Because of this loophole, bitcoin is tremendously popular in China. According the China Securities Journal, China accounts for 80% of bitcoin's global trading turnover.

However, analysis of recent trading data signals the party might soon be coming to an end. After the PBOC's announcement and subsequent site visits to China's three largest bitcoin exchanges, bitcoin prices plunged to USD 761.36 upon investor fear of heightened regulation. The fall from grace comes after the currency recorded a high of USD 1174.12 in China on January 5, 2017.

### Alibaba founder Jack Ma meets with Trump to discuss creation of 1 million jobs in American midwest

President-elect Donald Trump met Alibaba's Jack Ma in New York last week to discuss Mr. Ma's plan to create 1 million jobs in the US Midwest. Mr. Trump warmly welcomed Mr. Ma's proposal, which involves selling US goods to Chinese consumers through Alibaba as a way to expose US companies to new customers and, in turn, create American jobs.

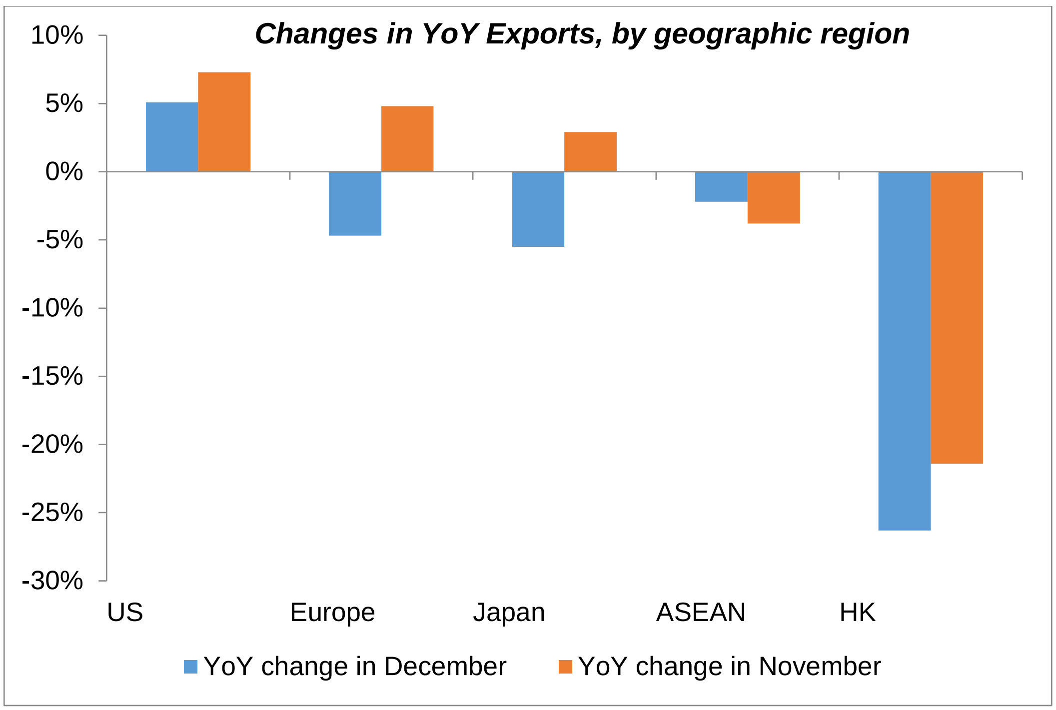
Although the meeting received little fanfare in Western media outlets, we believe the budding relationship is strategically important for US-China relations. In meeting with Mr. Trump, Mr. Ma is not only selling his own e-commence company, but also proposing a solution for improving the deteriorating Sino-US trade relationship. While on the campaign trail, Mr. Trump blamed China for stealing American jobs and threatened to levy punitive tariffs on China's goods. In response, China's state media called Mr. Trump inexperienced in matters of foreign affairs. The name-calling leaves both nations in a bind. Although it is in neither country's ultimate interest to sever ties, neither wants to lose face or back down from previous proposals.

Understanding this predicament, Mr. Ma has emerged as China's unofficial ambassador to the US. As a successful businessman, Mr. Ma is wagering that he can connect to Trump while simultaneously expanding Alibaba's market share, creating US jobs, and resolving a pressing international crisis. His role as a private citizen is advantageous on this front, as he can couch his diplomatic maneuverings in the language of business, helping Mr. Trump save face. Although he is a businessman, Mr. Ma is also a budding statesman. He will join President Xi's historic pilgrimage to Davos, indirectly helping President Xi in his formal efforts to smooth international ties and promote existing structures of globalization.

### Weak trade data reveals declining exports and imports

China announced underwhelming trade data as exports fell -6.1% YoY in December 2016. The decrease exceeded both market expectations of -4% and November's -1.5% drop. Imports in December also slowed, falling to 3.1% from 4.7% in November 2016. Onlookers are braced for the lethargy to continue into January due to three factors: Chinese New Year, stronger currency, and potential imposition of trade barriers.

Whereas in 2016 Chinese New Year fell in February, the 2017 holiday takes place in January. Because the majority of businesses shutter in celebration of the multi-day holiday, trade data for January 2017 will likely record a drop when compared with January 2016. To be certain, the numbers will likely rebound for February. Second, both onshore and offshore RMB strengthened significantly at the beginning of January, diminishing exporter confidence. Third, uncertainty abounds over US-China trade relations ahead of Trump's January 20th inauguration, leading China's exporters to temporarily withdraw until they gain greater perspective into the potential trade barriers they may face.




Source: Wind, January 16, 2017

**China Insurance Regulatory Commission begins investigation of insurance company abuse of short-term financial products**

China's Insurance Regulatory Commission (CIRC) began investigation into the popular, yet misguided practice of selling short-term policies to raise cash for rampant acquisition sprees.

In theory, life insurance companies should sell multi-year or long-term insurance policies to compensate clients in the event of illness or death. In practice, however, many Chinese life insurance companies are selling 1-year notes as financial products, promising a return higher than the prevailing bank deposit rate. Upon receiving the sale proceeds, insurance companies then leverage the funds to purchase assets in domestic and overseas markets. Such cases include Anbang Insurance Group's acquisition of the Waldorf Astoria and Foresea Life Insurance's controversial bid for property developer Vanke.

The impact of the insurance abuse is potentially significant, resulting in an enormous mismatch of risk on insurance company balance sheets. While the products mature in one or two years, proceeds from their sale are invested in longer-term illiquid assets, leading to stark mismatches between asset and liability maturation dates and, potentially, default.

Acknowledging the looming risks, the CIRC has already made several attempts to address the problem. In the past two years, the regulatory body has granted 30 insurance licenses to private companies in the hope that they will provide more extensive insurance coverage to the mass market. Aside from regulatory carrots, CIRC has employed its share of sticks, punishing at least 10 insurance companies for abusing the sale of short-term policies. The recently-announced investigation will likely result in announcement of additional policy changes in the coming months.