# China Policy

## Cautiously optimistic after disappointment

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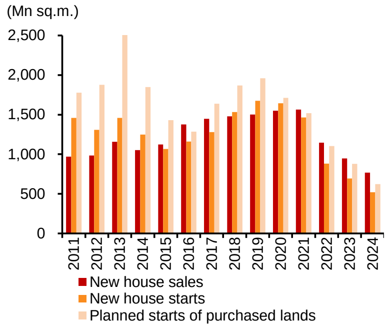
The housing policy briefing disappointed investors yesterday (17 Oct) with no sign of aggressive stimulus. The referred policies will have a moderate boost on the housing market yet should be not enough to revive property sector as well as the economy. We are cautiously optimistic about the policy outlook in the medium term as top leaders target to stabilize the property market and boost the economy. China may continue to loosen liquidity condition, credit supply, fiscal policy and property policy. The latest policy moves centre on stabilizing housing market and relieving local fiscal distress, which should benefit property, financials, LGFVs, SOEs and government suppliers first and then technology sector and consumer goods & services in an indirect way. The policy stimulus should provide some support to RMB exchange rates by alleviating economic slowdown and deflation pressure. We expect US$/RMB to reach 7.05 at end-2024 and 7 at end-2025.

- **Housing policy briefing has disappointed investors without aggressive stimulus.** The ministries announced three key policies at the briefing. Firstly, large cities will renovate 1 million houses in run-down downtown districts ("urban villages"), with money compensation to related residents who could buy new apartments. Our property sector analysts estimated total money compensation might reach RMB1.3tn or 1% of GDP. This might help reduce house supply by 85 mn s.q. or 11% of estimated new house sales in 2024. However, the policy seems much weaker than in 2015-2018 when the shantytown renovation program completed 6.1 mn units and RMB1.57tn of investments (including money compensation to residents) per year. In 2015-2018, about 2.7 mn units were resettled through monetary compensation each year, reducing residential inventory by 200-250 mn s.q. annually. The current plan for urban village redevelopment involves a smaller scale with an unclear timeline. It should have a smaller effect on the housing supply-demand dynamics and household consumption as the money transfer to targeted residents is much less. While the previous shantytown renovation covered cities of various sizes, current redevelopment program will primarily focus on 35 large cities, with a relatively greater impact on tier one and core tier two cities. Secondly, the ministries will expand the "white list" of eligible unfinished housing projects with the loan supply target to related developers at RMB4tn at end-2024. The "whitelist" loan program was initiated in late January 2024 and total loans under the program reached RMB2.23tn as of 16 October. Under the new policy, the monthly loan issuance will rise from the previous rate of RMB248bn to RMB708bn. It should help improve developers' financing condition, facilitate the timely completion of housing projects and moderately boost new housing market sentiment especially in higher tier cities. Thirdly, the MoF encourages local governments to use special bond funding to acquire excess residential projects or lands from developers to transit them into subsidized houses. But this is not a political mandate as the MoF emphasizes the acquisition of residential properties through special bonds should be decided independently by local governments on a voluntary basis with the principles of legal compliance, market orientation and profit break-even. By our estimation, the average loan-to-value ratio for residential housing projects on banks' balance sheet stands at 70%. Developers have little interest in selling the projects at more than 30% discount, while acquisitions at less than 30% discount make it difficult to break even for local governments. The acquisition amount should be limited if both local governments and banks are reluctant to carry losses.
- **Cautiously optimistic about policy outlook in medium term.** Chinese top leaders have promised to stop property declines, boost stock market and revive the economy at the politburo meeting last month. If the current policies are not strong enough to achieve these targets, the policymakers are likely to




Source: Wind, CMBIGM

launch additional stimulus. Therefore, we are cautiously optimistic about the policy outlook in the medium term. For the market, surprises often come after despair. Looking forward, China might launch the following additional stimulus policies. Firstly, the PBOC might further loosen liquidity and credit supply with additional RRR and LPR cuts. 3M Shibor continued to decline from 2.15% in 1Q24 to 1.95% in 2Q24 and 1.85% in 3Q24, and might further drop to 1.6% by end-2025. RRR and LPRs might respectively decline by 50bps and 20-30bps by end-2025. Secondly, the PBOC might further loosen second-home mortgage supply. Thirdly, the central ministries might expand the urban village renovation program with more cash compensation to targeted residents. Fourthly, the central bank might further expand the "white list" program to guide banks to increase loan supply to developers. Fifthly, the central ministries might require local governments to purchase more unsold housing projects. Lastly, the MoF might raise general fiscal deficit and local government special bond quota respectively from RMB4.06tn or 3% of GDP and RMB3.9tn or 2.9% of GDP in 2024 to RMB5.06tn or 3.8% of GDP and RMB4.9tn or 3.7% of GDP in 2025.

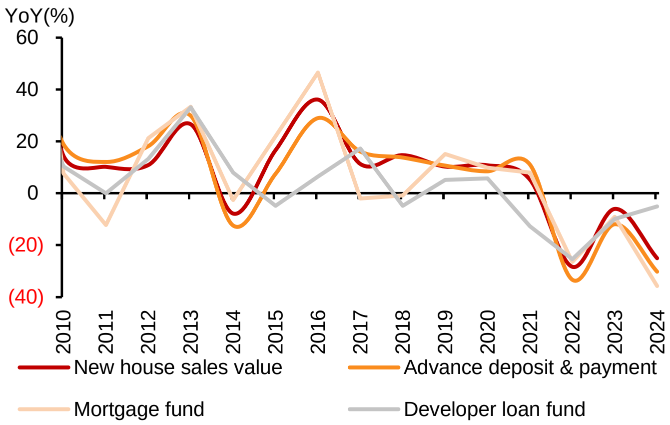
- **Implications for the market.** The current policy focus centres on stabilising housing market and relieving local fiscal distress after the property bubble burst. While liquidity and credit loosening is a systematic positive news for all Chinese stocks, fiscal loosening and other policies might benefit property, construction services, financials, LGFVs, SOEs and government suppliers most. Technology sector and consumer goods and services will also benefit from the policies with some time lag as stabilizing housing market and relieving local fiscal distress should help boost consumption and alleviate deflation. The policy stimulus should provide some support to RMB exchange rates by alleviating economic slowdown and deflation pressure. The US nominal GDP growth has more downside room than China and the US Fed is likely to cut policy rate more significantly than the PBOC. Therefore, US-Sino interest rate differentials may mildly decline and RMB might mildly rebound against US dollar. We expect US$/RMB to reach 7.05 at end-2024 and 7 at end-2025.

## Figure 1: Comparison with 2015-2018 shantytown renovation

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2015-2018 Average | 2024-? |
|---|---|---|---|---|---|---|---|
| Units of housing redeveloped under shantytown renovation(mn) | 4.7 | 6.0 | 6.1 | 6.1 | 6.3 | 6.1 | |
| % of monetary resettlement | 9 | 29.9 | 48.5 | 53.9 | 45* | 44.3 | |
| Units of monetary resettlement(mn) | 0.4 | 1.8 | 2.9 | 3.3 | 2.8 | 2.7 | 1 |
| Converted sales area of residential property through monetary resettlement(mn square meters) | 36 | 153 | 250 | 279 | 239 | 230.3 | 85* |
| National sales area of residential property | 1,052 | 1,124 | 1,375 | 1,448 | 1,479 | 1,356.7 | 739* |
| % of converted sales area | 3.4 | 13.6 | 18.2 | 19.3 | 16.2 | 16.8 | 10.8 |

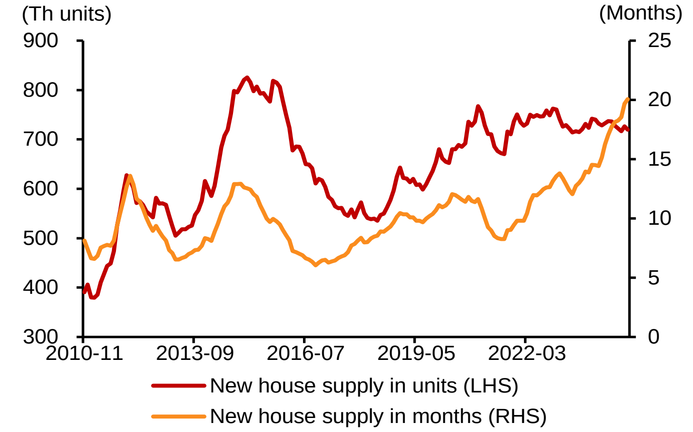
Source: Wind, CMBIGM
Note: *Estimated numbers

## Figure 2: New house sales & development funds



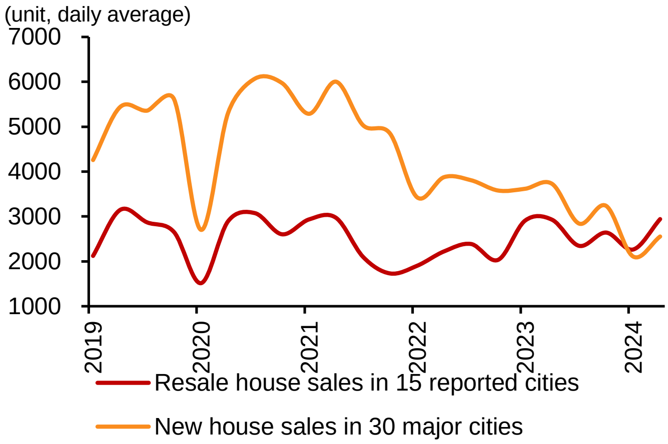

Source: Wind, CMBIGM

## Figure 3: New house supply in 10 largest cities



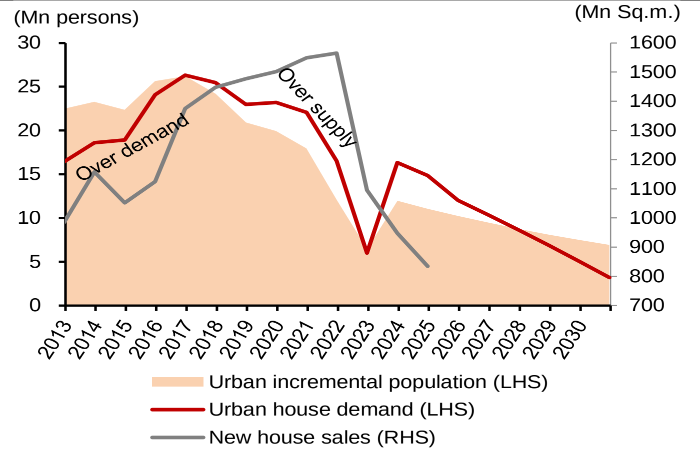

Source: Wind, CMBIGM

## Figure 4: Daily average house sales in cities



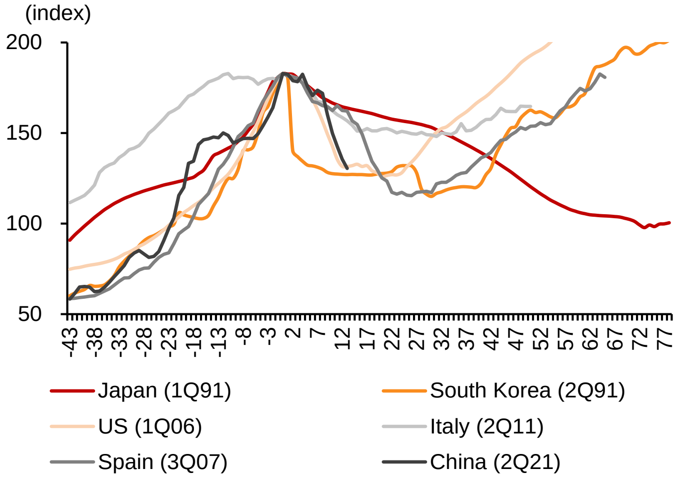

Source: Wind, CMBIGM

## Figure 5: Urbanisation & incremental house demand



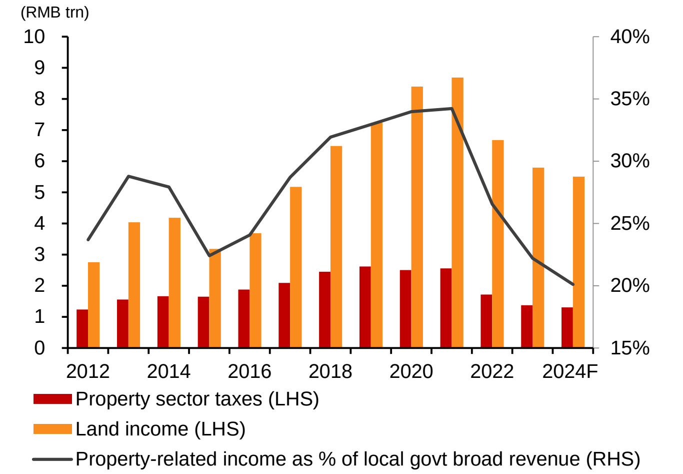

Source: Wind, CMBIGM

**Figure 6: House prices around the peaks**



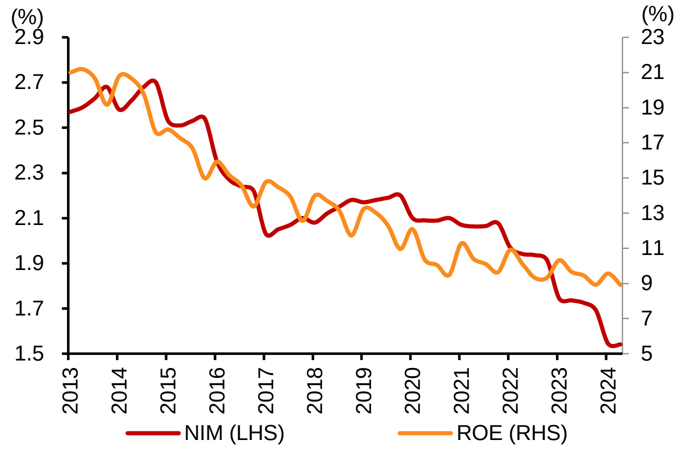

Source: Wind, CMBIGM

**Figure 7: Property-related income for local govts**



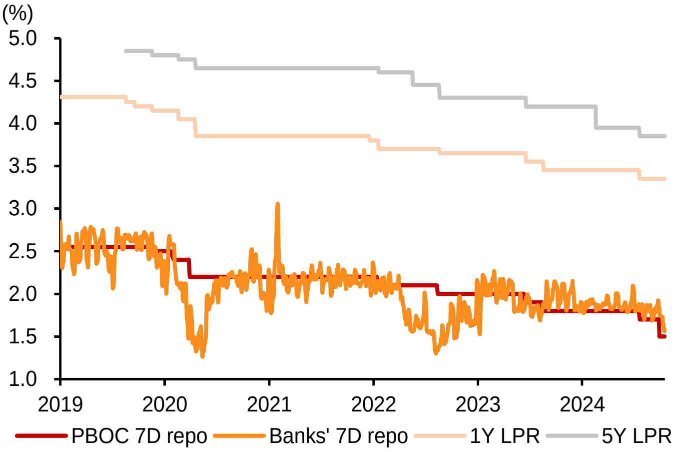

Source: Wind, CMBIGM

**Figure 8: Chinese banks' NIM & ROE**



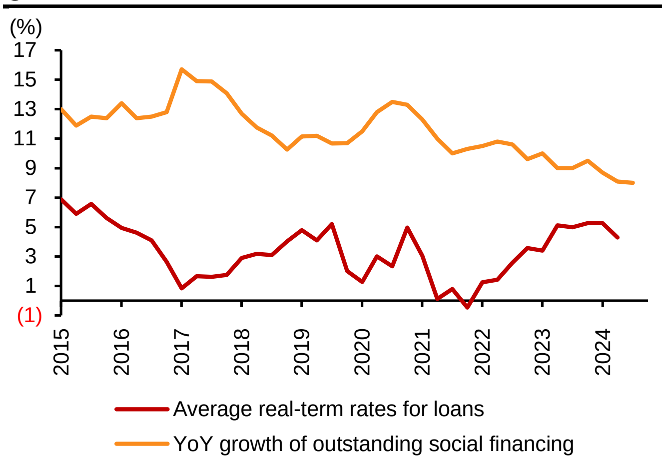

Source: Wind, CMBIGM

**Figure 9: PBOC policy rates**



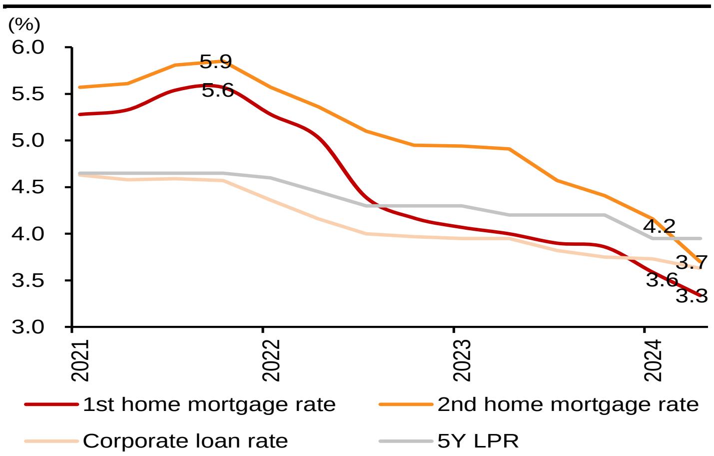

Source: Wind, CMBIGM

**Figure 10: Real-term loan rate & social financing growth**



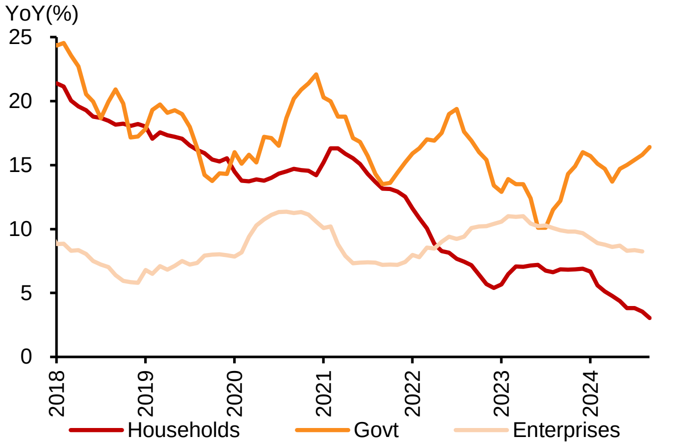

Source: Wind, CMBIGM

**Figure 11: New mortgage rates & 5Y LPR**



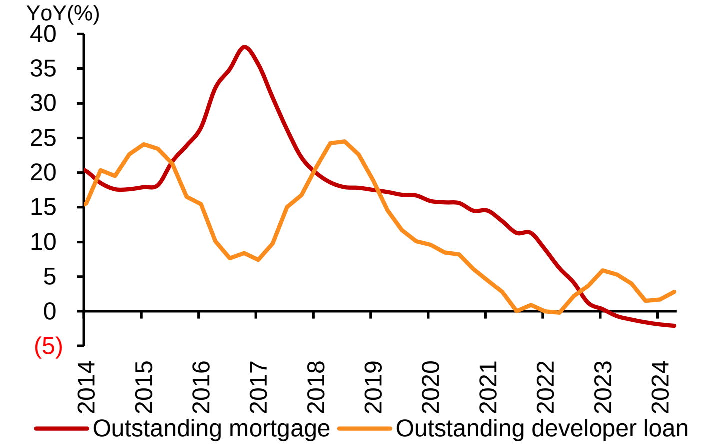

Source: Wind, CMBIGM

**Figure 12: Real sector debt growth**



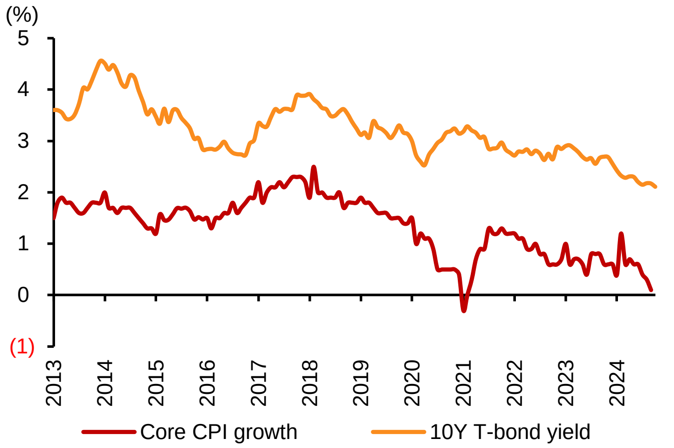

Source: Wind, CMBIGM

**Figure 13: Property loan growth**



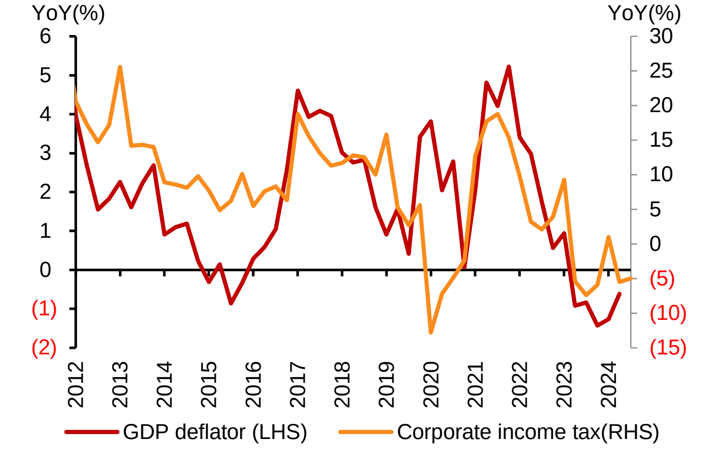

Source: Wind, CMBIGM

**Figure 14: Core inflation & 10Y T-bond yield**




Source: Wind, CMBIGM

**Figure 15: Inflation & corporate earnings growth**




Source: Wind, CMBIGM

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