

# China Chartbook – 4Q19

**CICC Research**

<https://research.cicc.com>

October 21, 2019

# Our team

## Macroeconomics

- Dr. LIANG Hong  
(Head of Research)
- YI Huan (Eva)
- WU Huimin
- LIU Liu
- CHANG Huili
- YUAN Yue (Charles)
- ZHANG Mengyun

## Portfolio strategy

- Dr. WANG Hanfeng, CFA
- LIU Gang (Kevin), CFA
- LI Qiusuo
- WANG Hui, CFA
- LIN Yingqi
- DONG Lingyan
- PENG Yifu

## Commodities

- GUO Chaohui
- MA Kai
- LIN Hao (John)
- FANG Qichao

## Fixed income

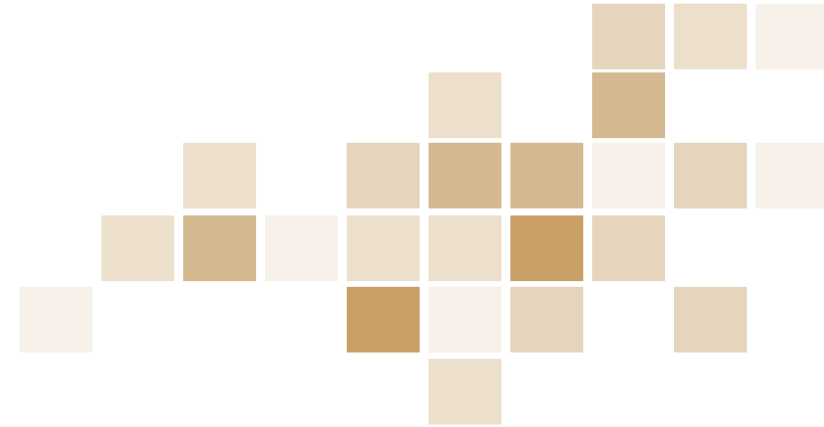
- CHEN Jianheng
- XU Yan
- WANG Ruijuan
- YANG Bing
- DONG Xu
- WEI Lulu, CFA
- WANG Haibo
- CHENG Yu

## Quantitative strategy

- GENG Shuaijun
- WANG Hao
- XING Yao
- DENG Zhibo

# Contents

- Our team ..... p. 1
- Macroeconomics ..... p. 3
- Market strategy ..... p. 22
- Fixed income ..... p. 56
- Commodities ..... p. 78



# Macroeconomics

**Hong LIANG**

SAC Reg. No.: S0080513050005

SFC CE Ref: AJD293



## Key views

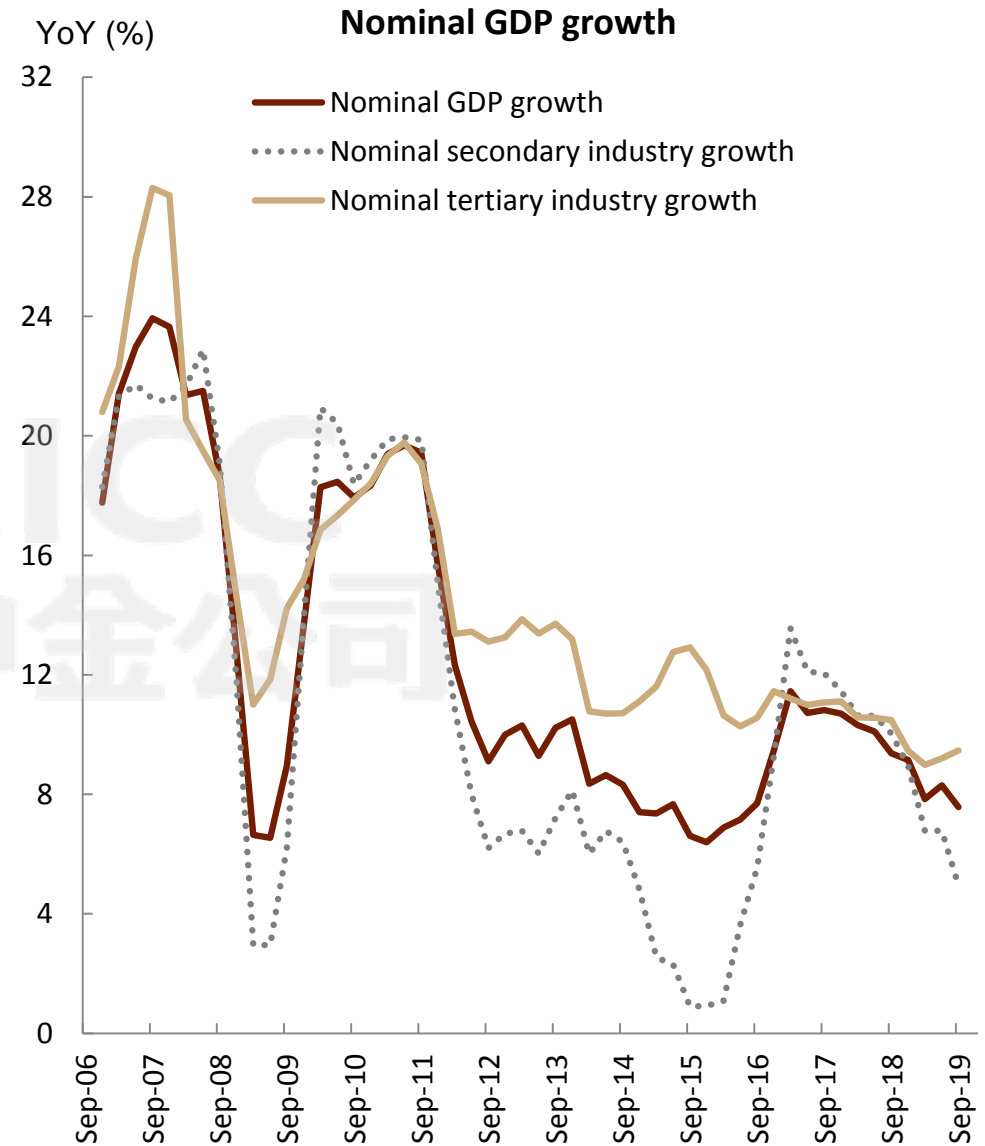
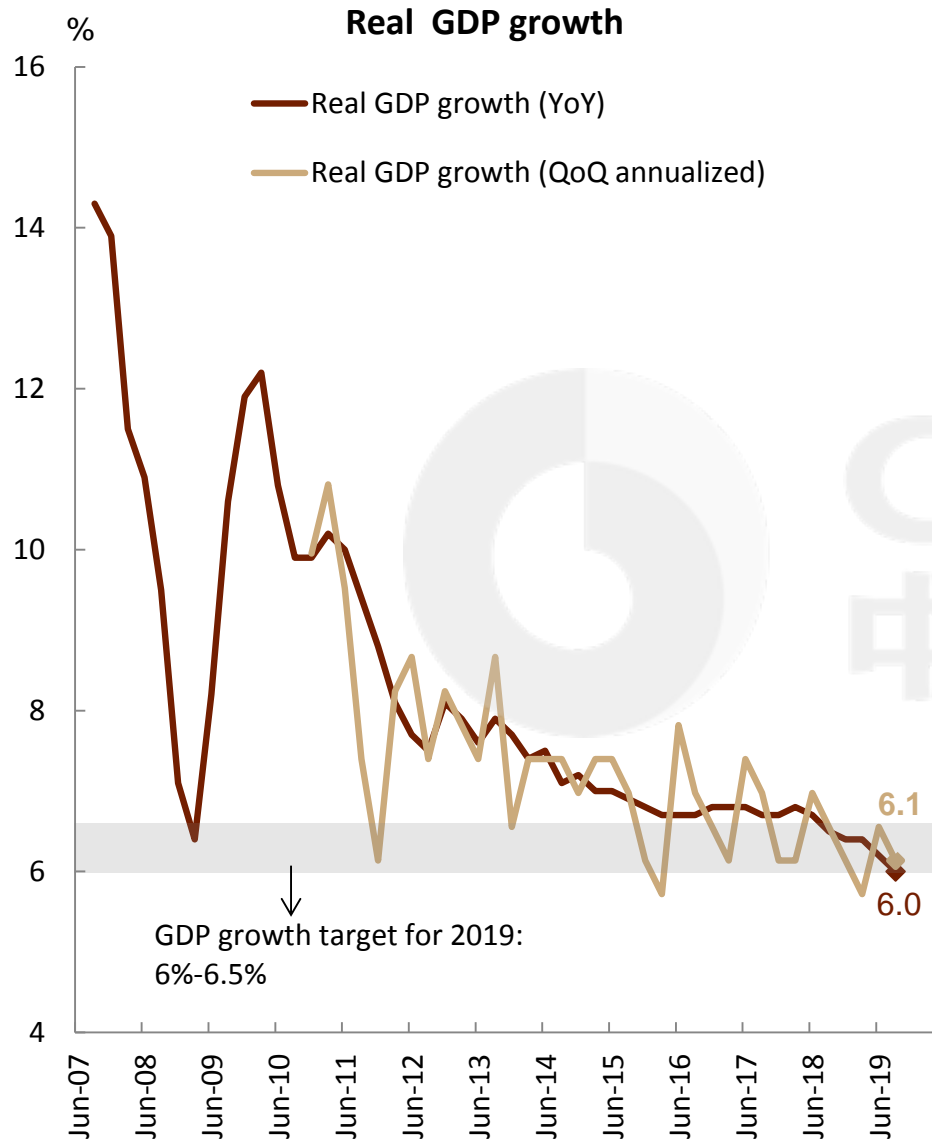
- ▶ **Growth momentum decelerated more notably in 3Q.** The rebound in IP & consumption growth in September from the rapid decline in July-August may not sustain. Although September TSF and M2 growth exceeded market expectation, the rebound may have largely been driven by short-term policy push towards more infrastructure loans. However, without affirmative signs of a decline in the effective funding cost, there will likely be little incentive for either the corporate sector or the banks to expand their balance sheets. Meanwhile, examining the recent weakening trend of global mfg. and demand indicators, export growth may continue to be under pressure.
- ▶ **Monetary policy stance remains relatively tight.** Although the PBoC announced a 50bp blanket RRR cut & 100bp targeted RRR cut in early September, the central bank withdrew liquidity as MLF matured and has kept the MLF rate unchanged despite the widely communicated intention to guide rates lower. Meanwhile, the magnitude of September LPR reduction came in at the lower bound of market expectations.
- ▶ **It is necessary to step up counter-cyclical policy efforts, but rising headline inflation may become an increasing concern for monetary easing.** Purely judged from the economic fundamentals at this juncture, there is little reason to bet on the sustainability of the rebound in activity growth in September. It is necessary to step up counter-cyclical policy efforts. However, rising headline inflation, although should *not* be a hard constraint, may become an increasing concern for monetary easing. Deteriorating hog stock will likely continue to push up pork prices and thus the headline CPI, in our view. CPI has reached “3%” in September, and may climb further in 4Q.

## Trends to watch

- ▶ The momentum of headline CPI and food price inflation
- ▶ Monetary policy conduct and the sustainability of credit expansion
- ▶ Change in real estate transactions and investment growth
- ▶ Progress of China-US trade dialogue

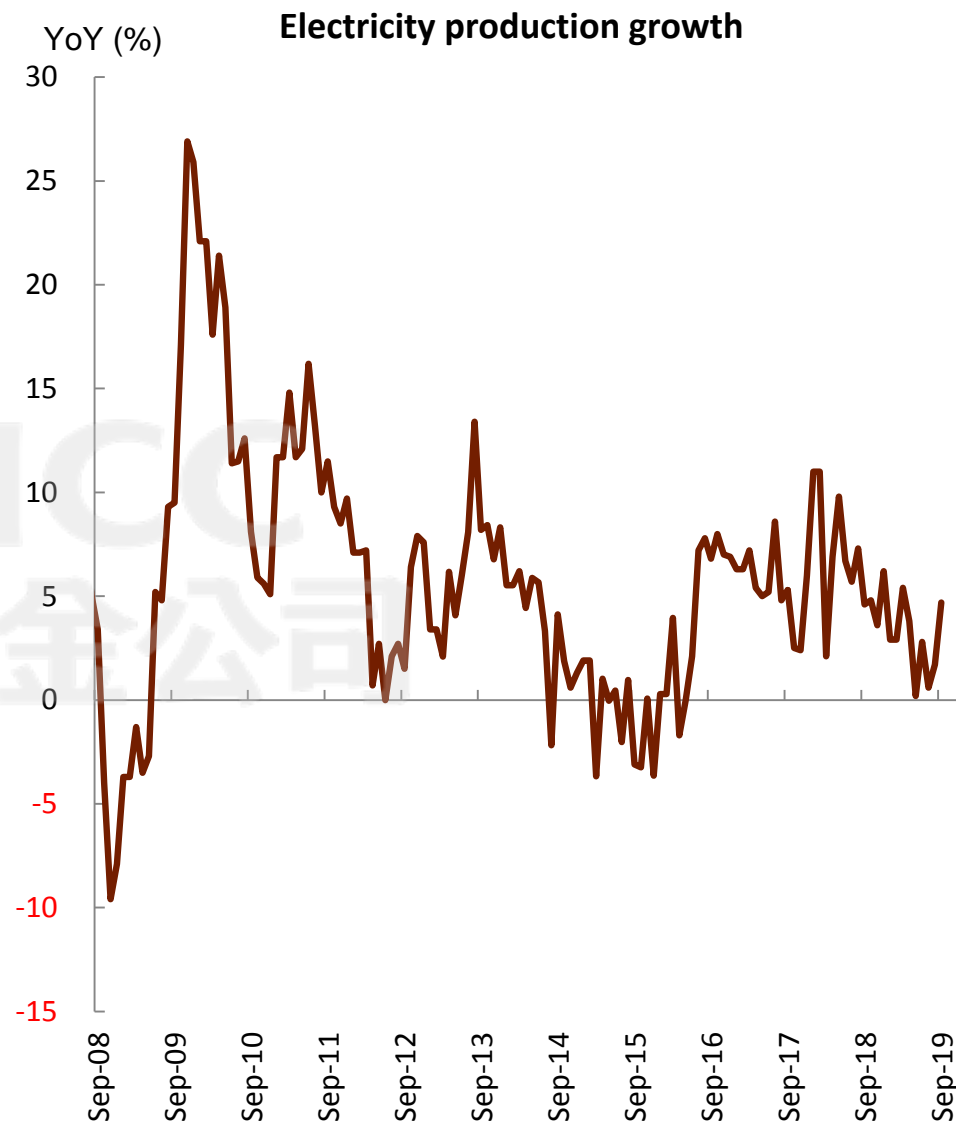
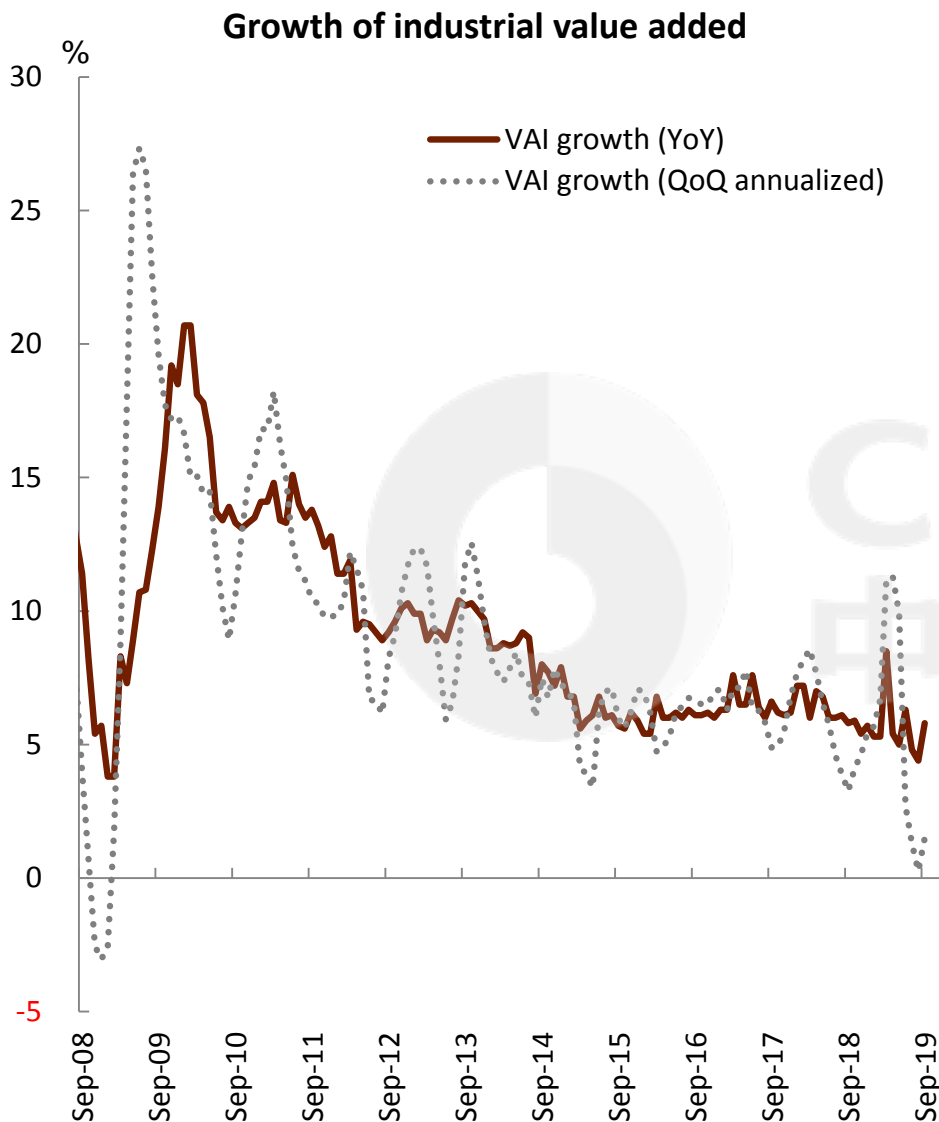
# Real GDP growth tests the lower bound of 2019 target

Economy



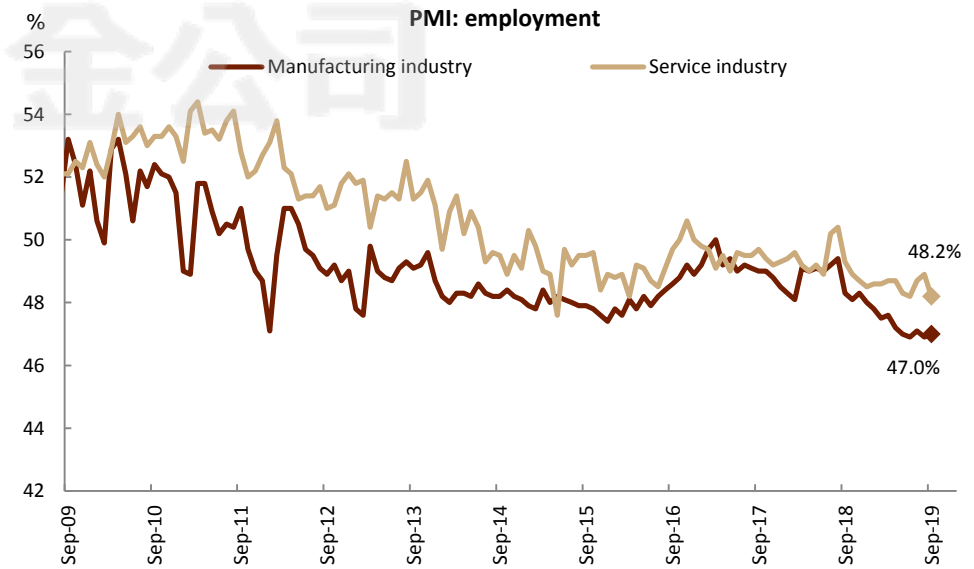
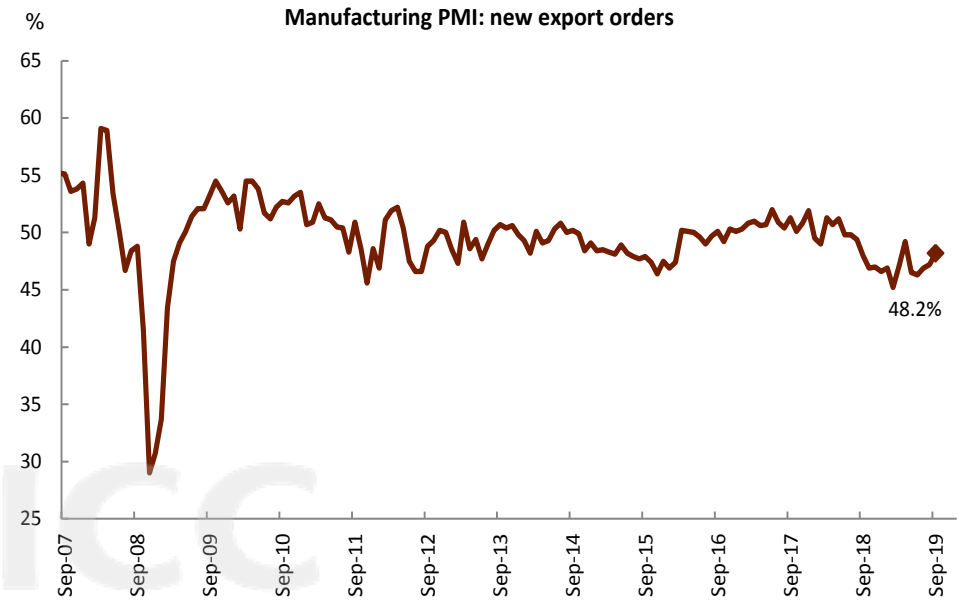
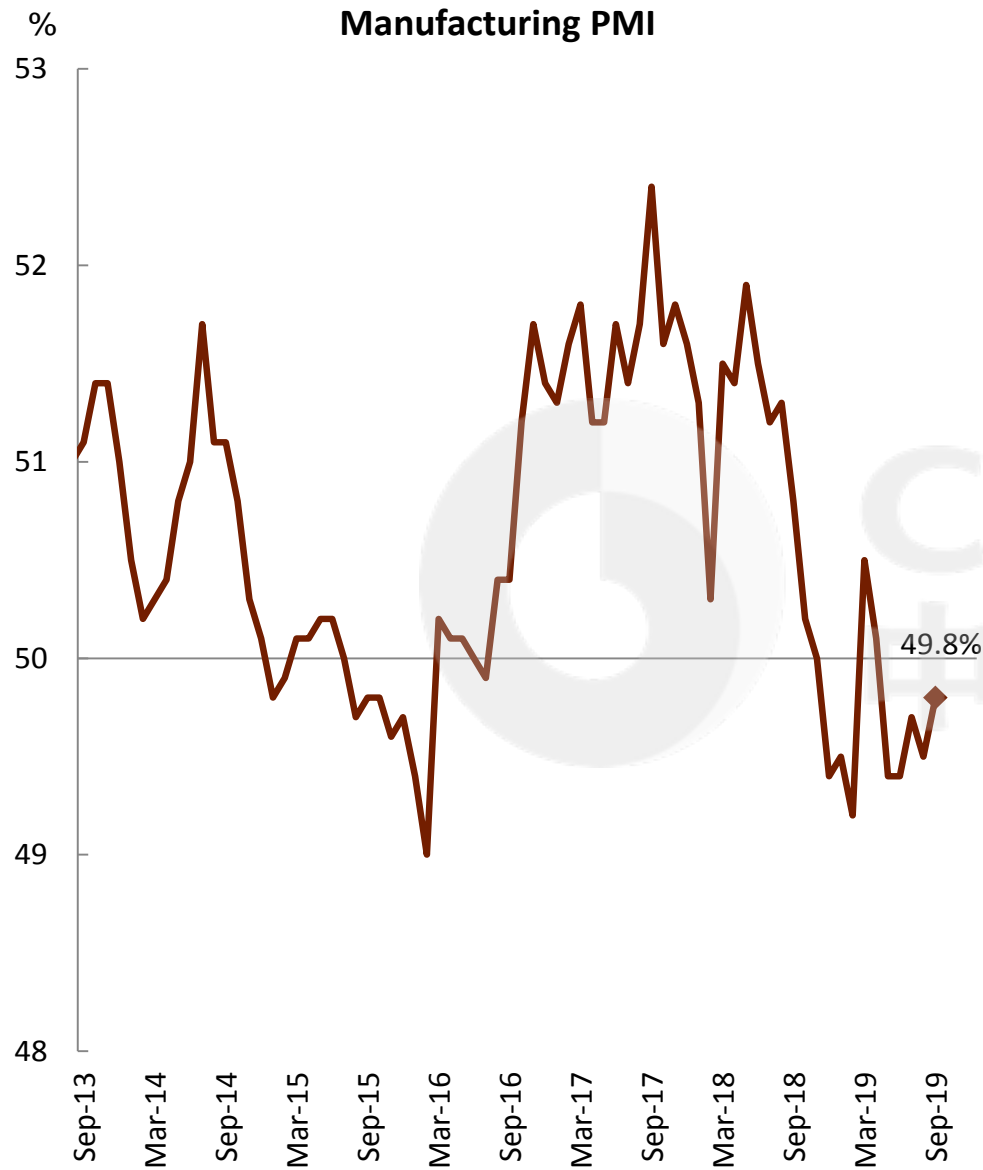
# Industrial production growth gaps down in 3Q

Economy



# PMI points to anemic external demand & employment

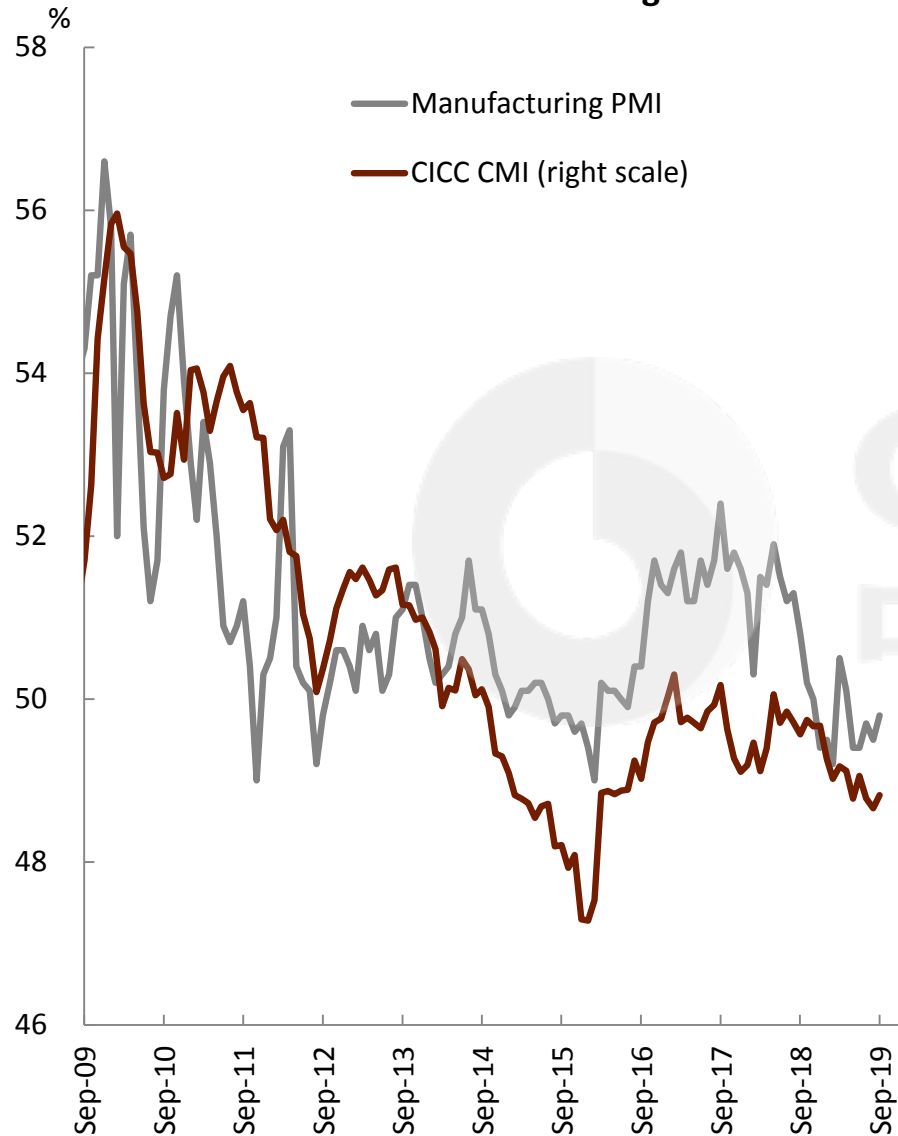
Economy



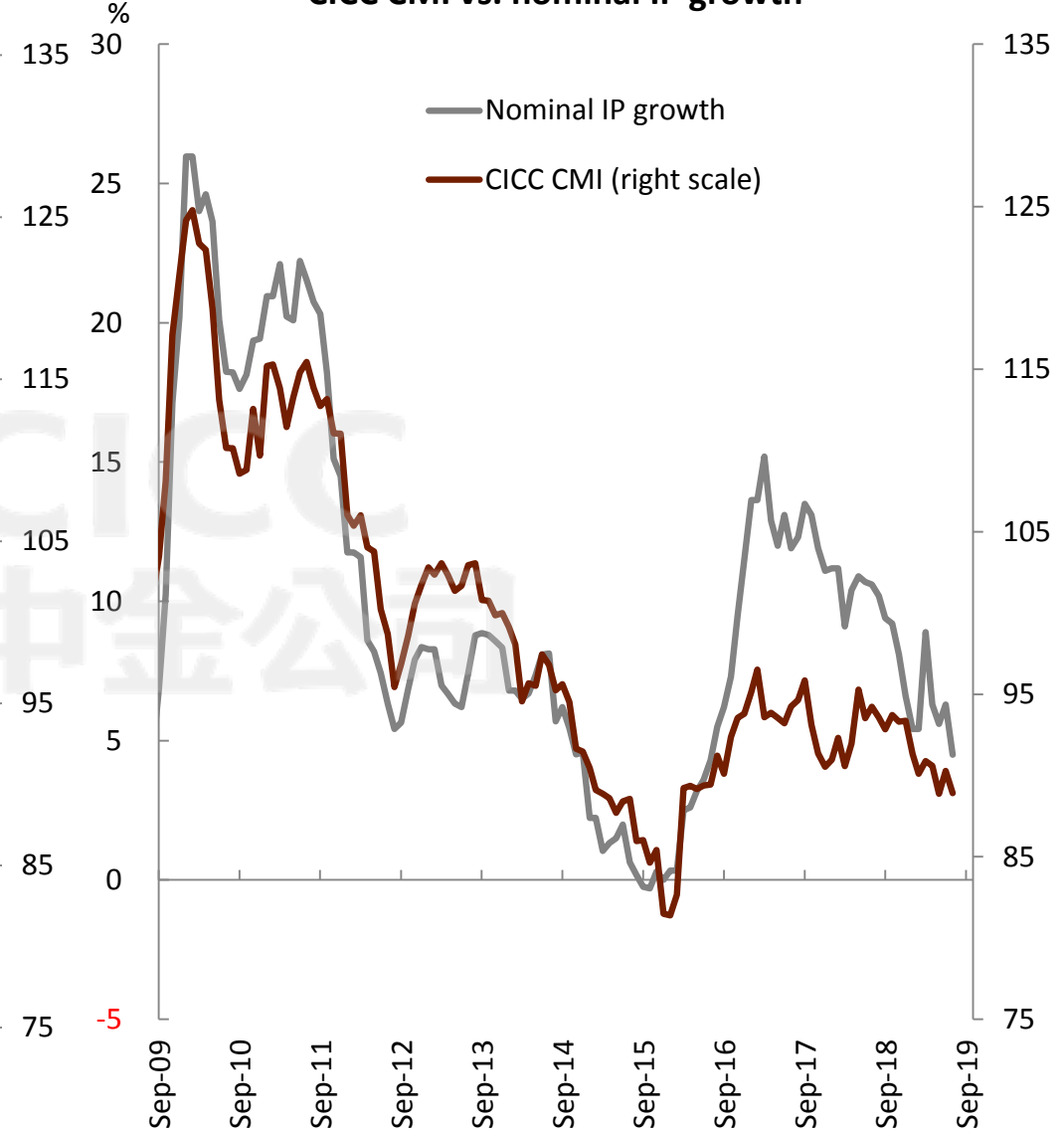


# CICC CMI points to weakening cyclical momentum

## CICC CMI vs. manufacturing PMI



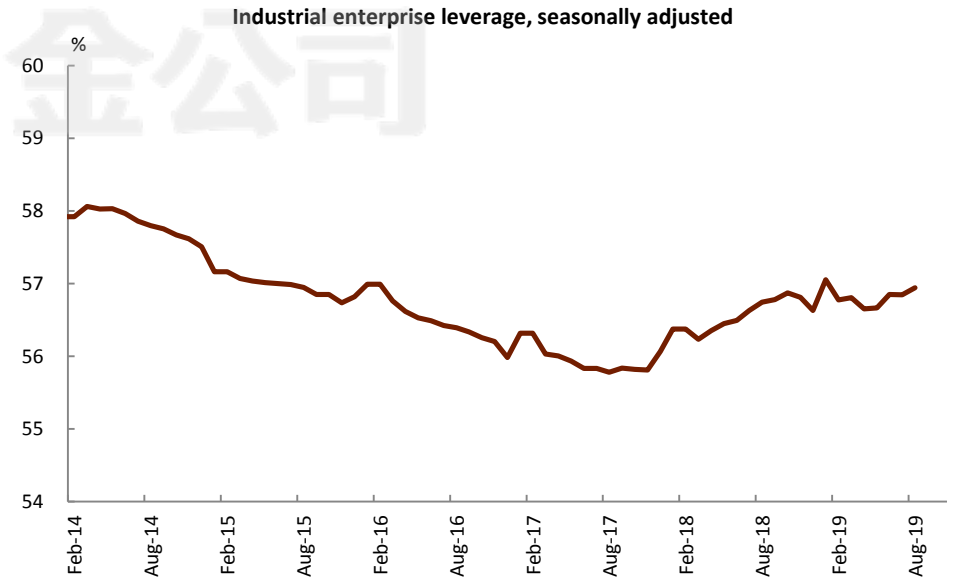
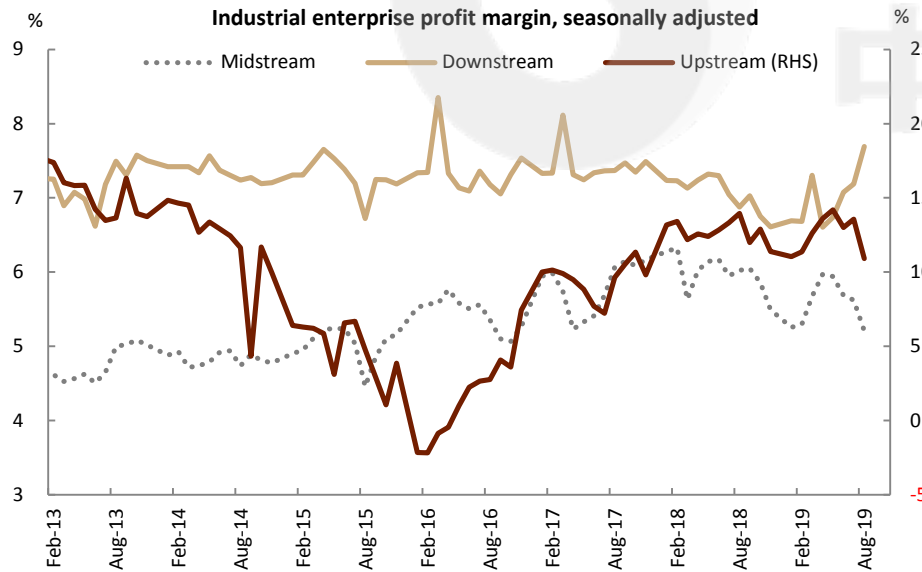
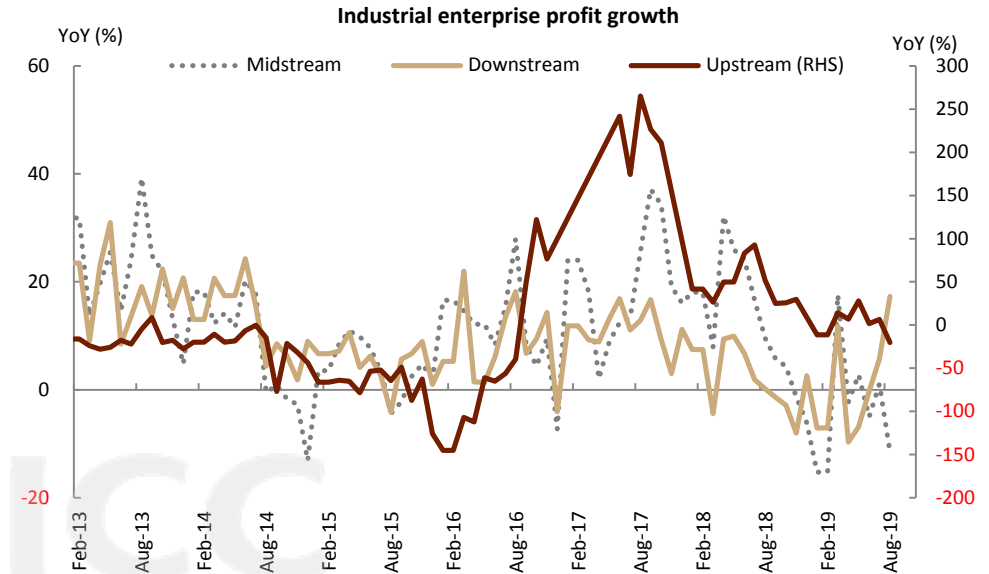
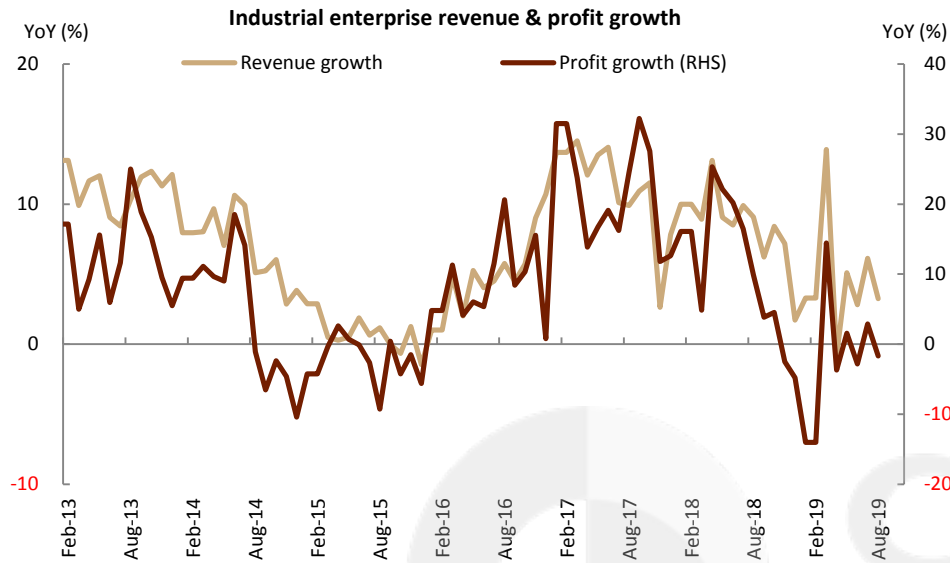
## CICC CMI vs. nominal IP growth\*



\*Note: Nominal IP growth is defined as real IP growth plus PPI  
Source: CEIC, CICC Research

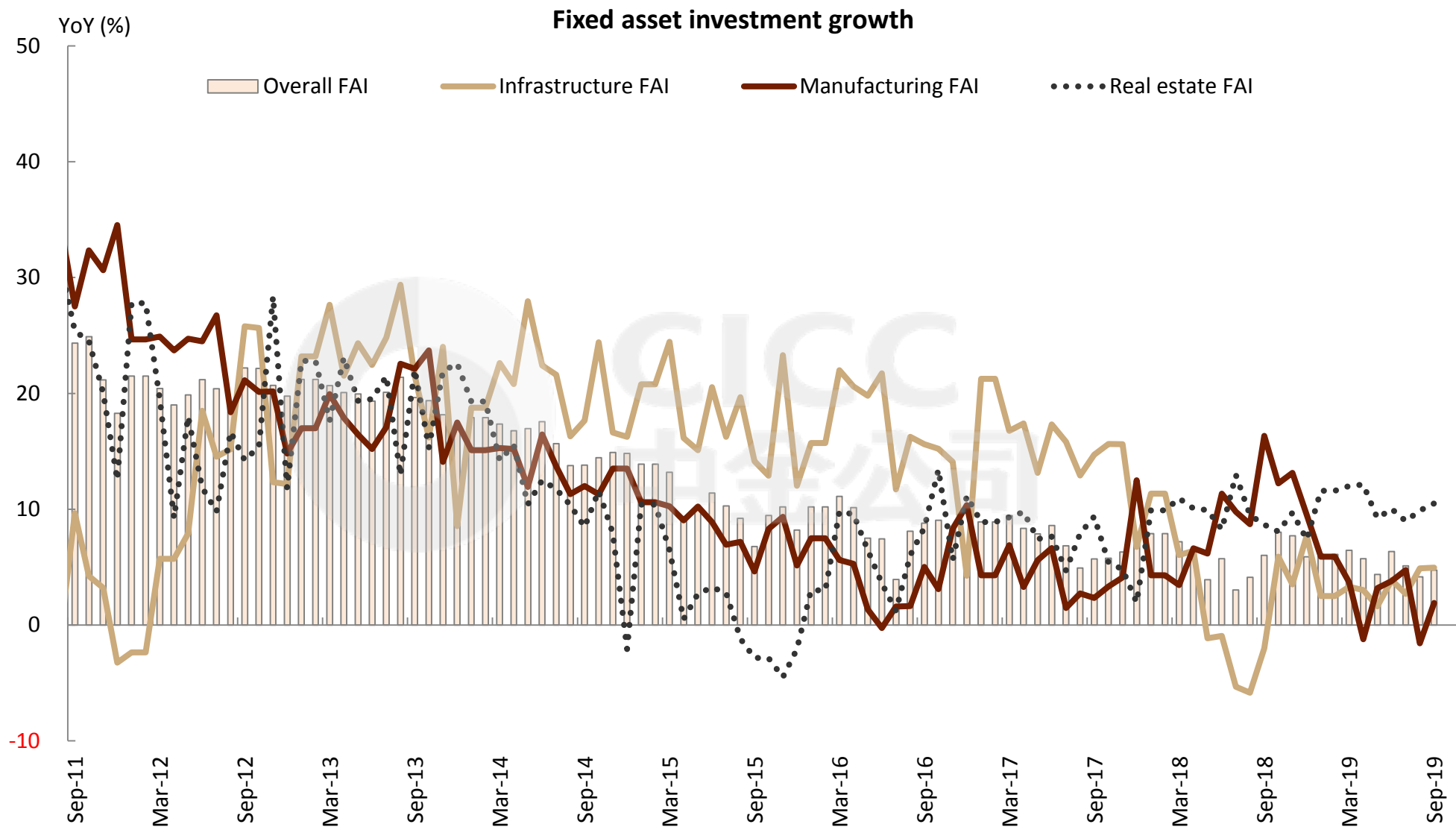
# Industrial revenue and profit growth remain sluggish

Economy



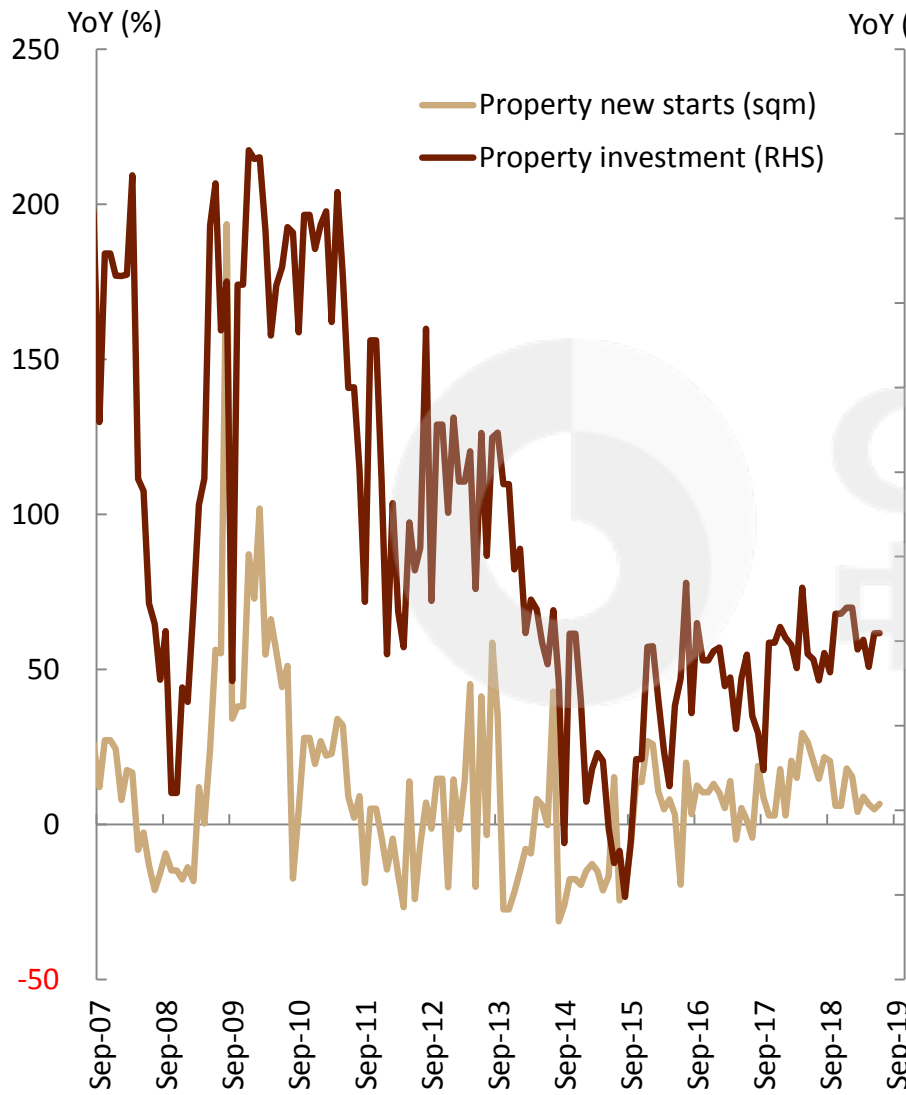
# Overall fixed asset investment growth declines in 3Q

Economy

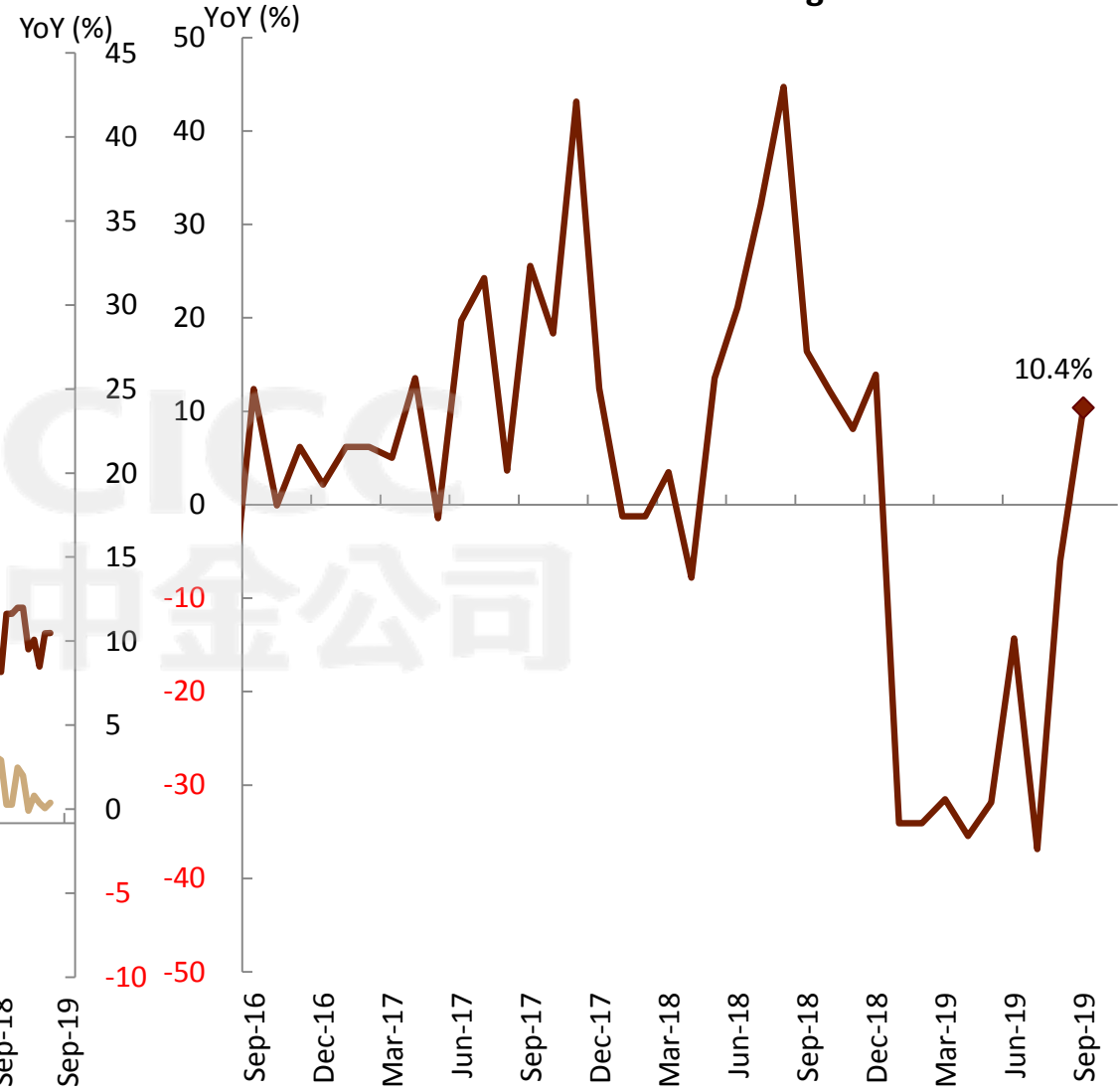


# Although property investment growth seems resilient ...

## Property new starts and investment

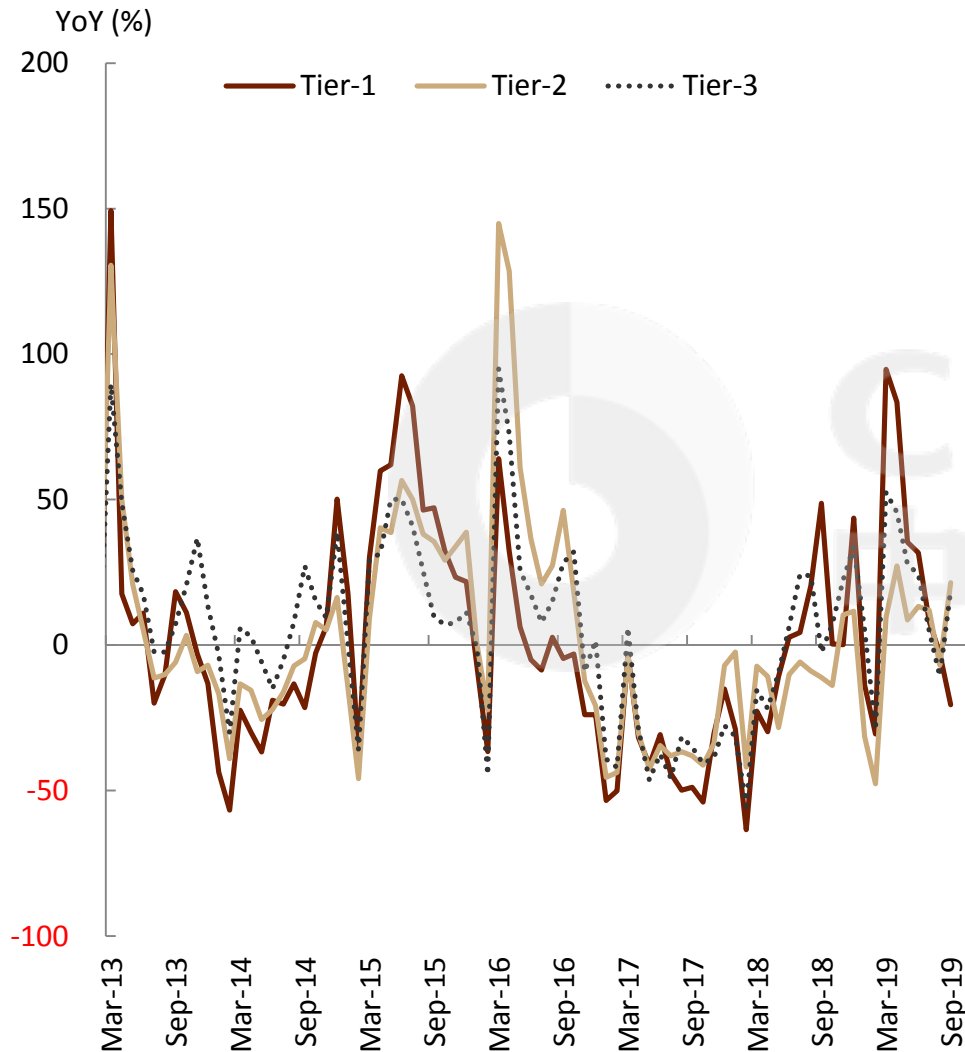


## Land transaction volume growth

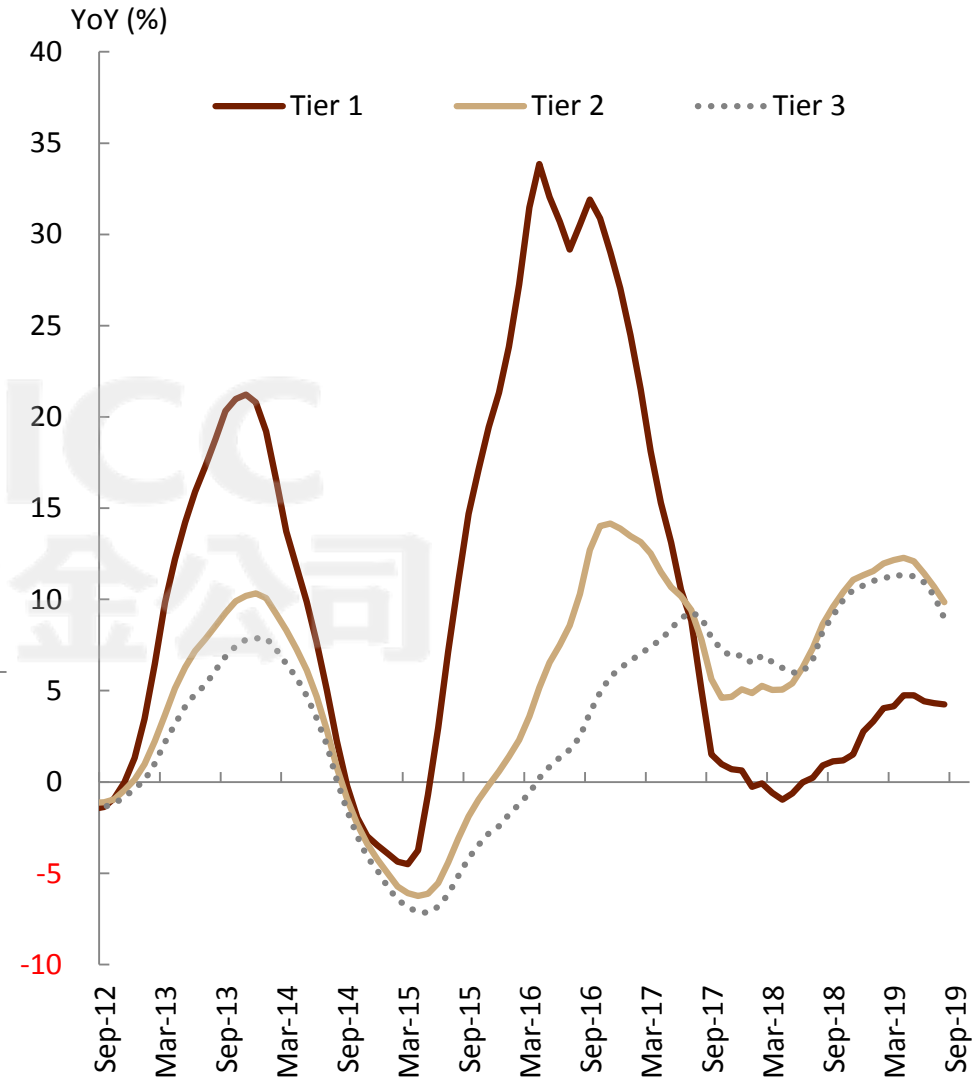


# ...home sales have declined and may dampen investment

Property floor space sold, 30 large & mid-sized cities\*



Property prices in 70 Chinese cities, new construction

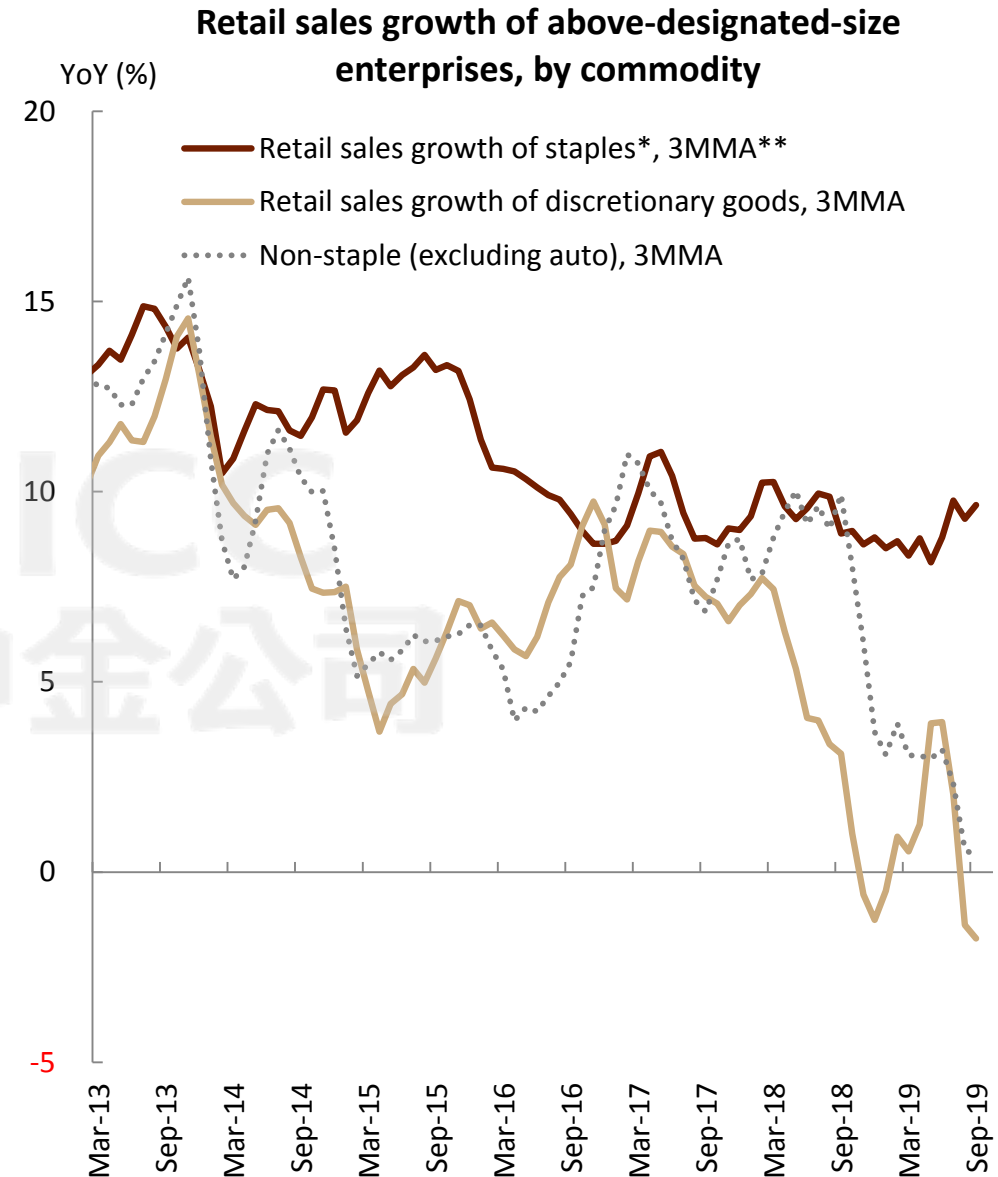
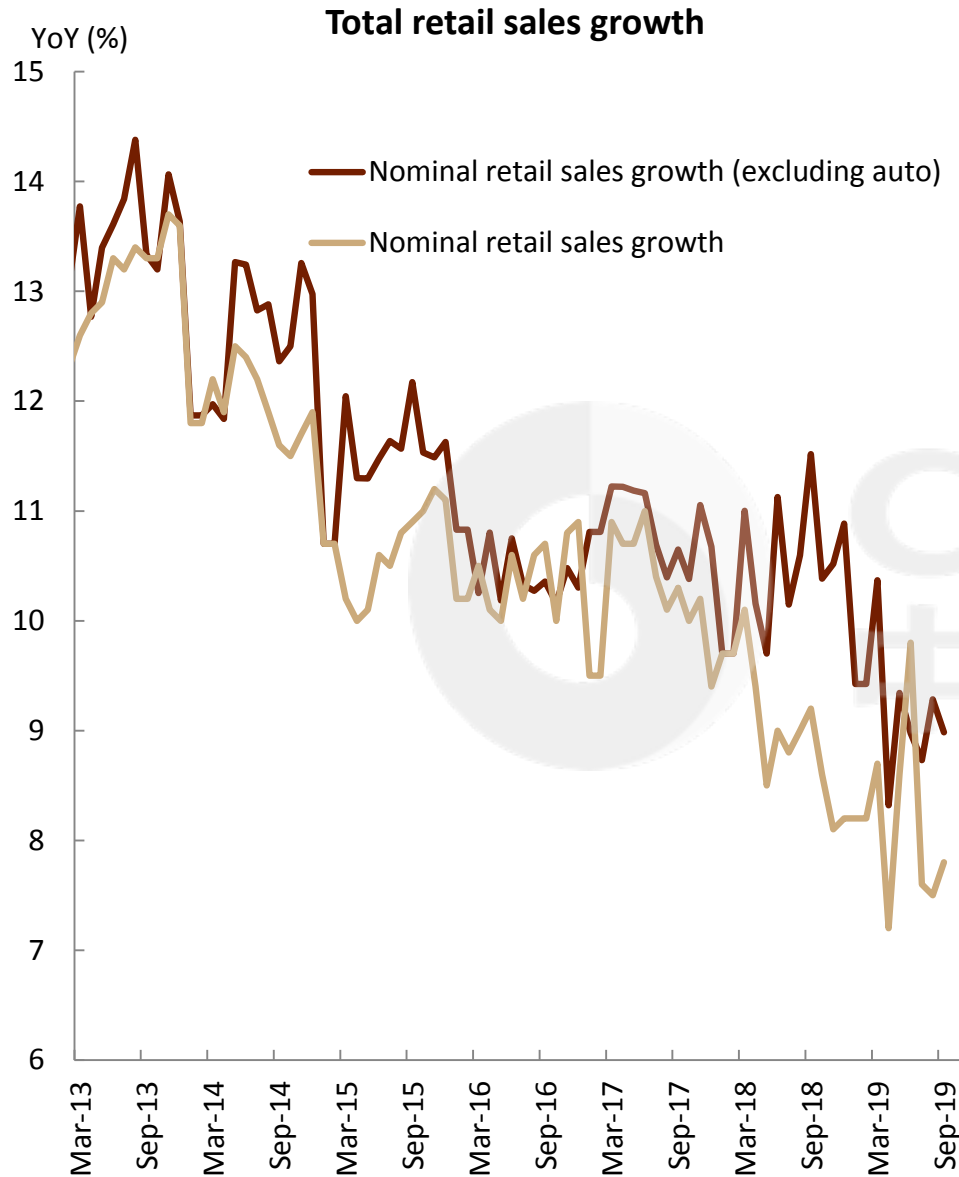


Note: \* Property floor space sold is three-month moving average. Tier-1 cities (4): Beijing, Shanghai, Guangzhou, Shenzhen. Tier-2 cities (13): Tianjin, Hangzhou, Nanjing, Wuhan, Nanchang, Chengdu, Qingdao, Suzhou, Fuzhou, Xiamen, Changsha, Harbin, and Changchun

Source: CEIC, Wind Info, CICC Research

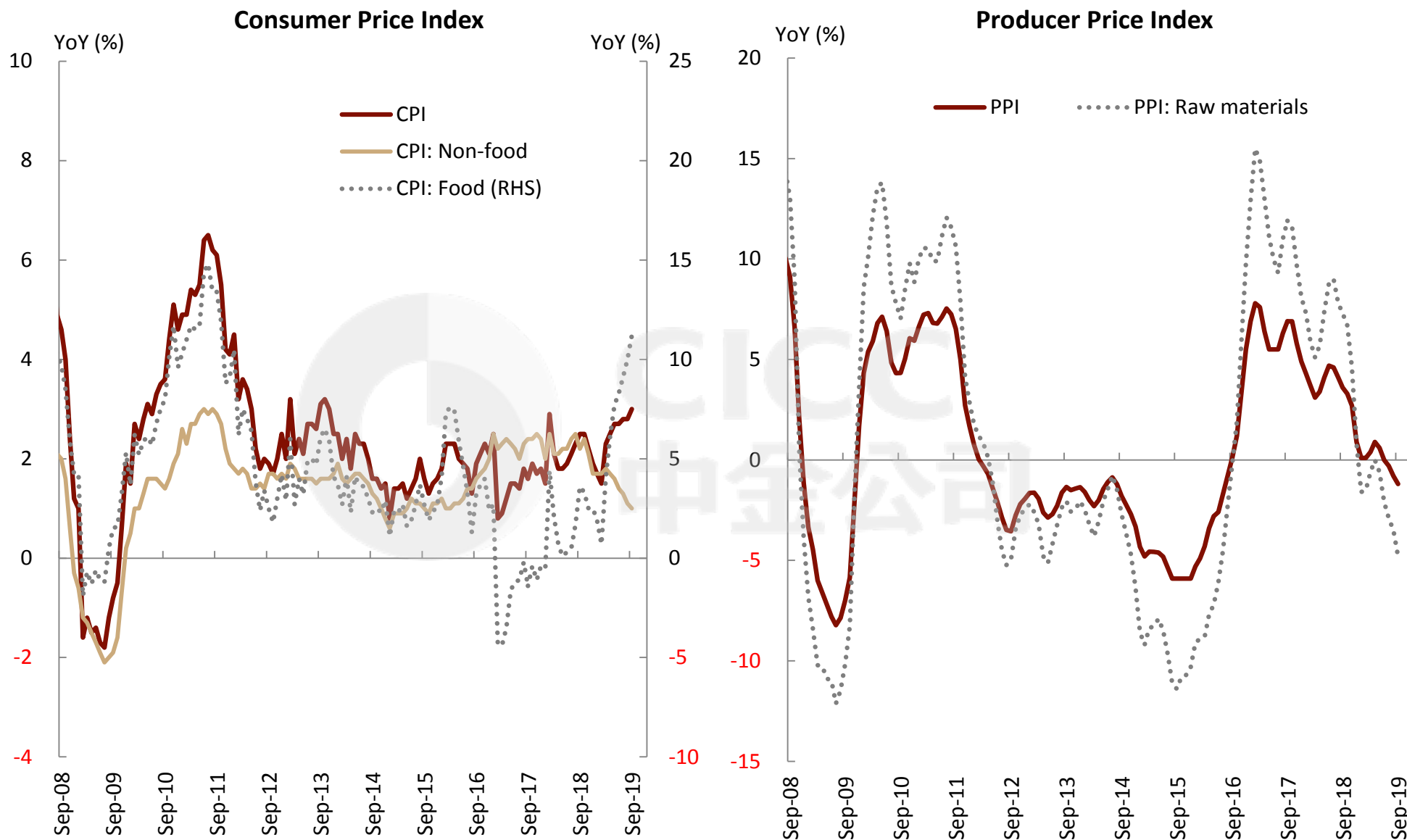
# Consumption growth edges down but is still resilient

Economy

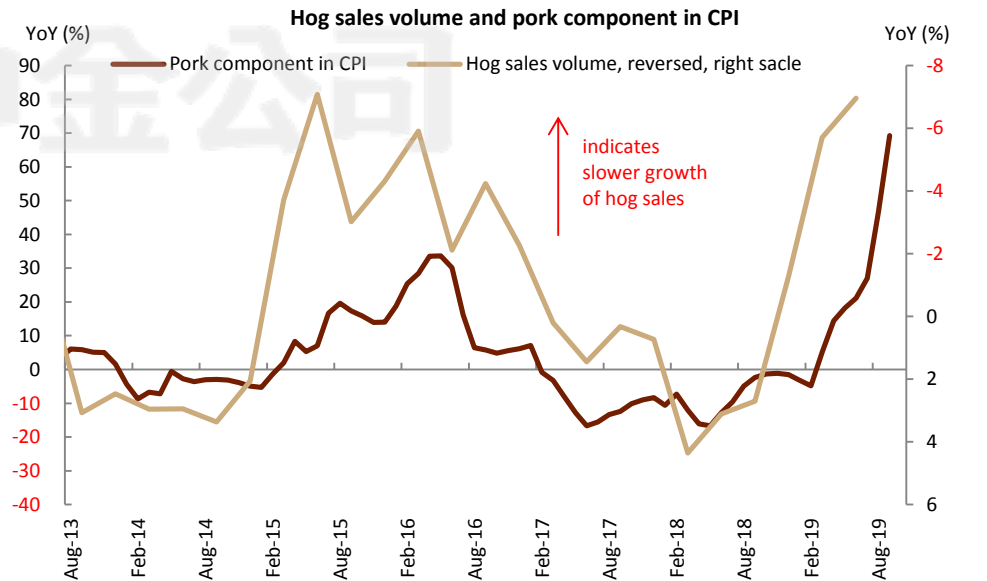
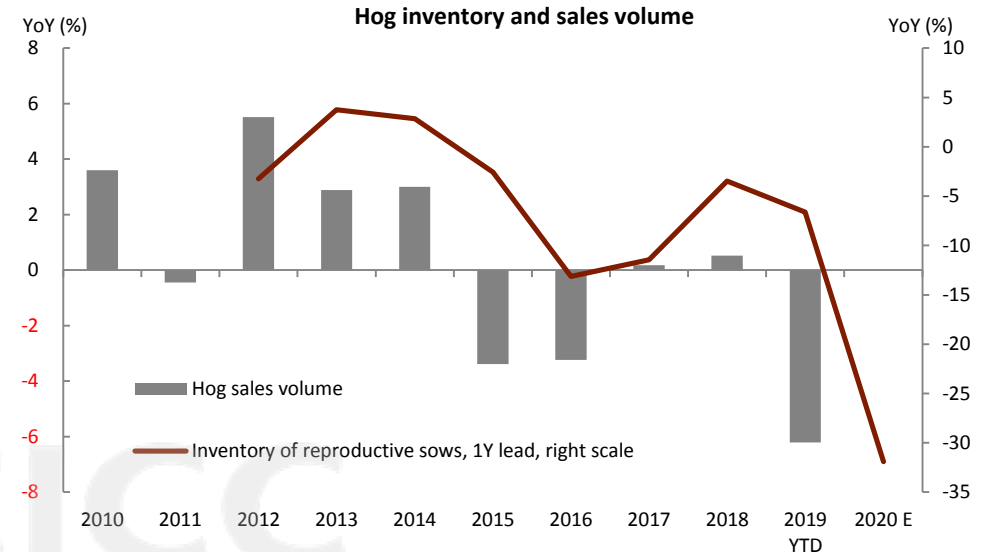
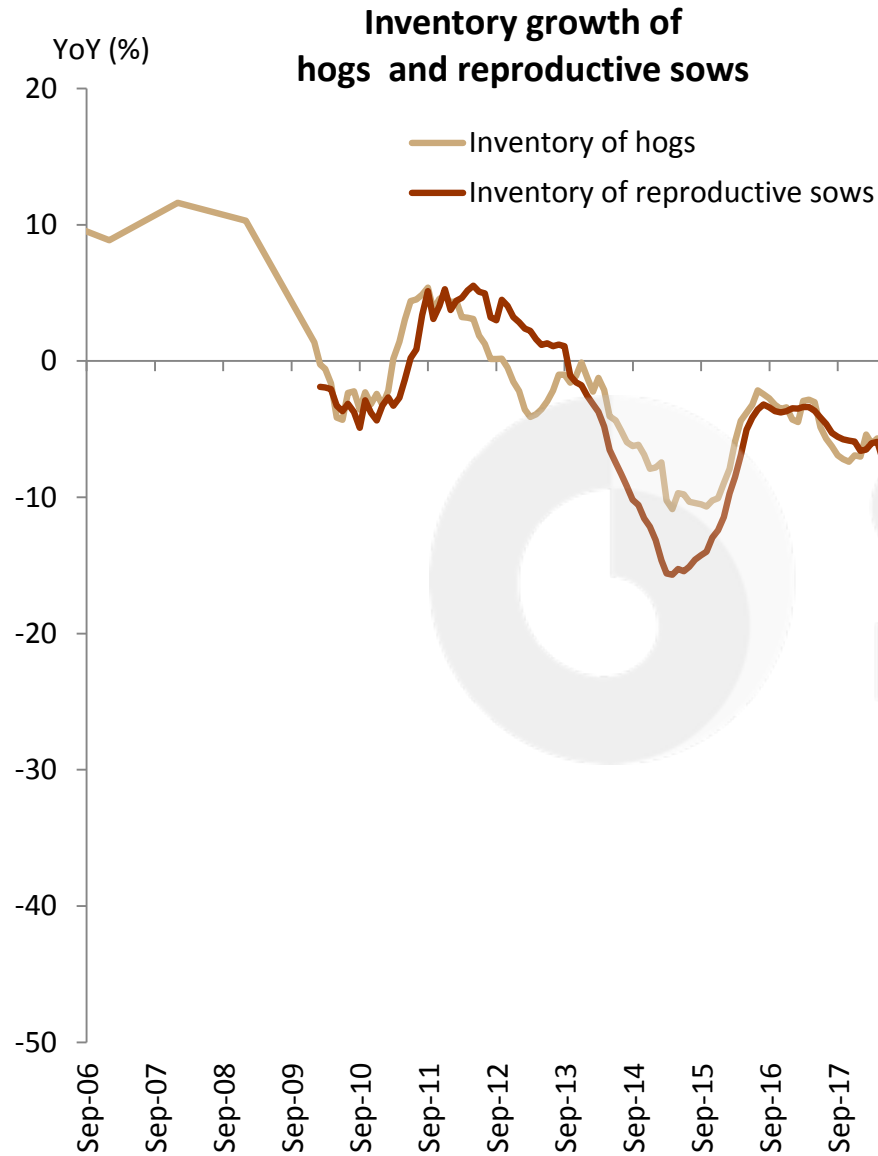


# CPI holds up on higher food inflation; PPI weakens

Economy

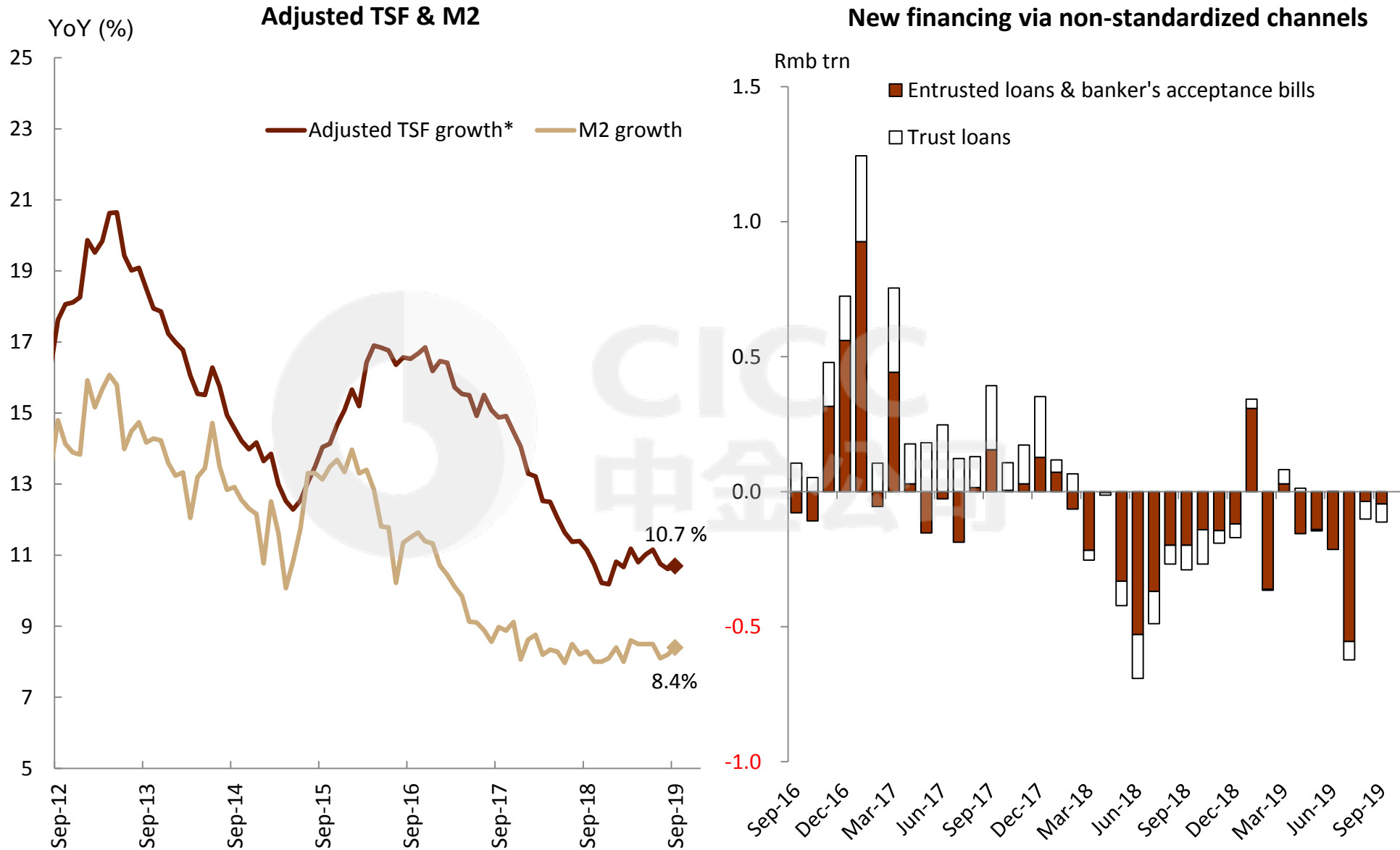


# Supply cuts point to further upside for pork prices





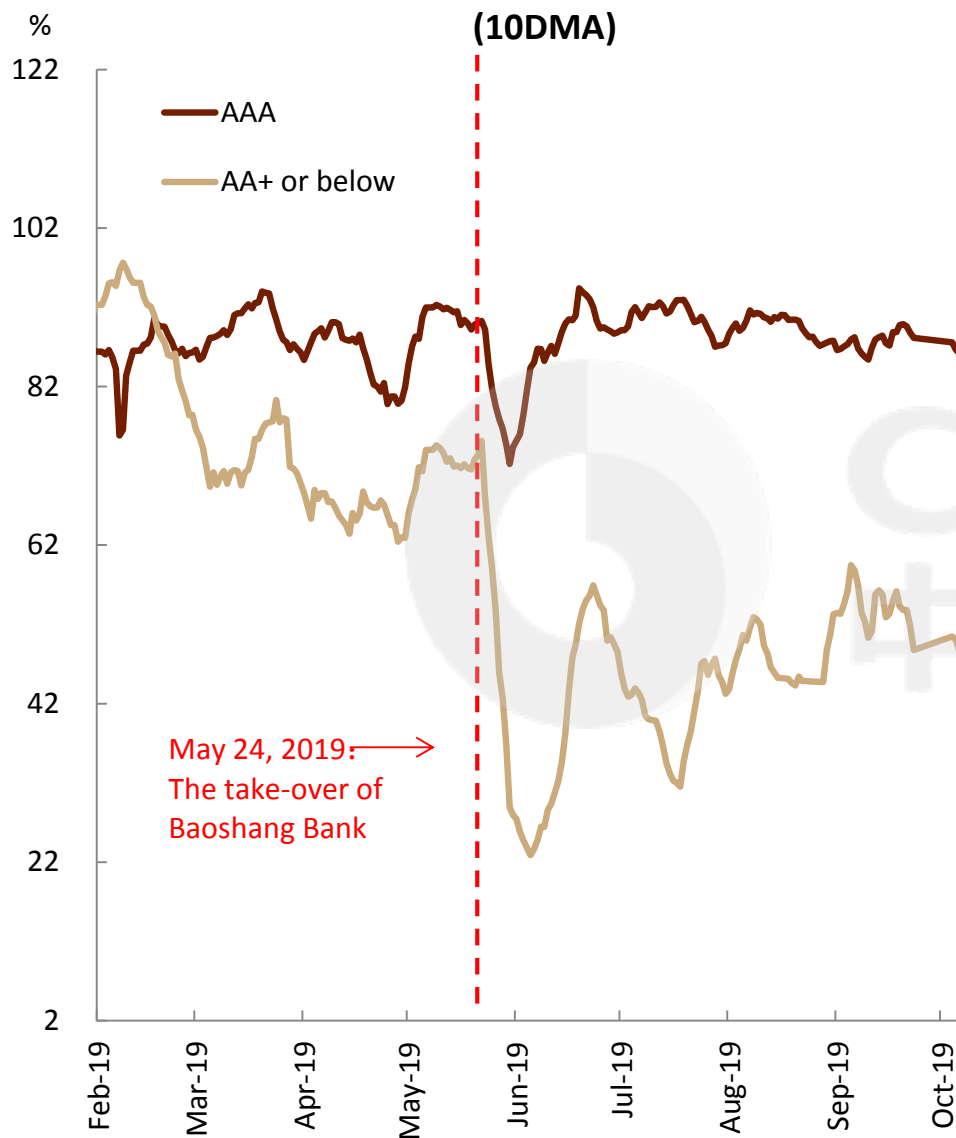
# The stabilization of credit expansion may be transitory



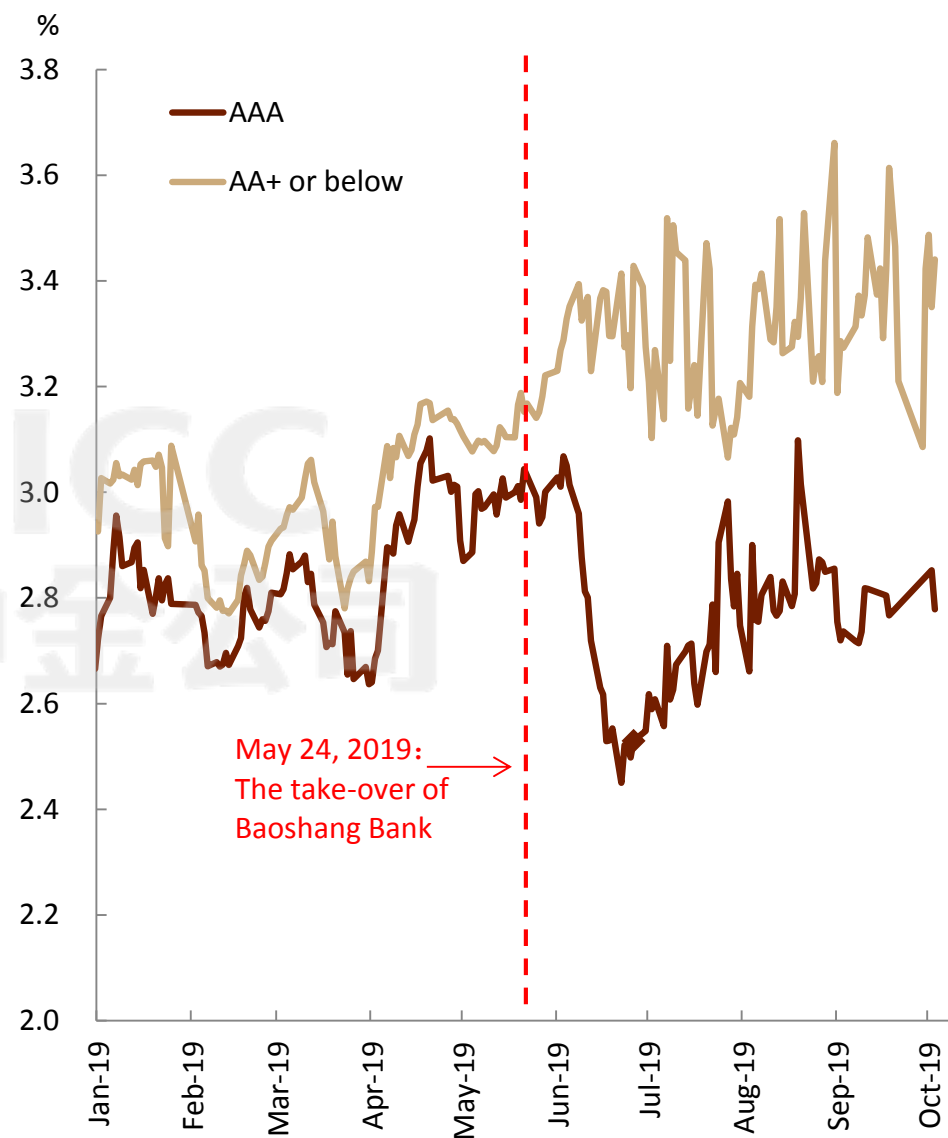
Note: \* Adjusted TSF = TSF – local government special bonds + local & central government bonds  
Source: CEIC, CICC Research

# Liquidity conditions remain tight for small banks

Success ratio of interbank CD issuance by rating  
(10DMA)

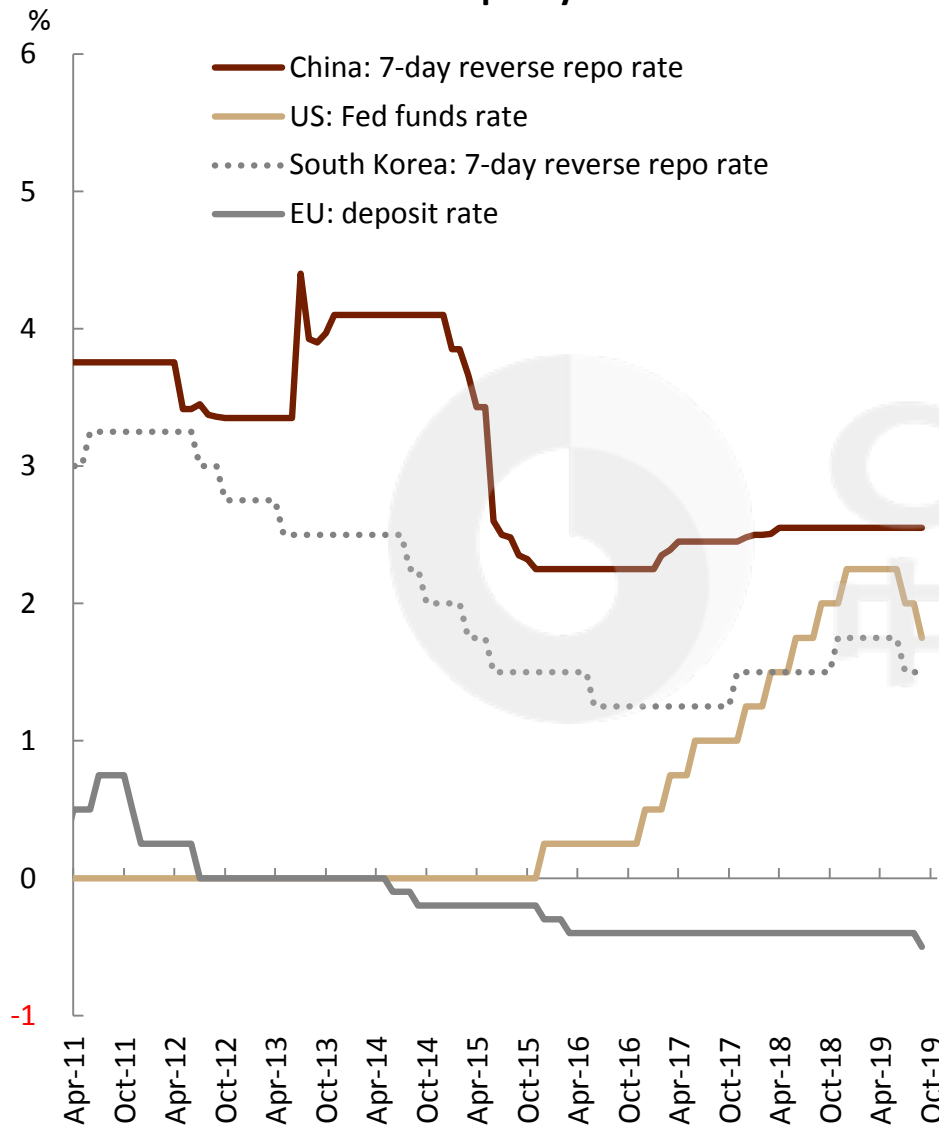


Issuance rate of 3M interbank CDs by rating

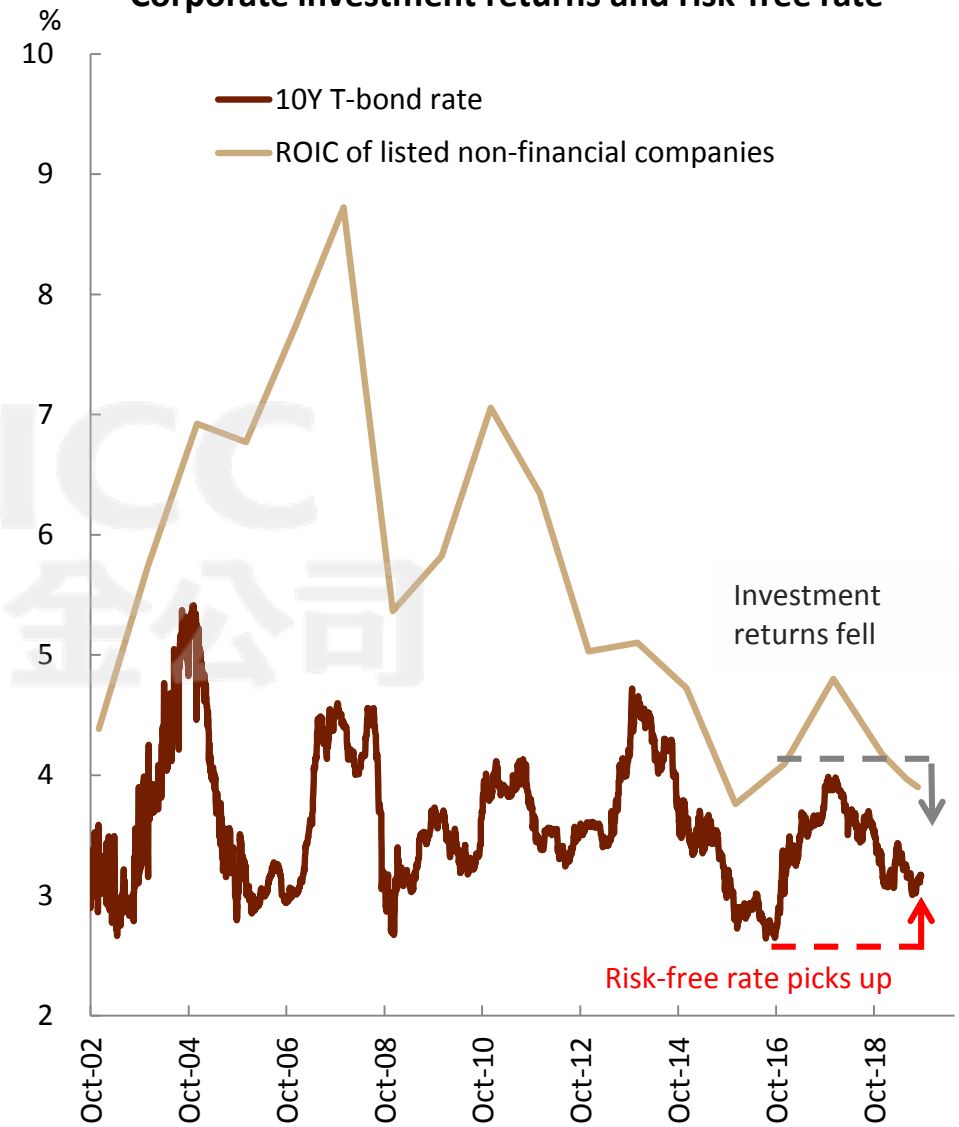


# Monetary policy adjustment is “behind the curve”

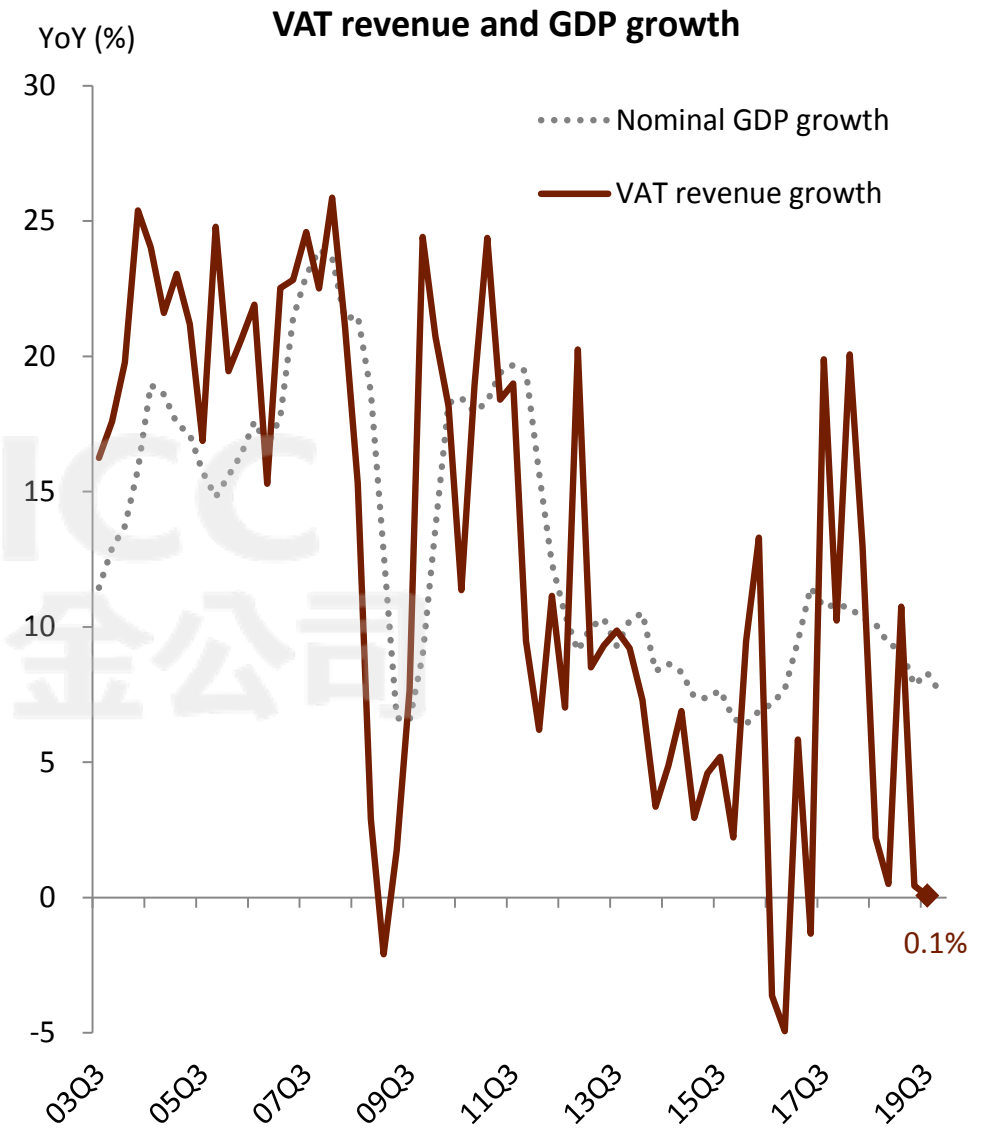
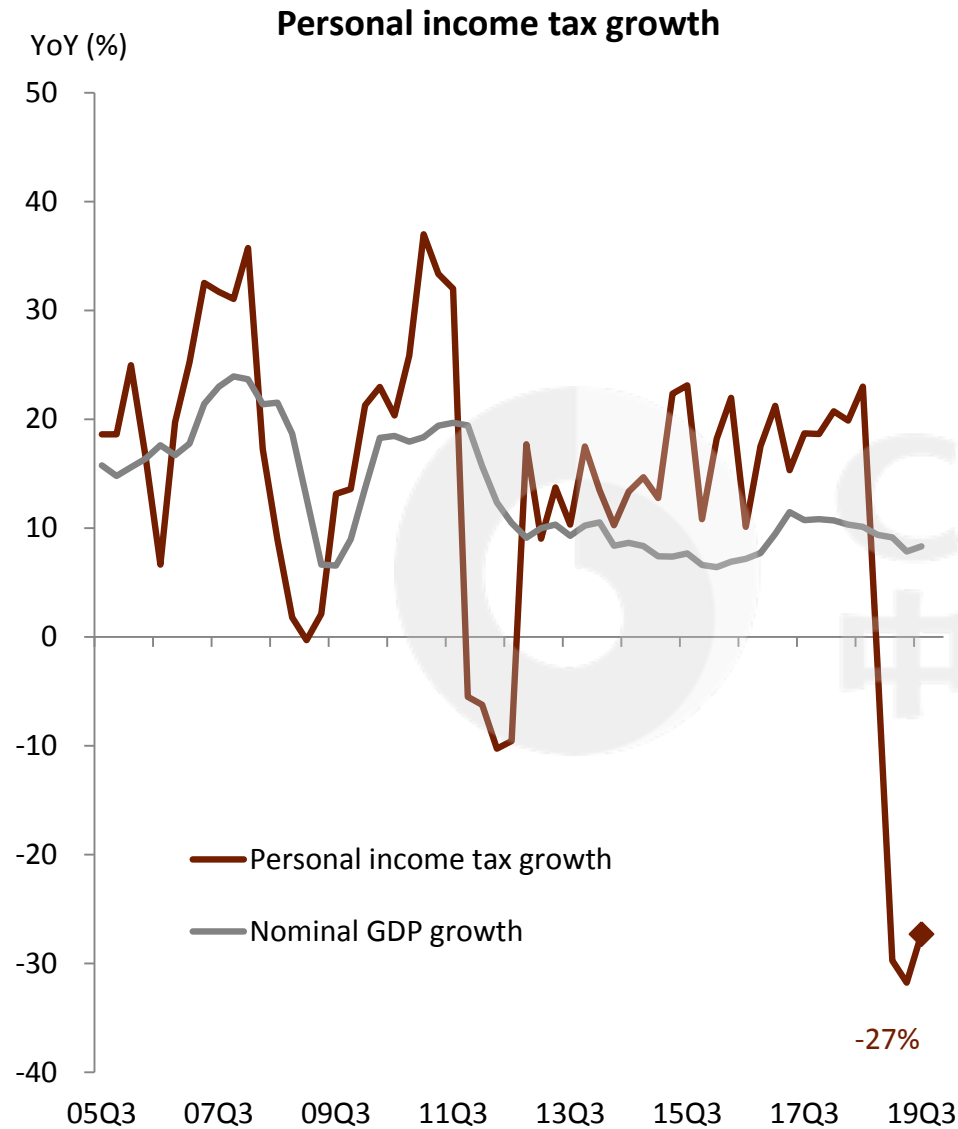
## Short-term policy rate



## Corporate investment returns and risk-free rate

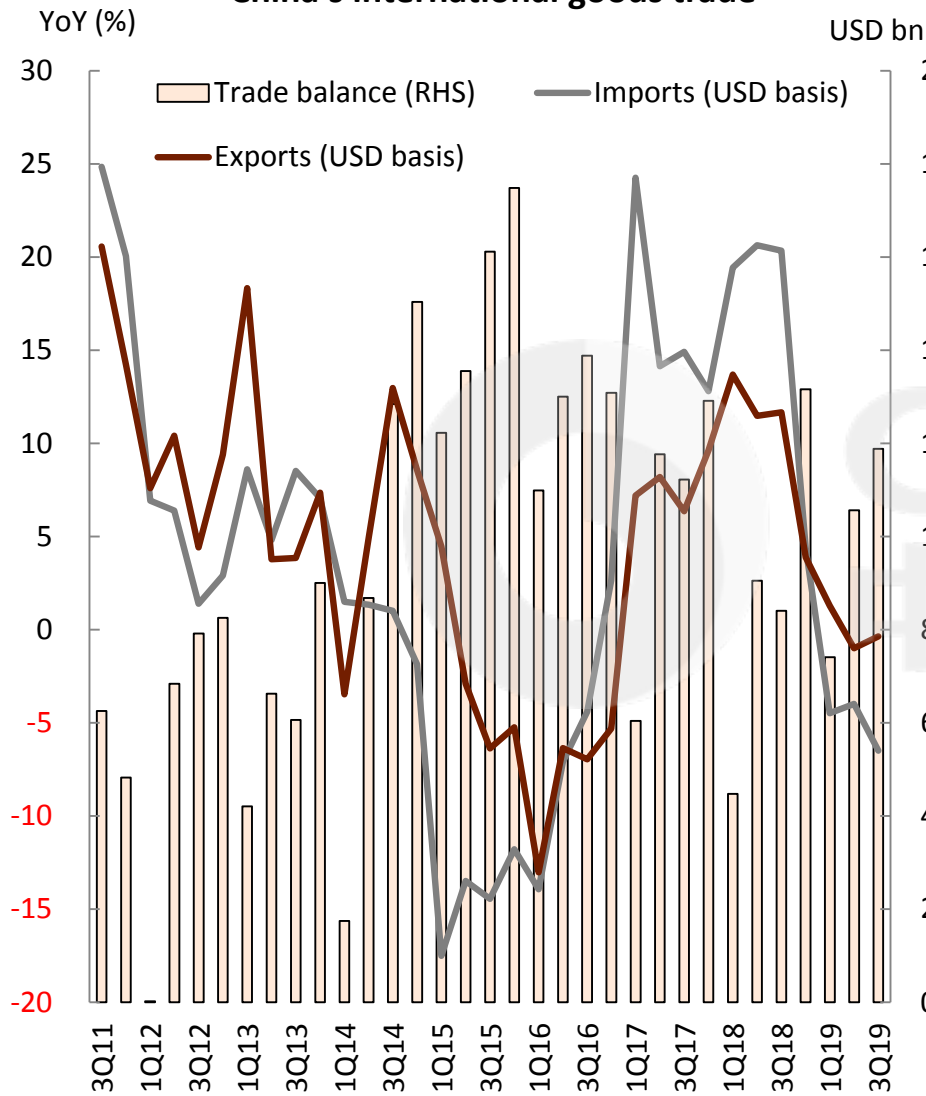


# The boost from tax cuts may have peaked

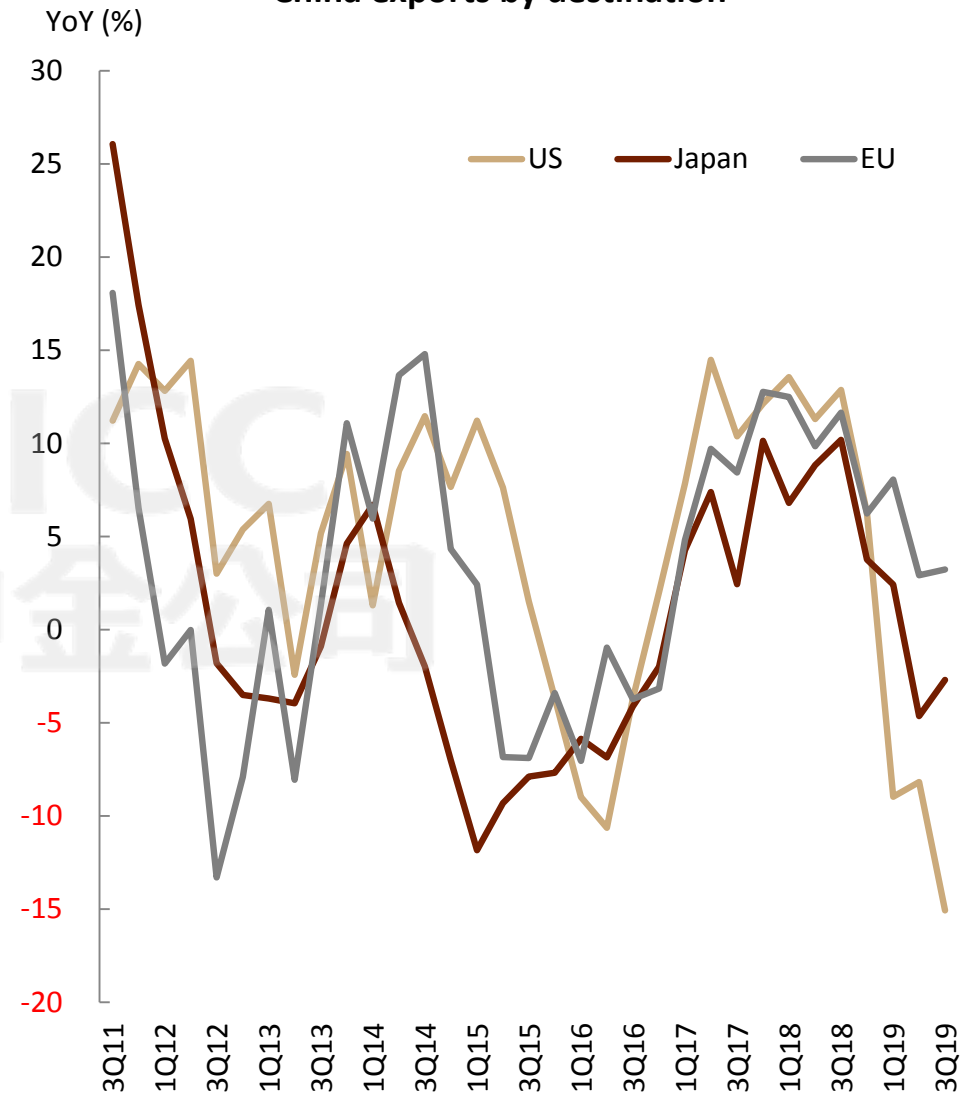


# Export growth remains sluggish

## China's international goods trade

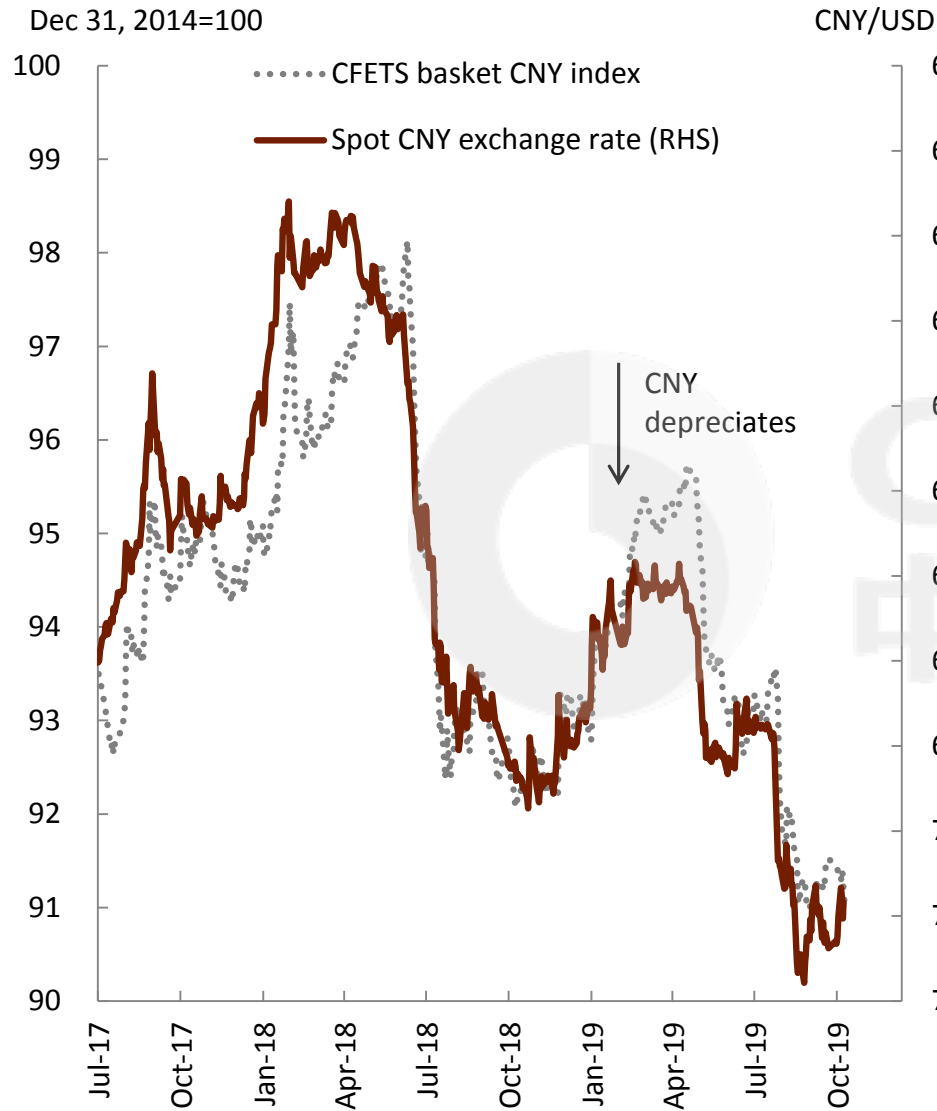


## China exports by destination

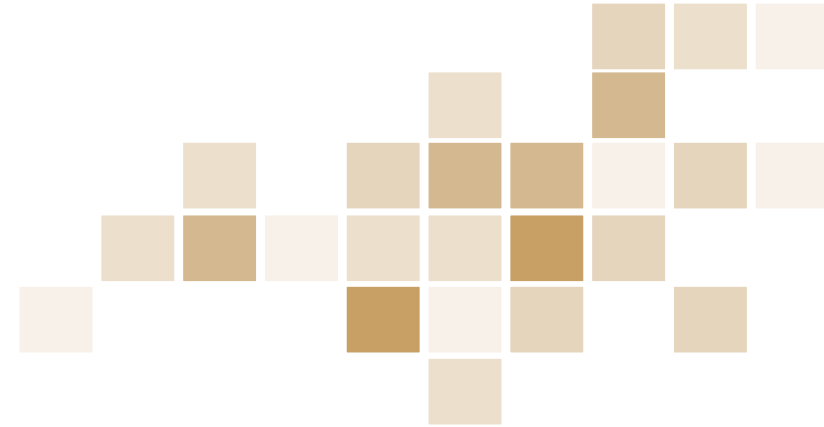


# Renminbi stabilizes after August depreciation

## CNY exchange rate



Note: \* CNY 12-month NDF implies annual depreciation of CNY  
Source: CEIC, Bloomberg, CICC Research



# Market strategy

**Hanfeng WANG, CFA**

SAC Reg. No.: S0080513080002

SFC CE Ref: AND454



## Key views

- ▶ **Overall lukewarm, with select bright spots.** The long-term investment value in Chinese markets has emerged, especially in H-shares. For 4Q19 specifically, the market could remain lukewarm, with select bright spots: 1) Pro-growth policies continue to unfold, but on a smaller than expected scale and at a slower than expected pace to date with many constraints. Thus, downward pressure on growth persists. 2) Small-bank deleveraging efforts continue. 3) The property market could continue to cool, dragging growth prospects. Continuous growth pressure and diminishing monetary easing call for more and new policy supports. Structurally, consumption, healthcare and technology remain the bright spots.
- ▶ **Earnings growth sluggish and diverging.** Our top-down earnings growth forecast for A-share and offshore China markets are 4.1% and 4.4% YoY respectively for 2019, compared with the current market consensus of 16.5% (CSI 300) and 6.7% (MSCI China). Structurally, financials led while non-financials lagged due to weak revenue growth.
- ▶ **Overall liquidity remains accommodative, and risk appetite fluctuates around policy and growth.** Growth pressure has led to relatively loose liquidity, and near-term risk appetite depends on policy and growth conditions. After notable outflows since April and May, overseas flows have stabilized lately. We still expect notable annual inflows of Rmb200bn unless a worst-case scenario materializes. Increasing foreign and institutional investors are reshaping the A-share market.
- ▶ **Watch for:** 1) A-share 3Q19 earnings season; 2) Policy developments; CCP 4<sup>th</sup> Plenary Session; Annual Economic Work Conference; 3) Development of trade talks; 4) Impact of small-bank deleveraging, and cooling of property market.
- ▶ **Implementations:** We continue to favor industry leaders that benefit from the secular trends of China's consumption and industrial upgrading. Sectors that merit attention are those with lower P/E and investor positions, but may see more policy support, such as auto; as well as technology (watch for the development of 5G).

## Trends to watch

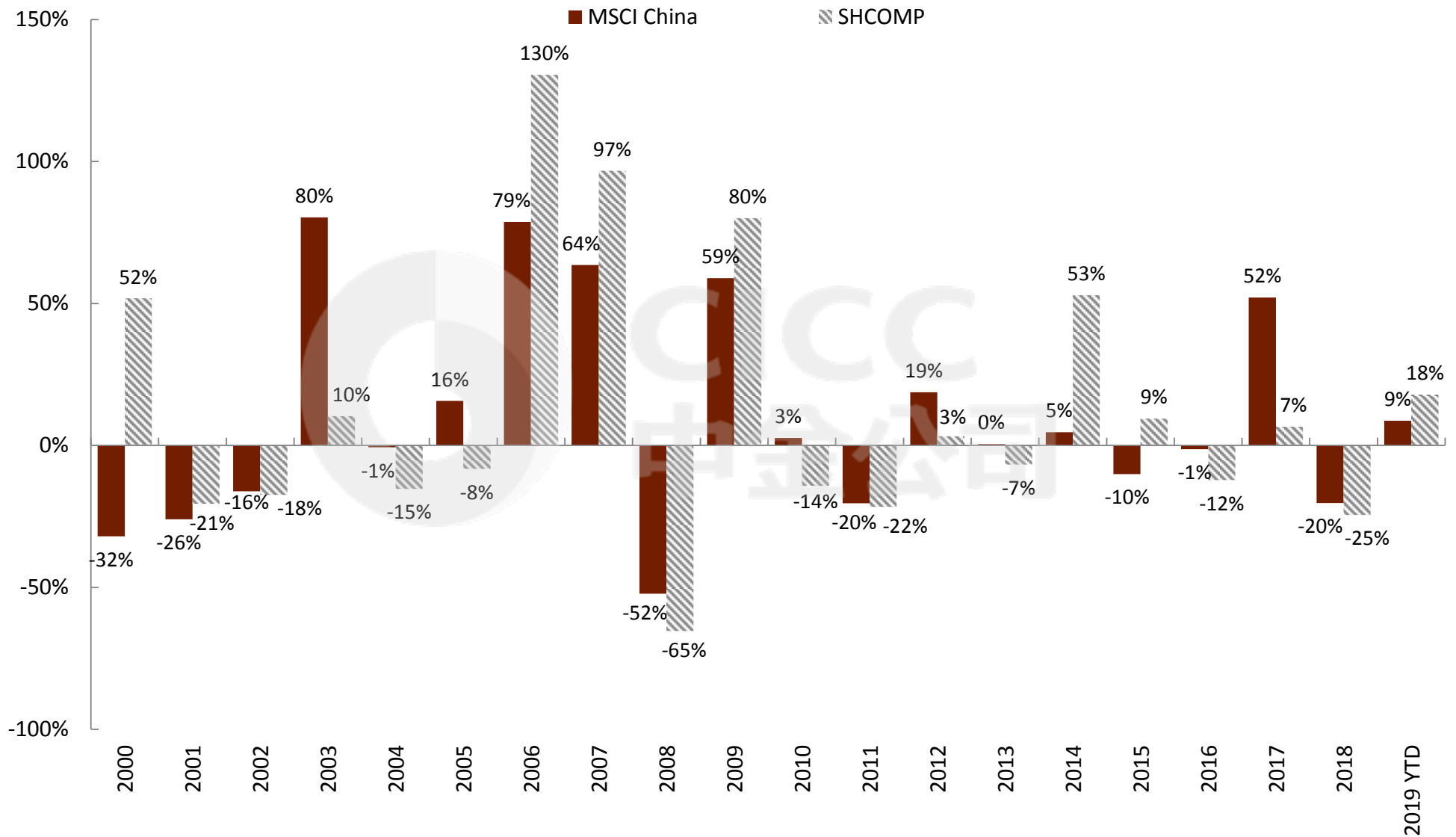
- 1) Policy developments; CCP 4<sup>th</sup> Plenary Session; Annual Economic Work Conference.
- 2) Trade dialogue between US and China; US/Europe growth conditions and policy responses.
- 3) Small-bank deleveraging and property market conditions.



# YTD performance of China markets (A- & H-shares)

Equity

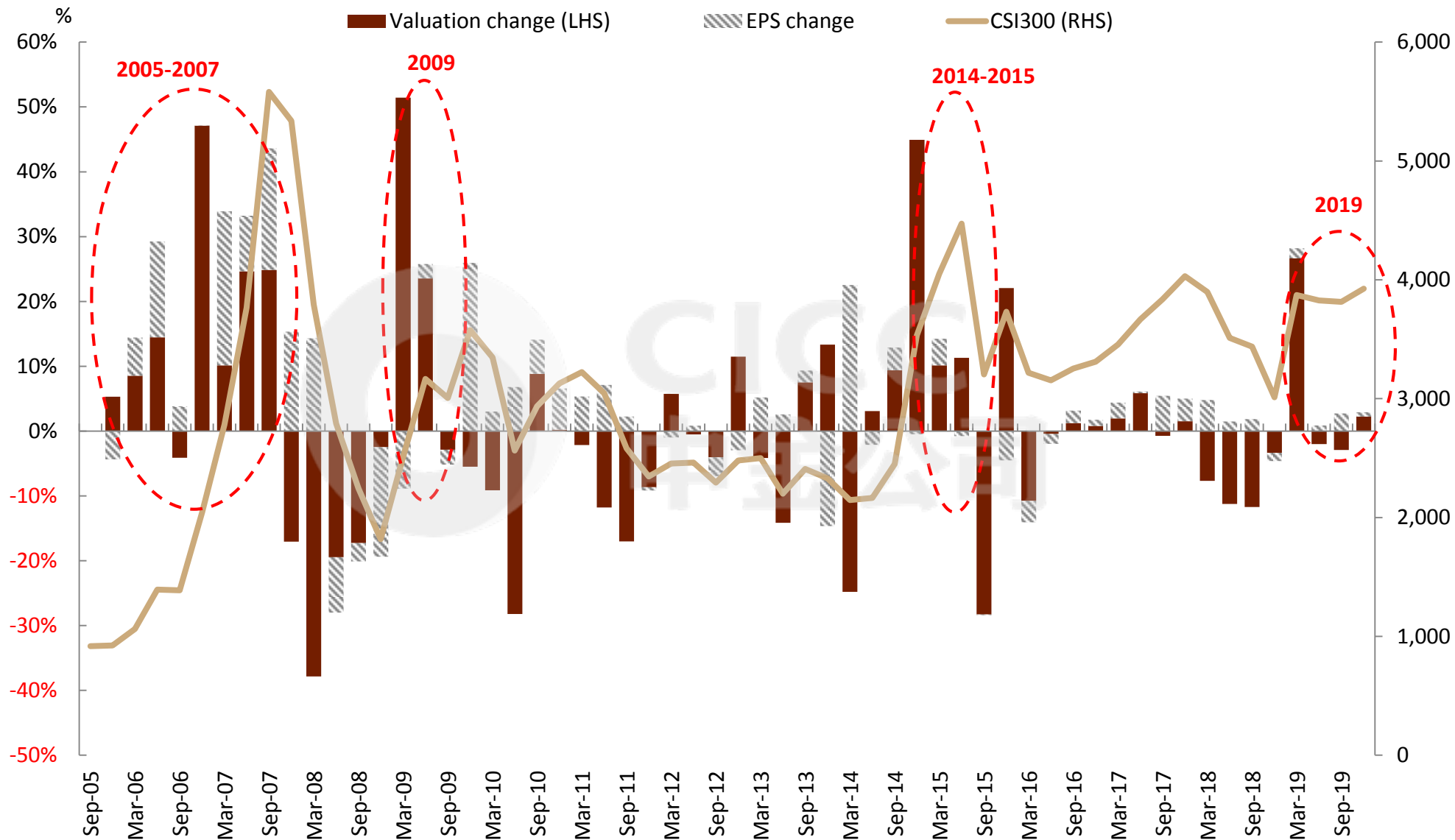
A-share and offshore China equities annual performance



# Valuation contraction the primary driver for 3Q pullback

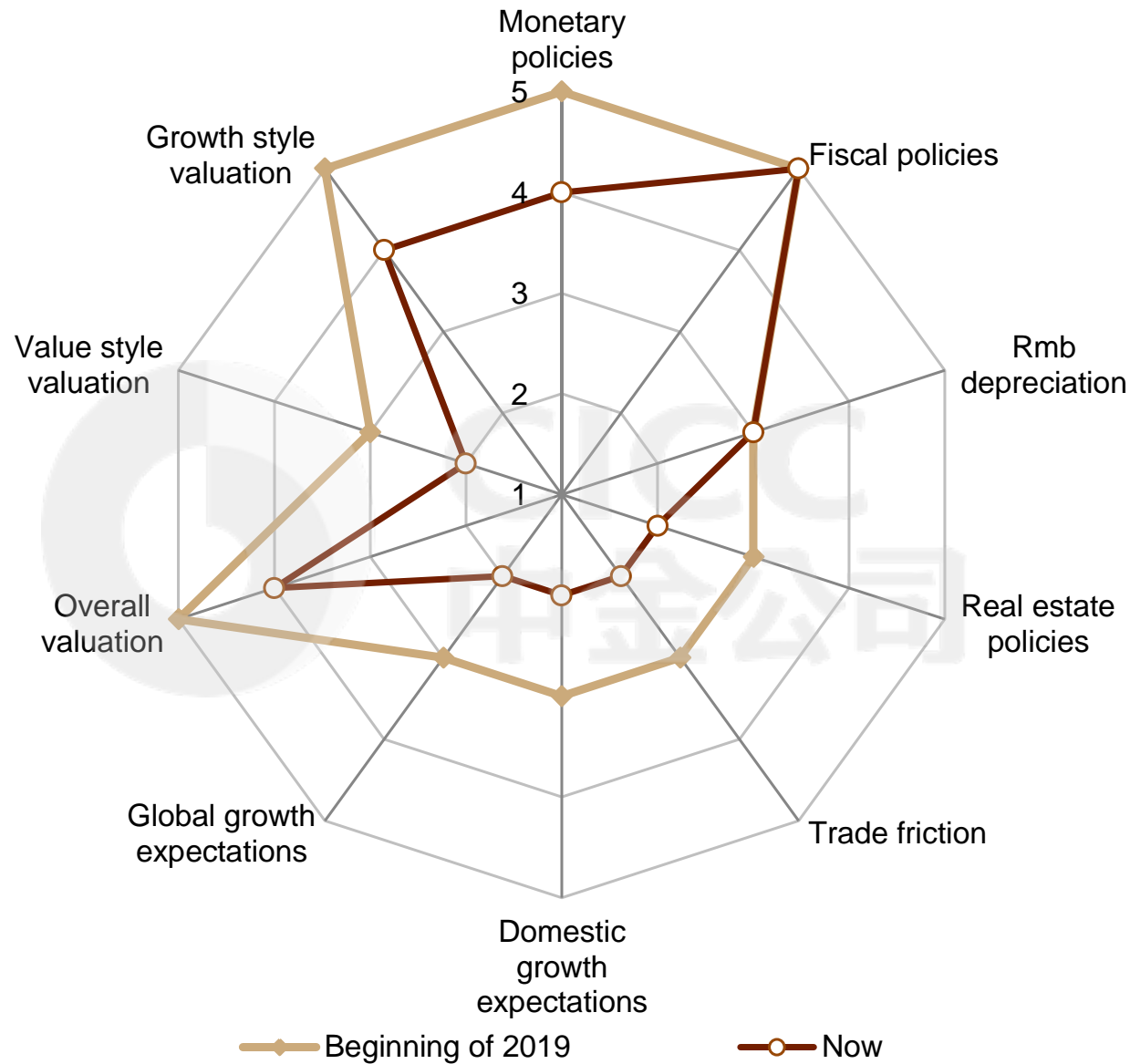
Equity

CSI300 Index quarterly change breakdown: earnings vs. valuation



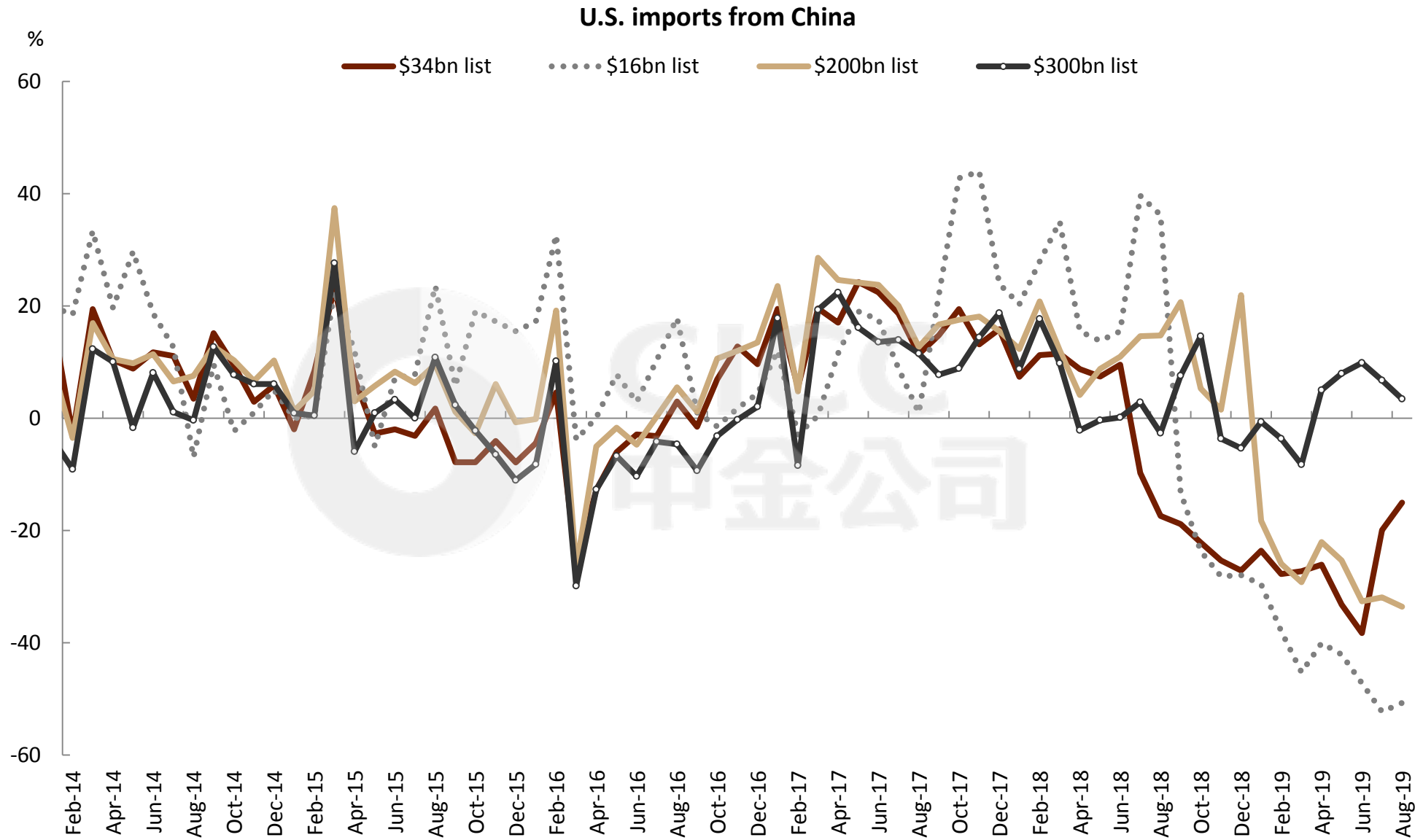
# Comparison: current market conditions vs. early 2019

Equity



# Trade friction could still pose a major headwind in 2H19

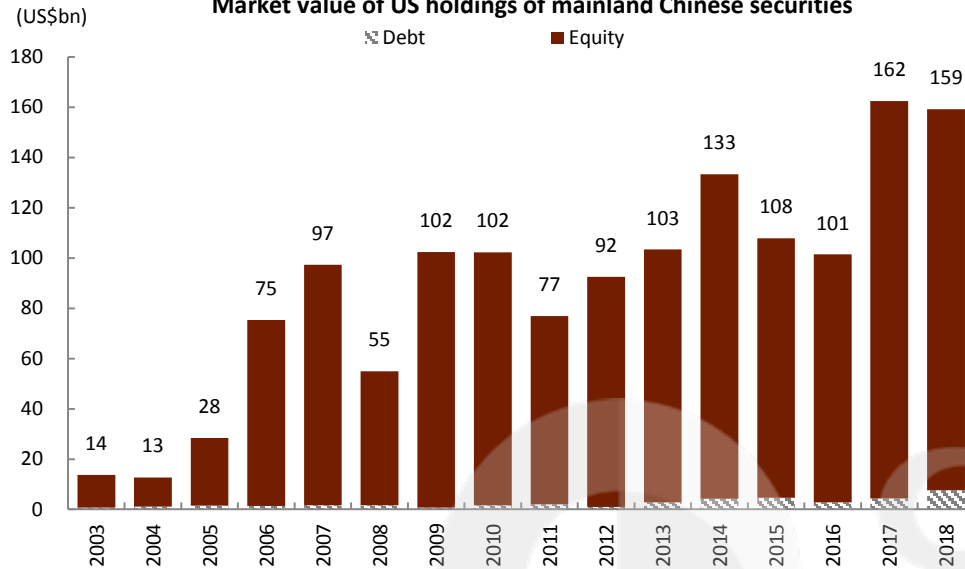
Equity



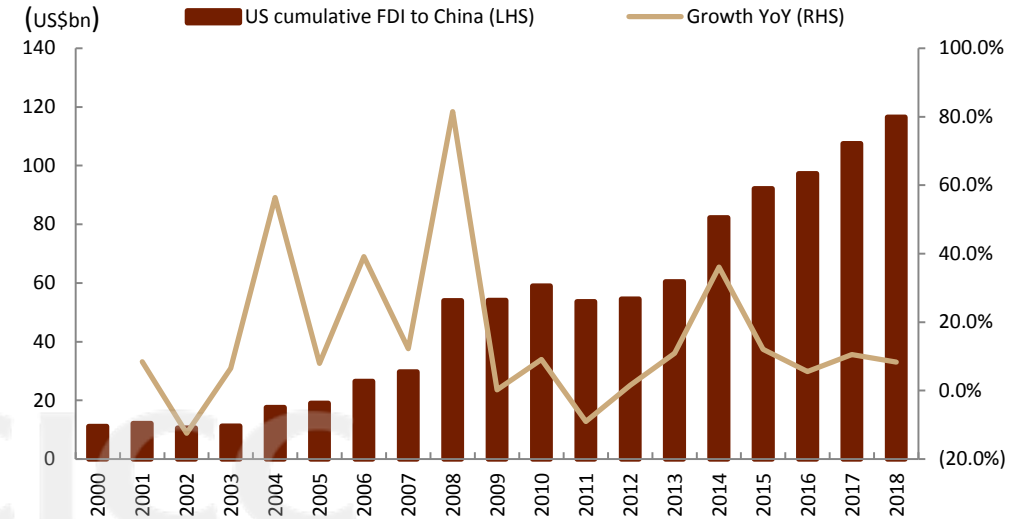
# Economic and financial ties between US and China

Equity

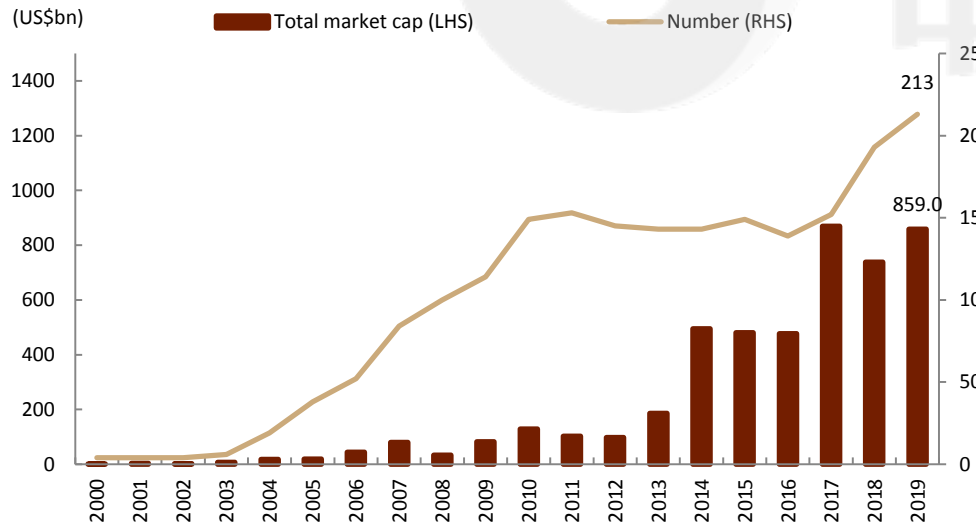
Market value of US holdings of mainland Chinese securities



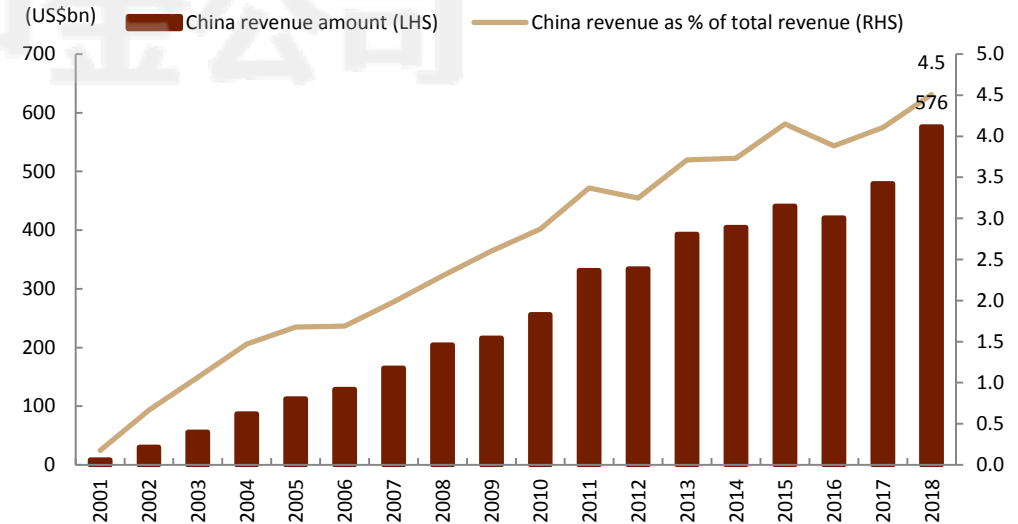
US cumulative FDI to China



US Chinese ADRs market value and number

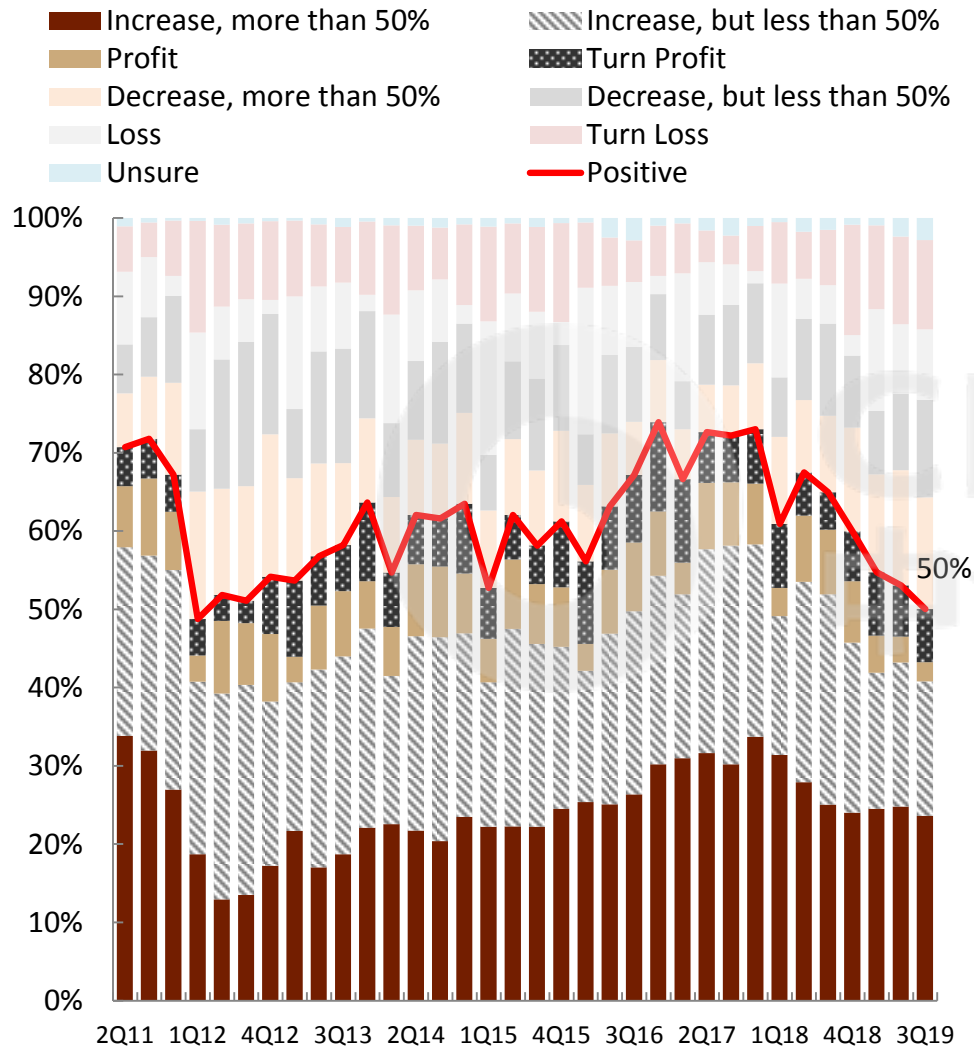


Listed US MNCs' China revenue

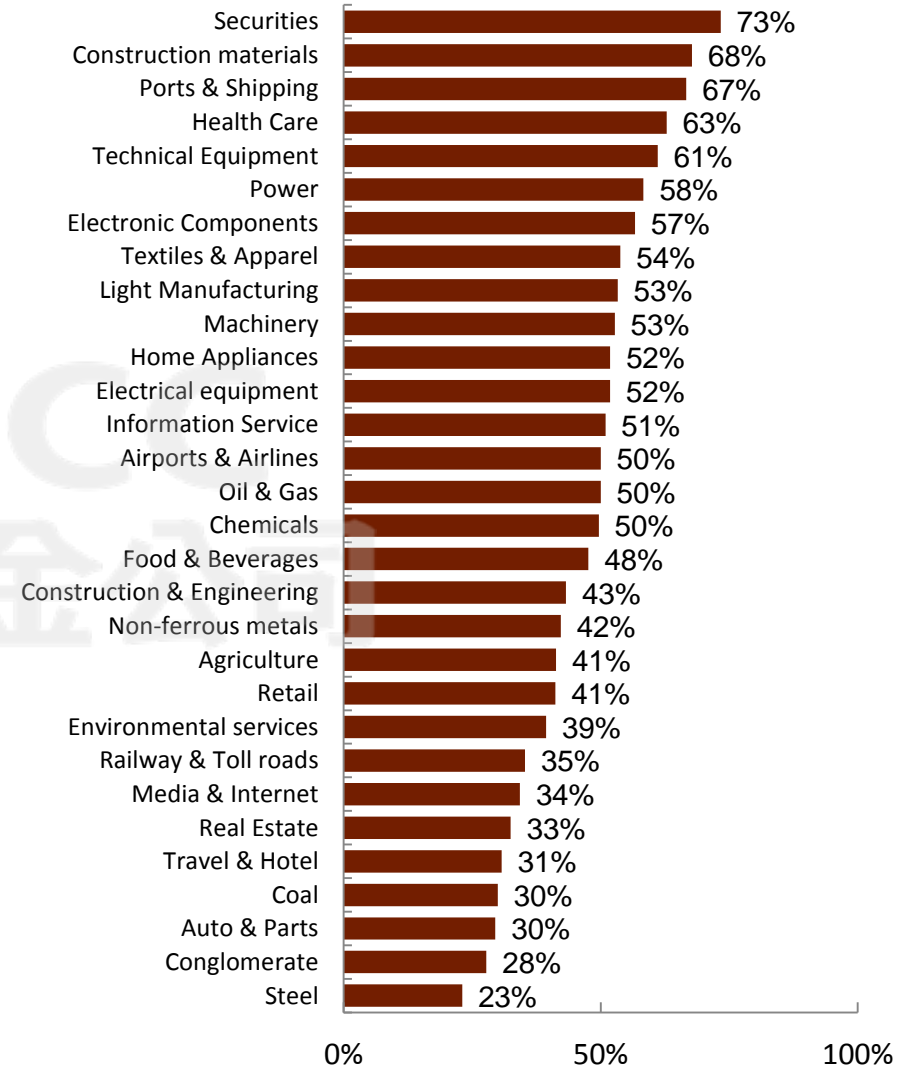


# 3Q19 profit alerts indicate growing pressure on growth

## Profit alerts of A-shares by types



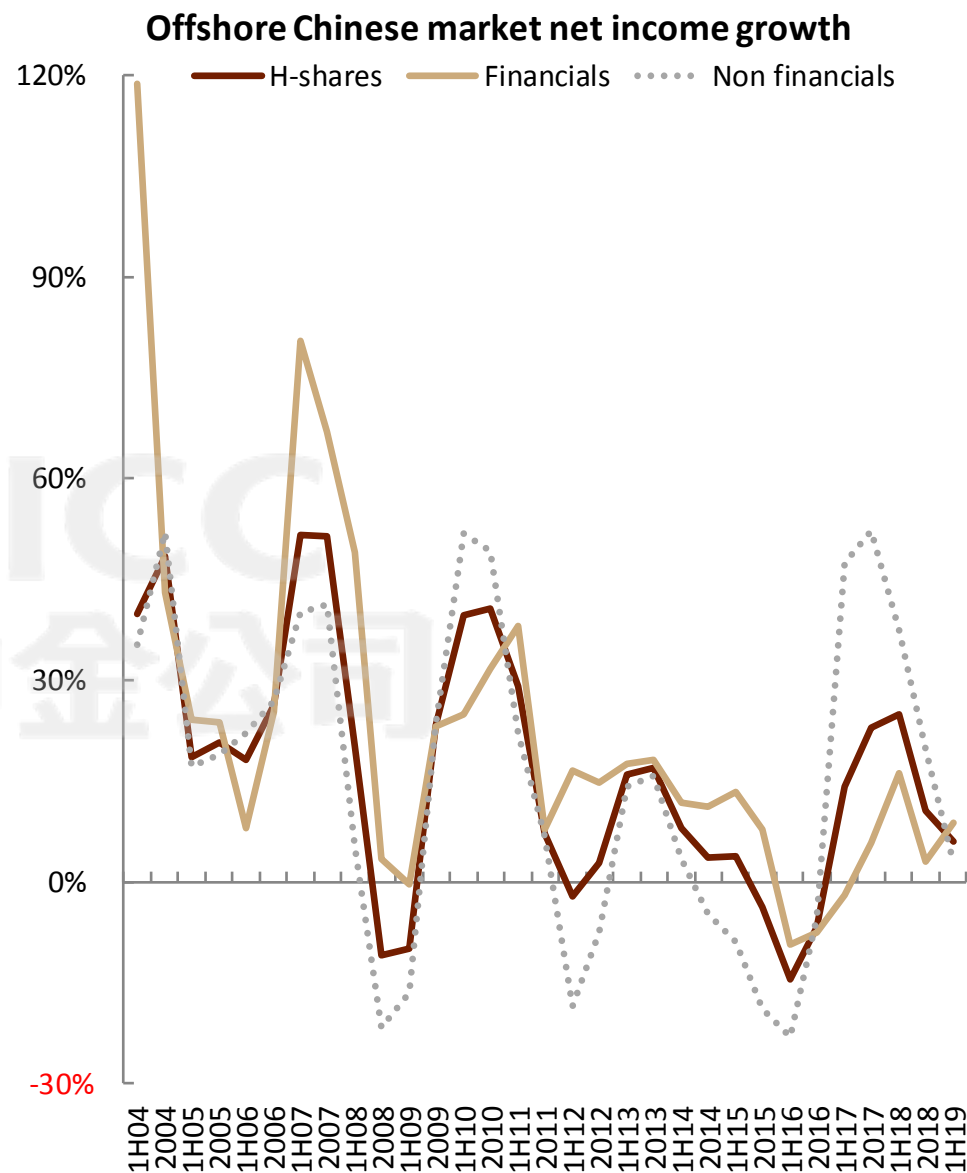
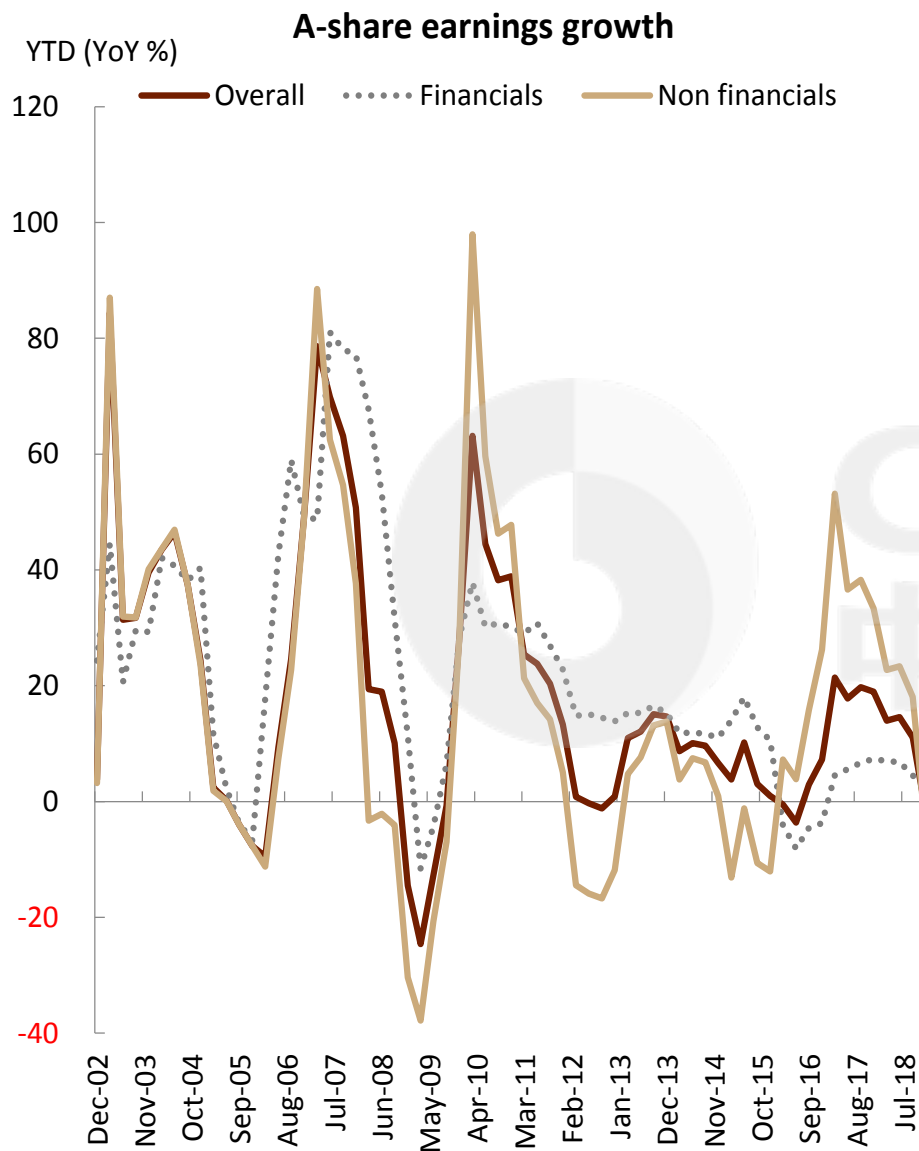
## Pct. of positive 3Q19 profit alerts of A-shares



Equity

# A-/H-share earnings recovered modestly in 1H19

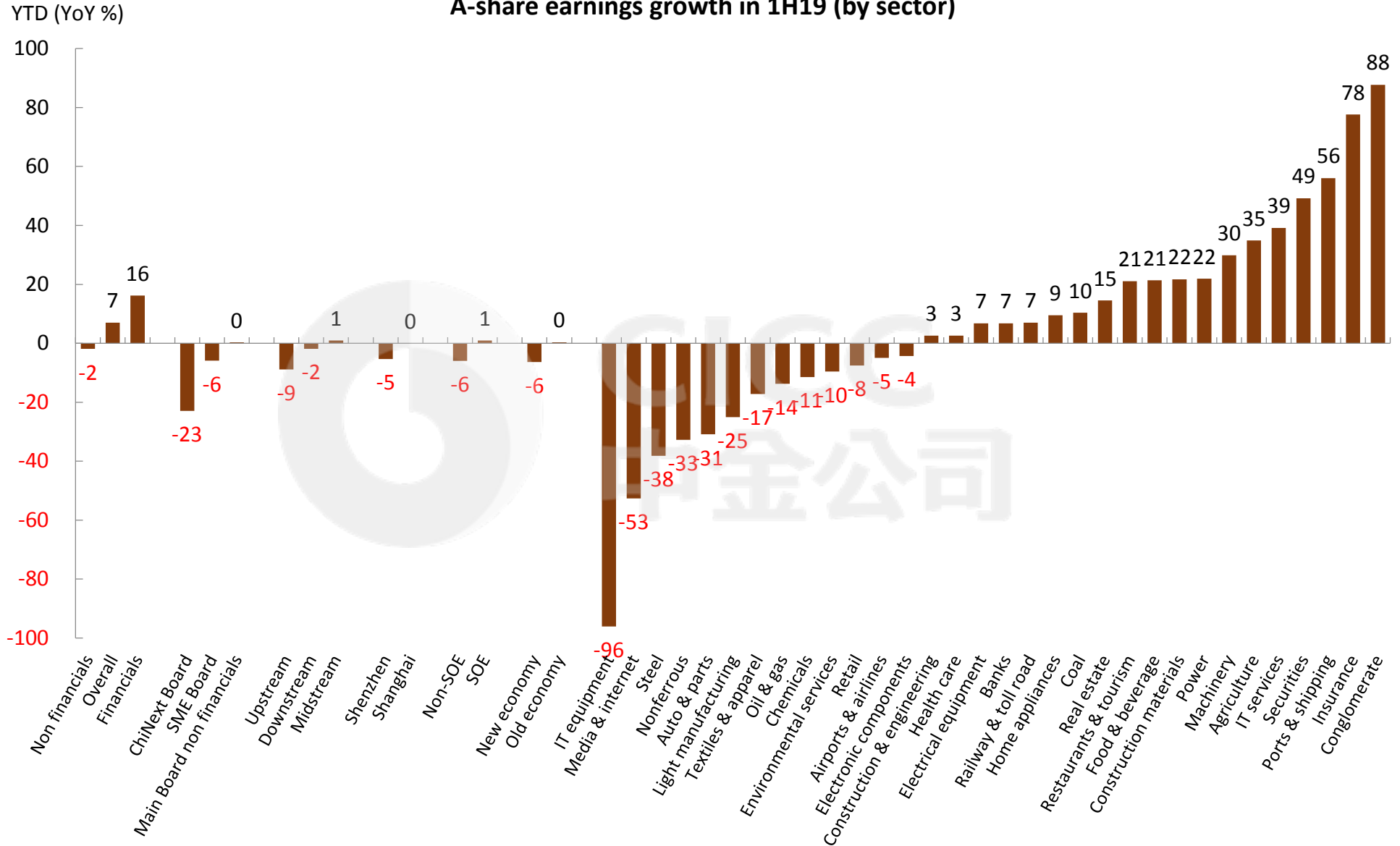
Equity



# Downstream sectors recorded better growth in 1H19

Equity

A-share earnings growth in 1H19 (by sector)

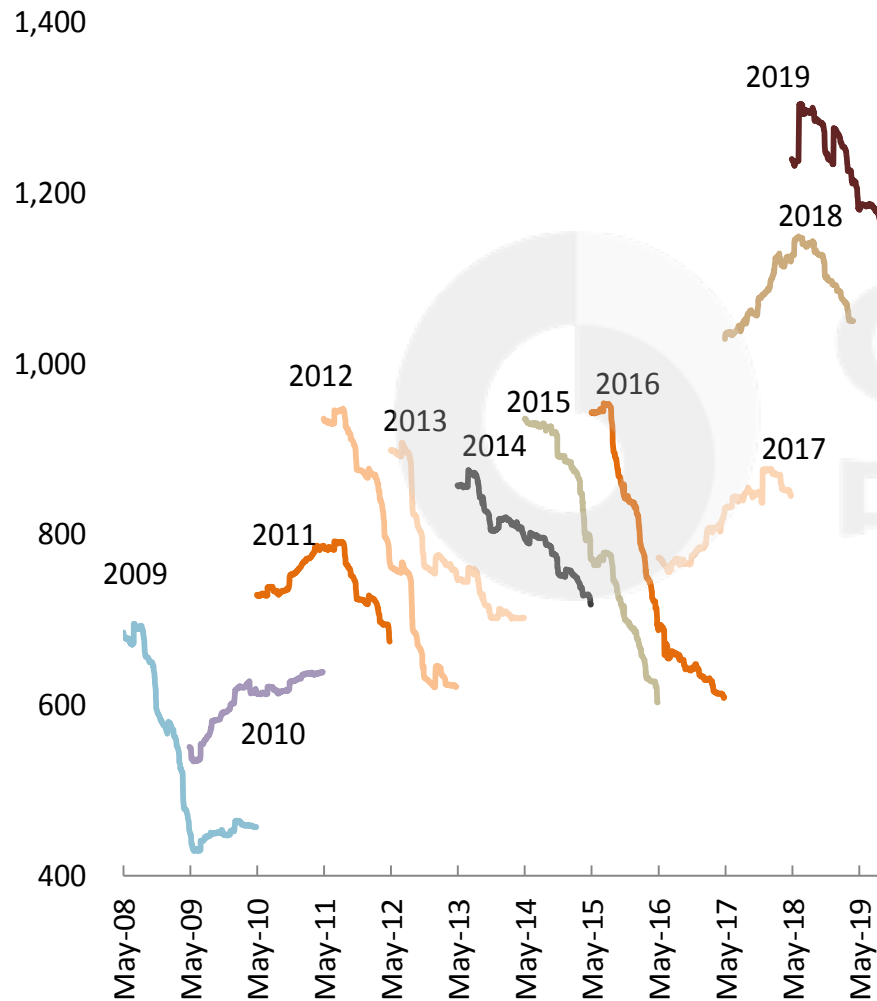




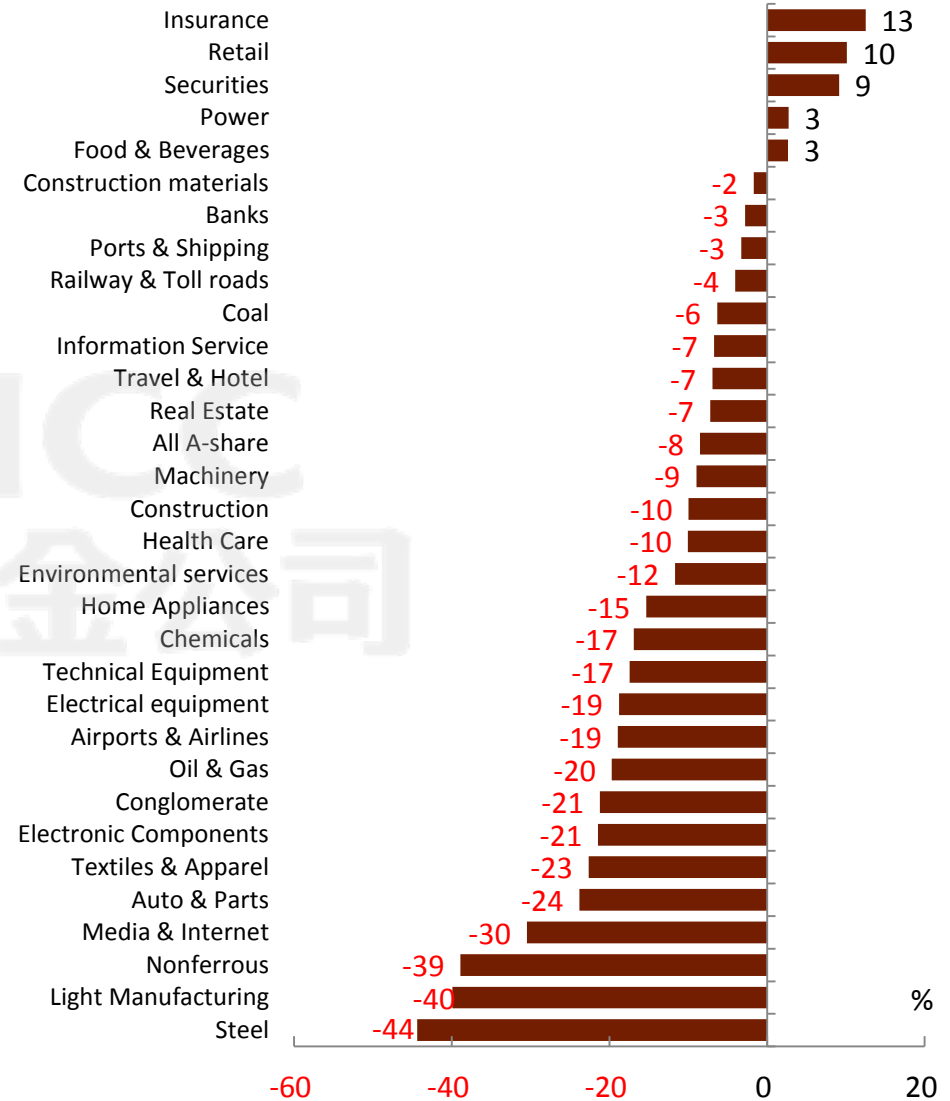
# Consensus earnings forecast is still down for A-shares...

(Rmb bn)

## CSI300 Non-financials earnings forecast consensus

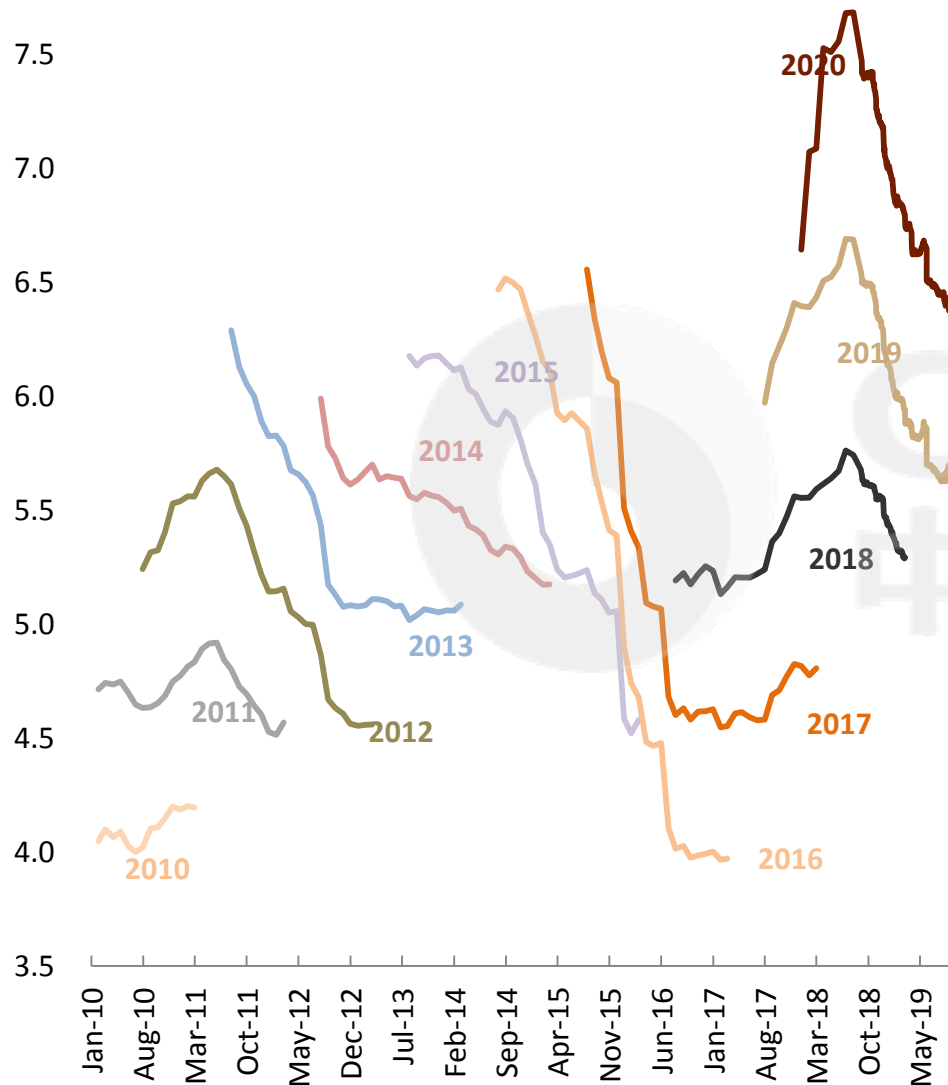


## A-share 2019e earnings forecast revision YTD

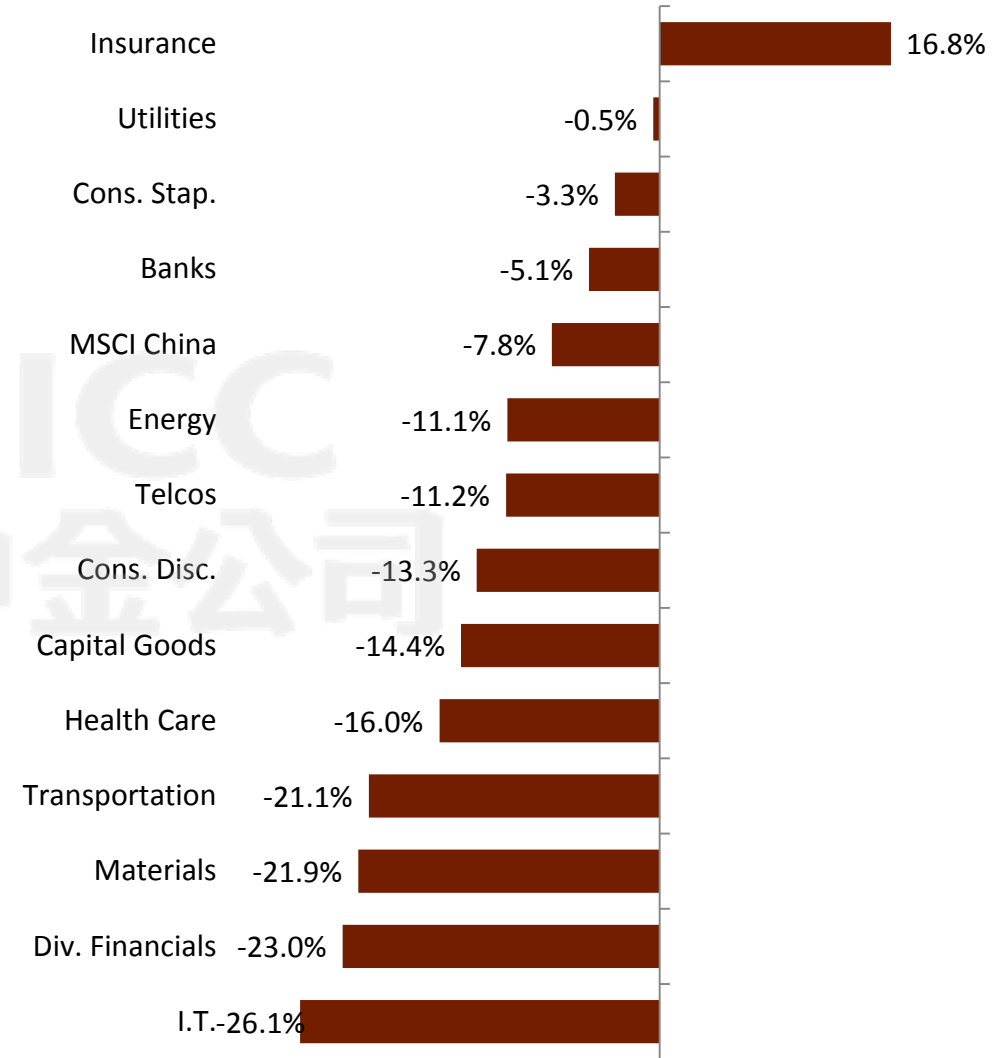


# ...this is also the case for the offshore Chinese market

MSCI China Index EPS consensus estimates (RMB)

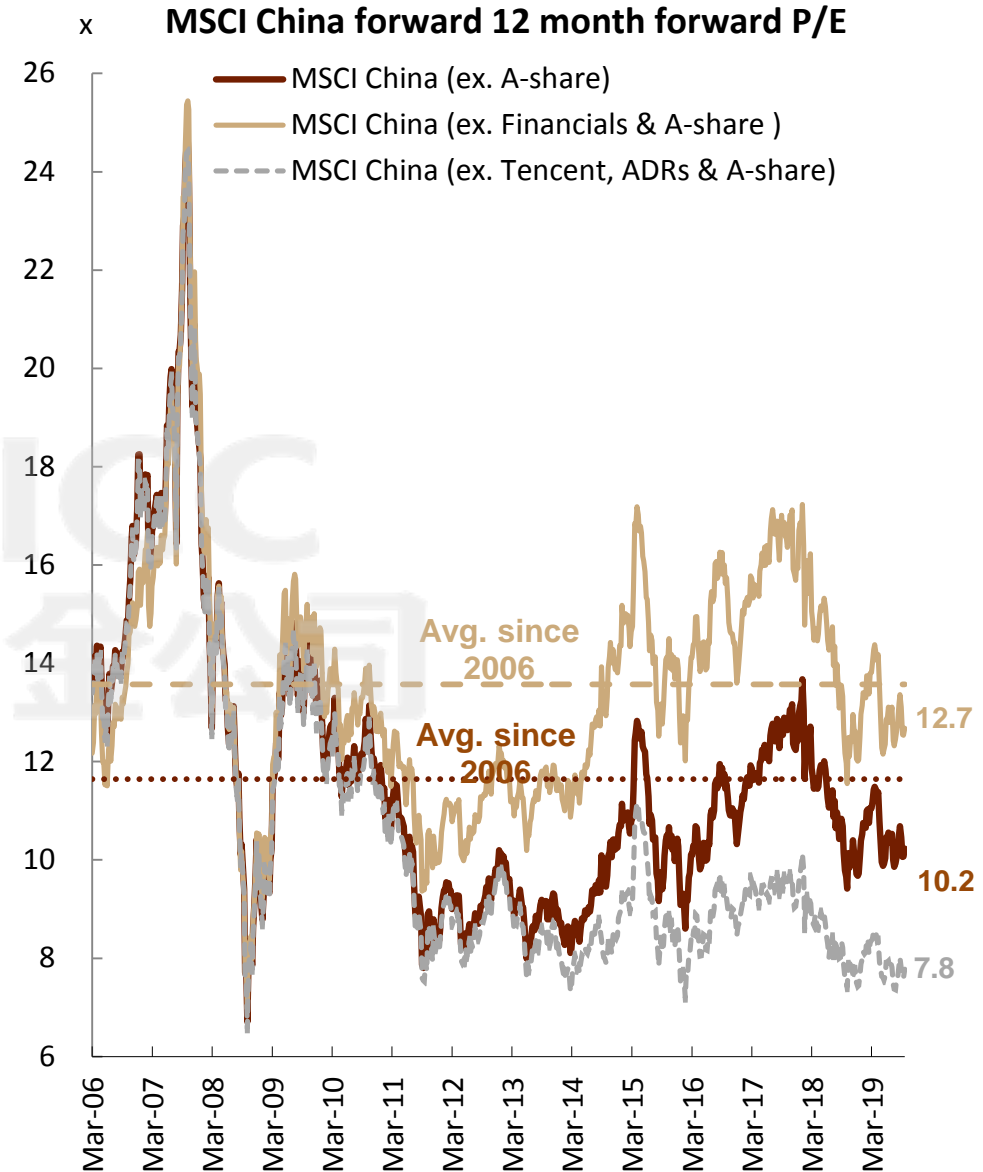
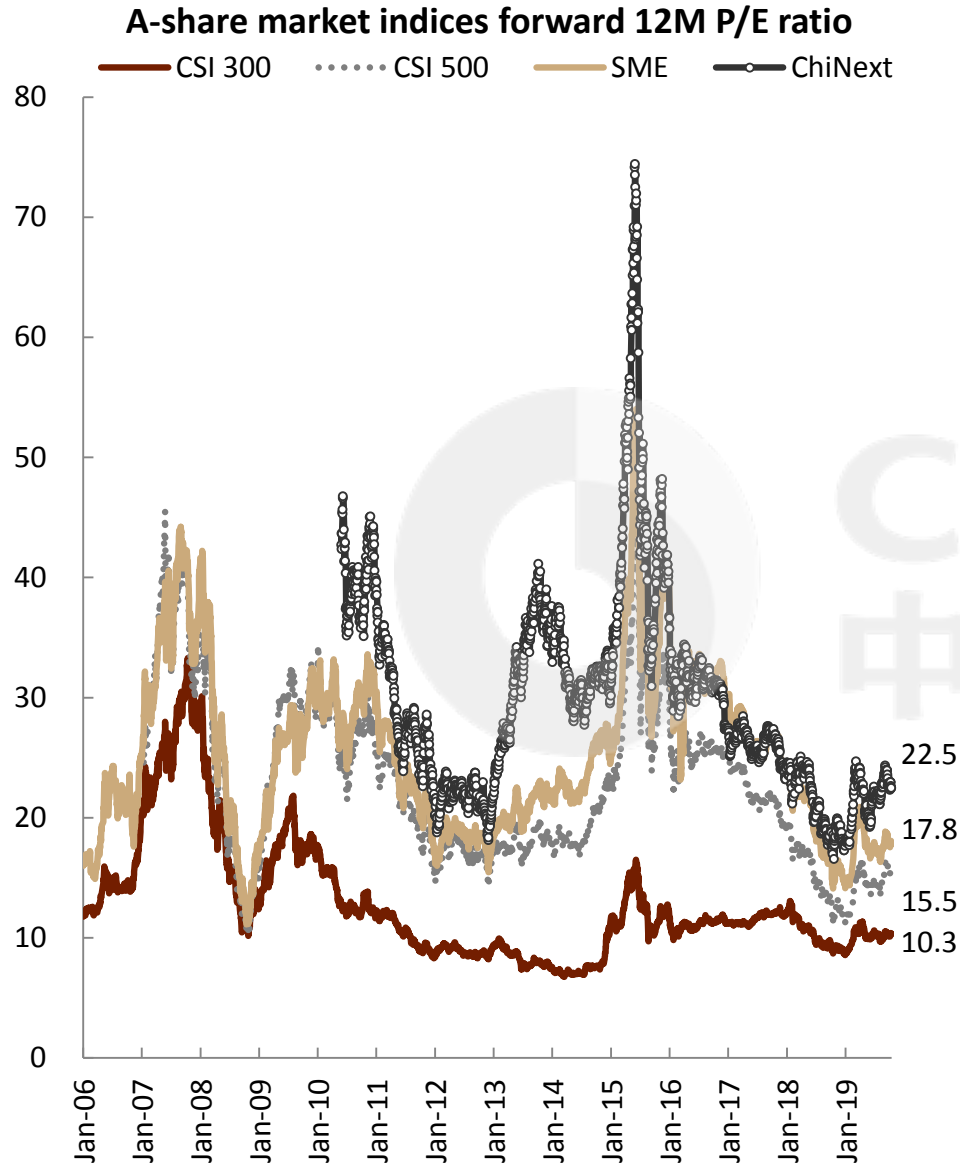


MSCI China 2019E EPS forecast revisions (2019 YTD)



# Valuations remain near historical lows

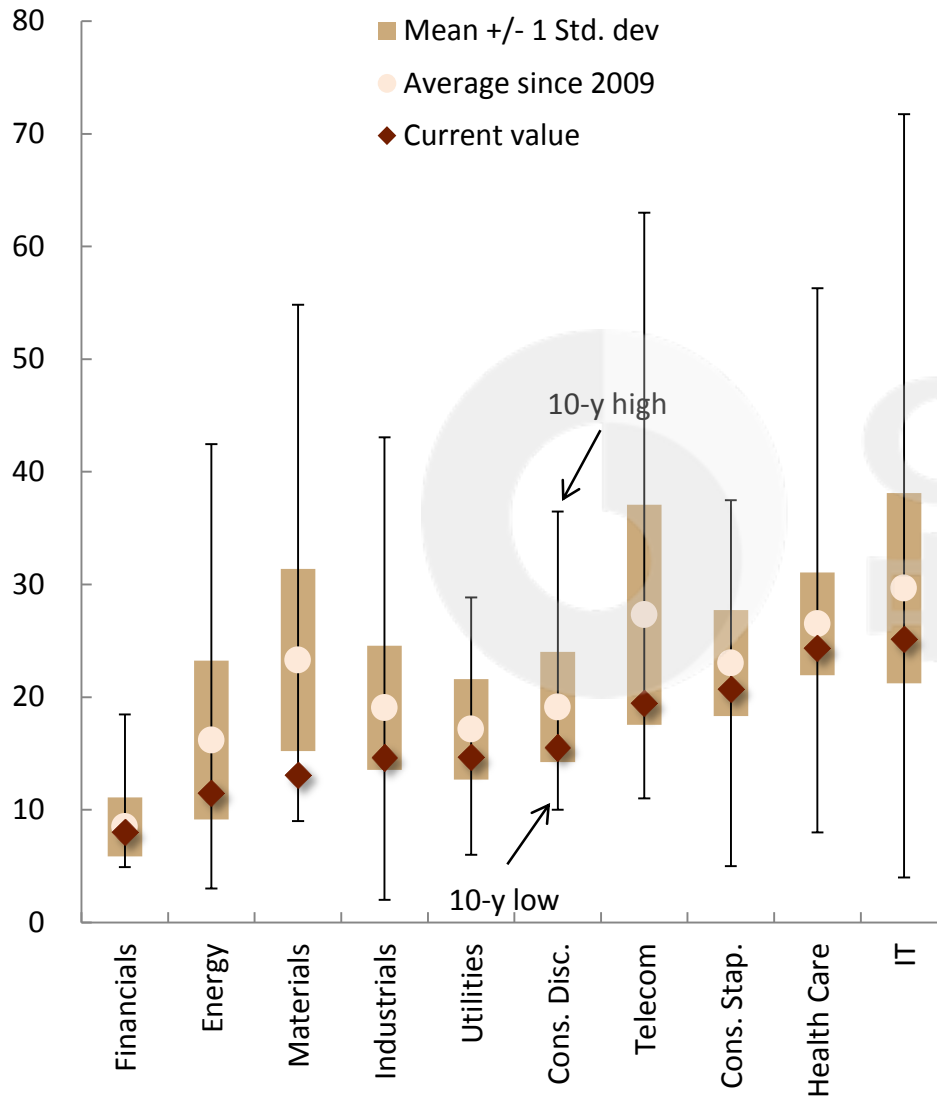
Equity



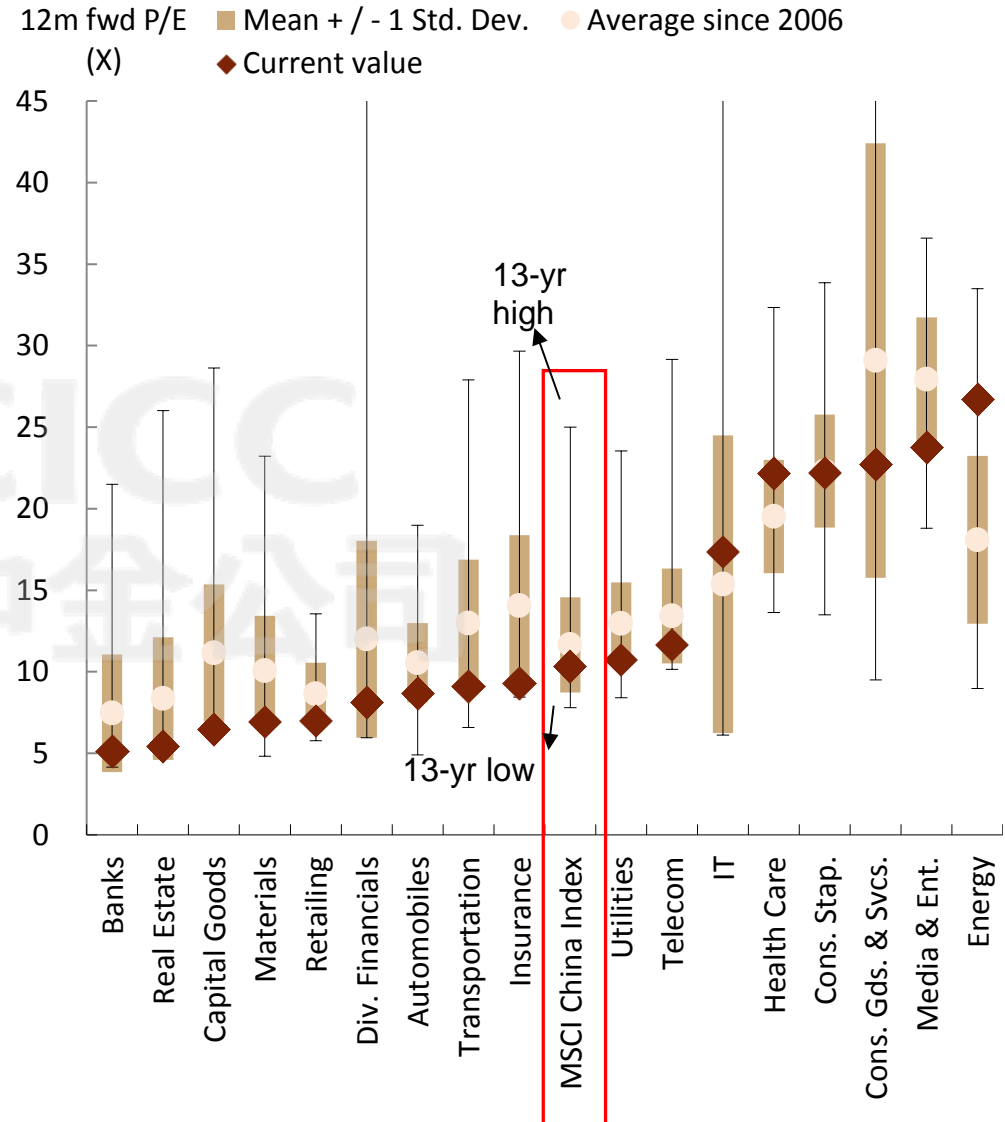
# Valuations of most sectors remain near historical lows...

Equity

12M fwd P/E A-share sector P/E historical range



MSCI China sector P/E historical range



# ...but valuations of top foreign-holding stocks surged

Equity

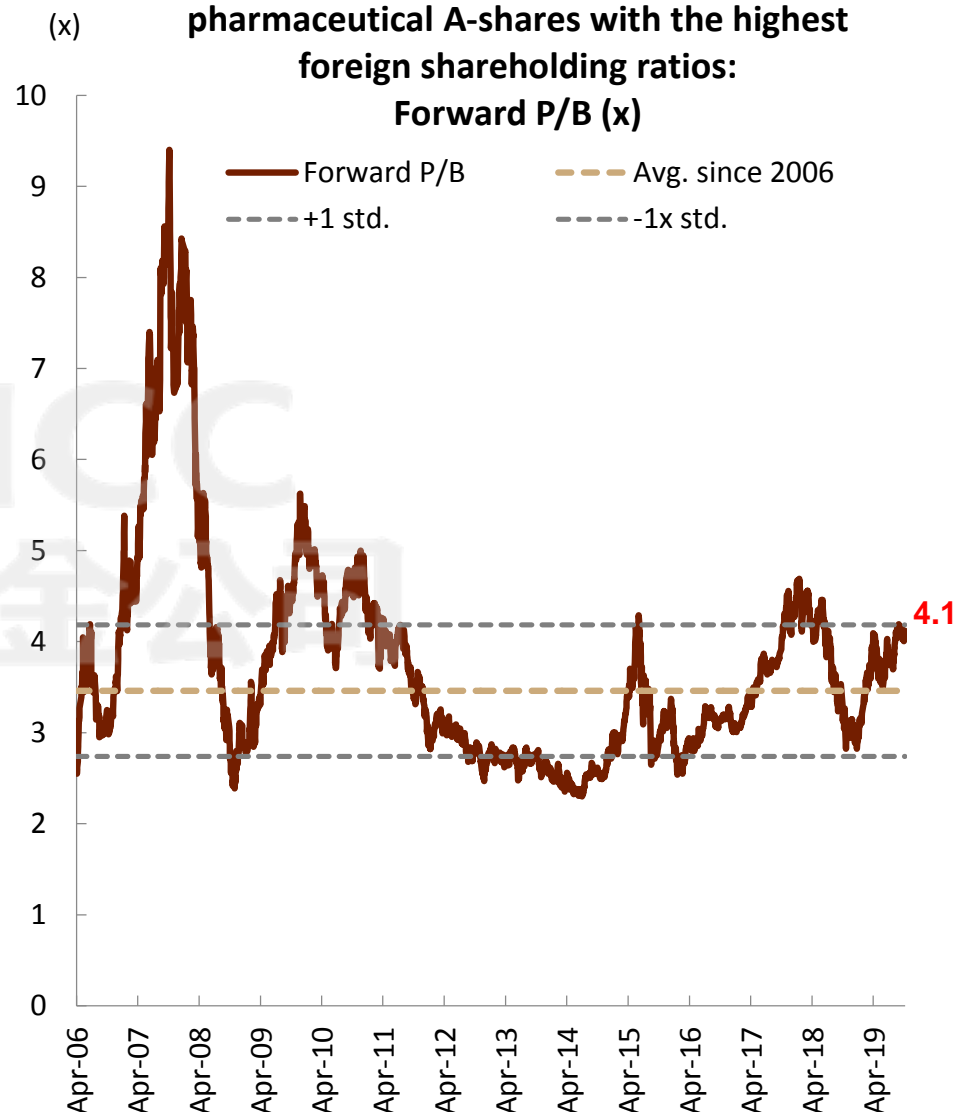
The 100 consumer, technology and pharmaceutical A-shares with the highest foreign shareholding ratios:

Forward P/E (x)



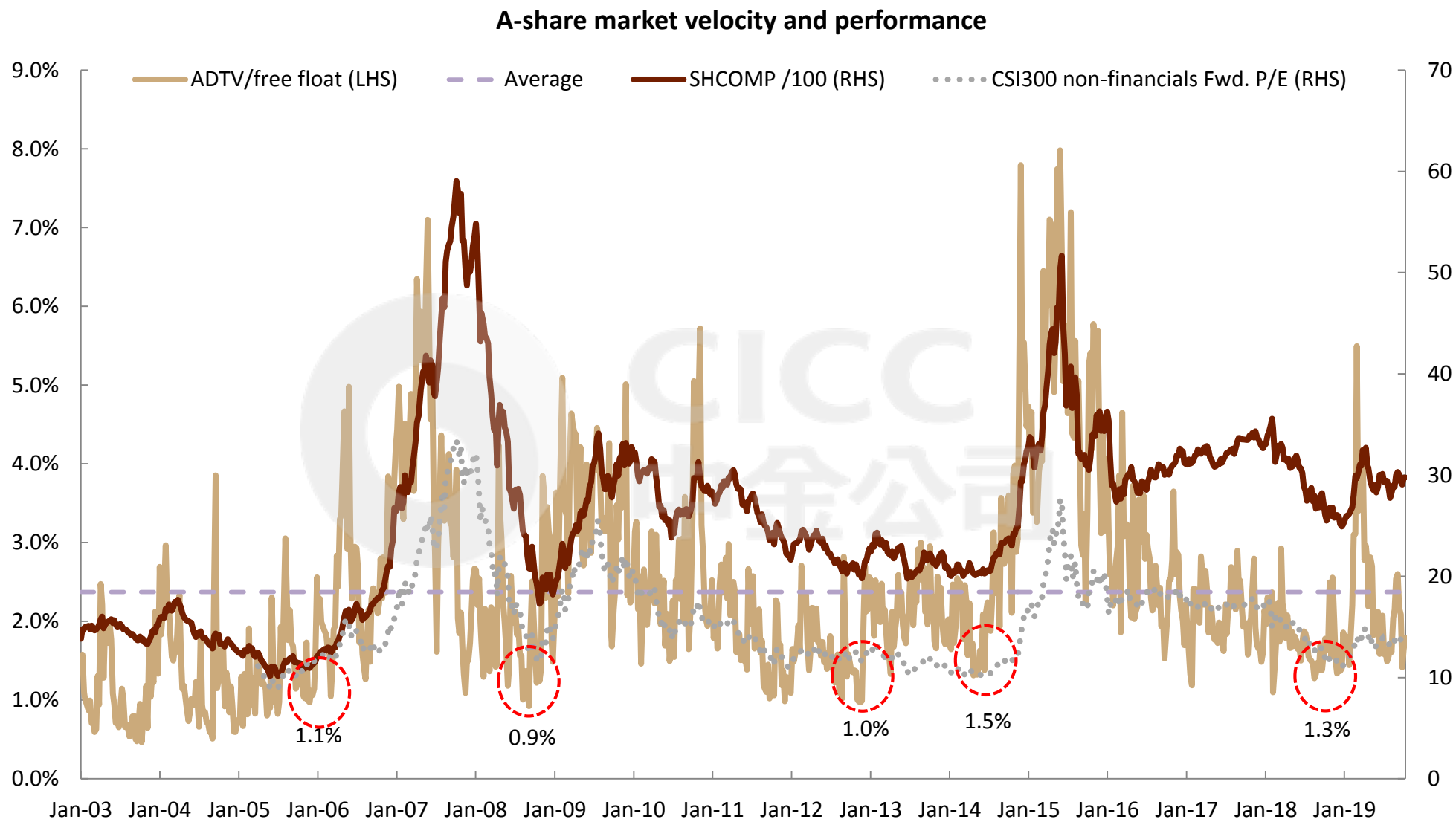
The 100 consumer, technology and pharmaceutical A-shares with the highest foreign shareholding ratios:

Forward P/B (x)



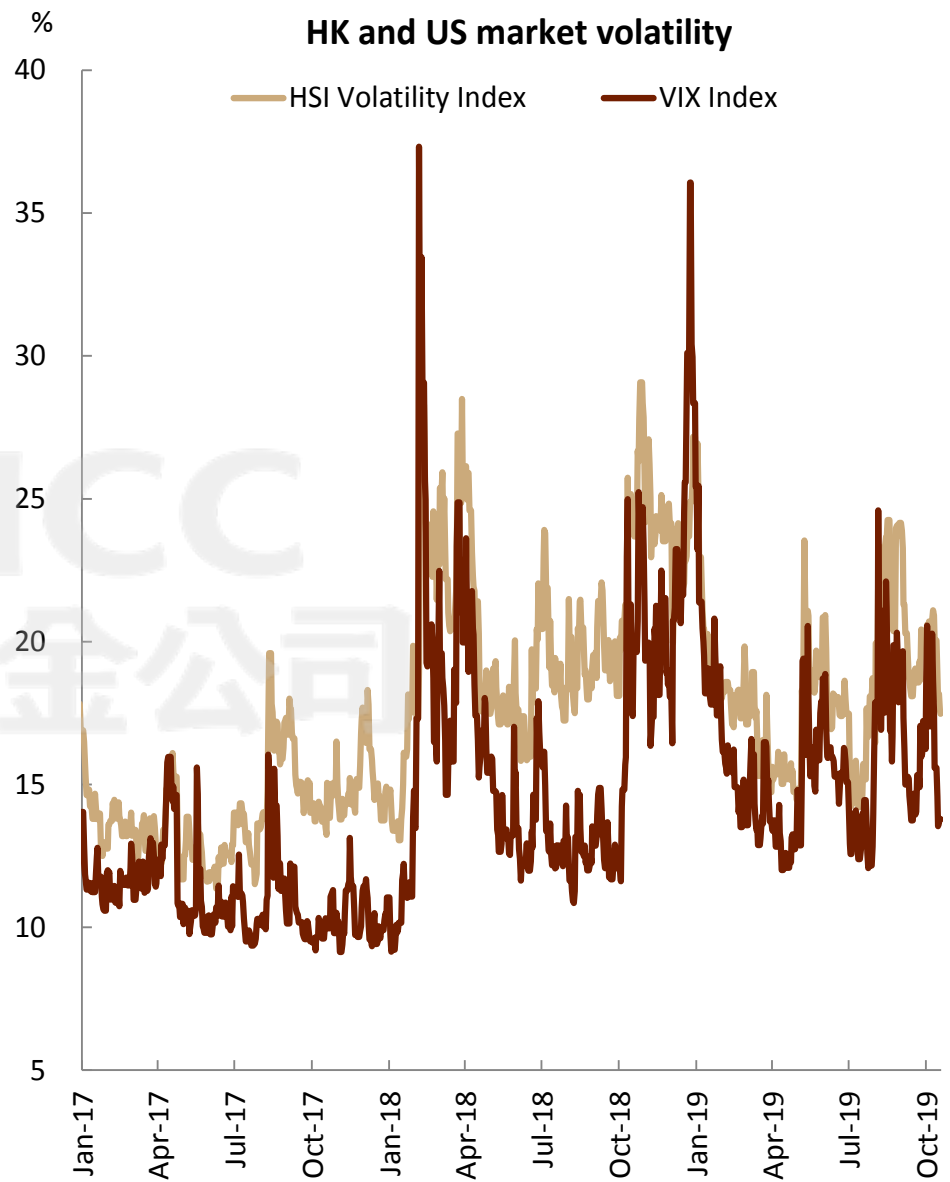
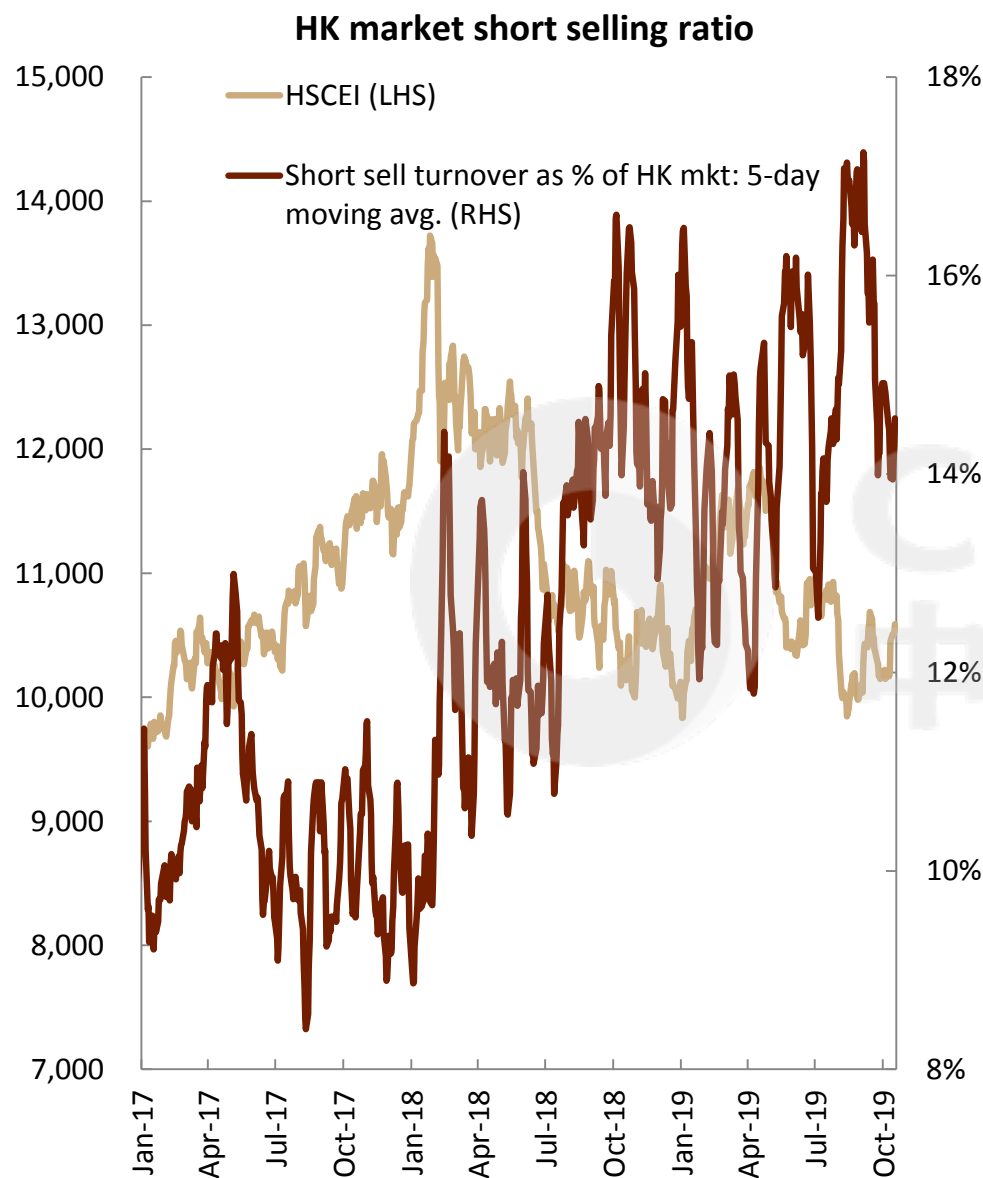
# A-share market turnover returned to lower levels

Equity



# HK short-selling ratio and volatility subdued

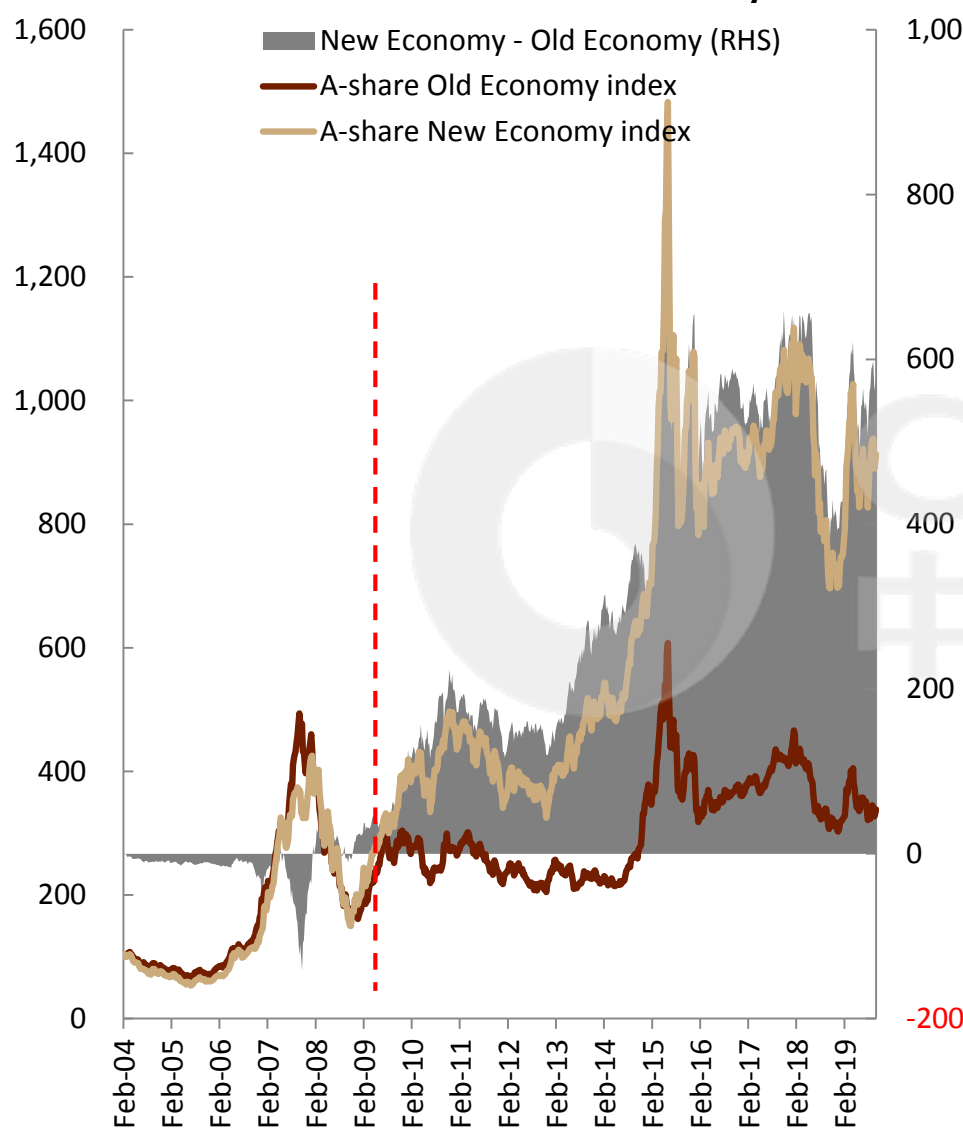
Equity



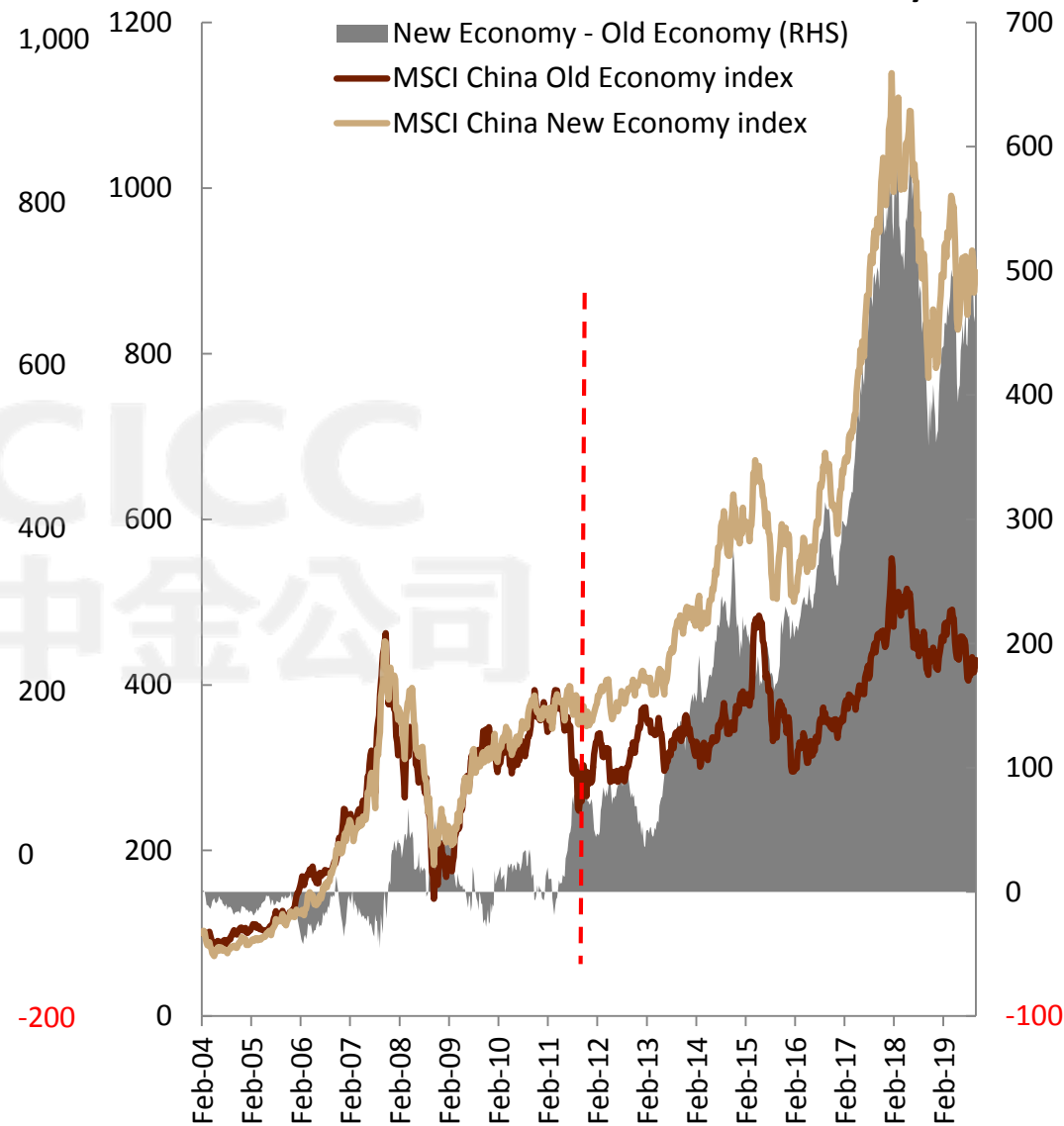
# Sector wise, new economy outperformed again

Equity

## A-share market: Old and New Economy Index



## Offshore China market: Old and New Economy index

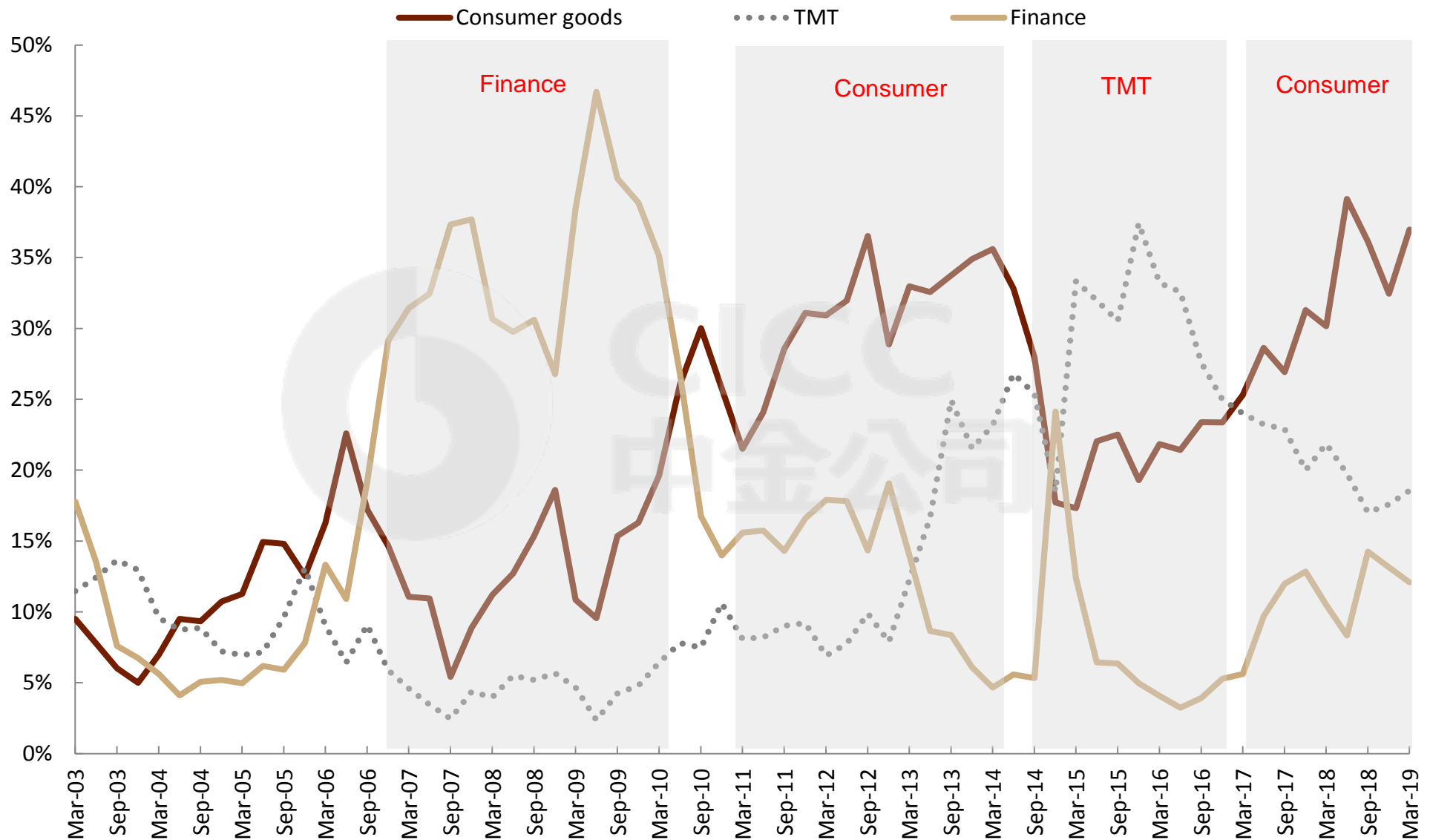




# Crowded trading of “core assets” continues

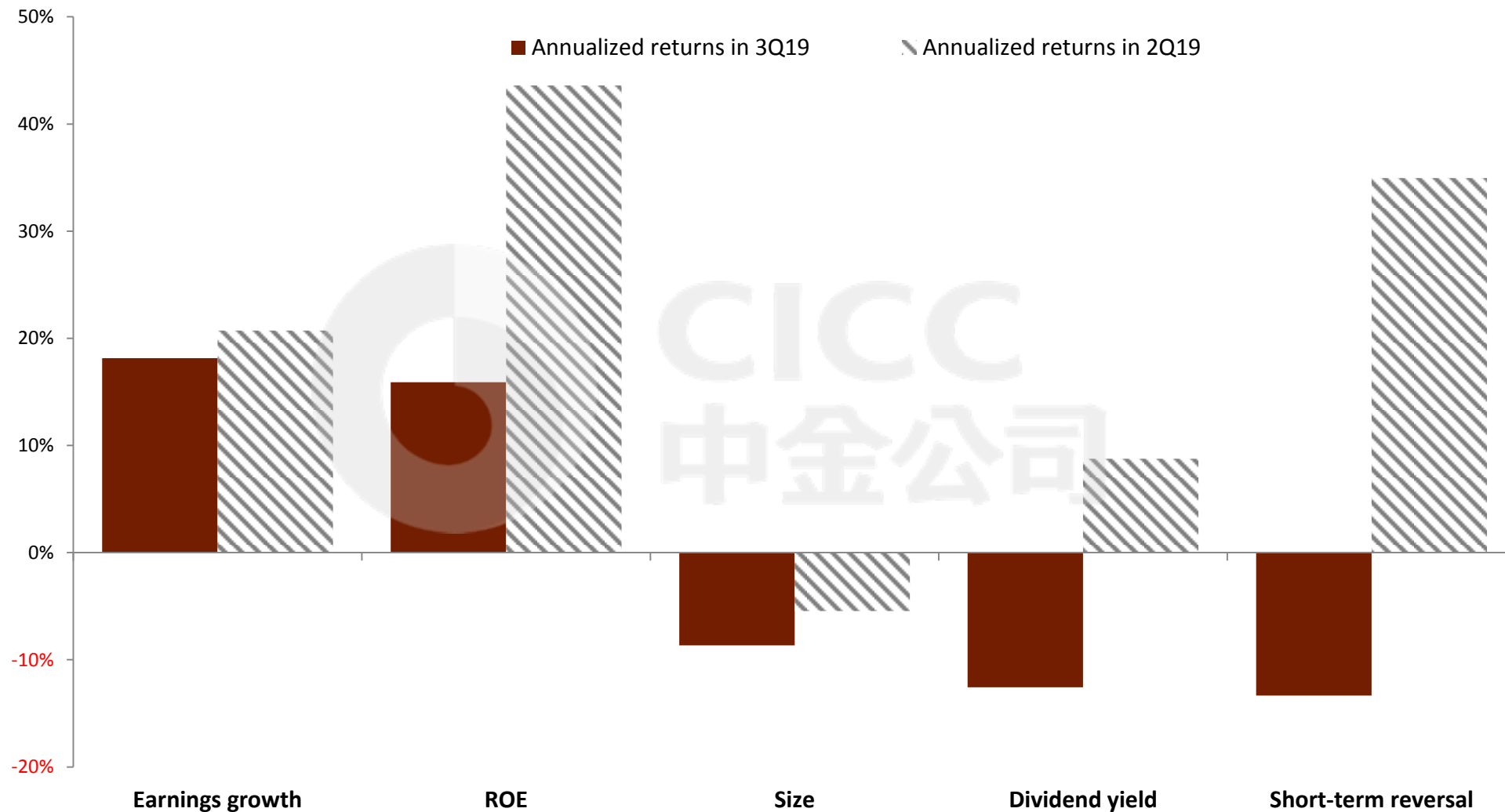
Equity

Sector position level of active stock funds



# Fundamental factors continued strong performance

Returns of sector neutral factor portfolio (long & short) in A-share market: 3Q19 vs. 2Q19



# Growth stocks outperformed in 3Q19

Equity

## 3Q 2019

	Large	Mid	Small
Value	-3.67%	-5.24%	-5.38%
Blend	-0.15%	0.10%	-0.33%
Growth	3.28%	3.23%	1.95%

## 2019 YTD

	Large	Mid	Small
Value	20.04%	12.72%	9.68%
Blend	29.78%	23.84%	18.28%
Growth	40.94%	24.91%	18.64%

## Current P/E vs. avg. P/E

	Large	Mid	Small
Value	8.3 / 9.3	10.7 / 20.6	13.3 / 24.9
Blend	11.8 / 11.9	19.3 / 31.5	29.0 / 39.7
Growth	21.2 / 15.0	17.6 / 24.8	26.0 / 32.4

## Since market low (Jan 2019)

	Large	Mid	Small
Value	22.07%	13.92%	10.74%
Blend	31.61%	25.08%	19.43%
Growth	41.92%	26.89%	19.84%

## Since market peak (Jan 2018)

	Large	Mid	Small
Value	-12.70%	-25.51%	-25.28%
Blend	-10.42%	-18.19%	-24.26%
Growth	-14.09%	-20.06%	-26.54%

## Current P/E as pct. of avg. P/E

	Large	Mid	Small
Value	88.68%	51.71%	53.48%
Blend	99.27%	61.33%	73.02%
Growth	141.31%	70.72%	80.15%

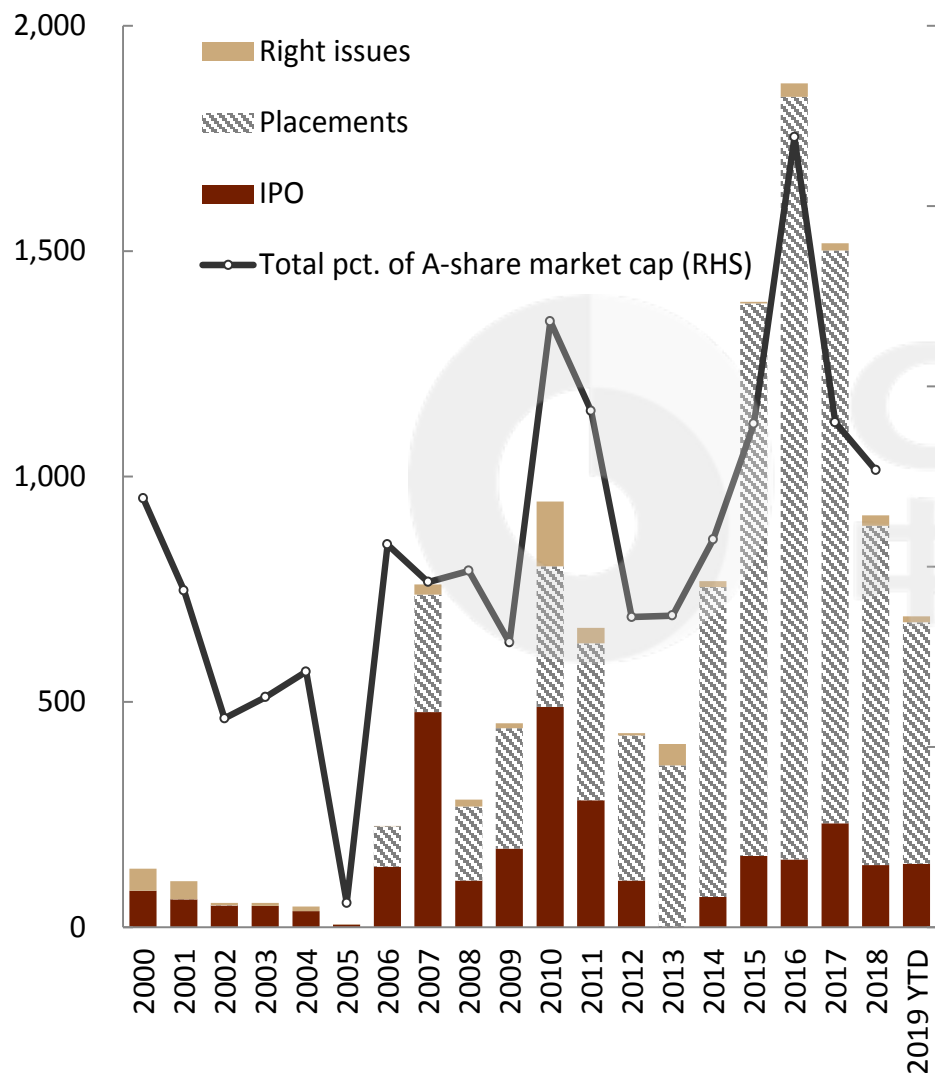
Notes: All calculations are cumulative returns, not annualized. Past performance is not indicative of future returns. For all time periods, price return is based on CNI style indices. The price to earnings is a bottom-up calculation based on the most recent index price, divided by TTM earnings. Data as of October 18, 2019.

Source: Wind Info, CICC Research

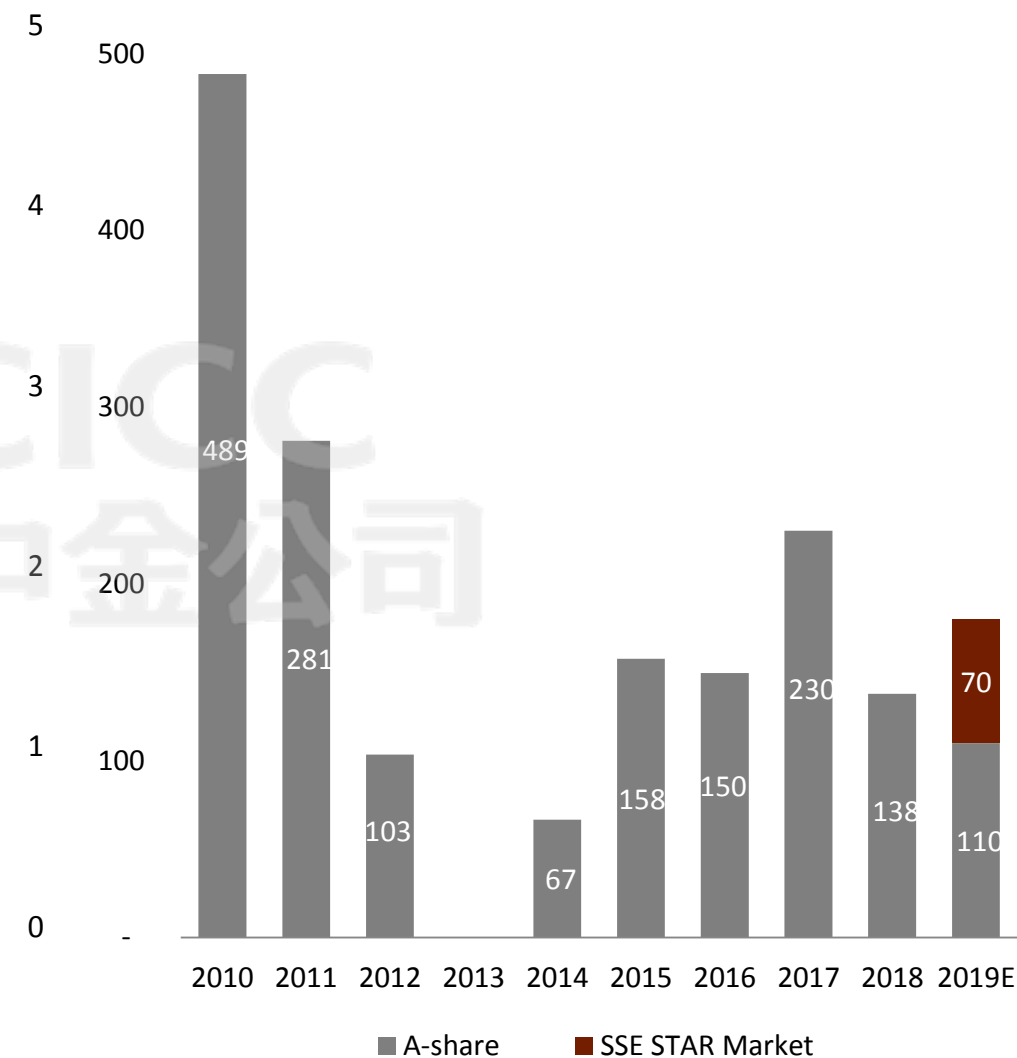
# We expect SSE STAR Market to raise Rmb70bn in 2019

Equity

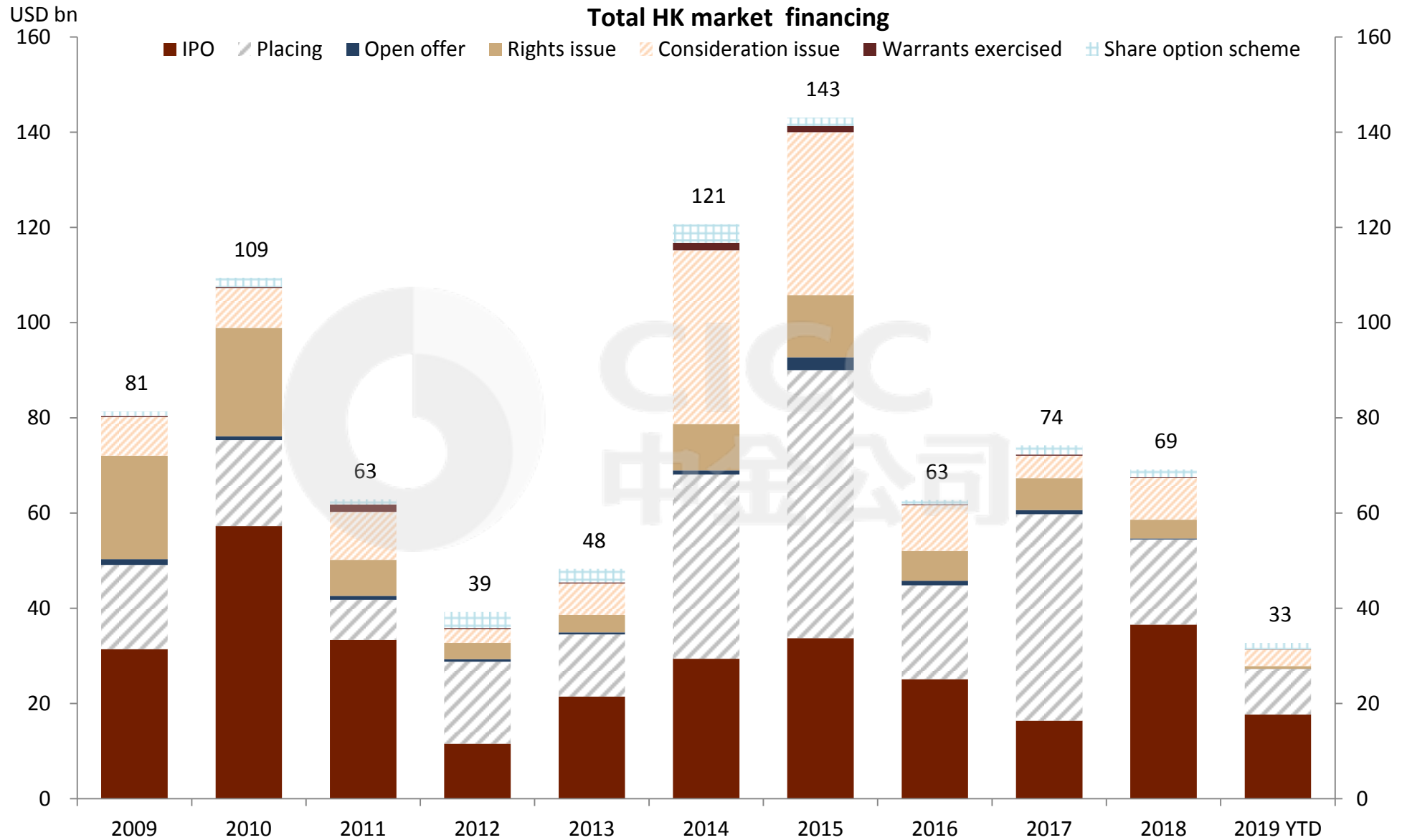
Rmb bn **A-share market equity financing amount**



Rmb bn **A-share IPOs**



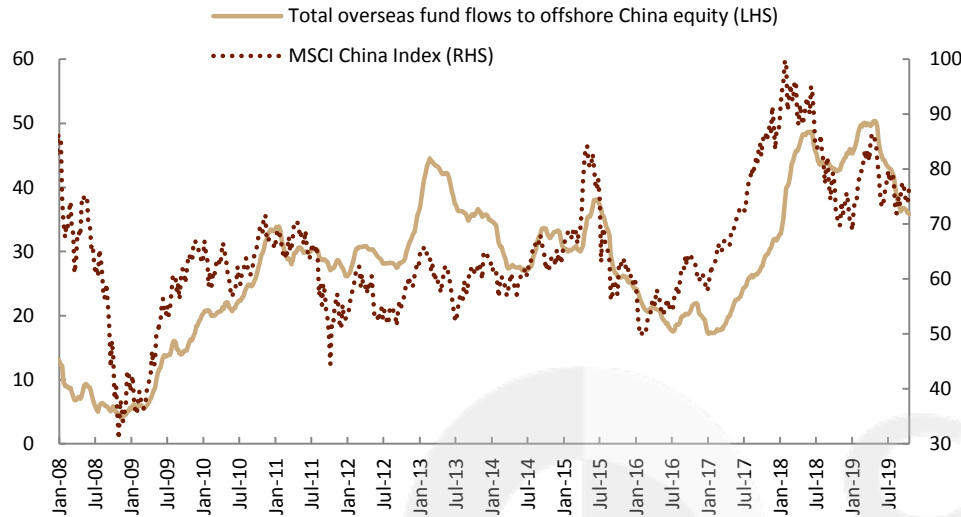
# YTD equity financing in HK market shrank notably



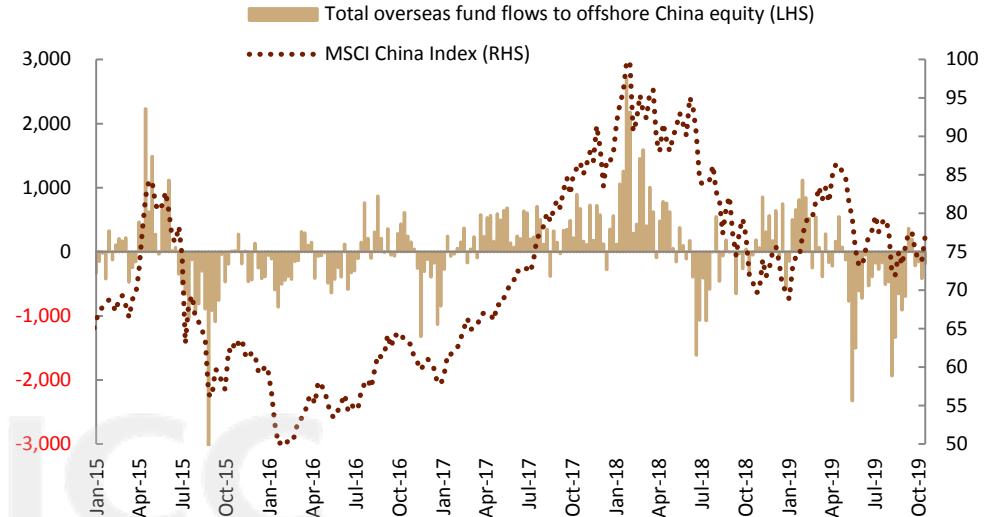
# China has seen overseas outflows lately

Equity

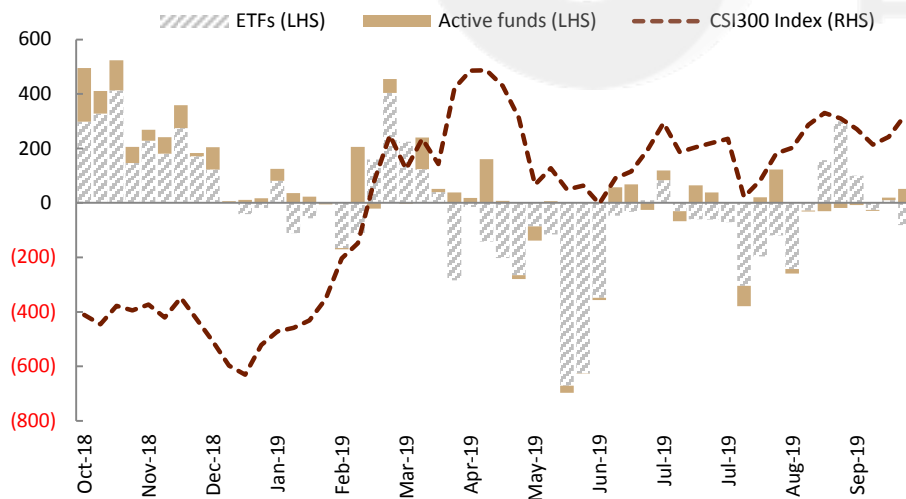
USD bn Cumulative flows to offshore China equities from overseas funds



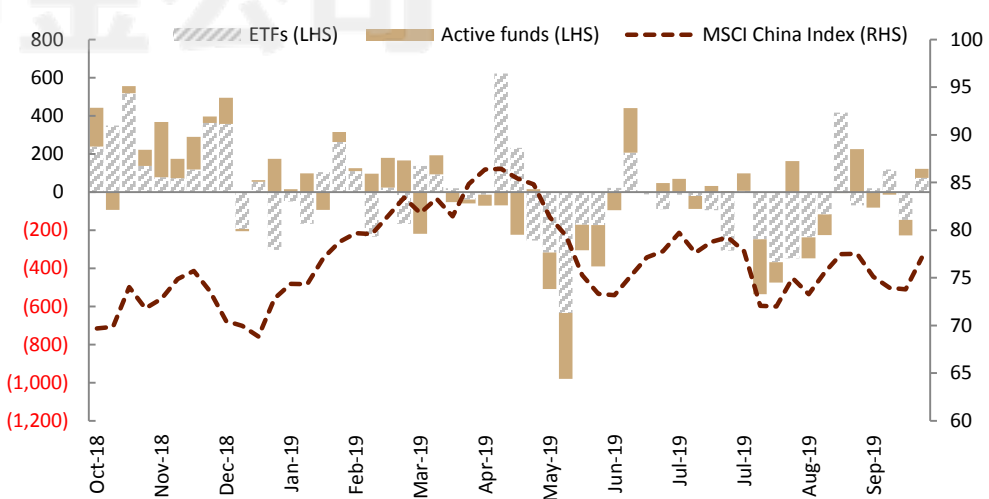
USD mn Weekly flows to offshore China equities from overseas funds



USD mn Weekly net subscription of overseas A-share-focused funds: active & ETF

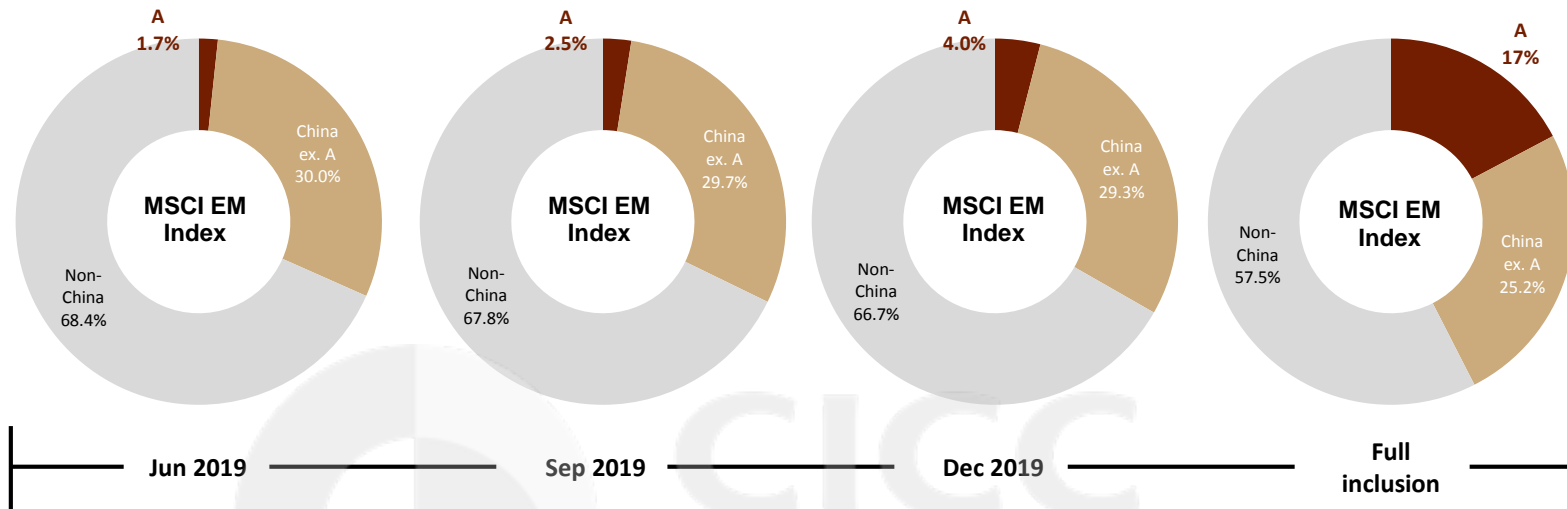


USD mn Weekly net subscription of overseas H-share & ADR-focused funds: active & ETF

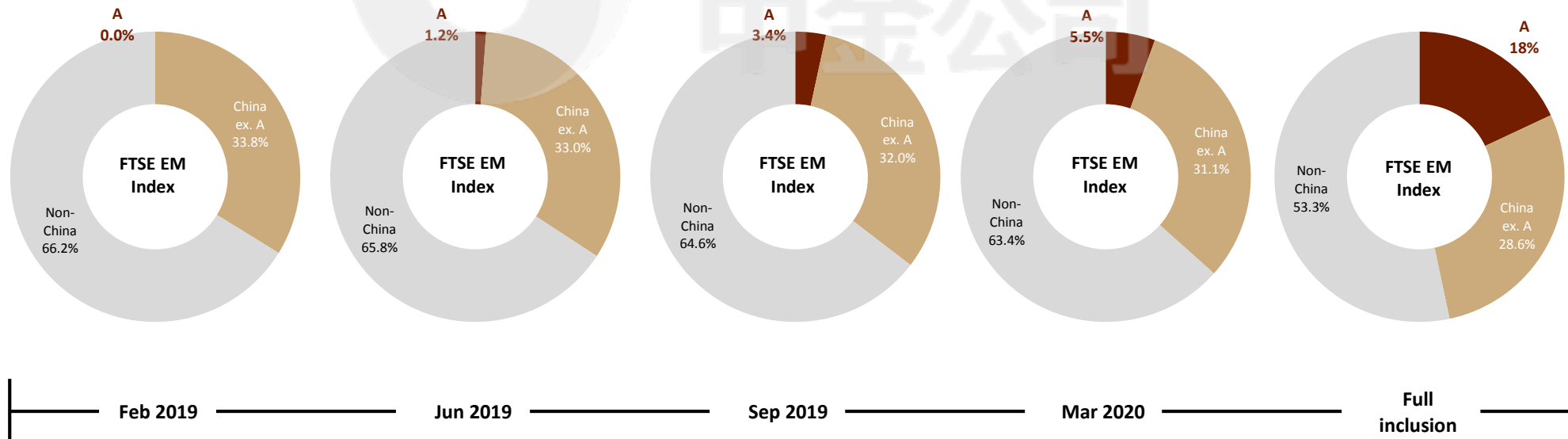


# Timeline for A-share inclusion in MSCI and FTSE

## MSCI inclusion agenda: Weighting of A-shares in the MSCI Emerging Markets Index



## FTSE inclusion agenda: Weighting of A-shares in the FTSE Russell Emerging Markets Index



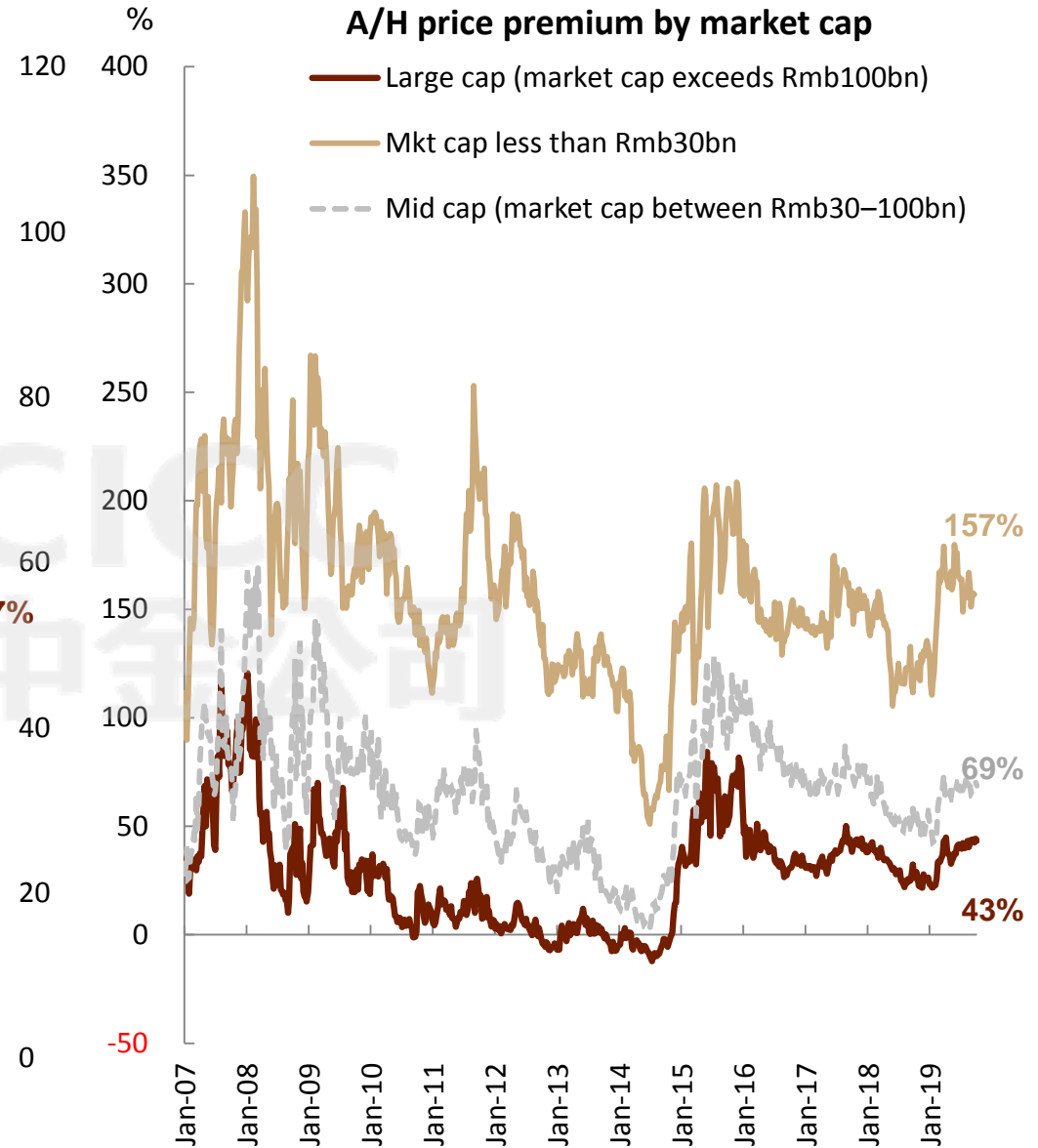
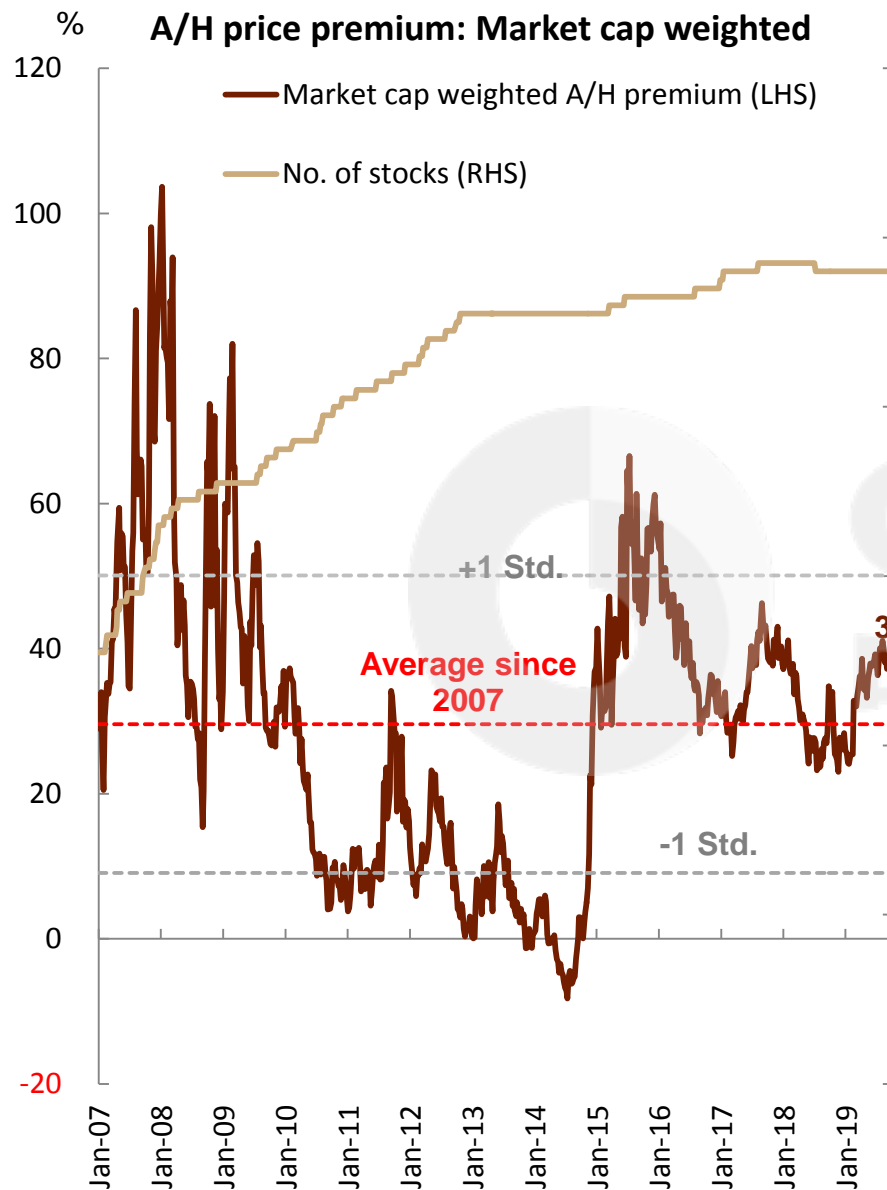
# We estimate Rmb200-400bn foreign inflows per year

MSCI's inclusion of A-shares	May 2019	Sep 2019	Nov 2019	Bear case	Base case
Inclusion factor and eligible stocks	10%	15%	20%	50%	100%
	(Large cap)	(Large cap)	(Large + Mid cap)	(Large + Mid cap)	(Large + Mid cap)
Estimated weight of A-shares					
MSCI China Index	5.3%	7.7%	12.0%	25.5%	40.6%
MSCI Asia ex. Japan Index	2.0%	2.9%	4.7%	10.9%	19.7%
MSCI EM Index	1.7%	2.5%	4.0%	9.4%	17.3%
MSCI AC World Index	0.2%	0.3%	0.5%	1.2%	2.3%
Est. fund inflow amount (US\$ bn)					
MSCI China Index	4.2	6.2	9.6	20.4	32.5
MSCI Asia ex. Japan Index	7.9	11.7	18.7	43.8	78.9
MSCI EM Index	28.5	42.3	68.1	160.5	293.4
MSCI AC World Index	6.1	9.2	14.9	37.1	73.3
Cumulative inflow (US\$bn)	46.7	69.4	111.4	261.8	478.1
Incremental inflow in each step (US\$bn)	23.3	22.7	42.0	150.4	216.3
Incremental inflow in each step (Rmb bn)	162.0	157.5	291.4	1,043.8	1,501.1
Estimated inflow in 10 years (US\$ bn)				16.7	27.0
FTSE's inclusion of A-shares					
Inclusion factor	Jun 2019	Sep 2019	Nov 2019	Base case	
	5%	15%	25%	100%	
Estimated weight of A-shares					
FTSE Emerging Index	1.2%	3.4%	5.5%	18.0%	
FTSE Global Index	0.1%	0.3%	0.6%	2.3%	
Est. fund inflow amount (US\$ bn)					
Cumulative inflow (US\$bn)	2.0	5.9	9.7	38.0	
Incremental inflow in each step (US\$bn)	2.0	3.9	3.8	28.3	
Incremental inflow in each step (Rmb bn)	13.9	27.1	26.4	196.4	
Estimated inflow in 10 years (US\$ bn)				2.8	
S&P DJI's inclusion of A-shares					
Inclusion factor	Sep 2019			Base case	
	25%			100%	
Estimated weight of A-shares (Estimation based on ETF, underestimation likely, US\$ bn)					
S&P Emerging Market BMI	6.2%			20.8%	
S&P Emerging Asia Pacific BMI	8.7%			27.7%	
S&P China BMI	16.7%			44.5%	
Est. fund inflow amount (Estimation based on ETF, underestimation likely, US\$ bn)					
Cumulative inflow (US\$bn)	0.4			1.2	
Incremental inflow in each step (US\$bn)	0.4			0.8	
Incremental inflow in each step (Rmb bn)	2.7			5.3	
Estimated inflow in 10 years if the inclusion factor reaches the expected level (US\$ bn)				0.1	



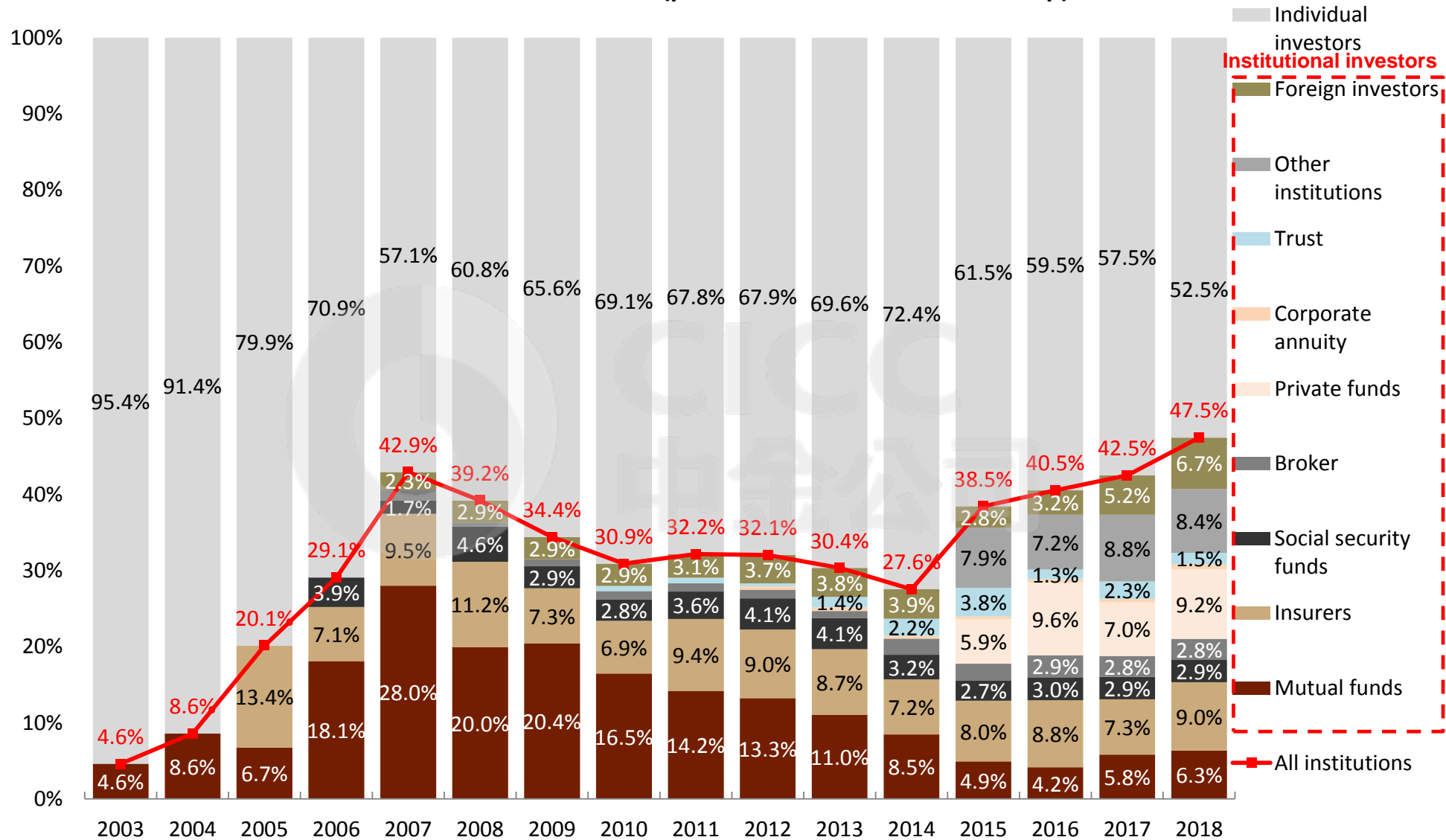
# A/H premium remains elevated

Equity



# The changing A-share investor landscape

A-share investor structure (pct. of total free-float market cap)



Note: Mutual funds include special accounts and exclude accounts of insurers, social security funds and annuities. Trust investment does not include investment by privately offered funds through trusts. Brokers include proprietary trading and active asset management.

Source: Corporate filings, SSE, Asset Management Association of China, CBIRC, National Council for Social Security Fund, Securities Association of China, Ministry of Human Resources and Social Security, PBoC, CSRC, Wind Info, CICC Research

# China's listed universe now exceeds 5,000 companies

	(USD mn)	# of listcos	%	Share class cap	%	Free-float cap	Free-float %	3m ADVT	Avg share class cap	Avg daily turnover	Annualized velocity of float %
<b>A-share</b>		<b>3,691</b>	<b>70%</b>	<b>7,883,493</b>	<b>70%</b>	<b>3,262,653</b>	<b>41%</b>	<b>67,498</b>	<b>2,136</b>	<b>18.3</b>	<b>517%</b>
Shanghai		1,518	29%	4,748,966	42%	1,830,447	39%	28,490	3,128	18.8	389%
Shenzhen		2,173	41%	3,134,527	28%	1,432,206	46%	39,008	1,442	18.0	681%
<b>Offshore China</b>		<b>1,550</b>	<b>30%</b>	<b>3,389,055</b>	<b>30%</b>	<b>2,162,311</b>	<b>64%</b>	<b>8,872</b>	<b>7,274</b>	<b>5.7</b>	<b>24%</b>
<b>B-share</b>		<b>95</b>	<b>2%</b>	<b>89,817</b>	<b>1%</b>	<b>77,139</b>	<b>86%</b>	<b>24</b>	<b>945</b>	<b>0.2</b>	<b>8%</b>
Shanghai		49	1%	83,443	1%	71,717	86%	16	1,703	0.3	6%
Shenzhen		46	1%	6,374	0%	5,423	85%	8	139	0.2	35%
<b>Hong Kong</b>		<b>1,113</b>	<b>21%</b>	<b>2,467,227</b>	<b>22%</b>	<b>1,265,923</b>	<b>51%</b>	<b>5,104</b>	<b>2,217</b>	<b>4.6</b>	<b>101%</b>
H-share		275	5%	776,188	7%	548,535	71%	2,173	2,823	7.9	99%
Red Chip		173	3%	673,197	6%	232,772	35%	844	3,891	4.9	91%
P-Chip		665	13%	1,017,842	9%	484,617	48%	2,087	1,531	3.1	108%
<b>US</b>		<b>208</b>	<b>4%</b>	<b>822,355</b>	<b>7%</b>	<b>813,300</b>	<b>99%</b>	<b>3,686</b>	<b>3,954</b>	<b>17.7</b>	<b>113%</b>
NYSE		60	1%	573,980	5%	570,720	99%	1,667	9,566	27.8	73%
NASDAQ		148	3%	248,376	2%	242,581	98%	2,019	1,678	13.6	208%
AMEX		6	0%	803	0%	733	91%	1	134	0.1	28%
<b>Singapore</b>		<b>89</b>	<b>2%</b>	<b>7,293</b>	<b>0%</b>	<b>3,821</b>	<b>52%</b>	<b>52</b>	<b>82</b>	<b>0.6</b>	<b>340%</b>
<b>London</b>		<b>7</b>	<b>0%</b>	<b>122</b>	<b>0%</b>	<b>107</b>	<b>87%</b>	<b>1</b>	<b>17</b>	<b>0.2</b>	<b>283%</b>
<b>Others</b>		<b>38</b>	<b>1%</b>	<b>2,240</b>	<b>0%</b>	<b>2,020</b>	<b>90%</b>	<b>5</b>	<b>59</b>	<b>0.1</b>	<b>58%</b>
<b>All China</b>		<b>5,241</b>	<b>100%</b>	<b>11,272,548</b>	<b>100%</b>	<b>5,424,963</b>	<b>48%</b>	<b>76,370</b>	<b>2,151</b>	<b>14.6</b>	<b>352%</b>

Note: 1) Universe as of Oct. 2019 and stock price as of Oct. 18<sup>th</sup>, 2019. 2) Market cap calculation for US ADRs only included primary listed ADRs to avoid double counting; 3) Free float market cap is calculated using share class cap times free float ratio provided by Bloomberg; 4) Other markets include Australia, Germany, France, Canada, Korea, and Japan; 5) Offshore China includes B-share and listcos in overseas exchanges. 4) ADTV = average daily turnover value

Source: Bloomberg, Wind, CICC Research.

# Chinese mainland is the world's second-largest market

Equity

	Exchanges	Exchange mkt cap (USD bn)	2019E GDP (USD bn)	Mkt cap to GDP	Number of listcos	YTD Average Daily Turnover (USD mn)	Annualized velocity
1	US	35,889	21,345	168%	5,415	20,477	14.3%
2	<b>Chinese mainland</b>	<b>7,811</b>	<b>14,217</b>	<b>55%</b>	<b>3,648</b>	<b>10,163</b>	<b>32.5%</b>
3	Japan	5,614	5,176	108%	3,677	3,074	13.7%
4	Euronext	4,418	4,207	105%	1,239	1,261	7.1%
6	<b>HKEx</b>	<b>4,189</b>	<b>382</b>	<b>1097%</b>	<b>2,382</b>	<b>1,105</b>	<b>6.6%</b>
5	<b>UK</b>	<b>3,934</b>	<b>2,829</b>	<b>139%</b>	<b>2,450</b>	<b>1,305</b>	<b>8.3%</b>
7	Canada	2,287	1,739	131%	3,408	890	9.7%
9	India	2,184	2,972	73%	1,945	689	7.9%
8	Germany	1,949	3,964	49%	519	941	12.1%
11	Switzerland	1,711	708	242%	274	546	8.0%
10	Australia	1,454	1,417	103%	2,124	604	10.4%
12	S.Korea	1,433	1,657	86%	2,221	1,142	19.9%
13	Taiwan, China	1,148	601	191%	1,724	575	12.5%
14	Brazil	1,045	1,960	53%	330	618	14.8%
15	South Africa	977	371	263%	349	231	5.9%
16	Spain	775	1,429	54%	2,937	366	11.8%
17	Singapore	726	373	195%	738	130	4.5%
18	Russia	720	1,610	45%	220	129	4.5%

# Asset class returns

Equity

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		2007-2019	
													Q3	YTD	Ann. Return	Ann. Vol.
Small cap	207.7%	Corp. HY	Small cap	Gold	Crude oil	H-shares	DM equity	CB	Small cap	Crude oil	EM equity	Bonds	Gold	Large cap	Small cap	Small cap
		25.0%	132.3%	29.2%	13.3%	20.0%	27.4%	53.1%	37.5%	52.4%	37.8%	3.8%	8.5%	24.5%	9.7%	35.5%
Large cap	181.6%	Bonds	Large cap	Crude oil	Bonds	EM equity	Small cap	Large cap	Corp. HY	EM equity	Large cap	Corp. HY	Global Bond	Gold	Large cap	Large cap
		23.0%	98.5%	21.6%	10.8%	18.6%	21.5%	52.1%	6.4%	11.8%	32.6%	2.2%	2.2%	19.5%	7.4%	31.3%
CB	117.3%	Global bond	EM equity	EM equity	Gold	DM equity	Corp. HY	Small cap	Bonds	Cmdty	H-shares	Gold	CB	DM	Gold	Crude oil
		7.2%	78.9%	19.2%	8.9%	16.6%	6.0%	37.0%	3.2%	9.3%	28.7%	-0.9%	-0.6%	15.7%	6.9%	31.3%
H-shares	58.4%	CNY:USD	Crude oil	Cmdty	Corp. HY	Corp. HY	CNY:USD	H-shares	Large cap	DM equity	DM equity	Global bond	DM	Small cap	Corp. HY	H-shares
		7.0%	70.9%	17.4%	7.7%	12.4%	2.9%	15.5%	2.5%	8.2%	23.1%	-1.2%	-1.5%	15.5%	6.4%	29.0%
Crude oil	54.2%	Gold	H-shares	Small cap	Global bond	Large cap	CB	Corp. HY	DM equity	Gold	Crude oil	CNY:USD	Corp. HY	CB	CB	CB
		4.3%	66.0%	14.3%	6.1%	11.0%	1.4%	9.8%	-0.3%	8.1%	17.7%	-5.3%	-2.3%	12.8%	5.9%	25.7%
EM equity	39.7%	CB	CB	DM equity	CNY:USD	Gold	Bonds	Bonds	Global bond	Global bond	Gold	CB	Bonds	Crude oil	DM	EM
		-27.6%	42.6%	12.4%	4.8%	8.3%	0.7%	8.5%	-2.7%	2.2%	12.7%	-6.4%	-2.7%	12.3%	5.5%	22.2%
Gold	31.9%	Cmdty	DM equity	Corp. HY	DM equity	CB	Crude oil	DM equity	CNY:USD	H-shares	Corp. HY	DM equity	Large cap	Global Bond	Bonds	Gold
		-36.0%	30.9%	9.7%	-5.0%	5.3%	-0.3%	5.6%	-4.4%	1.4%	9.5%	-8.2%	-3.2%	8.2%	4.5%	18.1%
Cmdty	16.7%	DM equity	Gold	Bonds	Cmdty	Global bond	H-shares	Global bond	Gold	Corp. HY	Small cap	H-shares	Small cap	EM	Global Bond	Cmdty
		-40.3%	25.0%	5.4%	-8.3%	4.1%	-1.4%	1.7%	-12.1%	-3.8%	7.4%	-10.2%	-3.9%	4.2%	3.8%	17.4%
Global bond	9.7%	H-shares	Cmdty	Global bond	CB	Bonds	EM equity	Gold	EM equity	Bonds	Global bond	Cmdty	USD:CNY	H-shares	EM	DM
		-49.6%	23.5%	5.0%	-8.6%	3.6%	-2.3%	0.1%	-14.6%	-5.4%	7.0%	-12.4%	-4.1%	2.8%	3.3%	15.8%
DM equity	9.7%	Crude oil	Global bond	CNY:USD	EM equity	Crude oil	Large cap	EM equity	H-shares	CNY:USD	CNY:USD	EM equity	Cmdty	Corp. HY	H-shares	Global Bond
		-51.4%	6.1%	3.4%	-18.2%	3.5%	-2.6%	-2.0%	-16.9%	-6.6%	6.7%	-14.5%	-5.9%	1.5%	3.1%	5.4%
CNY:USD	7.0%	EM equity	Corp. HY	H-shares	H-shares	Small cap	Global bond	CNY:USD	Cmdty	Large cap	CB	Crude oil	EM	Cmdty	USD:CNY	Corp. HY
		-53.2%	2.0%	1.5%	-19.6%	2.3%	-2.6%	-2.4%	-23.4%	-15.2%	6.6%	-19.5%	-5.9%	0.3%	0.7%	4.7%
Bonds	5.0%	Small cap	CNY:USD	CB	Large cap	CNY:USD	Cmdty	Cmdty	CB	CB	Bonds	Large cap	H-shares	Bonds	Crude oil	Bonds
		-57.8%	-0.1%	-3.1%	-20.4%	1.1%	-5.0%	-17.9%	-29.8%	-17.6%	5.5%	-27.7%	-6.9%	-1.1%	-0.1%	4.1%
Corp. HY	-0.7%	Large cap	Bonds	Large cap	Small cap	Cmdty	Gold	Crude oil	Crude oil	Small cap	Cmdty	Small cap	Crude oil	USD:CNY	Cmdty	USD:CNY
		-63.2%	-1.3%	-8.5%	-30.3%	-3.4%	-27.3%	-48.3%	-35.0%	-22.6%	0.7%	-36.1%	-9.2%	-3.9%	-4.6%	3.3%

# Correlations and volatility

Equity

	Bonds	Corp. HY	CB	Global bond	Large cap	Small cap	H-shares	DM equity	EM equity	CNY:USD	Cmdty	Crude oil	Gold	Ann. Vol
Bonds	1.00	0.76	0.08	0.11	-0.09	-0.04	-0.11	-0.09	-0.07	-0.17	-0.15	-0.24	-0.05	3%
Corp. HY		1.00	0.09	0.10	-0.01	0.09	0.02	0.06	0.12	-0.05	-0.08	-0.19	-0.08	3%
CB			1.00	0.05	0.72	0.57	0.57	0.31	0.35	0.14	0.13	0.04	0.13	18%
Global bond				1.00	0.05	-0.01	0.23	0.26	0.41	0.24	0.27	0.12	0.52	5%
Large cap					1.00	0.83	0.70	0.45	0.50	0.19	0.23	0.14	0.10	24%
Small cap						1.00	0.51	0.37	0.39	0.17	0.21	0.16	0.12	28%
H-shares							1.00	0.67	0.84	0.41	0.48	0.35	0.22	22%
DM equity								1.00	0.83	0.34	0.61	0.48	0.10	13%
EM equity									1.00	0.45	0.62	0.44	0.29	17%
CNY:USD										1.00	0.23	0.20	0.13	4%
Cmdty											1.00	0.83	0.33	14%
Crude oil												1.00	0.18	28%
Gold													1.00	17%

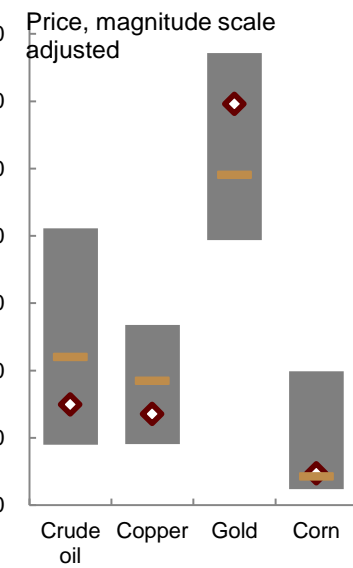
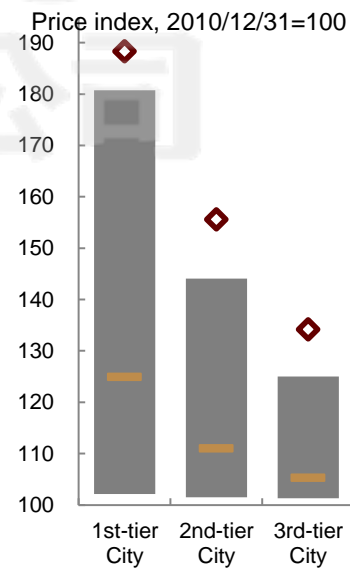
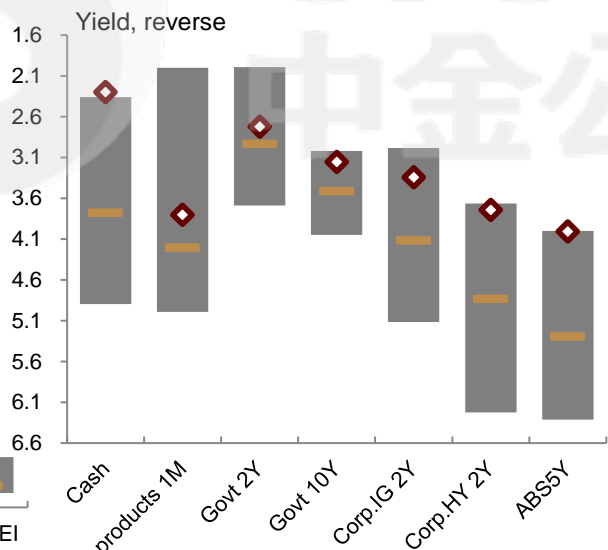
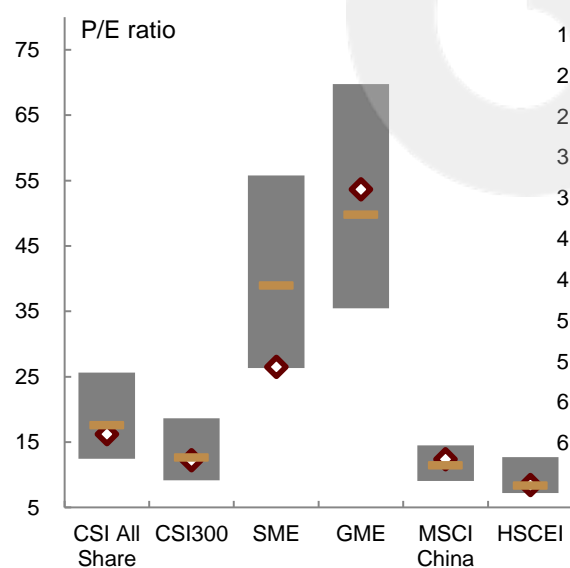
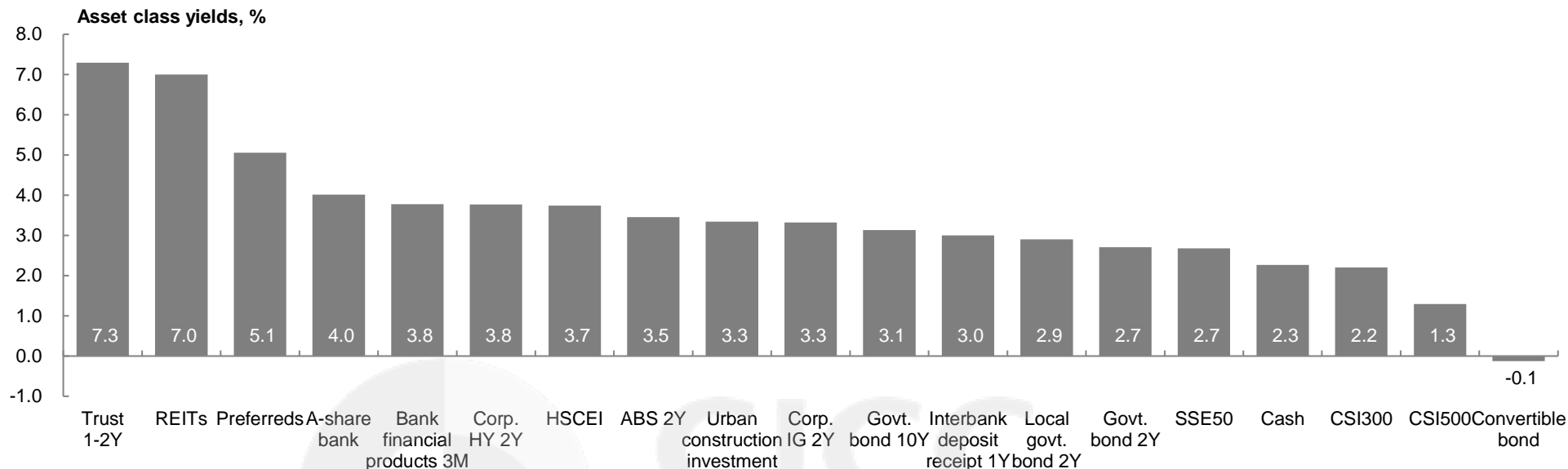
Note: All correlation coefficients and annualized volatility based on monthly total return data in local currency for September 30, 2009 to September 30, 2019.

Indices used – Bonds: ChinaBond Aggregate Total Return Index (total value); Corp. HY: ChinaBond Corporate Bond (AA) Index Total Return Index (total value); Convertible bond: CSI Convertible Bond Index; Global Bond: JPM Global Aggregate Bond; A-share Large Cap: CSI300 TR Index; A-share Small Cap: CSI500 TR Index; H-share: HSCEI TR Index; DM: MSCI DM TR Index; EM: MSCI EM TR Index; CNYUSD: CNY /USD Currency; Commodities: CRB Index; Oil: Brent Oil Price; Gold: GOLDLNPM Index.

Source: Bloomberg, Wind, CICC Research

# Yield and valuation

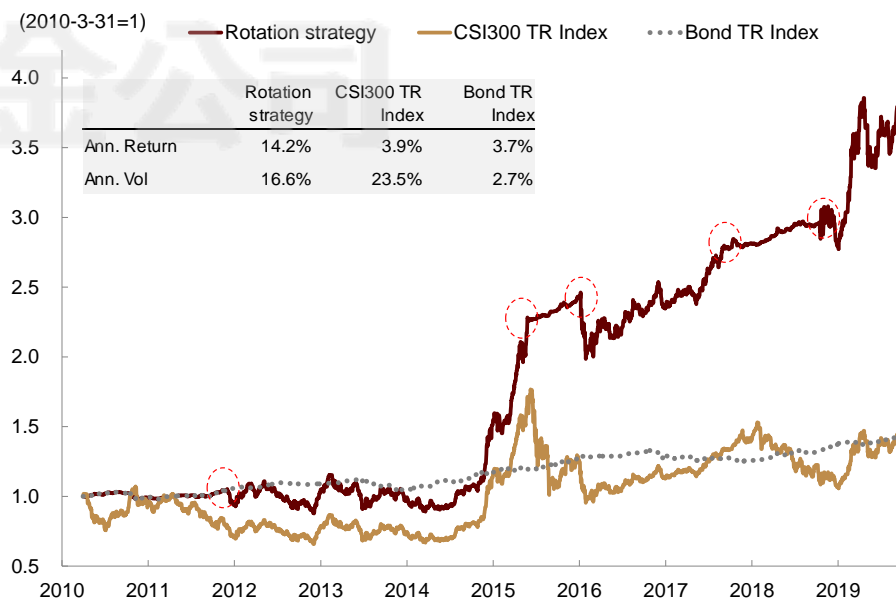
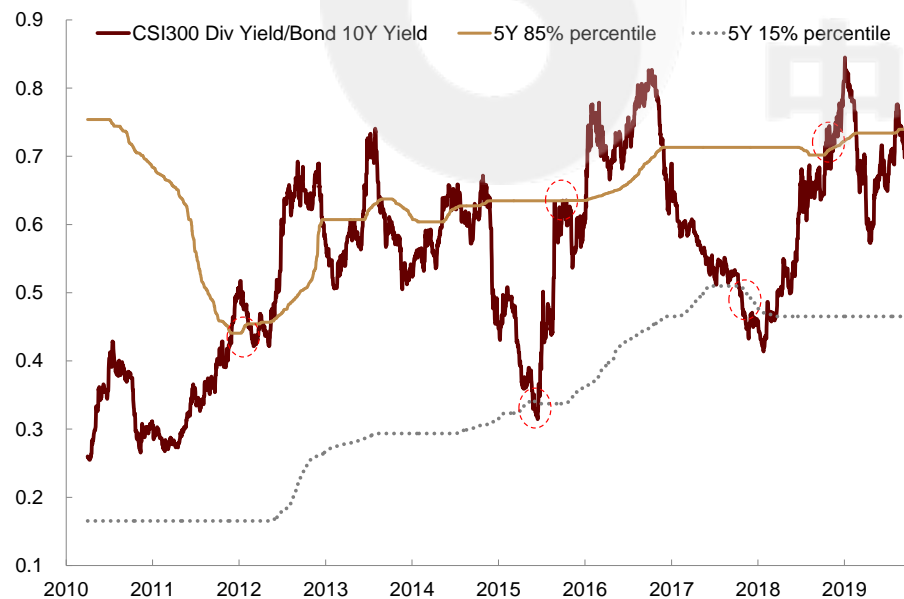
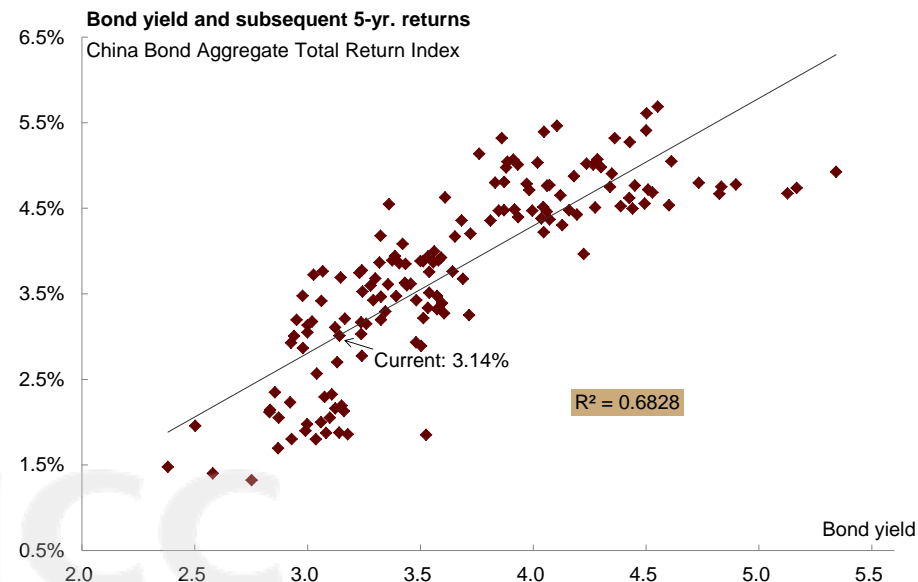
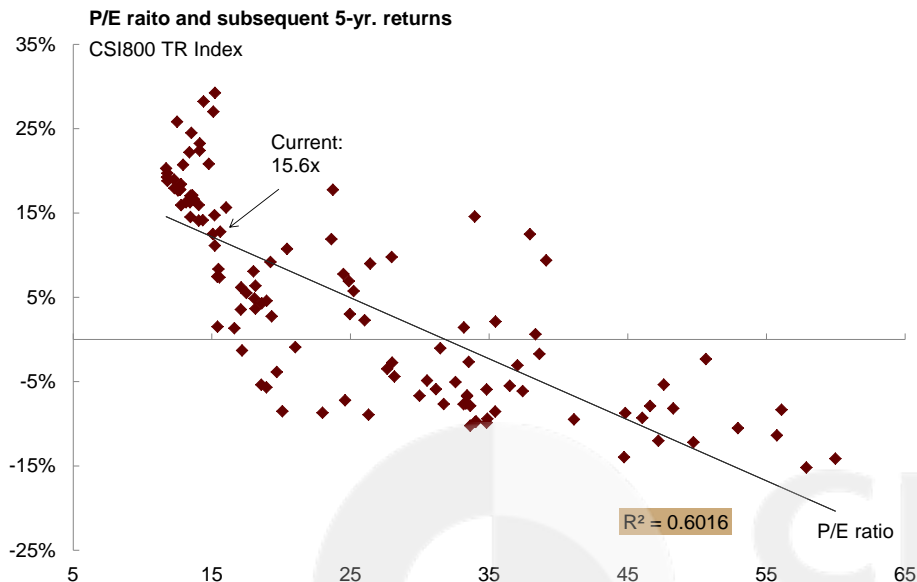
Equity



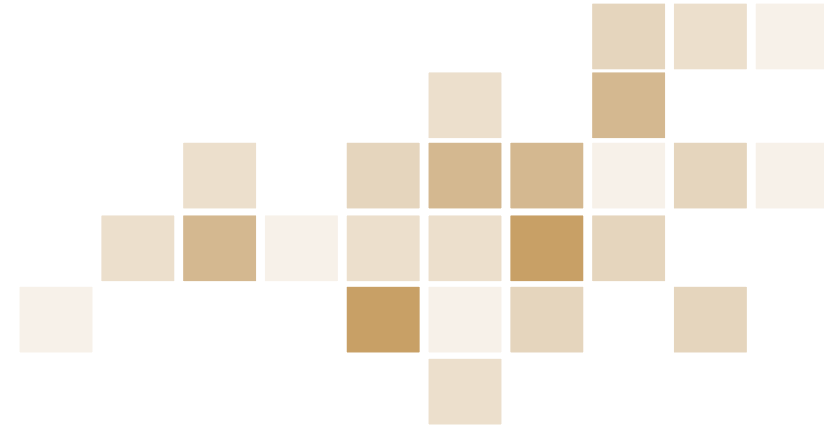
10% Percentile 90% Percentile Cur. Median

# Long-term equity and bond returns

Equity







# Fixed income

**Jianheng CHEN**

SAC Reg. No.: S0080511030011

SFC CE Ref: BBM220

**Yan XU**

SAC Reg. No.: S0080511030007

SFC CE Ref: BBP876



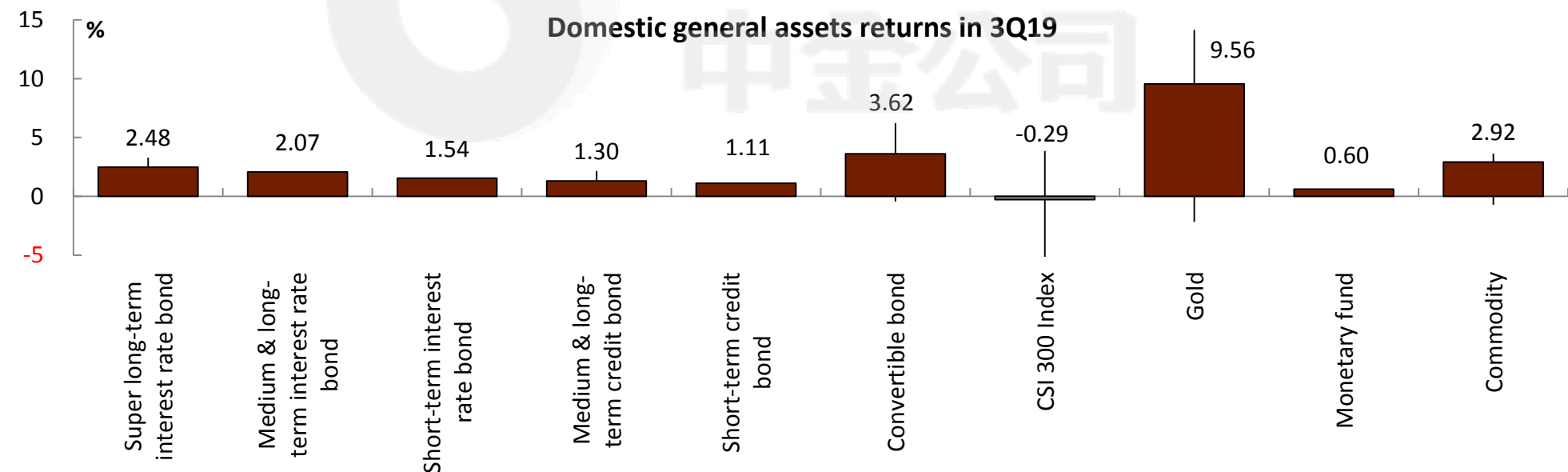
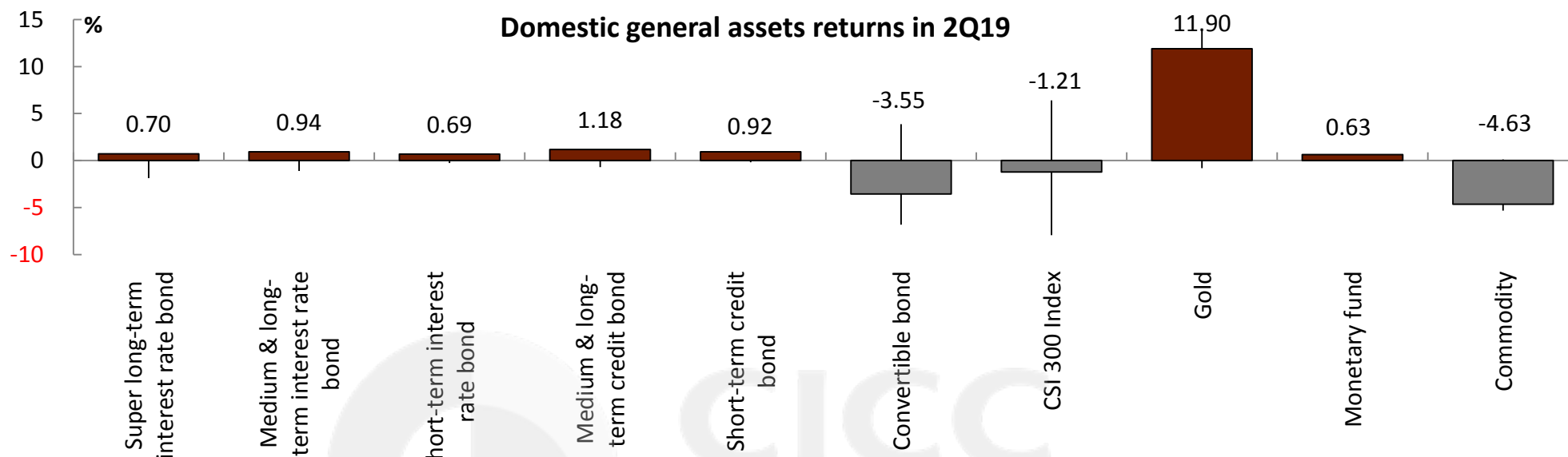
## Key views

- ▶ Global bond yields hit an all-time low in August. Accordingly, the global negative-interest-rate bond scale reached an all-time high. However, since September global bond yields have risen, and the risk appetite of fixed income investors and domestic bond yields have also rebounded. Gold and bonds were the best performing financial asset classes in the China market in 3Q19.
- ▶ Domestic economic fundamentals still support the bull bond market. Recent economic data show that China's economy is still slowing. In particular, the industrial sector's added value has reached a new low in the past decade. The continuous tightening of real estate regulation has also depressed the financing demand of high-interest assets. Moreover, due to the front-loading of fiscal expenditure this year, new fiscal initiatives may be difficult in 4Q19. From the perspective of capital flows, as interest differentials between China and others are near historic highs, foreign funds are still pouring into the China market. In the near future, we expect China's bond market to be fully included into three major global bond indices, which may bring passive inflows as high as one-third of the net increase of T-bonds and policy bank bonds, therefore benefiting China's bond market.
- ▶ However, investors remain concerned about uncertainties arising recently. First, RMB exchange rate increased its fluctuation range in 3Q19, but it was largely a result of the rise of the US dollar rather than active depreciation, and the RMB remains stable against a basket of currencies. Second, the fierce rise in pork prices has led to price increases for other meat products, and the attack on the Abqaiq oil processing facility has pushed up international oil prices. Oil prices and overall inflation may continue rising to some extent, thus limiting the decline of bond yields. At present, oil supply shocks are short-lived, the overall supply and demand environment is unlikely to substantially push up inflation, and the limits to yield downside may not be strong. Third, part of 2020's special government bond quota may be issued in advance in 4Q19, thus creating certain supply pressure on the bond market. However, as per our estimates, even if the quota is issued in advance, the net growth of interest rate bonds in 4Q19 would not be significantly higher than in 4Q18, without obvious supply pressure. We expect bond yields (especially long-term ones) to continue to fall in 4Q19, and term and credit spreads to compress. We continue to recommend real estate and LGFV strategies. Investors need to be wary of a decline in risk appetite due to unexpected risks.

## Trends to watch


- ▶ Changes in the financing demand of the real estate market.
- ▶ Rising food and oil prices.
- ▶ The scale of local bonds issued in advance.

# Gold and bonds: best performing asset classes

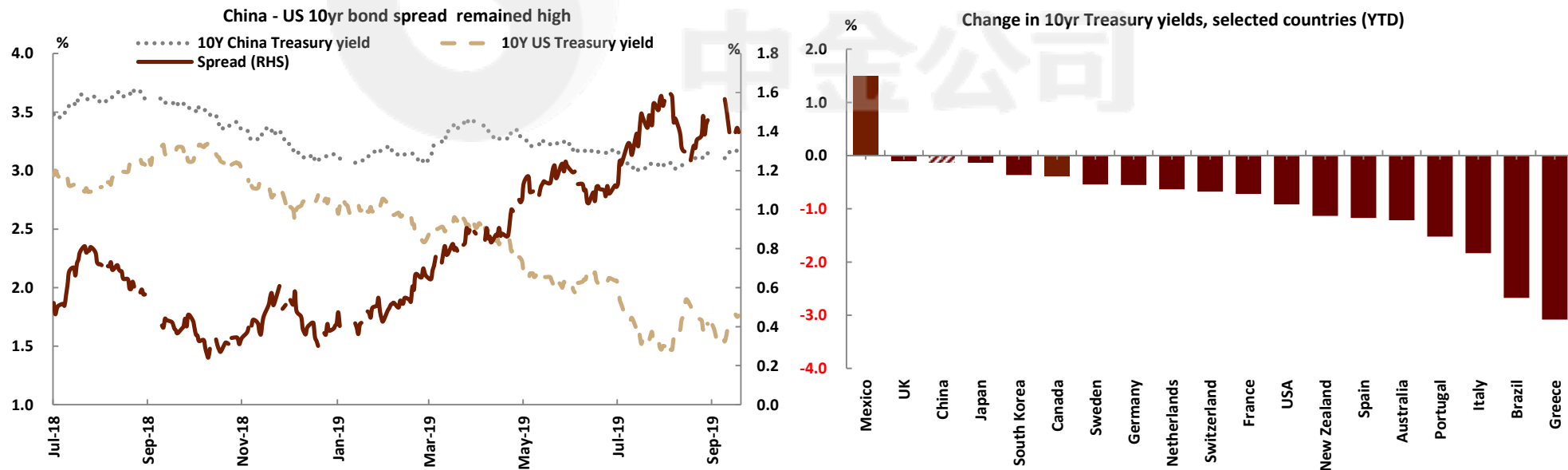


Fixed income

# China's bond yields have fallen behind rest of the world

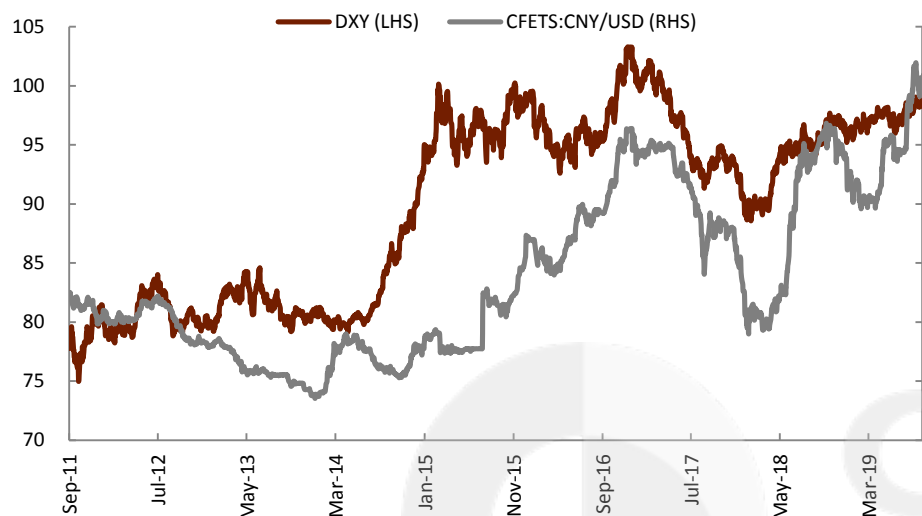
Treasury spread ( compared with China , bp )	Developed countries in Europe and America					Developed countries in Asia	
since 2015	USA	UK	France	Germany	Europe	Japan	South Korea
Maximum	2.35	2.69	3.49	3.81	3.73	4.10	1.86
75% percentile	1.39	1.74	2.49	2.88	2.83	3.26	1.07
Median	0.77	1.24	1.17	1.78	1.35	2.79	0.10
6/28/19	1.23	2.27	3.23	3.54	3.48	3.38	1.63
Minimum	-2.17	-1.96	-1.25	-1.23	-1.36	0.99	-3.02
Current	1.40	2.45	3.31	3.54	3.51	3.31	1.58
Distance from bottom since 2005	3.57	4.41	4.56	4.77	4.87	2.32	4.60
Percentile from bottom since 2005	75%	96%	99%	98%	98%	78%	98%
Yield changes since 19Q2	0.37	0.27	0.23	0.28	0.23	-0.05	0.14
Trend since 2015							

Fixed income

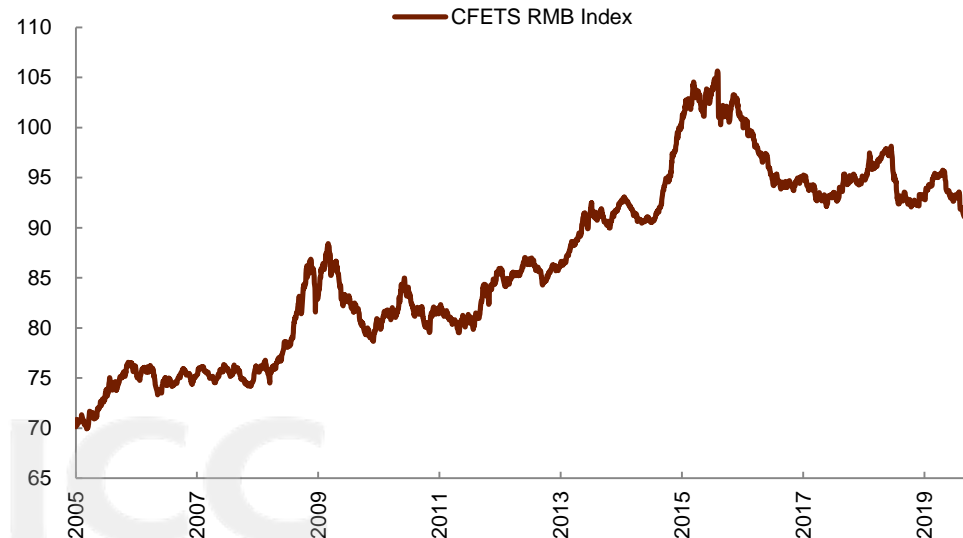


# RMB remains stable against a basket of currencies

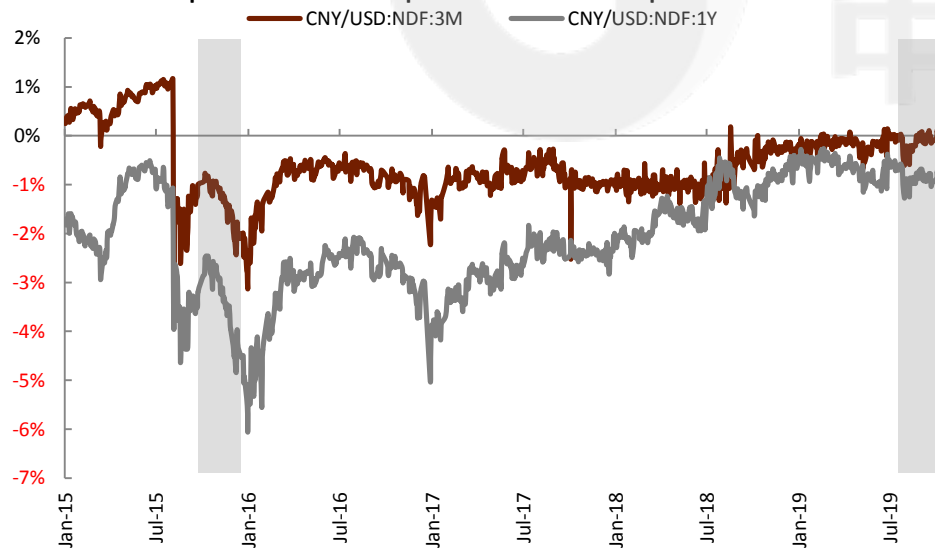
Correlation between DXY and USDCNY increased after 2015.  
Thus appreciation of DXY would lead to depreciation of RMB



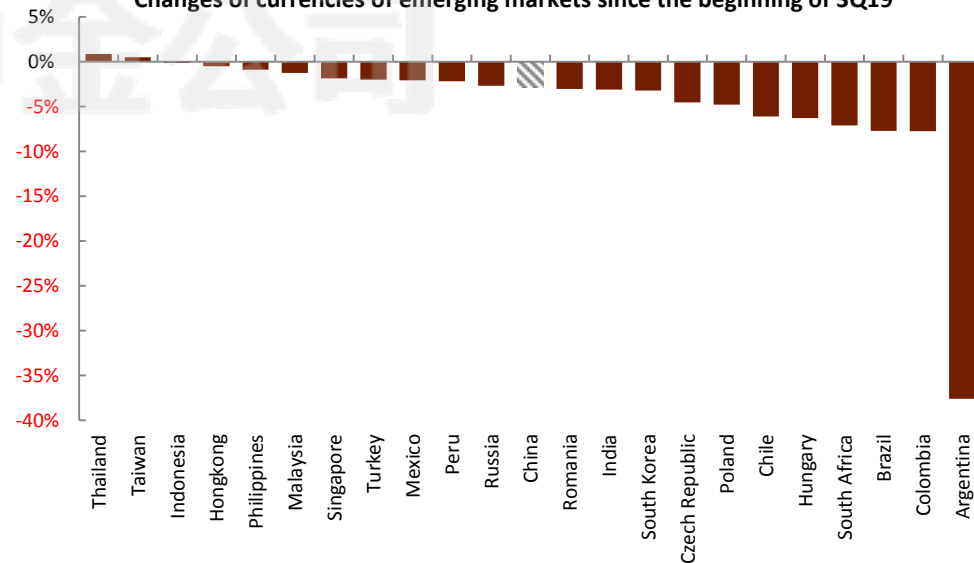
RMB index remain stable against a basket of currencies after 2015



Expectation of Rmb depreciation is weak compared to 2015

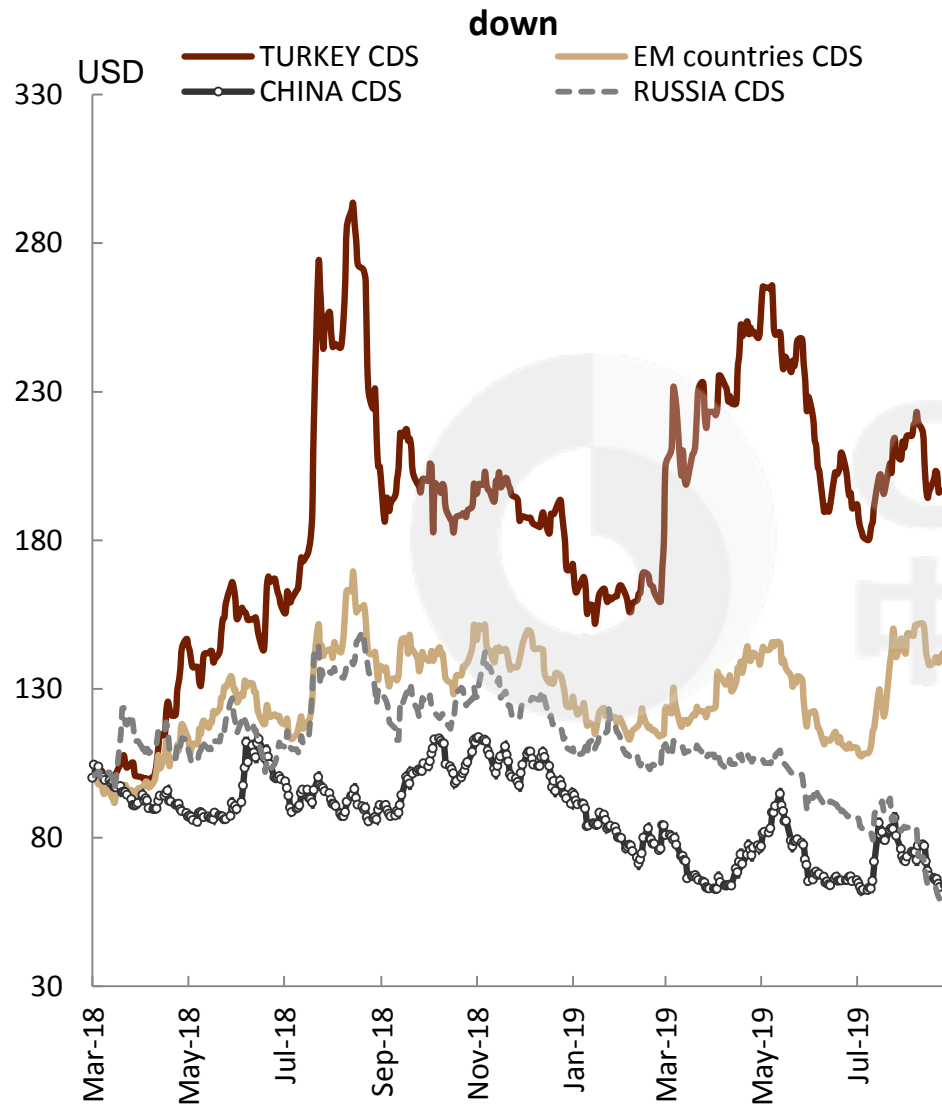


Changes of currencies of emerging markets since the beginning of 3Q19

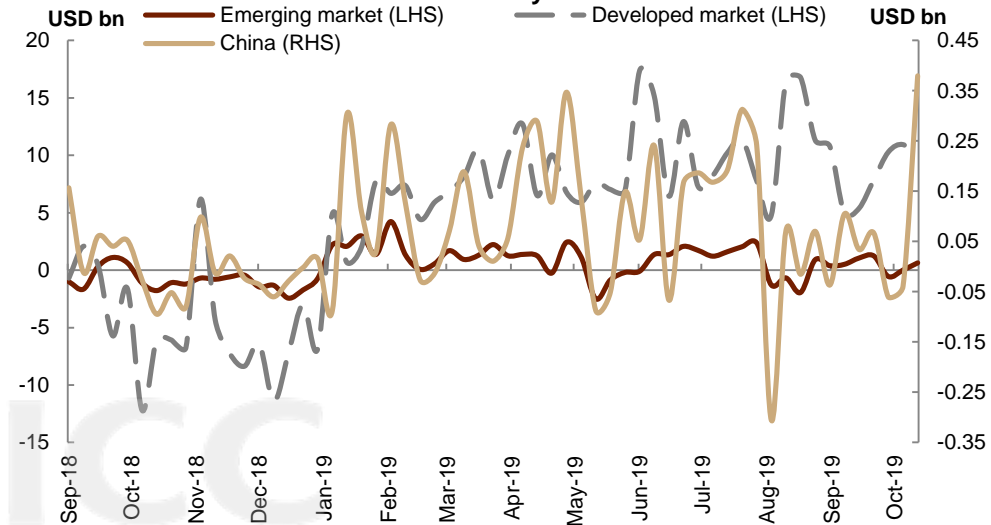


# Overseas funds continuously flow into China bonds

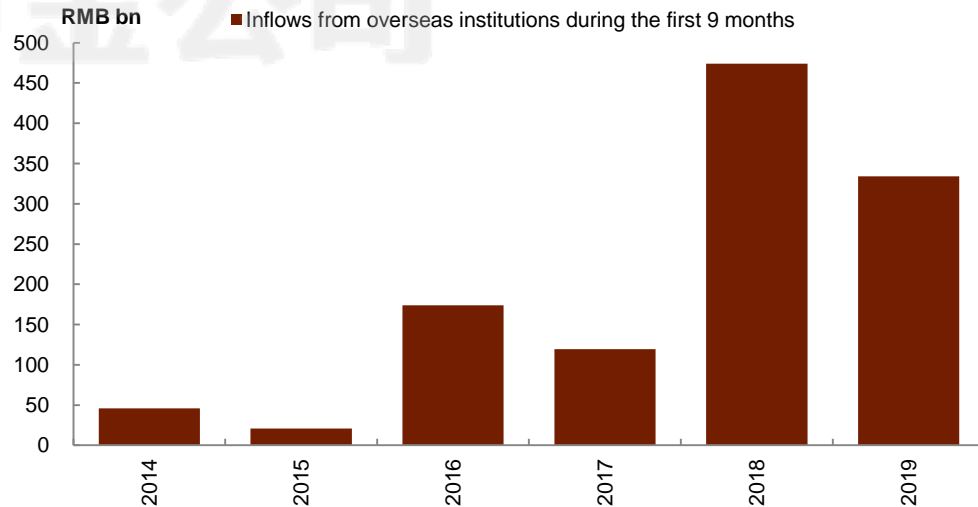
## Sovereign credit default risk of China trends



## Fund inflows continues despite increase in exchange rate volatility



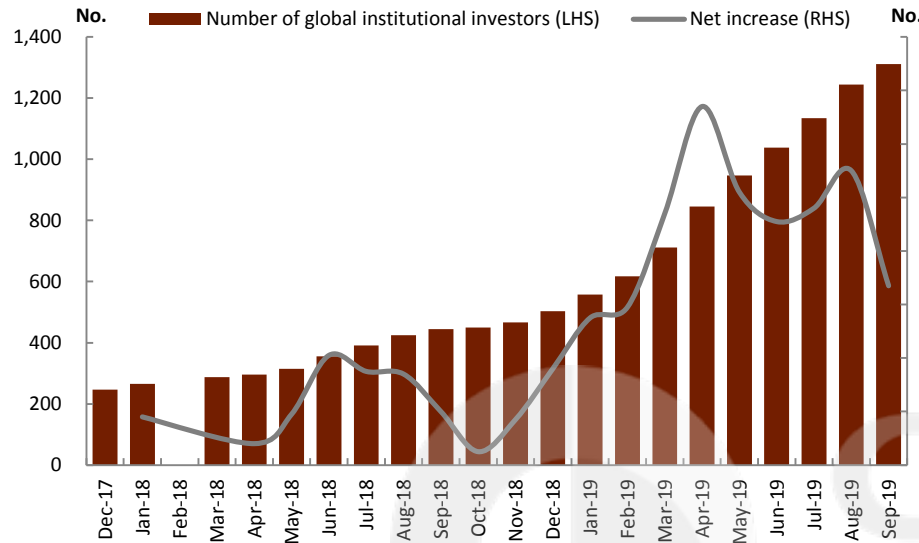
## 2019 Foreign fund inflows into treasury and policy bank bonds ranks 2nd in history



Fixed income

# Trading volume of Bond Connect hits a new high

Global institutional investors of Bond Connect increased

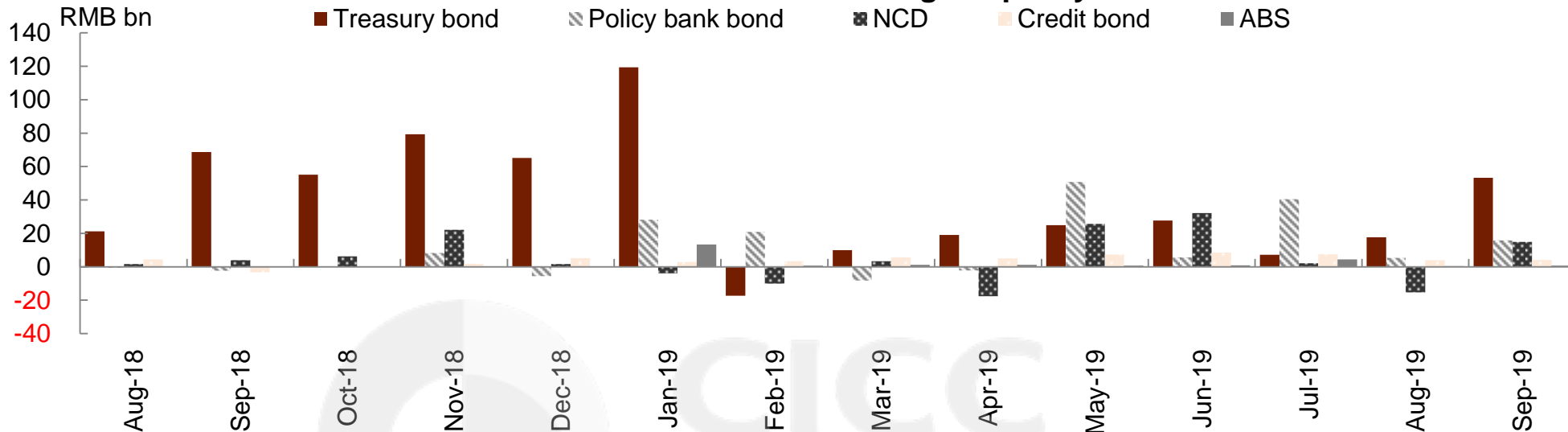


Trading volume of Bond Connect has hit a new high

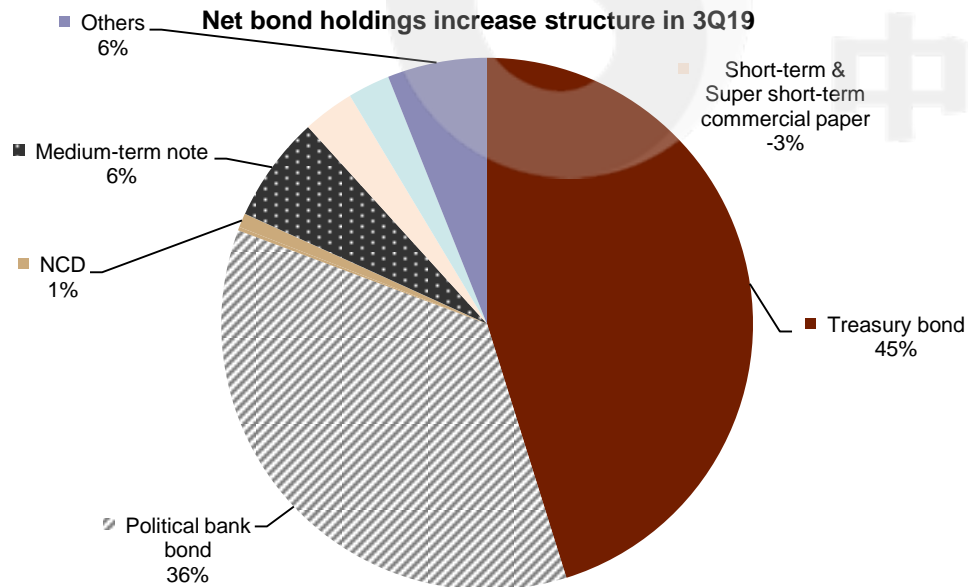


# Overseas holdings of policy bank bonds surge

## Overseas institutions increased holdings of policy bank bonds



## Net bond holdings increase structure in 3Q19



## Implicit tax spread of T-bonds and policy bank bonds decreased



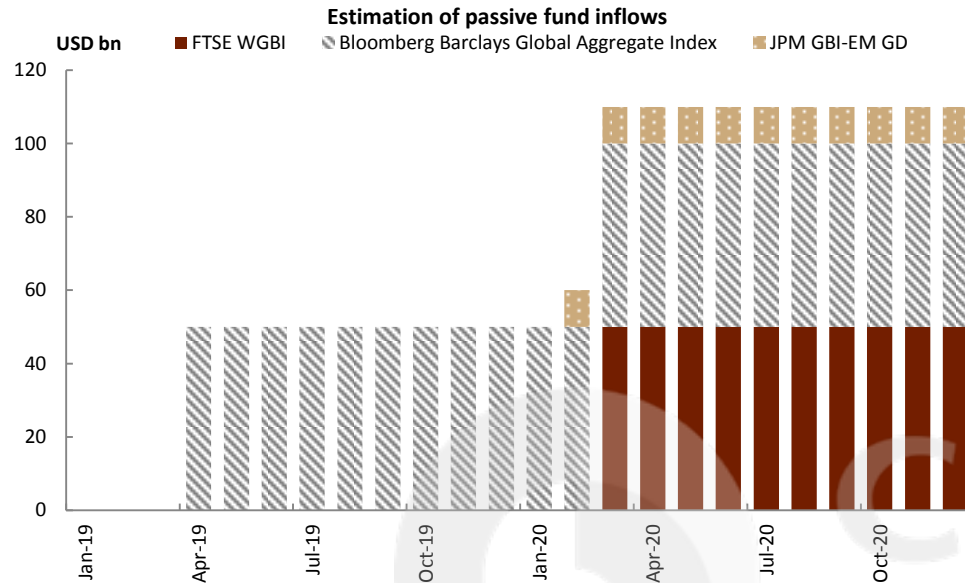
Fixed income



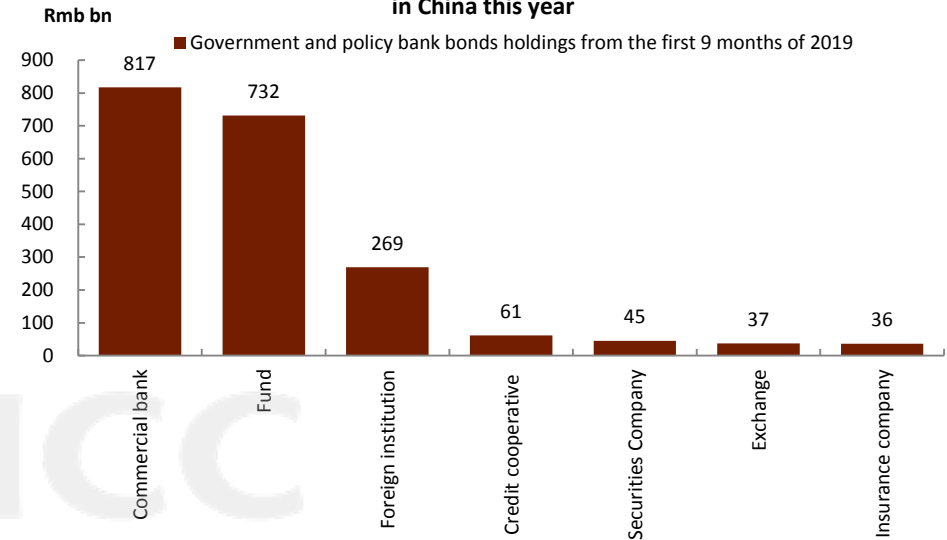
# China bonds to be included in 3 main global bond indices

	JPM GBI-EM Global Diversified	FTSE World Government Bond index (WGBI)	Bloomberg Barclays Global Aggregate
<b>Asset Class</b>	Government bonds in local currency	Government bonds in local currency	Investment-grade bonds include treasury, government-related, corporate and securitized fixed-rate bonds
<b>Maturity</b>	Exceeds 13 months	At least 1 year	At least 1 year
<b>Weighting</b>	Market capitalization	Market capitalization	Market capitalization
<b>Progress</b>	JPM will start a phased inclusion of Chinese government bonds into its benchmark emerging market index in February 2020	China is currently on the watchlist. On September 27, 2019, FTSE announced that China has been upgraded to Market Accessibility Level 2. Further discussion will be released after May 2020.	Chinese bonds will be added to the Index starting April 2019 and phased in over a 20-month period, with a scaling factor of 5% and increasing in 5% increments each month
<b>Inclusion date</b>	February 2020 Expected	May 2020 Expected	April 1, 2019
<b>Expected weight of China bonds</b>	10%	6%	6%
<b>Expected asset class of China bonds</b>	CGB	CGB	CGB and Policy Bank Bonds
<b>Asset amount targeting index</b>	USD300-350bn	USD2-4trn	USD3-4trn
<b>Expected capital inflow after inclusion</b>	USD20-35bn	USD100-200bn	USD150-200bn

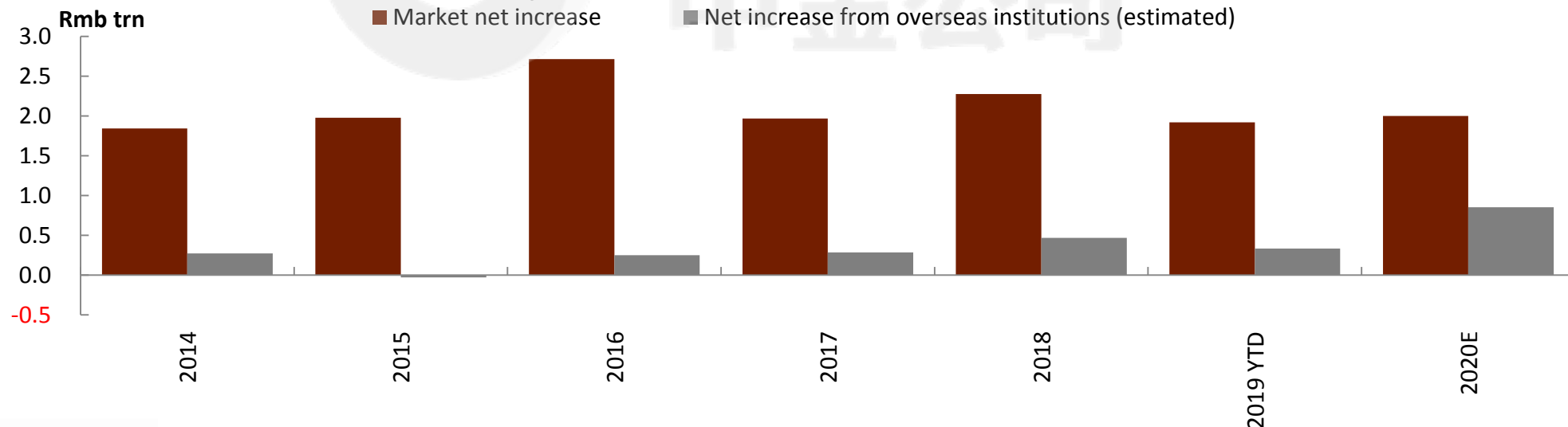
# Est. passive demand to reach 1/3 net increase of interest rate bonds



## Overseas Institutions are the third largest holder of interest rate bond in China this year



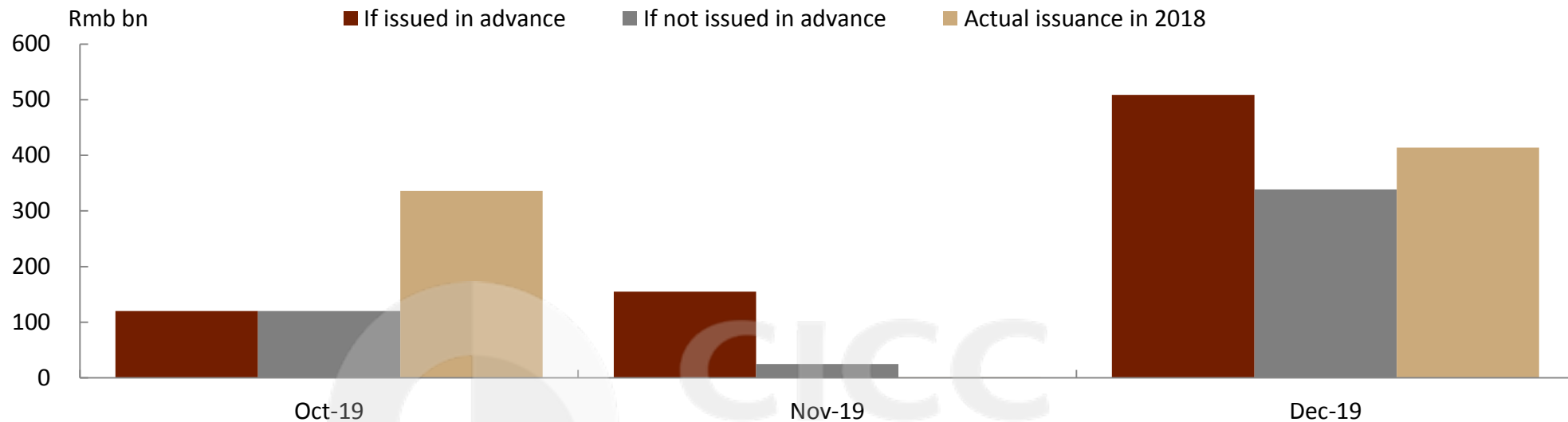
## Net increase of Treasury & CDB bonds and estimated net increase from overseas institutions



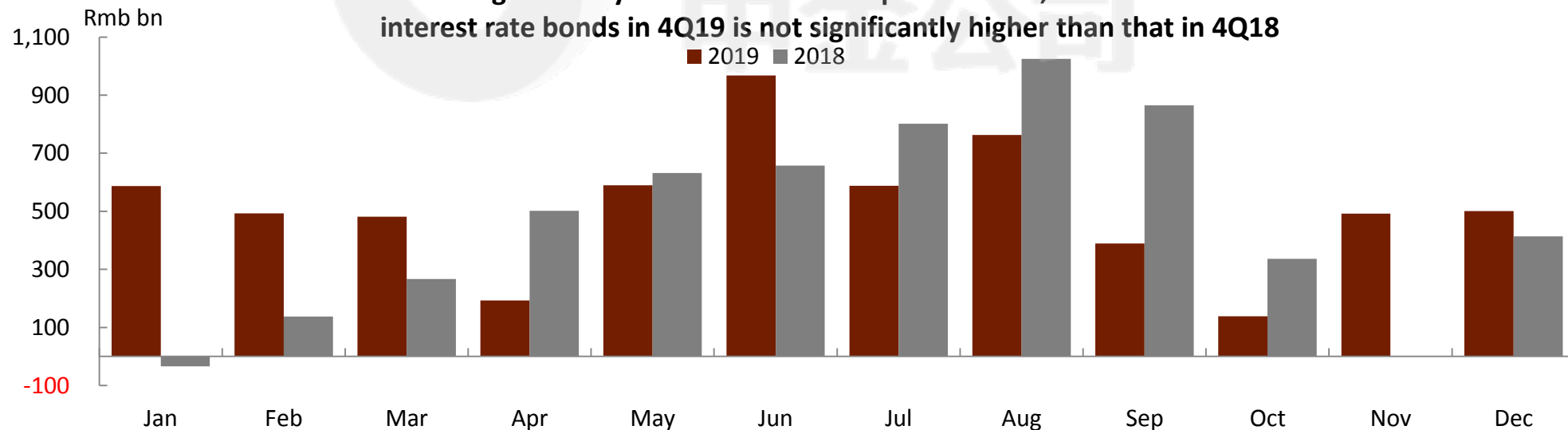
Fixed income

# Supply pressure in 4Q19 likely not significant

## Part of special government bond quota of 2010 may be issued ahead in 4Q19



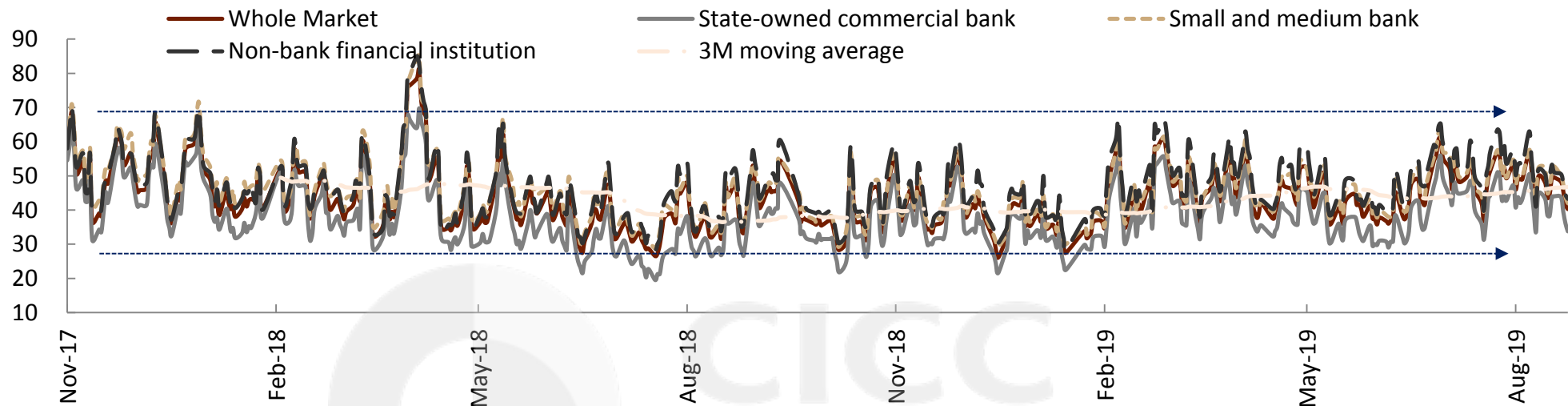
## Even considering the early issuance of 2020's special bonds, the total net increase of interest rate bonds in 4Q19 is not significantly higher than that in 4Q18



Fixed income

# Rising CPI limits short-term interest rate

Capital sentiment index remained neutral in 3Q19, and monetary policy was not relaxed



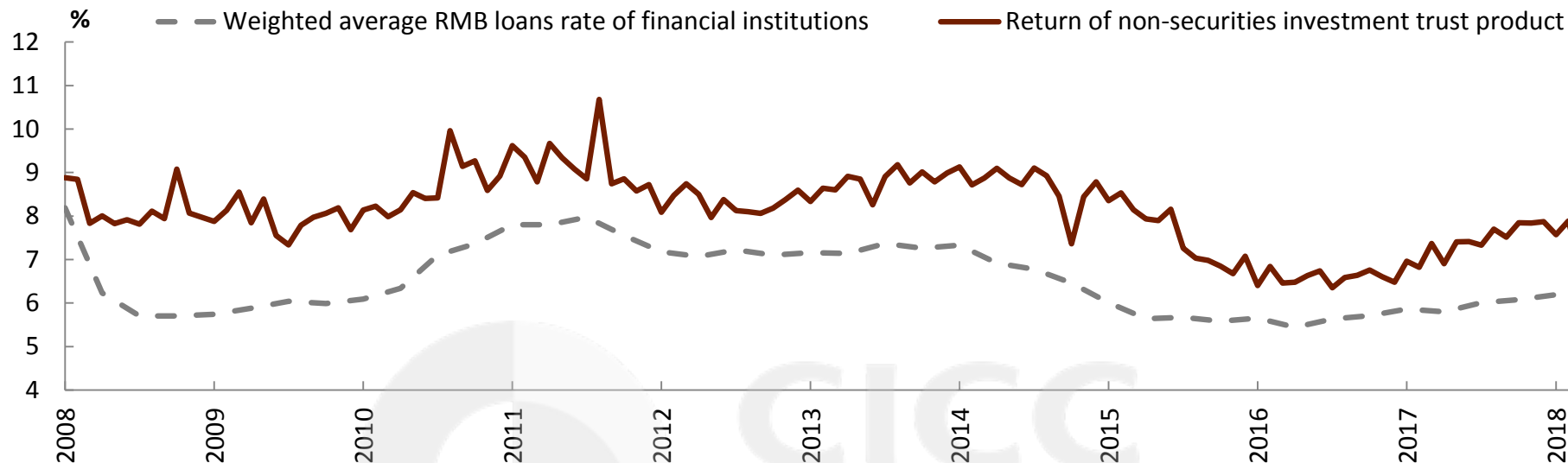
Increasing CPI limited short term interest rates



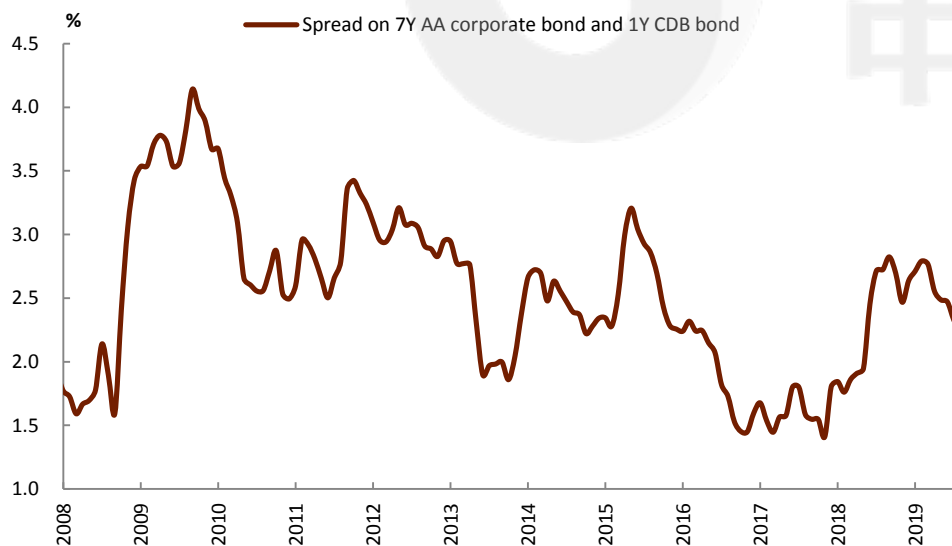
Fixed income

# Term and credit spreads likely to narrow

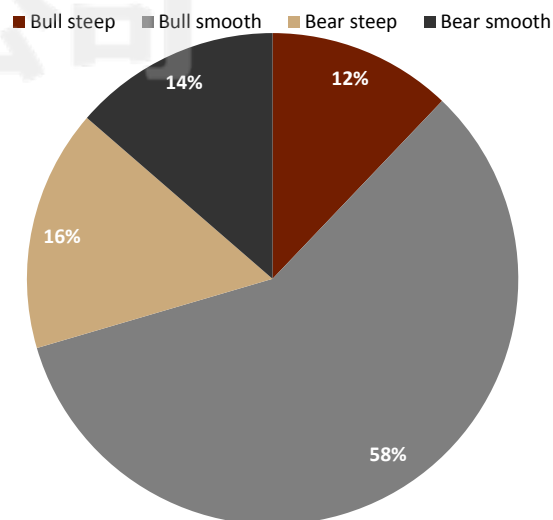
As high-interest assets decrease, loan and trust rates fall



Term and credit spreads will be recompressed in near future



Investors generally expect the bond market to enter a bull-smooth pattern (2019.10-2020.3)



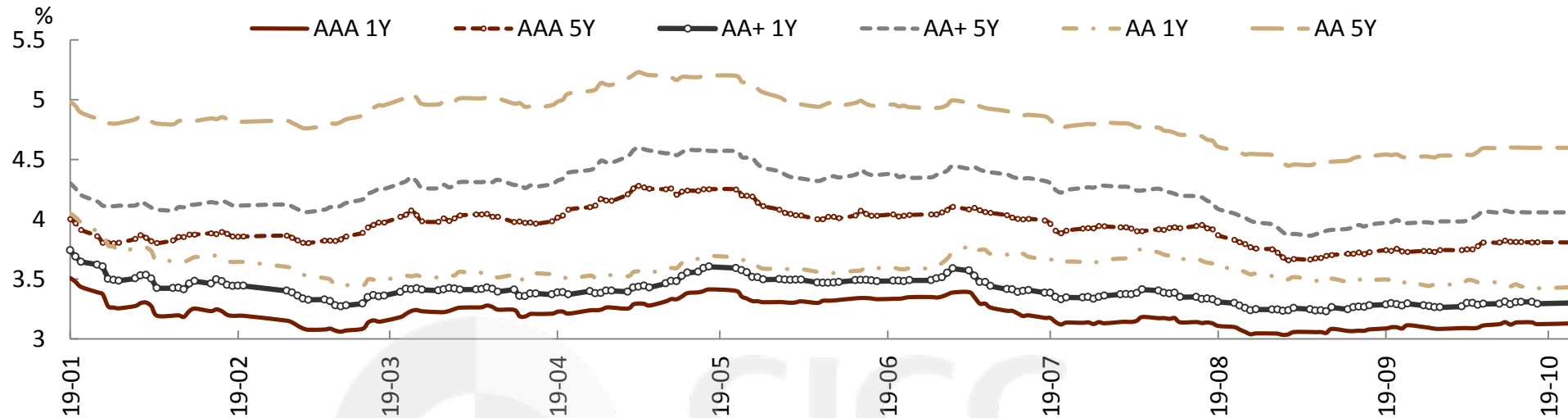
Fixed income

# Room exists for contraction in term spreads

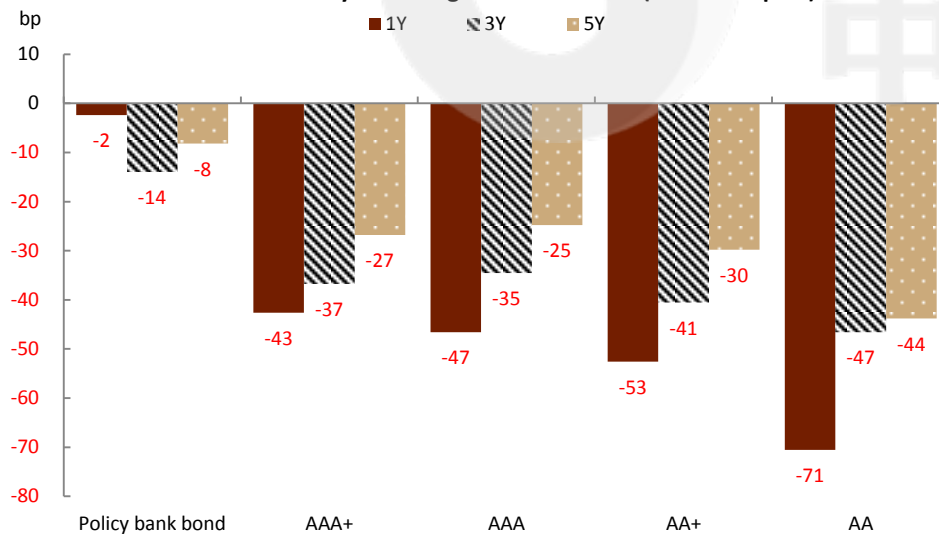
Spread Analysis			Spread Changes (bp)			YTD	10Y	Trend	The position of the value of last 30 days in the last 1 year		
	Term	Rate(%)	1M	3M	12M	Change (BP)	Percentile	1Y	1Y Low	Location	1Y High
<b>Term Spread (Treasury)</b>											
	3Y-1Y	0.23	8.21	(3.40)	(6.70)	(5.18)	43%		0.12		0.53
	5Y-1Y	0.45	5.59	5.86	(5.92)	0.23	59%		0.30		0.76
	10Y-1Y	0.60	9.28	6.62	(7.39)	(6.79)	46%		0.40		0.91
	20Y-10Y	0.35	2.80	(1.60)	2.32	6.81	30%		0.24		0.39
	30Y-10Y	0.63	5.57	(3.44)	5.25	12.48	74%		0.43		0.71
<b>Implicit Tax rate (CDB Bond Yield-Treasury Yield)</b>											
	1Y	0.16	3.63	10.57	13.25	1.17	11%		0.01		0.49
	5Y	0.45	7.41	7.02	(5.49)	(6.49)	20%		0.34		0.66
	10Y	0.39	2.21	2.07	(17.04)	(4.09)	24%		0.32		0.59
<b>Credit Spread (CP/Notes Yield-CDB Bond Yield)</b>											
AAA	1Y	0.41	4.73	(3.18)	(28.89)	(44.16)	11%		0.30		0.98
	5Y	0.38	(0.43)	(13.52)	(1.28)	(15.94)	14%		0.29		0.61
AA+	1Y	0.58	0.73	(9.18)	(35.89)	(50.16)	5%		0.49		1.18
	5Y	0.58	(4.43)	(27.52)	(23.28)	(25.94)	5%		0.56		0.89
<b>Coupon Spread (Bond Yield-FR007)</b>											
CP/Note	AAA 1Y	0.38	(3.41)	(15.01)	(45.10)	(53.36)	7%		0.38		1.07
	AAA 5Y	0.53	(9.41)	(23.01)	(54.10)	(61.36)	5%		0.53		1.28
	AA+ 1Y	0.82	(2.46)	(20.05)	(24.43)	(30.80)	18%		0.80		1.17
	AA+ 5Y	1.02	(6.46)	(34.05)	(46.43)	(40.80)	10%		1.02		1.56
<b>Bond vs Loans (Bond Yield-Lending Rates)</b>											
CP/Note	AAA 1Y	(1.62)	4.01	(1.11)	(50.63)	(37.85)	43%		(1.72)		(1.01)
	AAA 5Y	(0.92)	8.22	(9.14)	(47.68)	(17.06)	57%		(1.09)		(0.44)
	AA+ 1Y	(1.45)	0.01	(7.11)	(57.63)	(43.85)	38%		(1.52)		(0.80)
	AA+ 5Y	(0.72)	4.22	(23.14)	(69.68)	(27.06)	42%		(0.89)		(0.02)
<b>Fixed-rate Bond vs Floating-rate Bond</b>											
Floating-Fixed Spread		1Y	0.01	8.81	17.18	12.78	25.10	90%		(0.48)	0.03
(Shibor-3M-5D)		5Y	0.44	5.36	0.72	(7.59)	(2.28)	76%		0.11	0.56
Floating-rate+IRS-Fixed-rate spread		1Y	0.22	14.13	16.10	2.62	(0.24)	64%		0.00	0.31
		5Y	0.36	6.76	(7.09)	2.93	(1.46)	30%		0.06	0.46
<b>Yield Spread of China &amp; US (Treasury)</b>											
	1Y	0.96	23.65	27.50	72.01	106.14	18%		(0.25)		0.97
	5Y	1.43	10.24	23.36	106.09	97.37	43%		0.19		1.64
	10Y	1.40	9.93	28.12	100.62	88.35	66%		0.24		1.59
<b>Others</b>											
10Y CDB-1Y IRS (FR007)		0.00	(80.64)	(94.07)	(134.25)	(101.61)	0%		0.00		1.35
3M AAA NCD-1Y IRS (FR007)		0.00	(2.99)	8.42	(5.98)	(50.33)	8%		(0.18)		0.88
HS300 E/P-10Y CDB		4.62	(14.49)	3.52	(53.28)	(168.90)	56%		3.59		6.43

# Credit yields flatten in 3Q

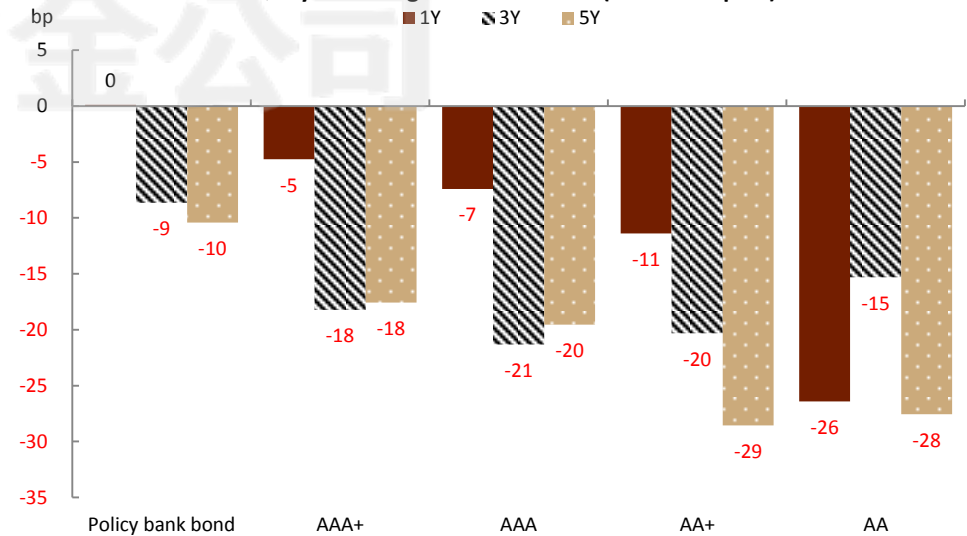
Historical yields of China's credit bonds



2019 YTD yield change of CP and MTN (as of 30 Sep 19)



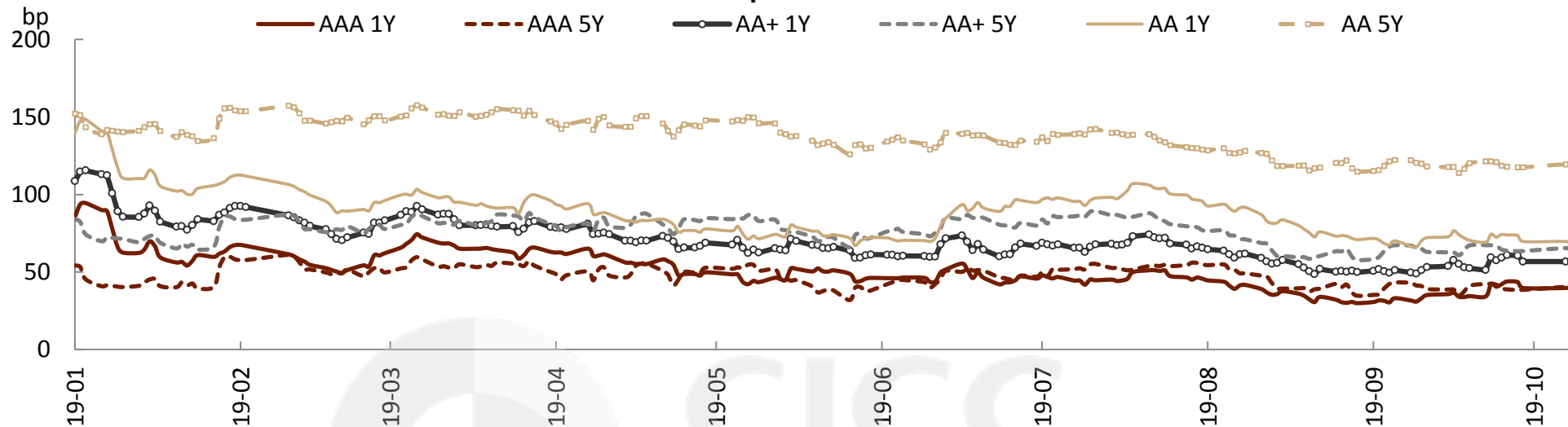
3Q19 yield change of CP and MTN (as of 30 Sep 19)



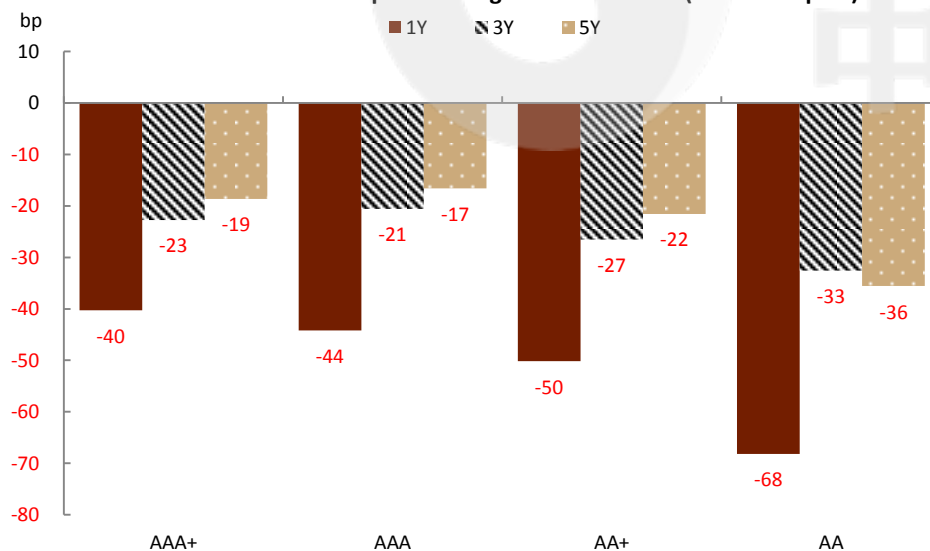
Fixed income

# Credit spreads narrow in 3Q

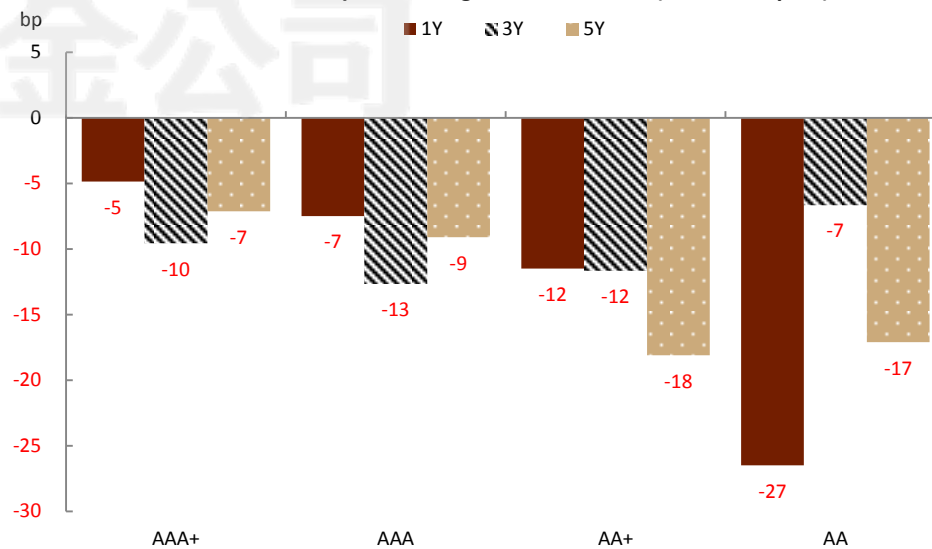
Historical credit spreads of China's credit bonds



2019 YTD credit-spread change of CP and MTN (as of 30 Sep 19)



3Q19 credit-spread change of CP and MTN (as of 30 Sep 19)



Fixed income



# Yields and spreads both fall to historical lows

Current yields and quantiles for CPs and MTNs  
(valuation of China bonds as of 17 Oct 19)

	Current level			Median			1/4 Quantile			3/4 Quantile			Current quantile		
	1Y	3Y	5Y	1Y	3Y	5Y	1Y	3Y	5Y	1Y	3Y	5Y	1Y	3Y	5Y
AAA+	3.07	3.42	3.74	4.00	4.28	4.48	3.16	3.67	3.95	4.55	4.67	4.93	22%	18%	15%
AAA	3.13	3.50	3.83	3.97	4.32	4.59	3.06	3.62	4.03	4.61	4.82	5.04	28%	22%	18%
AA+	3.30	3.66	4.03	4.24	4.67	4.98	3.33	3.94	4.42	4.96	5.21	5.47	24%	14%	10%
AA	3.39	3.95	4.58	4.46	5.00	5.40	3.58	4.24	4.86	5.24	5.60	5.90	18%	11%	15%

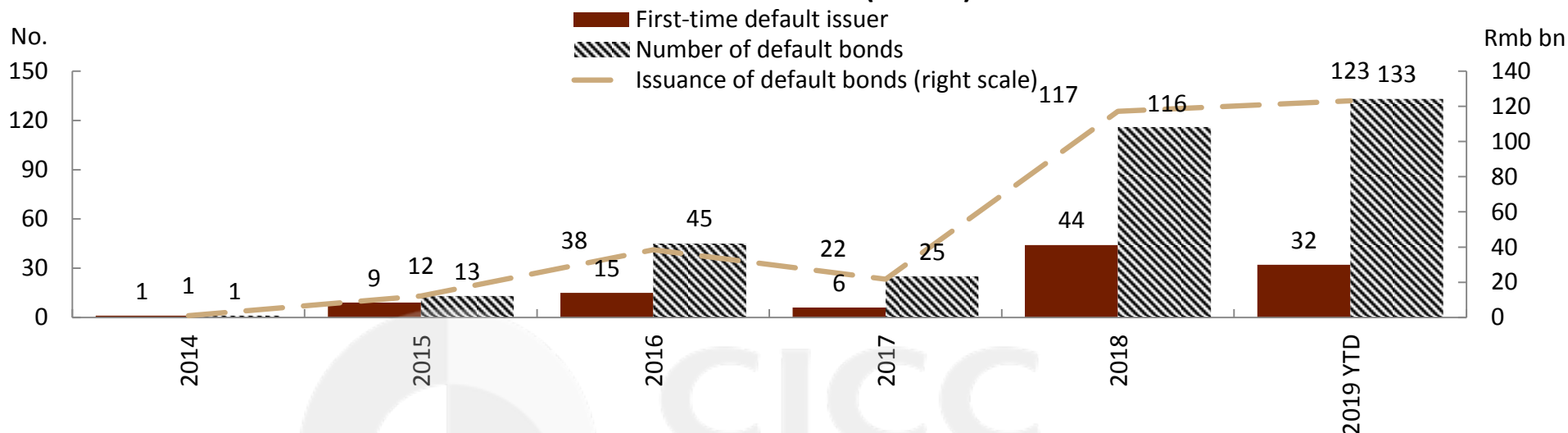
Current credit spreads and quantiles for CPs and MTNs  
(valuation of China bonds as of 17 Oct 19)

	Current level			Median			1/4 Quantile			3/4 Quantile			Current quantile		
	1Y	3Y	5Y	1Y	3Y	5Y	1Y	3Y	5Y	1Y	3Y	5Y	1Y	3Y	5Y
AAA+	36	32	29	54	42	42	42	32	31	66	54	62	14%	25%	21%
AAA	41	40	38	58	54	58	46	44	45	72	72	84	15%	19%	13%
AA+	58	56	58	85	90	104	72	72	82	103	109	130	6%	7%	5%
AA	67	85	113	112	129	151	95	108	130	134	149	171	1%	8%	15%

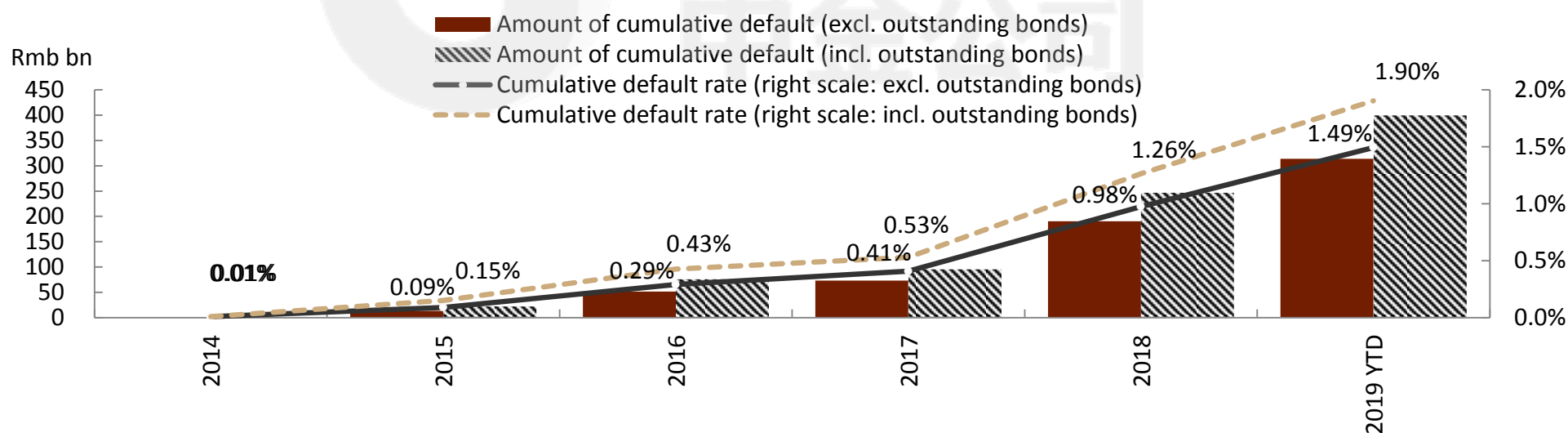
Fixed income

# Number of default events remains high in 2019

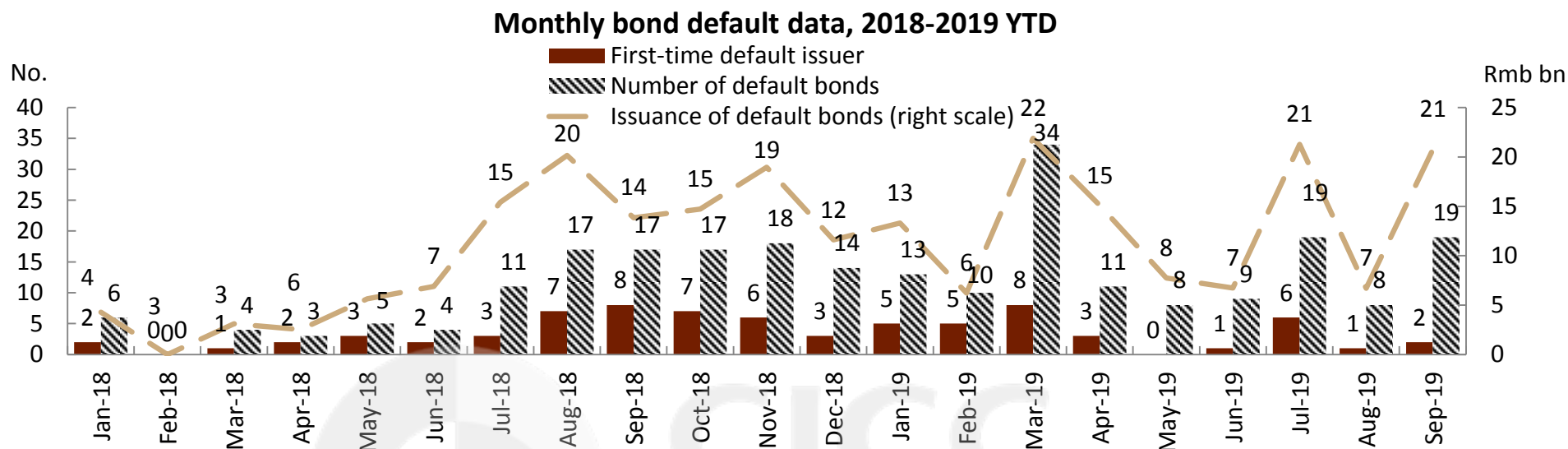
## Bond default data (annual)



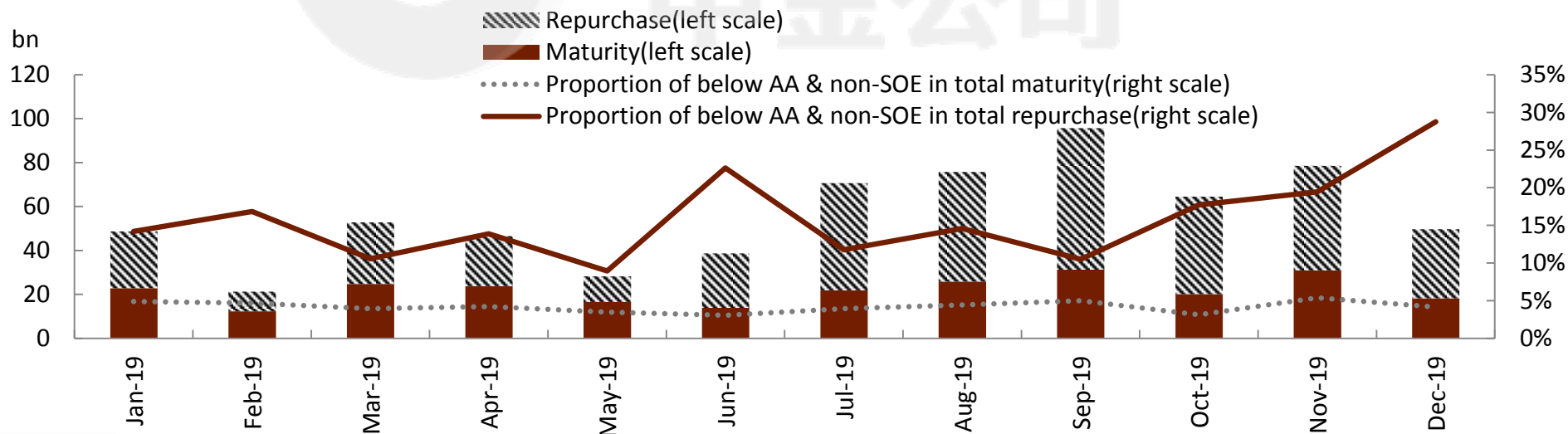
## Cumulative balance of defaulted bonds and default rates



# Defaults in 3Q less than market expectations

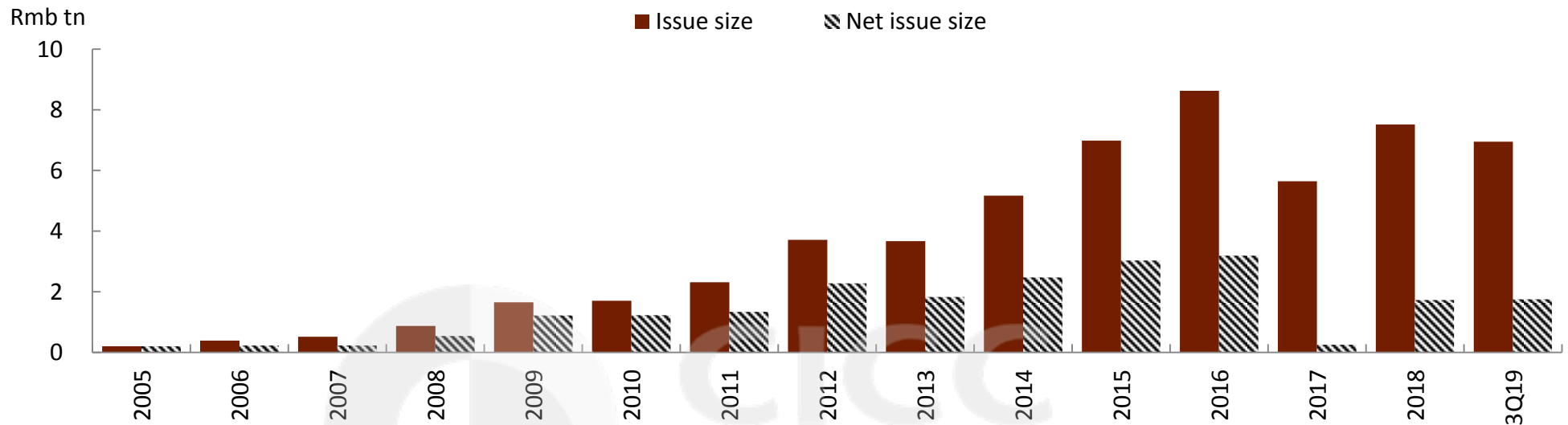


**Size of maturity and repurchase of below AA & non-SOE credit bonds in 2019 (monthly)**

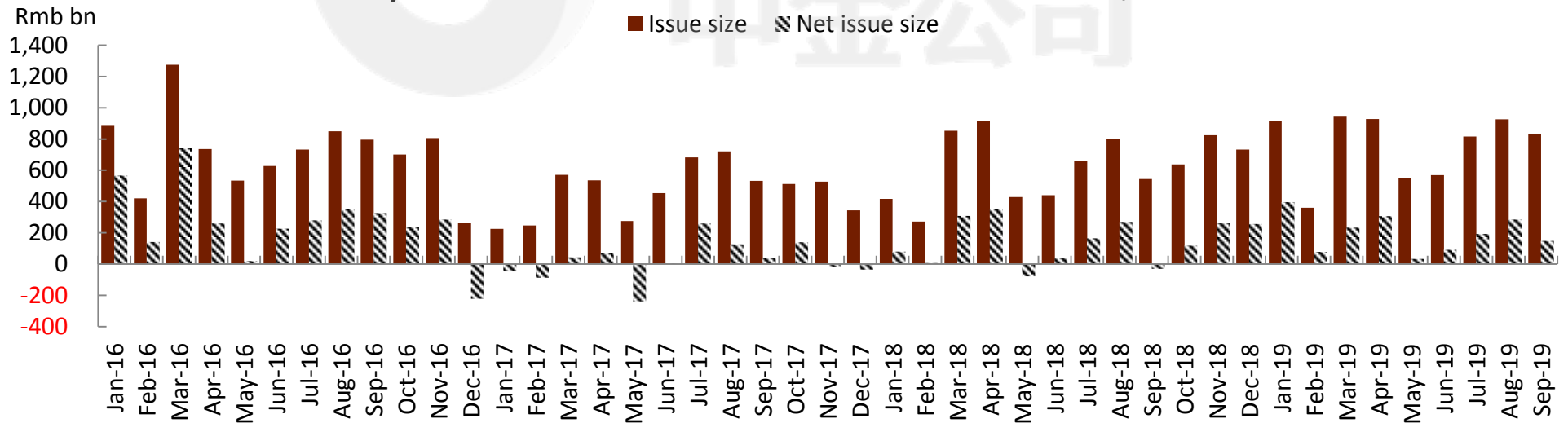


# Credit bond supply increased in 3Q

Annual size of issue and net issue of non-financial credit bonds, 2005-3Q19

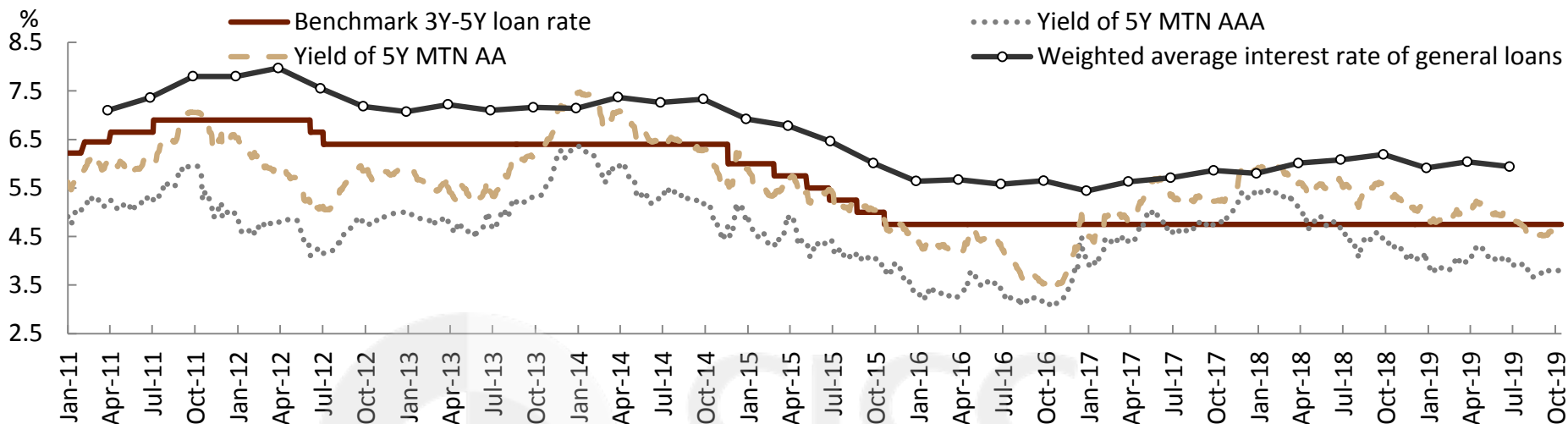


Monthly size of issue and net issue of non-financial credit bonds, 2016-3Q19

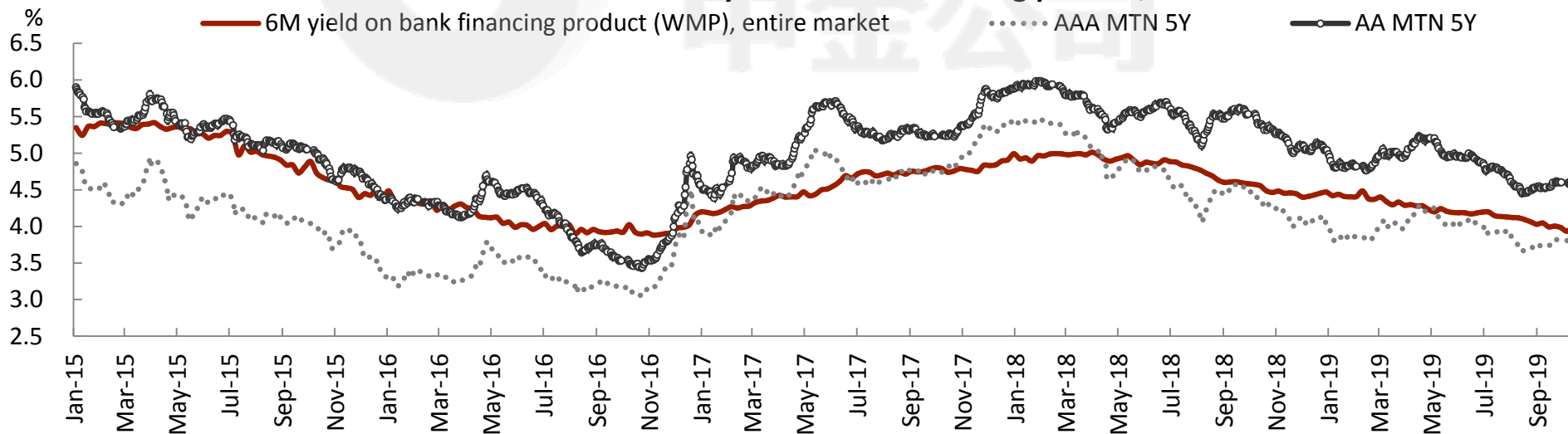


# AAA yield 20% below loan rate, down faster than WMP\*

Yield of medium term notes vs. loan rate, 2011-2019YTD



Yield of medium term notes vs. yield on bank financing product, 2015-2019YTD

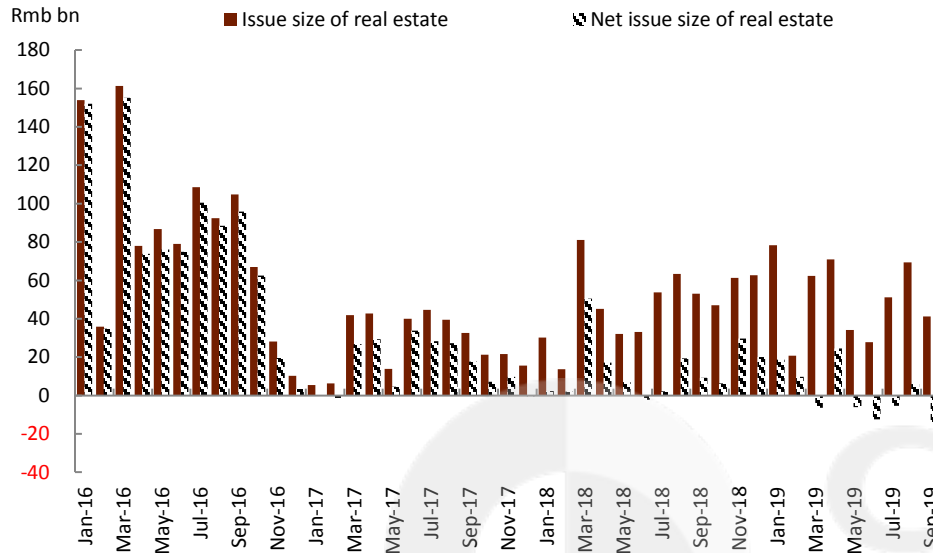


Note: \*WMP refers to bank wealth management product

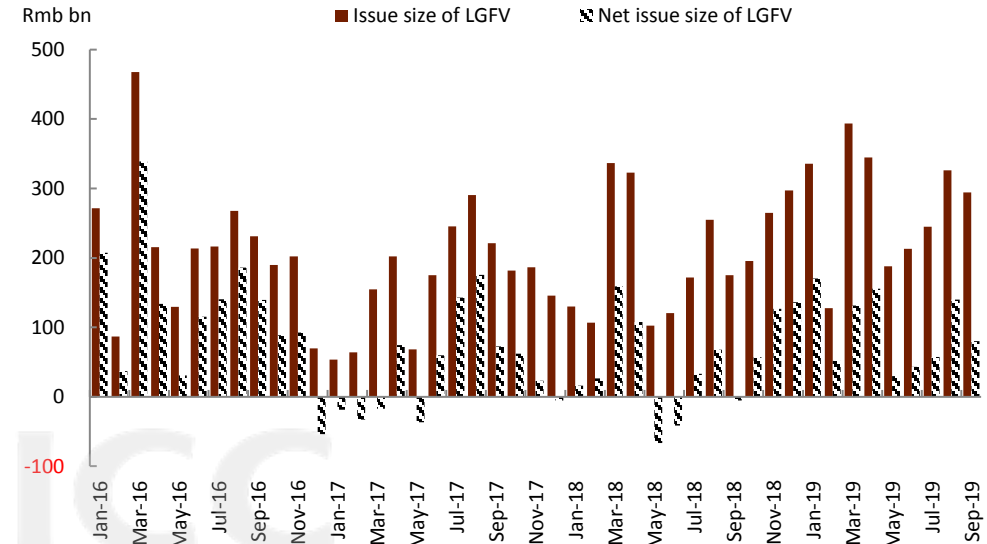
Source: Wind, CICC Research

# LGFV and real estate favored, albeit not for non-SOEs

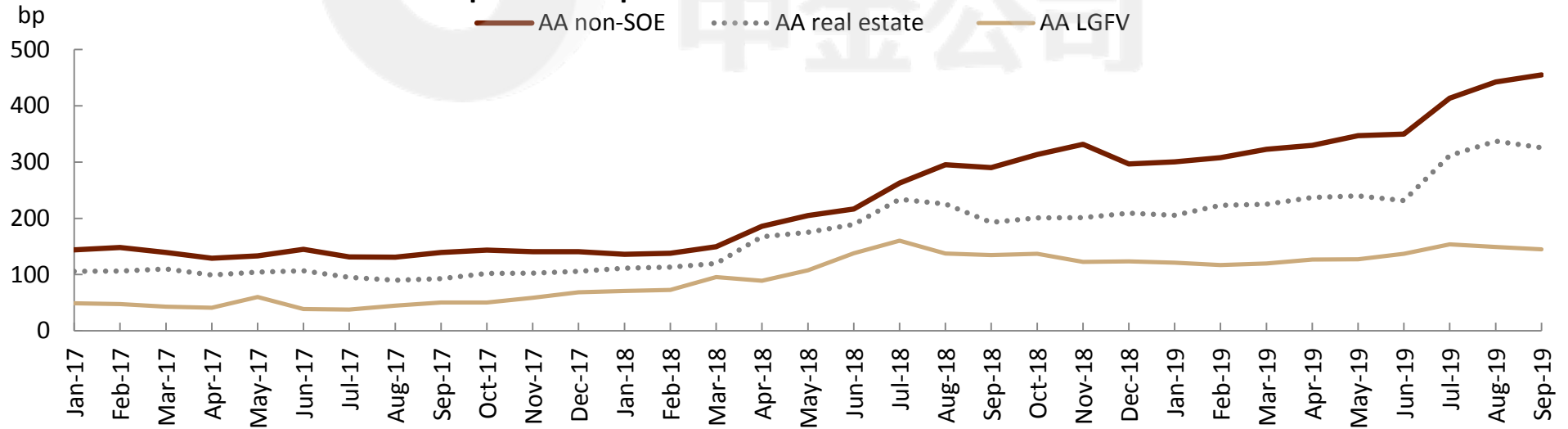
Issue size & net issue size of real estate, 2016-3Q19

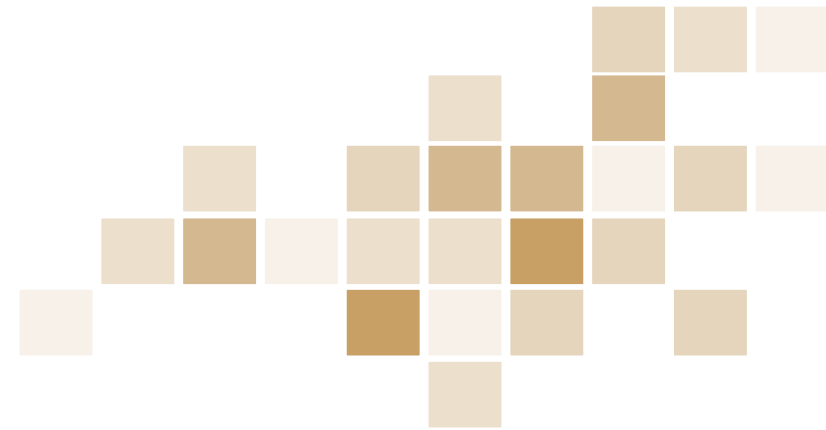


Issue size & net issue size of LGFV, 2016-3Q19



Comparison of spreads between different sectors of AA MTNs





# Commodities

**Chaohui GUO**

SAC Reg. No.: S0080513070006

SFC CE Ref: BBU524

**Kai MA**

SAC Reg. No.: S0080514080004

SFC CE Ref: BBU279

## Key views

- ▶ **Crude oil:** Oil products consumption remains weak, with asphalt consumption the only bright spot. Excluding the effect of inventory factors, China's apparent consumption of oil products still showed zero growth YoY. Of note, the consumption of gasoline and kerosene did not show a significant improvement, while that of asphalt benefited from road investment and maintained positive growth of more than 20% for five consecutive months.
- ▶ **Thermal coal:** The pace of domestic thermal coal supply resumption has accelerated, and the supply has maintained a growth rate of around 8%. On the demand side, power plant coal consumption is still below the five-year average. At present, the inventory days of the six major power plants are high, which will likely limit the winter stockpile demand.
- ▶ **Precious metals:** As domestic gold prices approach historical highs, demand for gold jewelry is affected. However, the central bank continues to increase its holdings of gold.
- ▶ **Ferrous metals:** We maintain the bearish view on the price performance of rebar. We still expect the average annual price of rebar to be Rmb3,500/t. On the supply side, with the implementation of differentiated production restriction policies, we think the impact of environmental restriction on production during the heating season will be marginally weakened. On the demand side, as the pressure from real estate slowdown increases, we think the demand for rebar will likely weaken. Our estimates show easing supply shortage of iron ore in 3Q19 and 4Q19. Our forecast for iron ore prices in 4Q19 remains at US\$93/t.
- ▶ **Nonferrous metals:** With the market in a weak balance, we believe diverging supply growth will lead to differentiated price performance of nonferrous metals. We are not optimistic about downstream demand for industrial metals, especially in the context of weakening real estate data. We are relatively positive about the price performance of aluminum when the peak season arrives. Aluminum production has been lower than expected, as supply issues delayed the delivery of new production capacity.

## Trends to watch

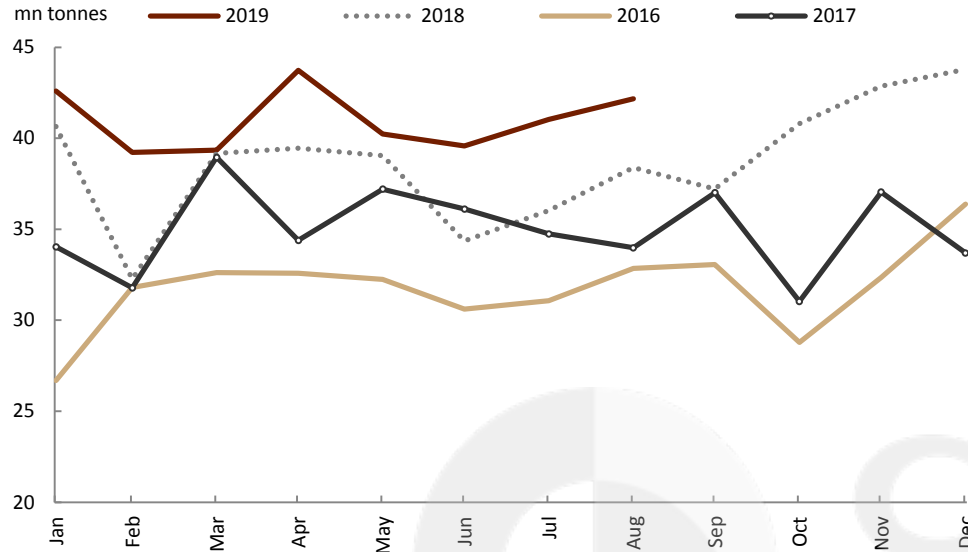
- ▶ Whether domestic gasoline and diesel consumption will improve; changes in domestic crude oil import structure
- ▶ Enforcement and differentiation of production restriction during heating season



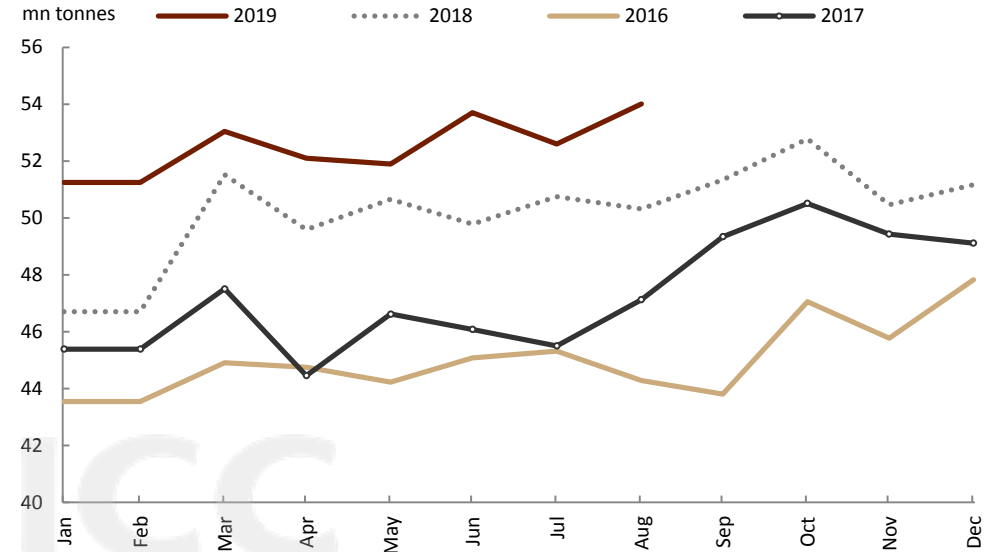


# Crude oil: Imports from Venezuela and Iran fall sharply

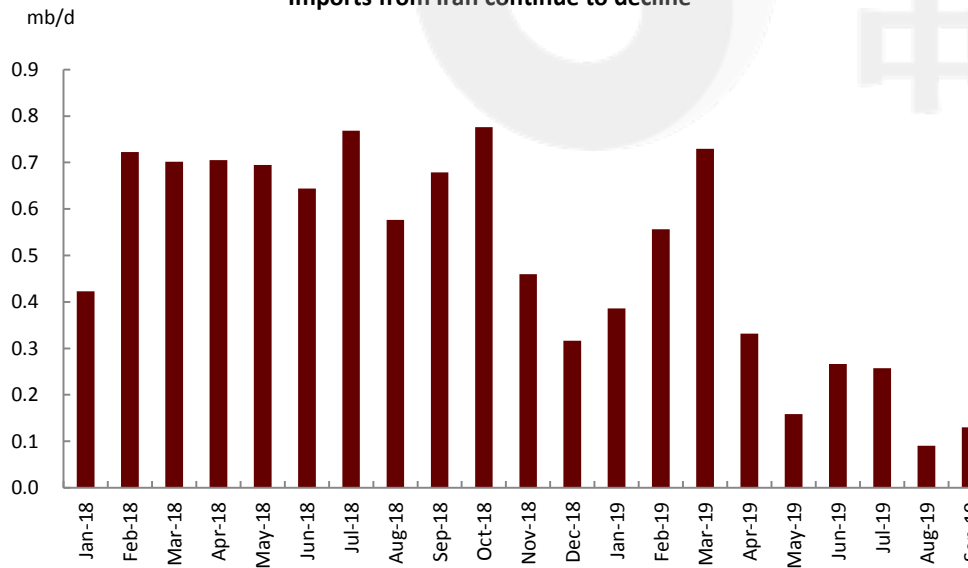
Crude oil imports of China



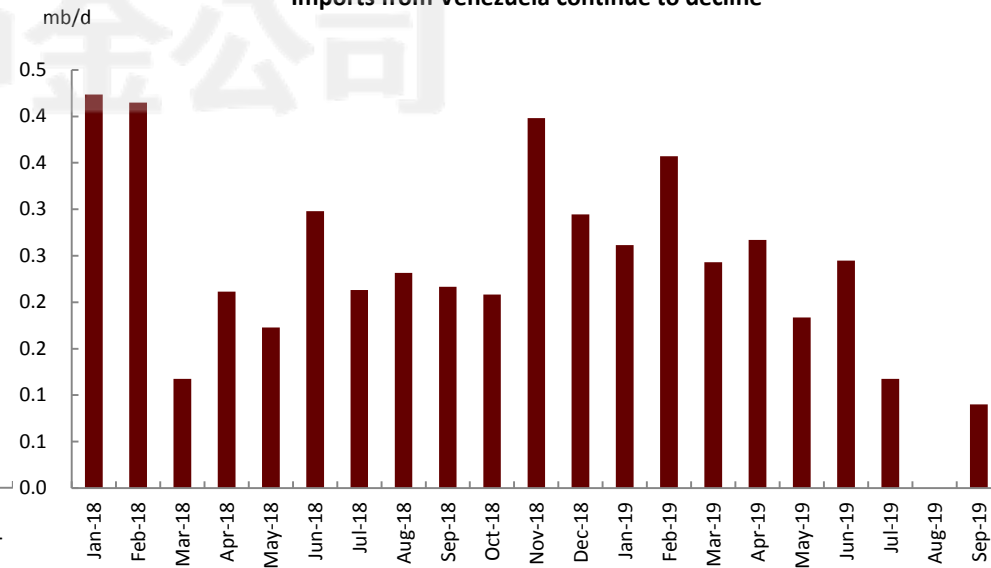
Crude oil processing of Chinese refineries



Imports from Iran continue to decline

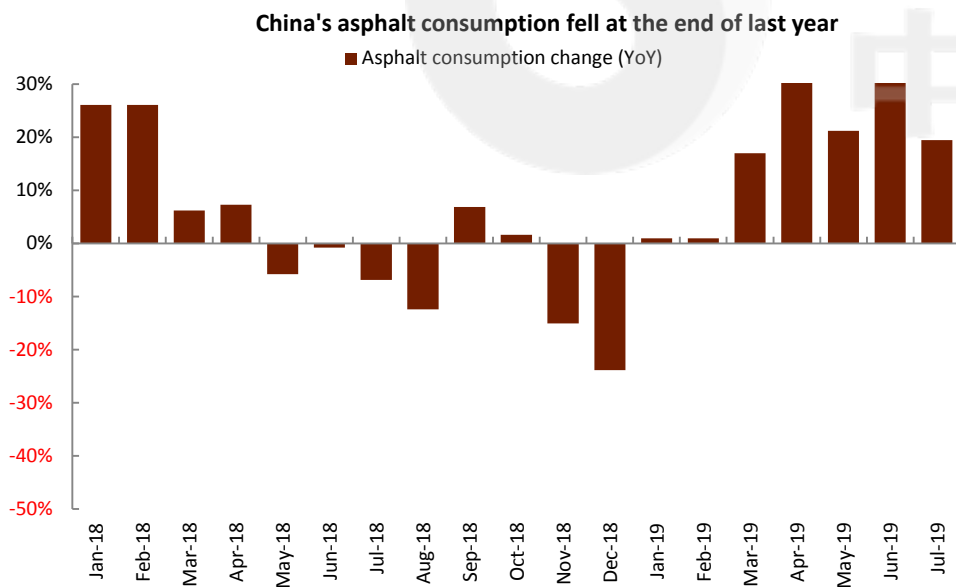
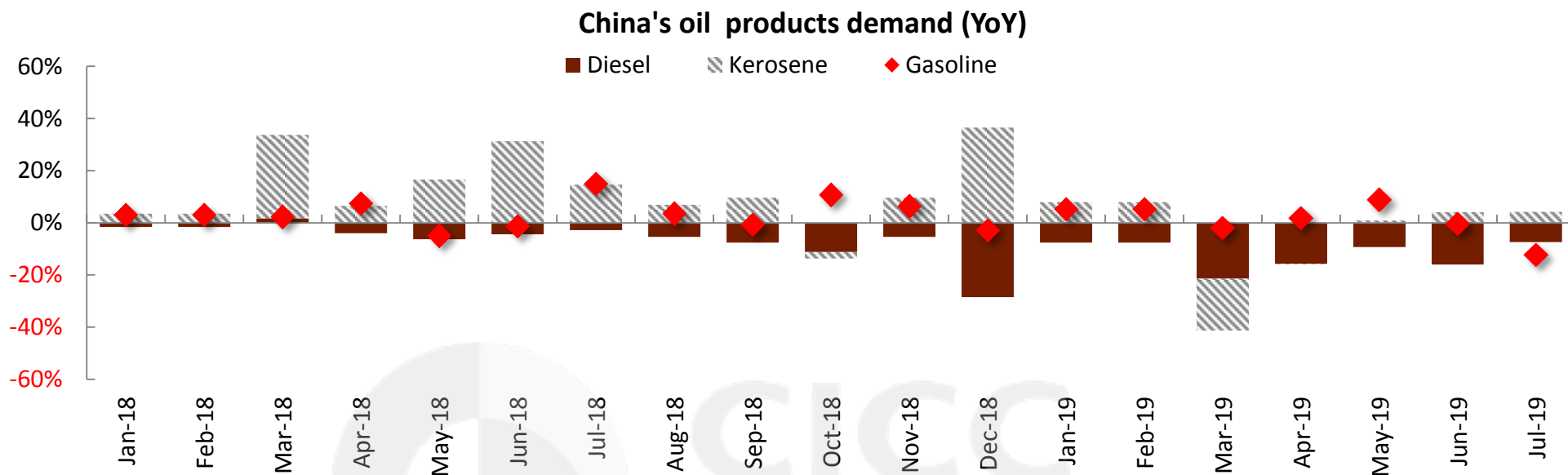


Imports from Venezuela continue to decline

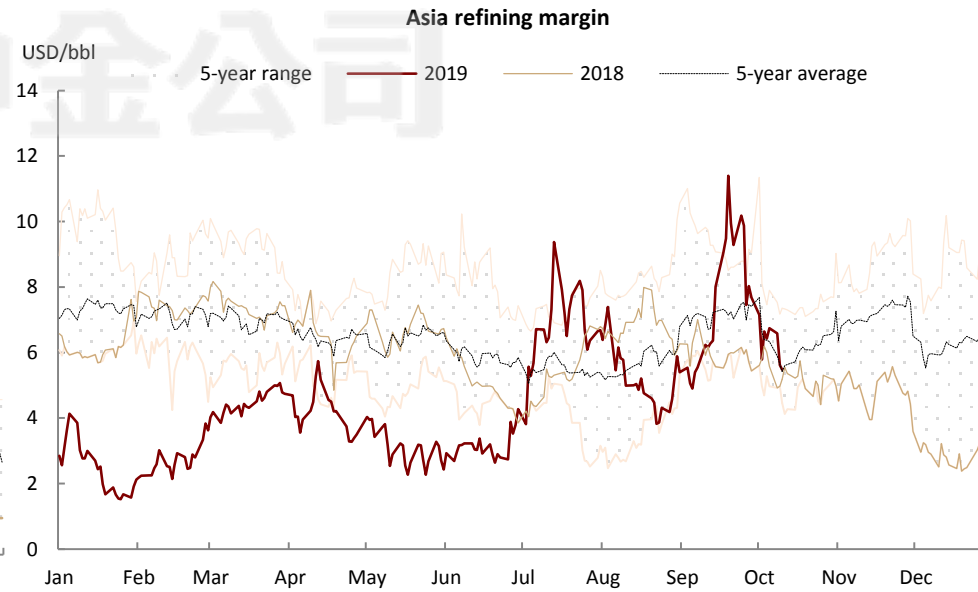
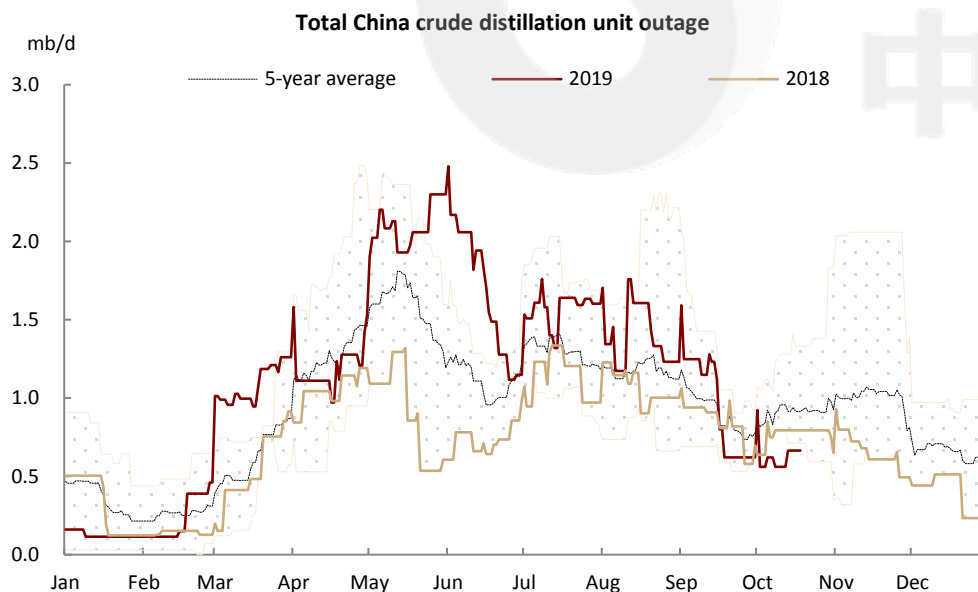
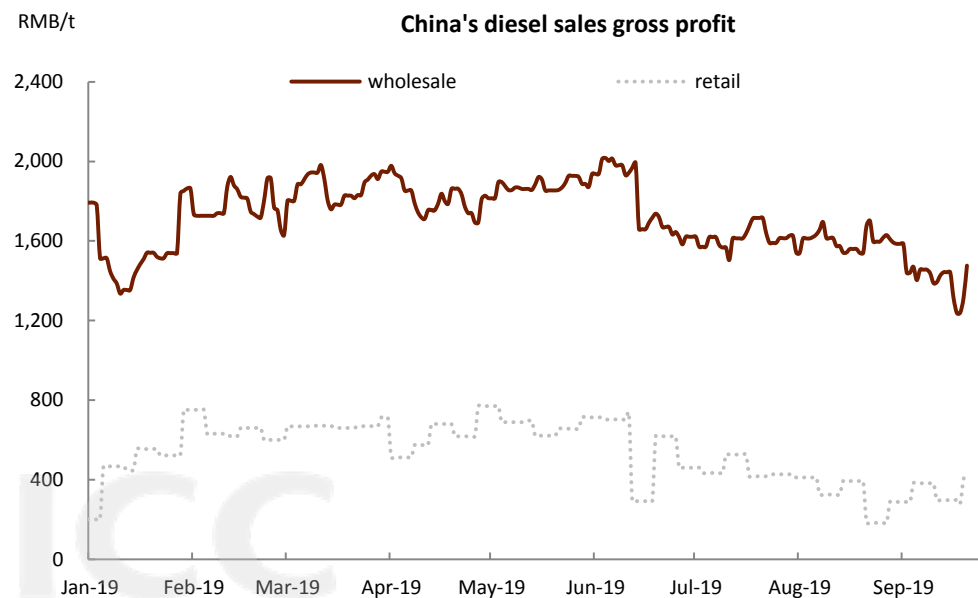
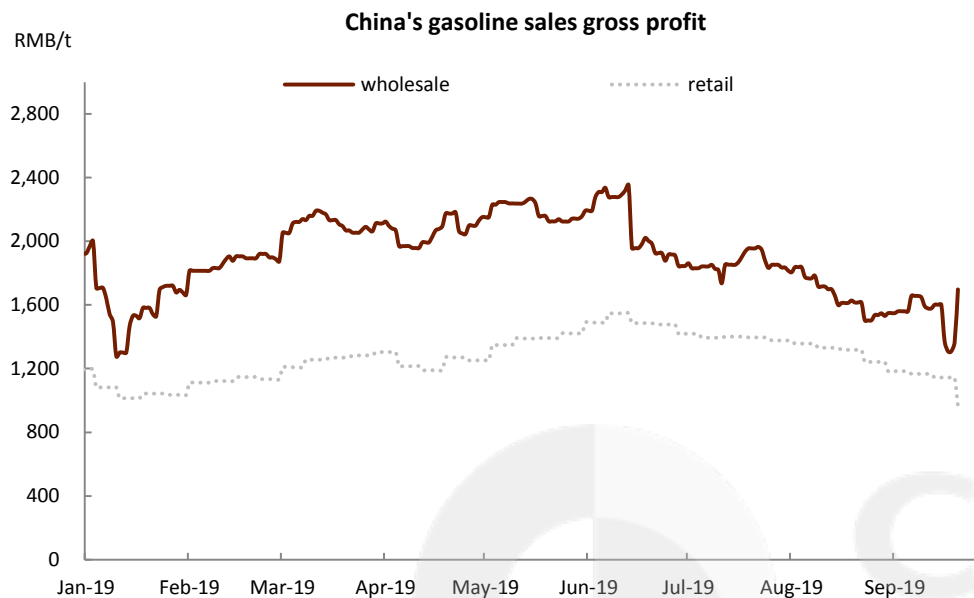


Commodity

# Refined oil: Consumption remains weak (excl. asphalt)

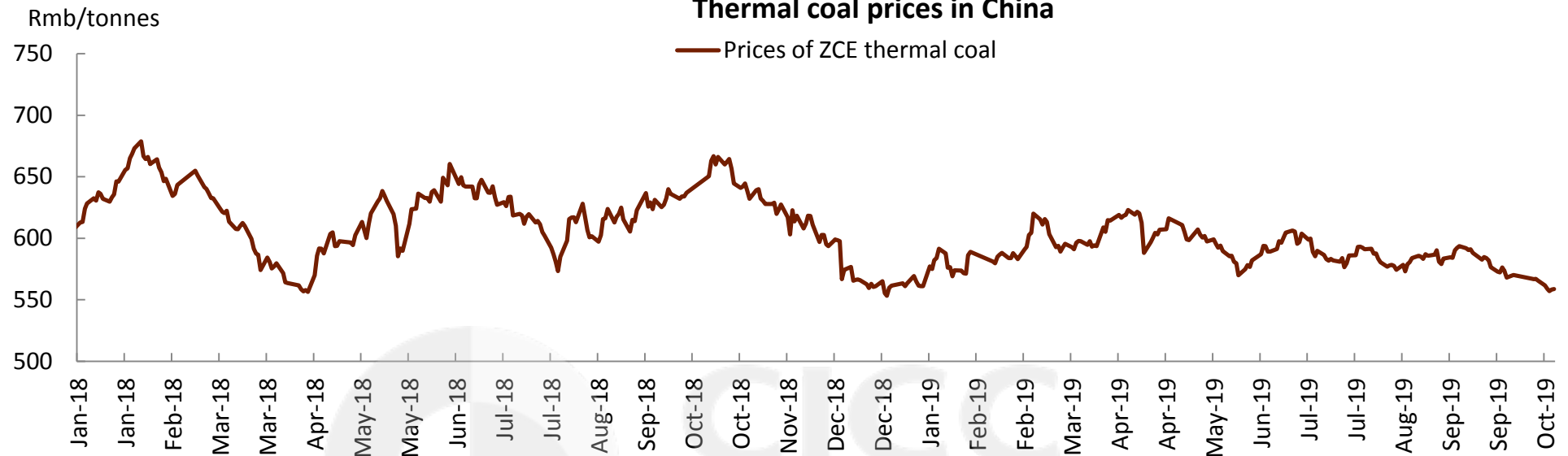


# Refining margin continues to weaken

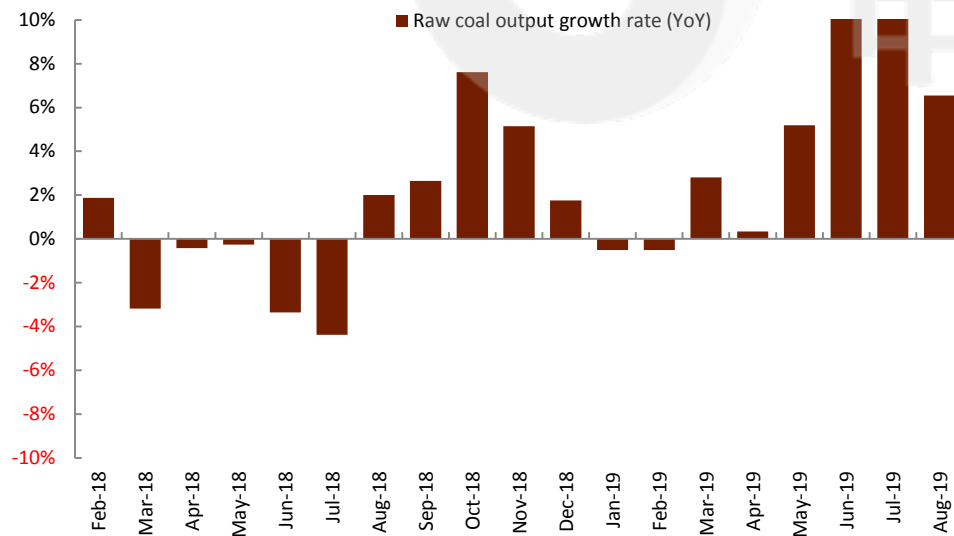


# Thermal coal: Supply maintains high growth

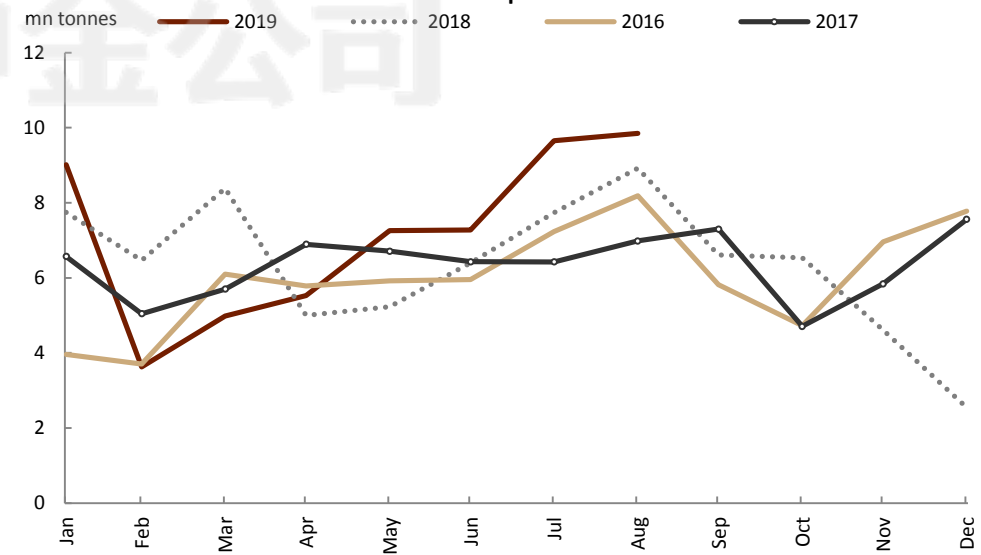
## Thermal coal prices in China



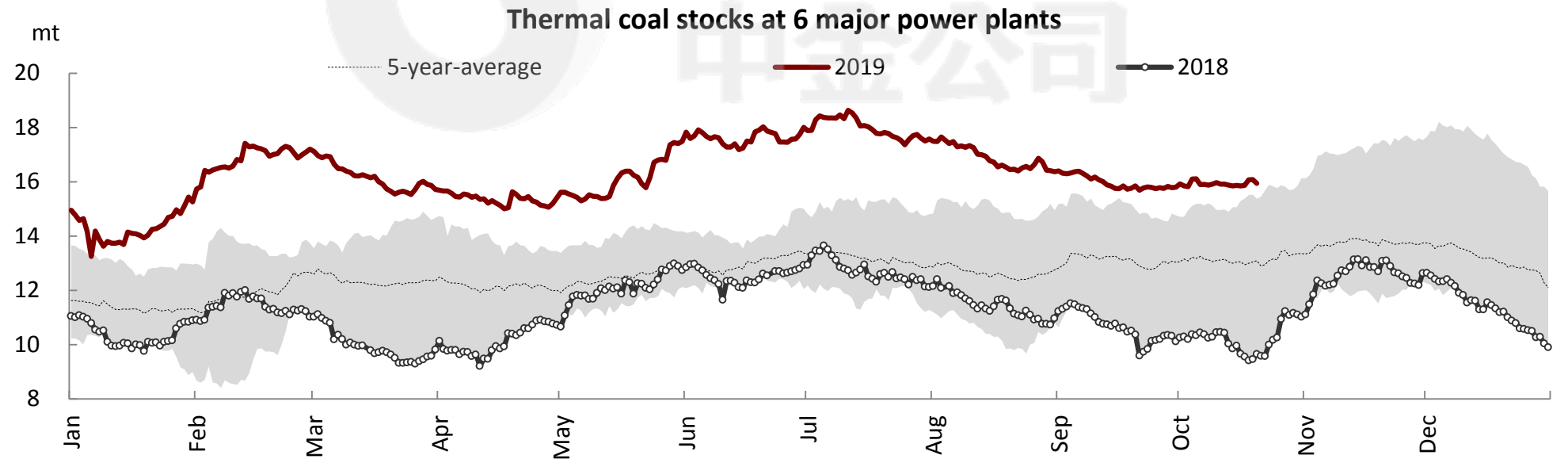
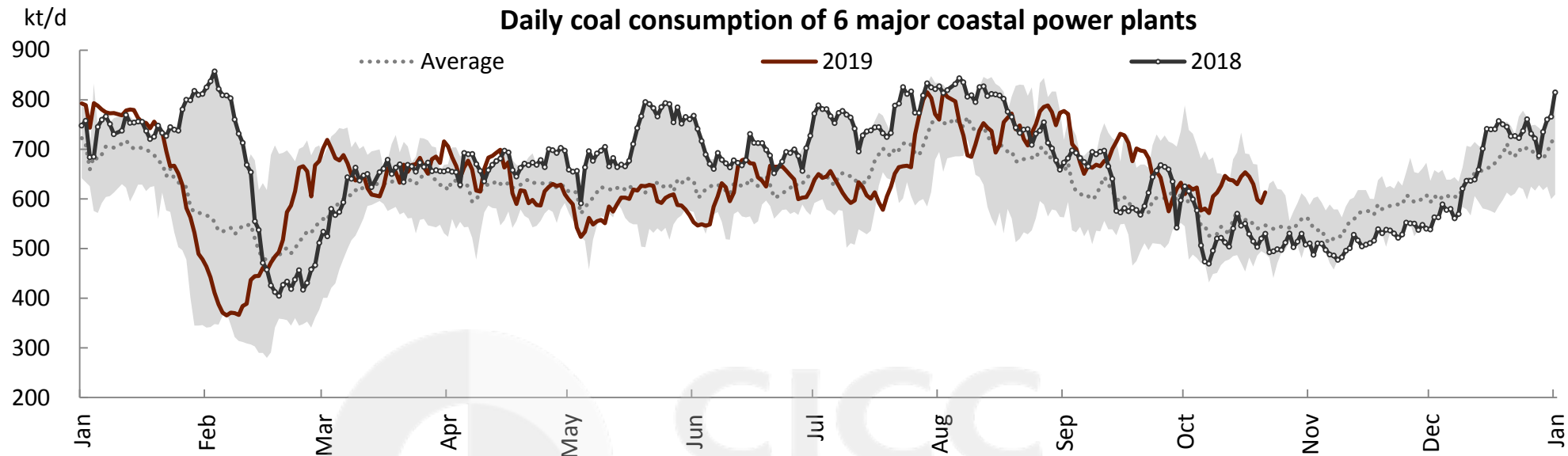
## China's raw coal output increased



## Thermal coal imports of China

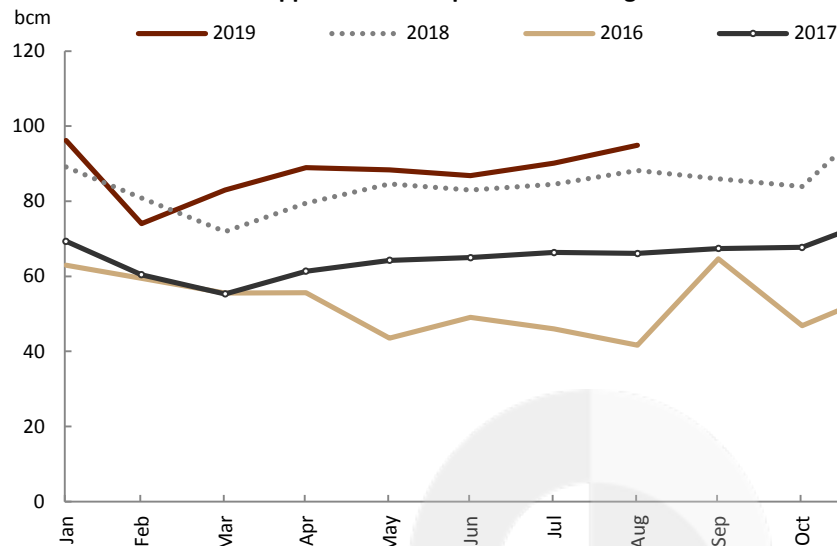


# Thermal coal: Power plant inventories remain high

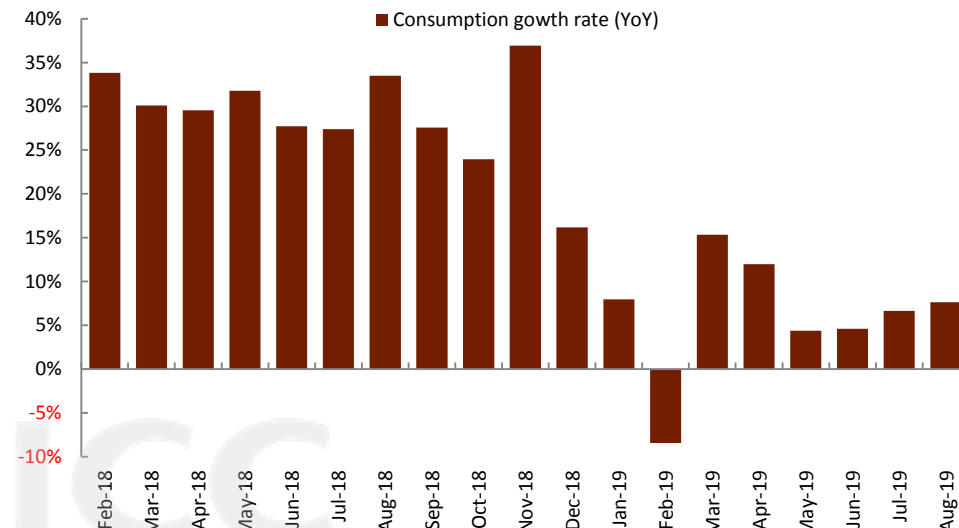


# Natural gas: Demand growth slows

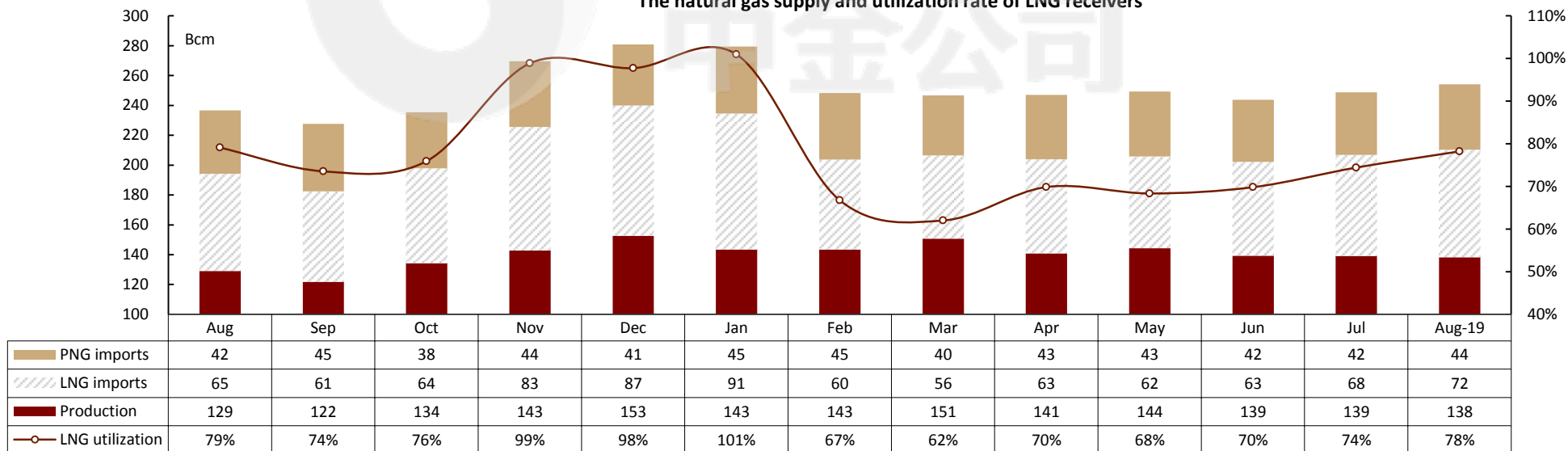
Apparent consumption of natural gas in China



China's natural gas consumption growth rate has declined

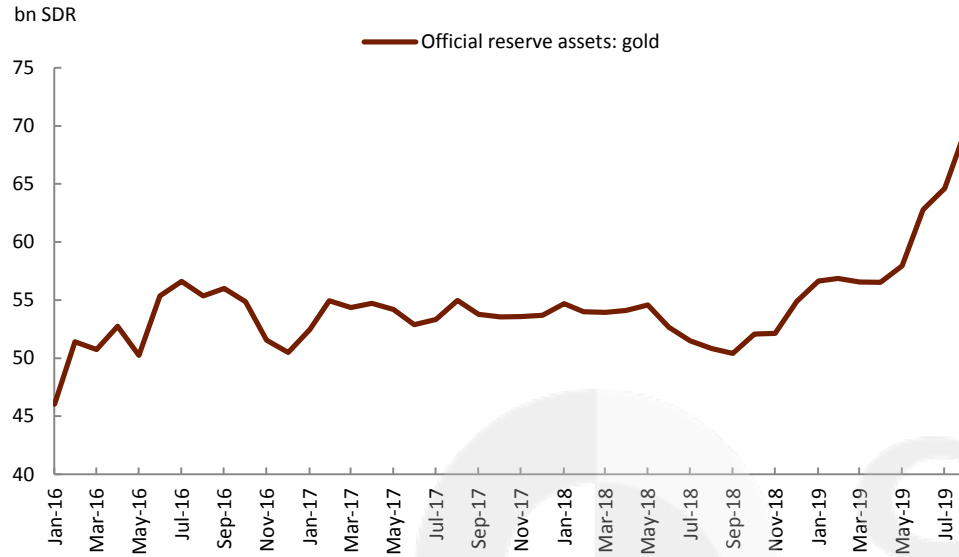


The natural gas supply and utilization rate of LNG receivers



# Gold: Central bank continues to increase gold reserves

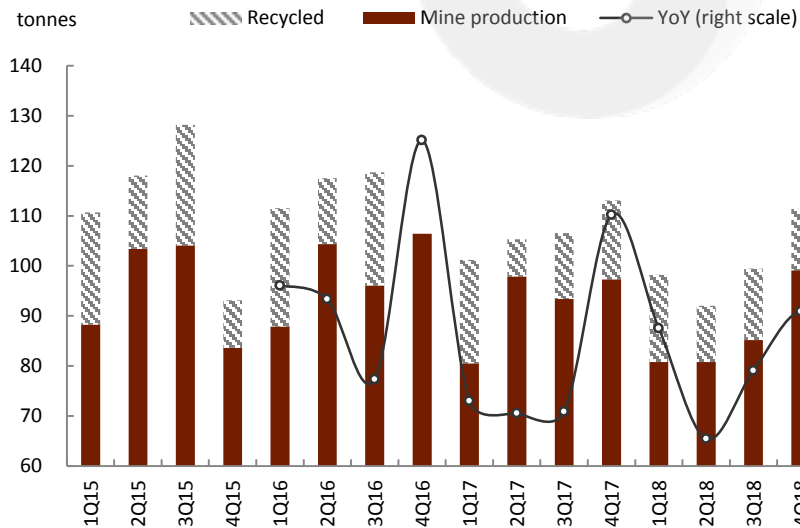
China's official gold reserves have increased significantly



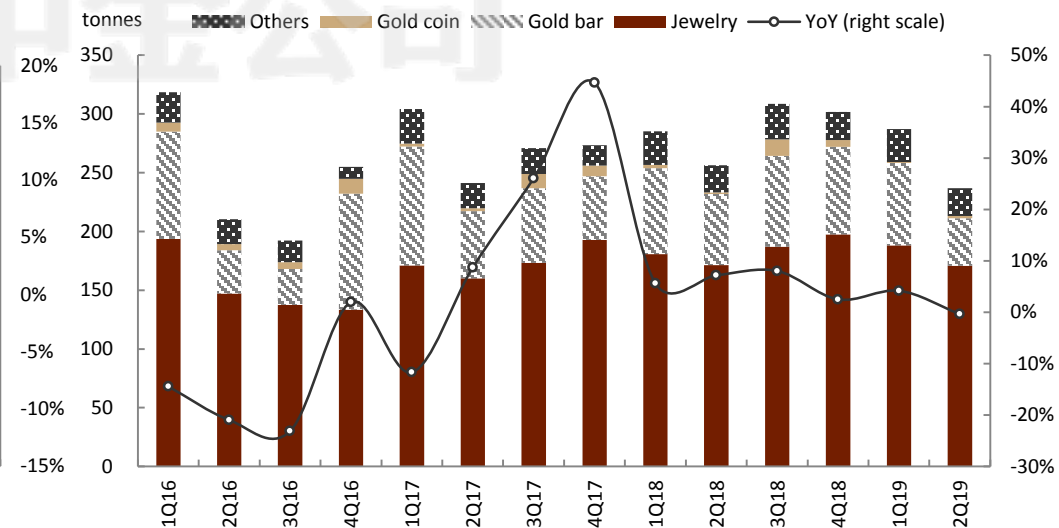
Gold-silver price ratio in China



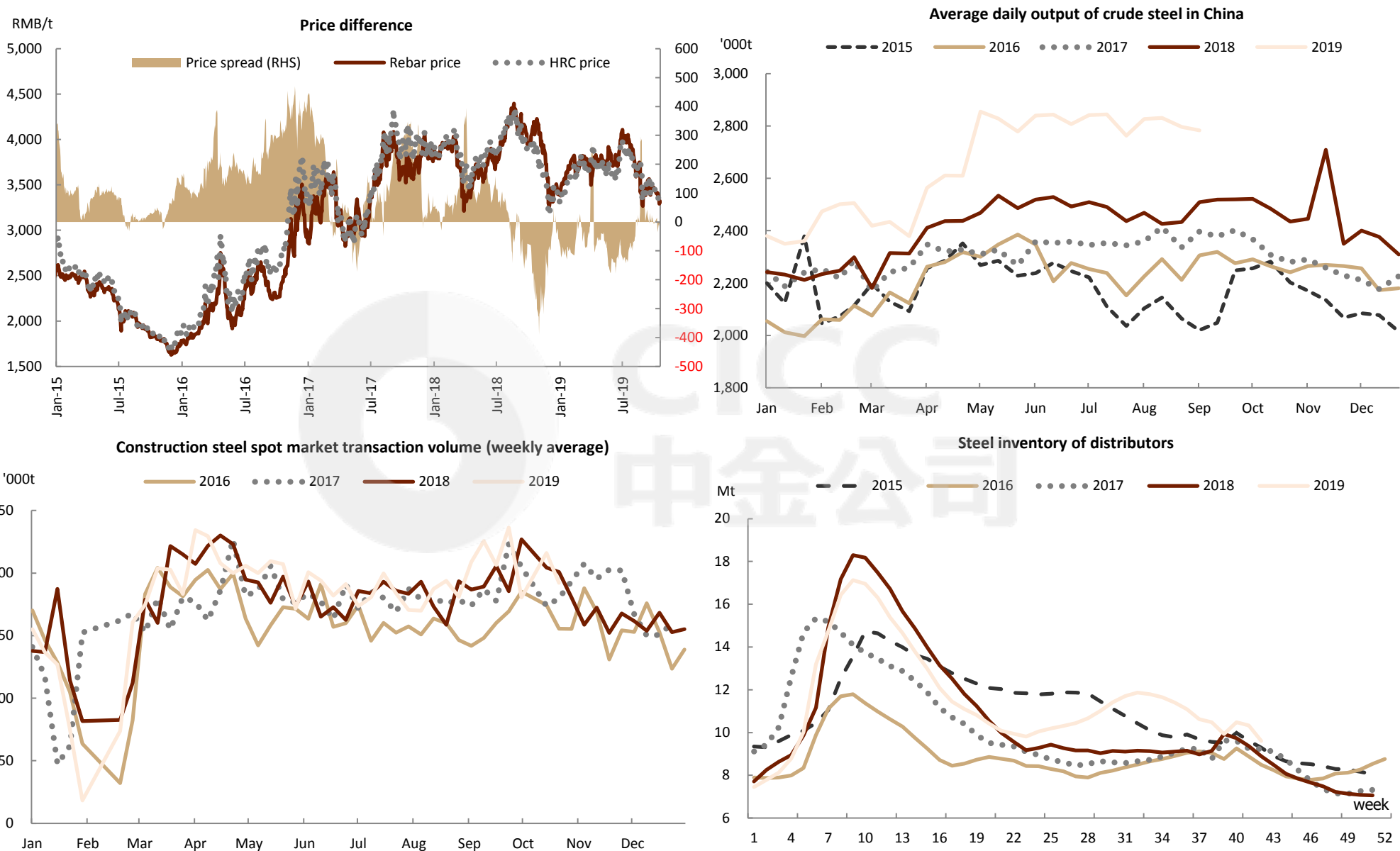
Gold supply in China



Gold demand in China

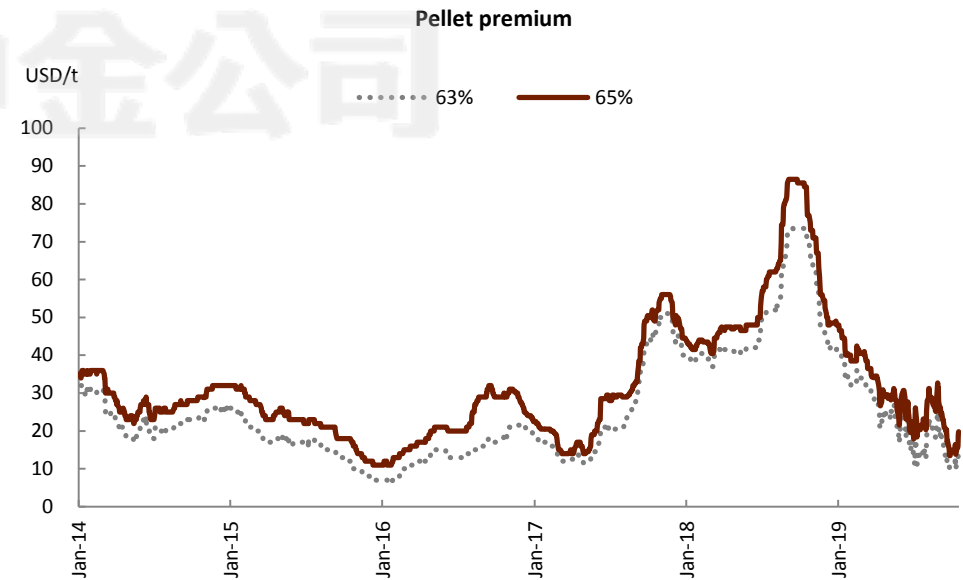
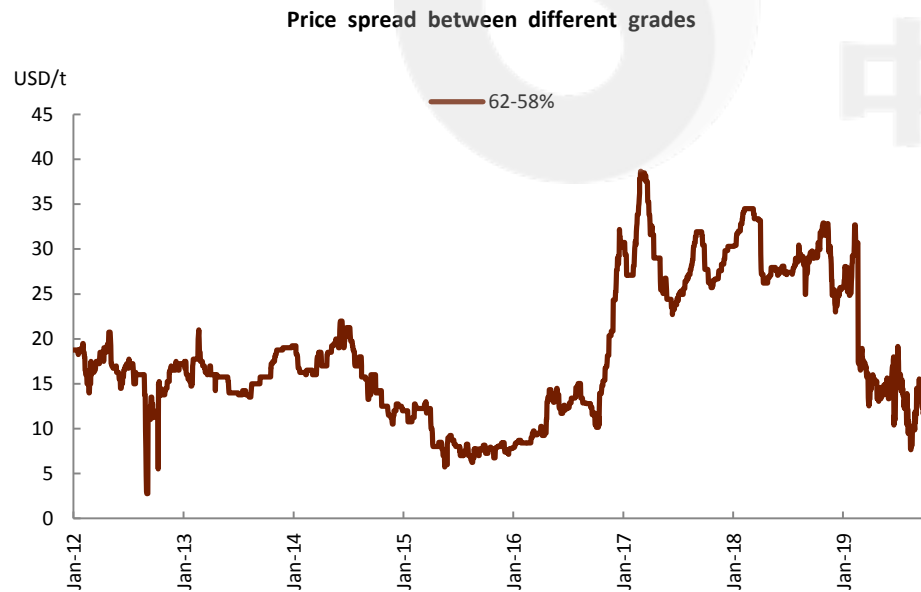
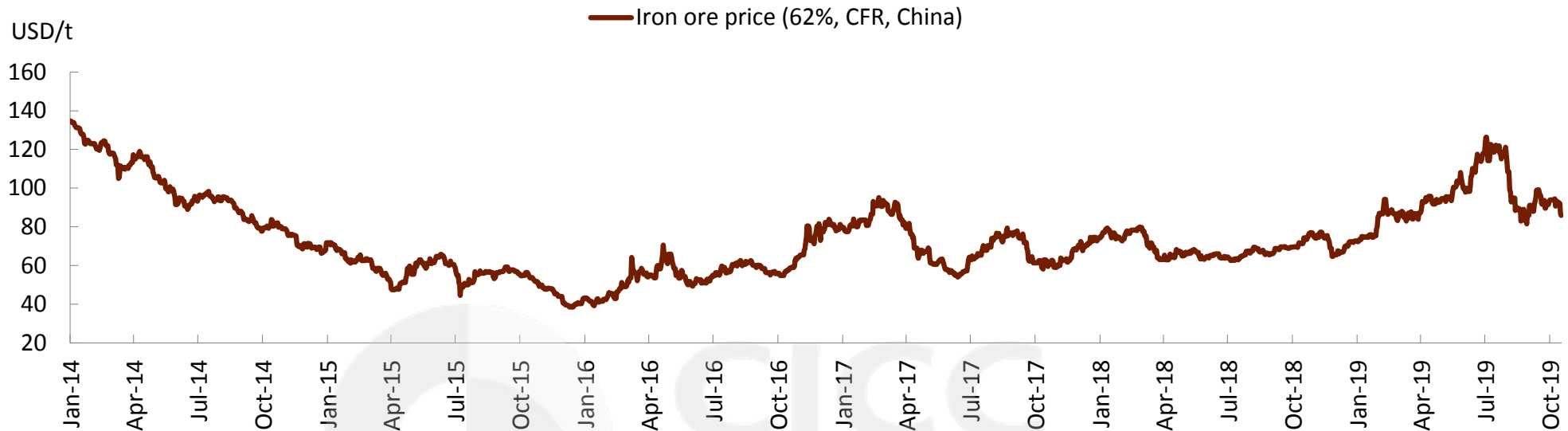


# Steel: High inventory declines



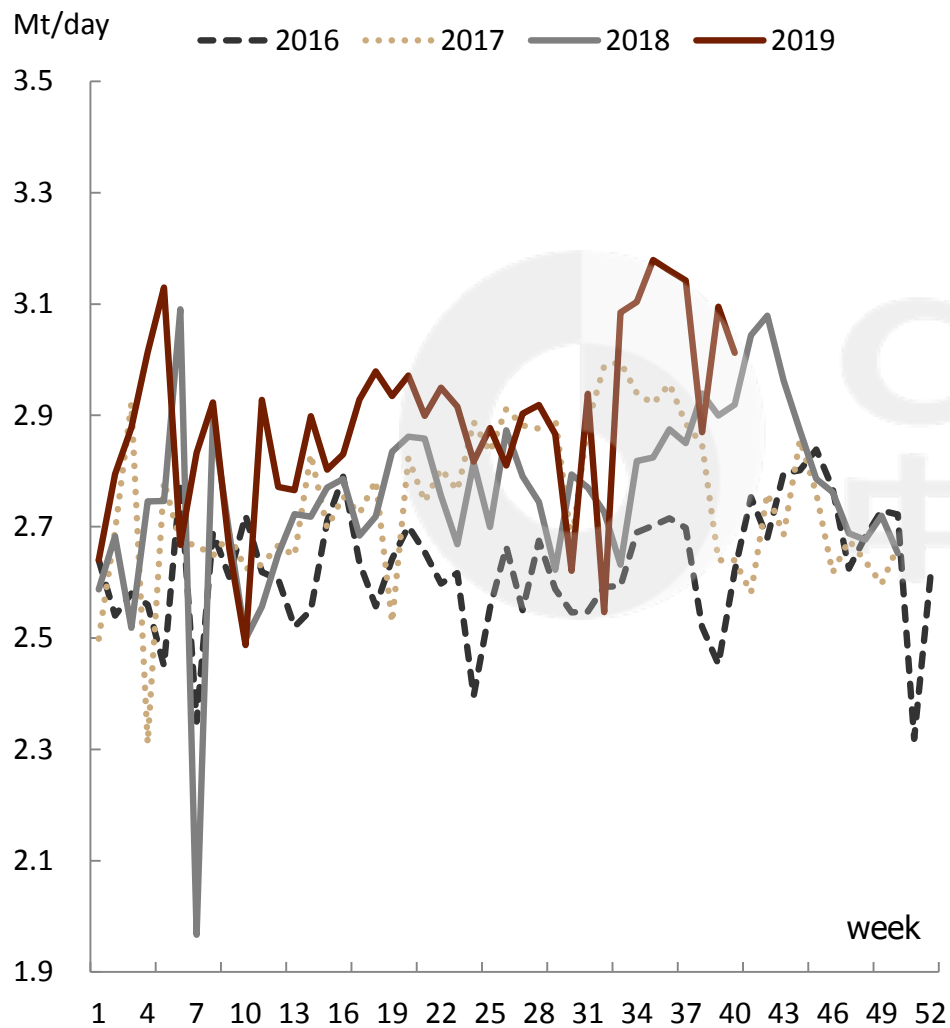


# Iron ore: Supply recovers and price starts to fall

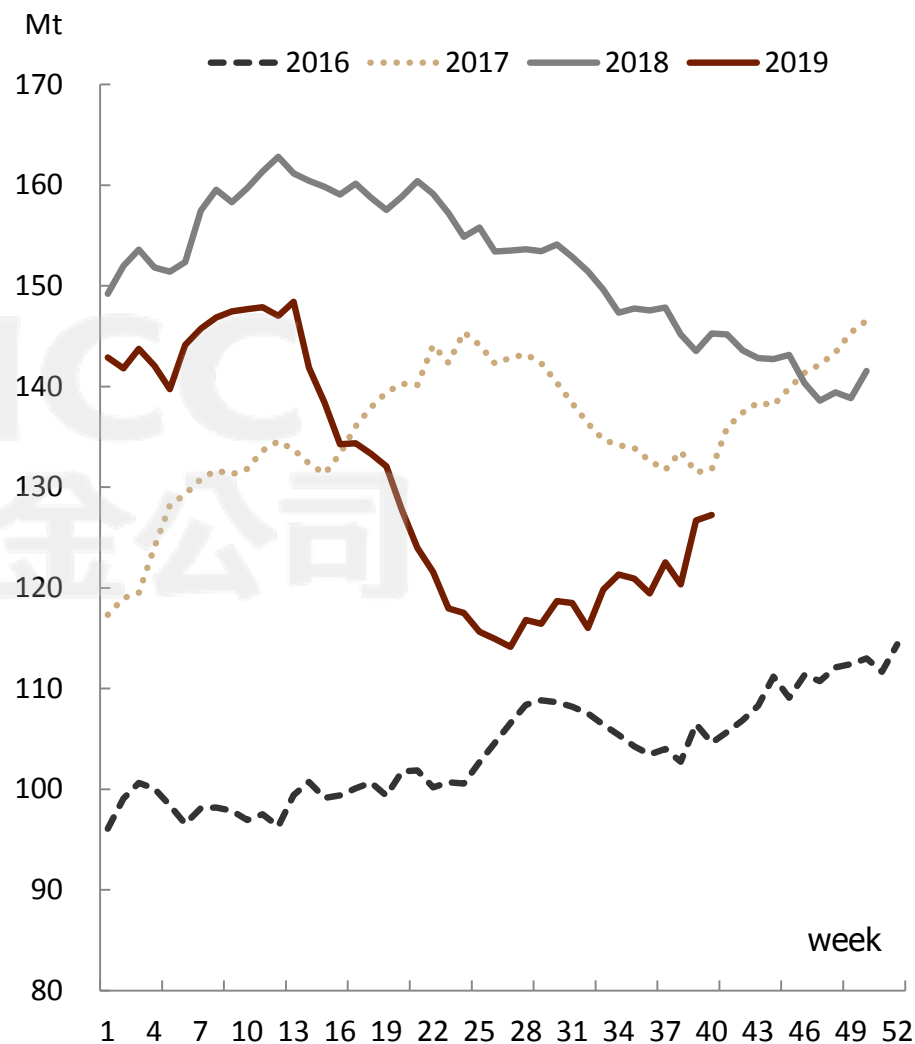


# Iron ore: Port stocks recover

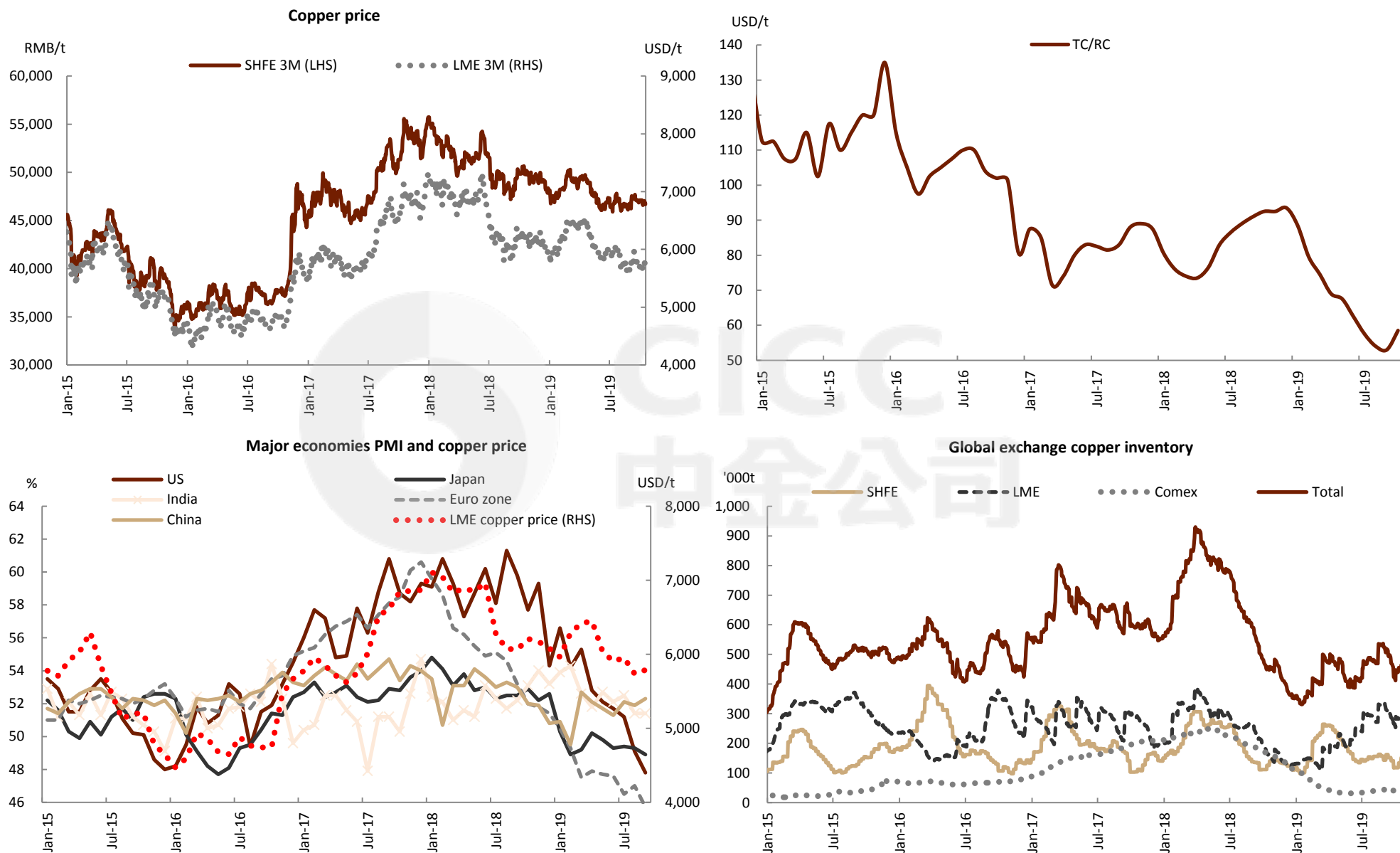
Amount of iron ore dredging (45 ports)



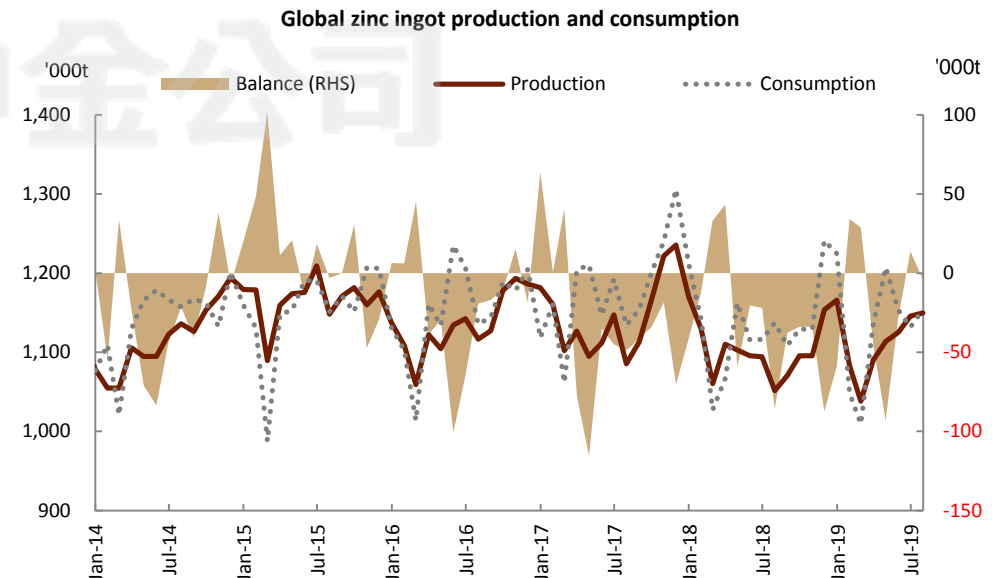
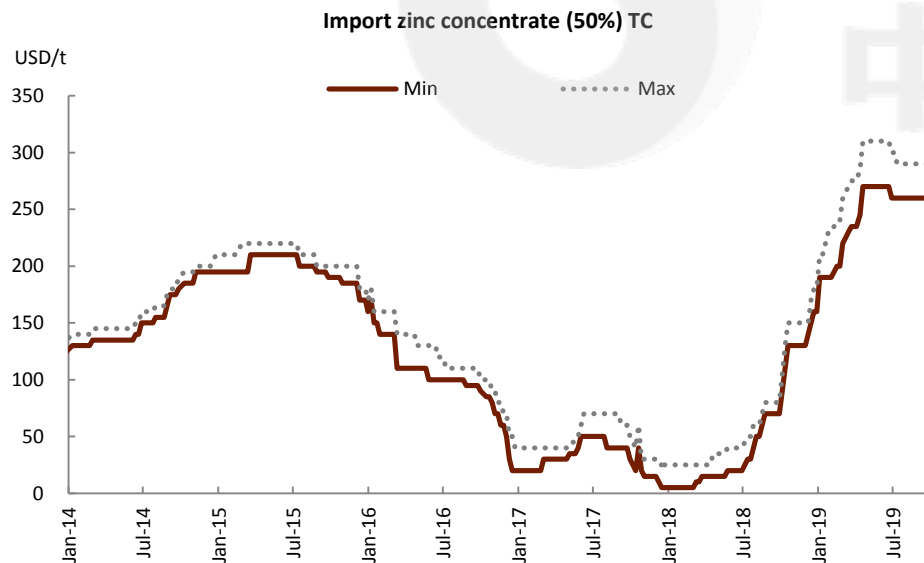
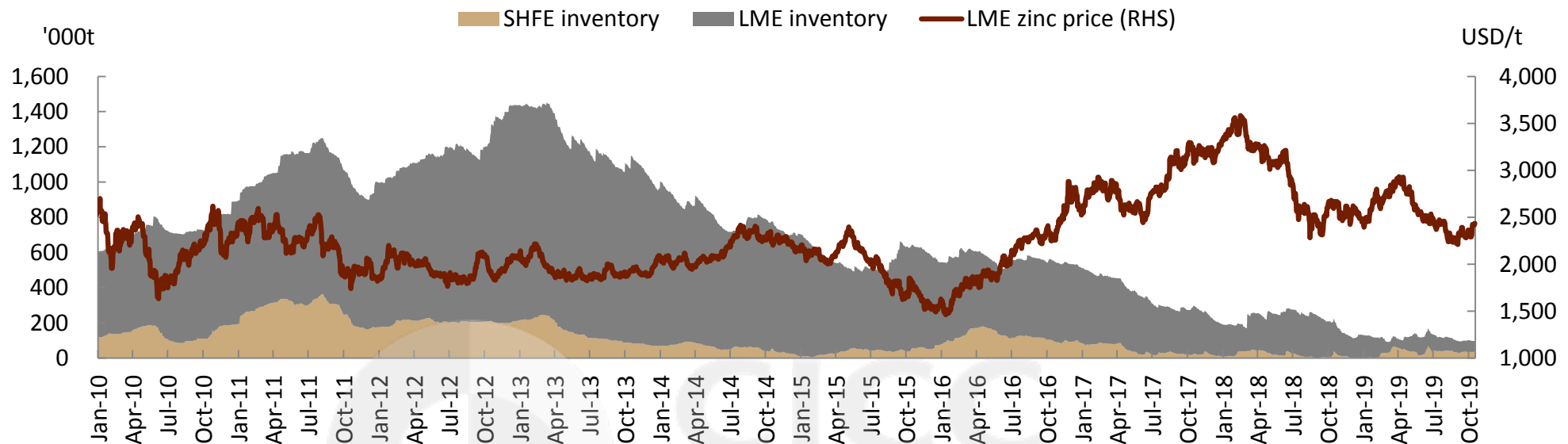
Imports of iron ore inventories (45 ports)



# Copper: Downstream demand still lackluster

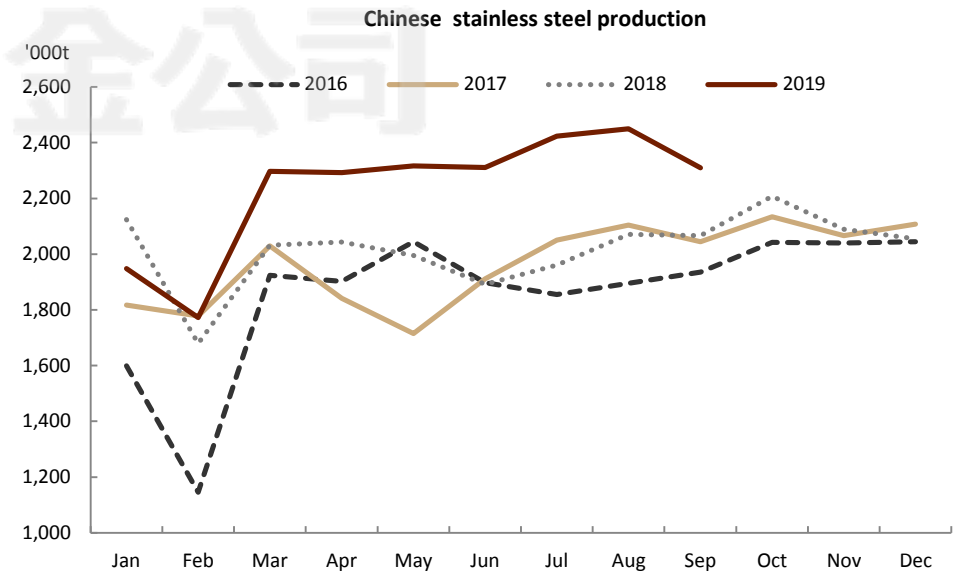
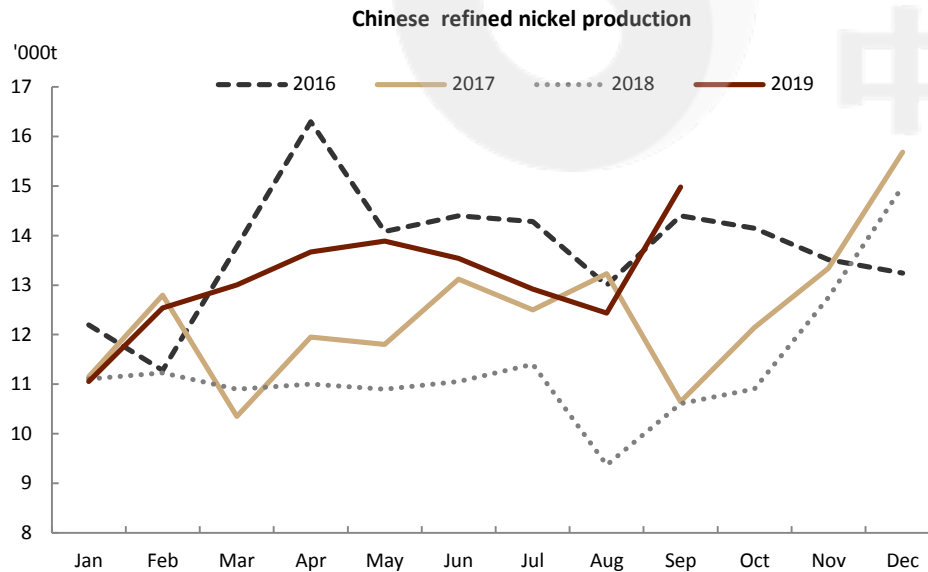
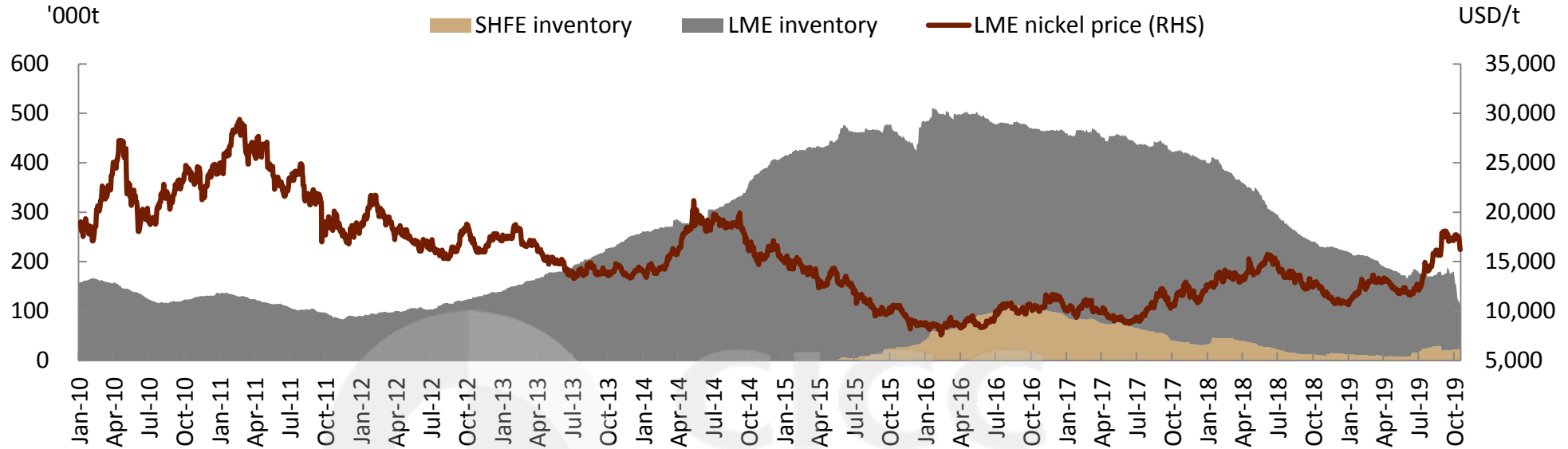


# Zinc: Smelters resume production as expected

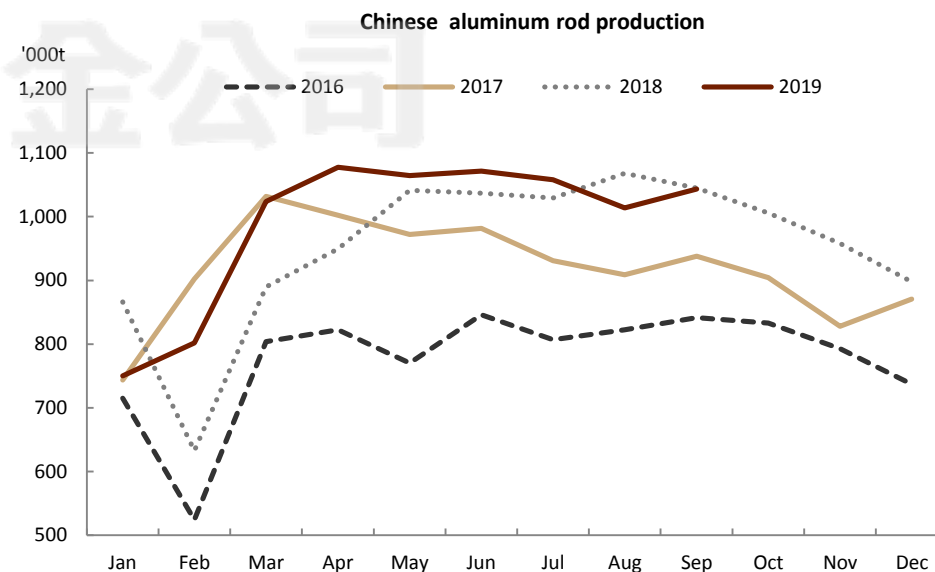
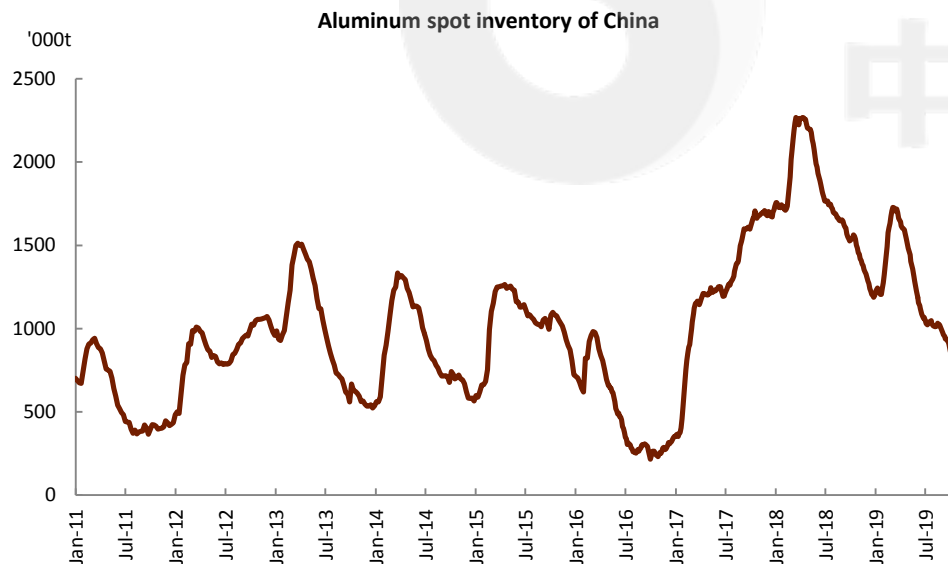
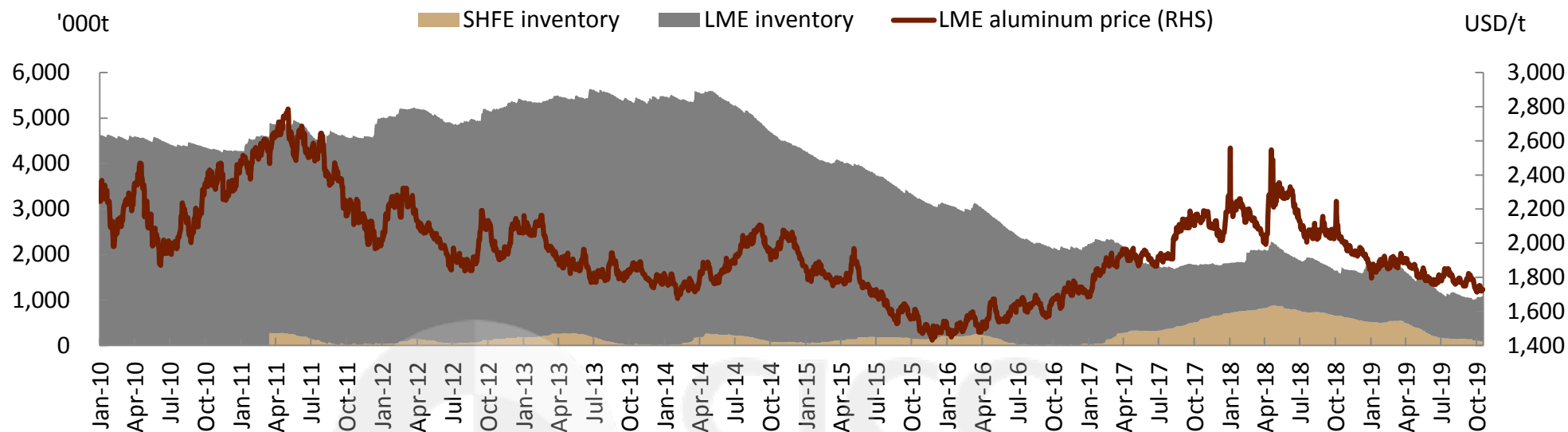


Commodity

# Nickel: Indonesia's mine ban disrupts the market



# Aluminum: Supply issues delay new production capacity



Commodity

# Important legal disclosures

## General Disclosures

This document has been produced by China International Capital Corporation Hong Kong Securities Limited (CICCHK). This document is based on information available to the public that we consider reliable, but CICCHK and its associated company(ies)(collectively, hereinafter “CICC”) do not represent that it is accurate or complete. The information and opinions contained herein are for investors’ reference only and do not take into account the particular investment objectives, financial situation, or needs of any client, and are not an offer to buy or sell or a solicitation of an offer to buy or sell the securities mentioned. Under no circumstances shall the information contained herein or the opinions expressed herein constitute a personal recommendation to anyone. Investors should make their own independent evaluation of the information contained in this research document, consider their own individual investment objectives, financial situation and particular needs. CICC does not provide tax, accounting, or legal advice to our clients, and all investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. Neither CICC nor its related persons shall be liable in any manner whatsoever for any consequences of any reliance thereon or usage thereof.

The performance information (including any expression of opinion or forecast) herein reflect the most up-to-date opinions, speculations and forecasts at the time of the document’s production and publication. Such opinions, speculations and forecasts are subject to change and may be amended without any notification. At different periods, CICC may release documents which are inconsistent with the opinions, speculations and forecasts contained herein.

The analysts named in this document may have from time to time discussed with our clients, including CICC salespeople, traders, and other professionals, or may discuss in this document, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this document, which impact may be directionally counter to the analysts’ published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analysts’ fundamental equity rating for such stocks as described herein.

CICC’s salespeople, traders, and other professionals may provide oral or written market commentary or trading ideas that may be inconsistent with, and reach different conclusions from, the recommendations and opinions presented in this document. Such ideas or recommendations reflect the different assumptions, views and analytical methods of the persons who prepared them, and CICC is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this document. CICC’s asset management area, proprietary trading desks and other investing businesses may make investment decisions that are inconsistent with the recommendations or opinions expressed in this document.

Unless stated otherwise, any performance data quoted represents past performance. Past performance is not a indicator of future performance. No representation or warranty is made that any returns indicated will be achieved. Certain assumptions may have been made in this analysis which have resulted in any returns detailed herein. Changes to the assumptions may have a material impact on any returns detailed.

To the extent this material is provided to any recipient, this material is provided solely on the basis that the recipient has the capability to independently evaluate investment risk and is exercising independent judgment in evaluating investment decisions in that its investment decisions will be based on its own independent assessment of the opportunities and risks presented by a potential investment, market factors and other investment considerations.

This document is distributed in Hong Kong by CICCHK, which is regulated by the Securities and Futures Commission. Queries concerning CICC Research from readers in Hong Kong should be directed to our Hong Kong sales representatives.

This document is distributed in Singapore only to accredited investors and/or institutional investors, as defined in the Securities and Futures Act, by China International Capital Corporation (Singapore) Pte. Limited (“CICCSG”), which is regulated by the Monetary Authority of Singapore. By virtue of distribution by CICCSG to these categories of investors in Singapore, disclosure under Section 36 of the Financial Adviser Act (which relates to disclosure of a financial adviser’s interest and/or its representative’s interest in securities) is not required. Recipients of this document in Singapore should contact CICCSG in respect of any matter arising from or in connection with this document. This document is not intended for and should not be distributed or passed on, directly or indirectly, to any other person in the jurisdiction of Singapore.

This document is distributed in the United Kingdom by China International Capital Corporation (UK) Limited (“CICCUK”), which is authorised and regulated by the Financial Conduct Authority. The investments and services to which this document relates are only available to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. This document is not intended for retail clients. In other EEA countries, the document is issued to persons regarded as professional investors (or equivalent) in their home jurisdiction.

This document will be made available in other jurisdictions pursuant to the applicable laws and regulations in those particular jurisdictions.

## Special Disclosures

CICC may have positions in, and may effect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for those companies. Investors should be aware that CICC and/or its associated persons may have a conflict of interest that could affect the objectivity of this document. Investors should not solely rely on the opinions contained in this document when making any investment decision or other decisions.

Disclosures in relation to the Companies contained this document could be found at <https://research.cicc.com/footer/disclosures>, or in the published latest company-specific research.

Distribution of ratings is available at <https://research.cicc.com/footer/disclosures>.

Explanation of stock ratings: “BUY”, the stock is expected to provide an absolute return of 20% or more; “HOLD”, the stock is expected to provide an absolute return of -10%~20%; “SELL”, the stock is expected to provide an absolute return of -10% and below.

Explanation of sector ratings: Analyst expects a sector rated “OVERWEIGHT” to outperform the market by 10% or more, “EQUAL-WEIGHT” to end up between 10% below and 10% above the market, and “UNDERWEIGHT” to fall behind the market by 10% or more, over the next 6~12 months.

Copyright of this document belongs to CICC. Any form of unauthorized distribution, reproduction, publication, release or quotation is prohibited without CICC’s written permission.

## US Regulatory Disclosures

This research report is not intended to be, and should not be taken to be, the provision of financial advice in relation to the securities covered, or an inducement to deal in such securities. The information in this research report is not updated and may be stale and thus unsuitable for trading purposes. This research report is intended only to provide information for the purpose of strategic planning, market sector analysis, or other corporate or accounting purposes. This research report may not be forwarded without our prior written consent and may not be circulated or distributed to any persons in such jurisdictions where to do so would constitute a violation of the relevant laws of such jurisdiction.

## Foreign Broker-Dealer Disclosure

This research report was prepared by China International Capital Corporation Limited and/or China International Capital Corporation Hong Kong Securities Limited (hereinafter "CICC"). CICC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through CICC US Securities, Inc. (hereinafter "CICC US"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through CICC. CICC US accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of CICC US and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.





# Important legal disclosures

## General Disclosures

This report has been produced by China International Capital Corporation Hong Kong Securities Limited (CICCHKS). This report is based on information available to the public that we consider reliable, but CICCHKS and its associated company(ies)(collectively, hereinafter “CICC”) do not represent that it is accurate or complete. The information and opinions contained herein are for investors’ reference only and do not take into account the particular investment objectives, financial situation, or needs of any client, and are not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or the financial products mentioned. Under no circumstances shall the information contained herein or the opinions expressed herein constitute a personal recommendation to anyone. Investors should make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs. CICC does not provide tax, accounting, or legal advice to our clients, and all investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. Neither CICC nor its related persons shall be liable in any manner whatsoever for any consequences of any reliance thereon or usage thereof.

The performance information (including any expression of opinion or forecast) herein reflect the most up-to-date opinions, speculations and forecasts at the time of the report’s production and publication. Such opinions, speculations and forecasts are subject to change and may be amended without any notification. At different periods, CICC may release reports which are inconsistent with the opinions, speculations and forecasts contained herein.

The analysts named in this report may have from time to time discussed with our clients, including CICC salespeople, traders, and other professionals, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the securities or the financial products discussed in this report, which impact may be directionally counter to the analysts’ published price target expectations for such securities or the financial products. Any such trading strategies are distinct from and do not affect the analysts’ fundamental rating for such securities or the financial products as described herein.

CICC’s salespeople, traders, and other professionals may provide oral or written market commentary or trading ideas that may be inconsistent with, and reach different conclusions from, the recommendations and opinions presented in this report. Such ideas or recommendations reflect the different assumptions, views and analytical methods of the persons who prepared them, and CICC is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report. CICC’s asset management area, proprietary trading desks and other investing businesses may make investment decisions that are inconsistent with the recommendations or opinions expressed in this report.

Unless stated otherwise, any performance data quoted represents past performance. Past performance is not a indicator of future performance. No representation or warranty is made that any returns indicated will be achieved. Certain assumptions may have been made in this analysis which have resulted in any returns detailed herein. Changes to the assumptions may have a material impact on any returns detailed.

To the extent this material is provided to any recipient, this material is provided solely on the basis that the recipient has the capability to independently evaluate investment risk and is exercising independent judgment in evaluating investment decisions in that its investment decisions will be based on its own independent assessment of the opportunities and risks presented by a potential investment, market factors and other investment considerations.

This report is distributed in Hong Kong by CICCHKS, which is regulated by the Securities and Futures Commission. Queries concerning CICC Research from readers in Hong Kong should be directed to our Hong Kong sales representatives. The CE numbers of SFC licensed authors of this report are disclosed by the authors’ names on the cover page.

This report is distributed in Singapore only to accredited investors and/or institutional investors, as defined in the Securities and Futures Act, by China International Capital Corporation (Singapore) Pte. Limited (“CICCSG”), which is regulated by the Monetary Authority of Singapore. By virtue of distribution by CICCSG to these categories of investors in Singapore, disclosure under Section 36 of the Financial Adviser Act (which relates to disclosure of a financial adviser’s interest and/or its representative’s interest in securities) is not required. This report is not intended for and should not be distributed or passed on, directly or indirectly, to any other person in the jurisdiction of Singapore. Recipients of this report in Singapore should contact CICCSG in respect of any matter arising from or in connection with this report.

This report is distributed in the United Kingdom by China International Capital Corporation (UK) Limited (“CICCUK”), which is authorised and regulated by the Financial Conduct Authority. The investments and services to which this report relates are only available to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. This report is not intended for retail clients. In other EEA countries, the report is issued to persons regarded as professional investors (or equivalent) in their home jurisdiction.

This report will be made available in other jurisdictions pursuant to the applicable laws and regulations in those particular jurisdictions.

## Special Disclosures

CICC does and seeks to do business with companies covered in CICC Research. As a result, investors should be aware that CICC and/or its associated persons may have a conflict of interest that could affect the objectivity of this report.

**Copyright of this report belongs to CICC. Any form of unauthorized distribution, reproduction, publication, release or quotation is prohibited without CICC’s written permission.**