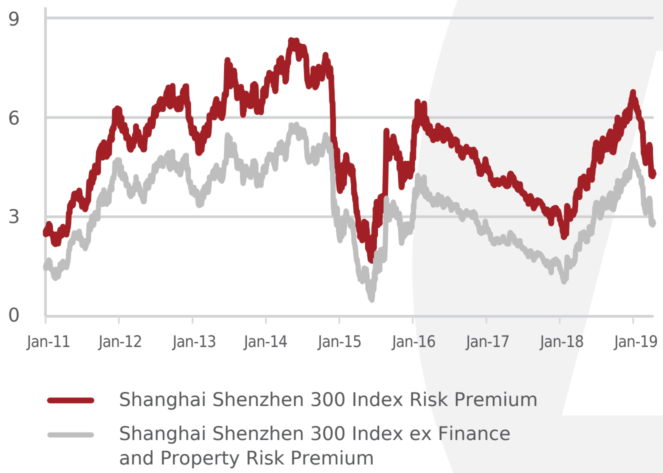
Monthly Bulletin

China Equity Market Outlook

The China A shares market has delivered a remarkable 30% performance year to date, 20% after Chinese New Year on February 5th. We believe this rally is a policy driven rebound from an over-sell level at the end of 2018, and assess the current valuation to be at a fair level (Figure 1).

Figure 1: China Shanghai Shenzhen 300 Index Risk Premium



We believe People's Bank of China (PBoC) has conveyed a message; expanding easing is coming to a stop. The market has priced in this signal, and liquidity is expected to remain, although it will be contained. Economic slowdown continues, but 19Q1 data offers some comfort. We expect the equity market to be volatile in the coming months, due to monetary policy and economic growth not being aligned. A US-China trade deal is well anticipated, and only bad news could distress the market.

China Economic Outlook

On the fiscal front, infrastructure investment spending cuts remain in place since 18Q1, while exports were impacted by a stronger CNY in 18H1 and the US-China trade tension from 18Q2. The standoff between the two countries is the worst since 2001, and has weighed down confidence significantly. Another notable change is a reduction in compensation paid to homeowners for shantytown redevelopment projects nearby.
Fixed asset investment still accounts for 40% of China's GDP (Figure 2) and is the main source of its variability. Real estate's GDP contribution holds up for now, although it may turn negative in 2020, as household debt is already high and sales may drop. Manufacturing has picked up from its suppressed level of 2017-18, yet with exports trending downwards it is unlikely to perform as before.

2nd Floor | 75 King William Street
London EC4N 7BE
+44 203 617 5260
marketaccess@chinapostglobal.co.uk
www.chinapostglobal.com