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

China to send special envoy to North Korea to discuss new constitution

China's state-run media reported that China will send a special envoy to North Korea. Song Tao, who runs the international liaison department for the Communist Party, will visit North Korea reportedly to brief North Korean officials on the outcomes of the recently held National Congress. China's foreign ministry has stated that such a visit was standard practice for communist nations, and similar briefings have already taken place with Vietnam and Laos. Otherwise, details of the agenda were not disclosed. The visit comes at a time in which tensions are reaching all-time highs on increasing provocation from North Korea.

What are the implications?

The US has been calling for strong action from China, who has been traditionally one of the closest allies to North Korea. In trying to take a bigger role in the dispute, Beijing had repeatedly condemned nuclear action from Pyeongyang, participated in UN sanctions, and have stated that China will not recognize North Korea as a nuclear nation. However, this has cooled relations between the traditionally closely-aligned countries, with some fearing that China will lose some of the influence it may have over North Korea. Some political experts view this visit as an extension of an olive branch from Beijing – however, it is unlikely that the strained relations are likely to quickly thaw over what is considered a relatively standard meeting.

China allows for majority ownership of joint ventures by foreign financial institutions

China will increase the limit of foreign ownership in financial institutions, including brokerages and mutual fund firms, from 49% to 51%, effectively allowing for majority holding. The move is a follow through of China's promise to continue opening the domestic market to international players. Furthermore, China promised that the limit will be completely lifted within three years. For insurance companies, a similar lift in ownership limit will occur in three years, and removed completely in five years. Due to the change, US investment bank Morgan Stanley announced its intention to take majority stake in a mainland venture. Goldman Sachs also welcomed the decision by Beijing.

What are the implications?

While the change came as a surprise, it was read as a major step towards the long-awaited opening of China's financial system. The easing of limits on ownership holdings should allow global financial players full access to the world's second largest equity market and the world's third largest bonds market. After Morgan Stanley's announcement, more international banks are expected to join in setting up majority-controlled ventures to conduct financial services businesses on the mainland.

On the other hand, the change may be a blow to domestic players, who have likely not prepared for a suddenly more competitive market. While the full scope of impact is unclear, international investors may prefer foreign brokers, especially given higher transparency, strong risk management, and better understanding of foreign regulatory requirements. Despite this, some believe that domestic players will remain competitive given stronger connections and deeper understanding of the local markets that foreign firms would not be able to rival.

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.

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

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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

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