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

FRIDAY, SEPTEMBER 2

Officials in the coastal city of Hangzhou have been finalizing preparations for the 2016 G20 Summit, set to kick off on Sunday, September 4. During the Summit, China plans to focus on economic cooperation and avoid discussion of political issues. In addition, local analysts expect key themes to include:

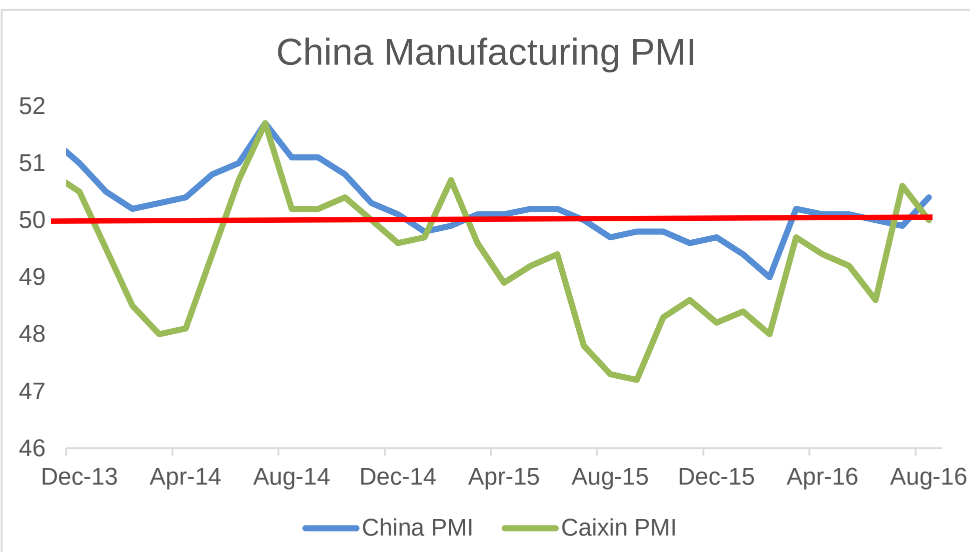
1) Preventing competitive currency deprecation;
2) Increasing the role of the SDR in China's domestic market;
3) Promoting financial reform to enhance transparency and stability.

For security purposes, China has suspended tourism in the city and halted local business operations. Hangzhou officials are simultaneously encouraging residents to travel outside of the city during the two-day gathering.

THURSDAY, SEPTEMBER 1

China announced an official August manufacturing PMI of 50.4, a statistic that topped both July's 49.9 figure and analyst estimates. Although slight, the bump is symbolically significant; a PMI over 50 signals economic expansion. August's release represents the first time that China's manufacturing activity has evidenced signs of recovery since the end of 2014. The Caixin China Manufacturing PMI, an independent tracker of smaller manufacturing firms, confirmed the trend with an indicator of 50.0. Meanwhile, official non-manufacturing PMI remained firmly in expansion territory at 53.5.

Analyses of August's data are mixed. To some onlookers, the figures evince that China's economy is bottoming. Others, however, interpret the rosy indicators to mean that the central government will hesitate to employ stimulus policies, diminishing the prospect for a swift economic rebound.

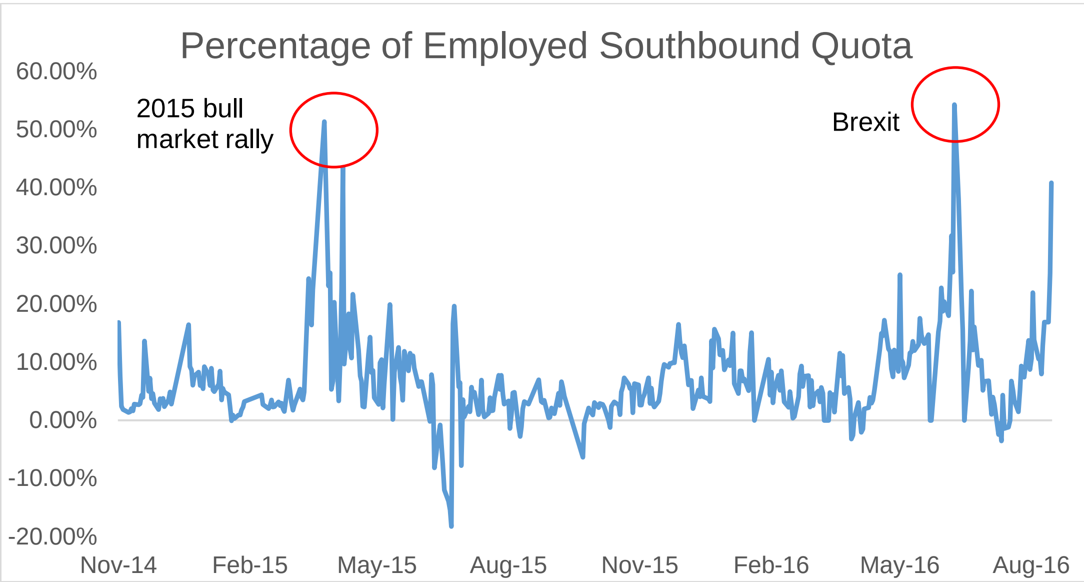


Source: Bloomberg, as of 9.2.2016

WEDNESDAY, AUGUST 31

40% of available Shanghai-Hong Kong Stock Connect Southbound daily quota was deployed in Wednesday's trading session, a percentage not seen since the immediate aftermath of Brexit. As the Southbound utilization rate averages 7% of available quota, the jump potentially reflects onshore investors' increased appetite for risk abroad. Increased quota consumption signals bullishness.

On the domestic front, investors clamored for property sector stocks, with Chinese developer Vanke almost singlehandedly lifting the sector. The brokerage sector also traded higher, fraught with excitement about the forthcoming opening of the Shenzhen-Hong Kong Stock Connect.



Source: Bloomberg, as of 9.1.2016

TUESDAY, AUGUST 30

China's National Development and Reform Commission (NDRC) has approved 12 infrastructure projects worth of RMB 284.9 billion in past 2 months. Most of the projects are public transportation related, including 6 toll-road and 2 high speed railway schemes. According to the Ministry of Transportation, the total fixed asset investments in toll-roads was RMB 962.8 billion in first 7 months of 2016, representing 53.5% of the annual RMB 1.8 trillion target. Meanwhile, investment in railways was RMB 369.7 billion from January through July, comprising 46.2% of the RMB 800 billion target for 2016.

The reports signify that China's fixed asset investment is expected to pick up in 2H2016 as a means to stimulate economic growth.

MONDAY, AUGUST 29

Panic buying of property developer stocks spurred financial sector outperformance on Monday. Speculation about increased down payment requirements and individual income tax reform contributed to the purchasing barrage, helping 10 blue-chip Hong Kong property developers rebound 10% from their year low. Although Shanghai's government denied plans to tighten mortgage requirements, market onlookers point to a 27% July YoY jump in Shanghai's property market as evidence of a looming regulatory crackdown.

To hedge against the possibility, Shanghainese couples are reportedly filing for divorce in droves, a maneuver that allows them to sidestep rules requiring a 70% down payment for second-time home buyers. Property-owning couples who divorce can transfer the existing deed to one party while the other buys another residence with the first-time home buyer rate of 30%. According to the South China Morning Post, the problem has become so pronounced that the marriage registrar in Shanghai's Jing'an district has announced a daily quota for divorce filings—40 in the morning and 50 in the afternoon.

Although the measures might seem extreme, investors continue to regard real estate as one of the best available options in light of China's volatile stock markets, increasing WMP regulation, and historically low bond yields.