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

Apple suppliers fall on weak demand of new iPhone X, iPhone 8

Major suppliers to Apple fell 6-10% on the back of news from Taiwan that the tech giant had requested the suppliers to slow shipment to just 40% of the original target for the iPhone X, due to adjusted sales strategy. The news inconveniently coincided with slow sales of iPhone 8 in China.

Apple ranks second in user loyalty in China, after the Chinese brand Huawei Technologies, according to a research firm backed by China's powerhouse Tencent.

What's the implication?

China is home to around 2.33 billion smartphones as of end of 2016, replacement of which creates new orders for smartphone producers. According to the survey conducted by Tencent's research firm, 65.7% of iPhone users were likely to choose Apple again for the next phone, compared to 72.8% Huawei users who were likely to choose Huawei again. Of note, 41.6% of smartphone users were previously users of the iPhone, who had switched to Huawei, Samsung and Xiaomi phones.

Arguably, Apple's descent in the market is partially due to the iPhone falling behind other brands in terms of innovation, focusing rather on the ultimate user experience. For example, the iPhone X was Apple's first device to feature edge-to-edge screen and wireless charging, neither of which are new to the Chinese consumer. Competitors like Huawei, Samsung and Xiaomi have introduced models with similar functions far ahead of Apple. Additionally, Chinese phone manufacturers are quickly shifting from low-cost copycats to premium challengers to the likes of Apple and Samsung, both at home and in the overseas market.

Nine major Chinese cities announce property market restrictions

Nine major Chinese cities, generally capitals of inner provinces, announced property market restrictions 36 hours ahead of implementation, similarly to macro controls seen at the end of September of 2016. China's capital cities are usually the center of politics and commerce, and thus generally the most populated city in the province.

Meanwhile, mortgage rates in tier-1 cities have continued to rise, a coordinated measure by the government to contain the overheating property market.

Context of the new regulations compared to last year's regulations

This year's regulations focused on restriction of first and second-hand property sales. For example, some local governments will prohibit resale of second-hand properties within three to five years of purchase. In contrast, last year's regulations focused on the limiting the demand side, imposing a maximum number of properties an individual or family may purchase, according to certain criteria.

What are the reasons behind the new regulations and will they be effective?

Despite president Xi reiterating that apartments are not for speculation purpose, the property prices continue to be out of control. Unaffordability of the property market not only increases systemic financial risk, but arguable also impacts social stability, which is concerning for politicians, particularly ahead of sensitive political events. However, the reason for the continued overheating of the property market is pointed to be oversupply of monetary base as well as excessive leverage. While the authorities are determined to deleverage the public sector, some criticism has arisen that more must be done to resolve the issue of the property market. Sales or purchase restrictions may only serve as temporary solutions.

Jack Ma-backed insurtech company IPO's in Hong Kong

Zhong An Online Property and Casualty Insurance, a Chinese insurance technology (or insurtech) company, jumped 16% on debut on the Hong Kong Stock Exchange on enthusiastic reception from investors. The company raised USD 1.5 billion, bringing the firm's valuations to USD 10 billion. It was the largest initial public offering (IPO) in the city since Guotai Junan, a Chinese brokerage firm, raised USD 2 billion last April.

Is the fanfare warranted?

As the brainchild of three founders, each of which are the respective chairmen of tech giants Alibaba Group and Tencent, and the financial conglomerate Ping An Insurance, Zhong An was born with a silver spoon in its mouth. Founded in 2013, the firm saw its gross written premium surge to RMB 3.41 billion (USD 513.8 million) within the first three years. However, three consecutive years from 2014 recorded operating losses of RMB 61.5 million (USD 9.3 million), RMB 511.6 million (USD 77.1 million) and RMB 153.1 million (USD 23.1 million) respectively. The management attributed the losses to investment into expanding its operations at scale. The company expects to incur "a significant net loss" again in 2017.

Some cautious bystanders are concerned that the frenzy over new fintech companies may bring on turmoil similar to the bubble over TOM Group in 2000. Founded in October 1999 as a joint venture between Hutchison Whampoa and Cheung Kong, the TOM Group conducted internet and outdoor media business. Five months after launching the business, the company went on to IPO in March 2000. On the first trading day, the stock price rallied 3.35 times from HKD 1.78 to HKD 7.75 due to huge popularity with investors, and peaked a few days later at HKD 14.30. However, the bubble was soon to burst, and the stock eventually collapsed to close the year at HKD 2.10.

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 combine 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 combine 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) is 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. UAE: United Arab Emirates
12. SSE: Shanghai Stock Exchange
13. LSE: London Stock Exchange
14. AIIB: Asian Infrastructure Investment Bank
15. 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