What to do after China's rally

7 October 2024

## Overview

- HSCEI up 25% on joint announcement 24 September 2024
- Policies were stronger than anticipated
- China's pain threshold has been reached
- Fed easing provides room for PBoC to ease
- Positioning on China's equities remains light, pointing to further fund inflows
- More upside likely but select entry point; consider structured product with lower strike
- US presidential election remains an event risk with Trump's intent to raise tariffs by 60%
- Stay overweight on Asia ex-Japan equities

## Quick take: What to do after China's rally

Following a joint press conference held by top officials from the PBOC, CSRC and NFRA on 24 September 2024, the HSCEI has surged by 25% (as of 4 Oct). The latest policy measures to support the economy and capital markets were stronger than anticipated, reflecting that China's pain threshold has been reached. Faced with mounting economic and social challenges, the Chinese government is finally taking concrete steps to address them.

## This time, the policy response is different

China's long-standing resistance to "stimulus bazooka" seems to have been abandoned. In the past few weeks, there have been symbolic developments, suggesting a pivotal shift in China's policy stance to being pro-growth.

First, the latest rate cuts and reductions to reserve requirements have been larger than usual. The short-term reverse repro rate was cut by 20 bp, double the usual 10-bp adjustment. The reserve requirement ratio was reduced by 0.5%, compared to 0.25% seen in recent years. Commercial banks were also encouraged to lower mortgage rate for existing borrowers by 0.5% in an unprecedented move.

Second, the Politburo meeting, which should have been scheduled for late November according to China's policy calendar, was brought forward and held as an emergency session. The shift in timing underscores China's growing concerns for the existing economic situation.

Third, the State Council also convened in late-Sep, announcing 25 measures focused solely on China's labor market. Given the recent rise in youth unemployment rate, China is perturbed that weak growth and labor market could lead to social unrest and political instability.

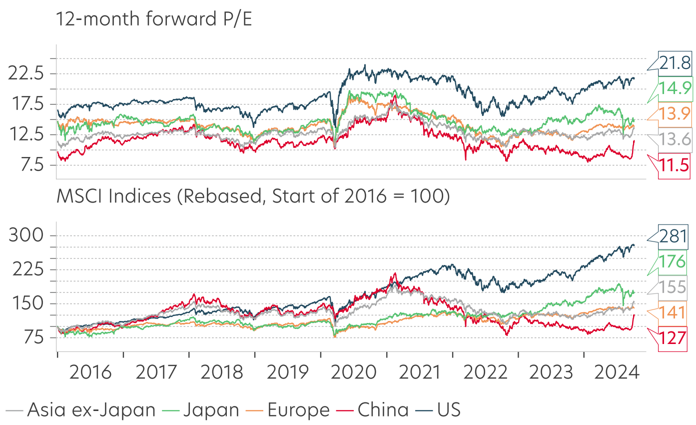
Lastly, the Ministry of Finance is reportedly set to issue an additional RMB 2 trn in special bonds, with half allocated to boosting consumption, while the other half would relieve pressure on the local governments' balance sheets. This demand policy could amount to ~1.5% of GDP.

## Positioning for China's equities from here

It is noteworthy that the policy reversal seldom stops here, and further valuation rerating could be on the cards. The Fed's policy easing also provides room for China to loosen its policies further.

Following the latest surge in China's equities, a consolidation can be reasonably expected. Having said that, the rally is likely not over. Positioning on China remains light, suggesting further fund inflows. There is still more upside **(Fig. 1)**, but investors would need to select the entry point. US presidential election remains an event risk given Trump's intent to raise tariffs by 60%. Investors could gain defensive exposure via structured products with lower strike prices. We stay overweight on Asia ex-Japan equities.

**Figure 1: China still has room to catch up**




Source: Bloomberg, UOB Private Bank

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