

China Policy

Further policy easing to boost growth

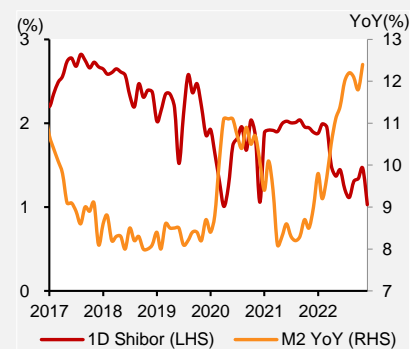
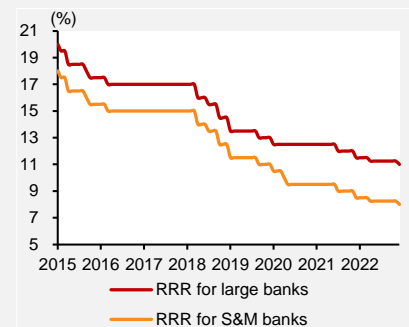
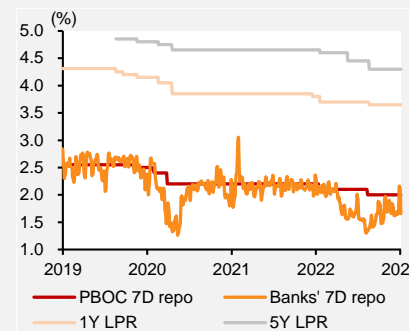
China has sent signals of further credit loosening for property sector recently as housing demand remained weak. The policymakers encouraged households and private business to increase their borrowings in order to boost housing sales, consumption and capex. The central government allowed local government financing vehicles to roll over their debt for longer maturity periods and lower rates, which would lower default risks and credit spreads of LGFV bonds. The leaders showed pro-business and pragmatic attitude towards internet sector and private enterprises. Looking forward, China will maintain easing credit condition as housing market resumption should be gradual and the reflation pressure should be mild. A gradual resumption with easing liquidity and mild reflation should be quite positive for China's stock market especially when its valuation is attractive.

- China has further loosened credit condition for property sector.** China has sent signals of further credit loosening for property sector recently. The policymakers encouraged banks to expand credit supply to property developers in the whitelist (with unqualified opinions from auditors for three consecutive years, without default records and systematically important for financial & social stability). The central bank removed the mortgage rate floor for first-time homebuyers in cities where housing prices experienced YoY and MoM declines for at least three consecutive months. We expect a decline of mortgage rates for qualified homebuyers in most cities ahead. The policymakers may further ease mortgage policy for second-home buyers ahead to stimulate housing sales. Housing market condition should be an important driver for monetary policy dynamics. If housing sales remain weak, the central bank will continue to loosen credit policy, which is positive for the stock market.
- China has encouraged households and private businesses to increase borrowings while allowing LGFVs to roll over their debt for longer periods with lower rates.** Guo Shuqing, General Secretary of the PBOC and Chairman of China Banking & Insurance Regulation Committee, urged financial institutions to provide more financial services to households especially migrants in cities to boost their demand for housing, autos and services. He also called for stronger credit supply to private business in both manufacturing and service sectors in future. China will continue to loosen mortgage policy, consumer credit condition and business loan supply in future. Guo Shuqing also indicated to allow local government financing vehicles to roll over their matured debt for longer periods with lower rates. However, the Ministry of Finance vowed to control the increase of local government contingent debt in future. Those policies tend to reduce default risk & credit spreads of LGFV bonds.
- China has showed pro-business & pragmatic attitude towards internet sector and private enterprises.** Guo Shuqing said the rectification of financial businesses of 14 online platforms is close to the end, indicating policy uncertainty declines for internet platform companies. Chinese policymakers started to encourage platform companies to take a lead in development, absorbing labor supply and global competition. Guo also vowed to facilitate credit policy was more in favor of private firms to support effective credit growth and to expand their access to capital market financing.

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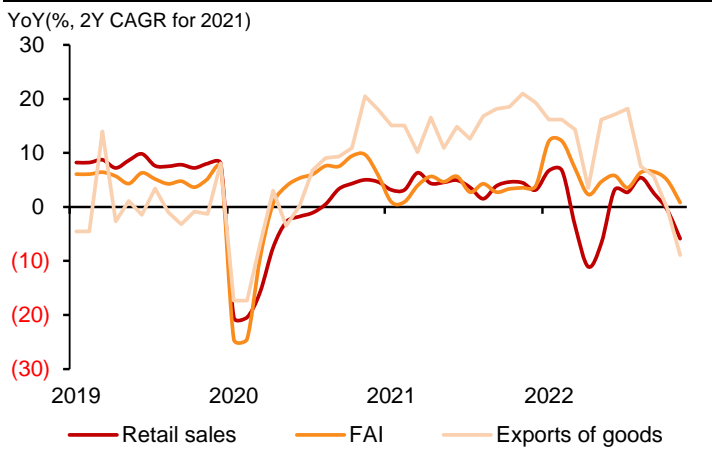
- **Positive implication for China's stock market.** Looking forward, the housing market resumption should be gradual and the reflation pressure should be mild. China is likely to maintain easing liquidity condition and continue to loosen credit supply to boost the growth. A gradual economic resumption with mild reflation and easing liquidity should be quite positive for China's stock market especially when its valuation is attractive.

Figure 1: China's Economic Targets in Recent Years

		2020		2021		2022F			2023F	
		Target	Actual	Target	Actual	Target	Forecast	9M2022	Target F	Forecast
GDP	YoY(%)	-	2.3	>=6	8.3	5.5	2.7	3.0	>=5	5.1
CPI	YoY(%)	<=3.5	2.5	3.0	1.4	3.0	2.0	2.0	3.0	2.2
Urban incremental employment	mn	9.0	11.9	11.0	12.7	11.0	12.0	10.0	11.0	10.0
Urban unemployment rate	(%)	6.0	5.2	5.5	5.1	5.5	5.5	5.5	5.5	5.5
General fiscal revenue	YoY(%)	-5.3	-3.9	8.1	10.7	3.8	-1.5	-6.6	6.5	6.5
General fiscal expenditure	YoY(%)	3.8	2.9	1.8	0.3	8.4	6.2	6.2	5.0	5.0
General fiscal deficit	(Rmb bn)	3760.0	3760.0	3570.0	3570.0	3370.0	3370.0	3723.8	3970.0	3970.0
General fiscal deficit as % of GDP	(%)	3.6	3.7	3.2	3.1	2.8	2.8	-	3.1	3.1
Local govt special bond quota	(Rmb bn)	3750.0	3750.0	3650.0	3650.0	3650.0	3650.0	-	4000.0	4000.0
Local govt special bond quota as % of GDP	(%)	3.6	3.7	3.3	3.2	3.0	3.0	-	3.1	3.1
M2	YoY(%)	Notably higher than last year	10.1	in line with nominal GDP growth	9.0	in line with nominal GDP growth	12.5	11.8	in line with nominal GDP growth	11.0

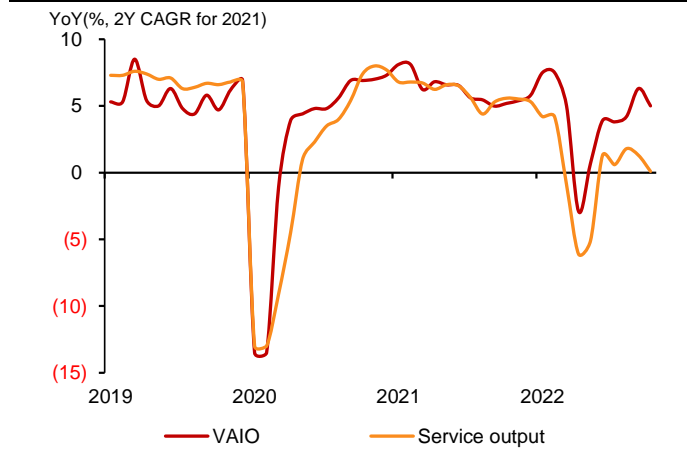
Source: Wind, CMBIGM

Figure 2: Retail sales, FAI and Exports



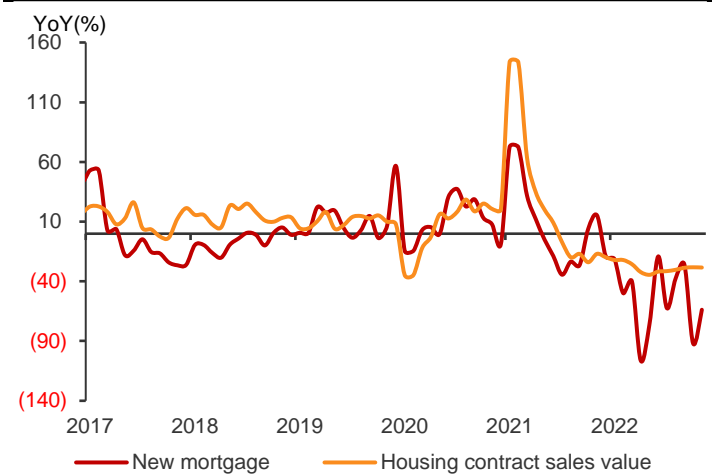
Source: Wind, CMBIGM

Figure 3: VAIO and Service Output



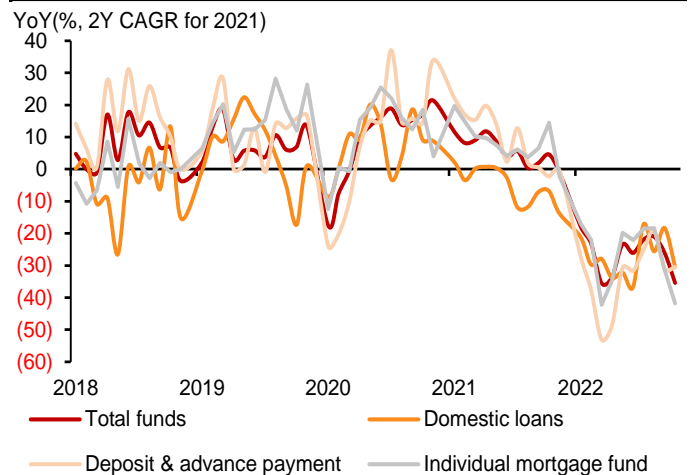
Source: Wind, CMBIGM

Figure 4: New Mortgage & Housing Sales



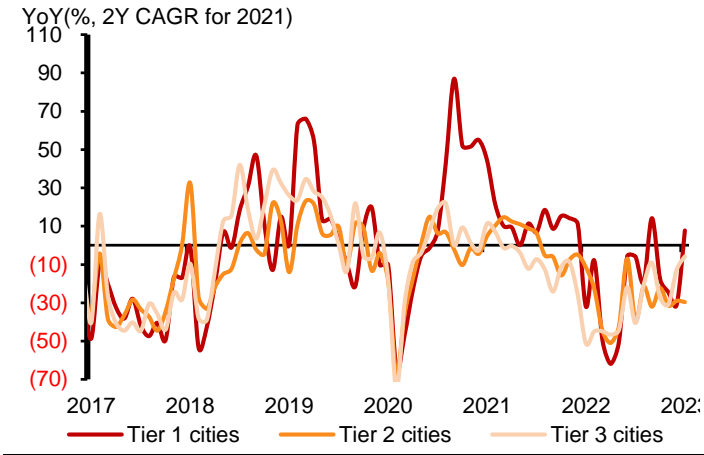
Source: Wind, CMBIGM

Figure 5: Property Development Investment Funding



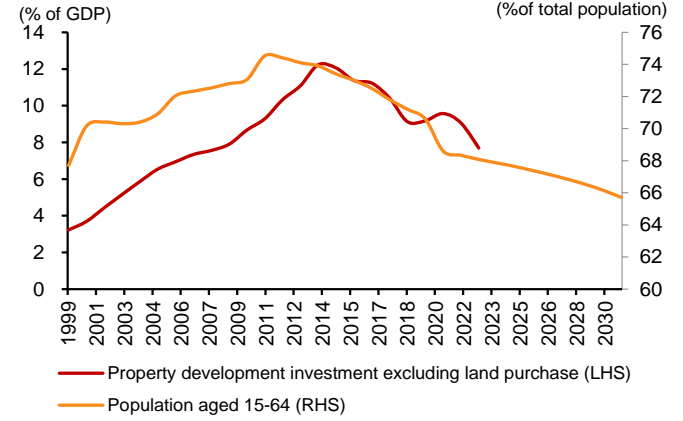
Source: Wind, CMBIGM

Figure 6: Growth of Housing Sales by Cities



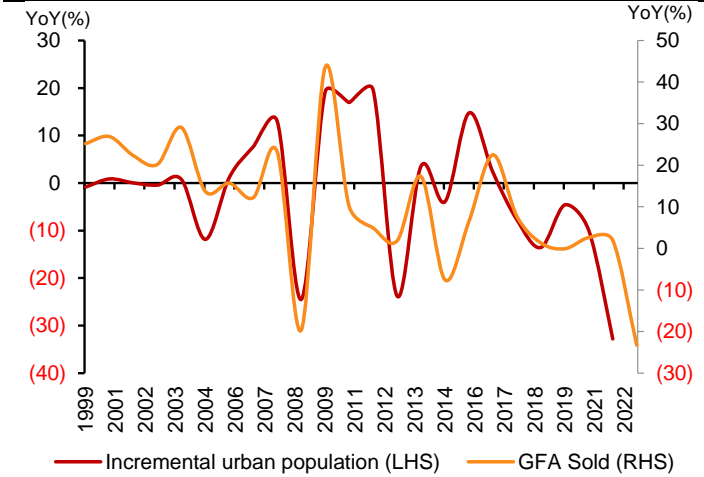
Source: Wind, CMBIGM

Figure 7: China Property Investment as % of GDP



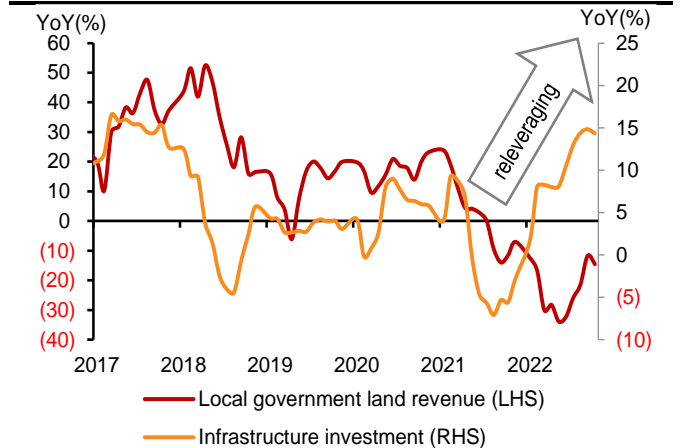
Source: Wind, CMBIGM

Figure 8: Urbanization Pace and Housing Sales



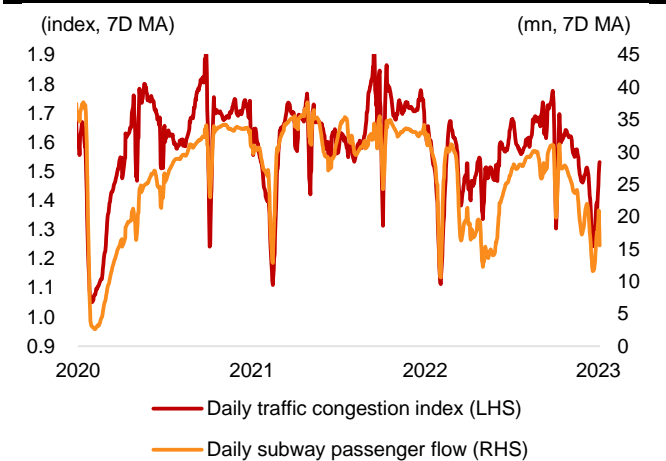
Source: Wind, CMBIGM

Figure 9: Land Revenue and Infrastructure Investment



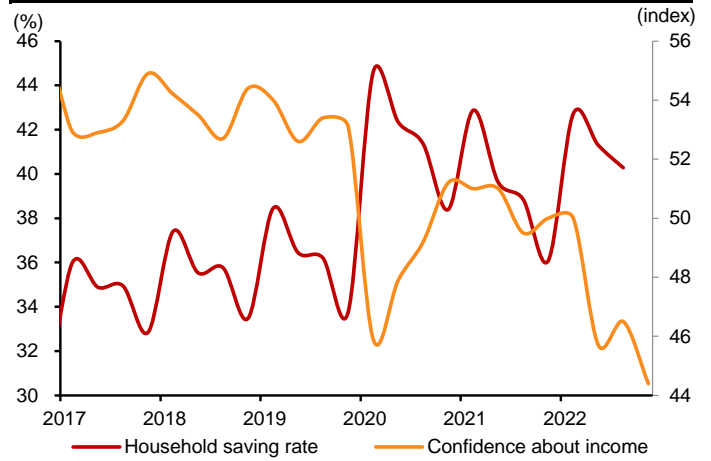
Source: Wind, CMBIGM

Figure 10: Mobility Indicators in Tier-1 Cities



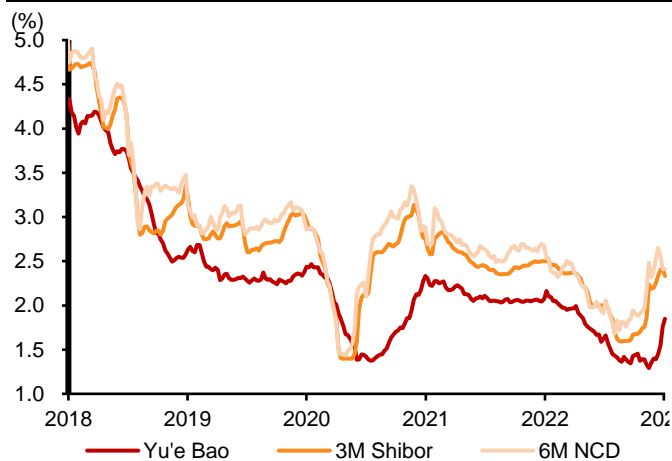
Source: Wind, CMBIGM

Figure 11: Household Saving Rates & Confidence



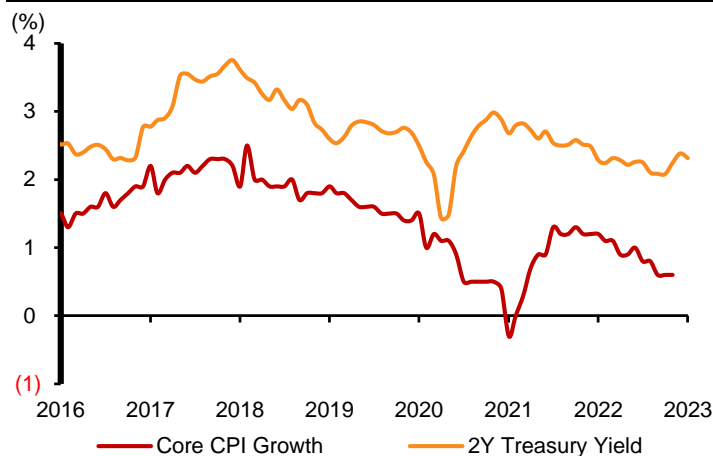
Source: Wind, CMBIGM

Figure 12: Money Market Funding Rates



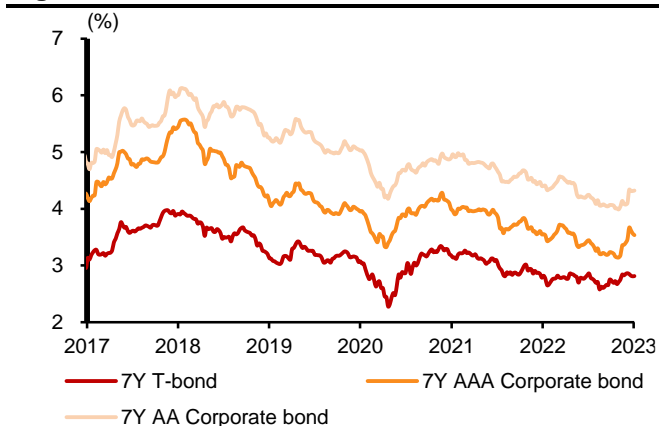
Source: Wind, CMBIGM

Figure 13: Core CPI growth and 2Y T-bond Rates



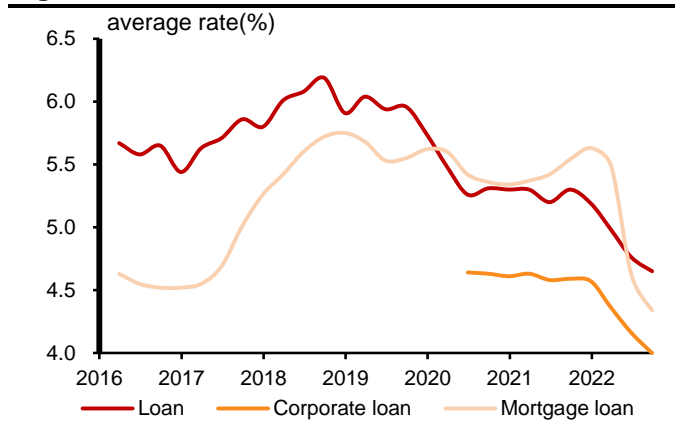
Source: Wind, CMBIGM

Figure 14: Bond Market Rates



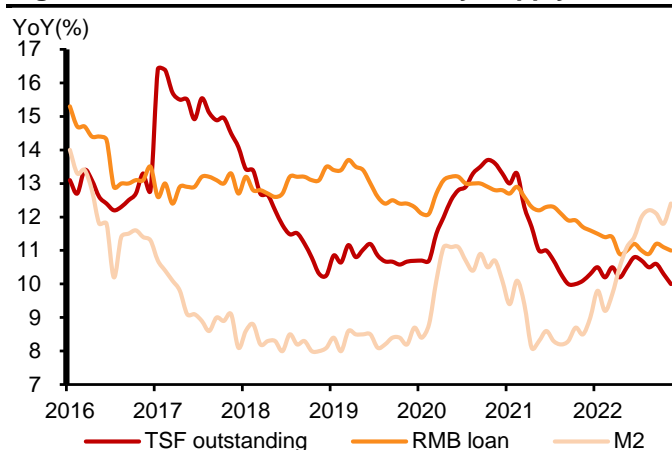
Source: Wind, CMBIGM

Figure 15: Loan Rates



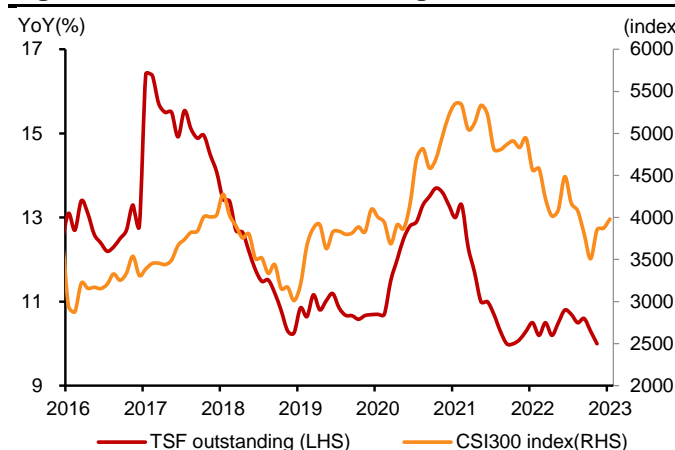
Source: Wind, CMBIGM

Figure 16: Growth of Credit & Money Supply



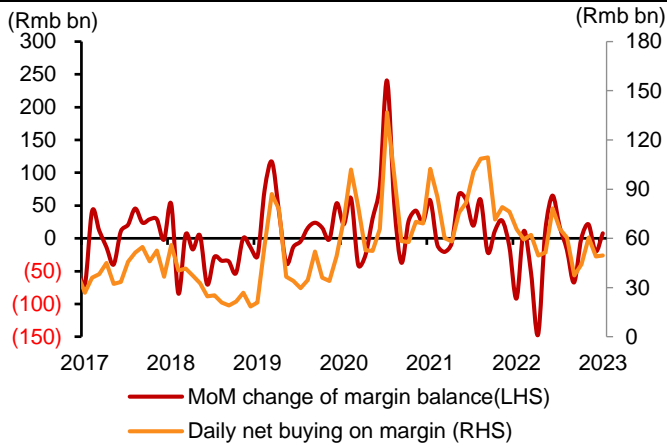
Source: Wind, CMBIGM

Figure 17: Total Social Financing & CSI300 Index



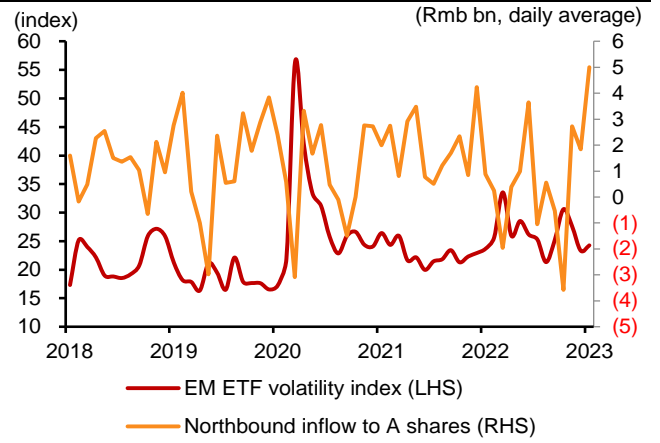
Source: Wind, CMBIGM

Figure 18: Margin Trading in A Share Market



Source: Wind, CMBIGM

Figure 19: EM Volatility & Northbound Inflows



Source: Wind, CMBIGM

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