Market Watch

China/HK sell-off extends

Summary

- The Hang Seng Index (HSI) and CSI 300 plunged 6.3% and 2.9%, respectively on Oct 24. The NASDAQ Golden Dragon China Index fell over 14%. The CNH also fell 1.2% against the USD to a new record-low of 7.32.

- This came on the heels of the Party Congress that was concluded last weekend, with President Xi securing his third term and announcing his new central leadership team on Oct 23. Premier Li Keqiang is set to retire.

- Stronger than expected Q3 GDP data failed to offset the prevailing negative sentiment. Investors appear to be ignoring long-term policy emphasis on energy/supply chain security, technological innovation, military defence and consumption, at least for now.

- We retain China equities as a core holding as valuations hover around the low end of the 10-year historical range. We prefer onshore A shares to offshore equities, as we see them more aligned to the government’s policy agenda.

Deciphering the market sell-off

The broad HK/China equity market sell-off yesterday was most severe in growth and re-opening themes, namely communications, e-commerce, consumer discretionary, EV and renewables. On the other hand, major bank and energy stocks were down less by 1-3%. This may illustrate concerns over China’s growth outlook in absence of further policy stimulus from the Party Congress. That said, the light positioning could provide a tactical opportunity, if the earnings season in November turns out better than feared.

The major event catalyst, in our view, will be the Central Economic Work Conference in December. Chinese authorities are expected to put forth concrete actions to strengthen growth and “rejuvenate the Chinese nation on all fronts along the Chinese path to modernization”. The better-than-forecast Q3 GDP print may suggest limited need for policy stimulus, but we believe the weaker-than-consensus retail sales growth of 2.5% and unemployment rate of 5.5% will encourage further targeted easing in the months ahead.
Key outcomes of the Party Congress
Following the Party Congress, President Xi announced his new leadership team of the Standing Committee of the Politburo. Apart from himself and two existing members (Wang Huning and Zhao Leji), the four new members are Li Qiang (Party Secretary of Shanghai), Cai Qi (Party Secretary of Beijing), Ding Xuexiang (Director of the General Office of the Central Committee) and Li Xi (Party Secretary of Guangdong). The list of the 24-member Politburo for the Central Committee was also released, including new members such as Wang Yi (Foreign Minister).

Our key observations are threefold:

1. The focus on security is broadened from national security to supply chain security and energy security.
2. More emphasis is placed on experiences amassed in leadership in major provinces and thought alignment. When Li Qiang was the Governor of Zhejiang in 2012-2016, its growth outperformed the national average. The consolidated leadership team will likely streamline the implementation of policies.
3. We believe Li Qiang’s track record suggests more pro-growth policies with a skew towards small/medium enterprises. This aligns well with Xi’s common prosperity focus.

View on China/ HK equities
We believe the market may be under-estimating the Chinese government’s resolve to drive long-term growth. Against these critically challenging times, China’s growth priorities will likely centre on:

- Energy security and supply chain security
- Technological innovation and self-sufficiency
- Military defence
- Green development
- Consumption

Of course, as we enter the earnings season, with banks starting to report later this week, sentiment remains weak. Meanwhile, the US Mid-term Elections next month could lead to some ‘China-bashing’. However, we retain our view on China as a core holding, given extremely cheap valuations, although we clearly need a catalyst to turn around sentiment. The areas of anticipated policy support and potential stimulus to local companies reinforce our preference for onshore China equities relative to offshore, as onshore equities possess greater exposures to the afore-mentioned policy-aligned areas, in our opinion.

— Raymond Cheng, Chief Investment Officer, North Asia
— Michelle Kam, Investment Strategist

New central leadership marks a new era
The Standing Committee of the Politburo leadership team

Existing Members: Xi Jinping, Wang Huning, Zhao Leji

New Members: Li Qiang (Party Secretary of Shanghai), Cai Qi (Party Secretary of Beijing), Ding Xuexiang (Director of the General Office of the Central Committee), Li Xi (Party Secretary of Guangdong)


Relatively lower vaccination rates among the Chinese seniors compared with the US

% of elderly demographics who are fully vaccinated or received booster shots, in China vs. the US

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<tr>
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<th>China</th>
<th>US</th>
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<tbody>
<tr>
<td>Fully vaccinated</td>
<td>80%</td>
<td>90%</td>
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<tr>
<td>Booster shots</td>
<td>40%</td>
<td>70%</td>
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Source: Chinadaily, Standard Chartered
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