

China Bulletin: Market View

Equity Market

The China A share market saw upbeat sentiment in the short week of the Dragon Boat holiday, climbing to the level of its previous high in early March. This sentiment has been bolstered by improving economic data and the view that both sides will honour the phase 1 US-China trade deal, which was reinforced by President Trump's tweet defending the deal after White House Advisor Peter Navarro claimed the deal is "over" in an interview. We expect the current status to continue and the equity market to remain buoyant unless the US-China tension re-escalates, stirred by the development of the US presidential election.

Economic Policy

The stance of economic policy remains the same, even if it means some turmoil in the market. The Loan Prime Rate (LPR), quoted by 18 banks on Monday, is unchanged from May, confirming PBoC is refraining from major monetary easing. Volatility spiked on Tuesday 23rd June when a special Chinese Government Bond (CGB) was offered, sending the auction rate of new 5Y CDBs (quasi-sovereign policy bank bonds from China Development Bank) to 3.4%, 50bps higher than the secondary market level. The borrowing rate increased above its year-end 2019 level before the holiday. We see the sell-off as a panic reaction and think the onshore rate will not persistently trade higher upon a weak recovery and still accommodative policies in 20Q3.

Beijing is still in the process of containing its recently emerged Covid-19 cases. The returning epidemic, and its containment measures, have hit the consumer services sector again, though it's unlikely to cause a widespread impact. The outbreak, however, raises the likelihood of coexistence with the COVID-19 virus for a long time and thus a new strategy to cope with the challenge.

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