

## More On China And EM Scorecard

Chinese stocks have exploded in the past week, pushing both the domestic and “investable” benchmarks to the highest levels this year ([Chart 1](#)). Beijing appears to be in a state of panic, rolling out a flurry of measures that are hard to keep pace with. The situation resembles the abrupt and chaotic end of its Zero-Covid policy in late 2022. While it remains to be seen whether Chinese growth will respond to these stimulus efforts, **what’s encouraging is that Beijing has finally acknowledged the mounting economic and social challenges and is taking action to address them.** Their long-standing ideological resistance to “massive stimulus” appears to have been abandoned.

### Beijing Capitulates: What Has Changed?

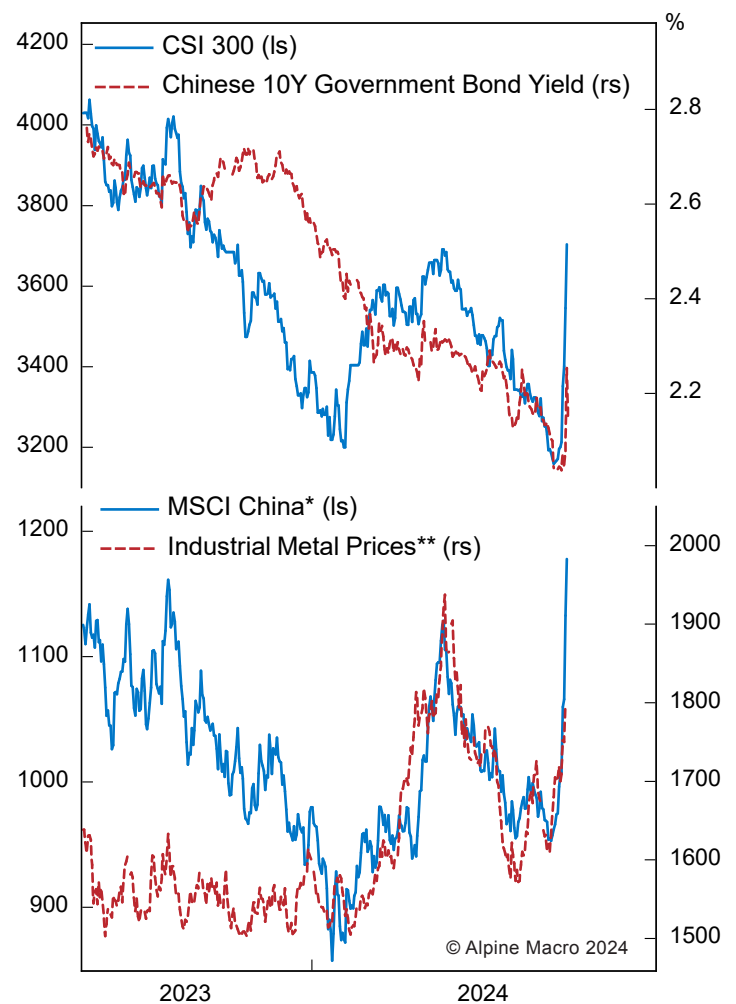
In the brief note we sent to clients last Tuesday, we provided a preliminary assessment of the recent policy changes and recommended that investors chase the rally.<sup>1</sup> Over the past few days, there have been several highly symbolic developments, confirming a pivotal shift in Beijing's stance on stimulating growth. We have repeatedly cautioned against the risk of China “sleepwalking” into a Japan-style deflationary stagnation. Recent policy adjustments suggest that Beijing is finally awakening to the gravity of the economic situation.

- While rate cuts and reserve requirement reductions have been conventional tools for the PBoC, the

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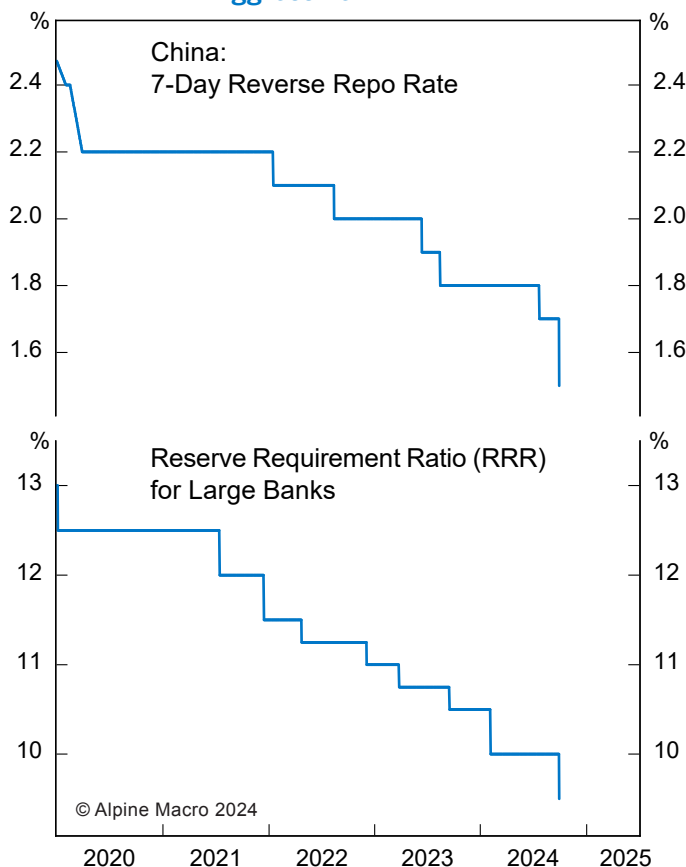
**Chart 1 A Sudden Surge In Optimism**



\*In US\$ terms

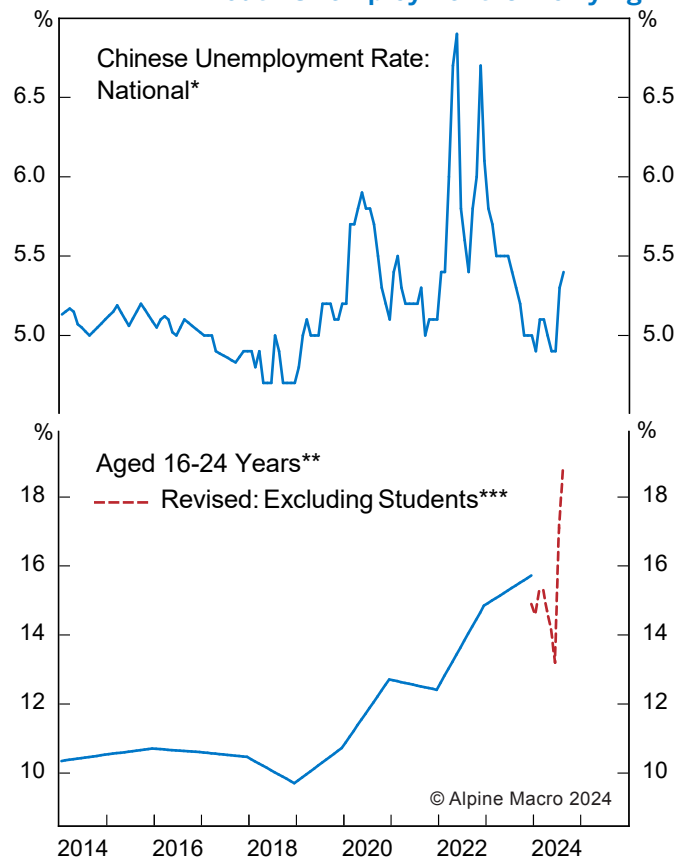
\*\*Source: S&P Global

1 Alpine Macro EM & China Strategy Special Alert "China's 'Whatever It Takes' Moment?" (September 24, 2024).

**Chart 2** Policy Easing Is Getting Aggressive


latest measures are more aggressive than recent actions ([Chart 2](#)). The central bank cut the short-term reverse repo rate by 20 basis points, double the usual 10 basis-point adjustment. The reserve requirement ratio was lowered by 0.5%, compared to the 0.25% reductions seen in recent years. Additionally, in an unprecedented move, the central bank is urging commercial banks to cut interest rates for existing mortgage borrowers by 0.5%.

- The Politburo, the Communist Party's top policy-making body led by President Xi Jinping, convened last week to discuss economic policies. This meeting, originally should have been scheduled

**Chart 3** China: Youth Unemployment Is Worrying


\*Surveyed unemployment rates in 31 major cities; source: NBS

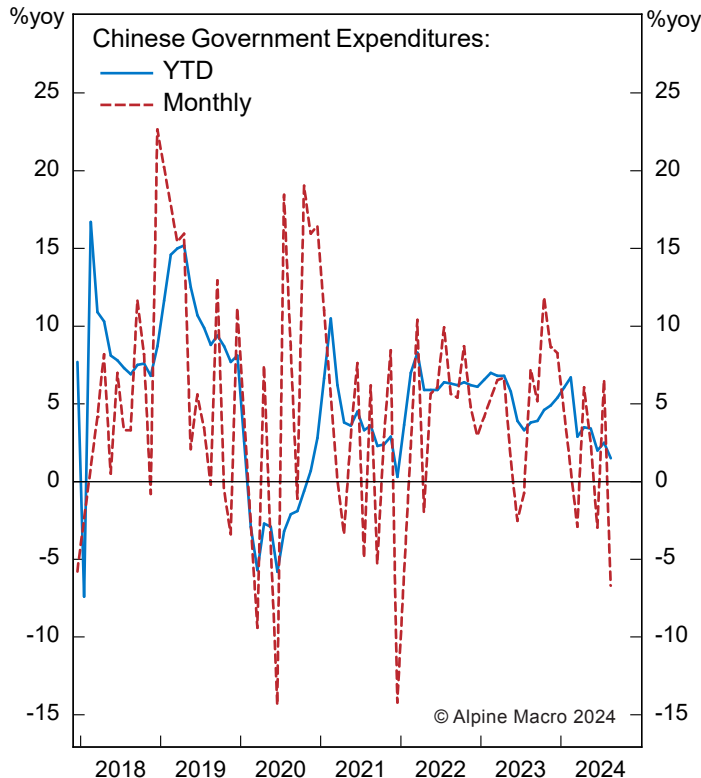
\*\*Source: World Bank

\*\*\*Source: NBS

for late November according to Beijing's policy calendar, was either brought forward or held as an emergency session. In either case, the timing itself highlights Beijing's deep concerns about the current economic situation.

- The State Council, China's cabinet led by Premier Li Qiang, also convened last week, unveiling 24 measures focused almost entirely on the labor market. This clearly signals Beijing's growing concern that weak economic growth and a troubled labor market could trigger broader social unrest and political instability. Recent data shows that the unemployment rate, particularly among youth, has risen again ([Chart 3](#)).



**Chart 4 Mounting Fiscal Stress**

- Media reports suggest that the Ministry of Finance may issue an additional RMB 2 trillion in special bonds. Half of the issuance would be allocated to boosting consumption, while the other half would help ease the financial strain on local governments. This amounts to approximately 1.5% of GDP, which, if confirmed, would provide a significant boost to demand.

The timing of the policy shift suggests that China's Q3 growth figures likely fell well short of Beijing's expectations. Recent macroeconomic indicators have been bleak. The latest PMI numbers have hovered around contraction territory, industrial profits remain in a deep slump, and fiscal expenditures have plummeted – a clear sign that local governments are facing severe fiscal stress (Chart 4).

In the communiqué from the Third Plenum of the Party Congress in July, top leaders urged officials to "unwaveringly strive to meet this year's growth targets."<sup>2</sup> However, the economy has continued to deteriorate, prompting Beijing to finally ramp up policy stimulus.

### Chinese Stocks: The Rally Should Continue

The explosive rally in Chinese stocks in the past several days is the reason why we have been holding Chinese stocks, despite the highly unpredictable policy environment.<sup>3</sup> Simply put, the market had become so depressed that any policy changes could trigger a sudden rerating. Missing the initial stage of the rally would pose an acute dilemma for investors. After surging over 20% in the past week, Chinese stocks may consolidate for a while, but we doubt that the rally is over.

First, the most important takeaway from last week's policy actions is that Beijing no longer views "massive policy stimulus" as inherently negative. For instance, earlier this year at the World Economic Forum in Davos, Chinese Premier Li Qiang proudly stated, *"In promoting economic development, we did not resort to massive stimulus. Rather, we focused on strengthening internal drivers."* Similar remarks have been echoed by top policymakers.<sup>4</sup>

2 Alpine Macro *EM and China Strategy* "China: Policy Paralysis And The Third Plenum" (July 23, 2024).

3 Alpine Macro *EM & China Strategy* "Is China In A Slow-Motion Implosion?" (August 27, 2024).

4 Alpine Macro *EM & China Strategy* "China: Sleepwalking Into Japan, Part II" (January 23, 2024).

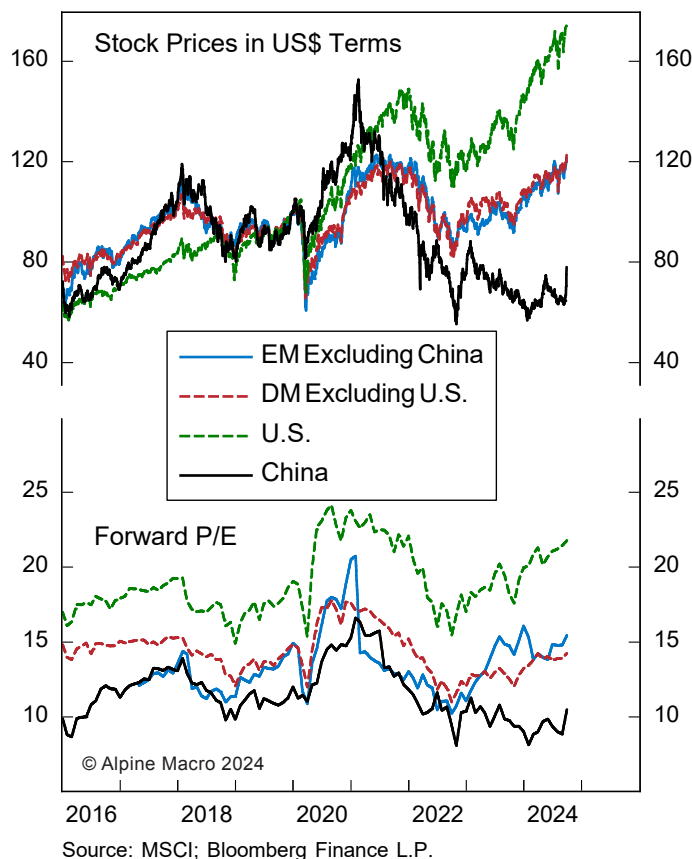
This consideration is likely one of the key factors behind Beijing's hesitation to support the economy with decisive countercyclical measures in recent years. Shedding this policy straitjacket marks a major pragmatic shift. As a result, more easing measures are likely on the way if growth conditions do not improve. If so, the "reflation trade" in Chinese stocks could have much further to go.

Second, it's crucial to put last week's rally into proper perspective. Currently, both domestic A-shares and "investable" benchmarks are only slightly above their respective highs reached in May. From a longer-term perspective, they remain extremely depressed and exceptionally cheap compared to global counterparts.

**Chart 5** shows the dramatic performance gap among equity prices across different regions. Remarkably, the performance of EM-excluding China and DM-excluding the U.S. has been nearly identical in recent years, while U.S. and Chinese stocks have drastically diverged. Similar divergences exist in terms of valuation. Even if Chinese stocks never achieve the "exceptionalism" of U.S. valuations, merely catching up to the global average would imply another 50% surge in Chinese stock prices.

Finally, investors have largely given up on Chinese stocks over the past two years, but the recent explosive rally is likely to spark a fervent rush to re-enter the market. Most investors recognize that Chinese stocks are among the most undervalued major assets globally, yet they have remained on the sidelines due to a lack of catalysts. Last week's policy developments and the substantial surge in stock prices have triggered panic buying in the domestic market, which even temporarily overwhelmed the Shanghai Stock Exchange.

**Chart 5** Chinese Equities:  
A Long Way To Catch Up

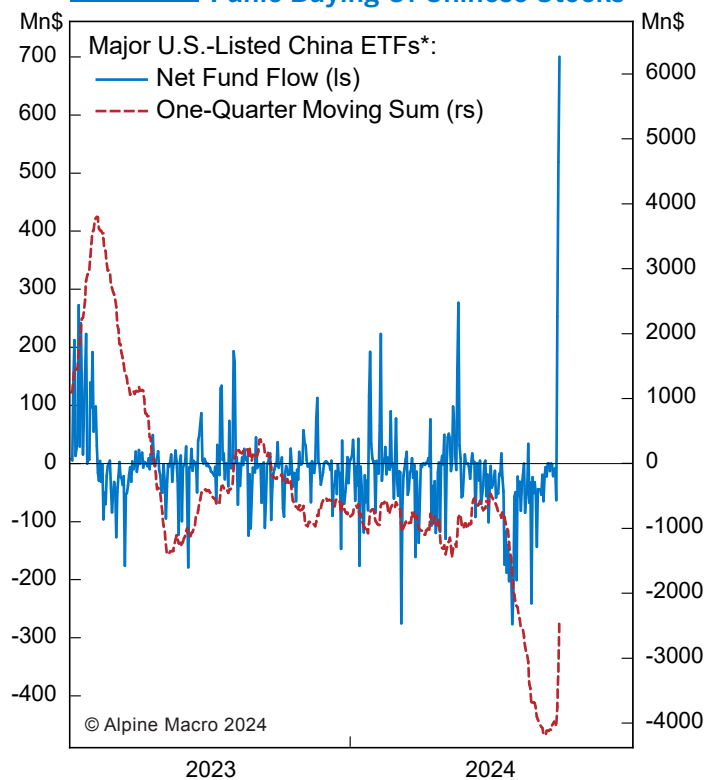


There has been a similar surge in the buying of Chinese stocks in overseas markets. **Chart 6** shows fund flows into major China-related ETFs listed in the U.S. have exploded in the past several days, following two years of constant outflows. Short-covering and the FOMO factor – fear of missing out – could drive stock prices significantly higher from current levels.

The bottom line is that Beijing's renewed reflation push is likely still in its early stages. We will continue to monitor policy developments in China and evaluate their economic and market impacts in the coming weeks. For now, we are maintaining our position in Chinese stocks and remain overweight in China within EM.



**Chart 6 FOMO: Panic Buying Of Chinese Stocks**



\*Includes MCHI, KWEB, FXI, ASHR, YINN, CQQQ, GXC, CXSE, CWEB and CNYA; source: Bloomberg Finance L.P.

## EM Asset Tracker

This week we are also updating our EM Asset Tracker chartpack for the fourth quarter, highlighting the most recent market developments, and ranking the relative attractiveness of numerous EM assets. These indicators are important inputs for our EM equity allocation strategy for the fourth quarter, which will be published next week.

Please continue to page 6 for our Q4 **EM Asset Tracker Chartpack**.

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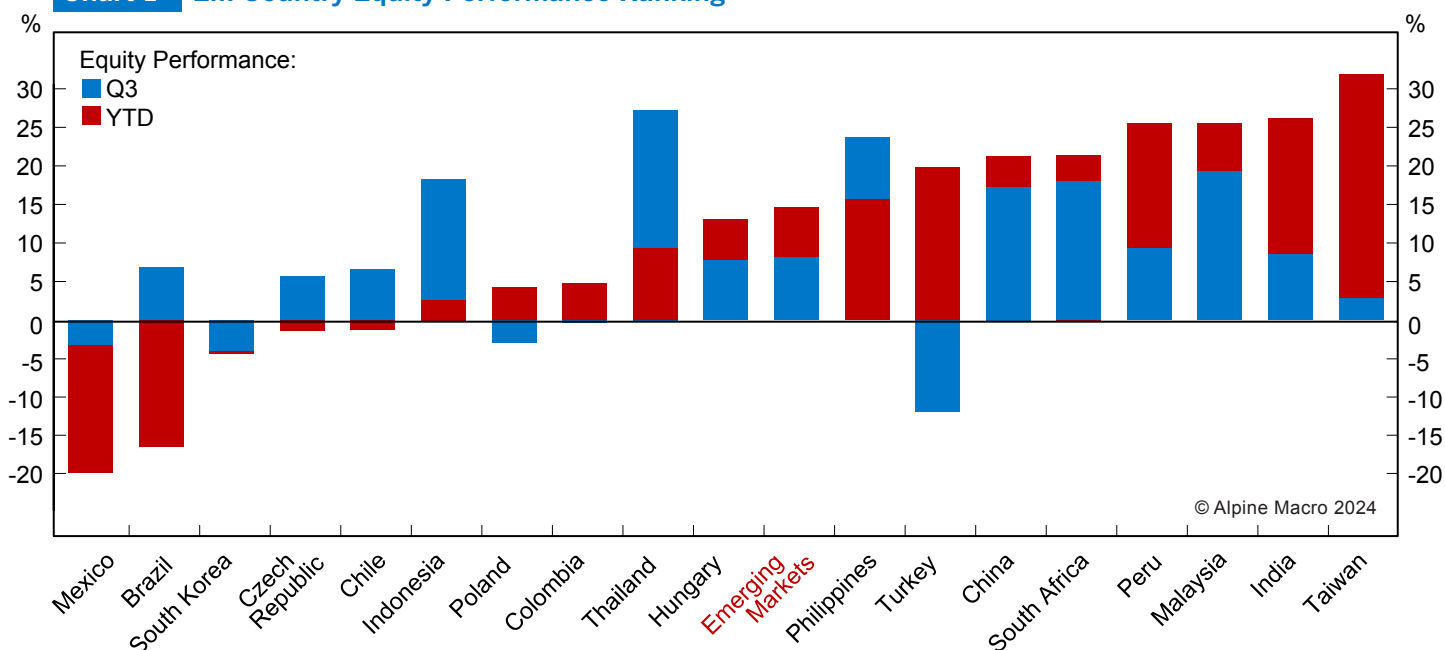
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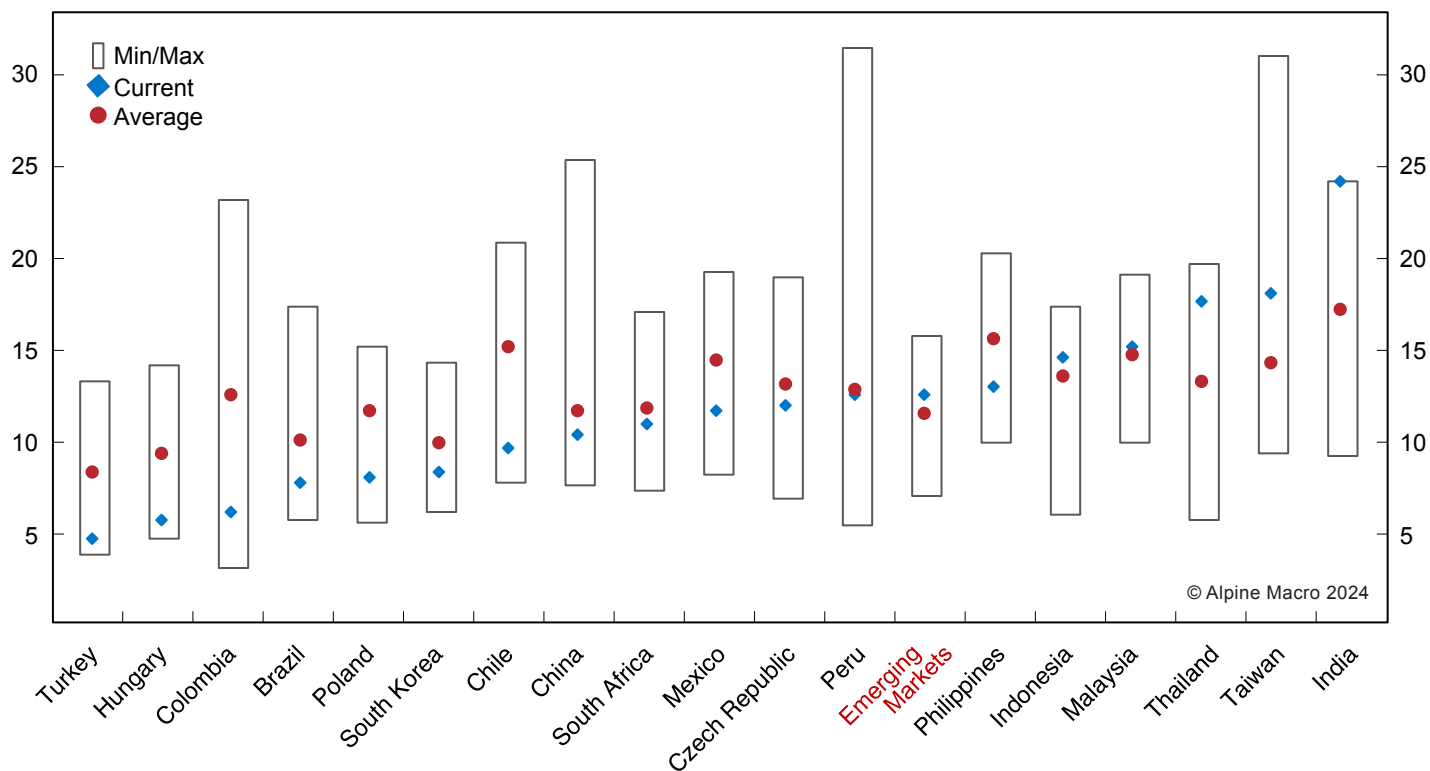
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**Chart 1** EM Country Equity Performance Ranking\*

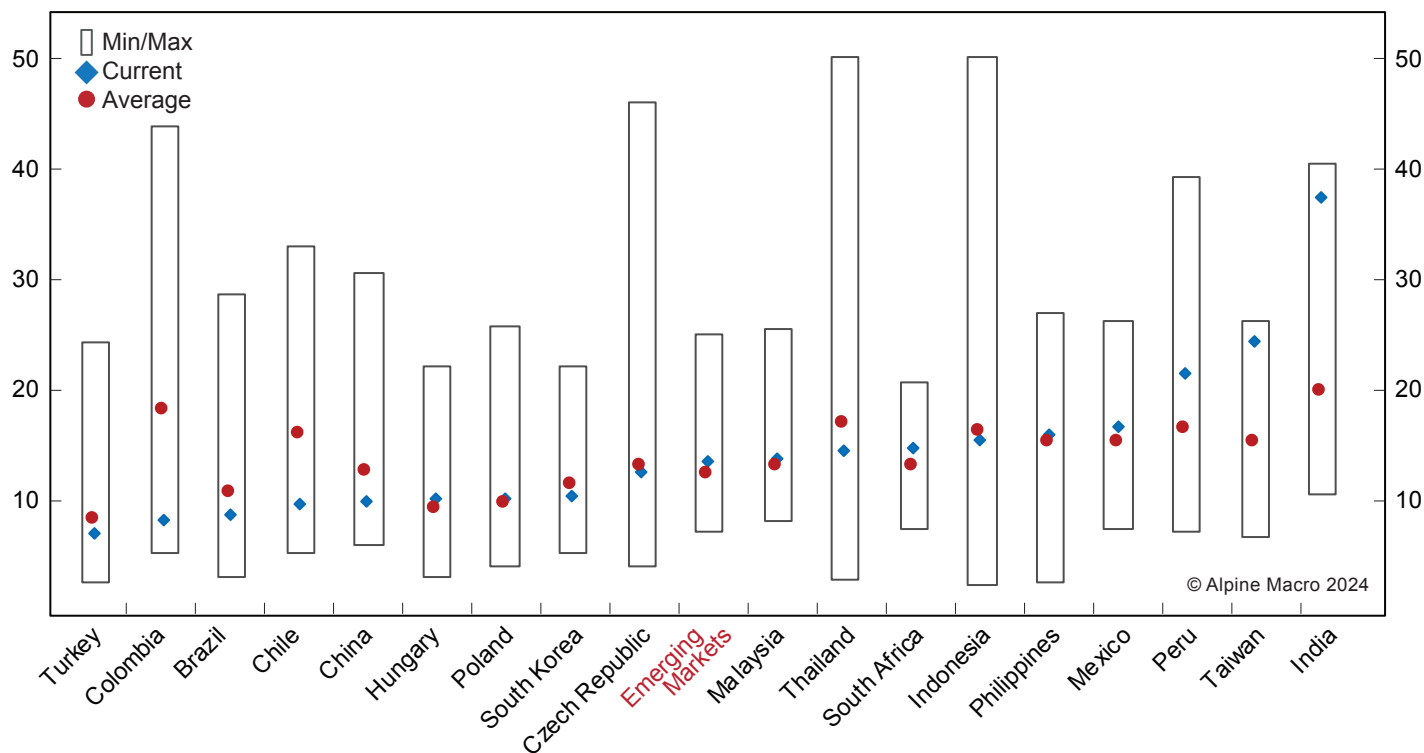


\*As of 27 September, 2024; in U.S. dollar terms; source: MSCI

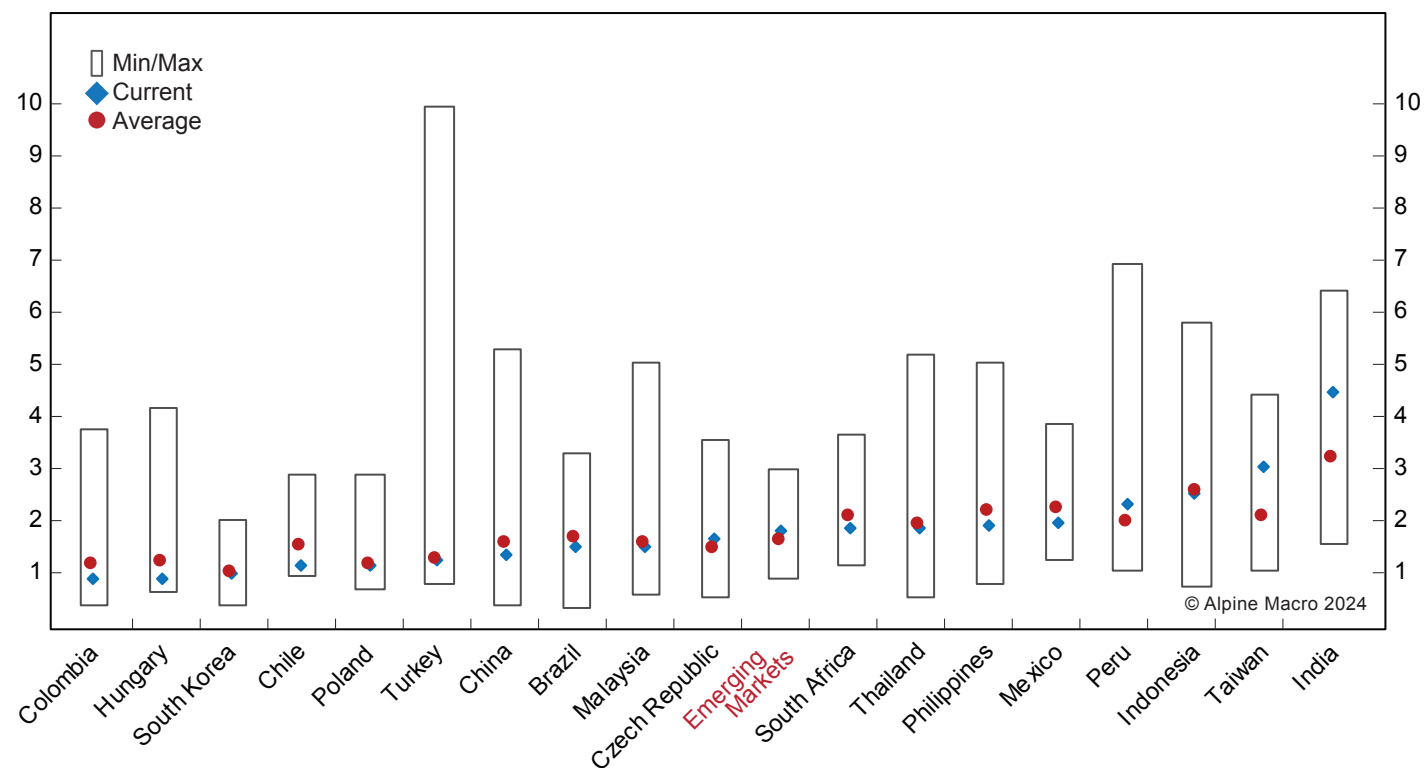
**Chart 2** EM Country Equity Ranking: Forward P/E Ratio\*



\*As of September 27, 2024; source: MSCI

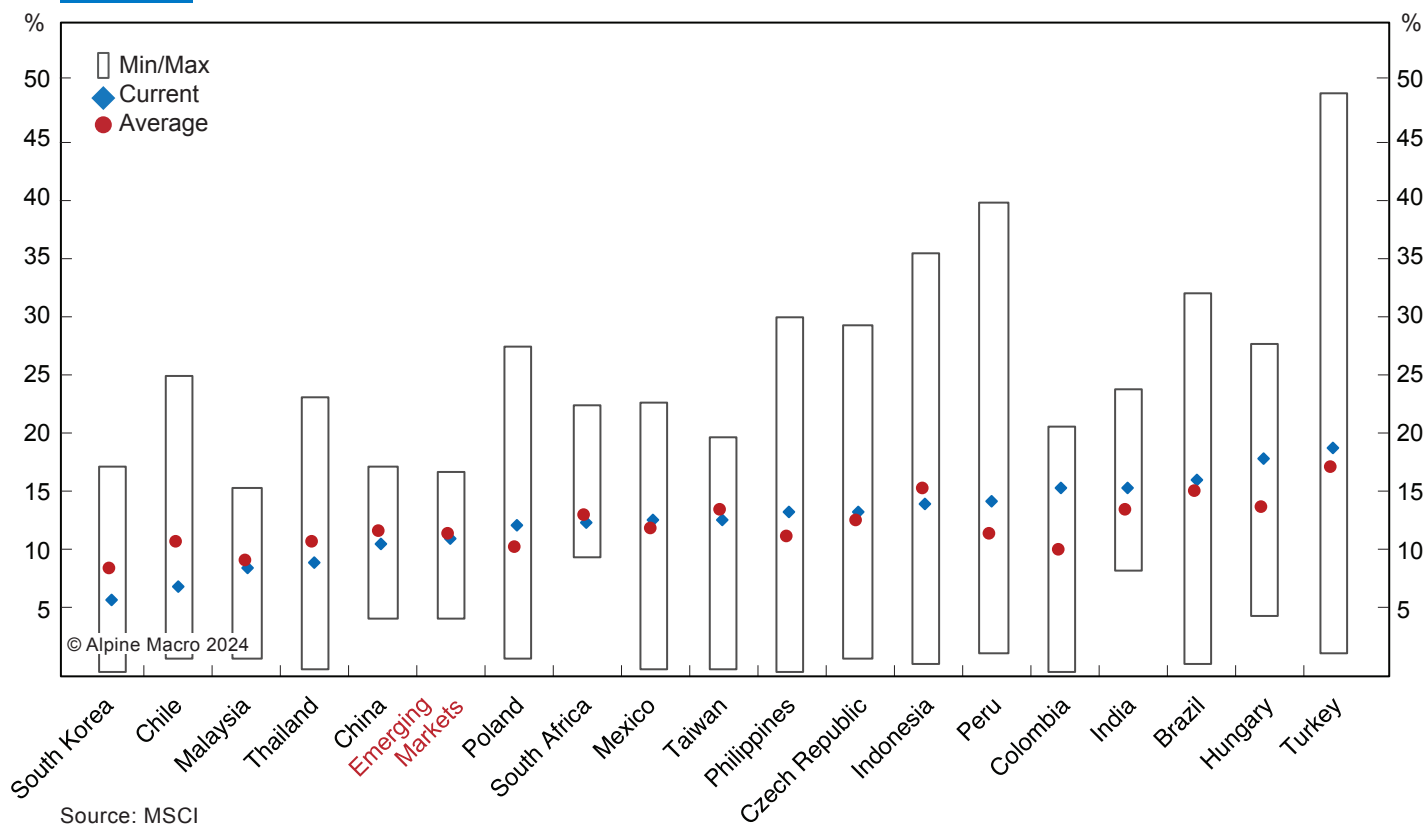
**Chart 3** EM Country Equity Ranking: Cyclically Adjusted P/E Ratio\*

\*Current stock prices divided by 10-year average earnings, adjusted by U.S. CPI; series truncated at 50

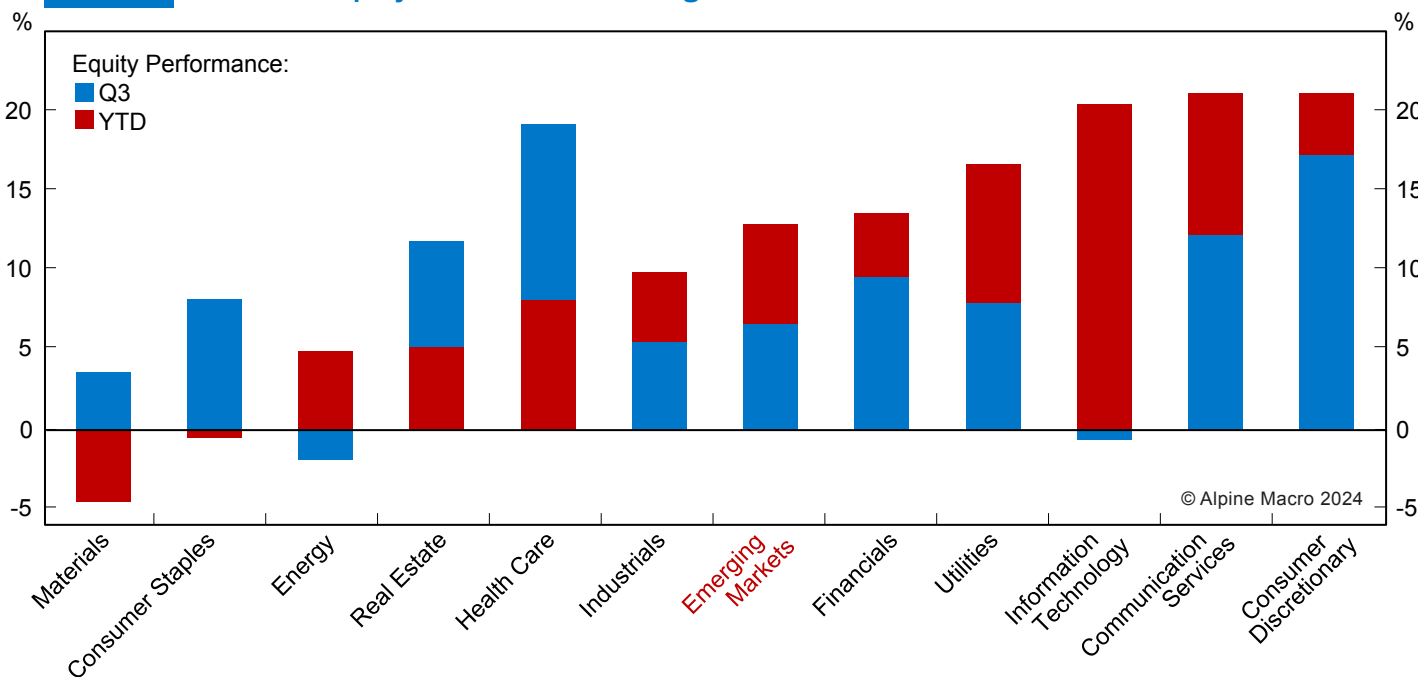
**Chart 4** EM Country Equity Ranking: P/B Ratio\*

\*As of 27 September, 2024; source: MSCI



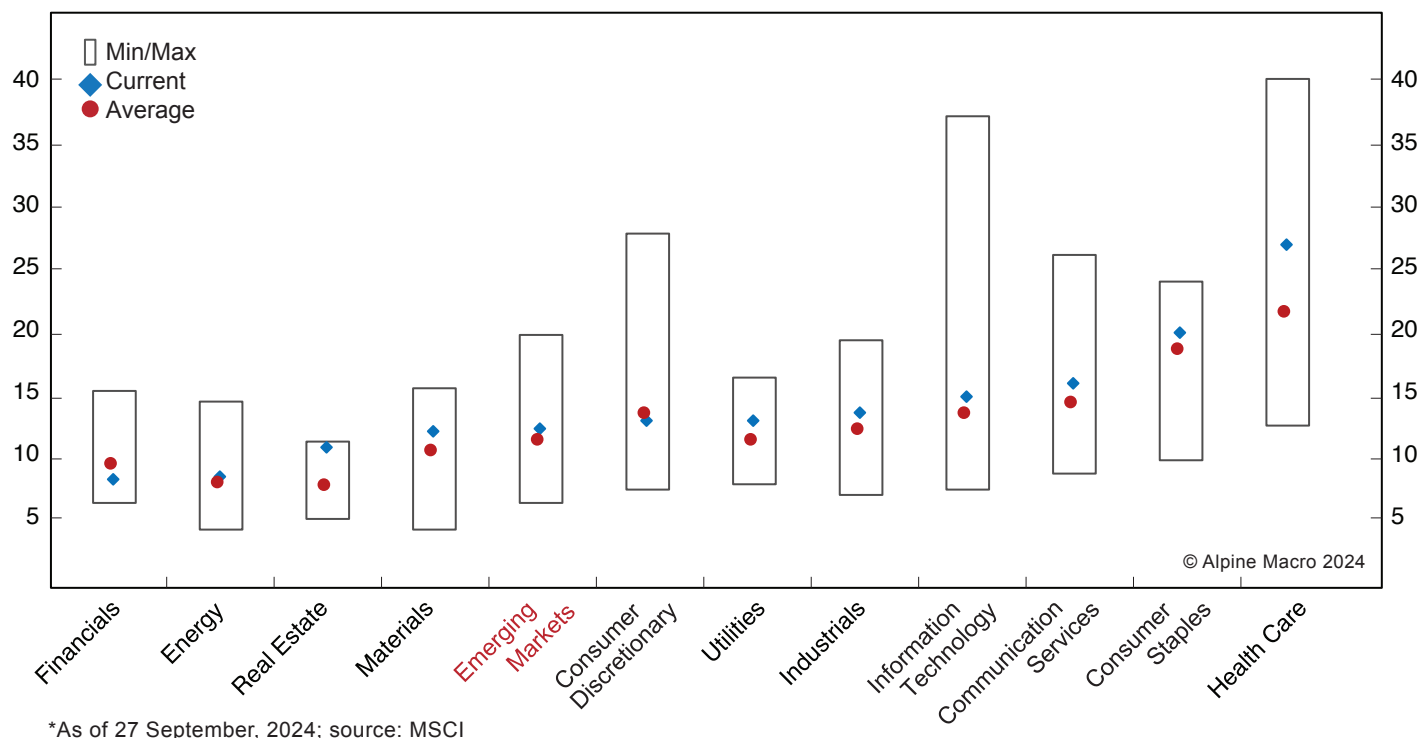
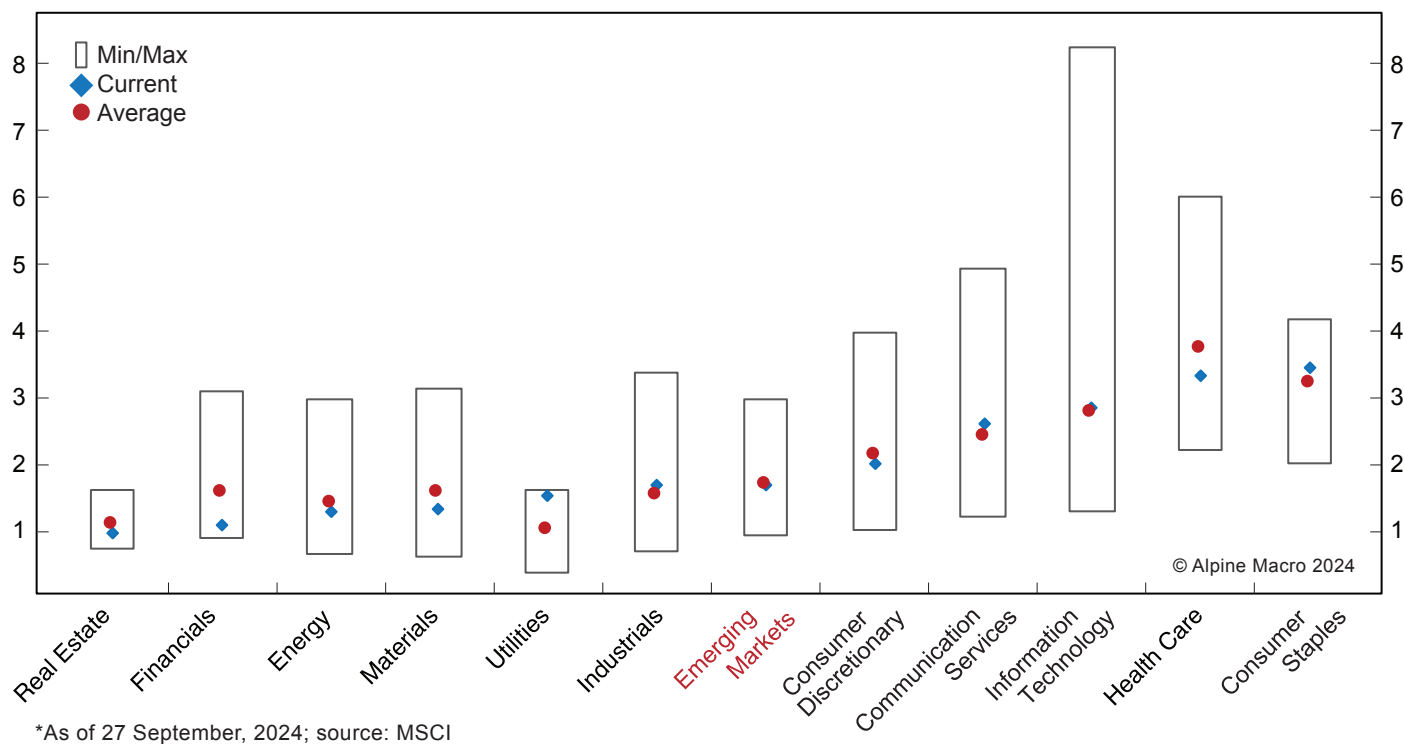
**Chart 5** EM Country Equity Ranking: ROE

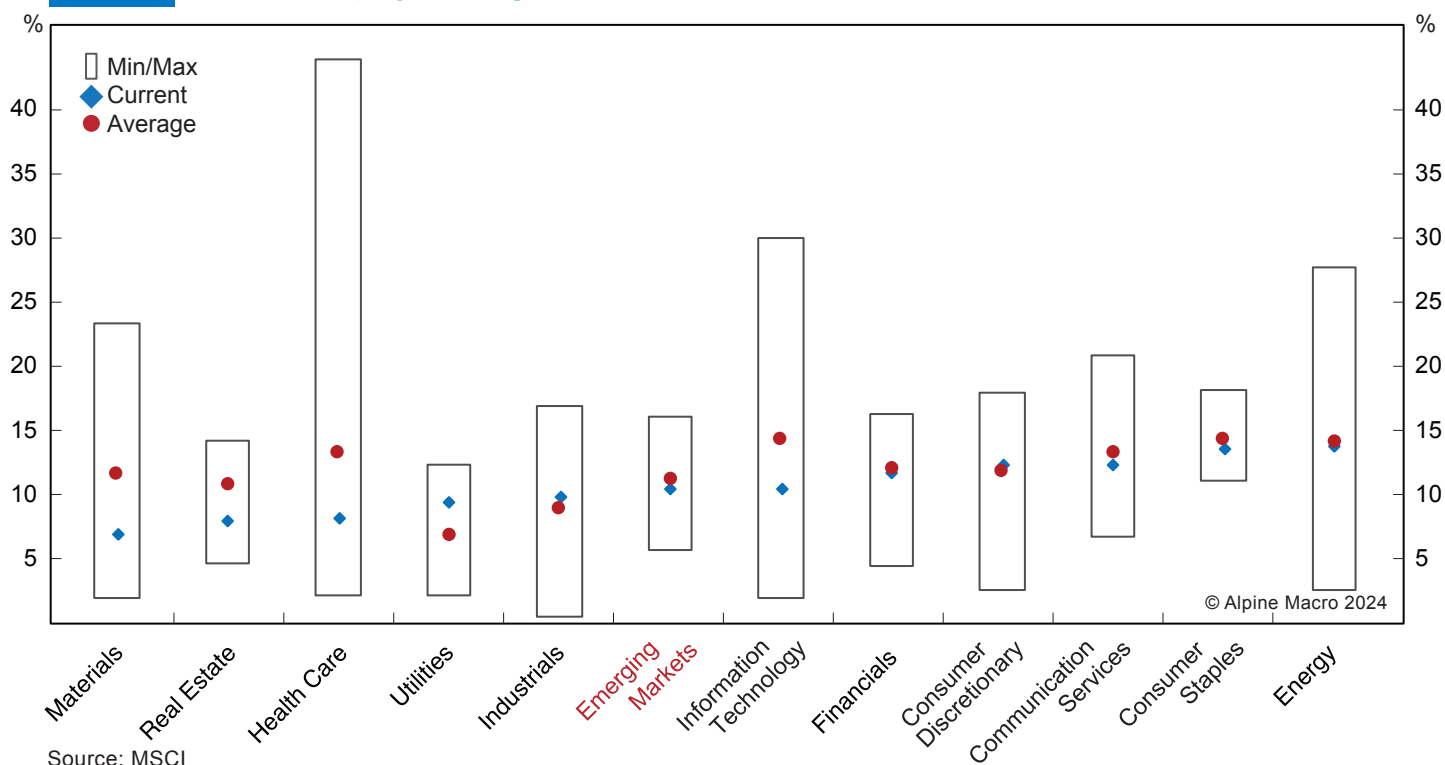
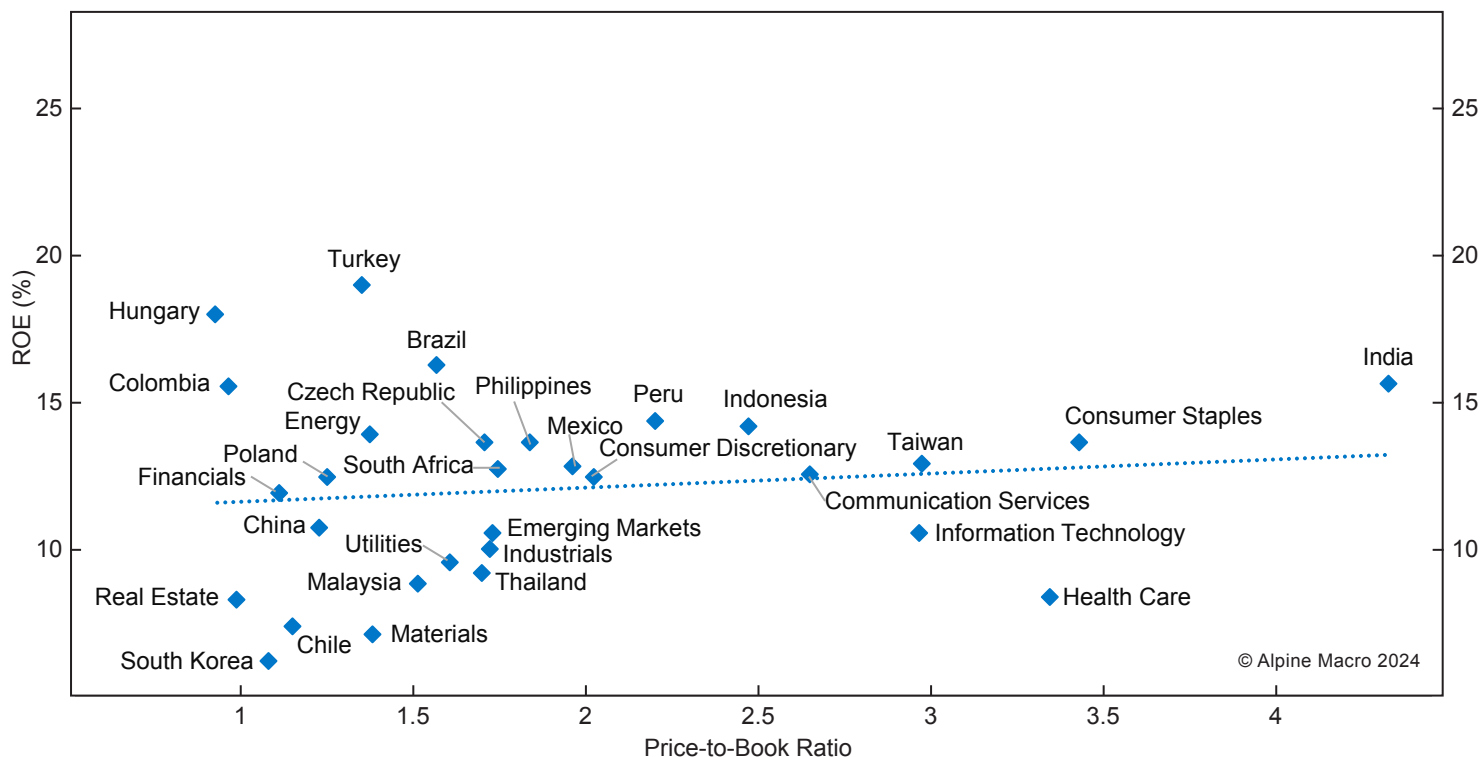
Source: MSCI

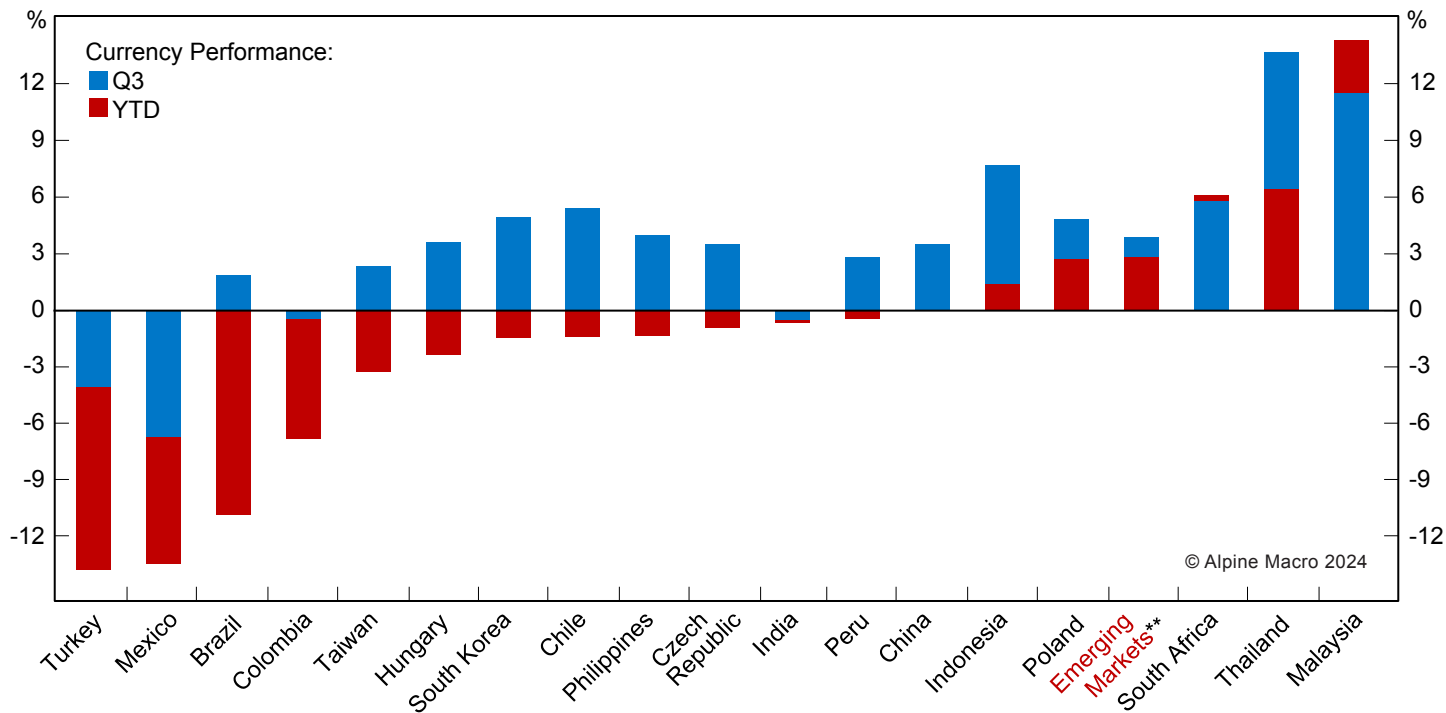
**Chart 6** EM Sector Equity Performance Ranking\*

\*As of 27 September, 2024; in U.S. dollar terms; source: MSCI



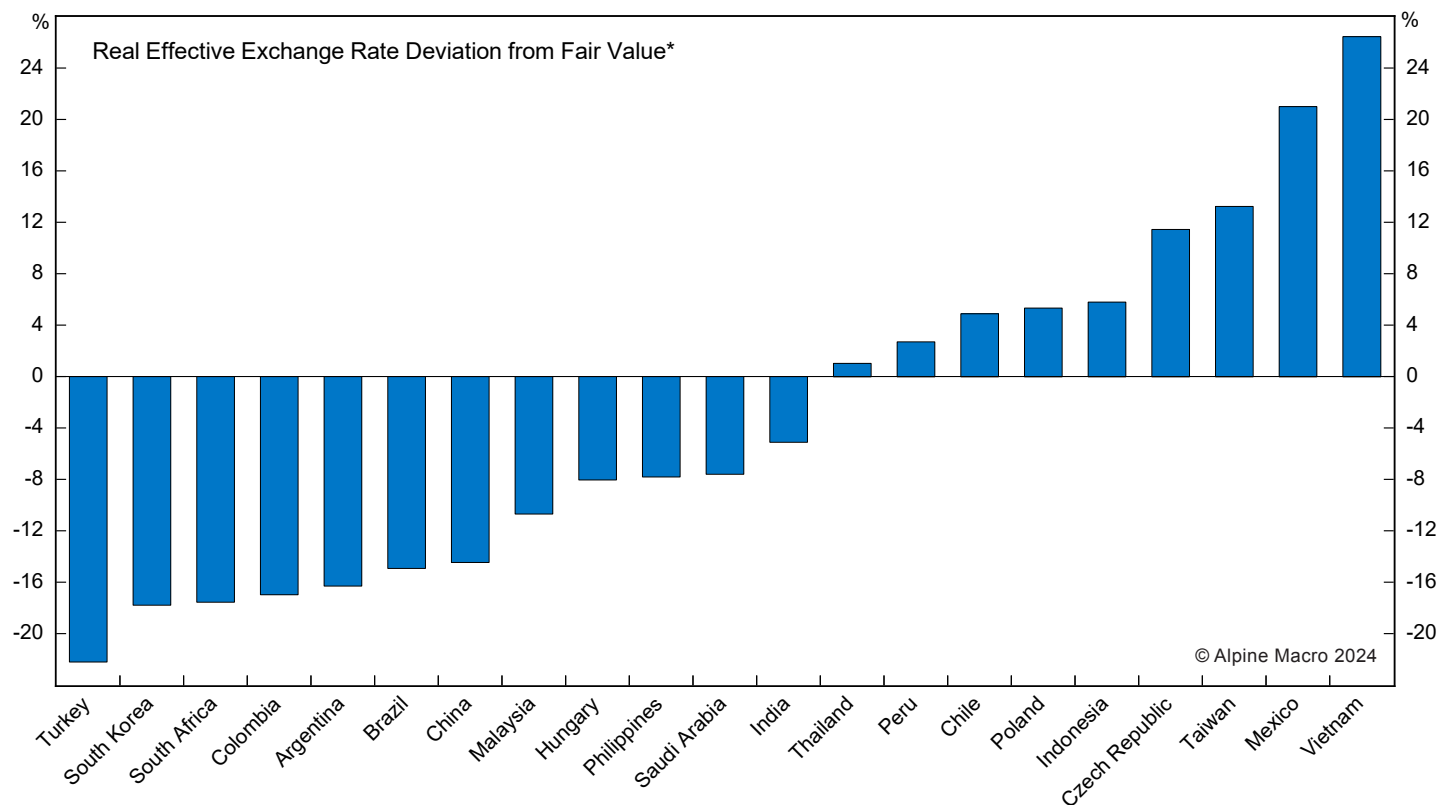
**Chart 7 EM Sector Equity Ranking: Forward P/E Ratio\*****Chart 8 EM Sector Equity Ranking: P/B Ratio\***

**Chart 9 EM Sector Equity Ranking: ROE****Chart 10 EM Country And Sector ROE Vs P/B Ratio**

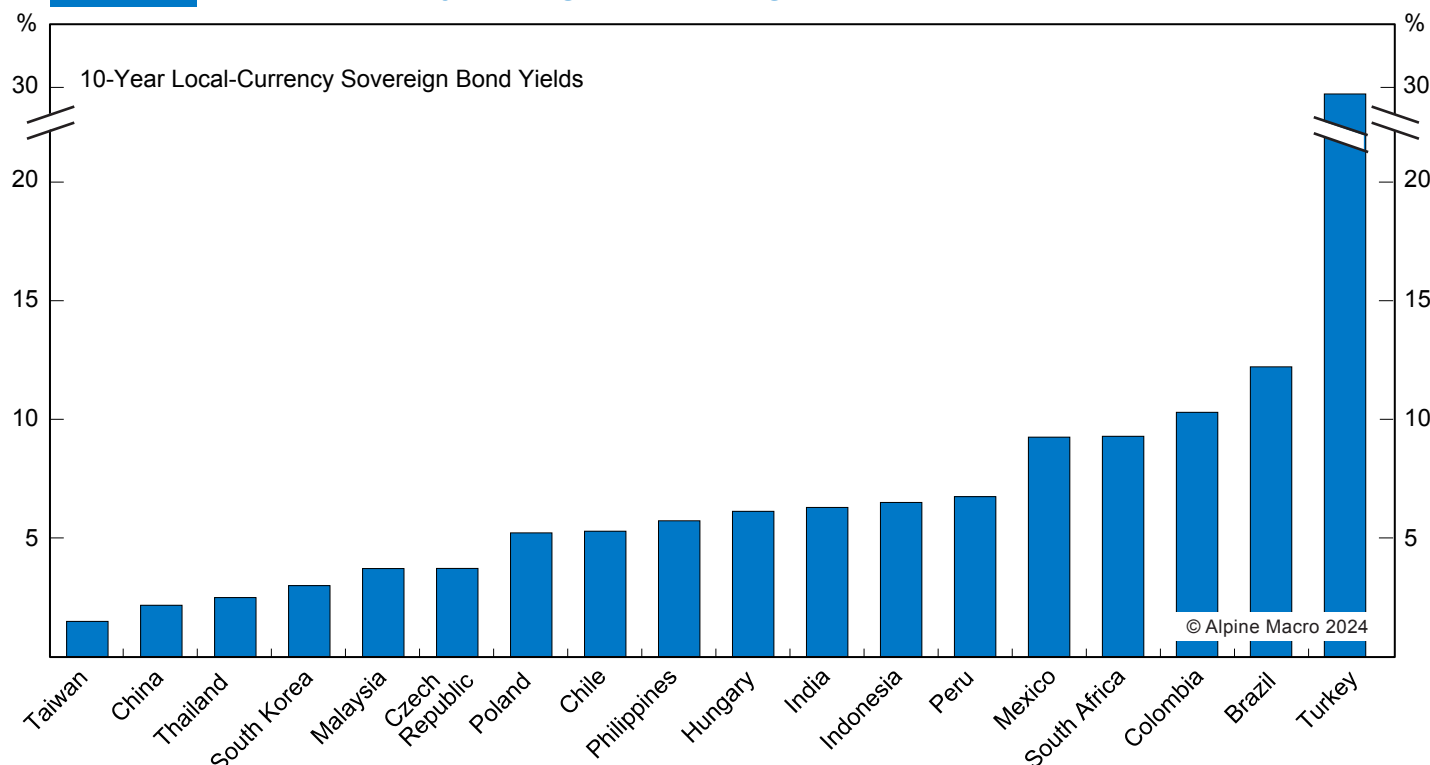
**Chart 11 EM Currency Performance Ranking\***

\*As of 27 September, 2024; source: MSCI

\*\*Source: Bloomberg Finance L.P.

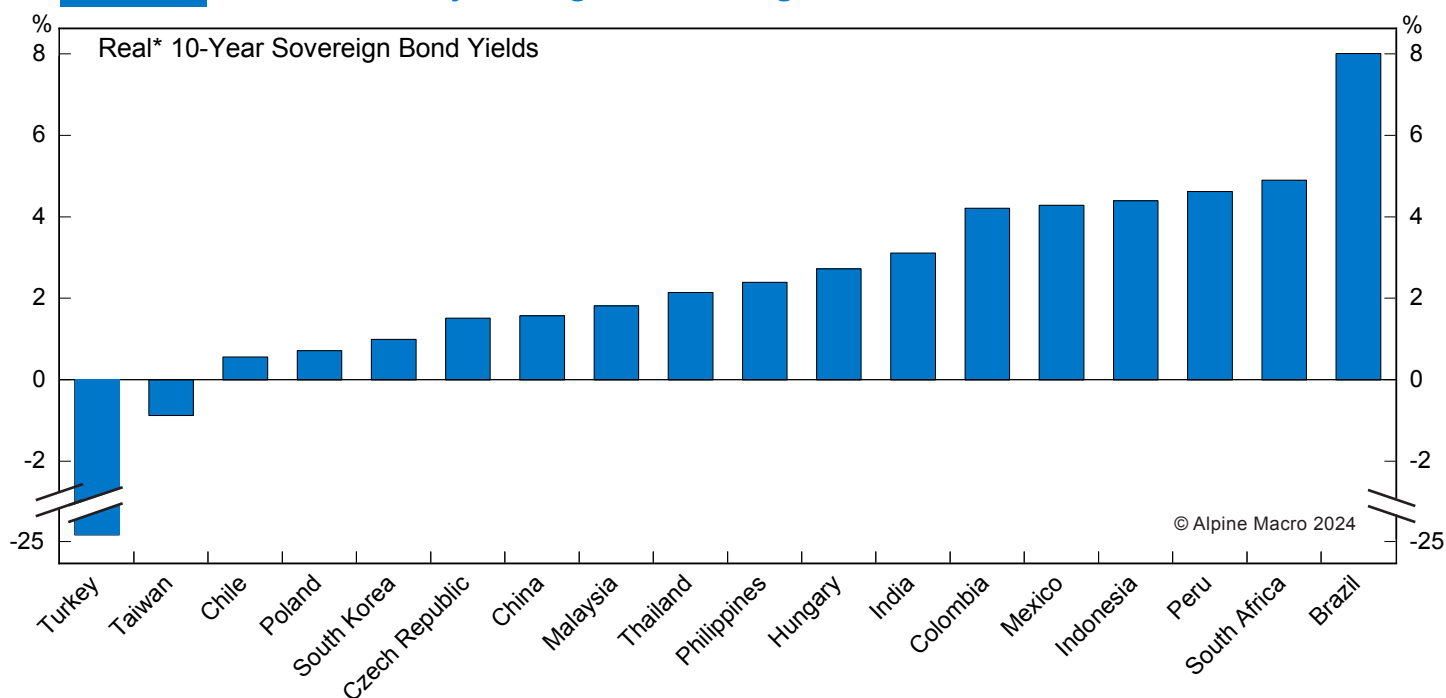
**Chart 12 EM Currency Ranking: Valuation**

\*Alpine Macro proprietary indicator

**Chart 13** EM Local-Currency Sovereign Bond Ranking: Nominal Yields\*

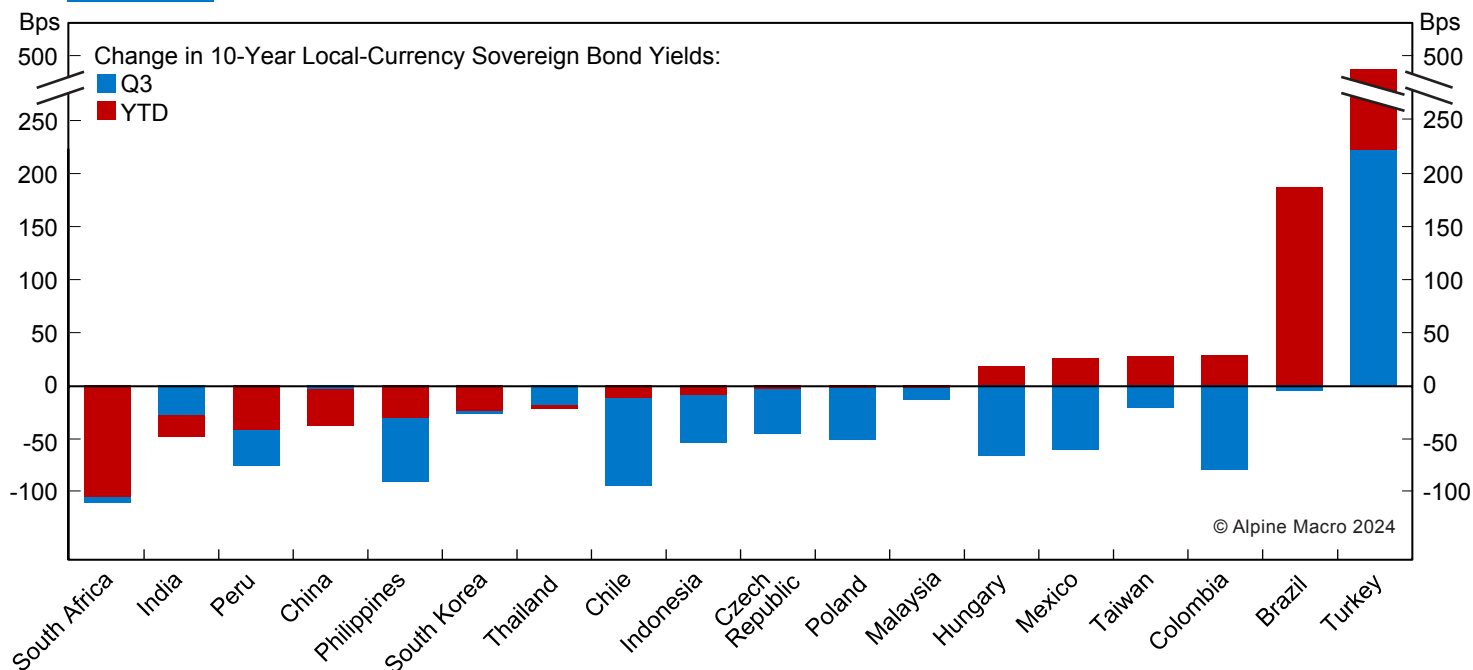
\*As of 27 September, 2024

Note: Data of Turkey is truncated; the actual bond yield is 28.6%

**Chart 14** EM Local-Currency Sovereign Bond Ranking: Real Yields

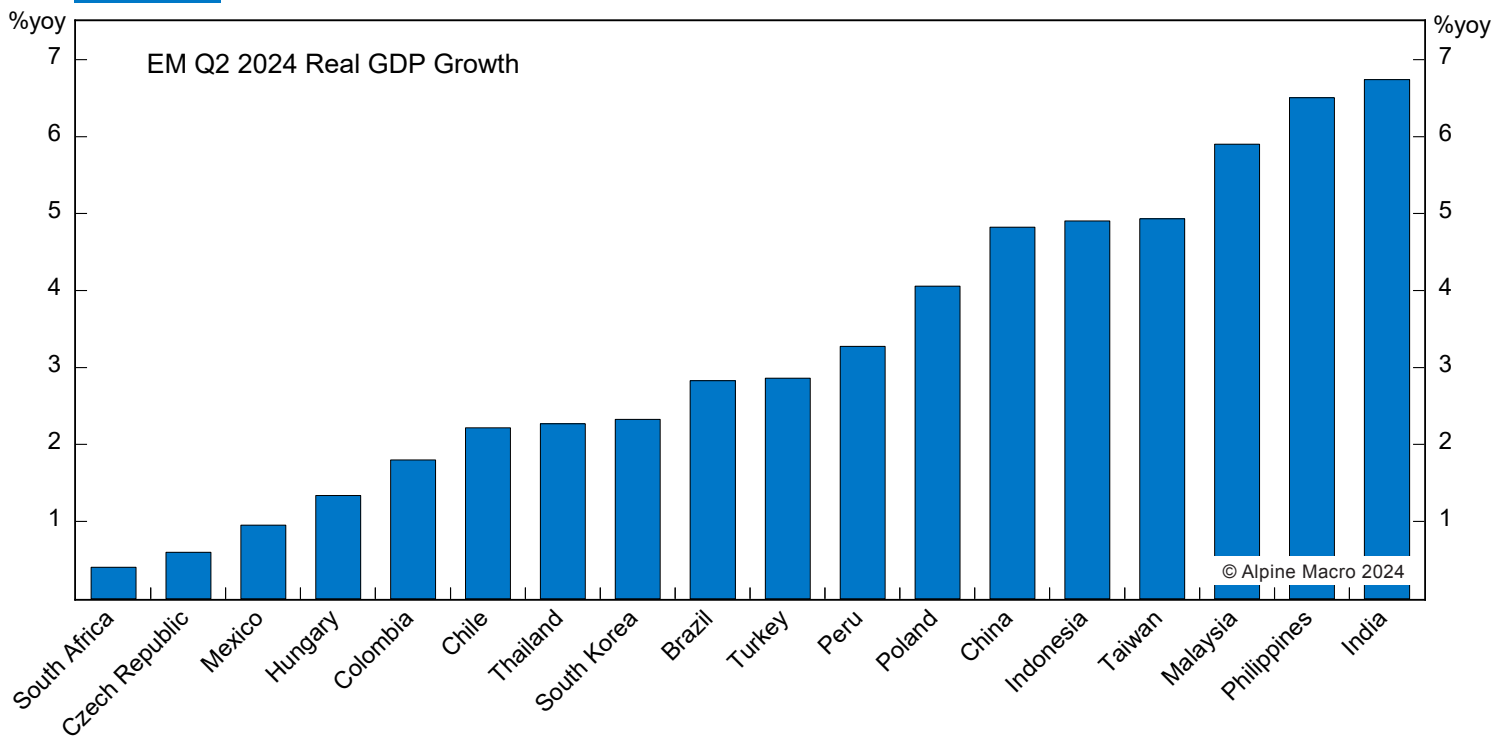
\*Deflated by CPI inflation

Note: Data of Turkey is truncated; the actual real yield is -23.3%

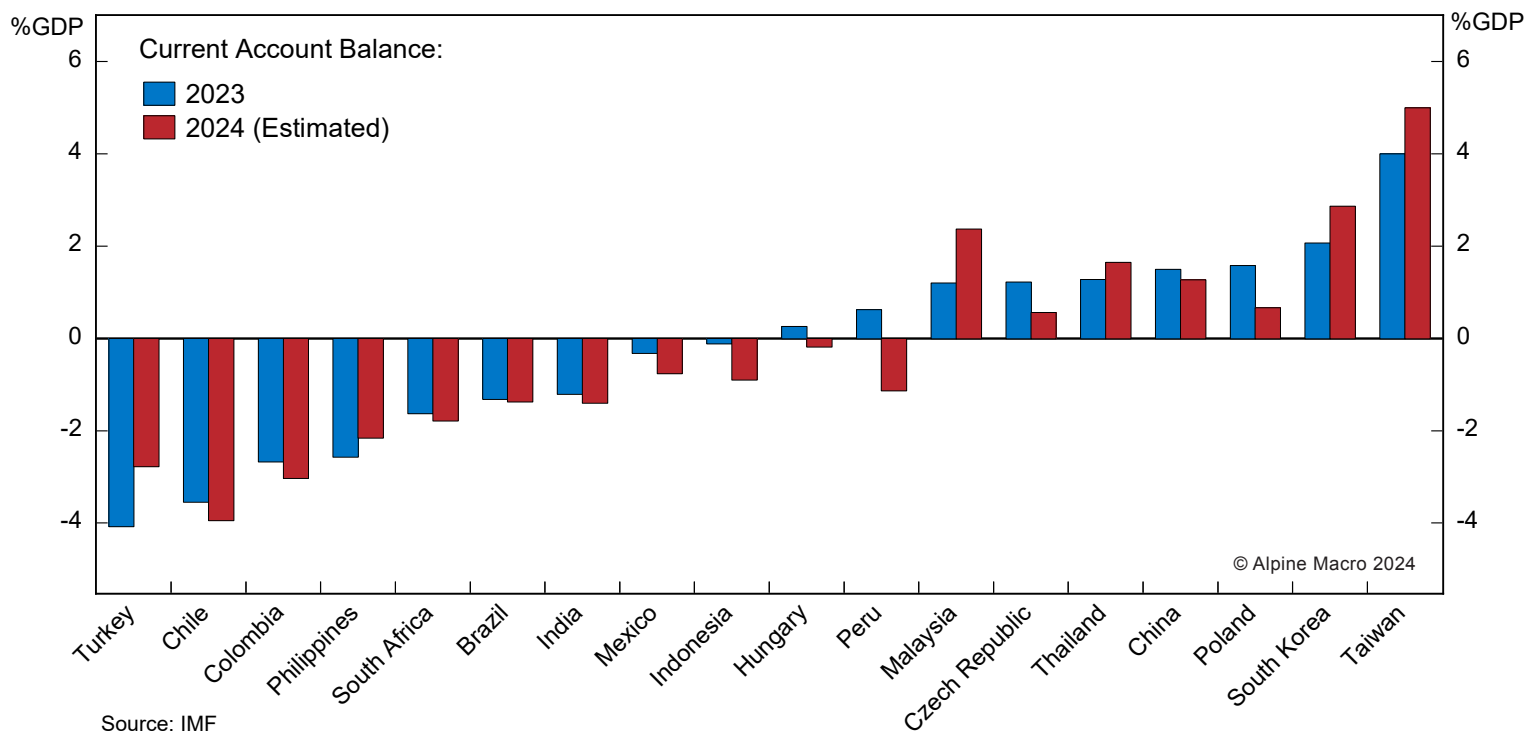
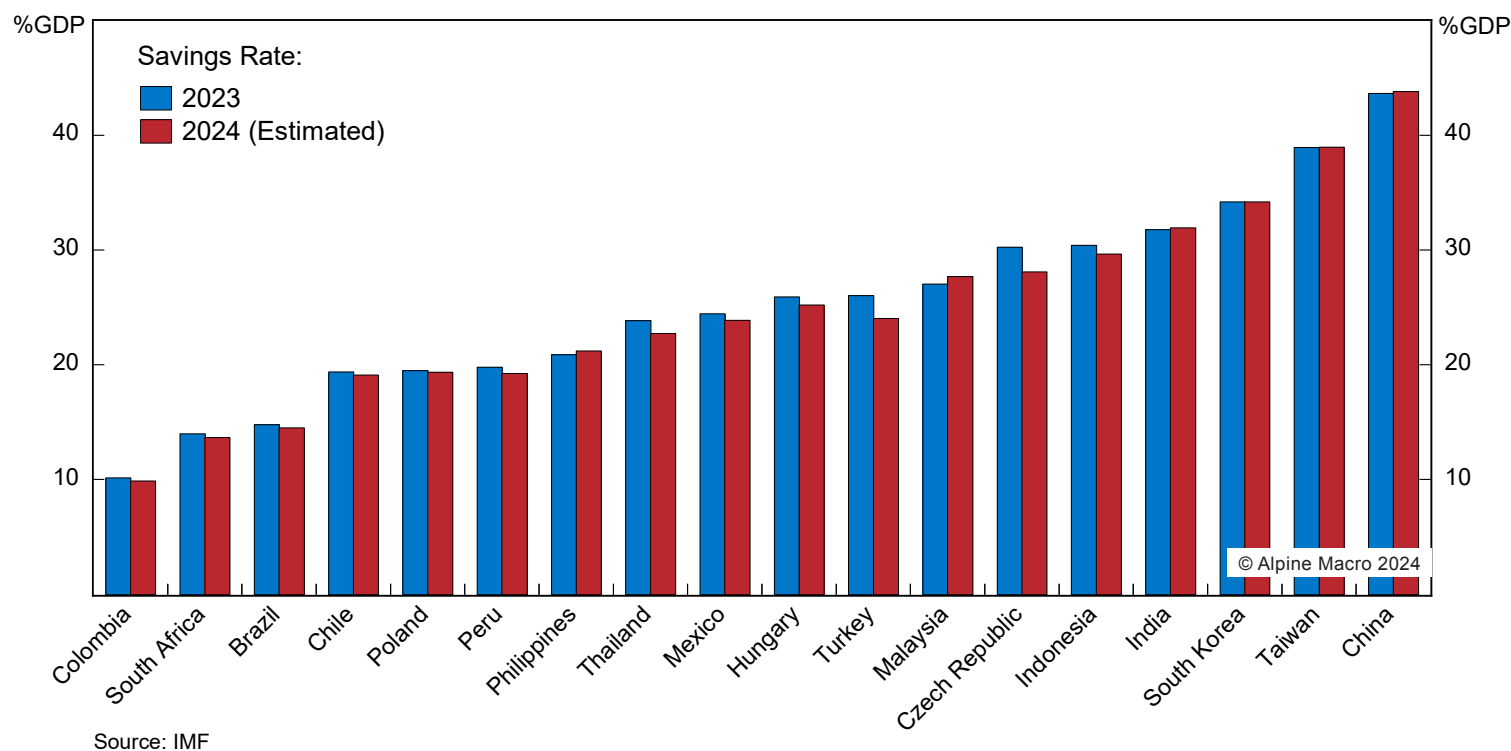
**Chart 15** EM Local-Currency Sovereign Bond Performance Ranking\*

\*As of 27 September, 2024

Note: Data for Turkey is truncated; actual value is 462 bps and 222 bps for YTD and Q3, respectively

**Chart 16** EM Real GDP Growth Ranking

Source: World Bank

**Chart 17** EM Current Account Balance Ranking**Chart 18** EM Savings Rate Ranking

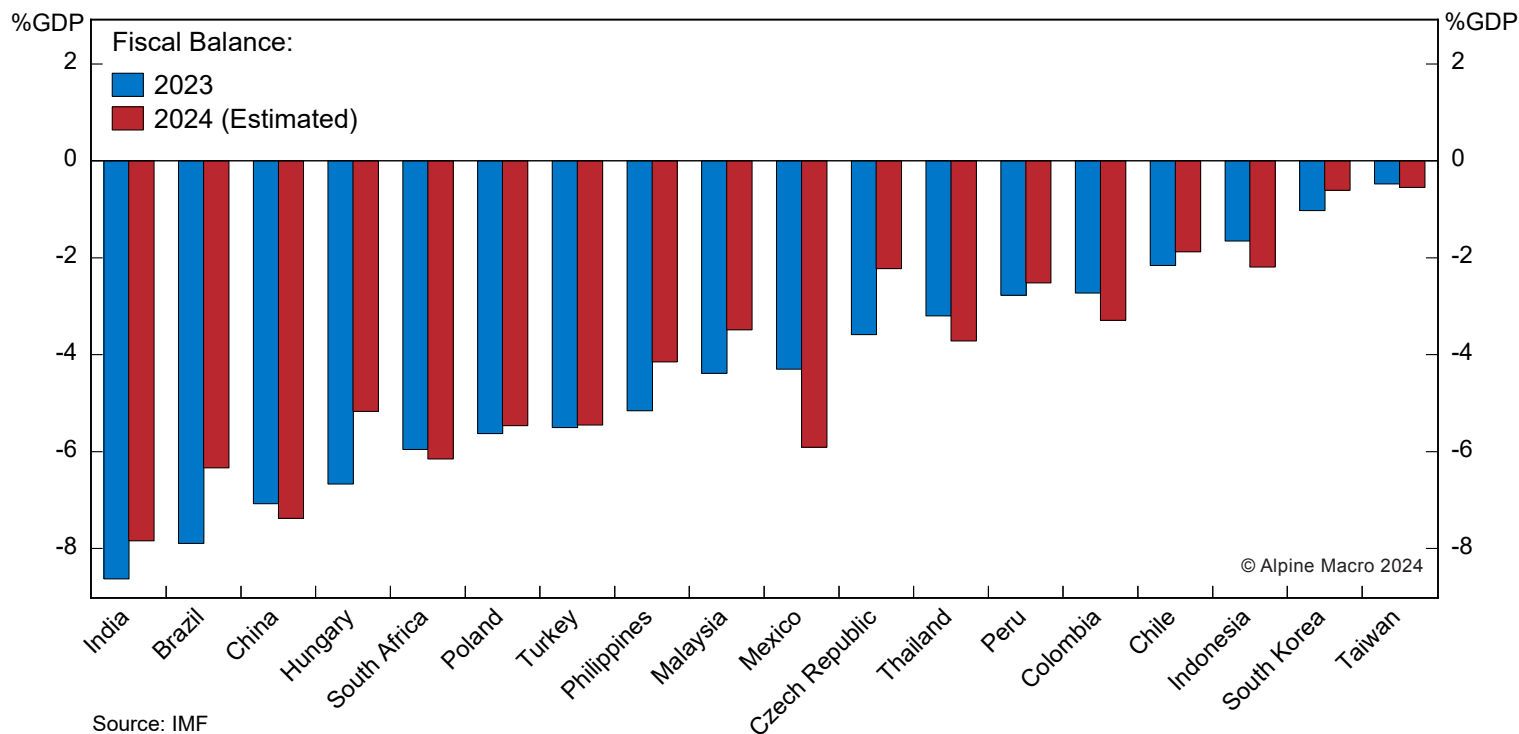
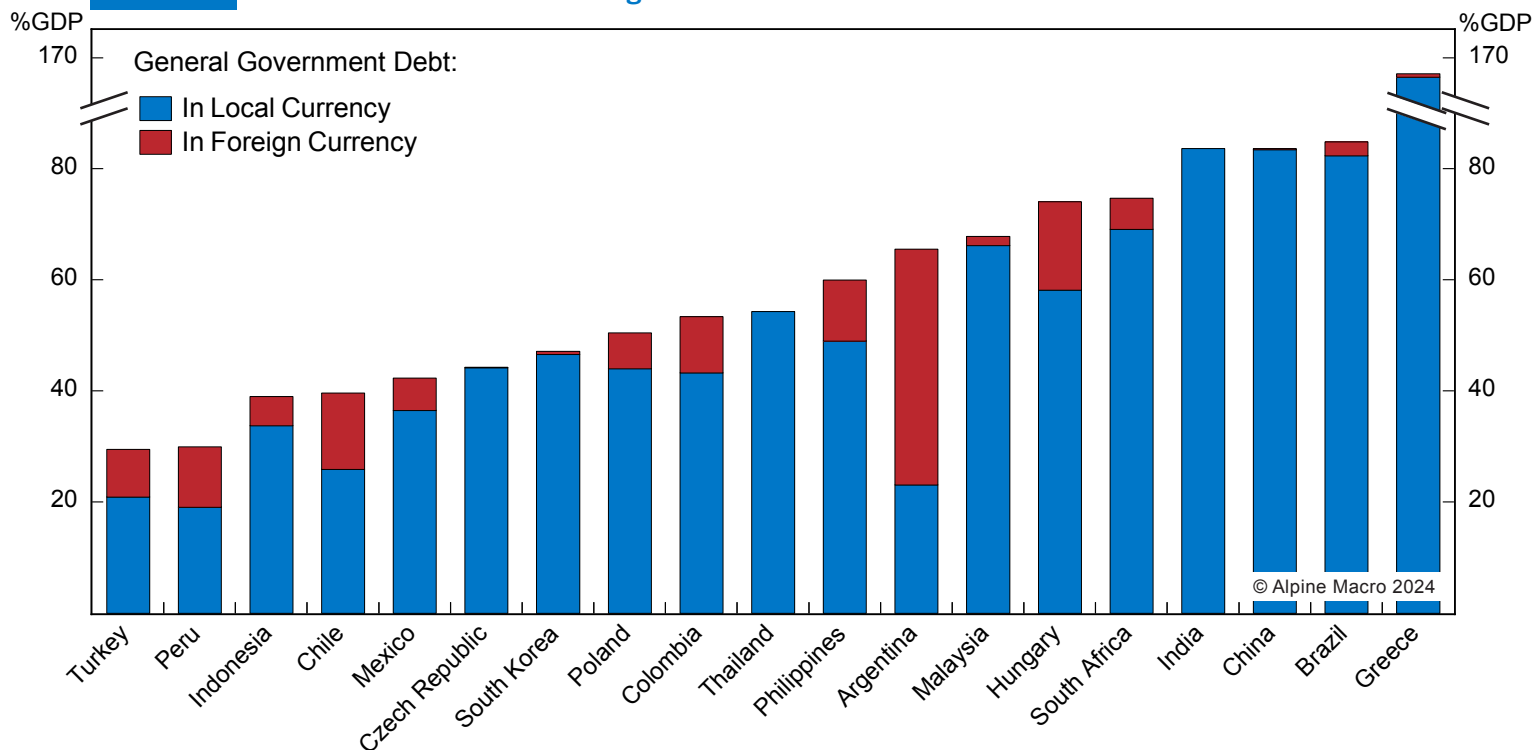
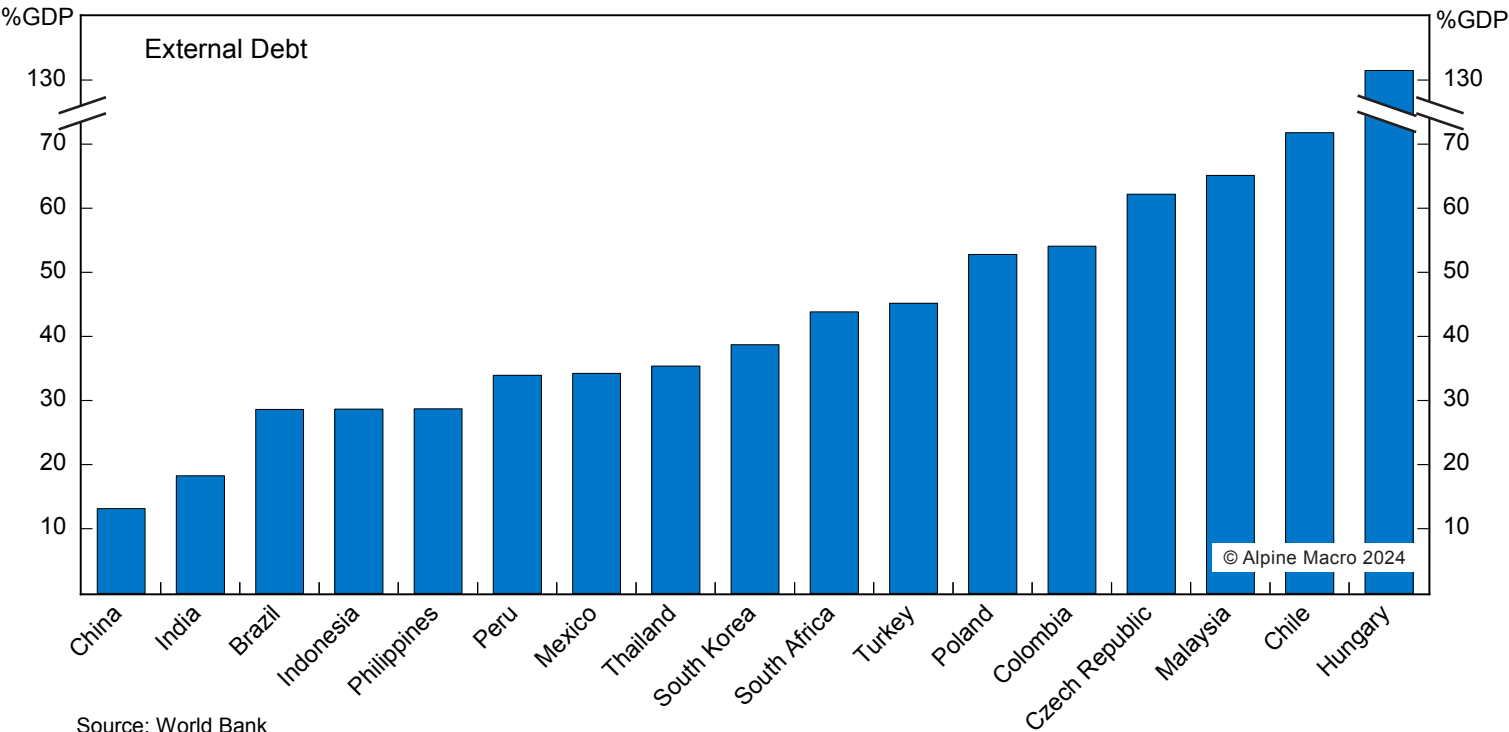
**Chart 19 EM Fiscal Balance Ranking****Chart 20 EM Government Debt Ranking**

Chart 21 EM External Debt Ranking





## Investment Recommendations

## Strategic Positions (6 - 12 months)

Recommendations	Open Date	Closing Date	Total P&L	Notes
Long Colombian 10-year Government Bond, Currency Unhedged	11/21/2023		11.3%	Long Colombian 10-year Government Bond, Currency Unhedged; <b>stop point at -10%.</b>
Long MSCI Greece Equity Index	11/21/2023		18.0%	Long MSCI Greece Equity Index in US\$ terms; <b>stop point at -10%.</b>
Long Indian 10-year Government Bond, Currency Unhedged	06/04/2024		4.3%	Long Indian 10-year Government Bond, Currency Unhedged; <b>stop point at -10%.</b>
Long Malaysian Equities, Currency Unhedged	08/20/2024		7.1%	Long MSCI Malaysia Equity Index in US\$ terms; <b>stop point at -10%.</b>
Long ASEAN Equities, Currency Unhedged	09/17/2024		2.5%	Long MSCI EM ASEAN Index in US\$ terms; <b>stop point at -10%.</b>
Long BRL/MXN	09/23/2024		3.3%	Long Brazilian <i>Real</i> versus Mexican Peso; <b>stop point at -10%.</b>

## Tactical Investment Positions (3 - 6 months)

Recommendations	Open Date	Closing Date	Total P&L	Notes
Short CZK/HUF	06/05/2023		3.7%	Short Czech Koruna versus Hungarian Forint; <b>rolling stop point at -5%, or -3% from current level.</b>
Long MSCI China Equity Index	02/20/2024		28.8%	Long MSCI China Equity Index in US\$ terms; <b>rolling stop point at -10%, or -10% from current level.</b>
Short COP/CLP	03/05/2024		10.7%	Short Colombian Peso versus Chilean Peso; <b>rolling stop point at -5%, or -5% from current level.</b>
Long ZAR/USD	09/23/2024		1.4%	Long South African Rand versus U.S. Dollar; <b>stop point at -10%.</b>
Long CSI 300 Index	02/20/2024*		14.3%	Long China A-shares Index in US\$ terms; <b>stop point at -10%.</b> *Trade opened on 20 Feb, 2024, closed on 13 Sep, 2024 and reopened on 24 Sep, 2024.



## EM Equity Country Allocation

Strong Overweight	Overweight	Neutral	Underweight	Strong Underweight
	Brazil Chile China Colombia Greece Malaysia South Africa	Indonesia Philippines India	South Korea Czech Republic Hungary Mexico Peru Poland Taiwan Thailand Turkey	

## EM Equity Sector Allocation

Strong Overweight	Overweight
	Energy Materials Health Care Consumer Discretionary
Neutral	
Communication Services Information Technology Financials	
Strong Underweight	Underweight
	Industrials Consumer Staples Utilities

## EM Local-Currency Government Bond Allocation

Overweight	Neutral	Underweight
Indonesia Peru Brazil Colombia Chile India	Poland Hungary South Korea Malaysia Philippines South Africa Mexico	Czech Republic Thailand China Taiwan Turkey

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