

Euphoria Sweeps China Stocks as Signs of Covid Zero Pivot Emerge 2022-11-11 08:40:33.287 GMT

By Bloomberg News

(Bloomberg) -- Chinese markets rallied as a move by authorities to ease some rules related to quarantine and flight bans intensified bets that a shift away from the stringent Covid Zero policy may finally be underway.

The Hang Seng China Enterprises Index snapped a three-day loss and jumped 8.3%, its biggest jump since March. Battered down property and tech shares were the biggest gainers, while reopening stocks including airlines and casinos also climbed. The yuan strengthened against the dollar and yields on Chinese government bonds jumped.

Traders who have for long been seeking clear signals of a pivot away from the staunch Covid Zero policy cheered the slew of changes announced on Friday, which included a cut in the amount of time travelers and close contacts must spend in quarantine, and a pullback on testing. The decisions by the National Health Commission followed a meeting by the nation's top leaders on Thursday, where a more targeted approach was encouraged to tackle outbreaks.

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"This is a huge positive for the market," said Wang Yugang, a fund manager at Beijing Axe Asset Management Co. "Of course how much efficacy these measures have for the economy we will need to observe."

In a display of broad market optimism, every stock on the 50-member Hang Sang China gauge was up on Friday. On the mainland, the CSI 300 Index ended 2.8% higher.

Foreigners, who had largely been sitting out in this month's rebound, piled into onshore shares on Friday, buying a net 14.7 billion yuan (\$2.1 billion) via trading links with Hong Kong. That was the biggest single-day purchase in about two months.

In a further boon to international travel links, a controversial system that penalizes airlines for bringing virus cases into the country will also be scrapped, the NHC's statement said. Chinese stocks -- among the world's worst performers this year -- rallied at the start of this month following wild speculation over a potential reopening. The suite of changes announced is the furthest-reaching

overhaul of China's virus approach since the pandemic began, and potentially marks the beginning of the country's move to rejoin a world that's living with the virus. They came even as China saw daily infections exceed 10,000 for the first time since April.

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"Those measures are quite detailed and specific, which should be quite clear for the local governments and related departments to follow," said Xiaojia Zhi, head of research for Credit Agricole CIB in Hong Kong. "These measures should help to reduce Covid disruptions to China's near-term growth and boost market confidence."

The moves by Chinese authorities added fuel to a rally triggered by softer US inflation overnight. Tech heavyweights such as Alibaba Group Holding Ltd. and Tencent Holdings Ltd. were among the biggest gainers on Friday, as traders bet the Federal Reserve will moderate the pace of aggressive tightening in response to a slower-than-expected inflation print.

The Hang Seng Tech Index surged 10% in its best day since March.

"Given the move in global rates, the post-CPI first leg is likely to play out through tech, with the HS Tech Index a significant beneficiary," said Stephen Innes, a managing partner at SPI Asset Management. "So I am looking for tech investors to do handsprings along the sidewalks today."

Yuan, Bonds

Markets may see more volatility in the coming weeks as investors seek clarity on how the changes are implemented, and assess whether they are sufficient to arrest the economy's slump. The rally may fizzle out if authorities fail to follow up with further easing.

"We should bear in mind that despite the changes, expectations are that the economy will remain weak for a while," said Wang Zhuo, fund manager at Shanghai Zhuozhu Investment Management Co.

Nonetheless, the exuberance across assets was evident on Friday.

The onshore yuan surged, rising as much as 1.7% to 7.0650 per dollar, while the offshore unit jumped 1.3%. The yield on 10-year government bonds jumped as much as six basis points, the most since April, to 2.73%.

The confirmation of the loosening of Covid measures is important “because previously there were just rumors circulating in the market,” said Ken Cheung, chief Asia FX strategist at Mizuho Bank Ltd. “In the near term, the breaking headlines could squeeze CNY short positions and send the CNY towards 7.05” per dollar, he said.

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