

The "Who Knows What Evil lurks in the Shadows? Dr. Evil does." Edition

Why alien abductions happen only at night

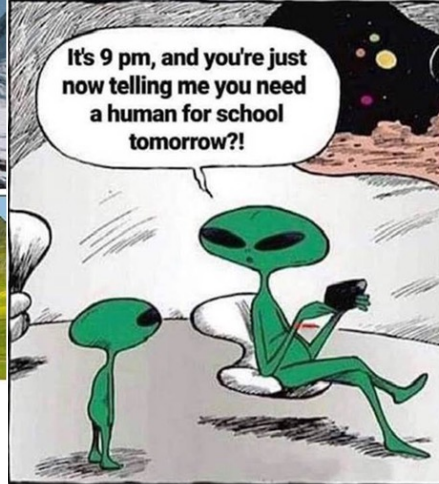


Greenland

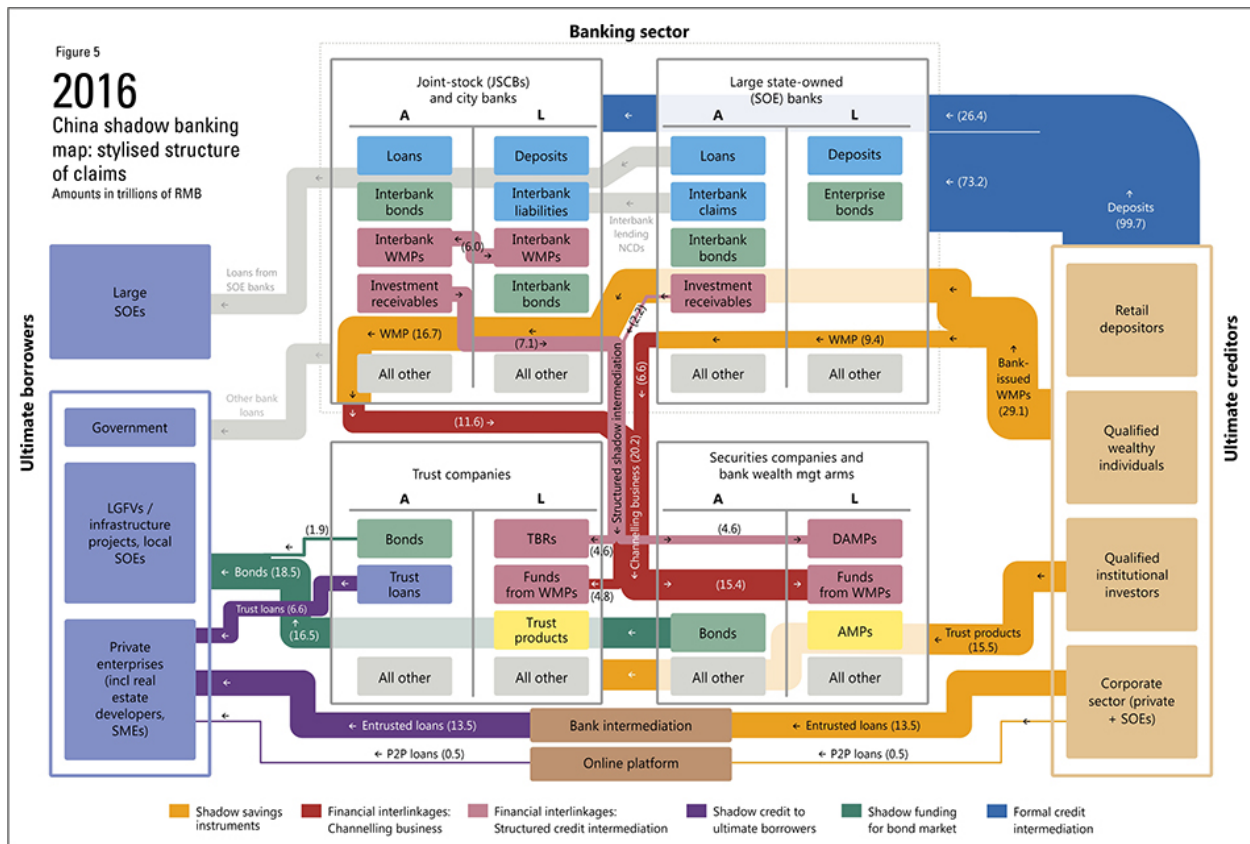


Iceland

This is why I have trust issues



Obligatory scary graphic...money flows from right to left. Come on, its Chinese, it's got to be complicated

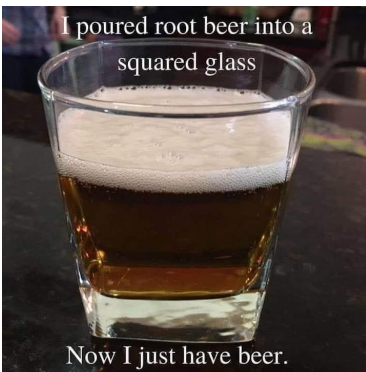




What is Chinese shadow banking and why should you care? (No it doesn't involve shadow puppets.) Shadow banking is credit intermediation (i.e. lending... kind of) and credit creation involving entities and activities outside the regular banking system. **Why outside the banking system?** The Chinese banking system is dominated by State Owned Enterprises (SOEs) and tightly regulated. Lots of companies-mostly small, mostly private- cannot get loans. [Sorry comrade no capital for you, capital only for State communists! ...Huh? Wait a minute. ♪ *Capital for Communists* ♪ Sounds like a song.] Pretty much none of this paper is on any bank's books, even if they are the intermediary. **What fuels shadow banking?** On the depositor side, the mandatory bank deposit interest rate is 1.5%. Pretty lame. Yield hungry Chinese investors are looking for something "safe", i.e. has a bank somewhere in the mix with a bank's implicit guarantees, etc., that offers a higher yield. On the creditor side, businesses need capital to expand, fuel growth. Unmet demand meet unmet supply. **Why does the PRC care?** Supply is meeting demand and growth is the result. Centralized planners of the communist State don't like anything, particularly money, outside their control. Also shadow banking arbitrages PRC banking regulations. Plus it puts enormous leverage into the market and facilitates interbank contagion.

So what is it, exactly? Shadow banking is, in bulk, made up of effectively 3 products (**the dark yellow squiggles in the graphic**): 1) **Wealth Management Products** (WMP) which are high-yielding certificates of deposit offered by banks, brokerages and other financial firms that typically are backed by off-balance sheet assets such as loans to Local Government Financing Vehicles (LGFV), collateralized loans, mortgages or other guarantees. By moving the assets off-balance sheet, the bank avoids loan-to-deposit reserve requirements by keeping the deposit on the books but moving the 'loan' off-balance sheet. About 30% of WMPs are offered by banks. 2) **Entrusted loans** are a way for cash-rich companies to lend to other firms by using banks as middlemen for legal reasons. Entrusted loans allow SOEs to arbitrage PRC banking regulations because they can borrow cheaply at volume from State owned banks and then relend the funds they borrow through entrusted loans at higher rates to SME (Small to Medium Enterprises) using banks as intermediaries. Entrusted loans are part of the interbank market (bank to bank) because the originating bank is typically an 'agent' for the corporation lending its cash via entrusted loan to a second bank that houses the creditor (LGFV, small enterprise, etc.) actually signing for and using the proceeds of the entrusted loan. 3) Lastly, there are "**Trust Loans**" which are loans provided by non-bank trust companies, which invest money on behalf of wealthy individuals by buying rights to mortgages, pension plans, etc., bundling sub-investment grade obligations into a security and claiming that because it's a portfolio of crap, the portfolio itself is investment grade (just like the US's 2008 financial collapse's Collateralized Mortgage Obligations - CMOs) and then selling the security to yield hungry investors through banks.

My eight year old just asked me if Bingo is the name of the farmer or the dog and now I am questioning everything I thought I knew about life.



I poured root beer into a squared glass

Now I just have beer.

Why are the PRC/CCP authorities trying to stomp out this financial dumpster fire? On the regulatory side, it screws their monetary policy, blows up their financial risk management and creates a ton of money out of thin air. (Just like our Federal Reserve). On the ideological side, communist states do not suffer successful capitalists for long. (Anybody seen Jack Ma recently? Ant Financial?) They need entrepreneurial drive and innovation to fuel growth but they cannot abide the competition. The vener of communist social contracts from Lenin to Xi is rapid industrialization and rapid growth. The substance of the social contract is, as Mao put it in his 1938 speech "Problems of War and Strategy", "Political power grows out of the barrel of a gun." (Chinese: 枪杆子里面出政权). When 1 (entrepreneurial growth) gets in the way of 2 (political power) expect 3 – a stomping of epic proportions, which has started and which Dr. Evil expects will rapidly accelerate and geometrically spread.

Why should you care? Well, there's this little ol' thing call Great Power Competition. Global hegemony anyone? More immediately, expect and plan for truly schizophrenic behavior from the communist

totalitarians (**really...is there any other kind of communist?**). They'll be welcoming and inviting to foreign corporations. They need those corporations to invest in property, plant and equipment in China and bring foreign dollars into the Middle Kingdom. Someone's got to sustain growth, to give some meaning to the "Dual Circulation" fantasy the CCP is peddling both at home and abroad, and be willing to kowtow publicly at the emperors' feet. At the same time, Chinese capitalists will be frantically moving money out, while **Blackstone, the world's largest asset manager and deeply embedded in the incoming administration will be moving money in. Expect administration easing, if not overturning, of investment restrictions on PRC companies.** Regardless of the welcome, the CCP has to ramp up nationalism by intensifying South and East China Sea malign activities (**Hello Senkaku Islands.**) because growth will be slowing and overt aspects of the social contract will be fraying. Foreign direct investment from the PRC into other countries, OBOR, will slow significantly. It's happening now. However, the PRC will attempt to maneuver both the US and EU into paying off those loans because the PRC needs the cash, now.



Poppycock you say! Why would the US and EU pay off PRC loans to developing countries? Have you ever seen the late night ads from Save the Children? The ones that say "Your eighty cents a day will help little Nkomo, or Jose, or Wang get good food and clean water? Replace "the children" with Ecuador, Central African Republic or Tajikistan. Well, it's happening now ("US development bank strikes deal to help Ecuador pay China loans": Financial Times: Demetri Sevastopulo, Gideon Long, 14 JAN 2021)

What other disasters of epic proportions will the PRC get into? Time will tell. Bottom line, get ready for a rocky ride.

[China Regulators Intervene at Another Troubled Shadow Lender](#): Bloomberg News: Tue, 22 December 2020

“Chinese authorities will move to strengthen management of the troubled Sichuan Trust Co. after its shareholders allegedly **refused to return misappropriated funds**, (*can I do that?*) marking another instance where risks in the nation’s \$3.2 trillion trust sector have forced regulators to step in. The latest move comes as China’s 68 trust firms, a key alternative funding source for weaker borrowers unable to get regular bank loans, struggle to cope with **climbing defaults**. Shanghai-listed Anxin Trust Co. said in March the government had been involved in its restructuring plan to avoid triggering “systemic financial risks.” In July, the CBIRC assumed control of New Times Trust Co. and New China Trust Co., along with seven other financial firms linked to Tomorrow Group.”



Comrades, let's resolutely march into the new year.

[China's \\$13tn shadow banking sector gets clearer definition](#): WU XIAOMENG and DENISE JIA, Caixin December 7, 2020

China's top banking regulator for the first time defined the criteria, scope and classification of the country's nearly **\$13 trillion shadow banking sector** in a continuing effort to defuse systemic financial risks as the country expands credit to support recovery from the pandemic. Shadow banking has become a hotbed of hidden credit growth and nonperforming assets, which pose a serious threat to financial security and stability.

I have more minions than Dr. Evil

The report also warned that as China's shadow banking industry has been built up over time, many financial institutions still have **large stocks of off-balance sheet assets**, and the promise of "rigid payment" and various kinds of implicit guarantees for financial products have not been eliminated.

Under the report's broad definition, shadow banking includes investments by interbank special purpose vehicles, entrusted loans, capital investment trusts, trust loans, bank asset management products, nonequity mutual funds, securities asset management products, insurance asset management products, asset securitization, nonequity private funds, online peer-to-peer lending, financial leasing companies, microfinance loans, commercial factoring companies, finance guarantee companies, consumer loans issued by unlicensed institutions, creditors' rights financing plans provided by local exchanges and structured finance products.

Notably, the \$13 trillion figure does not include consumer loans issued by unlicensed institutions (**ANT Financial**), creditors' rights financing plans provided by local exchanges and structured finance products as the data are not available.



[China orders Alibaba founder Jack Ma to break up](#)

[fintech empire](#): Guardian: 28 DEC 2020:

“Authorities in Beijing, who had on Christmas Eve ordered an investigation into allegations of “monopolistic practices” by Ma’s online retail giant, have now ordered his financial technology company Ant Group to scale back its operations. Pan Gongsheng, a deputy governor of China’s central bank, [said](#) Ant’s corporate governance was “not sound” and ordered it to “return to its origins” as a payment services provider.” **Not a consumer lender, not a bank**

Just for consideration, Mad Max was set in 2021... is it socially acceptable to dress like this straight away, or do we give it a few weeks?





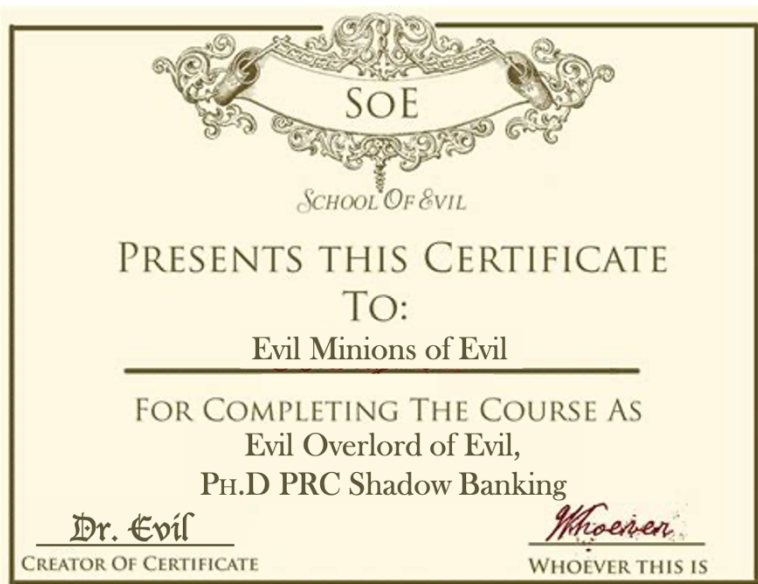
Can you say "Out Maneuvered" I knew you could!

[EU hails China deal despite risk of conflict with Biden White House](#): Financial Times (paywall): Jim Brunsten, Mehreen Khan and Michael Peel: 31 DEC 2020:

"The EU and China have unveiled a long-awaited investment treaty that aims to open up lucrative corporate opportunities but which risks antagonizing Joe Biden's incoming US administration. The accord was confirmed yesterday by Xi Jinping, China's president, and EU leaders, including Ursula von der Leyen, European Commission president, bringing seven years of often difficult negotiations to a close." **Sorry Joe, BMW and Mercedes sell about a third of their total production in China. Germany and EU aren't going to upset the apple cart.**

[China's Financial Opening Accelerates](#): Peterson Institute – Policy Brief: Nicholas R. Lardy and Tianlei Huang: December 2020 **Brought to you by the same idiots who off-shored America's heavy industries over the last 25 years.**

Congratulations Evil Minions of Evil, you've graduated the PRC Shadow Banking Course....of Evil. Be sure to submit it for educational credits on your annual review



Dr. Evil would like to thanks the folks at Joint Special Operations University, Dave and Charlie, for putting on a fabulous China Applied Research Series —The CCP

And Illegal, Unreported, And Unregulated Fishing In Southeast Asia. A good time was had by all evil minions. Also congratulations to Joe J who finally came to the dark side.



As always, if you are the distro and want off, please let me know. Or, if you are not on the distro and want on, please let me know. All opinions contained here within are solely the fevered imagination of Dr. Evil....otherwise known as Dave Katz, J35TNT USSOCOM



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