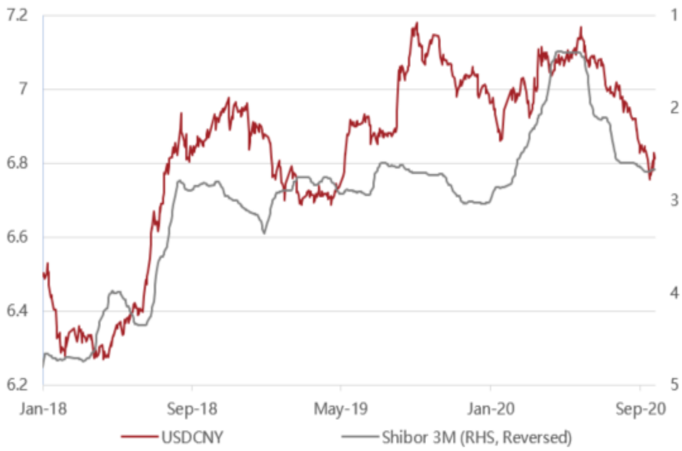
China Bulletin: Market View



China A shares have traded sideways over the last two weeks, balancing between tighter monetary policy and improving fundamentals. Economic data points to a continuous recovery and retail sales registered positive growth for the first time since the pandemic. The STAR 50 and electric car related names delivered decent returns, resulting in their already expensive valuations becoming even more stretched. Investment banks outperformed the market and our expectations, fueled by the news of a merger between two medium sized houses and re-emerging market expectation of more consolidations to come. Yet we remain cautious on investment banks, as their valuations remain expensive and the decreasing trading volume of A shares will have a negative impact on profit growth, despite the economic policy tailwind. We will continue to recommend a lower volatility portfolio for A shares, consisting of blue chips with fair valuations.

External uncertainty facing China is rising again, most significantly across the Taiwan strait. Not being an expert on geopolitics, we still view geopolitical risk across the strait as the most challenging problem surrounding China. Thus increasing interaction between Washington and Taipei imposes some risk. Yet before the US presidential election or the inauguration of the new president, both sides across the strait are unlikely to break the already delicate status quo. On the other hand, while the US and China continue to wrangle over TikTok and WeChat, the standoff between India and China is de-escalating after both parties agreed to stop sending troops to the disputed borders. Geopolitical risk involving China is dominated by the US-China tensions, which are expected to wane in the coming weeks as the focus of Washington may shift to the nominee for Supreme Court Judge.

CNY started to appreciate from June after PBoC's normalization and is approaching its higher bound of the last 12 months. The balance of payments of China remains healthy with the current account surplus staying around 1% of GDP and capital flight still absent under pressure from the US. In recent years, the movement of CNY has often tracked onshore monetary policy closely, so the expected stable policy stance implies a period of stable CNY in the coming months.

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