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Rosefinch Weekly

How A-share is Walking its Own Path?

Last week saw sizeable volatility in oversea markets. 2y UST yield dropped 15 bps to 2.59%, 10y UST also came off 21 bps from the high to 2.93%. US equity market closed the week in negative territory at -2.41% for S&P, and -2.8% for Nasdaq. The US rate hike expectations decreased slightly. With US CPI becoming toppish, the long-bond yield has turned from one-way up to now sideway consolidation. The rate-shock to equity market has run its course for now, with spillover risk to A-shares reduced.

A-share market was resilient last week despite the weak oversea tones. There were several days where the market opened low but rallied to close, signaling a build up of confidence in the domestic market. Part of the reason is that A-shares had deeper corrections compared to oversea market. In addition, market is shifting to view that the domestic pandemic situation and the economic slowdown has reached the bottom. Market focus is now moving away from short-term shock events to medium-term profit outlook.

Equity market volume has returned above 1 trillion RMB after severe weeks of low volume. The net financing balance also increased slightly for the 2nd week in a row, indicating more favorable sentiments. The market rebound comes from quick recovery of risk sentiments, with the growth sectors that suffered the most rebounding the quickest. Since the Shanghai pandemic wave, the manufacturing sector had led the drops, including new energy, electronics, automobiles, etc. These sectors are showing more resilience while the previous favorite "stable growth" sectors are coming off. Some domestic infrastructure or construction related stocks are softer as actual activity fall short of high expectations. Until supply normalize and demand recovers, the inventory build up pressure will increase.

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Last week's macro data for trade, inflation and financing all reflected the severe impact of the pandemic had on the economy. Overall export growth slowed down significantly with April export only +3.9% yoy vs Mar's +14.7%, which will drag down the growth. On inflation front, China April CPI was +2.1% yoy vs March's +1.5%, and PPI was +8% YoY vs March's +8.3%. The rise in CPI showed the impact of disrupted supply chains due to pandemic. The core consumer inflation rate (ex food & energy) was +0.9% YoY vs +1.1% in March, showing weakness in consumer demand still. The financing data also showed softer side, with household loans decreasing. Consumption, housing loan, and credit levels are all experiencing temporary shocks from the pandemic. While the April data showed clear disruptions from pandemic, the May impacts are clearly easing with resumption of production and logistics more widespread. We expect more recovery going forward, though policy support is needed to get us back on track.

Last week's State Council meeting focused on maintaining steady growth, clarified employment as priority for both fiscal and monetary policies, and focused on funding support for economic entities and stable employment opportunities. The March unemployment rate was 5.8%, with heavy pressure for young employment. We expect more policies to decrease taxation and administrative fees in order to support SME. The council meeting also emphasized the need to control prices, especially for agricultural, logistic, and energy supplies. Currently much of China's inflation pressure comes from imported supply side prices. The key to stabilize pricing is therefore more about supply and logistic stability than macro tightening. The last main topic was around mobilizing infrastructure and inventory assets, including encouraging local governments to package quality projects into REITS to recycle liquidity for new projects. The development of REITS industry can effectively recycle assets with steady cashflows, which will reduce government investment cycle. This will expand funding source for infrastructural projects as well as establish collaborative investment model for government and the market.

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