

China Bulletin: Market View

The national holiday provided an insightful window to assess the recovery of the service sector in China. Data showed passenger traffic and total tourism revenue declined about 30% compared with the last national day holiday, showing the recovery in the service sector is still ongoing. On the other hand, traveler traffic recovered to 80% of the last national day and car traffic was almost flat, implying a stronger appetite for short-range travels. The recovery in consumption has been slower than our, and the market's, expectation, but the upward trend continues. Recent data shows other parts of the economy are running as expected, with the economy likely to recover to its pre-pandemic level by the end of 2020.

The market sentiment is likely to remain upbeat in October, due to the pandemic remaining under-control and the composition of China's fourteenth 5-year plan, which is a comprehensive social and economic plan covering almost every aspect of the economy. After the large-scale movement of people during the national day holiday, the outbreak is contained so far. If the trend continues, China may be able to shrug off the impact of the pandemic domestically even before the vaccine. Additionally, the 5-year plan will mean the flow of state investment in huge amounts and markets will also chase the favored sectors. Electric car supply chain and cloud technology are among sectors with a high probability to be in favour.

Geopolitical risks surrounding China continue to rise, especially along the Taiwan Strait. China-India tension has eased going into October, while the US continues to escalate the standoff concerning the Taiwan Strait by directing warships to sail through the water. Since the strait is of key interest to China, the confrontation across it is the issue most likely to provoke a war involving China, and that risk has risen considerably. Though the probability of an imminent military conflict remains low, the headline news may influence market sentiment in the coming months.

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