CCXI & CCXAP – Research & Commentary

Look for Structural Opportunities in Risk Assets amid Slowing Economic Recovery under Supply-Demand Imbalance

Hong Kong, 25 October 2021 -- A report titled “Look for Structural Opportunities in Risk Assets amid Slowing Economic Recovery under Supply-Demand Imbalance -- 2021Q3 Review and Q4 Outlook for Macro-economy and Asset Allocations” has been recently published by the Research Institute of China Chengxin International Credit Rating Co. Ltd. (“CCXI Research Institute”), opining that China’s macro-economy may have entered the potential growth range. The demand and supply factors weighing on GDP growth in the first three quarters will not fully disappear in Q4. The downward pressure on the economy is expected to remain unmitigated in 2021Q4 and 2022Q1. The report expects GDP growth for 2021 to reach 8.1%, but foresees a decline in GDP growth to around 5.1% in 2022 due to higher comparison base and possible further softening of economic recovery.

The report notes that the macro-economic comeback slowed down amid supply-demand imbalance in the first three quarters of 2021. In terms of production, YoY growth of industrial value added weakened from month to month, while service production showed a marginally softening recovery amid local COVID-19 resurgences. In terms of demand, real estate investment was in a weak recovery due to stringent regulation and financing curbs. The growth rate of total retail sales of consumer goods was significantly lower than the pre-pandemic level. Exports provided a strong (but not sustained enough) backing for the economy. In terms of price, the widening divide between upstream and upstream prices may further increase the upstream share in corporate profits. In terms of finance, the demand for real-sector financing weakened and new financing to the real economy became sluggish, suggesting a number of headwinds against future implementation of the easy credit policy. In terms of exchange rate, the US Federal Reserve’s taper operations may push the US Treasury rates higher and narrow the China-US interest rate spread, thus relieving RMB from appreciation pressure. The report expects GDP for Q4 to further drop and touch 4.5%, but foresees the annual GDP growth for 2021 to reach a high level of 8.1%. Going forward, GDP growth is projected to fall to around 5.1% in 2022 due to higher comparison base and possible further softening of economic recovery.

The report warns of some risks and challenges in economic operation ahead. First, as the risk of sporadic coronavirus resurgence still exists, and the “zero tolerance” COVID-19 policy may curtail local economic activity. Next, market entities are under pressure from weak demand and rising costs of raw materials. Third, risk eruption may accelerate among the weakest private enterprises under financing and production pressure amid ongoing credit risk release. Fourth, the production is disturbed by the curbs and production and power use as well as the control over energy consumption and intensity. The carbon peak and neutrality goals may add to the energy cost pressure on the industrial sector.

In terms of asset allocation, the report suggests looking for structural opportunities in risk assets. The report notes that commodities led the price hike of assets in the first three quarters of 2021 amid global easy liquidity and major supply shortage. Moreover, driven by the ample liquidity and across-the-board reduction in reserve ratio requirement, the bond market yield was in a bumpy decline, and the stock market was mixed with small- and mid-cap stocks underperforming large caps. The stock market mainly offers structural opportunities. We suggest eyeing the new energy sector and defensive sectors insensitive to cyclical economic movements. Small- and mild-cap stocks still show attractive valuation. In the bond market, the China Government Bond (CGB) yield may have upside room in the rest of the year, with the weakest issuers' credit risk still possible to erupt at a faster pace. Commodities are unlikely to sustain their price hike, but some commodities may provide structural opportunities, with the Q4 trends relying mainly on the supply-demand relationship. Going forward, asset allocations may focus on structural opportunities in stocks and commodities. The bond market yield, expected to have limited upside room, will show good buy opportunity after a correction.

To obtain the full report, please call our Customer Service Hotline +852-2860 7111.

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