China Galaxy A-Share Morning Comments

Major Indices – 19.09.06

Index	Close (pts)	Change (pts)	% Chg
SHCOMP	2,815.0	40.2	1.45%
SZSE Comp	8,978.5	183.3	2.08%
CSI 300	3,699.1	65.6	1.80%
ChiNext	1,539.9	32.2	2.14%
HSI	25,824.7	-114.6	-0.44%
HSCEI	9,997.9	4.1	0.04%

Source: Bloomberg

Market Commentary

The A-share market opened slightly higher on last Friday, but soon lost momentum. While the major indices turned to the negative territory at one point, they gained momentum before market close and closed slightly higher. Most sectors reported gains. The communications, security equipment, telecom operators, and auto sectors were among the top gainers. The precious metals, jewellery, agriculture, and shipbuilding sectors underperformed.

While the external markets have been under pressure in the past week, the A-share market has been relatively resilient. As the impact of Sino-US trade war has been discounted by the market, investors are shifting their focus to the operation and fundamentals of listed companies. We saw stronger fund inflows into stocks with solid earnings and TMT stocks with growth potential. Stocks related to brokerage, 5G, auto, engineering machinery also reported fund inflows. Market turnover turned sluggish on Friday after previous rally, suggesting investors are turning more cautious. The broader market may become more volatile next week. With the SHCOMP approaching to the 3,000 level, we expect to see more profit taking activities in the near term. While investors may consider to take some profit on recent winning positions in some consumer stocks, they may also look at some stocks with potential earnings upside. Investors should control their risk exposures and pay attention to growth stocks in the renewables, machinery, brokerage, and military & defence sectors.

From CGS A-Share Morning Meeting Summary

Macro: Given greater downward pressure on the economy, the stabilization of economic growth has become a key task for the Chinese government. Monetary policy will become the main tool for counter-cyclical adjustments, and the current economic condition should be suitable for the PBOC to implement monetary easing. Will the central bank cut interest rates after the RRR cut? Indeed, the LPR reform has demonstrated PBOC's intention to lower interest rates. At present, the central bank has room for implementing interest rate cuts (especially through open market operating tools) and RRR cuts. The central bank is expected to give priority to RRR cuts and use of the open market price tools, and it should implement easing under an overall prudent monetary policy. The central bank may operate multiple mild monetary operations and use open market tools to adjust the MLF and LPR interest rates. This may exert a higher impact than using some quantitative policy tools like adjusting the RRR. Given greater downward pressure on the economy, stabilization of economic growth will continue to become a key task for the Chinese government. Only when economic growth is maintained within a reasonable range, can reforms of the economy have time to be implemented. (*Click here…)*

Strategy: The RRR cut should boost the liquidity in the interbank market, which is positive for banks, especially for small and medium banks with notable capital pressure. However, it remains to be seen whether the capital will flow into non-financial sectors like manufacturing and service sectors. For property sector, the Chinese government had tightened financing policy for the sector before the implementation of monetary easing like RRR cuts. It is unlikely that the RRR cuts will trigger fund flows into the property sector. For the local government financing platform, the RRR cuts may relieve the financing pressure of the local government, but the degree of benefit would depend on the relaxation of corresponding regulations, such as relaxation of leverage requirement and debt ceiling requirement. (*Click here…)*

Bonds: The RRR cut is a counter-cyclical adjustment amid the economic downturn. It is expected to release liquidity of RMB900bn, which will help reduce the financing costs of the real economy and private SMEs and stabilize economy. It should also relieve the financing pressure during the tax period in September. Given Fed's rate cuts and monetary easing cycle initiated by global central banks, there is more room for PBOC to adopt monetary easing policy, and there is more downside for bond yields. (*Click here…)*

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