RNS Number : 1172I
Ruffer Investment Company Limited
15 October 2024

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RUFFER INVESTMENT COMPANY LIMITED

(a closed-ended investment company incorporated in Guernsey with registration number 41966)

(the "**Company**")

Attached is a link to the Monthly Investment Report for September 2024.

http://www.rns-pdf.londonstockexchange.com/rns/1172I_1-2024-10-14.pdf

The fund's positive return in September was almost entirely accounted for by one theme: Chinese equities, which rallied by 25% in just over a week. Correspondingly, rather than attempt a tour d'horizon covering geopolitics and the Federal Reserve, this month's note will focus on China. It's also worth noting that over the quarter, the board have continued their buybacks. In the nine months to 30 September 2024 the board have purchased 35.1 million shares for a total of around £94.8m which equates to 9.2% of the shares outstanding. These purchases have added 0.5% to the company NAV.

Let's begin with the setup: how did we get here? China's managed currency regime means that, to a degree, it imports the monetary policy of other countries. So as the United States and other countries hiked their interest rates through 2022 and 2023, the Chinese had a choice: do we let our currency weaken in response, or do we hike our own interest rates?

Faced with a slowing domestic economy, they couldn't hike rates, and so the renminbi weakened by some 15% against the dollar in 2022 and 2023. What they really wanted (and what their economy needed) was to cut interest rates, but in an environment where all other central banks were hiking, they could not do that without suffering either significant capital outflows or a weaker currency.

They did slightly reduce interest rates (the People's Bank of China's repo rate declined from 2.2% in 2022 to 1.8% by this summer) but even those small cuts saw problems emerge: gold demand in China (a form of capital outflow) skyrocketed, with the premium that Chinese buyers in Shanghai were willing to pay over the global gold price exceeding 100, its highest ever level. The interest rate problem was exacerbated by inflation: falling inflation in China meant that real interest rates were rising faster than the PBoC could cut nominal rates, imposing a higher cost of capital on the economy.

Rising real yields imposes pain on any asset that has leverage or duration, and real estate (which has both) suffered accordingly, with government policy making the problem worse. Equities are a duration asset, and unsurprisingly the equity market in China dropped by some 22% from 2022 to the end of August this year.

We initiated a small position in China at the beginning of 2023, and our confidence in it (and the size of the position in the fund) has grown as the valuations have cheapened since then. The Chinese, inventors of the concept of lingchi (or death by a thousand cuts), seem to prefer incremental policy to Western 'bazooka' stimulus, and for a number of months they have been taking limited action to support markets and the economy.

So why have all Chinese markets suddenly rallied? A July interest rate hike by the Bank of Japan saw the yen rise, taking pressure off the renminbi (which itself rallied materially against the US dollar as a result). Reflecting this, we topped up the China and commodity positions in the portfolio in mid-September to around 10%. The Federal Reserve then announced 50 basis points of interest rate cuts and the beginning of a cutting cycle, finally giving space to China to cut its own interest rates and announce broad policy stimulus without having to fear currency weakness. For China, this is the equivalent of Mario Draghi's 2012 'whatever it takes' moment, and its markets are beginning to reflect that.

Saying goodbye is death by a thousand cuts, and we see no need to say goodbye to the portfolio's China exposure - this could be just the start.

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