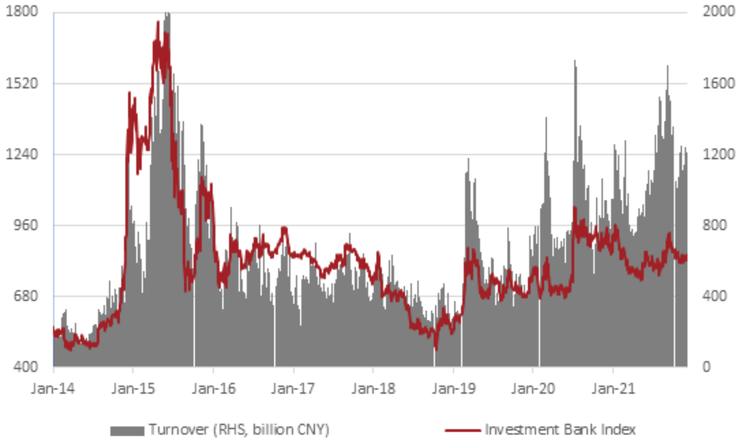
China Bulletin: Market View



The onshore market is consolidating, in terms of volume, after the slowdown following the National Day holiday and the sentiment shock caused by the detection of the Omicron variant. Sector wise, new energy names remain favoured, especially photovoltaic technology related names despite recent signs of intensifying competition in the sector. Wind energy names are enjoying similar policy tailwinds and are expecting a healthier market going forward. Alcohol makers, wooed by money managers prior to Chinese New Year, have surprisingly delivered decent returns in the last fortnight and may reverse their year-to-date underperformance of 16.93% versus the CSI 500 index. Another sector worth noticing are investment banks, which historically track the trading volumes of the equity market yet have underperformed in recent weeks. We are optimistic about the sector given the continuous reform and the consolidation of the A-share market.

The latest PMI data points to a more concrete slowdown of the Chinese economy, particularly in the small and medium size enterprise universe. Caixin PMI, composed of smaller sized respondents versus the official PMI, reports a reading of 49.9, only marginally higher than August's figure when China was hit by the biggest resurgence of Covid-19 cases since 20Q1. The growth momentum, as well as the repercussion caused by the housing sector, need to be closely watched. The market is expecting a more active fiscal policy in 2022 to contain the increasingly obvious slowdown. Historical experience also adds to the probability in the year of the ruling party's national congress.

The latest remark by Premier Li about cutting the reserve required ratio again surprised the market, especially the bond market where participants are speculating about the accommodative move taking place as soon as 22Q1. In our view, the cut, which may not be any time soon, will only prove to be of minimal effect on the economy and thus largely symbolic. Long end rates may move lower but further undermine its attractiveness and the short end may stay put just like the market following the surprising July cut. The equity market is more likely to respond positively to signs of credit growth, which is more vital to equity performance. We remain cautious on Chinese bonds and positive on Chinese equity.

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