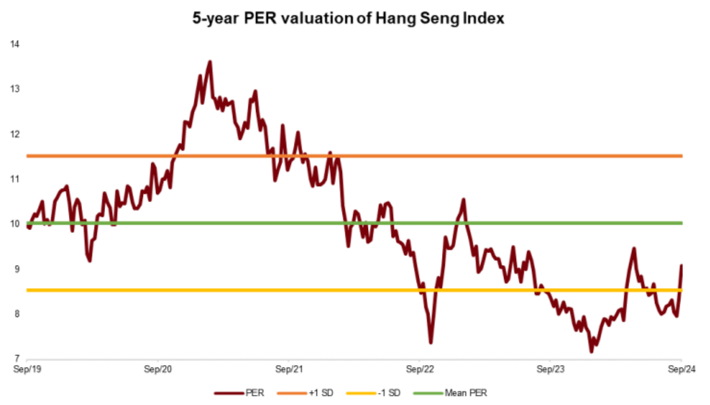
China Equities: Stimulus surprise

A fast & furious rally

The Hang Seng Index (HSI) **surged +13% in the past week** and is up **+22.9% YTD** to 20,632, surpassing May 2024's peak of 19,636. After the surge, the HSI trades at **9.1x rolling forward PE** (still below 5-year mean of 10x), for **5.9% EPS growth in 2025F**. Turnover reached a **historic high of HKD445bn** (USD57bn), indicating sizable inflows as investors had under-owned Chinese equities in the past few years.



Source: Bloomberg, CIMB CIO Office

What is driving the surge?

China **unleashed fresh stimulus** on 24 September, after the Fed's 50bps rate cut on 18 September. Among the measures announced by the PBOC and other regulators were:

- **Monetary easing**: Policy rate cut by 20bps, reserve requirement ratio (RRR) cut by 50bps
- **Property policy:** Interest rate on outstanding mortgages cut by 50bps, down-payment for second homes cut to 15% (from 25%), PBOC to provide more funding support for purchase of unsold housing inventory.
- **Stock market**: Plans for a stock stabilization fund that could unleash RMB800bn (USD113bn) of liquidity support.

Two days later, there was a **surprise Politburo meeting** to discuss economic challenges. This is significant because these meetings are typically held in April, July and December. The last unscheduled meeting was held during the pandemic in March 2020. This shows the **level of urgency** by the Chinese government to **support economic growth in a more concerted manner** – causing the surge in Chinese equities.

A step in the right direction

The Politburo meeting set a new policy tone. The most significant pledge was to **deploy 'necessary fiscal spending'**. While no specifics were given, Reuters reported potential plans to issue RMB2trn (USD284bn) of special sovereign bonds this year. The other important pledge was for the **property market to 'stop falling'** - a stronger tone vs. prior calls for 'stabilization' with mention of strictly limiting construction of new homes. The government also announced a **rare one-off off cash handout** to those living in extreme poverty. Shanghai will issue RMB500m (USD71m) worth of consumption vouchers for dining, accommodation, cinema & sports sectors.

There was also a softening tone in '**striving' to achieve 'around 5%' of GDP growth** this year, indicating the leadership's acknowledgment of **challenges to hit this target**.

… but can the rally sustain?

As we expect **more details on fiscal, property and consumption policies** over the next few weeks, momentum could sustain **in the short term**. Key to watch is the size of the fiscal stimulus and property market measures. Any **disappointments on these front could derail this rally**.

China's **initial reopening** rally lasted 3 months with the HSI rallying +53%. Market and property support measures in April lifted the market by +21% and lasted a month. The **current uptrend** is +21% as of 27 September and has run for 2 weeks. Should the HSI revert to **5-year mean PE of 10x**, this implies an index target of **22,254** (~8% upside) on FY25F EPS forecasts.

Event	Duration	Trough	Peak	Upside (%)
China's initial reopening post-Covid	28-Oct-22 to 27 Jan 23	14,863	22,689	53%
Market support measures, expansion of Stock Connect, measures to reduce inventory in the property market	19-Apr-24 to 20-May-24	16,224	19,636	21%
Monetary easing, property market measures, stock market support, consumption boost	11-Sep-24 to 27-Sep-24	17,109	20,632	21%

Source: CIMB CIO Office

Momentum may persist, but be risk-aware

Our **barbell strategy** remains – to buy **quality growth stocks on pullbacks** and **balance with yielders**. The rally is also an opportunity to **trim stocks with weaker fundamentals**. We remain cautious over the longer term as we believe the **property market's recovery could take several years** and the **upcoming US elections in November** poses uncertainty.

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