

Subject: Fw: Copper - positive momentum from China cap mkts reform
From: Tazia Smith <[REDACTED]>
Date: Mon, 12 May 2014 17:01:03 -0400
To: [REDACTED]
Cc: Vahe Stepanian <[REDACTED]>,
Paul Morris <[REDACTED]>

Rich-

Copper faded only slightly - 6875 vs. 6883 spot ref this morning (LPZ4 6836)
mid on Dec 7000 call is \$251.72 at the end of the day, vs. \$252/mt this
morning.
Thus Jeffrey's option mid is \$314,650 mid, vs. \$315,000 mid this morning.
Using same vol spread (0.6%) the EOD indicative bid \$299,448 vs. \$300,000
this
morning.

TDS

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----- Forwarded by Tazia Smith/db/dbcom on 05/12/2014 04:31 PM -----

From: Tazia Smith/db/-
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EFTA01468772

To:
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Cc: Vinit Sahnii [REDACTED] Nav Gupta [REDACTED]
[REDACTED], Paul Morris, Vahe
Stepanian [REDACTED]
[REDACTED]

Date: 05/12/2014 09:40
AM

Subject: Copper - positive momentum from China cap mkts
reform

Good Morning Jeffrey -

Your copper option is \$300,000 bid (-\$31,250 p/l), vs. ref of 6883. This is up from \$239,583 as of Friday. Research and desk commentary is below.

Bid as of 9:20am 5/12, 3m spot ref 6883, \$240/mt. This compares to mid of \$252/mt with 0 vol, \$240 represents 0.6% vol (0.75% standard, tightened it). Vega on the option Vega = \$20.27/mt. Source: DB Commodities Trading, 5/12/14

As you know, China announced its New National Nine Rules" (in contrast to the earlier "National Nine Rules" issued in 2004), which outline meaningful changes to increase open-ness in Capital Markets out of China on 5/9. DB research summary below, bottomline takeaway: "Under such endeavor, China capital markets will be much more diverse, structured and transparent in the future, and will a) mobilize massive private savings; b) encourage inward portfolio flows; and c) lift market sentiment and valuation."

From Matt's team:

"Copper is a popular choice for use as collateral in financing trades. Now China is proposing that local governments would be able to issue bonds rather than rely on, among other things, using copper as collateral for financing trades. Indeed it is expected that use of SPVs will be come increasingly

difficult. This should be bearish for copper after the regulation is passed. Meanwhile, we think that before the regulation is passed, people are trying to secure as much copper-backed financing as they can, which has resulted in a scramble for copper, and a spike in price. I would further qualify and say that the news announcement has not resulted in a scramble for physical copper yet, but an expectation for the scramble, which itself is sufficient to spike up the price. "

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----- Forwarded by Tazia Smith/db/dbcom on 05/12/2014 09:22 AM -----

From: Amy Tan/db/-


To:

Date: 05/12/2014 06:08
AM

Subject: DB China unveils agenda for comprehensive capital market reform

Deutsche Bank - Fixed Income
Research

EFTA01468774

Data Flash - China unveils agenda for comprehensive capital market reform

11 May 2014 (2 pages/ 81 kb)

Download the complete report:

http://pull.db-gmresearch.com/p/1797-555B/51224393/-DB_DataFlash_2014-05-11_09

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On May 9, the State Council of China issued the “Guiding Principles for the Healthy Development of Capital Markets”, which layouts the detailed roadmaps of China’s future capital market development in nine major areas, including overall requirements, stock market, bond market, private equity, futures market, the competitiveness of the securities and futures sector, capital market openness, financial risks and market regulation. The policy is also referred as the “New National Nine Rules”, in contrast to the earlier “National Nine Rules” issued in 2004. Under the nine broad guidelines, details on the directions and goals of reforms for thirty-three areas are specified, signaling the unprecedented resolution of Chinese government to push forward the comprehensive capital market reforms. It is government’s aim to establish multi-layer capital markets, enlarge corporate and household investment channel, encourage efficient capital allocation as well as promote the economic restructuring. From macroeconomic perspective, we highlight the below reforms:

Further opening up China's capital markets

Following the recent announcement of Shanghai-Hong Kong Stock Connect Scheme

on Apr 10, the Guideline again emphasizes on opening up the capital markets,

with an aim to facilitate the cross-border investment and financing

activities. Both inward and outward investment quotas under QFII and QDII

programs will be increased. The shareholding limits for foreign capital in

listcos will be relaxed. Domestic capital market will be steadily opened up

for the direct investment of foreign individuals, and the domestic

individuals investing in foreign capital market will be orderly pushed

forward. Moreover, Xiao Gang, chairman of CSRC said this March that the

potential QFII expansion is huge, and he mentioned that CSRC has been working

on the QFII tax policy with other government agencies, as part of the effort

to help facilitate QFII expansion this year.

We believed that this proposal will help inject more liquidity into China A

share market, as well as expedite China's progresses in capital account

liberalization in a boarder sense, including a) further relaxing the foreign

investment management like holding period and remittance; b) implementing and

expanding the Stock Connect scheme (see our Apr 11 note "A leap in China's

efforts to liberalize capital accounts"); c) establishing capital account

convertibility in SHFTZ and developing a domestic RMB offshore market;

d) permitting cross-border RMB remittances by individuals and broadening channels for offshore banks to borrow/lend RMB in domestic market.

Promoting direct-financing

To develop a multi-layer capital market with proper structure, complete function and effective regulation by 2020, the Guideline highlighted the development of direct financing, which includes three major areas of bond market, equity market and private equity.

On bond market, the Guideline aimed to a) develop a scheme of local government bond issuance; 2) enrich bond products suitable for various investors; 3) develop bond types for SMEs; 4) connect different bond exchanges and 5) improve issuance procedure, rating mechanism as well as 6) promote asset securitization. To develop a multi-layered equity market and cultivate a healthy private equity market are other two major areas in promoting the direct-financing.

In A share stock market, the approval-based stock issuance system will be replaced by a registration-based one, and such move will be accompanied by the new IPOs governing rules published by the Securities Association of China the same day of the Guideline. Regulators will crackdown insider trading, enhance information disclosure, improve delisting regime, and support pension funds investments into capital markets by preferential tax policies.

The State Council also said it will foster the market for private equity funds and venture capital funds. Going forward, the placement of private equity won't be subjected to administrative approval and funds of private equity and venture capital will be encouraged to support SMEs and newly-emerging industries.

We believe that such reforms will substantially help to improve financial stability and capital allocation in China. According to CSRC, 42.3% of financing in China belonged to the direct-financing category by end of 2012, lower than that of developed economies like the US (87.2%), Japan (74.4%), Germany (69.2%) and emerging markets like India (66.7%) and Indonesia (66.3%). As a result, risks are highly concentrated in banking system. And financing is expensive and hard to access for small borrowers. We expect that the reforms of promoting direct-financing will help enrich the investment channels for individuals and corporate, disperse risk in financial system, meet financing needs of SMEs and lower the funding cost for them.

Under such endeavor, China capital markets will be much more diverse, structured and transparent in the future, and will a) mobilize massive private savings; b) encourage inward portfolio flows; and c) lift market sentiment and valuation.

Promoting mixed ownership

reform

Echoing the on-going SOE reform, the statement said to “actively” develop a mixed ownership economy, to improve the modern enterprise system and corporate governance structure, and to promote equity transfer. Specifically, it encouraged the employee stock ownership as well as M&A among companies of different ownership. Entry barrier and acquisition restriction on private companies will be further removed.

In our view, the mixed ownership reform is the key for China reform package on corporate level, which will help enhance SOEs’ performance, unleash potential of private companies, better allocate resources as well as boost economic potential growth. According to our calculation, by Feb 2014, 62% of all Chinese listcos’ market cap was SOEs either central or local ones, while private-owned only accounted for 38%. Among listed SOEs, 54% operated in monopolized sectors like oil & gas, banking, telecom and transportation, 42% operated in competitive sectors like food & beverage, auto, equipment, etc. Going forward, we expect 1) more monopolized central SOEs, in oil & gas, telecom and transportation, to open up for private capital investment with minority shares; 2) large chunk of local SOE shares in competitive sectors like F&B, apparel, electrics and healthcare will be taken over by private capitals; 3) more local SOEs assets to be listed or injected into listcos. More details of this reform will be elaborated in the upcoming SOE reform plan.

Managing a balance between innovation, development and financial risk

prevention

While encouraging the innovation and modernization in China capital market,

the authorities still keep the financial stability as paramount.

Risk

control, monitoring, reporting and disposal will go side by side with

financial market evolution. And most importantly, the bottom line of "no

systemic or regional risk" will be firmly held, as per the Guideline.

The

policy also requires good management on the relationships of market vs.

government, and investors at their own risk vs. investor protection.

Investors should have a rational investment principle, awareness of risks,

responsible for their actions and self-protection ability. Regulators will

provide investors, especially small investors, the rights to know, to

participate, to appeal and to supervise.

The statement is in line with the "orderly default" concept proposed by

regulators in regard of trust market and other shadow banking market risk.

Lin Li



Audrey Shi

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