華夏基金(香港)
ChinaAMC (HK)

MARKET INSIGHTS

June 2024

Equity

The total transaction volume of pre-owned houses in Beijing exceeded 2,000 units during the first weekend after the implementation of the "517" real estate policy, indicating that the recent combination of the real estate polices has shown significant effectiveness. The reduction in mortgage interest rates and down payment ratios is expected to boost real estate sales in the short term, especially for rigid demand. Moving forward, we expect to see fiscal support from the central government and appropriate acquisition discounts that enable the government to engage in property acquisition and storage, thereby further stimulating the recovery of the real estate industry. The symposium presided over by Xi Jinping has released further expectations for reforms, and we may anticipate more positive measures to be introduced at the upcoming 3rd Plenary Session of the 20th Central Committee. With the substantial increase in foreign funds allocated to Chinese equity assets nearing its end, industry allocation will mainly adopt a barbell strategy. This involves over-weighting stable benefit sectors such as high dividend stocks, and stocks benefiting from policy easing.

Market Performance

MSCI China Index experienced narrow fluctuations and finally declined by 0.68% in May, mainly driven by fund flows and policy expectations. In the real estate sector, the PBOC and National Financial Regulatory Administration announced three easing policies on May 17, including lowering the minimum down payment ratio, eliminating the lower limit on mortgage interest rates, and reducing the interest rate for housing provident fund loans by 25 basis points. Meanwhile, the PBOC also established a 300-billion-yuan re-lending program for affordable housing to promote destocking in the real estate market. On May 23, General Secretary Xi Jinping emphasized the need for further comprehensive and deepening reforms during a meeting with enterprises and experts. These reforms include electric power system, traditional industries, urban-rural development etc. On May 24, the China Securities Regulatory Commission tightened the loopholes in major shareholders' reduction of shareholding, which reduces the risk of large-scale market sell-offs and solidifies the long-term stability of the market.

Greater China Indices	May Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	3579.92	-0.68	4.34	3108.35	4064.36
MSCI China	59.56	2.09	6.45	48.75	67.27
HSI	18079.61	1.78	6.06	14794.16	20361.03
HSCEI	6392.58	1.89	10.82	4943.24	7023.88
Global Indices					
S&P 500	5277.51	4.80	10.64	4103.78	5341.88
Dow Jones Industrial Average	38686.32	2.30	2.64	32327.20	40077.40
Nasdaq Composite	16735.02	6.88	11.48	12543.86	17032.66
FTSE 100	8275.38	1.61	7.01	7215.76	8474.41
DAX 30	18497.94	3.16	10.42	14630.21	18892.92
Nikkei 225	38487.90	0.21	15.01	30487.67	41087.75

Economic Data

China's manufacturing PMI index fell sharply to 49.5 in May from 50.4 in April. Among major sub-indexes of NBS manufacturing PMI, the new orders sub-index declined to 49.6 from 51.1, the output sub-index decreased to 50.8 from 52.9, while the employment sub-index inched up to 48.1 from 48.0. The suppliers' delivery times sub-index fell to 50.1 in May from 50.4 in April, indicating faster deliveries. The non-manufacturing PMI edged down to 51.1 in May from 51.2 in April, owing to a deceleration of activities in the construction sector in May. The services PMI increased to 50.5 from 50.3. According to the survey, the PMIs of transport service industries such as postal, telecommunication and satellite transmission services, IT and culture, sports and entertainment were above 55, while the PMIs of capital market services and real estate services industries were below 50 in May. The construction PMI fell to 54.4 from 56.3, suggesting growth in the construction sector slowed in May.

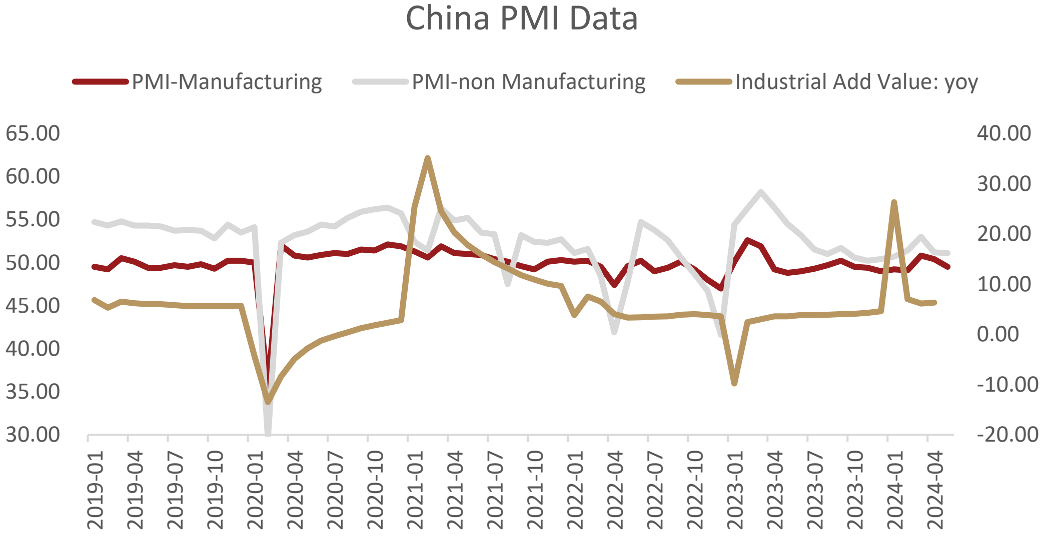
Risk

Sino-US relationship worsens than expectation. International geopolitics worsens than expectation; China's economy recovers less than expected.

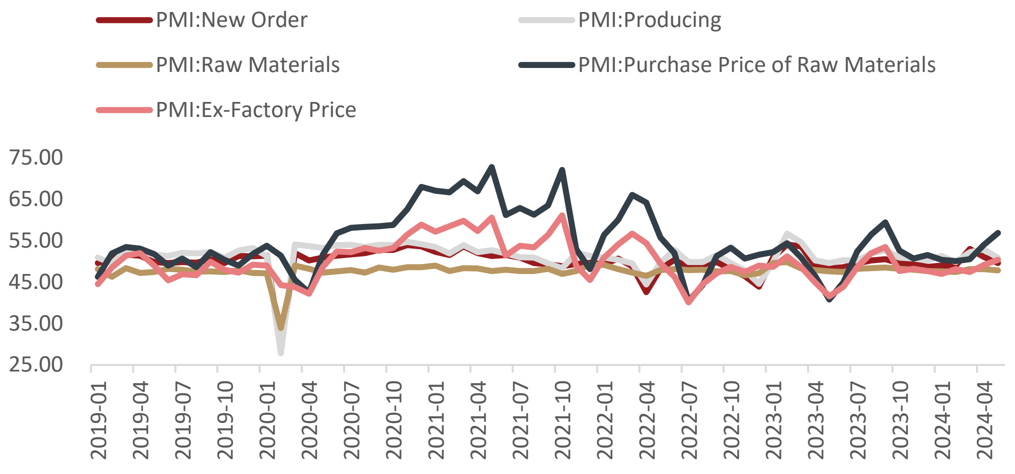
Outlook

Looking forward, we maintain our long-term positive view of the Chinese equity market. According to data from Centaline Property, the total transaction volume of pre-owned houses in Beijing exceeded 2,000 units during the first weekend after the implementation of the "517" real estate policy, indicating that the recent combination of the real estate polices has shown significant effectiveness. The reduction in mortgage interest rates and down payment ratios is expected to boost real estate sales in the short term, especially for rigid demand. Moving forward, we expect to see fiscal support from the central government and appropriate acquisition discounts that enable the government to engage in property acquisition and storage, thereby further stimulating the recovery of the real estate industry. The symposium presided over by Xi Jinping has released further expectations for reforms, and we may anticipate more positive measures to be introduced at the upcoming 3rd Plenary Session of the 20th Central Committee. With the substantial increase in foreign funds allocated to Chinese equity assets nearing its end, industry allocation will mainly adopt a barbell strategy. This involves over-weighting stable benefit sectors such as high dividend stocks, and stocks benefiting from policy easing.

In terms of portfolio positioning, we will continue to seek a balance between value and growth. We continue to focus on the long-term policy beneficiaries (e.g. software localization and advanced manufacturing) and economic recovery-related opportunities (e.g. consumer, Internet, and financials). We will prudently pay attention to some thematic opportunities, including AI and SOE re-rating.



China PMI Data



China Economy Activities

Fixed Income

In May, overall global market volatility declined, accompanied by a temporary easing in inflation data and some downward revisions to economic indicators. This has led the market to moderately adjust its expectations around the commencement of the Fed's rate cut cycle. We still expect the Fed to cut rates twice this year, with the first rate cut occurring in the third quarter. We believe the US economy can achieve a soft landing, but also think the market's "Goldilocks" expectations may be overly optimistic. As the labor market trends towards balance and consumer spending softens, the cooling impact of higher rates on the economy may gradually manifest. For Europe, it is expected that the ECB will observe market and data trends after the initial rate cut and may not be in a rush to embark on a consecutive easing cycle under the current conditions. In emerging markets, the election results in India and Mexico were largely in line with market expectations, stabilizing the overall currency environment. However, whether these markets can attract substantial capital inflows to drive asset prices higher will depend on when the Fed enters its rate cut cycle.

Market Performance

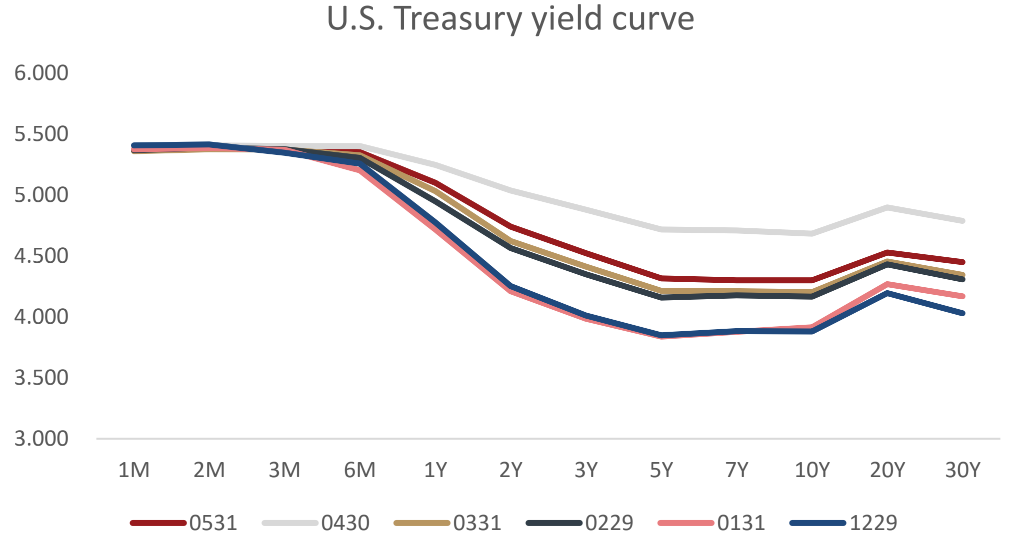
Market sentiment exhibited a measured degree of improvement over the course of May, with concerns surrounding persistent inflationary pressures seeing some modest alleviation. Notably, the May FOMC announced plans to decelerate the pace of its balance sheet runoff program commencing in June, while the expected timing of the first policy rate cut was also re-priced to September. In the wake of these developments, the 10-year US Treasury yield has fluctuated within a wide trading range centered around the 4.5% level. Across major asset classes, overall price volatility has declined significantly. US equities continued to reach new historical highs, while bonds made modest gains and commodity prices pared back.

United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	4.87	-16	62	4.12	5.26
5Y	4.51	-21	66	3.75	4.99
7Y	4.51	-20	63	3.72	5.03
10Y	4.50	-18	62	3.65	5.02
30Y	4.65	-14	62	3.76	5.18

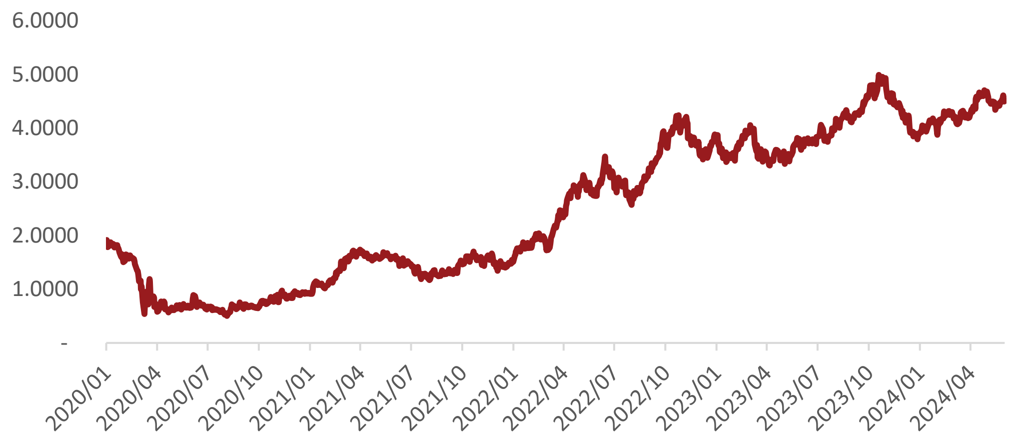
China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	1.93	-5	-37	1.91	2.53
5Y	2.08	-10	-31	2.06	2.64
7Y	2.25	-4	-29	2.18	2.75
10Y	2.32	0	-24	2.22	2.74
30Y	2.57	3	-27	2.40	3.09

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.41	12	35	-0.08	0.41
5Y	0.65	17	44	0.05	0.66
7Y	0.77	16	41	0.15	0.78
10Y	1.07	19	46	0.36	1.10
30Y	2.23	28	59	1.19	2.25

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	3.10	6	69	2.36	3.36
5Y	2.71	9	76	1.86	2.93
7Y	2.65	9	71	1.83	2.94
10Y	2.66	8	64	1.89	3.03
30Y	2.78	9	52	2.12	3.26



10-year U.S. Treasury yield



US Treasury yields experienced a volatile month overall, with the curve shifting slightly downward over the month. The shift in economic and inflation data drove the decline in Treasury yields, but concentrated Treasury supply and weaker auction results put upward pressure on rates. In the credit market, primary supply was largely in line with market expectations. Credit spreads overall tightened slightly at low levels, with high-yield sectors outperforming relatively. The credit spread curve has continued to steepen. For China credits, investment-grade spreads further compressed, driven by technical factors. The real estate sector witnessed a broad-based rally, as the central government unveiled a series of supportive policies to stabilize the market.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	50	(4)	(7)	48	83
HY CDX	333	(24)	(24)	309	533
EM CDX	163	(15)	11	156	247
Bond index					
ICE Asian Dollar Corporate	453	1.7%	1.8%	416	456
ICE China Issuers Dollar IG Corporate	213	1.3%	1.2%	198	214
ICE China Issuers Dollar HY Corporate	172	5.3%	12.1%	143	177
ICE US Corporate	3220	1.9%	-0.6%	2929	3259
ICE US High Yield	1616	1.1%	1.7%	1457	1623
ICE Emerging Markets Corporate	441	1.7%	1.8%	401	443
Bloomberg Global-Aggregate	456	1.3%	-3.3%	429	473
Bloomberg Global-Aggregate 1-3 Year	172	1.0%	-1.2%	166	175

Chinese USD Bond Index

Economic Data

In April, both the US CPI and PCE data were slightly better than market expectations, ending the three consecutive months of outperformance. However, the stickiness in core services inflation remains a concern. The employment data unexpectedly weakened, with the unemployment rate reaching 3.9%, signaling a trend towards balanced labor market conditions in the US. The soft economic data has remained mixed, reflecting the market's relative uncertainty.

On the European front, the economic and inflation data have been generally positive. The ECB has a high probability of starting rate cuts in June. In Japan, the increase in service sector inflation has persisted, and the yen continues to face pressure even after central bank interventions.

Outlook

In May, overall global market volatility declined, accompanied by a temporary easing in inflation data and some downward revisions to economic indicators. This has led the market to moderately adjust its expectations around the commencement of the Fed's rate cut cycle. We still expect the Fed to cut rates twice this year, with the first rate cut occurring in the third quarter. We believe the US economy can achieve a soft landing, but also think the market's "Goldilocks" expectations may be overly optimistic. As the labor market trends towards balance and consumer spending softens, the cooling impact of higher rates on the economy may gradually manifest. For Europe, it is expected that the ECB will observe market and data trends after the initial rate cut and may not be in a rush to embark on a consecutive easing cycle under the current conditions. In emerging markets, the election results in India and Mexico were largely in line with market expectations, stabilizing the overall currency environment. However, whether these markets can attract substantial capital inflows to drive asset prices higher will depend on when the Fed enters its rate cut cycle.

For rates, May saw more fluctuations following economic data and supply-demand dynamics. The 2-year-10-year yield curve inversion widened for most of the month before narrowing towards the end. In the short-term, we believe the tug-of-war between buying and selling forces will continue, with rates consolidating around current levels before the next directional move based on economic data. Over the medium-term, the steepening of the yield curve remains relatively certain, making the 5-year duration a relatively attractive segment. On the credit front, credit spreads have fluctuated around high valuation levels, driven by the persistent all-in-yield demand from investors, especially Asian investors. The technical support has allowed credit to remain relatively expensive compared to other assets like MBS. The maturing corporate bond and loan pressure will notably increase by 2025, requiring close monitoring of refinancing conditions for weaker issuers. For the real estate sector, recent policies signal a clear shift in the central government's stance, indicating a determination to stabilize the real estate market through a China-style property QE approach, despite the continued near-term downtrend in new home sales and prices. This pessimism among investors may present certain investment opportunities, for which we will adjust our positions accordingly based on the actual policy implementation. Overall, we will adopt a relatively balanced allocation strategy, aiming to capture opportunities from interest rate fluctuations and sector rotations.

On the policy front, the central bank maintained the 1-year and 5-year LPRs at 3.45% and 3.95% respectively. The market consensus anticipates a potential 10 basis point rate cut in June, though current indications suggest no adjustments to the RRR are forthcoming. From a fiscal perspective, government bond issuance in June may exhibit seasonal strength. The commencement of special sovereign debt instruments has, however, failed to generate any notable volatility within credit markets thus far.Turning to the economic data landscape, the CPI registered a 0.3% increase (versus 0.1% previously) while the PPI declined 2.5% (versus -2.3% previously). Over the initial four-month period, RMB-denominated deposits expanded by 7.32 trillion and loans grew by 10.19 trillion, with the aggregate social financing scale increasing by 12.73 trillion - a figure which fell shy of the market's 13.8 trillion forecast and also trailed the prior year's corresponding 15.77 trillion.

Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Wind, as of 31 May 2024. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

As of end-April, M2 stood at 301.19 trillion, reflecting a 7.2% year-over-year increase. While April, July and October are traditionally slower credit months, this marks the first instance in nearly two decades wherein credit growth has registered negative. The PMI in May registered 49.5 (versus 50.5 previously) and the Non-Manufacturing PMI came in at 51.1 (versus 51.5 previously), both missing consensus expectations. Overall, there have not been any material shifts within the underlying economic fundamentals, though some modest downside risks appear to be present.

The USDCNH spot rate exhibited heightened volatility of approximately 1100 basis points over the course of May, though ultimately reverting to close within the 7.25-7.26 range – a return to the broader 7.23-7.28 band. This price action underscores the persistence of renminbi depreciation pressures coupled with steadfast US dollar resilience, as the Chinese currency failed to garner meaningful appreciation even amidst the recent rally in Hong Kong equities. Mainland Chinese and Hong Kong shares have likewise retreated following their prior run-up. Notably, USDCNH swap rates and implied renminbi yields have declined markedly, driven principally by the spot rate's two-way fluctuations rather than a unidirectional appreciation trend. This dynamic has moreover coincided with an expansion of the offshore renminbi liquidity pool, attributable to cross-border carry trade activity as the previously elevated offshore renminbi rates have proven unsustainable. Looking ahead, we expect to maintain a close monitoring of spot rate pressures, while also anticipating heightened two-way volatility to persist within the rates markets.

In the government bond space, yields have remained range-bound, with the 10-year and 30-year tenors facing resistance around 2.4% and 2.6% respectively, and finding support at 2.2% and 2.4%. We observe a balanced set of buying and selling rationales at these levels – buyers remain focused on the economic outlook and asset allocation needs, while sellers are mindful of both government bond and municipal debt supply considerations, as well as the central bank's long-end market operations. We anticipate continued modest fluctuations within this yield range in the near term.

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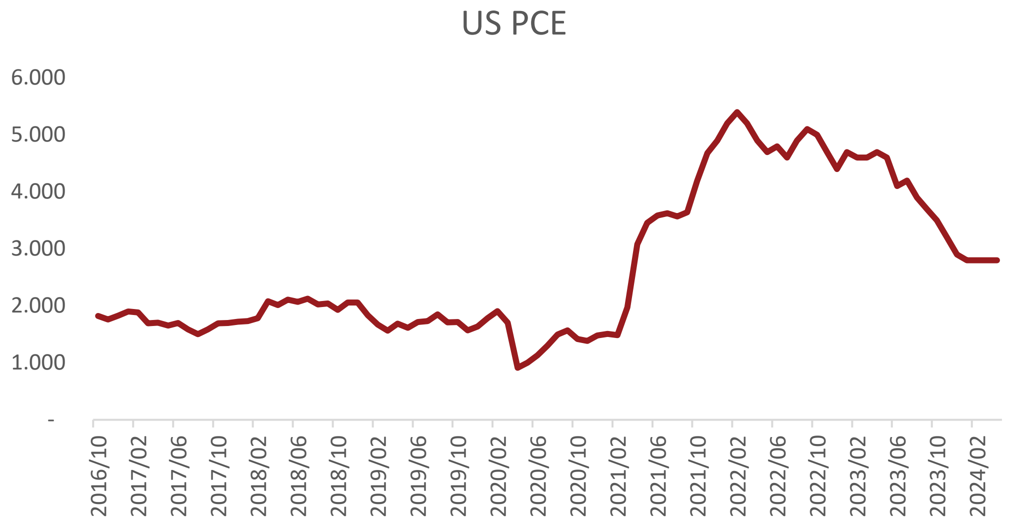

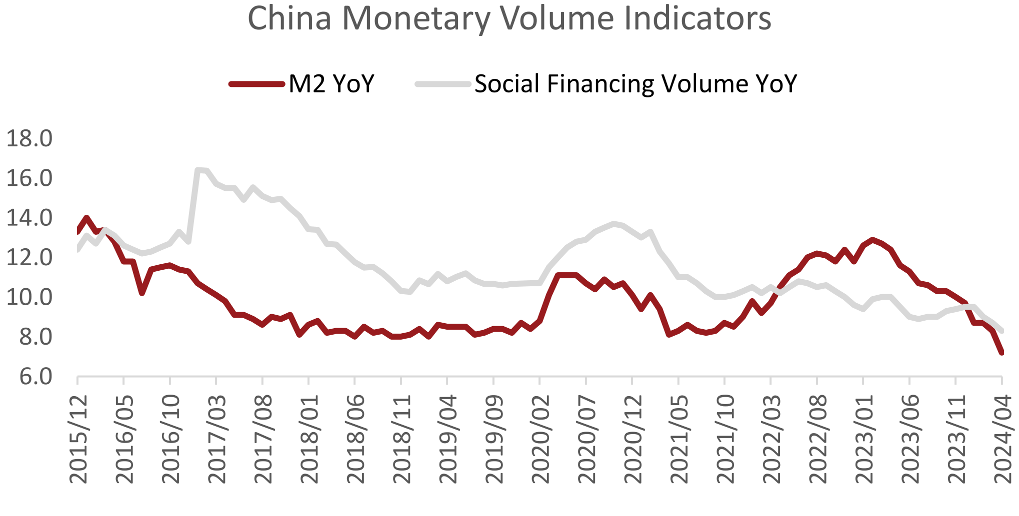

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