

Rosefinch Weekly

Optimism Returns as Inflation Expectations Falls



Last week's overseas risk assets recovered as NASDAQ rebounded 7.5% for the week and 10yr UST yield lowered 10 bps to 3.13%. The Europe and US PMI data showed some weakness again. Eurozone PMI slumped to 51.9 in June from 54.8 in May, the lowest level since Feb 2021. The composite new business index also dropped to 16-month low of 50.0. US June manufacturing PMI fell to 52.4 from 57 in May and much lower than market expectation of 56, showing the slowest growth in factory activity for almost two years. Meanwhile, Powell reiterated FED's commitment to check inflationary pressure and acknowledged the risk of recession in his congressional testimony. Last Friday's University of Michigan Surveys of Consumer showed 1y inflation expectation eased slightly from 5.4% to 5.3%, and 5y inflation from 3.3% to 3.1%. As global commodity prices retrace, the lower inflationary expectations revealed a path towards lower inflation and less Fed hikes which boosted market sentiments.

Domestically, according to high-frequency data, the real estate sales showed a slowdown week-on-week, where the pent-up demand was released. Top-tier cities' sales reverted to negative growth rate, though looser government policies had noticeable boost to some 2nd-tier cities. There's some improvement though overall conditions remain contractionary. On the export front, we saw fast growth in June container shipments, with export expectations stabilizing following the April-May shock. The Chinese economy is still in recovery mode, though showing signs of improvement.

On policy front, Xi Jinping called for strengthening macro-policy adjustment and striving towards achieving annual economic growth target in the 14th BRICS Summit. There is a clear mandate to increase economic growth, and we'd expect further steady growth policies to be delivered. Meanwhile, on the topic of pandemic policies, the Health Ministry published guidelines that called for more precise and scientific responses to the dynamic

pandemic situation in order to avoid excessive shocks to households and economy. The near-term pandemic policy seems to be steadier, which may provide strong foundation for subsequent economic growth.

Domestic economic data reflected the gradual recovery theme: the June EPMI data rose 3.5 to 52.5, back to expansion zone after 3 months. With commodity prices softening, the inflationary expectations are coming off too, which will help profits from mid- to down-stream companies to recover. Last week's A-share market continued the rebound since early May, with Chi-Next up 6.2% for the week and 33% since the late-April low. Liquidity is also returning to the market with daily volumes now over 1 trillion RMB again. Northbound fund flow continued its net inflow which is supporting the stock market on the margin.

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