FIRST NEWS

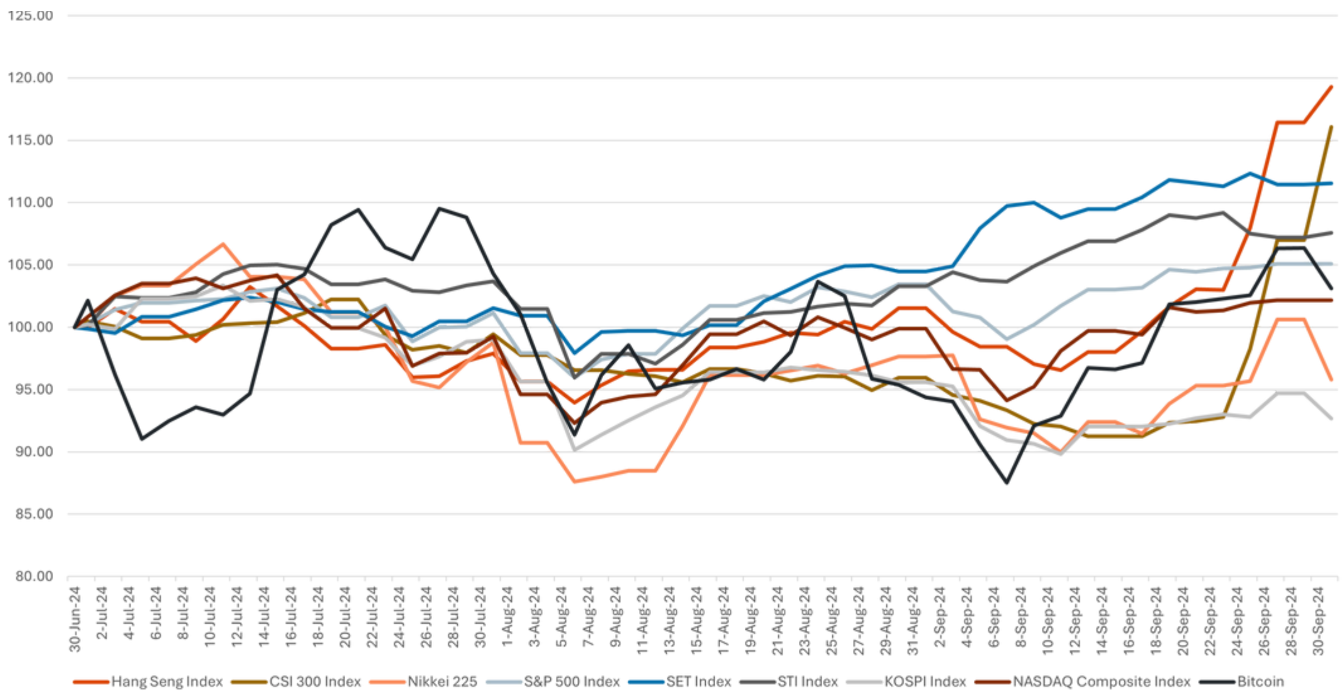
VOL 51, OCT 2024

EQUITIESFIRST® Progressive Capital

CHINA IN BULL RUN AGAIN

As of October 2, 2024, the Hang Seng Index has surged by an impressive 50%, rebounding to 22,443 from its low of 14,961 on January 22, 2024. This remarkable performance outpaces other major global stock markets. The primary drivers of this rally include the massive monetary easing measures by the PBOC, a supportive stance from the Politburo meeting, the relaxation of property market policies, the US Federal Reserve's interest rate cut, all of which contributed to renewed investor confidence and market momentum.

2024 Q3 ASSET PRICE PERFORMANCE (%) (REBASED)



EXECUTIVE SUMMARY

- **US Fed Rate Cut**: On September 18, 2024, the US Federal Reserve cut its benchmark interest rate by 50 basis points, shifting its focus towards controlling unemployment while also balancing inflation.
- **RRR Cut**: PBOC reduced the reserve requirement ratio by 50 basis points, injecting additional liquidity into the banking system to stimulate lending.
- **Mortgage Rate Cut**: PBOC implemented a 50-basis-point reduction in mortgage rates to ease household financial burdens and stimulate the property market.
- **Share Buyback**: The PBOC established a Rmb 300 billion relending facility to support stock buybacks, aimed at boosting market confidence.
- **Pledging Assets**: A Rmb 500 billion facility was introduced to provide liquidity for securities firms, allowing them to pledge assets and invest more in the stock market.
- **Politburo Meeting**: On September 26, 2024, an unscheduled Politburo meeting outlined urgent steps to stabilize the economy and property.

Source: Bloomberg

- **Property Policies**: New housing policies were introduced to ease purchasing restrictions adjust mortgage terms, promoting a recovery in the property sector.

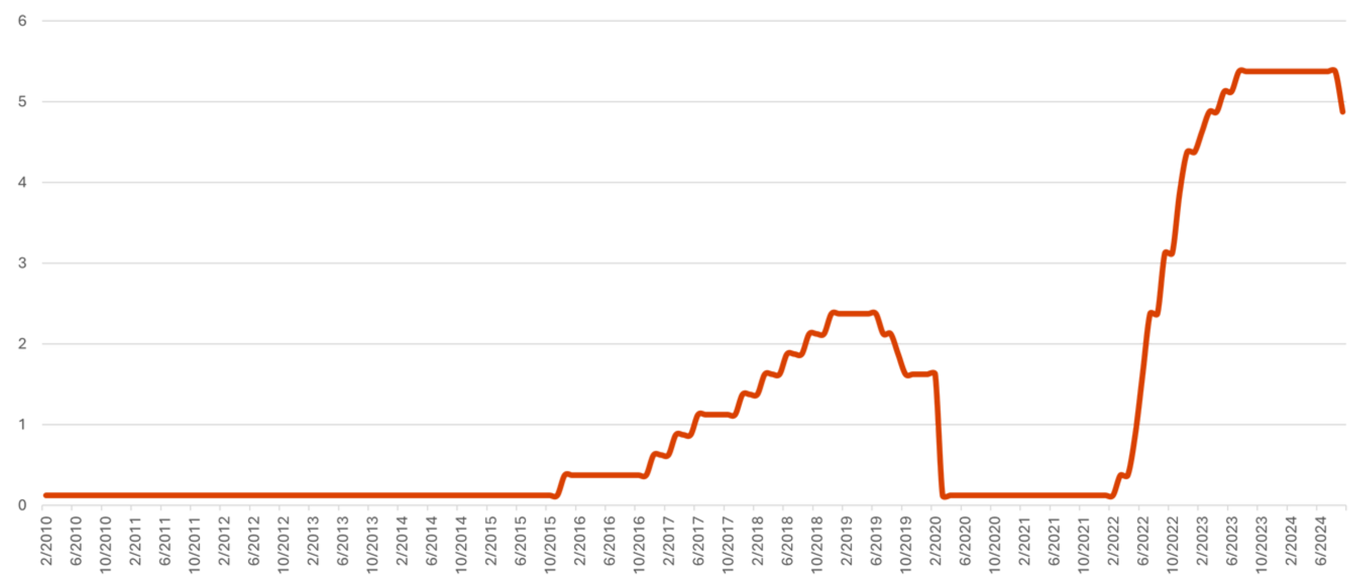
- **Rmb Appreciation**: Rmb strengthened following US rate cuts and domestic policy support, approaching the critical threshold of 7 yuan per US dollar.

- **Valuation**: The Hang Seng Index saw its forward P/E ratio recover to 9.4x from 7x, reflecting renewed investor confidence in China's economic prospects.

The Hang Seng Index and CSI 300, key benchmarks representing the Chinese market, surged ahead of other global equity markets in the third quarter of 2024, delivering impressive gains of 19% and 16% respectively. Additionally, the Hong Kong stock market hit a historic milestone with a record turnover of HKD 506 billion (USD 65 billion) on September 30, 2024. In this report, we will explore the underlying factors that fueled this remarkable rally and examine the broader implications for investors.

US FED FUNDS RATE CUT

US FED TARGET RATE MID POINT OF RANGE (%)



Following the Federal Reserve's decision to cut its benchmark interest rate by 50 basis points on September 18, 2024, global financial markets responded positively, with most major asset classes showing gains. The cut, reducing the federal funds rate to a range of 4.75% to 5.00%, marked a significant shift in the Fed's monetary policy as it moved away from its focus on curbing inflation to a more balanced approach of supporting economic growth and employment.

UNPRECEDENTED STIMULUS BY PBOC

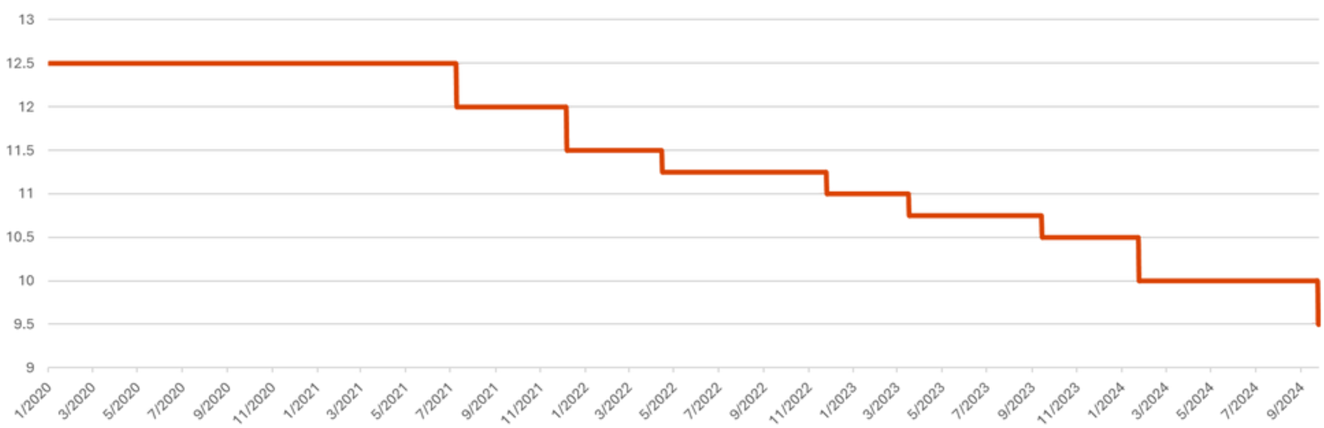
After the US Federal Reserve's recent rate cut, as of Sep 24, 2024, the People's Bank of China (PBOC) swiftly responded with an unprecedented and comprehensive monetary easing package, which included significant rate cuts. The aim of this stimulus is to bolster economic recovery amidst the challenges of sluggish growth, particularly in the property sector and weakening domestic consumption.

This simultaneous launch of several key measures on the same day came as a positive surprise to the markets. Such a synchronized and aggressive move by the Chinese government is rare, signalling their strong determination to address economic slowdowns. The breadth and depth of these actions demonstrate the government's commitment to stabilizing the economy and instilling confidence among investors and businesses.

Source: Bloomberg

RRR CUT

CHINA REQUIRED DEPOSIT RESERVE RATIO FOR MAJOR BANKS (%)



PBOC implemented a 50-basis-point cut to the reserve requirement ratio (RRR), the amount of cash that banks must hold in reserve. This move is designed to free up additional liquidity in the banking sector, allowing banks to lend more capital into the economy. It's estimated that this cut will release hundreds of billions of yuan into the financial system, providing a direct boost to both corporate and consumer credit availability.

REPO CUT

In additional to this, the measures include a 20 basis point (bps) cut to the seven-day reverse repo rate, now considered the PBoC's primary policy tool. This reduction brings the rate down to 1.5% from 1.7%, marking an aggressive stance to inject liquidity into the banking system. By lowering this rate, the central bank is effectively reducing the cost of short-term borrowing for commercial banks, encouraging them to extend more credit to businesses and consumers.

MORTGAGE RATES CUT

Furthermore, the PBOC announced an average 50 basis points reduction on the interest rates of existing mortgages. This policy is a targeted measure to alleviate the financial burden on households, especially those hit by declining property prices and rising debt servicing costs. By lowering mortgage rates, the central bank hopes to stimulate consumer spending and revive the property market, which remains a key pillar of the Chinese economy.

SHARE BUYBACK

PBOC has announced the creation of a Rmb 300 bn (approximately US$ 43bn) relending facility. This facility is intended to encourage banks to support stock buybacks and share purchases by listed companies. The primary aim is to stabilize market confidence and provide liquidity to companies that may be undervalued. By guiding banks to offer targeted credit, this initiative is expected to boost stock market activity and enhance corporate financial stability.

PLEDGING ASSETS

PBOC has unveiled a structural monetary policy facility worth Rmb 500 billion (approximately US$70.9 billion), designed to provide liquidity to securities firms, fund management companies and insurance companies. Through this facility, these institutions can pledge high-quality assets. The aim is to enhance their capacity to purchase stocks and increase holdings, ultimately supporting market stability and corporate financial health. Funds obtained through this tool can only be used for investment in the stock market.

Source: Bloomberg

SURPRISING POLITBURO MEETING

On September 26, 2024, the Chinese government held an unscheduled Politburo meeting, the top decision-making meeting in China, which was chaired by President Xi Jinping and was not typically convened in September. This high-level meeting took place just two days after the PBOC announced significant monetary easing measures, signalling the urgency with which the government is addressing the country's economic challenges. The rapid response from the Chinese leadership came as a big positive surprise to the market, highlighting the government's recognition of the immediate need for broader policy initiatives to stabilize the economy.

The key findings from the Politburo meeting were clear and decisive. The leadership emphasized that "it is necessary to take a comprehensive, objective and sober view of the current economic situation, face the difficulties squarely and remain confident. The country should effectively implement existing policies, step up efforts to roll out incremental policies, further make policy measures more targeted and effective, and strive to accomplish the targets and tasks for this year's economic and social development."

Particularly notable was the focus on stabilizing the property market, a crucial component of China's economic landscape. The meeting stressed the need to "stabilize the property market and reverse its downturn, adjust the policy of housing purchase restrictions, lower interest rates on existing mortgage loans, promptly improve land, fiscal, tax and financial policies and promote the establishment of a new model for real estate development."

(Source: Xinhua News)

The market responded positively, interpreting the clear message as evidence that the Chinese government fully acknowledges the current economic difficulties and is committed to addressing them with strong and targeted measures. The first stage of this plan, monetary easing, has already been initiated and the second stage, fiscal policies to further support the economy, is announced swiftly. These policies have continued to bring the Chinese stock markets upward without pause.

EASING OF HOUSING POLICIES

On September 29, 2024, China took further steps to relax housing purchasing restrictions, aiming to stimulate the property market. Guangzhou became the first tier-1 city to ease these limitations, including halting reviews of homebuyer eligibility and removing restrictions on the number of properties an individual can own.

Shanghai, China's financial centre, and Shenzhen, the country's technology hub, followed suit with significant policy adjustments. Both cities announced a reduction in the minimum down payment for first-time homebuyers, lowering it to 15%.
In addition, the PBOC introduced a major refinancing policy, allowing homeowners to renegotiate their mortgage terms, even those with fixed-rate loans. Borrowers can now adjust their rates based on the current loan prime rate, which saw a reduction of 50 basis points. This move was expected to save homeowners a collective RMB 150 bn (approximately USD 21 bn) annually in interest expenses.

RMB APPRECIATION

USD/RMB EXCHANGE RATE

The Renminbi (RMB) has demonstrated significant strength recently, particularly after late July 2024. This appreciation can largely be attributed to the anticipation and subsequent realization of the US Federal Reserve's interest rate cut, which weakened the US dollar and boosted the RMB. Following this cut, market participants began to price in the potential for further easing, increasing the appeal of Chinese assets.

This momentum, bolstered by several domestic policy measures aimed at stabilizing China's economy, has led to the continued strengthening of the RMB. As a result, there is growing speculation that the RMB could breach the critical psychological threshold of 7 yuan per US dollar. If this happens, it would mark the first time since May 2023 that the RMB has crossed this level, a period when the market was bullish on China's economic reopening.

The RMB's rally is driven not just by external factors, but also by a series of domestic economic support measures, including monetary policy adjustments by the PBOC.

These policies aim to stimulate the economy amidst weaker domestic demand and a struggling property sector, giving the currency additional resilience. The focus now is on how sustained this strength will be, as market observers keep an eye on further U.S. rate movements and China's continued policy actions.

Source: Bloomberg

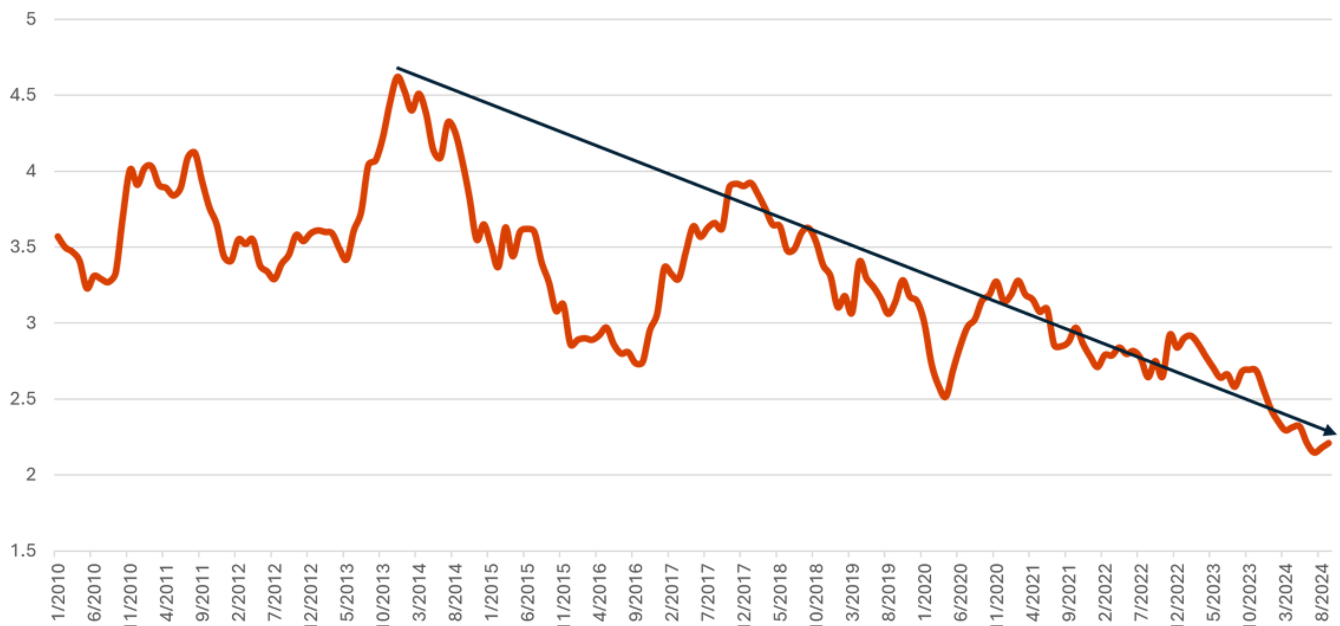
VALUATION FOR CHINA STOCK MARKET

HANG SENG INDEX FORWARD 12-MONTH P/E (x)

The forward price-to-earnings (P/E) ratio for the Hang Seng Index has shown a gradual recovery, reaching 9.6x after falling to a bearish low of 7x in January 2024. This uptick reflects improving market sentiment, with investors regaining some confidence in the stock market and China's economic recovery. While recent monetary policy stimuli have been welcomed by the market, the focus has shifted toward the speed and magnitude of policy execution. Investors are looking for decisive action to support sustained economic growth, which will likely determine future market direction.

GOVERNMENT BOND YIELD

CHINA GOVERNMENT BOND 10-YEAR YIELD (%)



After the Chinese government's announcement of a comprehensive monetary stimulus package, including significant rate cuts, the yield on China’s 10-year government bonds has steadily declined, approaching 2%, a historic low. This drop in yields reflects both the immediate impact of monetary easing and market expectations for continued accommodative policies aimed at stimulating economic growth.

The downward trend in yields signals that investors anticipate further rate cuts and liquidity injections from the PBOC to address ongoing economic challenges, including sluggish growth and a weak property sector.

Source: Bloomberg

In conclusion, China's recent policy measures, including aggressive monetary easing and fiscal stimulus, have successfully revitalized market confidence, leading to a strong rally in its stock markets. With the Hang Seng Index and CSI 300 outperforming global peers, the combination of rate cuts, liquidity injections and easing policies has positioned the Chinese economy for a potential recovery. However, the sustainability of this bull run will largely depend on the continued effectiveness and speed of policy execution, particularly in addressing structural challenges like the property sector and domestic consumption.

ADVANTAGES OF EQUITIESFIRST'S LENDING MODEL

EquitiesFirst provides loans backed by equities listed on major stock exchanges, including those in Hong Kong, Japan, US, Singapore and others. Our loans feature competitive interest rates with an average of 3.5%, a loan-to-value ratio of 60-70% and a typical margin call threshold set at 50%. Additionally, EquitiesFirst offers several benefits with its lending model, including non-recourse loans which do not require personal guarantees. Importantly, EquitiesFirst voluntarily waives the right to seek repayment if the borrower chooses to default on their loan obligations.

CONTACT US

GORDON CROSBIE-WALSH

CEO Asia

+852 3958 4589

gcrosbie-walsh@equitiesfirst.com

BANGKOK

+66 2059 0242

THinfo@equitiesfirst.com

HONG KONG

+852 3958 4500

HKinfo@equitiesfirst.com

SHANGHAI

+86 21 5117 5896

info@equitiesfirst.com

BEIJING

+86 10 5929 8686

info@equitiesfirst.com

SEOUL

+82 2 6370 5180

info@equitiesfirst.com

SINGAPORE

+65 6978 9100

SGinfo@equitiesfirst.com

DISCLAIMER

China, Hong Kong and Singapore - Equities First Holdings Hong Kong Limited holds a Hong Kong Securities and Futures Commission Type 1 License and licensed in Hong Kong under the Money Lenders Ordinance (Money Lender's Licence No. 1681/2023). EquitiesFirst ("EquitiesFirst" refers to Equities First Holdings LLC, and all subsidiaries of such company in all countries where they are engaged in business activities of any nature). This document is prepared by EquitiesFirst. It is not intended as an offer to sell securities or a solicitation to buy any product managed or provided by Equities First. It aims to provide general information on the EFH loan facility which is not authorized for retail use in Hong Kong and is only available for Professional Investors. This document is not directed to individuals or organizations for whom such offers or invitations would be unlawful or prohibited. Past performance is not a guarantee or a reliable indicator of future results. All investments contain risk and may lose value. The information contained herein may be incomplete or incomprehensive. Accordingly, the information is qualified in its entirety by the terms applicable to the facility as set out in its constitutive documents (Loan Documents) and should be read together with such Loan Documents. This presentation has been prepared without consideration of the investment objectives, financial situation, or particular needs of any individual investor. You should consider your own investment objectives, financial situation, and particular needs before taking any action with respect to a financial product referred to in this presentation. In preparing this presentation, EFH is assuming your organization is capable of evaluating the merits and risks of any financial transaction described herein and its suitability for your organization's purposes and its legal, taxation, accounting, and financial implications and that in making this evaluation you are not reliant on any recommendation or statements made by EFH. Before entering into any transaction EFH strongly encourages you to independently assess these things and fully understand the transaction in its entirety. EFH does not act as an adviser in any capacity and strongly recommends all borrowers seek independent advisement when assessing the transaction and its suitability. To the extent it is permitted by applicable law, Equities First, its affiliates, and any officer or employee of Equities First or its affiliates do not accept any liability whatsoever for any direct or consequential loss arising from the use of this presentation or its contents, including for negligence. Trading in equities, futures, options, commodities, currencies, or derivatives can have risks and is not appropriate for all persons. Under some market conditions, it may be impossible to liquidate a position. Copyright protections exist in this presentation. The contents of this presentation are strictly confidential and may not be disclosed, reproduced, distributed, or published by any person for any purpose without the expressed written consent of EFH, LLC. EFH makes no guarantee, representation, or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of Equities First only and are subject to changes without notice. Further information is available upon request.

Thailand - EquitiesFirst ("EquitiesFirst" refers to Equities First Holdings LLC, and all subsidiaries of such company in all countries where they are engaged in business activities of any nature). The foregoing is intended solely for certain, or certain class of, recipient who is qualified to independently consider and act on the information provided herein pursuant to laws and regulations applicable to such recipient. As such, the information provided herein is for information purposes only and does not constitute an offer to sell (or solicitation of an offer to purchase) the securities or investments referenced herein, to participate in any particular trading strategy, or to provide any particular advisory services ("Offer"), in any jurisdiction in which such Offer would be illegal. Any Offer shall only be made through the relevant offering or other documentation which sets forth its material terms and conditions pursuant to applicable laws and regulations. The foregoing and any non-public information contained therein are confidential and have been provided solely for the benefit of the intended recipient and for the limited purpose of the potential transaction that the intended recipient has already discussed with the Company. Except with the Company's prior written consent, such confidential information may not be shared with any party other than with professional advisors and affiliates of the intended recipient, in which case the information may be shared for such limited purpose and on a need-to-know basis. If you are not the intended recipient of the foregoing, any disclosure, copying, distribution or use of its content is strictly prohibited. The foregoing does not provide or purport to provide investment advice and has been prepared by the Company based on or derived from sources the Company reasonably believes to be reliable. The Company has not independently examined or verified the information provided herein and no representation is made that it is accurate or complete. Before acting on any information, the recipient is thus encouraged to seek independent financial and/or legal advice. Opinions and information herein are subject to change without notice.

South Korea - The foregoing is intended solely for sophisticated investors, professional investors or otherwise qualified investors who have sufficient knowledge and experience in entering into securities financing transactions such as securities repo or securities loan transaction. It is not intended for, and should not be used by, persons who do not meet that criteria. Information provided herein is for information purposes only and does not constitute an offer to sell (or solicitation of an offer to purchase) the securities or investments referenced herein ("Offer"). Any such Offer shall only be made through a relevant offering or other documentation which sets forth its material terms and conditions. The foregoing does not provide or purport to provide investment advice, nor does it provide or purport to provide any legal or financial advisory or other professional advice or services which are regulated in jurisdiction in which EquitiesFirst (Equities First Holdings, LLC and its subsidiaries) operates, does business, resides, including, Republic of Korea or that may otherwise have regulatory authority over EquitiesFirst. The foregoing has been prepared by EquitiesFirst based on or derived from sources EquitiesFirst reasonably believes to be reliable. However, EquitiesFirst has not independently examined or verified the information provided herein and no representation is made that it is accurate or complete. Opinions and information herein are subject to change without notice.