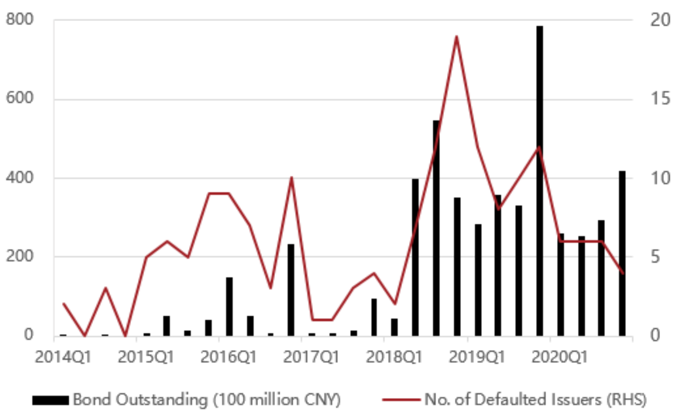
China Bulletin: Market View



The China A share market lagged Hong Kong and other Asian markets after the US presidential election delivered a preliminary result. Electric vehicle supply chain was boosted by both the 5-year plan of China and the policies of expected president-elect Biden, stretching the already expensive valuation to an even more overvalued level. Tech names suffered from the delayed listing of Ant Group and the newly proposed anti-monopoly regulatory guidance, with names in online shopping and mobile payments worst affected. It is clear that Chinese authorities are moving to protect data privacy and curb the financial risk introduced by innovations. It is still recommended to maintain a portfolio of low volatility, as policy makers look to curb risks after external uncertainty has been marginally mitigated.

Commercial banks were in a good mood until a credit event broke out which could potentially lead to a credit crunch. The credit event, which was the sudden default of a heavily indebted local SOE, caught the market unexpected and has caused concern that more such incidents may follow, worsening the sentiment of the credit market. The default risk in 2020 is less than the previous year, but it is more contagious in the credit market. Mutual funds are major players in China's credit market, and they may be forced to sell if there is a surge in fund redemptions or haircuts on credit collateral are raised. These changes in the credit market are still in their early stages and so we cannot fully assess their development, but PBoC has injected liquidity into the market and we believe it will take further action if necessary.

The external economic environment to China is expected to be more supportive and so the equity market may see solid growth in the coming year. The tension and competition between China and the US will persist, but should be more predictable and within the existing international community practice, greatly reducing the risk of external uncertainty. Given the fact that a Covid-19 vaccine should be ready in the coming months, global and China growth momentum will be more supportive and favour the old economy. The most noticeable risk is the ongoing credit crunch in China so we will follow its development closely.

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