

THE FULLERTON WEEKLY

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Volatility in China A-Shares Expected to Persist

China's A-share market slid almost 4.0% last week amid fears over tighter liquidity in the domestic financial markets. Speculation that the People's Bank of China (PBOC) would cut back on monetary stimulus following signs of a pick-up in growth, added to market jitters. While there has yet to be an official statement from the central bank, the PBOC has reportedly said in a briefing to local media that future policy operations, while observing the need to continue supporting growth, would also pay attention to macroeconomic risks, especially an over expansion of corporate leverage.

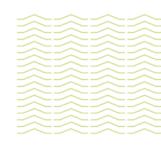
The surge in total social financing in March has raised concerns that the economy is continuing to rely on debt for growth. China's economy grew 6.7% in the first quarter, with growth underpinned by a notable acceleration in industrial production and fixed asset investment (FAI), and a continued rebound in property prices. There are concerns that the emphasis placed on monetary and fiscal policy loosening to stabilise GDP growth at the desired level of between 6.5-7.0%, has distracted from the reform agenda that is key to longer term economic sustainability.

This said, we expect China's quest for economic reforms to continue, albeit at an uneven pace. Economic challenges remain, as the government seeks to balance the effects of growth and reform. From an investment standpoint, we believe that the next three to five years will see an emergence of 'winners', i.e. leading companies that are highly efficient, from the traditional industries that are undergoing painful consolidation amid this economic transition.

Overall, we expect volatility in the Chinese market to stay elevated. In spite of that, valuations have improved after the recent market correction and this provides us the opportunity to invest in select quality Chinese corporates that stand to benefit from China's economic restructuring theme in the longer run, at more reasonable valuations.

	Value	% wow Change
Equities		
Dow Jones Indus. Avg S&P 500 Index MSCI AC Asia Pacific S&P/ASX 200 Index Hang Seng Index Ho Chi Minh Stock Index Jakarta Composite Index FTSE Bursa Malaysia KLCI KOSPI Index Karachi 100 Index S&P Bse Sensex Index Shanghai Se Composite Stock Exch Of Thai Index Straits Times Index	18,003.8 2,091.6 133.1 5,236.4 21,467.0 592.5 4,914.7 1,718.0 2,015.5 33,739.5 25,838.1 2,959.2 1,410.8 2,940.4	+0.6 +0.5 +0.6 +1.5 +0.7 +2.2 +1.9 -0.6 +0.0 -0.1 +0.8 -3.9 +1.8 +0.6
Taiwan TAIEX Index TOPIX Index (Tokyo)	8,535.8 1,407.5	-1.9 +3.4
Bonds / Currencies		
US 10YR Treasuries EUR/USD USD/JPY GBP/USD	1.8878 1.1222 111.79 1.4403	+14bps -0.5 +2.8 +1.4
Commodities		
Gold (Spot) Crude Oil (WTI) RJ/CRB Commodity Index	1,232.5 43.7 179.7	-0.1 +8.3 +3.5

Source: Bloomberg (last trading price for week ended 22 April)



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