China Policy

Politburo signals more accommodative policy support

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The Politburo meeting yesterday signals a mildly more accommodative policy stance in 2H26 as the leadership explicitly acknowledged mounting economic difficulties and called for stronger countercyclical adjustments. Fiscal spending may accelerate, shifting from de facto tightening in 1H26 to a more expansionary stance in 2H26 in our view. Consumption support remains more supply-side and services-oriented than being demand-driven, while support on property should remain moderate. Technology remains a key policy priority and we expect policymakers to continue allocating fiscal resources towards AI and advanced manufacturing. Leadership remains attentive to capital-market stability, suggesting potentially more active state-backed buying during periods of volatility. The re-mentioning of "regulated platform economy" points to possible additional targeted regulation in 2H26, but we don't see this as a return to the full-blown regulatory cycle. Risk appetite in AI, advanced manufacturing, services consumption, and policy-linked infrastructure should improve, while property and discretionary consumption may remain underperforming. The Hong Kong equity market supported by earnings rebounds, stronger policy support, and easing liquidity headwinds from the Fed may see better performance in 2H26. Looking forward, we expect GDP growth to slow from 5.0% in 2025 to 4.6% in 2026, with growth moderating from 4.7% in 1H26 to 4.6% in 2H26. We think a modest rate cut is possible in 4Q26 as economic momentum continues to soften.

- **Major tone change and 2H26 policy outlook:** The July 2026 Politburo meeting represents a clear shift from April's "good start" assessment toward a more realistic and pro-growth stance. The leadership explicitly acknowledged mounting economic difficulties, called for stronger countercyclical adjustments and emphasized both using existing policy tools more effectively and preparing practical incremental measures. We should see mildly more accommodative policy support in 2H26 by faster fiscal execution, monetary easing, selective demand support, and confidence repair in capital market. We believe the preferred approach remains targeted, measured, and implementation-heavy structural easing rather than a large bazooka-style stimulus, aimed at preventing a further slowdown, stabilizing expectations, and securing a credible start to the 15th Five-Year Plan period.

- **Fiscal and monetary policy:** The meeting's call to accelerate fiscal spending and the use of bond proceeds suggests that fiscal support could shift from de facto tightening in 1H26 to a more expansionary stance in 2H26. In 1H26, local fiscal stress and a shortage of high-quality investable projects appear to have slowed spending and bond-fund deployment, weighing on fixed-asset investment. In the second half, faster fiscal execution, the implementation of the 800 billion yuan in new policy-based financial instruments and coordinated investment in six strategic infrastructure networks should help reverse that drag and improve the chances of bringing FAI growth back to positive territory. Monetary policy was given more flexibility through "timely adjustment of policy tools and better fiscal-financial coordination" to support domestic demand while the meeting didn't directly mention cuts on RRR and policy rate. We see a modest rate cut as possible in 4Q26 as economic momentum continues to soften. Overall, monetary policy would focus on execution and targeted financing rather than broad monetary stimulus.

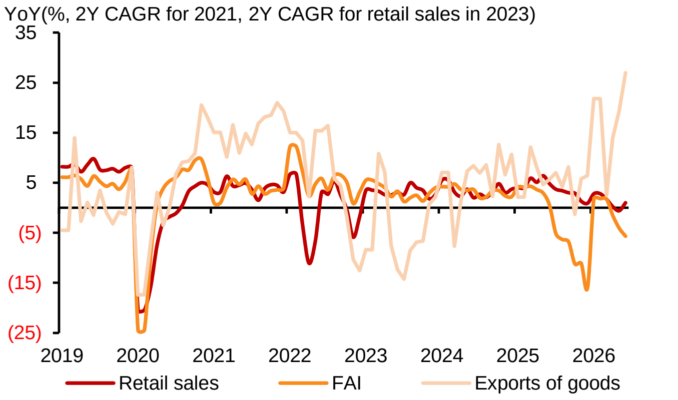
- **Consumption and real estate:** Consumption support remains more supply-side and services-oriented than being demand-driven, with emphasis on quality supply, services consumption and infrastructure that improves household willingness to spend. We expect modest support on consumption, as the 2030 target of RMB60tn social retail sales only requires maintaining current consumption trends. For real estate, the wording shifted more explicitly to "stabilizing the property market," but the implied approach is still targeted stabilization through funding coordination, urban renewal, mortgage-cost relief possibilities and risk containment, instead of a more forceful easing cycle.

- **Technology and capital markets:** Technology remains a key policy priority and a core growth engine, with support for basic research, AI+, intelligent economy development, frontier technology, and traditional-sector upgrading. We expect policymakers to continue allocating resources toward technology and advanced manufacturing, as Beijing seeks to strengthen tech self-reliance and compete more effectively in the global AI race. On capital markets, the meeting went beyond generic confidence language and called for deeper investment-and-financing reform and stronger market resilience, indicating the leadership remains attentive to capital-market stability and confidence. This suggests support for better capital formation around technology, longer-term funding, improved listings and exits, and continued policy efforts to stabilize secondary-market sentiment, potentially including more active state-backed buying or guidance during periods of volatility.

- **New mentions include trade rebalancing and platform economy:** The explicit call to promote more balanced trade development is notable, likely responding to rising external pressure with Europe around China's goods surplus. The policy direction is not a retreat from export support policy, but a broader mix of expanding services trade, increasing mutually beneficial economic cooperation, and attracting foreign capital. The re-mentioning of "promote the regulated, healthy and sustainable development of the platform economy" points to possible additional targeted regulation in 2H26 around anti-involution, fair competition, consumer rights, data and algorithm governance. However, we do not see this as a return to the broad internet crackdown cycle like 2022 as the overall tone is pro-growth. Platforms are expected to support consumption, employment, AI adoption and international competitiveness, but business models based on disorderly price wars or ecosystem pressure will face tighter scrutiny.

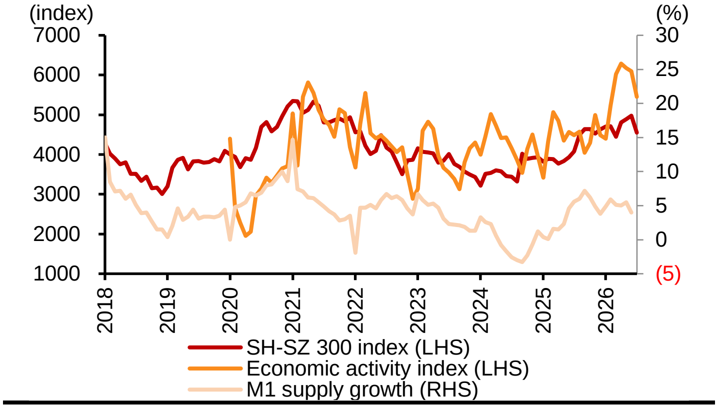
- **Market implications:** The meeting indicated a mildly more accommodative policy stance in 2H26, which should serve a confidence stabilizer after recent market declines. Risk appetite in AI, advanced manufacturing, services consumption, brokers and policy-linked infrastructure should improve, while property and discretionary consumption may remain underperforming. The Hong Kong equity market may perform better in 2H26, supported by earnings rebounds from the 1Q26 bottom, stronger policy support from Beijing, and easing liquidity headwinds from the Fed. For fixed income, faster fiscal spending and heavier bond issuance could create mild supply pressure and lead to curve steepening, but ample liquidity, coordinated fiscal-financial support and possible modest rate easing should keep yields range-bound. We expect China's GDP growth to slow from 5.0% in 2025 to 4.6% in 2026, with growth moderating from 4.7% in 1H26 to 4.6% in 2H26.

Figure 1: K-shaped divergence



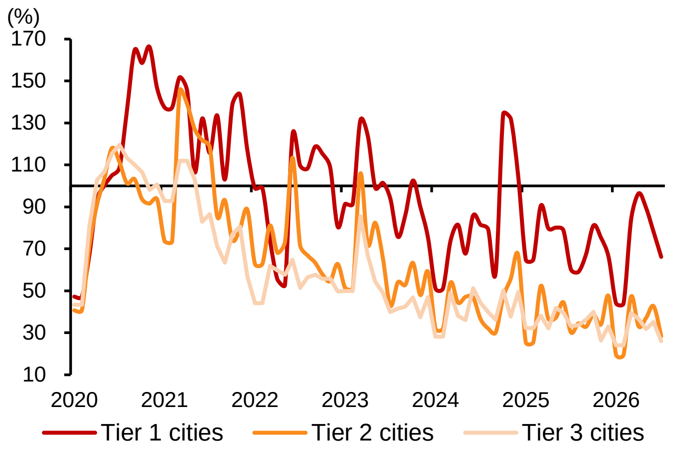
Source: Wind, CMBIGM

Figure 2: Economic activity and equity market



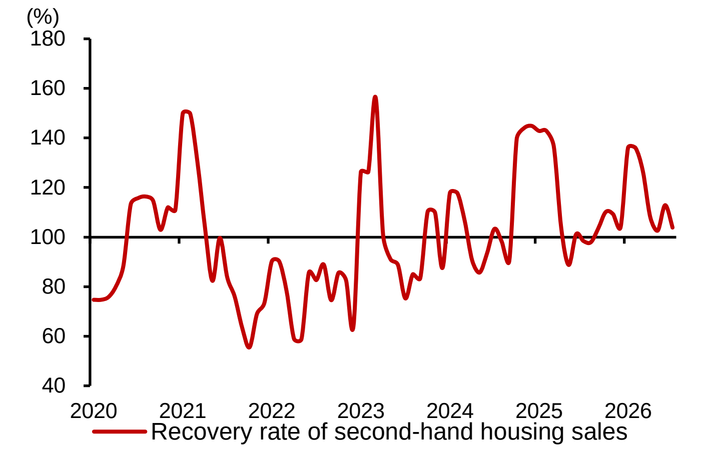
Source: Wind, CMBIGM

Figure 3: Recovery rate of new housing sales compared to 2018-2019



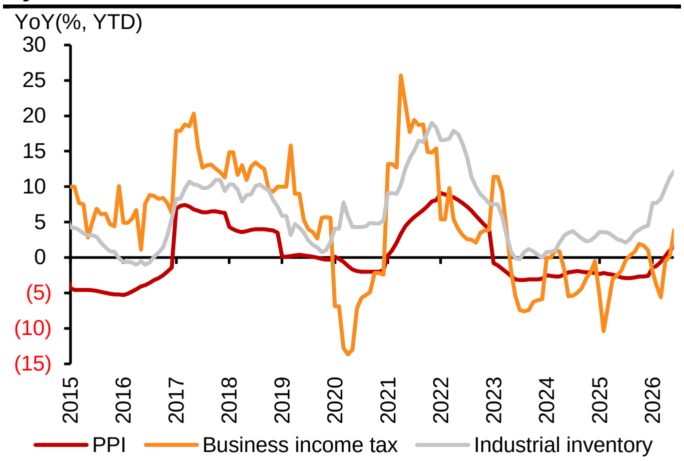
Source: Wind, CMBIGM

Figure 4: Recovery rate of second-hand housing sales compared to 2019



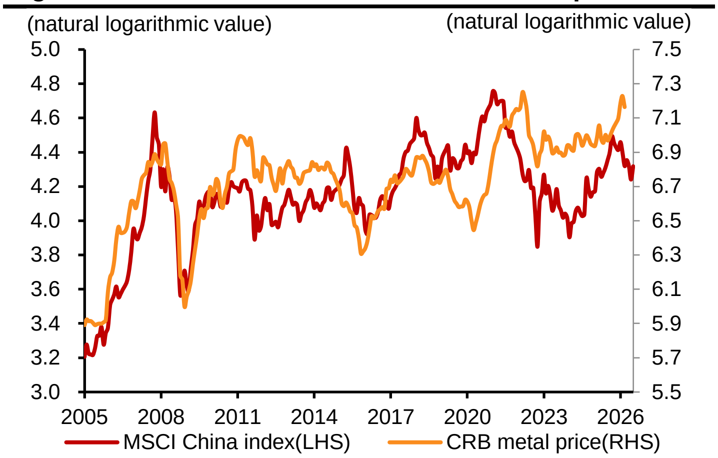
Source: Wind, CMBIGM

Figure 5: PPI, business income tax and industrial cycle



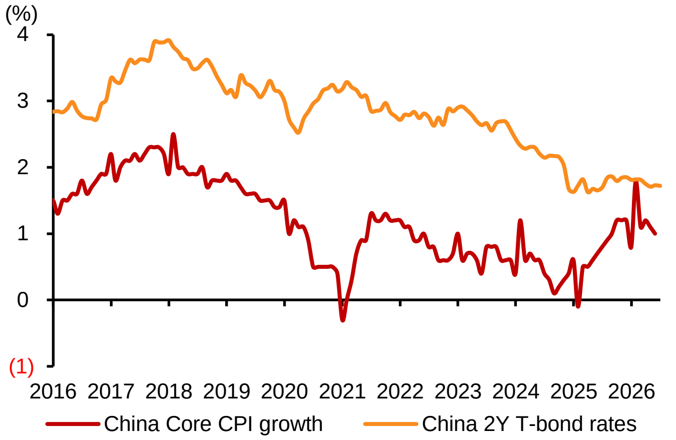
Source: Wind, CMBIGM

Figure 6: MSCI China index and CRB mental price



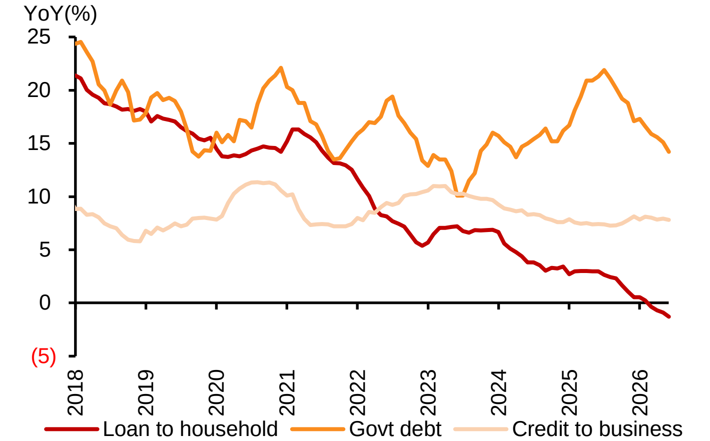
Source: Wind, CMBIGM

Figure 7: Core CPI and 2Y Treasury rate



Source: Wind, CMBIGM

Figure 8: Loans to real economy sectors



Source: Wind, CMBIGM

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