

China Policy

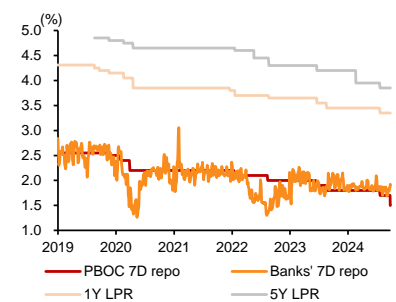
Policy shift to revive property and stock markets

The Political Bureau of the Central Committee of the Communist Party of China (The Politburo) held an unprecedented meeting yesterday (26 Sep) for the first time to acknowledge the challenges in the economy and vow to stop property market decline and boost stock market. The primary takeaway in the meeting is a shift of policy approach from previous small and piecemeal measures to aggressive and proactive stimulus. By committing to a clear policy objective, greater policy flexibility and stronger stimulus can be deployed in the future. The monetary loosening policies have already unveiled to the public this week. The Politburo said to ensure necessary fiscal expenditures and enhance support to low-income households, indicating moderate fiscal loosening ahead. We believe the macro policy shift may support a rally of Chinese stocks similar to the economy reopening after November 2022 as both were key policy shifts. To revive and reflate economy, however, additional policies are still needed including large-scale fiscal transfer to households, effective reduction in excessive capacity and market-oriented reforms.

- **Clear objective to boost property and stock markets.** For the first time, the Politburo meeting clearly called for “promoting the stabilization of the real estate market after halting its decline” and “boosting stock market”. The continued slump of property market is at the core of current economic challenges as it hurts economic growth, financial stability, fiscal prudence, household wealth and business confidence. The announced credit stimulus policies including cuts in LPRs, existing mortgage rates and down-payment ratio for second houses should help boost resale house sales especially in higher-tier cities. But over supply and high inventory are likely to last for another few quarters as housing prices may have additional room to decline. The continued decline of stock market reflects weak confidence about economic outlook and also hurts business and consumer confidence. The policymakers try to stabilize the property market and revive stock market as they believe boosting asset markets might be the first step to restore confidence and growth momentum. By committing to a clear policy objective, greater policy flexibility and stronger stimulus can be deployed in the future.
- **Stronger monetary loosening and moderate fiscal stimulus ahead.** The Politburo said to implement strong interest rate cut as the PBOC promised to lower LPRs & deposit rates by 20-25bps and existing mortgage rates by 50bps on average. The central bank also planned to cut RRR by 0.5ppt with possible additional cut of 0.25-0.5ppt within this year. All these measures point to stronger liquidity and credit stimulus in future. The politburo said to “ensure necessary fiscal expenditures” and “enhance support to the poor”, indicating moderate fiscal stimulus ahead. Fiscal revenue has been far below expectations this year, however, we do not expect large-scale fiscal stimulus towards consumption.
- **Important policy shift paving the way for a rally in Chinese stocks and RMB FX rates.** China has seen an important shift of its macro policies especially monetary policy from previous small and piecemeal measures to aggressive and proactive stimulus. The policy shift should support a rally in Chinese stocks and RMB FX rates with similar impact like the economy reopening in November 2022. To revive and reflate economy, however, additional policies are needed including large-scale fiscal transfer to households, effective reduction in excessive capacity and market-oriented reforms.

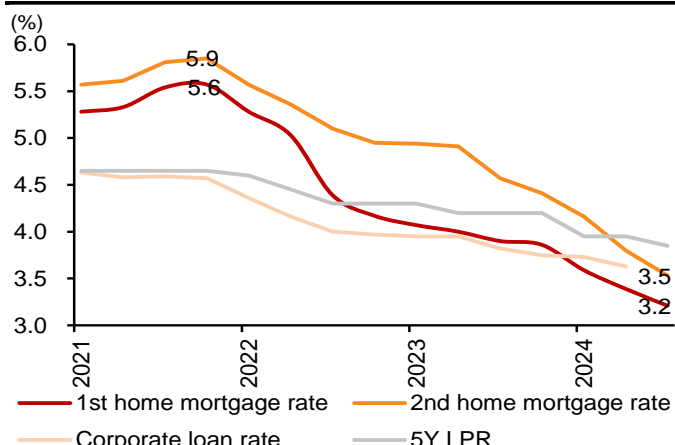
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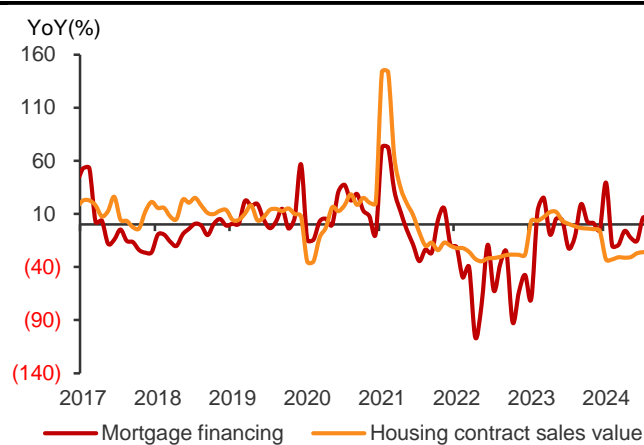
Source: Wind, CMBIGM

Figure 1: New mortgage rates



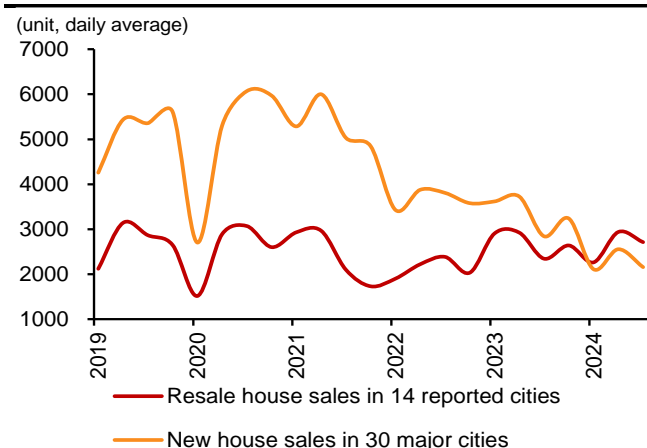
Source: Wind, CMBIGM

Figure 2: Mortgage financing & housing sales



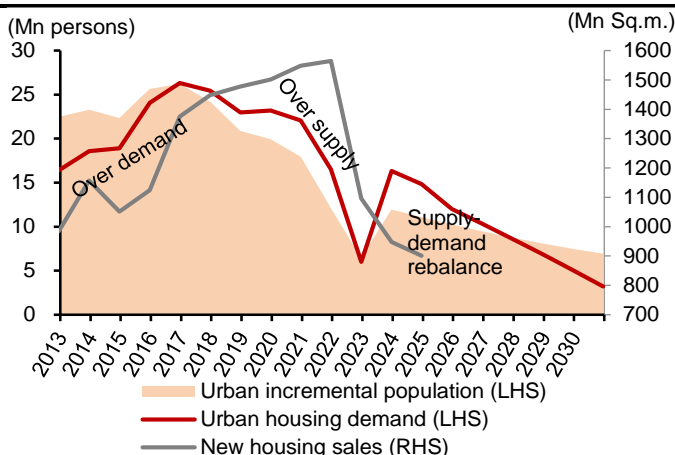
Source: Wind, CMBIGM

Figure 3: Housing sales volume



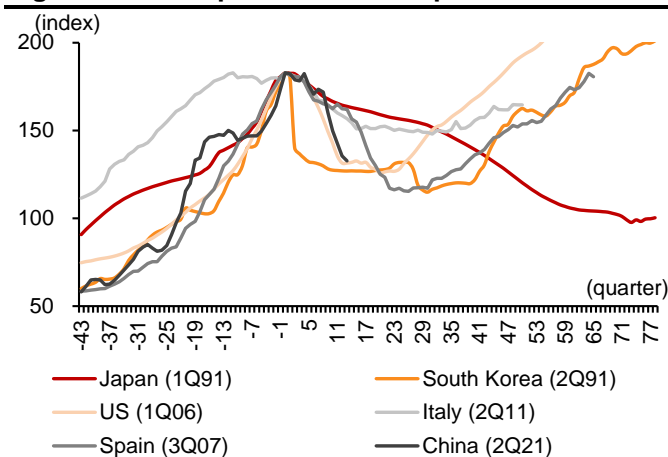
Source: Wind, CMBIGM

Figure 4: Urbanisation & new demand for housing



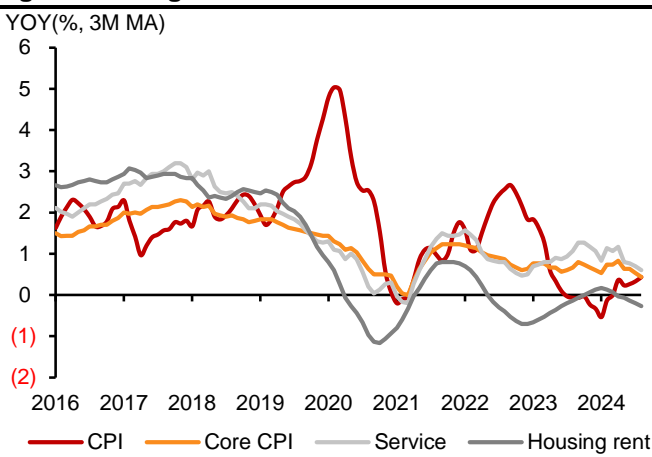
Source: Wind, CMBIGM

Figure 5: House price around the peak



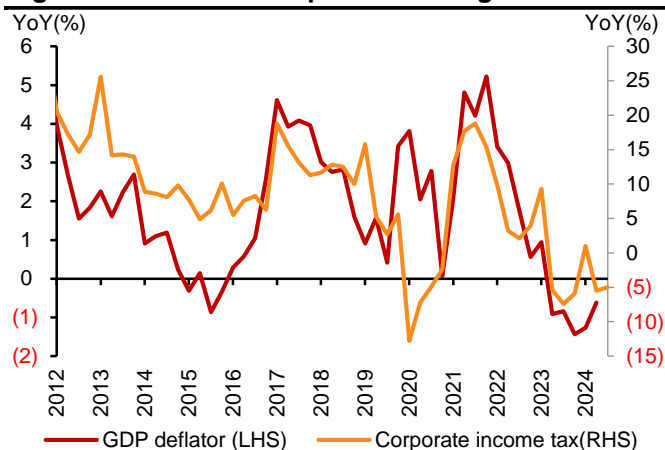
Source: Wind, CMBIGM

Figure 6: CPI growth



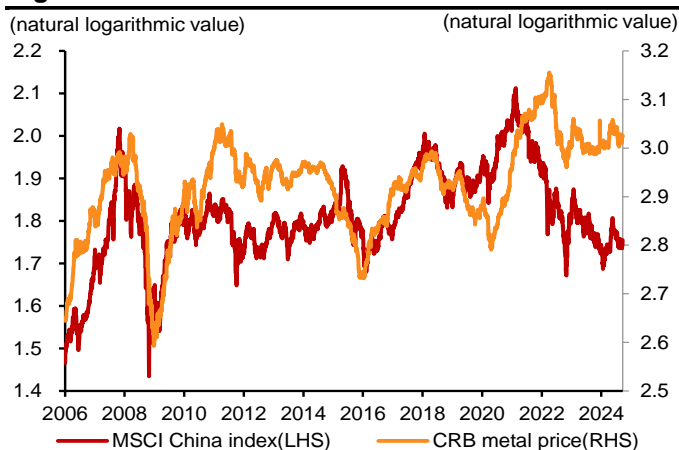
Source: Wind, CMBIGM

Figure 7: Inflation & corporate earnings



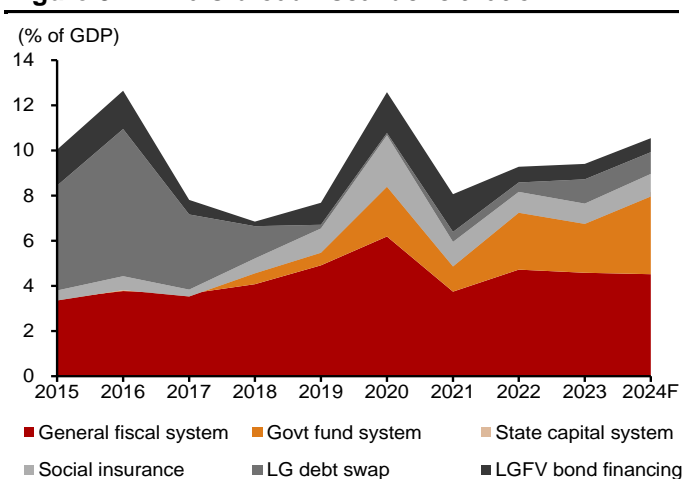
Source: Wind, CMBIGM

Figure 8: China stock index & CRB metal index



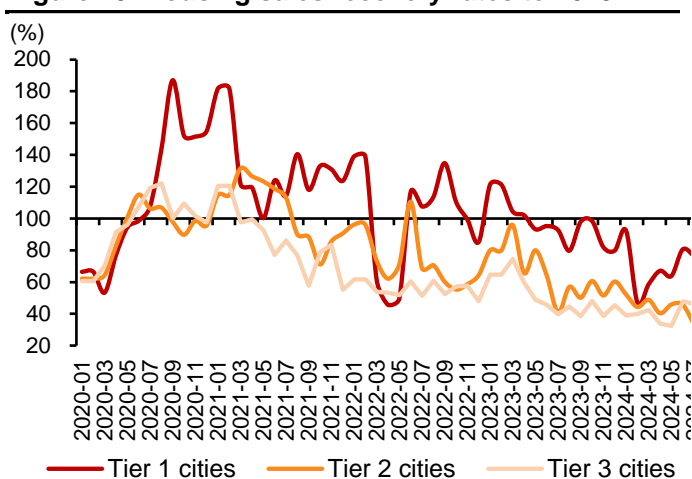
Source: Wind, CMBIGM

Figure 9: China's broad fiscal deficit ratio



Source: Wind, CMBIGM

Figure 10: Housing sales recovery rates to 2019



Source: Wind, CMBIGM

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