China Sinks To New Lows

China's financial markets retrace to long-term lows on a rising tide of negative sentiment.

Data, Government Curb Market Enthusiasm

The mainland Chinese stock indices have made a hasty retreat on a rising tide of negative sentiment. Since the beginning of April the Shang Hai index has fallen more than 7.3% to a 7 month low following a string of events that has curbed market enthusiasm and cast a shadow of doubt on near-term economic outlook.

Late in April securities and banking regulators in the worlds largest emerging market began to enhance crack downs on leverage and other practices seen as risky to the economy. Statements released just days apart say the agencies will strengthen ongoing efforts to address irregularities in the financial sector even as new data shows weakening in the economy.

The latest manufacturing and inflation data show slowing growth. The official PMI for April came in at a 6 month low of 51.2, the services sector at 54.0, and point to a possible deceleration of growth in the 2^{nd} quarter. CPI and PPI data reinforced these fears, both coming in weaker than expected. CPI rose a mild 1.2% on an increase in non-food items while PPI slowed to 6.4% on weak demand and declining commodity prices.

The IMF remains positive on Asia-Pacific and China long-term but have echoed concern felt by investors. According to their latest report long-term outlook for the region is strongest in the world but are weighed down by an aging population and declining productivity. These factors have put pressure on near to medium-term growth that, along with increasing fear of slowing China, have investors on edge. Despite this Asia-Pacific economic growth is expected to come in around 5.5% in 2017 and 2018, well ahead of the global average.

Asia-Pacific Strong Despite China Fears

Elsewhere in the greater China economic arena investors are not so timid. The Hong Kong stock exchange is up more than 3.25% in the same period, hitting a new 18 month high, and evidence the region is still strong. Philip Li and Norman Ho, fund managers at Value Partners Asia Pacific Fund see opportunity in the region and are making the most of it.

From the funds most recent fact sheet: “In spite of the strong year-to-date out-performance, we remain constructive in the region. Currently, Asia ex-Japan stocks are trading at a 12-month forward price-to-earnings ratio of 12.85 times, which is attractive compared to their global peers (12-month forward P/E of 15.96 times). Under this improving growth and reflationary environment, we will continue to uncover opportunities from both traditional stable high yield and cyclical high yield sectors”

The Asia Pacific Fund is a diversified closed-end fund focuses on value opportunities in the Asia-Pacific region ex-Japan. The primary goal is capital appreciation with a lesser focus on income. Over the course of the year-to-date period, despite mainland China's sell-off, the fund has been producing market beating returns. Net asset value has risen 12.5% since the end of the year and has begun to grab investor attention as evidenced by a sharp decline in the discount to NAV. The discount, which hit a peak near -16% just a month or two ago, has been reduced by half and suggests additional increases to NAV in the near to short-term.

Value Partners is Asia's largest money manager and headquartered in Hong Kong. Managers Philip Li and Norman Ho have a combined 30 years of experience specializing in China and Asia investments. The Asia Pacific Fund is traded on the NYSE under the ticker symbol (APB).