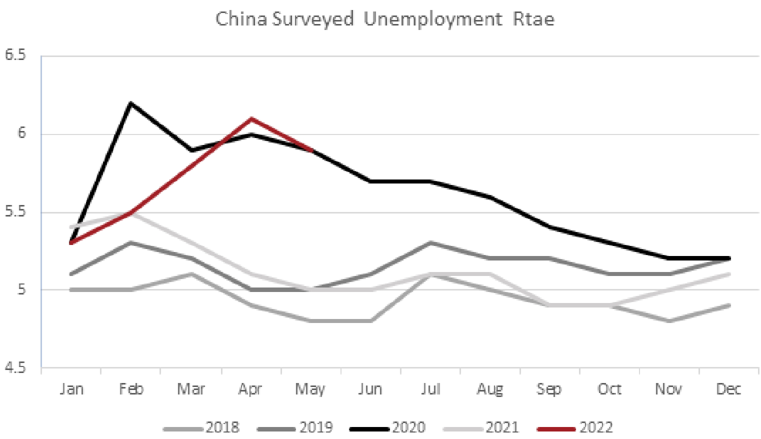
China Bulletin: Market View



The market is more convinced of the recovery after May data and much improved sentiment following the opening-up. The manufacturing sector is leading the recovery as expected after the supply chain has returned to normal. On the other hand, reflecting the cautious outlook of the household sector, retail and home sales offer limited comfort as their growth is still in negative territory, only gradually edging towards zero. However, we expect a healthy rebound in household consumption, and perhaps a recovery of the housing sector from the current slump. The picture relies heavily on the trajectory of the unemployment rate, which we think will resemble the pattern in 2020 following the pandemic. With falling unemployment in H2 2022 due to the revival of production and logistics, as well as continued solid external demand. The unemployment rate chart above includes the latest update of May data, showing the signs of the resemblance.

Upon the improved sentiment and stronger growth signal, the equity market continues to rally, testing critical resistance levels.

We remain optimistic on equities, as growth momentum is picking up, and policy will not exit its current accommodative stance before a more solid recovery is confirmed. The argument surrounding the necessity and effectiveness of the current covid containment policy, which is one of the major concerns weighing on market sentiment, will diminish as the spread is under control nationwide, and logistics are functioning normally. We still favour the new energy supply chain and semiconductor sectors, due to their expected high growth and the tailwind from policy all over the world. Additionally, the healthcare sector offers decent risk-reward now with attractive valuation levels, and the impact of centralized procurement being largely priced in. Having rallied substantially in recent weeks, investment banks are still expected to outperform the market, with valuations close to historical lows, and the speeding-up of capital market reform.

The Chinese bond market, on the other hand, may embrace the upward trend of rates in the coming months. The improving growth momentum and risk sentiment will contribute to a higher risk-free rate, and less ample liquidity conditions in the inter-bank market. On a positive note, China's interest rates will still be dominated by domestic forces, thus maintaining independence from its global peers. This will provide increasingly scarce low-volatility risk free assets, amid the increasingly volatile global financial markets.

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