

China Bulletin: Market View

Equity Market

The China A share market rallied to year-to-date highs upon decent data and alleviated concerns over trade war re-escalation. Economic data surprised on the upside this week, including positive corporate profit and PMI figures, implying that the re-opening of China's economy continues despite the recent Covid-19 outbreak in Beijing. The introduction of The National Security Law in Hong Kong, and the US response to it, mitigates market concern of a re-escalation of US-China tensions.

Economic Policy

Monetary policy remains cautious, with policy makers intending to encourage direct financing and reduce the reliance on bank lending through their capital market reforms. The bond market has adjusted to the new stance of PBoC after the turmoil that took place the week before last following a special CGB offering. We believe that rates are more likely to go up than down given the continuous improvement of China and US economic data. The capital market reforms, as we proposed in previous pieces, will primarily benefit capital market intermediaries such as investment banks, and to some extent commercial banks, as their set strategy is to develop Chinese investment banking capability, especially with regard to bond issuance.

The recent Covid-19 outbreak in Beijing is largely under control this week, with a handful of new cases reported each day and large-scale testing finding only limited carriers. The epidemic is expected to die down within 2 weeks if the current trend continues, with normal business gradually resuming in Beijing.

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