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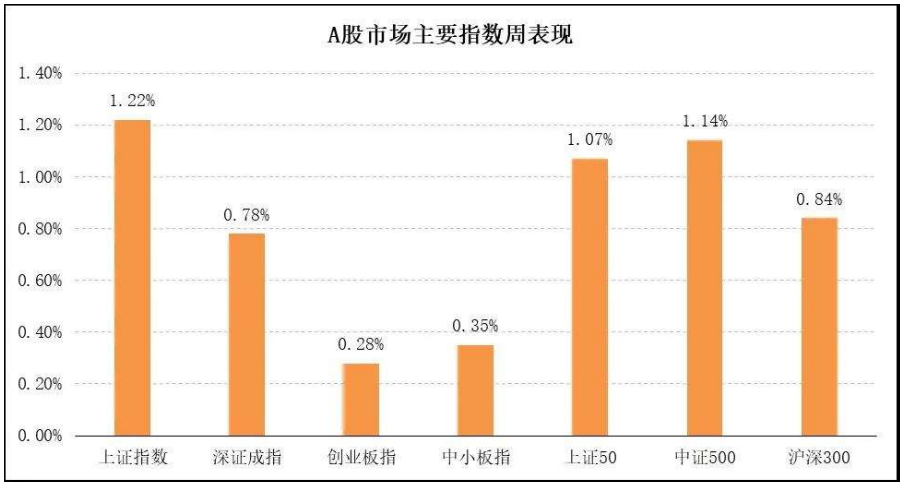
Rosefinch Weekly

A-share May Keep Sideway Trading as Themes Diverge

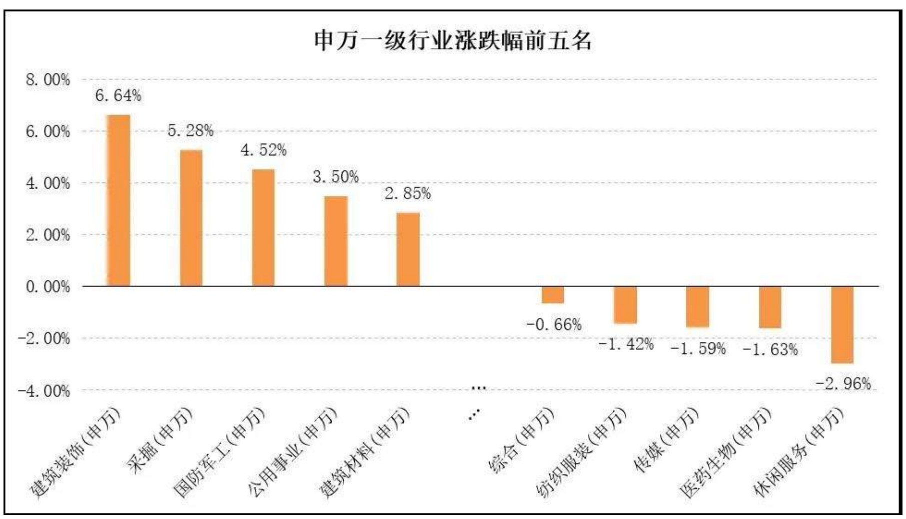
1. Market Review

For the last week: SSE was +1.22%, SZI was +0.78%, GEM was 0.28%, SSE50 was 1.07%, CSI300 was 0.84%, and CSI500 was +1.14%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 20 out of 28 rose with building decorations, excavation, defense, utilities, and construction material leading the way.



Source: Wind, Rosefinch

Market activity gained in volume. Last week Northbound was net +15.1 billion RMB, and Southbound net 6.7 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 week's Oct PMI data was slightly stronger than market expected, but mostly due to bounce in manufacturing activities than new orders. The supply side impact was clear as the earlier electricity restrictions ease. The Caixin PMI is showing clear downward trend, and SME outlook remaining weak. The construction sector PMI showed clear rebound. National Bureau of Statistics stated that "some 14^{th} 5-year planned major projects are underway, with some acceleration in infrastructure construction activities." With regional debt issuance picking up, and fiscal outlay speed still slow, market is expecting faster infrastructure investments to come through. Given reduction in land sale proceeds and concerns on local government debt, the new infrastructure investment may still become center of growth.

Next week will see more macro economic data releases, with focus around credit growth and infrastructure investments. On monetary policy front, Premier Li had called for timely reduction in RRR which increased market expectation of rate cut. But PBOC is focusing on how liquidity supports the real economy and the efficiency of any added liquidity, thus unlikely to embark on large scale liquidity easing which may cause excess liquidity and leverage in the financial market.

Pandemic is again leading the short-term headlines, though the market is reacting more rationally given the prior experiences. While most investors see the short-term impact as non-systematic, some investors are becoming more bearish with large liquidations in oil and long bond yields. China's domestic markets has limited impact, with equity and foreign exchange markets showing strong resilience. Due to China's robust pandemic policies, the domestic manufacturing capacity may continue making up shortfalls in global supply chain next year.

In China, the high-quality economic activities will be favored by investors. The economic policy is to support but not aggressively promote economic growth. The infrastructure investments will grow less actively, real estate policy may be warming, but the overall picture of economy will be one of slowing growth. Government policy will plan and actively engage a supportive environment for real economy and to stabilize market and corporate confidence. In the short term, there's still more uncertainty ahead. Policy will still be key driver for frequency and magnitude of capital market movements. Equity market is not bearish with sufficient liquidity available. A-share has limited impact from risk-off impact from global markets, but the different sectors are rotating quickly, thus making it harder to have a sustained rise in the broad index. With credit growth still subdued, the overall risk sentiment will likely remain soft.

Focus Topic: The Review of 2020 Central Economic Work Conference

With the 2021 Central Economic Work Conference (CEWC) coming up in December, it's worth taking a look back at the highlights from the previous annual Central Economic Work Conference. The 2020 CEWC was held from Dec 16^{th} to 18^{th}, 2020. There were a number of highlights including:

1. The conference proposed keeping economy growth to within "reasonable zones", with focus on steady and supportive policies, and precise implementation of macro policies.
2. The conference stressed the macro policies should maintain continuity, stability, sustainability, and establish necessary support for economic recovery. It should avoid "sudden turns" and utilize "valuable time window." The conference stresses the macro policy in 2021 should gradually revert to normal, while not demanding fast withdraw of leverage or loosening policies.
3. The conference expected the fiscal policy to be "improving in quality and effectiveness, and more sustainable", and to maintain "appropriate" outlay.
4. The conference expected the monetary policy to be "flexible, accurate, reasonable, appropriate", and maintain "basically stable" macro leverages, including monetary supply and social financing growth that are in line with nominal economic growth, with a balance between economic recovery and risk prevention.
5. The conference wanted to expand domestic demand, with fundamental pillar of increasing employment, perfecting social security, improving income structure, expanding middle income class, and solidly pushing for common prosperity.
6. The conference highlighted "risk prevention", including addressing local government debt risk management and various debt avoidance or default behaviors.
7. The conference stressed housing is for living, not for speculating. The key to address major cities' housing problem is to expand actively the housing rental market.
8. The conference prioritized national strategic scientific initiatives and supply chain independence.
9. The conference listed 8 areas of focus: 1 strengthen strategic national technology; 2 strengthen independence of industry supply chain; 3 expand domestic demand; 4 push for economic reform; 5 resolve agricultural seeding and farmland issues; 6 strengthen anti-monopoly and prevent capitalistic disorderly expansion; 7

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resolve housing problem in major cities; 8 make good progress in carbon-peak and carbon-neutral related projects.

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