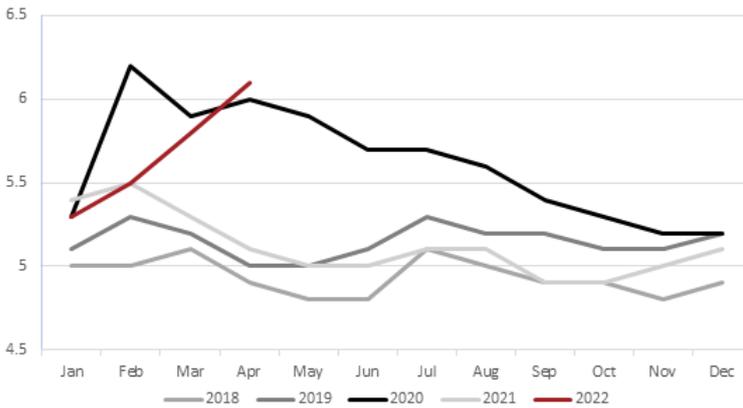


China Bulletin: Market View

Surveyed Jobless Rate



The latest data points to a resilient manufacturing sector and a weaker service sector, and we believe that this combination may persist in the near future. Export and manufacturing PMI both give solid reason to expect decent growth of the manufacturing sector. However, the still bleak outlook may weigh on fixed asset investment in the sector, unless external demand continues to be strong. The service sector may suffer longer than expected, given the recurrence of Omicron cases in Beijing and Shanghai, just days after the removal of containment policies. It is too early to estimate the impact on the economy, and the pressure will focus on employment, since the service sector employs about half of the total labor force.

Credit data is showing early signs of recovery, strong in terms of aggregate financing, although still weak on the structural side. Growing long-term household loans offer some relief, after their unprecedented decline in 22Q1, although uncertainty remains while the housing market downturn continues.

Additionally, non-financial corporates are taking more long-term loans and may eventually spend on fixed asset investment should external demand remain strong.

The market has also reacted positively to the re-opening of China's major cities and has ignored the latest scattered covid outbreak. Rates have moved higher, and the equity market has returned to its level in March, before the Shanghai lockdown. We recommend a more optimistic stance on China's equity market currently, as experience suggests growth will be supportive in 2022. Sector wise, we prefer new energy names, including the photovoltaic sector and electric vehicle supply chain.

Another notable point is the dialogue between the defense ministers of China and the US, the first such occurrence since the Biden administration assumed office. The meeting should establish red lines for competition between the two nations. China reiterates its foremost priority is its unity and sovereignty. We will continue to monitor diplomatic developments and their potential impact on the market.

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