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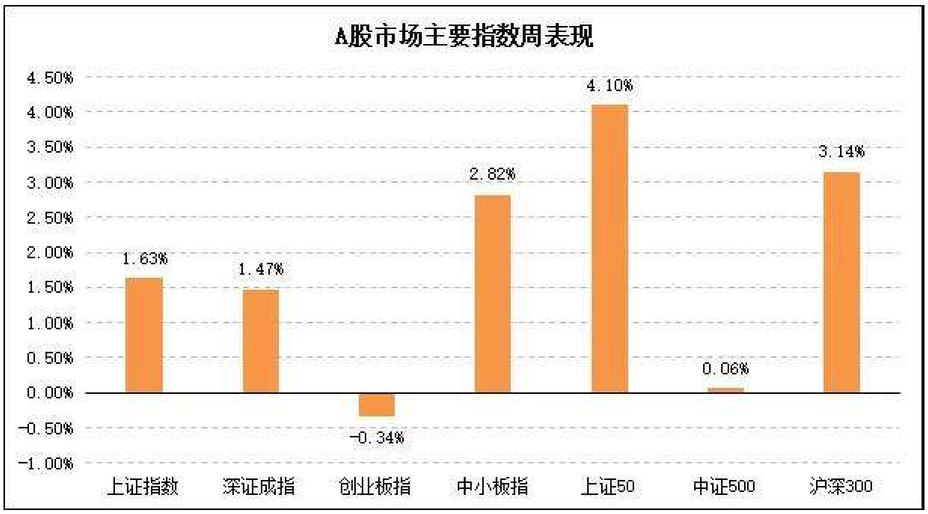
Rosefinch Weekly

Equity Market Brightens as Liquidity & Outlook Improve

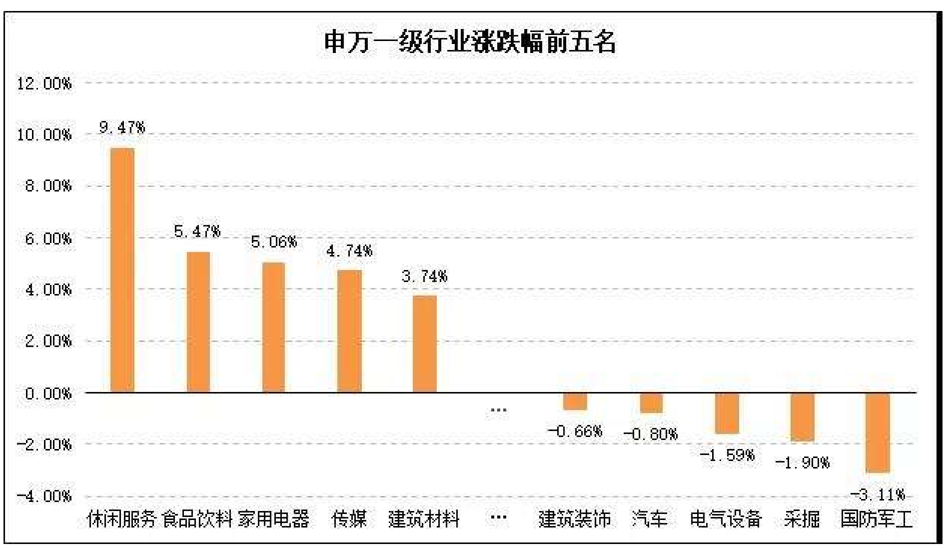
1. Market Review

For the last week: SSE was +1.63%, SZI was +1.47%, GEM was -0.34%, SSE50 was 4.10%, CSI300 was +3.14%, and CSI500 was +0.06%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 20 out of 28 rose with leisure services, food and beverages, household appliance, media, and construction material leading the way.



Source: Wind, Rosefinch

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Market activity gained in volume. Last week Northbound was net +48.8 billion RMB, and Southbound net 11.8 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 China economic data saw PPI coming off from Oct's historical high of 13.5% to 12.9% yoy; while CPI was +2.3% vs +1.5% in Oct, mostly led by food and energy costs. The core inflation remained steady at +1.2% vs +1.3% in Oct. The weak downstream demand is holding back cost pass-through to consumers for now. Social financing in Nov had limited rebound, where local government debt increased, loans were up mostly in housing loans and not as much in enterprise loans. Export in Nov rose +22% yoy while import rose +31.7%, thus showing a tightening of trade surplus to $71.7 billion from $84.5 billion in Oct. There's growing need for government policy support since we have real estate sector withdrawing, infrastructural spending still holding, demand softening, credit and investment both weakening. PBOC announced reduction of 0.5% in RRR on Dec 6th, freeing up 1.2 trillion RMB of fund for the economy. There was a clear policy directive on the back of RRR, which was to "support SME, Green transformation, technological innovation, high-quality development and supply-side structural reform." The key for government policy is to achieve "stable growth", which will lead to additional policy implementations outside of existing monetary policy support. We therefore are less bearish about the current economic slowdown, and believe the market needs to revise up probability of policy support. However, it's worth noting government support or monetary loosening will have more government guidance rather than free-for-all. The goal is more support and less stimulus, with key

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on SME and Carbon-reduction initiatives. This slowdown is a painful but necessary transitional step as China's economy move from high growth to high-quality development.

As government policy meeting prioritized stable growth, a series of specific policies will be implemented quickly. The equity market brightens as macro liquidity and industry outlooks improve. Once policy crystalizes, market will track closely the credit growth and expect social financing to accelerate in 1Q22. In A-shares, we see the battle between the cyclicals and the new energy sectors. The former is rebounding from the lows, while the later is upholding it positive outlook. As credit conditions loosen and risk tolerance increases, we may see a broad-based uptick. In the near term, we may keep balanced allocation reduce volatility. Government policy clarified the carbon-reduction campaign should focus on creating new energy first before reducing the traditional capacity. More on the government policy guidance below:

Thematic Focus: Central Economic Work Conference Dec 8-10, 2021
*The CEWC is an annual meeting in China that sets the coming year's agenda for its economy, its financial, and its banking sector. This year's meeting concluded on Dec 10th, with key leaders attending including President Xi Jinping, Premier Li Keqiang, and other standing members of the Politburo. Below are the key points from this year's CEWC:

1. The Conference emphasized the need for steady growth. The current economic situation is under pressure from "demand withdraw, supply shock, and weaker expectation." The conference called for all parties to proactively deliver policies supporting economy, with reasonable "front-loading". Next year's macro policy environment should be steady and effective; combine cross-cycle and counter-cycle policy implementations; increase anticipatory macro management.

2. On fiscal policy side, the Conference wanted more proactive fiscal policy with focus on increasing effectiveness and deliver targeted and sustainable implementations. The fiscal support should be increased and at sufficient level. The 2021 fiscal balance still has over 1.2 trillion RMB compared to same time 2020, thus the fiscal expenditure should increase pace quickly in early 2022 to implement the cross-cycle and counter-cyclical policies. The Conference called for "appropriate advanced infrastructure investment", which may lead to more local special bond issuance. In addition, the Conference asked for "new tax reduction policy to support SME, POE, Manufacturing Sector, and risk-reduction." We may see structural tax reduction or fee reduction in 2022.

3. On monetary policy, the Conference called for "steady monetary policy with appropriate flexibility to keep liquidity reasonably supportive. And to guide financial institutions to support the real economy, including SME, Technological Innovation, Green transformation." The Conference asked for monetary policy and fiscal policy to coordinate well together and organically combine cross-cycle and counter-cyclical policies.

4. On real estate policies, the Conference reiterated the guideline that housing is for living, not

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speculating. It called for exploration of new development model so that real estate sector can enter into a more virtuous and healthy development cycle. The future development will focus on guaranteed rental and long-term rental housing market to complement existing housing market and avoid sharp reduction in real estate investment. We still need to monitor policy, especially rollout of property tax, on real estate sale and investment rebounds.

5. The Conference emphasized micro-policy should promote more market dynamism and structurally improve economic circulation. The emphasis should be to "unblocking domestic circulation" by promoting anti-monopoly, debt evader governance, intellectual property, manufacturing competitiveness, and digitalization. It also called for strengthening of core technological advancements in new energy, carbon-neutral, and advanced manufacturing.

6. On the local government hidden debt issue, the 2021 communique remained firm and called for "resolutely prevent additional local government hidden debt", thus future local fiscal support will be funded more through local debt.

7. The Conference asked all government departments to "take responsibility for stabilizing macro economy and proactively launch & implement policies for stable economy." Technological policy must be well grounded; local policy must improve developments' balance and coordination; social policy must support basic services. We expect future fiscal policy to push for tax and fee reductions and support SME, with monetary policy also continuing its support.