GlobalData. TS Lombard

China Watch - Quick Insights

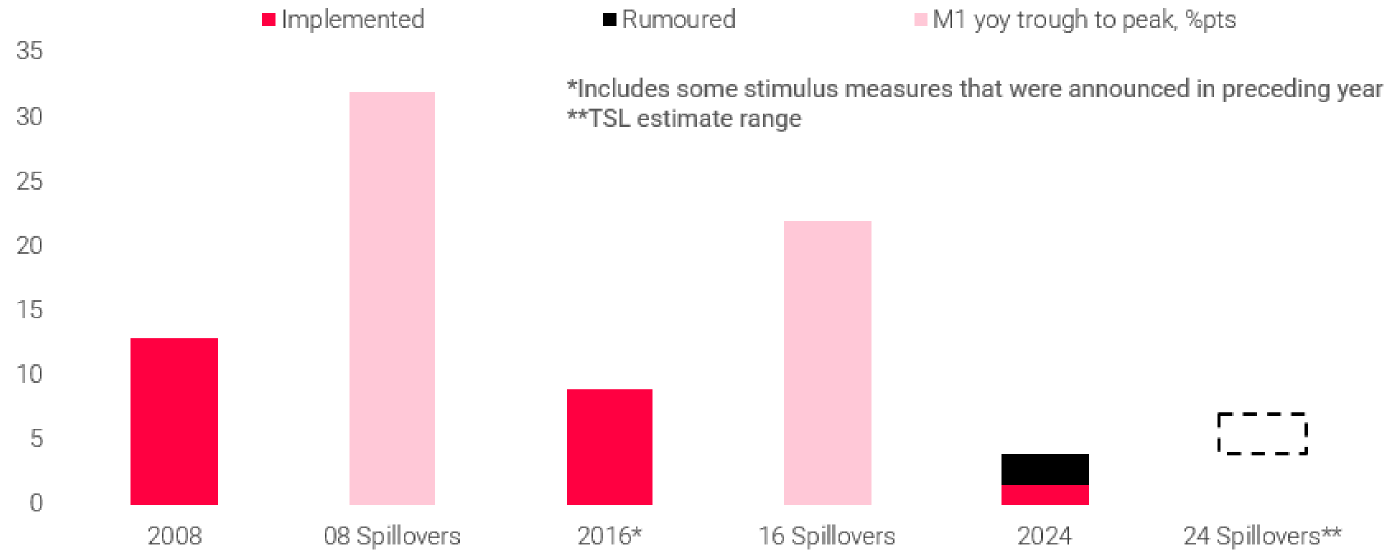
03 Oct 2024

STIMULUS SIGNPOSTS: WHAT TO WATCH IN CHINA

Rory Green

Last week Beijing unveiled its largest post-Covid stimulus, sending a strong signal that – eventually – they will do whatever it takes and triggering an immediate surge in Chinese assets. We think the rally has legs, but the cyclical and structural growth implications are less clear. Fiscal stimulus and the multiplier of government easing will determine the cyclical outlook and the duration of market moves. Below we set out six key signposts to watch.

Stimulus in context (monetary + fiscal % of stimulus year GDP)



To put the announced measures in context, we estimate that the stimulus is significantly smaller than past “bazookas”: just 1.5% of GDP, compared with combined fiscal and monetary stimulus of 13% in 2008 and 9% in 2015-16. If rumoured fiscal measures are added (we assume a base line of RMB2trn), this round of easing will stack up to ~4% of GDP.

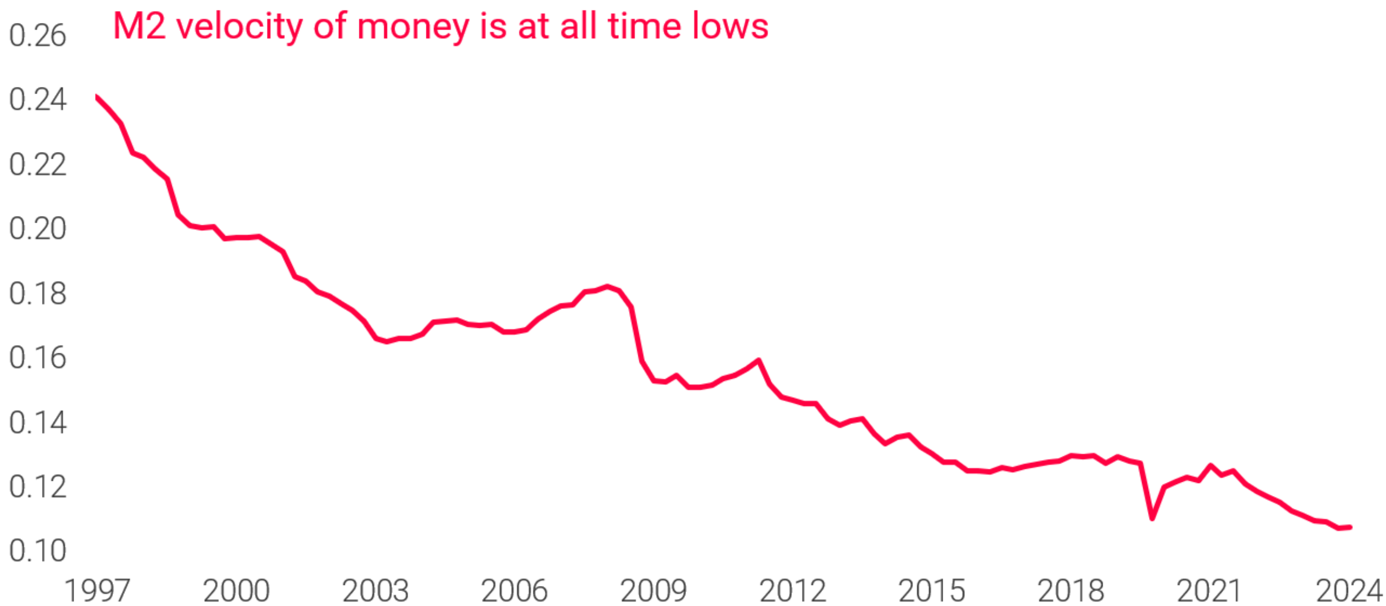
Also, the multiplier of fiscal and monetary easing is different post-Covid. In 2008 and 2016 households and the private sector reacted strongly to government easing: the relaxation of lending controls added 31% of GDP in credit in 2008-09. This time round, the multipliers will be significantly weaker owing to 1) the underlying economic conditions (weak balance sheets, low confidence, high debt levels, etc.) and 2) stimulus tools that have a higher income focus compared with the more typical infrastructure/property-centred easing.

This is not quite a Mario Draghi moment, but it’s close to being one. “We will do whatever it takes – eventually” perhaps best sums up the official stance. And this is the most positive takeaway from the messaging blitz. A pain threshold has been reached and Beijing will do enough to stabilize activity. As previously noted, demand-creating fiscal stimulus is key to make this post-Covid rally stick. The September Politburo signalled there is more to come, with rumours rapidly escalating from an initial RMB2trn to more than RMB10trn. We think the former is more likely. While a total 4% of GDP is a good start and sufficient to stabilize cyclical activity, it will not address structural property issues.

Bullish China. Markets are looking through a cyclical soft patch and structural headwinds as the PBoC put comes into play and on shore sentiment is running high – stockbrokers have stayed open to register new accounts through the National Day Holiday. Tests for the rally lurk ahead. Our six signposts to watch over the next six weeks or so:

- National holiday spending, travel and home sales data
- Fiscal stimulus announcement - NPC meeting in late October is likely to approve new bond issuance
- Official comments on the equity market: Will officials worry about a 2015 style bubble or let it run?

  (The latter would suggest a stronger pro-growth stance)
- US election – a Harris victory would be bullish China
- Data on cement production, local bond issuance, home sales
- GDP targets for 2025 (rumours should come in late November/December)



Disclaimer

The information and opinions expressed in this report have been compiled from publicly available sources believed to be reliable but are not intended to be treated as advice or relied upon as fact. Neither TSL Research Group, nor any of its directors, employees or agents accepts liability for and, to the maximum extent permitted by applicable law, shall not be responsible for any loss or damage arising from the use of this report including as a result of decisions made or actions taken in reliance upon or in connection with the information contained in this report. TSL Research Group does not warrant or represent that this report is accurate, complete, or reliable and does not provide any assurance whatsoever in relation to the information contained in this report. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this report based on the information available.

There can be no assurance that future results or events will be consistent with any such opinions, forecasts, or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company and its subsidiaries. The value of any securities or financial instruments or types of securities or financial instruments mentioned in this report can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. This is a generic research report and as such does not have regard to the specific instrument objectives, financial situation, and the particular needs of a client. Clients should seek independent financial advice regarding the appropriateness of investing in any of the types of financial instrument or investment strategies discussed in this report.

By reading this report you accept TS Lombard's terms and conditions.

Registered Office: John Carpenter House, John Carpenter Street, London, England, EC4Y 0AN. Registered in England No. 10232483