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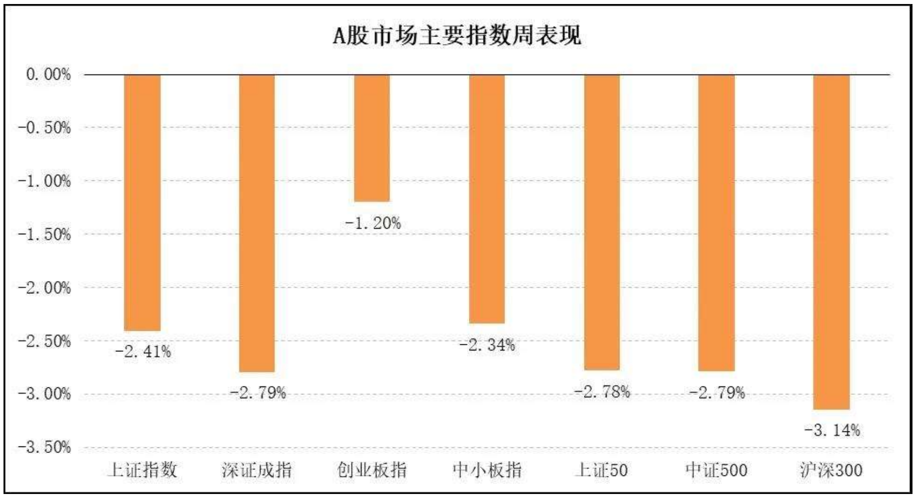
Rosefinch Weekly

Good investment opportunity if global market drags down A-share sentiments

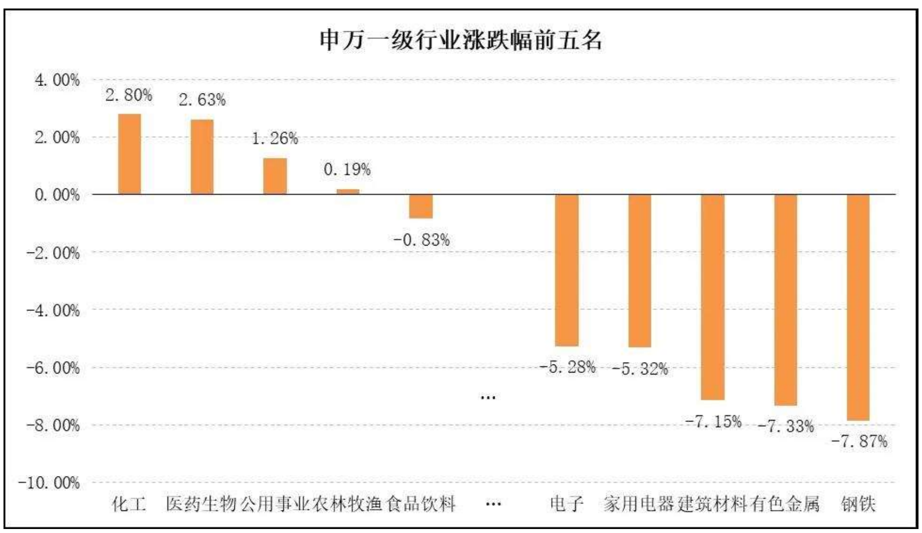
1. Market Review

For the last week: SSE was -2.41%, SZI was -2.79%, GEM was -1.2%, SSE50 was -2.78%, CSI300 was -3.14%, and CSI500 was -2.79%. Please note there was Mid-Autumn festival holiday on Sep 20th and 21st.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 4 out of 28 rose: chemical, biopharmaceutical, utilities, and farming.



Source: Wind, Rosefinch

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Market volume was over 1 trillion RMB for 43 straight days as of last week, with Northbound net -8.8 billion RMB, and Southbound net -2.4 billion HKD.

Source: Wind, Rosefinch. Blue is cumulative Northbound flow and unit is 100 million RMB; yellow is cumulative Southbound flow and unit is in 100 million HKD.

2. Market Outlook

On macro front, the August economic data was generally weak. For consumption, the retail sales number was +2.5% YoY, or averaged +1.5% vs pre-pandemic data. This is weaker than both 1st half and pre-pandemic levels. There were several factors contributing to such weakness. The adverse weather and ongoing Delta Virus breakout are having clear impacts on service sector. The car sector also suffered from automobile chip shortage. Overall, there may be some retail sales rebound once transitory factors fade away, but it will be difficult to recover to relatively high pre-pandemic levels.

On fixed asset investment, real estate investment had noticeable drop since July, with monthly level roughly same as 2019 levels. In fact, we're seeing negative levels in certain cities with strict commercial real estate policies. As new launches and land stock continue to drop, real estate sector is unlikely to have a rebound in the near term. Infrastructure investment is relatively steady, with the full impact of fiscal stimulus yet to come through. Investment among manufacturers is relatively stable, as the previous high profit levels leads to a clear pickup in some industry investment needs.

China's August industrial output was +5.3% YoY which was still reasonably robust. Even though domestic consumption was weak, the overall strong export helped to support production levels. Overall, the August economic data was affected by the evolving Covid breakouts and real estate policies,

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resulting in a slowdown compared to 1H21. There's still some resilience with continued export demand and upcoming fiscal impact to prevent a sharp drop.
On policy front, one key point is the policy support for SME. With raw material cost at high levels, downstream demand still less than pre-pandemic level, and the supply chain cost relatively high, there's a lot of pressure on SME profits. Given the situation, the policy support for SME must use alternative methods to reduce impact of high raw material cost, as well as using financial tools to apply focused support. As a follow up, there may be some dedicated support policies such as RRR reduction for SME loans, refinancing or discounting activities. Another point is the regulator's restrictions on wealth management subsidiaries' amortized cost method on products. The main concern by the regulators is to reduce industry leverage and build up of financial risk. This may have short-term impact to market sentiment, but unlikely to have any permanent impact.

Last week's liquidity was slightly tighter due to mid-term tax payments and quarter-end requirements. PBOC did 240 billion RMB of reverse repo and 600 billion RMB of MLF. This week there will be about 50 billion RMB of reverse repo and 600 billion RMB of MLF maturing. This is therefore a net +190 billion RMB of liquidity, which along with continuation of MLF liquidity shows PBOC's position to maintain stability.

The policy makers' "cross-cycle" approach means they'll look at long-term high quality economic developments and structural reforms. The 3060 theme is the long-term background, with the 14th Five-year plan providing clear roadmap for new energy to replace traditional carbon complex. Photovoltaic, energy storage, hydrogen energy are some specific fields that have clear growth paths and strong performances ahead on back of new demands. The impact of capital market is becoming more important to the efficient allocation of resources in the economic transformations. As more private wealth moves towards equity products, the whole market is becoming more active.

From macro perspective, if there's more economic slowdown, we'd expect more structural policy to support social well-being, employment, innovation, etc. Deputy PM Liu He highlighted in the recent International Digital Economy Expo that there should be new round of infrastructure for the development of the digital economy.

On equity market, the recent market transaction concentration has reduced as flows diversified from previous large caps to medium to small caps. This year's margin trading and Northbound volumes are lower in percentage terms. The increases mainly come from resident flows. In an environment of lower wealth management product returns and lower interest rates, assets are finding their way to equity markets through higher new equity trading accounts, and higher mutual fund and private fund AUM's. With China having mid-autumn festival holidays for this Monday and Tuesday, there were some fears in the market for a "Lehman moment" on back of real estate company woes. We still think the company's liquidity or liquidation risk will not trigger a systematic risk for the real estate or financial industry. After all, the market has had enough time to process the real estate risks since last year. Meanwhile the global market is facing some high-risk events in 4Q21 such as debt overhang, Fed Tapering, new fiscal year

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budget, etc. These event risks are not due to spillover effects from Chinese market. On the other hand, the domestic theme of high-quality development and structural reform will continue, so any A-share market drop due to global factors will bring us better high-certainty investment opportunities.