China Bulletin: Market View

A newly emerged cluster of Covid-19 cases in Beijing spurred concern of a second wave and how that might impact on the economy. The situation remains under control with everyone more vigilant and authorities taking very decisive action upon initial report. Large-scale testing and a targeted lock-down have been implemented in the hope that this outbreak can be contained before the end of June. The impact should be limited to Beijing and is unlikely to spread across the country or cause a meaningful downturn.

Economic Policy

Policy is shifting focus to the fiscal side with data confirming that growth is gaining momentum. The first offer of special CGBs pushed yields higher in bond markets even after the State Council called for lower interest rates by cutting the required reserve ratio and PBoC lowered the 14-day funding rate. Also, policy makers said that the financial sector, mainly banks, will forego 1.5 trillion CNY profits to support the economy, which should be regarded as a fiscal policy given that the Finance Ministry owns the majority of large banks.

Now signals from policy are confusing, implying policy makers' intention to strike a delicate balance between fostering employment and avoiding a massive build-up of debt. Though US-China relations are stable, sluggish global demand still imposes a significant external uncertainty and growth in 20H2 is not as rosy as current data suggests. Clashes on the China-India border are under the spotlight recently but the possibility of escalation into armed conflict is still relatively low.

Equity Market

The ChiNext index continues to outperform as poor bank performance has dragged other major indices down. The ChiNext index benefits from its overweight on the healthcare and information technology sectors, and from the expectation of domestic substitution given the increasingly challenging availability of some crucial components and technology from abroad. This expectation, in our view, has been overstated in terms of current market pricing given that the trend is only expected to complete in the long-term. We will recommend a cautious stance on both healthcare and technology names, and overweighting names with fair pricing and a decent dividend. Non-bank financial firms are still preferred but banks are worth watching for the decline in profits to be fully priced in.

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