

5 January 2016

Lion Global Investors:
**China Oversold on Circuit
Overload**

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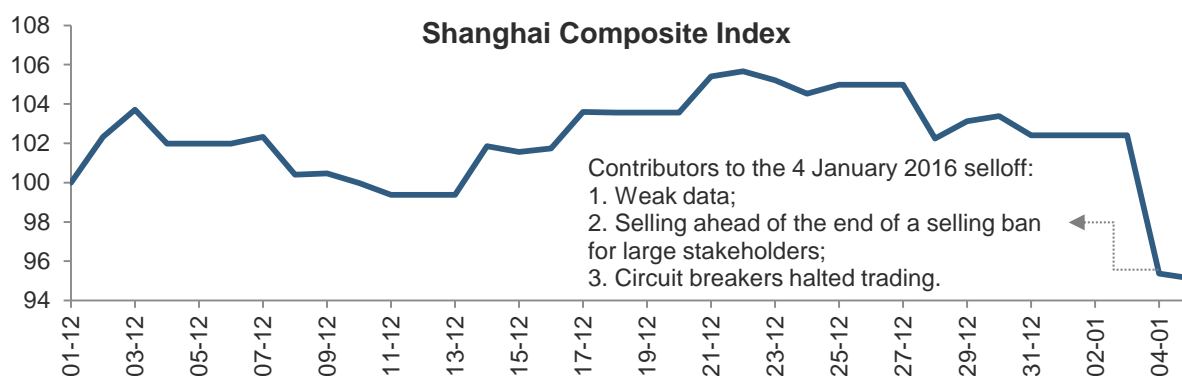
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1. 2016 started off with a sharp selloff in Chinese equities, with a single-day decline of 7% in local currency terms. Weaker than expected Caixin PMI (Purchasing Managers' Index) data for December 2015 as well as the continuing weakness of the CNY/CNH may have contributed to the selloff.
2. However, the more likely factor is the expiry of the selling ban on 8 January 2016 for major shareholders of Chinese corporates. Instated on 8 July 2015 by the CSRC (China Securities Regulatory Commission), shareholders with more than 5% stake were banned from selling for six months. This ban was instated to manage A-share volatility in July-August 2015 and expires on Friday, 8 January 2016.
3. Thus, the current selloff seems to be investors trying to sell off their positions, ahead of perceived selling activity, begging the question of whether investors have overreacted to the perceived risk of major stakeholders liquidating their positions.
4. Lion Global Investors believes investors have overreacted and the decline was further magnified by the circuit breakers in effect, which worked as designed, sparking the trading halt that contributed to a worldwide selloff in equities.
5. According to a January 2016 report by Goldman Sachs, "we estimate that major individual shareholders with over RMB1.1t of stock holdings, representing 5.8% of total A-share free-float market cap, could be incentivised to sell given the 13% market rally since July 8, although the actual selling could be considerably smaller."
6. While China's economic growth is likely to remain lacklustre as policy makers continue with structural reform to rebalance the economy, we expect the Chinese administration to continue implementing monetary and fiscal stimulus to reduce the pain of economic restructuring.
7. The implementation of SDR (Special Drawing Rights) inclusion of the RMB will begin in October 2016, which will likely see more medium to longer-term capital inflows.
8. In the near term, markets will focus on the upcoming National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) where the Chinese government will approve key policies and provide more details on specific plans such as the 13th Five Year Plan.
9. Against this backdrop, while our view towards China remains constructive given policy support of at least 6.5% GDP growth in 2016, we remain cognizant that market volatility will remain high in the near term. Long-term investors may look to bottom-fish.



Source: Bloomberg, 5 January 2016, rebased to 100.



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Source: Lion Global Investors, January 2016.

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