

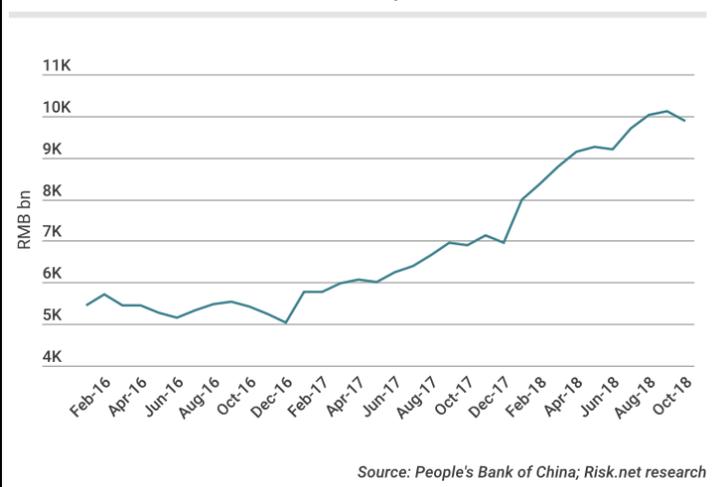
Is the pendulum swinging back to WM products in China?

[China structured deposits falter after shadow banking climbdown - Risk.net 07 Jan 2019](#)

In late 2017 Chinese authorities clamped down on wealth management products, amid fears that banks were using too many of these assets for illiquid loans held off-balance sheet, which offered investors little protection against default. The restrictions were part of a crackdown on unregulated shadow banking activity.

As a result, structured deposits volume grew approximately 65% in the first nine months of 2018. Structured deposits are basically a savings account, combined with a higher-yielding investment element. In other countries the use of the term ‘structured deposits’ is not allowed because of the inference it is a safe and stable product. Chinese Banks use the product as a reliable funding source for corporate loans, which they had previously funded partly with wealth management products.

1. Total Chinese structured deposits



But an easing of restrictions on wealth management products tips market away from structured deposits and back towards other WM offerings. In the last few months local structurers say that growth has petered out and is now turning negative even. This sentiment was confirmed in some way by the publishing of official figures for October, which shows Structured deposit volumes fell by 237 billion yuan (\$35 billion) from the previous month, according to recent data from the People’s Bank of China. The market’s first significant fall of 2018 (see chart above showing the recent trend in volumes).

Other WM management offerings are more attractive to clients because they offer leveraging and do not have to be fully funded. Obviously, this is not as good for banks in regard to liquidity provision, but they are able to make more profits because of the increase in derivative turnover for the same investment from the client.

This increases the risk inherent in the market as well, but the Chinese authorities are more focused in avoiding any negative effect on economic activity, especially with external negative factors that are impacting the Chinese economy.

So, knowing the ins and outs of WM products and Structured products is key in China, as it is anywhere else in the Asian region. As always it starts with knowing the fundamentals -

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