Mizuho Macro Themes

Economics & Macro Strategy | Asia ex-Japan

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MIZUHO

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***.

China: Bulls are In & Jury is Out

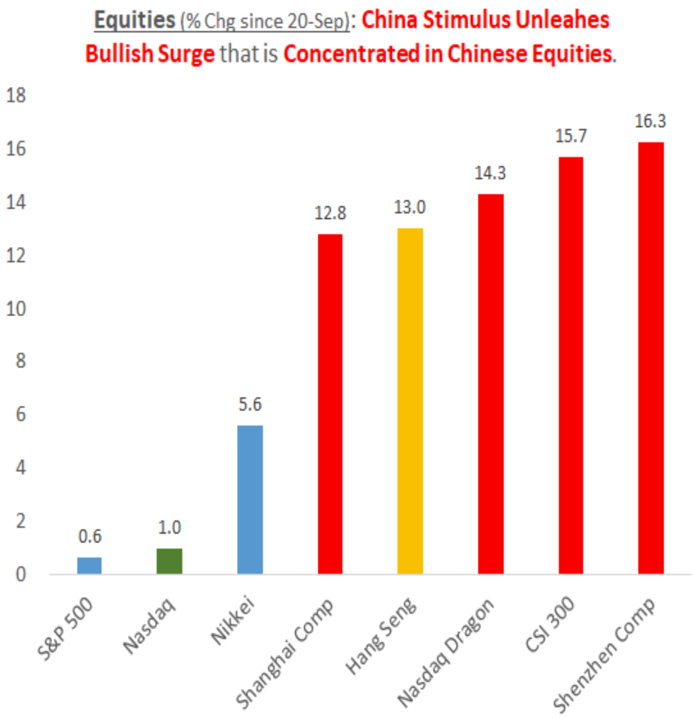
- The **sheer relief of coordinated China stimulus** is **manifesting as "risk on"** and ***can take on its own momentum***.

- 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).



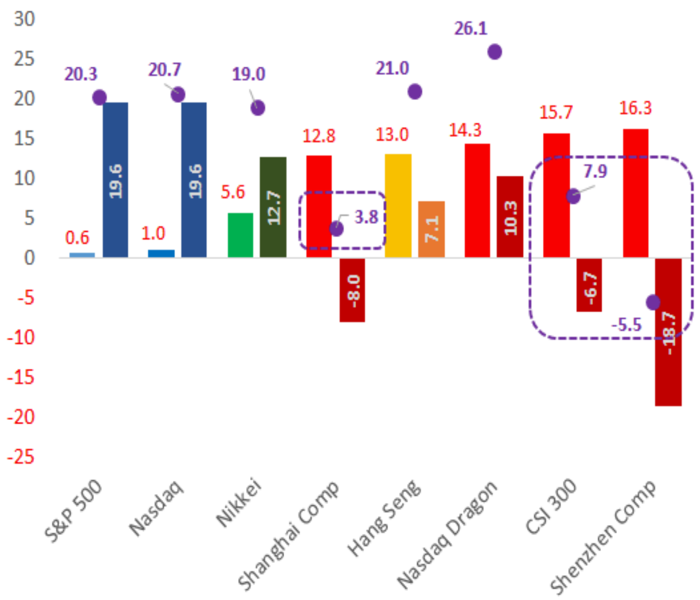
- What's more, the **glow in Chinese demand, *anchored by emphatic property boost***, is **significant tailwind for base metals**. Iron ore leads with a ~16% surge (from $90 to ~$110).

- ***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**.



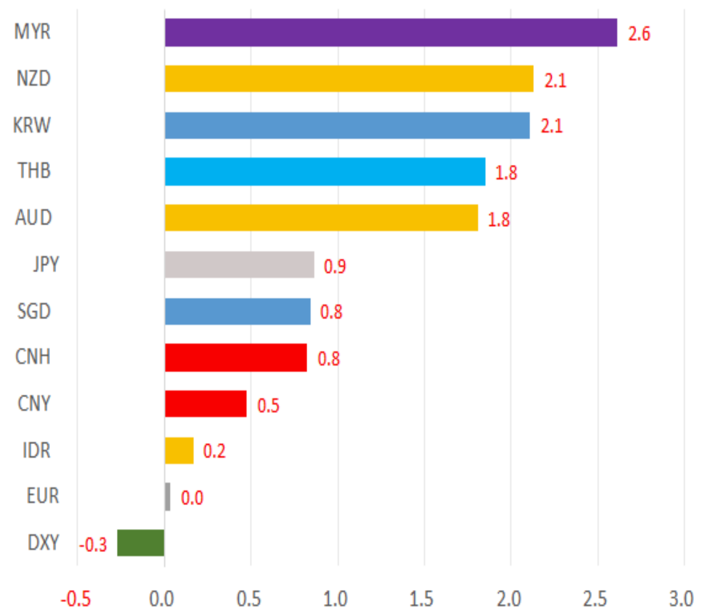
- That's to say, **opportunism** *in the context of "low-hanging" fruits*, rather than self-sustaining confidence, may be **exaggerating market-implied, optimism**.
- Meanwhile, *opportunistic CNH bulls* pushing USD/CNH that has tested below 6.98 are being *resisted by PBoC guidance* restraining USD/CNY 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**.

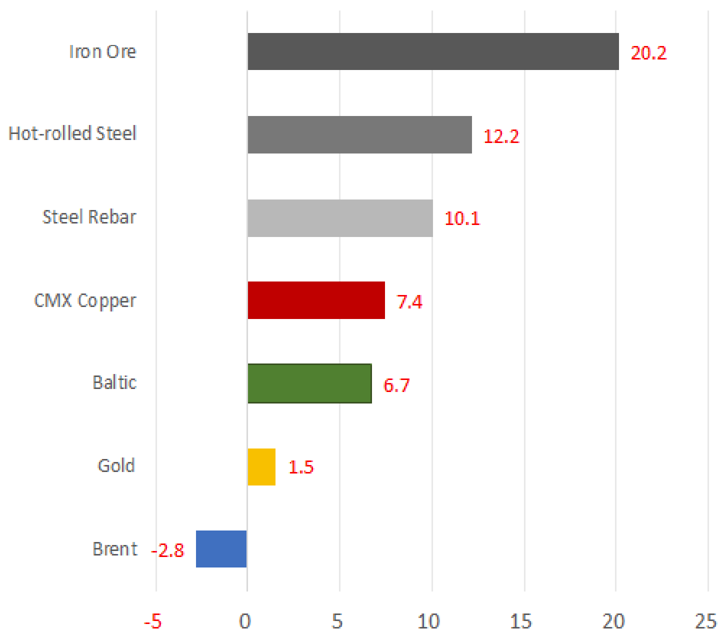
- **Not an unreasonable question** given this pertains to the ***second largest economy*** in the world and the ***largest consumer of commodities***.

- 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.

- But critically by inserting

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