朱雀基金
Rosefinch Fund
[021]2030 5888 [021]2030 5999
58 Floor, New Bund Center, NO.555 West Haiyang Road/588 Dongyu Road, Pudong New Area, Shanghai
上海市浦东新区海阳西路 555 号/东育路 588 号前滩中心第 58 层，邮编：200126

Rosefinch Weekly 2022-8-1

Project Delivery the New Priority

Last week's focus was on real estate, Politburo meeting, and Sino-US relationship. The Politburo meeting was the key event to set the tone for 2H22 policies across liquidity support and real estate priorities**. The main topic on real estate is how to support delivery of ongoing projects, which is now a social well-being issue.** Central government has emphasized the need for local government to take the lead in resolving stuck-projects. As the main beneficiary of real estate revenues, the local government should assume bigger role in solving real estate problems. We now see various project-bailouts rolling out in various regions, mostly using local government or state-owned enterprise resources to purchase land banks from developers, thus providing much needed funding to complete other ongoing projects. In terms of supporting real estate woes, there are two main issues to follow closely:

First, the current government priorities are to save holding company entities, reduce stuck projects, and firmer regulation on purchase funds. These measures should support market confidence, alleviate enterprise sales and liquidity pressures. But the real estate holding companies still need to resolve their high leverage and extended debt problems through market means, which may disclose more liquidity risks.

Second, the current government resolution's implementation is dependent on policy bank and commercial banks' support. Overall there are positive signals to the housing market, which supports construction and sales activities. It remains to be seen how effective the supportive measures are.

In our view, the real estate situation's focus now is project delivery and not massive stimulus policy. The government response is on how to resolve construction completion and deliveries, and not a new round of demand-side stimulus. Politburo meeting reiterated the need to implement existing policies effectively, rather than rolling out new stimulus policies. The 3Q policies will lean on the steady side, which may be a disappointment to some recent market expectations of aggressive stimulus policy.

Elsewhere, domestically oil price rebounded and led the commodity complex higher. Fixed income yields drift lower as we remain in very loose monetary conditions. Market remains cautious about the full year's economic growth prospects. Equity market will likely remain volatile, with liquidity a supportive factor, and structural opportunities from industries' outlook and relative valuations. Global markets are witnessing peak of inflationary expectations, which leads to expectation of rate cycle pivoting next year. Last week FED's 75bps hike was inline with market expectations. As Powell discussed possible slowing down of hiking pace, it's generally supportive of risk appetite going forward.