

Flash Notes 12/02/2019

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Latest news in China. Policy stimulus drive Chinese stocks up. Ongoing optimism about US-China trade talks.

Market & Trade conflict

- Greater China benchmarks closed higher on Tuesday with Shanghai up 0.68%, Shenzhen up 1.20%, and Hang Seng up 0.10%.
- Chinese officials proposed that China President Xi Jinping and US President Donald Trump meet on the southern island of Hainan around the time of the annual Boao Forum for Asia, which runs from March 26-29, though stresses that nothing has been finalized. The story noted Axios previously reported Xi might visit Trump in Mar-a-Lago in mid-March.
- Pharmaceutical stocks rallied on the back of a government announcement of plans to expand tax breaks to rare-disease treatments and speed the approval process for cancer drugs.
- The yuan strengthened against the dollar after a markedly (and probably intended) weaker PBOC fixing.

Economics: Beijing moves from prudence to flexibility (remember what we said in the Corporate Review document. "To see a rally in Chinese stocks we need Beijing to rebalance from prudence to stimulus")

- New loans seen surging strongly in January: Forecast looks for new loans totaling CNY2.8T (\$415B) in January, just marginally lower than the record CNY2.9T in January last year.
- Total social financing (TSF) seen at CNY3.25T (two-year high).
- Said this, and to avoid causing mistrust in international financial markets, the PBOC guidance reportedly instructed banks to keep lending growth roughly flat on the year, consistent with policy stance that financial system would not be flooded with liquidity. (M2 money supply likely remained around record lows).

Finance

- The State Council approves bank capital-raising measures: The body expressed support for measures to allow commercial banks to replenish capital through multiple channels concurrently (perpetual bonds, preferred stocks, convertibles issuance...).
- Lawmakers insisted this will not lead to a flood of liquidity (**but it will**). The goal is to bolster financial support for private and small enterprises.
- What next? Local analysts consulted predict that perpetual bond issuance will accelerate, preconditions will be eased for the issuance of preferred stocks, convertible bonds and secondary bonds.
- This usually leads to greater activity in markets.

In general, I think this is good news for the external (global) environment.

Best regards