朱雀基金
Rosefinch Fund
[021]2030 5888 [021]2030 5999
58 Floor, New Bund Center, NO.555 West Haiyang Road/588 Dongyu Road, Pudong New Area, Shanghai
上海市浦东新区海阳西路 555 号/东育路 588 号前滩中心第 58 层，邮编：200126

Rosefinch Weekly

Has the Market Expectation Turned?

After recent sharp selloffs in A-share, H-share, China ADR, and Chinese USD debts, the government State Council's Financial Stability and Development Committee had a meeting presided by Vice Premier LIU He. The meeting addressed the key concerning questions on the market and substantially shored up market's confidence on the government policy and the economy. The financial market responded very favorably, with increases across stock market, debt market, commodity, and exchange rates. This massive broad-market rally normally only happens when the market has turned completely its future expectations.

It's worth looking back at the last time LIU He had such a public announcement on prevalent hot topics. Back on Oct 19th, 2018, when market was very pessimistic about US-China trade tensions and China's deleveraging policies, LIU He also spoke confidently about the hot topics, changed the market expectations, with Shanghai Stock Index subsequently rebounding from around 2500 and was up 30% within 6 months.

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Recently, the market is concerned about a few key areas: China ADR, platform economy policy, FED hike, monetary policy, Russia-Ukraine conflict, and pandemic control. Overall, these negative factors seem to be less influential or improving now.

- Regarding China ADR, LIU said both US and China regulators had good dialogue and are making progress towards forming specific cooperation plans. Chinese government will continue supporting companies to list in oversea exchanges. As for platform economy regulation, he expects relevant departments to establish regulations that are market-driven, legal, and international. He wants steady progress and aim for quick completion of the large platform company's review, setting up both red light and green light, encourage platform economy's stable and healthy development, and increase their global competitiveness.

- Regarding FED's hike of 25 bps on Mar 17th, the market is still concerned about potential stagflation. With 10yr UST yield at 2.16%, the 10y-5y curve is about flat, and the 10y-20y spread has tightened to 25 bps. With the first hike out of the way, US stocks had some rebound, but the risk of curve inversion remains.

- As for monetary policy, the committee meeting called for "monetary policy to proactively address issues, and new loans should increase appropriately." The policy guideline will be to promote more credit and loans, thus securing continued liquidity for the market. We'd expect PBOC to increase both total amount and variety of structures to further support credit expansion.

- The Russia-Ukraine conflict may see more serious negotiations ahead as losses mount on both sides. As the conflict enters into the 4th week, the immediate risk-off market reactions have dissipated somewhere, with oil, gold, and UST assets retracing to levels prior to the Feb invasion.

- On the pandemic, based on previous experiences, once major cities like Shanghai and Shenzhen enter into the city-wide testing phase, we'd expect the pandemic to be controlled shortly. The government has called for minimize economic interruptions while achieving the pandemic control. The recent pandemic policy also allowed self-testing kits, which is a positive step towards reducing shocks on healthcare system and reducing negative impacts on economic activities.

Overall, we see very positive policy signals from the government. This helped to improve the previous pessimistic expectations and stopped the negative feedback loop in the market. With liquidity risks now reduced, market should be able to continue its recovery.

 Email ir@rosefinch.cn