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

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Foreign Investors Push Up A-shares

China's June manufacturing PMI rose to 50.2 in June from 49.6 in May, reaching above 50 for first time since Feb. The service PMI also went up to 54.3 in June from 47.1 in May, showing good recovery in both supply and demand sides. The economic recovery has picked up pace in June with clear signs of improvements across manufacturing, foreign trade, and real estate. But the employment situation, especially in service sector, remains weak. More time is needed for the household demand to recover. Real estate sales data is still in an overall downward trend. So there's still some relative uncertainty in the economic recovery.

When we look into high-frequency data on real estate sales, we notice some improvements due to pend-up demand and some city-specific stimulus policies. The real estate data did not bring commodity recovery though. In fact, domestic commodities are being dragged own along with global oil price, showing recent pessimism on global demand.

Last week State Council set up a 300 billion RMB capital pool to support up to 50% of capital needs for new infrastructural projects. This is additional support for policy-driven new infrastructure investments, while also leverages government funds to encourage private sector capital investments in infrastructure investments. Some key areas to support are transportation or hydropower networks, information technology or logistic upgrades, underground network, high-standard farming network, national security infrastructure, major technological innovation, and other projects by local government special-purpose bonds. The policy side will focus on steady growth with support for long-term stable capital source with reasonable leverage. The state council also mentioned the monetary policy should avoid excessive "flooding of liquidity", with special care on the transmission mechanisms. Overall, we can expect bias towards loosening, which should support steady growth while avoid under-deployed capital in the financial market.

Email ir@rosefinch.cn

On the pandemic front, inbound quarantine is reduced from 14+7 days to 7+3 days. Shanghai has also resumed onsite dining at restaurants. These measures had strong positive for travel and aviation sectors. In principle, the "dynamic zero" policy remains in place, with the implementation looking for a balance between protecting physical well-being and maintaining normal economic activities.

Last week's A-share saw some volatility, with Chi-Next retracing slightly for the week. Overall market liquidity is ample, with daily volume over 1 trillion RMB. Given the oversea volatility, there were increased Northbound capital into the A-shares. In June, there were total of over 70 billion RMB of net Northbound inflows, showing steady inflow.