

Oct 09, 2024

Three Take-Aways

1) Disappointment at the absence of China stimulus details dented China equity bulls and knocked the CNY back.

2) But gloom on NDRC reticence is premature as it is the MoF, CSRC, and PBoC that could have ammo for bulls.

3) Nonetheless, this need not translate into unfettered CNY boost. Instead, CNY-induced AXJ drag is still a risk.

MACRO THEME: China in a Bull Shop

- To turn the saying on its head, China (disappointment) took down the bulls (in the shop). Specifically, though, it was the conspicuous absence of feverishly anticipated China stimulus details that took money off the table.

- Admittedly, it didn't appear downbeat all over town, as Wall St was up smartly, led by a 1.5% jump in Nasdaq.

- But this was despite, and not because of China. At least partly attributable to more soothing Fed speak committed to further easing and averse to hard-landings. And so, softer UST yields amid mild bull steepening (partially reversing aggressive bear flattening from previous sessions) helped lift equities from earlier sell-off.

- Whereas China stimulus disappointment had its fingerprints all over Hang Seng's 9.4% drop in Asia hours and Nasdaq Dragon's 6.8% tumble in the US session.

- The blame is trained on NDRC's reticence in regard to guidance on stimulus novelty (new measures), quantum (to clarify the RMB10trln bandied about) and the execution details (timeline/plans). That said, the disappointment, while understandable, appears premature and misguided, if China watchers are being honest.

- Fact is, it is not the NDRC's place to provide details on fiscal stimulus, further monetary policy push and/or equity market. And so it turns out lovelorn bulls in the China shop got hurt at the NDRC level.

Yields (2Y: -3.7bps; 10Y: -1.4bps; 30Y: -1.2bps)

- Mild bull steepening as Fed speak helped assuage earlier sell-off.

Equities (Nasdaq: +1.4%; S&P: +1.0%; Dow: +0.3%)

- Despite China gloom, softer yields helped lift Wall St. But futures look soft.

FX (DXY: +0.0%)

- USD retains a firm tone. Alongside a softer CNY, expect AXJ drag.

China Assets: Levitation, even if Not Lift-Off

- Nonetheless, Chinese assets may not have lost their mojo altogether. Levitation, even if not imminent lift-off has legitimacy.

- Point being, asset market buoyancy may be derived from guidance from the MoF (fiscal), CSRC (equities), PBoC (monetary policy) and the State Council (administration).

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(JP) Labour/Real Earnings YoY (Aug)	3.0%/-0.6%	2.0%/-0.5%	3.4%/0.3%
(JP) BoP Current Account Bal. (Aug)	¥3803b	¥2955b	¥3193b
(JP) Eco Watchers Current (Sep)	47.8	49.2	49.0
RBA Minutes of Sept Policy Meeting			
(KR) BoP Current Account Bal. (Aug)	\$6595m	--	\$8966m
(PH) Unemployment Rate (Aug)	4.0%	--	4.7%
(TW) Exports/Imports YoY (Sep)	4.5%/17.3%	10.9%/12.4%	16.8%/11.8%
Today			
RBI Repurchase Rate (Oct)		6.5%	6.5%
(TW) CPI/Core YoY (Sep)		2.0%/1.8%	2.4%/1.8%
Fed Speakers: Bostic, Jefferson, Logan and Goolsbee			

- To be sure, there may still be an expectations gap as announcements fall short of loftier expectations. But that's not as damaging as market misgivings about Beijing getting stimulus cold feet. There is a case to be made that Beijing's initial pronouncements of boosting the equity market, supporting housing unequivocally are sound commitments.

- For perfect clarity, China does not have the luxury of tweaking policy to merely avert a hard-landing. Fact is, it is already in the midst of one (even if the numbers don't fully convey that) and knows it. And so, Beijing is now fully invested in efforts to extricate the economy holistically. Notably, without the impediments of adverse wealth effects (property) and financial dysfunction (equity market gloom) hindering funding. If so, then the policy pipeline ought to be supportive of further upside in Chinese equities and more emphatic property market backstop.

China Optimism: Rotation, Not Revolution?

- But that said, stimulus details do matter. Especially given our suspicion that wary markets are inclined to play the China stimulus opportunistically, perhaps even tactically. Point being, investors may be viewing this through the lens of rotation (and relative performance alpha) rather than an unequivocally bullish revolution for all things China. For one, the starting point is that the total quantum/intensity of stimulus may be inclined to disappoint. Probably short of RMB10trln. Not unqualified in any case. And so, allocation bias will matter even more.

Chinese Equities: To that end, equities appear to be best placed given the propensity to "follow the money" amid central bank liquidity and compelling valuations.

Supply-chain: Insofar that Beijing's stimulus is deemed to boost supply-chain/import demand tilted to high-tech sectors, Japan, Korea and Taiwan may be beneficiaries.

Commodities: Fiscal stimulus details will determine extent of demand, as real economic boost may be far lower beta than equities.

Energy-to-Industrials: Earlier strategic energy stockpiling by China could further dampen emphatic surge in the energy space, whereas base metals may be higher-beta to China stimulus in infrastructure/public housing boost.

Property Details: Even for the latter the nuances of property market stimulus to discern between fresh (housing) supply demand and inventory off-loading may dampen sustained base metal rallies.

Wider Asia Reallocation: Insofar that the lowest correlations had boosted Indian equities earlier, global investors may at the margin reallocate to China.

Chinese Bonds: Monetary policy push and emphatically combatting deflation may help steepen the yield curve. More so if money is reallocated from bonds to equities.

CNY: But CNY is unlikely to mirror the bullishness in Chinese equities, as a combination of monetary easing and geo-political risks conspire. More so as PBoC leans against excessive moves either way.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	148.20	148.15	+0.01%	147.00 - 151.00
EURUSD	1.0980	1.0976	+0.04%	1.0850 - 1.1050
GBPUSD	1.3104	1.3096	+0.16%	1.2900 - 1.3200
AUDUSD	0.6744	0.6739	▼0.19%	0.6700 - 0.6800
DXY	102.5	--	+0.01%	102.0 - 103.2
USDCNY	7.0633	--	+0.64%	6.9800 - 7.0500
USDCNH	7.0738	7.0733	+0.04%	7.0600 - 7.1300
USDHKD	7.7755	7.7748	+0.12%	7.7600 - 7.7800
USDSGD	1.3040	1.3043	+0.00%	1.2950 - 1.3140
USDKRW	1346	1346	+0.00%	1340 - 1365
USDTWD	32.24	--	+0.32%	31.80 - 32.40
USDINR	83.96	--	▼0.02%	83.80 - 84.20
USDIDR	15645	--	▼0.22%	15500 - 15800
USDMYR	4.287	4.285	+0.07%	4.260 - 4.310
USDPHP	56.92	--	+0.19%	56.40 - 57.10
USDTHB	33.49	33.57	+0.13%	33.20 - 33.80
USDVND	24841	24842	▼0.04%	24750 - 24920

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.959	4.013	-3.7	-1.4
JGB (JP)	0.399	0.919	-1.0	-0.8
Bunds (GE)	2.224	2.242	-1.9	-1.2
Gilts (UK)	4.190	4.184	-3.0	-2.4
AGB (AU)	3.786	4.165	12.0	9.1
SGS (SG)	2.775	2.878	0.9	-1.6
CGB (CN)	1.450	2.193	1.8	2.5
KGB (KR)	3.114	2.971	-1.2	-3.7
SDL (IN)	6.807	6.669	1.0	-1.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.72	162.6	+0.06%
GBP/JPY	194.199	194.003	+0.17%
JPY/SGD (100yen)	0.8799	0.8804	▼0.02%
JPY/HKD (100yen)	5.2468	5.2509	+0.12%
CNH/JPY	21.001	20.974	▼0.44%
CNH/HKD	1.1007	1.1008	▼0.52%
EUR/GBP	0.83793	0.83815	▼0.11%
AUD/NZD	1.0991	1.0992	▼0.38%
EUR/CNH	7.7677	7.7649	+0.11%
GBP/CNH	9.2697	9.2628	+0.19%

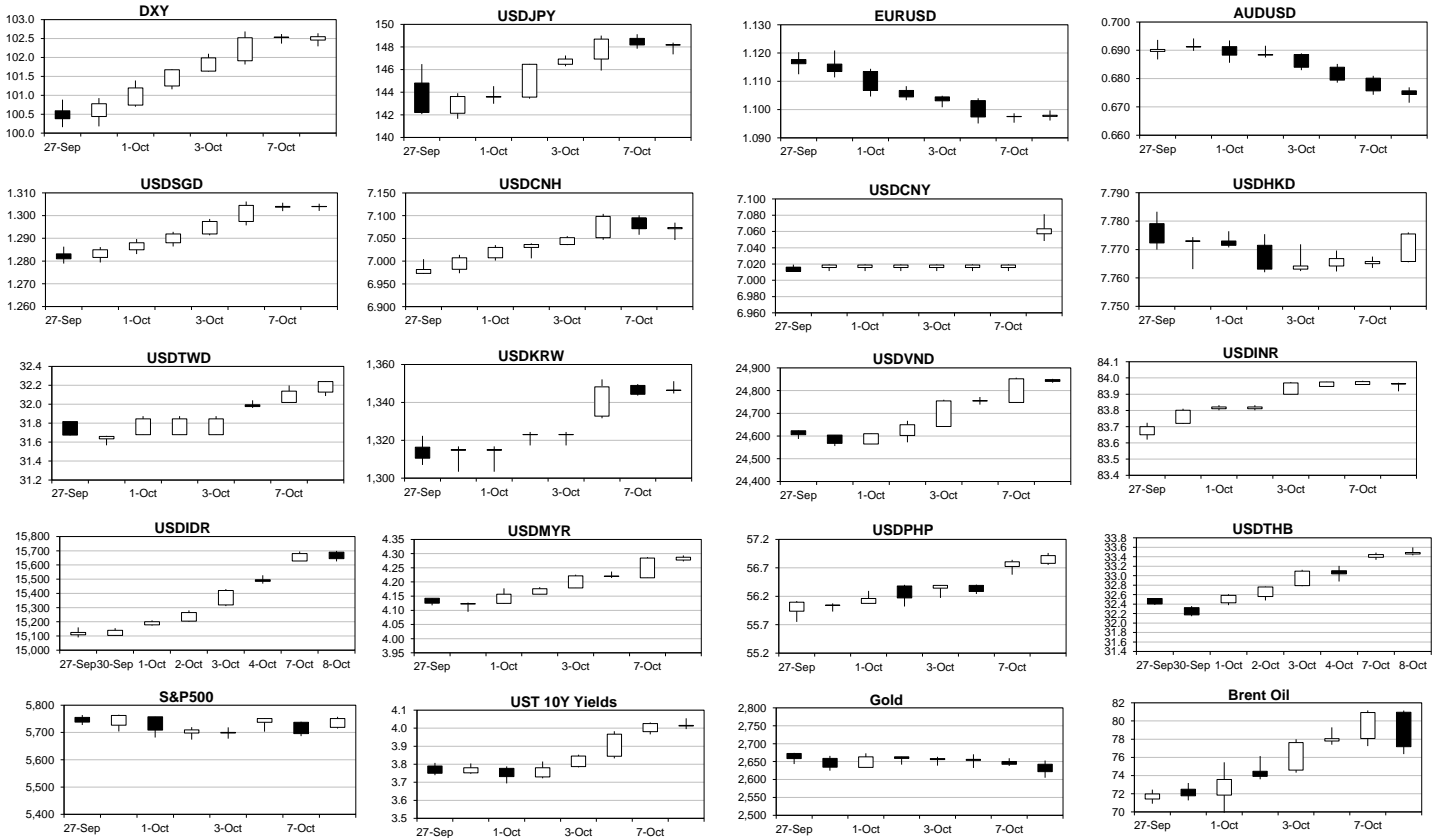
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5751.13	55.19	+0.97%
Nasdaq (US)	18182.92	259.02	+1.45%
DJIA (US)	42080.37	126.13	+0.30%
N225 (JP)	38937.54	-395.20	▼1.00%
STOXX50 (EU)	4949	-20.71	▼0.42%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4477.15	-59.28	▼1.31%
STI (SG)	3575.69	-23.50	▼0.65%
SHCOMP (CN)	3489.775	153.28	+4.59%
SZCOMP (CN)	2098.77	171.29	+8.89%
HSI (HK)	20926.79	-2172.99	▼9.41%
SENSEX (IN)	81634.81	584.81	+0.72%
JSE (ID)	7557.142	53.01	+0.71%
KLSE (MY)	1635.62	0.33	+0.02%
PSE (PH)	7537.25	-17.43	▼0.23%
SET (TH)	1452.8	0.60	+0.04%
VNINDEX (VN)	1271.98	0.00	+0.16%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,594.57	-183.16	▼1.87%
IRON ORE (CN)	105.61	-2.63	▼4.47%
GOLD	2,621.83	-20.76	▼0.79%
SILVER	30.67	-0.01	▼0.47%
OIL (BRENT)	77.18	-3.75	▼4.63%
OIL (WTI)	73.57	-3.57	▼4.63%
NATURAL GAS	2.73	-1.02	▼3.21%

CHARTS



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