China's capital market. Everything you need to know to make a decision

China state fund increases stakes in biggest banks in a government's move to show its commitment to defending the Chinese market. In reality, it is a cosmetic and symbolic movement.

Central Huijin Investment, a unit of Sovereign Wealth Fund China Investment Corp, increased its stake in country's biggest banks for first time since 2015. It bought CNY477M ($65M) worth of A-shares in Bank of China, Agricultural Bank of China, China Construction Bank and Industrial and Commercial Bank of China, and said would further increase holdings over next six months. The movement is intended to support the Chinese equity market by signaling that the government will act buying shares if necessary, and with it, tries to regain the lost confidence of investors. In pur view, this is only a cosmetic and symbolic move as the Sovereign Fund increment is around 0.01% in each bank. This shows government's desire to maintain market stability, but we think it will be necessary something more than outright purchases from government.

The move comes after the leading China macro hedge fund, Shanghai Banxia Investment Management, called Chinese government to set up a stabilization fund to prop up stocks through a direct intervention (something that authorities have refrained from since 2015 market crash). Li Bei, the founder of this leading hedge fund, argued that "falling China stocks would force more selling and further erosion of investor confidence", and that the "only way to break the vicious cycle is for a stabilization fund to enter the market". From this operation of direct intervention proposed by this hedge fund, one could reach the conclusion that the fund could be facing serious problems, and that if these problems materialize, it could cause a chain effect.

Market reforms that go in the opposite direction to the most basic laws of capital market. This time the punished are the domestic investors.

China has for the first time issued a notice prohibiting domestic brokerages and their overseas units from taking on new mainland clients for offshore trading. New investments by existing mainland clients are also to be "strictly monitored" to prevent investors bypassing China's forex controls. Measure seen as latest ploy to control capital ouflows amid weakness in the domestic currency and domestic equity markets. Sources believe implementation would be immediate. Authorities also ordered the removal of apps and websites soliciting mainland clients.

Beijing mulls higher budget deficit to meet growth target.

The government is considering raising its FY 2023 budget deficit ahead of a new round of stimulus and considers issuing at least CNY1T ($137B) in additional sovereign debt, resulting in a budget deficit above the 3% cap set in March. The funding will be used to reduce pressure on local authorities because of its high interest burden and pay for infrastructure projects. Of the total amount, some $3.6B will be sold in yuan-denominated sovereign bonds, issued in Hong

Kong in Q4 and raising the annual tally to CNY55B, the most since China issued first offshore yuan sovereign note in 2009. China has incentive to boost issuance of bonds for the long-term purpose of yuan internationalization.

Trade: Following the launch of an investigation by Brussels into Chinese subsidies for EVs, Brussels now plans an anti-subsidy probe into China's steelmakers and turbines sector.

EU is planning to announce anti-subsidy investigations against Chinese steelmakers at a summit with US this month, as Brussels agreed to join Washington's efforts to shield industries from cheap Chinese competition. It will come just weeks after EU announced a probe into China-made EVs. An inquiry into wind turbine sector is also considered.

Property sector: IMF urges China for forceful action on its real estate woes. Country Garden says company can't meet all offshore debt payments.

IMF lowered growth forecast for China to 5% in 2023 and 4.2% in 2024 (from 5.2% and 4.5% respectively) in latest World Economic Outlook. IMF's Chief economist called for forceful action from Beijing on its real estate sector to make sure issue remains localized in property market and doesn't spill over to broader financial system. Meanwhile, Morgan Stanley said most Chinese household remains unwilling to buy homes. "Households remain cautious over entering the housing market despite a raft of support". A poll shows 42% expect lower home prices over next 12 months (vs 23% in the last poll).

China to host Belt and Road Forum next week, Xi to deliver speech and Putin to attend. The US branded the project as "China's debt trap".

China hosted the third edition of Belt and Road Forum on 17-18 Oct which will see President Putin's attendance. President Xi Jinping will deliver a keynote speech as China makes latest effort to shore up support for Belt and Road project, launched in 2013 and has since funded $900B in infrastructure, which US branded as China's debt trap.

Geopolitics

China and India agree to maintain border peace. China and India agreed to maintain peace along their border after conclusion of 20th round of talks between Beijing and New Delhi. India said two sides exchanged views in frank and open manner and agreed to maintain dialogue.

Meanwhile, Taiwan says keeping status quo is critical to seeking a peaceful coexistence with China. President Tsai Ing-Wen added that Taiwan can be "calm and self-assured" in facing China. Tsai and her deputy Vice President rejected the "1992 consensus", a tacit agreement between Beijing and Taiwan's opposition party KMT that Taiwan is part of China.

Market outlook & Recommendations

Equities – SHANGHAI Idx: UNDERWEIGHT /// SHENZHEN Idx: UNDERWEIGHT

Bonds – Govies: UNDERWEIGHT (10Y Yield target 2.25%)

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)