

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

China's Netflix looking to potentially go public in the US, following its parent company's footsteps

Chinese search engine provider Baidu revealed plans for its online video streaming service iQiyi, revealing that it has filed a draft prospectus with the US Securities and Exchange Commission for the listing of iQiyi shares. iQiyi, best understood as China's Netflix, claims half a billion monthly active users and is one of China's most popular video streaming services. Baidu, which is listed on the NASDAQ, has yet to decide on which exchange to list iQiyi, but is considering the US markets as part of a globalization plan for its brands. The parent company expects to remain iQiyi's majority shareholder, and currently controls 80.5% of the company.

What are the implications?

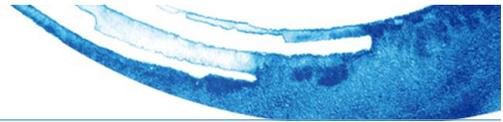
iQiyi is one of the leaders in China's streaming market, boasting more than 500 million monthly active users and even wider base of users who downloaded the app. The app has also seen steady growth in time spent on the app as well, with monthly time spent on iQiyi growing 32% MoM from December to January, 2018. The app is not yet profitable, although Baidu has claimed that it has closed the loss and is losing money at a slower rate than its competitors. Video streaming is an important battleground for Baidu, when the company is competing with the other Chinese internet giants like Tencent and Alibaba on several frontiers, including autonomous driving and artificial intelligence. Baidu has invested heavily into iQiyi as a platform as well as original content, and listing of iQiyi could be instrumental in the future success of the business.

China's most important cultural holiday kicks off, and the economy hopes for a lift

Lunar New Year, also known as Chinese New Year, kicks off February 16, as one of the nation's most important holiday season. The festival, which marks the beginning of a new year according to the lunar calendar, is a time for family gatherings, lavish meals, and extravagant celebrations. The week long festivities also mean increased spending, with people using the weeklong holiday to travel both domestically and internationally, or consuming more entertainment or shopping at home. Teenagers and young adults, an increasingly important demographic for consumption, are particularly mobilized to spend more as they receive extra pocket money in the form of *hongbao*, a monetary gift customarily given to younger, unmarried acquaintances as well as junior employees in the form of a red envelop.

What are the implications?

The holidays not only have cultural implications, but also economic implications, as the increased spending not only provides a short-term lift in domestic consumption, but also serves as an indicator of general health and sentiment of the consumer market. China's consumption has definitely been on an upward trajectory. In 2017, Chinese consumers spent nearly USD 140 billion in retail and catering services over the week-long holiday, growing 11.4% YoY from 2016. Domestic travel spending also increased 15.9% in 2017 over 2016. The holidays also affect economies overseas, as more than 6 million Chinese people will travel overseas, where they will spend more than USD 15 billion over the week. It has even been said that some of the slump in bitcoin prices in February could be attributed to traders taking out cash for holiday spending and gift purchases.

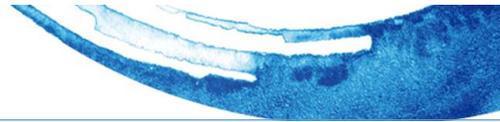


MGM launches a USD 3.4 billion resort in Macau after two years of delays

After facing repeated delays and complications, MGM China's latest multi-billion-dollar resort will be opening in Macau's Cotai strip. The launch of the USD 3.4 billion comes just in time, as gaming profits in the gambling hub rebounds after years of weakness on the back of anti-graft crackdowns in China, targets of which were among Macau's highest rolling clients. The resort is to be a comprehensive entertainment complex, offering services from casinos to spas, fine dining and theme parks, to attract a larger group of clientele. MGM hopes the resort "[demonstrates] our commitment to Macau", as Macau hopes to diversify its offerings from just a gambling hub, especially as China considers allowing gambling in the resort island of Hainan.

What are the implications?

Macau is the only place in Greater China where gambling is legal currently, which helps the city to bring in revenues that are nearly triple that of Las Vegas. However, with profits from its most lucrative customers falling, as well as looming threat of competition from Hainan, Macau is looking to diversify services to entice more tourists. MGM is stepping up to meet the demands of the city, by pushing non-gambling attractions such as luxury spas and art collections. Whether the efforts are enough will be judged in 2020, when MGM's license will be up for renewal. The decision to extend the license will be based on how they have contributed in shaping Macau into more than just a "gaming town".



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) 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

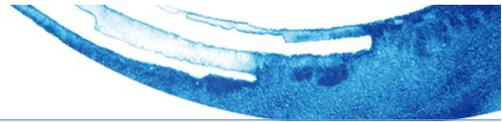
Institutions:

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. 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