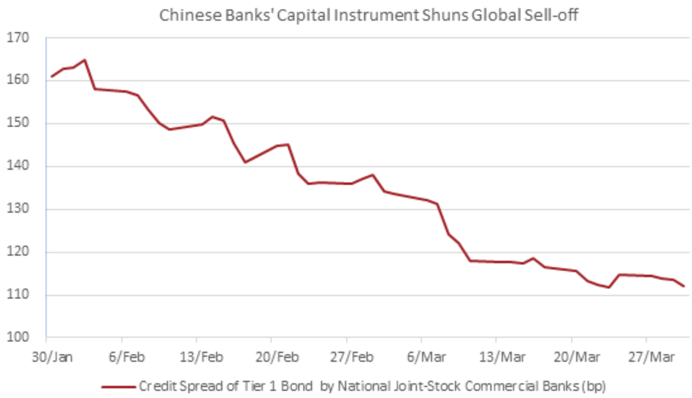
China Bulletin: Market View



The relative strength of China's growth recovery and policy support has caught the attention of onshore markets. They are all the more noteworthy given the cautious growth target set by the government in the NPC session, and the initial indications of policy restraint by the inaugural state council. On the demand side, exports are likely to register weaker growth, given the steadily tightening financial conditions across the globe, whilst public infrastructure investment is expected to maintain its current growth.

We can reasonably expect less drag from the housing sector, although the sector will likely be stagnant at best as we have outlined previously. Consequently, the most likely tailwind is the improving household sector demand, which may still be waiting for a more concrete rebound of employment and income. Therefore, the over optimistic outlook has been dialled back somewhat in the absence of the strong stimulus that the onshore market was expecting, driving the market adjustment in recent weeks.

We continue to recommend a more active position in China's equity markets, including the onshore and Hong Kong markets. Earnings growth is expected to rise along with the recovery, which may be weak and fragile but is evident. Policymakers will maintain a supportive stance, remaining aware of the fragility, meaning restrictive measures such as a continued crackdown on the internet sector are unlikely in the short term. Equity valuations are also below the historical average, and risk-reward looks more attractive, taking into consideration the low correlation to international markets.

Recent turmoil in the global financial markets, following the sudden collapse of some banks and massive sell-off of CoCo bonds (contingent convertible bonds), has barely had any impact on China. Credit spreads of tier 1 bonds, with similar seniority to CoCos, issued by national joint-stock commercial banks (to simplify, these are weaker ones among the systemically important banks of China), have tightened more than 50 bps since Chinese New Year. Largely isolated from international markets and supported by sovereign credit, China's financial system is generally safe from external shocks and bank runs.

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