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

9.15.2016- Moody's finds improved fiscal position in China's regional and local governments

Ratings agency Moody's reported improvement in the fiscal position of China's regional and local governments in 1H2016. Local government revenues, which include tax and non-tax revenue, increased 11% YoY. Similarly, land sales, a major source of income for local governments, rose 10% YoY. Citing supportive monetary and fiscal stimulus policies, the agency predicted continuation of the positive trends as well as reduced short-term default risk on local government debt.

Tempering the outlook, Moody's cited potential tailwinds. They posit that variation in regional economic and fiscal positioning will lead to divergent outcomes, with provinces disproportionately exposed to struggling "Old China" industries such as coal, steel and manufacturing falling further behind regions more concentrated in services.

9.14.2016- FTSE China A50 rebalance privileges financial sector

Because Mainland exchanges were closed on Thursday and Friday for the Mid-Autumn Festival holiday, the FTSE China A50 Index rebalanced mid-week.

Index additions included Greenland Holdings (600606) and Poly Real Estate (600048), both of which are large domestic property developers. Deletions include Baotao Steel (600010) and Gree (000651), a Guangdong-based appliance manufacturer.

Other major changes include a weighting increase of Guotai Junan Securities (601211). As a result of these changes, the overall weighting of the financial sector will increase slightly, rising from 69.98% to 71.85%.

9.13.2016- August economic data outperforms expectations

China's August economic data outperformed expectations, suggesting a rebound from a lackluster 1H2016.

Investors found several takeaways particularly heartening.

- Industrial output rose 6.3%, surpassing July's 6.0% growth and analyst expectations of 6.1%
- Fixed income investment and money supply growth showed moderate recovery
- Fixed asset investment also improved in August, a trend spearheaded by state-owned enterprises and government infrastructure investments
- Aggregate Financing levels beat July's data threefold, coming in at RMB 1470 billion

Some onlookers, however, were less enthusiastic; the better-than-expected data may reduce policymaker incentives to impose further stimulus. Naysayers also suggest that August's figures are an aberration, speculating a September downturn attributable to lost productivity from the Mid-Autumn Festival holiday and G20 shutdowns. However, a third interpretation surmises that a muted September might be the outlier, citing the buoying effect that stimulative1H2016 fixed income investment will have on Q4 numbers.

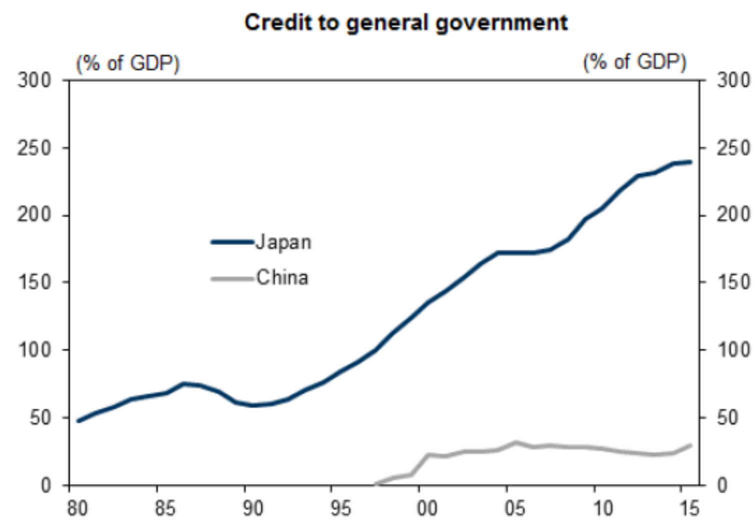
9.12.2016- Favorable conclusions from GS China and Japan debt report

In a recently released report, Goldman Sachs economists compared the debt situations of China and Japan, adding context and nuance to an issue often misconstrued.

In analyzing credit to non-financial corporations, the report found that China's 160% of GDP resembles Japan's 150% of GDP peak in 1993. However, China's household credit falls just below 40% of GDP, much lower than Japan's 70% of GDP from the 1990s onwards.

Of special interest is comparison of the two countries' debt-to-GDP ratios. China's credit to general government represents around 30% of GDP. By contrast, Japan's current credit to government is 240%, *8 times of that of China.* Moreover, the report also shows that the pace of China's debt accumulation has been considerably slower than Japan's.

Taken together, these figures reveal that continued fears about China's debt situation might be overblown when the country is compared



Source: BIS, Goldman Sachs Global Investment Research, as of 9.12.2016.