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Investments - Flash

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FAVORABLE OUTLOOK FOR CHINESE EQUITIES

Near-zero inflation will support further stimulus

China's inflation continues to slide steadily and continues the decline that began in October. The CPI index is now only advancing by +0.1% over one year in April, after peaking at +3% in September 2022. Inflation is therefore under control in the country, the index excluding food and energy advances only by +0.7%, while producer prices fall by -3.6%. One might conclude that the Chinese recovery is not yet broad enough to cause price pressures, but this is actually due to the composition of the indices, which are not very representative of services. The education and leisure sector in particular is up by +1.9% (+1.4% in March).

Unlike most other economies, the Chinese economy does not seem to have a major inflation problem. The Chinese economy is now even closer to potential deflation if the influence of producer prices on other price indexes becomes clearer. So Chinese demand may still be too weak, which will support further government stimulus policies.

Chinese government bonds reacted to falling inflation by pushing 10-year yields to their lowest level since the beginning of the year. The move is not dramatic, but the drop from 2.93% in December to 2.7% today is in line with the prospect of further government stimulus, which also echoes the lowering of the banks' reserve ratio announced in March.

Chinese stocks have largely underperformed European and US stocks since the beginning of the year, but the second quarter should prove stronger for CSI 300 companies that have not yet priced in expected profit growth of +23% in 2023.