
China's property revival plan

- ◆ China announced a slew of policy easing measures, from lower mortgage rates to local government home purchases...
- ◆ ...marking a new stage in property easing measures, which injects hope that the inflection point may be near
- ◆ We believe this is just the beginning and that if more support is required for the property market, it will be delivered

China data review (April 2024)¹

- **Industrial production** growth picked up to 6.7% y-o-y in April, from 4.5% y-o-y in March, likely helped by a push from equipment upgrading policies (e.g. targeted relending facilities) despite a higher base. Of note, the growth of higher-end manufacturing production activities stayed elevated at 11.3% y-o-y, computer and communication equipment rose 15.6% y-o-y and auto production lifted 16.3% y-o-y.
- **Retail sales** growth slowed to 2.3% y-o-y in April, but we don't think this is overly concerning. Despite signs of resilience from recent travel and tourism data, base effects played a large role, as the reopening was well underway at this point last year; retail sales grew 18.4% y-o-y in April 2023. Services consumption was strong, with year-to-date services-related retail sales up 8.4% while restaurant & catering sales were up 4.4% y-o-y in April.
- **Fixed asset investment** slowed to 4.2% y-o-y year-to-date, from 4.5% in March, dragged down by a faster fall in property investment (-10.5% y-o-y in April) while manufacturing (+9.3% y-o-y) and infrastructure investment (including utilities, +8.2% y-o-y) stayed buoyant, although their pace slowed slightly. We think there will be more room to run, especially for infrastructure investment, given recent fiscal stimulus announcements.
- China's inflation print saw some modest improvements in April as **consumer prices** edged up to 0.3% y-o-y. Signs of resilience in consumption have helped to lift core CPI growth while higher global oil prices also transmitted to domestic fuel prices. Meanwhile, **producer prices** remained in deflationary territory as ongoing weakness in the property sector has weighed on the prices of building materials. However, the pace of decline eased slightly to 2.5% y-o-y.
- Goods trade flows revived back to positive growth in April, helped by a lower base. **Exports** grew 1.5% y-o-y, in part, reflecting green shoots in global demand, while **imports** rose 8.4% y-o-y given higher commodity prices and ongoing policy support. Recent improvements in exports orders from PMI surveys suggests the worst of the trade slump could be past; however, we think domestic demand will remain the key driver for growth this year.

¹ Source: Wind, HSBC

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A slew of housing support measures was announced...

On 17 May, **Chinese government announced a slew of property policy measures**, including easing mortgage rules and encouraging local governments to buy unsold commodity housing, **to address current housing issues**. This came against the backdrop of ongoing liquidity stress of the property developers amid lacklustre housing market recovery so far this year.

Measures to stimulate demand

...aimed at supporting housing demand

The People's Bank of China (PBoC) issued three important notices: (1) removing the lower bound of the mortgage loan interest rate policy; (2) reducing the provident fund loan interest rates, and (3) lowering the down payment ratios by 5ppts for the first and second residential home purchases. The package of policies is aimed at **alleviating home purchase costs and stimulating housing demand**.

While down payment ratios are now at historical lows, perhaps more importantly, local branches of the PBoC and National Financial Regulatory Authority (NFRA) **can set the minimum down payment ratios** for commodity residential housing according to local conditions. This development has granted local authorities more discretion to implement "one city, one policy".

New home sales and property investment are unlikely to rebound immediately; however, alongside still-resilient sales data for new homes and second-hand homes in large cities, **the measures should help to stimulate demand**. And with officials providing repeated assurances on home deliveries, potential homebuyers may be encouraged to re-enter the market.

Government home purchases

Local governments can now buy homes from developers

On April 30, the Political Bureau meeting proposed to do "coordinated research on policies and measures to digest real estate inventory and optimise housing supply". In recent months, trials began and some local governments purchased commodity housing to convert into public rental housing but these efforts were often limited in scale and lacked nationwide policy direction.

The central government has now proposed that local governments can acquire idle residential land and unsold homes at "reasonable prices" **directly from property developers**. We think this will help ease developers' liquidity stress amid the lack of improvement in new home sales.

New monetary policy tool

A new relending scheme will help with funding

Local governments will take the lead and direct local state-owned enterprises (SOEs) to purchase completed yet unsold commodity housing and then to convert into affordable housing. The PBoC announced a new monetary policy tool for such activities, namely, **a re-lending scheme to provide one-year loans to commercial banks** at an interest rate of 1.75%, if they extend loans to SOEs conducting home purchases on behalf of local governments. The scheme funds 60% of the principal so it can support up to RMB500bn funding.

...is it enough?

Policy makers have a renewed focus on supporting housing

On one hand, some existing monetary policy tools have been underutilised, so the effectiveness remains uncertain. On the other hand, the stimulus could stand a better chance of success given the bolder and larger scale effort. But we think this is just the beginning and **policy makers are approaching the property market with a heightened sense of urgency**. Stay tuned.

Key upcoming China economic data

Date	Indicator	Prior
30 May	NBS Manufacturing PMI	50.4
2 Jun	Caixin Manufacturing PMI Final	51.4
4 Jun	Caixin Services PMI	52.5
6 Jun	Exports y-o-y	1.5%
6 Jun	Imports y-o-y	8.4%
11 Jun	Producer Price Index (PPI) y-o-y	-2.5%
11 Jun	Consumer Price Index (CPI) y-o-y	0.3%
16 Jun	Retail Sales y-o-y	2.3%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Year-to-Date	Last 1yr
Shanghai Composite	3,154	6.02%	-3.96%
Shenzhen Composite	1,786	-2.84%	-11.86%
CSI 300	3,678	7.19%	-7.13%

Note: *Past performance is not an indication of future returns. As of 17 May 2024 market close.

Source: Refinitiv Eikon

Disclosure appendix

Important disclosures

Additional disclosures

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- 2 All market data included in this report are dated as at close 17 May 2024, unless a different date and/or a specific time of day is indicated in the report.
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