Further government stimulus after a tough month

China update

The Chinese small-cap and micro-cap segments were hardest hit by the economic downturn, largely due to the lack of concrete policy responses to boost business and consumer confidence in January. Additionally, investor sentiment in January was further dampened by concerns over the US-China relationship, including the possibility of Donald Trump being re-elected and his comments on imposing more tariffs on Chinese imports.

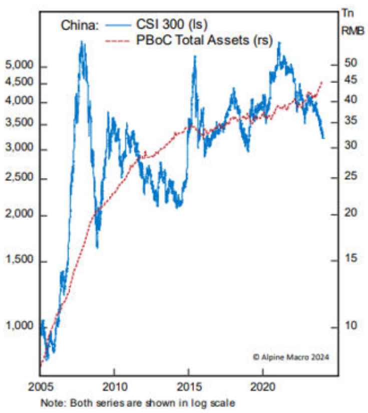
- **Chinese stock markets faced a significant downturn in January with the MSCI China and MSCI China A Onshore indices down 10.6% and 10.1% respectively.**
- **The markets faced pressure from derivative products known as 'Snowballs.'**
- **The Shanghai Composite index fell below the 2,700 level, leading to intervention from China's state funds.**
- **Inflows into CSI300 ETFs surged towards the end of January, aiming to bolster key index levels.**

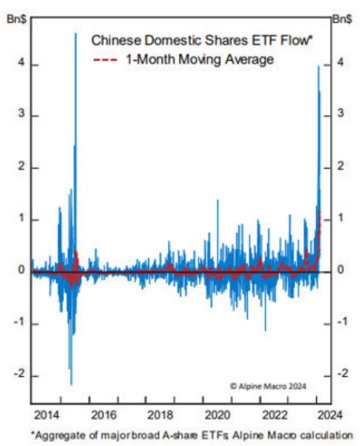
Market dynamics and necessary intervention

The market was also impacted by technical-driven selling pressure from derivative products known as ‘Snowballs,’ which provide a bond-like coupon as long as stock indices trade within a certain range but could incur substantial losses in a volatile market.

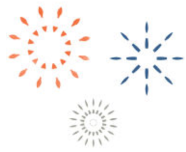
Consequently, the Shanghai Composite index dropped below the 2,700 level, prompting intervention from China's state funds, commonly referred to as the "National Team," to stabilise the market.

Notably, there were significant inflows into CSI300 ETFs towards the end of January, aimed at supporting key index levels. Among sectors, Energy, Financials, and Telecom outperformed, buoyed by the National Team's buying, while Auto, Healthcare, and Technology sectors lagged.



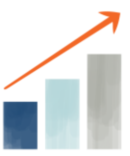


Source: Alpine Macro

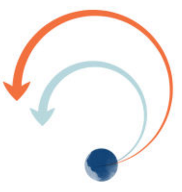


Energy, Financials and Telecom sectors outperformed in January.

On the other hand, Auto, Healthcare and Technology sectors lagged during the month.



Consumer spending surged following the robust travel and spending activity over the Lunar New Year holiday.

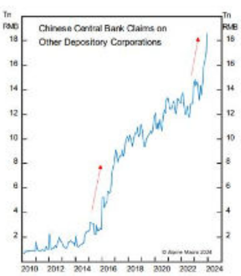


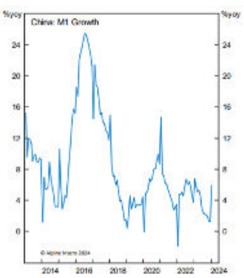
Major stock indices experienced a substantial rebound, recovering the losses incurred in January.

Stronger policy support

In our previous commentary, we discussed the Chinese government's reluctance to adopt aggressive stimulus measures in favour of fostering an economic transformation. However, due to the recent market sell-off and weak consumer and business confidence, the government was compelled to provide stronger policy support to stimulate the economy.

In recent days, we have witnessed a coordinated effort to 'rescue' the stock market, along with balance sheet expansion and surprise cuts to reserve ratio requirements and a key lending rate by the central bank. The following graphs show the subsequent growth in the narrow money supply and central bank claims on other depository corporations.





Source: Alpine Macro

It is also encouraging to note the robust travel and spending activity over the Lunar New Year holiday. As of the writing of this commentary, major Chinese stock indices have experienced a substantial rebound in February, recovering most of the losses incurred in January.

Looking ahead, a sustained rally will require continued policy implementation and economic recovery efforts. However, it appears that market sentiment has reached its lowest point and is showing signs of improvement.

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