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Market View
China's pivotal moment

Whilst the financial press has focused on the larger-than-expected 50-basis point cut in the United States and the Labour government's challenges, the recent major policy announcements by the People's Bank of China (PBoC) have featured less in the news.

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At a glance

- **China's economic stimulus:** the People's Bank of China (PBoC) introduces unexpected measures to boost market confidence and revive the economy.

- **Stock market surge:** Hong Kong and Chinese indices rise sharply after PBoC's bold policies.
- **Global impact:** China's stimulus lifts global markets, potentially benefiting commodities, construction, and luxury goods sectors.

Bold economic policies

This week, the PBoC and financial regulators have unveiled a combination of bold economic policies which have gone beyond market expectations. Recent economic data out of China has been very disappointing, to the extent that achieving their 5% GDP growth target seemed unlikely, leading several economists to materially lower their growth forecasts. With sentiment in the region at historic lows, along with the stock market trading at levels last seen in 2019,[1] the authorities needed to act to stabilise the economy and restore confidence.

The larger-than-expected economic stimulus measures aimed at lifting sentiment across the macro, property and capital markets include:[2]

1. Reducing short-dated lending rates interest rates to 1.5% from 1.7%
2. Cutting the Reserve Ratio Requirement, the amount of cash banks are required to hold, by 0.5% to 9.5% from 10%
3. Reducing average interest rates on existing mortgages by 0.50%
4. Reducing downpayment for second home purchases to 15% from 25%
5. Liquidity injections over $100 billion to bolster equity markets

Following the above announcements, stock indices in Hong Kong and China posted strong returns. Since Monday, both the Hang Seng and Shanghai Composite indices are up over 12% at the time of writing.[3] We could continue to see support for both equities and property markets as more stimulus is expected following this recent action.

Wider implications

There are wider implications of China’s aggressive stimulus. The additional liquidity support has not only helped domestic markets in the region recover, but these policies underscore the authorities’ support for the ailing property sector.

This stimulus has also lifted other global sectors. China is a major market for commodities, raw materials, construction, autos and luxury goods. Renewed investor interest in China will likely bolster these sectors. At the same time, given the size of the Chinese economy, any policy that boosts demand for goods may in turn help other Asian economies, potentially lifting the entire region.

In our view, these policies should go some way in kick-starting an economic recovery in China and Asia more broadly, likely bringing an end to the regional deflationary environment. Whilst the sense of urgency shown is a big positive, we do need evidence how implementation and execution of these policies will work. We are cautiously optimistic, especially as further announcements are on the cards. Ultimately, investors will need evidence that an economic recovery is a priority for the Chinese government before regaining confidence in the region.

[1] Bloomberg

[2] People's Bank of China, BBC https://www.bbc.com/news/articles/cjd5xlv03jxo

[3] Bloomberg