

## What You Should Know This Week: CSOP's Weekly China Wrap Up

### Xi Jinping's name gets enshrined on China's constitution

Delegates of the national congress voted to officially call the Communist Party's charter as "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era", enshrining President Xi Jinping's name into the country's constitution. The "Thought" will serve as a guide for action of the Communist party for the next term of President Xi's leadership, as well as the dogma for the citizens of China. School curriculums will also be updated to incorporate the new doctrine in the near future – reportedly, with a stronger emphasis on socialist values and party leadership.

#### *What are the implications?*

The move to include the president's name in the party charter has symbolic importance, as only two previous leaders of state have done the same. The two other leaders were core shapers of the modern, socialist China that is today; Mao Zedong, the founding father of People's Republic of China, and Deng Xiaoping, the *paramount leader* who opened China to the global economy. On the contrary, President Xi's two immediate predecessors, Jiang Zemin and Hu Jintao, did not have their names in their reports. The move essentially elevates President Xi's status above his immediate predecessors, and equal to those of Mao Zedong and Deng Xiaoping. And with the elevation, his influence can be expected to have significant and long-lasting impact, perhaps even beyond his time as the country's chief officer. Some are also viewing the move as a potential sign of the president's intent to stay in his current position, despite being past the customary retirement age of 69 at the end of his second term.

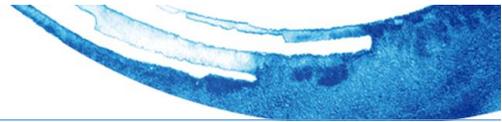
### China's national pension looks for overseas investment opportunities

China's national Social Security Fund (SSF) is looking for overseas investment opportunities to diverge part of its 2.1 trillion RMB (317 billion USD) portfolio. The move comes on the back of the fund's efforts to diversify its risks from being overly concentrated in the Chinese domestic market. Currently, less than 10% of its holdings are in foreign investments, much lower than the 20% government cap, and held mostly in stocks in bonds. SSF Chairman Lou Jiwei is keen on adding alternative investments, if the right talent pool can be leveraged. The pension fund will look at specific projects rather than countries, and will look for opportunities that would provide "high risk-adjusted, long-term return and ensure the appreciation of the social security fund". The fund had previously indicated that it also planned to make foreign investments as part of President Xi's "Belt and Road Initiative".

#### *What are the implications?*

The Social Security Fund of China currently looks after hundreds of millions of people's pensions – and potentially more in the future. Until now, public pensions were managed by respective provinces in China; however, six provinces reported a shortfall in 2015, with the circumstances looking to be a trend rather than an exception. The central government announced a plan for coordinating pensions on a national level for the purposes of managing imbalances between provinces, although not fully implemented as a national scheme as of yet. Chairman Lou warned however, that it would be irresponsible to rely solely on national pensions to meet shortfalls.

Separately, despite the fund's search for overseas opportunities, the Chairman iterated that his confidence in China's economic future. Unlike some other economies, which relies on external factors such as commodity prices and foreign exchange rates for economic boosts, much of China's growth comes from the robust domestic demand from a large population. Chairman Lou noted "no matter what happens externally, we are not afraid".



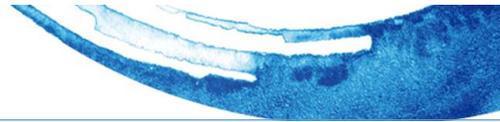
## China's new group of the most powerful men revealed

The seven-member Politburo Standing Committee, the most central body of China's government, was revealed this week, with five new members joining President Xi Jinping and Premier Li Keqiang. Among the new members include the point of contact for US-China strategic and economic dialogues Wang Yang, Shanghai party chief (one of the most important provincial positions) Han Zheng, and new anti-corruption head Zhao Leji. In addition to the Standing Committee, 25 Politburo members and 205 Central Committee members of the Communist Party were decided in the twice-a-decade affair.

### *What are the implications?*

The announcement of leadership over world's second largest economy was the key point of interest for the global audience during the national congress. Speculations and analyses were rampant, especially post announcement of the Central Committee which notably left out a few key members – namely anti-corruption chief and President Xi's right-hand-man Wang Qishan, and Vice-President Li Yuanchao. The former's retirement was a particularly hot topic; at the traditional retirement age of 69, many wondered if the powerful congressman would adhere to the unofficial rule – and if he didn't, if that would set a precedent for President Xi to retain power for a third term, when the president would also be 69 years old. Wang's retirement doesn't necessarily mean that President Xi intends to step down however, and he could very well break the convention which has been followed since 2002 – especially since a clear successor was not made apparent. Many were surprised to find Chen Miner, widely regarded to be Xi's protégé, to have not made it in the central group.

With the president's position further strengthened, some analysts argue that reforms could be swifter. Furthermore, some sees President Xi remaining in power for a third term as a potentially positive event, given many of the key policies announced, such as a focus on environment and equality, will take a long time to manifest into results and would benefit from a continuation of power. Foreign investors should also welcome the promotion of Wang Yang, with his experience in negotiating with Washington over trade and economic matters.



## Index definition:

1. The FTSE China A50 Index is the benchmark for investors to access the China domestic market through A Shares – securities of companies incorporated in mainland China and traded by Chinese and institutional investors under the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor (QFII & RQFII) regulation. Note that one cannot invest directly in an index
2. The CHINEXT index is China's Nasdaq-like barometer of high-tech stocks. Note that one cannot invest directly in an index
3. The MSCI China Index captures large and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 150 constituents, the index covers about 85% of this China equity universe. Note that one cannot invest directly in an index
4. Bloomberg's Global Aggregate + China Index combines the Global Aggregate Index with the treasury and policy bank component of the China Aggregate Index. The EM (Emerging Market) Local Currency Government + China Index combines the EM Local Currency Government Index and treasury component of the China Aggregate Index. Note that one cannot invest directly in an index
5. Citibank's World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The JPMorgan Emerging Market Bond Index (EMBI) are a set of three bond indices that track bonds in emerging markets. Note that one cannot invest directly in an index
6. The Hang Seng China Enterprises Index is a free-float capitalization-weighted index comprised of H-Shares listed on the Hong Kong Stock Exchange and included in the Hang Seng Mainland Composite Index. Note that one cannot invest directly in an index

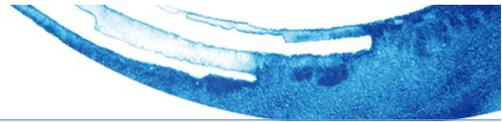
## Institutions:

1. PBOC: People's Bank of China
2. SOE: State-owned enterprise
3. IMF: International Monetary Fund
4. CBRC: China Banking Regulatory Commission
5. CIRC: China Insurance Regulatory Commission
6. CSRC: China Securities Regulatory Commission
7. SAFE: State Administration for Foreign Exchange
8. ICBC: Industrial and Commercial Bank of China
9. EU: European Union
10. G20: An international forum for the governments and central bank governors from 20 major economies
11. G7: An international forum for the governments and central bank governors from 7 major economies
12. UAE: United Arab Emirates
13. SSE: Shanghai Stock Exchange
14. LSE: London Stock Exchange
15. AIIB: Asian Infrastructure Investment Bank
16. WTO: World Trade Organization

## Currencies:

1. RMB: Renminbi, the national currency of China

*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.*



2. USD: US Dollar, the national currency of the United States
3. GBP: Pound Sterling/Great British Pound, the national currency of the United Kingdom
4. JPY: Japanese Yen, the national currency of Japan
5. EUR: Euro, the official currency of the Eurozone
6. HKD: Hong Kong Dollar, the national currency of Hong Kong
7. USDCNH: Abbreviation for the US offshore Dollar/RMB currency pair

**Others:**

1. IPO: Initial public offering
2. SPO: Secondary Public Offering
3. MoM: month over month
4. YoY: Year over year
5. GDP: Gross Domestic Product
6. EM: Emerging Market
7. Bps: Basis points
8. FX: Foreign Exchange
8. OTC: Over-the-counter
9. GDP: Gross domestic product
10. ETF: Exchange-traded fund
11. FATCA: Foreign Account Tax Compliance Act
12. TPP: Trans-Pacific Partnership
13. SDR: Special Drawing Right, an international reserve asset
14. OBOR: One Belt, One Road
15. RCEP: Regional Comprehensive Economic Partnership