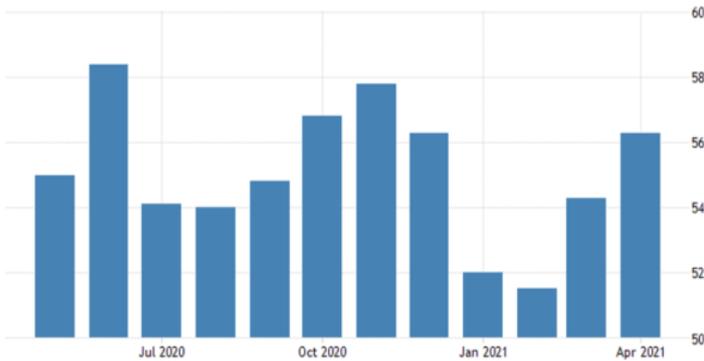


China Bulletin: Market View

Caixin China General Services PMI



Source: TradingEconomics.com

Latest evidence confirms a gradual recovery in China's service sector as well as robust external demand. The Labor Day holiday in early May is an important window to monitor China's service sector. This year's data showed tourism growing 3.2% versus the comparable pre-pandemic period. Further, the Caixin China General Services PMI data release for April reached a 4-month high of 56.3, indicating a strong expansion in output. April export and import data points to a healthy external sector, which remains the most significant source of uncertainty in the coming quarters. The Politburo meeting at the end of April reiterated the previous policy stance and delivered no surprises to the market. The most influential implication from the deteriorating China-Australia relationship is the rising steel price, as steel-makers in China are seeing less excess capacity and have been able to pass through the higher cost of importing iron ore. The excess capacity, as in previous reports, has been cut substantially in the last 5 years and poses a less critical problem at its current stage.

China's equity market has been less eventful than its economic data, with most sectors trading lower in the last fortnight. Commercial banks outperformed the market due to better-than-expected earnings results and their outperformance is likely to continue in our view. The Healthcare sector remains strong upon the resurgence of the Covid-19 pandemic in India and is expected to grow at an impressive rate along with the growing ageing population in China. Cyclical sectors, such as steel-makers, coal miners and non-ferrous metal producers, are seeing increasing profits and improved valuations, delivering remarkable performance recently. However, we hold a cautious stance with regards to companies in this sector due to their notoriously weak profitability over the last decade. Further, we expect an increase in costs of production associated with developing more effective environmental protection measures, as requested by the carbon neutrality policy.

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