

Rosefinch Weekly

Looser Monetary Policy Ahead

1. Market Review

For the last week: SSE was -0.39%, SZI was -1.06%, GEM was -4.00%, SSE50 was +0.35%, CSI300 was -0.67%, and CSI500 was -0.49%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 11 out of 31 rose with agricultural, food & beverage, construction material, commercial trade, real estate leading the way.



Source: Wind, Rosefinch

Market volume dipped. Last week Northbound was net -1.2 billion RMB, and Southbound net +10.6 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

Based on the high-frequency data, the Chinese economy is still running at sub-par speed. Real estate did improve slightly, but still down over -30% YoY. The recent policy changes are more stabilizing for real estate sector, especially for 3rd or 4th tier cities. But with most major metropolitan areas are having decreasing inflow populations, the real estate transactions will likely remain low. The government did approve more projects to proceed, so we expect more infrastructural investments to come through increased fiscal stimulus.

Last week the 1y LPR was reduced by 5 bps, while 5y rate was left unchanged. This shows that the focus on government policy is still looser credit conditions. The decrease in short-term LPR helps to reduce financing cost, thus increasing funding needs. The Dec bill rediscount rate is now near 0, showing there's a lack of real demand. At the same time, the drop in LPR did not result in drop in MLF, so the PBOC tone remains one of basically stable policy.

Following the government's 2021 economic conference, all assets are moving from stable growth policy environment into policy-anticipation environment. Before we "see it to believe it" come next Jan/Feb period, the market will likely remain in small range. Beginning of next year will likely see bond market maintaining neutral in the current loose monetary policy environment, while equity market shall adapt a more balanced portfolio allocation and wait for more clarity.

Thematic Piece: PBOC monetary policy 4Q21 meeting highlights

The 4Q21 monetary policy meeting of PBOC focused on the three main challenges of weak demand, shocked supply chain, and soft future expectations. The future policy shall revolve around key theme of stability, cross-cycle management, as well as counter-cyclical tools. On monetary policy front, a steady policy should also have some flexibility. PBOC shall work on applying pro-active management, deploying precise engagement, and improving policy structure. The follow-up policies shall include supporting SME, carbon-reduction, clean-carbon and other structurally important initiatives. The stability in macro-economic policy shall continue, with social financing and M2 growth to be in-line with nominal GDP growth.

On real estate, the 4Q21 meeting highlighted the importance of protecting consumer rights and promoting virtuous cycle for the real estate sector. Overall, the PBOC maintained the stability tone, and stressed coordination between cross-cycle and counter-cyclical policies. The emphasis on being “proactive” opened the door for more supportive policies to come.

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