

China Bulletin: Market View

A newly emerged cluster of Covid-19 cases in Beijing spurred concern of a second wave and how that might impact on the economy. The situation remains under control with everyone more vigilant and authorities taking very decisive action upon initial report. Large-scale testing and a targeted lock-down have been implemented in the hope that this outbreak can be contained before the end of June. The impact should be limited to Beijing and is unlikely to spread across the country or cause a meaningful downturn.

Economic Policy

Policy is shifting focus to the fiscal side with data confirming that growth is gaining momentum. The first offer of special CGBs pushed yields higher in bond markets even after the State Council called for lower interest rates by cutting the required reserve ratio and PBoC lowered the 14-day funding rate. Also, policy makers said that the financial sector, mainly banks, will forego 1.5 trillion CNY profits to support the economy, which should be regarded as a fiscal policy given that the Finance Ministry owns the majority of large banks.

Now signals from policy are confusing, implying policy makers' intention to strike a delicate balance between fostering employment and avoiding a massive build-up of debt. Though US-China relations are stable, sluggish global demand still imposes a significant external uncertainty and growth in 20H2 is not as rosy as

current data suggests. Clashes on the China-India border are under the spotlight recently but the possibility of escalation into armed conflict is still relatively low.

Equity Market

The ChiNext index continues to outperform as poor bank performance has dragged other major indices down. The ChiNext index benefits from its overweight on the healthcare and information technology sectors, and from the expectation of domestic substitution given the increasingly challenging availability of some crucial components and technology from abroad. This expectation, in our view, has been overstated in terms of current market pricing given that the trend is only expected to complete in the long-term. We will recommend a cautious stance on both healthcare and technology names, and overweighting names with fair pricing and a decent dividend. Non-bank financial firms are still preferred but banks are worth watching for the decline in profits to be fully priced in.

This document is issued by China Post Global (UK) Limited ("China Post Global") acting through its offices at 75 King William Street, London EC4N 7BE and for the purposes of Directive 2014/65/EU has not been prepared in accordance with the legal and regulatory requirements to promote the independence of research. This document has been prepared for information purposes only. It shall not be construed as, and does not form part of an offer, nor invitation to offer, nor a solicitation or recommendation to enter into any transaction or an offer to sell or a solicitation to buy any security or other financial instrument. No representation, warranty or assurance of any kind, express or implied, is made as to the accuracy or completeness of the information contained herein and China Post Global and each of its affiliates disclaim all liability for any use you or any other party may make of the contents of this document. The contents of this document are subject to change without notice and China Post Global does not accept any obligation to any recipient to update or correct any such information. China Post Global (UK) Limited is authorised and regulated by the Financial Conduct Authority. This document is not for distribution in the U.S. or to U.S. persons. This document is directed at Institutional Investors only. This communication is exclusively directed and available to Institutional Investors as defined by the 2014/65/EU Directive on markets in financial instruments acting for their own account and categorised as eligible counterparties or professional clients. This communication is not directed at retail clients. It should not be distributed to or be relied on by retail clients in any circumstances. For the UK, institutional investors ("Institutional Investors") are Professional Clients as defined by the FCA. Calls may be recorded. This document is confidential and not to be communicated to any third party or copied in whole or in part, without the prior written consent of China Post Global. This communication contains the views, opinions and recommendations of China Post Global. This material is based on current public information that we consider reliable, but we do not represent it as accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. There can be no assurance that future results or events will be consistent with any opinions, forecasts or estimates contained in this document. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance.

 2nd Floor | 75 King William Street
London EC4N 7BE

 +44 203 617 5260

 marketaccess@chinapostglobal.co.uk

 www.chinapostglobal.com

