

Rosefinch Weekly

Pace of Economic Recovery the Key for Risk Asset Performance



“Steady growth” has been the corner stone of recent policy announcements. Last week’s Politburo meeting and National Teleconference where premier Li Keqiang chaired mainly focused on three areas:

1. Fiscal and monetary support will include tax reduction, administrative fee reductions, and SME loans. The priority is to support SME who are key to the employment security.
2. Actively expand effective demand, especially in consumer and investment areas. In consumption, the key will be stimulus policy in automobile sector; in investment, the key will be infrastructure spending, especially transportation, hydroelectric power, underground network, and reasonable real estate requests.
3. Stabilize supply chain and achieve energy security, thus avoid potential supply side shock to economy.

Recent national communications have called for Steady-Growth policies to be clearly announced in detail by end of May. The key theme is that economic development is the most fundamental issue for China, with implications for all major topics like employment or social well-beings.

Interestingly, the domestic fixed income and equity markets had different responses to the policy announcements. While the 10yr CGB yield came off from 2.85% high on Monday to 2.75% close on Friday, the equity market was more sideways as the economic pressure remains severe. **Therefore, the pace and sustainability of future risk asset rebound will depend on the slope of economic recovery.**

Last week showed weak April industrial profit data at -8.5% YoY vs +12.2% in March, which reflected severe impact of the pandemic. Most of the profits are captured by upstream industry chain companies, with mid-stream and down-stream companies taking the brunt of the hit. In May, we are starting to see production and logistics showing clear signs of improvement. With upstream material costs now under control, the profit picture should improve.

The oversea market saw improved sentiments last week. US stock rebounded on back of less hawkish minutes and market consensus of 50bps hike in June & July meetings. In terms of geopolitics, while US Secretary of State Blinken did have a policy speech on China, it was largely in line with expectations and did not open up new area of conflict. All these temporarily reduced the market uncertainty and helped risk sentiments.

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