

DAILY POINTS

September 24, 2024 @ 7:55 EST

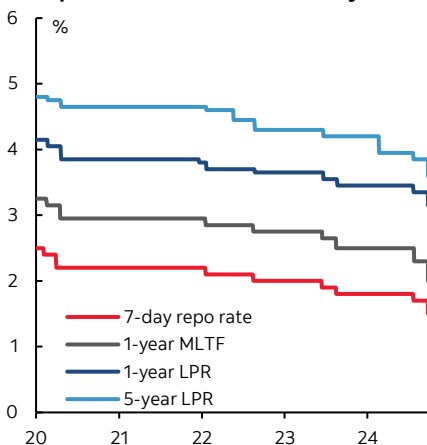
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Chart 1

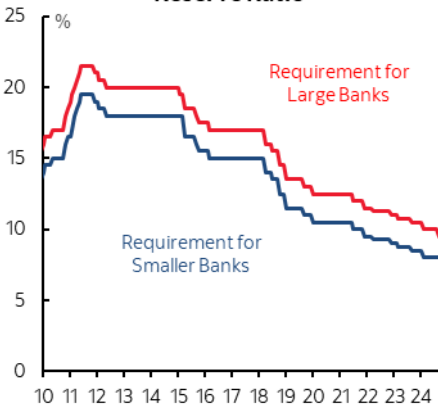
People's Bank of China Monetary Tools



Sources: Scotiabank Economics, PBoC.

Chart 2

China's Required Deposit Reserve Ratio



Sources: Scotiabank Economics, PBoC.

On Deck for Tuesday, September 24

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09-24	09:00	S&P/Case-Shiller Home Price Index (m/m)	Jul	0.4	0.4	0.4
US	09-24	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jul	6.4	5.9	6.5
US	09-24	09:00	Fed Governor Bowman Speaks at Kentucky Bankers' Association				
US	09-24	10:00	Consumer Confidence Index	Sep	103.0	104.0	103.3
US	09-24	10:00	Richmond Fed Manufacturing Index	Sep	--	-12.0	-19.0
CA	09-24	13:15	Fireside Chat with BoC's Governor Tiff Macklem				

KEY POINTS:

- Risk-on sentiment driven by Chinese announcements with light spillover effects
- Here is what China announced
- While Chinese policymakers are finally waking up...
- ...there remain serious headwinds to achieving success
- Will BoC's Macklem continue to inject caution into an exuberant rates market?
- RBA stayed on a hawkish hold
- US to update confidence, house prices, manufacturing gauge
- Please see the Global Week Ahead [here](#), sent yesterday

Stock market gains are being led by gains of about 4% across China's main indices but with little follow through elsewhere as European exchanges are mixed, US S&P futures are flat, and TSX futures are slightly higher. Commodities are rallying including about a 2½% gain in oil prices. Commodity and higher-beta currencies are outperforming to the dollar including ones like CAD, the Scandies, the A\$/NZ\$ and MXN.

The driver is a suite of policy measures that was announced by Chinese authorities overnight. Aussie sovereign yields are outperforming other benchmarks after the RBA noted it did not explicitly discuss a rate hike, although the rest of its messaging was purely hawkish. BoC Governor Macklem is on tap alongside US data.

CHINA'S IMPRESSIVE SUITE OF MEASURES FACES MULTIPLE OBSTACLES TO SUCCESS

China let off some fireworks overnight, as if the Lunar New Year arrived early! The positive is that at least the authorities are showing the most aggressive signs to date of rising to the challenges faced by China's economy. Plenty of concerns remain about whether the initiatives will work or create further problems. There are a lot of details to digest over time so treat what follows as tentative initial thoughts.

First, here is a summary of key measures that were introduced:

- The People's Bank of China cut its key 7-day repo rate by 20bps to 1.5%. The rate has been reduced from 2.4% just before the global pandemic and this has done little for China's economy. Chart 1 includes this change and other rate changes noted below;
- The one- and five-year Loan Prime Rates were guided to be cut by 0.2% to 0.25% when they get updated on October 20th. The 5-year LPR is key to the property market and has fallen from 4.8% pre-pandemic to probably 3.6% after implementation and yet this has done little to help appetite for housing;
- The one-year Medium-Term Lending Facility Rate is to be cut by 0.3% tonight. This used to be the key policy rate before the rates complex was shifted toward managing the 7-day repo rate. The MTLFR has been cut from 3.25% pre-pandemic to 2% after implementation;

- The required reserve ratio will be cut by 0.5 ppts for larger banks “soon.” The ratio has been slashed on an ongoing basis since the Global Financial Crisis when it had peaked at 21.5% in 2011. Pandemic-era adjustments have lowered it from 12.5% to 9% after implementation. Chart 2 includes this change;
- There will be ensuing planned cuts to mortgage rates;
- Easier rules for second mortgages were announced by lowering minimum down payment requirements to 15% from 25%;
- The PBOC will raise its backing of loans to local governments to buy unsold homes from 60% to 100%;
- Funds, insurers and brokers will be allowed to tap PBOC swap funding to buy stocks up to 500 billion yuan (about US\$70B);
- a stock market stabilization fund is being ‘explored’;
- A relending facility of about 300B yuan (US\$40B) to induce buybacks and raise equity ownership is being planned;
- There will be a further 6 new measures to support M&A activity.

This is definitely more than anyone expected to my knowledge. The combination, magnitudes and coincidental timing are relatively aggressive.

Still, there is hardly any guarantee of success here. Here are some of my thoughts:

- For one thing we’ll have to monitor currency and broader market stability very closely. So far the yuan is only very slightly firmer to the dollar probably on optimism toward growth that must be delivered to support the initial market reaction. Further rate risks on the spread to the US will need to be evaluated.
- Will lenders pass on the rate cuts and stimulate credit growth given tight margins and weak interest income? Financing volumes have been waning this year (charts 3, 4) and growth in outstandings has been falling sharply (charts 5, 6). This is despite multiple cuts to policy rates and required reserve ratios which leads to the next point.
- Will borrowers respond? Or will the outcome be like the proverbial ‘pushing on a string’ problem that characterizes ineffective monetary policy initiatives given falling house prices, weakening core CPI and soft confidence? China has eased multiple times to date with little effect.
- Catch a falling knife? Chart 7 shows falling new home prices and a similar chart could be made for resale home prices. Confidence to buy has to be rooted in positive capital gains expectations.

Chart 3

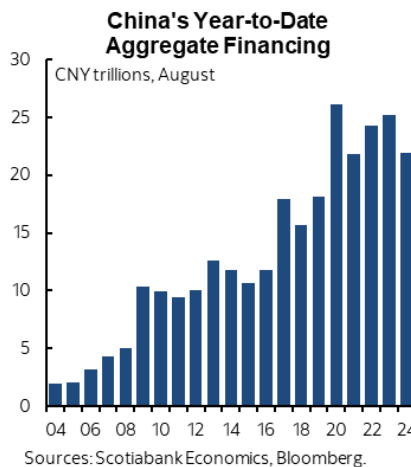


Chart 4

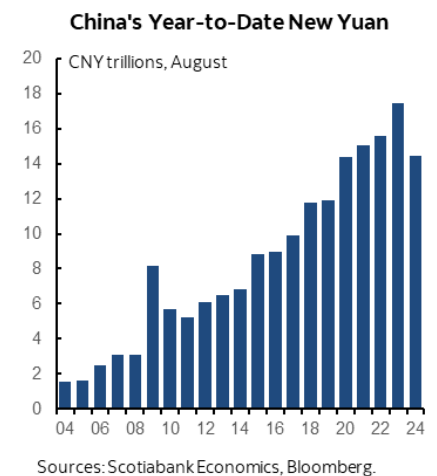


Chart 5



Chart 6

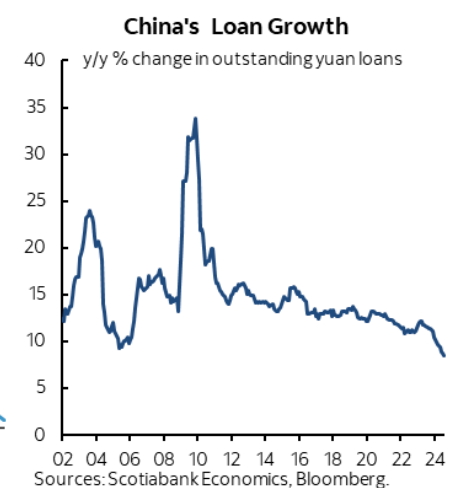


Chart 7



Chart 8



- The road to riches in the stock market is not paved by inducements to buy as opposed to better earnings growth. Cheap credit—pending details on terms—can simply wind up feeding more of a bubble. That is less of a concern in light of the plunge in equity valuations over time (chart 8) but could be resurrected depending upon whether cheap funding is enough of an inducement which in turn depends upon how institutional investors view prospects for capital gains driven by fundamentals over time.
- China also needs complementary fiscal measures, yet its governments are deeply indebted especially at the local level. Chart 9 shows the Chinese government’s fiscal deficits running at over 4½% of GDP and above the target they never hit and the figures on debt are widely viewed as incomplete. Local governments are particularly indebted.
- China also faces more restrictive trade policies across its trading partners that are likely to weigh against growth while global supply chains may pivot away from the country over the long term and already have been doing so. Its biggest export markets do not trust the state’s role in China’s economy and its ambitions abroad in the context of an economy guided less by market mechanisms than political goals. If Trump wins the US election then tariffs against China could be a severe risk.
- China has a really bad case of inventory bloat (chart 10). No bottle of Tums will help that, only growth will.
- The jury remains out on deflation but recent data has leaned more in that direction. August posted the weakest month for core CPI on record compared to like months of August (chart 11) and seasonally adjusted core CPI has been trending around very soft numbers this year (chart 12). Deflation is a sustained, broad decline in prices that is expected to persist and that alters behaviour by postponing spending and investment. A much longer period of price weakness and much more evidence of a spiralling effect is required so at this point it remains prudent to focus on risks.
- China’s aging population is a significant headwind to long-term growth.

Chart 9

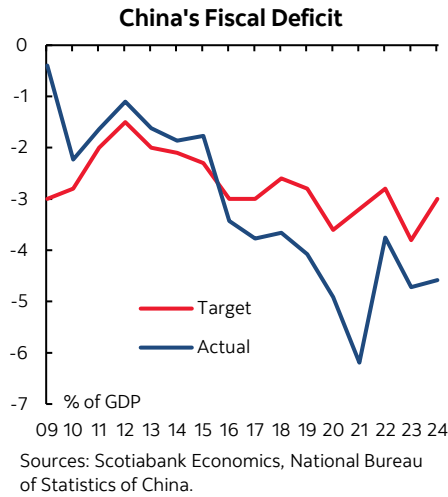


Chart 10

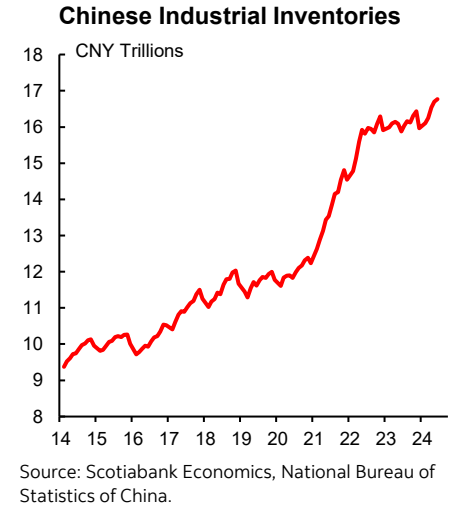


Chart 11

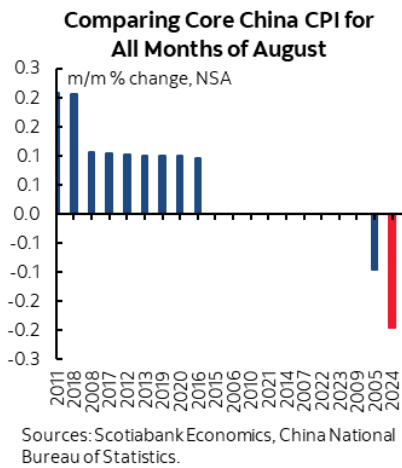


Chart 12



RBA STAYS ON HOLD

The RBA held its policy rate at 4.35% as universally expected and sounded in no rush to alter its policy stance. The 2–3% inflation target is not expected to be sustainably achieved until 2026 and the RBA argues that policy easing abroad is because other central banks were more restrictive than the RBA.

BOC GOVERNOR MACKLEM TO SPEAK

BoC Governor Macklem will deliver a fireside chat (1:10pmET) and prepared remarks (12:55pmET) this afternoon. His topic is "Growth During Uncertainty." See my week ahead [here](#) for more including the tone of recent BoC communications that have broadly sought to inject more caution into the rates market and some forecasters' beliefs.

LIGHT N.A. RELEASES

The US will update consumer confidence this morning including measures of inflation expectations and the availability of jobs (10amET). The US also updates repeat sales home prices for July that are still rising by about 5½% y/y nationwide (9amET), and the Richmond Fed's manufacturing index (10amET). Fed Governor Bowman—who dissented in favour of a smaller cut—speaks at 9amET.

Fixed Income	Government Yield Curves (%):												Central Banks	
	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate	
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk		
U.S.	3.61	3.59	3.61	3.54	3.51	3.44	3.79	3.75	3.65	4.14	4.09	3.96	Canada - BoC	4.25
CANADA	2.93	2.91	2.92	2.77	2.74	2.71	2.99	2.95	2.89	3.19	3.14	3.07	US - Fed	5.00
GERMANY	2.14	2.15	2.23	2.01	2.00	2.03	2.18	2.16	2.14	2.51	2.48	2.40	England - BoE	5.00
JAPAN	0.35	0.39	0.39	0.47	0.50	0.49	0.82	0.85	0.83	2.07	2.07	1.99	Euro zone - ECB	3.65
U.K.	3.96	3.92	3.82	3.81	3.75	3.64	3.98	3.92	3.77	4.56	4.50	4.35	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-68	-67	-69	-77	-77	-73	-81	-80	-76	-95	-95	-89	Mexico - Banxico	10.75
GERMANY	-147	-144	-138	-154	-151	-141	-161	-159	-150	-163	-161	-156	Australia - RBA	4.35
JAPAN	-325	-320	-322	-307	-301	-295	-298	-290	-282	-207	-202	-197	New Zealand - RBNZ	5.25
U.K.	35	33	22	27	25	19	19	17	12	42	40	39		
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	23895		27.3		0.1		0.8		2.6		20.8		Australia - RBA	4.35
Dow 30	42125		61.3		0.1		1.2		2.3		24.0		New Zealand - RBNZ	5.25
S&P 500	5719		16.0		0.3		1.5		1.5		32.4			
Nasdaq	17974		26.0		0.1		2.2		0.5		36.0			
DAX	18970		123.6		0.7		1.3		1.8		21.9			
FTSE	8281		21.6		0.3		-0.3		-0.6		7.8			
Nikkei	37941		216.7		0.6		3.7		-1.1		16.1			
Hang Seng	19001		753.5		4.1		9.1		7.9		7.2			
CAC	7616		107.7		1.4		1.7		0.5		6.0			
Commodities	Level						% change:							
WTI Crude	72.10		1.73		2.5		1.3		-3.6		-19.9			
Natural Gas	2.62		0.01		0.4		12.9		29.7		-0.5			
Gold	2626.22		-2.49		-0.1		2.2		17.8		36.4			
Silver	30.63		-0.69		-2.2		-0.9		4.1		29.5			
CRB Index	284.13		0.00		0.0		2.0		1.9		-0.7			
Currencies	Level						% change:							
USDCAD	1.3509		-0.0032		-0.2		-0.7		0.2		0.4			
EURUSD	1.1127		0.0016		0.1		0.1		-0.3		5.0			
USDJPY	144.00		0.3900		0.3		1.1		-0.4		-3.3			
AUDUSD	0.6849		0.0011		0.2		1.4		1.1		6.6			
GBPUSD	1.3369		0.0022		0.2		1.6		1.4		9.5			
USDCHF	0.8482		0.0007		0.1		0.1		0.1		-7.0			
													Next Meeting Date	
													Canada - BoC	Oct 23, 2024
													US - Fed	Nov 07, 2024
													England - BoE	Nov 07, 2024
													Euro zone - ECB	Oct 17, 2024
													Japan - BoJ	June 14, 2024
													Mexico - Banxico	Sep 26, 2024
													Australia - RBA	Sep 24, 2024
													New Zealand - RBNZ	Oct 08, 2024

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