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July 2023: China Newsletter

Chinese Equity Market Bounces Back

China update

The market rebounded strongly in the first half of June due to expectations of economic stimulus and the launch of the HKD-RMB Dual Counter Model. However, geopolitical tensions and a smaller than expected Loan Prime Rate cut affected gains later in the month. Information Technology and Consumer Discretionary sectors performed well, while Healthcare, Energy, and Telecommunications underperformed.

The Chinese equity market stabilised in June after a challenging May, with the MSCI China index up 4.0% and the MSCI China A Onshore index down 0.6%.

The market had a strong rebound in the first half of the month due to growing expectations of more economic stimulus and the launch of the Hong Kong Dollar (HKD)-Renminbi (RMB) Dual Counter Model. This model allows investors to trade selected Hong Kong-listed stocks in both the Hong Kong dollar and the Chinese yuan. As such, it is expected to bring incremental flows to the market.

In addition, there was a temporary ease in geopolitical tensions following US Secretary of State, Antony Blinken's visit to Beijing and the resumption of talks between the US and China. However, later in the month, the market gave up some earlier gains as hopes for stimulus failed to materialise with a smaller than expected Loan Prime Rate cut of 10bps. Additionally, the Chinese currency continued to weaken over this period.

Information Technology and Consumer Discretionary were the top-performing sectors in June, with electric vehicle makers particularly benefiting from a purchase tax exemption that has been extended until 2027. Conversely, Healthcare, Energy, and Telecommunications underperformed.

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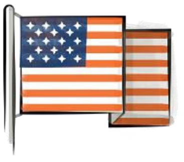
Following a substantial re-rating, State-owned enterprises, in general, experienced profit-taking since the beginning of the year that was driven by market sentiment. On the macro front, recent data confirmed the poor performance of the Chinese economy. Property sales by floor area also continued to decline, down 28% year-on-year in June. The lacklustre recovery has prompted the Chinese government to be more proactive in providing additional support.



US Secretary of State's visit to Beijing temporarily eased geopolitical tensions

Slow recovery prompts proactive support from Chinese government

As a result, top officials in recent State Council and Politburo meetings have delivered dovish signals to the market, pledging to tackle unemployment, boost consumption, and support private sector businesses. Moreover, further interest rate cuts, new issuance of infrastructure bonds, and policy easing in the property sector are also expected.

Recent data confirmed the poor performance of the Chinese economy on the macro front however, the HKD-RMB Dual Counter Model is expected to bring incremental inflows.