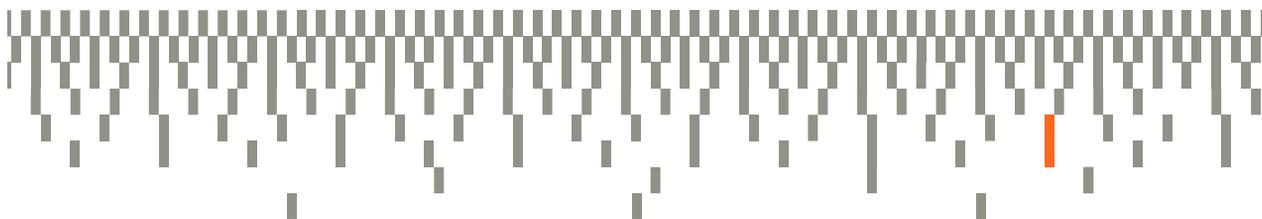




China market – the turning point?



China update

In October, the Chinese equity market saw mixed performance across indices, with small-cap stocks continuing to outperform large-cap stocks. Major indices, which are primarily dominated by large-cap stocks, all experienced corrections. Market sentiment fluctuated between optimism and caution, as onshore "hot money" flowed into the market, while some institutional investors remained on the sidelines, waiting for further policy clarity.

- The MSCI China, MSCI China A Onshore and MSCI China All Share Indices down by 5.98%, 2.88% and 2.35% respectively.
- Among sectors, semiconductors, solar, brokers and national defence were the top performers.
- Interestingly on the housing front, second-hand housing transactions in 26 cities recovering from declines of -27.1%/-4.2% in September to -4.2%/8.1% in October.

October dynamics boost China's outlook

Tourism consumption showed modest recovery during the week-long holiday in early October, with the number of tourists and overall consumption rising by approximately 5.9% and 6.3% year-on-year, respectively. The average daily retail sales of passenger cars saw a significant year-on-year increase, rising from 2% growth in September to 9% in October. The transaction volume of commercial housing also improved, with new housing transactions in 60 cities and second-hand housing transactions in 26 cities recovering from declines of -27.1%/-4.2% in September to -4.2%/8.1% in October. Notably, second-hand home transactions in first-tier cities experienced a substantial rebound, rising by 71% year-on-year compared to a modest 1.8% growth in September.

On the policy front, the National Development and Reform Commission (NDRC) held a press conference in early October, announcing the early allocation of 200 billion yuan in funds to support local investment projects and encouraging swift implementation. The NDRC also committed to expanding the scope of local government special bond support. On 12 October, the Ministry of Finance announced that 400 billion yuan would be reallocated from the local government debt balance to supplement local financial resources, noting substantial room for increasing the central government deficit and implementing the largest debt relief measure in recent years.

On 17 October, the Ministry of Housing and Urban-Rural Development reiterated its policy on monetised resettlement and revealed plans to add 1 million units for urban village and dilapidated housing renovations. By year-end, the approval scale for loans related to 'white list' projects is expected to expand to 4 trillion yuan.

A comprehensive stimulus package

In last month's commentary we mentioned that in late September, the People's Bank of China (PBoC), announced a series of monetary policy measures. Together with the China Securities Regulatory Commission (CSRC), and the National Financial Regulatory Administration (NFRA), a rare joint announcement of multiple stimulus measures was made. Many analysts regard this as the most extensive easing since 2015, surpassing even the scale of COVID-19 measures. The coordinated package, which exceeded market expectations, consists of three key components:

1. **Monetary easing:** Including cuts to the reserve requirement ratio and policy rates.
2. **Property stimulus:** Featuring a lower down payment ratio and reduced mortgage rates.
3. **Increased liquidity for the stock market:** Through a swap facility for financial institutions to buy stocks and a special relending program to support stock repurchases.



Small-cap stocks outperform as Chinese large-cap indices face corrections



Tourism and car sales show strong year-on-year growth



'White list' projects set to boost housing market with increased financing



Chinese government commits 600 billion yuan for local investments and debt relief

The Politburo's meeting on 26 September was a high-level discussion led by President Xi Jinping, where the Communist Party's leadership analysed the country's current economic challenges and outlined strategies to boost growth. He emphasised the need to stabilise the real estate market and prioritise employment, further enhancing market optimism. This enthusiasm was amplified on social media, resulting in a surge of new investment account openings by retail investors during the National Day holiday.

While the full impact of these measures is yet to be determined, they represent a decisive policy shift by the Chinese government. Its clear commitment to supporting the market and addressing immediate economic challenges creates a more favourable environment for investors in the near to medium term. Further fiscal stimulus is expected to be announced in the coming months.

A turning point for Chinese stocks



Source: Bloomberg and RisCura calculations (daily), as of 30 September 2024.



Source: Factset.

Valuations of Chinese equities remain attractive, trading at a significant discount compared to historical levels and other major markets, such as the US, India, Japan, and even the MSCI Emerging Markets. This is despite higher earnings growth forecasts. With declining US interest rates, China's clear policy pivot, and the solid fundamentals of many high-quality Chinese companies, the case for investing in Chinese equities is becoming stronger. We believe this could be a turning point for Chinese stocks, positioning them to potentially outperform in the global equity markets.

The Chinese government's clear commitment to supporting the market and addressing immediate economic challenges creates a more favourable environment for investors in the near to medium term.