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Flash Notes
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The Chinese market continues with its particular rally and accumulates a 35% gain in the year. What's next?

Chinese equity market shows an impressive performance YTD

- China's major stock indexes closed sharply higher last night (+2.71% for the Shenzhen, and +2.47% for the Shanghai index), to close near their 7 month highs on Monday.
- Sentiment continues being bolstered by Beijing's policy boost for growth.
- Greater China equity benchmarks accumulates a gain of more than 35% (for the Shenzhen Index) and a +26% for the SSE year to date.
- The yuan has been also been firm, though much more moderately (+2% YTD) against the dollar.

Policy & stimulus. What’s next

- Behind this positive performance there are **the effects from Beijing’s decision reaffirming policy stimulus** via tax cuts and other monetary and lending measures such as easing in reserve requirement ratios. These measures prompted broad-based strength in financial companies, real estate, consumption and infrastructure.
- What’s next? Premier Li Keqiang stated during the month that China’s economy is facing additional downward pressure but “Beijing will not let economic growth slip out of a reasonable range”. He added that China can use reserve requirements and interest rates to support economic growth. He also promised cuts in value-added tax (VAT) for manufacturing and other sectors that will take effect from 1-Apr, while social security fees will be reduced from 1-May. He also pledged that China will take multiple measures to lower funding costs for small and micro firms by 1 percentage point this year.
- The S&P suggested that China will fall well short of its target of cutting taxes and fees by a record CNY2T ($298B) this year. The agency said that “the government will likely only be able to cut taxes by CNY1.5T because reductions in companies' contributions to the social security fund will be offset by stricter enforcement”.

US-China trade talks

- Chinese sources reported that a meeting between President Trump and China's Xi won't happen this month and could be pushed to April at the latest. China is pressing for a formal state visit rather than a lower-key appearance just to sign a trade deal. President Donald Trump acknowledged concerns about the possibility of Beijing walking away from a trade deal, offering to push back a summit with Chinese leader Xi Jinping until a final deal is reached. Trump's comments represent a shift in tone from late February, when he raised the prospect of a "signing summit" with Xi.
- The latest draft of China's Foreign Investment Law (FIL) includes a provision that requires Chinese officials to protect commercially confidential information they obtain from overseas businesses, after last week's version garnered a lukewarm response from foreign businesses and academics in China.

Economics (hard data)

- The National Bureau of Statistics head Ning Jizhe, stated that China's economy has achieved a good start to 2019 despite a recent drop in sales of cars and mobile phones. Ning attributes the positive assessment to stable industrial production and steady employment. Also noted solid growth in electricity output while cinema box office revenue during the Lunar New Year holiday reached a record high, indicating strong consumer spending.
- Despite this statements, hard data showed a rather weaker picture: Jan-Feb industrial production growth was +5.3% y/y (vs +5.7% in prior month). Fixed asset investment (YTD) grew +6.1% y/y (vs +5.9% in prior month). Retail sales growth was +8.2% y/y (vs +8.2% in prior month). Unemployment rate 5.3% vs 4.9% in prior month.

Financial market outlook

- Equities – SHANGHAI Idx: NEUTRAL . Target price 3,180 (New). Exit 3,200
- Equities – SHENZHEN Idx: NEUTR-POSITIVE . Target price 1,700 (New). Exit 1,800
- Bonds – Govies: POSITIVE (target yield 2.75%)
- Forex – CNY/USD: NEUTRAL-POSITIVE (target 6.70)

Best regards