CHINA FINANCIAL SERVICES SECTOR MEDIA UPDATE

APRIL 2015

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About the China Financial Services Sector update

Welcome to April edition of the news brief.

This edition contains a summary of publicly available news articles from various media. It covers the latest China's financial market news, insights, regulation updates, key events and activities.

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Bilateral News and Events

China overtakes US as Australia's largest foreign investor

China has for the first time overtaken the United States as Australia's largest source of foreign investment, according to official data, laying out Aus$27.7 billion (US$21.8 billion) in 2013-14 as real estate purchases more than doubled.

The Asian economic giant's spending in Australia for the year ending June 30, 2014 far outstripped the Aus$17.5 billion from the United States -- which was the biggest investor for more than a decade -- and Canada's Aus$15.4 billion, the Foreign Investment Review Board (FIRB) said in its annual report.

The Chinese surge was driven by Aus$12.4 billion in approved investments in property, the report released on 30 April said. That compares with Aus$5.9 billion in the previous financial year.

"For the first time, China was the largest source of proposed foreign investment in Australia, mainly driven by a large increase in residential real estate approvals," the report said.

The new report followed the Australian government's move in February to enforce foreign investment rules as concerns grow that foreign buyers are squeezing local house seekers out of the market.

Chinese investment for 2013-14 also included Aus$3.3 billion in the manufacturing sector, Aus$5.7 billion in mining and Aus$6.2 billion in services.

Rounding up the top five foreign investors were Malaysia at Aus$7.2 billion and Singapore at Aus$7.1 billion.

The Australia government in February highlighted plans to crack down on illegal property purchases and charge application fees on all foreign investments.

Cashed-up foreigners, many from China, have been blamed for driving up prices in Australian property markets, particularly Sydney and Melbourne, and placing home ownership out of reach of many locals.

In March, the government ordered China's Evergrande Real Estate Group to sell a Sydney mansion worth Aus$39 million, saying it was bought illegally under foreign investment rules.

The FIRB's annual report said overall approved foreign investment in residential real estate in 2013-14 was Aus$34.7 billion from Aus$17.2 billion in the previous corresponding period.

China is already Australia's largest trading partner, with the nation's key mining sector dependent on its Asian neighbour's demand for resources.

China's total investment in Australia for 2012-13 was at Aus$15.8 billion, which had made it the third-largest investor behind the US and Switzerland, with the European nation's spending driven by an Aus$15.8 billion splurge in mining.

Source - http://news.yahoo.com/china-overtakes-us-australias-largest-foreign-investor-065849998--finance.html;_ylt=AwrXnCZKx0IVhAsA2wvQtDMD;_ylu=X3oDMTByM3V1YTVuBGNvbG8DZ3ExBHBvcwMzBHZ0aWQDBHNlYwNzcg--

Pepper Invests in Growth in China

SYDNEY, May 6, 2015 /PRNewswire/ -- Pepper Australia Pty Ltd ("Pepper") is pleased to announce that it has purchased a 12% stake in PrimeCredit Limited and Shenzhen PrimeCredit Limited ("PrimeCredit"), two leading consumer finance lenders in the Hong Kong and southern China markets.

Pepper is part of an international consortium led by China Travel Financial Holdings Co., Limited ("CTS") as majority investor and York Capital Management Global Advisors, LLC ("York") that today completed the acquisition of the Hong Kong and Shenzhen consumer finance businesses of Standard Chartered plc.

The acquisition broadens Pepper's footprint in Asia and includes a team of 541 people in Hong Kong and 118 in Shenzhen focusing on origination of personal loans and credit cards, with Assets Under Management of US$1.15 billion.

Pepper also owns a mutual savings bank in South Korea which originates residential mortgages and personal loans through a small retail branch network and a dedicated team of direct sales representatives.

PrimeCredit will extend its already strong Hong Kong market presence into the fast-growing Chinese consumer finance market by leveraging the existing network and local resources of CTS and Pepper's consumer credit expertise. It will also grow Shenzhen as a hub to build into other regions in China.

PrimeCredit is the leading consumer finance provider in Hong Kong across its peer group of deposit-taking companies and other non-bank financiers. It has a total customer base of more than 132,000 and has strong brand recognition and a commitment to customer service and relationship management similar to that of Pepper.

"This is an exciting next step in the development of our Asian network. Pepper's team will work closely with our local strategic partner CTS to provide strategic and operational advice to PrimeCredit management to further expand its microfinance business across the Chinese market," said Patrick Tuttle, Pepper's Co-Group CEO.

Mike Culhane, Pepper's Co-Group CEO, added, "We were attracted to these businesses because of their strong customer relationships, market-leading positions, and tremendous growth prospects into mainland China.

"We see great potential to grow them and to add to the products they currently offer.

"Our 12% stake in both businesses and management role will give us a great insight into what Chinese customers want in terms of products and services."

Source - http://finance.yahoo.com/news/pepper-invests-growth-china-061500133.html

Citic Securities, CLSA combine in joint venture

Citic Securities Co., China's biggest brokerage firm, launched its global investment-banking platform on May 4, combining its bankers with those from CLSA, the Asian firm it acquired two years ago.

The new venture, Citic CLSA Securities, also established offices in London and Sydney.

Citic CLSA integrates investment-banking operations at both firms and has more than 100 people on staff across 10 cities globally. It was set up "to capitalize on increasing outbound Chinese investment and foreign investors seeking access to China," the two firms said in a statement.

Last year, Citic Securities moved its equities underwriting business outside China into CLSA, but the Citic CLSA outfit will hold all investment-banking operations outside China at the two firms.

Citic Securities, China's biggest brokerage by revenue, bought CLSA from France's Crédit Agricole SA in July 2013.

The launch creates a footprint that is likely one of the biggest overseas ones by a Chinese investment bank. Citic CLSA has operations in banking and underwriting bond and share sales, as well as advising on mergers, in Hong Kong, Bangkok, Manila, Mumbai and Singapore as well as Colombo, Sri Lanka; Jakarta, Indonesia; and Kuala Lumpur, Malaysia; in addition to the new staff members in Sydney and London. While CLSA has always had traders in Sydney, Citic CLSA will have investment bankers in the Australian city as well as in London, focused mainly on M&A.

Andrew Low, who was appointed to lead Citic CLSA, was formerly chief operating officer of Macquarie Capital, the Australian bank's investment-banking arm.

"With this new business, we are better positioned for the rising amount of Chinese investment into Europe, which reached US$18 billion this year alone and continues to grow," said Mr. Low, who joined CLSA as head of international investment banking late last year.

"We're seeing a lot of our clients in China interested in Europe and are also getting approaches by European companies looking for a buyer or investor and believing that the natural buyer may be a Chinese one," he said.

Citic Securities' acquisition of Asia-focused CLSA was one of the biggest overseas purchases by a Chinese securities firm. A more ambitious attempt by Citic Securities and Bear Stearns to buy stakes in each other in 2007 was never completed because the Wall Street bank collapsed the following year during the global financial crisis, before Chinese regulators had the opportunity to approve the deal.

Citic Securities is listed in Hong Kong and Shanghai but is around 17% owned by Chinese conglomerate Citic Ltd., which in turn is owned by the Chinese government.

Source - http://www.marketwatch.com/story/citic-securities-clsa-combine-in-joint-venture-2015-05-04

Australia's iron ore shipments to China down 4 percent in April

SYDNEY, May 4 (Reuters) - Australia's iron ore exports to China from Port Hedland, the world's biggest terminal for shipments of the raw material, fell 4 percent in April from March, port figures showed, as demand from China's steel mills dwindled amid a construction slowdown.

Exports of the steelmaking ingredient to Australia's biggest trading partner totalled 30.1 million tonnes, down from 31.2 million tonnes the previous month, according to the Pilbara Ports Authority.

The monthly total, however, represents an increase of just 4 percent versus the same month a year ago, when it jumped 50 percent amid what was still booming demand for iron ore.

But China's appetite for iron ore has slowed, sending the commodity's price to record lows in April. A private business survey published on May 4 showed China's factories suffered their fastest drop in activity in a year in April as new orders shrank.

Port Hedland, which handles about a fifth of the world's seaborne iron ore trade, is used by BHP Billiton (NYSE: BBL - news), Fortescue Metals Group and Atlas Iron to ship iron ore cargoes.

Iron ore shipments in April to the next biggest destination country, South Korea, rose 27 percent to 2.8 million tonnes, but exports to Japan fell by 40 percent to 1.2 million tonnes from March levels, the port data showed.

Source - https://uk.finance.yahoo.com/news/australias-iron-ore-shipments-china-093340999.html

Australia Blowing $1 Trillion Export Windfall Boosts Budget Pain

Even for a country with a history of commodity booms, this one was gargantuan.

Over the decade to 2013, Australia racked up $1 trillion in extra exports from the previous 10 years, thanks largely to China’s once-insatiable demand.

Despite the opportunity of funding infrastructure to meet the needs of millions of new citizens, the nation largely blew the extra cash on month-to-month spending. The added A$300 billion ($232 billion) in government revenue generated from the boom went to things like tax cuts and subsidies.

Aussies taking the Sydney-to-Melbourne trains can think over what might have been as they trundle along for 11 hours -- about the same time that the trip took their grandparents. By contrast, China’s Beijing-to-Shanghai express takes five hours over a longer distance.

What’s worse is that decades-old infrastructure is deteriorating just as government revenues decline and growth from sources beyond mining investment fails to offset the consequence of the end of the boom. Every $10 drop in the price of iron ore cuts federal revenue by an estimated A$2.5 billion.

“We spent the revenues from the boom as they came in from 2003,” said Ross Garnaut, a professor of economics at the University of Melbourne who counseled Prime Minister Bob Hawke during the opening up of the economy in the 1980s. “That left us high and dry when the Chinese new model of economic growth ended our resources boom.”

The record collapse in Australia’s terms of trade is putting a brake on wage growth and leaves the economy expanding below its potential rate of 3 percent. History shows that in the past half century, the nation’s commodity booms have generally ended in recession.

The Reserve Bank of Australia expects mining spending to drop more this year than the 13 percent recorded in 2014. Non-mining investment, which it hoped would pick up the slack, could also fall in the year ahead, the central bank said in minutes of this month’s policy meeting.

The country’s manufacturing sector has been hollowed out and its car industry is set to shutter due to a currency that reached $1.10 in 2011 as Dutch Disease took hold. Future growth and job creation are now dependent on services such as tourism and education, and residential construction fueled by record-low interest rates that are driving up property prices.

“We’re in this slow economic drift,” said Bob Gregory, a professor at Australian National University in Canberra who has studied the economy for almost half a century. “It’s hard to see anything that will turn things around so unemployment will keep rising.” He predicts the jobless rate could climb through 7 percent from the current 6.1 percent.

Yet the Garnaut-Gregory pessimism isn’t shared by all. John Edwards, an RBA board member who advised Prime Minister Paul Keating in the early 1990s, said mining spending only added 3 percent to real gross domestic product over eight years and households saved much of the income gain.

“Australia has not been living in fool’s paradise during the mining boom, it has not been complacent, it has not wasted its endowment,” he said in a 2014 paper titled ‘Beyond the Boom.’

Also, the government’s net debt-to-GDP ratio, although deteriorating, is the lowest among the world’s 10 largest developed economies, according to data compiled by Bloomberg. That gives it capacity to fund infrastructure spending through bond issuance.

Much of Australia’s household wealth is tied up in an A$1.9 trillion private pension system, the world’s fourth largest, and a national housing market now valued at A$5.7 trillion.

Yet households also carry a debt burden of 153.8 percent of income, the highest on record, and the government is struggling to restore the fiscal position as commodity prices slump and the tax system leaks.

Less than three weeks out from the May 12 annual budget, Prime Minister Tony Abbott’s government faces a more than A$40 billion deficit this fiscal year and an electorate unwilling to tolerate tax increases and curbs on welfare spending.

In fiscal 2007, the conservative government in which Abbott was a senior minister had an A$80 billion windfall in its budget bottom line, which was spent on measures such as a cash bonus for having a baby, increased payments to families and benefits for pensioners. The rest was distributed via tax cuts. In response, the central bank was forced to raise the cash rate to 7.25 percent -- 5 percentage points above the current level -- in 2008 to prevent an inflation breakout.

Meanwhile, growing urban centers -- Australia added 2 million long-term migrants from 2003-2013, increasing the population by a tenth -- received almost no new infrastructure. Long stretches of the nation’s highways remain single-lane and the railway system has been little changed since the 1960s.

“Sydney needs a new rail connection under its harbor. Melbourne needs a new rail connection under its central business district,” said Mark Birrell chairman of Infrastructure Australia. “These are very large projects that ideally would’ve been planned well before now -- and the catch-up period is significant.”

After 24 years of growth, the question is whether Australia has had it too good for too long?

In 1986, then-Treasurer Keating warned it was headed toward being a “Banana Republic,” a statement that galvanized the country to reform. That effort prompted The Economist magazine to summarize: “If you look at history, Australia is one of the best managers of adversity the world has seen -- and the worst manager of prosperity.”

Source - http://finance.yahoo.com/news/australia-blew-1-trillion-export-200000853.html;_ylt=AwrXgyJAyklVaHYA0BPQtDMD;_ylu=X3oDMTByYnR1Zmd1BGNvbG8DZ3ExBHBvcwMyBHZ0aWQDBHNlYwNzcg--

Chinese beef giant wants $100m of land

ONE of China's largest beef producers, Chongqing Hondo Agriculture Group, is looking to buy up to $100 million worth of cattle stations in Australia within the next year.

The company's president, Qin Ya Liang, attended Austrade's Australian Beef Industry Seminar in Brisbane last week where he told The Australian Financial Review his company was looking for investments in farmland and abattoirs.

"We are here looking for investments in cattle farms - the bigger size is good," Mr Qin said through his interpreter Clement Quan.

"We will look to invest in partnership with corporate farmers but we will take percentage investments in medium and small enterprises as well."

Mr Qin, who operates three massive feedlots in China, producing about 110,000 head of cattle a year, is part of the growing beef business in China, whose overall volume accounts for over 10 per cent of global beef output.

"I like Australia because there are big farms and we are wanting to increase our consistency of supply," he said.

"We have not made an investment yet. We are still looking. We think we will invest between $50 million and $100 million within one year."

The scale of Chinese investment looking to invest in Australian cattle stations and the beef supply chain is substantial and is beginning to build momentum.

One of China's top 500 companies, Hailiang Group, purchased more than $40 million worth of cattle and cropping land east of St George in southern Queensland in March, while the Chinese group Yiang Xiang Assets purchased Allan Myers' Elizabeth Downs cattle station for a price believed to be more than $11.5 million.

There are numerous Chinese groups keeping a low profile, such as Rifa Australia, headed by former Elders boss David Goodfellow. The parent company is Zhejiang RIFA Holding Group.

Austrade's trade commissioner in Chengdu, Jeff Turner, said the line-up of Chinese interests was extensive, with as many as 300 Chinese cattle and cattle-related companies looking to invest in Australia.

"They are interested in everything from production and farms and the whole supply chain," Mr Turner said.

"Deals are starting to get done much more quickly but [Australian cattle producers] need to still do the fundamentals, for example you still need to have Guanxi - the relationships."

The Austrade seminar, sponsored by major agency Colliers International, was the first leg for a visiting Chinese delegation that is attending Australia's national beef exposition - "Beef Week" - in Rockhampton this week.

Colliers International director Rawdon Briggs said the prominence of Chinese inquiries and contractual activity was growing.

"It is also notable that a number of significant deals have been made across the north by Chinese investors," he said.

"Asian market opportunities and the depreciating Australian dollar have begun the process of revival for many sectors of Australian agribusiness."

Source - http://www.northqueenslandregister.com.au/news/agriculture/cattle/beef/chinese-beef-giant-wants-100m-of-land/2731231.aspx?storypage=0

Jetstar launches direct flights to China from Gold Coast

Jetstar will launch direct flights using its Boeing Dreamliner between the Gold Coast and Wuhan in central China in an attempt to target the fast-growing Chinese tourism market.

The twice weekly services are part of a partnership with Chinese property and entertainment conglomerate Dalian Wanda Group, which will sell flight and holiday packages to the Gold Coast for Chinese travellers.

Jetstar Australia and New Zealand chief executive David Hall said the new flights would deliver substantial economic benefits to the tourism and hospitality sector on the Gold Coast.

"This new service opens up a direct link between south-east Queensland and one of the largest travel markets in the world, delivering about 70,000 seats between China and the Gold Coast each year," he said.

"It's a great opportunity for us to build our presence in the Chinese market with the establishment of a direct service from Australia."

They will be Jetstar's first direct flights to mainland China from Australia.

The Hong Kong-listed Dalian Wanda began constructing a three-tower development on the Gold Coast about a month ago. The conglomerate is chaired by one of China's richest men, Wang Jianlin.

The lavish $1 billion development will include 171 hotel rooms, 500 apartments and luxury shops.

China is Australia's second-largest source of inbound visitors, behind New Zealand. Australian tourism operators and airlines are eager to tap a greater share of the Chinese visitor market.

The federal government recently agreed to make it possible for Chinese visitors to gain three-year, multiple entry tourist visas to Australia after pressure from tourism bodies, airlines and airports.

The flights will begin on September 29 and operate on Tuesdays and Saturdays. The airline's Boeing 787-8 Dreamliners seat 335 passengers.

Source - http://www.theage.com.au/business/aviation/jetstar-launches-direct-flights-to-china-from-gold-coast-20150505-ggueav.html

China's slump lifts dairy competition

SLOWING Chinese economic growth is having an uncomfortable impact on more than just Australia's once-glamorous iron ore and coal export sectors, with the heady dairy market in China now taking a knock as consumer confidence eases.

While Australian dairy exporters continue to anticipate solid long-term growth in the world's biggest dairy import market, competition has been getting much tougher for milk products and in the live dairy heifer export trade to Chinese farms in the past six months.

"There's a lot surplus product in the market and price competition is obvious," said Rabobank's senior dairy analyst Michael Harvey.

"Two-for-one deals are quite common in the UHT milk aisles in supermarkets - buy a litre pack of UHT and get another free."

Farmgate milk prices within China are 10 per cent to 15pc down this financial year than in 2013-14 and China's herd building program has slowed dramatically as many mega-dairy building projects have been shelved or postponed, reverberating back down the supply chain to Australia.

Live exports to China from Australia have roughly halved from figures around 120,000 annually in recent years.

"There's widespread recognition within China that the era of double digit growth is over and this is having some impact on consumers and consumer attitudes," Mr Harvey said.

While Australia and New Zealand still had the enviable advantage of superior product credibility with Chinese shoppers who were sceptical of local brands and milk quality, there was no shortage of other global players vying for business in China, too.

"I wouldn't want to be dismissive of the brand power Australia enjoys, including the success of new fresh milk brands such as Norco and Jonsey's, but Australia's position isn't as strong in the market as NZ," said Mr Harvey, just back from China.

"There's also a lot of product from Europe, Korea and elsewhere on the shelves and the reputation for quality is certainly not exclusive to Australia."

However, Rabobank was still tipping a recovery in Chinese dairy industry sentiment by year's end because of an expected shrinkage in surplus stocks, which subsequently should flow on to revive global milk values.

Mr Harvey said China would continue to be a "must" export destination for Australian milk and milk products, but Chinese import and consumption trends would also mature over time and the market should not be relied on as the "silver bullet" to our dairy industry revenue needs.

"Although it will continue expanding we shouldn't expect quite the same sort of activity we've seen in recent years, especially as our competitors keep developing their own growth opportunities in China," he said.

"There will be pockets which will deliver significant premiums for Australian products, and most Australian dairy processors have positions in China which are likely to grow, but clearly our dairy industry must build other Asian export markets, too, rather than rely solely on China.

"We are well placed as an exporter to service many parts of Asia."

Like the milk or dairy commodity product business, the live export market was also seeing new competition growing from players in Uruguay, Chile and potentially Romania, as well as our ever-present NZ rivals.

Australia has tended to supply about 60pc of China's 200,000 annual heifer imports of late.

"Chinese buyers might like the quality of our heifer genetics, but they also like an alternative supply, especially if it's costing them about $2000 a head (about $5000 landed) as it was when the local export market was at its peak last year," Mr Harvey said.

In China last week with a contingent of Australian farmers, visiting Chinese farms, processors and an industry expo, Mr Harvey said heifer import demand was clearly subdued by the sudden halt in construction plans for barn-style dairy farms planned to house 8000 to 30,000 cows each.

However, he said investors were still active in the dairy production space with NZ super co-operative Fonterra intending to produce one billion litres annually within China and other global players such as Nestle having similar plans.

Meanwhile, given about a third of China's dairy feed requirements were imported - including 800,000 tonnes of lucerne from the US last year - Mr Harvey believed "there must be market openings for Australian hay exports where we're yet to scratch the surface".

Despite softer investment interest in dairy projects in China today, the Chinese led a flurry of Asian investment activity in Australia and New Zealand last year.

The lure of dairy investment Down Under saw investors locking in access to liquid milk and infant formula operations in their quest to secure access to a high-quality, safe milk pool.

"Between 2014 and 2020 we expect China and South East Asia combined to account for almost one third of the increase in global dairy imports," Mr Harvey said.

"For the NZ and Australian dairy sectors, preferential market access and geographical proximity are the magnetic forces drawing investment into this region, and they will continue to do so.

"For processors, the strategic desire is often about building extensive distribution networks and local knowledge to tap into key export markets in Asia especially as strategic partnerships can help smooth market access and by-pass trade barriers."

But Mr Harvey said Chinese dairy demand had also encouraged significant investment further afield as companies recognised the opportunities.

Significant investment in capacity in many parts of the world was generating intense competition and the risk of oversupply.

The rate of medium-term import volume growth would also be slower as the Chinese market matured and retail prices challenged consumers facing lower income growth.

"Complicating matters, regulation has been tightened, particularly in the Chinese infant formula category, and is still proving unpredictable," Mr Harvey said.

Source - http://www.northqueenslandregister.com.au/news/agriculture/agribusiness/general-news/chinas-slump-lifts-dairy-competition/2730643.aspx?storypage=0

Regulation Updates

Curbs on foreign investment cut for four FTZs

China has cut the number of restrictions on foreign investment for new pilot free trade zones in Tianjin, Guangdong and Fujian and also for the zone in Shanghai.

Assistant Commerce Minister Wang Shouwen said on April 20 all such zones will implement a unified and friendlier business environment for foreign investment.

To increase transparency, the central government has made public a "negative list" of foreign investment applicable to the four zones. For the Shanghai zone, the number of restricted items on the list has been cut to 122 from 139 last year.

A master plan has been unveiled for the zones in Tianjin, Guangdong and Fujian and the development plan for the Shanghai zone has been upgraded to create a wider platform for economic reform and opening-up.

Wang said at a news conference, "The three new zones have duplicated the successful experience of the Shanghai zone."

The central government has also introduced new measures such as an administrative consulting system, the separation of approval power from regulatory power, and the classification of approval for the new zones. The formal establishment of the three new zones was announced on April 21.

The Tianjin zone will promote inland development through such methods as port cooperation on the basis of coordinated development between Beijing, Tianjin and Hebei.

The Guangdong zone will focus on the industrial shift in the Pan-Pearl River Delta region and inland areas through transforming and upgrading processing industries and comprehensive service zones for regional development.

The Fujian zone will improve economic development on the western side of the Taiwan Straits through industrial integration between the province and Taiwan and new cross-Straits cooperation in the service sector.

The Shanghai zone will target upgraded development of the Yangtze River Economic Belt through a diversified business platform for international trade in the Yangtze River Delta. Its operational area has been increased to 120.72 square km, covering four special customs supervision zones.

Mei Xinyu, a researcher at the Ministry of Commerce's International Trade and Economic Cooperation Institute, said the new zones will be strongly focused and have more local characteristics compared with the one in Shanghai.

"Because such zones have different focuses on enforcing reforms in services, finance, industry, investment and trade, adding more of them can help China to realize its steady growth target under the current global economic situation, "Mei said.

Sang Baichuan, director of the Institute of International Business at the University of International Business and Economics in Beijing, said competition will lead to policy optimization and infrastructure improvement, as well as attracting talent and foreign capital.

Source - http://www.chinadaily.com.cn/business/2015-04/21/content_20488909.htm

Revisions will end CSRC approval of IPOs

A draft amendment to the Securities Law may end the authority of the China Securities Regulatory Commission to review and approve new share issues.

The amendment received an initial review on April 20 by the Standing Committee of the National People's Congress, the top legislature, which is holding its bimonthly session.

The amendment would lead to the dissolution of the stock issue examination committee of the CSRC. Instead, share issues would be reviewed by the nation's stock exchanges.

The change would strengthen the market's role in distributing resources, said Wu Xiaoling, deputy head of the NPC Financial and Economic Affairs Committee.

The draft amendment also called for increased corporate disclosure regulations, innovation in the securities sector and tougher investor protection.

The draft also has provisions that:

・Cover the issue and trading of asset-backed securities, as well as the listing and trading of government bonds and certain investment funds.

・Require those involved in the securities industry to file reports on their own and their spouses' investments. The provision would cover employees in the securities industry, the staff of exchanges and depository and clearing institutions, the staff in the securities regulatory department of the State Council and employees in other securities-related sectors.

・Abolish certain financial requirements for new share issuers, including a profit track record.

・Permit the formation of "securities partnership companies".

・Require that those wishing to establish securities companies or securities partnerships get the approval of the securities supervision and administrative department of the State Council.

Source - http://www.chinadaily.com.cn/business/2015-04/21/content_20488718.htm

New 'negative list' to be launched in foreign investment sector

China will promote a management mode based on "negative list" this year, with its first application in foreign investment frontiers, Lian Weiliang, vice chairman of the National Development and Reform Commission, said at a press conference on April 17.

The new mode refers to the method of employing lists of only banned or restricted practices. The existing foreign investment catalogue includes categories of encouraged, prohibited and restricted.

The latest version of the Catalog for the Guidance of Industries for Foreign Investment came into force from April 10. It has made the service and manufacturing sectors more accessible by cutting the number of restricted sectors from 79 to 38.

The negative-list management system has gained great traction after being promoted in the China (Shanghai) Pilot Free Trade Zone since its establishment in 2013, the country's first such zone. The number of sectors in which foreign investment was restricted in the Shanghai zone fell to 139 last year from 190 in 2013.

Lian said China will also adopt "negative list" domestically and the NDRC is studying related policies and will be applied first in pilot regions.

Source - http://www.chinadaily.com.cn/business/2015-04/17/content_20460721.htm

Shanghai FTZ mulls offshore investment program for Chinese residents

SHANGHAI - A new program allowing Chinese individuals to invest in financial markets overseas will be launched this year at the Shanghai Free Trade Zone (FTZ), a Shanghai financial regulator told Xinhua on May 6.

The program will also see authorities raising the annual quota of foreign exchange for Chinese residents, which is currently capped at $50,000 a year.

"We are working with state-level regulators on measures to facilitate foreign exchange for individuals, and expand the cap gradually to $200,000-300,000 a year." said Zheng Yang, director of the Shanghai Financial Services Office.

The scope of cross-border investment allowed under the new program for residents within the Shanghai FTZ will include securities, real estate and other business ventures, Zheng said.

Details over who will be eligible are yet to be finalized, but a draft suggests that qualify individuals must have been employed within the Shanghai FTZ for a year, and have a legitimate tax and social security record.

The program will also utilize the free trade account, which was launched last year to facilitate cross border transactions in the free trade zone.

Regulators say cross-border investment and capital flow through the account enjoys greater freedom but underscored that activity was monitored for potential financial risks.

So far, only banks in Shanghai can open free trade accounts for their FTZ clients. The authorities have repeatedly said they would allow brokerages and insurance companies to open such accounts in the future for investment purposes.

There are also plans to use the free trade account to allow foreigners working in the zone to invest in Shanghai's financial markets, but nothing has been made public.

Offshore investors can now trade gold in renminbi after an exchange was opened in September within the Shanghai FTZ. Bullion trading at the exchange has reached 1,026 tons, or 224.3 billion yuan, as of March this year.

Trade of crude oil futures, originally scheduled to launch last year, is slated for the third quarter this year.

Individual investors in China still face restrictions. The Shanghai-Hong Kong Stock Connect launched in November allows domestic investors to invest in the Hong Kong stock market but only within the daily cap of 10.5 billion yuan and a total ceiling of 250 billion.

The daily quota for Chinese mainland residents investing in the Hong Kong stock market under the stock connect program was first used up on April 8 this year, more than four months after the program was launched. Individual investors on the mainland with their securities account balance below 500,000 yuan are currently barred from participating.

A world-beating rally at two bourses in Shanghai and Shenzhen has also spurred domestic investors to raise their bets on stocks listed within China. Both the benchmark Shanghai Composite Index and Shenzhen Component Index have doubled in a year-period ending April 30, this year.

Another program, Qualified Domestic Institutional Investor (QDII), has allowed financial institutions in China to apply to invest in foreign financial markets.

Nearly $90 billion of foreign investment has been approved under the QDII program as of April 29 this year, statistics from the State Administration of Foreign Exchange show.

Source - http://www.chinadaily.com.cn/business/2015-05/07/content_20644834.htm

Monetary Policy

Central bank lowers reserve ratio

China's central bank announced it was lowering the amount of cash that all financial institutions need to reserve starting on April 20.

The move will release liquidity of at least 1.2 trillion yuan ($197 billion) to support economic growth.

It is the second reserve requirement ratio cut in three months. The one percentage point drop was the largest since November 2008.

An extra 1 percentage point cut in the ratio will be given to commercial banks for agricultural services and an additional reduction of 2 percentage points to the Agricultural Development Bank of China, the People's Bank of China said.

It will further lower the ratio by 0.5 percentage points for eligible banks that lend a certain amount of money to agricultural borrowers or to small and micro businesses.

Lu Zhengwei, chief economist at Industrial Bank, commented that the cut was "inevitable" but "a little bit late", as the funds outstanding for foreign exchange have continued to drop since April last year, which means market liquidity has actually tightened.

Cutting the reserve requirement ratio is more effective in reducing loan costs for industrial companies than decreasing the benchmark interest rate, Lu said.

Commercial banks' lending costs for new loans are higher than industrial profit in recent months, according to economists, especially in March when the growth in industrial output declined to a post-crisis low of 5.6 percent, down from 6.8 percent in the first two months of the year and from 7.9 percent in December.

Dragged down by the sluggish manufacturing production and historic low for fixed-asset investment in the first quarter, China experienced a six-year low in GDP growth.

Zhou Xiaochuan, the country's central bank governor, said on April 18 that China still has scope to further ease monetary policy.

Source - http://www.chinadaily.com.cn/business/2015-04/19/content_20474685.htm

Currency

China eases forex controls for foreign-invested enterprises

The State Administration of Foreign Exchange (SAFE) released rules to further relax foreign exchange controls for foreign-invested enterprises on April 8 to broaden the scope of foreign investment.

Starting from June 1, 2015, foreign-invested enterprises can make settlement of foreign exchange capital without submitting proof of use of funds in advance, according to a SAFE circular.

Previously, a payment settlement system was used when foreign-invested enterprises make exchange settlement to prevent speculative exchange settlement.

The move aims to further promote the use of RMB and boost international financing activities as well as increasing the flexibility and convenience of exchange settlement, said the SAFE.

The practice has been piloted in Shanghai's free trade zone (FTZ) last year and achieved good results with a stable capital inflow, according to the circular.

China's cross-border capital net inflows rose 38 percent year on year to a total of 55.1 billion U.S. dollars in the first two months this year, reversing the capital net outflows which occurred between August-December last year, SAFE data showed.

Source - http://www.cs.com.cn/english/ei/201504/t20150409_4683283.html

Chinese bank, Canadian group to jointly explore offshore RMB market

The newly-launched RMB clearing bank in Canada and the owner of the Canadian stock exchange inked a memorandum of understanding (MOU) here March 25 to explore the RMB offshore market in North America.

According to the document, ICBC Canada (ICBK) and the TMX Group that owns and operates the Toronto Stock Exchange, will work to develop new opportunity for a wide range of financial products including bonds, stocks, interest rate derivatives and commodity derivatives.

ICBK, a subsidiary of the Industrial and Commercial Bank of China (ICBC), was officially launched here on March 23 as the first RMB offshore trading center in the Western hemisphere.

The focus of ICBK-TMX cooperation will include, but not be limited to, the joint product development in multiple asset classes, clearing and settlement products and risk management mechanism.

Additionally, they will jointly explore the development of financial services, offshore RMB financing services, RMB bonds, index, Exchange Traded Fund and commodity.

Analysts say the move indicates that RMB Internationalization achieved "a new remarkable progress in Canada." The cooperation, which relies on the mature financial market in Canada, is obviously beneficial to both China and Canada, according to them.

Shu Gu, the senior executive vice president of ICBC, expressed his support in a statement, "it is a great opportunity to robust the trade between China and Canada. We believe this will also promote the pleasant business relationship with TMX Group."

"This MOU with ICBK represents an important new relationship for TMX Group," said TMX Group CEO Lou Eccleston. "We are pleased to begin work with ICBK to explore ways in which we can collaborate to strengthen our respective organizations and increase our presence in a key global marketplace."

Source - http://www.cs.com.cn/english/com/201503/t20150326_4673184.html

Bond/Fixed Income

China widens foreign access to domestic bond market

China has approved HSBC, Morgan Stanley and 30 other foreign institutions to invest in its $5.9tn domestic bond market, a big step towards opening its capital markets to foreign investment.

China has significantly expanded foreign access to its stock market in recent years, but liberalisation of the domestic bond market — the world's third-largest, behind the US and Japan — has proceeded more slowly.

Economists say loosening restrictions on bond investment is crucial if China wants to persuade international investors to store their savings in renminbi. Heavyweights such as central banks, sovereign wealth funds, insurers and pension funds have portfolios heavily weighted towards fixed income.

The approvals also come as China's slowing economy and falling domestic interest rates spur capital outflows. Expanding inbound bond investment could help hedge against this.

Standard Chartered estimates that more than 50 central banks already hold some renminbi bonds among their foreign currency reserves.

Many of these hold "dim sum" bonds traded in Hong Kong, which do not require Beijing's approval, but foreign holdings of onshore bonds are also on the rise. Offshore institutions held Rmb579bn ($93bn) in interbank bonds by the end of March, up 44 per cent from a year earlier, according to data from China's two main bond clearing houses.

The People's Bank of China issued rules in 2013 allowing institutions that had already been approved to buy into domestic stock exchanges to apply for access to the interbank bond market, where more than 90 per cent of all Chinese domestic bonds are traded.

That created an opening for the several hundred institutions approved under the Qualified Foreign Institutional Investor (QFII) programme and a related scheme for offshore renminbi (RQFII) to diversify into bonds. The approvals come with quotas restricting the amount that can be invested, but Beijing does not disclose them.

Prior to the latest 32 approvals, 24 QFIIs, 86 RQFIIs, and an unknown number of foreign central banks and renminbi trade settlement banks had been previously approved.

A separate programme allows foreign central banks that have signed bilateral currency swap agreements with the PBoC, as well as overseas banks involved in cross-border renminbi trade settlement and clearing, to apply for access to the interbank bond market.

In recent days, the PBoC approved 32 new foreign investors under these two programmes, including HSBC, Morgan Stanley, Société Générale, BNP Paribas and ING Bank, according to statements published by Shanghai Clearing House.

In addition to hedging against capital outflows, the latest approvals may be an attempt to maintain the relevance of QFII following the launch of a rival programme that also allow foreign investors to buy mainland stocks.

The Shanghai-Hong Kong stock connect, launched in November, created a new channel for foreign investors to buy large-cap stocks traded in Shanghai, up to a quota of Rmb300bn ($48bn), with no preapproval required.

Indeed, even before the stock connect launched, investor demand for QFII appeared tepid. About half of the $150bn QFII quota and 60 per cent of the Rmb300bn RQFII quota remained unused by the end of April, according to figures from China's foreign exchange regulator.

Source - http://www.ft.com/intl/cms/s/0/41502188-f22d-11e4-b914-00144feab7de.html?siteedition=intl#axzz3ZPmUb3lh

Central bank said to mull tool for policy banks to buy local gov't bonds

(Beijing) – China's central bank is considering lending to policy banks through a new tool so they can buy bonds issued by local governments, a person close to the regulator says.

The loans would have a maturity of at least 10 years, the source said. Other details of how this would work remain unclear, but the tool will be unlike anything the bank has used before, he said.

"It will be a new monetary tool the world has never seen," the person said. "The format does not matter, and all possible means could be taken."

He said the regulator will use the new instrument to provide China Development Bank (CDB) and perhaps other policy banks with capital so they can buy bonds that local governments have issued.

The Ministry of Finance has said local governments can issue 1 trillion yuan worth of bonds this year to repay their old debts – in other words allowing them to swap existing debts, which are mostly bank loans, for bonds that have longer maturities and cost less.

The problem is that commercial banks are not interested in the bonds.

Banks are "not at all interested" in buying such bonds because "their yields are too low and there is no liquidity," a source from a joint-stock bank said. He said the bank he works for bought some local government bonds only because its branches want to maintain a good relationship with local governments.

Xu Hanfei, chief bond analyst at Guotai Junan Securities, said the interest rates of bank loans to local government financing platforms – commercial vehicles that local governments used to circumvent a previous restriction that barred them from borrowing directly – are usually around 8 percent, and so are the yields of these platforms' bonds. With local government bonds, he said, the yields are usually halved.

"Commercial banks do not want to buy local government bonds … because the yields can hardly cover their capital cost," a source from a bank's financial market division said. "There are many more assets that promise much better returns than local government bonds. Why bother exchanging them for the bonds?"

As of June 30, 2013, local government debt including direct and contingent liabilities reached almost 18 trillion yuan, data from the most recent national government debt audit shows.

Part of the solution that has been worked out by the central government was to revise the Budget Law, which prohibited local governments from directly borrowing, and allow them to issue bonds. Analysts say this is a more sustainable and transparent way of financing government operations.

There have been discussions about how existing platform debts that essentially have to be repaid by local governments should be dealt with, and the mainstream view is that they should be gradually replaced with bonds issued by the local government.

However, "without extra liquidity support… the whole debt swap will amount to building a castle in the air," said Liu Yuhui, a professor at the Chinese Academy of Social Sciences (CASS).

Policy banks buying local government bonds would amount to transferring the debt borrowed by local government financing platforms from the balance sheet of commercial lenders to those of the policy banks, he said. "This will happen sooner or later, and (the regulator) might as well just let policy banks handle it now."

"It is kind of unrealistic to expect the CDB to take all of the 1 trillion yuan worth of bonds," a source from the bank said. "Half of that would be too much already."

He also said that the regulator may at last have to involve some commercial banks in its scheme.

"(Having their debt become bonds) would reduce the pressure of repayment on local governments because both the interest rates and maturities will be different," said Yin Jianfeng, deputy director of the CASS' Institute of Finance and Banking.

Source - http://english.caixin.com/2015-05-05/100806683.html

Equity Market

China investors: Stock market fever

Sun Shuming could barely contain his joy. With one hand holding aloft a glass of champagne and the other making a thumbs-up sign, Mr Sun beamed as a bank of cameramen snapped away on the floor of the Hong Kong stock exchange. Shares in GF Securities, the brokerage he runs, had just jumped 40 per cent within moments of going public on April 10.

The debut of GF Securities could not have been better timed, coming at the end of a week of record trading in Hong Kong. The sudden arrival of billions of dollars from mainland Chinese investors pushed the market to its highest in more than seven years, while volumes on the exchange smashed all records.

On April 9, the value of trades on the Hong Kong market was more than double the combined figure for London, Frankfurt and Paris. So much capital flowed into the city that its monetary authority was forced to intervene to protect its currency peg to the US dollar.

Brokers like GF Securities have been among the biggest beneficiaries of the surge. Haitong rose almost 40 per cent in just a week, while Citic Securities, China's biggest broker, is up a quarter. The market capitalisation of Hong Kong Exchanges & Clearing, the stock market operator, has grown by a third to $36bn, making it the world's largest exchange.

The week's frenetic activity could be just a taste of things to come, since Chinese retail investors are only now making their first forays into international markets. And they have brought something with them from home — stock market fever.

Li Shengnan, a 33-year-old sales associate for a consumer goods company in Shanghai, called a friend last week seeking investment advice. Ms Li wanted to know whether to take out a mortgage on her apartment and use the funds to invest in China's red-hot equity market.

"I never played the market before, but since March it seems like my friends and co-workers are all getting rich, so I got excited," she said.

After years of poor performance, confidence in the stock market has returned in China with a vengeance. Savers have switched hundreds of billions of dollars out of property, deposits and wealth management products in the hope of making a fast buck in stocks.

A rally that began in July last year pushed the Shanghai index above 4,000 on April 10 for the first time since early 2008. The market has now gained 68 per cent over the past six months. "The equity market is back as a genuine force in the minds of Chinese savers," Westpac Bank wrote in a note.

However, signs of a bubble are emerging. Investors opened more than 4.8m new stock trading accounts in March alone and almost 1m more in the first two days of April, according to the latest figures from the country's main clearing house. These accounts largely represent new investors like Ms Li entering the market for the first time.

The explosive growth of margin lending, in which brokerages lend money to investors to play the markets, also suggests irrational exuberance. Margin loans outstanding in Shanghai and Shenzhen — home to China's two stock exchanges — totalled Rmb1.6tn ($258bn) on April 8, two-and-a-half times the total six months earlier.

“We see a lot of people who don’t understand stocks and don’t know how to judge risk rushing in,” said Hou Anyang, investment director at Front Sea Asset Management, a Shenzhen-based hedge fund. “We’re worried about it, but there’s nothing to be done. Every investment cycle is like this. It’s the small investors who get hurt.”

The previous market cycle was particularly painful for retail investors. In October 2007, the Shanghai Composite soared to an all-time high of 6,124 points, having more than tripled in value over the previous year. Within 12 months, the index tumbled to near 1,800, leaving retail speculators nursing their wounds for the next seven years.

The backdrop for this rally is far different. China’s economy expanded at its slowest pace in 24 years in 2014, but investors still saw a case for buying Chinese stocks: valuations in Shanghai trailed far behind those in the US, Europe and Japan.

Now, however, the market looks like less of a bargain. The Shanghai Composite, dominated by state-owned banks and energy companies, trades at around 15 times forward earnings, double from the 7.5 times last summer.

Far frothier valuations can be found in China’s booming tech sector. Beijing’s drive to shift the economy away from smokestack industries towards innovation and services has convinced investors that tech companies are poised for growth. China’s Nasdaq-style start-up board, ChiNext, now trades at 49 times forward earnings, more than double the 21-times valuation of the Nasdaq. According to Bloomberg research, valuations in China are higher than at the peak of the US dotcom bubble.

Technology is just one of several popular stock “concepts” — investment themes that brokerages use to drive investor interest.

Others are tied to government policy initiatives such as “One Road, One Belt”, the government’s ambitious plan to stoke foreign demand for its industrial output by financing infrastructure investment around Asia. The 21st century Maritime Silk Road and a land-based counterpart, the Silk Road Economic Belt, are expected to drive sales to Chinese trainmakers, port operators and electricity producers.

Another popular theme is the reform of state-owned enterprise, which dominate industries like finance, energy and telecommunications, but whose returns trail far behind privately owned rivals.

Two state-owned train manufacturers, CSR Corp and CNR Corp, have emerged as darlings for both these concepts. These companies have seen their Shanghai-listed shares more than triple since the start of 2015, and now trade above 50 times earnings.

Despite signs of a bubble, analysts and investors expect the China share rally to continue, at least in the short term. They also distinguish between large-cap stocks like banks, whose valuations remain comparable to global peers, and speculation-driven tech stocks.

“Some of the valuations definitely aren’t reasonable, but if you look at asset allocation, yields in the equity market are still higher than bonds or real estate, so I think this rally has farther to run,” said an equity trader at a top-five brokerage in Shanghai. Confidence also stems from central bank policies aimed at propping up the economy. The People’s Bank of China has cut benchmark interest rates twice since November and reduced the share of customer deposits that lenders must hold in reserve at the central bank.

Such loosening has drawn comparisons to the US stock market in 2010 and 2011, when loose money fuelled big market gains, even as the real economy remained sluggish.

This week, China’s equity fervour finally spilled beyond its borders. With stocks in China reaching a 35 per cent premium to those trading in Hong Kong, market veterans say mainland investors are simply switching into cheaper listings. “The pressure cooker in China has built up,” says Tim Franks, head of hedge fund sales at HSBC. “This is a way of releasing that pressure from the system.”

Some see Beijing’s hand at work. An article in a state-run newspaper appeared this week under the headline “Go! Buy Hong Kong stocks!”, while the decision to allow mutual funds to invest in Hong Kong has been credited as the trigger for this week’s jump in trading. The influx of Chinese cash has been made possible by the launch in November of a trading scheme known as the Shanghai-Hong Kong Stock Connect. The link gives global funds much freer access to Shanghai stocks and allows mainland investors unprecedented access to shares in Hong Kong.

Until this week, they had largely chosen not to, instead focusing their attentions on Shanghai and Shenzhen. But on April 8, when the market reopened after a public holiday, the daily Rmb10.5bn quota for Chinese purchases of Hong Kong stocks was exhausted for the first time. The same thing happened on April 9, pushing trading volumes to $37bn — more than three times last year’s average.

"I don't even have to think too much when I trade these days as almost every stock is rising," said a Hong Kong-based trader at a leading asset management company. "Now it's our time."

The question now is whether this is a blip or the start of a new era. HKEx executives are already talking about boosting the daily quota to allow more Chinese money to flow in. "There's plenty of time, plenty of opportunity and plenty of money to make," said Charles Li, chief executive of HKEx. "The party's going to be here to stay."

Source - http://www.ft.com/intl/cms/s/0/6a83b534-df30-11e4-852b-00144feab7de.html#axzz3ZLe3fn4m

More stocks eligible for short sales

China's securities regulator on April 17 said it will expand the number of equities that investors can short sell to increase supplies on the nation's bourses amid the continued surge in stock prices.

The China Securities Regulatory Commission expanded the number of qualified stocks to 1,100 under the trading program which allows investors to borrow securities to short the market.

Short selling is the sale of securities that are not owned by the seller, or those that the seller has borrowed. It is motivated by the belief that a security's price will decline, enabling it to be bought back at a lower price to make a profit.

Investors can also sell shares of exchange-traded funds at prices lower than the market price while the funds gained through short selling could be invested in qualified securities with high liquidity, said Deng Ge, the CSRC spokesman.

Institutional investors will be encouraged to participate in short selling while the regulator and the stock exchanges are working to optimize the trading mechanism and promote a market-driven principle for market players to negotiate trading fees and the time span for short selling, Deng said at a news conference in Beijing.

China has moved steadily to enrich financial derivatives in the market and to offer investors more tools to hedge risks.

Two new derivative products, the stock index futures contracts of large-cap SSE 50 index and small and medium-cap CSI 500, debuted in Shanghai on April 16.

But the frenetic sentiment in the A-share market appeared to be unaffected by the introduction of short-selling tools in the market.

On April 17, the benchmark Shanghai Composite Index continued a sixth straight week of gains and moved up by 2.2 percent to close at 4,287.3 points.

The regulator once again warned new investors about the potential risks in the country's red-hot securities market.

The number of new stock accounts surged to 7.95 million in the first quarter, more than quadruple the amount during the same period last year, the regulator said. A majority, or 62 percent of the new investors, were born after 1980 while 5.2 percent of them are in the age above 55.

Deng said that the regulator will continue to crack down on illegal activities in margin trading and short selling as well as trading on the New Third Board, a national share transfer platform for unlisted startups. Speculation has sent the board's market value to more than 1 trillion yuan ($160 billion).

The average valuations of blue chips remain in the rational territory, analysts said. Stocks that benefit from government policies including the "Belt and Road Initiative" will continue to lead the market gains, they said.

"Railway stocks are the major gainers from the government strategy ... which will help infrastructure construction in developing nations (along the Silk Road Economic Belt and the 21st Century Maritime Silk Road). Funds are now riding on the government's strategic plays," Wu Kan, a money manager at Dragon Life Insurance Co, was quoted by Bloomberg as saying.

Source - http://www.chinadaily.com.cn/business/2015-04/18/content_20465133.htm

Banking

Profit growth of China's big five banks falls

Net profit of China's big five State-owned commercial banks grew by less than 2 percent in the first quarter, due to economic slowdown and rising non-performing loans.

Industrial and Commercial Bank of China, the nation's biggest lender by asset, reported on April 29 a 1.4 percent year-on-year increase in its first-quarter net profit to 74.3 billion yuan ($ billion). The growth was well below the 6.6 percent increase ICBC recorded same period in 2014.

The bank's non-performing loans rose 1.29 percent by the end of March, up from 1.13 percent three months earlier.

The country's second-largest lender, China Construction Bank reported a 1.9 percent growth in its first-quarter net profit to 67 billion yuan. The bank also saw non-performing loans increase by 0.11 percentage points to 1.3 percent.

"Incrementally, we are reducing exposure to banks and non-bank financials," said Nomura in a note of equity strategy in the second quarter.

The financial group projects GDP growth to slow down to 6.6 percent year-on-year in the quarter ending June, and to 6.8 percent for the full year.

The non-performing loan ratio at Bank of China climbed to 1.33 percent in the first quarter, up from 1.18 percent. The bank reported a quarterly net profit of 45.8 billion yuan, up from 45.4 billion yuan, but with a far slower growth compared to same period last year's 14.3 percent increase.

Agricultural Bank of China earlier reported a net profit growth of 1.3 percent to 54.3 billion yuan in the first quarter and Bank of Communications of 1.5 percent to 19 billion yuan. The two banks saw their non-performing loan ratios rise by 0.11 and 0.05 percentage points to 1.65 and 1.3 percent respectively.

Source - http://europe.chinadaily.com.cn/business/2015-04/30/content_20588540.htm

The Infrastructure Bicycle

China now has to manage an objective win. It has been called on to strengthen an experiment that is beyond reproach on paper: the creation of the Asian Infrastructure Investment Bank (AIIB).

Comments on this diplomatic victory have been almost unanimous. Despite its nuances, Beijing's global role has finally been recognized, one that is proportionate to its dimensions. It demanded a coordinated intervention that would give it international status and replicate its journey.

The creation of an infrastructure bank – one of the bottlenecks blocking development in Asia – was the logical and political conclusion of contemporary China's peaceful rise. Adhesion has been enthusiastic and widespread for two reasons. Developing countries in Asia want to intercept the next US$ 100 billion to open shipyards and buildings in their territories; the wealthiest countries want to acquire funds for their banks and businesses.

The isolation of the United States and Japan was shared equally; both countries suffered an indirect blow. The new institution is considered a rival to the World Bank and the Asian Development Bank, both controlled by the United States and Japan. The two allies have found themselves isolated from the massive subscription to the AIIB, and will probably reconsider their refusal. In any case, the hard part is just starting for Beijing.

After being gifted a very political bicycle, Beijing will have to pedal long, unknown paths. There will be two primary testing grounds, one international and the other internal. To prove its accusations against external institutions, it will need to demonstrate that it can do better. Until now China has been right to criticize their auto-referencing bureaucracy and the little importance placed on emerging countries. Now, it's being called to manage the AIIB equitably and not Beijing-centrically, despite its headquarters being in the Chinese capital. It will be China's task to represent the smallest and poorest countries without imposing restrictive or humiliating policies like those of the Washington consensus. It will need to reject accusations that it will devolve global standards – and this time without propaganda.

Many are fearful for the integrity of governance, respect for unions and human rights, and environmental standards. Some criticisms are biased, while others are based on experience because China has not yet demonstrated balanced, conscientious and respectful growth. Therefore, Beijing will need to defeat this skepticism or at least these opportunistic friendships, ready to forgive non-transparent management. On the domestic front, respecting the rules will impose a redistribution of power. Big public banks, like the China Development Bank and the Export-Import Bank, will no longer hold a monopoly over the government's will.

They will be exposed to competition, more strict accounting, and will need to confront a more complex and severe world compared to what Chinese laws subjected them to. After this diplomatic success, a hazardous road has opened up for China, a difficult challenge due to its novelty, a demanding task for which China will need to establish itself as a model and not an imposition.

Source - http://english.caixin.com/2015-05-05/100806656.html

Pension

New Annuity Program

(Beijing) – The State Council published a detailed plan for an "occupational annuity program" for civil servants and employees in the public sector on April 6, the latest move by the government to reform the pension system.

The cabinet said the annuity program is compulsory, and government agencies and public institutions such as schools and hospitals and their employees must contribute to the annuity fund.

On January 14, the State Council announced plans for a new pension scheme for civil servants and those in the private sector. That plan said an annuity program should be introduced to provide retirees with another monthly payment.

Civil servants and workers in the public sector were asked to contribute to the pension fund like people in the private sector starting in October last year, and they will get pension payments according to their contributions.

Government agencies and public institutions will pay a sum equivalent to 20 percent of their workers' base salaries to the pension fund on behalf of the employees. The employees will contribute 8 percent of their salary.

The reform was carried out due to growing public discontent over inequality in the pension system. Civil servants and those in the public sector do not contribute to the fund, but get much higher pension payments than others when they retire.

The central government also notified government agencies and public institutions of detailed plans for salary increases in January, raising the base salaries of civil servants and public workers by at least 60 percent as part of the change.

What is the occupational annuity and why is it needed?

The occupational annuity is separate and complementary to the pension scheme. The program, along with the pension scheme, will ensure government employees and workers in the public sector enjoy the same level of benefits after the reform as they did before, said Hu Jiye, a professor at the Center for Law and Economics at the China University of Political Science and Law in Beijing. That assurance will help the reform progress smoothly, Hu said.

How much will employers and their employees contribute to the annuity fund?

Government agencies and public institutions contribute a sum equal to 8 percent of their employees' salaries to the fund. Employees will pay 4 percent of their salaries.

How many people are covered by the program?

Data from the State Administration of Civil Service show that China had nearly 7.2 million civil servants and more than 31.5 million public-sector workers employed by institutions such as schools and hospitals at the end of 2013.

How much extra will the government spend by supporting the program?

Government agencies, public institutions and their employees will have to pay 76.6 billion yuan to the annuity fund every year, and the government will cover most of that, Ping An Securities estimates. The calculation is based on an estimate that around 70 percent of civil servants and public workers will join the program and their average salary is 3,000 yuan per month.

What was China's pension system like before the reform?

The country introduced a pension scheme for workers in the private sector in the 1990s. Under the plan, employers and workers had to contribute 28 percent of employees' salaries to the pension fund.

Workers in the private sector got only 30 percent to 60 percent of their previous salaries after retiring. In 2011, workers got an average 18,100 yuan a year.

Civil servants and other public-sector workers were not required to pay into the fund, but received pension benefits from the state after retiring.

Civil servants and workers in public institutions could get up to 90 percent of their old salaries starting when they retired. These workers got an average of 26,100 yuan in 2011.

Source - http://english.caixin.com/2015-04-08/100798373.html

Pension funds' investment choices may widen

The country is poised to widen the scope of permitted investments for the pension funds of public institutions, regulators said on April 10.

The news came amid a dramatic rally in the nation's equities market. The benchmark Shanghai Composite Index gained 1.94 percent to end at 4,034.31 points—the first time it finished above the 4,000 level since 2008.

The China Securities Regulatory Commission said that it will support qualified securities firms and mutual funds to manage the pension funds for civil servants and public-sector employees through market-based investment channels.

As of Dec 31, the CSRC said, 1.01 trillion yuan ($160 billion) of the country's social security fund and corporate annuity fund was being managed by professional financial institutions.

Policymakers have yet to announce detailed investment regulations for the pension funds of public institutions. But if regulators expand access to the equities markets for these funds, it will give a further boost to share prices, analysts said.

The social security fund has achieved an annual investment return of 8.36 percent since 2001, while the corporate annuity fund has realized an annual investment yield of 7.87 percent since 2007, according to the CSRC.

On April 10, shares of commodities and consumer companies led gains as economic data showed easing disinflationary pressure.

The consumer price index rose 1.4 percent in March, slightly above market expectations.

Trading on the over-the-counter market has also surged as investors place bets on startups and innovative companies that are expected to benefit from the shift of the country's economic growth model.

Average daily transaction value has reached 687 million yuan, 13 times that of last year.

The CSRC warned investors of the risks of speculative trading in the OTC market and pledged to closely monitor irregular price movements in the market.

Even the nation's foreign currency-denominated B-share market gained, surging to a seven-year high on April 10 after years of neglect by investors.

In a separate comment about opening the futures market to international participants, the CSRC said that conditions are not in place for foreign futures exchanges to set up commodity settlement warehouses in the China (Shanghai) Pilot Free Trade Zone.

But the regulator said it would pursue further opening of the futures market and help establish the nation's first crude oil futures contract.

Source - http://www.chinadaily.com.cn/business/2015-04/11/content_20410123.htm

Insurance

Chinese insurance giants take first bite of U.S. real estate Alternative

China's two largest insurance companies had their first bite of U.S. commercial real estate, buying a majority stake in a 500 million U.S. dollar project in the city of Boston.

China Life Insurance Company and Ping An Insurance Company of China will serve as co-investors in Tishman Speyer's prime waterfront site at Pier 4 in Boston's popular Seaport District, Tishman Speyer Properties, one of the world's leading developers, announced on April 8.

China Life Insurance Co., which is the country's largest insurer by premiums, and Ping An Insurance Group, which ranks second, bought a majority stake in the project which will take up most of Pier 4, according to a person familiar with the transaction.

However, the size of the two Chinese insurers' stakes was not immediately known.

China Life, through its subsidiary China Life Investment Holding Company Limited, and Ping An, through its real estate investment platform, Ping An Real Estate Company Limited, are investing alongside Tishman Speyer Real Estate Venture VIII.

Tishman Speyer acquired the development site in December 2014 and it will serve as general partner and manage the day-to-day development of the project.

The company recently announced plans to build a 13-story, commercial building, primarily for office use, and a nine-story, 100-unit luxury residential condominium building. Both buildings will include ground floor retail/restaurant space, and the site plan also includes a new one-acre public park.

Construction is scheduled to begin in the fourth quarter of 2015, with completion of both new buildings in 2018.

"In that time, we have forged strong, productive relationships with both China Life and Ping An. We are really pleased that they have chosen to join us on this project," said Tishman Speyer Co-CEO Rob Speyer.

"It is a good start for China Life, which will expand its real estate investing in America, and it will promote closer cooperation in our world," said China Life Investment Holding in a statement.

Ping An Real Estate said, "This is another step forward for us in developing a strong ongoing business relationship with Tishman Speyer."

"Ping An and Tishman Speyer have previously conducted business together in China and we are confident."

Source - http://www.cs.com.cn/english/ei/201504/t20150409_4683285.html

Alternative Investment

China's private equity market set for slower growth this year

SHANGHAI, CHINA – After a robust 2014, China's private equity market is forecast to grow at a slower pace this year, a report by Bain & Co showed.

The industry report said it will be difficult for PE investors in China to maintain the momentum for the rest of the year due to various factors, including fierce competition and economic slowdown.

In 2014, PE investors in China invested in USD451bn worth of deals, a 173 percent year on year.

The number of deals surged to 350, exceeding the market's five-year average by 30 percent, the report said. The value of funds that exited also tripled from a year earlier to US$61 billion.

The strong performance was driven by mega transactions in the Internet and technology sectors, which accounted for 40 percent of the total deal value, the consulting firm said.

However, this year will be a different story.

Bain's PE Practice leader Kiki Yang said China's slower economic growth and stiff competition will make it harder to generate high returns in the future.

Last January, 25 China-focused private equity and venture capital funds raised an aggregated US$1.2 billion, an industry report said.

However, the proceeds raised plunged by 79.7 percent from December and tumbled 72.1 percent from a year earlier, said a report released by Zero2IPO Research.

Of the 25 funds, 23 were yuan-denominated funds which raised US$787 million, or 65.6 percent of the total proceeds, data showed.

Capital raised by 14 growth funds totaled US$635 million, accounting for 52.9 percent of the total, followed by US$394 million raised by five seed funds and US$140 million garnered by five merger and acquisition funds.

Source - http://www.businessnewsasia.com/201504225231075-chinas-private-equity-market-set-for-slower-growth-this-year/