

Flash Note 18/02/2019

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Chinese Shenzhen rose near 4% last night. Trade talks and PBOC's flexibility drive the market

- Greater China benchmarks closed sharply higher on Monday, with Shenzhen up 3.71% and Shanghai up 2.68%. Year to date, the Shenzhen index accumulates a +15.6% gain (Shanghai gains are 11.8%)
- Our local sources cited positive takeaways from US-China trade talks as the key driver, but also better than expected credit data were cited as a support factor for financials.
- The yuan was little changed against the dollar, and remains strong in the 6.75 area.
- Microeconomic & stimulus:
 - Outstanding loans grew +13.4% y/y vs consensus +13.1% and +13.5% in prior month
 - Total social financing CNY4.64T versus consensus CNY3.25T and CNY1.59T in prior month
 - M2 money supply growth +8.4% y/y versus consensus +8.2% and +8.1% in prior month
- US-China trade talks:
 - Economic media echoes US President Trump's words that "China trade talks were very productive", as his team briefed him upon their return and readied for another round of negotiations.
 - Some stories noted that Saturday's meeting came as US and China sent signals they may reach a deal or extend talks to end their trade war, easing fears the Trump administration will ratchet up tariffs when a key deadline arrives in two weeks.
 - Xinhua also reported that China President Xi Jinping on Friday met with US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin in Beijing, saying "important progress for the current stage" was made after the two-day talks.
 - Regarding differences and frictions in trade, Xi said China stands ready to resolve them through cooperation and to reach a deal that can be accepted by both sides. Xi added that both sides will meet again next week in Washington.
- Assessment & Outlook:
 - The current situation can be described as one where the US and China seek to avoid an increase in tariffs after 1-Mar. with both sides scrambling to at least produce a "memorandum of understanding" that could help pave the way for future negotiations.
 - While this constructive tone, and the continuity of concessions from Peking continue, the Chinese market will continue to recover some of the ground lost during 2018.

Regards