China Bulletin: Market View

The latest politburo meeting statement, unusually announced in trading hours on Apr 29th, delivered a very positive signal in responding to recent doubts and speculation surrounding a growth slowdown and pandemic containment. China's top policy making body made very clear that the target of 5.5% GDP growth is critical and the fiscal side must step up support. Mainly through spending on infrastructure investment and on aid to those suffering most from the pandemic. Disruptions to the supply chain must be avoided, especially logistics. Another notable point was the politburo's encouragement to overshoot the policy target, with the aim of rectifying over-pessimistic expectations. Fiscal policy was restricted in 2021 and is now left with ample policy room to reverse the downturn.

Furthermore, the statement draws a periodical conclusion to the heated debate about the containment policy since the uncontrollable outbreak of Omicron in Shanghai. Based on the experience of containing the pandemic in other parts of China, policy makers determine that the most suitable strategy is to continue current policy. This means it is neither possible to completely remove the outbreak nor viable to abolish the containment measures. While the best practice facing Omicron is to maintain the scale of testing for the virus, and to respond more swiftly once cases are detected. We therefore still cannot expect an opening-up in the near future.

More positively, policy tone has improved regarding internet platform companies. The politburo confirmed the end of China's regulatory crackdown which began last year. That crackdown is still weighing down market sentiment significantly and making China's fastest growing sector unattractive to investors, both domestic and foreign. We can safely say that the regulatory framework on this new economic sector is by and large completed. We remain optimistic on the sector given the fair valuations and strong fundamentals.

In relation to the housing market, it is more complicated than other parts of the economy. The imbalance between cities may dilute the overall effect of any loosening policy, into the combination of trivial growth contribution and rising housing prices. Consequently, policy attitude is friendlier than before. It remains paramount how cities deploy the policy.

In summary, the statement and the very common timing of a midday announcement deliver very decisive and accommodative signals. They lay out the policy baseline for at least the next two quarters. Considering the now-attractive valuations and still solid long-term growth outlook, we would recommend a more optimistic view on the Chinese equity market.

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