

# *ASIA Pacific Business Outlook Conference*

*March 27, 2017*

## **China Financial Market Challenges and the Lessons of 2015/16**

*Jack Wadsworth*

*Honorary Chairman of Morgan Stanley Asia*

– The Beginning: 1990 – 2006 / 1994 CICC

– The Developing Years: 2006 – 2016

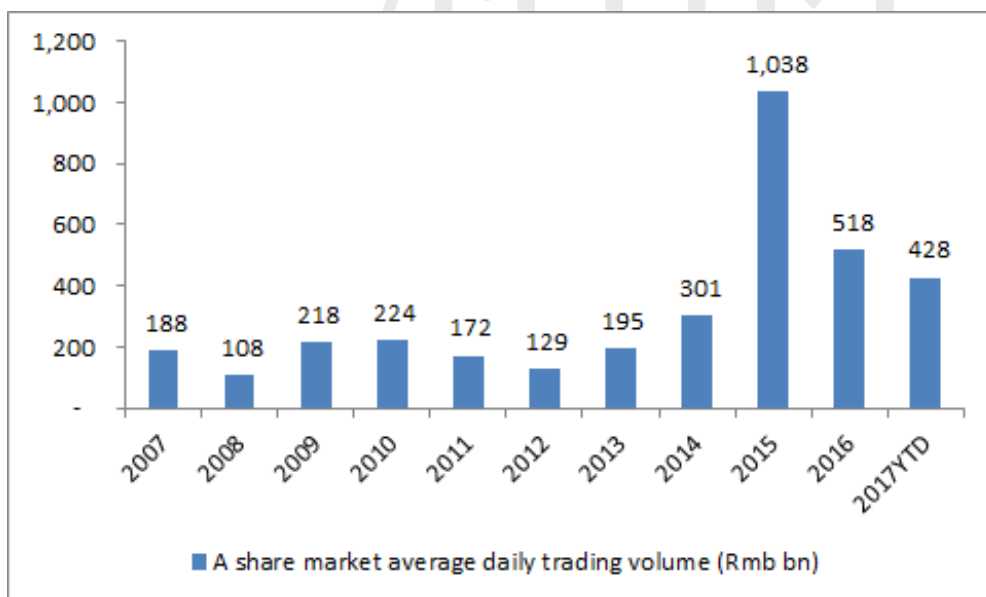
– Lessons of 2015 / 2016

– The Future

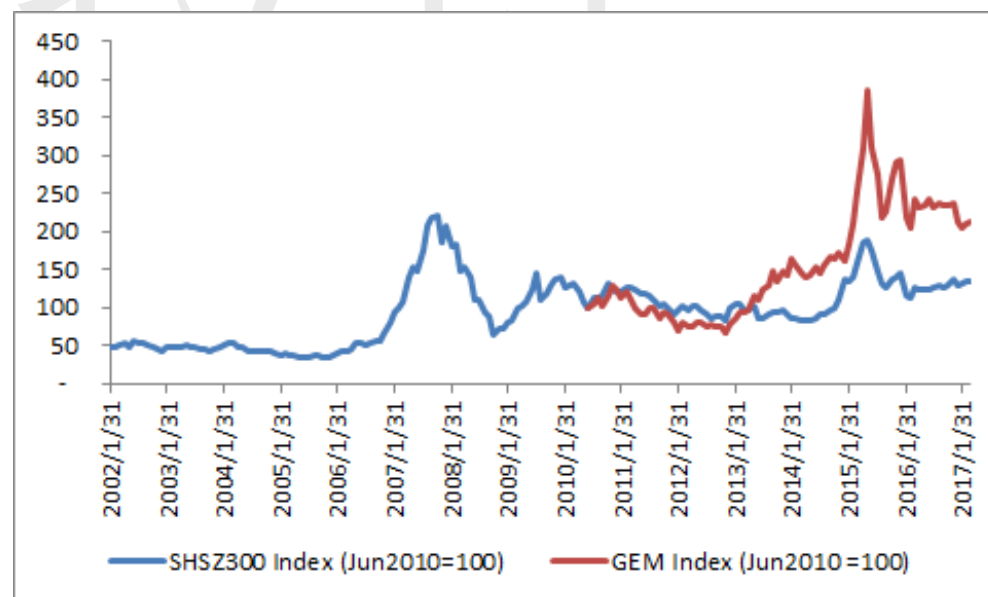
*Chinese Yuan (CNY or RMB) 6.89 = USD \$1.00  
(12 noon PDT March 21, 2017)*

- Trading volume has exploded.
- Trading volumes on the NYSE and NASDAQ in 2016 were \$17 trillion and \$13 trillion respectively.
- A-share index was flat for 9 years.

Average Daily Trading Volume of A-share Market

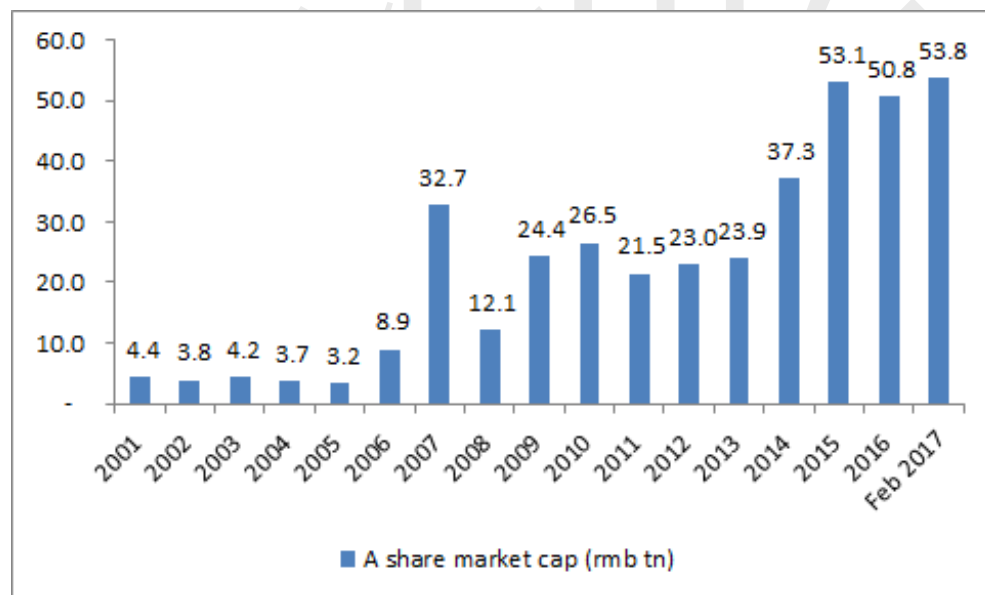


A-share Index Performance

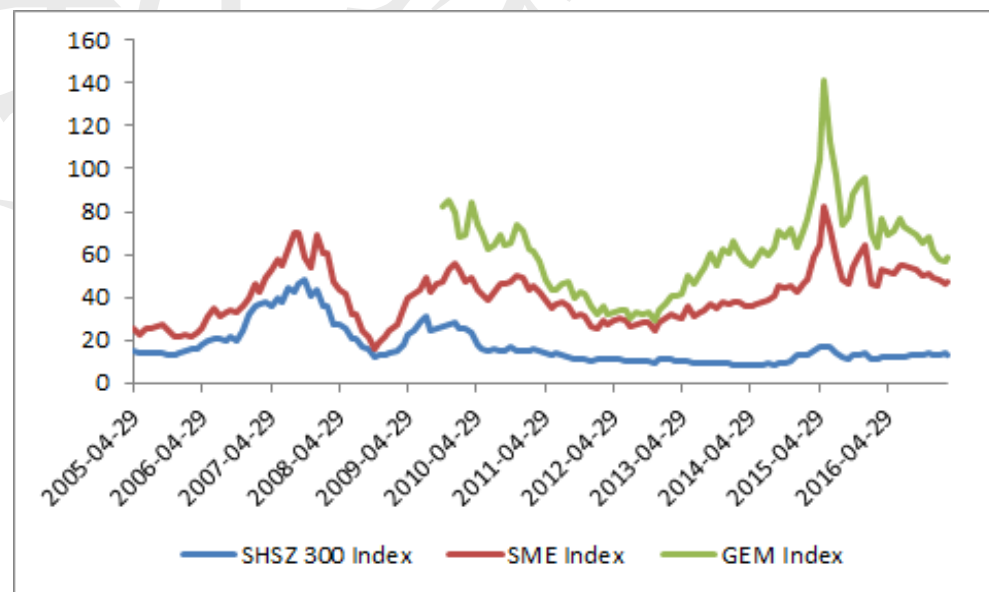


- A-share market has grown from new listings.

Market Cap of A-share Market

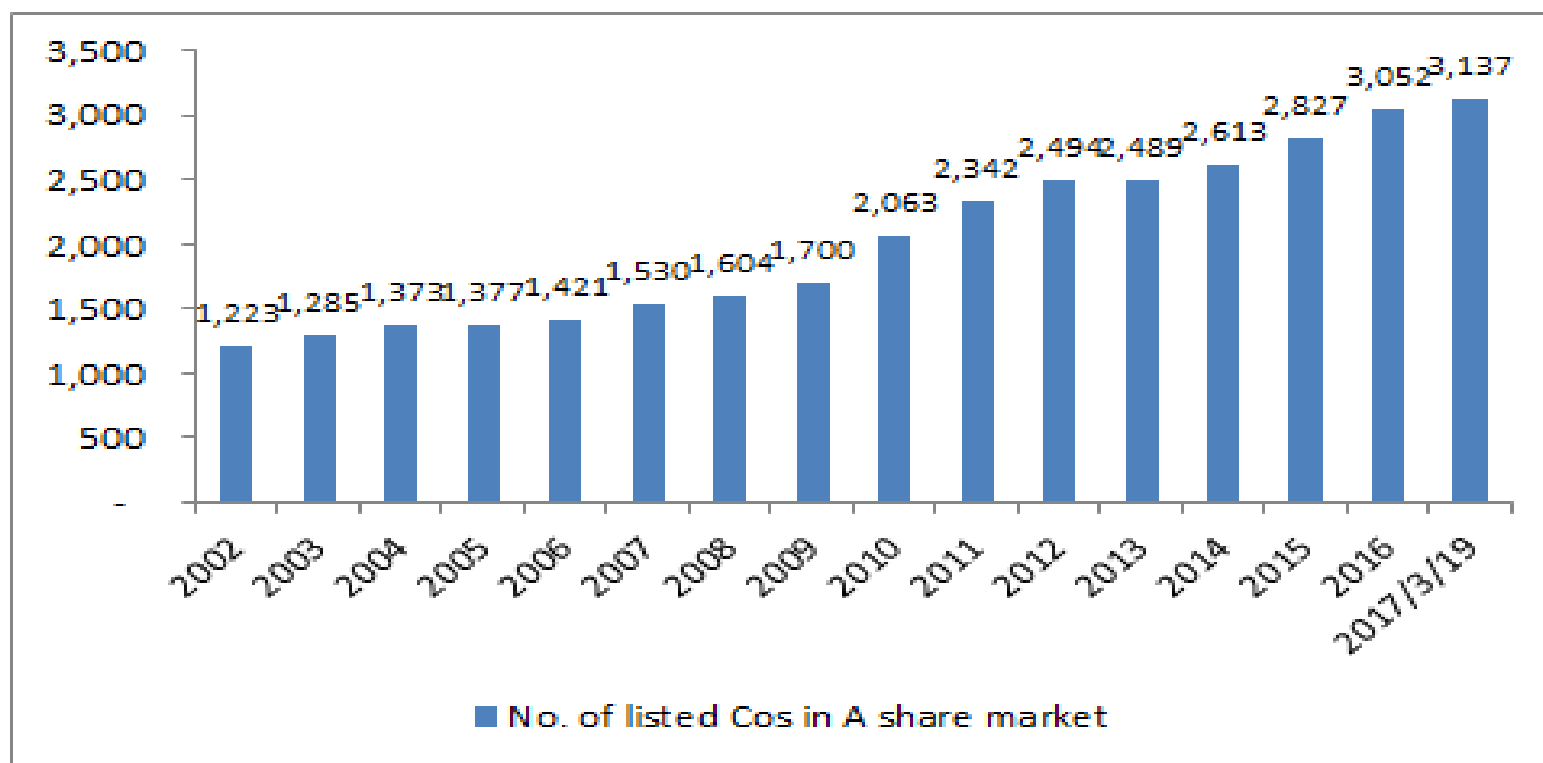


PE Ratios



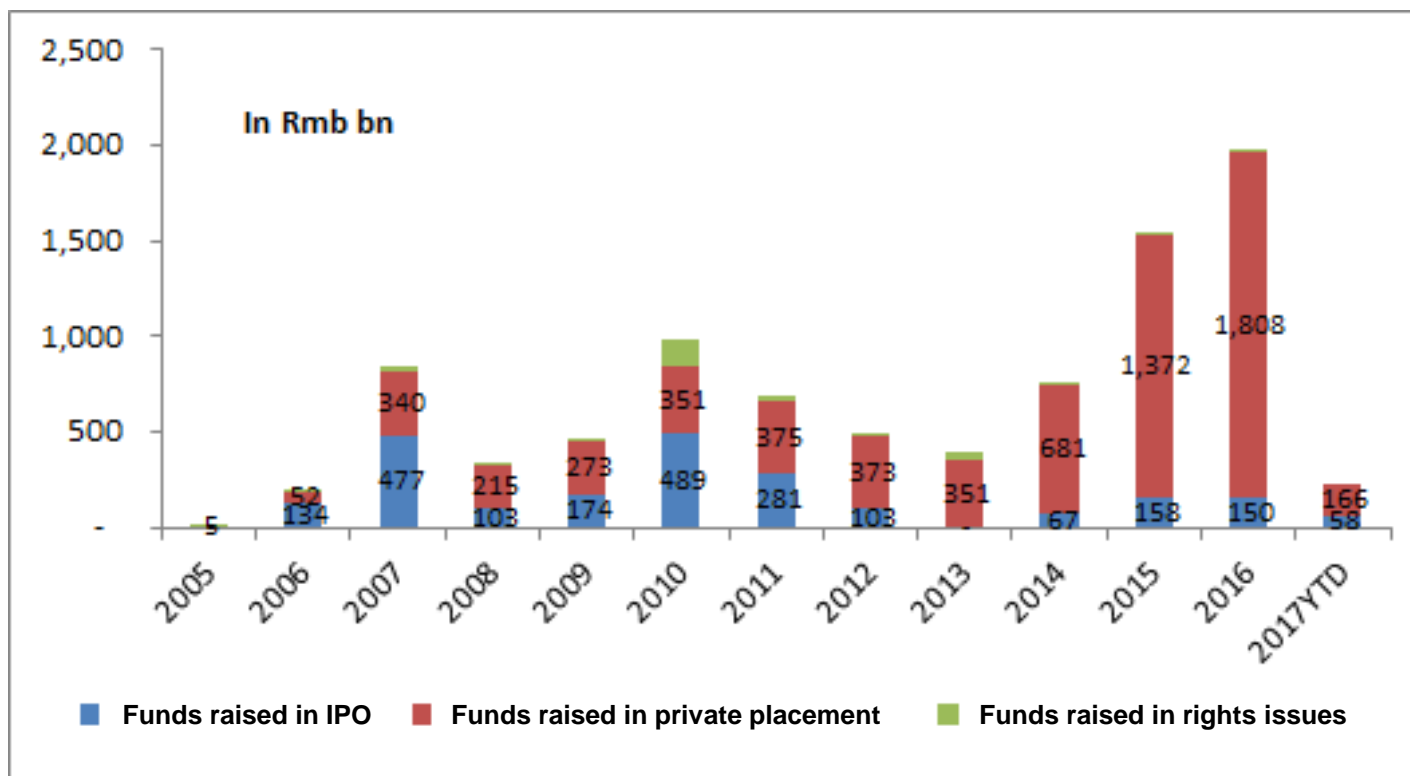
Source: Wind

- The number of companies currently listed on the NYSE is 2,215 and NASDAQ is 3,192.
- China new listing pipeline is 6,000 companies.



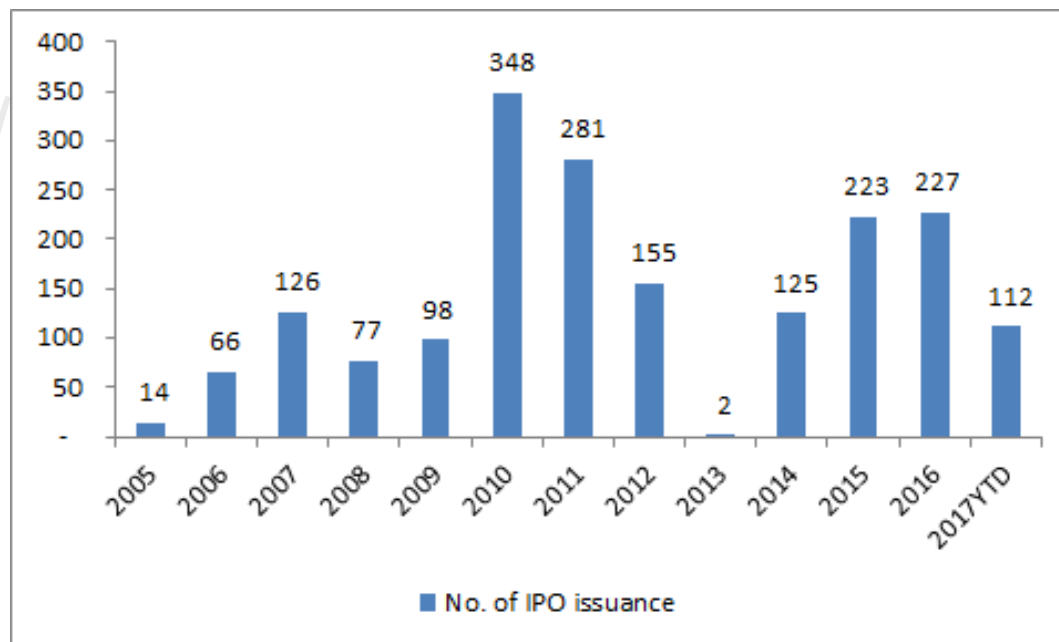
Source: Wind, NYSE, NASDAQ

- IPO's are small percentage of total equity financing.
- Total equity issuance in the U.S. was \$247Bn in 2015 and \$197Bn in 2016.



Source: Wind

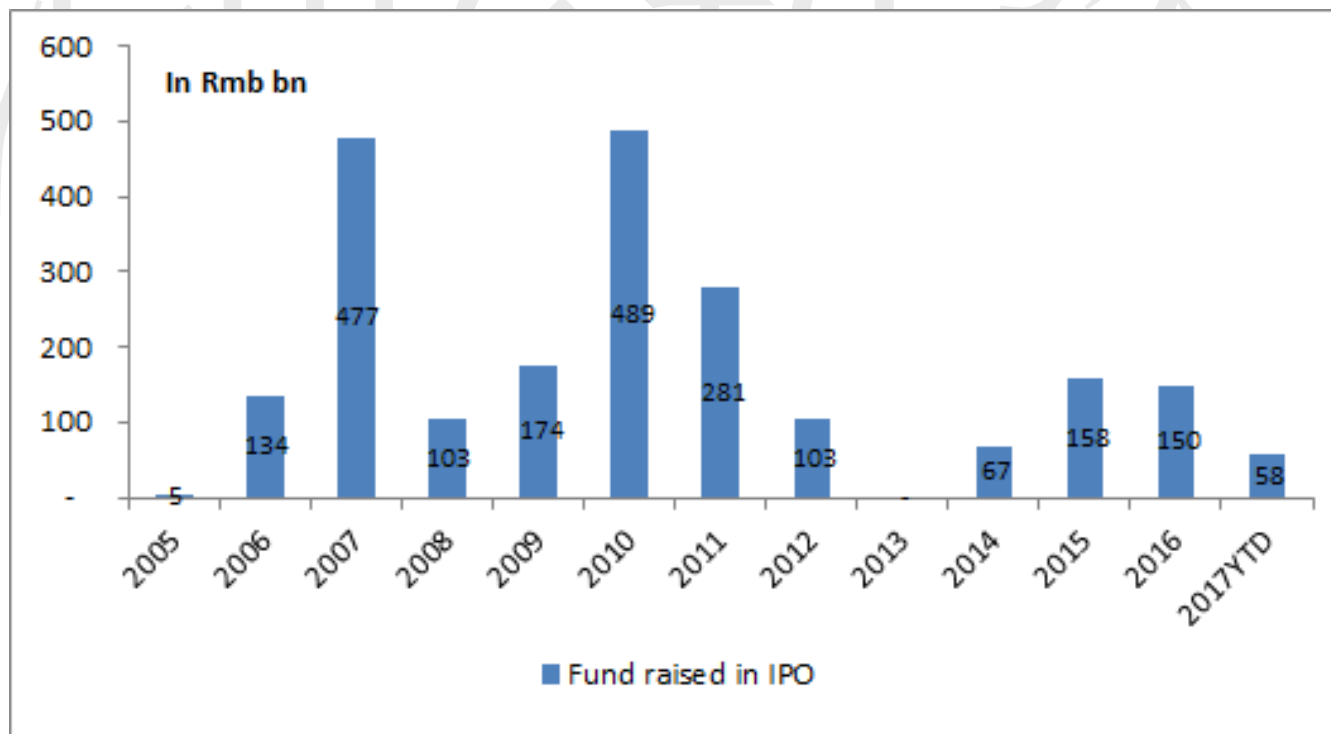
- Typical IPOs in China are small.



Source: Wind

- Privatizations have dominated IPO market.
- Privatization activity is over.
- There will be a surge of secondary offerings as the government sells down.

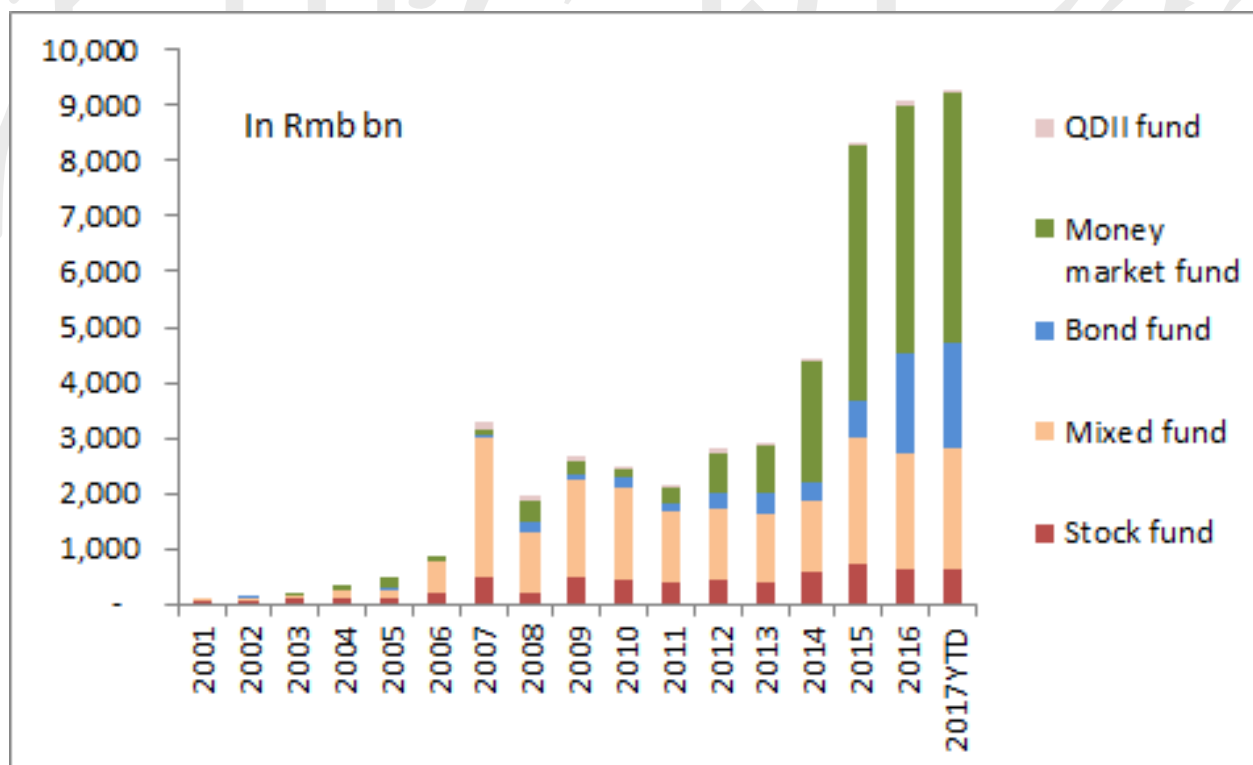
### New Equity Issuance



Source: Wind

- Mutual fund activity is huge.
- AUM is 99% domestic.
- Offshore funds will grow. CEPHEI is the first.

### China Mutual Fund AUM

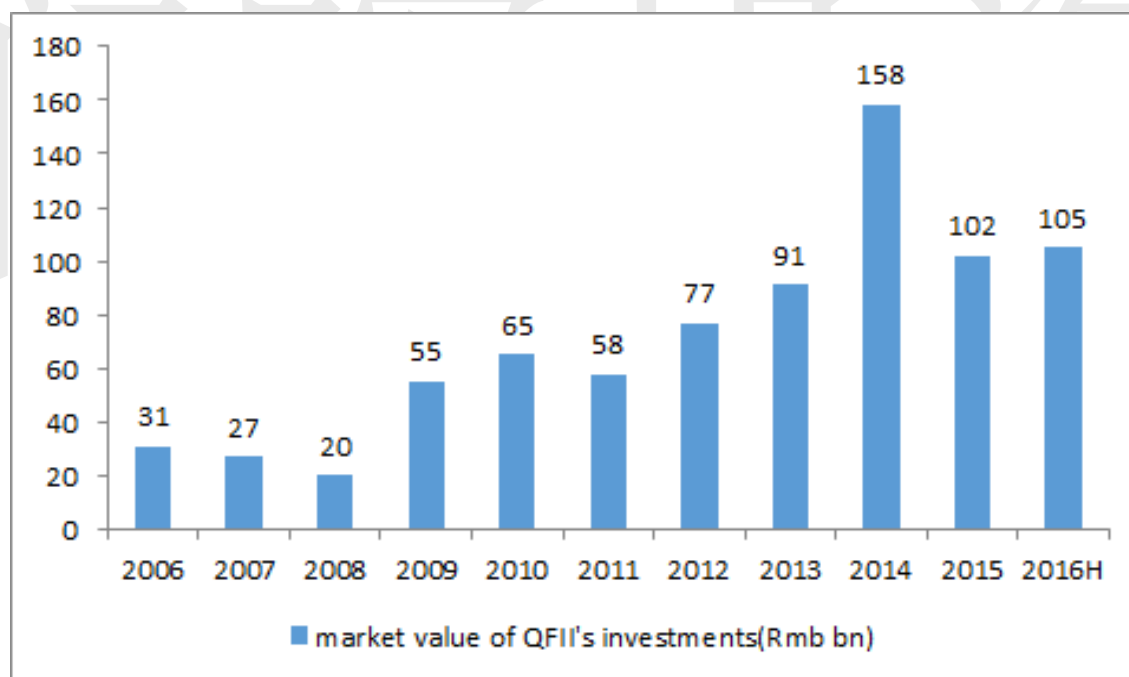


Source: Wind



- This will soon be zero!

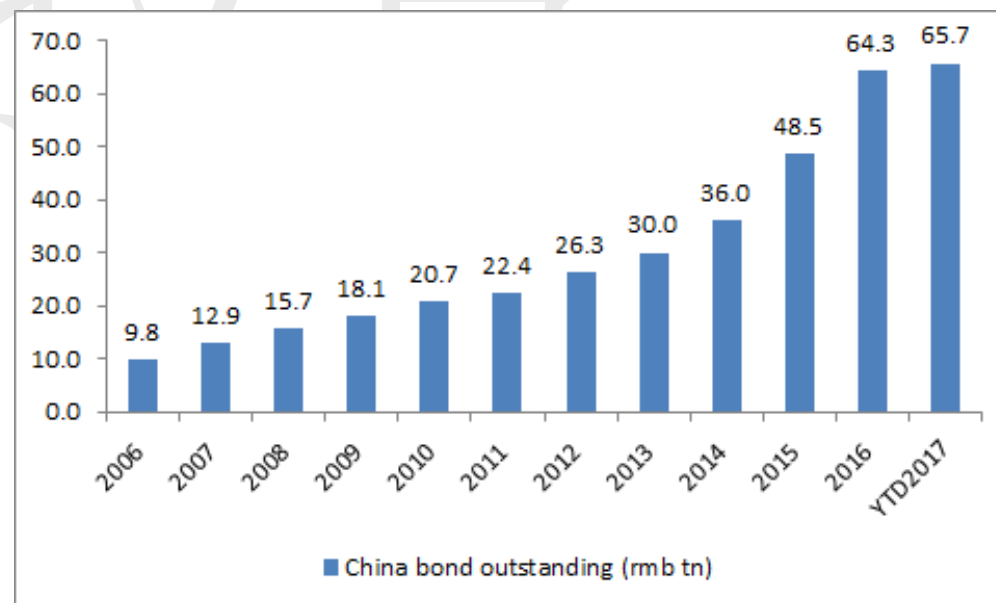
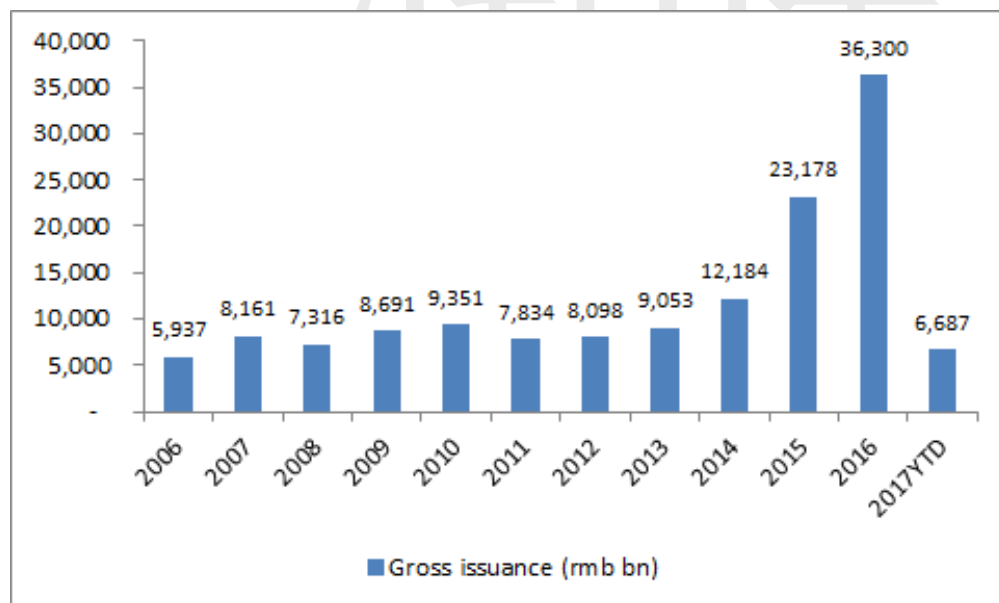
Market Value of QFII's Investment



Source: Wind

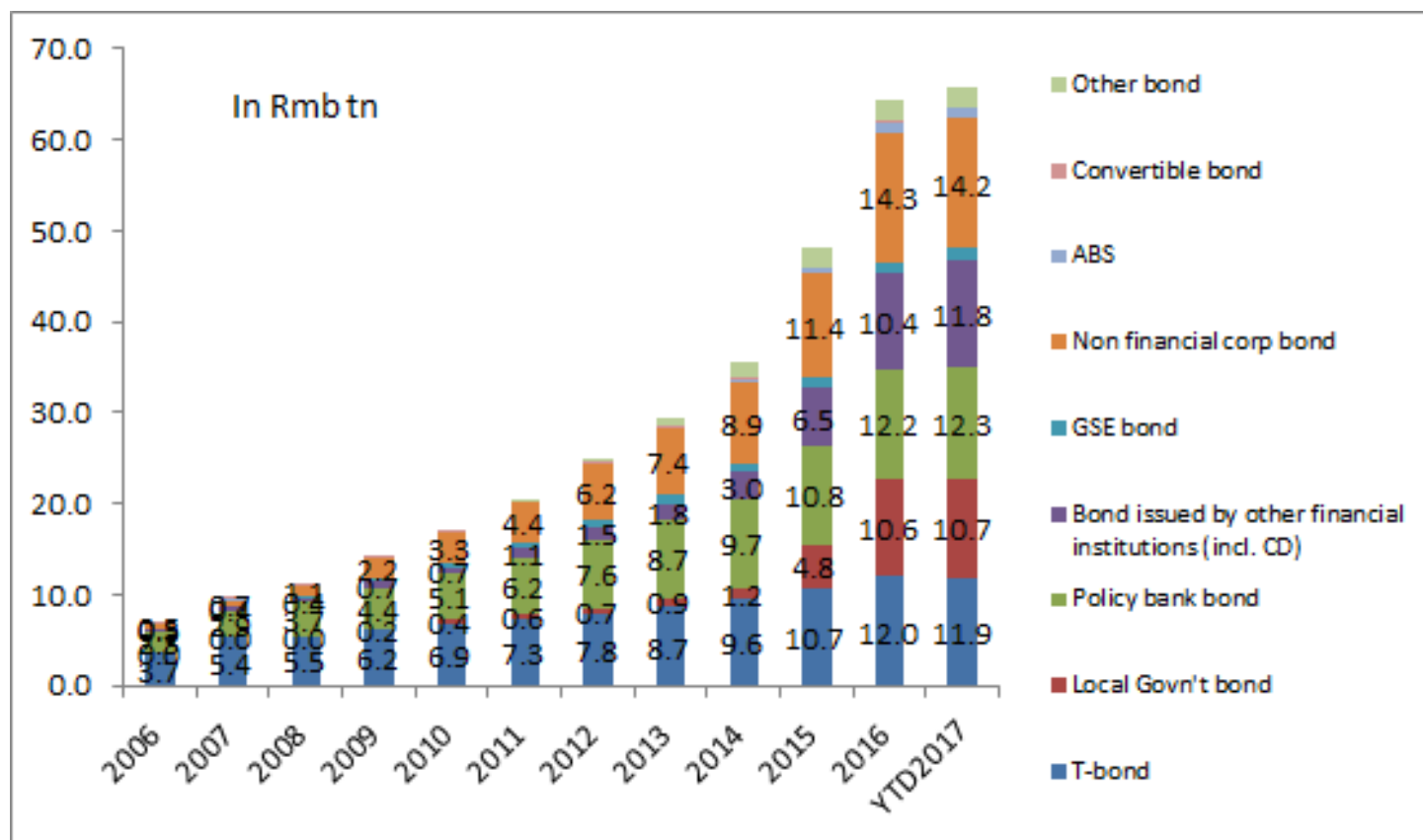
- Debt financing is still dominated by banks.
- Corporate bond market development is key.

## Gross Issuance and Outstanding Balance of China's Bond Market



Source: Wind

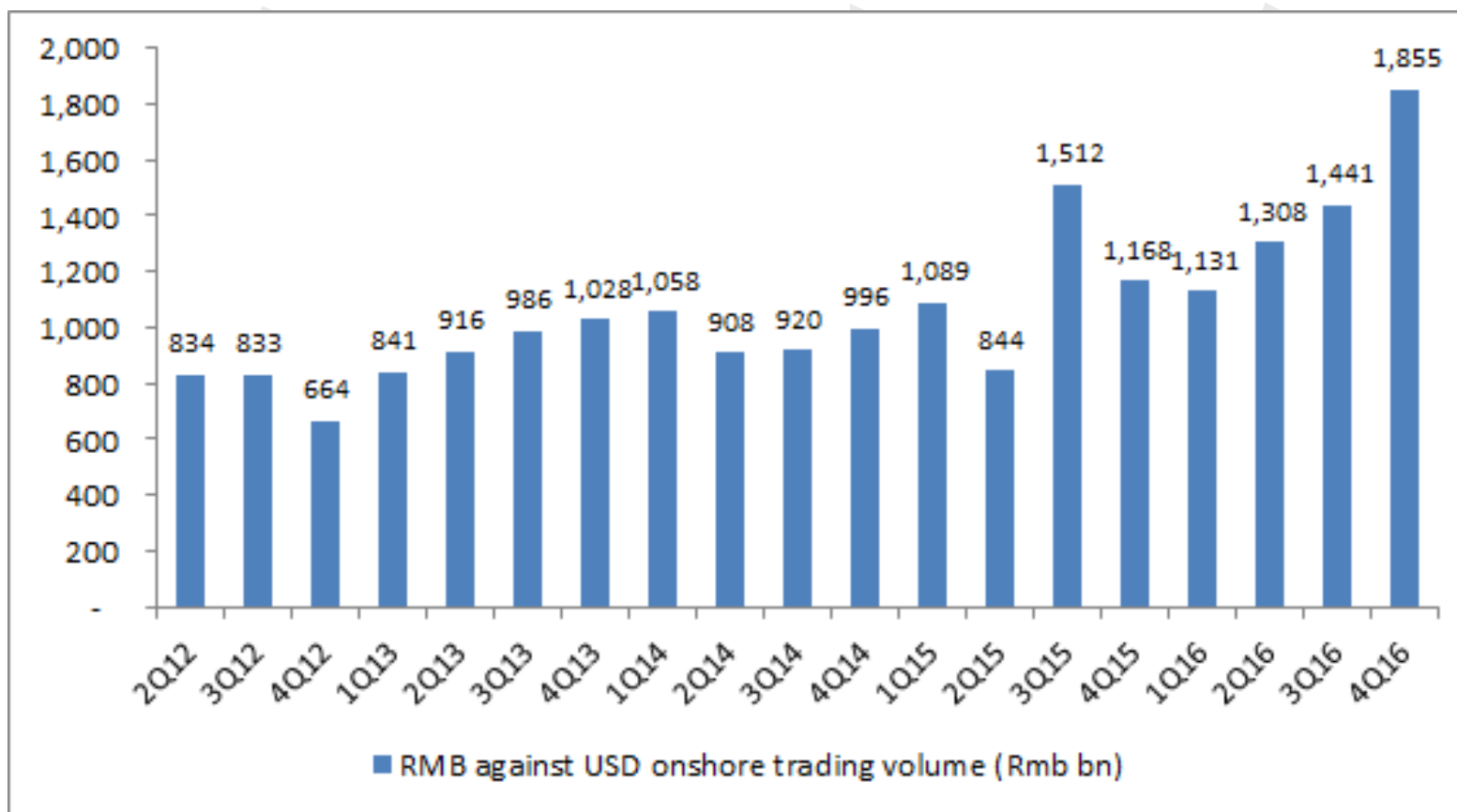
- Total bond market in U.S. is \$40 trillion (~260 trillion RMB).
- China bond market is now fairly balanced.



Source: Wind, SIFMA

- Global forex daily trading volume was \$5.3 trillion in 2013.
- On shore daily trading volume of RMB against USD is ~\$3 billion.

Quarterly Trading Volume – RMB against USD (on shore)



Source: Wind, Bank for International Settlements

# Largest A-share & U.S. Financial Companies

2017 vs. 2010

## Top 10 A-share Financial Stocks

Market Capitalization (Bn RMB)

2017 <sup>(1)</sup>	
ICBC	1,262
ABC	959
BOC	774
China Life	532
CMB	399
Ping An	392
SPDB	358
Industrial Bank	317
Minsheng Bank	267
BoCom	247

Source Capital IQ

2010	
ICBC	1,112
ABC	788
BOC	632
China Life	444
Ping An	269
CMB	226
SPDB	178
BoCom	163
Everbright Bank	160
Industrial Bank	144

## Top 10 United States Financial Stocks

Market Capitalization (Bn RMB)

2017 <sup>(1)</sup>	
Berkshire Hathaway	3,009
JPMorgan	2,293
Wells Fargo	2,056
Bank of America	1,759
Citigroup	1,173
Goldman Sachs	683
US Bancorp	658
Morgan Stanley	601
American Express	508
AIG	434

Source Capital IQ

2010	
Berkshire Hathaway	1,307
JPMorgan	1,098
Wells Fargo	1,072
Citigroup	906
Bank of America	887
Goldman Sachs	599
US Bancorp	341
American Express	341
Metlife	289
Morgan Stanley	271

### Note

1. Market data as of March 1, 2017

## Lessons Learned 2015 / 2016

1. August 2015 tested the stock market and the currency market.
2. Circuit breaker rules were introduced on January 4th, 2016.
  - 15-minute halt if the market drops 5%.
  - Another 7% drop closes the market for the day.
3. Monday January 4th, 2016 both circuit breakers tripped.
4. Thursday January 7th, 2016 both circuit breakers tripped again.
5. Circuit breakers abandoned and Chairman of CSRC Xiao Gang sacked.
6. New CSRC Chairman Liu Shiyu on March 12th, 2016: there will be no circuit breakers for the “next few years.”
7. 2016 Renaissance Securities granted a full license to set up a brokerage business in China.
8. 2016 CICC merges with CISC.
9. Circuit breakers in U.S. adopted in 1987 by Leo Melamed / John Phelan / Nick Brady.

## The Future

1. Convertible RMB on capital account in two years.
2. Market determined interest rates / developed treasury bond market / corporate bond market, open market operations manage monetary policy.
3. Foreign access to financial services market on wholly owned basis.
4. Develop institutional investors market for A-shares. There will be a day soon when all shares are just “global” shares.
5. Develop a real asset management industry.
6. Competitive securities firms with globally competitive business models.
7. Decide Glass Steagall or just no proprietary trading or open season.
8. Volatility curbs/circuit breakers / specified percentage declines / etc.
9. Efficient disclosure based IPO market.
10. Local venture capital and P/E industry.
11. State of the art financial tech industry.
12. China will move to a single regulator analogous to the British system in 2017.