

China Policy

In the liquidity & credit easing cycle

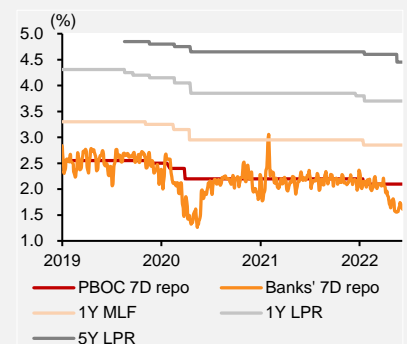
Total social financing rebounded sharply in May as business bill financing increased amid liquidity easing and governments accelerated their bond issuance amid policy guidance. New mortgage loans and medium-to-long-term corporate loans mildly improved yet remained low as housing demand and capital expenditure were still weak. The recent liquidity easing, LPR cut and credit supply loosening should support further rebound of credit growth in next several months. Chinese stock market should outperform advanced markets in the short term as the country is in the liquidity & credit easing cycle with economic resumption while developed countries are still in the monetary tightening cycle with high inflation. The divergence of monetary policy may not disappear until China completes its economic resumption or developed countries get their inflation under control.

- New credit rebounded sharply amid delay effect, liquidity easing and faster government bond issuance.** Total social financing jumped 42.9% YoY in May after dropping 51% YoY in April. The sharp rebound of new credit was thanks to three factors. First, economic activities and issuance of some new loans were delayed to May due to lockdowns in April. Second, liquidity easing and central bank's guidance to banks to expand their credit supply supported a strong YoY growth of bill discounting financing at 363.5% in May. Therefore, new renminbi loans grew 26% YoY in May after declining 56.1% YoY in April. Third, state council required governments to accelerate their bond issuance to support the growth as government bond financing jumped 58.2% YoY in May. The YoY growth of outstanding social financing and M2 supply respectively accelerated from 10.2% and 10.5% at end-April to 10.5% and 11.1% at end-May.
- New mortgage loans and long-term corporate loans mildly improved as housing and capex demand remained weak.** New mortgage loans turned positive in May from the negative in April, but remained 76.3% lower than the amount in last May. The trend of new mortgage loans was in line with housing market performance as housing sales remained weak with mild shrinkage in YoY declines. New medium to long-term loans to corporates dropped 15% YoY in May after decreasing 59.8% YoY in April, as infrastructure investment rebounded yet business capex remained weak.
- PBOC will focus on reviving credit supply.** RRR and policy rates have additional room to lower, but the room should be limited as liquidity condition became ample and LPRs dropped to new lows. Banks' 7D repo rates dropped from 2.1% in late March to 1.6% in early June, slightly higher than the trough of 1.4% in April 2020. 1Y and 5Y LPRs were lowered to 3.7% and 4.45%, respectively. The PBOC will focus on reviving banks' credit supply to stabilize housing market and boost economic growth.
- Chinese stock market should outperform advanced markets in the short term.** China has led advanced economies in the latest cycle. China tightened its policy last year and the economy entered the second slump from 2H22. As the economy collapsed in 2Q22 due to lockdowns, China launched the liquidity & credit easing cycle again. However, most developed countries were in the monetary tightening cycle as they reopened their economies and faced high inflation. The divergence of monetary policy may not disappear until

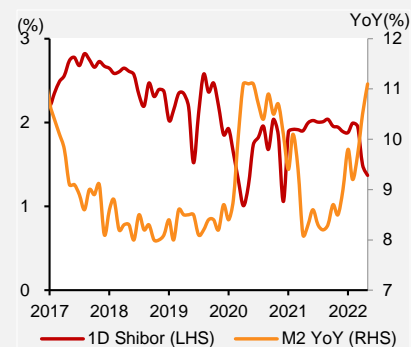
Bingnan YE, Ph.D

(852) 3761 8967

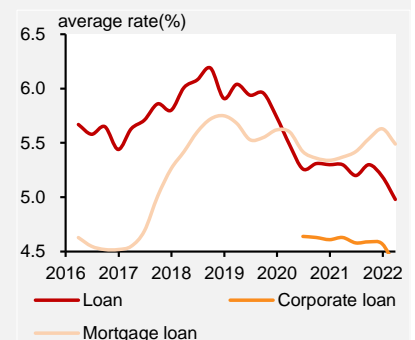
yebingnan@cmbi.com.hk



Source: Wind, CMBIGM



Source: Wind, CMBIGM

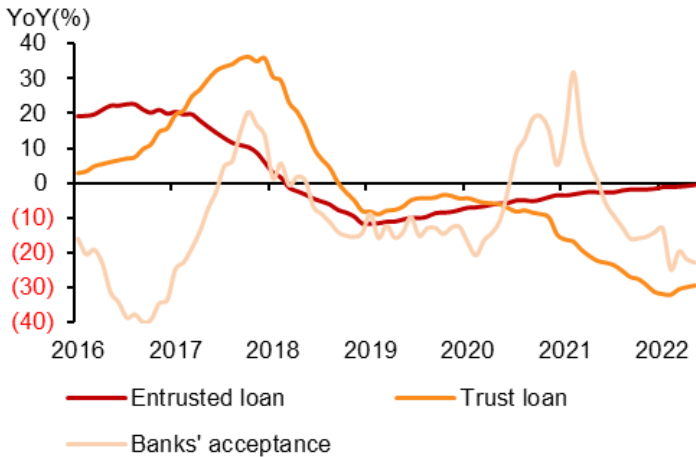


Source: Wind, CMBIGM

China completes its economic resumption or developed countries get their inflation under control.

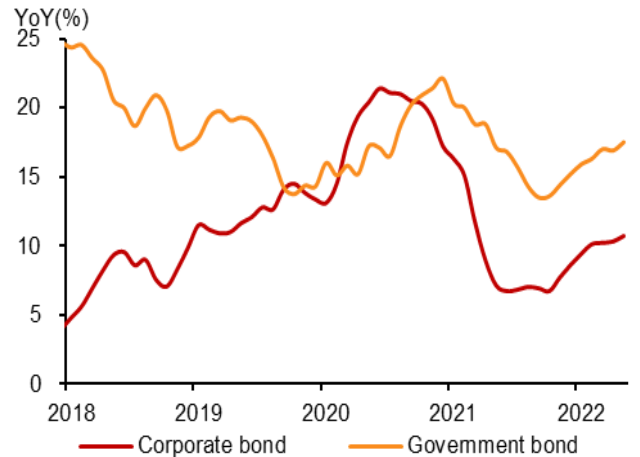
- **Which sectors are our favorites?** In the near term, sectors related to reopening including Consumer Discretionary, Hard-Tech and Healthcare might outperform the market. As credit expansion restarts, Consumer Discretionary and some Capital Goods may see better performance than other sectors. Internet sector may also benefit from regulatory policy easing and economic resumption.

Figure 1: Growth of outstanding OBS financing



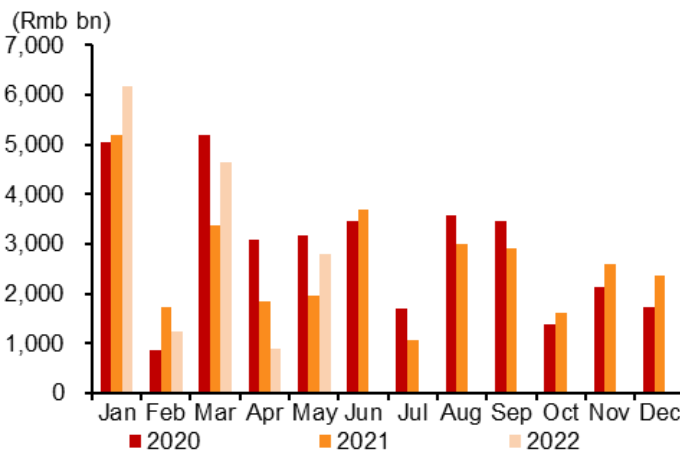
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



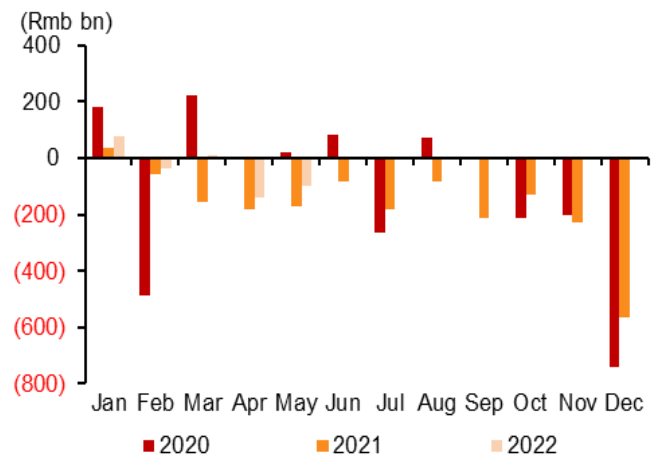
Source: Wind, CMBIGM

Figure 3: Total social financing



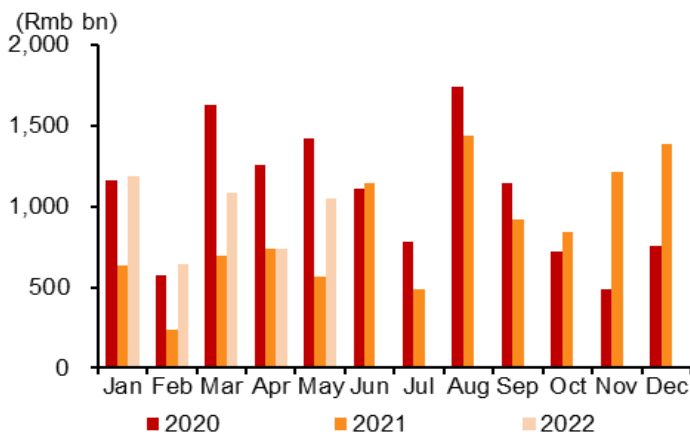
Source: MoF, CMBIGM

Figure 4: OBS financing



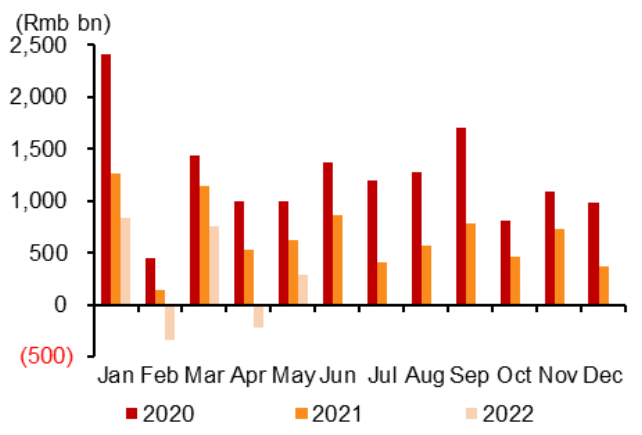
Source: MoF, CMBIGM

Figure 5: Bond financing



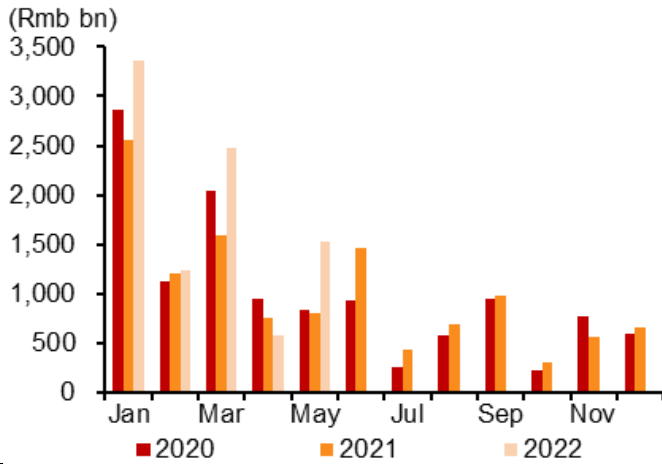
Source: Wind, CMBIGM

Figure 6: New loans to households



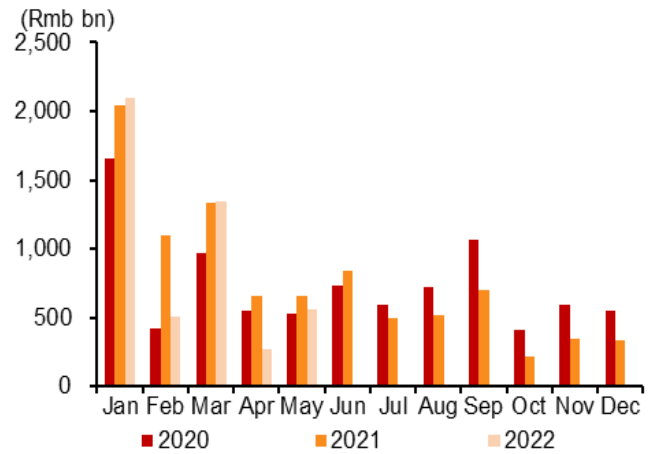
Source: Wind, CMBIGM

Figure 7: New loans to enterprises



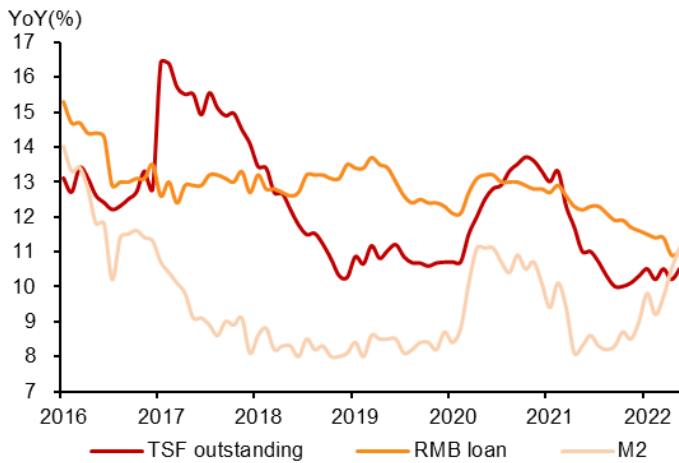
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



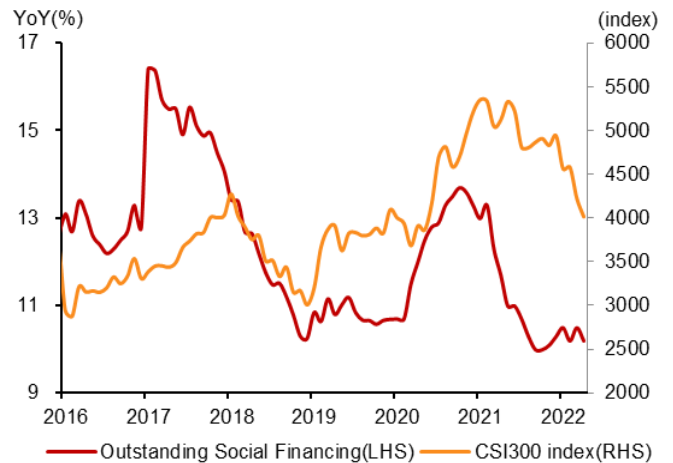
Source: Wind, CMBIGM

Figure 9: Growth of credit & money supply



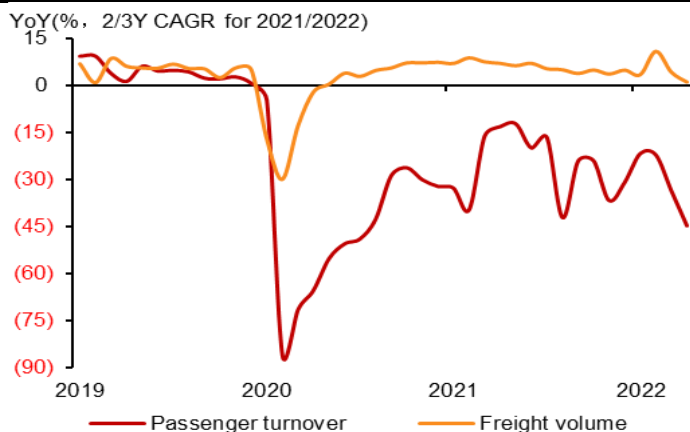
Source: Wind, CMBIGM

Figure 10: Social financing growth & CSI300 Index



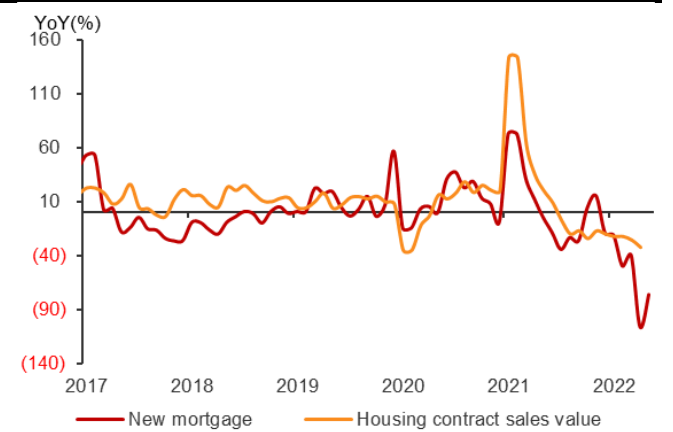
Source: Wind, CMBIGM

Figure 11: Growth of passenger & freight volume



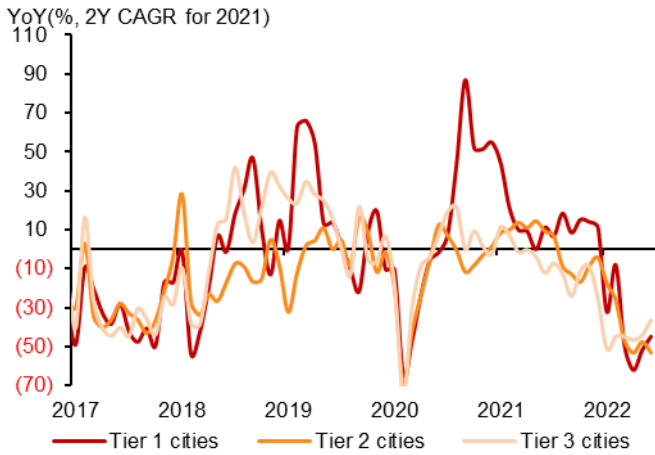
Source: Wind, CMBIGM

Figure 12: New mortgage & housing sales



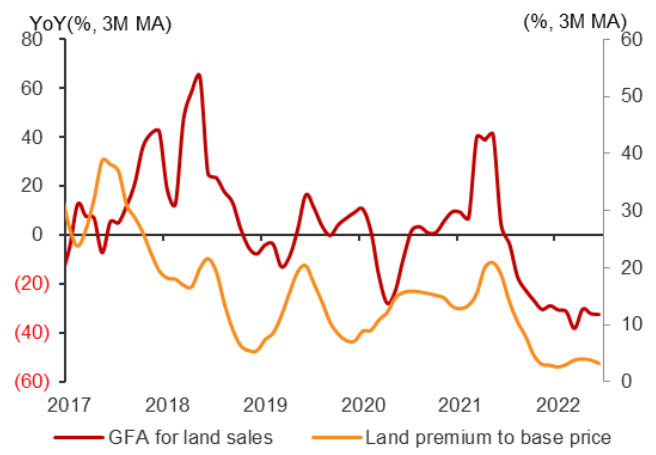
Source: Wind, CMBIGM

Figure 13: Growth of housing sales by cities



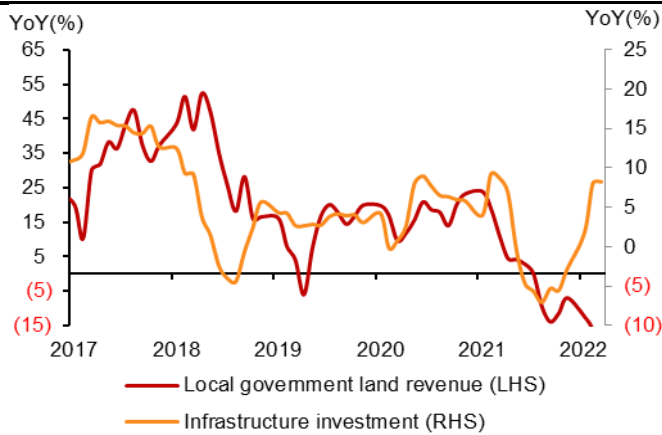
Source: Wind, CMBIGM

Figure 14: Growth of land sales



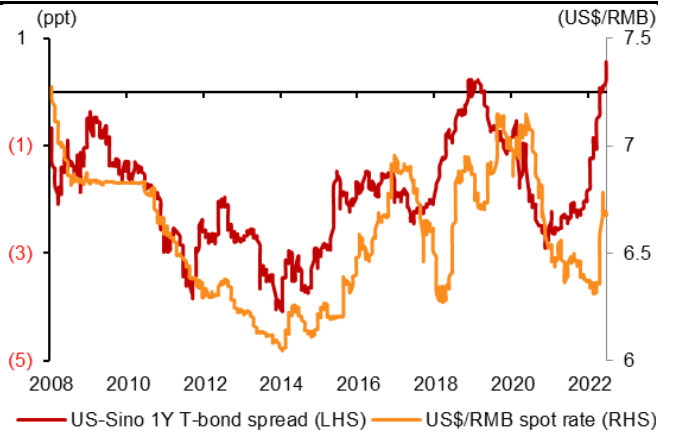
Source: Wind, CMBIGM

Figure 15: Land revenue & infrastructure investment



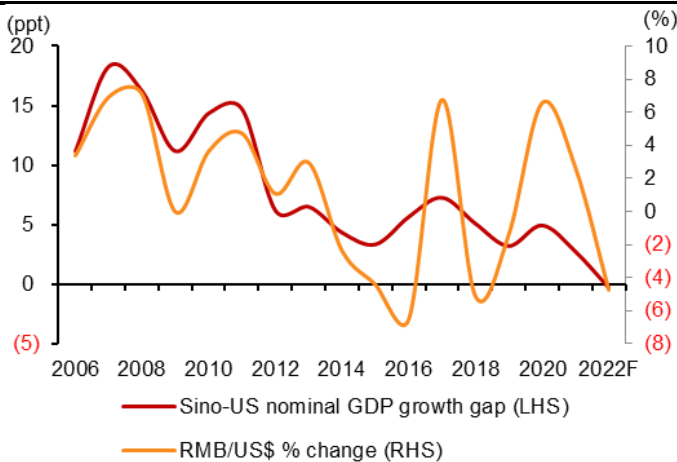
Source: Wind, CMBIGM

Figure 16: US-Sino interest spreads



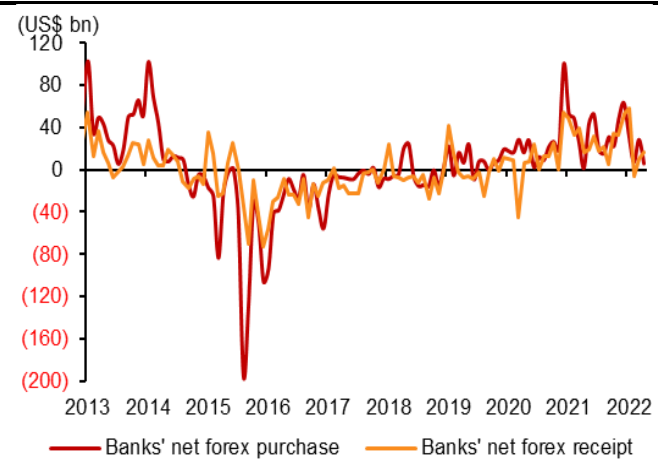
Source: Wind, CMBIGM

Figure 17: Sino-US growth gap & RMB/US\$ change



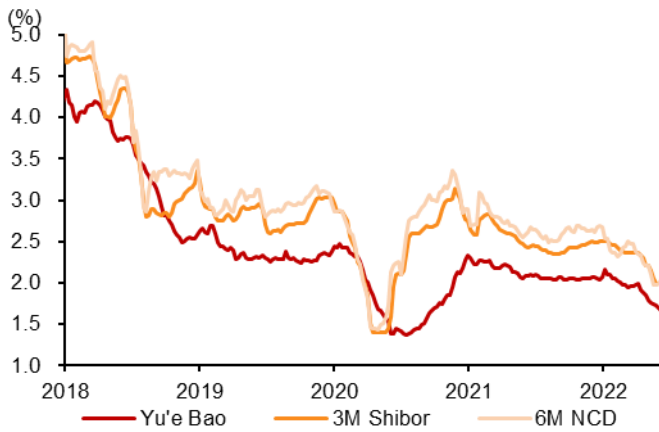
Source: Wind, CMBIGM

Figure 18: Net forex inflow



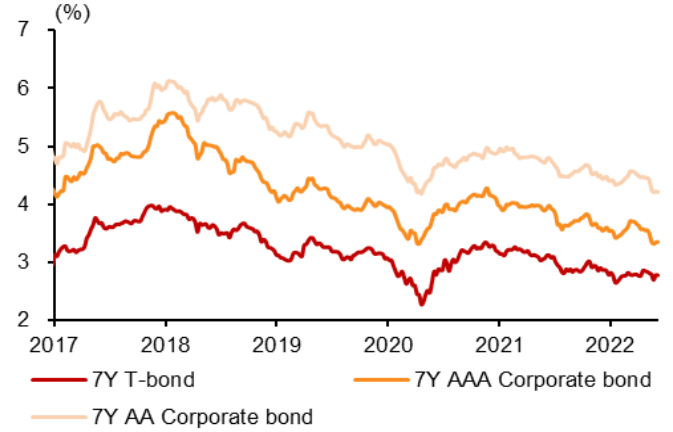
Source: Wind, CMBIGM

Figure 19: Money market funding cost



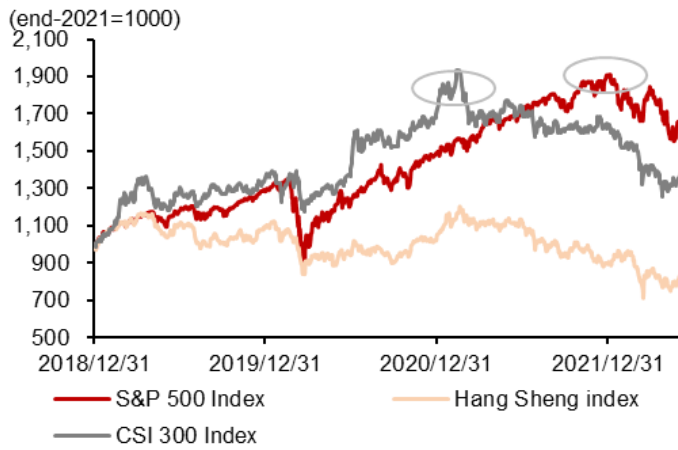
Source: Wind, CMBIGM

Figure 20: Bond market rates



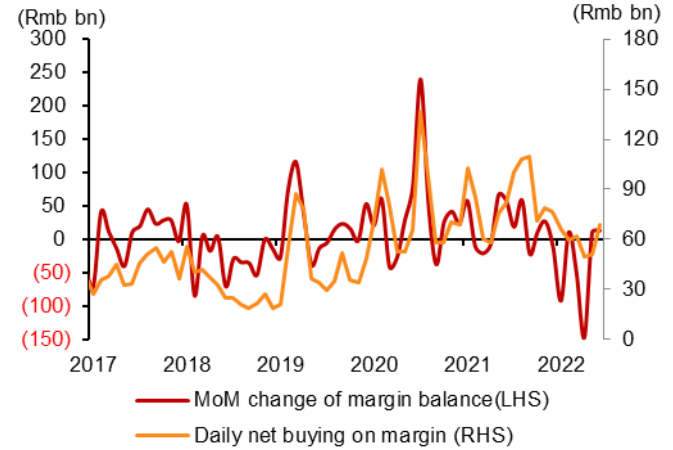
Source: Wind, CMBIGM

Figure 21: Stock market performance



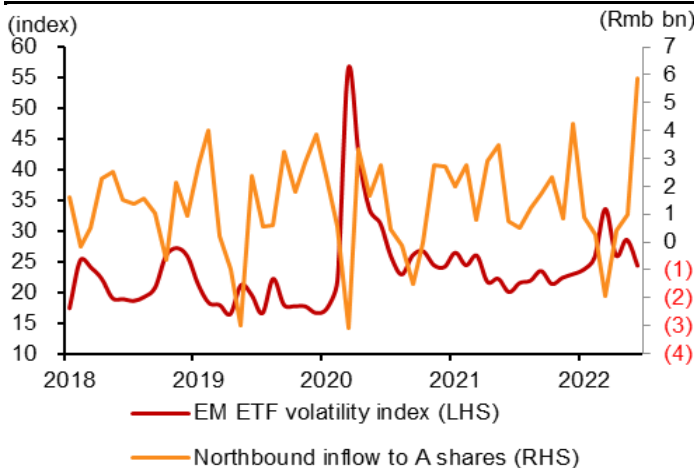
Source: Wind, CMBIGM

Figure 22: Margin trading in A share market



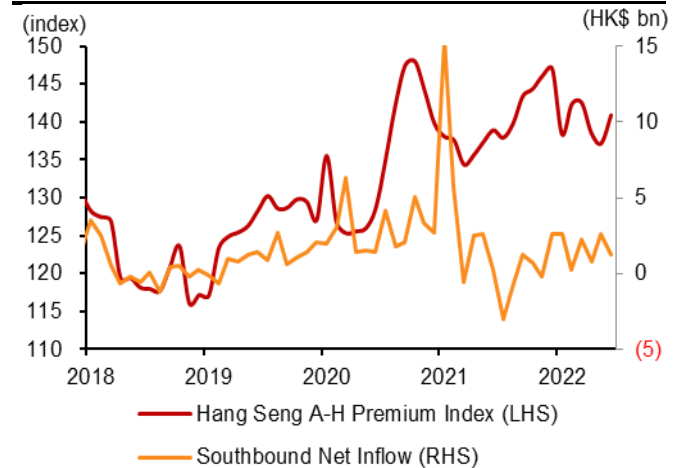
Source: Wind, CMBIGM

Figure 23: EM ETF volatility & northbound daily inflow



Source: Wind, CMBIGM

Figure 24: A/H premiums & southbound daily inflow



Source: Wind, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.