

Rosefinch Weekly

Real Estate Sentiment Improving; Focus on Economic Stability

1. Market Review

For the last week: SSE was +0.60%, SZI was +0.32%, GEM was -0.33%, SSE50 was -0.24%, CSI300 was +0.03%, and CSI500 was +0.19%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 17 out of 28 rose with food & beverage, textile, steel, biomedical, and excavation leading the way.



Source: Wind, Rosefinch

Market activity slowed slightly. Last week Northbound was net +11.1 billion RMB, and Southbound net -1.9 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

The October economic data continue to show weakening bias, where negative real estate sector contributions are dragging the economy. Oct new home prices dropped 0.2% mom from Sep, the first decline since Mar 2015. The real estate new constructions and sale areas all dropped over -20% yoy, with investment plans likely to reduce further. Infrastructure investments are increasing though still on weak side, while fiscal stimulus has capacity but its impact on real economy is limited by debt and investment efficiency. Consumer rebound is affected by higher prices so the real improvement is limited. Manufacturing investments and high-tech industrial production are steadily increasing, showing signs of economy's structural transformation. The subsequent government policy is likely to focus on structural adjustment rather than the traditional stimulus approach.

PBOC announced the 3Q21 monetary policy report, with continued emphasis on stability and domestic focus. Monetary policy will target stable environment, with limited short-term policy adjustments, and structural support for green finance and small enterprises. The report stressed the stability of the total credit and loan growth, with key being stability rather than counter-cyclical policies. Based on the recent deployed policy tools to support carbon-emission initiatives, the PBOC is looking more at the capital efficiency of underlying activities. While there is some increase in credit and loan growth, it's unlikely to increase dramatically. In local regions, there's a pickup in recent loan approvals, mainly in area of personal housing loans and high-quality developers. There's no noticeable relaxation to other restriction

policies for real estate down-payments or other sale proceeds, so overall regulatory sentiment remains tight for real estate.

The local real estate policy is used to correct policy overshooting or smooth short-term sentiments in order to prevent systematic risks. Real estate's deleveraging process requires some liquidity support. The new economy such as green investments need to step up to replace these economic activities, but at least for right now, there's still a noticeable gap for their respective investment amount and credit exposures. Premier Li recently highlighted that government should "maintain economic growing at reasonable level and the employment situation remain stable." We'll likely see more supportive policies announced in near future to support the real economy. Meanwhile, the recent China-US communications are broadly positive, with softer overtone in official announcement. With real estate sentiments recovering, and China-US relationships improving on the margin, this is supportive to risk assets such as equity market.

Real estate chain stocks are near recent lows. Construction commodities such as screws or glasses are showing backwardation, which may stabilize but hasn't turn yet. Even if financing situation improves for real estate sector, it'll still take about 6 months before new construction and investment situation is impacted. These commodities' spot prices will still be under pressure. The global agricultural products and fertilizers have the highest outlook certainty, so their prices are still making new highs which also make them the biggest risk to global inflation next year.

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