

China Bulletin: Market View



The 6th plenary session of the 19th Central Committee of the Chinese Communist Party has concluded with the issuance of its third resolution in history (1945 and 1981). The resolution is supposed to mark a whole new era, confirming the shift of policy focus from economic growth to a more balanced economic policy, including societal development, income equality and sustainable growth. One of the most distinct features of future policies is that leading players in each sector may be less favoured compared with previous years. Thus, implying an improved appetite for smaller cap stocks. The latest policy initiative includes the set-up of the Beijing Exchange, which is dedicated to solving the financing problems facing small and medium enterprises.

A further outcome is that the PBoC has created a new monetary policy tool: providing funding to banks who lend to those engaging in carbon emission reductions at a lower cost than current monetary policy tools.

The move will surely encourage the development of new energy utilization and simultaneously lower the funding cost of banks. As the risk stemming from the housing sector looks controllable, banks should see less downward pressure going forward, yet may still suffer from investors' poor appetite. Additionally, new energy names are expected to continue to outperform the market upon more policy tailwinds and strong growth of earnings.

Policy grip on the real estate sector has also eased marginally. However, policy makers are trying their utmost to avoid creating the impression of restarting easing. The policy move may not completely ease concerns on the real estate sector as household debt skyrockets, yet may offer a certain comfort to home buyers and construction companies. We remain very cautious on property developers as the easing may not be sufficient, and policy makers may not even intend to aid the sector. This also constitutes the most significant risk to fundamental growth in future quarters, which may only be partially offset by expected fiscal spending on infrastructure.

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