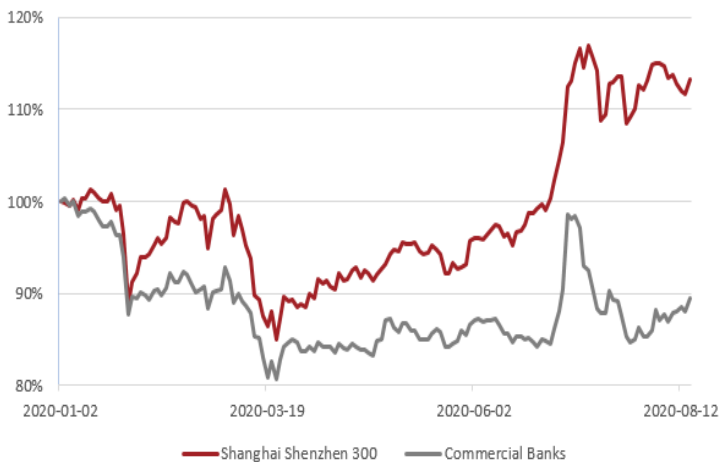


China Bulletin: Market View



Equity Market

The China A share market has underperformed other major markets month-to-date, with the hope of a "fast bull market" emerging and then fading in July. The most notable potential loss can be spotted in the healthcare sector which, after rallying 50% year-to-date, could be considered expensive on a valuation basis. Tech names are subdued but more resilient, especially electric vehicle makers and suppliers. The introduction of Tesla's China factory and domestic-made Tesla cars is expected to promote electric cars in China and boost the sector in the coming years. Commercial banks have recovered marginally from an extremely undervalued status and market concerns about policy makers trying to trim commercial banks' profit growth is largely priced into their current valuations.

Economic Data

China's economic data shows that fundamental improvements are still ongoing, but their pace has slowed marginally. Housing investment continues to lead the recovery. Industrial production sees an unchanged level of year-on-year growth, albeit from a lower base level last July. Retail sales remain subdued due to the sluggish recovery of the consumer services sub-sector. With the surveyed jobless rate remaining stable at 5.7% and containment measures gradually being lifted across the country, retail sales and household consumption are expected to pick up from 20Q3.

Bond Market

The Chinese bond market has priced in the accelerating growth momentum and the less accommodative monetary policy, meaning that the market has now entered a sweet spot for long-term investors. The 10Y CDB rate, the most liquid indicator of rates, is trading just 10-15bp below its level at the end of 2019, before awareness of the Covid-19 pandemic. The rate may still trade sideways instead of downward but is increasingly attractive for long-term investors.

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