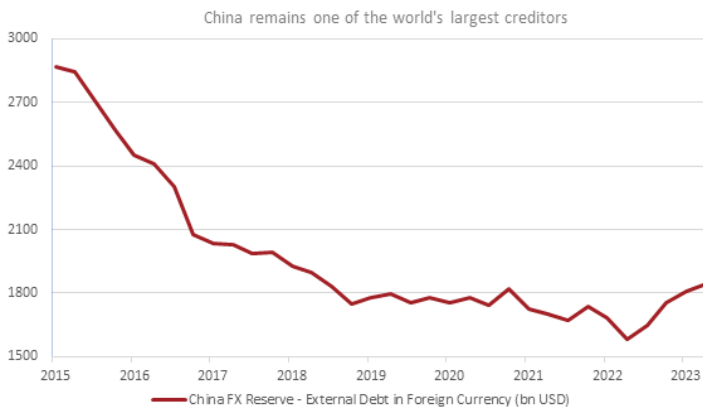


China Bulletin: Market View



Moody's recent decision to revise China's rating outlook to negative has sent ripples through the onshore equity market. However, the true impact of this move may be less significant than initially feared, as China stands as one of the world's largest creditors. Moody's statement shines a spotlight on the mounting pressure on China's fiscal health, a consequence of efforts to address debt risks linked to local authorities, as well as the ongoing structural downsizing of the property sector and its implications for the broader economy. As we have previously stated, dismantling local governments' accumulation of implicit debt, through restructuring and conversion into explicit debt, is imperative for long-term fiscal sustainability and to mitigate systemic risks. While banks may experience adverse effects on net interest margins and profitability, they can anticipate an improvement in asset quality, potentially elevating the sector's valuation from its current state of extreme undervaluation.

China's downward shift of potential growth, frequently cited as a prominent factor weighing on market sentiment, is exacerbated by the ongoing structural transition. Indeed, a structurally smaller

sector, an aging population, and a shrinking labor force collectively contribute to a long-term growth reduction. However, the recent slowdown is predominantly attributed to the slump in housing investment. The annual contribution of the real estate sector to nominal growth has declined to -1.5% over the past eight quarters, down from 0.8% during the 2016-2020 period when the economy expanded by 5.6% and 8.0%, respectively. Considering the spillover effects and the shock of the pandemic, economic data does not substantiate the popular belief that the recent slowdown marks the commencement of a prolonged growth deceleration.

China's onshore bond market has remained relatively composed in the wake of Moody's rating action and tightening liquidity conditions. The yield curve has flattened significantly, with long-term rates held down by prevailing pessimism regarding growth prospects, while short-term rates have risen in tandem with higher money market rates. Notably, as LGFV (Local Government Financing Vehicle) bonds constitute a substantial portion of the credit bond market, credit spreads have continued to narrow following efforts to address implicit debt concerns. An exceptionally low term premium reflects both seasonal and fundamental forces, and the curve could potentially bear steepen as a result, while credit spreads may remain compressed. Overall, we maintain a cautious stance on China's interest rates, particularly for the long-term segment.


📍 3rd 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