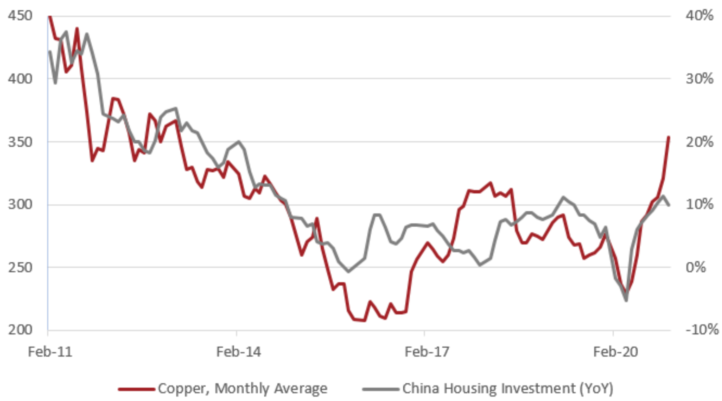
China Bulletin: Market View



Copper Price vs Chinese Housing Investment

The commodity rally continues to push inflationary expectations higher. Consequently, US treasury yields are increasing, taking a toll on China too. The most notable casualties are the large cap Consumer Staples names, whose cash flow is ample and growth rate is stable, which are widely favoured by international investors. Other affected sectors, which are already expensively valued, include electric vehicle supply chain and internet stocks, and to a lesser extent healthcare. Though the recent tumble is a natural result of overly optimistic valuations, the fairly valued stocks will come under pressure as well, thus a low volatility portfolio is preferred in these conditions. Sector wise, commercial banks are still benefitting from the tailwind of gradually tightening monetary policy and improving asset quality, and consumer services names are likely to see a recovery and better sentiment.

The annual legislative session, scheduled for March 5th, will be the theme of the market in the coming fortnight, as this session will approve the fiscal policy stance and economic goals for the coming year. Fiscal policy is expected to remain supportive, even though growth numbers are likely to be exceptional. Monetary policy, on the other hand, will likely remain neutral. Tightening should resume in 21H2, as inflation expectations will likely increase due to rising commodity prices and the global recovery. A de-leveraging policy may also be re-introduced to contain the mounting debt level.

The recent commodity price surge, in our view, is more driven by a shortage of supply than booming demand, as housing investment in China remains tepid. Additionally, experience from the last decade shows that the pass-through from commodity price increases to broad-based headline or core inflation is very limited. Given this and the bond sell-off surrounding Chinese New Year, we turn cautiously optimistic on Chinese rates. China's interest rate is also close to its equilibrium level, which provides an attractive yield. The Credit market, however, is experiencing a structural divergence. A large variety of investors are chasing investment grade credits such as central SOEs and LGFVs in developed regions, while simultaneously disposing of high yield credit assets viewed as unprofitable.

2nd Floor | 75 King William Street
London EC4N 7BE
+44 203 617 5260
marketaccess@chinapostglobal.co.uk
www.chinapostglobal.com

2nd Floor | 75 King William Street
London EC4N 7BE

+44 203 617 5260

marketaccess@chinapostglobal.co.uk

www.chinapostglobal.com

China Post Global

Market Access
Exchange Traded Funds