The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #21 "Seek Truth From Facts" **July 2nd, 2026**

In this edition: how Hong Kong's relative importance in China is waning. Why China may be internalizing its capital markets whilst strengthening the Yuan. How Huawei has fought its way back. Why 'It's The Property Market Stupid!' How I failed to 'get' WuXi AppTec, #02359. Why Hong Kong listed stocks are unloved, and likely to stay that way. Why I'm 2007-worried, and how I accidentally became a 3.2m-view Instagram celebrity.

Hong Kong - Entering A Twilight Zone?

The financial burghers of Hong Kong are cheering IPO activity in H1; and the performance of newbies has been solid. Equal amounts invested in each to the end of June would have generated an average return of c. 95%; but this sunshine distracts from clouds forming.

Hong Kong's market capitalization is now less than half of the A-share markets and its average daily turnover 1/10th. With these conditions likely to persist or intensify I'm beginning to wonder about the long-term relevance of Hong Kong's stock and financial markets. Recent visits to Macau where the Guangdong-Macau In-Depth Cooperation Zone dominates the skyline and Shenzhen where the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone defines the west of the metropolis have set me thinking.

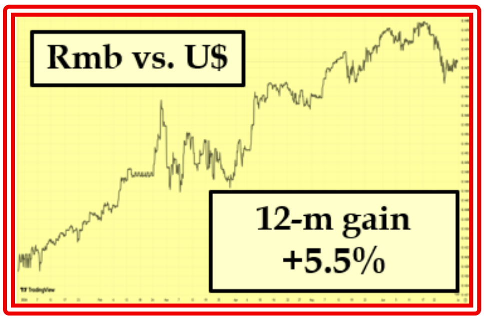
As a financial centre Hong Kong has advantages, but these can be enjoyed via only a small physical commitment; think Dublin or Luxemburg. As for the stock market the Hang Seng Index (HSI) has been a serial dog, and global managers have given up trying to promote Hong Kong stocks as a China gateway when they can offer more liquid (and complicated = higher fees) A-share related products. For those intermediaries, asset managers not investors mostly, liquidity is a key determinant of where new money goes. So, Jersey, Monte Carlo, Delaware, pick your comp. I see why more capital markets business may in future be done in Hong Kong, but not why more personnel will be required to facilitate it.

Say Hi! To Qianhai

Hengqin – Welcome In

China – Doin' The Tighten Up

Three brokerages in late May were singled out by authorities for fines and remedial action for offering unauthorised access to foreign markets. In addition, issuers planning to use the device that allowed Chinese companies in sensitive industries to sell stakes to foreigners, the VIE (Variable Interest Entity) structure, have been informed these arrangements may not in future be approved. Then, in early June China Resources New Energy Holdings made history announcing plans to launch on the Shenzhen Stock Exchange, the first 'red chip' (a Chinese company whose legal entity is domiciled outside China) to do so.



I wonder if the above and the rise in the Rmb are related? Has China decided to internalize its capital markets? Nervous of an ever-pricklier U.S., a reliance on either the U.S. stock markets for equity finance or allowing citizens to divert capital needed at home, this would make sense. Add in a stronger currency and the argument for staying at home becomes even more compelling. The issues of low stock market valuations and year-in-year-out poor returns for investors that drove interest overseas in the first place should now be top-of-mind for planners.

What Doesn't Kill You Makes You Huawei


A great day at Huawei


A small part of the research campus by night

I was privileged to spend time last month with Huawei. In 2018 the United States, citing trumped (no pun intended) up charges, began a campaign to vanish them.

Initially the plug was pulled on their U.S. business, and allies were coerced into similar moves. Sales plunged and the company seemed done for, until Chairman Ren Zhengfei decided the solution was to bet on a massive investment in R+D and new businesses. Sales hit a multi-year high in 2025 and R+D expenses were over 20% of revenue, an unheard-of level in the industry. 2026 sales will smash the 2025 total, and the company has never been stronger or more confident. The R+D campus, BTW, is exquisite.

It's The Property Market Stupid!

A (7¼-hour) train ride early in June from Shenzhen to Shanghai reminded, despite stories of a major-city property pick up, the Chinese countryside remains littered with unsellable junk. With 90+% home ownership in China is it any wonder consumers remain in a deep funk? Pass the dynamite, lots of it and soon please.

Stockwatch: #02359 WuXi AppTec

Summary of a recent closer look

Basically: Market cap.: c. U$59bn, PE 22x, Yield 1.4%, PB 4.6x. Avg. daily TO (3m) U$12m. Business: the company is a CRDMO, Contract Research Development and Manufacturing Organization i.e. drug development and manufacturing outsourcing services provider.

They were referenced (unkindly) in a draft of the U.S. Biosecure Act in Jan. 2024 and again last month in a 1260H list the U.S. Dept. of Defence keeps of "Chinese Military Companies".

A minor aside but important for many will be the issue of animal testing. Their listing document (P.58) notes in particular this may at times involve "..non-human primates."

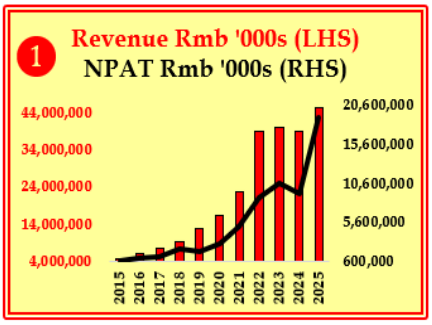
The company is often described as a 'biotech' co. This is misleading. Better; think Hon Hai (TWSE: 2317) to Apple (AAPL) or Shenzhou (HK: 02313) to Fast Retailing (TYO: 9983).

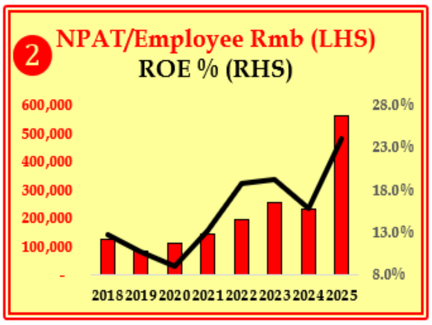
It *has* grown fabulously since listing ❶, and it *has* achieved efficiency and superior returns in this process ❷; but accounts presentation make it hard to describe progress in more detail.

Not to like: Multiple vulnerabilities. Just a few: the lion's share of business comes from U.S. related customers. They're biotech-adjacent so problems in that ecosystem will be theirs very quickly. China Inc. may at some stage wonder why domiciled companies are putting so much gas in the tanks of non-Chinese competitors. They're big, thus very visible.

To like: They're an accomplished operator. An A-share listing (603259:SH) implies scrutiny by well-informed domestic investors and results in quarterly reports. There's a finite number of credentialled players in the space implying high-valuation persistence. There's a portfolio of early-stage investments that may contain significant future value.

Would I buy them? No. This is the hardest company I've analysed in a long time. I found the multi-level complexity of their operations plus the businesses in which they operate an unsolvable valuation-problem. Even trying to focus on simple PE is hard as the composition of the 'E' hasn't been constant. Others surely find prospects more alluring which explains the premium valuation (even after a correction in recent years ❸) and why the HK stock trades at a premium to its Shenzhen quote. There've also been a series of minor but recurrent corporate governance issues since the 2018 listing (@ H$68.00) which when combined with the above turn this, for me at least, from intriguing proposition to no-go at any price.





How's My Investing?

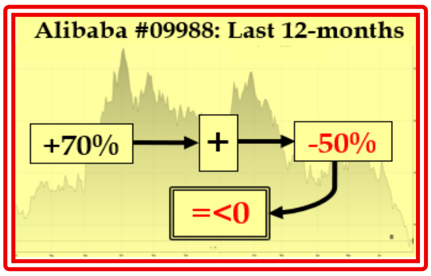
Performance summary, review of recent trading etcetera

June — YTD, Performance:	**-7.4% — -4.3%**
Performance Since Inception (Nov. '24):	**+19.6%**
Cash Percentage of Portfolio:	**22%**

Hong Kong Listed Stocks – Tourist Trap

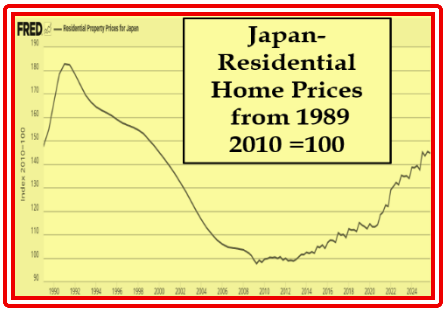
It's not only geography that's on my mind about Hong Kong's position. In H1 the HSI has fallen over 11% whilst the Hang Seng TECH Index (serial dog *with fleas*?) has gone down nearly 20%. There are reasons for this: composition of the indices, rising interest rates, China's on-strike consumers, 'involution', the government's regular habit of, bolt-from-the-blue, vaporizing corporate profits (Trip.com #09961, a good recent example) and so on.

A problem getting worse is the 'tourist destination' nature of the Hong Kong market. Nobody needs to be there; there's no natural investor base so demand will be occasional rather than persistent. Supply on the other hand is constant and at times intense (H1,79-IPOs). More reason to fear it becomes a permanently less visited attraction.



The Recurrent Nature Of Calamity

I was prepared for the GFC in '08 as problems then were crystal-clear beforehand. Nonsense had gone on for a long time with the coal-mine-canary being HSBC and their Household losses. What happened next was a mathematical certainty and I feel we're now in a similar place. It's obvious, after over three years in, that 'AI' (mostly of the LLM sort) is a cost to businesses not a net benefit. Moreover, interest rates are rising as governments worldwide can't/won't balance budgets at the same time as untackled inflation bakes itself in. Financial markets have been juiced by slack money since the GFC, a condition turbo-charged by the Covid response which has resulted in a Jenga-tower of unquantifiable risks in the form of crypto, private-everything, CFDs, prediction 'markets', single-stock ETFs, AI-mania etcetera. China will be insulated to some extent from the reckoning, but I fear a post-1929 scenario where, following violent adjustment, global confidence is blighted for a long while. Don't think it can happen? Ask a Japanese how their home prices there have fared since 1989? Of course, I'd like to be to be wrong and this time things really are different.



Three Million – Seriously?

I was buttonholed recently for a soundbite on life-views. At the last count my response on Instagram had been viewed over 3m times. Smh, as they say there.

Datawatch

Key Releases In The Last Month

Two 😟 Three 😐 Three 😊

Trade 😊 : May exports +19.4% (Apr. +14.1%), imports +27.4% (Apr. +25.3%). Goodness! Big, and surprising numbers.

Prices 😊 : May CPI +1.2% (Apr. +1.2%), PPI +3.9% (Apr. +2.8%). These numbers convincingly put to bed lingering deflation worries.

Credit 😟 : May M2 +8.6% (Apr. +8.6%), Outstanding Loan Growth +5.5% (Apr. +5.6%). O/S loan growth another new low.

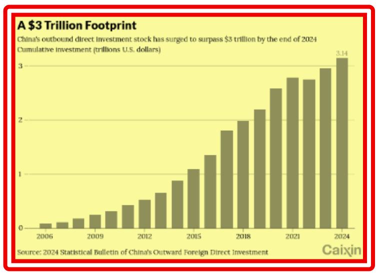
Consumption 😟 : May retail sales -0.6% (Apr. +0.2%). This has gone from curiosity to near-crisis. A response can't be far away; can it?

Industrial Activity 😐 : May +4.5% (Apr. +4.1%). A welcome bright spot to follow that grim retail sales print.

New Home Prices 😐 : May -3.5% (Apr. -3.5%). For the first month in seven they didn't go down. Check out the series in more detail here.

Business Confidence 😊 : June Mfg. PMI 50.3, up from 50.0, non-mfg. 50.2, up from 50.1. Some, small, good news to end the month on.

..And Tighter 😐 : When the Ministry of Justice, the National Development and Reform Commission, *and* the Ministry of Commerce jointly put out new rules on outbound direct investment you know it's serious. The new, and tighter, regime will be effective July 1st.



That wraps it up for June. What's here isn't advice or recommendation, it's what I've been up to, how I'm looking at the world and a small piece of the market puzzle which, combined with yours, I hope may be of some use.

"He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me". Thomas Jefferson.

Good Luck with ***your*** investing. Feedback please to me at nial@nialgooding.com