

# China Policy

## Stronger credit stimulus to boost confidence

China's central bank and financial regulators announced a package of stronger credit stimulus measures including 20bp policy rate cut, 50bp RRR cut, 50bp existing mortgage rate cut, and a special refinancing mechanism to support the real estate and stock markets. Different from the previous approach of small & piecemeal measures, such greater-than-expected stimulus in a concentrated manner marks an important shift to aggressive loosening, which would significantly bolster market confidence, in our view. Chinese stocks and RMB FX rates are likely to see a rebound cycle in the next 2-3 months. The essence of those policies focuses on encouraging leveraging. But the weak consumer income, subdued business confidence and persistent deflation pressure may continue to restrain economic recovery. We think additional policies including large-scale fiscal transfer to households, effective reduction in excessive capacity and market-oriented or pro-business reforms are needed to revive the economy.

- **The policies are stronger than expected.** The stimulus policies include the following. **1)** The PBOC's 7D repo refinancing rates and MLF rates will be lowered by 20bps and 30bps respectively and banks' LPRs and deposit rates will be cut by 20-25bps. **2)** RRR will be reduced by 0.5ppt with RMB1trn liquidity injected into the financial market and may be cut by an additional 0.25-0.5ppt this year. **3)** Existing mortgage rates will be lowered by 0.5ppt on average, reducing borrowers' debt burden by RMB150bn. **4)** The minimum down-payment ratio on second home purchases will decline from 25% to 15%. **5)** The PBOC will cover 100% of loans for local SOEs buying unsold homes to change them into social houses. **6)** The PBOC will introduce an instrument (at least RMB500bn) for brokers, fund managers and insurance companies to swap their bonds, ETFs and CSI 300 index constituent stocks as collateral in exchange for treasury bonds and PBOC notes, expanding their funding liquidity that can only be used for stock investment. **7)** The PBOC will create an RMB300bn refinancing program for banks to provide loans to listed companies for stock repurchase or to major shareholders to increase shareholdings. **8)** The CSRC will deregulate M&A activities, support listed companies to raise dividend payment and grow market capitalisation. **9)** Central Huijin Investment is encouraged to play a larger role in supporting the stock market while the stock stabilization fund is currently in research phase. Different from the previous approach of small-scale stimulus in a piecemeal manner, the new package of credit stimulus policies is stronger than expected and launched in a concentrated manner.
- **The policies mainly aim to boost real estate and stock markets.** By encouraging re-leveraging, the package of policies shows the policymakers' determination to boost the real estate and stock markets. The real estate market has continued to slump this year as a major drag on economic growth, financial stability and consumer confidence. Meanwhile, the stock market has remained subdued as foreign investors have still kept away from Chinese stocks while domestic investors have tried to diversify their investment beyond China. In addition, long-term Treasury bond yields and RMB FX rates have continued to decline. There has been a hot debate in China that whether the economy will follow the Japan economy to see a lost decade in future. Many experts have called for the policymakers to take bold actions to boost the real estate and stock markets and revive confidence. As the US Fed has aggressively cut its policy rate and US dollar has turned weak, the constraint of renminbi FX rates on China's monetary policy has lessened. Due to the above factors, the PBOC has launched the package of credit stimulus policies.

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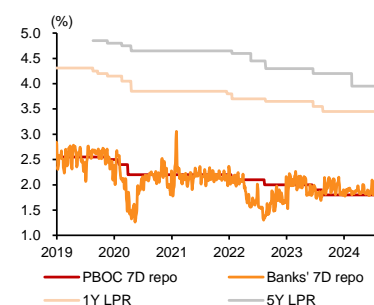
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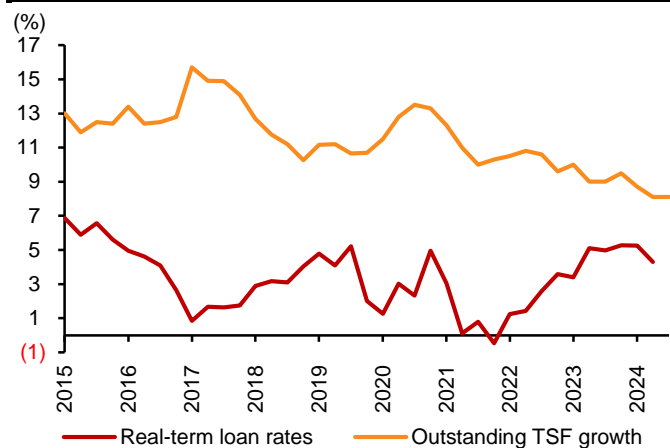
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Source: Wind, CMBIGM

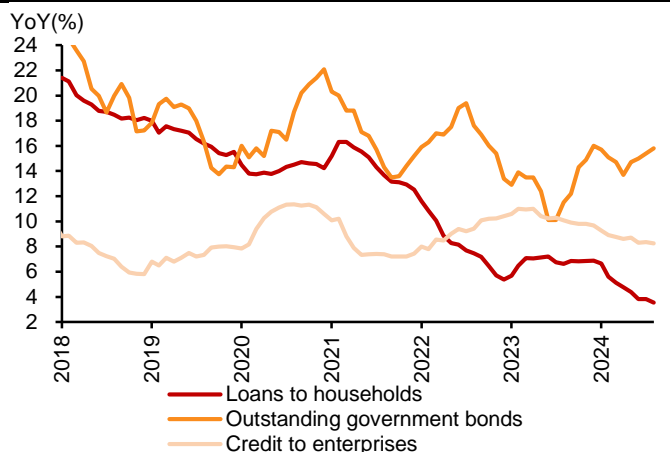
- **The policies will definitely boost market confidence, but additional three policies are needed to revive the economy.** By showing the policymakers' determination to stimulate the real estate and stock markets, the policies will noticeably boost market confidence. We expect Chinese stocks and RMB FX rates to enter a rebound cycle in the next 2-3 months. Sectors such as real estate, securities, insurance, durable goods, metals and biotechnology as well as key index-weighted stocks will benefit from the policies. During the RMB's rebound period, Hong Kong stocks are expected to outperform A shares. However, the policies centre on encouraging re-leveraging while weak consumer income, subdued business confidence and persistent deflation pressure would continue to restrain economic recovery. We think additional three policies are needed to revive the economy, including large-scale fiscal transfer to households, effective reduction in excessive capacity and market-oriented or pro-business reforms.

**Figure 1: Real-term loan rates and TSF growth**



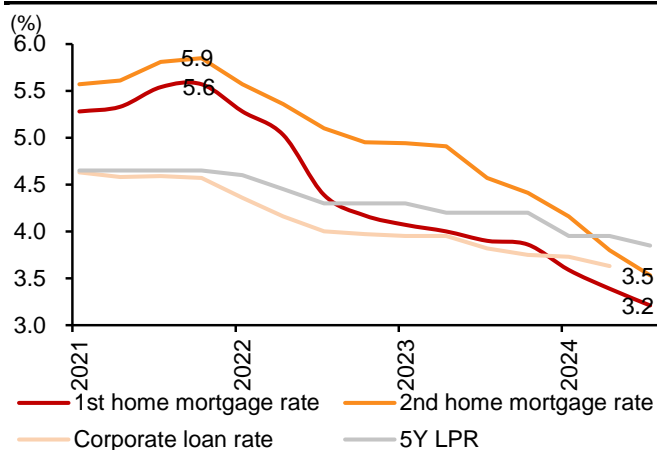
Source: Wind, CMBIGM

**Figure 2: Growth of credit to real sector**



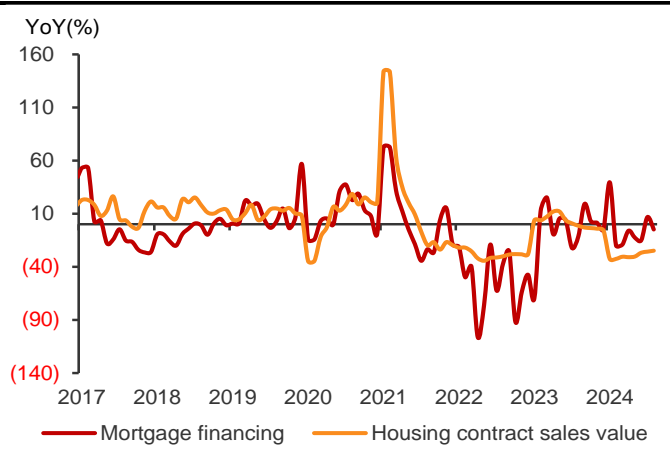
Source: Wind, CMBIGM

**Figure 3: New mortgage rates**



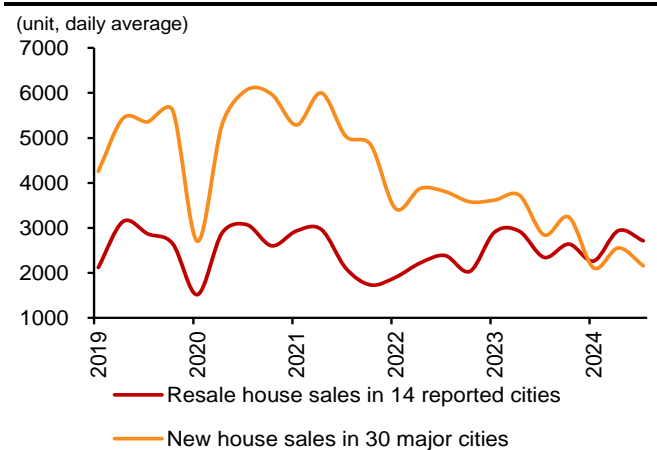
Source: Wind, CMBIGM

**Figure 4: Mortgage financing & housing sales**



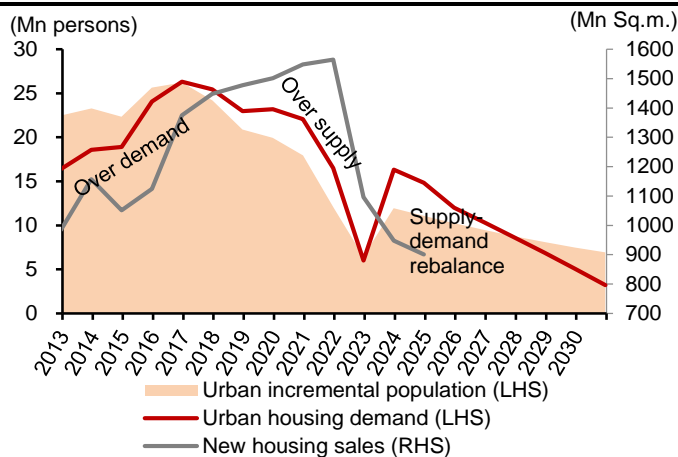
Source: Wind, CMBIGM

**Figure 5: Housing sales volume**



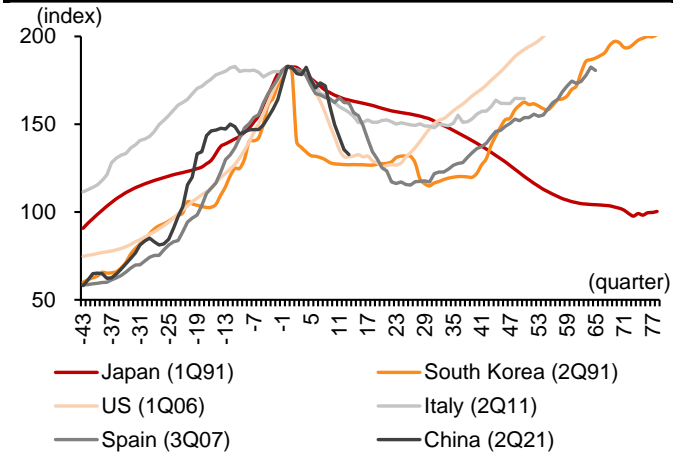
Source: Wind, CMBIGM

**Figure 6: Urbanisation & new demand for housing**



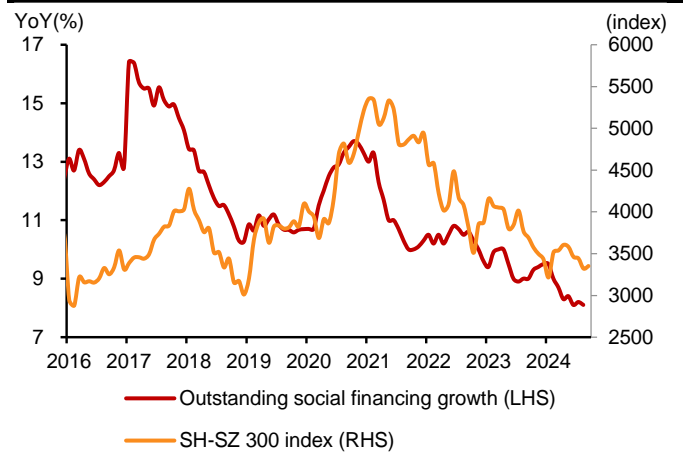
Source: Wind, CMBIGM

**Figure 7: House price around the peak**

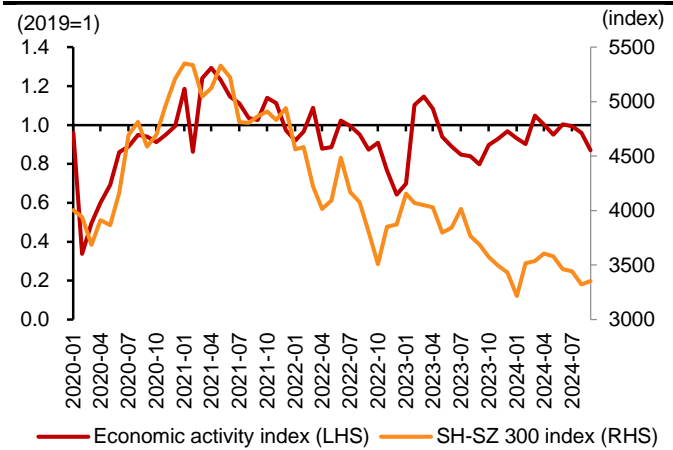


Source: Wind, CMBIGM

**Figure 8: Social financing growth and A share index**

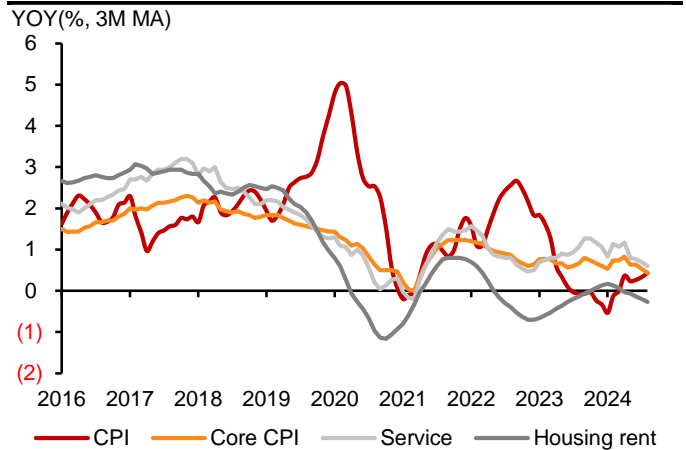


**Figure 9: Economic activity and A share index**



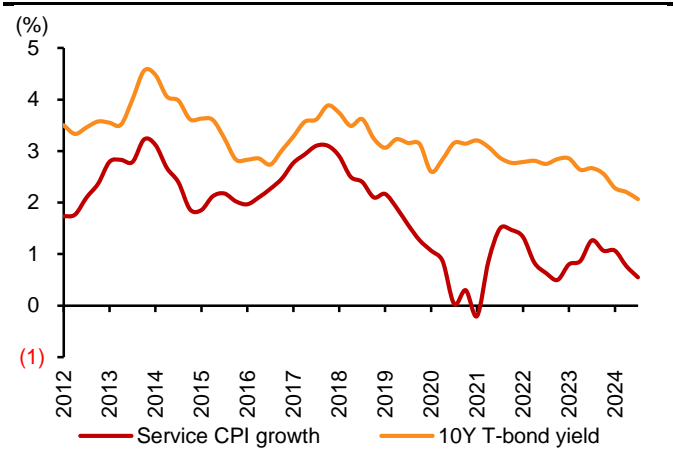
Source: Wind, CMBIGM

**Figure 10: CPI growth**



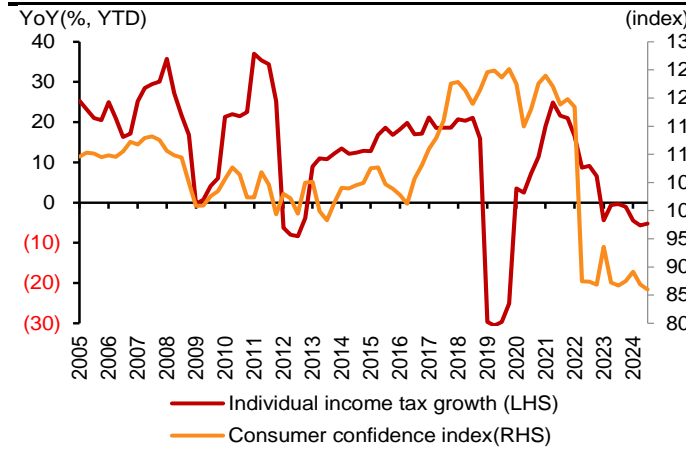
Source: Wind, CMBIGM

**Figure 11: Service CPI growth and T-bond yield**



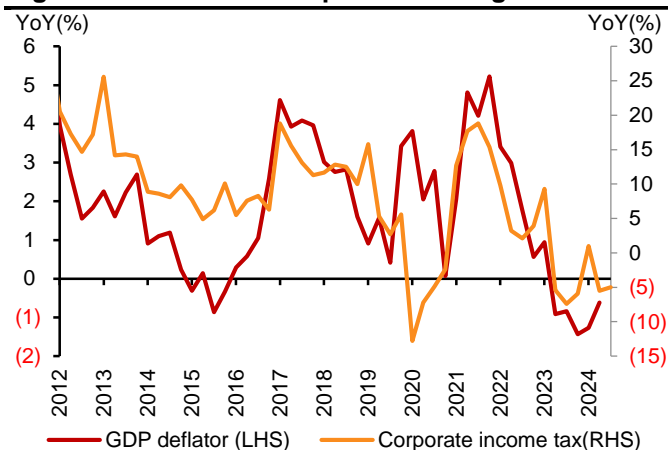
Source: Wind, CMBIGM

**Figure 12: Income tax growth & consumer confidence**



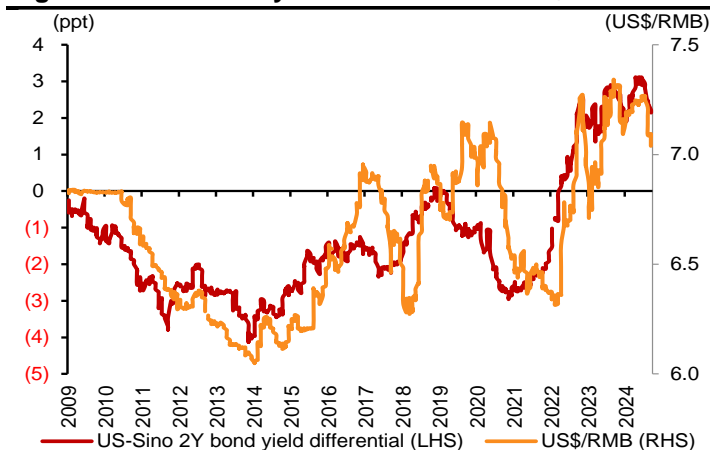
Source: Wind, CMBIGM

**Figure 13: Inflation & corporate earning**



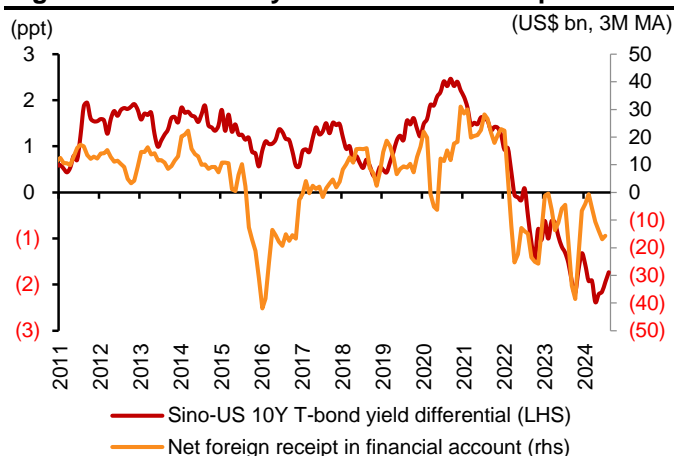
Source: Wind, CMBIGM

**Figure 14: US-China yield Differential & US\$/RMB Rate**



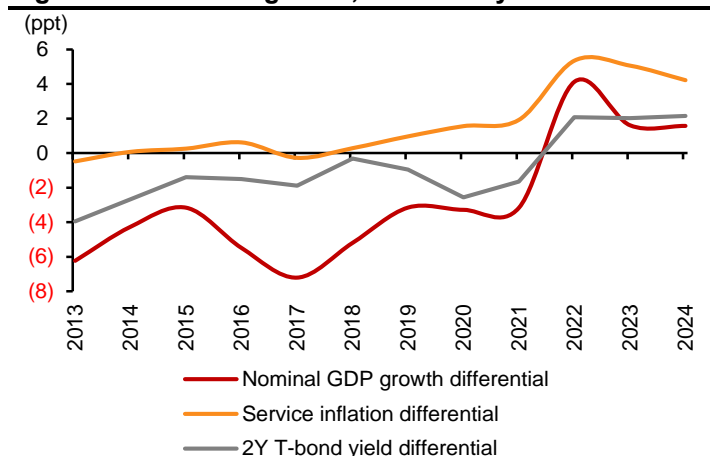
Source: Wind, CMBIGM

**Figure 15: China-US yield differential & capital flow**



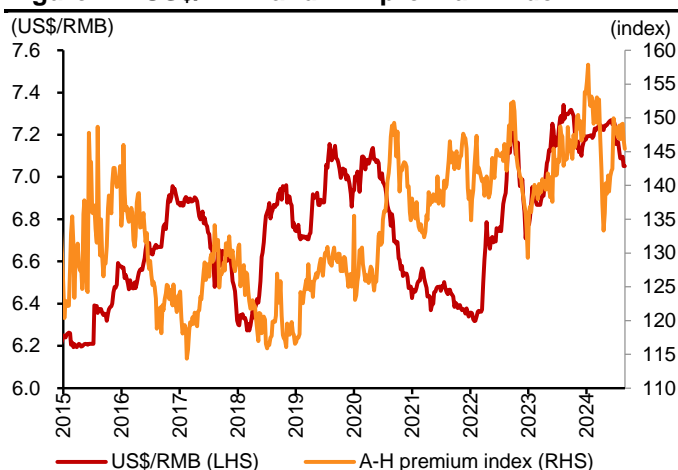
Source: Wind, CMBIGM

**Figure 16: US-China growth, inflation & yield differentials**



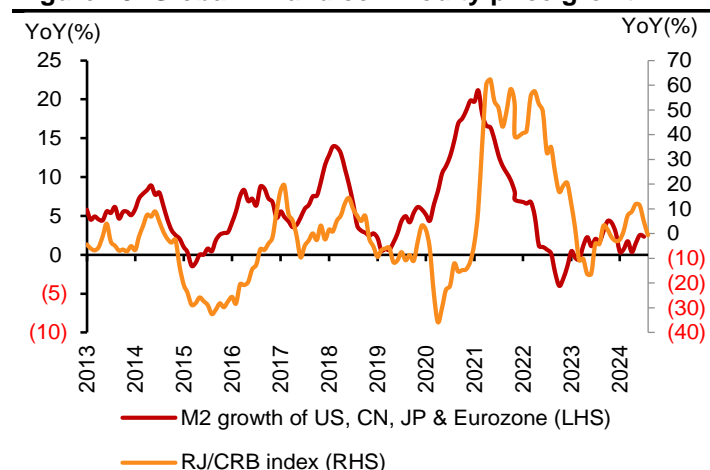
Source: Wind, CMBIGM

**Figure 17: US\$/RMB and A-H premium index**



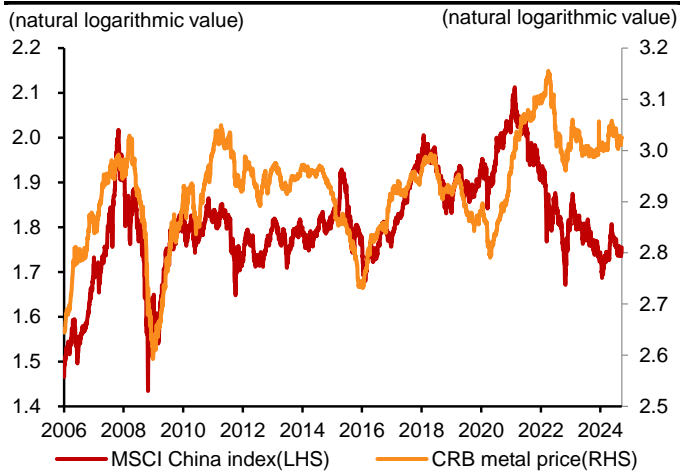
Source: Wind, CMBIGM

**Figure 18: Global M2 and commodity price growth**



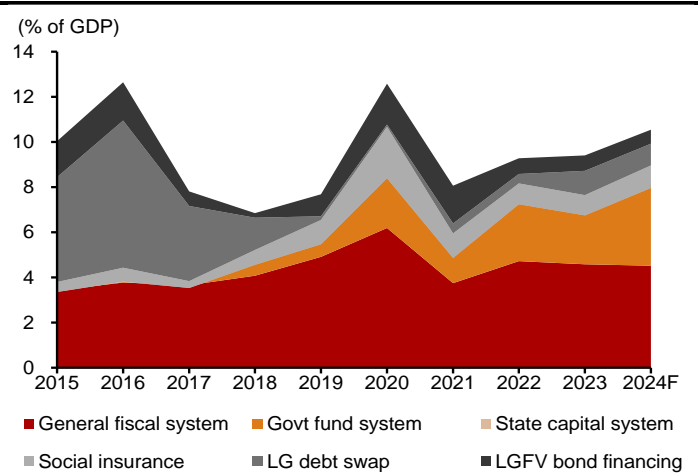
Source: Wind, CMBIGM

**Figure 19: China stock index & CRB metal index**



Source: Wind, CMBIGM

**Figure 20: China's broad fiscal deficit ratio**



Source: Wind, CMBIGM

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