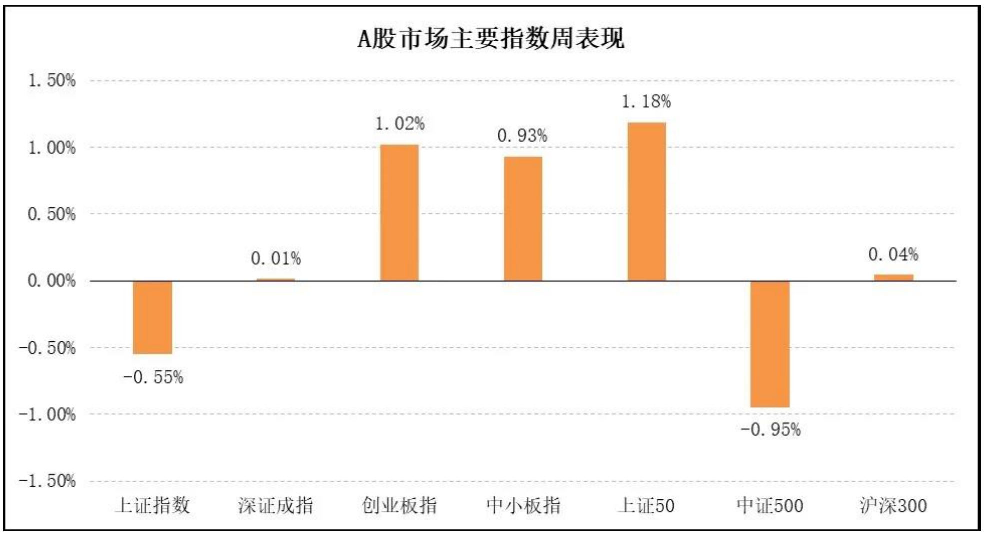
Rosefinch Weekly

After early cyclical peak in mid-Sep, market now led by structural opportunities

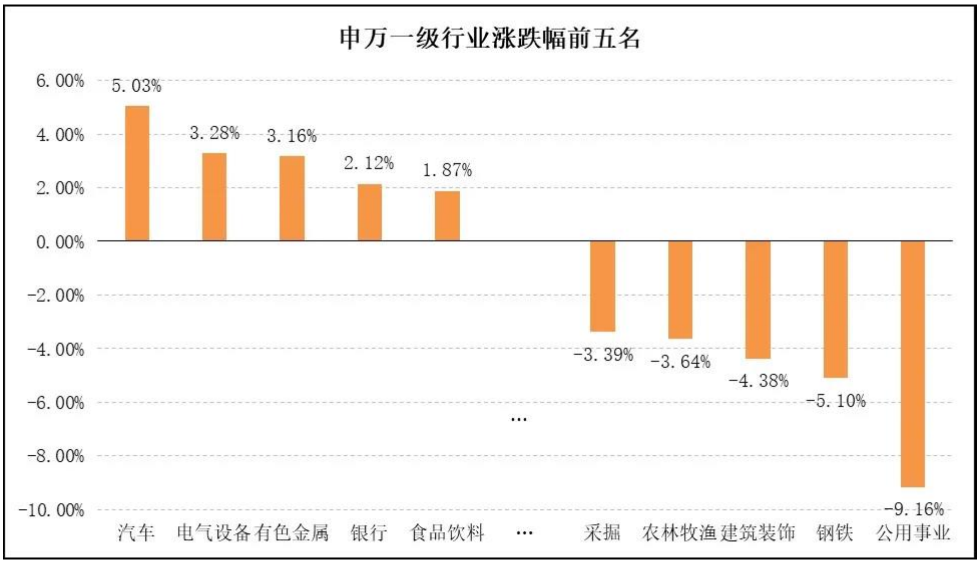
1. Market Review

For the previous week, A-share market indices had varied performance: SSE was -0.55%, SZI was +0.01%, GEM was +1.02%, SSE50 was +1.18%, CSI300 was +0.04%, and CSI500 was -0.95%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 10 out of 28 rose with automobile, electric equipment, non-ferrous metal, bank, food & beverages the top 5 performers.



Source: Wind, Rosefinch

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Market volume increased slightly after the holiday week. Northbound net +1.5 billion RMB, and Southbound net +4.4 billion HKD.

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

2. Market Outlook

Last week saw the releases of September Export, financing, and inflation data where the trends are in line with expectations. On export front, September export was +28.1% YoY, higher than Aug's +25.6%. The export was higher than expected due to power consumption constraints and even electricity shortages. Nonetheless, the strong global demand ahead of Christmas saw solid pickup in exports, while the higher raw material and shipping costs also contributed to higher export values.

Financing data were general subdued with new loans and social financing slightly below expectation. The outstanding total social financing slowed to +10% in September yoy vs +10.3% in August, the weakest pace since 2017. The corporate and household medium- to long-term loans rebounded somewhat, while trust loans dropped by over 200 billion RMB, signaling cautious regulatory stance. Later on in 4Q, as local government financing steps up, we may see increase in total social financing.

On inflation front, Sep PPI rose +10.7% yoy, a historical high level since the series started in 1996. On CPI front, it rose 0.7% or slightly less than market expectation of +0.9% or the Aug +0.8%. This continued dichotomy shows while upstream industrial material costs are high, the weaker downstream demand didn't cause substantial increase in consumer inflation.

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On monetary policy, it's worth noting PBOC spoke last Friday about subsequent policy stance. The main points are still maintain relatively neutral stance. Even though no RRR cut was mentioned, PBOC did mention using various monetary tools to maintain reasonable ample liquidity. On the margin, this may decrease expectation of monetary loosening. PBOC also spoke about using monetary tools to support the carbon-reduction goals, and specifically mentioned the quota system where banks can make loans first before replenish it via quota. This system is quite specific with strict conditions, which increases its efficiency and reduces spillover impacts to financial market.

Lastly is the government official comments regarding the real estate sector. On one hand there's a loosening of short-term over-restriction of real estate developer loans. On the other hand there's an emphasis in repaying short term real estate USD debts. Given the recent credit market turmoils, the call for real estate entities repay USD debts will support market sentiment.

The market's main concern now is around inflation, which when combined with liquidity tightening expectation will lead to weakness across equity and debt markets. We may have seen the peak rate of increase for commodity prices, where domestic policy support reduced speculative flows. But with the mismatch in short term suply and demand, we may see continued volatile commodity pricing near high levels. Any medium term fall of commodity prices will depend on better supply or clear negative shock to demand due to higher pricing.

The cyclical stocks already saw their peak in mid-September. A-share may not see large index movements but will see structural opportunities. Those industries with strong outlook that align with 14th five-year plans, such as photovoltaic, new energy vehicles, advanced manufacturing, will continue to move higher. The consumer staples moved up already, and its continued rising trend remains uncertain. Growth stocks are facing valuation risks as interest rates may rise. It's worth keeping a balanced portfolio allocation as we navigate through high outlook and valuation compression.