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HSBC Asset Management

China unveils stimulus package

Investment event | 24 September 2024

Chinese policymakers announced a comprehensive set of stimulus measures against the backdrop of a continued property downturn and subdued domestic growth momentum. While the stimulus package announced today is hardly considered a policy bazooka, delivering these measures together raises the hope that policy communication is moving towards more clarity and transparency.

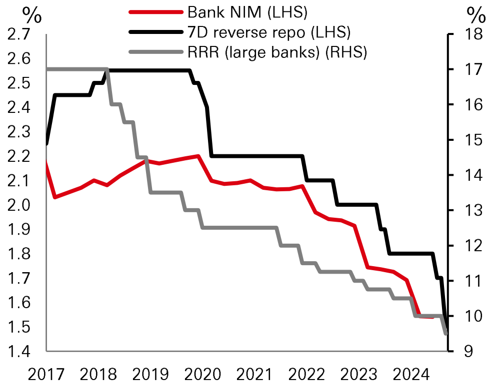
Three key sets of measures were announced:

- **Property market –** these measures include the repricing of existing mortgage rates toward levels close to new mortgage rates. This will lower interest rates on outstanding mortgages by around 50bp, and benefit around 50mn households, saving them something like CNY150bn per year. Authorities also announced a cut to the minimum downpayment ratio on second home purchases to 15%, the same as on first home purchases, from 25% previously. Plus, greater funding support for property de-stocking (The PBoC will now cover 100% of the principal of eligible bank loans vs. 60% previously for the CNY300 affordable housing relending facility). There is also a plan to add core tier-1 capital to six big state-owned banks.
- **Monetary policy –** the 7-day reverse repo rate has been cut to 1.5% (-20bp). Loan prime rates and deposit rates will be guided lower, by around 20-25bp. A 50bp cut to the reserve requirement ratio is estimated to inject CNY1 trillion in liquidity. And PBoC Governor Pan guided that there could be more easing by year-end, depending on market conditions.
- **Capital market measures –** A CNY500bn swap facility has been set up for qualified securities firms, funds, and insurance companies to tap liquidity from the PBoC to buy stocks. A new CNY300bn relending facility has been established for banks to support listed companies and major shareholders to either buy back stock or raise holdings. Both measures have the potential to be scaled-up further. And the formation of a state-backed market stabilisation fund is being contemplated, with measures to be unveiled later.

Short-term boost to market sentiment

This comprehensive policy package shows policymakers' strong intention, in our view, to revive market sentiment, stabilise the property market and reflate the economy, given their recent reiteration of achieving ~5% real GDP growth target this year. Although this is hardly considered a policy bazooka, it is a clear step in the right direction and delivers a positive signal that the government is willing to do more if needed. It will take some time to fully assess the macro impacts, and for the effects to show up in the macro data. But these measures will be a big boost to short term sentiment, something that is already obvious from the immediate market reaction; China's 10-year bond yield fell to 2% for the first time on record, the CSI 300 index rallied 4.3% and the Hang Seng index gained 4.1%.

Figure 1: Policy cuts



Source: CEIC, HSBC AM as of 24 September 2024

That said, while new financial instruments to expand liquidity in the equity market should be positive for trading activity in the short term, they will not change the corporate fundamentals of listed companies. The actual utilisation of these facilities remains to be seen. Whether this helpful boost to market sentiment will prove sustainable, and whether these measures will help shore up the economy and property market, will depend on the extent and coordination of any follow-up measures.

Policymakers announced a comprehensive set of policy easing measures, showing their strong intention to shore up confidence, the economy, and markets

While not a policy bazooka, we believe today's announcement marks a key step in the right direction; policy execution is key

Our view:

These measures should provide a boost to short-term market sentiment. We think follow-up policy measures in a coordinated fashion with the focus now on fiscal policy ramp-up, and effectiveness of policy execution is key for a more sustainable recovery in markets and the economy

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But more policy support is likely

We think a further ramp-up in fiscal policy and effective policy implementation is key for a sustainable recovery in the Chinese stock market. Fiscal policy was tighter than planned in H1 due to revenue shortfalls, local government expenditure cuts, and the slow pace of local government special bond issuance. However, the pace of issuance has picked up in H2, and we expect the government to accelerate budget spending and disbursement of bond proceeds. We see the potential for special bond issuances to support consumption, equipment upgrades (corporate capex in priority sectors) and the property sector.

We also expect further modest monetary easing in the coming months with additional interest-rate and RRR cuts, with US Federal Reserve rate cuts helping to ease FX pressures. The PBoC has signalled additional policy efforts to fight deflation and revive domestic/consumer demand, including more support for fiscal policies and the government's quality-growth policy agenda via targeted credit support.

Economic impact may take time to show up

It is worth highlighting that **some of these policy measures are new and complex**, and it will take time to get the execution details to assess their macro implications.

Property policy measures should help improve the housing market sentiment in the near term, particularly if combined with further easing of restrictive measures in tier-1 cities, but the sustainability of any lift in sentiment is uncertain. We think the sizeable inventory overhang, ongoing home price corrections and weak household income expectations are key hurdles for housing market stabilisation. The PBoC's full funding for bank lending to help property destocking will remove banks' responsibility to match funds and could potentially help accelerate the utilisation of the relending facility. However, the slow implementation of the property destocking plan is constrained not only by funding but by other execution challenges such as strict criteria on qualified projects. Lower outstanding mortgage rates are likely to have a limited impact on new home sales, though they could potentially help ease downward pressures on existing home prices. Overall, **uncertainty remains high on when a property turnaround could take place and whether it would be sustainable**.

The CNY150bn per year interest savings could help household disposable income and consumption at the margin, but the scale looks rather modest, in our view. Consumers may remain cautious about spending the extra savings, especially considering the lost household wealth from the property downturn and volatile equity market performance. **We think more forceful policy support to boost domestic demand is likely needed to rebuild consumer confidence and incentivise more spending** on big-ticket items.

Overall, **a clear pro-growth policy stance improves the near-term macro and earnings outlook**. The pace and effectiveness of policy easing, the property market trajectory, the strength in external demand, and geopolitical developments, particularly US trade policies, are key cyclical risks to monitor. Achieving high-quality and sustainable growth will require a wide range of structural reforms to tackle headwinds and address underlying imbalances. China's economic transition will still need time and could mean ongoing short-term adjustment pains, but effective implementation of structural reforms would help to unlock productivity gains along the way.

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