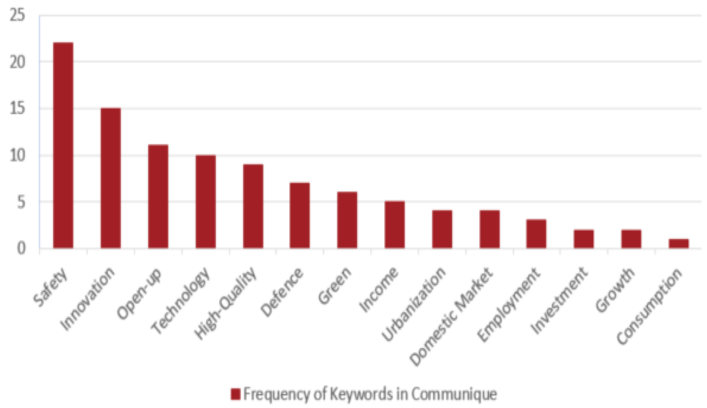
China Bulletin: Market View



The fifth general assembly of the CCP central committee just adjourned, showing some insights into the next 5-year plan and also their long-term plan. The communique of the meeting placed great weight on safety, regarding the economy, defense, public health and technology. The cut-off of access to some key technological components does impose a significant challenge to the supply chain of China and encourages policy makers to cultivate domestic producers and promote innovation. Despite trying to reduce China's reliance on certain overseas suppliers in some sectors, policies to increase openness of the Chinese economy were still emphasized. Another notable point is the goal of reducing income inequality through employment and education policies. Overall, it is reasonable to conclude that China will remain on the same course it has taken over the last 5 years.

The A share market remains weak after the National Day Holiday, and favours a low volatility portfolio. Only automobile and electronics manufacturers have been gaining, due to upbeat sales data. Commercial banks rose by almost 10% in the first week after the holiday, but their disappointing 3rd quarter results cost them around 4% in the week ending Oct 30th. Although details of the 5-year and long-term plans remain unknown, some sectors like semi-conductors, electric vehicle manufacturing and new energy are expected with increasing certainty to see policy tailwinds. Uncertainty from the Covid-19 pandemic and the US presidential election has increased significantly again, which has been, reflected in the A shares market as well.

Money market rates have risen to unexpectedly high levels towards the end of October, yet Chinese Government Bond rates remained stable and credit spreads traded lower. PBoC may have a tight bias caused by a strong CNY, the recovering domestic economy and stable external demand. Yet we think it is still too early to tighten monetary policy at this stage and so does the optimistic bond market.

The geopolitical risk along the Taiwan Strait remains elevated, although the probability of a full-blown war is still minimal. The coming US presidential election casts a shadow on the matter as well, but all parties involved understand the bottom line very well having experienced confrontations for more than half a century. Headline news may still pop up, but the conflict will remain under control in our view.

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