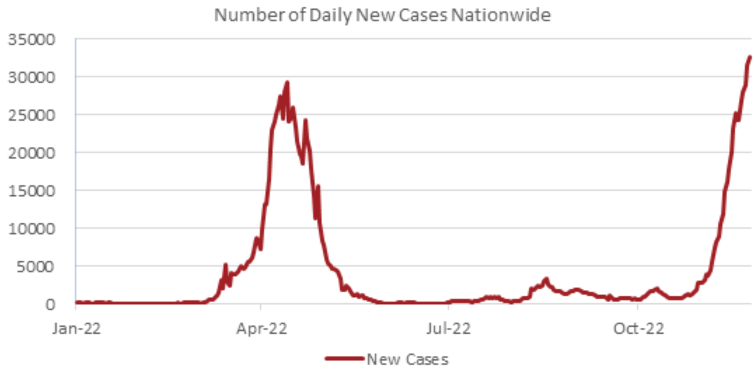
China Bulletin: Market View



Since the surprise loosening of China's COVID containment policy on 11th November, the market and the public is trying to cope with rising uncertainty. Regardless of the virus's damage of the infection to health, the surge of cases and the shift to the new paradigm is causing some chaos and has jolted both the equity and bond markets in the past fortnight. Yet honestly, the change is not quite a U-turn of existing policy, but rather consistent with the 9th edition of COVID control protocol released at the end of June, shortening the quarantine period from 14 days to effectively 7 days. Nevertheless, the future trajectory remains very unpredictable; we don't know if it marks the critical turn or is merely an adjustment. Some re-tightening of restrictions following a spike in cases has led to protests in several cities across China. We will follow developments closely.

Financial regulators have come to the rescue of the troubled housing sector, announcing measures to alleviate the liquidity stress on existing property developers. In the absence of broad-based demand side stimulus measures, there is financial support to complete current construction projects and marginally ease strict restrictions on banks lending to property developers. Following the announcement, six major state-owned banks have provided credit lines to several leading property developers in a coordinated way. We reiterate our view that the housing sector will flatten from 23Q1 onwards, and the drag on China's economic growth will also wane.

Another notable change in China's financial market is the amplifying short-term volatility, due to the structural change in the asset management industry. Additionally, there is also pass-through of volatility from international markets to China's domestic market, especially when the US treasury yield moves massively. The main domestic driver of this increased volatility is the transformation of banks' wealth management products, also known as WMPs, from a shadow banking channel to an asset management product. Previously, WMPs offered explicit or implicit defined returns, similar to deposits. Under the new regulation introduced in 2018, WMPs must adopt ongoing valuations and publish NAVs in the same way as mutual funds by the end of 2021. The banks' inexperience of managing redemptions and subscriptions is naturally leading to a more volatile market. It is very likely that the mini liquidity squeeze in March 2022, and the recent selloff, were both caused by unexpected large withdrawals from these products. The increased volatility is unlikely to last, as the market and investors are quickly getting used to the structural change.

3rd 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