

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

OECD, WTO, and Beijing Researchers Develop Global Value Chain Index

China is working on a new index to transform how the world perceives the trade gap with U.S. With this index they postulate that skilled laborers in the U.S. could gain from Chinese exports. The index of the global value chain is scheduled to be released next year and is supposed to track how countries gain from being involved in different stages of the production process. The project is spearheaded by a team from the University of International Business and Economics in Beijing, in partnership with the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD).

What does this new measure mean for China?

Fears about an imminent trade war between China and the United States coupled with concerns on hawkish actions on the part of central banks around the world has left many investors charting a multitude of risk factors for 2018. Trump indicated his commitment to deploy possible trade barriers in his campaign and is expected to do the same in his State of the Union. This would come after President Trump dubbed China as a “strategic competitor” in his national security strategy in December 2017. The research project into the global value chain, supported by key international institutions, may serve as a valuable tool for Beijing as it is challenged by protectionism from across the Pacific. Although China is the world's second-largest economy and widely considered as a big beneficiary of globalization, it is located in the middle to lower end of the global value chain.

China's largest online wealth management platform seeks USD 60 billion valuation

Lufax, China's largest online wealth management platform is seeking a valuation of USD 60 billion with its initial public offering in Hong Kong planned for April. The platform, set up by Ping An Insurance Group in 2011, plans to file a listing application at the end of January. Lufax is expected to sell USD 6-9 billion worth of shares in the IPO, representing 10-15% of its valuation. The company was valued at USD 18.5 billion when it raised USD 1.2 billion from a group of investors in early 2016. Ping An shares listed in Hong Kong jumped nearly 4% to a record high.

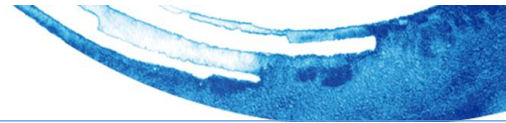
What does this suggest to investors about China's growing fintech sector?

With a USD 60 billion valuation, Lufax will become China's second most valuable fintech firm right behind Ant Financial, the Alibaba affiliate. It would also be the second major fintech share offering in Hong Kong after ZhongAn Online Property & Casualty Insurance Co Ltd, which raised USD 1.5 billion in September. In December, Lufax listed a number of banks, such as Citic Securities, Citigroup, JP Morgan, Morgan Stanley and Goldman Sachs as joint sponsors. Hong Kong is now set to allow dual-class shares under rule changes to be proposed by the city's stock exchange as it raises the stakes in its competition against New York for Chinese initial public offerings. These shares provide differentiated voting rights and create the alternative governance and shareholding structures, which is the preferred choice of many owners of technology equities.

JD.com kicks off a fundraising round for its logistics unit with a target of at least USD 2 billion

JD.com, a Chinese e-commerce company, invited a select group of investors to join the funding round that value its logistics business, JD Logistics, at around USD 10 billion. Chinese investment firm Hillhouse Capital Group and Sequoia Capital China will likely be lead investors of JD Logistics' funding round, while a number of state-owned and international investors have also showing strong interest in the deal. This

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strategic play comes as China's largest e-commerce companies are putting efforts to develop their logistics businesses to support their global expansion goals. This is also an attempt to boost revenues by offering services to third-party entities services such as quality logistics services as well to compete with Alibaba's logistic network, Cainiao, and delivery service firms such as SF Express.

What does this signify about China's e-commerce retail space?

The online retail market in China reached USD 244.6 billion in the second quarter of 2017 (up 31.2% over Q2 2016), with B2C sales accounting for USD 132.4 billion, an increase of 32% over the Q 2016. A new round of competition in online retail is here as the big players in the industry continue to experiment with foreign brand offerings, improving logistics, and expanding into cross-border e-commerce. According to Goldman Sachs, fast-moving consumer goods (FMCG) and groceries (fresh food) is projected to be a USD 2 trillion market by 2020 in China in total. Alibaba and JD both embraced a multi-tiered approach to tap into significant opportunities for vertically integrated delivery, storage, packaging, and retail in the e-commerce space. Investors should watch how JD's first offline supermarket, 7FRESH in Beijing, aligns with the company's logistics aims.

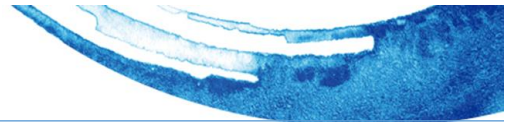
JD.Com Global Gross Merchandise Volume

In billions (\$)



Source: Business Insider, as of Mar 30, 2017

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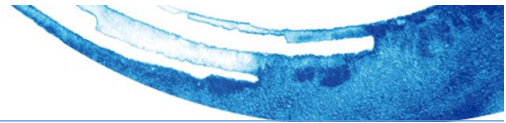
Index definition:

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

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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