

China Bulletin: Market View

Financial markets experienced a volatile week, motivated by signals of a strong recovery, but also by a resurgence of Covid-19 cases in the US. Overall, volatility is expected to remain high and may go even higher, amid tremendous uncertainty arising from the pandemic, the US presidential election and probable re-escalation of the US-China standoff. Yet China's equity and bond markets both currently deliver an attractive risk-adjusted return, with CNY depreciation being the most notable risk. The depreciation pressure, stemming from the imbalance between a stable recovery of the domestic market and sluggish levels of external demand, will be limited given the recent relatively high levels of depreciation and cautious monetary policy.

Economic Policy

China's policy makers remain vigilant, as the Finance Ministry warns local authorities about the debt problem following stimulus and PBoC withdraws its support for an extremely cheap funding market. The expectation of a massive stimulus through the housing sector is waning. Policy is set to remain focused on the long-term goal of cultivating a mature domestic market and will likely shrug off any short-term pressures.

Economic Data

Data released on June 10th confirmed receding inflationary pressure and a recovery in financing demand, allowing more flexibility to PBoC. The central bank is now in "wait and see" mode, with an aim of saving some tools of economic stimulus to help cope with higher uncertainty in 20H2.

Equity Market

Consensus is lacking and headline news dominates equity market sentiment. It is safer to hold stable names with fair pricing, like utilities, and names benefitting from capital market reforms, like non-bank financial firms. If China's equity market retreats further, it will be a good opportunity to increase exposure.

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