GF Macro Views

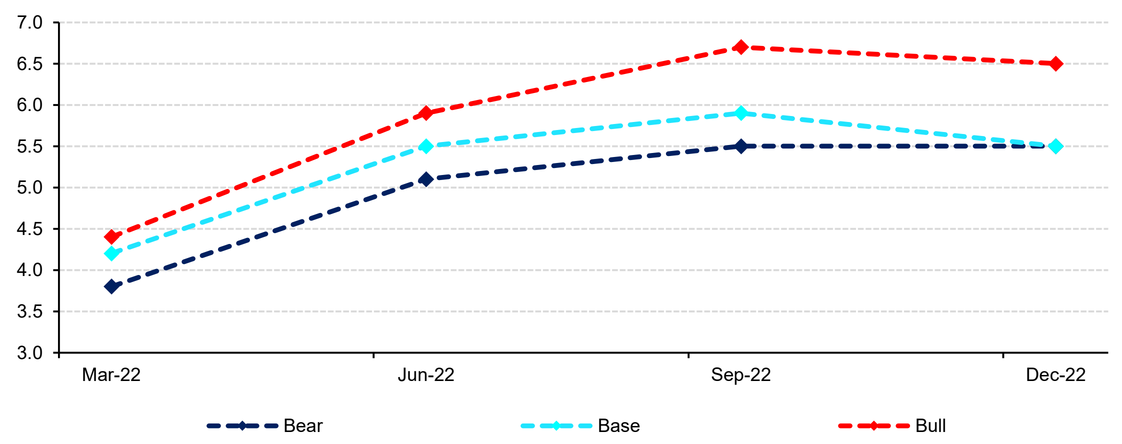
Weekly views from GF Securities' macro research team

Strengthening traditional sectors and expanding new economies

Strengthening traditional sectors and expanding new economies will be at the center of growth stabilization in 2022, which should favor capital markets, but marginal risks should be watched. The decline in economic growth in 2021 was driven by the slowdown in the construction industry chain amid delayed fiscal spending and tightened property policies. Potential export slowdowns could lead to a further slowdown in 2022. Overall, growth pressure will be noticeable in 1H22, making it necessary to set a policy tone of growth stabilization at the end of 2021 and launch related measures in early 2022. Growth stabilization measures should involve stabilizing the leverage ratio in traditional sectors and establishing a financing and investment framework for emerging sectors, and the carbon reduction drive should be promoted when appropriate. Once policies are launched to stabilize growth, the economy would move into a late-recession period, which should favor risk assets. Meanwhile, the pandemic and vaccine R&D progress will be accompanied by: (1) alternating prevalence of deflation-based and recovery-based trade; (2) the engineer dividend and policy tailwinds, which will benefit emerging sectors; (3) rising inflation amid the global carbon neutrality push. We also suggest watching risks such as the global pandemic, faster-than-expected rate hikes by the Fed and a global energy supply-demand imbalance.

Guo Lei - Dec 10, 2021

Forecasts for GDP growth



Source: Wind, GF Securities Development & Research Center

Stay alert and be selective

A-shares will be affected by structural oversupply, credit expansion and converged performance among stocks in 2022. Downstream sectors may be worth watching. The macroeconomic environment is expected to shift from inflation and accommodative policies towards stagflation and contraction in 2022. During historically comparable periods, the US stock market has tended to decline, US bond rates tend to rise and commodity price hikes moderate. We estimate 2022 will be the first year of pressure for the slow-bull amid financial supply-side reforms. A-share structure may move towards the opposite direction in 2022. First, the short supply in 2021 may transition to a structural oversupply in 2022, which would hamper corporate earnings. Second, after credit divergence in 2021, 2022 may see credit expansion for sectors involved in decarbonization efforts. Third, the performance among stocks of different market caps may converge in 2022. Downstream sectors may benefit from the narrowing gap between PPI-CPI and supply-demand. We suggest watching: (1) Sectors likely to benefit from a lower PPI and higher CPI (motors, white goods, food processing and agriculture); (2) Sectors benefitting from credit expansion for the carbon drive (railway and transportation, new energy, special steel and green buildings); (3) New energy vehicles (NEVs), UHV and power supply equipment (thanks to strong supply and demand), and defense (thanks to supply shortages). We also suggest watching emerging sectors with strong sentiment in 2022.

Dai Kang, Zheng Kai, Cao Liulong, Wei Jixing, Ni Geng, Wang Yongjian - Dec 6, 2021

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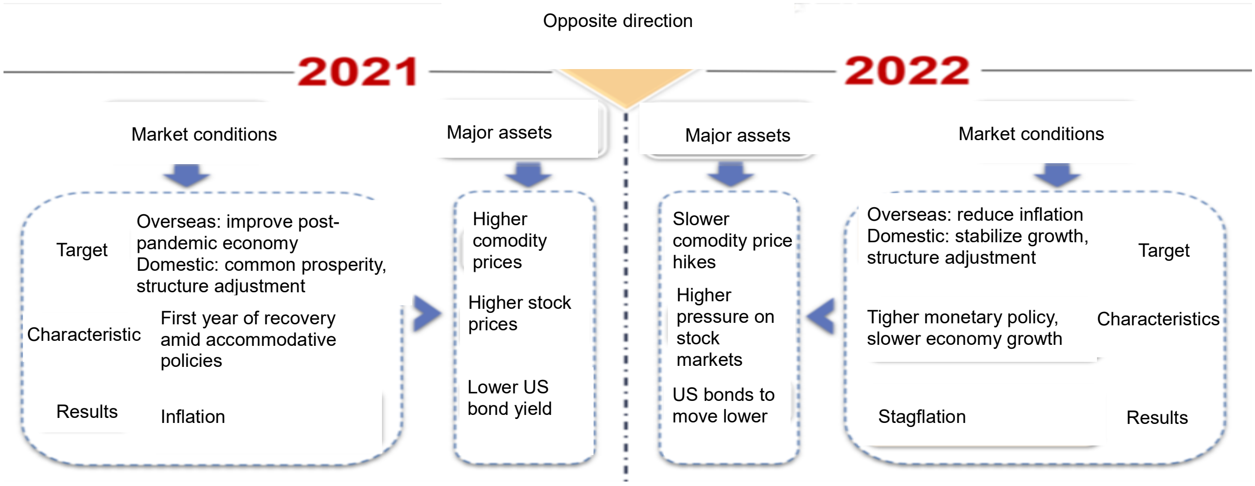
Macro environment and commodity assets to move towards the opposite direction in 2022



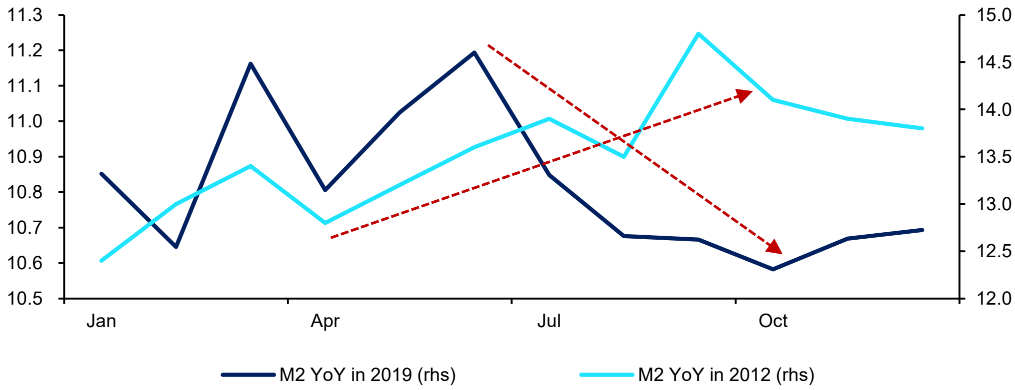
Source: Wind, GF Securities Development & Research Center

The bull run in the bond market may linger

Long-term yield to form a W-shaped pattern in 2022. We estimate China's ten-year government bond yield will range between 2.8-3.3%. China's cross-cycle adjustment in 2022 is aimed at balancing growth stabilization and risk prevention, as well as internal and external monetary supply. As such, quantity-based instruments will be restricted. We expect a front-loading of fiscal resources to offset economic slowdown. If the economy slows again, it will be necessary to adopt price-based tools in 2Q22. We estimate China's ten-year government bond yield will drop below 2.8% in 1Q22 to reflect expectations of monetary easing, then rebound to above 3.0% after February as the bond market starts to price in credit stabilization and a recovery in the spring. The yield may decline again during May-June, but by how much will depend on whether a rate cut will be announced. The long-term yield may trend up if the economy recovers to its potential growth in 2H22 (but it may not stay above 3.0%). Overall, the trend of bond interest rates in 2022 may be similar to 2019 or 2012. Which year it will be closer to will depend on the duration of YoY growth in social financing and M2.

Liu Yu - Dec 9, 2021

Bond interest rates in 2012 and 2019 were influenced by YoY growth in M2 (%)



Source: Wind, GF Securities Development & Research Center

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

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