GF Macro Views

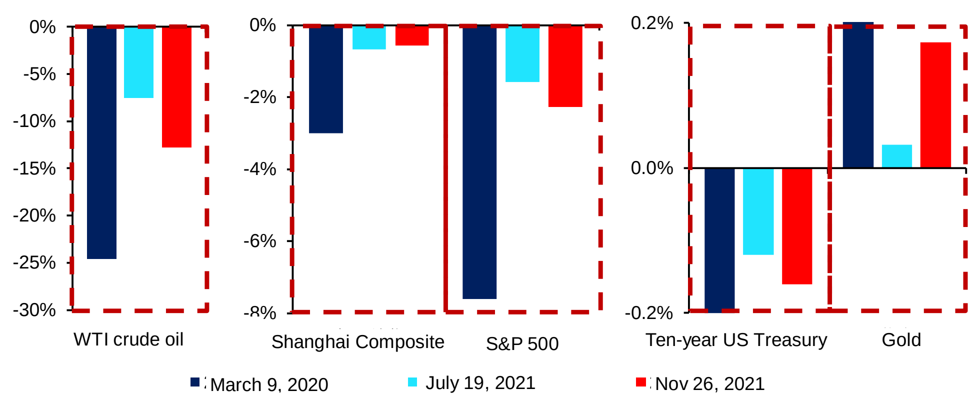
Weekly views from GF Securities' macro research team

How could the new variant affect the A-share market?

The new variant may lead to larger fluctuations in major assets than in July when Delta was on the rampage. We suggest watching COVID-driven themes and those benefitting from carbon policies and new infrastructure projects in the short term. The spread of the Omicron variant has added to volatilities in major assets across the globe. Vaccine and stay-at-home themes have outperformed. As the new variant is more infectious and given the impact of previous strains, we estimate the performance of major assets will be somewhere between that seen in March 2020 (delayed monetary tightening expectations and heightened expectations of growth stabilization in China) and July 2021 (China's exports remained strong and the supply chain was disrupted). The A-share market should be driven first by sectors related to control measures, then by recovery. Equity assets should face volatility risks in the short term. We suggest watching closely whether there will be lockdowns around the globe, and looking for the intersection of COVID-driven themes and those benefitting from carbon policies, credit easing and growth stabilization efforts.

Dai Kang, Zheng Kai - Nov 29, 2021

The performance of major assets has been somewhere between that seen in March 2020 and July 2021



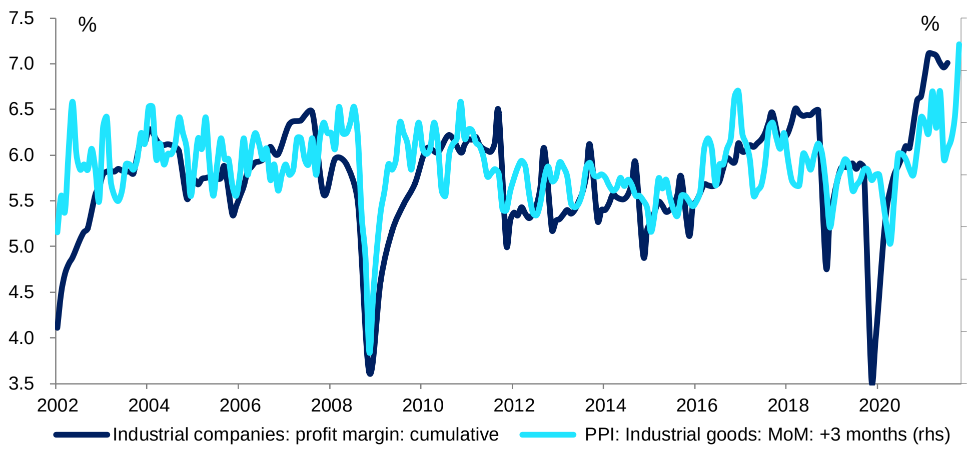
Source: Wind, GF Securities Development & Research Center

Strong industrial profit growth despite economic slowdown

Industrial companies bucked the trend with strong profit growth due to higher production and prices. New infrastructure projects related to the carbon push will play a major role in growth stabilization. Despite lackluster economic data in October, profit growth at industrial enterprises above a designated size bounced back substantially during the month, as (1) growth in industrial production improved substantially as supply constraints gradually removed; (2) PPI growth made a stronger contribution to corporate profits. Production may stabilize but prices could decline amid growth stabilization policies and significant corrections in upstream product prices, and upstream profit contribution is reaching an inflection point. As demand continues to decline and PPI is set to peak, companies are expected to shift to active destocking. Meanwhile, companies are at the late stage of deleveraging, and the leverage ratio of public utilities has been rising since July, indicating new infrastructure projects related to the carbon push and clean energy will play a major role in growth stabilization amid the downward economic cycle.

Guo Lei, Wang Dan - Nov 30, 2021

Profit margin has been highly correlated with PPI growth



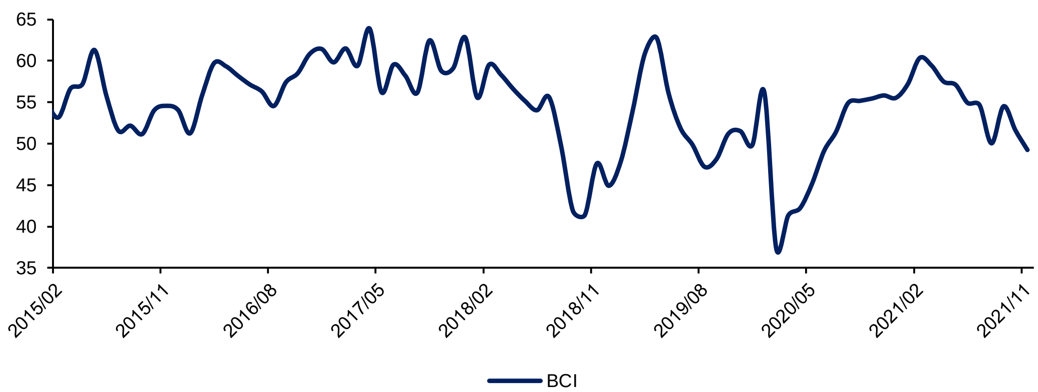
Source: Wind, GF Securities Development & Research Center

What does the PMI and BCI reading tell us about the economy in November?

The economy will stabilize in 4Q21, but the recovery may not be sustained. As the economy continues to slow, growth stabilization measures are still necessary. PMI rebounded to above the 50 threshold in November, slightly exceeding expectations. However, it is worth noting that we should not be excessively bullish on the economy just because of the recovery in November, as (1) the recovery may not be sustained as it was mainly driven by the diminishing impact of power rationing and production restrictions and the overseas seasonal norm during the Christmas holidays; (2) the sub-indices of PMI employment and business activities expectations remained low; (3) CKGSB BCI, which is indicative of inflection points in the economy, continued to drop in November. BCI sales, profit, investment, recruitment and financing indices fell in November, suggesting pressure on the economy. Therefore, China’s economy is still slowing, and growth stabilization measures are still needed. Efforts should be spent to better harness the proceeds raised from special bond issuance and expanding effective investment to drive domestic demand and consumption, as stated at the State Council executive meeting.

Guo Lei - Dec 2, 2021

CKGSB BCI continued to drop in November



Source: Wind, GF Securities Development & Research Center

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