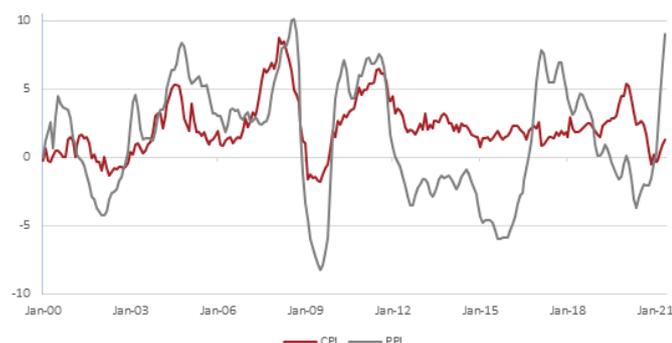


China Bulletin: Market View

Chinese Consumer and Producer Prices Indices



China's equity market was shocked by the Fed's FOMC and a divergence has appeared among sectors. The correction started on June 16th, before the meeting had taken place, while only a few sectors have bounced back since. Semi-conductor manufacturers, new energy names and software suppliers are obvious winners, though all are now facing overstretched valuations and high expected growth, which could leave their share price quite vulnerable in a tightening monetary environment.

The Healthcare sector is in a stronger position, as its valuations are much more consistent with the industry's expected growth levels. Commercial banks should benefit from a tighter monetary policy, due to better asset quality and wider interest rate margins. Investment banks traded lower due to the less optimistic outlook for the equity market, though their valuations are rather attractive. Cyclical names generally underperformed over the last fortnight, resulting from the crackdown on a skyrocketing commodity market. We remain cautious about the

overall equity market in 21H2, yet certain sectors do offer a decent risk reward. We still prefer Commercial banks and the Healthcare sector, and recommend a low volatility portfolio.

China's Producer Price Index rose to 9% in May, close to its all-time highs. This reading doesn't, and shouldn't, cause any alarm as the inflation pressure in China remains transitory and PBoC is unlikely to adjust its stance in response to rising prices. Economic data shows that the recovery continues at a slower pace, yet the surveyed unemployment rate has decreased to its pre-pandemic level, reducing the necessity for a policy reaction if growth slows. In fact, policymakers are consistently withdrawing supportive policies and warning against the shock from tightening external conditions. A slower growth rate in 21Q4 to 22H1 is anticipated by policymakers and a drastic shift in policy is not expected as long as the two most crucial indicators remain robust - namely the surveyed unemployment rate and fixed asset investment growth in the high-end manufacturing sector.

China's bond market remains uneventful, as 10Y CGBs trade sideways within a range of 20bps. The Credit market has been surprisingly tranquil after central and local governments realised the importance of capital market rules. Heavy debt burden is a structural problem, yet it is the ambiguity between government debt and SOE debt that is causing the widespread concern over the problem. A clear path to solve the problem is still absent and worth watching.

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

☎ +44 203 617 5260

✉ marketaccess@chinapostglobal.co.uk

🌐 www.chinapostglobal.com

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



China Post Global



Market Access
Exchange Traded Funds