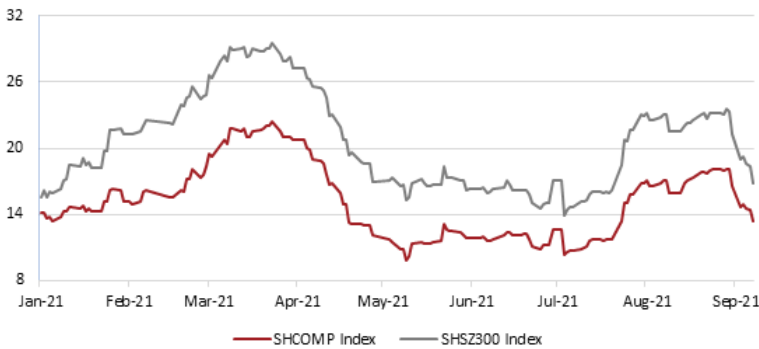


China Bulletin: Market View

30 Day Volatility




The A share sentiment has improved in last fortnight, moving close to its 1-year high right before Chinese New Year, and volatility is retreating as well. Yet the performance of the indices disguises the disparity among sectors, where new energy suppliers are rising along with the old, namely coal miners. Investment banks have advanced impressively as well, promoted by better market sentiment and the set-up of Beijing Securities Exchange, the third exchange after Shanghai and Shenzhen. This sector will continue to enjoy policy tailwind and the expansion of the direct financing market in China. Construction corporations are seeing decent returns too, due to a more optimistic outlook for fiscal spending on infrastructure investment. Commercial banks also beat the market and their valuations are recovering to some extent, which in our view still has a long way to go, yet the pace is difficult to predict.

An important recent development in China's equity market is the very swift shift of market theme, especially under the mask of a rising market. As for this


week, the rotation between wind power generation supply chain and solar power generation supply chain, as well as coal miners and steel makers, is quite drastic and short-lived. From our perspective, the phenomenon is due to the collapse of old norms in the last 2 years, whereby after Chinese New Year some of the market favorites suddenly become unpopular, and the new favorites are not yet widely recognized. It makes navigating the Chinese market more difficult, and investors must dive into the onshore market in detail to find true value.


China's bond market has had another uneventful month, with rates trading within a very narrow range and credit spreads remaining at historic lows. The market is pricing a less impressive growth figure and a slightly friendlier policy combination for 21Q4, yet with rates and credit spreads close to historical lows, the room for further compression seems very limited. We still suggest investors stay away from the onshore bond market for the time being, and keep watching China's equity market.

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