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Flash Notes
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Chinese Tech-heavy index falls 20% in 40 days. Our outlook.

- The ChiNext Index (the Technological index in China) has fallen into the near-market territory as a sell-off was triggered by in the banking system and trade tensions.
- The Chinext Index has lost 20% in the last 42 days (from April 4th). On the same period, the North American tech index Nasdaq has only lost a -3.5%.
- Chinese investors are worried about ongoing friction with the US , and have been heavy selling (together with international investors) shares of Chinese Tech names through the Hong Kong Stock Connect program.

Outlook

- The authorities in Beijing have taken a series of measures that, unfortunately, make us think that they will not back down to avoid the exchange of blows with the US.
- Among these mearues, the most recent are:
    - Political and economic approach of Beijing towards Russia. Chinese and Russian enterprises signed roughly $20B in business deals on the sidelines of the summit in Moscow on Wednesday as Beijing seeks to bolster trade and economic relationships with countries other than the US. Much of the deals were focused on the energy sector and 5G mobile technology. China and Russia also aim to double bilateral trade in the future.
    - Beijing set a “black list” of unreliable entities, aimed at attacking companies such as Google, Oracle or anyone who interrupts services with Chinese companies. Details of the list is still being worked on and will be released soon. The lack of detail has increased uncertainty among foreign entities in China.
    - Chines imports of Soybean and pork from US fell heavily. Soybean imports dropped (7.9%) y/y and pork imports declined by (1%) y/y. This is important as China is the largest overseas market for US soybeans. The Ministry of Commerce pointed that “the import data shows that US trade

protectionism and bullying had caused huge impact on agricultural goods trade between the two countries, hurting both sides”.
    - The monetary authorities of Beijing use a rhetoric that invites to think of an intensification of the conflict. PBoC Governor Yi Gang said last night that "We have plenty of room in monetary instruments to adjust monetary policy. We have room in interest rates, we have of room in required reserve ratio required, and also from the fiscal side. Fiscal and monetary policy toolkit is ample and tremendous."
    - Most importantly, PBOC’s Yi added that “upcoming trade talks with Mnuchin at G20 would be difficult."
- **In summary. There is still a large room for Chinext (and the rest of the Chinese market) to continue to fall sharply in the coming weeks.**

Avoid this market.