

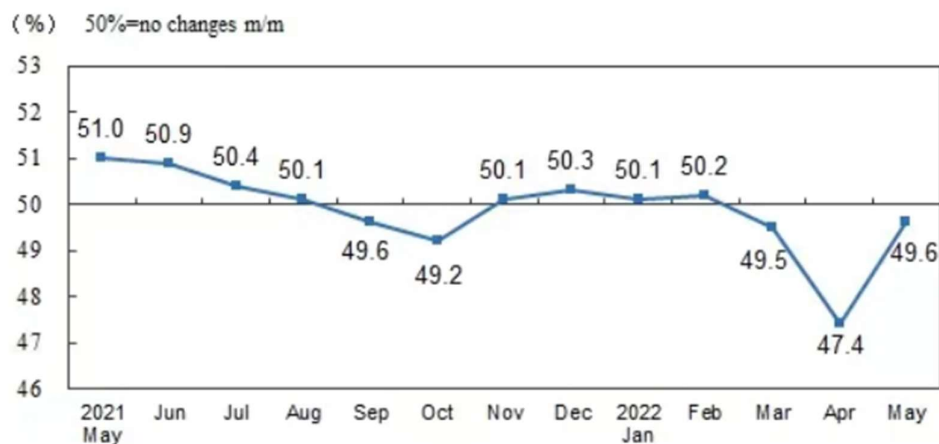
Rosefinch Weekly

A-share Rallies as Market Tracks Economic Data



Last week saw May PMI data with manufacturing PMI at 49.6% vs April's 47.4. While it was still below the 50 thresholds, it does show a significant improvement. Structurally, both the production and new order data showed clear improvement: production index was up 5.3 from 44.4 in April to 49.7; and new order index was up 5.6 from 42.6 to 48.2. **With Shanghai now finally jump-starting, there's not clear improvements in manufacturing activities across the board, especially in automobile industry.**

Manufacturing PMI(Seasonally Adjusted)



Source: National Bureau of Statistics

There are of course still some key concerns such as service industry. The May non-manufacturing PMI was up 5.9 from 41.9 to 47.8, which was a strong improvement but still 2.3 below 50. The service sector employment

subindex lowered to 48.6 from April's 49.3, making a new low since Feb 2021. The pandemic is still having big impacts to service and consumer sectors. Another area of concern is the supply chain. While the overall supply chain is under repair, the supply delivery efficiency remains low, with the entire chain still under clear pressure. Overall comparing May to April, the economy's recovery trend is taking shape while pressure remains.

Last week the State Council announced the policy bundle to firmly stabilize economy and push for steady growth. The infrastructure investment's pace has picked up, which will give a clear short-term boost to the economy. But the long-term vitality still needs a strong domestic market. The re-start of Shanghai is a welcoming sign that boosted market confidence. **The market will track closely economic data to verify the pace of recovery. With the government emphasizing on frontloading stimulus measures to boost 2Q activities, we will likely see a spurt of activities in the June monthly data.** We will see some pend-up demand released in June both in manufacturing and in demand sides. These will be good short-term news for the economy, though it may mask some medium- to long-term structural issues that warrants continued vigilance on the strength of the recovery.

The oversea market was relatively calm last week. Canadian CB hiked 50 bps, which led the market increasing expectation of future hikes. US May employment data was in line to April and still show a tight labor market. The "higher salary – higher inflation" spiral is still in play, translating into higher consumer inflation. Elsewhere, Europe also reported record inflation data, with EUR-block May CPI at 8.1%. The inflationary pressure has spread beyond energy and food prices to service and non-industrial products. With global stagflation risk still lingering, the global stock markets' rebound is only temporary for now.

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