

## Flash Note 01/03/2019

Alex Fusté  
@AlexFusteAlex  
[alex.fuste@andbank.com](mailto:alex.fuste@andbank.com)

### China - Summary of the latest news. EM Outlook.

#### Markets

- MSCI said ... yes: MSCI has announced that it will increase the weight of China A shares in its Indexes by boosting the inclusion factor from 5% to 20% (+300%) over three stages.
- What next? Future weight increase beyond 20% will require Chinese authorities to address a number of remaining market accessibility questions, including:
  - Eliminate restrictions on access to hedging
  - Stock Connect trading holidays,
  - the availability of an Omnibus trading mechanism.
- Market reaction:
  - Greater China markets closed higher with Shanghai up 1.80%, Shenzhen up 1.20%, and Hang Seng up 0.63%.
  - Large caps and CSI 300 rallied, while *ChiNext* underperformed (though still up sharply).

#### Economic Data is stabilizing

- February Caixin manufacturing PMI 49.9 vs consensus 48.5 and 48.3 in prior month

#### US-China trade conflict: US said to be readying a final trade deal

- US officials are preparing a final trade deal for Presidents Trump and Xi Jinping to sign in weeks.
- The US is weighing a summit between the two as soon as mid-March, though the timing has been complicated by China's National Peoples Congress earlier that month.
- According to economic press, negotiations on structural reforms are taking place on a separate track from talks on China boosting purchases of American products.

#### From prudence to stimulus (exactly what was needed to boost the market)

- The Securities Daily reported local governments have issued CNY776.8B in bonds in the first two months of this year, and may exceed CNY1T in Q1. Issuance has been front-loaded to fund major infrastructure projects to support the economy.
- China's leaders to pledge in parliament to keep the country on safe footing as the economy faces its biggest test in years, amid pressure to roll out more measures to bolster growth and revive weak business and consumer confidence.

- The government is expected to set a less ambitious economic growth target this year, acknowledging that a mix of domestic and global factors will continue to weigh on China's outlook.

### Outlook

- The MSCI announcement of further increases in China equity weightings **could act as a catalyst leading to broadly based strength in financials.**
- If we add policy stimulus optimism ahead of next week's NPC, it is legitimate to expect **further boost to infrastructure projects, ...**
- ... and the likely agreement on Fx (Yuan appreciation) which will undoubtedly be included in the upcoming trade agreement, define a **markedly favorable environment for Chinese assets**
- In summary. It seems that China will not be the focus of tension that supposed in 2018. The current situation bodes well for the continuation of this bottom-up recovery in Chinese assets.
- Many EM are largely a derivative play on China. If China picks up, they should too.

Best regards