



Major Chinese stimulus reverberates through markets

Last week's actions by the Chinese authorities mark a major short term stimulus for the domestic and global economies. The coordinated action by the monetary and fiscal authorities comes amid a slowing growth profile and a period of deflation over the past year. Within an economy with high levels of debt across many sectors, particularly real estate, a prolonged period of deflation would be particularly painful for highly-leveraged Chinese households and businesses. The Government's actions are also an admission that it is now at risk of missing its 5% GDP growth target by a significant margin this year.

The measures taken included a 20bps cut in the main short term policy rate, and a 50bps reduction in existing mortgage rates by the Bank of China, as well as a cut in reserve requirements for banks, and a lending pool to prop up equity markets. On the fiscal side, the Government will issue sovereign bonds of c.\$285bn to boost investment, alongside specific measures to support consumer spending and flagging property markets in China. In particular, the Government has long sought to boost private consumption, with household spending less than 40% of annual GDP. This compares to the US where consumer spending accounts for roughly two-thirds of GDP.

The question remains whether this will be enough to boost the Chinese economy marked by weak demand and depressed sentiment in recent times. The boost to equity markets this week (the CSI300 Index posted its best week since 2008) suggests investors are now pricing in stronger growth prospects for China, and this has in turn raised the bar for the Government to deliver on its stated growth targets. In that context, the stimulus package could be the first of several in the coming months to meet those expectations.

Turning to the week ahead, while domestic attention will be on Budget 2025, the highlight of a busy international schedule will be the labour market report for September. In recent months, conditions in the US jobs market have softened, which was a major factor that influenced the Fed to opt for a bumper 50bps rate cut at its last meeting. The consensus is for payrolls to rise by 135k in September, while the



unemployment rate and average earnings growth are projected to be unchanged at 4.2% and +3.8 y/y, respectively.

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