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Elston Insights

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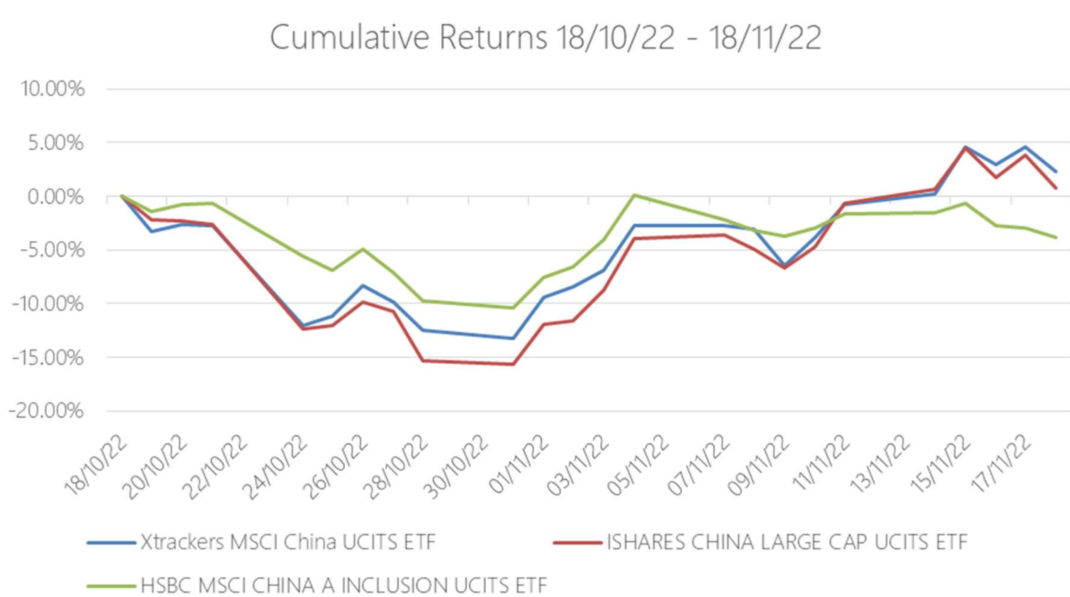
China: light at the end of the Covid tunnel?

- Covid restrictions in China have choked off growth
- The government has recently moved to relax regulations
- Chinese equity markets have rallied as a result

China was ground zero for the Covid-19 pandemic three years ago. The complex web of restrictions that arose as a result has served to choke off growth. Any semblance of a return to normality has been a long time coming and eagerly anticipated by China's domestic markets. A shift in the tone of policymakers at the start of November prompted speculation of an easing of restrictions, immediately sending China-related equities higher.

Those rumours were quashed, but then at the end of last week the government issued a 20-point playbook aimed at easing domestic virus mitigation measures and reducing the country's position of global isolation. Among other things, quarantine has been cut for travellers into China and the local contact tracing regime has been overhauled.



Source: Bloomberg

As illustrated in the chart above, Chinese equities listed on the Shanghai (A-share) and Hong Kong (H-share) markets have posted strong gains as a result, helped by a recently-announced raft of directives aimed at supporting the country's beleaguered property sector.

Furthermore, the issues faced by the US and Europe eg, high energy prices, rampant inflation and quantitative tightening are less acute in China.

What are the options?

For those turning positive on China, there are a number of implementation options.

- For A-shares: HSBC MSCI China A UCITS ETF (LSE:HMCA) tracks China A-Shares that are also included in the MSCI Emerging Markets index. Physical replication, 0.30% TER, largest holding of 500 is Moutai (6.15%).
- For H-shares: iShares China Large Cap UCITS ETF (LSE:FXC) tracks the FTSE China 50 index which represents the 50 largest and most liquid Chinese companies listed on the Hong Kong Stock Exchange (H-Shares, Red Chips and P Chips). Physical replication, 0.74% TER, largest holding of 50 is Meituan Dianping (9.2%).
- For A&H shares combined: Xtrackers MSCI China UCITS ETF 1C (LSE: XCX6) tracks the largest and most liquid Chinese stocks (A shares, H shares, B shares, Red chips, P chips). Physical replication, 0.65% TER, largest holding of 667 is Tencent Holdings Ltd (12.4%).

Summary

China's zero-Covid strategy has been a policy cornerstone since the pandemic began and is therefore likely to be dismantled slowly. Political power is concentrated and policymaking is guarded but for an economy as large and influential as China's, even these small steps can have a significant effect.

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