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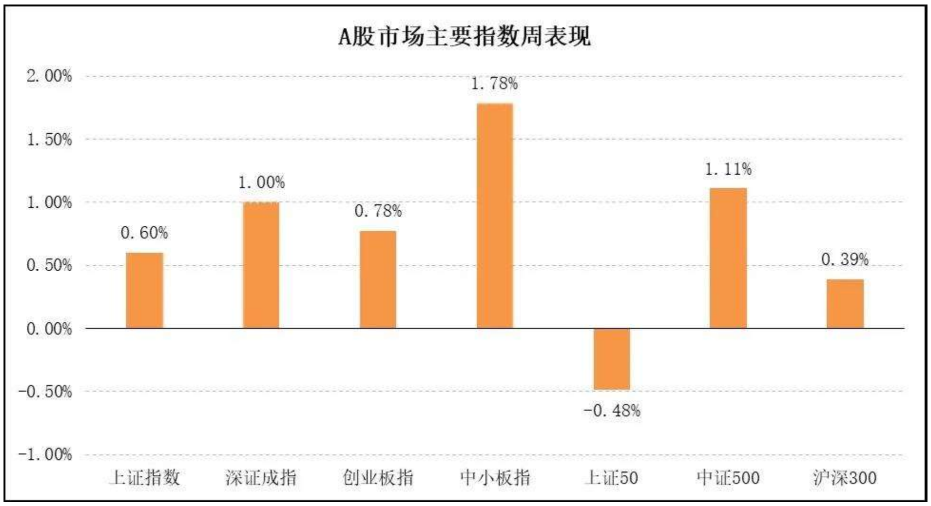
Rosefinch Weekly

New Manufacturing Increasing Market Share

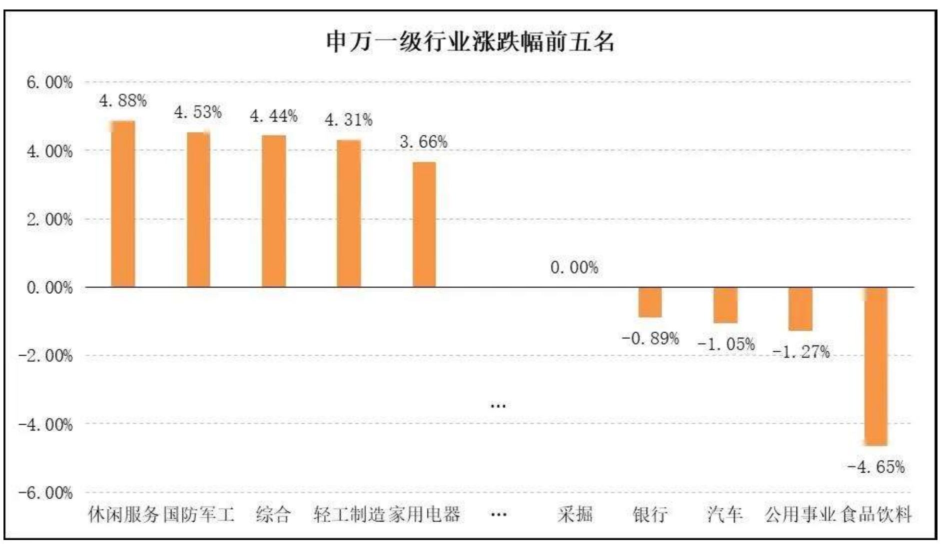
1. Market Review

For the last week: SSE was +0.60%, SZI was +1.00%, GEM was 0.78%, SSE50 was -0.48%, CSI300 was +0.39%, and CSI500 was +1.11%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 23 out of 31 rose with leisure service, defense, comprehensive, light manufacturing, and household appliance leading the way.



Source: Wind, Rosefinch

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Market volume dipped slightly. Last week Northbound was net +14.7 billion RMB, and Southbound net -1.4 billion HKD.

Source: Wind, Rosefinch. Blue is cumulative Northbound flow and unit is 100 million RMB; yellow is cumulative Southbound flow and unit is in 100 million HKD.

2. Market Outlook

The Dec PMI was 50.3 vs previous 50.1, while non-manufacturing PMI was 52.7 vs previous 52.3. Overall the Dec economic activities were slightly up with stable performance and limited impact on financial markets. Last week State Bureau of Statistics released November industrial profits at +9% YoY, noticeably lower than the Oct's +24.6% YoY rise. The upstream companies may see more profit pressure as commodity prices drop; and the downstream companies did not see significant profit improvements either. The manufacturing sector profitability is retracing from past high performance, and we may see further soft readings ahead.

On policy front, last week's PBOC working committee meeting repeated the stability tone from the quarterly monetary committee meeting and the Central Government work conferences. We therefore expect further supportive policies ahead for SME, Carbon-reduction, clean-coal, and other structurally important initiatives. Last week's state council meeting announced an extension of preferential tax policy for personal income tax and listed companies' stock bonus tax. This is an implementation of the prior government directive to decrease tax, decrease fee, and increase market dynamism. This reduction of income tax burden will support later consumer spending, while the stock bonus tax measures will encourage more listed company's innovation drive and high-quality development.

The oversea market saw soft volume over Christmas holiday period. With relatively little data or policy news, the focus was more on the Omicron virus. Omicron is rapidly expanding across Africa, Europe, and US, with new positive cases continuously rising. Some European nations are either redeploying or considering business-restriction measures. From the market movement perspective, US market and crude oil have recovered the Omicron-induced drop. 10Y UST is trading around 1.5%. Even though Omicron has strong infectability, market is looking at its (so-far) minor severity, and hoping the economy will normalize after the infection wave peaks. But we still need to be mindful of the virus's negative impacts on consumption and labor supply. The consumption pattern may shift further from goods to services, which will add pressure to China's export sector in 2022.

On commodities, last week's China steel production data saw minor drop, with small pick up in inventory. With government policy likely to be more supportive in 2022 to maintain reasonable growth rate, we may see more steel demand coming in across real estate and infrastructure projects. There's still challenges on real estate companies with tough liquidity or debt issues, so not all pictures are rosy.

The old economic growth mantra of "real estate & infrastructure + government + financial market" is being replaced by the new mantra of "tech innovation + industry + financial market". The financing channels are shifting from indirect funding via banks to direct funding via stock or debt market. The role of financial market will increase as high-quality development needs high-quality financial market to direct capital allocations. On equity market, there were some sideway trading last week with no clear themes. On one hand, the market is waiting to assess the depth and sustainability of the "steady growth and easing credit" policies; on the other hand, those industries benefiting from 3060 still have lots of opportunities. As high-quality development progresses, the old vs new economy models will overlap with new manufacturing activities increasing their market share.