



## CIO OFFICE MORNING MARKET WRAP

30 September 2024

Chinese stocks soared for a ninth straight day in the Asian session, as three of the largest cities eased rules for homebuyers. This followed the central bank's cutting of mortgage rates, as well as previous announcements of the central authorities aimed at propping up growth. The CSI 300 Index jumped as much as 6.5%, soaring more than 20% from mid-September, while Hong Kong rose more than 2% in the session. Iron ore and Chinese developer stocks surged. China's PMIs released this morning confirmed government intervention was indeed needed and were much of a non-event. Elsewhere in Asia stocks declined, with Japan's benchmark plummeting. Tokyo lost more than 4% on the strengthening yen as Ishida's election as the head of Japan's ruling party last week boosted expectations the BOJ would continue hiking interest rates. On top of China's new measures and Japan's LDP election results, investors will also have to digest rising tensions in the Middle East. The conflict is extending, with Lebanon now dangerously close to getting involved.

The US markets were galvanised to new highs by sizeable stimulus measures in China, that caught investors unaware and saw local stocks ratchet up to gain 13% in one week, while the MSCI EM benchmark and the Euro Stoxx 600 climbed 6.2% and 3.6% respectively. Non-US equities outperformed, and the S&P 500 materials and industrials topped other sectors, in a broadening of the rally that has continued since July. IT stocks still were in the limelight, with reports of a possible takeover of Intel and Micron's upbeat outlook for AI demand. Copper jumped alongside industrial metals on expectations of improved growth engineered by Beijing. Gold climbed steadily in its bull trend, while Brent crude lost 3.4% on signs of increased supply by Saudi Arabia and Libya. Treasury yields traded in a range, though the curve managed to steepen further on Treasuries gaining at the shorter end and slipping at the longer end. The US economy showed further signs of slowing as both manufacturing and consumer confidence unexpectedly fell in September, while in Europe the two largest economies saw private-sector business activity slump. The PCE inflation report was tame, confirming that price pressures are on a downward trend. Investors kept on discounting more rate cuts than had been penciled in by Fed officials in their official projections, so three by year-end and five for next year. Though Powell's prerecorded video about the functioning of the Treasury market released at the Annual Treasury Conference was a non-event, earlier on Monday a handful of Fed officials left the door open to additional large interest rate cuts.

China's blue-chip CSI 300 benchmark recorded its best weekly gain since 2008, rising 15.7%, on the tailwind of the central government's efforts to prop up the economy. When the PBOC announced measures aimed at stimulating demand by easing borrowing costs across the whole possible spectrum commentators were unimpressed. The main thought was that more of the same was coming. Throughout the week the PBOC cut anything, ranging from the reserve requirement ratio to the medium-term lending facility, to mortgage rates, and more. The much-awaited change of gear came on Thursday, when the Politburo issued the decisive statement that China would deploy the necessary fiscal spending to meet its 2024 growth target of 5%. The top leaders pledged to boost growth, halt the property rout, shore up the stock market, and stabilise employment. Investor's attention was caught by the plan to issue sovereign bonds worth about USD285bn, including special sovereign debt to foster economic consumption. Capital would also be injected in the top banks to boost growth. The whole set of measures is estimated to run at more than 3% of China's \$18tn of GDP. While the consensus of analysts assessed that the planned measures would not fix the economy, we would remark that this cyclical push is enough to sustain the Chinese market. Also, the PBOC joining forces with the Fed and the ECB changes the opportunity set across the risk spectrum.

Markets looked through the weaker business confidence surveys across the Western countries, as well as the underwhelming consumer confidence report in the United States. The purchasing manager indices highlighted once more the growing gap between manufacturing, persistently in contraction territory, and services activity still expanding at a robust pace. Activity was particularly weak in Europe, with Germany possibly close to a renewed technical contraction phase. But hard data in the United States gave quite some reason for optimism. Annual GDP revisions showed the economy grew faster than estimated in recent years, with a higher total income and a remarkably higher savings rate, providing further fuel for consumption expenditure. And on Friday core PCE inflation for August came in softer than expected, as the one-month annualised rate of 1.6% was below the Fed inflation target.

Week ahead: the economic calendar is significant, with the JOLTS labor report and the ISM manufacturing survey on Tuesday followed by the services report on Thursday, and then the much-awaited jobs report on Friday. Elsewhere, Tuesday's CPI release in Europe is the main highlight for the week.

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