

3 August 2020

## China Market Strategy

### Dual Circulation in a Changing World

At the latest Politburo meeting, a new mantra has been proposed to boost domestic demand while attracting foreign investment and stabilizing trade. Meanwhile, fiscal policy is guided to be supportive, while maintaining flexibility on monetary policy. The policies are stipulated to be counter-cyclical and preemptive. The overall tone of the Politburo meeting is reassuring, but the tenet to curb property speculation is re-emphasized. The market will likely continue to be bound by the strong resistance level we discussed in our last report in the near term, as the tension between China and the US escalates (please refer to *"Policy Signs"* 20200727).

**Hao Hong, CFA**

hao.hong@bocomgroup.com  
(852) 3766 1802

**Head of Research**

It pays to understand the new mantra of dual circulation in the context of a changing world. The structural shift in global economic alignment indeed began around 2008, when the subprime financial crisis initiated macro changes in the global economy. Historically, the US has been the insatiable consumer of global output, and China enjoyed the largest trade surplus with the US. As the US consumed and the rest of the world saved, the US personal saving rate as a reflection of expanding US current account deficit had been falling consistently till 2008. Since then, however, the secular trend that had persisted for almost four decades started to reverse. As the US started to save, its current account deficit improved. The latest recession induced by COVID-19 has spurred the US personal saving rate to 13%, a level not seen since the early 1980s (**Figure 1**). Incidentally, the US market valuation, as measured by the ratio of US market cap to GDP, is closely and inversely correlated with the US saving rate. If this relationship persists, and the US saving rate has bottomed out, the US market-cap-to-GDP ratio has probably peaked.

It is in this milieu that the new mantra of dual circulation is proposed. It has as much urgency as necessity. Consensus seems to think that this is a brand new strategy for the new era. But the world has long changed, especially the rivalry between China and the US. At a time when global demand has been weakened by COVID-19 and value added by exports to China's GDP has declined, stimulating domestic demand should be top of the agenda. In the past few years, China has been busy upgrading its manufacturing industries and structuring its economy towards consumption. **Figure 1** shows the secular necessity of these strategic moves. Now it may be the first time to articulate a strategy that has long been executed. In light of recent developments such as TikTok's pickle, there is no more need to be reticent.

Such secular changes are affecting the US dollar as well. The talks about the Dollar at risk of losing its reserve currency status have resurfaced. But, recently, the non-commercial net long positions on the Dollar have been reduced fast to a level that used to portend some technical support for the Dollar in the near term (**Figure 2**). That said, we should not mistake technical support, if any, for a reversal of the Dollar's long-term descent. As the US continues its monetary debauchery, the Dollar's secular weakness is likely to continue.

Analyst certifications, disclosures and disclaimer at the back forms part of this report and must be read.

Download our reports from Bloomberg: BOCM or <https://research.bocomgroup.com>

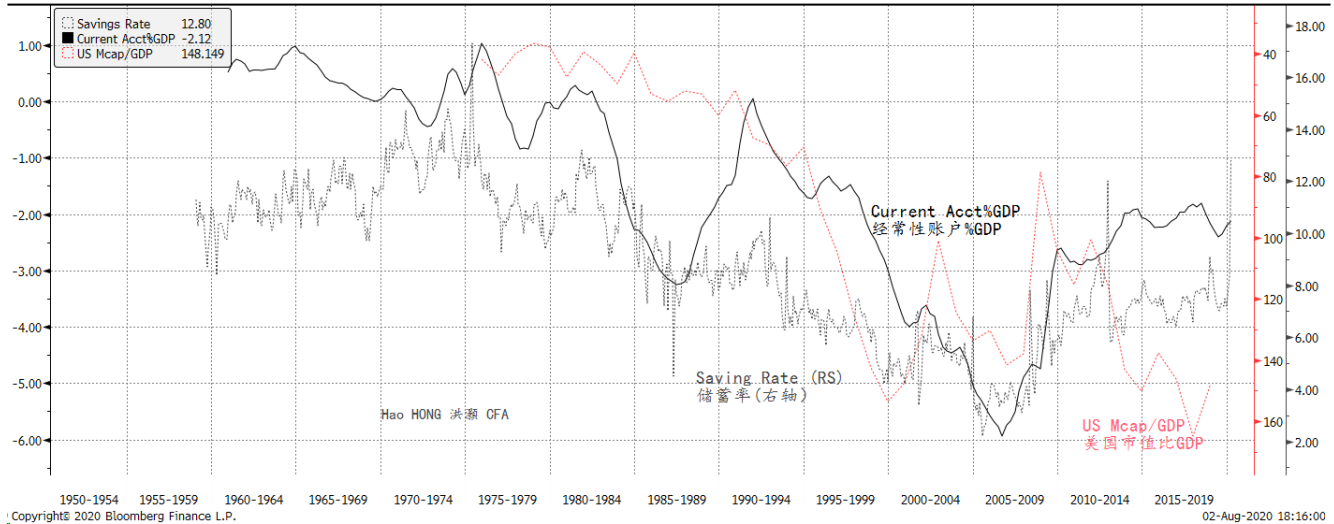
## China Market Strategy

We also note that traders are reducing their non-commercial net long positions in gold. Historically, these changes in net long positions are highly correlated with gold's performance in the near term (**Figure 3**). The technical breather in the weakness of the dollar aforementioned can also contribute to a waning upward momentum of gold in the near term. That said, when the Dollar resumes its secular decline, gold will see new highs beyond the near term.

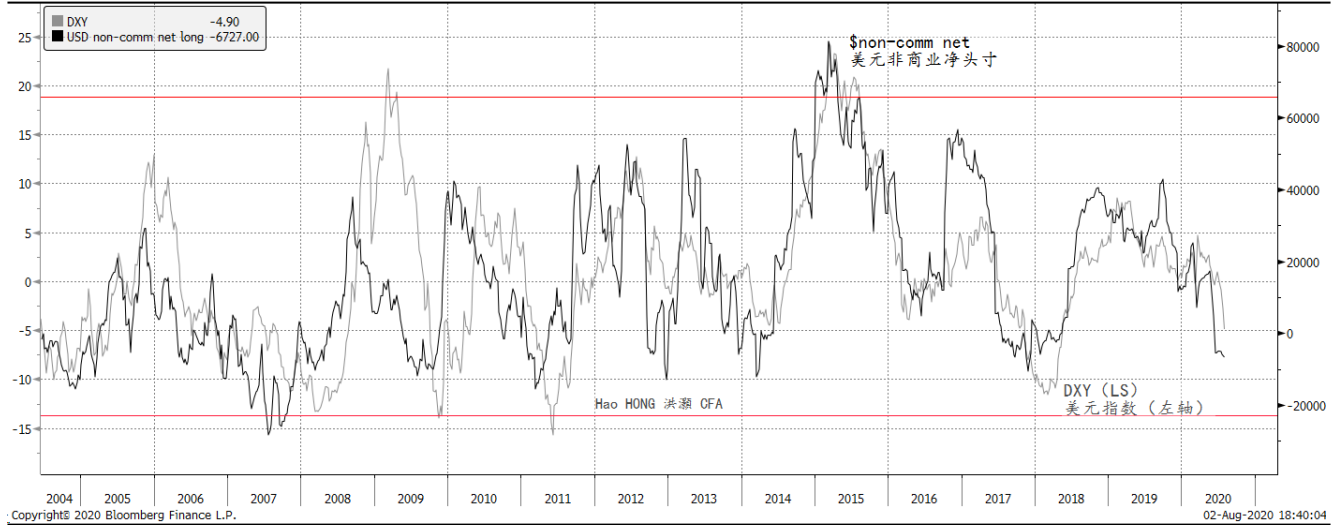
The market is also rightly concerned about the reemphasis on containing property speculation. In our last report titled "**Policy Signs**" on 27 July, we discussed the positive relationship between property and stocks before 2015 has changed into an inverse one. As such, a lukewarm property market is not necessarily bad news for stocks. From tepid narrow money M1 expansion, home loans as a percentage of total new loans and tier-1 cities' property price inflation, we have not detected signs of a spreading property speculation on a national scale (**Figure 4**). We believe this is the reason why the Politburo meeting is sticking to the tenet of "one city, one policy". And of the five cities that are implementing some forms of property curbs, only Shenzhen is in tier 1.

Interestingly, our bottom-up short-term stock picking model has significantly increased the allocation towards discretionary consumption and technology, while reducing substantially the allocation towards healthcare by closing winning positions. While this stock picking model is short term in nature, it is already starting to reflect the mantra of dual circulation by increasing allocation to discretionary consumption and technology that are set to benefit from increasing policy support. While the model is completely driven by quant program and no human intervention is necessary, the changes in model allocation suggest that the market has sniffed out China's new direction in a changing world.

**Figure 1: The US saving pattern has fundamentally changed since 2008**



**Figure 2: USD non-commercial net long positions falling together with the Dollar**



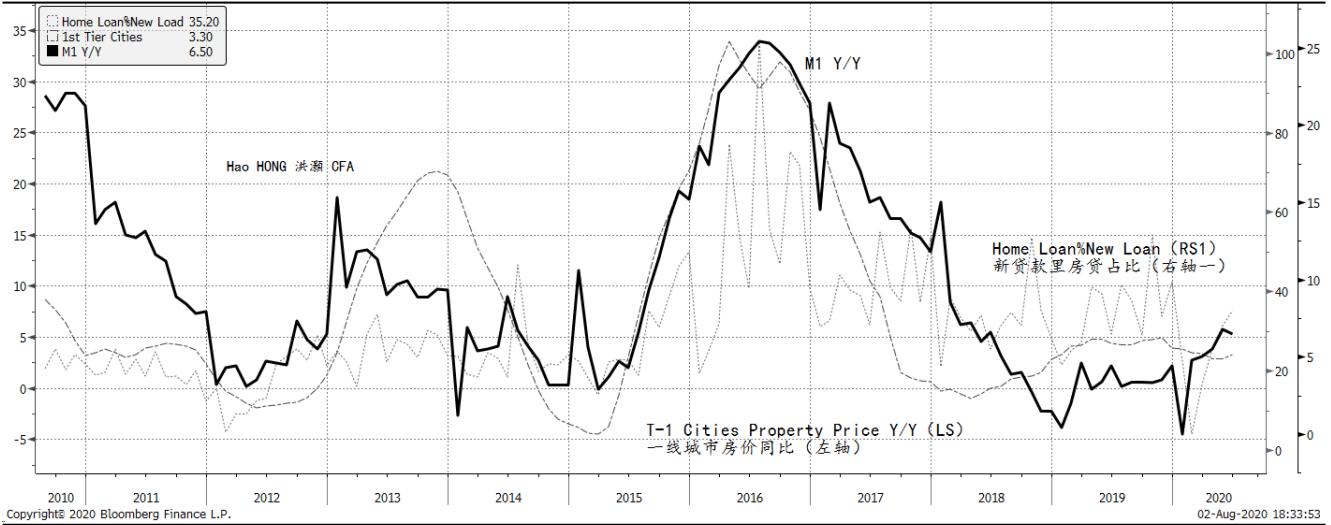
Source: Bloomberg, BOCOM Int'l

**Figure 3: Gold non-comm net long falling, together with the upward momentum of gold**



Source: Bloomberg, BOCOM Int'l

Figure 4: Narrow money growth still slow, no sign of spreading property speculation



Source: Bloomberg, BOCOM Int'l

## Recent Reports

20141217	Outlook 2015: Repricing Risks	20170609	2H17 Outlook: An Idiot's Guide to China's Nifty-Fifty Run
20141224	China: 5 Surprises in 2015	20170621	China's MSCI Inclusion: Thoughts after a Milestone
20150119	Margin Destruction. But is 4200 Possible?	20170714	Market Trilemma
20150129	Margin of Danger	20170828	A Definitive Guide to China's Economic Cycle Part II – New
20150205	RRR Cut, RMB and the Imbalance of Payment	20170829	Cycle Sentiment
20150209	Option D-Day and the Story of Red Temple	20171114	Decoding disinflation : principal contradiction, social
20150302	Interest Rate Cut and the New Extremes	20171204	Outlook 2018: View from the Peak
20150320	Price-to-Whatever Ratio: A Bubble Scenario	20180131	The Year of the Dog: Lessons from 2017
20150330	One-Belt-One-Road and A New World Order	20180207	Markets in Crisis
20150413	Hang Seng = 32,000; Don't fight China's Big Mama	20180323	An Unconventional War
20150416	A50/500 Index Futures: Pricking the ChiNext Bubble	20180326	1987
20150420	CSRC, PBOC and the Greed of Man	20180409	War on War
20150506	Taming the People's Daily Bull	20180423	Great Powers Collide
20150511	Rate Cut As Expected	20180521	2H18 Outlook: Rough Sailing
20150528	"5-30" Once More	20180614	A Definitive Guide to Speculating in China
20150616	The Great China Bubble: Lessons from 800 Years of History	20180703	Where is the Bottom?
20150624	Remembering "2013-6-25	20180723	Rebound vs Bottom
20150629	The PBOC cuts. Now what?	20180813	A Lifeline for the Market
20150702	The CSRC steps in. Now what?	20180903	The Colliding Cycles of the US and China
20150706	Shock and Awe	20181029	Market Rescue: Will It Work?
20151026	The PBoC cuts. It's time for a resolution	20181119	Outlook 2019: Turning a Corner
20151109	Re-opening IPO: Devils in Details	20190201	Turning a Corner: Teachings from "the Dog"
20151116	A winter of violence	20190301	A Margin Bull. What Next?
20151130	Three Market Extremes	20190311	Who's Buying? Who's Next?
20151209	Outlook 2016: The Chinese Curse	20190322	Market Inflection Point is Confirmed
20151217	The Fed Hikes: Moment of Truth	20190415	Cyclical Inflection Point is Confirmed
20160105	China's Circuit Breaker: The First Cut is the Deepest	20190514	War and Peace
20160108	Circuit Breaker Suspended. Now What?	20190530	Outlook 2H19: What Price for the Trade War
20160115	An Oversold Reprieve	20190628	The Art of Voting
20160121	Weak Hands	20190920	A Definitive Guide to Forecasting China Market
20160125	Stabilizing an Unstable Market	20191111	Outlook 2020: Going the Distance
20160203	One Last Ditch to Salvage the Property Bubble	20191230	The Next Decade: the Ebbing Waves
20160217	Historic Lending! But Three Important Limits	20200207	Impact of nCoV outbreak on market and economy
20160301	No Growth, No Gain	20200210	Epidemic at turning point; economic cost of quarantine
20160307	Two-Sessions in a Cyclical Spring	20200224	Spell of liquidity easing
20160321	Unprecedented Divergences	20200228	The Curse of Plague
20160418	Sweet and Sour Hog Cycle	20200302	Unconventional Risk Hedging Strategies at Cycle's End
20160503	Ant Financial: A Unicorn's Defining Moment	20200309	Stock Market Populism
20160606	The Market Bottom: When and Where	20200310	Is China a "Safe Haven"?
20160613	The Great China Bubble: Anniversary Lessons and Outlook	20200316	Fighting COVID-19, Chinese Style
20160627	Post Brexit: How to Trade China.	20200323	Hopes and Hypes
20160817	Shenzhen-Hong Kong Connect: A New Era for China's	20200324	The Fed Goes All In
20160822	Consolidation	20200330	Guesstimating Unemployment in China
20160912	The Most Crowded Trade	20200406	The Cycle Has Turned
20161114	A Price Revolution – On Global Asset Allocation	20200420	China Market Strategy - Strong Man of Asia: Markets at a Historic Pivot
20161206	Outlook 2017: High-Wire Act	20200428	ChiNext registration system a new milestone in market reform
20170124	The year of the Rooster: A Trend Breaker	20200610	Outlook 2H20: The Dragon Awaits
20170307	The Reflation Trade Is Over; Get Set for Defensive	20200706	Is the Bull Back?
20170324	A Definitive Guide to China's Economic Cycle.	20200713	Running with the Bull
20170413	Price Inefficiency	20200720	3500
20170524	Re-pricing Risks under New Regulations	20200727	Policy Signs

## BOCOM International

10/F, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong

Main: (852) 3766 1899 Fax: (852) 2107 4662

### Rating System

#### Analyst Stock Rating:

**Buy:** The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

**Neutral:** The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

**Sell:** The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

**Not-Rated:** The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

#### Analyst Industry Views:

**Outperform:** The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

**Market perform:** The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

**Underperform:** The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is the **Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

## China Market Strategy

### Analyst certification

The authors of this report, hereby declare that: (i) all of the views expressed in this report accurately reflect their personal views about any and all of the subject securities or issuers; and (ii) no part of any of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report; (iii) no insider information/ non-public price-sensitive information in relation to the subject securities or issuers which may influence the recommendations were being received by the authors.

The authors of this report further confirm that (i) neither they nor their respective associates (as defined in the Code of Conduct issued by the Hong Kong Securities and Futures Commission) 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 the report; (ii) neither they nor their respective associates serve as an officer of any of the Hong Kong listed companies covered in this report; and (iii) neither they nor their respective associates have any financial interests in the stock(s) covered in this report except for one coverage analyst who is holding shares of Shimao Property Holdings Limited.

### Disclosure of relevant business relationships

BOCOM International Securities Limited, and/or its associated companies, has investment banking relationship with Bank of Communications, Guolian Securities Co. Ltd., Luzhou Xinglu Water (Group) Co., Ltd., BOCOM International Holdings Company Limited, Sichuan Energy Investment Development Co., Ltd, Light Year Holdings Limited, Analogue Holdings Limited, Zhejiang New Century Hotel Management Co., Ltd, Tai Hing Group Holdings Limited, CSSC (Hong Kong) Shipping Company Limited, JH Educational Technology Inc, Shanghai Kindly Medical Instruments Co, Ltd, Edvantage Group Holdings Limited, China Bright Culture Group, Xinyuan Property Management Service (Cayman) Ltd, Sinic Holdings (Group) Company Limited, Jinchuan Group International Resources Co. Ltd, China Tianbao Group Development Company Limited, JiaXing Gas Group Co., Ltd, Huali University Group Limited, Alibaba Group Holding Limited, Alphamab Oncology, Poly Property Development Co Ltd, Kwung's Holdings Limited, Honliv Healthcare Management Group Company Limited, Shanghai Gench Education Group Limited, Zhongguancun Science-tech Leasing Co., Ltd, Joy Spreader Interactive Technology. Ltd, Fu Shek Financial Holdings Limited, Xingye Wulian Service Group Co Ltd, Jiu Zun Digital Interactive Entertainment Group Holdings Limited, Cirtex Holdings Limited, Kidztech Holdings Limited, Akeso, Inc., JD.com, Inc, Qingdao Holdings International Limited, Immunotech Biopharm Ltd, Ganglong China Property Group Limited, Sino-Entertainment Technology Holdings Limited, Dashan Education Holdings Limited, Adtiger Corporations Limited, and China Bohai Bank Co., Ltd. within the preceding 12 months.

BOCOM International Global Investment Limited currently holds more than 1% of the equity securities of Orient Securities Company Limited.

BOCOM International Global Investment Limited currently holds more than 1% of the equity securities of Everbright Securities Company Limited.

BOCOM International Global Investment Limited currently holds more than 1% of the equity securities of Guolian Securities Co., Ltd.

BOCOM International Global Investment Limited currently holds more than 1% of the equity securities of Guotai Junan Securities Co., Ltd.

### Disclaimer

By accepting this report (which includes any attachment hereto), the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.

This report is strictly confidential and is for private circulation only to clients of BOCOM International Securities Ltd. This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of BOCOM International Securities Ltd.

BOCOM International Securities Ltd, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be interested in, any such securities. Further, BOCOM International Securities Ltd, its affiliates and its related companies may do and seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking, advisory, underwriting, financing or other services for or relating to such company(ies) as well as solicit such investment, advisory, financing or other services from any entity mentioned in this report. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

The information contained in this report is prepared from data and sources believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require and may be subject to late delivery, interruption and interception. BOCOM International Securities Ltd does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither BOCOM International Securities Ltd nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst BOCOM International Securities Ltd's clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

The views, recommendations, advice and opinions in this report may not necessarily reflect those of BOCOM International Securities Ltd or any of its affiliates, and are subject to change without notice. BOCOM International Securities Ltd has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation, rule or other registration or licensing requirement.

**BOCOM International Securities Ltd is a subsidiary of Bank of Communications Co Ltd.**