In the wake of clear and coordinated policy announcements, investors swiftly reappraised their views of the China equity market, which rallied sharply in the final week of September and early October. Kai-Kong Chay, Senior Portfolio Manager, Greater China Equities, and the Greater China Equities Team analyze the latest round of stimulus measures and explain why it warrants more than short-term tactical attention. The team also highlights a case study of Chinese companies that are 'going-global' to showcase this important juncture in the country's corporate development.

Assessing China's latest stimulus measures

Since late September, there's been a raft of coordinated policy announcements with supportive measures for China's economy on multiple fronts. These include a basket of rate and ratio cuts, supportive measures for the property market, stock market liquidity support, fiscal stimulus, and shoring up the banks' capital positions[1].

We believe this concerted, multi-pronged approach is powerful and holistic as it empowers individuals, corporates, banks, and non-bank financial institutions to engage and participate in economic activities. Compared to the previous round of concerted measures announced in July, this round of monetary easing and fiscal stimulus spans different areas, such as the property market, consumption, and financials, which should boost investors' confidence in China's economy.

A basket of 'rate and ratio cuts'

The latest round of monetary easing spans policy rates, the reserve required ratio (RRR) and mortgage rates:

- 0.2 percentage point policy rate (7-day reserve repo) cut, with a 0.5 percentage point reduction in the RRR. Depending on conditions, the People's Bank of China (PBOC) highlighted the possibility of a further RRR cut of 0.25 percentage points to 0.5 percentage points by the end of this year.
- A 0.5 percentage point cut to the existing mortgage rate.
- The minimum down-payment ratio for second homes was reduced from 25% to 15%.

Liquidity injection planned for the stock market

To further facilitate access to funding, an RMB 500 billion asset swap facility will be set up by the PBOC for non-bank financial (mutual funds, insurers, and brokers) to borrow directly from the PBOC with their quality collateral[2]. In addition, there will be an RMB 300 billion re-lending program for corporate buybacks, which could help to extend the pace of stock repurchases.

Fiscal stimulus

On 8 October, the National Development and Reform Commission (NDRC) laid out incremental policies to step up fiscal measures, including (1) speed up special purpose bond issuance to local government to support growth, (2) encourage private capital to participate in major infrastructure projects including railways, energy, water conservancy, etc., (3) formation of new list of key private investment

[1] China's central bank unveils most aggressive stimulus since pandemic | Reuters; China's central bank cuts RRR by 50 basis points to strengthen market confidence - Global Times.

[2] PBOC to set up US$71 billion swap facility to prop up stock market | South China Morning Post (scmp.com)

nationwide, and (4) support for private capital to issue infrastructure REITs. NDRC stated that it would front-load RMB100 billion (US$14.1 billion) from the 2025 central budget, meanwhile, priority will be given to supporting key urban renewal projects.

As the NDRC focuses on plans to expand domestic demand, promote consumption, digest the stock of housing and support the property and capital markets, the NDRC said that the economy will achieve the target of about 5% growth for the year.

Shoring up bank capital

The National Financial Regulatory Administration is aiming for a phased strengthening of the core Tier-1 ratios of the six major state-owned banks in China. We view this as a significant move, as it is the first time this has happened since 2008.

Chinese banks were well capitalised with solid core Tier-1 capital adequacy ratios before the announcement. However, the earnings of Chinese banks in 1H 2024 suffered due to weaker-than-expected loan growth. Hence, the announcement to inject fresh capital into the large state-owned banks is clearly positive for the China banking sector.

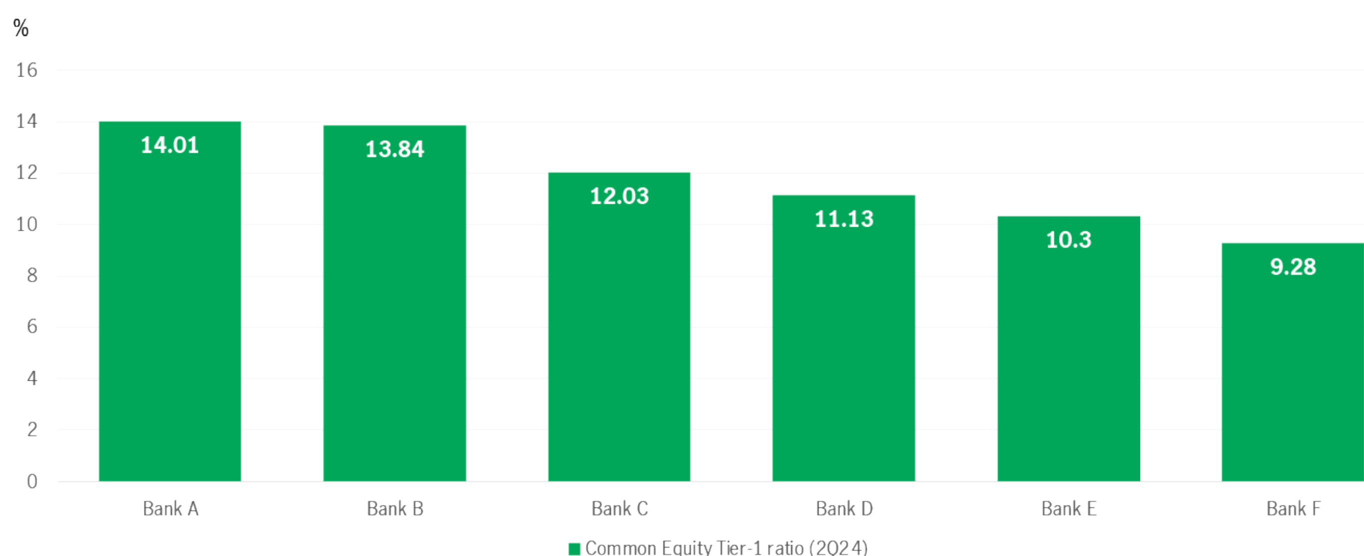
Our assessment of the announced stimulus

Since 2022, diverging China-US monetary policies have constrained China's policymakers' ability to pursue a more aggressive easing policy. With the beginning of the U.S. rate cut cycle in September, China has more room to conduct comprehensive monetary easing to improve the system's overall liquidity and trigger immediate spillover impacts on the physical economy. Lower effective lending rates and deposit costs are positive for Chinese banks, while a lower RRR could provide the banking system with longer-term liquidity (estimated to be RMB 1 trillion).

By lowering existing mortgage rates and allowing existing mortgage payers to refinance their existing home loans based on a lower rate, an estimated RMB 150 billion in interest savings[3] could be released back to mortgage payers, increasing their discretionary spending power.

In stimulating the demand for property, a cut in mortgage rates and the down-payment ratio helps improve home affordability and encourage potential buyers to enter the property market, which is critical to reigniting property market transaction volumes.

Chart 1: Common Equity Tier-1 ratios for six state-owned banks



Source: Company data, HSBC.

[3] Manulife Investment Management estimates, as of 8 October 2024.

Chart 2: Home sales during the Golden Week holiday (1 October to 5 October 2024)

Home sales volume (registration basis, 2024 year-on-year (YoY) change, %)

End	City		Oct 1-5 YoY vs 2023	Oct 1-5 YoY vs 2022
10/5/2024	New home	Total (30 cities)	26%	-33%
10/5/2024		Tier-1 (4 cities)	28%	-26%
10/5/2024		Tier-2 (9 cities)	14%	-34%
10/5/2024		Tier-3 (17 cities)	51%	-37%
10/5/2024	Secondary home (11 cities)		290%	-56%

Source: Wind, as of 5 October 2024.

Property volume green shoots during the Golden Week

Shortly after the policy announcement on 24 September, immediate positive action was seen on the ground. During the Golden Week holiday, cities that offered home purchase discounts recorded at least a 50% increase in project viewings, according to the Ministry of Housing and Urban-Rural Development.

Implications for investors' positioning

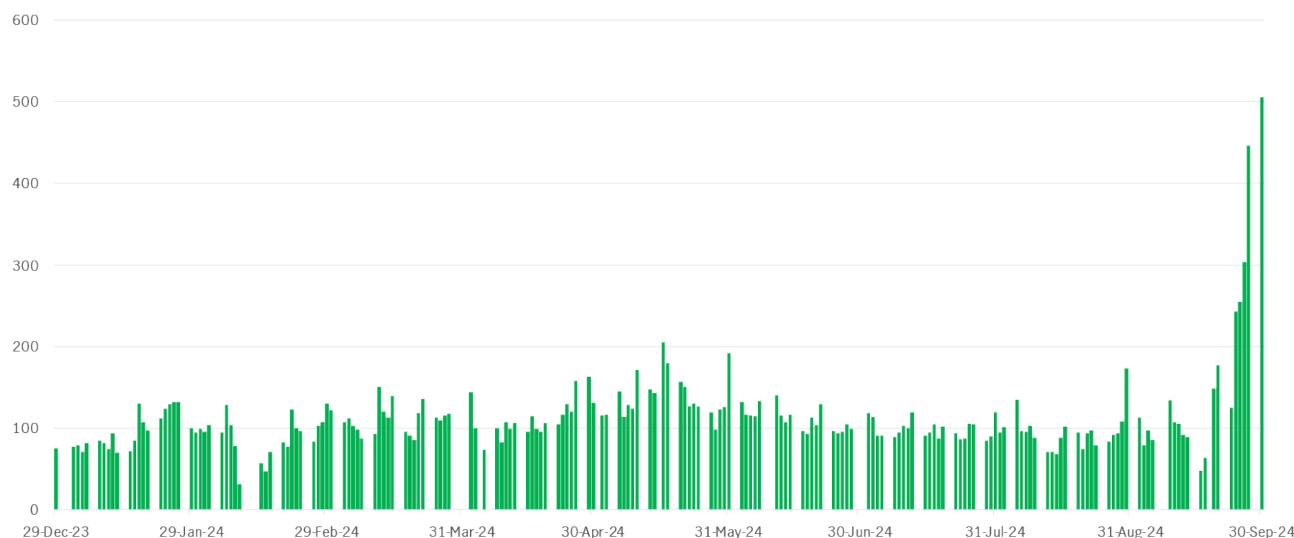
Shortly after the policy announcements in late September, transaction activity and volume for the Hong Kong equity markets picked up across the board (Chart 3), and daily turnover recorded a historical high. Valuations also improved but were still below historical averages (onshore: Charts 4, offshore: Chart 5). In the near term, potential catalysts include the following:

1) **More monetary policy easing is expected**: The PBOC has already indicated its intention to lower RRR by another 50 basis points, which indicates China's determination to stimulate the economy and support the property sector.
2) **Potential fiscal policy announcements:** NDRC laid out plans to *step up fiscal measures* and *announced incremental policies*, which include speeding up special purpose bond issuance to local governments to support regional economic growth. supporting urban renewal projects, encourage private capital to participate in infrastructure projects, as well as supporting more eligible private capital projects including issuing infrastructure REITs.
3) **Property:** More relaxation in home purchase restrictions, continued policy support for urbanisation and an implementation facility for housing de-stocking will also be supportive.
4) **Consumption:** China has announced 20 key steps to boost service consumption in August. Potential government step-up funding support for consumer goods trade-in and equipment upgrade programs should drive further recovery for the consumer sector over the next few months.

Going into the fourth quarter of 2024, we view these sectors favourably:

- **Industrials**: We favour auto parts manufacturers and advanced manufacturing leaders, as their earnings stood out from their peers in the first half of 2024, with more substantial growth and revenue guidance, as well as market-share gains.
- **Information Technology (IT)**: We favour IT and hardware tech companies that will benefit from the global smartphone recovery.
- **Healthcare**: We favour sub-sectors such as biopharma and medical equipment companies with robust pipelines, competitive, high-quality products, and a 'Go-Global' strategy.

Chart 3: Stock market turnover in Hong Kong reached historical high (billion, HK dollar)



Source: HKEX, Bloomberg, as of 30 September 2024.

In conclusion, we believe mainland China/Hong Kong equity markets are at an important juncture that deserves investors' attention:

1) The kick-starting of the U.S. rate-cutting cycle is positive for mainland China/Hong Kong equity markets and interest-rate-sensitive sectors.
2) First-half 2024 earning upward revisions seen for MSCI China sectors.
3) China corporates are valuing up, with nearly 600 companies announcing interim dividends this year (the highest ever).
4) We see gradual improvements in China's property sector, coupled with China's stimulus measures.
5) We think Chinese companies have competitive 'Go-Global' strategies that will enable them to gain market share overseas despite headwinds.

A case study of 'Go-Global': EU tariffs on China's electric vehicles (EVs) – an overhang or an overhang overcome?

China's EV market has grown strongly domestically, with penetration in China exceeding 50%[4]. However, exports to foreign markets have become an emerging driver in the past few years. In 2023, China's export passenger vehicles increased by 62% year on year in 2023, of which 27% were EVs[5].

Despite EU tariffs, China's leading players are pursuing a 'Go-Global' strategy via factory localization in overseas markets.

The key to long-term success is localising production, which Chinese companies have successfully adopted. This is helping them establish brand equity and distribution networks overseas.

Chinese auto manufacturers also bring their upstream and downstream suppliers ("value chain benefit") as they go global (Chart 6).

[4] 2024年8月份全国乘用车市场分析-中国汽车流通协会 (cada.cn)

[5] China Passenger Car Association (CPCA) report - January 2024 - MarkLines Automotive Industry Portal

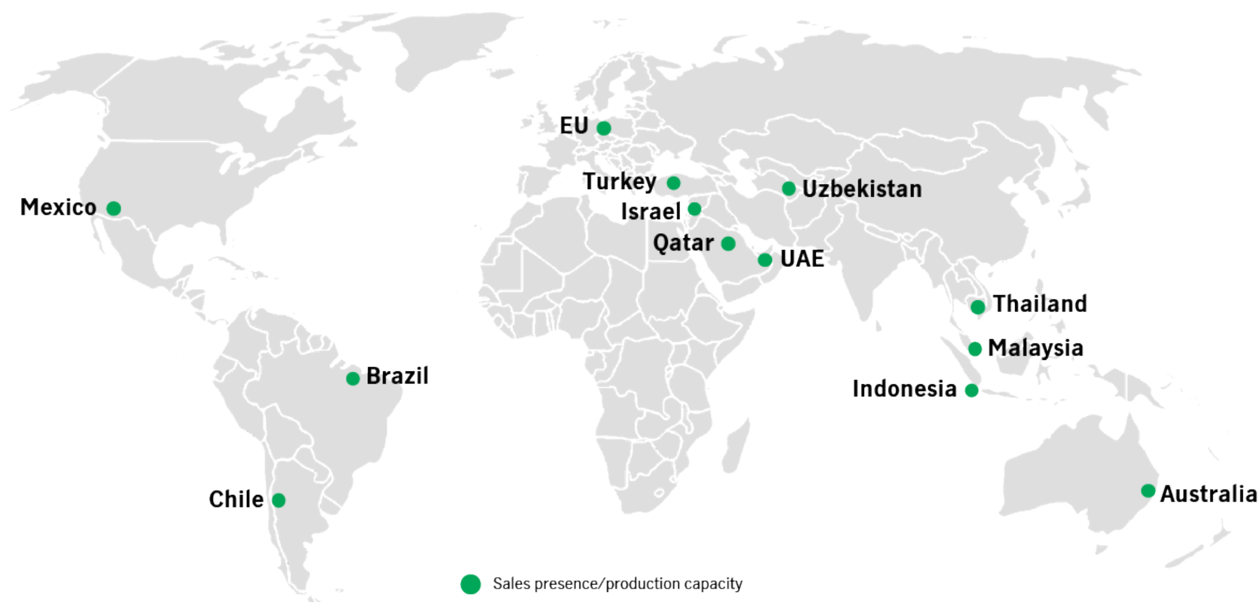
Chart 4: MSCI China Index trades at 11 times (12-month price-to-earnings ratio)

Source: Bloomberg, as of 30 September 2024.

Chart 5: CSI 300 index valuation is recovering

Source: Bloomberg, as of 30 September 2024.

Chart 6: A leading Chinese auto company with a strong global footprint



Customized chart based on a Chinese auto company's global network. For illustrative purpose only.

Important note

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