

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

### Second major Sino-US trade deal falls through in one week

Huawei and AT&T deal was reportedly cancelled last minute, due to political pressures from Washington. The Chinese smartphone maker was to distribute its phones through the American telecom company's US network, as part of its globalization plans. Huawei is the second Chinese company to see a major US-China deal fall through this week – with Ant Financial's bid for Moneygram International folding just a few days prior.

#### *What are the implications?*

The cancelled deal is just another evidence of heightened tensions between the two economies, particularly after President Trump labelling China as a strategic competitor. While warnings of trade war with China was Trump's rhetoric even before his presidency, President Xi tried to appease him with a USD 250 billion trade deal when the two heads of state met in Beijing in November. The move seems just not good enough, with the US being ever more skeptical of Chinese investments, particularly in the information technology space. Alibaba-affiliated Ant Financial's bid for Moneygram was rejected on the basis of national security concerns, with growing apprehension for Chinese companies getting access to American technology and information through mergers and acquisitions. The Chinese are also noticing the hostility however, and some are calling for "countermeasures" if the animosity continues.

### Alibaba's Ant Financial halts micro-lending amidst stronger restrictions

Ant Financial, Alibaba's consumer financing arm, has reportedly sold no asset backed securities (ABS) since early December, a stark contrast to the USD 37 billion worth of sales of such products for the first 11 months of 2017. Ant Financials stated that the halt in sales was due to increasing interbank borrowing rates, however, analyst believe the halt is more likely due to regulators stopping approvals of ABS sales not for the purpose of shopping. Authorities have also announced new rules in early December requiring micro-lenders to consolidate ABS into their balance sheets.

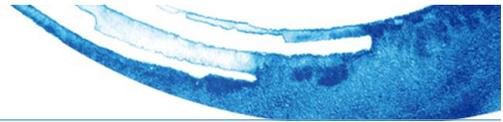
#### *What are the implications?*

Microfinancing is a massive and burgeoning industry in China, with some estimating the online industry to be up to RMB 1 trillion (USD 153 billion) in size. Consumers tap these financing channels to borrow money to purchase every day goods such as phones and home appliances. Despite the success, the industry has also attracted much criticism for high interest rates and unregulated lending practices. Furthermore, as the internet lending platforms cannot take deposits, questions around how these ABS are created are being raised with concern. The authorities have announced their intent to curb microfinancing transactions, particularly those that do not specify expected use of funds. With growing scrutiny, consumer lending in China is expected to shrink in 2018.

### Low budget local romantic comedy beats out Star Wars in China box office

The latest installment of the Star Wars franchise came in at second place in the Chinese box offices over the weekend. *The Last Jedi*, which grossed USD 28.7 million in Chinese on opening weekend, was overshadowed by *Ex-Files 3: The Return of the Exes*. The locally produced, low-budget romantic comedy grossed almost three times as much as the American blockbuster at USD 86.7 million on opening

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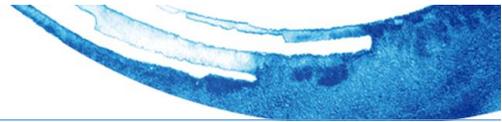


weekend. The surprising results represents a shift in taste of younger Chinese, who are preferring domestic movies over foreign films more and more, assisting in growing the booming domestic cinematic industry. China's box office takings in 2017 grew a whopping 22.9% from 2016.

*What are the implications?*

According to some industry experts, Chinese youngsters are resonating more with local stories and characters than their predecessors. Domestic movies have recently been outperforming Hollywood titles, which have larger budgets for both production and marketing. For another example, look to Chinese produced *Wolf Warrior II* released last year, which broke records to become the top grossing movie of all time in China.

However, it isn't just a matter of local stories that are turning the trends. The two prequels to *Ex-Files 3* have grossed just around USD 60 million together – less than the third installment's opening record. The success can be attributed to changing in demographics; specifically, young movie-goers in smaller cities, who are evermore engaged through the power of social media, and are yielding stronger spending powers. The growing demographic has reportedly contributed nearly RMB 20 billion (USD 306 million) of movie revenues in just 2017.



## 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

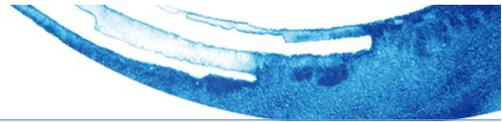
## Institutions:

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