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Real Estate Policies Improve Risk Appetite

Last week's A-share fell early but rallied to close the week with CSI300 index roughly flat for the week. The main driver has been risk appetite, where US Pelosi's Taiwan visit and the China's responses weighing on the market early in the week. **In the current environment of ample liquidity, equity market won't have deep market-wide sell-off. Instead, we will see some sector rotations such as the rallies in semiconductor or computer related companies.**

The Chinese bond market benefited from ample liquidity, improved risk appetite, and slow economic recovery which led to lower rates that carried beyond 1y towards 5y tenors. 3-5y financial bond yields showed clear downward move, as wealth management and fund allocation demand increase. We may see some market correction later, possibly after this week's credit and inflation data releases. Currently market expectations are that credit and social financing data will decrease due to seasonality and weak demand, while CPI may approach 3%.

Last week saw much progress on the Real Estate Bailouts front, including the launch of 10 billion RMB Zhengzhou Real Estate Bailout fund. With the priority of ensuring Housing Project deliveries, local governments and some national AMC are getting involved in the bailout efforts, which may extend from specific projects to individual developers. **These improvements may change market expectation and improve risk sentiments in the capital market at large.**

In the oversea markets, US had its 3rd weekly rally with NASDAQ +2% for the week. There was limited impact from Pelosi's Taiwan visit. 10y UST yield got close to 2.5% level before rallying 30 bps to close at 2.83%. Last week various FED officials gave hawkish statements, helping revising market's hike expectations this year, and pushing back rate cut pivot to 2H23. Previously, market had interpreted the July FOMC minutes as dovish and expected hikes to slow down quickly to mitigate recession risk. FED officials stressed in several speeches that US is not in a recession yet, and that FED is still prepared to hike to hold back high inflation. Indeed, the July Non-

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Farm Payroll showed that US employment market remains very tight, which means the salary and other pricing components will remain sticky and not retrace easily. **With strong employment and high inflation the central scenario right now, market is revising up its FED rate-hike expectations.**

It's been two months since Crude price reached over $120 on Jun 8th. With price now under $90, we are seeing a drop in inflation expectations and a rise in US stocks. After the strong July Non-Farm Payroll number, market may change its central scenario from the "recession → slow hikes → rate cut" to the "stubborn inflation → more hikes → rate rise." Consequently, looking ahead we may see UST yield rallying off the lows, and US stocks take a pause of its recent rallies.