

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

China slams the US for “zero-sum mindset” and warns of retaliation

China slammed back at the US president Donald Trump, criticizing the western superpower's “zero-sum mentality” and warned of “retaliatory measures” if the trajectory continued, reported by the state media. The American president has taken aggressive public stances against China recently, from labelling China as a strategic competitor to rejecting China's market economy status at the World Trade Organization. The deterioration of relationship comes just months after President Trump's state visit to China, in which the two countries came to agreement on trade deals of USD 250 billion.

What are the implications?

Relations between the world economic powers had been rocky since Trump took office in 2016, as strong rhetoric against China has been one of the key messages of Trump's campaign. China has been outwardly putting on a face of cooperation; a lavish show was put on for Trump's first state visit, including a visit to the Forbidden City in Beijing, in a show of political hospitality not offered to many other head of states. The visit ended on a notably amicable note, making the recent decay in relations all the more scathing.

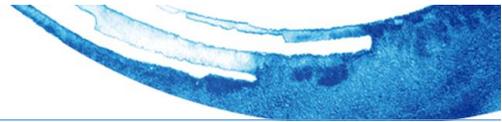
On the other hand, despite promising to purchase more American exports, China's trade surplus with the US grew larger in 2017, compared to 2016. Regardless, China has also been taking the brute of failing relationships, with Alibaba-backed Ant Financial's takeover bid for US MoneyGram International being the latest to be rejected by US government panel on the grounds of national security, among a string of recent rejections. Beijing was careful to note despite the hit-back that cooperation between the two largest world economies was “the only correct choice”.

China appoints Japanese speaking, ethnically Korean diplomat as deputy foreign minister

Kong Xuanyou, a top diplomat to Korea and Japan, was promoted to deputy foreign minister in the latest reshuffle of ministers. Kong is a seasoned diplomat, who has served as at the Chinese embassy of Tokyo, has long been considered an authority on China-Japan relations. Furthermore, he was also promoted to be the key personnel for China-Korea relations, including North Korea, as of August of 2017. The promotion to deputy foreign minister is seen as a sign of Beijing's interest in improving the recently strained relationships with regional parties – especially in the context of a nuclear and provocative North Korea.

What are the implications?

What makes Kong's appointment all the more interesting is his profile; Kong is a fluent Japanese speaker who is considered to be an expert in Japanese affairs, but also ethnically Korean and assumed to be proficient in Korean as well. Due to his unique proposition, the promotion is viewed as a sign for future efforts in improving relations with regional peers. The promotion also implies a generational reshuffle of diplomatic missions and personnel, and many are hopeful closer cooperation between the Asian powers will help diffuse the current North Korean situation. Not everyone is as hopeful however, with some critics arguing the promotion will do little in de-escalation, given Beijing seemingly yielding less and less power over the hermit nation.

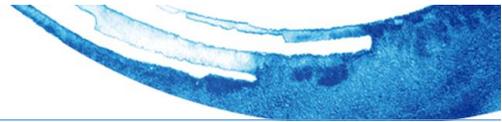


China's Communist Party warns against the “bubbly” Bitcoin craze

The Communist Party slammed the latest craze around bitcoin, labelling it a “bubble” and comparing it to a modern-day tulip mania. As relayed through its People’s Daily commentary, the party bashed the cryptocurrency on the basis of valuations driven by hype and speculations rather than innate value. The commentary went on to warn of bubble bursting once governments around the world start to tighten regulations. China has already started tightening on bitcoin trading in September of last year, banning several public bitcoin exchanges.

What are the implications?

Bitcoin has been all the rage globally in the last year, and China has not been an exception. Furthermore, with the country’s strict capital outflow rules, some Chinese individuals have taken to bitcoin to transfer funds offshore. China made some effort in trying to dampen the bitcoin craze domestically by cracking down on public exchanges, but efforts had little effect and even pushed investors into a booming over-the-counter market. The authorities are taking note however, and are likely to impose stricter rules on cryptocurrency trading going forward.



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

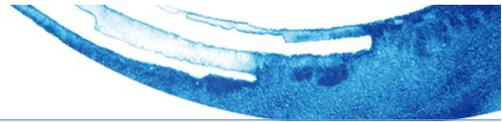
Institutions:

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