China's Ministry of Finance briefing on 12 October 2024

14 October 2024

Overview

- China's Ministry of Finance (MOF) held a briefing on 12 October 2024
- No specific quantum of fiscal support mentioned
- Measures in context of policy path are significant
- Sorting out local government debt issue is crucial
- Resistance to use deficit spending is fading
- Still see opportunities to buy at lower levels, especially for domestically oriented sectors
- The US elections on 5 November 2024 could be an event risk
- The US presidential race will be a close one
- Consider adding Chinese equities meaningfully after the US elections on 5 November 2024

Quick take: China MOF Briefing on 12 October 2024

China's Ministry of Finance (MOF) held a briefing on Saturday, 12 October 2024 after one by the NDRC earlier in the week. Key initiatives announced included: (1) an additional RMB400b of additional local bond issuances, (2) expanding special local bond issuances to allow purchases of undeveloped land and unsold homes, (3) some program of undisclosed size to deal with the local government's debt burden and (4) issuance of central government special bonds to boost the core equity tier 1 capital of China's six largest banks.

Many economists and investors seem disappointed that the MOF did not reveal a specified quantum of fiscal support. **However, these measures when put in the context of the policy path that was pursued thus far, are not without significance.**

First, sorting out the local government debt quagmire is important as actual fiscal spending is ultimately done at the local level. A lack of land sales and high debt level have constrained local government spending. Unlocking this bottleneck will help local government to meet their spending targets which is running at less than half of the budget.

Second, the forward guidance is encouraging. The MOF noted that China still has fiscal flexibility to counter cyclical challenges and will do so if necessary. This is probably the most consequential point and represents China's "put option" on the economy.

The resistance to use deficit spending to support the economy appears to be fading.

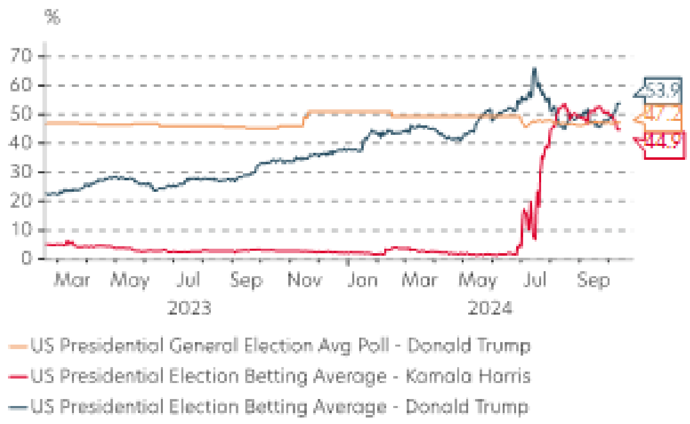
Despite the rally since September, China is still trading at a large valuation discount to global markets and on an absolute basis, 40% below the COVID reopening levels in early 2021 **(Fig. 1). We continue to see opportunities to buy at lower levels, especially for domestically oriented sectors.**

Figure 1: MSCI China still trading below 2021 highs

Source: Bloomberg, UOB Private Bank

The US elections on 5 November 2024 could be an event risk for Chinese stocks. Betting markets indicate Trump is ahead of VP Harris for the White House **(Fig. 2)**, but polling appears to suggest Harris is marginally ahead. **One thing is clear: the race will be a close one and things can still change between now and election day.**

Figure 2: Betting Odds – Presidential Election Winners



Source: Bloomberg, RealClearPolitics (2024), UOB Private Bank

Under a Trump second term, Chinese stocks could see another leg of sell-off given the risk of substantial tariffs (60%) on Chinese imports. Hence, it might be advisable for investors to add Chinese equities more meaningfully after the presidential elections on 5 November 2024.

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