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Rosefinch Weekly

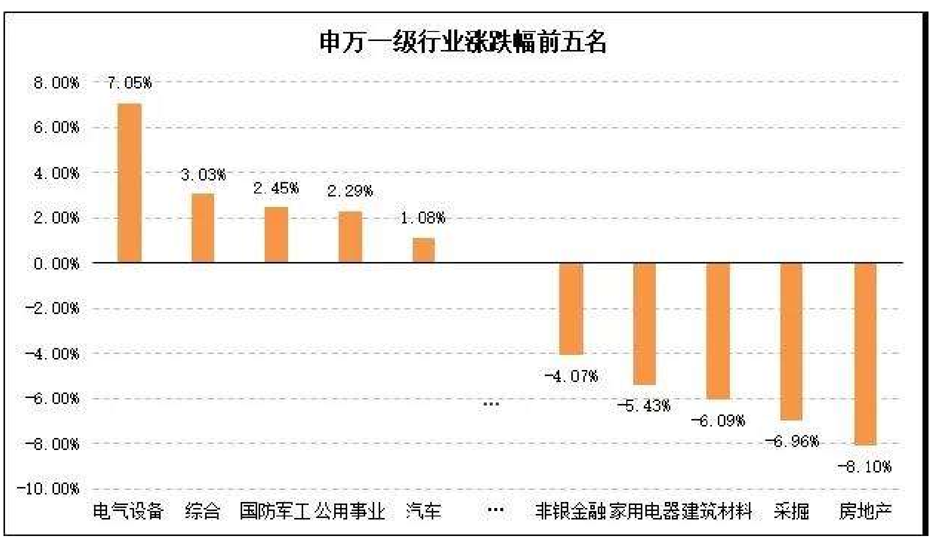
Sectors with strong outlook lead as performances diverge

1. Market Review

For the last week: SSE was -0.98%, SZI was -0.29%, GEM was +2.00%, SSE50 was 1.53%, CSI300 was -1.03%, and CSI500 was -0.05%.

Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 10 out of 28 rose with electric equipment, comprehensive, defense, utility, automobile leading the way.



Source: Wind, Rosefinch

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Market activity recovered with daily volume above 1 trillion RMB, Northbound net +10.6 billion RMB, and Southbound net -1.1 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

Last Wednesday saw the release of September industry enterprise profit at 738.7 billion RMB or +16.3% yoy, which extended prevailing trend of profit growth. The Jan-Sep total profit was 6.34 trillion RMB, +44.7% yoy, and annualized +18.8% since 2019. Overall, the profit growth rate is slowing though still above 10%. From industry chain perspective, the upstream enterprises' profit growth continues to increase, while midstream and downstream enterprises' profit growth are clearly dropping. There was also reported increases in both number of unprofitable enterprises and reported losses, signaling increasing operating pressure on enterprises.

The rise in upstream material costs did not pass through to consumers as evident by the Sep CPI of +0.7%, thus put more pressure on midstream and downstream companies. With the drop in coal and other commodity prices in Oct, this should reduce the profit squeeze pressure for downstream companies. The inventory remains at relatively high level, but account receivable growth rate slowed slightly from Aug, thus showing relatively steady cashflow situation.

On macro policy level, there hasn't been noticeable adjustments lately. Last week Xinhua News published article on current state of Chinese economy, where it highlighted current challenges faced by Chinese economy and the need to continue structural adjustment. The macro policy will keep its cross-cycle management, the monetary policy adjustment frequency and magnitude will likely decrease, the fiscal policy is likely to remain stable, and the economic policy will likely be less cyclical. From real estate

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policy angle, the main goals are still reducing economic reliance on real estate sector and stabilizing real estate prices. The current phase of some regional loosening is more to reduce credit risk than to return to real estate led growth. The eventual aim of the macro policy is utilizing structural policies to support long term social developmental goals, such as Carbon-neutral, rural revitalization, and inclusive financing. Recently PBOC is preparing policy tools to support carbon-reduction initiatives, such as “loan first, quota second” model of lending to provide targeted funding without flooding system with liquidity. We expect more impacts from such structural policies going forward.

The releases of 3Q earnings brought increased volatility and divergent performances. GEM and Science Technology Innovation Boards performed well, while dividend index was dragged won by cyclical stocks. Sector-wise, electric equipment and new energy outperformed significantly, defense and automobile had small up, while real estate linked sectors like real estate, home appliance, and construction material dropped over -5% due to the overshadowing property tax trials. As we mentioned in previous reports, since the mid-September electricity rationing episodes, this round of cyclical increase has peaked. With the continued drop of thermal coal and coal futures this week, steel, non-ferrous metal, chemical complexes all saw decreases. Some leading companies haven’t released 3Q earning yet, which causes more unease for the market. The market is still choosing sectors with strong outlook: the new energy sector benefits structurally from both policy support and profit expectations. With both macro and A-share liquidity healthy, the determinant of such stocks’ prices is less valuation and more outlook.