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Flash note
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Greater China markets show a better tone with indices continuing to outperform the regional trend. Outlook

Month to date returns:

Shanghai +3.77%

Shenzhen +7%

Chinext +10.4%

S&P -11%

Performance breakdown within Chinese indices: Growth better than value stocks. REITS notably outperforming. Energy stocks also lose luster

- What's behind? Greater China markets show a better tone with indices outperforming the regional trend as a string of supportive fiscal measures are put in place.
- Growth assets show a better trend, while value assets show worse behavior in what seems like a change of roles compared to previous months. We can also see a recent drag from its mainland oil & gas stocks while properties notably outperformed.
- Fx also strengthening: The onshore and offshore yuan also strengthened as currency traders bought the yuan after the PBOC decided to hold its LPR rate steady, seeing it as a vote of confidence Beijing is not looking to devalue the currency on fears of provoking fund outflow.
- All in all, it seems as if Greater China stocks outperform the rest, **following a pattern that has repeated since mid-March** as investors bet Beijing's wave of fiscal stimulus programmes will pay dividends without the intervention of monetary loosening. Gains would have been stronger but for oil-related stocks selling off steeply on the back of a significant drop in crude price recently.

PBOC: No monetary big stimulus. LPRs unchanged as expected

- PBOC left its LPRs (Lending Policy Rate) unchanged with 1Y at 3.70% and 5Y at 4.45%, as expected. Policymakers said to be wary of risks to yuan depreciation and capital outflows if they embark on further monetary easing at a time when other major economies are tightening policies.

US-China: US can witdraw tariffs to China, with Yellen saying some serve no strategic purpose

- The White House is reviewing the removal of some Chinese tariffs China as part of its battle against inflation. US treasury secretary Yellen said several tariffs on Chinese products inherited from former President Trump served "no strategic purpose".

Cost of Zero-covid policy: US and European companies to review China operations

- FT reported around a quarter of European companies operating in China are re-examining their operations amid plummeting business confidence. A survey by the European Union Chamber of Commerce in China showed 23% were considering shifting current or planned investments to outside of China.
- The US ambassador to China expects Chinese zero-Covid strategy to run until early 2023, and that “there was reluctance among US firms to invest in China before restrictions were eased”.

COVID / Reopening: Beijing announces initial victory against the virus as National Covid cases drop. However, Macau authorities finds local Covid cluster.

- Shanghai found just two cases outside quarantine in weekend mass testing, quelling fears city could be sent back into lockdown again. Beijing found five new cases Sunday, the fewest in three months. Shenzhen reported single-digit new cases over weekend, prompting mass testing round that was ongoing on Monday.
- In the other hand, Macau began its second day of mass-testing (to 650K residents) on Monday 20th after closing public schools and government services but allowing casinos to stay open. As many as 31 locally transmitted cases were discovered over the weekend to become the city's largest outbreak for eight months. Casino revenues for next week likely to be close to zero.

Energy: Oil imports in May from Russia soar to record level but massive oil refining capacity in China lies idle.

- Chinese oil imports from Russia surpassed those from Saudi Arabia in May for the first time in 19 months, rising 55% y/y to 8.42M tonnes. Saudi Arabian crude volumes were still up 9% y/y but down on a m/m basis.
- An estimated 33% of China's oil refining capacity is lying idle with domestic demand still in a post-pandemic/lockdown slump. Exporting refined products would help global prices come down but the industry is not structured for offshore shipments with the government tightly controlling export quotas.

Geopolitics

- The US Treasury Department is penalizing several Hong Kong and Chinese firms that aided in exporting petrochemicals from Iran. Treasury's under secretary said “the US will continue to limit Iranian petroleum exports through sanctions if there continues to be no agreement reached after the US withdrew from the Iran nuclear deal”. Companies in UAE were also targeted.
- Chinese President Xi Jinping will be the host of a virtual summit for leaders of BRIC countries on 23-Jun. Sources saying Xi and US President Joe Biden may hold a call as soon as July although Beijing later said they had no knowledge of such a proposal

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SHANGHAI Idx: MARKETWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.4%)

Forex – CNY/USD: MW (Target 6.65)