Is the rally on China equities sustainable?

Summary

- China equities cheered on Beijing's pledge to stabilise financial markets and economic growth in a clear and coordinated approach.
- No doubt the State Council policy statement has provided the much needed relief to the fragile China asset market.
- We see very good re-rating opportunities in Chinese equities and selected China credit over the course of the year should all these positive policy signals translate into implementation of specific measures and effectively revive financial conditions as well investor, consumer and corporate confidence.

China equities melt up

China equities have been on fire since the afternoon (Asian time) of 16 March 2022, cheering on Beijing's pledge to support financial markets and economic growth after panic/forced (by margin calls) sell-off that resulted in "capitulation" by foreign investors at the beginning of the week. Chinese authorities took a clear and coordinated approach this time with announcements by four other government departments followed by the State Council's policy statement.

Grace TAM
Chief Investment Adviser
Hong Kong
BNP Paribas
Wealth Management

Dannel LOW
Investment Specialist
Asia
BNP Paribas
Wealth Management

What are the major investor concerns & what have Chinese authorities pledged to address?

1. ***Concern:*** The renewed Covid outbreak and the latest lockdowns/mobility restrictions in major China cities including Shenzhen (the tech hub), Guangdong and Shanghai (collectively accounts for nearly ¼ of China GDP and 40% of exports) present risks to global supply chains and China's 5.5% GDP growth target.
   Response: The government is looking to effectively boost the economy in 1Q with more proactive monetary policy and maintain moderate growth in new loans.

2. ***Concern:*** Heightened geopolitical tensions and the potential spillover impact on Chinese companies
   Response: China's Ambassador to the US had penned a Washington Post op-ed to clarify China's stance on Russia and Ukraine.

3. ***Concern:*** The de-listing risk of US-listed Chinese ADRs (investors' reaction looked overdone as this issue has been here for more than two years with many of the Chinese ADRs already secondary listed in Hong Kong and more will likely to do so).
   Response: China-US are holding audit talks with positive progress and detailed collaboration being worked on. The government remains supportive of Chinese companies to list overseas. Also, regulators in the Mainland will step up their communication and coordination with Hong Kong regulators on financial market stability. Furthermore, the authorities encourage listed companies to step up share buybacks and guide fund management companies to purchase shares to prop up prices.

4. Concern: Regulation uncertainty persists without any meaningful loosening and even tightened further in some areas
   Response: The regulatory environment needs to be transparent and predictable. Regulators will steadily push forward and complete rectifications of large platform companies as soon as possible and improve their global competitiveness (indicating the regulatory actions on large tech companies will be completed soon?). Government agencies should coordinate with financial regulators in advance on policies with substantial impact on capital market, actively launch market-supportive policies and be cautious when it comes to tightening measures.

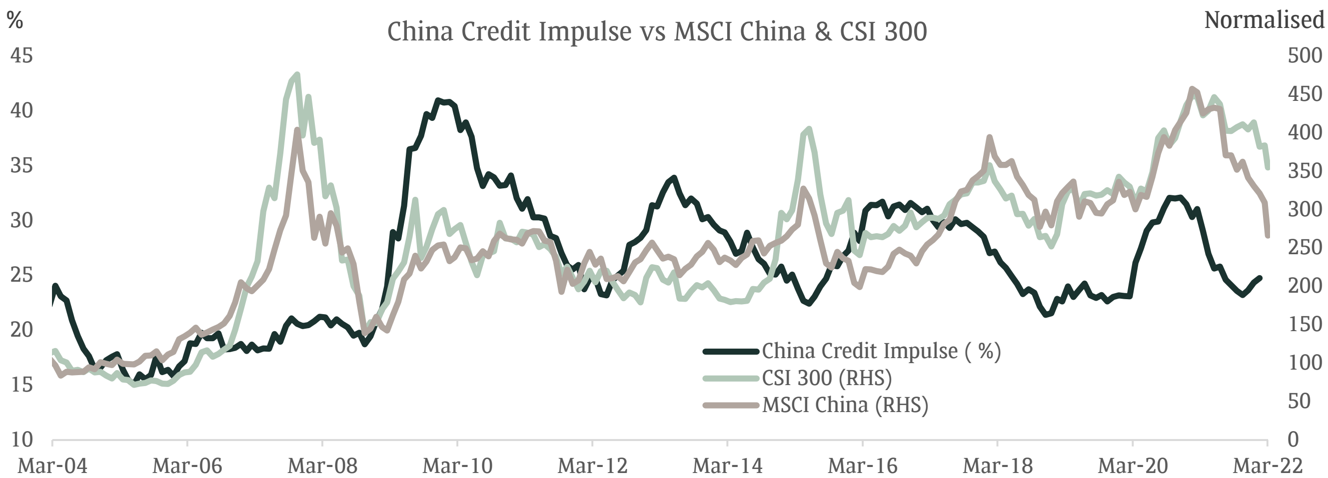
5. Concern: The property market has not shown any signs of revival despite some policy relaxation
   Response: The government will take timely, forceful and effective measures to prevent and resolve risks in the property sector and propose supporting measures for the transition to a new development model. The Ministry of Finance also said to put property tax trial on hold this year to ease market jitters.

Chinese tech stocks recorded the strongest rallies ever with the Hang Seng Tech Index up 30% from Tuesday record low (as of writing). We believe the flows were dominated by short covering given the high short interest on China tech stocks. With such a strong rebound in China equities already, the next question is whether the rally is sustainable.

What are the criteria for the rally to become more sustainable?

- Easing in full force with significant loosening in monetary policies, including further RRR and key rate cuts as well as large liquidity injection, and implementation of fiscal stimulus that have already announced or even increase fiscal spending further.
- US-China regulators reach an agreement on cross-border auditing regulations and revival of IPOs in the offshore markets.
- Confirmed wrap up of regulations on the tech sectors or even authorities actively launch market-friendly policies, which will lead to the decline in risk premium for the China market.
- The property sector is still suffering from the lack of refinancing channel. Much stronger support and funding access for the property sector is needed.
- More relaxation or even a clearer exit strategy from the "dynamic zero" Covid policy.
- Better signs of improved coordination among different government agencies for policy implementation.
- De-escalation of geopolitical tensions.

REBOUND IN CREDIT IMPULSE IS FAVOURABLE FOR CHINA EQUITIES HISTORICALLY



Source: Bloomberg, BNP Paribas (WM), 17 Mar 2022
Past performance is not indicative of current and future performance

CONCLUSION / STRATEGY

- No doubt the State Council policy statement has provided the much needed relief to a fragile China asset market.
- We see very good re-rating opportunities in Chinese equities and selected China credit over the course of the year should all these positive policy signals translate into launch and implementation of specific measures and effectively revive financial conditions as well investor, consumer and corporate confidence.

CONNECT WITH US

wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.