

16 March 2020

China Market Strategy

Fighting COVID-19, Chinese Style

**This report was written on 2020.03.15, before the news of the Fed's unprecedented monetary move.*

"It was the spring of hope, it was the winter of despair." – Charles Dickens, A Tale of Two Cities

And it is a time for epic market moves. After last week's historic volatility in the US market that was not supposed to occur during earth's lifetime, the S&P 500 closed **RIGHT** at its 850-day moving average (at 2,711 vs. 2,705; **Chart 1**).

We have discussed repeatedly regarding the significance of this long-term moving average, as it is in rhythm with the length of a short economic cycle of 3.5 years x 12 months x 20.2 days = 850 days ("A *Definitive Guide to Forecasting China Market*", 2019.09.19). In the past, not even the "Black Monday" in 1987 could penetrate this moving average. ***If the index trades consistently below the 850-day moving average in the coming weeks, the odds of a global recession, which has already surged, will be impossible to ignore.***

Many tried to explain Friday's epic reversal from the brink by the coordination of global central banks' emergency monetary easing moves. But we all understand that monetary and fiscal stimulus can do little to fight the coronavirus. In the near term, to contain the virus's contagious spread, countries must lock down their cities; they must provide emergency loans and other reliefs for small businesses to ease their working capital constraints; aggressive and free virus testing must also be available to quickly locate the potential spots of contagion. Besides that, as time passes, we pray.

These are the steps that China has taken to fight COVID-19. Countries are now taking the pages from China's playbook: Spain and Italy have locked down the entire country; a number of US cities have declared emergency state. Trump's speech on Friday let the market see a definite path to combat the coronavirus. Despite continuing uncertainty and challenges ahead, the market swung from despair to hope. Based on China's experience, such hope alone will help stabilize the market, as China did after the historic plunge on the first trading day after the Lunar New Year. ***Next, the global markets will likely continue to heal, despite rising new confirmed cases*** – till the new confirmed cases start to decline for some time, validating the inflection of the virus spread. Then, the market will return to the reality of weakening fundamentals.

Hao Hong, CFA

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

Head of Research

Our technical and sentiment indicators confirm such forecasts based on the Chinese experience from a different angle. Note that Hong Kong is extremely oversold, as indicated by the percentage of index members making new 52-week lows (**Chart 2**). The sentiment in Hong Kong is also extremely depressed, as observed on an intra-day basis on Friday, 13 March (**Chart 3**). ***Historically, when the market was oversold at such extreme levels, and sentiment was so extremely depressed, a technical rebound started to unfold in the ensuing weeks.***

But we continue to have reservations about China's role as a "risk haven" during the global storm. Our analysis shows that the northbound net fund outflow via the stock connect is at record levels. The northbound funds tend to be smart money, as evidenced by their escape in April 2015 – right before the bubble burst in June 2015, and again in February 2018 when one of the steepest market corrections in China's stock market history began (**Chart 4**). Further, the A50 index futures has run into resistance, and has been range-bound since June 2015 (**Chart 5**).

In sum, governments around the world have come to terms with the harsh reality of COVID-19, and have followed China's suit to fight the virus spread. The more effective the quarantine efforts are, the more costly it will be economically. China has started to go back to work cautiously. But capacity utilization is only half of or even less than half of the usual levels, as indicated by property sales, traffic, electricity generation and land supply data, etc (**Chart 6-15**). ***In the near term, governments' resolve and monetary easing in an extremely panic market will induce technical rebound, although the market will probably retest its prior low. But precisely because the market can gain from draconian quarantine measures in the near term, the longer-term economic outlook is turning increasingly clouded.***

Focus Charts

Figure 1: The historic plunge now vs. 1987: S&P 500 back RIGHT at 850-day mavg



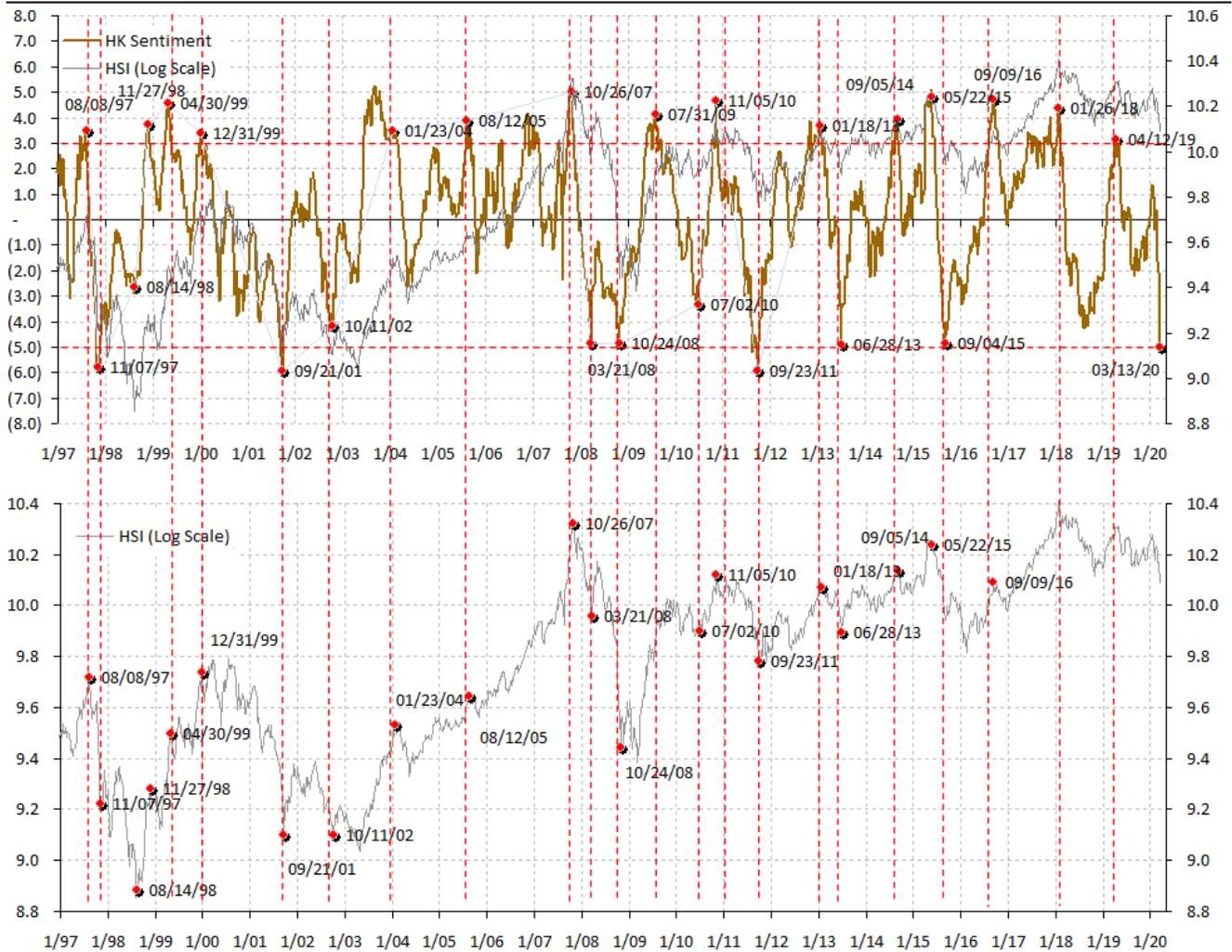
Source: Bloomberg, BOCOM Int'l estimates

Figure 2: Market oversold at its extreme, second only to 2008 and 2011



Source: Bloomberg, BOCOM Int'l estimates

Figure 3: Market panic at historical extremes (2020.03.13 intraday data)



Source: Bloomberg, BOCOM Int'l estimates

Figure 4: Foreign fund record outflow

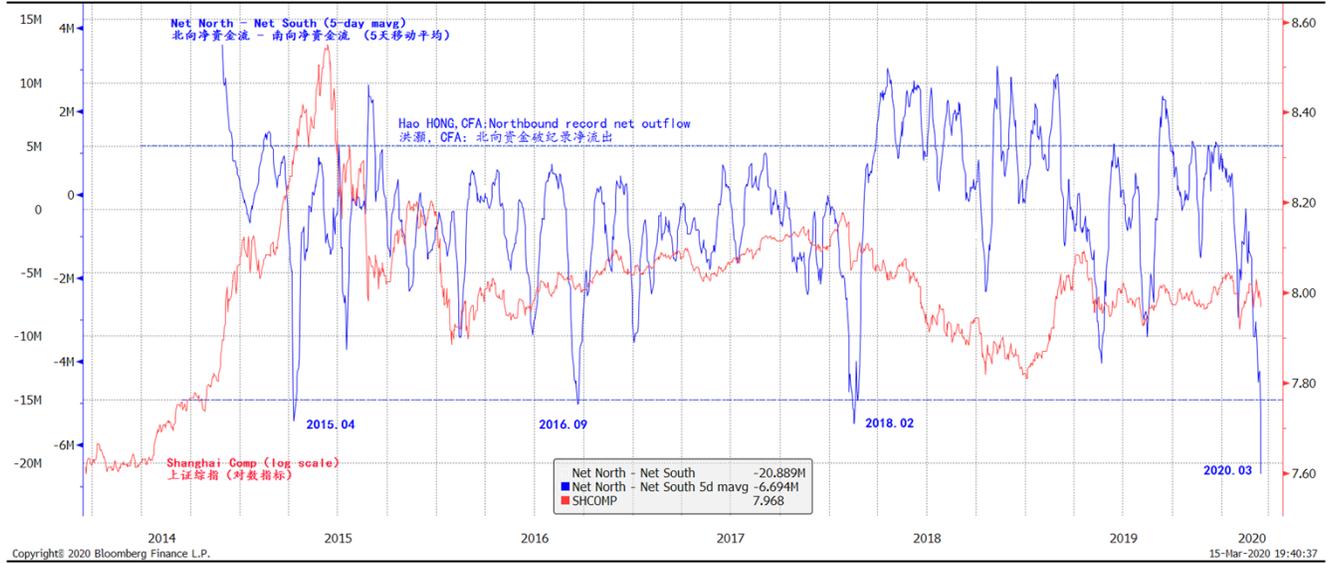
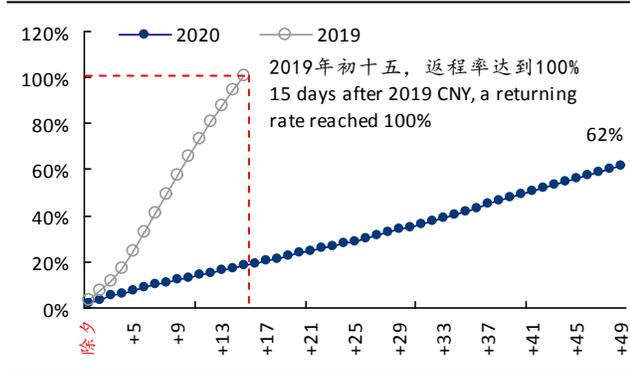


Figure 5: A50 index futures is still bound within a trading range since 2015

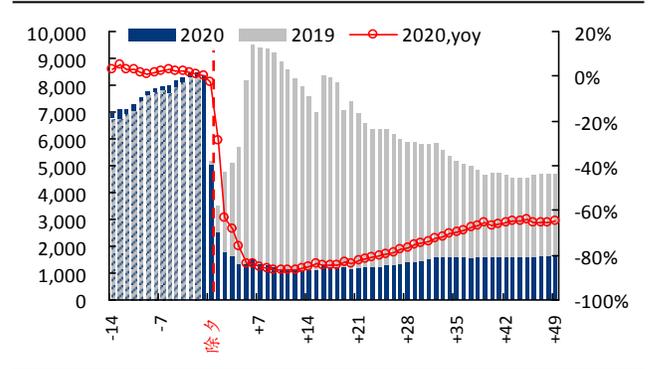


Figure 6: Rate of people return at 62% nationwide



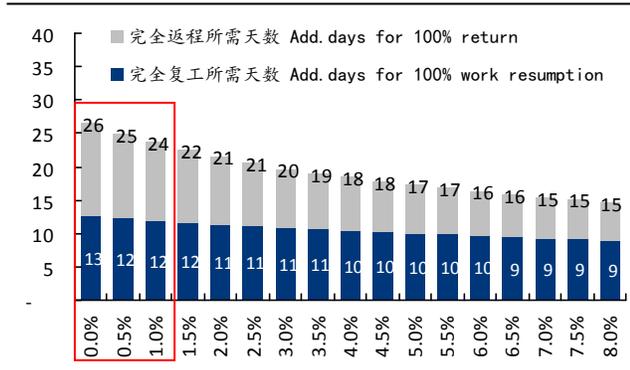
Source: Ministry of Transport, BOCOM Int'l (Data as of March 13, 2020)

Figure 7: Daily passenger grows at 0.4% dod on average, up slightly from last week



Source: Ministry of Transport, BOCOM Int'l (Data as of March 13, 2020)

Figure 8: Sensitivity estimates of the time needed for people's full return/work resumption. Current rate of work resumption is 77-88%



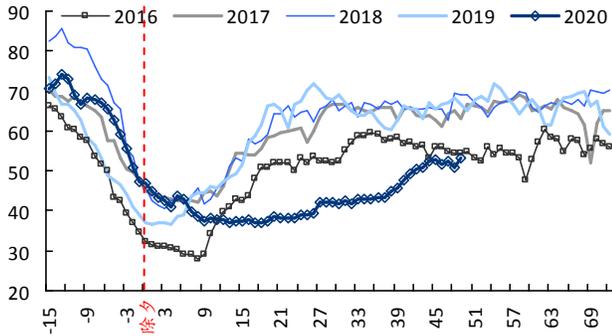
Source: Ministry of Transport, BOCOM Int'l The base date is March 13, 2020

Figure 9: Sensitivity estimates on work resumption progress. Full resumption of work will be achieved in late March (3.25-3.26)

完成日期 Completion date	3/14	3/15	3/16	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26
客运增速(日均) Passenger growth ADR	79%	81%	83%	84%	85%	88%	90%	92%	94%	95%	97%	99%	-100%
0.00%	79%	81%	83%	85%	86%	88%	90%	92%	94%	95%	97%	99%	-100%
0.25%	79%	81%	83%	85%	86%	88%	90%	92%	94%	95%	96%	98%	-100%
0.50%	79%	81%	83%	85%	86%	88%	90%	92%	94%	95%	96%	98%	-100%
0.75%	79%	81%	83%	85%	86%	88%	90%	92%	94%	95%	96%	98%	-100%
1.00%	79%	81%	83%	85%	86%	88%	90%	92%	94%	95%	96%	98%	-100%
1.25%	79%	81%	83%	85%	86%	88%	90%	92%	94%	95%	96%	98%	-100%
1.50%	79%	81%	83%	85%	87%	88%	90%	92%	95%	97%	99%	-100%	-100%
1.75%	79%	81%	83%	85%	87%	89%	91%	93%	95%	97%	99%	-100%	-100%
2.00%	79%	81%	83%	85%	87%	89%	91%	93%	95%	97%	97%	-100%	-100%
2.25%	79%	81%	83%	85%	87%	89%	91%	93%	95%	97%	97%	-100%	-100%
2.50%	79%	81%	83%	85%	87%	89%	91%	93%	95%	97%	97%	-100%	-100%
2.75%	79%	81%	83%	85%	87%	89%	91%	93%	95%	98%	98%	-100%	-100%
3.00%	79%	81%	83%	85%	87%	89%	91%	93%	96%	98%	98%	-100%	-100%
3.25%	79%	81%	83%	85%	87%	89%	91%	93%	96%	98%	98%	-100%	-100%
3.50%	79%	81%	83%	85%	87%	89%	91%	94%	96%	98%	98%	-100%	-100%
3.75%	79%	81%	83%	85%	87%	89%	91%	94%	96%	99%	99%	-100%	-100%
4.00%	79%	81%	83%	85%	87%	89%	92%	94%	96%	98%	98%	-100%	-100%

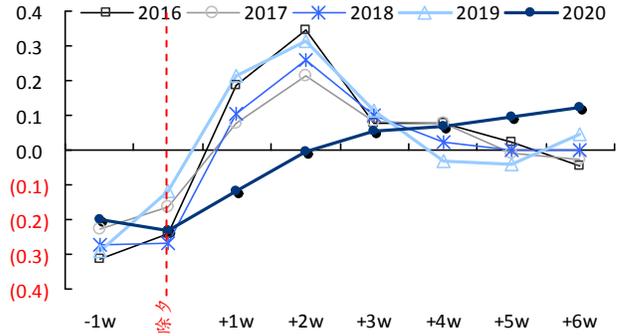
Source: Ministry of Transport, BOCOM Int'l The base date is March 13, 2020

Figure 10: Coal consumption for power generation rebounds to 80% for the same period last year



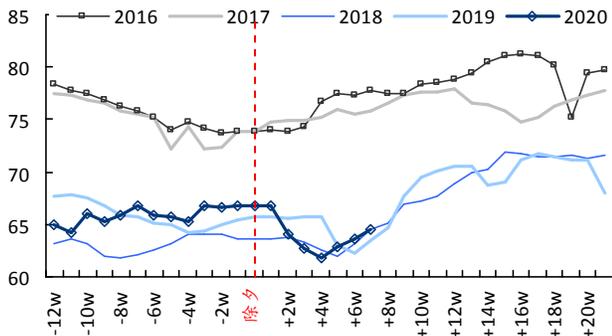
Source: Wind, BOCOM Int'l Data as of March 13, 2020

Figure 11: Coal consumption for power generation continues to increase WoW



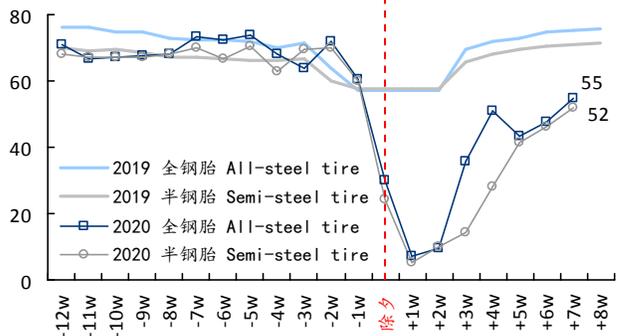
Source: Wind, BOCOM Int'l Data as of March 13, 2020

Figure 12: Blast furnace operating rate continues to rise



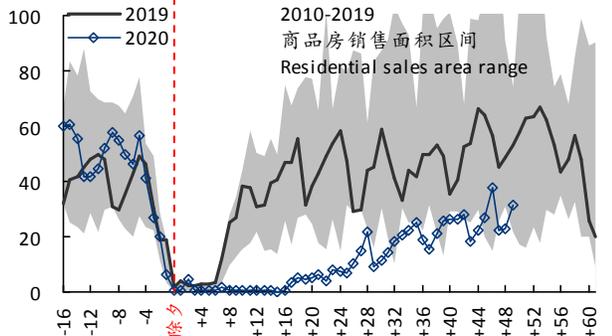
Source: Wind, BOCOM Int'l Data as of March 13, 2020

Figure 13: Car tire operating rate is recovering



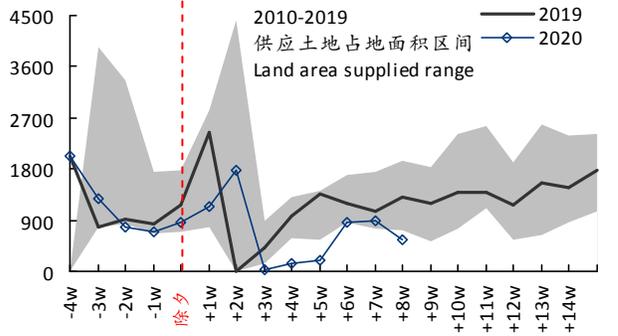
Source: Wind, BOCOM Int'l Data as of March 12, 2020

Figure 14: Property sales picked up



Source: Wind, BOCOM Int'l Data as of March 13, 2020

Figure 15: Land supply is gradually recovering



Source: Wind, BOCOM Int'l Data as of March 8, 2020

Recent Reports

20140915	Monetary and Fiscal Policies on the Cards	20160613	The Great China Bubble: Anniversary Lessons and Outlook
20140922	Consolidation or Correction - Long Yield Still Holds the Key	20160627	Post Brexit: How to Trade China.
20140929	Two Diverging Trades	20160817	Shenzhen-Hong Kong Connect: A New Era for China's
20141006	Hong Kong Chasm	20160822	Consolidation
20141013	The Dollar in Question	20160912	The Most Crowded Trade
20141020	A Great Shift in Monetary Policy	20161114	A Price Revolution – On Global Asset Allocation
20141027	Connect Hiccup	20161206	Outlook 2017: High-Wire Act
20141111	Remaining Questions for SH-HK Connect	20170124	The year of the Rooster: A Trend Breaker
20141117	SH-HK Connect: Breaking New Ground	20170307	The Reflation Trade Is Over; Get Set for Defensive Rotation.
20141119	SH-HK Connect: D.O.A.?	20170324	A Definitive Guide to China's Economic Cycle.
20141124	A Rate Cut! And A New Trading Paradigm	20170413	Price Inefficiency
20141205	Shanghai Rising: Raising Our Market View	20170524	Re-pricing Risks under New Regulations
20141217	Outlook 2015: Repricing Risks	20170609	2H17 Outlook: An Idiot's Guide to China's Nifty-Fifty Run
20141224	China: 5 Surprises in 2015	20170621	China's MSCI Inclusion: Thoughts after a Milestone
20150119	Margin Destruction. But is 4200 Possible?	20170714	Market Trilemma
20150129	Margin of Danger	20170828	A Definitive Guide to China's Economic Cycle Part II – New
20150205	RRR Cut, RMB and the Imbalance of Payment	20170829	Cycle Sentiment
20150209	Option D-Day and the Story of Red Temple	20171114	Decoding disinflation : principal contradiction, social
20150302	Interest Rate Cut and the New Extremes	20171204	Outlook 2018: View from the Peak
20150320	Price-to-Whatever Ratio: A Bubble Scenario	20180131	The Year of the Dog: Lessons from 2017
20150330	One-Belt-One-Road and A New World Order	20180207	Markets in Crisis
20150413	Hang Seng = 32,000; Don't fight China's Big Mama	20180323	An Unconventional War
20150416	A50/500 Index Futures: Pricking the ChiNext Bubble	20180326	1987
20150420	CSRC, PBOC and the Greed of Man	20180409	War on War
20150506	Taming the People's Daily Bull	20180423	Great Powers Collide
20150511	Rate Cut As Expected	20180521	2H18 Outlook: Rough Sailing
20150528	"5-30" Once More	20180614	A Definitive Guide to Speculating in China
20150616	The Great China Bubble: Lessons from 800 Years of History	20180703	Where is the Bottom?
20150624	Remembering "2013-6-25	20180723	Rebound vs Bottom
20150629	The PBOC cuts. Now what?	20180813	A Lifeline for the Market
20150702	The CSRC steps in. Now what?	20180903	The Colliding Cycles of the US and China
20150706	Shock and Awe	20181029	Market Rescue: Will It Work?
20151026	The PBoC cuts. It's time for a resolution	20181119	Outlook 2019: Turning a Corner
20151109	Re-opening IPO: Devils in Details	20190201	Turning a Corner: Teachings from "the Dog"
20151116	A winter of violence	20190301	A Margin Bull. What Next?
20151130	Three Market Extremes	20190311	Who's Buying? Who's Next?
20151209	Outlook 2016: The Chinese Curse	20190322	Market Inflection Point is Confirmed
20151217	The Fed Hikes: Moment of Truth	20190415	Cyclical Inflection Point is Confirmed
20160105	China's Circuit Breaker: The First Cut is the Deepest	20190514	War and Peace
20160108	Circuit Breaker Suspended. Now What?	20190530	Outlook 2H19: What Price for the Trade War
20160115	An Oversold Reprieve	20190628	The Art of Voting
20160121	Weak Hands	20190920	A Definitive Guide to Forecasting China Market
20160125	Stabilizing an Unstable Market	20191111	Outlook 2020: Going the Distance
20160203	One Last Ditch to Salvage the Property Bubble	20191230	The Next Decade: the Ebbing Waves
20160217	Historic Lending! But Three Important Limits	20200207	Impact of nCoV outbreak on market and economy
20160301	No Growth, No Gain	20200210	Epidemic at turning point; economic cost of quarantine
20160307	Two-Sessions in a Cyclical Spring	20200224	Spell of liquidity easing
20160321	Unprecedented Divergences	20200228	The Curse of Plague
20160418	Sweet and Sour Hog Cycle	20200302	Unconventional Risk Hedging Strategies at Cycle's End
20160503	Ant Financial: A Unicorn's Defining Moment	20200309	Stock Market Populism
20160606	The Market Bottom: When and Where	20200310	Is China a "Safe Haven"?

BOCOM International

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

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

Rating System

Analyst Stock Rating:

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

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

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

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

Analyst Industry Views:

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

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

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

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

16 March 2020

China Market Strategy



Analyst certification

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

The authors of this report further confirm that (i) neither they nor their respective associates (as defined in the Code of Conduct issued by the Hong Kong Securities and Futures Commission) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of the report; (ii) neither they nor their respective associates serve as an officer of any of the Hong Kong listed companies covered in this report; and (iii) neither they nor their respective associates have any financial interests in the stock(s) covered in this report except for one coverage analyst who is holding shares of Shimao Property Holdings Limited.

Disclosure of relevant business relationships

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

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

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

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

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

Disclaimer

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

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

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

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

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

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

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

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

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