

China's Economic & Market Perspective

Fundamentals

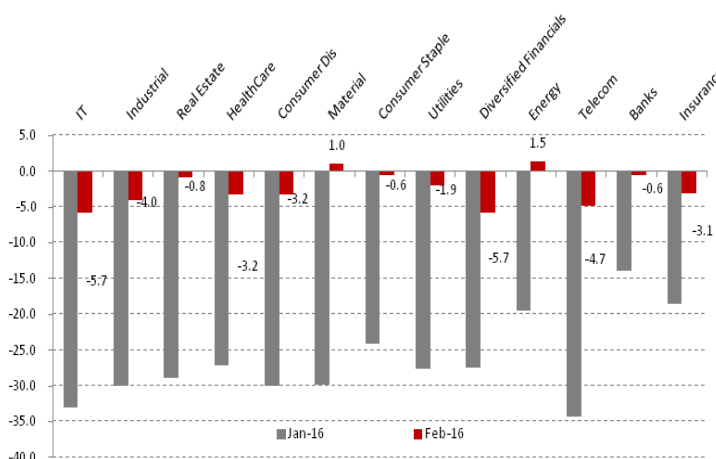
PMI in February have further fallen 0.4% to 48.6% as compared with 49% in January, below the mid-point for seven consecutive months. This indicates there is still tremendous downward pressure of economy. Coal consumption has seen a 16.8% drop YoY, indicating industrial added value in February continues to decline. With the current policy of 'destocking and decapacity' unchanged, we would expect indicators such as industrial added value and fixed asset investment continue to slide.

On 29th of February, the People's Bank of China (PBoC) made the announcement that it would cut the RMB required reserve ratio by 50 basis points, indicating an across-the-board RRR cut since October of 2015. It is estimated that the cut will release liquidity of approximately 600 billion RMB into the market. The market had anticipated stimulus measures by the central bank to boost the sluggish economy over the coming weekends from the past experience, however, the RRR cut announcement still arrived sooner than majority of the market expectations. This indicates the pressure of implementing steady growth policy is intensified meanwhile the pressure to stabilize the currency market is eased.

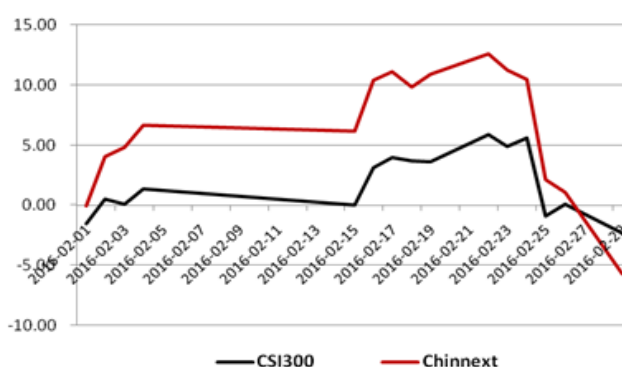
Market

In terms of the market performance in February, all indices reported a narrow decline. Shanghai Composite index and CSI 300 index have dropped by 2.1%. Small cap stocks still have a worse performance but the downfall has been moderated as ChiNext and SME showed the performance of negative 5.7% and negative 4.4%, respectively. As for the sector performance, spurred by the 'supply-side reform', materials and energy sectors showed a strong momentum with rise of more than 1% in such uncertain market climate. IT, Consumer Discretionary, and Telecom, where many small growth stocks gathered, on the contrary have reported losses more than 4.5%.

Graph 1: China A share sector performance (%) in February

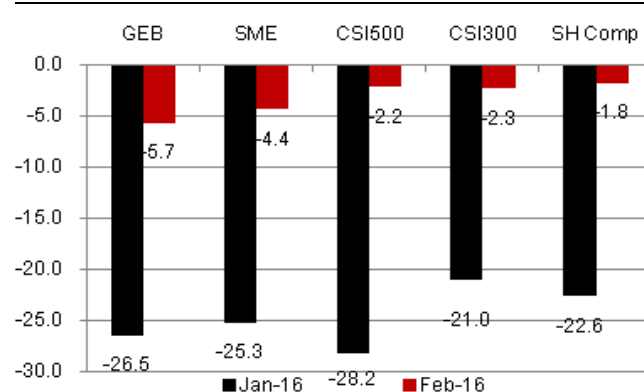


Graph 2: Performance of Shanghai Index and ChiNext in February



Source: Wind Info, ChinaAMC

Graph 3: Performance of different indexes in February



Source: Wind Info, ChinaAMC

Outlook

Looking ahead, with the strengthening steady growth policy, the accelerated delivery of credit and social financing will promote the recovery of real economy. The across-the-board RRR cut shows that steady growth policies continue to play a key role in administration as the

sign of significant recovery of real economy is far from achievable. As the National People's Congress and Chinese People's Political Consultative Conference sessions are drawing near, we will see a very clear plan as well as the stance of the government. Hopefully it will steer the economy in the correct direction.

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