Pictet - Chinese Local Currency Debt - P USD

Risk and reward profile

Don't take unnecessary risks. Read the Key Investor Information Document.

Lower Risk						Higher Risk
1	2	**3**	4	5	6	7
Typically lower rewards						Typically higher rewards

Market review

The Chinese onshore bond market, measured by the Bloomberg Barclays China composite, delivered +0.60% in CNH terms in May 2022, which brings the YTD return to 1.83%. As measured in CNH and gross of fees, the fund outperformed its reference index marginally in May. Data releases in May (for April) were weaker due to the ongoing lockdown situation in Shanghai: the manufacturing PMI declined further to 47.4 (from 49.5 previously); IP declined by 2.9% and retail sales by 0.2%. Meanwhile, CPI accelerated to 2.1% from 1.5%, previously, moving higher but still remaining comparably low; PPI eased a touch to 8.0% y/y from 8.3% in the prior month and a peak of 13.5% in Oct 2021. The PBoC announced a cut in the 5-year LPR by 15 bps to 4.45%. CGB yields declined on monetary easing and also growth concerns: 3- and 5-year CGB yields ended the month about 8 bps lower. CNH depreciated 0.6% against the USD and about 2.5% against the EUR. The government intensified its policy efforts, making a series of policy announcements including additional tax cuts/rebates, a reduction in social security contributions and increased infrastructure measures. Property sentiment remains weak and household incomes are under pressure, also due to the lockdowns, so buyers remain cautious. Meanwhile, sentiment in China’s TMT sector has improved into June as the tightness of regulatory measures might be past the peak.

Performance analysis

The fund delivered positive returns and outperformed its benchmark during the month, measured in gross CNH terms. From an attribution point of view, relative performance was driven by the credit part of the fund and, in particular, by the offshore allocation to USD credits. Meanwhile, the underweight in onshore government bonds deducted amid the modest appreciation of CGBs; the onshore corporate allocation added slightly to performance.

Portfolio activity - overweightings & underweightings

We reduced our allocation to onshore credit bonds as the spreads became too tight with the easing of liquidity, increasing our allocation to offshore credits. Onshore, we switched from the belly of the curve to the long end given the steepness of the yield curve. On the rates side, we established some relative value trades, being long 30yr CGB against short in the 5yr NDIRS. In offshore credit, we continue to focus on short tenor safe IG names for carry purposes. Whilst keeping with high quality names, we switched low yielding bonds into higher yielding ones. By the end of May, the fund retained a mild underweight in duration as the macro-economic situation should continue to gradually improve as lockdowns are slowly eased and fiscal measures feed through into the economy. On the other hand, we retain an overweight on the credit side, including the off-benchmark allocation to USD (around 15%) and CNH credits (about 4%). At the end of May, the portfolio yield was around 3.1% and duration was around 3.9 years. On the sector level, we have approximately 35% exposure to the sovereign and quasi-sovereign sector and roughly 65% in credit. We retain the strong bias towards higher quality, with almost 99% of our holdings being investment grade bonds (under our internal rating methodology).

Market outlook

We believe economy is in a recovery led by reopening, accelerated fiscal efforts and easing of regulatory rules on property and TMT sector. Fiscal spending should provide direct support to production and infrastructure investments. However, lingering omicron outbreaks and social distancing measures will continue to drag recovery in consumption, especially face-to-face service industry, and put pressure on employment. CPI may edge up slowly, but overall, domestic inflation pressure is controllable. Under such a scenario, we believe the PBoC will continue to provide sufficient liquidity in the financial market and deploy targeted tools to support credit growth. More easing for the property sector is also likely, possibly helping the physical market to stabilize in the third quarter.

Portfolio strategy

We expect government bond yields to trade range-bound this year pulled by the opposing forces of monetary easing/growth concerns and fiscal easing. All in all, for now we expect that yields can edge higher as the fiscal response and upcoming issuance for funding of fiscal measures might dominate. We remain very cautious on property given there is so far no concrete sign that the physical market is recovering. Covid will continue to create pressure on the economy, yet we expect some easing such as loosened regulation for China TMT sector. The fund remains underweight on local rates and overweight on credit bonds, including both onshore and offshore credits, with offshore increasingly attractive on a relative value basis. As for the offshore market, we believe credit differentiation will continue. As a result, the fund has higher exposure to investment grade credits against non-investment grade ones. We keep a small non-investment grade credit exposure that is mainly short dated and focused on solid credit fundamentals. As for RMB, we believe the currency will still be resilient against most major and emerging market currencies, supported by the solid trade surplus and restrictions on outbound travelling. Modest further weakness against USD is possible, but we do not expect very pronounced depreciation.

Source: Pictet Asset Management

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	03.03.2015
Launch date	03.03.2015
Share class currency	USD
Compartment currency	CNH
ISIN	LU1164800853
Reference index	Bloomberg China Composite (USD)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	1.26%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.00%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Cary Yeung

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information, please visit our website assetmanagement.pictet

Important Information

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