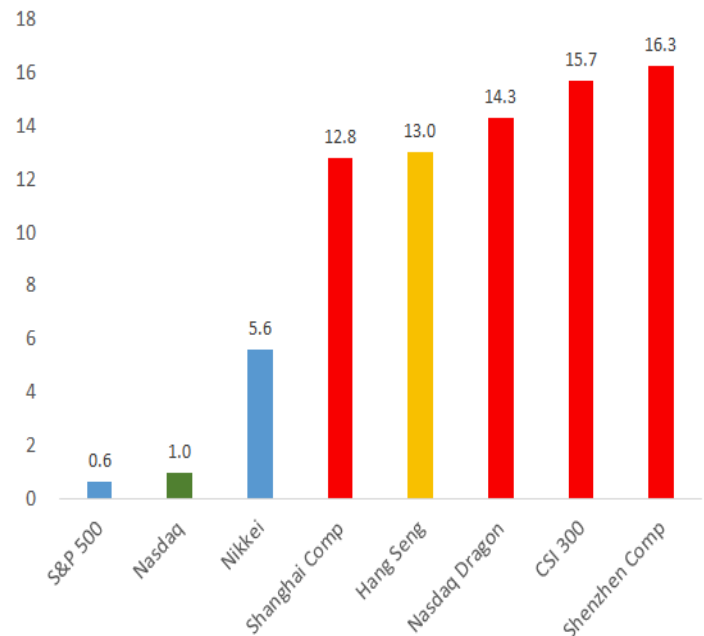


China Put, Not Panacea

- There is **no doubt** that the **coordinated and emphatic policy stimulus** measures announced by Beijing have justifiably **invoked optimism**.
- *But* insofar that this is **from a low base**, and **fretting about “too little, too late” stimulus** means that the aggressive market rallies that have been triggered are probably **conveying some of opportunism as well**.
- Point being, the **“China Put”**, if we must, is an **encouraging policy show of strength** to backstop a downward spiral in the property market, revive some optimism about equity markets and to enhance policy stimulus.
- But while it is a commendable effort to remove impediments, it is **far from a convincing panacea** for *deeper-seated, structural problems* amid *mounting geo-political risks* and unresolved *tensions between socio-political and economic objectives*.
- The upshot is that **hopes of attaining enduring “escape velocity”** (on track for ~5% growth in the medium-term) from **last week’s policy barrage will prove illusory**.
- The best case is that **Beijing has bought time to alleviate pain and mitigate lasting damage**.
- The **PBoC and Politburo, all leaning in on putting a floor in property, boosting equities and backstopping households** have **hit the right notes**.
- Notably, *on implied/presumed scale* (numbers of up to RMB10trln being bandied about) and *synchronization*.
- The resultant market **exuberance is understandable, justified even**.
- In particular, the measures are quite **pointedly bullish for asset markets, led by Chinese equities** (up 13-17% on the week).

Equities (% Chg since 20-Sep): China Stimulus Unleashes Bullish Surge that is Concentrated in Chinese Equities.

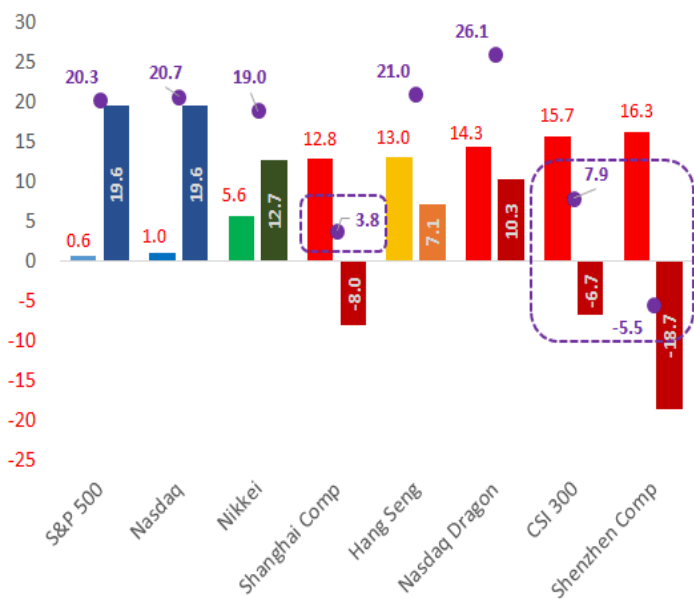


China: Bulls are In & Jury is Out

- The **sheer relief of coordinated China stimulus** is **manifesting as “risk on”** and **can take on its own momentum**.
- What’s more, the **glow in Chinese demand, anchored by emphatic property boost**, is **significant tailwind for base metals**. Iron ore leads with a ~16% surge (from \$90 to ~\$110).

- **But euphoria** from Beijing’s stimulus is **neither even nor ubiquitous**.
- Especially *as details on the stimulus remain scant*. And so, and it is **not unfair to suggest** that the **jury is out**.
- Specifically, **doubts may surface** given unanswered questions about;
 - whether and how the stimulus measures are fully funded;
 - if a delicate balance between property affordability (to restore demand) and valuations (to avert adverse wealth effects) is achieved;
 - if fundamentally self-sustaining consumer confidence may be restored (beyond fleeting stimulus reflex).
- Moreover, the fact that the Chinese equity markets surge is at least attributable, and flattered by, scope for catch-up.

Equities (% Chg since 20-Sep): Although, to be sure, **Onshore Chinese Equity Markets are Merely Catching Up for the Year.**

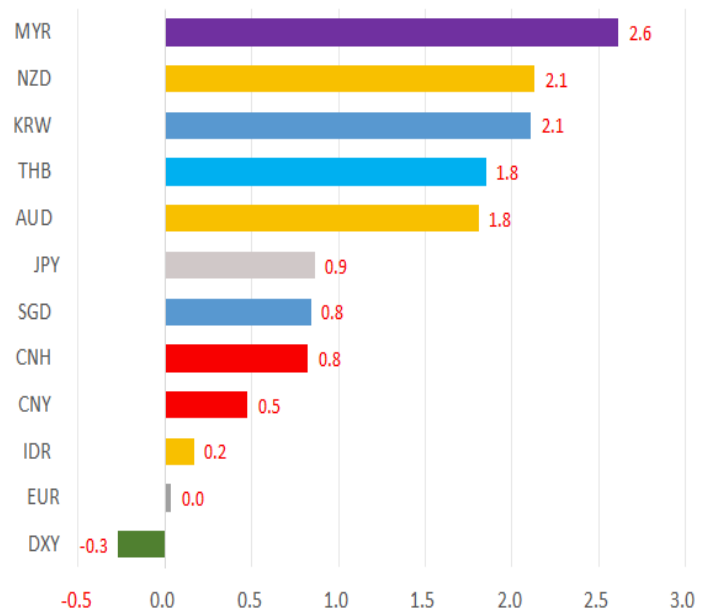


- That’s to say, **opportunism in the context of “low-hanging” fruits**, rather than self-sustaining

confidence, may be **exaggerating market-implied, optimism**.

- Meanwhile, *opportunistic CNH bulls* pushing USD/CNH that has tested below 6.98 are being *resisted by PBoC guidance* restraining USD/CNY above 7.01.
- The **disconnect between “too much too soon”, opportunistic markets rallies** and **slower to recovery real economy** may present a *policy dilemma* for Beijing.
- Animal spirits on a leash is notoriously elusive.
- And so, trade-offs for Beijing will be exceptionally sharp.

FX (% Chg since 20-Sep): Higher-Beta CNH Proxies Lead Gains. PBoC to Moderate Pace of CNY Gains & Temper CNH Bulls. But Well in Excess of General USD Weakness.

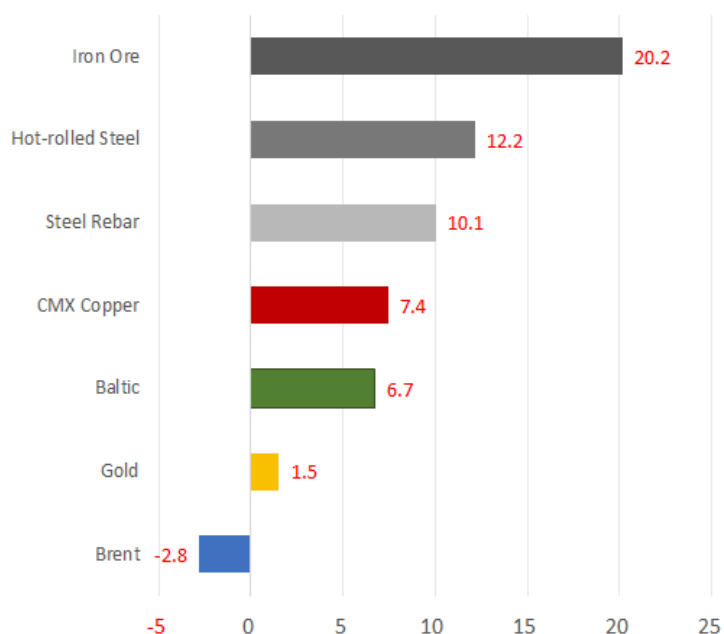


- Meanwhile a **lower-beta CNH lift** may extend, but only cautiously so, and in a calibrated manner; tempered PBoC-guided CNY restraint.
- Instead, CNY-proxies such as the **AUD, NZD** and **IDR** (commodity-boost) **THB** (tourism boost), **MYR** (investment boost) in pole position.

Global Policy Impact Subdued

- Zooming out for a moment, the **bigger question** is **whether China's** stimulus *entailing monetary “bazookas” and more unrestrained fiscal arsenal will have global policy implications.*
- **Not an unreasonable question** given this pertains to the *second largest economy* in the world and the *largest consumer of commodities.*
- Unsurprisingly, **base metals have surged** on cue. Iron ore is up some 20% (from \$90 to \$110), Copper up (~7%) significantly.
- **Freight costs** are also **appreciably higher**, although hard to isolate from the impact of coincident escalation of geo-political (Israel-Hezbollah) risks.
- Nonetheless, the unavoidable questions are, **what China stimulus means for global demand**, consequent price pressures **and attendant inflation risks.**

Commodities Surge on Stimulus, Led by Base Metals/Iron Ore. Oil Concedes to OPEC/Saudi Supply Dynamics. (% Chg since 20-Sep)



1) Will China's Stimulus Ignite Inflation?

- **Short answer: No. Not to the point that it will derail the broader dis-inflation trend.** Not on its own any way.
- *Admittedly*, the abrupt surge in upstream commodity prices unearth justifiable concerns of a fresh cost-push.
- *But* extrapolating this as a fresh wave of problematic and fresh inflation wave is an overblown fear.
- For one, follow-through and sustained price surge from China stimulus is likely to be tempered by calibrated by less frenzied execution.
- In other words, **incentive to stockpile will not be as aggressive** as it might have been during the pandemic supply kinks, thereby mitigating self-reinforcing, acute, supply-squeeze.
- What's more, **China-driven demand pick-up is also likely to be patchy and lagged** given slower-moving confidence restoration (dependent on job prospects and enduring housing stabilization).
- Especially as the ambitious *quota-style stimulus announcements are not likely to be met by instantaneous and comprehensive funding.*
- Finally, it is **one thing to try to snap China out of deflation-type dynamics and quite another to inspire roaring demand bonanza.**
- Upshot being, **supply shocks are likely to be contained, if not ultimately dis-inflationary**, while **demand-side dynamics will likely be far more subdued/cautious.**

2) Will this Blow the Fed Off-Course

- Crucially, it is **PBoC doves and Beijing's loosened fiscal spigot will not deter**, much less suppress, **Fed easing**.
- By and large, the Fed's easing plans are not anywhere close to being blown off-course by China stimulus.
- Instead, the **actual path of cuts** (near-term question of 25 or 50) **will be determined by near-term data deviations** (from expectations).
- Whereas your scribe's view of **more easing** (than suggested by 'Dot Plot') **remains firmly intact**.
- **In fact**, it is the **Fed's ramped-up easing that has created the space for Beijing to unleash aggressive stimulus at a significantly lower economic/policy cost/trade-off**.
- So it will be a perverse counter-argument to suggest that the Beijing's stimulus now crimps the Fed's easing space.

3) The Saudi Shift Windfall

- What's more, **Saudi's announcement on upping crude production** to regain market share is an unintended, but welcome policy windfall all around.
- This 180-degree turn on Saudi's part dispenses with the unspoken \$100 crude price target.
- Crucially, it turns OPEC supply dynamics from restrictive (and resistant to price declines) to highly accommodative.

- To a large extent, this **explains Brent's counter-intuitive drop** *despite China stimulus* and the *escalation in Israel-Hezbollah conflict risks*.
- Nonetheless, the **softening in oil prices dampens inflation risks significantly**.
- Crucially, it **dulls upside risks to inflation expectations considerably***.



- Consequently, **Saudi's shift in production stance** is a **policy windfall for global central banks engaged in rate cut/easing cycles**.

*Given the tight correlation between future inflation expectations and spot crude oil prices.

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