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Rosefinch Weekly

A-share Remains Resilient as Fundamentals Bottom Out

Last week saw some encouraging economic data from China. The industrial production was +0.7% in May YoY vs -2.9% in April. Fixed asset investment for the Jan-May period also rose by +6.2% YoY vs +6% expected. Overall the economic recovery is continuing, with fixed asset investment an encouraging sign that that traditional and new infrastructure spending are gaining traction. While the infrastructural spending will continue as the major channel of stimulus, the policy focus will shift towards stabilizing hiring entities and employment in order to help consumers improving future expectations. The policy will also support economic structural transformations that will pay longer dividends in future.

Starting from mid-June, we're seeing quick rebound in China's real estate sales data in 30 major cities. While the late-May sales data was -45% YoY and early-June sales data was -48% YoY, the mid-June data was +25.9% YoY. The fast recovery in the data is mostly due to the following 3 factors: 1) major cities like Shanghai had a lot of pent-up demand that was suppressed due to pandemic control measures, and these demands are being released as the pandemic situation improves. The data includes 4 major cities, 9 second-tier cities, and 8 third-tier cities. The faster recovery in major and second-tier cities reflects the release of pent-up demand there. 2) the lower housing loan rates and relaxed sales policy had some positive effect on overall housing demand. This was noticeable in cities like Suzhou and Foshan, where the more relaxed policies improved housing demand. In Suzhou for example, the limitation on selling new house in secondary market was reduced from 3 years to 2 years, with complete removal of 2nd hand housing timing restrictions. Suzhou's sales data was -45% in May, and is not +91.5% in June YoY so far. 3) there were a few outliers in the cities where they saw extremely high sales area. In Qingdao for example, the June sales area was +164.5% YoY, which is probably unsustainable as a trend. Given these factors, overall we'd remain cautious on how accurately June's rebound is representing the long-term recovery of the sector. We'll be monitoring this space closely for the strength and extend of the demand rebound.

Last week A-share was pretty volatile. **What was most interesting was how A-share showed strong finish despite the weak overseas market.** Despite S&P finished the week -5.8%, NASDAQ was -4.8%, CSI300 was +1.6% and ChiNext was +3.9%. China market has returned to the March breakdown levels and is taking stock right now. While the May data has shown resilience, this was largely priced in. The upward lift last week was due to some short-term factors such as improved liquidity, increased daily volumes, higher Northbound net purchases, etc.

Oversea markets were hit by high inflation concerns and FED hikes. China on the other hand has relatively steady CPI and more loose monetary policy, which puts it in a more equity-supportive environment. In this context, we're seeing both the return of Northbound net purchases (+17.4 billion HKD last week) and a steadier CNY. The stocks can benefit from optimistic future expectations, but the commodities look at the pessimistic present demands. At the same time, commodities fell last week as weak demand saps these risky assets. **So far, the oversea concerns on global interest rate hikes have limited impact on A-share, while risk-on rallies may benefit the domestic sentiments.** We have to monitor European or Emerging Markets' financial market stability, but for now, A-share remains resilient.