Research Note

China markets buoyed by policy promises

- China's Politburo highlights policy adjustments to address current economic challenges
- These include plans for boosting consumption demand, supporting the property sector and strengthening investor confidence
- The package of measures exceeds UOBAM's expectations, and has been welcomed by investors

Markets welcome Politburo statement

Over the past few weeks, there had been mounting excitement over potential economic boosters to be announced by the Politburo of the Central Committee of the Chinese Communist Party. The more disappointing the economic news, the more confident investors became about the likelihood of wide-ranging measures designed to stem the declines.

On Monday 24 July, earlier than expected, the Politburo issued a statement acknowledging that China's economy faced "new difficulties and challenges mainly due to insufficient domestic demand, difficulties in operating some enterprises, many hidden risks in key areas, and a complex and severe external environment". As a result, the statement continued, it was necessary to use macro-economic tools to "strengthen counter-cyclical adjustments and policy reserves".

Chinese stock markets immediately reacted to the news with across-the-board rallies. By midday on Tuesday, the Shanghai SSE index was up by 1.9 percent, the CSI 300 index by 2.6 percent and the Hang Seng index by 3.2 percent. The tech, innovation and property sectors were key beneficiaries.

New structural and fiscal policies

Investors welcomed the Politburo's list of structural policy intentions aimed at supporting high-priority industries and initiatives, including:

- Technologically innovative and real economy companies, with a special focus on promoting small and medium enterprises (SMEs)
- Strategic emerging and pillar industries in order further the development of a modern industrial system
- Avenues for foreign trade and investment by ensuring free trade zones and ports meet internationally held standards and trade rules
- Advanced manufacturing and modern service industries based on integration with the digital economy and artificial intelligence
- State-owned enterprises by elevating their core competitiveness while also supporting the development of private enterprises

Meanwhile on the fiscal front, the Politburo once again stressed the need to pro-actively:

- Implement tax and fee reduction policies
- Boost the consumption of good such as automobiles, electronic products, and home furnishings, and services such as sports, leisure, and cultural tourism
- Increase the role of government investment by accelerating the issuance and use of local government special bonds

Help for the property sector

China's property sector is a problem that has refused to go away. The sector contracted again in the second quarter, with property investments falling by a fifth in June compared to a year ago. June also saw property sales shrink by 28 percent compared to a year ago, based on floor area.

Meanwhile, the crisis surrounding property companies' debt levels have again resurfaced. So far, four Chinese property companies have defaulted on their bonds this year, including a Sino-Ocean subsidiary, SOG China. Other high-profile companies such as Dalian Wanda and Country Garden also appear to be facing difficulties.

So it is perhaps unsurprising that the Politburo statement addresses the need to meet housing demand. City-specific measures include increased supply of policy-regulated low-rent and affordable housing, transformation of urban villages and idle properties, and more public infrastructure.

Importantly, there is no mention of the Communist Party reminder that "housing is not for speculation", indicating that the authorities may be prepared for more relaxation of current restrictions.

Help for LGFVs

Aside from the property crisis, cash-strapped LGFVs (Local Government Financing Vehicles) have been a major area of concern for investors. To inject greater liquidity into the sector, the Politburo says a package of debt reduction plans will be implemented. In addition, to solve the problem of government arrears of corporate accounts, it is proposed that arbitrary charges, fines, and apportionments should be investigated and rectified.

While LGFV bond default risks have not completely gone away, these proposals, along with moves to allow provincial governments to pay off LGFV debts, is likely to restore some confidence in these bonds.

Support for capital markets

In addition, we note that some of this week's Politburo's proposed monetary policies are new or was not raised when the Politburo met in April. This includes measures aimed at stabilising the RMB at a "balanced and reasonable" level. Also mentioned was the intention to rejuvenate capital markets and boost investor confidence.

Capital market support had not featured strongly in previous Communist Party statements, and this new area of focus points to the growing importance of capital market activity as part of China's economic recovery.

Selected upside potential

In the second half of the year, some key concerns such as youth unemployment, soft global demand and US-China tensions will continue to put pressure on the Chinese economy. While the Politburo statement reiterates China's ability to meet its 5 percent full-year GDP target, some analysts are still circumspect.

However, this announcement from the Politburo suggests improved prospects for a few targeted sectors including international tourism and logistics, electric vehicles, digital platforms, AI supply chain, industrial automation providers, importers and brokerages.

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