Asian stocks fluctuate amid uncertainty over stimulus in China

Asian stock markets experienced fluctuations on Monday, as investors remained uncertain about the impact of the recently announced economic stimulus measures from China.

Finance Minister Lan Foan, at a press conference on Saturday, committed to a significant increase in debt to boost the economy, but did not provide details on the size of the stimulus. This lack of detail left investors questioning the potential duration of the recent stock market rally.

Analysts at Morgan Stanley noted a clear divide in perception between onshore and offshore investors regarding the significance of Beijing's decision to restructure local and housing government debt using central government funds.

This division became evident as stocks in Hong Kong opened slightly lower and exhibited volatility early in the trading session, while mainland China stocks opened strong. The Hang Seng Index saw a marginal decrease of 0.01%, while the blue-chip CSI300 rose by 1.6%.

However, real estate stocks in both regions saw solid gains, with the Hang Seng Mainland Properties Index advancing 2.2% and the CSI300 Real Estate Index jumping 3.7%. These movements suggest that investors are optimistic that the stimulus measures could support China's struggling real estate sector.

The broader market sentiment in the region was cautious, with the broader MSCI Asia-Pacific index outside Japan falling 0.11%, following a 1.7% drop last week, as the rally in Chinese stocks paused. Trading in Asia was lighter than usual due to a holiday in Japan.

U.S. stock futures also dipped slightly, with S&P 500 futures down 0.1% and Nasdaq futures decreasing 0.25%. European futures showed a slight downward trend, with EUROSTOXX 50 futures retreating 0.08% and FTSE futures falling 0.05%.

Adding to concerns about China's economic outlook, data released on Sunday indicated an unexpected easing of consumer inflation in September, while producer price deflation worsened. The onshore yuan weakened 0.11% to 7.0743 against the U.S. dollar, and the offshore yuan fell further by 0.2% to 7.0828 per dollar.

Oil prices also fell by more than $1 per barrel on Monday amid concerns over declining Chinese demand. Brent crude futures fell 1.32% to $78.00 a barrel, and West Texas Intermediate futures dropped 1.3% to $74.58 a barrel.

Despite these concerns, analysts at Goldman Sachs raised their real GDP forecast for China this year to 4.9% from 4.7%, citing the recent stimulus announcements. However, they maintained their structural view on China’s growth, pointing to long-term challenges such as demographics, debt deleveraging, and adjustments in the global supply chain that are unlikely to be mitigated by policy easing. China's third-quarter GDP data is expected to be released on Friday.

In the forex markets, the U.S. dollar remained strong, supported by reduced expectations for a significant interest rate cut by the Federal Reserve next month. The dollar index was near a seven-week high at 103.03, following data from last week indicating a slight increase in consumer prices in September and reports highlighting a robust labor market.

The British pound and the euro saw declines against the dollar, with the pound falling 0.13% to $1.3050 and the euro dropping 0.11% to $1.0923. Investors are also keeping an eye on upcoming UK inflation data and a decision on interest rates from the European Central Bank later this week.

Bullish oil call options rise amid middle east conflict

Investors have recently been betting on options that oil prices will rise above $100 per barrel. This "hit or miss" strategy can result in substantial gains or a total loss if prices do not meet expectations.

Oil still has a long way to go to reach that level: Brent fell 0.6% to $78.89 per barrel on Friday, October 11, while WTI dropped 0.8% to $75.28.

Traders have placed an unusual number of bullish call options since tensions between Israel and Iran escalated over the past two weeks. "On average, about 250 million barrels of bullish call options changed hands in the last 10 days, setting a record," wrote Natasha Kaneva, head of global commodities strategy at JP Morgan. "These volumes have led to significant increases in open call options at $100 for both WTI and Brent."

The all-or-nothing nature of the trading makes a bullish call option akin to a lottery ticket. While professional investors typically trade options in high-volume oil futures markets, retail traders tend to trade them in the most popular exchange-traded fund holding oil futures—the United States Oil Fund (NYSE

), according to Rebecca Babin, senior energy trader at CIBC Private Wealth US.

The volume of bullish call options on the USO has quadrupled in October compared to September levels, according to data provided by Cboe Global Markets. On Monday, traders had 3.6 times more bullish call options than bearish put options, the highest ratio of the year. A month ago, the call-to-put ratio was 1.9.

Most analysts do not expect Israel to directly attack Iran's main energy infrastructure in the short term, which could indicate a downward trend in oil prices.