GF Macro Views

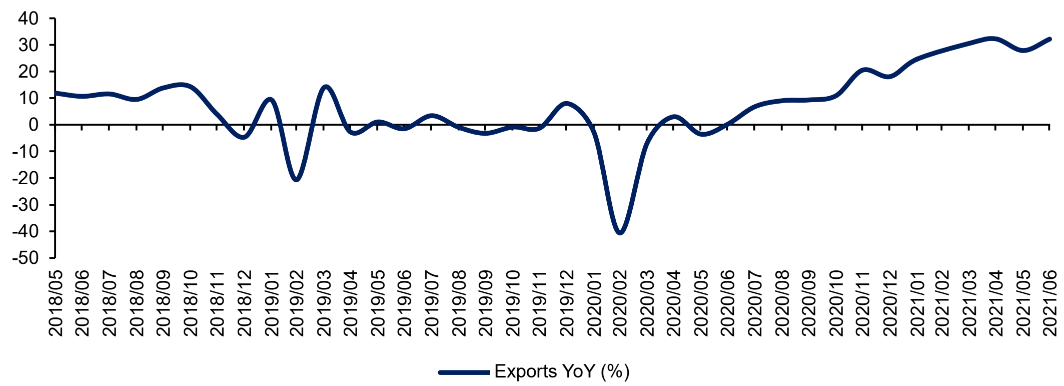
Weekly views from GF Securities' macro research team

Strong exports continued in June

Exports remained strong in June, which contradicted market expectations that the economy will come under pressure and policy focus will shift to stabilizing growth Exports from China, South Korea, Vietnam and India were strong in June amid the global trade recovery after the pandemic. Exports of automatic data processing equipment and related components, general machinery, apparel, textiles and housing decoration products were the largest contributors to exports in June. Although vaccination rollouts in Europe and the US are underway and lockdowns in some economies are being lifted, exports from China should benefit from demand driven by improvements in income and income expectations, demand for travel, socializing and work, and demand for industrial goods. As the comparable bases will be higher for July-October and November-December, we estimate YoY growth in exports will slow while fundamentals will remain stable. After the PBoC announced it would cut the reserve requirement ratio on July 9, there has been rising expectation that the economy will come under pressure and policy focus will shift to stabilizing growth, which, however, is contradicted by the continued strong exports in June.

Guo Lei - July 15, 2021

Exports from China YoY



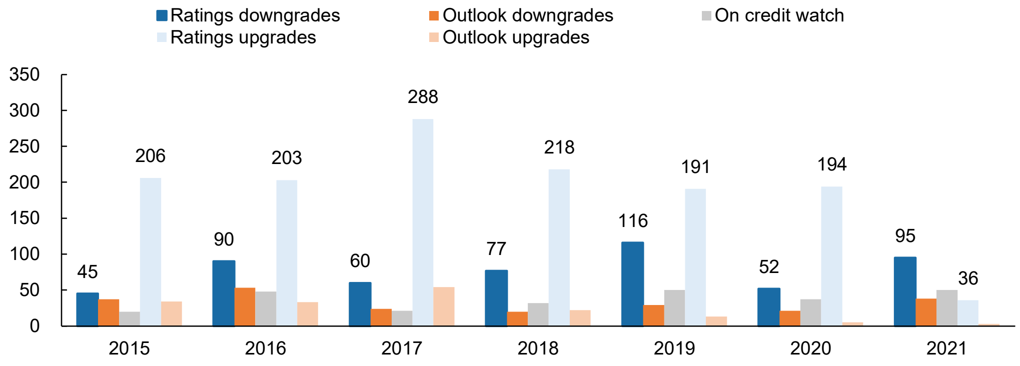
Source: Wind, GF Securities Development & Research Center

What was behind the rise in ratings downgrades in 1H21?

Given more stringent regulations on credit ratings in 1H21, we believe more urban construction investment platforms and companies previously given medium or high ratings will receive downgrades Bond markets saw substantial rating adjustments in 1H21 amid more stringent regulations on credit ratings and ongoing rating reform: (1) The number of ratings downgrades increased while the number of ratings upgrades decreased significantly; (2) More urban construction investment platforms received credit rating or outlook downgrades; (3) A higher number of companies previously given medium or high ratings received downgrades. Looking ahead, we believe the benchmarks for ratings upgrades will become stricter. As rating agencies charge bond issuers fees and as how issuers are rated will affect their fundraising, ratings downgrades will be a gradual process. Most downgrades were given to urban construction investment platforms in Guizhou in 1H21, which worsened the local credit environment. Urban construction investment platforms that have seen more risk events are likely to receive downgrades. In addition, more medium and highly-rated companies may receive more downgrades. As such, we suggest watching companies whose earnings have declined and those involved in risk events, which may receive rating downgrades.

Liu Yu - July 16, 2021

1H ratings adjustments



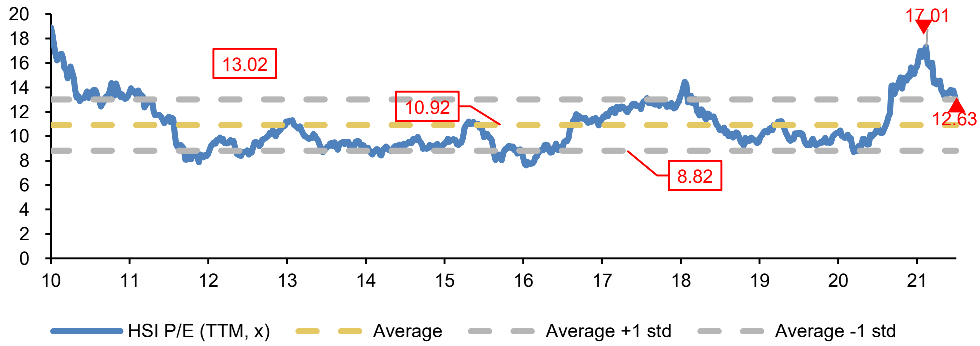
Source: Wind, GF Securities Development & Research Center

Gathering steam

We see limited opportunities for H-share index investment in 2H21. Growth stock entry points may present themselves soon, and we see opportunities in internet, semiconductors and pop products The H-share market disappointed in 1H21. Value stocks outperformed growth stocks on stronger earnings amid an improving macroeconomic environment. Looking into 2H21, we see limited opportunities for index investment. We expect slower economic growth in mainland China in 2H21 given the weaker exports and property market, the two main engines for the economy, and earnings will play a smaller role in supporting indices. Meanwhile, the Fed is unlikely to speed up tapering, and US dollar liquidity should remain abundant. This, together with recovering market risk premium, should alleviate valuation pressure. However, H-share growth stocks should become more attractive, and entry points may present themselves soon. We suggest (1) prioritizing top names in traditional comprehensive services and buying into the sector on dips; (2) watching sectors seeing good sentiment, including semiconductors, which continues to enjoy favourable sentiment, and consumer electronics, in which sentiment is recovering; (3) watching the rise of domestic consumer brands as pop toy and pop food companies are providing on-trend offerings.

Dai Kang - July 13, 2021

HSI P/E



Source: Wind, GF Securities Development & Research Center

Compiled and summarized by: Cai Juntao (email:* caijuntao@gf.com.cn*)