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

China's special envoy snubbed by North Korea with no meeting with Kim Jong-un

China's special envoy to North Korea returned from his four-day trip to Pyongyang. Song Tao, the head of international liaison in the Communist Party, met several high-ranking North Korean officials, including the country's number two authority, as well as a vice-chairman of the Worker's Party of Korea. It was not reported if Song met Kim Jong-un himself however, suggesting that the envoy did not meet the leader of the isolated nation. Results of the meeting were also limited, with no real progress on key political issues such as denuclearization.

What are the implications?

While unconfirmed, given both nations have kept quiet on whether a meeting with Kim took place, a meeting likely did not happen. This is viewed by some political analysts as a snub to Beijing, given Xi had met North Korean special envoy on his visit to China just last year. Reciprocation is generally considered protocol between communist regimes, and while some played the lack of a meeting down, the rebuff suggests that Beijing's influence over Pyongyang is more limited than thought. Relations between the two communist nations have cooled significantly recently, with Beijing unhappy with the continued provocation and Pyongyang unhappy that Beijing had stood on the side of the international community in imposing further sanctions on North Korea. Regardless, the two nations put on a positive front, pledging to "strengthen communication … to further promote the relationship" between the ruling parties.

Potential rules on asset management products to contain leverage and shadow banking released

China's financial regulators released new rules regarding asset management products (AMPs) to deal with the multi-trillion dollar shadow banking business over the weekend for public opinion. A previous draft has been released in February thus the new rules were well expected. The new rules have set strict restrictions on non-standard assets (NSAs), which are fixed income assets other than those listed on exchanges or traded in the inter-bank market.

What are the implications?

NSAs are typically issued by companies looking for funding, and distributed by brokerage and trust firms to investors. Although NSAs are often considered to be interest rate products, but they behave more like credit or equity assets with high correlation to performance of the underlying issuers. NSAs have been a concern for domestic regulators and investors due to its riskier nature. Retail investors often underestimate the risk involved with NSA and consider them guaranteed obligations. Institutional investors generally purchase NSAs to receive higher yield, but have previous seen lack of liquidity causing issues. For example, a large money market fund that held NSAs in its portfolio to enhance yield failed to meet a large redemption request, due to lack of liquidity.

AMPs will likely to see shrinkage as investments NSA fall with the new rules implemented. The likely losers are to be cyclical sectors and brokerage/trust firms that deal with NSAs. Companies in the cyclical sectors, especially those that rely on heavy leverage, may be forced deleverage by the virtue of being unable to issue new NSAs while current NSAs mature. Meanwhile, brokerages will likely to see their revenues shrink given channel businesses in distributing NSAs make up for nearly 65% of the current AMP business.

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

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