China Bulletin: Market View

The most notable event in the onshore and offshore Chinese market is the unexpected announcement of reforms for the private education sector, seeking to decrease workloads for students. The new regulations, released on July 24th, ban companies that teach school curriculums from making profits, raising capital or going public. The policy can be dated back to 2018 when the Ministry of Education and State Council tried to curb the expansion of tutoring companies and the market didn't pay enough attention to the move. Currently, public schools remain dominant in the education system, while private companies mainly provide additional tutoring services. The sector is a bitter byproduct of the expansion of private capital in the education system starting two decades ago, when private and public providers conspired to drive part of the education demand into the private sector. Looking forward, it is very clear that the education system will remain public and private firms must either transform or exit.

The policy uncertainty is probably overstated when considering this move, along with the security scrutiny imposed on DiDi Global Inc, the Chinese equivalent of Uber. It may be true that the policy formation process is different in China, yet the policy does follow its preset course which is well discussed before being implemented. Public opinion towards both moves is overwhelmingly positive. The jolt may cause some foreign investors to pull out of China and will create an investment opportunity as the fundamentals remain promising. We suggest investors interested in China should broaden their sources of market information, as it will prove important in successful investing.

Equity market wise, most sectors dropped over the last fortnight, especially names and sectors with heavy foreign holdings. On the other hand, clean energy related names and semiconductor producers are riding a tailwind of both policy support and strong earnings growth. We believe an adjustment is warranted given the progress of tapering by the Fed and the stretched valuation in the onshore Chinese market. We maintain our view that increased volatility is on its way and a low volatility portfolio may prove beneficial.

China's bond markets are moved by the worry too, as the 10Y CGB rate jumped 5bps during the most volatile day. Yet China's bond market is more domestic oriented and the shock faded quickly. China's bond market has traded 20bps lower after the required reserve ratio cut, which was more than the drop anticipated from what experience, and current economic data, suggested. We suggest a cautious stance regarding China's bond market.

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