# China Bulletin: Market View


China's equity market traded sideways over the last fortnight, with fairly priced cyclical names outperforming. Market turnover has dipped slightly, but it has stayed above 2019 levels. Previously popular large-cap stocks remain sluggish upon slower growth than their valuations suggest or, in some cases, lower than expected earnings. However, the correction in their prices up to now is insufficient to align their valuation with historical averages, therefore a cautious stance is still recommended. Cyclical names continue to rally, most notably leading steel makers, promoted by the strong demand for steel to date and also by constrained capacity resulting from supply side reforms. The depressed valuation of cyclical names and the idea that carbon neutrality policies will reduce the capacity of polluting cyclical industries are further reasons for the rally.

The economy of China is improving in terms of growth and structure, while the sustainability of these improvements depends on external demand. According to the OECD, China's share of world exports jumped to 12.46% in 2020 from 10.8% in 2019, probably due to its reliable supply chain and the global lock-down policy. Whether this trend can continue is doubtful, as it is still difficult to project how the global economy will function and how global trade will evolve post-Covid-19. We will keep a close eye on China's export sector which, if it continues to grow robustly, could accelerate China's structural transformation, and lay the foundations for a healthy economy over the next 10 years.

Fiscal policy remains stable and is unlikely to be a major factor in equity market moves. Fiscal consolidation is planned, though the implication is mainly for the bond market rather than the equity market. The Ministry of Finance is establishing a surveillance system to monitor the debt levels of local SOEs, in a bid to prevent a credit event shocking the market and leading to a potential credit crunch. Monetary policy will also be balanced, as stated, avoiding both a tightening or an easing stance, which wouldn't cause an overall valuation correction but could add to the pressure being faced by expensively priced large-cap names.

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