

China Bulletin: Market View

Bond Market

The Onshore Bond market tumbled in anticipation of marginal tightening from PBoC. 10Y CGB yields increased more than 10bps to 3.11% and 5Y bonds saw a more drastic sell-off, with yields rising approx 30bps. The concern is rising due to PBoC's newly invented monetary policy tool to boost credit growth and its latest stance of reducing speculative activities that take advantage of historically low funding costs in money markets. CGB rates are close to their short-term equilibrium level and offer attractive risk-adjusted returns, yet a market consensus is still absent so rates may trade sideways in the coming weeks.

Equity Market

The Equity market is likely to deliver a 3% rally with mid-cap names outperforming large-caps. Market sentiment was helped by decent PMI data and a less than expected escalation of US-China tensions. Sector wise, telecommunication and transportation are favored due to the expectation of higher infrastructure investment by the government, as well as the retail and financial sectors due to the policy of boosting consumption and credit growth. We prefer the financial sector, especially non-banking financial names, as their valuations are fair and they will benefit from ongoing capital market


reforms, while banks may be suppressed by the concern of a lower net interest margin.

Economic Data

Economic data is largely absent in the first week of each month, with only PMI delivering an optimistic signal. Caixin PMI, which is more small and medium enterprise oriented, outperformed official PMI. Both show that the economy is on course to recovery and that the most significant shortfall is the external demand, which we expect to continue to be a drag during the rest of 2020. Latest data also shows industrial production and fixed asset investment is back to normal levels at a fairly fast pace. Consumption improved at a slower pace, due to worsening employment and wage growth.


Economic Policy

Policy still remains accommodative, even after the recent adjustment from PBoC. A huge amount of government and policy bank bonds were sold to fund the expected spending on infrastructure investment, and fiscal spending will accelerate in 20H2 after the annual NPC session. Despite the recent shift of monetary policy towards credit growth, its stance still remains accommodative amid the current economic downturn and will avoid any effective hawkish signals before a solid recovery is confirmed.

 2nd Floor | 75 King William Street
London EC4N 7BE

 +44 203 617 5260

 marketaccess@chinapostglobal.co.uk

 www.chinapostglobal.com

This document is issued by China Post Global (UK) Limited ("China Post Global") acting through its offices at 75 King William Street, London EC4N 7BE and for the purposes of Directive 2014/65/EU has not been prepared in accordance with the legal and regulatory requirements to promote the independence of research. This document has been prepared for information purposes only. It shall not be construed as, and does not form part of an offer, nor invitation to offer, nor a solicitation or recommendation to enter into any transaction or an offer to sell or a solicitation to buy any security or other financial instrument. No representation, warranty or assurance of any kind, express or implied, is made as to the accuracy or completeness of the information contained herein and China Post Global and each of its affiliates disclaim all liability for any use you or any other party may make of the contents of this document. The contents of this document are subject to change without notice and China Post Global does not accept any obligation to any recipient to update or correct any such information. China Post Global (UK) Limited is authorised and regulated by the Financial Conduct Authority. This document is not for distribution in the U.S. or to U.S. persons. This document is directed at Institutional Investors only. This communication is exclusively directed and available to Institutional Investors as defined by the 2014/65/EU Directive on markets in financial instruments acting for their own account and categorised as eligible counterparties or professional clients. This communication is not directed at retail clients. It should not be distributed to or be relied on by retail clients in any circumstances. For the UK, institutional investors ("Institutional Investors") are Professional Clients as defined by the FCA. Calls may be recorded. This document is confidential and not to be communicated to any third party or copied in whole or in part, without the prior written consent of China Post Global. This communication contains the views, opinions and recommendations of China Post Global. This material is based on current public information that we consider reliable, but we do not represent it as accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. There can be no assurance that future results or events will be consistent with any opinions, forecasts or estimates contained in this document. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance.

 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