

WHAT'S NEXT FOR CHINESE MARKETS?

WisdomTree ETFs
05/03/2017

Despite Q1's 6.9% growth rate in China, the 2017 target is 6.5%, a touch lower than the 6.7% GDP growth achieved in 2016. With these lower projections, should investors still be optimistic? Vania Pang of ICBC Credit Suisse Asset Management (International) Company Limited's Capital Markets and Investment Solutions, Index and Quantitative Investment team weighed in.

Pang: The softening growth target together with the goal of maintaining stability reflect the government's intention to rebalance the economy from credit-fueled growth to a more sustainable growth path.

Instead of pumping up economic activities by increasing credit supply, continuing structural reforms and expansionary [fiscal policy](#) are deployed. Encouraging improvement in [PMI](#) and [PPI](#) were found since Q4 2016 as a result of the structural reforms launched in 2015. Industrial enterprises' profits and revenue picked up significantly in January and February 2017, with 31.5% and 13.9% growth year over year, respectively. Both the profit margin and [return on assets \(ROA\)](#) grew while the [debt-to-asset ratio](#) lowered to 56.2% (2016: 56.8%).¹ Other policies such as "One Belt, One Road" and the recently announced Xiongan Special Economic Zone could boost the investment and demand in infrastructure, energy, construction and property in the medium term.

The [M2](#) and total social financing growth target are also at levels below that of 2016. What's your take on these numbers?

Pang: The total debt of China exceeds 250% of gross domestic product (GDP), which posed a threat to the financial system. Excessive borrowing could be curbed by lowering the M2 and social financial growth target. It is a clear step forward for risk control.

Controlling financial risks was set as the priority in the Central Economic Work Conference in December 2016. A "neutral and prudent" [monetary policy](#) is implemented to contain risk, deleverage and to deflate bubbles. The [PBoC](#) raised the medium-term lending facility and seven-day [reverse repo](#) for the third time in three months since the beginning of 2017.

The central bank has been cautious in managing [liquidity](#) through reducing money supply and adjusting the [short-term rates](#) instead of the benchmark rate in order to avoid adding burden to [corporates](#) with higher borrowing cost.

A lot has been said about upgrading the real economy through innovation. What does that mean and where will those impacts be felt most?

Pang: It means providing long-term support for [R&D](#), building infrastructure for science and technology and commercialization of new technology. Development of emerging industries such as artificial intelligence, new materials and new energy will also be accelerated this year.

Financial support is crucial in making the technological innovation and upgrading happen. On March 28, the PBoC said China will support the insurance companies to expand their scope to provide more low-cost and long-term funds for the manufacturers to upgrade. Furthermore, the government will provide monetary credit policy support for manufacturers

to modernize and expand overseas.²

The plan of upgrading China's manufacturing sector was first proposed by Premier Li Keqiang in 2015, known as "Made in China 2025." The country plans to develop smart manufacturing and build homegrown brands with both design and production capabilities that could compete against international rivals. The trend of increasing the application of information technology and automation would impact the manufacturing sector most and foster its evolution.

Looking at the next several months, what are some of the key events and risks that could potentially influence the markets?

Pang: China will host the first Belt and Road Summit in Beijing in May 2017. The Belt and Road initiative aims to achieve connectivity and economic integration to promote growth in the region. The interaction with other countries and takeaways from the summit are important in understanding China's influence on the world stage and what opportunities the initiative could bring to China.

In November, the 19th Party Congress will be held where a significant leadership reshuffle will occur, including major changes to the composition of the Politburo Standing Committee (PSC). The president and the new PSC may reassess the current development strategy and announce new policy direction. Attention should to be paid on how the transition of power and new policy direction may impact the political and economic environment of China.

¹Source: National Bureau of Statistics of China, as of 3/28/17.

²Source: "China expands insurers' funding role in manufacturing sector upgrades," Reuters, 3/28/17.

Important Risks Related to this Article

In this document, ICBC Credit Suisse refers to ICBC Credit Suisse Asset Management Co. Ltd. and its subsidiary, ICBC Credit Suisse Asset Management (International) Company Limited ("ICBCCSI"). ICBCCSI is a regulated entity under the Hong Kong Securities and Futures Commission.

No account has been taken of any person's investment objectives, financial situation or particular needs when preparing this document. This is not an offer to buy or sell, or a solicitation or incitement of offer to buy or sell, any particular security, strategy, investment product or services nor does this constitute investment advice or recommendation.

The views and opinions expressed in this document, which are subject to change without notice, are those of ICBC Credit Suisse and/or its affiliated companies at the time of publication. While we believe that the information is correct at the date of this presentation, no warranty of representation is given to this effect and no responsibility can be accepted by us to any intermediaries or end users for any action taken on the basis of this information. Some of the information contained herein including any expression of opinion or forecast has been obtained from or is based on sources believed by us to be reliable as at the date it is made, but is not guaranteed and we do not warrant nor do we accept liability as to adequacy, accuracy, reliability or completeness of such information. The information is given on the understanding that any person who acts upon it or otherwise changes his or her position in reliance thereon does so entirely at his or her own risk without liability on our part.

This material has not been reviewed by the Hong Kong Securities and Futures Commission. Issuer of this material: ICBC Credit Suisse Asset Management (International) Company Limited. This material shall be distributed in countries where it is permitted.

Investments focused in China increase the impact of events and developments associated with the region, which can adversely affect performance.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Purchasing Managers' Index (PMI) : An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction while 50 indicates no change.

Producer Price Index : weighted index of prices measured at the wholesale, or producer level.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Debt-to-Asset Ratio : a leverage ratio that defines the total amount of debt relative to assets. nbsp;.

M2 money supply : Contains all funds deposited in checking accounts as well as funds deposited in savings accounts and certificates of deposit. There are various ways to measure the money supply of an economy. This one is meant to broadly account for the majority of savings and checking accounts held by individuals and businesses across the economic landscape.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Reverse Repo Rate : Reverse repo rate is the rate of interest that banks get when they keep their surplus money with the RBI.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Short-term rates : the rate of interest on a debt instrument maturing in two years or less.

Corporate Credit : compensation associated with the risk of lending to a corporation.

Research and development (R&D) : the investigative activities a business conducts to improve existing products and procedures or to lead to the development of new products and procedures.